

READING BOROUGH COUNCIL

PLANNING APPLICATIONS COMMITTEE

4 MARCH 2020

COUNCILLOR QUESTION NO. 1

Councillor Sokale to ask the Chair of the Planning Applications Committee:

Viability and Affordable Housing Contributions

Can the Chair of Planning Applications Committee provide a brief explanation of how viability impacts upon affordable housing contributions?

REPLY by the Chair of the Planning Applications Committee (Councillor McKenna):

Thank you for your question. I have asked officers to prepare a briefing note on this, which is attached. If you or any members of the Committee have any supplementary questions on this, you can ask them now.

READING BOROUGH COUNCIL

| | | | |
|------------|--------------------------------|--------------|-------------------------------|
| TO: | Planning Application Committee | | |
| DATE: | 4 March 2020 | AGENDA ITEM: | |
| TITLE: | Viability in Planning | | |
| SERVICE: | Planning | WARDS: | All |
| JOB TITLE: | Acting Planning Manager | E-MAIL: | Julie.williams@reading.gov.uk |

1. PURPOSE AND SUMMARY OF REPORT

- 1.1 To explain what viability means and why it is an important planning consideration, particularly when considering affordable housing and other contributions required from new development.

2. RECOMMENDED ACTION

- 2.1 The Committee note the contents of this advice note.

2. BACKGROUND

The Local Plan Policies

- 2.1 The plan led approach remains at the heart of the planning system
- 2.2 Our adopted Local Plan Policy H3 (Affordable Housing) sets out the contributions expected from different sizes of development in terms of either a % of the dwellings on site or through a financial contribution to be used to provide affordable housing off-site.
- 1 - 4 dwellings - financial contribution equivalent to 10% of the value of the dwellings to be provided
 - 5-9 dwellings - financial contribution equivalent to 20% of the value of the dwellings to be provided
 - 10 or more dwellings - 30% of the dwellings to be affordable housing and provided on the site is the ideal. However, we will consider a combination of on-site and off-site financial contribution in some cases.
- 2.2 The policy makes clear that “where proposals fall short of the policy target as a result of viability considerations” the developer will need to demonstrate why meeting the above affordable housing contribution expectations would make building their scheme unsustainable in financial terms or not viable.

3. WHAT DOES VIABLE DEVELOPMENT MEAN?

- 3.1 For anything to be viable it needs to be worth the effort and costs of doing it.
- 3.2 A development is viable if the value of the site as developed is sufficiently greater than the value of the site if left as it is together with providing the developer and landowner with a realistic incentive (profit) to redevelop the site.
- 3.3 When deciding to buy a site the developer needs to know how much the land will cost. To do this the developer will consider things like:
- What will be the planning costs for CIL and affordable housing?
 - What will the construction costs be and how long will it take to build?

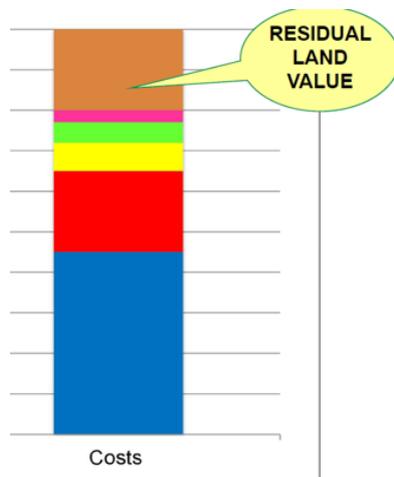
- Are there any legal or physical risks with the site?
- How much are related fees eg professional design & delivery fees (architects, surveyors etc), marketing/agents and legal?
- Source and cost of funding?
- What will the scheme be worth when its built (Gross Development Value) and how long might it take to sell the units?
- What contingency should I allow to cover for unseen risks?
- What is my profit margin? An assumption of 15-20% as profit of the Gross Development Value is typically used as a Developers target return. However alternative figures can be used.

3.4 These matters are relevant in negotiating how much is offered to buy the site (as one would negotiate reducing the price of a house if survey shows works needed to roof etc).

