
EXMOOR NATIONAL PARK AUTHORITY WHOLE PLAN VIABILITY STUDY

Final Report

**Three Dragons and
Rural Housing
Solutions**

May 2016



This report is not a formal land valuation or scheme appraisal. It has been prepared using the HCA DAT and is based on National Park level data supplied by ENPA, consultation with the development industry and quoted published data sources. The HCA DAT provides a review of the development economics of illustrative schemes and the results depend on the data inputs provided. This analysis should not be used for individual scheme appraisal.

No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.

CONTENTS

EXECUTIVE SUMMARY	3
1 Introduction	6
2 Context for the Analysis	7
National Policy Context	7
Local Plan Policies	8
3. Affordable Housing	11
National Policy	11
Housing Association Activity in Exmoor National Park	12
Affordability	13
Community Land Trusts	14
4. Viability Testing	15
Principles and approach	15
Testing assumptions	15
Passivhaus development	17
Case studies	18
Testing results	20
Sensitivity Testing	24
Summary of key findings	24
Conversions	25
Annex 1 Testing Assumptions	
Annex 2 Development Industry Workshop Notes	
Annex 3 Viability Testing Results	

EXECUTIVE SUMMARY

1. National planning policy and guidance emphasise that local plans must be deliverable and are economically viable.¹ To ensure this for its Local Plan, Exmoor National Park Authority sought evidence on the viability of its plan policies to inform the forthcoming examination of the draft Plan.² This report provides the necessary evidence. The report will also inform more detailed housing guidance to be set out in a future Exmoor housing supplementary planning document.
2. The draft policies with direct impact on viability are those relating to housing. The draft Plan seeks to maximise the delivery of affordable housing to meet the significant local need for housing at costs below market values (for sale and rent) at levels local households in housing need, can afford. In the absence of public subsidy, viable schemes will require market housing to provide a cross subsidy unless alternative funding can be found. The draft Plan permits the introduction of market housing in specific circumstances but this is to be the minimum amount required to achieve viable and deliverable development. The market housing that is permitted must provide a Principal Residence for the occupier and, in the case of specialist housing for older people and other vulnerable people, will only be available to occupants with a local connection.
3. The testing undertaken for this study uses a residual value approach³. Residual value is the value of the development less the development costs, including the building costs, professional fees, finance costs, a return to the developer and the costs of land⁴ (with a plot value of £10,000 allowed, which, although slightly above recent historic values achieved in the Park on rural exception sites, reflects current expectations and is in line with current land values agreed at the developer workshop). The value of the scheme includes both the value of the market housing (as a Principal Residence and/or with a local connection) and affordable housing.⁵
4. Costs and values used in the testing were taken from published sources wherever possible and discussed with the development industry, both at a workshop⁶ and through other interviews.⁷ An important issue that emerged was a divergence of views on the appropriate build costs to use. Some consultees argued that costs were higher in the National Park than in surrounding areas while others believed that this is not the case. This led to the testing of alternative build costs.

¹ Para 173 NPPF <http://planningguidance.communities.gov.uk/blog/policy/achieving-sustainable-development/plan-making/>

² Publication Draft Exmoor National Park Local Plan 2011-2031

³ See page 25 of the Guide for Planning Practitioners – “We recommend that the residual land value approach is taken when assessing the viability of plan-level policies and further advice is provided below on the considerations that should be given to the assumptions and inputs to a model of this type.”

⁴ Full details are shown at Annex 1 Testing Assumptions

⁵ See chapter 3 for a full definition of affordable housing

⁶ Full details are shown at Annex 2 Development Industry Workshop

⁷ Housing associations active in the area were surveyed directly.

5. Consideration was given to the costs and benefits of developing housing at Passivhaus standards. Passivhaus has much higher standards of energy efficiency than included in building regulations. Recent research shows that this can result in energy costs savings to occupiers of about £500 per annum but that build costs are significantly higher than average.⁸
6. The National Park Authority identified a series of case studies for testing which reflect the policies in the draft Plan and sites representative of the scale and nature of development typical of the National Park. Case studies ranged from 2 to 10 dwellings and each had its own mix of types of affordable housing. The affordable housing tested was social rent (the lower level of rented affordable housing), Affordable Rent (with rents at up to 80% market rents) and two forms of low cost home ownership – Exmoor Discounted Sale Model (EDSM) with an initial purchase cost of 65% of the market value of a typical recent new build home in the Park and a ‘Starter Home’ modelled as the proposed 2015 DCLG model at 80% of the same open market value.
7. The viability analysis showed that:
 - Schemes of Starter Homes only, as proposed by DCLG in 2015, would be viable. However, schemes using the Exmoor Discounted Sale Model and at 65% market value would require a small amount of Principal Residence market housing to be viable;
 - Schemes of accessible and adaptable market homes only (dwellings built to higher accessibility standards) and with a local tie, are viable and therefore have some potential to provide cross subsidy for affordable housing, consistent with the policy approach in the Local Plan;
 - But rented affordable housing (both social and Affordable Rent) require subsidy from Principal Residence market housing. This cross subsidy can be as high as 60% Principal Residence housing;
 - There is a trade off to be made between providing social rent versus Affordable Rent and the amount of Principal Residence housing needed to ensure viability. For example, a scheme of 6 *Affordable* Rent homes needs 6 Principal Residence market housing to be viable but the same scheme of 6 *social* rent units needs 8 Principal Residence market houses to ensure viability;
 - Some developers may be deterred from developing in the National Park if they are unable to develop at the lower level of (build) costs others can achieve;
 - The additional costs of Passivhaus mean that it cannot be developed without significant subsidy either as grant and/or from market housing (most likely without any restrictions);
 - Self build units will only go ahead when they can fund themselves – it is assumed that self build is not required to subsidise other development and that cross subsidy should

⁸ Wimbish Passivhaus Development: Performance Evaluation Executive Summary Hastoe Group, UAE, Martin Ingham, Linktreat Ltd. July 2014 <http://www.wimbishpassivhaus.com/Wimbish-Performance-Evaluation-Executive-Summary.pdf>

not be required to enable self build. Self-build properties are to be, “....*affordable by size and type to local people and will remain so in perpetuity...*”⁹;

- The policies in the Local Plan are deliverable but, unless there are changes to public subsidy or other forms of funding for affordable housing, many if not most schemes needing to have a substantial element of Principal Residence market housing to ensure viability.

⁹ Exmoor National Park Local Plan, Publication Draft, policy HC-D5

1 INTRODUCTION

- 1.1 The viability evidence provided in this report is to assist Exmoor National Park Authority in preparing its Local Plan and will form part of the evidence base for the forthcoming examination of the draft Plan. The viability assessment will also inform more detailed housing guidance to be set out in a future Exmoor Housing supplementary planning document.
- 1.2 The research which has been drawn on for the analysis includes:
- A review of the types of sites planned for development in the local plan;
 - A review of the policies in the local plan and central government guidance that may have implications for development viability;
 - Desk research to form initial views on the values and costs of residential development in the National Park;
 - Consultation with the development industry active in the National Park through a workshop. A note of the workshop discussions is shown at Annex 2. Subsequently, Three Dragons contacted a number of participants to explore specific points raised at the workshop;
 - A survey of registered providers (RPs) conducted by Three Dragons to obtain detailed advice on affordable housing costs and values;
 - Use of the Homes and Communities Agency Development Appraisal Toolkit (HCA DAT) to undertake the viability testing set out in this report.

2 CONTEXT FOR THE ANALYSIS

National Policy Context

- 2.1 The National Planning Policy Framework (NPPF) paragraph 173 sets out how Government expects viability to be considered in planning:

*'Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.'*¹⁰

- 2.2 Planning Practice Guidance¹¹ (PPG) provides further detail about how the NPPF should be used. PPG contains general principles for understanding viability and that, in order to understand viability, a realistic understanding of the costs and the value of development is required and direct engagement with development sector may be helpful¹². Evidence should be proportionate to ensure plans are underpinned by a broad understanding of viability, with further detail where viability may be marginal or for strategic sites with high infrastructure requirements¹³. However not every site requires testing and site typologies may be used to determine policy¹⁴. For private rented sector, self build and older people's housing, the specific scheme format and projected sales rates (where appropriate) may be a factor in assessing viability.¹⁵
- 2.3 For an area wide viability assessment, a broad assessment of costs is required, based on robust evidence which is reflective of local market conditions. All development costs should be taken into account, including infrastructure and policy costs as well as the standard development costs¹⁶.
- 2.4 Land values should reflect emerging policy requirements and planning obligations and provide a competitive return to willing developers and land owners. Where possible land values should be informed by comparable, market-based evidence but excluding transactions above the market norm¹⁷.

