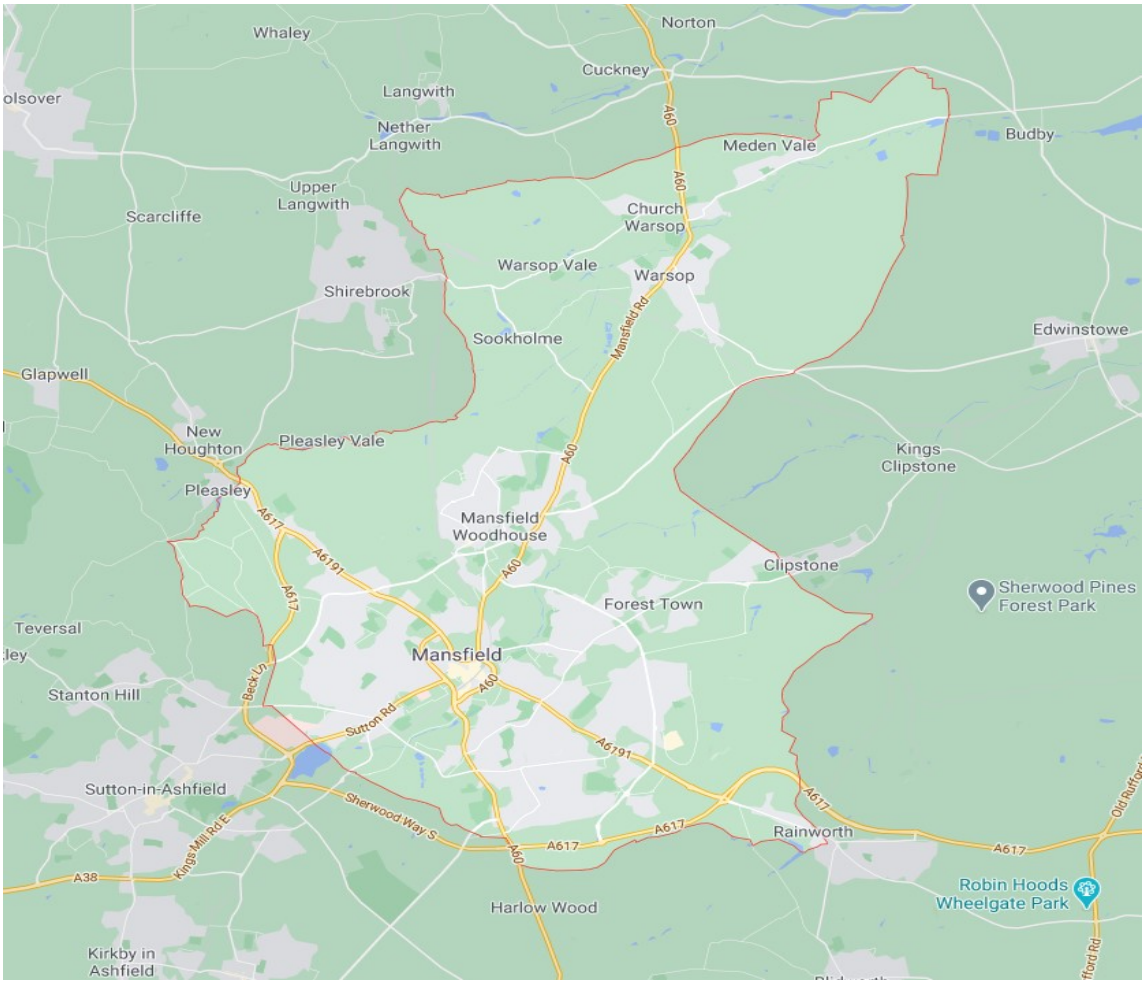
# Draft Affordable Housing Supplementary Planning Document (SPD) – Updated viability testing in response to consultation comments

## Completed on behalf of Mansfield District Council




**May 2023**

**CP Viability Ltd**

***Independent Property Experts***

## CONTENTS

Section 1 – Introduction Pg 3
Section 2 – CPV April 2022 Viability Testing Results Pg 7
Section 3 – CPV Updated Appraisal Assumptions Pg 11
Section 4 – Updated Appraisal Results Pg 19
Section 5 – Conclusions Pg 22

# 1. Introduction

## 1.1. Background

**1.1.1.** Mansfield District Council ("the Council") adopted its Local Plan on 8th September 2020. Policy H4 relates to Affordable Housing requirements for new build residential development sites. The policy requires the following:

- Zone 1: greenfield sites have a 10% affordable housing requirement, reduced to 5% on brownfield land.

- Zone 2: greenfield sites have a 20% affordable housing requirement, reduced to 10% on brownfield land.

**1.1.2.** In December 2022 the Council published (for consultation) a "Draft Affordable Housing Supplementary Planning Document (SPD)".

**1.1.3.** The consultation process took place between 9th January and 20th February 2023.

**1.1.4.** Various responses were received by the Council following the consultation process, a number of which focused on recent changes in the market conditions and how this potentially impacted on the viability modelling which underpinned the Council's affordable housing policy. Other comments were forwarded with regards to the general approach to viability testing (the most recent of which was a study undertaken by ourselves in April 2022 testing the impact of First Homes on Local Plan Viability).

