Planning and Development
Harrogate Borough Council
P.O. Box 787
Harrogate
HG1 9RW
Email: janet.entwistle@harrogate.gov.uk

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Dear Janet Entwistle,

DRAFT HARROGATE WHOLE PLAN AND CIL VIABILITY ASSESSMENT

1. Thank you for consulting the Home Builders Federation (HBF) on the Draft Harrogate Whole Plan and CIL Viability Assessment. The following provide our initial comments upon the study, set out in document order. Given the limited time available to comment (just over a week) consultation with our members has been limited and as such we reserve the right to provide further views later in the process. Furthermore whilst we have sought to comment upon areas of initial concern the lack of comment upon a particular element of the draft should not be construed as support for that issue.

2. The HBF is the principle representative body of the housebuilding industry in England and Wales and our representations reflect the views of our membership of multinational PLCs, through regional developers to small, local builders. Our members account for over 80% of all new housing built in England and Wales in any one year including a large proportion of the new affordable housing stock

Chapter 4: Residential Market

Price Assumptions for Financial Appraisals

3. The price assumptions on a £/m^2 basis are set out within Table 4.3. It is understood that these assumptions have been principally based upon the data set out in tables 4.1 (note there are two such numbered tables) and 4.2 as well as the relevant appendices. The HBF does not dispute this data. It should, however, be noted that due to the limited time available to comment we have not had the opportunity to assess its accuracy. It is, however, unclear when considering the data how the price assumptions contained within table 4.3 have been derived.

4. Considering Table 4.1 *'New Build House Prices - 2015'* it is noted that this data is based upon a limited sample of just 187 dwellings across the plan area. Once broken down into settlements the numbers diminish substantially. This lack of data obviously reduces the statistical robustness of the sample and leads to a greater potential for the results to be skewed by outliers. A good example is that detached houses (Harrogate) range from £179,950 to £1,600,000 and cover just 23

transactions. This leads to large disparities between the mean (£495,789) and median (£390,000) prices. It is notable that the £1,600,000 property sits £400,000 higher than any other property and as such has a greater impact upon the mean value than the property at the lower end of the scale. Similar although less pronounced issues are noted in other locations identified in Table 4.1. The viability study is unclear whether median or mean prices have been utilised to derive the values in table 4.3. Given the issues raised above median vales would appear more appropriate, supplemented by further data where available.

5. Comparison of the figures between Table 4.1 *'All Residential Sales – 2015'* and Table 4.1 *'New Build House Prices - 2015'* highlights significant disparity between all residential sales and new build, with all residential sales generally, but not always, lower than their new build counterparts. It is recognised that these disparities can be due to a number of factors, not least location within a settlement, but the study is unclear how the figures at table 4.3 take this disparity in to account, particularly considering the likely supply.

6. Paragraph 4.25 suggests a 2.5% discount should be applied to sales prices to take account of sales incentives. The HBF agree that net sales values should be used and that caution should be applied when referring to marketing values as these are rarely the final price achieved. It is, however, unclear how this discount has been factored into the assumptions within table 4.3.

7. Finally consideration of the figures in table 4.3, whilst not directly comparable, bear little if any relation to those found in table 4.2. For example the median £/m^2 in Ripon, prior to reductions for incentives, is £2,273 this compares to an assumption of a medium Greenfield in Ripon of £2,400 within table 4.3. Indeed the figures in table 4.3 are generally higher than those within table 4.2, bringing into question the validity of the proposed figures. It is also notable that the assumptions in table 4.3 are also higher than those within the 2013 Roger Tym study. Again whilst the Roger Tym figures are not directly comparable they do appear more closely related to those in table 4.2 than those in table 4.3.

8. In conclusion, whilst the HBF has not gathered its own evidence, it is not considered that there is sufficient justification for the price assumptions identified in table 4.3. There is no clear and discernible link between the data and the assumptions identified. Using the available data the HBF consider that the figures within table 4.3 are too high. It is recommended that further work is undertaken with developers

and agents active within the Harrogate area to enable more accurate and justified assumptions to be made.

