Sent by email to: localplan@fenland.gov.uk

05/11/2019

Dear Sir/ Madam

Response by the Home Builders Federation to the consultation on the Fenland Local Plan Viability Assessment

Thank you for consulting the Home Builders Federation (HBF) on the Council's viability assessment. The HBF is the principal representative body of the housebuilding industry in England and Wales and our representations reflect the views of discussions with our membership of national and multinational corporations through to regional developers and small local housebuilders. Our members account for over 80% of all new housing built in England and Wales in any one year. Outlined below are our comments on the approach taken by the Council to increasing the supply of land for residential development and the policies being proposed with regard to the management of new development in future.

One of the principle concerns facing many of our members at present are the ever-increasing costs being placed on housebuilders by local and central Government. If it is to be assumed, as set out in paragraph 57 of the NPPF, that a development that meets all the requirements set out in a local plan is viable then it is essential that viability studies, such as the one being consulted on, are realistic and do not reflect the best case scenario for the delivery of a site. If unrealistic assumptions are made at this stage there is a significant risk that development land will not come forward. Whilst we appreciate that the Government's intention is for additional costs to be taken from land values it is also their intention to bring forward land for development. If the additional costs are undervalued it could well result in a land value that provides limited incentive to sell that land and prevent the Council from meeting its target. This is particular pertinent in Fenland as the initial results of the viability assessment appear to show that development of many sites will be marginal on the basis of the policy costs imposed by the Council.

To assist local authorities in preparing their viability assessments and to better understand the cost pressures faced by housebuilders the HBF have produced a viability guide, which is attached to this letter. The guide sets out some of the key issues that must be addressed in all viability studies and these have also been used to frame our comments in relation to Fenland's viability assessment.

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Sales and Revenue.

We note that in considering the value of new build properties within Fenland consideration has been given to both the price paid and to asking prices. We would suggest that the Council use of the price paid as the sole determinant of development value in the assessment. As the Council will be aware the asking price for a property is rarely achieved, as such we would suggest that the highest value of £2,750 per square meter on large greenfield sites presented in table 4.6 could be an overestimate. The evidence presented table 4.3 would suggest that the average price paid per square metre rarely exceeds £2,500 and as such we would suggest this as the upper limit in the value assumptions used.

Net Developable Area

The assessment assumes a net developable area of 80% of all sites. However, the Council will need to consider whether this remains appropriate in the light of its local plan and, for example, the introduction of net biodiversity gain which could see a reduction in the net developable area on some sites. Specific consideration will need to be given within the different typologies proposed as to the impact of such policies on the net developable area.

Build Costs

Base build costs

The assessment proposes to use the lower quartile BCIS cost as adjusted for Cambridgeshire. This is inappropriate with the only justification being given that this reflects the Council's wider experience of development. However, there is no evidence presented to suggest that this is the experience of house builders locally. The experience of our members across the country is that the median costing should be the starting point for the consideration of build costs. In fact, inflation in the cost of building materials and the focus on issues such as building quality by Government are more likely to see the base build costs increase beyond the levels seen in the past and which are reflected in the BCIS costs. We therefore recommend that the Council uses the median BCIS cost as the starting point with its viability assessment.

External Costs

The Assessment recognises the need to include an uplift to base build costs to take account of external development. The rates used are between 5% and 15%. The differential rate is to take account the Council's consideration that smaller and flatted developments will have lower external costs than larger greenfield sites. Whilst there may be a differential in costs between such sites, we would expect a more detailed consideration be given to larger allocated sites with regards to external costs and consider 15% could be insufficient. We would also suggest that the starting point for the consideration of external costs should be 10% of build costs.