**1.1.5.** The key viability issues identified from the consultation responses can be summarized as follows:

- Finance costs: since the last viability testing was undertaken in April 2022 the lending market has experienced a significant change owing to the Bank of England's policy of incremental increases in the 'base rate' over the course of a number of months. As at April 2022 the base rate was 0.75%, whereas this currently stands at 4.25%. This has a 'knock on' affect on commercial development funding, increasing the cost of borrowing to implement schemes.

- Build cost inflation: this has continued during the last 12 months and therefore needs to be factored into any updated modelling.

- Changes to Building Regulations (specifically Parts L & F): The Part L & F Building Regulations changes requires a 31% reduction in CO2 emissions. This came into partial effect in June 2023 and will come into full effect from June 2023. As these costs are not reflected in the Build Cost Information Service ("BCIS") rates, which were used in the April 2022 modelling, the impact of these changes needs to be shown as an additional cost in the viability testing.

- Vehicle Charging Points: the rate of £250 per dwelling was deemed to be too low in the current market.

- Biodiversity Net Gain: the costs associated with this forthcoming mandatory requirement are not factored into the viability modelling and subsequently need to be introduced.

- Sustainable Urban Drainage Systems ("SUDS"): costs associated with this policy requirement is not allowed for in the Apr 22 viability testing and therefore should be included in any updated testing.

- S106 contributions: the allowances in the Apr 22 modelling were below the reality of Council requests

- Sensitivity Testing: this should be provided in order to assist the interpretation of viability outcomes.

**1.1.6.** As indicated above, the Council's current Affordable Housing policy was adopted through the Local Plan policy process in September 2020. This policy requirement underpins the draft Affordable Housing SPD and could therefore only be subject to amendment through a formal Local Plan Review (which has yet to take place). The adopted affordable housing policy will not therefore be subject to amendment as a result of any further viability testing linked to this exercise.

**1.1.7.** Furthermore, economic conditions are naturally cyclical and subsequently there will be market 'peaks' and 'troughs' during the plan period. It is not appropriate, nor expected, that Councils amend policies to reflect these economic fluctuations. For this reason, through its adopted policy, the Council allows viability testing to be undertaken on individual planning applications where viability issues have been identified (to determine whether an adjustment in the Council's policy requirement is necessary to help delivery of the scheme). This policy mechanism therefore allows for flexibility when market conditions change during the lifetime of the plan, subsequently addressing the issues raised through consultation responses.

## 1.2. Scope of exercise

**1.2.1.** However, the Council recognizes that the market has experienced various significant changes during the last 12 months (since the most recent viability testing was undertaken), both economically driven (in terms of cost inflation / finance) and also government policy driven (changes to Building Regulations and Biodiversity Net Gain). This has created a difficult economic environment for residential development schemes and subsequently the current conditions can reasonably be regarded as a 'trough' in the economic cycle.

**1.2.2.** In light of these changes the Council considers that there is some merit in 'stress testing' the viability modelling to reflect the current market conditions.

**1.2.3.** We are subsequently instructed to re-visit the most recent viability modelling undertaken (in April 2022, which involved testing the impact of First Homes) and consider the factors raised through the consultation responses (and summarized above in paragraph 1.1.5) and how this potentially impacts on viability outcomes.

# 2. CPV April 2022 Viability Testing Results

## 2.1. Typologies

**2.1.1.** The viability used in our April 2022, which was itself consistent with the Local Plan viability testing, was based on 7 different typologies, as follows:

- 10 bungalows
- 10 houses (2 storey), small scale urban setting 37 dwellings per net Ha
- 10 houses (2 storey), small scale urban setting 40 dwellings per net Ha
- 20 bungalows
- 100 houses (2 storey), medium scale urban setting 32 dwellings per net Ha
- 100 houses (2 storey), medium scale urban setting 36 dwellings per net Ha
- 350 houses (2 storey), large scale urban setting 29 dwellings per net Ha

**2.1.2.** Each typology was tested on the basis of 2 different 'zones'. Different sales values were applied to the different zones, as well as different affordable housing mixes. This included affordable rented as well as intermediate / shared ownership products.

**2.1.3.** Furthermore, each typology and Zone was tested on the basis of 'greenfield' and separately 'brownfield' land. This impacted on the level of benchmark land value applied to each site and also the level of affordable housing.

## 2.2. General appraisal assumptions

**2.2.1.** Reference was made to 2 bed, 3 bed, 4 bed and 5 bed dwellings. However, there was reference to bungalows for 2 of the typologies (both of which were based on 100% bungalow schemes).

**2.2.2.** The dwelling sizes were as follows:

- 2 bed 2 storey house 75 sq m
- 2 bed bungalow 78 sq m
- 3 bed 2 storey house 90 sq m
- 4 bed 2 storey house 120 sq m
- 5 bed 2 storey house 150 sq m

**2.2.3.** The density rates vary from site to site (and are referenced above in 2.1.1).

**2.2.4.** Inflation rates were applied to the market values used in the 2018 Local Plan viability testing. Our modelling subsequently included the following allowances:

| Type | Zone 1 | Zone 2 |
|---|---|---|
| 2 bed 2 storey | £2,280 per sq m | £2,700 per sq m |
| 2 bed bungalow | £2,600 per sq m | £3,105 per sq m |
| 3 bed 2 storey | £2,220 per sq m | £2,640 per sq m |
| 4 bed 2 storey | £2,220 per sq m | £2,640 per sq m |
| 5 bed 2 storey | £2,160 per sq m | £2,580 per sq m |

**2.2.5.** In the Local Plan viability testing, the following revenues were applied to account for various different affordable housing tenure bases:

Affordable Rent - 50% of market value
First Homes - 70% of market value

**2.2.6.** For plot construction costs (including external works) the updated BCIS median rate was applied, again being a consistent approach to the Local Plan viability testing (albeit a separate rate was applied for 2 storey housing compared to bungalows).

