

For: Epping Forest District Council

**Stage 2: Update Assessment of the
Viability of Affordable Housing,
Community Infrastructure Levy (CIL)
and Local Plan**

Final Report
November 2017

DSP17500

Final Report

Contents

Executive Summary	i
1. Introduction	1
2. Methodology	22
3. Findings – Stage 2	55

Appendices

Appendix I: Development appraisal assumptions – Overview

Appendix IIa: Residential Results:

- Table 1a – Residential Land Value Results by Value Level & CIL Rate – 1 Unit Scheme – Houses
- Table 1b – Residual Land Value Results by Value Level & CIL Rate – 4 Unit Scheme – Houses
- Table 1c – Residual Land Value Results by Value Level & CIL Rate – 5 Unit Scheme – Houses
- Table 1d – Residual Land Value Results by Value Level & CIL Rate – 9 Unit Scheme – Houses
- Table 1e – Residual Land Value Results by Value Level & CIL Rate – 10 Unit Scheme – Houses
- Table 1f – Residual Land Value Results by Value Level & CIL Rate – 11 Unit Scheme – Houses

- **Table 1j – Residual Land Value Results by Value Level & CIL Rate – 30 Unit Scheme – Flats (Sheltered)**
- **Table 1k – Residual Land Value Results by Value Level & CIL Rate – 50 Unit Scheme – Flats including Basement Car Parking Sensitivity Test**
- **Table 1l – Residual Land Value Results by Value Level & CIL Rate – 50 Unit Scheme – Mixed**
- **Table 1m – Residual Land Value Results by Value Level & CIL Rate – 50 Unit Scheme – Mixed (plus M4(3) Access Sensitivity Testing at 5%, 10% and 20%)**
- **Table 1n – Residual Land Value Results by Value Level & CIL Rate – 50 Unit Scheme – Flats (plus GF Retail (Mixed Use) including Basement Car Parking Sensitivity Test)**
- **Table 1o – Residual Land Value Results by Value Level & CIL Rate – 100 Unit Scheme – Mixed**
- **Table 1p – Residual Land Value Results by Value Level & CIL Rate – 100 Unit Scheme – Mixed (10% Low Cost Home Ownership)**
- **Table 1q – Residual Land Value Results by Value Level & CIL Rate – 100 Unit Scheme – Mixed (70/30 Tenure Split)**
- **Table 1r – Residual Land Value Results by Value Level & CIL Rate – 100 Unit Scheme – Mixed (Full Open Space Standards Allowance Sensitivity Test)**
- **Table 1s – Residual Land Value Results by Value Level & CIL Rate – 250 Unit Scheme – Mixed**
- **Table 1t – Additional information to viability testing / context for results review - % of GDV with LIT indications**

Appendix IIb: Strategic Sites Results

Appendix III: Market Values & Assumptions Research

Appendix IV: Glossary

Executive Summary

Context and assessment approach

1. Epping Forest District Council (EFDC) appointed Dixon Searle Partnership (DSP) to review and provide an updated viability assessment – Stage 2. This follows DSP’s previous similar assessment work which was completed in June 2015 as set out in our report: ‘Stage 1 Assessment of the Viability of Affordable Housing, Community Infrastructure Levy and Local Plan.’
2. DSP is a consultancy highly experienced in the preparation of viability assessments for local authority policy development - including whole plan viability, affordable housing and CIL economic viability. DSP’s day to day workload also involves the provision of site-specific viability reviews and related advice – on affordable housing, s.106 and related matters.
3. This assessment contributes to the evidence informing the emerging new Local Plan proposal - the Epping Forest District Local Plan (EFDLP) covering the period 2011 to 2033. Stage 2 considers and reflects changes to key assumptions and inputs used in the previous assessment. This refreshed look at viability, with viability meaning the financial “health” of development, takes account of the changes in development costs and revenue (values) assumptions relevant since Stage 1. It also reflects the latest positions both on national and proposed EFDC policy developments.
4. This report again sets out our findings from a viability perspective, having tested the proposed EFDC policy positions whilst also taking into account regular development costs and national policies that are likely to influence development viability. Although this report can be read as a standalone document and provides an up to date assessment of the potential viability of the Epping Forest District Council Local Plan policies, sites and potential CIL, it builds on a wider set of evidence including previous work undertaken on behalf of the Council by DSP and others. This report should therefore be read in conjunction with previous viability based evidence as completed up to June 2015. The findings of this report have informed EFDCLP emerging policy requirements.

5. This viability update has again been produced in the context of and with regard to the National Planning Policy Framework (NPPF), CIL Regulations, CIL Guidance (now contained within the national Planning Practice Guidance ('PPG')), other good practice and available guidance - all as applicable to studies of this nature. The PPG also contains guidance on 'Viability' and 'Planning Obligations', continuing to provide further relevant context for this viability revisit.
6. The NPPF (para 173-174) provides specific guidance helping to ensure the viability and deliverability of Local Plans. This update assesses the financial capacity of development schemes in the district to deliver proposed local and national policies and support the regular development costs. The NPPF states that the *'cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle'*.
7. For development to be viable, it needs to support sufficient returns for the land owner (land value, to secure release of the site for development) and profit (reward for development risk). This reflects the NPPF position and is recognised in available guidance such as the Planning Practice Guidance (PPG), the Sir John Harman chaired Local Housing Delivery Group report (Viability Testing Local Plans - June 2012) and by the RICS within GN 94/2012 (Financial viability in planning - August 2012).
8. The review of development viability is not an exact science. There can be no definite viability cut-off point owing to the great variation in site specific circumstances. These variables include the land ownership situation. The NPPF states that *'To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable'*.
9. The following report sets out the assessment context, approach and findings in detail; all based on the latest available information at the point of preparing this further review of viability (Stage 2 assessment) for the Council. This is overviewed very briefly in this Executive Summary.
10. Stage 2 applies the same principles and methodology, and uses many of the same assumptions, as were relevant for Stage 1. Again, the well-recognised residual valuation principles are used. In basic terms, this means subtracting the costs of

creating a development from the revenue (sales value) generated on its sale at scheme completion. This calculation is carried out for each development scenario (assumptions combination) tested, using an appraisal with multiple inputs as explained in detail in the full report. In all, over 2,500 appraisals were run in support of this assessment.

11. The outcome from each appraisal, as reported in the Appendices accompanying this document report, is a “residual” value produced by this process of looking at development value minus development cost. This outcome (residual) is viewed as a land value which is then compared to a ‘benchmark’ level of land value (a ‘viability test’), allowing the consideration of whether the available level of land residual is likely to represent a sufficient return for a land owner. An assumed developer’s profit level is also fixed as an appraisal input for the purposes of this high-level review, again consistent with the NPPF principles as above. This then provides scope to assess the effect on viability of varying other assumptions with these key development ingredients reflected, such as the influence of variable scheme (test scenario) type, sales values, affordable housing content and other known or potential policy impacts.
12. As at Stage 1, DSP has again run wide sets of base appraisals to test the main variables here (e.g. scheme type / location, associated sales values and affordable housing content) together with sensitivity testing then carried out to inform the consideration of policy development on other matters too – such as relating to accessibility (Building Regulations Part M (4) base and enhanced (optional) standards) for example.
13. The assessment results enable the consideration of likely viability impacts from a re-tested proposed 40% affordable housing (AH) policy headline in combination with other policy and development costs. The AH policy threshold proposed is at 11 dwellings, in accordance with national recommended guidance. The updated tests reflect these positions and other likely viability impacts.
14. This has been an iterative process. Approached in this way, the staged assessments have informed the emerging policy requirements.

15. The Council will continue to assess and consider the viability of proposals relating to the Local Plan taking into account any changes to the CIL Regulations and proposed arrangements for s106 pooling and CIL.
16. At this stage, individual infrastructure costs have not yet been accounted for, given that cost estimates are in some cases not yet available. We have therefore applied an assumed CIL cost, at the Stage 1 recommended levels, to all development scenarios tested, as well as making an allowance for potential site-specific planning mitigation through a s.106 contingency.
17. In order to carry out this type of assessment, a large number of assumptions are required as well as the consideration of a range of information which rarely fits all eventualities.

Stage 2 Findings - Overview

18. Overall, we have continued to find the values typically seen in the district to support on the whole a good level of development viability, accepting, as acknowledged again here, that there will always be some more challenging scenarios in any area. The strong local property market picture is certainly an important aspect of the local characteristics.
19. This creates a positive environment for development viability generally, although of course this is also behind the severe level of local affordable housing need and the Council needing to respond by seeking the maximum achievable provision of affordable homes.
20. Based on current stage information, the assessment findings on the positive prospects for viability underpinning the deliverability of a range of sites and development types overall, also extend to the proposed strategic sites delivery. The latter is focussed here on the Harlow fringe Garden Town Communities proposals. The findings again point to the strong potential for developments to be viable, whilst supporting a range of planning obligations and contributions to new infrastructure provision.
21. Necessarily at this stage, however, we note that the exact extent and nature of achievable planning obligations (s.106) packages inevitably will vary in the usual way

with particular site and development characteristics, influenced also by the timing of schemes in relation to varying market cycles. Therefore, we suggest that these will need to be more closely assessed once further delivery stage details become more developed. This reflects usual practice and our wider engagement with these matters, as well as the Council's ongoing work.

22. In testing the strategic sites, the assessment approach looks at the potential surplus available to support planning obligations alongside affordable housing and other known policy costs.
23. In all cases, but particularly in respect of the strategic scenarios that are expected to require very high levels of enabling and infrastructure / site-specific development mitigation costs, including those associated with the Garden Towns requirements, ultimately the achievable outcomes on particular developments sites will need to reflect the overall collective level of development costs. This will mean continuing to consider together the required s106 development mitigation and infrastructure provision costs along with the particular development requirements on each site. We emphasise that we do not consider that there is anything unusual in these findings, which reflect our wider experience.
24. 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 to EFDC's progression of proposals here, we have to place an emphasis on the need for a practical approach to be taken by the Council, having due regard to development viability where justified. By this we mean that, where justified, the Council should be adaptable to market housing scheme needs, being prepared to negotiate and consider varying solutions and be responsive to varying scheme types and circumstances.
25. At a subsequent planning application stage, 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, for example, local needs, scheme location, type, design, management, affordability, dwelling mix, tenure, funding and numbers rounding in formulating the detail - while using the policy approach to guide the basis. The Council will need to continue to consider how the wide range of factors influences scheme viability and deliverability as part of the collective development requirements. The Council may, where justified

- and appropriate, need to consider with applicants how best to prioritise obligations and optimise provision in the given circumstances.
26. From our review of the Council's policies drafting, we consider that these dynamic aspects are worked in to the Local Plan proposals.
 27. Overall, we consider that an affordable housing policy headline target applicable at 11+ dwellings, and seeking not more than 40%, is likely to be workable in striving to secure an optimal level of affordable homes provision in a majority of cases. As noted here and recognised in the Council's proposed policy approach, viability will need to be reviewed in some cases. The approach also acknowledges that in some limited cases, the contributions made towards meeting affordable housing needs may take the form of wider financial enabling (i.e. provision accepted through financial contributions in certain circumstances).
 28. On other aspects of planning policy detail that could have a financial viability impact, DSP has reviewed and provided information that suggests that the Nationally Described Space Standard and other elements of locally optional policy (from the revised national policy set related to the Government's more recent review housing and technical standards) may be adopted in Epping Forest. This is again without unduly impacting viability and deliverability; providing the policy expectations are not too high or too rigid. This will be dependent also on local needs and priorities.
 29. These other areas of scope include proposed policies on the access to and use of buildings (Building Regulations Part M4), where in our view the Council could include requirements – tested at this Stage 2 assuming all dwellings M4(2) compliant. Any such requirements should be clearly set out. Again, the report provides more detail.
 30. Overall, we consider that this revisited exercise identifies scope to find the appropriate balance between affordable housing needs, other planning policy objectives and scheme viability.
 31. On an overview basis on viability, as is appropriate to the Plan making stage, the policy set relating to the Council's direction of travel that we have been working with, and now set out within its further firmed-up proposals, does not appear too onerous. This is consistent with our wide experience of preparing strategic level viability assessments for CIL, Local Plan and affordable housing related Development Plan Document (DPD) evidence, supporting examination outcomes; and familiarity with

the detail of affordable housing and other planning policies and viability factors in operation in practice.

