

For:
North Hertfordshire District Council

**Re: Local Plan Examination
Addendum (Viability)**

(Proposed policies HS4 & HS5)

January 2018
(DSP17503A)

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1. Background & Purpose

- 1.1 This brief Addendum paper by Dixon Searle Partnership (DSP) has been prepared at the request of North Hertfordshire District Council (NHDC) and completed in January 2018 to further inform the Local Plan Examination process.
- 1.2 More specifically it responds to Examiner's questions that have arisen in relation to viability and how that may be impacted by the Council's proposed Local Plan policy HS5 'Accessible and adaptable housing'; and also provides our view in respect of proposed policy HS4 ('Supported, sheltered and older persons housing') as far as viability is considered to be relevant to that.
- 1.3 DSP conducted a wide range of sensitivity tests on the potential influences on viability of enhanced standards under Building Regulations Part M4(2) and (3) as a part of our August 2016 Update Local Plan Viability Assessment review and report for the Council. Those early stage tests were based on development typology of 100 dwellings, allowing an opportunity to consider the effects of a range of potential requirements and combinations of those, in respect of the enhanced M4 criteria. The effect of potential additional costs levels up to and beyond those now likely to be related to HS5 were considered, as part of the wide information presented to the Council and used to inform policy its development.
- 1.4 However, since then, the NHDC policy proposals have developed and been firmed-up – with HS5 now requiring 50% dwellings to be provided to optional enhanced standards under M4(2) on all major developments. Additionally, HS5 also requires 10% of affordable homes to be provided to meet relevant M4(3) standards where the number of AH dwellings on a site reaches 10 or more.
- 1.5 This means that, as proposed, both of the HS5 requirements will impact together on a scheme of 25 dwellings (the smallest scheme size at which 10 affordable homes are produced based on the Council's 40% affordable housing (AH) policy position under Policy HS2).
- 1.6 Representing, therefore, the smallest development scenario tested previously (base tests within the August 2016 assessment, as above) that also meets this "threshold" point for the combined elements of HS5, we have added further 25 dwellings tests.

These include the additional costs related to the HS5 requirements (both M4(2) and M4(3)) applied to the base scenario, otherwise using the same appraisal assumptions (inputs) for direct comparison purposes.

- 1.7 The additional residual land value (RLV) results (January 2018) are shown at Table 1 e (v2) which forms the Appendix to this Addendum paper. These new results may be compared with the base set at Table 1e within Appendix II of the 2016 report (which contained no M4(2) and / or M4(3) enhancement costs assumptions).
- 1.8 For ease of reference and enabling direct comparison side-by-side, the equivalent base (without M4(2) and (3)) results are also included beside the new test results (RLVs) in Appended Table 1e (v2).
- 1.9 As part of the ongoing review of information and considering responses related to the Examination Matters and Issues, NHDC also asked for DSP's views on any likely viability implications of policy HS4 which, as part of the overall promotion of mixed developments and housing for all, seeks to secure elements of housing for older persons within developments providing 100 or more dwellings and also care facilities as part of strategic scale developments.
- 1.10 DSP's view is that viability is likely to be a low-level or at the most a secondary influence in such scenarios coming forward, with the normal range of requirements and factors informing or underpinning developments most likely being more significant in determining delivery in our view - such as demand / need / operation of the market and usual planning criteria (as per HS4 and linked also to proposed policy HS3).
- 1.11 Section 2 below, outlines the findings from results of the additional M4 related (as above and see Appendix Table 1e (v2)) and briefly revisits the above noted points on policy HS4, limited to viability considerations.
- 1.12 This adds to the earlier assessment and reporting, using the same principles. The full Update report (August 2016) should be referred to for any background, the detailed methodology and assumptions etc.
- 1.13 DSP will be happy to assist with any further information required by the Council in respect of this paper or related matters – potential viability influences.

2. Findings and commentary

- 2.1 The Appended Table 1e (v2) results show the RLVs after allowing for the HS5 additional costs, indicatively, falling between by approximately 3.4% (at VL8) and approximately 15% (at VL1).
- 2.2 This overview is illustrated by the following table:

VL	Value £/m ²	Base Result	M4(2) 50% of dwellings plus M4(3) 10% of AH dwellings (Policy HS5)	% Analysis between Base Result and Policy HS5 Compliant result	Base Result	M4 (2) 50% of dwellings plus M4(3) 10% of AH dwellings (Policy HS5)	% Analysis between Base Result and Policy HS5 Compliant result
		Residual Land Value (Lower Density)	Residual Land Value (Lower Density)		Residual Land Value (Higher Density)	Residual Land Value (Higher Density)	
1	£3,000	£621,036	£525,994	-15.30%	£621,036	£525,994	-15.30%
2	£3,300	£907,620	£818,614	-9.81%	£907,620	£818,614	-9.81%
3	£3,600	£1,187,814	£1,099,818	-7.41%	£1,187,814	£1,099,818	-7.41%
4	£3,900	£1,461,170	£1,374,578	-5.93%	£1,461,170	£1,374,578	-5.93%
5	£4,200	£1,734,526	£1,647,934	-4.99%	£1,734,526	£1,647,934	-4.99%
6	£4,500	£2,007,882	£1,921,290	-4.31%	£2,007,882	£1,921,290	-4.31%
7	£4,800	£2,281,238	£2,194,646	-3.80%	£2,281,238	£2,194,646	-3.80%
8	£5,100	£2,554,594	£2,468,002	-3.39%	£2,554,594	£2,468,002	-3.39%

