

Supporting evidence in respect of the
forthcoming EiP in to the proposed joint Core
Strategy of

CHRISTCHURCH BOROUGH AND EAST DORSET DISTRICT

Report 2 - Housing

Prepared for

JACKSON PLANNING

By



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1.0 Introduction

- 1.1 Intelligent Land is instructed by Jackson Planning Limited on behalf of Meyrick Estate Management Limited to produce a brief and concise report to provide focused evidence to support Jackson Planning's statements to the 2013 Christchurch Borough Council / East Dorset District Council Core Strategy Examination in Public (EiP).
- 1.2 This report specifically focuses on the issues raised in "Matters and Issues 7 - Housing" issued by the EiP Planning Inspector on 31st July 2013.
- 1.3 This report provides supporting evidence to Jackson Planning Limited only to support the statement made on behalf of Meyrick Estate Management Limited.

2.0 Inspector's Matters and Issues 7

"C. Affordable Housing:

1. Are the percentage requirements for affordable housing set out in LN3 justified by viability evidence?"

2.1 Policy LN3 of the Submission Draft Christchurch and East Dorset Core Strategy (February 2013) states that:

"Provision of affordable housing

To maximise affordable housing provision, whilst ensuring flexibility and sufficient margins to facilitate housing delivery, the Councils will require all residential developments to meet the following affordable housing requirements:-

Policy Percentage Requirements:

All greenfield residential development which results in a net increase of housing is to provide up to 50% of the residential units as affordable housing in accordance with the Policy Delivery Requirements and Affordable Housing Requirements unless otherwise stated in strategic allocation policies. All other residential development which results in a net increase of housing is to provide up to 40% of the residential units as affordable housing in accordance with the Policy Delivery Requirements and Affordable Housing Requirements.

Any Planning Application which on financial viability grounds proposes a lower level of affordable housing than is required by the Policy Percentage Requirements must be accompanied by clear and robust evidence that will be subject to verification."

2.2 This policy is explained in more detail in Section 4 on Pages 14 and 15 of Christchurch and East Dorset Councils' Consultation Draft Housing and

Affordable Housing Supplementary Planning Document 12 July - 6 September 2013. It states that:

“4.6 Where Greenfield residential development proposals (see definitions) result in a net increase of housing, up to 50% of the net increase in dwellings must be policy compliant affordable housing. This will be the maximum requirement for Greenfield residential development, although some developments (e.g. Housing Association proposals) may provide more than 50% affordable housing at their own discretion. If Greenfield development proposals include less than 50% affordable housing then the reduced level of provision will need to be evidenced and justified in accordance with the negotiation procedure (chapter 7).

4.7 Where ‘other’ residential development proposals on non-Greenfield land result in a net increase of housing, up to 40% of the net increase in dwellings must be policy compliant affordable housing. This is the maximum requirement for brownfield residential development, although some developments (e.g. Housing Association proposals) may provide more than 40% affordable housing at their own discretion. If non-Greenfield development proposals include less than 40% affordable housing then the reduced level of provision will need to be evidenced and justified in accordance with the negotiation procedure (chapter 7).

4.8 To ensure absolute flexibility there is no minimum affordable housing percentage requirement, however, recent independent research (Peter Brett Associates, January 2013) has confirmed baseline viability minimums of 30% affordable housing provision across Christchurch and East Dorset (onsite provision or financial contributions on an equivalence basis). See chapter 9 and appendix 5.”

- 2.3 The Peter Brett Associates research dated January 2013 referred to in Paragraph 4.8 of the Consultation Draft Housing and Affordable Housing Supplementary Planning Document above is appended to Christchurch and East Dorset Councils’ Consultation Draft Housing and Affordable Housing

Supplementary Planning Document (the PBA report). It later appears dated June 2013 as “Appendix 2 - Offsite affordable housing section 106 contributions” to Peter Brett Associates Consultancy Report titled “East Dorset District Council and Christchurch Borough Council - Community Infrastructure Levy Viability Testing” (June 2013). The purpose of the study which is reported upon in the PBA report was:

“to develop a mechanism to calculate off-site financial contributions in lieu of on-site affordable housing”

2.4 Contrary to the inference in Paragraph 4.8 of the Consultation Draft Housing and Affordable Housing Supplementary Planning Document, the PBA report does not set out to determine or justify an acceptable affordable housing percentage across Christchurch and East Dorset. It instead trials the draft affordable housing policy at a range of affordable housing requirements to test the acceptability of a range of off-site financial contribution scenarios. The report concluded that:

“4.5 Our calculations shown in Table 4.1 and Table 4.2 below show the cost of off-site provision of affordable housing at 30%, assuming CIL at £100 sq m and S106 payments for small-scale local infrastructure.

