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Affordable Housing Viability Study

For

Colchester Borough Council

APPENDIX 2

STAKEHOLDER ENGAGEMENT AND METHODOLOGY

April 2013



1.0 Stakeholder Engagement

Stakeholder Methodology

- 1.1 In consultation with the Council it was agreed that the most appropriate method of stakeholder engagement for this study would be the use of a postal questionnaire. A copy of the questionnaire can be found at the end of this section.

Stakeholder Questionnaire

- 1.2 The questionnaire sought to ascertain stakeholder's views on key assumptions that would be modelled to assess the impact upon development of a range of policy options. Thus the questionnaire outlined a range of key assumptions in order that development conditions within the Borough could be fairly reflected within the parameters of the study.
- 1.3 The Council provided a comprehensive contact list of stakeholders within the Borough. These included, not exclusively, Registered Social Landlords (RSLs), private developers, house builders, planning and other development consultants and land owners.
- 1.4 A copy of the questionnaire and letter was sent to all stakeholders. In total, 5 responses were received. The questionnaire responses were used to inform the modelling assumptions.

Response to Specific Questions

Q.1 Scheme Types

- 1.5 Stakeholders were asked to select appropriate site types that reflect the land being brought forward for development in the area. The questionnaire presented four scheme types labelled A to D. The development densities for these scheme types range from 35 to 120 dwellings per hectare. If this was not considered an adequate representation, stakeholders were also asked to include any other scheme types that were not considered.
- 1.6 One Stakeholder noted that medium densities of 30 to 40dph are typically encountered on housing schemes of 15 to 100 units and large sites of 200 to 1,500 units. The stakeholder also noted that lower densities may be encountered on detached housing schemes of 1 to 15 units. On the other hand mixed housing schemes and small flatted development are likely to be built at higher densities.
- 1.7 One developer noted that higher densities are less relevant in the current housing market and that there is now a resistance to 3 storey developments. However, flatted development is likely to have a higher density of around 60-70 dph. The stakeholder noted that typical 'estate housing' is built at a density of 35-40dph. Mixed development of flats and houses is likely to be built at a density of 20-40dph. Another stakeholder indicated that 35dph is a more likely density for the Colchester area.

Q.2 Affordable Housing Percentages

- 1.7 The question asked if any specific affordable housing percentages should be considered. The questionnaire stated that Levvel would be testing sites as low as 1 unit to examine if it could contribute an element of affordable housing. One stakeholder noted that targets for testing should be from 10% to 35% at 5% increments. Another stakeholder noted that 35% affordable housing is too high and that lower affordable housing targets will have to be considered as part of the testing scenarios.

Q.3 Thresholds to consider

- 1.8 The Stakeholder Questionnaire went on to ask if there were any other thresholds that should be considered. One stakeholder indicated that the threshold start at 1 unit. Another respondent noted that affordable housing should not apply on sites with very expensive low density schemes as the properties bring built are by their nature not affordable. One developer noted that the Council needs to consider the impact on smaller local developers who are unable to take on larger sites. The respondent noted that the burden for smaller schemes needs to be reduced.

Q.4 Housing Tenure Mixes

- 1.9 Question 4 asks if any specific tenure mixes should be considered and there were varied responses. One respondent indicated that any tenure restrictions should be removed altogether, leaving it to the RSL's to decide what they can deliver.
- 1.10 One response highlighted how increasingly housing associations are advising that they can offer developers more for affordable rent than shared ownership. They

went onto question whether Colchester should drop its current tenure mix of 80:20 (Affordable Rent: Shared Ownership) to assist viability for developers.

- 1.11 The majority of responses put forward a preference for RSL and Housing Associations to take the lead on what they can deliver in terms of tenure mix as they are much better informed in relation to site specifics.

Q.5 Values Required to Bring Land Forward for development

- 1.12 Asked if a certain set of values were reflective of the range of values necessary to bring land forward for development in the Borough, responses were somewhat sparse and in some cases non-existent from the majority of respondents.
- 1.13 One response highlighted that in order to achieve the lower value of £230,000 per/ha for greenfield/ agricultural land, a minimum density of 35 per ha would have to be utilised. This is based on an assumption that the plot value would be capped at £6,600 per plot.

Q.6 Land Value Expressed as a Percentage of the Development Value

- 1.16 Stakeholders were asked their views as to the value of land expressed as a percentage of development value for different land uses. One stakeholder recommended that values should be 31% for Greenfield and 22% for Brownfield as a percentage of development value.
- 1.14 A number of stakeholders highlighted that this was a difficult measure to assess as any percentage would be skewed by the amount of enabling/infrastructure required for a specific site.
- 1.15 None of the stakeholders made any comment on relevant percentages for Industrial land.
- 1.16 One Stakeholder recommends that the value of land expressed as a percentage of development value on Brownfield land should be in the region of 20-30%.