32. In our view, at a “Whole Plan” level, we consider the range of development scenarios, proposed range of location and site types supporting growth and policies likely to be contained within and supporting the Epping Forest District Local Plan to have good prospects of delivery overall - i.e. to be capable of meeting the requirements of NPPF 173 / 174, the cumulative impact of these being unlikely to unduly undermine viability at the overall Plan delivery level.
33. At this stage, we would not recommend varying the CIL charging scope previously recommended through our Stage 1 work. We consider that those Stage 1 recommendations remain applicable in respect of the likely CIL charging scope – parameters for suggested rates and their application by development type / area. As with other aspects of this assessment, this may be subject to further review. However, to recap, the Stage 1 CIL recommendations are summarised as follows:
- a. *Suggested approach to CIL for residential uses envisages three tier charging schedules as a potential option.*
 - b. *For non-strategic (smaller scale) development we are of the opinion that (assuming a 40% affordable housing policy as a target), a CIL rate of between £150 - £225/m² is likely to be appropriate across much of the district.*
 - c. *Some limited level of differentiation within the overall residential approach seems likely to be warranted. In Waltham Abbey for example, residential values are typically such that it is likely that a lower CIL rate and / or lower affordable housing target may be required there or in areas / scenarios with similar values to Waltham Abbey to ensure the viability of delivery in these areas. At this stage the rate suggested is around half of the rate above -£80/m² to £100/m².*
 - d. *Stage 1 results indicate that strategic scale sites with significant on-site / site specific infrastructure and mitigation costs (through s.106) are unlikely to support the same level of CIL as the smaller non-strategic sites in the rest of the district. Consideration will need to be given in those instances to a £0/sq. m CIL rate or very low rate relative to the provisional rates for the rest of the district – especially if a fixed affordable housing proportion is maintained across the district.*

- e. *There is potential for CIL charging scope for some forms of retail development – currently at a relatively modest rate not exceeding the residential parameters headline rates provisionally put forward (range £150-225/sq. m) and more likely within or beneath those (i.e. closer to the provisional lower residential rates scope of say £80-100/sq. m);*
 - f. *All other development uses are currently expected to produce, with more certainty, nil CIL charging scope (£0/sq. m) but as with all other aspects, subject to further consideration.*
 - g. *In terms of the CIL for non-residential development, we do not consider that there will be a need to differentiate geographically.*
34. In carrying out this assessment from the necessary strategic viewpoint, it is assumed that there will be a variety of market conditions experienced during the life of the new Local Plan, including periods in which there may be more and less stable and confident economic and property market conditions. It is assumed that the timescale and review basis for a CIL will be much shorter than for the Local Plan and may also be more significantly affected, amongst other things, by potential changes in Government policy on CIL and the way it operates or the general market. A CIL (or indeed any similar / replacement infrastructure tariff) is not intended to cover the whole of the Local Plan period and is expected to be reviewed or adjusted on a shorter term, relatively regular basis.
35. Related to our assessments DSP will be happy to continue to advise EFDC further on any of these or associated aspects - as the Council continues its work on the implementation of the new Local Plan.

Executive Summary ends

Final Report (DSP v9) November 2017

1. Introduction

1.1 Background to the Viability Assessment

1.1.1 Epping Forest District Council's existing adopted Local Plan dates from 1998¹ with subsequent alterations adopted in 2006². Most of these policies are 'saved' although, since the publication of the National Planning Policy Framework (NPPF) by the Government in 2012, some are now considered to be out of date and cannot be used.

1.1.2 To ensure that the district has an up-to-date and robust planning policy context against which to bring forward development, the Council has been preparing a new Local Plan (Epping Forest District Local Plan – EFDLP) for the period 2011 to 2033. This sets out the policies that will shape the level and distribution of development, including for new homes and jobs.

1.1.3 The Council has undertaken three stages of public consultation, as follows:

- Community Visioning (November 2010 to January 2011)
- Issues and Options 'Community Choices' (July to October 2012)
- Draft Local Plan (October to December 2016)

1.1.4 Dixon Searle Partnership (DSP) were appointed in 2015 to undertake a Stage 1 assessment of the potential viability of draft Local Plan policies as known at the time and provide advice and options for policy development. At the same time and as part of the same commission, the Council decided to review their affordable housing policies and to use the DSP study³ to inform the setting of appropriate affordable housing targets and thresholds (subject to minimum statutory requirements) within the emerging Local Plan.

1.1.5 As part of developing the EFDLP and as part of the same body of work undertaken in 2015, the Council commissioned Dixon Searle Partnership to undertake a viability

¹ Epping Forest District Local Plan (January 1998)

² Epping Forest District Local Plan Alterations (July 2006)

³ Dixon Searle Partnership: Stage 1 Assessment of the Viability of Affordable Housing, Community Infrastructure Levy and Local Plan (June 2015)

assessment to inform the potential introduction of a Community Infrastructure Levy (CIL).

- 1.1.6 The 2015 report reviewed the potential viability impact of proposed Local Plan policies including on an appropriate level of affordable housing whilst providing an assessment of the potential CIL that could be charged across the district to support the plan delivery. The recommendations of that report have been fed into the Council's development of its Local Plan and general thinking on the potential introduction of a CIL (although we note that no formal decision has yet been taken in this regard).
- 1.1.7 This Stage 2 study therefore builds on the previous evidence rather than wholly replacing it and although this report can be read as a standalone document, it should be considered in the context of the previous viability work undertaken by DSP on behalf of the Council. It builds upon the previous work through reviewing the recommendations in light of changes to national policy and reviews the viability and cumulative impact of the proposed policies in the latest publication EFDLP. It also considers the viability / deliverability of a selection of those sites considered to be 'strategic' in nature (sites that at the time of the 2015 study were not identified). Previously recommended CIL rates are also included within this Stage 2 report in order to inform the Council's consideration of those. Building and reviewing of evidence in this way is considered to provide an appropriate, robust approach for the purpose.
- 1.1.8 This has been an iterative process. Approached in this way, the staged assessments have informed the emerging policy requirements. Together with the Council's wider evidence, we understand that this approach will continue with the Council commissioning further work that looks in more detail at site-specific viability for strategic sites and the Garden Town Communities, balancing the infrastructure requirements, s.106 contributions and viability of the proposals in the Local Plan. Building on the work to date, this will also help to inform any future work to develop a CIL.
- 1.1.9 The EFDLP should be prepared in accordance with the requirements set out in the National Planning Policy Framework (NPPF) and the accompanying Planning Practice Guidance (PPG). Viability testing is an important part of the plan-making process. The

NPPF introduced a clear requirement to assess the viability of the delivery of Local Plans and the impact on development of the policies contained within them. In addition, further guidance on this requirement is covered by the national Planning Practice Guidance and other publications.

1.1.10 This study provides the viability evidence which, alongside previous work undertaken by DSP and others' reports and evidence where applicable, contributes to a suite of documents used to inform and support the emerging EFDLP proposals.

1.1.11 It is in the interests of the Council, local communities, developers and all other stakeholders to ensure that the proposed policies, sites and the scale of development identified in the plan are viable - to ensure a sound Plan through the Examination process. In light of the above, the Council has therefore commissioned this viability assessment. This will help to assess policies in the EFDLP that have cost implications, provide a suitable high-level viability appraisal of the sites typologies likely to come forward through the Local Plan and provide a high-level assurance, so far as applicable on review, that the proposed sites and the scale of development identified in the plan would not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. This study therefore considers the cumulative impact of local plan and national policy requirements on development standards; the viability of potential housing sites; affordable housing requirements (percentage, threshold and tenure split) and; potential planning obligations scope (i.e. securing new infrastructure provision to support the development identified in the new Plan).

1.1.12 At this stage individual infrastructure costs have not yet been accounted for, given that cost estimates are in some cases not yet available. We have therefore applied an assumed CIL cost, at the previously recommended levels, to all development scenarios tested, as well as making an allowance for potential site-specific planning mitigation through a s.106 contingency. In testing the strategic sites, the assessment approach also considers the potential surplus available to support planning obligations alongside affordable housing and other known policy costs.

1.1.13 This study and the associated assumptions upon which it is based, has been carried out predominantly between September and November 2017 in response to the recent EFDLP development stages.

1.1.14 Although the Government's Housing White Paper was published prior to the completion of this study we consider that there is insufficient detail available so as to inform assumptions beyond those made within this study.

1.2 Background to the CIL

1.2.1 The Community Infrastructure Levy (CIL) came into force in April 2010 and allows local authorities in England and Wales to raise funds from developers undertaking new developments in their area. In this case, should CIL be adopted locally, Epping Forest District Council would be the charging authority.

1.2.2 CIL takes the form of a charge that may be payable on 'development which creates net additional floor space'⁴. The majority of developments providing an addition of less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-residential new-build of less than 100 sq. m will not be subject to the charge. Additionally, under the Community Infrastructure (Amendment) Regulations 2014, there will be a mandatory exemption for residential annexes and extensions regardless of size. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 sq. m.⁵

1.2.3 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority's area.

1.2.4 The CIL regulations require charging authorities to allocate a 'meaningful proportion' of the levy revenue raised in each neighbourhood back to those local areas. In January 2013 it was announced that in areas where there is a neighbourhood development plan in place, the neighbourhood will be able receive 25% of the revenues from the CIL arising from the development that they have chosen to accept. Under the Regulations the money would be paid directly to the neighbourhood planning bodies and could be used for community projects. Planning Practice

⁴ <https://www.gov.uk/guidance/community-infrastructure-levy> (Paragraph: 002 Reference ID: 25-002-20140612
Revision date: 12 06 2014)

⁵ Subject to the changes introduced in The Community Infrastructure Levy (Amendment) Regulations 2014 that provide a mandatory exemption for self-build housing, including communal housing.

Guidance provides further information on spending of Levy receipts including distribution to local neighbourhoods⁶.

- 1.2.5 Neighbourhoods without a neighbourhood development plan but where a CIL is still charged will receive a capped share of 15% of the levy revenue arising from development in their area.
- 1.2.6 Under the Government's regulations, affordable housing and development by charities will not be liable for CIL charging. This means that within mixed tenure housing schemes, it is the market dwellings only that will be liable for the payments at the rate(s) set by the charging authority.
- 1.2.7 The CIL Guidance contained within the PPG goes on to state that the levy rate(s) need to be set so that they do not threaten the ability to develop viably the sites and scale of development identified in the relevant Plan (Local Plan in England). *'Charging authorities will need to draw on the infrastructure planning evidence that underpins the development strategy for their area. Charging authorities should use that evidence to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across their area.'*⁷
- 1.2.8 The Council has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the anticipated Local Plan level of growth to be accommodated across the district as a whole through the development of an Infrastructure Delivery Plan (IDP). This ensures that new development is served by necessary infrastructure in a predictable, timely and effective fashion. It sets out key infrastructure and facility requirements for new development, taking account of existing provision and cumulative impact.
- 1.2.9 Infrastructure is taken to mean any service or facility that supports the Epping Forest District Council area and its population and includes (but is not limited to) facilities for transport, education, health, social infrastructure, green infrastructure, public

⁶<https://www.gov.uk/guidance/community-infrastructure-levy> (Paragraph: 072 Reference ID: 25-072-20140612
Revision date: 12 06 2014)

⁷<https://www.gov.uk/guidance/community-infrastructure-levy> (Paragraph: 008 Reference ID: 25-008-20140612
Revision date: 12 06 2014)

services, utilities and flood defences. In the case of the current scope of the CIL, affordable housing is assumed to be outside that and dealt with in the established way through site specific planning (s.106) agreements. Within this study, an allowance has been made for the cost to developers of providing affordable housing and other costs of policy compliance in addition to the inclusion of previously recommended potential CIL charging rates. In this sense, the collective planning obligations (including affordable housing, CIL and any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others. It follows that the extent to which s.106 will have an on-going role also needs to be considered in determining suitable CIL charging rates, bearing in mind that CIL is non-negotiable.

- 1.2.10 In most cases, where adopted, CIL replaces s.106 as the mechanism for securing developer contributions towards required infrastructure. Indeed, Government guidance on CIL states that it expects LPAs to work proactively with developers to ensure they are clear about infrastructure needs so that there is no actual or perceived “double dipping” – i.e. charging for infrastructure both through CIL and s.106. Therefore s.106 should be scaled back to those matters that are directly related to a specific site and are not set out in a Regulation 123 list (a list of infrastructure projects that the local planning authority intends to fund through the Levy). This could be a significant consideration, for example, in respect of large scale development associated with on-site provision of infrastructure, high site works costs and particularly where these characteristics may coincide with lower value areas.
- 1.2.11 The CIL rate or rates should be set at a level that ensures development within the authority’s area (as a whole, based on the plan provision) is not put at serious risk.
- 1.2.12 A key requirement of CIL and setting the charging rates is that an appropriate balance should be struck between the desirability of funding infrastructure from the levy and the potential effects that imposing the levy may have upon the economic viability of development (development viability).