Affordable Housing

9. Affordable housing is an integral component of viability testing. It is therefore essential that the affordable housing assumptions are realistic and reflective of current market conditions. Consideration of the impacts of the July 2015 Budget announcement on the affordable housing sector is essential in this regard. In summary the implications are;

- An absolute rent reduction of 1% per annum on social and affordable rents until 2020;
- A Freeze on Local Housing Allowance (the housing benefit cap);
- A reduction in the benefit cap to £20,000 (£23,000 in London);
- The abolition of Housing Benefit for under-21's; and
- The end of Social Rents for Local Authority and Housing Association tenants who earn more than £30,000 (£40,000 in London).

10. Experience of our members is that Registered Providers are renegotiating Section 106 packages. This has a direct impact which should be reflected in the valuation of affordable / social rental products in viability work. For the purpose of this viability appraisal these policy requirements will clearly result in a reduction in affordable revenues for developers. In light of this, we would strongly advocate the Council undertaking further consultation with developers and Registered Providers to ensure that the figures used are robust both now and going forward and that additional viability testing be undertaken to take account of any changes.

11. In terms of transfer prices paragraph 4.36 indicates a range will be considered. Whilst the HBF has no objection to testing a range of alternative transfer prices, the transfer prices and mix identified within the Council's proposed policy and guidance should form the basis of the core scenario and reporting.

Land Prices

12. It is recognised it is often difficult, but no less important, to attain accurate land price information for actual transactions. The study does not include any details of recent transactions to verify if the identified figures bear any relevance within the Harrogate market. The HBF recommend further research with developers, agents and major land owners is undertaken.

Chapter 7: Development Costs

Construction costs

13. The use of the re-based BCIS figures, with an uplift for the increased Building Regulations standards, is generally considered appropriate. Following consultation with our members it is recommended that 2% uplift be applied to BCIS to account for the increased standards rather than 1.5%. This reflects practice within other viability studies elsewhere and the experience of our members.

Other normal development costs

14. The HBF agrees with the inclusion of these additional costs. These costs will vary substantially from site to site. It is noted that the study identifies generic costs of 10% for small sites to 20% for large greenfield sites. It is unclear how and at what level this differentiation is made. The costs should be sense checked against real developments within Harrogate.

Abnormal development costs and brownfield sites

15. A 5% allowance on top of BCIS is allowed for abnormal costs upon brownfield sites. This figure appears low, the HBF note many studies utilise higher percentages. Furthermore no allowance is made for greenfield sites, as they are anticipated to be included in land value. Whilst this may be partially true, it is unlikely to account for all abnormal costs. Furthermore the assumptions upon land value used within the study do not appear to explicitly take this into account.

16. Abnormal costs whilst more common place on brownfield sites are not restricted to such sites. Through consideration of the SHLAA and knowledge of local sites an assessment should be made of the likelihood of abnormal costs due to issues such as drainage, topography, gas protection where previously mined, etc. on greenfield sites. Furthermore, some greenfield sites in the Harrogate district are in areas with a mining legacy. Consequently, additional development costs will be frequently encountered such as grouting, abnormal foundations and remediation. Therefore, they should be allowed in the viability appraisals, as appropriate.

Section 106 Contributions and the costs of infrastructure

17. The testing of a range of costs associated with Section 106 and other infrastructure may be useful at this stage to provide the Council with guidance as it begins to pull together its Local Plan. Appendix B of the Harman Report (Viability

Testing Local Plans) states that strategic infrastructure costs are typically in the order of £17,000 and £23,000 per unit for larger scale schemes. If the study is to provide a sliding scale of contributions it should accurately reflect the full breadth of this range, plus other infrastructure requirements. The £2,000 per unit quoted in paragraph 7.25 appears particularly low in this regard.

18. The use of a range should not be seen as a substitute for detailed analysis of previous Section 106 costs and importantly the likely combined impact of Section 106 and CIL going forward across the different site typologies. It is important that a reasonable cost assumption is included and tested for Section 106 planning obligations and infrastructure items, based on the Infrastructure Delivery Plan (IDP), in the viability assessment. The outputs should include consideration of the appropriate amount of affordable housing based upon the costs of other infrastructure items. This is important as the affordable housing provides the greatest area of flexibility, given that it is not as indicative of whether a development is acceptable in planning terms (unlike other Section 106 obligations).