**2.2.7.** The 2018 Local Plan viability testing allowed for the following costs (which were again accepted by us in April 2022):

| | |
|---|---|
| - Contingency | 5% of build costs |
| - Professional fees | 8% of build costs |
| - Electric Vehicle Charging point | £250 per dwelling |
| - Marketing | 2% on revenue |
| - Legals | 0.5% on revenue |
| - Finance / debit interest | 6% |
| - Sub 20 dwelling scheme profit | 17.5% on revenue (market value)<br>6% on revenue (affordable) |
| - Over 20 dwelling scheme profit | 20% on revenue (market value)<br>6% on revenue (affordable) |

**2.2.8.** For S106 contributions, the following were allowed:

| | |
|---|---|
| - Education | £5,500 per dwelling |
| - Open Space | £1,100 per dwelling |
| - Other | £1,057 per dwelling |

**2.2.9.** Finally, again for consistency and to ensure a 'like for like' comparison, we adopted the same benchmark land value assumptions used in the 2018 Local Plan testing, which were as follows:

- Zone 1 greenfield £284,000 per Ha
- Zone 1 brownfield £494,000 per Ha
- Zone 2 greenfield £654,500 per Ha
- Zone 2 brownfield £877,000 per Ha

## 2.3. April 2022 viability testing conclusions

**2.3.1.** Various different scenarios were modelled (adjusting the level of First Homes factored into the appraisals). This included the following:

- All affordable housing delivered as First Homes (at 70% of market value).
- 25% of affordable housing delivered as First Homes, 75% as Social Rented (with First Homes values at 70% of Market Value).
- 25% of affordable housing delivered as First Homes, 75% as Affordable Rented.
- 25% of affordable housing delivered as First Homes, 75% as Intermediate.
- All affordable housing delivered as First Homes (First Homes values capped at £130,000).
- 25% of affordable housing delivered as First Homes, 75% as Social Rented (with First Homes values capped at £130,000).

**2.3.2.** In short, Zones 1 and 2 Greenfield, as well as Zone 2 Brownfield, typologies returned a viable outcome with 25% First Homes and 75% Social Rented units, even with the introduction of a First Homes value cap at £130,000. Zone 1 Brownfield, though, was unviable even with all of the affordable dwellings provided as First Homes.

# 3. CPV Updated Appraisal Assumptions

## 3.1. Retained appraisal assumptions

**3.1.1.** We have adopted the same typology approach as set out above in Section 2.

**3.1.2.** In terms of the general appraisal assumptions, the following allowances are retained from the April 2022 testing:

- Dwelling mix and size of units
- Affordable: Zone 1 Greenfield 10% (2.5% First Homes 7.5% Rented)
  Zone 1 Brownfield 5% (5% First Homes)
  Zone 2 Greenfield 20% (5% First Homes 15% Rented)
  Zone 2 Brownfield 10% (2.5% First Homes 7.5% Rented)
- Contingency 5% on costs
- Professional fees 8% on costs
- Marketing 2% on revenue
- Legals 0.5% on revenue
- Developer profit 17.5% on revenue for market value and First Homes units (applied to schemes of 20 units or less). For typologies providing in excess of 20 units the market value and First Homes developer profit is increased to 20% on revenue. For rented affordable units the profit is reduced to 6% on revenue.
- Benchmark land values Z1 greenfield (£284,000 per Ha), Z1 brownfield (£494,000 per Ha), Z2 greenfield (£654,500 per Ha), Z2 brownfield (£877,000 per Ha)

## 3.2. Revenue

**3.2.1.** In our April 2022 testing the market values as set out above in paragraph 2.2.4 were applied. Since this time the market has been subject to change, with initial inflation continuing until late summer 2022 before a general stalling in values in the wake of the government's 'mini-budget' in late September 2022 (caused by a spike in mortgage rates). Since this time, and whilst there remains a general level of uncertainty, the market has stabilized somewhat with market rates reducing and, in April 2023, reports of values again starting to increase.

**3.2.2.** In order to gauge inflation during this period, as per our approach in the April 2022 testing, we have referred to the BCIS House Price Index, rebased to Mansfield. As at April 2022 this shows an average value in the locality of £169,853. The latest figures shown in the UK House Price Index are from Feb 2023, which at this point shows an average value of £185,122 (an increase of 8.99% since April 2022).

**3.2.3.** As indicated above, at the current time the UK House Price index only provides data up to Feb 2023. However, we are conscious that current reports indicate that values are again starting to rise (with April 2023 showing an increase in house pricing for the first time in 7 months – see attached Appendix 1).