¹⁰ DCLG, 2012, NPPF Para 173

¹¹ DCLG, Planning Practice Guidance

¹² PPG Paragraph: 004 Reference ID: 10-004-20140306

¹³ PPG Paragraph: 005 Reference ID: 10-005-20140306

¹⁴ PPG Paragraph: 006 Reference ID: 10-006-20140306

¹⁵ PPG Paragraph: 018 Reference ID: 10-018-20150326

¹⁶ PPG Paragraph: 013 Reference ID: 10-013-20140306

¹⁷ PPG Paragraph: 014 Reference ID: 10-014-20140306

- 2.5 Developer returns should be proportionate to risk¹⁸. The return to the landowner will need to provide an incentive for the land owner to sell in comparison with the other options such as current use value or policy compliant alternative use value¹⁹.
- 2.6 Guidance has been published to assist practitioners in undertaking viability studies for policy making purposes – “*Viability Testing Local Plans - Advice for planning practitioners*”²⁰.
- 2.7 The approach to viability testing adopted for this study follows the principles set out in the Advice which re-iterates that:
“The approach to assessing plan viability should recognise that it can only provide high level assurance.”
- 2.8 The Advice also comments on how viability testing should deal with potential future changes in market conditions and other costs and values and, in line with PPG, states that:
“The most straightforward way to assess plan policies for the first five years is to work on the basis of current costs and values”. (page 26)
But that:
“The one exception to the use of current costs and current values should be recognition of significant national regulatory changes to be implemented.....”(page 26)
- Local Plan Policies**
- 2.9 The NPPF is clear that viability testing should take into account, ‘...*the costs of any requirements likely to be applied to development,...*’ (Para 173).
- 2.10 The most important policies in this context in the draft Local Plan are those for affordable housing policies. These are summarised in the following table which was also presented to the development industry workshop.

¹⁸ PPG Paragraph: 015 Reference ID: 10-015-20140306

¹⁹ PPG Paragraph: 015 Reference ID: 10-015-20140306

²⁰ The guide was published in June 2012 and is the work of the Local Housing Delivery Group, chaired by Sir John Harman, which is a cross-industry group, supported by the Local Government Association and the Home Builders Federation.

Figure 2 – 1:Draft Local Plan Affordable Housing Policies

Policy	Locations to which policy applied	Type of housing allowed
HC – S1 New build and conversions/ redevelopment	Local service centres and villages but not Porlock Weir for new build	Mixed tenure scheme Affordable housing + Principal residence market housing –solely to make viable
HC-S1 New build and conversions/ redevelopment	Local service centres and villages	Mixed tenure scheme Affordable housing + Accessible and adaptable²¹ housing for older people and other vulnerable people (Principal Residence and local connection) - solely to make viable
HC- S1 New build and conversions/ redevelopment	Porlock Weir only	100% affordable – local occupancy No market housing (except for conversions to make viable – Principal Residence)
HC – D5 New build and conversions	Local need affordable housing in local service centres, villages, Porlock Weir and within rural communities in the open countryside.	Self/custom build

2.11 Policy HC-S2 of the draft Local Plan states that new housing should include, “....*flexible standards that enable dwellings to be adapted to the needs of people over their lifetime.*” To take this into account in the testing, ENPA advised what percentage of dwellings should be built to meet Category M4 (2) Accessible and Adaptable Homes

²¹ The term ‘accessible and adaptable’ has been adopted to reflect government introduction of new nationally described space standards and optional technical standards which allow authorities to require sites to provide additional technical standards such as Requirement M4(2) (accessible and adaptable dwellings), and / or M4(3) (wheelchair user dwellings), of the Building Regulations
<http://planningguidance.communities.gov.uk/blog/guidance/housing-optional-technical-standards/>

standards. All other housing has been assumed to meet nationally described space standards.²²

- 2.12 ENPA has advised that there are no other policies in the Plan that have a direct bearing on the development economics of new housing development. However, some workshop participants commented on the additional build costs they find in developing in Exmoor. This was explained in part by the perceived higher quality (in design and materials used) sought by the Authority when dealing with individual applications, the higher costs associated with the relative remoteness of the Park, the small number of development sites and the limited numbers of developers willing to develop in the Park. These views were not shared by all developers consulted (either at the workshop or in other research we undertook) nor evidenced by schemes presented to the Authority. However, to test the implications of the higher costs some have put forward, we have undertaken two sensitivity tests – one which has higher build costs and one which increases the developer return (reflecting an overall higher risk).

²² DCLG (2015): Technical housing standards - nationally described space standards

3. AFFORDABLE HOUSING

National Policy

- 3.1 The definition of affordable housing, social rented housing and affordable rented housing is taken from the National Planning Policy Framework Annex 2 (Glossary)²³ and as set out below

Affordable housing: Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.

Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.

Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

- 3.2 National policy has moved away from the provision of social rented housing. The Homes and Communities Agency set this out in the prospectus for the 2015-18 Affordable Homes Programme which states that, “...it is not expected that local authority priorities will include a preference for social rent over Affordable Rent – the intention of the programme is to provide new Affordable Rent homes ...” and, “Social rent provision will only be supported in very limited circumstances. For example, social rent could be considered where decanting existing social tenants into new homes is necessary.”²⁴ Furthermore, the Autumn Statement has reserved all new government funding for low cost home ownership from 2018 - e.g. Starter Homes, Rent to Buy, Help to Buy and Shared Ownership.²⁵

²³ <http://planningguidance.communities.gov.uk/blog/policy/achieving-sustainable-development/annex-2-glossary/>

²⁴ Affordable Homes Programme 2015 -18 Prospectus, Homes and Communities Agency, January 2014 - See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/343896/affordable-homes-15-18-framework.pdf

²⁵ Para 6.6 <https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents/spending-review-and-autumn-statement-2015>

Housing Association Activity in Exmoor National Park

- 3.3 As part of this study, we interviewed housing associations that have developed in and around the National Park in the recent past – none are currently developing in the Park. The housing associations explained that developing in the Park had become increasingly difficult with relatively high costs while the availability of grant funding has reduced. The extra costs of developing in the Park were said to arise from a combination of factors including the costs of meeting the high design requirements, costs of delivery to more remote locations, lack of contractors willing to work in the Park and the small-scale nature of schemes. Land supply was also highlighted as an issue for associations who might still want to develop in the Park but were struggling to find opportunities that could be delivered quickly and would be viable.
- 3.4 The housing associations provided information about the economic factors that influence how much they can pay for new properties and these are set out in full in Annex 1. Specifically, the associations were asked about rents charged for social and Affordable Rent properties (noting that it is the latter that associations would seek to build in the future). Given the limited amount of development in recent years, information about rent levels for new homes is slim and we blended the information from the associations with data from West Somerset Council and Local Housing Allowance (LHA) rates. The rent levels used in the testing are set out in the table below along with LHA rates (which set the maximum amount that can be paid via housing benefit in the private sector and, from 2018, for new affordable tenancies signed after April 2016²⁶). The National Park is within two Broad Rental Market Areas (BRMA) with slightly different LHAs.

Figure 3 – 1: Weekly Social and Affordable Rents and Local Housing Allowances

	Social Rent	Affordable Rent	Local Housing Allowances by BRMA	
			North Devon	Taunton and West Somerset
1 bed flat/house	£75	£87	£92.05	£92.05
2 bed bungalow	£95	£110	£115.07	£120.82
2 bed house	£95	£110	£115.07	£120.82
3 bed house	£105	£135	£138.08	£145.67
4 bed house	£115	£155	£168.46	£184.11

²⁶ Para 1.125 Spending Review and Autumn Statement 2015
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU186_5_Web_Accessible.pdf

Affordability

- 3.5 A combination of relatively high house prices and low wages leads to a significant housing affordability problem in Exmoor.
- 3.6 The Park Authority has prepared a Housing Topic Paper²⁷ which reports that average gross household income in the National Park is between £28,000 and £29,000 with many on lower incomes. Comparing average and lower quartile incomes to social and Affordable Rents, the table from the Topic Paper below highlights that homes at social rent levels are much more affordable than both Affordable Rent and rents in the private sector. What the table does not take into account is the availability of housing benefit that would overcome some of the affordability issues highlighted.

Figure 3 – 2: Extract from the Housing Topic Paper (June 2015) illustrating affordability of rented properties.

