

# For: Purbeck District Council: Viability Update & Sensitivity Testing Addendum

**FINAL DRAFT Report –  
Publication Version**

November 2017

DSP17506

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## Notes and Limitations

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1. This has been a desk-top exercise based on information provided by Purbeck District Council (PDC) supplemented with information gathered by and assumptions made by DSP appropriate to the current stage of review and to inform the Council's on-going work with regard to updating viability work previously carried out to inform the policies of the emerging Local Plan and CIL Draft Charging Schedule.
2. This review has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development, CIL viability as well providing site-specific viability reviews and advice. To carry out this type of assessment many assumptions are required alongside the consideration of a range of a large quantity of information which rarely fits all eventualities.
3. Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated – the indicative surpluses (or other outcomes) generated by the development appraisals for this review will not necessarily reflect site specific circumstances. Therefore, this assessment (as with similar studies of its type) is not intended to prescribe land values or other assumptions or otherwise substitute for the usual considerations and discussions that will continue to be needed as particular developments with varying characteristics come forward. This is also true in respect of the long timescales in Local Plan development and implementation over which the economy and development climate (national and more local influences and impacts) are very likely to vary. Nevertheless, the assumptions used within this study reflect the policy requirements and strategy direction of the Council as known at the time of carrying out this review and therefore consider the cumulative cost effects of policies where those are relevant.
4. It should be noted that every scheme is different, and no review of this nature can reflect the variances seen in site specific cases. Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and further informing the Council's development of policy and CIL.
5. The high-level viability testing is intended to review previous work undertaken and update it in light of changes to market conditions whilst carrying out sensitivity testing on policy areas such as affordable housing tenure and self-build requirements.

6. It must be recognised that a planning-led basis for securing planning obligations relies on market-led processes. As a general point and so not just referring PDC's progression of proposals here, we have to place an emphasis on the need for a practical approach to be taken by Council, having due regard to development viability. By this we mean the Council being adaptable also to market housing scheme needs, being prepared to negotiate and consider varying solutions, and being responsive to varying scheme types and circumstances.
7. The various components of a scheme will need to be considered in terms of the level of need for market and affordable homes, their successful integration and tenure mixes. This will involve considering local needs, scheme location, type, design, management, affordability, dwelling mix, tenure, funding, numbers rounding and the like in formulating the detail taken from the targets basis. The Council will need to consider interrelation of those effects and how those impact on and benefit schemes as part of the collective development requirements. The Council will need to consider how to optimise provision in the given circumstances.
8. In carrying out this assessment from the necessary strategic viewpoint, it is assumed that there will be a variety of market conditions during the life of the Local Plan, including periods in which we will see more and less stable and confident economic and property market conditions.
9. The review of development viability is not an exact science. There can be no definite viability cut off point owing to variation in site specific circumstances. These include the land ownership situation. It is not appropriate to assume that because a development appears to produce some land value (or in some cases even value equivalent to an existing / alternative use), the land will change hands and the development proceed. This principle will in some cases extend to land owners expecting or requiring the land price to reach a higher level, perhaps even significantly above that related to an existing or alternative land use. This might be referred to as a premium, "overbid" or sufficient level of incentive to sell. In some specific cases, whilst weighing up overall planning objectives to be achieved, therefore, the proposals may need to be viewed alongside the owner's enjoyment / use of the land, and a potential "overbid" relative to existing use value or perhaps to an alternative use that the site may be put to. In practice, whether and to what extent an active market exists for an existing or alternative use will be a key part of determining whether or how site discussions develop. Overall, land value expectations will need to be realistic and reflective of the opportunities offered by, and constraints associated with, particular sites and schemes in the given circumstances and at the relevant delivery timing; with planning policies being reflected

amongst these factors. The planning requirements will be necessarily reflected in the land values that are ultimately supportable.

10. This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership Ltd; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.
11. To the extent that the document is based on information supplied by others, Dixon Searle Partnership Ltd accepts no liability for any loss or damage suffered by the client or others who choose to rely on it.
12. In no way does this study provide formal valuation advice; it provides an overview not intended for other purposes nor to over-ride particular site considerations as the Council's policies continue to be applied practically from case to case.