**3.2.4.** Having considered this, we are of the view that an 8% increase in the market values from April 2022 is justifiable for the purposes of the updated modelling. This results in the following amended values:

| Type | Zone 1 | Zone 2 |
|---|---|---|
| 2 bed 2 storey | £2,462 per sq m | £2,916 per sq m |
| 2 bed bungalow | £2,808 per sq m | £3,353 per sq m |
| 3 bed 2 storey | £2,398 per sq m | £2,851 per sq m |
| 4 bed 2 storey | £2,398 per sq m | £2,851 per sq m |
| 5 bed 2 storey | £2,333 per sq m | £2,786 per sq m |

### 3.3. Build cost inflation

**3.3.1.** Like market values, during the last 12 months or so build cost inflation has also continued. We have subsequently considered the latest BCIS data (which were also applied to the April 2022 testing) and have identified the following rates:

- BCIS Median generally £1,351 per sq m
- BCIS Median single storey £1,561 per sq m

**3.3.2.** We have applied the above to our modelling.

### 3.4. Part L & F Building Regulations changes

**3.4.1.** These changes are compulsory for all new build development sites from June 2023. This requires that CO2 emissions are reduced by 31% for dwellings. This is effectively an interim requirement before the full Future Homes and Buildings Standard comes into effect from 2025, where CO2 emissions need to be reduced by 75% to 80%. However, these costs have yet to filter through the BCIS data. We therefore agree that it is reasonable to make some level of allowance for these costs.

**3.4.2.** The Department of Levelling Up, Housing and Communities impact assessment suggested that the most cost effective route to meeting the interim standards was through the use of Air Source Heat Pumps. This estimates an additional average cost per dwelling of £4,070. This study also noted that the cost associated with both heat pumps and solar panels will fall, as supply chains mature and become more integrated.

**3.4.3.** It is also the case that the BCIS rates applied to the modelling already allow for existing heating systems inherently within the costings. These costs therefore have to be deducted before the new heat pump costs are applied (otherwise there would be a double-counting of heating systems within each dwelling). In light of these factors, and taking into account what has been agreed elsewhere on other schemes we consider an average allowance of £4,000 per unit to be reasonable and have applied this additional cost to the modelling.

**3.4.4.** Please note, overtime as these costs are routinely incurred within a new build development scheme the associated costs will become integrated into the BCIS data. In the future, if the BCIS rate is applied it will not therefore be necessary to add these costs as a separate item. However, at the current time, we accept that it is prudent to include these as an additional cost item in the modelling.

### 3.5. Solar panels

**3.5.1.** In April 2022 we allowed £250 per dwelling, which was in keeping with the 2018 Local Plan viability testing. However, responses from the Draft Affordable Housing SPD consultation suggested that this allowance was too low due to inflation.

**3.5.2.** Whilst there is an argument to say that solar panel costs may now be 'absorbed' into the BCIS rate, adopting a cautious approach we have retained this as an additional cost item and furthermore have applied inflation to the costs. We have subsequently applied an adjusted rate of £500 per dwelling to cover these costs.

### 3.6. Biodiversity Net Gain

**3.6.1.** It is understood that this will be required mostly onsite (and only offsite credits will be acceptable in exceptional circumstances).

**3.6.2.** The impact this will have on development sites will ultimately mean that more land will be required to cover the Biodiversity Net Gain policy than is currently in place. This will serve to reduce the net developable areas of sites.

**3.6.3.** For the purposes of our modelling and accepting that this is likely to change from site to site dependent on individual circumstances, we have adopted an average approach and increased the gross areas of all the typologies by 10% (therefore creating additional land in the typologies to be set aside for the Biodiversity Net Gain policy).

**3.6.4.** In addition, it is recognized that there will be a cost associated with preparing (and potentially maintaining) the land used for Biodiversity Net Gain. Based on work we have undertaken for other Local Authorities, an average cost of £25,000 per Ha is deemed to be reasonable for the purposes of the modelling.

**3.6.5.** Please note, there is a reasonable argument that because this is now a mandatory requirement this is a cost which ultimately needs to be shouldered by the landowner and subsequently should be deducted from the land value rather than being an additional cost of the development. However, this is debatable. It is the case that the guidance indicates that abnormal and site specific infrastructure costs should be factored in when determining benchmark land value (the general principle being the higher the abnormals / site specific infrastructure costs the lower the benchmark land value). It is not, though, as simple as deducting one from the other, as there is a minimum point below which the benchmark land value cannot be reduced any further i.e. at the point where there is no incentive for the landowner to release the site for development. This 'tipping point' in the land value is subjective and therefore open to debate. Within this context, and adopting a cautious approach for the purposes of the modelling, we have retained the benchmark land values as stated above, but also included this additional cost of £25,000 per Ha.

### 3.7. Sustainable Urban Drainage Systems (SUDS)

**3.7.1.** As per the comments above with regards to Biodiversity Net Gain, there is an argument that that the cost associated with SUDS should also be deducted from the land value. However, and again adopting a cautious approach, for the purposes of the updated modelling we have included this as an additional cost item in the appraisal testing. Based on other work we have undertaken for other Local Authorities we consider an allowance of £30,000 per Ha to be reasonable.

### 3.8. Other S106 planning contributions

**3.8.1.** The Council policy requirements will fluctuate from site to site dependent on need. It is therefore unrealistic to assume that every site will be impacted by the full policy requirement (for example some sites may not have any education contribution requirement, whereas others may).

**3.8.2.** As per the requirements of the guidance, it is not necessary (because it is not practical) to test every permutation regarding policy costs. Instead, it is reasonable to assume average or typical costs likely to effect the majority of the sites.

**3.8.3.** In light of this, for the education contribution we have retained a rate of £5,500 per dwelling, in keeping with the April 2022 testing (acknowledging that in many cases the level of request is likely to be below this level). For open space, we have assumed £1,100 per dwelling again in keeping with previous testing. However, we have also included the 'other' category to cover other potential S106 costs that may impact on sites, assuming an average rate equivalent to £2,000 per dwelling to cover this (which is in addition to SUDS and Biodiversity Net Gain).