Table 2.2 Affordability of Rents compared with Local Incomes ²⁶			
No. Bedrooms	Average Rent (£/month)	Rent as % of gross income	
		£16,000 p.a.	£28,000 p.a.
Private Rental Sector			
1	405	30.4	17.4
2	495	37.1	21.2
3	690	51.8	29.6
4	805	60.4	34.5
Social Rental Sector			
1	244	18.3	10.5
2	287	21.5	12.3
3	328	24.5	14
4	390	29.3	16.7
Affordable Rentals			
1	324	24.3	13.9
2	396	29.7	17
3	552	41.4	23.7
4	644	48.3	27.6

Affordable
Borderline
Unaffordable

- 3.7 Some forms of low cost home ownership may be affordable by households on lower/average incomes. Taking a sale price of £205,000 for a 3 bedroom terrace (as in a recent development) the income required for a mortgage to purchase this property (with a 25% deposit) would be about £44,000. This is well above the average income in the National Park.²⁸ Given an estimated average income of £29,394 (taken from the 2014 SHMA), the 3 bedroom terrace shown above, could be purchased at about £129,000 (with a 25% deposit and mortgages). This is about 63% of the open market value. For a 2 bedroom terrace (at an estimated value of £184,000), the discount required to make the property affordable would be about 30% (70% of open market value). In the testing we have modelled a discounted sale property and used a 35%

²⁷ Exmoor National Park Publication Draft Local Plan - Housing Topic Paper, June 2015

²⁸ It is assumed that the household can borrow 3.5 times its income.

discount as a reasonable estimate of the level of discount required to provide sale housing that is affordable by the 'average' household. There will still be many households on below average incomes for which this is not an option, where social rented housing will be the most affordable solution.

Community Land Trusts

- 3.8 Community Land Trusts (CLTs) are legal entities set up by communities to own and manage assets for the social, economic and environmental benefit of the community. The number of CLTs that have provided affordable housing have increased significantly over the last five years, supported by a number of measures in the Localism Act and a bespoke capital funding programme within the Government's Affordable Homes Programme that was available between 2011 and 2015. Communities in the South West have been particularly successful in setting up CLTs, drawing on these resources and the technical support provided by Wessex Community Land Trust. CLTs can provide the full range of housing with the requirement that any proceeds from sales are used to meet the legally defined purposes of a CLT. Primarily their focus has been on the provision of affordable housing in the form of Affordable Rent and shared ownership homes. As they have been largely funded by Government grant the affordability of these homes is the same as that offered by housing association properties of the same tenure. In some cases the CLT has provided discounted market sales with a re-sales covenant that restricts future sale prices to a percentage of open market value. There are also examples of CLTs offering equity share housing, whereby the CLT retains ownership of part of the home and the resident owns the remainder. Unlike shared ownership, no rent is paid on the outstanding share.
- 3.9 The mechanisms used by CLTs to deliver affordable housing are variable. Some are completely free standing, raising all the capital finance, managing the build contract and having the ownership and management of the completed properties. Others have worked in partnership with a housing association. The CLT owns the homes and leases them on a long term lease, typically 125 years, to a housing association. For their part the housing association raises the capital funding, manages the build contract and the completed homes and pays a small annual ground rent to the CLT.
- 3.10 Whichever route is adopted the same financial viability considerations that apply to other forms of affordable housing delivery will determine whether a CLT can provide affordable housing. As such the conclusions of this report are equally applicable to CLT developments.

4. VIABILITY TESTING

Principles and approach

4.1 The Advice for planning practitioners summarises viability as follows:

*'An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.'*²⁹

4.2 As is standard practice,³⁰ we have adopted a residual value approach to our analysis. Residual value is the value of the completed development (known as the Gross Development Value or GDV) less the development costs, including the cost of the land. The value of the scheme includes both the value of the market housing and affordable housing. Scheme costs include the costs of building the development, plus professional fees, scheme finance and a return to the developer as well as any planning obligations.

Testing assumptions

4.3 Details of the assumptions used for testing are set out in Annex 1. Two types of assumption are important to note and are relatively unusual in viability testing – reflecting the particular circumstances of the National Park.

4.4 The land value assumed was the same across the National Park and was based on a single plot value that all schemes should achieve. This was set at £10,000 per dwelling, (whatever the existing use value) reflecting the exceptional circumstances of development in the National Park and that market housing is only permitted to allow the development of affordable housing. The figure of £10,000 per plot represents about £300,000 per hectare³¹ or approximately 15 times agricultural land value³². Larger developments with a greater number of plots would result in higher values to the landowner overall. The £10,000 value per plot is consistent with, and in many cases above, recent historic plot values achieved but reflects current expectations and was broadly accepted by the development industry attending the workshop as a reasonable starting point for the development being allowed in the Park³³.

²⁹ P 14 Viability Testing Local Plans: Advice for Planning Practitioners Harman 2012

³⁰ See page 25 of Viability Testing Local Plans: Advice for Planning Practitioners Harman 2012 – “We recommend that the residual land value approach is taken when assessing the viability of plan-level policies and further advice is provided below on the considerations that should be given to the assumptions and inputs to a model of this type.”

³¹ Based on a density of 30 dwellings per hectare

³² The estimate of agricultural land value has been drawn from two recent publications - Market Survey UK Agricultural Land, Savills 2014 (with values for the South West) and Land value estimates for policy appraisal, DCLG 2015, with one value for England

³³ This plot value is broadly comparable to plot values for affordable-led/rural exception developments elsewhere.

- 4.5 Sale prices for new build market housing were reduced from their full market value to reflect the restrictions on sales imposed by the draft Local Plan policies as follows:
- For ‘Principal Residence’ criteria – open market value reduced by 5% (based on workshop discussion)
 - For ‘local connection’ criteria – open market value reduced by 20% (based on feedback from other National Park Authorities and workshop comments).
- 4.6 Other assumptions which are highlighted are:
- The build costs used were taken from the Building Cost Information Service (BCIS). This shows that for schemes of 3 or fewer dwellings, build costs are higher than for larger developments. However, 2015 research published by the Federation of Small Businesses using BCIS data indicates that small developments have significantly higher build costs; one explanation put forward for this is an inability to achieve economies of scale. Subsequent correspondence between Three Dragons and BCIS has confirmed that it is single dwelling developments that are likely to have significantly increased build costs, rather than all small sites. Therefore build costs have not been increased for the case studies, all of which are more than one dwelling;
 - The testing assumed that grant would not be available to help fund the affordable housing. This follows the guidance from the Homes and Communities Agency which states that, “*Our expectation is that S106 schemes will be delivered at nil grant input for both Affordable Rent and for affordable home ownership*” and that it is only ‘*very exceptionally*’ that the HCA will consider funding s106 schemes and only then with evidence to demonstrate, “*....that this will result in provision of additional affordable housing which would not otherwise be delivered* “. ³⁴ Furthermore the Autumn Statement has reserved all new government funding for low cost home ownership from 2018 - e.g. Starter Homes, Rent to Buy, Help to Buy and Shared Ownership. ³⁵
 - In response to draft Local Plan policy HC-S2, the testing includes some case studies with Part M4(2) standards. ³⁶ Part M4(2) is broadly equivalent to the former Lifetime Homes standard and we have allowed an additional cost of £2,000 per dwelling to cover the additional costs. This allowance is informed by the Housing Standards Review Cost Impact Assessment 2014 undertaken by EC Harris on behalf of DCLG. The Impact Assessment indicates that costs may vary by dwelling size and tenure

³⁴ Affordable Homes Programme 2015 -18 Prospectus, Homes and Communities Agency, January 2014 - See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/343896/affordable-homes-15-18-framework.pdf

³⁵ Para 6.6 <https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents/spending-review-and-autumn-statement-2015>

³⁶ Building Regs Part M (2015) <http://www.planningportal.gov.uk/buildingregulations/approveddocuments/partm/adm/admv01>

from £1,100 per dwelling to £2,700 per dwelling (see Annex 1 for details of this) and the £2,000 per dwelling used in this study is a conservative assumption which is sufficient to cover most dwelling types and tenures. The allowance for Part M4(2) standards is used for 20% of all dwellings for developments of five or more dwellings (including affordable dwellings), as advised by ENPA³⁷, and this covers many of the case studies. In addition, one of the case studies (Case Study 7 with three accessible and adaptable bungalows) has Part M4(2) standards applied to all of the three dwellings;

- Planning authorities also have the option to require higher accessibility standards for wheelchair user housing, as set out in Part M(4) 3 (adaptable) and Part M(4) 3 (accessible). The costs for these two accessibility standards is significantly higher than Part M4(2) e.g. approximately £17,000 per dwelling for a for Part M(4) 3 (adaptable) two bedroom terrace and approximately £30,000 per dwelling for a Part M(4) 3 (accessible) two bedroom terrace. Planning Practice Guidance states that Local Plan policies for wheelchair accessible homes should be applied only to those dwellings where the local authority is responsible for allocating that dwelling. ENPA has advised that these higher accessibility standards may only be required where there is a specific need, on a case by case basis. These higher accessibility standards have not been included as part of the viability testing.

Passivhaus development

- 4.7 The Authority asked that the study also considered the viability implications of developing Passivhaus in the Park. Passivhaus provides very high levels of energy efficiency and cost savings to occupants being of particular benefit to lower income households. It is for this reason that Hastoe Housing Association, one of the principal providers of rural affordable housing in the south of England has pioneered using this form of development on small rural schemes. A recent study of their Passivhaus scheme in Wimbish in Essex found that gas bills were, on average, around £500 a year (excluding VAT) below the Ofgem medium (i.e. typical consumption)³⁸.
- 4.8 Construction costs for Passivhaus are higher than those for dwellings that simply meet Building Regulations. Another research study last year concluded that, “...an average capital cost of £1,800/m² - £1,850/m² of GIFA (gross internal floor area) is achieved, normalised to Q4 2014. This represents a 15-20% uplift compared to the CFSH 4 (Code for Sustainable Homes level 4) standard which is widely used across the UK.”³⁹ We consider the implications of this when we report on the sensitivity analysis of higher build costs noted above.