# 1 Introduction

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- 1.2.1. Purbeck District Council is currently in the process of carrying out a review of its adopted Purbeck Local Plan Part 1. The emerging document will be referred to as the ‘Local Plan Review’ within this report and the adopted Local Plan will be referred to as Purbeck Local Plan Part 1 or just PLP1.
- 1.2.2. Purbeck District Council adopted the PLP1 in November 2012. The plan provides for 2,520 dwellings (120 per annum) between 2006 and 2027. This number will be met through infill development and settlement extensions to Bere Regis, Lytchett Matravers, Swanage, Upton and Wareham. The PLP1 allocates settlement extensions at Lytchett Matravers, Upton and Wareham, and the Swanage Local Plan allocates settlement extensions at Northbrook Road and Prospect Farm. Others will be allocated through neighbourhood plans.
- 1.2.3. The Local Plan Review is a requirement of the independent Planning Inspector that carried out the Examination into the PLP1. The Purbeck Local Plan Partial Review Issues & Options consultation document<sup>1</sup> explains: *“Purbeck District Council’s local plan was agreed in 2012. This laid out how and where development would be permitted over the next 15 years, as well as specifying that 120 new dwellings per year would be our planned target. The government inspector, who appraised our plan, only agreed it on the understanding that the Council would review the plan to see whether more development was possible”*.
- 1.2.4. The latest draft Strategic Housing Market Update for the District (SHMA)<sup>2</sup> with revised economic projection rates indicates that the Council should deliver around 173 homes per year between 2013 and 2033 to meet its full objectively assessed need. The recently published draft government methodology on calculating OAN indicates that this figure is 168 dwellings per year, over the period 2016-2026.
- 1.2.5. The Purbeck District Local Plan Review is an opportunity for the Council to review locations for new housing, new shopping and employment space whilst also reviewing the individual policies within the Plan to ensure that they are up to date considering changes to policies at a national level that impact the viability of the Plan and development locally. The Local Plan Review will continue to shape future development and land use whilst setting out the vision and objectives for the District potentially to 2033 and the strategic and more detailed policies used in determining local planning applications.

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<sup>1</sup> Purbeck District Council: “Reviewing the Plan for Purbeck’s Future – Purbeck Local Plan Partial Review Issues & Options Consultation (January 2015)

<sup>2</sup> GL Hearn: Purbeck OAN Update 2017

- 1.2.6. Purbeck District Council commissioned Dixon Searle Partnership (DSP) to carry out an Economic Viability Assessment (EVA) in 2015 to both inform the review of the Purbeck Local Plan Part 1 and assess the potential for review of the Council's adopted Community Infrastructure Levy. DSP reported to the Council in April 2016.
- 1.2.7. The Council has now asked Dixon Searle Partnership to carry out further work to provide a general update reflecting market changes since the date of the original EVA whilst providing sensitivity testing on some potential policy options being considered by the Council; namely a proposal to introduce a requirement to provide serviced self-build plots and the impact on viability of altering the affordable housing tenure mix requirements.
- 1.2.8. The current direction of policy on self-build housing suggests that the Council may introduce a requirement of 5% self-build plots on sites of 20 or more units. The Council have asked this to be tested on a site of 20 and 500 units in the lower viability rural centre areas of the district.
- 1.2.9. The local community is eager to see some of the affordable housing provided across the district made available at social rent rates. For the Council to understand the impact on viability of any potential changes to policy they have asked that sensitivity testing is carried out on sites of 11, 50 and 500 units across the district on the following basis:

Dwellings	Affordable Housing Overall Percentage	Affordable housing type & percentage of each tenure*			
		Social Rent	Affordable rent	Shared equity	
11	40% AH	0	90	10	
		10	80	10	
		45	45	10	
		90	0	10	
50	40% AH	0	90	10	
		10	80	10	
	50% AH	0	90	10	
		10	80	10	
		10	80	10	
500	40% AH	0	90	10	
		10	80	10	
		45	45	10	
		90	0	10	
	50% AH	0	90	10	
		10	80	10	
		30% AH	10	80	10
		20% AH	10	80	10

\*of the overall affordable housing requirement

1.2.10. The aim of this report is therefore to consider the potential impact of the above potential policies / requirements on scheme viability through sensitivity testing a number of development viability appraisals previously carried out to support the Council's previous EVA.