### 3.9. Density

**3.9.1.** For the 10 and 20 dwelling scenarios we have maintained the previously density rate assumptions. Likewise, for the 100 dwelling typologies, the previous modelling tested different density rates (32 and 36 dwellings per Ha), which we again consider to be reasonable here.

**3.9.2.** However, for the 350 dwelling typology the previous testing was based on 29 dwellings per Ha. However, Policy H3 of the Local Plan states that density rates equivalent to 30 – 35 dwellings per Ha may be acceptable. In this respect, the assumptions within the previous modelling appear to be below expectations.

**3.9.3.** For the purposes of this update, we have run the 350 dwelling Zone 1 appraisals at a density of 35 dwellings per Ha. For the 350 dwelling Zone 2 we have assumed 30 dwellings per Ha.

## 4. Updated Appraisal Results

**4.1.** The results of the updated modelling are as follows (please note the S106 figure include SUDS and Biodiversity Net Gain costs):

### *CPV Updated Base Testing*

| Value Area | Land | Units | AH % | Gross (Ha) | S106 per unit | Residual Land Value | BLV per Ha | Benchmark Land Value | Outcome | Viable? |
|---|---|---|---|---|---|---|---|---|---|---|
| Zone 1 | Green | 10 | 10.00% | 0.44 | £ 11,020 | £ 122,870 | £ 284,000 | £ 124,960 | -£ 2,090 | UNVIABLE |
| Zone 1 | Brown | 10 | 10.00% | 0.44 | £ 11,020 | £ 122,870 | £ 494,000 | £ 217,360 | -£ 94,490 | UNVIABLE |
| Zone 2 | Green | 10 | 20.00% | 0.44 | £ 11,020 | £ 338,010 | £ 654,500 | £ 287,980 | £ 50,030 | VIABLE |
| Zone 2 | Brown | 10 | 10.00% | 0.44 | £ 11,020 | £ 412,524 | £ 877,000 | £ 385,880 | £ 26,644 | VIABLE |
| Zone 1 | Green | 10 | 10.00% | 0.30 | £ 10,250 | £ 109,175 | £ 284,000 | £ 85,200 | £ 23,975 | VIABLE |
| Zone 1 | Brown | 10 | 10.00% | 0.30 | £ 10,250 | £ 109,175 | £ 494,000 | £ 148,200 | -£ 39,025 | UNVIABLE |
| Zone 2 | Green | 10 | 20.00% | 0.30 | £ 10,250 | £ 306,334 | £ 654,500 | £ 196,350 | £ 109,984 | VIABLE |
| Zone 2 | Brown | 10 | 10.00% | 0.30 | £ 10,250 | £ 366,087 | £ 877,000 | £ 263,100 | £ 102,987 | VIABLE |
| Zone 1 | Green | 10 | 10.00% | 0.28 | £ 10,140 | £ 102,917 | £ 284,000 | £ 79,520 | £ 23,397 | VIABLE |
| Zone 1 | Brown | 10 | 10.00% | 0.28 | £ 10,140 | £ 102,917 | £ 494,000 | £ 138,320 | -£ 35,404 | UNVIABLE |
| Zone 2 | Green | 10 | 20.00% | 0.28 | £ 10,140 | £ 275,870 | £ 654,500 | £ 183,260 | £ 92,610 | VIABLE |
| Zone 2 | Brown | 10 | 10.00% | 0.28 | £ 10,140 | £ 341,220 | £ 877,000 | £ 245,560 | £ 95,660 | VIABLE |
| Zone 1 | Green | 20 | 10.00% | 0.88 | £ 11,020 | £ 225,183 | £ 284,000 | £ 249,920 | -£ 24,737 | UNVIABLE |
| Zone 1 | Brown | 20 | 5.00% | 0.88 | £ 11,020 | £ 301,070 | £ 494,000 | £ 434,720 | -£ 133,650 | UNVIABLE |
| Zone 2 | Green | 20 | 20.00% | 0.88 | £ 11,020 | £ 641,178 | £ 654,500 | £ 575,960 | £ 65,218 | VIABLE |
| Zone 2 | Brown | 20 | 10.00% | 0.88 | £ 11,020 | £ 788,536 | £ 877,000 | £ 771,760 | £ 16,776 | VIABLE |
| Zone 1 | Green | 100 | 10.00% | 3.44 | £ 10,492 | £ 955,724 | £ 284,000 | £ 976,960 | -£ 21,236 | UNVIABLE |
| Zone 1 | Brown | 100 | 5.00% | 3.44 | £ 10,492 | £ 1,252,594 | £ 494,000 | £ 1,699,360 | -£ 446,766 | UNVIABLE |
| Zone 2 | Green | 100 | 20.00% | 3.44 | £ 10,492 | £ 3,075,629 | £ 654,500 | £ 2,251,480 | £ 824,149 | VIABLE |
| Zone 2 | Brown | 100 | 10.00% | 3.44 | £ 10,492 | £ 3,697,825 | £ 877,000 | £ 3,016,880 | £ 680,945 | VIABLE |
| Zone 1 | Green | 100 | 10.00% | 3.06 | £ 10,283 | £ 954,924 | £ 284,000 | £ 869,040 | £ 85,884 | VIABLE |
| Zone 1 | Brown | 100 | 5.00% | 3.06 | £ 10,283 | £ 1,251,795 | £ 494,000 | £ 1,511,640 | -£ 259,845 | UNVIABLE |
| Zone 2 | Green | 100 | 20.00% | 3.06 | £ 10,283 | £ 2,987,432 | £ 654,500 | £ 2,002,770 | £ 984,662 | VIABLE |
| Zone 2 | Brown | 100 | 10.00% | 3.06 | £ 10,283 | £ 3,473,328 | £ 877,000 | £ 2,683,620 | £ 789,708 | VIABLE |
| Zone 1 | Green | 350 | 10.00% | 10.00 | £ 10,171 | £ 3,616,715 | £ 284,000 | £ 2,840,000 | £ 776,715 | VIABLE |
| Zone 1 | Brown | 350 | 5.14% | 10.00 | £ 10,171 | £ 4,646,931 | £ 494,000 | £ 4,940,000 | -£ 293,069 | UNVIABLE |
| Zone 2 | Green | 350 | 20.00% | 11.67 | £ 10,433 | £10,682,573 | £ 654,500 | £ 7,635,833 | £3,046,740 | VIABLE |
| Zone 2 | Brown | 350 | 10.00% | 11.67 | £ 10,433 | £12,565,938 | £ 877,000 | £10,231,667 | £2,334,271 | VIABLE |