³⁷ This is consistent with 2011 Census data for the National Park (20.9% of people who have day-to-day activities limited a lot or a little)

³⁸ Wimbish Passivhaus Development: Performance Evaluation Executive Summary Hastoe Group, UAE, Martin Ingham, Linktreat Ltd. July 2014 <http://www.wimbishpassivhaus.com/Wimbish-Performance-Evaluation-Executive-Summary.pdf>

³⁹ Passivhaus Capital Cost, Research Project, Sponsored by AECOM, January 2015: <http://www.passivhaustrust.org.uk/UserFiles/File/Technical%20Papers/150128%20PH%20Capital%20Costs.pdf>

Case studies

- 4.9 The ENPA identified a series of case studies for testing which reflect the policies in the draft Plan. These are set out in the table below. In the table the Exmoor Discounted Sale Model (EDSM) is a model of low cost purchase considered by the National Park to meet local need with an initial purchase cost of 65% open market value⁴⁰, 'Starter Home' is modelled as the proposed 2015 DCLG scheme at 80% open market value.

⁴⁰ Based on the price of a three bed terrace home against an average household income on Exmoor of around £28-29K.

Figure 4 – 1: Case studies

<i>Key</i> <i>b – bed; t – terrace;</i> <i>f – flat; s – semi-</i> <i>detached; bb – bed</i> <i>bungalow;</i> <i>p – person</i>	Dws	Social Rent						Affordable Rent						Starter Home 20% discount		Exmoor Discounted Sale Model (EDSM) 35% discount		Adaptable home with local tie M4(2)	
		1bt 2p	1bf 2p	2bf 3p	2bt 4p	3bt 5p	4bt 6p	1bt 2p	1bf 2p	2bf 3p	2bt 4p	3bt 5p	4bt 6p	2bs 3p	3bs 5p	2bs 3p	3bs 5p	2bb 3p	3bb 4p
Case Study 1 a	2										1	1							
Case Study 1 b	2				1	1													
Case Study 1 c	4										1	1			1	1			
Case Study 2 a	4								1		2		1						
Case Study 2 b	4		1		2		1												
Case Study 3 a	6							6											
Case Study 3 b	6	6																	
Case Study 4 a	6								3			3							
Case Study 4 b	6		3			3													
Case Study 5a	10								4		4	1	1						
Case Study 5b	10		4		4	1	1												
Case Study 6 a	4													2	2				
Case Study 6 b	4															2	2		
Case Study 7	3																	2	1

4.10 For ease of reference the case studies are summarised in the following table.

Figure 4 – 2: Case study summary

Case study	Dwellings	Description
1a	2	All Affordable Rent
1b	2	All social rent
1c	4	Affordable Rent and EDSM
2a	4	All Affordable Rent
2b	4	All social rent
3a	6	All Affordable Rent
3b	6	All social rent
4a	6	All Affordable Rent
4b	6	All social rent
5a	10	All Affordable Rent
5b	10	All social rent
6a	4	Starter Homes (DCLG)
6b	4	EDSM
7	3	Adaptable homes (local tie)

4.11 No testing of self build units has been undertaken. Self build are to be, “...affordable by size and type to local people and will remain so in perpetuity...”⁴¹. They are treated as a ‘stand alone’ product that could be taken up when a self/custom builder finds them to be economically realistic. It is assumed that self build is not required to subsidise other development and that cross subsidy should not be required to enable self build.

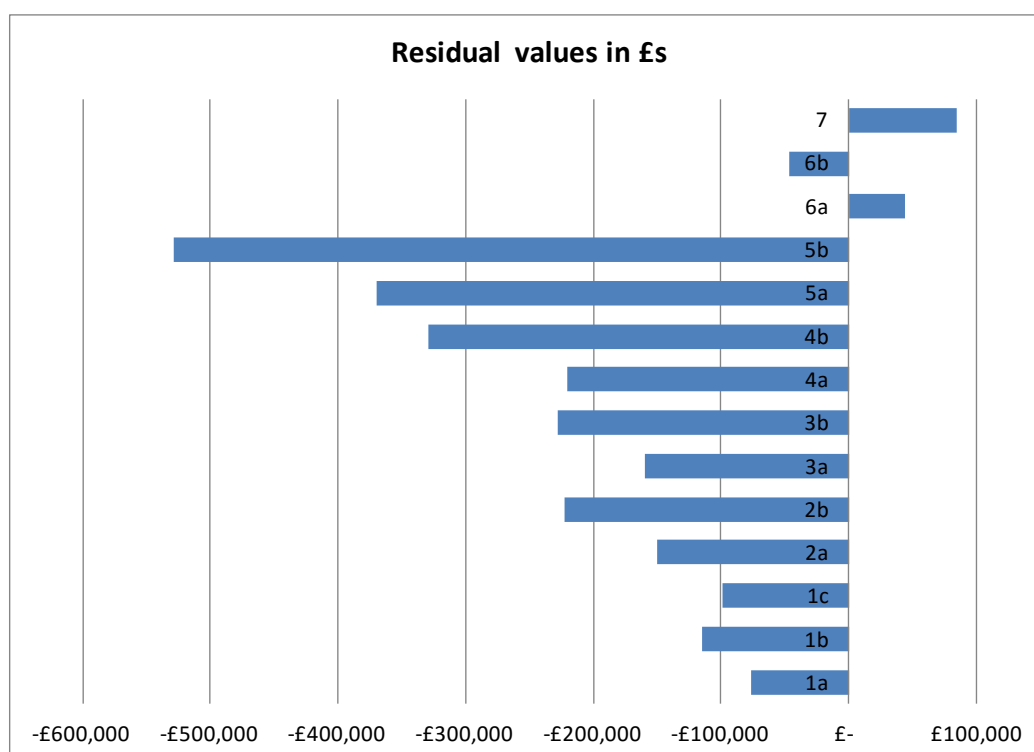
Testing results

4.12 The results of the initial modelling show that only two case studies have a positive residual value – case studies 7 and 6a. These are both case studies with low cost market housing and no rental affordable housing. Case study 7 has 3 bungalows which are all adaptable homes sold to households with a local tie. Market values are modelled at 20% below full market value and costs are increased by about £2,000 per dwelling to reflect development as adaptable homes but there is still enough value in the scheme to generate a residual value of over £300,000, which could be used to help cross subsidise the delivery of local affordable homes (as required by policies in the draft

⁴¹ Exmoor National Park Local Plan, Publication Draft, policy HC-D5

Plan). Case study 6a is 4 (2 and 3 bed) houses at 80% market values – Starter Homes. None of the other case studies has a positive value as the chart below shows.

Figure 4 – 3: Residual value of the case studies – base case



- 4.13 Where the same schemes are replicated with one alternative being Affordable Rent and one being social rent (e.g. 1a and 1b), consistently the scheme with social rent generates a much lower residual value – in the case of 1a and 1b (2 dwellings) the difference is £39,000 and in the case of 4a and 4b (6 dwellings), £109,000.
- 4.14 The scheme using the Exmoor Discounted Sale Model (case study 6b) and at 65% market value is also not viable.
- 4.15 The next step in the testing was to supplement schemes which were not viable with market housing until they became viable (i.e. their residual value just became positive). The market housing introduced was as 'Principal Residence' market housing at 5% below the notional full open market value.
- 4.16 Principal residence housing was added one unit at a time until the tipping point to a positive RV was reached. The sequence in which Principal Residence units were added replicates the most likely market preferences-drawing on recent planning applications and feedback from the development industry workshop to arrive at the order. It was as follows:
- One X 3 bed semi
 - One X 4 bed detached
 - Second 3 bed semi
 - Second 4 bed detached

- One X 2 bed terrace
- Repeat sequence if necessary.

4.17 The table and graphs below show the number of Principal Residence houses that were required to achieve a viable scheme. This is then shown as a percentage of Principal Residence housing across the whole scheme. So, for example, if 4 Principal Residence houses were required to make a 6 unit case study viable, the percentage of Principal Residence housing required would be $4/(6 + 4) = 40\%$.