## 2 Methodology & Findings

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- 2.1.1 This viability update and sensitivity testing addendum follows the same principles, assumptions (except where stated) and methodology set out in detail in the Council's previous viability study<sup>3</sup>. This addendum therefore does not repeat the methodology and assumptions again here. The following section briefly sets out our approach to providing a general market update whilst also sensitivity testing the appraisals from the previous study by the introduction of variations to affordable housing tenure and an explanation of the approach to testing the potential new self-build housing policy.
- 2.1.2 Self-build policy testing was carried out based on the previous 20-unit appraisals (likely to form the threshold at which the policy is applied) and 500-unit schemes (to test a larger scale scheme). In relation to affordable housing tenure the testing was carried out based on the previous 11-unit appraisals (the threshold at which the policy is applied), 50 units and 500 units (to test a larger scale scheme).
- 2.1.3 We have also included CIL at the rate recommended in our 2016 study for each sub-market area tested (Upton and Purbeck Rural Centre; Wareham & Purbeck Rural Fringe and; Swanage & the Coast). The modelling has been undertaken at three value levels representing the sub-market areas described above – Value Level 3 (Upton and Purbeck Rural Centre), Value Level 6 representing Wareham & Purbeck Rural Fringe and Value Level 9 representing Swanage & the Coast.
- 2.1.4 For each sensitivity test we have assumed 40% affordable housing (although the tenure varied within that total), as the areas covered by 40% AH policy are already showing to be more susceptible to increased planning obligations.
- 2.1.5 Sales values and build costs have been updated in line with current data and our property market research is appended to the rear of this Addendum.
- 2.1.6 All other assumptions are set out in Appendix I.
- 2.1.7 A summary of the results showing the impact of the various sensitivity tests is shown at Appendix II.

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<sup>3</sup> Dixon Searle Partnership - Purbeck District Partial Review of Purbeck Local Plan Part 1 and revised Community Infrastructure Levy Economic Viability Assessment (April 2016)

### **General Market Update**

- 2.1.8 In carrying out this viability update, DSP undertook desktop research reviewing trends in the housing market for the Purbeck area whilst updating the base build costs assumptions underlying the development appraisals. We will not go into the detail here as that is set out in Appendix III to this report. However, in summary we found that whilst there had been a relatively positive rise (11.6%) in sales values over the intervening period (October 2015 – July 2017 – latest Land Registry data at the point of carrying out this update study), basic build costs had risen only slightly (just under 2%) locally.
- 2.1.9 This has had a generally positive impact on the overall viability of results when compared to the 2016 EVA so that on a like for like basis the results would be no worse than those produced for the 2016 EVA.
- 2.1.10 For each sensitivity test, the changes in values and costs were applied to form an updated 'base' set of appraisals from which we undertook further sensitivity testing as described here.

### **Affordable Housing Tenure Sensitivity**

- 2.1.11 The Council requested that the viability of introducing an element of social rent into the affordable housing tenure mix be tested as part of this Addendum. It was requested that this sensitivity testing be carried out on scenarios of 11, 50 and 500 units; typologies tested in the 2016 EVA. In carrying out this exercise we have also looked at the interaction of the overall proportion of affordable housing and introduction of social rented properties into the tenure mix.
- 2.1.12 For the purposes of the 2016 EVA, the 11-unit scheme typology was based on a large PDL redevelopment scheme assuming existing residential use for the site where one or more dwelling is purchased for redevelopment. The same assumption is made in this Addendum. The 50-unit scheme typology represents a potential smaller scale settlement extension (as per the 2016 EVA) and for the 500-unit scheme typology, large scale greenfield development is envisaged with the commensurate level of strategic infrastructure and s106 requirements.
- 2.1.13 Each of the sensitivity tests has been carried out at Value Levels 3, 6 and 9 with an appropriate allowance for CIL based on the 2016 EVA recommendations (See Appendix I for detail). Value Level 3 is generally representative of Purbeck Rural Centre, Value Level 6 is generally representative of Wareham (where the policy expectation is 40% affordable housing within Wareham and 50% affordable housing on settlement extensions to Wareham). Value Level 9 is representative of the higher value areas of the district including Swanage and the Coast.
- 2.1.14 In all cases, updating the base results from the 2016 EVA leads to improved outcomes in all cases. However, looking first at the Rural Centre results (VL3), the results of the sensitivity