Abnormal costs

The Council have applied a 5% allowance to the base build costs to take account of any abnormal costs. We do not consider such a low uplift for abnormals to be justified. Whilst the assessment suggests that any abnormal costs will be removed from the land value there is the risk that if these are significantly higher than the land value will not be sufficient to incentivise the sale of that land. As we set out in our viability guide there are a huge range of abnormal costs to be accounted for and the Council should engage with housebuilders in Fenland to consider the amount of abnormal costs, they have faced in bringing sites forward. Evidence submitted by the HBF to the County Durham Local Plan showed that evidence form 14 sites the average level of abnormal costs for a Greenfield site was £495,000 per hectare and £711,000 per hectare for brownfield sites. Whilst we appreciate that these costs will vary between areas it provides an indication that these costs can be substantial and should be considered in more detail.

Policy requirements

We are aware that the Council are producing a new local plan and clearly the policy requirements being proposed as part of any new local plan will need to be considered in the viability assessment. Whilst we will comment on the specific policies as part of the consultation on the local plan, we are concerned that the financial impacts of arising from the introduction of bio-diversity net gain have been underestimated in the policy. The assessment suggests in paragraph 8.40 that this will be limited additional cost and have there increased the fees assumption by 1%. Delivering a minimum 10% net improvement in biodiversity will have a significant cost impact on development. In particular the cost of developing greenfield sites could be a considerable expense and a more considered approach as to the impact of this policy requirement is necessary.

Contingency

We would support the application of a contingency to guard against changes in standards, bad weather and higher than expected increases in costs. However, we would suggest further evidence is required to support what we would consider to be the relatively low level of contingency being proposed.

Fees

We note that the Council has consistently used the lower cost for fees in the ranges suggested by the Harman review. We would recommend that the upper range of fees as presented in the Harman review are used in all viability consideration. Such an approach will ensure that the total potential costs resulting from fees are more likely to have been considered at plan making as required by the NPPF. In relation to for professional fees we would suggest that these be increased for more complex sites where professional fees can be higher.

Benchmark Land Value

The approach taken to land values broadly reflects that proposed in national policy and guidance. However, it is important to be cautious with regard to the degree to which it can be expected that land values can be reduced to take account of policy requirements. It is noted that throughout the viability assessment there is an expectation that additional costs can all be subsumed within the land value. This may be the case to a certain extent but it is also the case that if the land value is not considered reasonable then many landowners will not sell their land. The nature of the planning system means that development opportunities are limited with many local authorities placing additional restrictions further reducing the possible opportunities for new development. In a market where land for development opportunities that accord with planning policy are scarce it is inevitable that the value of land with the potential for development will be much higher than if such sites were plentiful.

With regard the proposed land values and uplifts we would suggest that the EUV and uplift for agricultural land would appear reasonable. However, we are consulting with our members further on this matter and, if necessary, will provide further evidence at future consultations. With regard to the valuation for industrial land this would appear to much lower than that suggested by DCLG in their value estimates. We recognise that values set out by DCLG cover a much wider area but we are concerned that the relatively few transactions shown in co-star may not be representative. As such we would suggest that the proposed EUV or industrial land uses the higher figure shown in the co-star evidence in appendix 10.

Profit

The Assessment proposes that a return of 17.5% of the value of market housing and 6% of the affordable housing is used as an appropriate level for the developers return. 17.5% is in the middle of the range suggested by the PPG. Allowing for 30% affordable housing on sites of 15 or more this would create an overall return of 14% on sites where affordable housing is provided. The HBF do not consider that 14% is an appropriate return. NPPG outlines what it considers a reasonable assumption for plan making at 15 – 20% of GDV, it is considered that this should be taken into account when determining the appropriate profit. The HBF continues to recommend that a cautious approach is taken to profit, and that the developer return is increased to ensure that the return is closer to the 20% level.

Conclusion

I trust that the Council will find these comments useful. I would be happy to discuss these issues in greater detail or assist in facilitating discussions with the wider house building industry. The HBF would like to be kept informed of the progress of the document. Please use the contact details provided below for future correspondence.

Yours faithfully

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