Figure 4 – 4 Additional Principal Residence housing to make viable

	Description	Base case - no of dws	To make viable	
			Additional market dwellings	% market housing
1a	All Affordable Rent	2	2	50%
1b	All social rent	2	3	60%
1c	Affordable Rent and EDSM	4	3	43%
2a	All Affordable Rent	4	4	50%
2b	All social rent	4	6	60%
3a	All Affordable Rent	6	4	40%
3b	All social rent	6	6	50%
4a	All Affordable Rent	6	6	50%
4b	All social rent	6	8	57%
5a	All Affordable Rent	10	9	47%
5b	All social rent	10	13	57%
6a	Starter Homes (DCLG)	4	0	0%
6b	EDSM	4	2	33%
7	Adaptable homes (local tie)	3	0	0%

Figure 4 – 5 Additional Principal Residence housing to make development viable

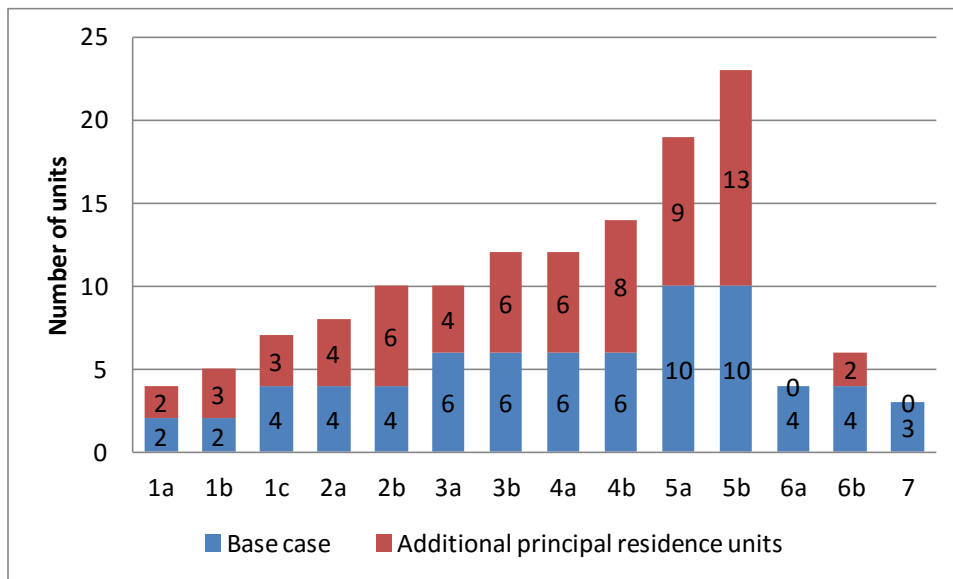
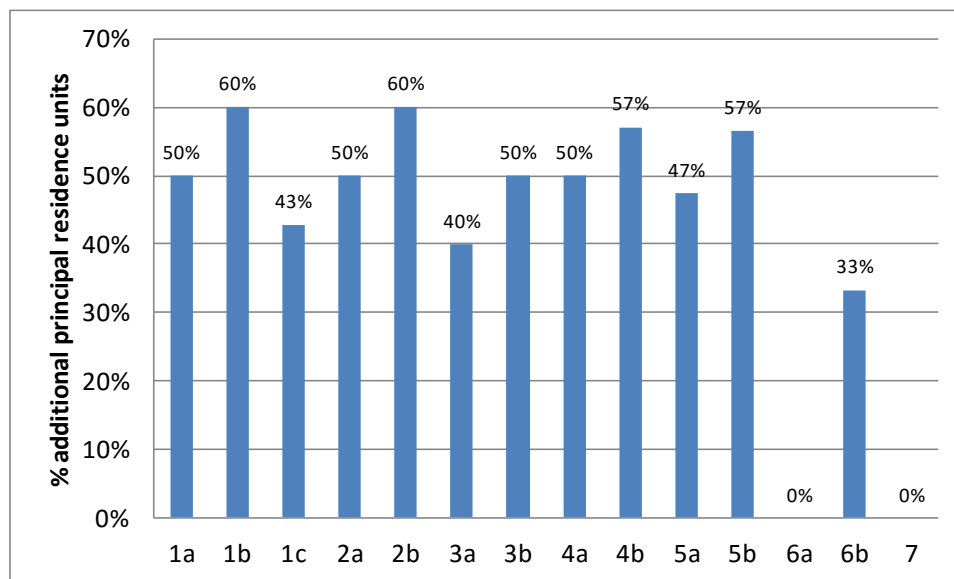


Figure 4 – 6 Proportion of Principal Residence housing to make viable



4.18 Most of the case studies required between 40% and 60% Principal Residence market housing to deliver viable development. Case studies 1b and 2b required most Principal Residence market housing for viability – these are schemes with social rent affordable housing. With the affordable housing as Affordable Rent, the need for Principal Residence housing is reduced. This reflects the lower value of social rented property compared to Affordable Rented property (in the absence of grant funding). For example, case study 2a (4 houses – all Affordable Rent) requires 4 Principal Residence houses to be viable but 2b (4 houses all social rent) requires 6 Principal Residence houses to be viable.

- 4.19 The minimum number of additional dwellings needed to make a scheme viable, have been calculated as whole numbers of dwellings – as would be required practically to provide a viable development. In most cases, this produces a small scheme surplus but in some cases, the surplus may be quite substantial.
- 4.20 Annex 3 provides further detail of the results of the viability testing undertaken.

Sensitivity Testing

- 4.21 The final set of tests assessed the impact of higher build costs and return on development. For the former, build costs were increased by 20%⁴² and for the latter a 20% return on value was assumed across both market and affordable housing. (The base tests assumed 20% return on value for the market housing and 6% return on costs for the affordable housing). Sensitivity tests were carried out with case studies 2a and 6b. The results are stark. In the case of 2a (four Affordable Rent dwellings), at 20% higher build costs, 13 Principal Residence houses would be required to make a viable scheme; therefore we did not test the added impact of the higher developer return. In the case of 6b (four Exmoor Discounted Sale Model dwellings), the higher build costs negated any value and so the testing was stopped.
- 4.22 The sensitivity tests strongly suggest that where developers face the level of build costs some proposed, it is unlikely they would consider developing in the National Park in the first place.
- 4.23 The higher build costs used in the sensitivity tests were still significantly below those for development to Passivhaus standards (at around £1,800 per sq m). We did not undertake any modelling at this level of cost as it is clear that such development would not be viable without significant levels of subsidy – either as grant or through, for example, the introduction of open market housing (probably at quite high levels) and this would be contrary to the draft Local Plan.

Summary of key findings

- Schemes of Starter Homes only, as proposed by DCLG in 2015, would be viable. However, schemes using the Exmoor Discounted Sale Model and at 65% market value would require (a small amount of) Principal Residence market housing to be viable;
- Schemes of adaptable market homes only (bungalows built to higher accessibility standards) and with a local tie, are viable and therefore have some potential to provide cross-subsidy for affordable housing, consistent with the policy approach in the Local Plan;
- But rented affordable housing (both social and Affordable rent) require subsidy from Principal Residence market housing. This can be as high as 60% Principal Residence housing;

⁴² The costs used were £1,344 per sq m for houses and £1,556 per sq m for flats

- There is a trade off to be made between providing social rent versus Affordable Rent and the amount of Principal Residence housing needed to ensure viability. For example, a scheme of 6 Affordable Rent homes needs 6 Principal Residence market housing to be viable but the same scheme of 6 social rent units needs 8 Principal Residence market houses to ensure viability;
- Some developers may be deterred from developing in the National Park if they are unable to develop at the lower level of costs others can achieve;
- The additional costs of Passivhaus mean that it cannot be developed without significant subsidy either as grant and/or from (unrestricted) market housing;
- Self build units will only go ahead as a stand alone product: it is assumed that self build is not required to subsidise other development and that cross subsidy should not be required to enable self build.
- The policies in the Local Plan are deliverable but with many if not most schemes needing to have a substantial element of Principal Residence market housing (up to 60%).

Conversions

4.24 The testing undertaken related to the development of new properties but some new dwellings are provided through the conversion of existing buildings e.g. a redundant hotel. Conversions vary enormously in terms of the costs of the work and the value of completed units. It is therefore not realistic to subject conversion to the same testing as for new builds. However, a number of principles for conversions can be taken from the findings of the testing of new build. These are that:

- Conversions to single dwellings can be treated as self build units for local people unable to meet their housing needs on the open market;
- The starting point for multi dwelling schemes is that they should provide 100% affordable housing. Thereafter the minimal amount of principle residence housing can be acceptable to provide a viable scheme;
- Where a commuted sum is acceptable⁴³ it should be calculated on the basis of the difference between the value of a 100% market scheme compared with a viable scheme with the maximum amount of affordable housing.