appraisals indicate the impact on viability caused by the introduction of social rent into the affordable housing tenure mix.

- 2.1.15 Applying 10% social rent, 80% affordable rent and 10% intermediate tenure to the 500-unit appraisal reduces the residual land value (RLV) produced by approximately 43%. The 500-unit scheme shows the significant impact even a small amount of social rented tenure can have on the residual land value produced and this is particularly pronounced in the lowest value area tested – Purbeck Rural Centre (the impact is amplified by the relatively low ‘base’ position). Any further addition of social rent into the mix leads to the erosion of the land value entirely.
- 2.1.16 By reducing the overall level of affordable housing (proportion), we see in the same scheme typology the significant positive impact on the result. A scheme that includes 30% affordable housing overall (80% affordable rent, 10% social rent and 10% intermediate housing) produces a residual land value approximately 31% higher than a scheme of 40% affordable housing with 90% affordable rent / 10% intermediate housing and 129% higher than a scheme that includes 80% affordable rent, 10% social rent and 10% intermediate housing. This indicates that a 10% step in the overall proportion of affordable housing significantly exceeds the impact of a change to 10% social rented housing within the overall affordable housing mix. As with the discussion above at 2.1.15, this impact is exacerbated by the relatively low market values at Value Level 3. The impact, in terms of percentage increase / decrease is reduced on higher value schemes in Value Level 6 (Wareham / Purbeck Rural Fringe) and Value Level 9 (Swanage and the Coast). Here we see an increase in the residual land values of between approximately 20% and 40% (depending on value level and affordable housing tenure mix) due to the overall reduction in affordable housing from 40% to 30%. Reducing the affordable housing proportion further to 20% leads to further significant improvements in the residual land value results as shown in Appendix II.
- 2.1.17 Our 50-unit scenario provides similar outcomes to the 500-unit scheme scenario although the reduction in RLV is not as pronounced in Value Level 3 (representative of development in Purbeck Rural Centre and Upton). In real terms, at 40% affordable housing, it is difficult to say that the impact of changing the tenure mix from 90% affordable rent / 10% intermediate to include 10% social rent would make an otherwise viable scheme unviable. This is the case in all three value areas tested. Again, the positive impact of reducing the overall proportion of affordable housing to 30% or 20% is clear as is the negative impact of increasing the affordable housing proportion to 50% overall.
- 2.1.18 For the smaller 11-unit scheme again the impact is similar in the reduction of RLV resulting from changes to affordable housing tenure. In absolute terms the results also need to be considered in light of the potential site typology in this case (PDL / existing residential) where the benchmark land values will be significantly higher, on a per hectare basis, than for the

greenfield site examples described above. Overall therefore, the viability implications will be similar.

- 2.1.19 In our view, it is unlikely that development within the Purbeck Rural Centre would, in all cases, have the viability strength to support the inclusion of social rent into the tenure mix unless supported by a change in stance in relation to intermediate tenures (i.e. higher proportions of intermediate tenure to off-set the negative financial effects of social rent) or a reduction in the overall level of affordable housing. In higher value areas this impact is reduced and therefore it is likely that more sites would be able to absorb the additional cost more often. Of course, viability at this strategic level cannot take into account site specific opportunities or threats to viability and it may be that the Council will need to encourage the inclusion of social rent on a site by site basis rather than as a blanket requirement.