‘The levy is expected to have a positive economic effect on development across a local plan area. When deciding the levy rates, an appropriate balance must be struck

between additional investment to support development and the potential effect on the viability of developments.

This balance is at the centre of the charge-setting process. In meeting the regulatory requirements (see [Regulation 14\(1\)](#), as amended by the [2014 Regulations](#)), charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area.

As set out in the National Planning Policy Framework in England ([paragraphs 173 – 177](#)), the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. The same principle applies in Wales.’⁸

1.2.13 Later amendments to the CIL Regulations (The Community Infrastructure Levy (Amendment) Regulations 2014) came into force on 24th February 2014. These regulations introduced:

- new mandatory exemptions for self-build housing, and for residential annexes and extensions;
- a change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units);
- the option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development;
- a new ‘vacancy test’ - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months);

⁸ <https://www.gov.uk/guidance/community-infrastructure-levy> (Paragraph: 009 Reference ID: 25-009-20140612
Revision date: 12 06 2014)

- a requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously a charging authority had to 'aim to strike the appropriate balance';
- provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

1.2.14 The CIL Regulations (Amendment) have been taken into account in the preparation of this report and in our opinion the preparation of this study meets the requirements of all appropriate Guidance. However, the Council will be aware that the Government commissioned a review of the Community Infrastructure Levy⁹ with the task of assessing the extent to which CIL '*does or can provide an effective mechanism for funding infrastructure, and to recommend changes that would improve its operation in support of the Government's wider housing and growth objectives*'. The CIL Review team's report was published in October 2016 and in summary recommended that the Government should replace the CIL with a hybrid system of a broad and low level Local Infrastructure Tariff (LIT) and s106 for larger developments.

1.2.15 Through its Housing White Paper, the previous Government¹⁰ stated that following the CIL Review Team's report, it would '*examine the options for reforming the system of developer contributions including ensuring direct benefit for communities, and will respond to the independent review and make an announcement at Autumn Budget 2017*.' Obviously at this stage we have not been able to take into account any potential future changes to the CIL other than through high-level commentary within this report. This does, however, seek to provide an initial indication as to how a lower level LIT (Local Infrastructure Tariff) might apply to residential development in Epping Forest District, based on the CIL Review Panel's findings and recommendations. The Panel report referred to the principle of a LIT, envisaging fewer exemptions / reliefs and generally simplified compared with how CIL has developed since its inception. A potential tariff level at approximately 1.75% to 2.5% market sales values was put forward in the Panel report, as an indication.

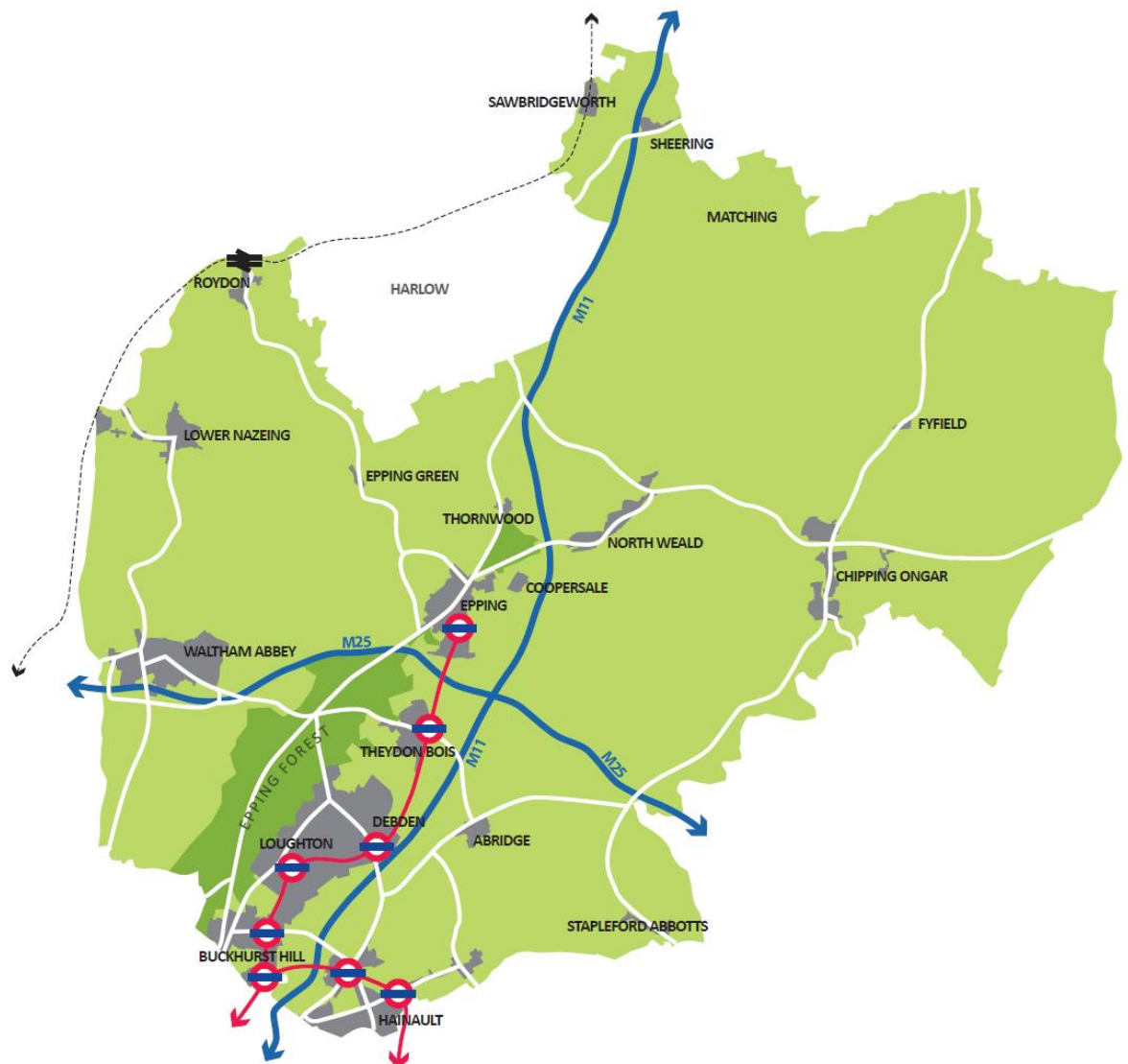
⁹ A Report by the CIL Review Team – A New Approach to Developer Contributions (submitted October 2016 but published February 2017)

¹⁰ Note that a General Election was held during the process of finalising this report resulting in a hung parliament.

1.3 Epping Forest District Council Profile

1.3.1. Epping Forest District is a mainly rural district with 92.4% being within the Metropolitan Green Belt. The south west of the district is the most densely populated and includes the settlements of Loughton, Buckhurst Hill, and Chigwell. Much of the rest of the population is located in the Epping, Waltham Abbey, Chipping Ongar and North Weald Bassett. There are several villages and smaller rural settlements, predominantly towards the north of the district.

Figure 1: Epping Forest District – Context



- 1.3.2. The district is bordered by numerous local authorities including Brentwood, Chelmsford, Harlow, Uttlesford, Broxbourne, East Hertfordshire, LB Enfield, LB Havering, LB Redbridge and LB Waltham Forest.
- 1.3.3. The EFDLP sets out strategic targets for the development of housing, employment and retail across the district. Up to date information about the district's needs for commercial and residential land is set out in separate evidence documents including: an updated Strategic Housing Market Assessment (SHMA)¹¹ jointly produced with Harlow, Uttlesford and East Herts together with associated additional work testing employment / job target assumptions, an updated Strategic Land Availability Assessment (SLAA)¹², a Strategic Flood Risk Assessment (SFRA)¹³, a comprehensive Green Belt Review¹⁴, strategic transport assessment capacity, air quality and local transport accessibility work. The outcomes of these and other pieces of evidence, together with other completed evidence base work including the Stage 1 and this Stage 2 viability work, inform the policies included in the Council's Local Plan.
- 1.3.4. EFDC's housing requirement has been identified through the 2015 Strategic Housing Market Assessment (SHMA) undertaken for the combined authorities of East Hertfordshire, Harlow, Uttlesford and Epping Forest. This document sets out the housing need across the whole market area (46,100 new homes) but specifically sets out a requirement of 11,300 new homes over the Local Plan period (2011-2033) for Epping Forest District Council. Since the publication of the SHMA, the Office of National Statistics (ONS) and Department for Communities and Local Government (DCLG) have issued further population and household projections (in 2016). Taking into account the most recent population and household projections has led to an increase in the overall Objectively Assessed Need (OAN) for the SHMA area of 54,600 new homes. Taking into account constraints locally, this translates into an identified need in Epping Forest of 11,400 new dwellings and so practically the same number as set out in the SHMA.
- 1.3.5. In order to meet the level of need, the EFDLP seeks to allocate a number of sites across Epping Forest District including strategic sites around Harlow. These are: Latton Priory - 1,050 new homes; Water Lane Area (West Sumners 1,000 new homes;

¹¹ Opinion Research Services: West Essex and East Hertfordshire Strategic Housing Market Assessment (September 2015)

¹² Nathaniel Lichfield & Partners: EFDC Strategic Land Availability Assessment (2012)

¹³ ERS: EFDC Level1 Strategic Flood Risk Assessment Update (2015)

¹⁴ Epping Forest District Council: Green Belt Review Stage One (2015)

West Katherines - 1,100 new homes); East of Harlow (750 new homes) and Riddings Lane (50 new homes). The Council is proposing that the remaining housing need identified for Epping Forest District will be delivered by taking a sequential approach to where new homes will be provided. The following table taken from the emerging EFDLP summarises the relationship:

The components of housing land supply over the period 2011-2033 are as follows	
Minimum number of homes required to be built 2011-2033: 518 x 22	~11,400
Homes Built (Completions) 2011-2017 up to 31 March 2017	1,330
What is currently available in the future (supply)	
Sites with planning permission up to 31 March 2017	1,639
Windfalls 35 x 11	385
Total supply	3,354
Requirement met through Garden Town Communities around Harlow within EFDC	3,900
Remaining requirement to be provided elsewhere in the district	4,146

1.3.6. The following table also taken from the Council's emerging draft EFDLP sets out a summary of the overall housing spatial strategy to 2033:

Settlement	Allocated Housing
Sites around Harlow	~ 3,900
Epping	~ 1,305
Loughton	~ 1,021
Waltham Abbey	~ 858
Ongar	~ 590
Buckhurst Hill	~ 87
North Weald Bassett	~ 1,050
Chigwell	~ 376
Theydon Bois	~ 57
Roydon	~ 62
Nazeing	~ 122
Thornwood	~ 172
Coopersale, Fyfield, High Ongar, Lower Sheering, Stapleford	~ 91

Settlement	Allocated Housing
Abbots	
Rural East	~ 41

1.3.7. In addition to the residential projections, EFDC will allocate new sites for employment uses to meet any remaining future floorspace requirements of the district. Strategic Allocations will be required to make provision for an appropriate level of employment floorspace. In addition, the Council will allocate new employment land at other locations across the district to provide a flexible supply of future sites to cater for needs.

1.4 Purpose of this Report

1.4.1 Viability testing is an important part of the plan-making process. The National Planning Policy Framework (NPPF) introduced a clear requirement to assess viability of the delivery of Local Plans and the impact on development of policies contained within them. In addition, further guidance on this requirement is covered by the national Planning Practice Guidance (PPG) and other publications. In order to meet the requirements of the NPPF, EFDC commissioned Dixon Searle Partnership (DSP) to produce a viability assessment, carried out over two stages, with an objective to determine the impact on development viability of including the various relevant policy requirements of the emerging EFDLP including recommendations on affordable housing targets, allocation sites viability (where delivery progress had not already reached planning stage or been committed e.g. through planning permissions or development having commenced) as well as potential options for the introduction of the Community Infrastructure Levy. The second stage of this process updates the outcomes from Stage 1 and applies agreed approaches from Stage 1 to representative site typologies being introduced through the Local Plan following a review of Stage 1 recommendations.

1.4.2 The assessment involves the review of the financial viability of site typologies (also referred to as scenarios) representing a range of typical site types likely to come forward across the Plan period. The assessment takes into account the policies now contained within the draft EFDLP. The Stage 1 and 2 assessment provides the evidence base for the viability of the EFDLP policies, thereby contributing to informing and supporting the deliverability of the plan overall.