⁴³ i.e. This would only be acceptable where the conversion would deliver more local need affordable homes than needed locally

Annex 1

Testing assumptions

New Build Market values

One base set for whole ENP area. Then use following adjustments depending on policy being tested:

- For 'Principal Residence' criteria – reduce OMV(Open Market Value) by 5% (based on workshop discussion)
- For 'local connection' criteria – reduce OMV by 20% (based on feedback from other National Park Authorities and workshop comments)

Market values (with and without discounting) are set out in the table below

	Flats		Bungalows			Terraces					Semis		Detached
	1bf 2p	2bf 3p	1bb 2p	2bb 3p	3bb 4p	1bt 2p	2bt 3p	2bt 4p	3bt 5p	4bt 6p	2bs 3p	3bs 5p	4b 7p
Affordable sq m	50	61	50	61	74	58		79	93	106	70	93	
Market sqm		61		61	74		70					93	115
OM Values		£130,000		£220,000	£250,000		£184,000				£190,000	£220,000	£302,000
OM Values/sq m		£2,100		£3,600	£3,400		£2,600				£2,700	£2,400	£2,600
Principal residence discounted (5%)		£124,000		£209,000	£238,000		£175,000				£180,50	£209,000	£287,000
Local connection (discounted by 20%)		£104,000		£176,000	£200,000		£147,000				£152,00	£176,000	£242,000

Floor areas compliant with National space standards

OMV based on Land Registry data checked with workshop.

Bungalow values estimated post workshop based on rightmove using bungalows in Exmoor and the surrounding area. Inevitably these are mainly older stock sales. Sq m from floorplan estimates/EPC certificates.

Development costs

Type	Cost	Explanation
<u>Build costs</u>		
Flats (1 to 2 storey)	£1,297	sq m includes 15% for external works
Houses – general (2 storey)	£1,120	sq m includes 15% for external works
Single dwellings	£1,850 ⁴⁴	sq m includes 15% for external works
Bungalows	£1,329	sq m includes 15% for external works
<u>Other development costs</u>		
Professional fees	10%	of build costs
Finance	6%	of development costs
Marketing fees	3%	of Gross Development Value (GDV)
Developer return (Principal Residence – market)	20%	of GDV (applies to all market housing – Principal Residence and local restricted)
Contractor return (affordable)	6%	of build costs
Residual s106	£1,000	£1,000 per dwelling (all tenures)
Agents and legal	1.75%	

Build costs are BCIS 5 year median values (+15%). North Devon values are used as the best proxy for the National Park (which is not shown separately by BCIS).

Land values

Assume £10k per plot for all testing, for all tenures

⁴⁴ Corrected from workshop note in line with BCIS data

Affordable Housing

Rents per week in £s

	Social Rent	Affordable Rent
1 bed flat/house	£75	£87
2 bed bungalow	£95	£110
2 bed house	£95	£110
3 bed house	£105	£135
4 bed house	£115	£155

Calculation of the revenue from social and Affordable Rent housing follows the guidance from the HCA which states that, “*For Affordable Rent, our assumption is that the price paid will be no more than the capitalised value of the net rental stream of the homes.*”

Given the limited amount of development in recent years, information about rent levels for new homes is slim and we blended the information from the associations with data from West Somerset Council and Local Housing Allowance (LHA) rates. The rent levels used in the testing are set out in the table above.

Management/maintenance costs etc

Management and maintenance	£1,500
Voids/bad debts	3.00%
Capitalisation	5.5%

The HCA model uses a percentage of rent for management and maintenance costs. To achieve the fixed figure of £1,500 as above, we adjusted the % in the model to get the best fit. In some cases this meant using a slightly different figure than £1,500 but the differences are small and do not affect the overall results.

Intermediate/starter homes

Model as an equity share product with 2 options:

- Base model - ‘Exmoor Discounted Sale Model’ (EDSM) at 65% MV
- Sensitivity test at 80% MV – government Starter Homes model

Treat as market dwellings for development assumptions

Adaptable homes with local tie

Market housing and affordable housing with a local tie to meet Category M4(2) Accessible and Adaptable dwellings.

Also testing to include 20% Part M(4)2 for developments of 5 and above dwellings. Standard to be applied to the affordable element to meet known local needs.

Tenure	House type	Cat 2 costs/house type
AH	1bf	£ 1,662
AH	2bf	£1,629
AH	2bt	£1,967
AH	3bt	£2,687
AH	4bt	£2,687
Mkt	1bf	£1,229
Mkt	2bf	£1,196
Mkt	2bt	£1,101
Mkt	3bt	£1,387
Mkt	3bs	£1,387
Mkt	3bd	£1,386
Mkt	4bd	£1,386
Mkt	5bd	£1,386
Mkt	2bb	£1,101
Mkt	3bb	£1,387
Assumptions		
3bt and 4bt are the same as a 3bs		
3bd and 5bd are same as a 4bd		
2bb is the same as a 2bt		
3bb is the same as a 3bt		

On basis of above, assume an average of £2,000 per dwelling to meet to meet Category M4(2) Accessible and Adaptable dwellings.

ANNEX 2

Workshop Notes

Development Industry Workshop 26th November 2015

Exmoor House, Dulverton

Introductions

Workshop attendees were welcomed.

The purpose of the study and the workshop was explained as providing the necessary viability testing for the emerging local plan.

Ruth McArthur from ENPA provided an update for the local plan programme.

- Consultation summer 2015
- Now considering reps and national changes then onto submission and examination during 2016

Approach to viability analysis

Lin Cousins (LC) of Three Dragons set out the overall approach Three Dragons are proposing as follows:

- Local Plan policies require careful analysis
- Basic viability testing 'as usual' but specific issues to address:
 - Minimal 'market housing' - for cross subsidy only
 - Market housing – Principal Residence restriction – what impact on value?
 - Site by site assessment of affordable housing needed

LC also noted that the viability testing will need to take into account:

- Housing and Planning Bill currently at committee stage, including how the new starter home scheme will be taken forward. The approach to testing by Three Dragons will assume there is no change on current national policy. As soon as any details are known, this approach will be reviewed.
- The Chancellor's autumn statement – and implications for the funding and delivery of housing.

It is acknowledged that developments in the National Park are small-scale. Testing will reflect draft Local Plan policy, new government guidance, and local characteristics, including Principal Residence. The key issue being tested is how much market housing will be required to maximise delivery of affordable housing?

Comments

A definition of affordable housing and terms being used in the draft Local Plan was requested.

These are shown below.

Affordable Housing is defined by central government (in the National Planning Policy Framework) as being:

“Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households.

Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority.

Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.

Homes that do not meet the above definition of affordable housing, such as “low cost market” housing, may not be considered.”⁴⁵

Principal Residence is a term being used in the Local Plan and is defined as *“Principal residence housing is a form of market housing controlled by a mechanism which ensures it can be lived in by anyone but only as their Principal Residence.”⁴⁶* This will be applied through a planning condition. ENPA have had Counsels’ opinion and checked with mortgage lenders. ENPA used to making these judgements (e.g. holiday lets, agricultural dwellings). Impact will differ by location as proportions of holiday homes vary.

Local needs affordable housing is a term used in the draft Local Plan– *“Affordable housing (see definition above) which is intended to meet the needs of the local community. On Exmoor this includes a local connection to the National Park through residency and includes people who need to live close to their place of work.”⁴⁷* Policy HC-S3 provides the criteria, which, for those considered as having a local connection through residency, starts with the requirement for 10 years’ residency in the parish/adjoining parish but is flexible to include other parts of the National Park and/or district through various steps if no local people meet the criteria.

In terms of shared ownership, ‘staircasing’ is limited to 80% of the property

⁴⁵ Draft Local Plan Section 15 Glossary

⁴⁶ Draft Local Plan Section 15 Glossary

⁴⁷ Draft Local Plan Section 15 Glossary

Self-build register

Self-build register – can it be linked to local needs? ENPA with Dartmoor NP was a custom self-build vanguard working with DCLG. ENPA has set up a register with the Rural Housing Project. Has had some expressions of interest, as well as potential land. Current policies allow self-build but the draft Local Plan also requires that self-builders meet local tie criteria and the new homes are kept affordable in perpetuity.

Local Plan Policy LC provided a summary of the draft Local Plan policies as follows:

- Limited opportunities as few sites
- Principal need is affordable housing
- Principal residence market housing to make schemes viable (grant for affordable housing much reduced)

She also noted that in the past there has been 100% affordable delivered with grant from the Homes and Communities Agency (HCA) in order to facilitate delivery. Now working on basis of no grant (to be checked with HCA following Autumn Statement). So market housing replaces grant in order to deliver the affordable housing.

LC then showed a slide which summarised the draft Local Plan policies in the following table.