**4.2.** 18 of the 28 show a viable outcome. Of the 10 unviable appraisals, 3 are considered to be marginally viable (Zone 1 Green 10 bungalows, Zone 1 Green 20 bungalows and Zone 1 Green 100). These could be made viable with small adjustments to the planning policies (as allowed within the policy provision). The 7 remaining typologies are all Zone 1 Brownfield. It is stressed that schemes in these areas have historically shown an increased viability pressure, in the 2018 Local Plan testing and April 2022 modelling. In this regard, the position has not therefore changed.

**4.3.** In a consultation response reference was made to sensitivity testing. The limitation of sensitivity testing is that too many adjustments can result in a wide variance of appraisal outcomes, which can often make it more difficult to reach a firm conclusion rather than assist. We therefore see little benefit here to running numerous iterations of the modelling as that is likely to confuse rather than help. However, we have run a model based on a 2.5% reduction in sales values:

***CPV Updated Base Testing – with 2.5% reduction in revenue***

| Value Area | Land | Units | AH % | Gross (Ha) | S106 per unit | Residual Land Vaule | BLV per Ha | Benchmark Land Value | Outcome | Viable? |
|---|---|---|---|---|---|---|---|---|---|---|
| Zone 1 | Green | 10 | 10.00% | 0.44 | £ 11,020 | £ 80,379 | £ 284,000 | £ 124,960 | -£ 44,581 | UNVIABLE |
| Zone 1 | Brown | 10 | 10.00% | 0.44 | £ 11,020 | £ 80,379 | £ 494,000 | £ 217,360 | -£ 136,981 | UNVIABLE |
| Zone 2 | Green | 10 | 20.00% | 0.44 | £ 11,020 | £ 289,430 | £ 654,500 | £ 287,980 | £ 1,450 | VIABLE |
| Zone 2 | Brown | 10 | 10.00% | 0.44 | £ 11,020 | £ 361,787 | £ 877,000 | £ 385,880 | -£ 24,093 | UNVIABLE |
| Zone 1 | Green | 10 | 10.00% | 0.30 | £ 10,250 | £ 70,236 | £ 284,000 | £ 85,200 | -£ 14,964 | UNVIABLE |
| Zone 1 | Brown | 10 | 10.00% | 0.30 | £ 10,250 | £ 70,236 | £ 494,000 | £ 148,200 | -£ 77,964 | UNVIABLE |
| Zone 2 | Green | 10 | 20.00% | 0.30 | £ 10,250 | £ 261,922 | £ 654,500 | £ 196,350 | £ 65,572 | VIABLE |
| Zone 2 | Brown | 10 | 10.00% | 0.30 | £ 10,250 | £ 319,870 | £ 877,000 | £ 263,100 | £ 56,770 | VIABLE |
| Zone 1 | Green | 10 | 10.00% | 0.28 | £ 10,140 | £ 67,094 | £ 284,000 | £ 79,520 | -£ 12,426 | UNVIABLE |
| Zone 1 | Brown | 10 | 10.00% | 0.28 | £ 10,140 | £ 67,094 | £ 494,000 | £ 138,320 | -£ 71,226 | UNVIABLE |
| Zone 2 | Green | 10 | 20.00% | 0.28 | £ 10,140 | £ 235,246 | £ 654,500 | £ 183,260 | £ 51,986 | VIABLE |
| Zone 2 | Brown | 10 | 10.00% | 0.28 | £ 10,140 | £ 298,792 | £ 877,000 | £ 245,560 | £ 53,232 | VIABLE |
| Zone 1 | Green | 20 | 10.00% | 0.88 | £ 11,020 | £ 140,694 | £ 284,000 | £ 249,920 | -£ 109,226 | UNVIABLE |
| Zone 1 | Brown | 20 | 5.00% | 0.88 | £ 11,020 | £ 214,775 | £ 494,000 | £ 434,720 | -£ 219,945 | UNVIABLE |
| Zone 2 | Green | 20 | 20.00% | 0.88 | £ 11,020 | £ 544,607 | £ 654,500 | £ 575,960 | -£ 31,353 | UNVIABLE |
| Zone 2 | Brown | 20 | 10.00% | 0.88 | £ 11,020 | £ 687,649 | £ 877,000 | £ 771,760 | -£ 84,111 | UNVIABLE |
| Zone 1 | Green | 100 | 10.00% | 3.44 | £ 10,492 | £ 523,127 | £ 284,000 | £ 976,960 | -£ 453,833 | UNVIABLE |
| Zone 1 | Brown | 100 | 5.00% | 3.44 | £ 10,492 | £ 811,575 | £ 494,000 | £ 1,699,360 | -£ 887,785 | UNVIABLE |
| Zone 2 | Green | 100 | 20.00% | 3.44 | £ 10,492 | £ 2,579,029 | £ 654,500 | £ 2,251,480 | £ 327,549 | VIABLE |
| Zone 2 | Brown | 100 | 10.00% | 3.44 | £ 10,492 | £ 3,183,746 | £ 877,000 | £ 3,016,880 | £ 166,866 | VIABLE |
| Zone 1 | Green | 100 | 10.00% | 3.06 | £ 10,283 | £ 534,377 | £ 284,000 | £ 869,040 | -£ 334,663 | UNVIABLE |
| Zone 1 | Brown | 100 | 5.00% | 3.06 | £ 10,283 | £ 822,826 | £ 494,000 | £ 1,511,640 | -£ 688,814 | UNVIABLE |
| Zone 2 | Green | 100 | 20.00% | 3.06 | £ 10,283 | £ 2,505,514 | £ 654,500 | £ 2,002,770 | £ 502,744 | VIABLE |
| Zone 2 | Brown | 100 | 10.00% | 3.06 | £ 10,283 | £ 2,973,931 | £ 877,000 | £ 2,683,620 | £ 290,311 | VIABLE |
| Zone 1 | Green | 350 | 10.00% | 10.00 | £ 10,171 | £ 2,104,147 | £ 284,000 | £ 2,840,000 | -£ 735,853 | UNVIABLE |
| Zone 1 | Brown | 350 | 5.14% | 10.00 | £ 10,171 | £ 3,104,689 | £ 494,000 | £ 4,940,000 | -£1,835,311 | UNVIABLE |
| Zone 2 | Green | 350 | 20.00% | 11.67 | £ 10,433 | £ 8,945,579 | £ 654,500 | £ 7,635,833 | £1,309,746 | VIABLE |
| Zone 2 | Brown | 350 | 10.00% | 11.67 | £ 10,433 | £10,767,996 | £ 877,000 | £10,231,667 | £ 536,329 | VIABLE |