- 1.4.3 This approach does not require a detailed viability appraisal of every site anticipated to be progressed over the plan period, but rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward. Neither does it require an appraisal of every likely policy but rather the potential policies that are likely to have a close bearing on development costs. In our experience this means a focus on the viability prospects and potential policies associated with housing development, because the scope of this or other Councils' influence – i.e. through local policy positions - over the viability of other forms of development (non-residential/employment/commercial) is much more limited.
- 1.4.4 To this end, the study requires the policies and proposals in the EFDLP to be brought together to consider their cumulative impact on development viability, including the potential introduction of a CIL for the district.
- 1.4.5 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics.
- 1.4.6 The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue (sales income) generated by the completed scheme (the gross development value – GDV).
- 1.4.7 The residual valuation technique has been used to run appraisals on sample scheme typologies representing development scenarios that are likely to come forward across the district under the emerging development strategy.
- 1.4.8 A key element of the viability overview process is the comparison of the RLV results generated by the development appraisals and the potential level of land value that may need to be reached to ensure that development sites continue to come forward - so that development across the area is not put at risk owing to unrealistic policy burdens in combination with other development cost factors. These comparisons are necessarily indicative but are usually linked to an appropriate site value or

benchmark. The results sets have been tabulated in summary form and those are included in Appendix IIa (main set – non-strategic sites) and IIb (strategic development scenario tests).

- 1.4.9 In considering the relationship between the RLV created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one – land value levels and comparisons will be highly variable in practice. It is acknowledged in a range of similar studies, technical papers and guidance notes on the topic of considering and assessing development viability that this is not an exact science. Therefore, to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached allied to the various scenarios tested.
- 1.4.10 This report then sets out findings and recommendations on the viability of the Plan as a whole whilst also confirming the previously suggested approach to and charging rates parameters for the potential local implementation of a CIL. As a next step, if pursued, a CIL would be progressed through considering a Preliminary Draft Charging Schedule (PDCS) for public consultation.

1.5 Policy & Guidance

- 1.5.1 This viability assessment has been produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance applicable to studies of this nature. This study has also had regard to the national Planning Practice Guidance.
- 1.5.2 The NPPF was published in 2012 superseding previous Planning Policy Statements (PPSs). The NPPF sets out the overall approach to the preparation of Local Plans. It states that planning authorities should seek opportunities to achieve each of the economic, social and environmental dimensions of sustainable development, with net gains across all three. Significant adverse impacts on any of these dimensions should be avoided and, wherever possible, alternative options that reduce or eliminate such impacts should be pursued. The NPPF also states that Local Plans should be aspirational but realistic - that is, to balance aspirational objectives with realistic and deliverable policies.

- 1.5.3 The NPPF provides specific guidance on ensuring Local Plan viability and deliverability. In particular, paragraphs 173-174 state:

‘Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable.

Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle’.

- 1.5.4 Having regard to this guidance the Council needs to ensure that the EFDLP, in delivering its overall policy requirements, can address the requirements of the NPPF. Specific changes to the NPPF are currently under consideration. This report cannot pre-judge the outcome of the consultation and any changes that may be made to the NPPF.

- 1.5.5 Further guidance is set out in the Planning Practice Guidance (PPG) which re-iterates these messages where it says *‘Plan makers should consider the range of costs on development. This can include costs imposed through national and local standards, local policies and the Community Infrastructure Levy, as well as a realistic understanding of the likely cost of Section 106 planning obligations and Section 278 agreements for highways works. Their cumulative cost should not cause development types or strategic sites to be unviable. Emerging policy requirements may need to be adjusted to ensure that the plan is able to deliver sustainable development’.*

- 1.5.6 In addition, relevant information is contained in the publication ‘Viability Testing Local Plans – Advice for planning practitioners’ published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (known as the ‘Harman’ report). That sets out a stepped approach as to how best to build viability and deliverability into the plan preparation process and offers guidance on how to assess the cumulative impact of policies within the Local Plan, requirements of SPDs and national policy. It provides useful practical advice on viability in plan-making and its contents should be taken into account in the Plan making process.
- 1.5.7 The Council is conscious that the government’s reform of the planning system has placed significant limitations on its ability to set locally-specific standard and policy requirements. Following consultation on the Housing Standards Review (August 2013), on 27th March 2015 in a written Ministerial Statement (WMS) the Government formally announced a new approach to the setting of technical housing standards in England. This has been accompanied by a new set of streamlined standards.
- 1.5.8 In summary, the DCLG require that Councils should not set in their Local Plans (or other Plans / SPD) additional local or technical standards relating to construction, internal layout or performance of new dwellings. This includes policies requiring any level of the Code for Sustainable Homes.
- 1.5.9 The new approach does however introduce optional Building Regulations requirements for access (volumes 1 and 2) – Part M4 (2) and (3) - and water efficiency which provide a higher standard than the minimum national building regulations. A nationally described space standard has also been introduced which can be implemented through the planning system.
- 1.5.10 The effectively optional regulations and space standards may only be applied where there is a local plan policy, based on evidenced local need for them; and where the viability of development is not unduly compromised as a result of their application. At Stage 1 of this process, the technical housing standards had not been introduced and so were not included within the testing carried out at that stage. This Stage 2 assessment includes testing of the relevant technical housing standards introduced by the Council within the EFDLP – this is discussed in more detail later in this report.

1.5.11 As further background, in November 2014, following a Written Ministerial Statement, the Government revised national policy on s.106 thresholds as follows:

- *‘Contributions should not be sought from developments of 10-units or less, and which have a maximum combined gross floorspace of no more than 1000sqm (gross internal area).*
- *In designated rural areas, local planning authorities may choose to apply a lower threshold of 5-units or less. No affordable housing or tariff-style contributions should then be sought from these developments. In addition, in a rural area where the lower 5-unit or less threshold is applied, affordable housing and tariff style contributions should be sought from developments of between 6 and 10-units in the form of cash payments which are commuted until after completion of units within the development. This applies to rural areas described under section 157(1) of the Housing Act 1985, which includes National Parks and Areas of Outstanding Natural Beauty.*
- *Affordable housing and tariff-style contributions should not be sought from any development consisting only of the construction of a residential annex or extension to an existing home.*
- *Additionally, local planning authorities should not seek section 106 affordable housing contributions, including any tariff-based contributions to general infrastructure plots, from developments of Starter homes. Local planning authorities will still be able to seek other section 106 contributions to mitigate the impact of development to make it acceptable in planning terms, including addressing any necessary infrastructure’.*

1.5.12 The national policy changes also included a ‘vacant building credit’ (VBC). This intended to incentivise the use of brownfield (previously developed) land (PDL), by reducing the affordable housing requirement on a site-specific basis through a credit based on the floor area of any existing vacant buildings.

1.5.13 In carrying out this viability assessment we have assumed that, in accordance with the WMS and Planning Practice Guidance, affordable housing will not be sought from

schemes of 10 or fewer dwellings (subject also to maximum gross floor space requirements – at 1,000 sq. m new development).

1.5.14 The NPPF at paragraph 50 also states on affordable housing (in respect of local authorities' approaches):

'where they have identified that affordable housing is needed, set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock) and the agreed approach contributes to the objective of creating mixed and balanced communities. Such policies should be sufficiently flexible to take account of changing market conditions over time.'

1.5.15 Within the Glossary of the NPPF, the Government defines affordable housing as follows:

'Affordable housing: *Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.*

Social rented *housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.*

Affordable rented *housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).*

Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low-cost homes for sale and intermediate rent, but not affordable rented housing.

Homes that do not meet the above definition of affordable housing, such as “low cost market” housing, may not be considered as affordable housing for planning purposes.’

1.5.16 The evolving area of housing mix is wide-ranging. Previously and through the introduction of the Housing and Planning Act 2016 (which became law in May 2016), Government announcements including the Housing White Paper have indicated that it is likely that the above may be changed so that low cost market homes may be treated as affordable homes for the purposes of planning. Indeed, Section 159 of the new Housing and Planning Act 2016 states:

‘(1) Regulations made by the Secretary of State may impose restrictions or conditions on the enforceability of planning obligations entered into with regard to the provision of—

1. *(a) affordable housing, or*
2. *(b) prescribed descriptions of affordable housing.*

(2) Regulations under this section—

3. *(a) may make consequential, supplementary, incidental, transitional or saving provision;*
4. *(b) may impose different restrictions or conditions (or none) depending on the size, scale or nature of the site or the proposed development to which any planning obligations would relate.*

(3) This section does not apply in relation to a planning obligation if—

- (a) planning permission for the development was granted wholly or partly on the basis of a policy for the provision of housing on rural exception sites, or*
- (b) the obligation relates to development in a National Park or in an area designated under section 82 of the Countryside and Rights of Way Act 2000 as an area of outstanding natural beauty.*

- (4) In this section “affordable housing” means new dwellings in England that—
- (a) are to be made available for people whose needs are not adequately served by the commercial housing market, or
 - (b) are starter homes within the meaning of Chapter 1 of Part 1 of the Housing and Planning Act 2016 (see section 2 of that Act)¹⁵.

1.5.17 As further detail develops, through regulations, other national policy moves to encourage or secure the provision of various forms of housing may need to be considered including the Housing White Paper’s apparent move away from Starter Homes as previously envisaged towards a more inclusive ‘affordable home ownership’ form of delivery covering a wider range of products. Indeed, the Council has addressed these changes in its recently published Housing Strategy 2017 – 2022 where it sets out the Council’s expectations on the delivery of affordable housing.

1.5.18 It should be noted that the Housing Strategy was published as this report was being finalised and includes detail on a change to the approach to tenure mix requirements for affordable housing on qualifying sites. This study has based the modelling on an assumption on tenure related to the latest SHMA recommendations (81% affordable rent / 19% intermediate affordable housing in the form of shared ownership products) with sensitivity testing carried out assuming a 70% / 30% split to reflect the potential introduction of a minimum level of affordable home ownership as part of the overall housing mix.

1.5.19 The Council’s latest Housing Strategy attempts to address the potential requirement set out in the Government’s Housing White Paper that suggests all new developments would be required to provide at least 10% of new homes as affordable home ownership products. EFDC have assumed that shared ownership tenure can be classed as affordable home ownership and therefore that at least 10% of new dwelling should be in this form. With a policy target of 40% affordable housing on qualifying sites, this equates to 25% of the affordable housing being in the form of shared ownership. This is obviously higher than the 19% set out in the SHMA and tested through this assessment (although as mentioned above, sensitivity testing was carried out assuming 30% of the affordable housing would be required as shared ownership). This means that in carrying out viability testing for this assessment, we

¹⁵ Housing & Planning Act 2016

have taken a worst-case scenario – i.e. one that would be more onerous to the development industry in terms of viability than the position currently set out in the newly published Housing Strategy. As should be the case in strategic viability assessments and as with other assumptions, this means that we have not taken the development appraisal assumptions to the margins of viability in carrying out this assessment.

1.5.20 In addition to the above, the Chancellor announced in his Budget speech in 2015 that affordable housing providers will have to cut social housing rents by 1 per cent each year for four years from April 2016; a reversal of the rental formula which previously allowed the providers to raise rents in line with the consumer prices index (CPI) plus 1 per cent.

1.5.21 As part of this viability assessment, we reviewed the impact of reduced rents on affordable housing values (i.e. the assumed value of the affordable homes using unit to a developer) and addressed those through the modelling undertaken for this study. However, since that element of this assessment was carried out, the Government have announced a return to the previous rental formula (CPI +1% from 2020). As we can't take that change into account in this assessment, it does mean that the assumptions on affordable housing revenue included in this study are less positive than may now be the case – i.e. a worst-case scenario has been tested. Again, this means that the development viability assumptions have not been taken to the margins of viability.