Q.7 Developer Profit

- 1.17 Stakeholders were asked to comment on whether a profit level of 17.5% of Gross Development Value may be appropriate. This figure was based on data provided by Colchester Borough Council, which suggested that this may be an acceptable level.
- 1.18 One respondent agreed with the proposed rate of 17.5% developer profit. Another stakeholder pointed out that due to economy of scale savings on materials, etc. in relation to the development of larger sites, greater profitability levels are achievable as opposed to smaller sites.
- 1.19 Some stakeholder indicated that 20% profit would be appropriate on private GDV. Another respondent noted that 6% profit would be more appropriate on affordable GDV.

Q.8 Views on per m² build cost?

- 1.20 The majority of stakeholders felt that the basic build costs, based on the figures from BCIS, were too low. A number of these stakeholders suggested higher specific figures based on historic experience.
- 1.21 A number of respondents felt that the suggested figures were too generalised, as in reality, they should be based on specifics, products, specification etc.
- 1.22 One stakeholder suggested that percentage allowance for external costs should be increased by 5% across the board.

Q.9 Build Costs – Residential

- 1.23 Stakeholders were asked to comment on dwelling sizes. These sizes were based on data provided by Colchester Borough Council. The majority of respondents agreed with dwelling sizes although they felt that average unit size for 4 bed house should be increased from 120m² to 135m².
- 1.24 One stakeholder set out housing association minimum sizes which are set out as part of the following table:

Type	HA Min Size
2 Bed Flat	56
2 Bed House	76
3 Bed House	86
4 Bed House	106

Q.10 Rental levels to allow for, for affordable housing

- 1.25 This question was aimed at RP's, and sought to give an indication on management, maintenance, void levels and major repairs allowance of the gross rent. Only one stakeholder, being a social housing provider, was equipped to provide suggestions, their recommendation is set out in the table below;

TYPE	GROSS RENT	MANAGEMENT	MAINTENANCE	VOIDS	MAJOR REPAIRS
1 BED FLAT	£87.39	£5.94	£7.95	1.5%	0.8% wrks cost
2 BED FLAT	£105.79	£5.94	£7.95	1.5%	0.8% wrks cost
2 BED HOUSE	£119.59	£5.94	£7.95	1.5%	0.8% wrks cost
3 BED HOUSE	£151.78	£5.94	£7.95	1.5%	0.8% wrks cost
4 BED HOUSE	£170.18	£5.94	£7.95	1.5%	0.8% wrks cost

Q.10 Capitalisation of Rents

- 1.30 This question sought clarification on current yield being assumed at 6-7% on capital receipts from Affordable Rented properties and whether this was reasonable. Like the previous question, with only one stakeholder as a Registered Provider, we only received one response, and this was in agreement with this yield.

Q.11 Public Subsidy

- 1.31 Stakeholders were asked whether they agree with the fact that the methodology would be assuming a nil public subsidy baseline, which was reflective of the current situation. Two respondents were unable to answer this as they were not familiar with this aspect of the market. One respondent agreed that it should be maintained at nil, another claiming it should not be included in the first place.
- 1.32 One respondent noted that it is the intention for the new 80% of Open Market Rent Affordable Rent tenure to replace Public Subsidy, and that some part of this should be factored into the calculations.

Q.13 Planning Obligations

- 1.33 Stakeholders were asked to give their views on the appropriateness of suggested potential CIL charges and S106 costs i.e. CIL charge £80 per m² in urban areas and £100m² in rural areas, along with £2,000 per unit proposed for S106 costs.
- 1.34 One respondent noted that these CIL/ S106 assumptions would be likely to produce less than 100 new affordable homes in Colchester. Another stakeholder noted that an allowance of £2,000 per unit for Section 106 costs may be too low.
- 1.35 Another stakeholder noted that a sales value of £220 per square foot or higher with no increase in construction costs is required if a sensible land value of to be generated when these assumptions are taken into account. Another respondent noted that £2,000 per unit Section 106 costs is very close to what was assumed on a past development in Colchester of just under 60 units.



COLCHESTER BOROUGH COUNCIL AFFORDABLE HOUSING VIABILITY STUDY

STAKEHOLDER QUESTIONNAIRE

Levvel has been appointed to undertake an Affordable Housing Viability Study on behalf of Colchester Borough Council.

The study will be undertaken in the context of the National Planning Policy Framework (NPPF) March 2012.

This questionnaire is part of a two stage process. We will be collecting information and comments initially through your responses to this questionnaire which will inform our assessments. We will then be supplementing this with a stakeholder meeting on **23rd November 2012** to discuss in more detail the feedback received so far and to allow you to have further input into the final report. An invitation to this meeting is attached.