4.6 Using these assumptions, we can see from the table that all developments are viable, because each scheme has a ‘buffer’ sum which can be used by developers to cope with the margin of error, which is inevitably required in these types of calculations. This margin of error might be created by abnormal site conditions, adverse market movements, and unaccounted for contingencies.

4.7 Other baseline tests of higher affordable housing requirements (not shown here) either render sites straightforwardly unviable, or bring a number of viable development scenarios close to unviability.”

2.5 Rather than being confirmation of an acceptable affordable housing percentage across Christchurch and East Dorset, it appears that the 30%, chosen to be consistent with affordable housing percentage contributions used in the

Community Infrastructure Levy (CIL) viability testing, is actually the maximum percentage at which the study shows viability of its test schemes is maintained.

2.6 The PBA report effectively uses three residential development scenarios to test CIL using affordable housing percentages and / or off-site contributions of 30%. The three scenarios are 1) small schemes of just 4 dwellings, 2) volume development schemes ranging from 5 to 100 houses and 3) volume development schemes ranging from 5 to 60 flats. The report states in Paragraph 3.8 that:

“This mix of development scenarios was selected in discussion with the client group, making use of their local knowledge, to create a representative but focused profile of residential likely to come forward in the area for the foreseeable future”

Intelligent Land considers a test against such a limited range of development scenarios, to be inadequate for the purpose. The scenarios tested fail to reflect the mix characteristics of development sites in the real world, which are much more complex and subject to influence by external factors. The PBA report states that the mix of development scenarios was selected in discussion with the ‘client group’, which we assume to be representatives of the councils, but it is not clear whether it was also discussed in advance with the consultees listed in the report’s Appendix 4, although only one of the 6 residential consultees was actually a residential developer. The absence of sufficient appropriate stakeholder involvement, such as a Housing Market Partnership, in this approach should be highlighted as a significant shortfall. No two residential development schemes are the same. Costs vary widely, for example, between:

- Greenfield and brownfield development
- High-rise and low-rise development
- Standard market specification and top-end high specification
- High and low density housing
- Mixed volume sites of housing and apartments
- Mixed use development including residential
- Urban and suburban locations
- Contaminated and uncontaminated sites

- 2.7 To test affordable housing percentages and off-site contributions against just three idealised scenarios does not give a robust outcome. This paints an unreliable picture of viability at a baseline 30% affordable housing that the councils are already seeking to substantially exceed.
- 2.8 Notwithstanding the above, an assessment of the viability assumption used to justify LN3 is included below in Section 4. This concludes that the viability assumptions are fundamentally flawed and that the policy will fail in its current form at the percentages proposed.

2.9 Conclusion

The percentage requirements for affordable housing set out in LN3 are not justified by viability evidence, which is flawed. The councils appear to have misinterpreted the use of a 30% baseline in the PBA report. The test results shown at Tables 4.1 and 4.2 of the PBA report do not support a level of affordable housing in excess of 30%. The tests used in this report also appear inadequate for the purpose for which the councils are relying upon them.

3.0 Inspector's Matters and Issues 7

"C. Affordable Housing:

2. Should the percentages reflect property market areas rather than a greenfield / brownfield differential?"

- 3.1 The proposed affordable housing percentages are already quoted in Paragraphs 2.1 and 2.2 above and are not repeated here.
- 3.2 An analysis of the residential property market in Christchurch and East Dorset was carried out in **Section 2** of the accompanying report by Intelligent Land titled 'Supporting evidence in respect of the forthcoming EiP in to the proposed joint Core Strategy of Christchurch Borough and East Dorset District: Report 1 - Overall Strategy' (August 2013). That analysis concluded that, whilst the Christchurch Borough settlements of Highcliffe, Christchurch, Burton and Fairmile belong to the same sub-regional Housing Market Area as the East Dorset District settlements of Wimborne and Colehill, Ferndown and Parley Cross, West Moors, Ashley Heath and St Leonards, Verwood and part of Corfe Mullen, along with the settlements of the Bournemouth and Poole Boroughs, Purbeck District and North Dorset District, each one occupies a distinct position as a smaller, more local sub-market capable of distinction from its neighbours.
- 3.3 **Table 1** on Page 13 of the accompanying Intelligent Land 'Report 1' highlighted the difference in average property prices between Christchurch, Wimborne and Colehill, Ferndown and Parley Cross, West Moors, Ashley Heath and St Leonards. There is within this range significant scope to tailor targeted affordable housing percentages to suit property market areas. Affordable housing, whether provided on site or by a combination of on-site provision and off-site contribution, is paid for from gross residual land value and therefore more substantial quantities of affordable housing will be able to be afforded in areas with better average selling prices, subject to the level of CIL payable.
- 3.4 Paragraph 2.8 above, concludes that the baseline 30% affordable housing that the councils are already seeking to substantially exceed is likely itself to be unachievable in certain, as yet untested, cases. It should also be considered in