- 2.3 This range of outcomes is to be expected, because the additional appraisal costs are fixed, but with reducing sales values assumptions (as represented by the value levels (VLs) moving towards VL1) there becomes increasingly less development revenue and a lower level of base viability available to support the development costs that remain broadly the same.
- 2.4 However, at appended Table 1e(v2) we can see that only in the case of VL1 and VL2 values do the RLVs with the added M4(2) and (3) related costs at the HS5 levels (2018 tests) meet a lower viability test than they did without those costs (latter referring to the 2016 base tests).
- 2.5 From the base assessment work, VL1 and 2 values are considered very much lower-end values for new-builds in the local context. With our overview of values mainly within the mid-range beyond these, we can see that none of the new test RLVs switch to meeting a lower from a higher viability test, and the scale of reduction in RLVs from the influence of these additional costs, as noted above, is not considered

sufficiently significant on the whole to cause schemes to move from viability into non-viability.

- 2.6 Therefore, at the Local Plan policy level, the HS5 criteria on M4 related enhancements appear to have been appropriately judged from a viability point of view and of course bearing in mind also the balance with the need for a wide range of accommodation to be provided. We consider that they will have the potential to be deliverable from a viability point of view, when viewed alongside the other costs and policies also tested through the assessment approach.
- 2.7 In respect of the HS4 criteria around including elements of housing for older persons and care provision, our view is that viability is unlikely to be an issue that unduly negatively impacts delivery of such schemes or elements of such schemes (sites of 100+ dwellings and strategic sites). We found the development of sheltered / retirement housing to be viable within our update assessment work and this bears out our experience both locally and in a wide range of other areas, whereby the demand for and value of such development supports its costs and schemes prove profitable.
- 2.8 We consider that, similarly, where a suitable demand level exists to support the business models, or affordable housing related needs and investment are in place, C2 and / or other forms of C3 provision for the elderly will be likely to come forward. Subject to these usual drivers of the need / demand side and the range of regular planning and practical criteria being in place, as we consider is envisaged by the HS54 approach, then we are of the view that development viability in itself should not present and unsurmountable obstacle here. Our experience of larger and particularly strategic scale developments is that they would very often include a wide range of housing and, on the latter, other uses and facilities. Whilst not directly or certainly not only viability related, this overview on these aspects also appears consistent with the changing population profiles and evolving Government policy on housing provision and mixes.

Addendum (Viability) Ends

DSP January 2018

Appendix (including Table 1e (v2) follows.

Addendum (Viability)

Appendix:

**Additional Residential Results Summary
– Further M4(2) and M4(3) Sensitivity Tests
(Policy HS5 Accessible & Adaptable Housing)**

**For: North Hertfordshire DC
(DSP17503A)**

**Addendum: Table 1e (v2) - Residual Land Value Results by 40% AH & Value Level
- 25 Unit Scheme - Mixed with M4(2) and M4(3) sensitivity tests (Policy HS5 Accessible and Adaptable Housing)**

Development Scenario	Typical Site Type	Market Floor Area	Site Density (dph)	Value Level	Value £/m ²	Base Result (No Policy HS5 Allowance)		M4 (2) 50% of dwellings plus M4(3) 10% of AH dwellings (Policy HS5)		
						Residual Land Value (Lower Density)	Residual Land Value (Higher Density)	Residual Land Value (Lower Density)	Residual Land Value (Higher Density)	
Mixed 25 40% AH	Greenfield / PDL	1415	25.3	40.9	1	£3,000	£621,036	£621,036	£525,994	£525,994
					2	£3,300	£907,620	£907,620	£818,614	£818,614
					3	£3,600	£1,187,814	£1,187,814	£1,099,818	£1,099,818
					4	£3,900	£1,461,170	£1,461,170	£1,374,578	£1,374,578
					5	£4,200	£1,734,526	£1,734,526	£1,647,934	£1,647,934
					6	£4,500	£2,007,882	£2,007,882	£1,921,290	£1,921,290
					7	£4,800	£2,281,238	£2,281,238	£2,194,646	£2,194,646
					8	£5,100	£2,554,594	£2,554,594	£2,468,002	£2,468,002
							Residual Land Value (£/Ha) (Lower Density)	Residual Land Value (£/Ha) (Higher Density)	Residual Land Value (£/Ha) (Lower Density)	Residual Land Value (£/Ha) (Higher Density)
					1	£3,000	£628,488	£1,016,014	£532,306	£860,527
					2	£3,300	£918,511	£1,484,866	£828,437	£1,339,252
					3	£3,600	£1,202,068	£1,943,264	£1,113,016	£1,799,303
					4	£3,900	£1,478,704	£2,390,474	£1,391,073	£2,248,810
					5	£4,200	£1,755,340	£2,837,685	£1,667,709	£2,696,020
					6	£4,500	£2,031,977	£3,284,895	£1,944,346	£3,143,231
					7	£4,800	£2,308,613	£3,732,105	£2,220,982	£3,590,441
8	£5,100	£2,585,249	£4,179,316	£2,497,618	£4,037,652					

Key:

	RLV beneath Viability Test 1 (RLV <£370,000/ha)
	RLV exceeding Viability Test 1 (RLV £370,000/ha)
	RLV exceeding Viability Test 2 (RLV £500,000/ha)
	RLV exceeding Viability Test 3 (RLV >£900,000/ha)
	RLV exceeding Viability Test 4 (RLV >£1,800,000/ha)
	RLV exceeding Viability Test 5 (RLV >£2,400,000/ha)

Source: Dixon Searle Partnership (2018)