The study will inform the review of the Core Strategy and Site Allocations Development Plan Document (DPD), the Affordable Housing Supplementary Planning Document (SPD) and also the implementation of the Community Infrastructure Levy (CIL). The purpose of the report is to examine the impact on housing viability of different levels of affordable housing provision and different thresholds, and demonstrate in particular the viability of new affordable housing policy targets.

The study will assess the viability of providing affordable housing in different parts of the borough, based upon house prices and residual values. It will also look at the impact of potential Community Infrastructure Levy rates as assessed within the draft 'Colchester Borough Council Community Infrastructure Levy: Review of Evidence' study undertaken by BPS Surveyors, upon viability.

Finally, responses to some questions may be complex. If you would like to respond to one or more in greater length or in a different format, please feel free to continue on a separate sheet.

Key Stakeholder Engagement

The advice and opinions of house builders, Registered Providers, land agents and other relevant key stakeholders are crucial to make sure the study approach is appropriate and robust. Any assistance you can provide Levvel will be gratefully received. Should you have any questions or queries regarding this work, please do not hesitate to contact Levvel through the details provided at the end of the questionnaire.

The Council Officer with whom to liaise should you have any general queries is:

Laura Chase – Planning Policy Manager 01206 282473

Laura.Chase@colchester.gov.uk

We would be very grateful if you could return this questionnaire by **close of business on Tuesday 20th November 2012**.

SCHEME TYPOLOGY

As part of the study, we will assess a number of notional schemes on which to carry out development appraisals. The effect of the imposition of affordable housing and potential CIL rates will then be assessed to ensure that future policy does not reduce land values to a level which will prevent land being brought forward for development.

Our aim is to assess a range of development types which are likely to come forward in each housing market area throughout the Borough. In this regard, your views are sought on the following;

Q1 Do the following development types adequately cover the range of schemes coming forward in the Borough?

A - Flatted Developments – flats/apartments of circa **120** dwellings per hectare

B - Mixed Development – flats and houses of circa **70** dwellings per hectare

C – Estate Housing – Town Houses, Semi-Detached and Detached dwellings of circa **50** dwellings per hectare

D – Low Density Estate Housing - Semi Detached and Detached dwellings of circa **35** dwellings per hectare

YES

☐

NO

☐

If NO, please include details of scheme types we have not considered in terms of development mix and density;

These development types will each be assessed as if they were being developed on parcels of land throughout the District in order to account for geographical variations in the value of housing which have an effect on development viability.



POLICY TESTS - PERCENTAGE AND THRESHOLD

Initially, we will test a range of percentage targets and thresholds for affordable housing to include the following:

On all new development on sites in the urban and rural areas we will test a range of affordable housing targets between 15% and 35%

Q2 Are there any specific affordable housing percentages we should consider?

YES

☐

NO

☐

We will test sites as low as 1 unit to see if they could contribute an element of affordable housing.

Q3 Are there any other thresholds you think we should consider?

YES

☐

NO

☐

Please provide any comments you may have on the range of thresholds and percentages we will be testing.

Q4 Are there any specific affordable housing tenure mixes you think we should consider?

LAND VALUES

The NPPF requires that careful attention is paid to matters of deliverability and viability. It recognises that, to ensure viability, costs of requirements applied to development should, “when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.”

Land value is, therefore crucial to the definition of what is, and is not viable.

The draft Community Infrastructure Levy: Review of Evidence Base study carried out by BPS Surveyors took a view as to land values based upon transactions in the area and found a wide range, of values among transactions - from £230,000/ha for a greenfield site in Tiptree to over £1.6m/ha for land at Cannon Street in Colchester. Clearly, what is viable on these very differently priced sites will be very different.

A study such as the present one, which is intended to investigate the yield of affordable housing from the aggregate of all sites across the Borough must take account of the full range of types of land upon which housing is to be built. Note that this is very different from the approach to be taken by a CIL study. CIL cannot be reduced on a case by case basis in order to allow for variations in scheme viability, the percentage of affordable housing can. It is therefore vital that the level of CIL should take a conservative view (i.e. high) view of land value, whereas an affordable housing study should consider the full range.

With this in mind, our study will consider the viability of the Council’s policy aspirations – in terms of CIL and affordable housing – on developments taking place on land with a wide variety of different values – based upon the transactions reported in the CIL study. This range is included for comment in the following table.

Please note that servicing costs will be taken into account in the appraisal process and that these values therefore relate to unserviced land rather than “oven-ready” plots.

Q5 Do the following values reflect the range of values necessary to bring land forward for development in Colchester?