1.5.22 We have not, at this stage, taken into account any changes to the definition of affordable housing.

2 Methodology

2.1 Residual valuation principles

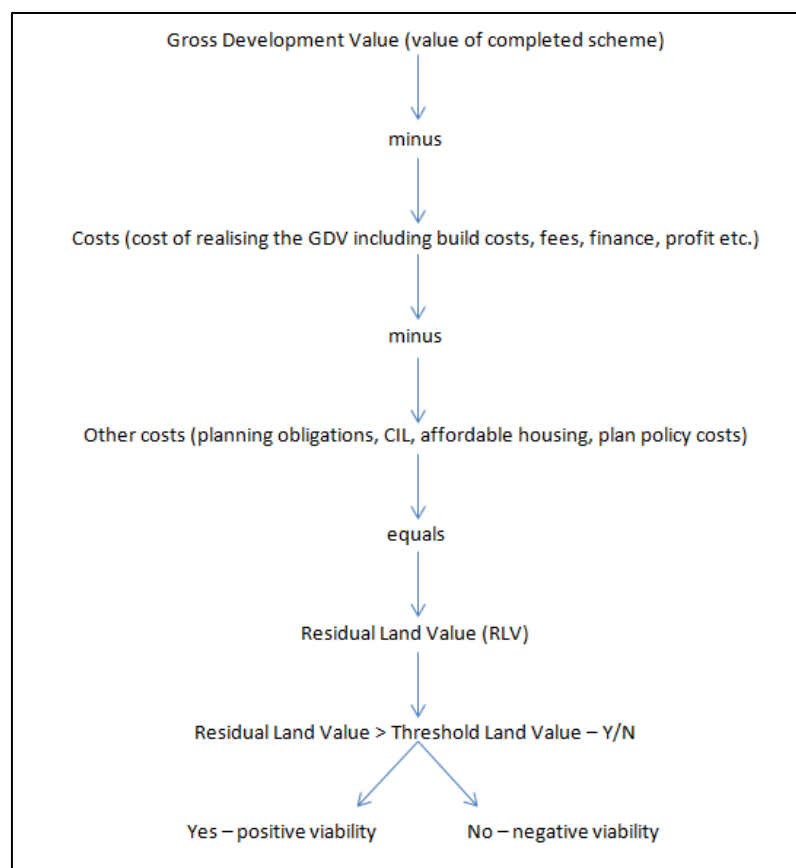
- 2.1.1 Collectively this study investigates the potential viability and, therefore, deliverability of the EFDLP and its policies and the introduction of a CIL to fund infrastructure across the district. As noted above, this builds on previous review work prepared for EFDC.
- 2.1.2 There will be a number of policies that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on discussions with Council officers and early stage reviews of the draft EFDLP. By doing so we are able to investigate and consider how the cost of these obligations interact and therefore estimate the collective impact on viability. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.
- 2.1.3 Prior to fixing assumptions, necessarily at a point in time, and running appraisals (as outlined in the following paragraphs) we undertake extensive property market research and review of previous and associated work. As a part of this, we undertake a review of the potential policy proposals which enables us to assess which are considered likely to have a particular development cost impact, or additional cost implications over and above typical costs (for example utilising the costs information from established sources such as the Building Cost Information Service of the RICS (BCIS)). Appendix I to this document also provides a quick reference guide to the assumptions used based on the latest policies known at the time of this assessment and a comparison with those assumed within the Stage 1 assessment.
- 2.1.4 As part of the information gathering process, DSP issued a survey / questionnaire which the Council disseminated to development industry stakeholders. This invited them to engage and help contribute by providing information to help inform our study assumptions. We are also aware that the Council has continued to engage with

a range of parties through its developer forum as the Local Plan development process has progressed. Further detail is included within Appendix III to this report.

2.1.5 In carrying out this study we have run development appraisals using the well-recognised principles of residual valuation on a number of scheme typologies.

2.1.6 Residual valuation, as the term suggests, provides a “residual” value from the gross development value (GDV) – i.e. from the estimated total sale value on completion - of a scheme, after all other costs are taken into account. The diagram below (Figure 2) shows the basic principles behind residual valuation, in simplified form:

Figure 2: Simplified Residual Land Valuation Principles



2.1.7 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).

2.1.8 In order to guide on a range of likely viability outcomes, the assessment process also requires a benchmark, or range of benchmarks of some form, against which to

compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the potential level(s) that the land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.

2.1.9 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using sources such as from the DCLG, Valuation Office Agency (VOA) reporting, previous and current evidence held by the Council and its immediate neighbours and any available sales, or other evidence on value, are used for this purpose in making our assessment. Typically, as here, there is very little information readily available for use in terms of genuine and reliable comparables on land values and in any event, available land sale comparables need to be treated with caution in their use directly; the detailed circumstances associated with a particular level of land value need to be understood. The RICS recognises this and suggests that *'if market value is based on comparable evidence without proper adjustment to reflect policy compliant planning obligations, this introduces a circularity, which encourages developers to overpay for site and try to recover some or all of this overpayment via reductions in planning obligations'*¹⁶. As such a range of information as mentioned above has to be relied upon to inform our assumptions and judgments.

2.1.10 The results show trends indicating deteriorating residual land values (RLVs) and, therefore, reduced viability as scheme value (GDV) decreases and / or development costs rise – e.g. potentially through adding / increasing affordable housing, optional technical housing standards and / or increasing planning obligation levels or CIL.

2.1.11 The range of assumptions that go into the RLV appraisals process is set out in more detail in this chapter. Further information is also available at Appendices I and III.

¹⁶RICS Financial Viability Appraisal in Planning Decisions: Theory and Practice. April 2015

2.2 Key Policy Areas for Testing - Summary

Energy & Water

- 2.2.1 As a result of the Housing Standards Review, EFDC will need to ensure that any specific policy in regard of water consumption is set at no less than 110 litres/person/day.
- 2.2.2 The Council, through EFCLP Policy DM19, have introduced the minimum requirements and therefore for this assessment a minimum level of compliance (of 110 litres per person per day (lpppd)) but for that no additional cost allowance is required for that¹⁷.
- 2.2.3 This study assumes that the Sustainable Design / Construction Standards are based on meeting the requirements of the building regulations in terms of energy use due to the Government's withdrawal of the Code for Sustainable Homes. The Government expects local planning authorities to take the above noted Ministerial Statement of its intentions into account in applying existing policies and not set conditions with requirements above a former Code for Sustainable Homes (CfSH) Level 4 equivalent. Until the Government confirms next steps on the path to 'nearly zero energy', we assume that the Council will continue to apply energy standards equivalent to former Code Level 4.
- 2.2.4 Appendix I provides the detail but data taken from the DCLG Housing Standards Review Impact Assessment (average £ per unit extra-over (E/O) cost) for meeting the energy requirements for former CfSH Level 4 equivalent has been used as a proxy for building regulations compliance.
- 2.2.5 No other sensitivity testing has been carried out in relation to higher levels of the CfSH or zero carbon as a result of the Government announcement to delay the introduction of national zero carbon policy and the scrapping of the allowable solutions element of national policy.

¹⁷ N.b. Extra over costs of attaining water efficiency standards of 110lpppd are in the region of £6-£9 per dwelling according to the DCLG Housing Standards Review Cost Impacts Study (September 2014). In our opinion this would have such a marginal impact on scheme viability that it has not been included in this assessment.

Affordable Housing

- 2.2.6 The Council's approach through the emerging EFDLP states the following on affordable housing:

"On development sites which provide for 11 or more homes, or residential floorspace of more than 1,000 sqm (combined gross internal area), the Council will require 40% of those homes to be for affordable housing provided on site. The mix of affordable housing units in terms of affordable rent and intermediate housing will be required to reflect latest available housing need evidence"

- 2.2.7 As discussed above, the Council has also published (shortly before the publication of this Stage 2 assessment) its Housing Strategy 2017-2022. This sets out more detail on the type and tenure of affordable housing that will be sought.
- 2.2.8 Our approach to affordable housing is set out in greater detail below and discussed in Chapter 1. Further detail is also provided in Appendix I.

Nationally Described Space Standard

- 2.2.9 The Government's Technical Housing Standards have introduced national space standards for C3 housing which can be used in a Local Plan policy if there is sufficient evidence of need and viability.
- 2.2.10 As the Council has introduced a requirement to meet the Nationally Described Space Standard through Policy DM10 of the emerging EFDLP, those standards have been included in the modelling for this viability assessment as a standard assumption. See Appendix I for detail.

Access to and use of Buildings

- 2.2.11 The Government's Housing Standards Review has also resulted in changes being made with reference to Lifetime Homes and the Wheelchair Housing Design Standard. Accessibility is now incorporated into Part M of Building Regulations, applied by Local Planning Authorities as conditions and checked for implementation through the Building Control process.
- 2.2.12 The 2015 edition of Approved Document M – Access to and use of buildings: Volume 1 – Dwellings introduces three categories of dwellings:

Category 1	Visitable dwellings	M4(1)	This is mandatory for all new dwellings and is not optional. This means that reasonable provision should be made for people to gain access to and use the dwelling and its facilities. This should include most people, including wheelchair users.
Category 2	Accessible and adaptable dwellings	M4(2)	This optional standard is broadly equivalent to Lifetime Homes standards. This requires that provision is made within new dwellings to meet the needs of occupants with differing needs including some older and disabled people and <i>allow for the adaptation of the dwelling</i> to meet changing needs of occupants over time. This means that features are provided to enable common adaptations to be carried out in the future to increase the accessibility and functionality of the building.
Category 3	Wheelchair user dwellings	M4(3)	An optional standard with two sub-categories: M4(3)(2)(a): wheelchair adaptable: a dwelling constructed with the potential to be adapted for occupation by a wheelchair user e.g. providing space for the future installation of a lift; or
			M4(3)(2)(b): wheelchair accessible: a dwelling constructed to be suitable for immediate occupation by a wheelchair user e.g. by installing a lift.

2.2.13 Policy H1 of the emerging EFDLP requires “*all new homes to be accessible and adaptable as defined by the Building Regulations in effect at the time of the application*”. Again, as with residential space standards, there needs to be evidence for both need and viability. As part of the viability testing process sensitivity testing has been carried out to look at the likely viability impact of including policies on the access to and use of buildings, the proportion(s) that could be requested and the threshold at which the policy could take effect (trigger level). We set out below the likely additional costs for including policies that meet the optional Category 2 and/or 3 requirements of Part M4 of the Building Regulations and those have been used in our sensitivity testing. It should be noted that enhanced requirements (where

implemented) are independent of each other so that a dwelling may be provided to meet either standard.

- 2.2.14 As part of the Government's Housing Standards Review consultation, cost analysis was produced by EC Harris (and subsequently updated) relating to areas that included Access. Within the 2014 update to that review document, approximate costs of complying with the optional Category 2 requirements of Part M4 were included. This indicates various costs for different types of dwelling and on different forms of development. For the purposes of this report, the average extra over access cost per dwelling is approximately total of £2,447 for houses and £1,646 for flats for meeting Part M4 (2) standards. This is based on an average extra over access cost per dwelling (£682/dwelling) alongside the average access related space cost per dwelling but without allowing for cost recovery (£1,444/ dwelling).
- 2.2.15 For Part M4 (3) the same report indicates average extra over (E/O) costs to be £15,691 for flats and £26,816 for houses.
- 2.2.16 Within this viability assessment, sensitivity tests have been carried out (rather than these optional requirements included as base appraisal inputs) on the trial assumption that 10% - 100% of new dwellings meet Part M4(2) standards and 5% - 20% meet Part M4(3) standards. This has been carried on a scheme of 50 units and noting that Part M4(2) and Part M4(3) would not be required on the same individual unit; in respect of individual dwellings the standards are on an "either or" basis. The results of this sensitivity testing through this extended work provide wider / future information for EFDC and may help inform decisions made by the Council in terms of finalising policy requirements within the EFDLP. At the point of inception of the latest work and during its course, it was considered valuable to have this additional information, although it appeared that the Council was more likely to move ahead with a base policy approach; not necessarily including such optional enhanced standards.

Affordable Home Ownership, Custom & Self-Build

- 2.2.17 The Housing and Planning Act 2016 introduced a requirement for Local Planning Authorities in England to promote the supply of starter homes. The exact proportion is not set out in the Act, but previous consultation suggested that it would be in the

region of 20% of new homes on all new developments (with certain exceptions)¹⁸. The publication of the Housing White Paper seems to indicate a change of position leading to a likely requirement of 10% of new homes to be provided as ‘affordable home ownership’ products. Starter homes exception sites are also still referred to within the PPG as a form of starter homes supply but it is not clear what relationship this has with the requirement for all sites to provide a proportion of Starter Homes or affordable home ownership products. Related to the type of previously developed land (‘PDL’) - i.e. brownfield sites - on which the starter homes initiative is envisaged to be primarily focused, DSP’s view is that land values should be reflective of the site characteristics, development type and mix - as in all other cases. Developments specifically aimed at this model would not be providing an affordable housing quota, s.106 or CIL funded infrastructure and in our view based on 80% market sale values is, at the very least, likely to be no less viable on such a site than a combination of full market and regular affordable housing in the sense that has been required to date.