Policy	Sites affected	Type of housing allowed	Questions for viability testing
HC- S1 New build and conversions/ redevelopment	Porlock Weir only	100% affordable – local occupancy No market housing (except with conversions to make viable – Principal Residence)	What tenure/size dwellings? What plot value to assume? Scheme type – no of units, dwelling type? Dwelling size - assume national standards?
HC – S1 New build and conversions/ redevelopment	Local service centres and villages but not Porlock Weir for new build	Mixed tenure scheme Affordable housing + Principal residence market housing – solely to make viable	<i>How much Principal Residence market housing required to ensure viability?</i> <u>Technical details</u> What tenure/size dwellings for the AH? What plot value to assume? Scheme type – no of units, dwelling type? Dwelling size – national standards
HC-S1 New build and conversions/ redevelopment	Local service centres and villages	Mixed tenure scheme Affordable housing + Specialist housing for older people and other vulnerable people (Principal Residence and local connection) - solely to make viable	<i>How much Principal Residence specialist market housing required to ensure viability?</i> <u>Technical details</u> What tenure/size dwellings for the AH? What plot value to assume? Scheme type – no of units, dwelling type? Dwelling size – national standards
HC – D5 New build and conversions	Local need affordable housing	Self/custom build	Not a viability issue – no testing – but note limited to 90 sqm

Comments

- It was clarified that self-build dwellings will not be part of the testing, although some of the testing may include self-build plots.
- It was also clarified by ENPA that Porlock Weir is a special case, with one landowner and dwellings affected by coastal change, so need to allow replacement of affected stock. This will be 100% affordable so will need grant – except for conversion.
- Workshop participants suggested that Principal Residence and local tie narrows market. Local connection criteria is onerous. May scare off developers unless occupiers already identified, particularly for specialist homes – e.g. known downsizer who will buy off-plan. Questioned whether specialist housing was required as developers could meet demand through Principal Residence housing.
- Will be very small scale.
- Workshop comments suggested that housing for older persons could mainly be single storey which will have implications for build costs and land take.
- Demand (for local need housing) is very low in real terms so may be difficult to find buyers despite evidence of demand from surveys – but translation into effective demand can be very limited maybe because of cost or other factors.
- What safeguards will there be to lift restriction if no local demand comes forward? Will be important and measures to lift thresholds is something that is seen elsewhere. Also concern about selling on of these specialist properties with these restrictions.
- Is there a volume of real demand for the affordable homes– and let-ability implications?

A workshop participant asked ‘what is the minimum % of affordable housing that will be acceptable?’ He quoted the example of 18 Passivhaus on a site within the Dartmoor National Park that was dependent on funding from elsewhere. He had experience of a 60% affordable housing scheme that didn’t work although initial viability evidence indicated the scheme would be viable. There were unexpected costs e.g. contaminated land and groundwater and too few market dwellings to spread extra costs (plus the risk of rising build costs). Small schemes with a high % of affordable housing are very unpredictable and risky. He explained that where there is a ‘fixed price’ agreed with the housing association for the affordable housing, the risk becomes too great and so rural exception sites are very risky for the developer. There are also issues about scheme valuation for rural exception sites.

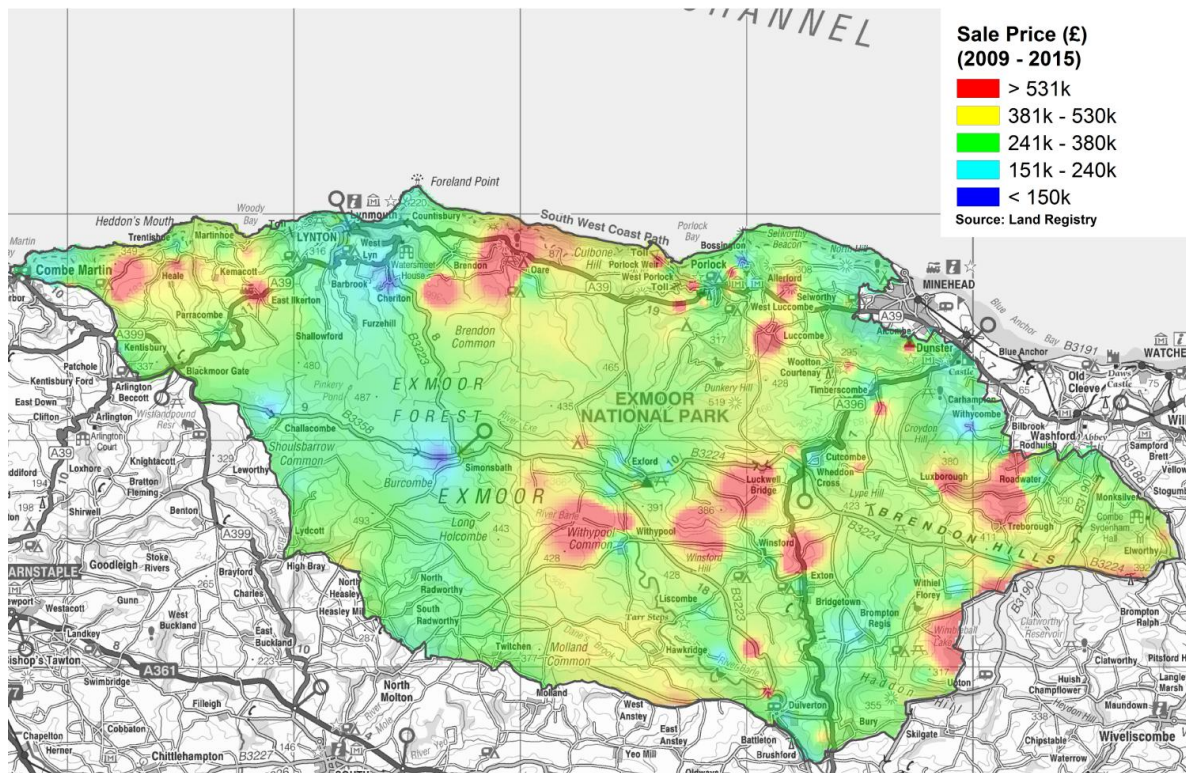
However, not all participants agreed with this point and others indicated that small rural schemes with a high % of affordable housing could be developed successfully.

Dominic Houston of Three Dragons (DH) noted that the testing will need to reflect the access standards required by the draft Local Plan policy and national standards which are as follows:

- Building Regulations Part M4(1) – required for all buildings
- Building Regulations Part M4(2) – broadly comparable to lifetime homes
- Building Regulations Part M4(3) – splits into wheelchair adaptable and wheelchair accessible

Housing Market

- LC asked for views on current market performance – what is selling well? Which areas give highest values? LC showed the following map.



Comments

Open market is slow on Exmoor. 328 dwellings currently for sale on Right Move. 27% conversion rate for properties under offer overall. 34% for £0-£0.5m. Not rising but there is some demand. House price increase is 1-3% pa. Prices of new homes haven't increased by much.

However the conversion rate for £0.5m + is only 9%.

- North Molton (note that this Parish is mainly outside the National Park) cheaper than Porlock and Dulverton. Porlock values strengthened by drier weather and access to employment in Minehead. Seemingly little interest in recent N Molton development, demand low, values low.
- Simonsbath also expensive and desirable for second homes
- Lynton and Lynmouth values are between Porlock and N Molton
- Market demand is made up mainly of semi-retired, retirees and 2nd homes

Common values for houses are in the range £200k – £250k – £300k for 2 to 3 beds depending on location.

Broadband speeds too low to work from home. Affects sales. Also other infrastructure deficiencies such as roads affect the market. Future BT and microwave systems will increase access to superfast broadband which will be helpful.

N Devon has seen stronger increases in market values compared to Exmoor.

Younger residents move away, wages very low particularly in West Somerset. Very few 1st time buyers. Talent retention is very poor.

South Molton developments will attract potential working residents, which affects the Exmoor market – as it will mop up some demand from working households.

Post Meeting Consultation

Post meeting consultation was undertaken to further explore whether there are separate value areas on Exmoor that should be applied in the testing. This post meeting consultation suggested that:

- There are picture postcard villages and as expected traditional cottages in these locations have good values.
- However, these locations tend to have few or no services and therefore they are more likely to be of interest to second home/holiday cottage purchasers.
- Families and people looking to access jobs, hospitals, shops, etc. are more likely to look in the settlements. This is why Wheddon Cross development was successful.
- Therefore, **for new build** it may be best to use a single value structure across the moor in a way that would be less appropriate for older traditional cottages with holiday home appeal (where there would be better differentiated value areas).

Market value - estimates

LC presented the following indicative market values for discussion. She explained that there was limited data and the values shown were based on Land Registry data for actual sales in 2014 and 2015 (which were almost exclusively second-hand sales)

	Det (4 bed)	Semi (3 bed)	Terrace (2/3 bed)
Dulverton	£325,000	£185,000	£205,000
Lynton	£280,000	£190,000	£180,000
Porlock	£322,000	£232,000	£187,000

Comments

Are values representative?

General agreement – yes Lynton is lower market as different housing stock – terraces and flats. Also access to work is poor and more rainfall.

Market values – estimates for new build homes

LC then represented estimates of indicative market values for new build housing as follows

- Very little recent evidence (c30 sales recorded by Land Registry 2009-today)
- Evidence available indicates c£2,800 per sq m so:
 - £322,000 for a 115 sq m house – say a 4 bed house
 - £250,000 for a 90 sq m house – say a small 3 bed semi
 - £224,000 for a 80 sq m house – say a 2 bed terrace
- But Principal Residence restriction – what impact on value (5%)

Comments

3 beds are £200k-£220k e.g. resale in Cutcombe was £215k following initial new build sale at £218k/£219k.