Greenfield/Agricultural land - low
£230,000/ha

Greenfield/Agricultural land - high
£600,000/ha

Previously used land
£1m/ha

Land in existing high value use
£1.6m/ha

Q6 Do you have a view as to the value of land expressed as a percentage of the development value?

Greenfield/Agricultural land

Brownfield land

Industrial land

DEVELOPER PROFIT

Profit levels can be affected by the level of risk attached to a particular development. Current housing market conditions mean development may be considered risky and therefore may require a higher profit to make it worthwhile for a developer to build. This study however is to inform policy which will endure for the life of the local authority's Core Strategy and Site Allocations Development Plan Document (DPD) which, it is to be assumed, will also cover less risky housing market conditions.

Q7 The draft CIL viability study carried out by BPS Surveyors assesses profit at 17.5% of Gross Development Value. Please could you comment on whether you feel this level of profit is appropriate.

BUILD COSTS

We will assume basic build costs aligned to the appropriate measure from the Royal Institute of Chartered Surveyors Build Cost Information Service (BCIS) as a baseline build cost for the area plus 10 -15% as an allowance for external areas (dependent upon the built form of development).

In addition we will incorporate the costs of achieving the relevant Code for Sustainable Homes requirements as they become mandatory over time using the 'Cost of building to the Code for Sustainable Homes Updated Cost Review – Element Energy and Davis Langdon, August 2011, DCLG' as a basis.

Q8 In order to compare this to “on the ground” costs, we would appreciate your views on the per m² build cost below (on the basis of Gross Internal Floor Area)

Royal Institute of Chartered Surveyors – Build Cost Information Service Median Build Costs - Essex 3rd November 2012		
	£/m2 gross internal floor area	Percentage Allowance for External Areas
Flatted Development (generally)	961	10%
Estate Housing Terraced	841	15%
Estate Housing Semi-Detached	831	15%
Estate Housing Generally	828	15%

DWELLING SIZES

Q9 The draft Colchester Borough Council CIL: Review of Evidence study undertaken by BPS Surveyors assumed average unit sizes as set out in the first column. Please comment on these sizes and advise if there are any other dwelling sizes should we assume for the following flat and house types (ft² or m²)?

TYPE	BPS Average Unit Sizes (metres/squared)	Please comment
1 BED FLAT		
2 BED FLAT	65	
2 BED HOUSE	70	
3 BED HOUSE	95	
4 BED HOUSE	120	

RENT

In order to ensure we are properly assessing the value of the affordable housing to the developer it would be helpful if we had real values for assumed rents and costs of Affordable Rented housing.

Q10 This question is aimed mainly at RPs – What rent levels should we allow for?

Can you also give an indication on management, maintenance, void levels and major repairs allowances (expressed as a percentage or as an amount) of the gross rent.

TYPE	GROSS RENT	MANAGEMENT	MAINTENANCE	VOIDS	MAJOR REPAIRS
1 BED FLAT					
2 BED FLAT					
2 BED HOUSE					
3 BED HOUSE					
4 BED HOUSE					

CAPITALISATION OF RENTS

Q11 We are currently assuming a yield of circa 6-7% for the capital receipt from Affordable Rented properties. Is this level reasonable?

YES

☐

NO

☐

If NO, please give some indication of an alternative;

PUBLIC SUBSIDY

Q12 Our methodology will assume a nil public subsidy baseline. This reflects the current position. Do you agree with this or do you think we should include some degree of testing at assumed levels of public subsidy? If so, at what levels?

PLANNING OBLIGATIONS

Q13 The draft CIL viability study carried out by BPS Surveyors recommends a CIL Levy on residential development of £80 per m² in urban areas and £100 per m² in rural areas. In addition a £2,000 per unit sum has been allowed for S106 costs. The £2,000 figure takes into account the potential scaling back of S106 costs to take into account the introduction of CIL. It would be helpful if respondents could give their views on the appropriateness of this figure.

Finally, if you have any further comments about our assumptions, including any that we have not mentioned above, please feel free to include them here. The above questions do not cover every assumption we are making and we want to make sure that the parameters and principles that we are taking into account are clear and open and acceptable to local stakeholders in the residential development process. We want the process to be as inclusive as possible.

We will not attribute your name to the views expressed within this questionnaire or provide them to any other party without your express permission.

We may wish to follow up this questionnaire with telephone discussions where we feel further clarification is necessary. Your help is very much appreciated.

Name _____

Position _____

Company _____

Address _____

_____ POST CODE _____

Contact telephone _____

Email address _____ @ _____

May we contact you further? YES

☐

NO

☐

PLEASE RETURN THIS QUESTIONNAIRE BY 23 November 2012 TO:

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