this case that schemes in higher value areas may prove more likely to be viable than schemes in lesser value areas. It is logical therefore that schemes in lesser value areas could be rendered unattractive to developers on viability grounds resulting in a deficiency of affordable housing delivery in such locations.

- 3.5 Section 3 of the accompanying Intelligent Land 'Report 1' concludes that the greatest need for affordable housing is in respect of urban Brownfield sites. It therefore appears inappropriate that the draft Core Strategy proposes a lower percentage affordable housing for Brownfield development at a constant proposed CIL level when the previous land use is not the principle driver of value and the urban area has the greater affordable housing deficiency.

3.6 Conclusion

Affordable housing percentages should not vary to reflect property market areas or Greenfield / Brownfield differential in order to promote the maximum delivery of affordable housing and to ensure that affordable housing is not under delivered in lesser value areas. Instead, it is the CIL contribution level that should vary between Market Areas and the Greenfield / Brownfield differential in order to maintain viability and promote the maximum delivery of affordable housing.

4.0 Inspector's Matters and Issues 7

"C. Affordable Housing:

3. Are viability testing assumptions realistic with regard to:

- ***Residual land values***
 - ***Density***
 - ***Other costs such as SANG / CIL / mitigation / space standards?"***
-

4.1 The affordable housing viability testing assumptions relied upon in Christchurch and East Dorset Councils' Consultation Draft Housing and Affordable Housing Supplementary Planning Document emanate from its appended PBA report.

4.2 Tables 4.1 and 4.2 in that report indicate the testing assumptions used therein as follows:

- Residual development value (before policy contributions), interpreted by Intelligent Land to be gross development value less build cost and profit, ranging from £3,214,412 per hectare (£1.3M/Ac) to £4,692,889 per hectare (£1.9M/Ac) and so called 'Benchmark' values, interpreted by Intelligent Land to be land purchase cost, of £1,500,000 per hectare (£607K/Ac) in East Dorset to £1,650,000 per hectare (£668K/Ac) in Christchurch.
- Residential development densities of 35 dwellings per hectare (14 dwellings per acre) for houses and 65 dwellings per hectare (26 dwellings per acre) for flats.
- CIL at £100 per square metre (£6,300 per house and £4,700 per flat) and other Section 106 Agreement costs of £35,000 per hectare (£1,000 per dwelling).

- 4.3 The affordable housing viability testing assumptions relied upon in Christchurch and East Dorset Councils' Consultation Draft Housing and Affordable Housing Supplementary Planning Document include residual development values (before policy contributions) ranging from £3,214,412 per hectare (£1.3M/Ac) to £4,692,889 per hectare (£1.9M/Ac). In order to maintain an industry norm developer's gross profit margin, using an all-in volume house-building build cost of circa £1,076 per square metre (£100/Sq.Ft), it appears that all scenarios are based on a sales revenue of circa £3,014 per square metre (£280/Sq.Ft). Current market expectation is that this level might be appropriate for use in respect of premium new-build residential development in Wimborne, but it is not representative of current new property values across the two administrative areas.
- 4.4 The affordable housing viability testing assumptions relied upon in Christchurch and East Dorset Councils' Consultation Draft Housing and Affordable Housing Supplementary Planning Document also include land purchase costs of £1,500,000 per hectare (£607K/Ac) in East Dorset to £1,650,000 per hectare (£668K/Ac) in Christchurch. Intelligent Land considers these levels to be too generalist. There is unfortunately insufficient comparable local evidence available at the present time, due to the slow recovery of the housing market and lack of local transactions, to sufficiently evidence this point. There is however a general market expectation that volume housing sites should, at the present time, display a serviced residual land value (before policy contributions) in the order of £2.22M per developable hectare (£900k/developable acre), making the councils' assumed range potentially too low, and particularly in the case of East Dorset District, too generalised. Residual land value is by definition a function of development value and therefore, with differing sales values between settlement locations across the two administrative areas as shown in **Section 2** of the accompanying Report 1 by Intelligent Land, appropriate differing land values should be generated and used. This presents its own difficulty as, particularly within East Dorset District there will be significant variances in land value between different suburban and rural locations.
- 4.5 This is significant as it appears that the testing models in the PBA report dated June 2013 used a land purchase price which won't apply to the whole conurbation. Section 5 of the PBA report offers some insight in to the process PBA has undertaken in determining its preferred land costs but does not