**4.4.** With a 2.5% reduction in revenue the number of unviable outcomes increases to 17. In all but 1 typology Zone 2 remains viable, however all of Zone 1 returns an unviable outcome (although some of these are only marginally unviable.

**4.5.** For illustrative purposes we have run a further model with a 5% reduction in revenue:

### *CPV Updated Base Testing – with 5% reduction in revenue*

| Value Area | Land | Units | AH % | Gross (Ha) | S106 per unit | Residual Land Value | BLV per Ha | Benchmark Land Value | Outcome | Viable? |
|---|---|---|---|---|---|---|---|---|---|---|
| Zone 1 | Green | 10 | 10.00% | 0.44 | £ 11,020 | £ 37,889 | £ 284,000 | £ 124,960 | -£ 87,071 | UNVIABLE |
| Zone 1 | Brown | 10 | 10.00% | 0.44 | £ 11,020 | £ 37,889 | £ 494,000 | £ 217,360 | -£ 179,471 | UNVIABLE |
| Zone 2 | Green | 10 | 20.00% | 0.44 | £ 11,020 | £ 240,850 | £ 654,500 | £ 287,980 | -£ 47,130 | UNVIABLE |
| Zone 2 | Brown | 10 | 10.00% | 0.44 | £ 11,020 | £ 311,049 | £ 877,000 | £ 385,880 | -£ 74,831 | UNVIABLE |
| Zone 1 | Green | 10 | 10.00% | 0.30 | £ 10,250 | £ 31,297 | £ 284,000 | £ 85,200 | -£ 53,903 | UNVIABLE |
| Zone 1 | Brown | 10 | 10.00% | 0.30 | £ 10,250 | £ 31,297 | £ 494,000 | £ 148,200 | -£ 116,903 | UNVIABLE |
| Zone 2 | Green | 10 | 20.00% | 0.30 | £ 10,250 | £ 217,509 | £ 654,500 | £ 196,350 | £ 21,159 | VIABLE |
| Zone 2 | Brown | 10 | 10.00% | 0.30 | £ 10,250 | £ 273,654 | £ 877,000 | £ 263,100 | £ 10,554 | VIABLE |
| Zone 1 | Green | 10 | 10.00% | 0.28 | £ 10,140 | £ 31,272 | £ 284,000 | £ 79,520 | -£ 48,248 | UNVIABLE |
| Zone 1 | Brown | 10 | 10.00% | 0.28 | £ 10,140 | £ 31,272 | £ 494,000 | £ 138,320 | -£ 107,048 | UNVIABLE |
| Zone 2 | Green | 10 | 20.00% | 0.28 | £ 10,140 | £ 194,622 | £ 654,500 | £ 183,260 | £ 11,362 | VIABLE |
| Zone 2 | Brown | 10 | 10.00% | 0.28 | £ 10,140 | £ 256,364 | £ 877,000 | £ 245,560 | £ 10,804 | VIABLE |
| Zone 1 | Green | 20 | 10.00% | 0.88 | £ 11,020 | £ 56,206 | £ 284,000 | £ 249,920 | -£ 193,714 | UNVIABLE |
| Zone 1 | Brown | 20 | 5.00% | 0.88 | £ 11,020 | £ 128,480 | £ 494,000 | £ 434,720 | -£ 306,240 | UNVIABLE |
| Zone 2 | Green | 20 | 20.00% | 0.88 | £ 11,020 | £ 448,036 | £ 654,500 | £ 575,960 | -£ 127,924 | UNVIABLE |
| Zone 2 | Brown | 20 | 10.00% | 0.88 | £ 11,020 | £ 586,762 | £ 877,000 | £ 771,760 | -£ 184,998 | UNVIABLE |
| Zone 1 | Green | 100 | 10.00% | 3.44 | £ 10,492 | £ 90,530 | £ 284,000 | £ 976,960 | -£ 886,430 | UNVIABLE |
| Zone 1 | Brown | 100 | 5.00% | 3.44 | £ 10,492 | £ 370,556 | £ 494,000 | £ 1,699,360 | -£1,328,804 | UNVIABLE |
| Zone 2 | Green | 100 | 20.00% | 3.44 | £ 10,492 | £ 2,082,429 | £ 654,500 | £ 2,251,480 | -£ 169,051 | UNVIABLE |
| Zone 2 | Brown | 100 | 10.00% | 3.44 | £ 10,492 | £ 2,669,667 | £ 877,000 | £ 3,016,880 | -£ 347,213 | UNVIABLE |
| Zone 1 | Green | 100 | 10.00% | 3.06 | £ 10,283 | £ 113,829 | £ 284,000 | £ 869,040 | -£ 755,211 | UNVIABLE |
| Zone 1 | Brown | 100 | 5.00% | 3.06 | £ 10,283 | £ 393,856 | £ 494,000 | £ 1,511,640 | -£1,117,784 | UNVIABLE |
| Zone 2 | Green | 100 | 20.00% | 3.06 | £ 10,283 | £ 2,023,597 | £ 654,500 | £ 2,002,770 | £ 20,827 | VIABLE |
| Zone 2 | Brown | 100 | 10.00% | 3.06 | £ 10,283 | £ 2,474,534 | £ 877,000 | £ 2,683,620 | -£ 209,086 | UNVIABLE |
| Zone 1 | Green | 350 | 10.00% | 10.00 | £ 10,171 | £ 591,580 | £ 284,000 | £ 2,840,000 | -£2,248,420 | UNVIABLE |