### **Starter Homes**

- 2.1.20 In carrying out this viability update the Council also expressed interest in understanding the potential impact of starter homes on the viability of schemes. It has always been our assertion that starter homes are most likely to impact positively on overall viability in comparison with the impacts from existing affordable tenure (and especially relative to rented affordable housing viability impacts). Since carrying out the original EVA for the Council the Government have published its Housing White Paper with starter homes no longer to be statutorily required as a set proportion of development schemes. Instead, the Government are likely to introduce a minimum requirement for affordable home ownership products, potentially at 10% of the total number of homes. In Purbeck's case, this would lead to a need to change the overall tenure mix should this requirement be introduced. This may include starter homes or other affordable home ownership products – potentially including shared ownership or discounted market sale. Again however, it is our view that a requirement of 10% of all homes to be affordable home ownership products would not have a negative impact on viability in its own right (i.e. for the purposes of a development appraisal). It is however too early to tell what unintended consequences may arise from such a policy, including the sale of smaller market homes.

### **Self-Build**

- 2.1.21 With regard to self-build policy, we have undertaken modelling on a site of 20 dwellings (likely starting point for the introduction of policy and the first point at which 5% produces a whole number) and 500 units (to test what happens over a range of sizes) and as requested by PDC. Again, all the assumptions used within the EVA were applied again here except for changes to build costs and development values.
- 2.1.22 To test the viability of the policy, it was considered that the best approach would be to run the modelling both with the policy 'switched on' and with it 'switched off'. That way, in a relative rather than an absolute sense it is possible to see the direct impact of the policy and whether

it has a negative or positive effect on viability. This seemed to us to be the most appropriate approach.

- 2.1.23 To that end the modelling assumed that the self-build plot or plots are sold as serviced parcels of land (i.e. land sold with the benefit of planning permission but also serviced up to the boundaries of the plot(s) generating revenue for the developer as part of the wider scheme after expending the cost of achieving that revenue). Effectively, the developer would expend all the necessary costs of planning and servicing the plots but would stop short of building the units. Because the plots are 'with planning' and serviced they would command a greater value than the overall residual land value that has been compared for the purposes of the strategic viability studies (for which it is assumed un-serviced sites with no planning permission for residential development).
- 2.1.24 From the work undertaken for the VA we have assumed a serviced plot value of £65,000 per plot but this is a very high-level assumption and, the value of the plots may well be higher depending on location and not least the market and demand.
- 2.1.25 Although not prescribed within the new policy, we have assumed that from an affordability perspective (for the end customer) that smaller plots are sold. On both site types modelled we have therefore taken the 2-bed houses from the overall mix and made those the self-build plots but again assuming that they are plots for 2-bed houses. Although plots for any size unit could be made available, taking a uniform approach for the purposes of this addendum helps to ensure a fair comparison can be made between the impact of the policy 'switched on' and with it 'switched off'.
- 2.1.26 In each case there is an appraisal that models the base scheme (assuming no self-build plots) and another that models the scheme with an equivalent number of 2-bed house plots removed from the scheme mix and used for self-build.
- 2.1.27 The results indicate that, based on the assumptions we have used, although they show that the self-build route is marginally more viable than the standard route in the case of the smaller site and marginally less viable in the case of the larger site, the difference is not great. This is probably most likely to do with the relatively conservative plot values we have assigned to the serviced self-build plots and higher plot values would produce a larger gap in the viability difference between the with and without self-build scenarios. Overall however we are of the opinion that the self-build route is at least just as viable as the non-self-build route and potentially significantly so. This is further endorsed by anecdotal information we have been party to in other areas of the country whilst carrying out viability studies and discussing such matters with property agents.

**Main addendum FINAL DRAFT report text ends.**

**November 2017**

**Appendices follow.**



## **Purbeck Viability Update – Sensitivity Testing, November 2018**

### **Dixon Searle Partnership**

**Appendices can be found on-line at:**

<https://www.dorsetforyou.gov.uk/planning-buildings-land/planning-policy/purbeck/local-plan-review-purbeck/local-plan-review-purbeck.aspx>