evidence it. It confirms that it viewed land currently being marketed on the UK Land Directory website and consulted with its residential stakeholder group comprising five estate agents and one housing developer, and that one agent, who does not undertake land transactions considers “land values within East Dorset to be around £2,000,000 per ha (£800,000 acre to £1m per acre)”.

- 4.6 In 23 out of 26 scenarios tested in the PBA report’s Tables 4.1 and 4.2, this differential of £820,000 per hectare to £970,000 per hectare is sufficient to completely eradicate the buffer which the council is relying upon to promote sites as attractive to developers to develop, rendering them unviable at 30% affordable housing and CIL at £100 per square metre.
- 4.7 The affordable housing viability testing assumptions relied upon in Christchurch and East Dorset Councils’ Consultation Draft Housing and Affordable Housing Supplementary Planning Document include residential development densities of 35 dwellings per hectare (14 dwellings per acre) for houses and 65 dwellings per hectare (36 dwellings per acre) for flats. This is potentially over simplistic and does not take account of the ever changing design principles of residential development sites.
- 4.8 Traditional two storey housing in a modern layout arrangement typically displays plotting density ranges from circa 18 Dw/Ha (7.5 Dw/Ac) for substantial detached properties to circa 47 Dw/Ha (19 Dw/Ac) for small terraced housing. Flats can typically range from circa 30 Dw/Ha (75 Dw/Ac) for single flats over garages to circa 123 Dw/Ha and over (50 Dw/Ac) for four storey apartments blocks, all including appropriate parking. Development schemes rarely include a wide range of densities, they tend to cater for a density appropriate to their location and setting. As a result, schemes will tend not to display an average density as a result of a range of house-types. It is therefore potentially too generalistic to use an average density both for housing and for flats without testing further mix examples reflecting different areas.
- 4.9 The affordable housing viability testing assumptions relied upon in Christchurch and East Dorset Councils’ Consultation Draft Housing and Affordable Housing Supplementary Planning Document include CIL at £100 per square metre (£6,300 per house and £4,700 per flat) and other Section 106 Agreement costs at £35,000 per hectare (£1,000 per dwelling). In light of the conclusions of

Paragraph 4.6 above, the assumption of a CIL level of £100 per square metre and other Section 106 Agreement costs at £35,000 per hectare cannot be considered realistic. Furthermore, there does not appear to be provision in the draft CIL policy to reduce the CIL payable where a landowner provides his own SANG. This further contributes to unrealistically high level of the proposed CIL rate.

4.10 Conclusion

The viability testing assumptions relied upon by East Dorset and Christchurch councils in relation to residual land values and development density, whilst unrealistically simplistic, are also potentially unstable. Whilst there are inadequacies revealed by analysis of the density, CIL and SANG policies, the assumption of a land cost which is 50% short of its realistic value renders virtually all development scenarios in the PBA trial suite unviable at only 30% affordable housing, which is itself significantly below proposed policy. This will lead to a fundamental failure of policy, a viability assessment in respect of every residential application and potentially a continuation of the serious under delivery of affordable housing in both boroughs.

5.0 Inspector's Matters and Issues 7

"C. Affordable Housing:

4. Will the low trigger for providing AH prevent development from coming forward?"

5.1 Policy LN3 of the Submission Draft Christchurch and East Dorset Core Strategy (February 2013) is explained in detail in Section 4 on Pages 14 and 15 of Christchurch and East Dorset Councils' Consultation Draft Housing and Affordable Housing Supplementary Planning Document 12 July - 6 September 2013. It states that:

"4.10 Affordable housing required under the policy will normally be provided on-site and this is the default position for proposals including a net increase of 5 or more dwellings. If it is not possible to provide affordable housing onsite or if the development will result in a net gain of less than 15 units, then alternative offsite options may apply as detailed under Policy Delivery Requirements."