2.2.18 Looking at starter homes as set out loosely in the Act (i.e. not exception site starter homes but starter homes as a proportion of normal residential development) further information is needed from the Government before the full impact on viability can be fully tested and indeed it appears that it may no longer be an expectation. For this report no additional testing has been carried out on the impact of starter homes, but a requirement for a minimum percentage of affordable home ownership products through shared ownership tenures has been included within the modelling, as a sensitivity test and as discussed above.

2.2.19 From DSP’s experience of considering custom / self-build to date (albeit limited to early stages exploratory work on viability) we consider that the provision of plots for custom-build has the potential to be a sufficiently profitable activity so as not to prove a significant drag on overall site viability. Broadly, from review work undertaken so far, we would expect it to be at least neutral in viability terms, with the exact outcomes dependent on site-specific details – as with other aspects of the development process.

¹⁸ Since the publication of the Government’s Housing White Paper in February 2017 it appears more likely that a lower proportion may be set (10%). Further detail yet to be provided at the point of finalising this study.

Commercial / Non-Residential Development

2.2.20 On review of the Council's available information at the current stage we have not altered the Council's existing evidence base as prepared for the potential introduction of a Community Infrastructure Levy. That indicated the viability of various forms of non-residential development moving forward, on the basis of suitable assumptions for the purpose. Further commentary is provided later in this report.

2.3 Scheme Development Scenarios

2.3.1 Through Stage 1 and Stage 2 of this assessment, appraisals using the principles outlined above have been carried out to review the viability of different types of development, whilst including testing and sensitivity testing on the policies considered to have an impact on development viability. The scenarios were settled and discussed with the Council following a review of the information it provided. Information included adopted Local Plan documents, emerging policy, previous viability work carried out by both DSP and others, SHMA, background papers, SPD and other documentation.

2.3.2 In addition, the scale of development coming forward across the district also needed to be considered with the high-level deliverability and viability of specific strategic sites also requiring review – consideration of those, conducted using the same broad principles but adopting an adjusted methodology and assumptions, was added to this Stage 2 assessment.

Development Scenarios

2.3.3 For residential schemes, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on affordable housing provision and other policy cost areas - including optional technical housing standards as discussed above (Figure 3 below and the Appendices provide more detail):

Figure 3: Residential Scheme Typologies & Specific Sites Testing

Scheme Typology		1BF	2BF	2BH	3BH	4BH
1	House	n/a	n/a	0	0	1
4	Houses	n/a	n/a	1	2	1
5	Houses	n/a	n/a	1	3	1
9	Houses	n/a	n/a	2	5	2
10	Houses	n/a	n/a	2	6	2
11	Houses	n/a	n/a	2	6	3
15	Houses	n/a	n/a	3	8	4
15	Flats	7	8	n/a	n/a	n/a
25	Mixed	1	3	4	12	5
30	Flats (Sheltered)	22	8	n/a	n/a	n/a
50	Flats**	22	28	n/a	n/a	n/a
50	Mixed***	2	5	8	25	10
100	Mixed 10% Low Cost Home Ownership	5	10	15	50	20
100	Mixed					
250	Mixed	12	25	38	125	50
750	Mixed	37	75	113	375	150
1050	Mixed	52	105	158	525	210
2100	Mixed	105	210	315	1050	420

Note: BH = bed house; BF = bed flat; Mixed = mix of houses and flats.

- 2.3.4 The assumed dwelling mixes are based on the range of information reviewed, including taking into account the policies contained within the draft EFDLP and West Essex and East Hertfordshire SHMA 2015.
- 2.3.5 The scenarios reflect a range of different types of development that are likely to be brought forward through the planning process across the district so as to ensure that viability has been tested with reference to the potential housing supply characteristics. Each of the above main scheme types was also tested over a range of value levels (VLs) representing varying residential values as seen currently across the area by scheme location / type whilst and also allowing us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.

- 2.3.6 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types in different combinations according to particular site characteristics.
- 2.3.7 In all cases it should be noted that a “best fit” of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers particularly. The affordable housing numbers (content) assumed within each scheme scenario can be seen at Appendix I – Assumptions overview spreadsheet.
- 2.3.8 In addition to the general site typologies, specific testing was undertaken representative of development at strategic site locations around Harlow – as key components of the proposed EFDLP delivery as follows:

Allocation Reference	Location	Development to be delivered
SP 5.1	Latton Priory	Approximately 1,050 homes 1ha of employment land 0.5ha for up to 5 Traveller pitches
SP 5.2	Water Lane Area	Approximately 2,100 homes 0.5ha for up to 5 Traveller pitches
SP 5.3	East of Harlow	Approximately 750 homes and potential relocation of Princess Alexandra Hospital 0.5ha for up to 5 Traveller pitches

- 2.3.9 While the principles behind this important review element were consistent with and informed by the wider assessment and assumptions set out in this report, the approach to this element was different and necessarily included a range of adjusted

assumptions; informed to some extent by information provided by EFDC to DSP and supplemented by established practice and experience of carrying out such appraisals and assessments. Further details, including on the approach and assumptions used in carrying out the current stage high level appraisals of those sites are considered later in this report.

2.3.10 The dwelling sizes assumed for the purposes of this study are as follows (see figure 4 below):

Figure 4: Residential Unit Sizes

Dwelling type	Dwelling size assumption (sq. m)	
	Affordable	Private (market)
1-bed flat	50	50
2-bed flat	70	70
2-bed house	79	85
3-bed house	93	100
4-bed house	112	130

2.3.11 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. As has been noted above, dwelling space standards (aligned to the Nationally Described Space Standard) are to be introduced by EFDC within the emerging EFDLP. That can only happen where there is a proven need to do so and also on the basis that viability considerations are taken into account. We have therefore assumed dwelling sizes for the purposes of this assessment process that accord with the nationally described space standard.

2.3.12 Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Values Levels' ('VL's) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits with the way developers tend to assess, compare and price schemes. It provides a more relevant context for considering the potential viability scope.

2.3.13 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). They are reasonably representative of the type of units coming forward within

the scheme types likely to be seen most frequently providing on-site integrated affordable housing. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m ‘Value levels’ basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. The range of prices expressed in £s per square metre is therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

2.4 Gross Development Value (Scheme Value)

- 2.4.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. This is in order to test the sensitivity of scheme viability to geographical values variations and / or with changing values as may be seen with further market variations. In the case of EFDC and given the values variations seen in different parts of the district area through both the initial research stages and previous work, the VLs as updated to include latest information available whilst finalising this report cover typical residential market values (average prices across a scheme) over the range £3,500/m² (approx. £325/ft²) to £7,500/m² (approx. £697/ft²). Values may fall outside this range, but this covers the VLs considered relevant to underpinning the policy development at this stage.
- 2.4.2 Our desktop research considered the sold prices for both new-build schemes and re-sale properties across the district along with current marketing prices of properties, and Land Registry House Prices Index trends. Together, this informed a district-wide view of values appropriate to this level of review and for considering the sensitivity of viability to the values varying. This research is set out at Appendix III.
- 2.4.3 Values patterns are often indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of the future district development strategy and potential differentiation for CIL.

- 2.4.4 It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to Epping Forest District. However, these factors do not affect the scope to get a clear overview of how values vary typically, or otherwise, between the settlements and localities, given the varying characteristics of the district; as set out in these sections and as is suitable for the consideration of Local Plan viability and deliverability.
- 2.4.5 A summary of the new-build values ranges (expressed in terms of these VLs) used by settlement / market area are shown in Appendix III and discussed in more detail later in this report.
- 2.4.6 Importantly, in addition to the market housing, the development appraisals also assume a requirement for affordable housing (also referred to as 'AH' in this report). As this study seeks to test the viability of potential EFDLP policies holistically, we have tested and reviewed the scope for affordable housing policy targets at 40% on sites of 11 or more dwellings base on a tenure mix of 81% affordable rent / 19% shared ownership (with sensitivity testing carried out assuming 70% affordable rent and 30% shared ownership). 0% affordable housing has been assumed on sites of 10 dwellings or fewer.
- 2.4.7 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently the Homes and Communities Agency (HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant or equivalent subsidy input. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant or other public subsidy / equivalent.
- 2.4.8 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the 'payment to developer', 'RP payment price', 'transfer payment' or similar. These revenue

assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site-specific viability issues (including specific work on SPDs, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals – looking at the capitalised value of the estimated net rental flows (value of rental income after deduction for management and maintenance costs, voids allowances and the like). We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge.

- 2.4.9 In broad terms, the AH transfer price assumed (value that it contributes) in this study varies between approximately 30% and 65% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties we introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the Local Housing Allowance (LHA) rate. The LHA rates for the Harlow & Stortford, Outer North-East London and South-East Herts Broad Rental Market Areas (BRMA) that cover the Epping Forest District Council area for the varying unit types were used as our cap for the affordable rental level assumptions.
- 2.4.10 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including the provider's (e.g. RP's) own development strategies, and therefore could well vary significantly from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, external funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.
- 2.4.11 We have also reviewed the impact of reduced rents on affordable housing values (i.e. the assumed value of the affordable homes to a developer) by making an allowance that reduces the calculated payment assuming housing providers will have to cut social housing rents by 1 per cent each year for the next four years from April 2016 - 2020. Research carried out on behalf of DSP indicates that the impact could lead to a

reduction of around 10% compared to pre-April 2016 figures although again, the impact is highly variable and based on the willingness of RPs to take on affordable rented units – often influenced by internal policies and approach to risk management.

2.4.12 On completing this study and as discussed in Chapter 1, the Government has reverted to the previous rental formula (allowing Registered Providers to raise rents in line with the CPI plus 1% from 2020. As we can't take that change into account in this assessment, it means that the assumptions on affordable housing revenue included in this study are less positive than may now be the case – i.e. a worst-case scenario has been tested. Again, this means that the development viability assumptions have not been taken to the margins of viability.

2.5 Development Costs – General

2.5.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site-specific cases can be. As with the scheme scenario building, an overview of the various available data sources is required and is appropriate.

2.5.2 Each area of the development cost assumptions is informed by data - from sources such as the RICS Building Cost Information Service (BCIS), any locally available soundings and scheme examples, professional experience and other research.

2.5.3 For this overview, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Contingency allowances have however been made within all appraisals. This is another factor that should be kept in mind in looking at the viability of the Local Plan and the cumulative effect of local policies in combination with any optional technical standards; helping to ensure that these not set to the 'limits' of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

2.6. Development Costs – Build Costs

2.6.1 The base build cost levels shown below are taken from the BCIS. In each case the figure has been rebased using the Epping Forest District location factor. Costs assumed for each development type are provided in Appendix I. For the purposes of this exercise we also added an allowance for housing schemes of 10 units or less and made a deduction for flatted schemes of 10 units or less based on advice provided by the RICS BCIS within a report commissioned by the Federation of Small Businesses (FSB)¹⁹. Figure 5 below summarises the base build costs (Appendix I provides more detail):

Figure 5: Build Cost Data (BCIS Median, Epping Forest District location factor relevant at time of research)

Development Use	BCIS Category	Base BCIS Build Cost (£/m ²)*
Residential (C3)	Build Costs Mixed Developments - generally (£/m ²)	£1,191
	Build Costs Estate Housing - generally (£/m ²)	£1,162
	Build Costs Flats - generally (£/m ²)	£1,354
	Build Costs (Sheltered Housing - Generally) (£/m ²)	£1,503

*excludes external works, contingencies and any FSB cost allowance on small sites (these are added to the above base build costs)

2.6.2 Unless stated, the above build cost levels do not include for external works / site costs, abnormals, contingencies or professional fees (which are added separately). An allowance for plot and site works has been made on a variable basis within the appraisal depending on the scheme type (typically between 5% and 15% of base build cost). These are based on a range of information sources and cost models and generally pitched at a level above standard levels in order to ensure sufficient allowance for the potentially variable nature of site works. The resultant build costs assumptions (after adding to the above for external works allowances but before contingencies and fees) are included at the tables in Appendix I.

2.6.3 For this broad test of viability, it is not possible to test all potential variations to additional costs. There will always be a range of data and opinions on, and methods

¹⁹ RICS BCIS Report for The Federation of Small Businesses – Housing development: the economies of small sites - the effect of project size on the cost of housing construction (August 2015)

of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on these assumptions (as with others) are necessary. As with any appraisal input of course, in practice this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.

2.6.4 In all cases further allowances have been added to the total build cost in respect of meeting optional technical housing standards as discussed earlier in this chapter.