19. The HBF therefore recommend further detail on the anticipated Section 106 contributions to ensure that a realistic figure is included in the viability assessment. This information should be broken down by scheme type to enable a comparison on a cost per unit basis. This will help ensure that the combined total cost of Section 106 and CIL is not in excess of historically delivered Section 106 contributions and will not therefore adversely impact the deliverability of sites coming forward.

Financial and Other Appraisal Assumptions

20. It is assumed that VAT does not arise or can be recovered in full. It should, however, be noted that VAT is charged on most property transactions (20%) this has the impact of increasing the Stamp Duty Land Tax (SDLT) rate by 20% as the proportionate increase in SDLT is irrecoverable.

Developers Profit

21. The study suggests 20%, upon Gross Development Cost. Whilst developer profits are variable dependent upon the business model, operating costs and risks involved with individual businesses, funders and sites, 20% of ***GDV*** has been widely accepted in a number of appeals and local plan examinations.

22. Whilst reference is made to the Harman Report a key issue which appears to be overlooked in the study is the distinction between gross (site level) margin and

net operating margin. The Harman Report suggests that “Overheads for house-building typically lie in the range of 5%-10% of gross development value”. This is particularly relevant for large Greenfield sites and regeneration areas, where large up-front costs have an impact on a developer’s required Return on Capital Employed (ROCE), as a higher margin is required to reflect the higher risk.

23. Taking this into account, we would suggest a minimum profit level of 20% on GDV (blended) plus 25% ROCE across all tenures, subject to consideration of the risk profile of the scheme, is adopted in the viability testing.

Phasing and timetable

24. These lead-in times and build out rates appear optimistic and should be referenced to evidence provided by the development industry in respect of the sites contained within the SHLAA. This should be included to provide internal consistency between the various evidence base documents. The study should not seek to place arbitrary figures based upon limited analysis.

Acquisition costs

25. The Harman guidance recommends agents fees of 1-2% of land value, legal fees of 0.75-1.5% and stamp duty (SDLT) on site value. The latter was changed in March 2016, to a band system, which raise the top tier of SDLT to 5% for land purchases over £250,000. The net effect is, on most land larger land transaction, to raise the effective SDLT rate higher than the old rate of 4%. Furthermore, as discussed earlier, VAT is charged on most property transactions (20%). This has the impact of increasing the SDLT rate by 20% as the proportionate increase in SDLT is irrecoverable.

Chapter 8: Local Plan Requirements

26. This section should be kept under review as the Local Plan evolves and any new policy requirement which are likely to impact upon viability should be assessed.

Housing Type, Mix and Density

27. Paragraph 8.7 suggests that the Council will not rigidly follow the housing type and mix, identified within the SHMA, and that further modelling will be done on alternative scenarios with higher levels of 4+ bed housing. Whilst the Council is aware of the HBFs concerns with the mix identified in the SHMA it is important that if this is likely to form part of a Local Plan policy it should be modelled through the viability study to ensure that the implications of this policy are known.

28. Paragraph 8.12 indicates that an £11/m^2 uplift will be applied to account for a 10% requirement for homes which comply with Part M4(2) of the Building Regulations 2015. The uplift applied should be kept under review. The *Cost Impacts* report prepared by EC Harris LLP, suggests uplift in costs in the range £1,100 to £1,400 which are similar to those previously indicated for Lifetime Homes. It remains to be seen how accurate these costs are, particularly in relation to different areas across England. Furthermore, the consequential impact on development density should be considered, as it may reduce development density and potential GDV.

29. Paragraph 8.20 discusses the Nationally Described Space Standard. If the Council is mindful to introduce these standards the impacts should be modelled include the likely effect upon density.

Affordable and Starter Homes

30. Further work upon the implications of Starter Homes will be required following the publication of the regulations, anticipated later this year.

Information

31. I trust that the Council will find the foregoing comments useful as it continues to develop its evidence base prior to the formal examination of the Local Plan. I am, as always, happy to discuss the content of this response further, if required.

Yours sincerely,

MJ Good

Matthew Good
Planning Manager – Local Plans
Email: matthew.good@hbf.co.uk
Tel: 0797277422