Suggest 4 and 3 beds might be bigger (125 sq m for 4 bed) and 2 beds smaller (70-75 sq m).

(LC confirmed that the testing will use national space standards and suggested that these national standards were more akin to the London space standards guidance.)

LC asked about any impact on values of the Principal Residence restriction?

- It will be site sensitive. Higher impact on smaller villages and other locations with high proportion of holiday homes. Less impact on cheaper areas. Holiday lets are in old traditional buildings. So less impact on new build.
- Suggest 5% in lower value and 10% in higher value areas.
- Other views that new build has few 2nd home owners (no second homes in the recent Cutcombe development for example) so maybe the Principal Residence restriction will have no impact. Discussion about impact on mortgage brokers. Also evidence that some properties have been sold with this Principal Residence restriction.
- Some evidence that lenders will restrict the number of loans they make with a scheme if all the purchases are limited and if there is disproportionate exposure to any one particular scheme. May be exacerbated by further restrictions on market sales through Principal Residence etc.

Approach to viability testing

LC explained the approach to viability testing to be taken by Three Dragons as follows:

- Residual value approach
- Testing is to find the minimum amount of market housing to achieve viable development

Total development value
<i>Minus</i>
Development costs (incl. build costs and return to developer)
=
Gross residual value
<i>Minus</i>
Planning obligations (including AH)
=
Net residual value (available to pay for land)

She noted that:

- The variation from a more typical approach to this type of testing is that we have an assumed plot value as an input, in order to assess the amount of market housing required to maximise delivery of affordable housing.
- Developer return will need to be attractive to incentivise limited pool of small scale developers.

Comments

There were no comments from the workshop on the overall approach to viability testing

Residential Testing – selection of case studies

LC explained that the testing will use a series of case studies to illustrate typical sites likely to come forward over the life of the Local Plan. These had been drawn from and analysis of the authority's Strategic Housing Land Availability Assessment.

- | | |
|---|---|
| <ul style="list-style-type: none"> • Different sizes of sites – based on SHLAA • Low density schemes – 25 dwellings per hectare – or less? • Greenfield sites <ul style="list-style-type: none"> – 75 dwgs – 25 dwgs – 15 dwgs – 8 dwgs – 4 dwgs – 3 dwgs – 2 dwgs – 1 dwg • Consider conversions • Include a mixed scheme with specialist market housing, main residence market housing and affordable housing | <div style="border: 2px solid black; background-color: #e1eef6; padding: 5px; display: inline-block;"> <p>Build costs can be higher for very small sites</p> </div> |
|---|---|

Comments

- At 25dph, market houses will be 4 and 3 bed detached.
- Do not include the 75 dwelling development – too large for Exmoor (even though it is a SHLAA site, it would be phased).
- Request for flexibility through negotiation on % of market housing if unexpected costs occur.
- Density? Has been higher e.g. Cutcombe was 30dph. So vary between development in towns and other locations. (3D to discuss with ENPA).
- Note gross to net will affect value to landowner.
- Large detached for the market element? May have some smaller market units as well as bungalows for specialist housing/downsizers. Suggest that 3 bed semis may be good as part of market mix although note that development will seek to maximise value.

Development costs

LC presented the following development costs Three Dragons propose to use in the testing for feedback by the workshop.

Type	Cost	
Houses – general	£1,120	sq m includes 15% for external works
Single dwellings	£1,950	sq m includes 15% for external works
Professional fees	10%	of build costs
Finance	6%	of development costs
Marketing fees	3%	of GDV - but is this needed if local occupancy??
Developer return (Principal Residence – market)	20%	of GDV (but this applies to local restricted housing??)
Contractor return (affordable)	6%	of build costs
Residual s106	£1,000	£1,000 per dwelling for local children's play/greenspace and minor local transport mitigation.
Agents and legal	1.75%	

Comments

- Some views that build costs are too low and should be nearer £1,300-£1,400 for 10-15 dwelling developments. Some of the higher build costs result from individual builders striving for high quality developments as part of professional reputation.
- But other views in the workshop that the costs shown are about right or lower and being achieved in the area. (Three Dragons noted that they are seeking views from as many sources as possible and information collected to date mirrors the mixed picture at the

workshop.) Noted that building in the NP will require expensive finishes. This is not accounted for in BCIS. See ENPA design guidance and Local Plan for requirements. Also comments that small sites are intrinsically more expensive.

- Workshop participants were asked for evidence from specific schemes, to be treated on a confidential basis. Depending upon what evidence comes in, the viability testing may have to treat higher build costs as a sensitivity test.

Other costs:

- Professional fees – bit high. But keep as is to include all professional/planning costs as about right. Bigger scheme would be nearer 7% or 8%.
- Finance 6% is right for the average. Set up fees? But assume 100% financed so therefore generous and this will cover additional costs. Agreed that generally some equity is a part of most developments.
- Marketing fees? OK (with 5% quoted as a composite for marketing, agents and legal fees).
- Developer return. 20% is OK. But 6% on the affordable element is riskier and therefore on an affordable led scheme (i.e. all the Exmoor ones) the return is more of an issue. But some view that this is OK. Agreed to do a 20% return overall as a sensitivity test.
- £1k per dwelling for s106 Payments - Don't expect to see s106 on affordable. Acceptable overall across market and affordable.
- Agents and legal fees? No comment

Land values

LC set out a plot value of £10,000 proposed for the testing. This equated very approximately to £300,000 per hectare or £100,000 per acre based on 30 dwellings per hectare density.

Comments

- Agricultural land values - currently £10k/acre close to villages but less in more remote locations on Exmoor.
- Acceptability of a development value of £10k per plot will depend on landowners.
- There is evidence of £5-£8k per plot for exceptions sites accepted in recent years. This is less than outside the NP where there are higher expectations. Noted that there have not been problems getting enough development sites at £5k-£8k/plot.
- Noted that £10k per plot is a reasonable uplift on agricultural but for attractive sites there has been bidding battles between housing associations with values of £15k/plot achieved outside the National Park when the market was at its peak (in 2007), but this was based on grant being available for affordable housing.
- Noted that landowners may have aspirations other than straight land values (e.g. new house for themselves).

Affordable Housing

LC noted the following points:

- Detailed discussions required with housing associations

- What housing associations pay is based on calculation of what they can borrow against the rent
- Will assume £0 grant but checking with HCA
- Waiting for more details re Starter Homes (Housing and Planning Bill and the proposed changes to NPPF)

Comments

- Agreed that testing should not assume availability of grant (although the team will be checking grant availability with HCA after autumn statement) and that correct to assume that payments from housing associations for affordable housing should be limited to what the HA can borrow against the rent it receives.
- Unclear whether self-build can be part of a mixed tenure scheme? (3D and ENPA to discuss). Self-build for landowner may be part of the incentive for land coming forward and cross subsidy for the affordable housing - should be included in the testing. It may be that provision of serviced self-build plots could form part of a scheme.

LC thanked everyone for attending the workshop and for their contributions to the discussions. She explained that the workshop notes would be circulated as soon as possible giving workshop participants a further opportunity for comment – which could be made on a confidential basis if that is helpful.

ANNEX 3

Viability testing results – supporting data

Residual value – base case

Case study	Description	Base case - no of dws	Base case - residual value in £s
1a	All Affordable Rent	2	-£76,000
1b	All social rent	2	-£115,000
1c	Affordable Rent and EDSM	4	-£99,000
2a	All Affordable Rent	4	-£150,000
2b	All social rent	4	-£222,000
3a	All Affordable Rent	6	-£160,000
3b	All social rent	6	-£228,000
4a	All Affordable Rent	6	-£220,000
4b	All social rent	6	-£329,000
5a	All Affordable Rent	10	-£370,000
5b	All social rent	10	-£529,000
6a	Starter Homes (DCLG)	4	£44,000
6b	EDSM	4	-£46,000
7	Adaptable homes (local tie)	3	£85,000

Addition of Principal Residence – number of Principal Residence to make viable and surplus residual value with this addition

Case study	Description	Base case - no of dws	Additional Principal Residence to make viable	Surplus residual value when positive
1a	All Affordable Rent	2	2	£50,113
1b	All social rent	2	3	£4,151
1c	Affordable Rent and EDSM	4	3	£19,444
2a	All Affordable Rent	4	4	£28,170
2b	All social rent	4	6	£19,662
3a	All Affordable Rent	6	4	£20,283
3b	All social rent	6	6	£13,904
4a	All Affordable Rent	6	6	£22,196
4b	All social rent	6	8	£3,605
5a	All Affordable Rent	10	9	£20,756
5b	All social rent	10	13	£15,076
6a	Starter Homes (DCLG)	4	0	£0
6b	EDSM	4	2	£42,301
7	Adaptable homes (local tie)	3	0	£0

Final Report – May 2016.