| Zone 1 | Brown | 350 | 5.14% | 10.00 | £ 10,171 | £ 1,562,447 | £ 494,000 | £ 4,940,000 | -£3,377,553 | UNVIABLE |
| Zone 2 | Green | 350 | 20.00% | 11.67 | £ 10,433 | £ 7,208,585 | £ 654,500 | £ 7,635,833 | -£ 427,249 | UNVIABLE |
| Zone 2 | Brown | 350 | 10.00% | 11.67 | £ 10,433 | £ 8,970,053 | £ 877,000 | £10,231,667 | -£1,261,613 | UNVIABLE |

**4.6.** With this level of reduction the majority of the viability pressure increases further to the extent that the majority show an unviable outcome.

## 5. Conclusions

**5.1.** As discussed above in Section 1, the economy is cyclical and therefore through a plan period there will be 'peaks' and 'troughs' in terms of the market conditions. At the current time, the market can be regarded as being within a 'trough' in that sales values have faltered, build cost inflation has continued and new central government policy requirements that have development cost implications have all come into effect (or are imminently due to). It is therefore inevitable that viability pressure has increased compared to how it was in April 2022 when the last testing was undertaken.

**5.2.** However, and in spite of these more difficult market conditions, the viability outcomes for the base testing remain similar to previous assessments, i.e. the greatest viability pressure is on Zone 1 brownfield, whereas Zone 2 both brownfield and greenfield show a positive viability outcome with the Council's planning policies applied. In some cases, Zone 1 greenfield has tipped into an unviable outcome compared to previous testing, however these are considered to be relatively modest deficits which could be resolved through planning policy adjustments.

**5.3.** In this regard, as noted in Section1, the Council's policies are subject to viability testing at the planning application stage (if deemed necessary) and therefore in the event of more difficult market conditions the Council does retain the flexibility to make adjustments to assist the delivery of schemes.

**5.4.** Furthermore, the economic outlook has improved (albeit tentatively) in recent weeks. As per our Appendix 1, April 2023 saw the first increase in house prices for 7 months. Also, please see attached Appendix 2, a recent article in Forbes which predicts inflation will fall as we move through 2023 and also Appendix 3, which is a Thisismoney article predicting a fall in interest rates by 2024. This would have positive impacts on affordability and also mortgage rates, which would create a better economic environment for house price growth (and also calmer build cost inflation). It is therefore unreasonable to assume that the current economic conditions will continue indefinitely and in reality, as the economic position naturally develops, it is likely that there will be improvement in the short to medium term.

**5.5.** In summary, for what we accept are more challenging economic conditions than in April 2022 when viability was last tested, the current viability outcomes remain generally positive and broadly in keeping with what has been identified in the past. This bodes well for the future as and when market conditions improve. Notwithstanding this, where viability challenges are identified, the Council's existing policy mechanism provides the flexibility to adjust policy requirements in order to stimulate delivery (if needed).