5.2 This document goes on to summarise the policy as:

"On sites resulting in a net increase of 1 to 4 dwellings the Councils will accept onsite affordable housing provision in accordance with the Policy Percentage Requirements and Affordable Housing Requirements or a financial contribution in lieu of onsite affordable housing, calculated in accordance with the Commuted Sum Methodology."

"On sites resulting in a net increase of 5 to 14 dwellings ... where [onsite affordable housing] is not possible or at the Councils discretion, a financial contribution [in lieu of onsite affordable housing] will be acceptable"

“On sites resulting in a net increase of 15 or more dwellings provision should be onsite, but where [onsite provision] is not possible, off-site provision on an alternative site may be acceptable. If an alternative site is not available, a financial contribution will be acceptable”

5.3 The proposed policy therefore actually puts the trigger for the provision of affordable housing, whether it be by on-site or off-site provision, at one net additional dwelling or effectively ‘any’ net gain in new dwellings.

5.4 It is Intelligent Land’s opinion that the low trigger for providing affordable housing is unlikely to prevent development from coming forward but it is likely to markedly hinder or delay development from coming forward. A significant number of sites would be rendered unviable by the enforcement of a 40% or 50% affordable housing burden. Policy LN3 however makes it clear that these percentages are maximums, there is no absolute minimum requirement, and that:

“Any planning application which on financial viability grounds proposes a lower level of affordable housing provision than is required by the Policy Percentage Requirements must be accompanied by clear and robust evidence that will be subject to verification”.

5.5 It is therefore anticipated that developers and landowners will approach these requirements, as is now generally accepted the case in neighbouring Bournemouth Borough, on the basis that all applications will need to be accompanied by suitable viability evidence demonstrating a site specific level of affordable housing or affordable housing contribution which can be justified. This will lead to continued uncertainty for developers as to what form of development proposals may be acceptable and add further significant cost to the burden of speculative pre-application material to be funded.

5.6 The further impact of this process is that it potentially produces further uncertainty for both local planning authorities as to what level of affordable housing is actually likely to be delivered making it much more difficult to effectively plan to meet established and assessed affordable housing need.

5.7 Conclusion

It is Intelligent Land's opinion that the low trigger for providing AH is unlikely to prevent development from coming forward but it is likely to markedly hinder or delay development from coming forward. It is anticipated that developers and landowners will approach these requirements on the basis that all applications will need to be accompanied by viability evidence which will lead to continued uncertainty for developers as to what form of development proposals may be acceptable and add further significant cost to the to the burden of speculative pre-application material. This process will also result in further uncertainty for the local planning authorities as to what level of affordable housing is actually likely to be delivered making is much more difficult to effectively plan to meet affordable housing need.

6.0 Inspector's Matters and Issues 7

"C. Affordable Housing:

5. Does recent viability testing for CIL indicate any changes to policy are needed?"

- 6.1 A brief review of some of the assumptions which underpin the viability testing undertaken for East Dorset and Christchurch councils was carried out in Section 4 above. This review concluded that the viability testing assumptions relied upon by East Dorset and Christchurch councils in relation to residual land values and development density are unrealistically simplistic and fundamentally flawed. In particular, the assumption of land costs which are 50% short of their realistic value renders virtually all development scenarios in the PBA trial suite unviable at only 30% affordable housing, which is itself significantly below proposed policy. This will lead to a fundamental failure of policy, a viability assessment in respect of every residential application and a continuation of the chronic under delivery of affordable housing in both boroughs
- 6.2 As a result, intelligent land concludes that the recent viability testing for CIL strongly indicates that changes to policy are needed in order to produce a workable policy framework that does not rely on universal viability testing and does not fail in the delivery of market and affordable housing. The introduction of an unreliable policy framework will result in abnormal peaks and troughs in scheme proposals. A rush of applications can be foreseen ahead of mandatory CIL charging with a lull thereafter which will continue until the commencement of tariff reviews and other changes in local planning policy which will cause another surge in applications, and so on.

6.3 Conclusion

Significant modifications to proposed policy are required in order to establish a balanced policy environment within which much needed new market and affordable homes can be viably and reliably delivered on schedule without the constant need for reference to site specific viability testing.