2.6.5 An allowance of 5% of build cost has also been added in all cases, to cover contingencies (i.e. unforeseen variations in build costs compared with appraisal or initial stage estimates). This is a relatively standard assumption in our recent experience. We have seen variations, again, either side of this level in practice.

2.6.6 The interaction of costs and values levels will need to be considered again at future reviews of the Local Plan and potentially when considering the introduction / review of the Community Infrastructure Levy (CIL) or similar system (LIT potentially) for collecting contributions towards funding community infrastructure (for which EFDC relies entirely on s.106 at present). In this context it is important to bear in mind that the base build cost levels may vary over time. Following the financial crisis in 2008 onwards we saw build costs fall but they have in most cases risen relatively sharply and seen readjustment particularly in the last 2 years.

2.6.7 At the time of reporting the latest available BCIS briefing (September 2017) stated on build cost trends:

'There is still a great deal of uncertainty over the terms that will be agreed when the UK leaves the European Union, however the government's position papers suggest that the UK will eventually withdraw from the Single Market and the Customs Union.

While almost any outcome is still possible BCIS will continue to produce forecasts based on three scenarios. These reflect the different political outcomes from the exit negotiations from the EU and are equally likely. However, the forecasts reflect the increased likelihood of restrictions on the movement of labour and pressures on Sterling that are likely to result from a structured withdrawal from the Single Market and the Customs Union even with follow-on agreements in place.

- an 'upside' scenario based on the assumption that the UK will remain in the European free trade area, but there are restrictions on the movement of labour*
- a 'downside' scenario based on the assumption that the UK does not have favourable access to the European Union market and there are restrictions on the movement of labour; and*
- a 'central' scenario based on some restrictions to trade and there are restrictions on the movement of labour.*

The terms 'central', 'upside' and 'downside' reflect the impact of the scenarios on construction demand.

BCIS is publishing the 'central' scenario as the forecast for the price and cost indices but it should be borne in mind that each forecast is equally possible.

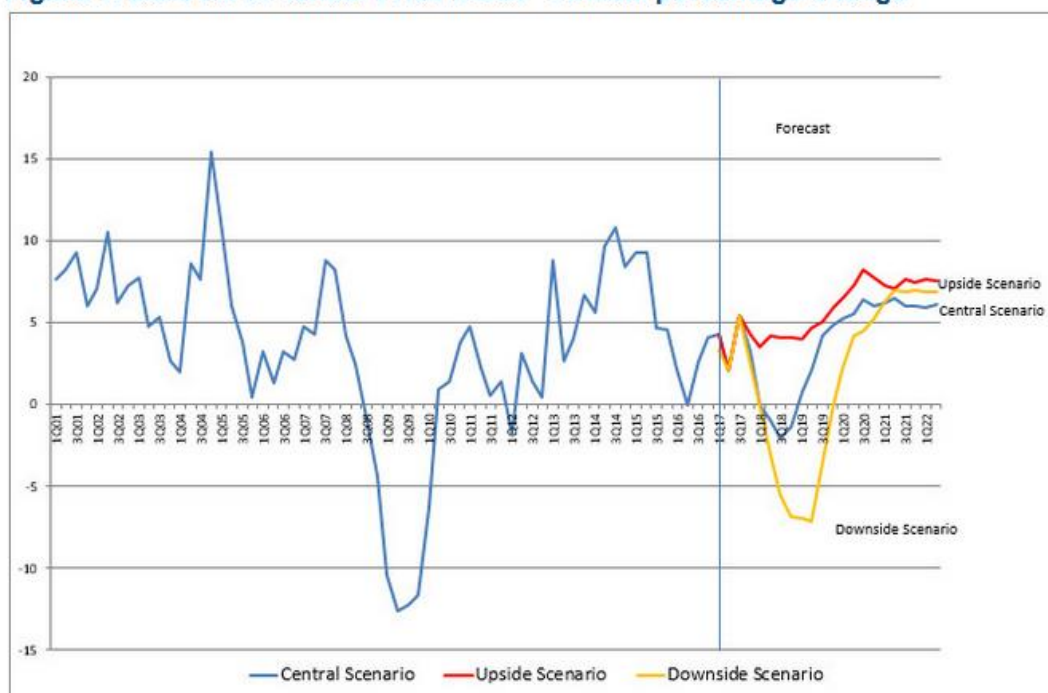
The current forecasts are based on exit from the EU at the end of the two-year period following the signing of Article 50. Unfortunately, we are no more enlightened about the arrangements upon exit from the EU, but the likelihood of a period of transition following this two-year period is looking more probable. BCIS will be monitoring potential outcomes closely, and will amend its forecast assumptions accordingly going forward.²⁰

²⁰ BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (September 2017)

	Percentage change				
	2Q17 to 2Q18	2Q18 to 2Q19	21Q19 to 2Q20	2Q20 to 2Q21	2Q21 to 2Q22
'Central' scenario					
TPI	-1.0	+2.1	+5.5	+6.5	+6.1
GBCI	+3.3	+3.2	+4.2	+4.6	+4.9
New work output*	+1.8	-0.3	+1.0	+4.2	+5.7
'Upside' scenario					
TPI	+4.2	+4.7	+7.3	+7.1	+7.5
GBCI	+3.3	+3.2	+4.8	+5.4	+5.6
New work output*	+3.3	+5.4	+6.2	+6.5	+5.5
'Downside' scenario					
TPI	-3.1	-7.1	+4.2	+7.0	+6.9
GBCI	+3.3	+3.2	+3.7	+4.3	+4.4
New work output*	-1.4	-9.8	-5.7	+6.5	+9.8

*Year on year (2Q17 to 2Q18 = 2016 to 2017), constant prices 2013

Figure 1. BCIS All-in Tender Price Index – Annual percentage change



Source: BCIS

2.6.8 Therefore, at the point of reporting we cannot be sure how the European scenario or other external influences will play-out either short or longer term on the economics potentially affecting development viability. It is still too early to tell. The influences on the property market from a values and rates of sales point of view seems likely to be at least as great as that on construction and build costs. At the current time, in general the overall reasonably positive housing market conditions were seen to continue through into the early part of 2017 albeit seemingly now, based on very

latest indications, with flattening prices or reduced growth as the year progresses; and in some instances, with lower prices meaning a relatively neutral picture on house price movement at present.

2.7 Development Costs – Fees, Finance & Profit

2.7.1 The following costs have been assumed for the purposes of this study alongside those noted above and vary slightly depending on the scale and type of development. Other key development cost allowances for residential scenarios are as follows - for the purposes of this assessment only (Note: Appendix I also provides a summary):

Professional fees: *Total of 10% of build cost*

Site Acquisition Fees: *1.5% agent's fees*

0.75% legal fees

Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).

Finance: *6.5% p.a. interest rate (assumes scheme is debt funded)*

Marketing costs: *3.0% - 6.0% sales fees*

£750 per unit legal fees

Developer Profit²¹: *Open Market Housing – 20% GDV*

Affordable Housing – 6% of GDV (affordable housing revenue).

2.8 Build Period

2.8.1 The build period assumed for each development scenario has been based on BCIS data (using its Construction Duration calculator - by entering the specific scheme types modelled in this study) alongside professional experience and informed by

²¹ The Council's recently published 'Guidance Note to Planning Applicants on the Submission of Viability and Financial Appraisals for Affordable Housing on viability appraisals' (January 2017) states that '*based on current market conditions and knowledge of the development industry, the Council would expect the level of developer's profit to be between 15% and 17.5% of the GDV*'. The assumption made in this study can therefore be considered a cautious approach – any reduction in the assumed profit level would have a further positive affect the results of this study.

examples where available. The following build periods have therefore been assumed. Note that this is for the build only; lead-in and extended sales periods have also been allowed-for on a variable basis according to scheme type and size, having the effect of increasing the periods over which finance costs are applied. A multiple developers / sales outlets approach will be required or appropriate in the case of the larger and strategic sites. See Figure 6 below for an overview of the assumed housebuilding periods:

Figure 6: Build Period

Scheme Typology		Build Period (Months)
1	House	6
4	Houses	6
5	Houses	6
9	Houses	9
10	Houses	9
11	Houses	9
15	Houses	12
15	Flats	12
25	Mixed	12
30	Flats (Sheltered)	18
50	Flats (with sensitivity tests)	18
50	Mixed (with sensitivity tests)	18
100	Mixed	24
100	Mixed (10% Low Cost Home Ownership)	24
250	Mixed	48
750	Mixed	60
1050	Mixed	78
2100	Mixed	120

2.9 Community Infrastructure Levy & Other Planning Obligations

2.9.1 Current guidance states the following with regard to CIL: *'At examination, the charging authority should set out a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy (see Regulation 123). The charging authority should also set out any known site-specific matters for which section 106 contributions may continue to be sought. This is to provide transparency*

*about what the charging authority intends to fund through the levy and where it may continue to seek section 106 contributions*²². The purpose of the list is to ensure that local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. The Guidance²⁰ states that where a change to the Regulation 123 list would have a significant impact on the viability evidence that supported examination of the charging schedule, this should only be made as part of a review of that charging schedule. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.

- 2.9.2 The Council still intends to consider the introduction of a Community Infrastructure Levy, but any progression of this here is uncertain and dependent on the Government's response to the CIL Review. We understand that no work on any Preliminary Draft Charging Schedule will take place until a decision on the future of CIL or what may replace it is made.
- 2.9.3 Of course, in carrying out a study such as this and looking at the potential cumulative impact on viability of development of national and local policies, assumptions need to be made in relation to planning obligations requirements. The study cannot look at affordable housing and other policies in isolation from the infrastructure needed to support the Plan. As such, the Council requested that the modelling for this study incorporate assumptions on planning obligations equivalent to the recommended CIL rates previously identified in earlier studies whereby on most non-strategic sites, planning obligation requirements would be taken up within CIL charging scope. This assessment therefore includes CIL at £80/m² - £225/m² as previously recommended for the Council's consideration.
- 2.9.4 In addition, as sites are still required to contribute to site-specific mitigation measures (for example relating to open space / highways / transport and similar requirements) the appraisals also include a notional sum / proxy of £3,000 per dwelling (for all dwellings – including affordable - and all schemes). This is purely for the purposes of this study and in the context of seeking to allow for a range of potential requirements – effectively as an additional contingency in respect of any residual s.106 requirements / s.278 highways works or other site-specific matters, acting alongside potential CIL payments in terms of the collective development costs

²² DCLG – Community Infrastructure Levy Guidance (February 2014)

to be considered. There may be considerable s106 costs on many sites, particularly strategic sites identified in the Plan and as set out in draft in the IDP. However, many detailed cost estimates are not yet available, hence the use of a proxy.

2.9.5 A different approach is taken with the strategic sites where the appraisals have been conducted on the basis of calculating the potential surplus available to fund s106 and other infrastructure requirements as set out in the next section.

2.10 Strategic Sites

2.10.1 As part of this viability assessment update, we have also considered the viability, at a high level, of a selection of key 'strategic' scale sites forming part of Garden Town Communities – as per 2.3.8 above.

2.10.2 To test the potential viability of sites of a strategic scale and characteristics, appraisals were carried out and, as agreed with the Council, the specific inputs for each scenario appraisal based primarily on high-level assumptions reflecting published information and our experience of viability work on similar sites in a range of other locations – both for strategic level assessment and site-specific viability review / s.106 negotiation purposes.

2.10.3 Development within the Garden Town Communities (including the 3 sites in EFDC at Latton Priory, East Harlow, Water Lane area) will be required to follow Garden Town principles. The sites will be required to incorporate significant amounts of open space, high quality design and contribute towards a range of infrastructure including the delivery of sustainable transport corridors which link the 'fringe' sites with Harlow town centre, the costs of which are not known at this stage.

2.10.4 In viability terms the same general principles apply in reviewing the potential viability of these sites as for the other site typologies tested through this process. There are, however, bespoke assumptions that have been varied to reflect the different characteristics of these sites, and these are discussed further here.