3.5 The local policy implications of developing the site (affordable housing, infrastructure contributions, meeting sustainable development requirements, space standards, tree planting, surveying for and dealing with ecology, archaeology, contamination etc) should be reflected in the price paid for a site. It is therefore important that these requirements are clearly set out in our policies and supplementary guidance to counter a developer's claims that they did not allow for these factors when buying the site. They should have! It is an established principle that paying a high price for land is not a justification for failing to accord with relevant policies in the Local Plan.

4. WHAT IS INCLUDED IN A VIABILITY ASSESSMENT?

4.1 The viability assessment examines whether developing a site in a particular way will be financially viable by looking at whether the value generated by carrying out a development is more than the cost of buying the site and the cost of completing the development.



■ Build ■ Profit ■ Fees ■ Interest ■ CIL ■ Residual land value

4.2 There are 3 main terms referred to:

- Residual Land Value
- Benchmark Land Value
- Existing Use Value

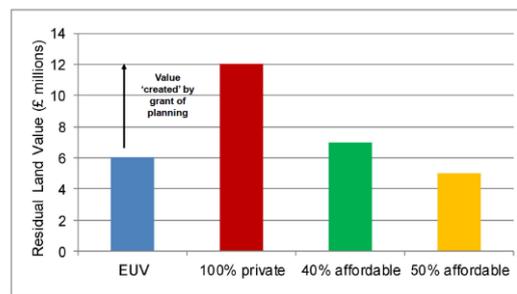
The Residual Land Value is an output of a residual development appraisal and should reflect all the costs and values to arrive at how much a developer can pay for a site.

The Residual Land Value is then compared to the Benchmark Land Value

The Benchmark Land Value is the site plus an added premium incentive for the landowner to sell the site - sometimes also referred to as EUV+.

The Existing Use Value of the site is the value of the existing use without the benefit of planning permission.

Why EUV is critical – capturing uplift in land value



- 4.3 The graph above illustrates the potential increase in value for an unused or vacant site once permission is granted for new residential development based on the sale of all units as private dwellings. The graph then shows the effect of losing some of those private sales to affordable housing, sold to a Registered Provider at less than private market sale prices, and why so much is a stake when the % of affordable housing is being negotiated.

5. NEGOTIATIONS

- 5.1 It might seem disappointing when negotiations result in a small % increase of affordable housing but it can represent quite a big change for the developer when deciding if a scheme remains viable and bringing the site forward for housing.
- 5.2 Depending on the size of a developer's portfolio of sites some might accept a low profit if it keeps the company running but for others the effort of developing a site when weighed against a marginal profit will understandably discourage a developer from building or a landowner from selling (if the price offered is too low) in the first place.
- 5.3 For a local authority where there is usually a requirement for new homes to be built it is therefore important that the policy requirements are reasonable and can allow for adjustments to encourage housebuilders. If no homes are built no-one benefits.
- 5.4 Viability submissions are always challenged and negotiated by officers. If the viability assessment demonstrates to officer satisfaction that a site would not be viable if 100% policy compliant then officers will negotiate a way to reduce the policy requirement to allow some benefit to be captured or look at the type of units being provided eg accept fewer units on site if those provided were of a type that met an identified housing pressure.
- 5.5 Alternatively, where it is hoped that sale values may increase or costs drop, a deferred payment mechanism can be used on top of a low % so that any increase in value is shared between the developer and the Council. This is a risk for the Council as there may not be any up-lift but it does provide a commercial basis for policy compliance to be met through later commercial gain whilst not stopping the development from coming forward in the meantime.

6. CONCLUSION

- 6.1 It is appropriate that the local plan policies set out clearly how new development should contribute toward meeting identified needs like affordable housing and can help the town cope with the pressures of the new development, such as on transport or local schools. However, if the local plan is also to encourage economic growth and new housing to meet identified need and demands a mechanism is needed to establish what level of contribution is reasonable for each type of site and developer. One size will not fit all.

- 6.2 A robust viability assessment, that looks at the variety of elements relevant to the site and scheme, will enable a developer to offer a realistic price to a landowner and it will help the developer to demonstrate how a scheme can be policy compliant, and if not; negotiate an acceptable compromise with officers so planning permission can be granted for a viable scheme with a chance of being built.

7. FINANCIAL IMPLICATIONS

- None directly from this report.

8 LEGAL IMPLICATIONS

- It is important that Councillors sitting on planning applications committee understand the terms often used in planning application reports and the background to them. This advice note seeks to provide relevant information..