2.10.5 Essentially any residual appraisal requires certain elements of the inputs (assumptions) to be fixed so that the result (residual) becomes the output and changes to that can be reviewed as adjustments to a key variable are made. In this

case we have run the strategic site appraisals on the basis of fixing the land value (tested at both £250,000 and £370,000 per gross hectare) and the site wide enabling costs / infrastructure at £32,000 per dwelling, with the latter in this case placed by DSP above the upper end of the range £17,000 to £23,000 indicated as typical per plot strategic infrastructure costs within the Harman Report²³ which states: *‘Cost indices rarely provide data on the costs associated with providing serviced housing parcels, i.e. strategic infrastructure costs which are typically in the order of £17,000 - £23,000 per plot for larger scale schemes’.*

- 2.10.6 For the purposes of this study we have assumed site infrastructure to include site costs necessary to provide *‘serviced plots for building construction from unoccupied, secured, and uncontaminated site’*²⁴. Effectively the costs are related to all other physical works that are needed to ready a site for development so that in combination with the assumptions on BCIS based housebuilding costs (i.e. covering works within the serviced parcels) sufficient overall cost has been allowed to build the housing development.
- 2.10.7 The s.106 (indicative scope for which we are viewing through the potential surplus) then covers the site-specific mitigation in terms of impact on community infrastructure “caused by” the development (the usual tests apply). With the enabling cost and s.106 viewed together, all site-specific ingredients should be achieved so far as viability permits – to support its physical development and directly related infrastructure needs.
- 2.10.8 Following the above, the result of the appraisal is then in practical terms a planning obligations residual with a fixed level of land and profit – i.e. after allowing for the land as a fixed cost within the appraisal along with profit calculated as a fixed percentage of the GDV of the scheme (based for the assessment purposes at 20% GDV on market housing and starter homes (where applicable) / 6% on affordable housing). The residual value (any surplus seen) above the fixed land cost allowance made is then the amount potentially available for s106 site mitigation / planning obligations (and / or any other potentially applicable costs not usually allowed for at this stage of review – e.g. any unknown development abnormalities).

²³ Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

²⁴ Homes & Communities Agency – Development Appraisal Tool (v4)

- 2.10.9 For each strategic site development scenario, we have carried out sensitivity testing on the basis of potentially rising and falling base costs and values - in set steps as seen in the results of this report and appended to the rear of this study (Appendix IIb). In broad terms, the sensitivity testing helps to show the impact of a rising or falling market on potential viability. It is likely that sites of the scale envisaged here would be differentiated for in CIL charging terms (e.g. nil or possibly reduced rate for CIL) owing to the likely scale of s.106 costs in combination with the site enabling/infrastructure costs as noted above. We have therefore undertaken sensitivity testing on the basis of both CIL at our Stage 1 suggested upper parameter residential charging rate (at £225/sq. m) and also assuming a potential / example nil CIL (based on wider experience of the approaches often needed and being taken to infrastructure requirements and contributions / works relating to strategic development proposals elsewhere).
- 2.10.10 We have assumed delivery rates based on our experience of dealing with the review of viability for large scale strategic developments on a site-specific basis across the country. In very general terms, a faster rate of delivery is likely to have a positive impact on viability as the overall finance costs should reduce with a shortening development period. However, with a delivery rate that is too high there is a risk that the trajectory starts to impact on sales values as units flood the market.
- 2.10.11 At the time of compiling this report we have not included additional costs in the viability testing for the strategic sites on this basis. We are of the opinion, however, that the scale of development is such that build costs will be lower than those allowed-for (i.e. at the BCIS rate as per the general scenarios testing) due to economies of scale. As our tests and results are based on median BCIS rates, there is probably sufficient allowance to cover additional costs of complying with those policies if required - as long as they are not set beyond the scope set out in our sensitivity testing.
- 2.10.12 For both the enabling infrastructure and the s106 costs we have assumed for the purposes of this study that those will be front-loaded. Details of when costs occur and payments are required can only really be known once a scheme is developed in detail, so this reflects a logical approach in our experience. The land payments are assumed to be made early in the appraisal periods. Again, in reality, payment profiles

will vary and be subject to individual delivery details – phasing and negotiation between the involved parties.

2.10.13 Site SP5.3 (East of Harlow) forms part of a larger development proposal that crossed the boundary between Harlow and Epping Forest (with a great majority proposed within Harlow Council’s administrative boundary). For this study, the Council requested that DSP model the EFDC portion of this (indicatively 750 dwellings of a total of 3,350), on the basis that it could be brought forward as a standalone development but assuming an equalisation of the wider site development mitigation (planning obligations).

2.11 Indicative land value comparisons and related discussion

2.11.1 Land value in any given situation should reflect the specifics on existing use, planning potential and status / risk, development potential (usually subject to planning) and constraints, site conditions and necessary works, costs and obligations. It follows that the planning policies and obligations, including any site specific s106 requirements, will also have a bearing on land value; as has been recognised by Local Plan and CIL Examiners as well as Planning Inspectors.

2.11.2 As discussed previously, in order to consider the likely viability of any development scheme relevant to the Local Plan and its policies, the outturn results of the development appraisals (the RLVs viewed in £/ha terms) need to be somehow measured against a comparative level of land value. This is a key part of the context for reviewing the strength of the results as those change across the range of assumptions on sales values (GDVs), s.106 costs and other sensitivity tests (crucially including the effect of affordable housing policy targets (%s) applied fully in the case of the residential tests).

2.11.3 This comparison process is, as with much of strategic level viability assessment, not an exact science. It involves judgements and the well-established acknowledgements that, as with other appraisal aspects, land value circumstances and requirements will in practice vary from scheme to scheme as well as being dependent to some extent on timing in relation to market conditions and other wider influences such as Government policy. The levels of land values selected for this comparison context are often known as ‘benchmark’ land values, ‘viability tests’ or similar (as referred to

in our results tables – Appendix IIa - and within the following report Chapter 3). They are not fixed in terms of creating definite cut-offs or steps in viability, but in our experience, they serve well in terms of adding a layer of filtering to the results, to help enable the review of those. They help to highlight the tone of the RLV results and therefore the changing strength of relationship between the values (GDVs) and development costs as the appraisal inputs (assumptions) change; with key relevant assumptions (variables) in this case being the GDV level (value level – VL), affordable housing proportion and, to a lesser extent, the extent of other policy related costs and s.106 level included for scheme specific mitigation in addition to the EFDC CIL.

- 2.11.4 As suitable context for a high-level review of this nature, DSP's practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons in this way. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the land supply picture that the Council expects to see.
- 2.11.5 The EFDLP emerging strategy for growth indicates a likely overall supply role for a range of sites split between a fairly even distribution on smaller greenfield / PDL sites across the district and largescale greenfield strategic sites on the edge of Harlow. The strategy is therefore likely to concentrate on a mixture of in settlement previously developed sites (PDL) and greenfield sites in the countryside / edge of settlement locations.
- 2.11.6 The scale of the difference between the RLV and comparative land value level (i.e. surplus after all costs (including policy costs), profit and likely land value expectations have been met) in any particular example, and as that changes between scenarios, allows us to judge the potential scope across the various development circumstances to meet other policy costs / requirements. It follows that, in the event of little or no surplus or a negative outcome (deficit), we can see a poor viability relationship and vice versa.
- 2.11.7 The land value comparison levels are not fixed or even guides for use on scheme specifics; they are purely for this assessment purpose. In our experience, sites will obviously come forward based on very site-specific circumstances – including in some cases beneath the levels assumed for this purpose.

- 2.11.8 To inform these land value comparisons or benchmarks we have reviewed existing evidence, previous viability studies and sought to find examples of recent land transactions locally. Limited evidence of such was available from the various soundings we took and sources we explored. In the usual and appropriate way for such a study, we reviewed information sourced as far as possible from the DCLG, VOA, previous research / local studies / advice provided by the Council, through seeking local soundings, EGi, Co-Star; and from a range of property and land marketing web-sites. Details, so far as available, are provided in Appendix III.
- 2.11.9 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report (PMR), with data provided only on a limited regional basis in the later reporting. The VOA now no longer produces a PMR and suggests that caution should be used when viewing or using its data. Nevertheless, in areas where it is available, the data can provide useful indicators, certainly in terms of trends.
- 2.11.10 In our experience of dealing with site specific viability, greenfield land values tend to be assumed at minimum option agreement levels. This is typically between £100,000 - £150,000 per gross acre (i.e. approx. £250,000 – £370,000 per gross hectare). Generally, this works back to not less than around £100,000/acre (approx. £250,000/ha) based on gross residential area.
- 2.11.11 The Government also publishes residential land value estimates for policy appraisal and includes data for Epping Forest District. This indicates a residential land value of £5,735,000 per hectare. However, this needs to be set in the context of the assumptions underpinning that level of land value and the numerous caveats and basis for those values²⁵.
- 2.11.12 Land values and comparisons need to be considered on a like-for like basis. A different basis is assumed within this and other viability assessments, with all development costs accounted for as inputs to the RLV appraisal, rather than those being reflected within a much higher, “serviced” i.e. “ready to develop” level of land value. That much higher level of land value assumes all land and planning related

²⁵ See Annex A of DCLG Land Value Estimates for Policy Appraisal (December 2015)

costs have been met / discharged – i.e. includes the assumption that there is a nil affordable housing requirement (whereas in practice the affordable housing requirement can impact land value by around 50% on a 0.5 ha site with 30% AH) together with nil CIL. That level of land value would also assume that full planning consent is in place, whereas the risk associated with obtaining planning consent can equate to as much as a 75% deduction when adjusting a consented site value to an unconsented land value starting point. Lower quartile build costs and a 17% developer's profit (compared to the assumed median build costs and 20% developer's profit used in this study) are additional assumptions that lead to a view of land value well above that used for comparison (benchmark purposes) in viability assessments such as this.

- 2.11.13 So, the assessment approach (as relates to all land values) assumes all deductions from the GDV are covered by the development costs assumptions applied within the appraisals.
- 2.11.14 As can be seen in Appendix IIa (main residential scenario test results) and taking into account the various information available, we have made indicative comparisons focussing on land value levels in a range between £250,000/ha (large scale greenfield sites) through £800,000/ha (small amenity land / greenfield or similar sites) and up to £3.5m/ha so that we can see where our RLVs fall in relation to these levels (including both above and below); how the wide range of appraisal outcomes may be viewed in comparison with this overall range. The comparisons are referred to within our assessment as 'viability tests'. They act as land value 'benchmarks'. This approach does not prevent the presentation and review of results that fall outside this range, however.
- 2.11.15 These benchmarks are based on a review of available information such as noted above. In this case the approach was informed primarily by experience of using a range of benchmarks (in common with DSP's usual and established practice) as per previous work undertaken combined with any information from site specific reviews and, as noted, any further information gathered through our research and exercise of seeking local soundings (stakeholders' survey – as outlined in Appendix III).
- 2.11.16 The figure that we consider to represent the minimum land value likely to incentivise release for development under any circumstances in the Epping Forest District

context is around £250,000/ha as above, based on gross (overall) site area for large scale greenfield development. Land values at those levels are likely to be relevant to development on greenfield land (such as agricultural land or in cases of enhancement to amenity land value) and therefore potentially relatively commonly occurring within the land supply picture in the case of settlement extensions, where applicable, and any urban area greenfield land.

- 2.11.17 At this level it could be relevant for consideration as the lowest base point for enhancement to greenfield land values (with agricultural land reported by the VOA and a range of other sources to be valued at circa £20,000 - £25,000/ha in existing use). The HCA issued a transparent assumptions document which referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. This is not to say that land value expectations in such scenarios would not go beyond these levels either – they could well do in a range of circumstances.
- 2.11.18 As with the other levels, these are simply guides aimed to help review the strength of the appraisal results. The guidance available on the subject of viability also discusses land value considerations – see the further points and commentary below.
- 2.11.19 Once again, it is important to note that at these levels and all levels indicated by the RLV results being compared with them (see the tables at Appendix IIa), the land values shown indicate the receipts available to landowners after allowing within the RLV appraisals for all development costs. This is to ensure no potential overlapping / double counting of development costs that might flow from assuming land values at levels associated with serviced / ready for development land with planning permission, etc. The RLVs and the indicative comparison levels ('viability tests') represent a "raw material" look at the land, with all development costs falling to the prospective developer (usually the site purchaser).
- 2.11.20 Land value judgements for the assessment purpose are based on seeking to ensure a competitive return to a willing landowner, as is recognised through the RICS guidance on 'Financial Viability in Planning' (RICS GN 94/2012 – as noted below), the NPPF requirements and other guidance sources on viability assessment.

- 2.11.21 The consideration of land value – whether in the RICS’ terms (see below) or more generally for this context, involves looking at any available examples (‘comparables’) to inform a view on market value and may well also involve considering land value relating to an existing or alternative use (‘EUV’ or ‘AUV’). A similar concept to existing use value may also be referred to as ‘CUV’ (i.e. current use value). In addition, there may be an element of premium (an over-bid or incentive) over ‘EUV’ or similar required to enable the release of land for development – i.e. to take a site out of its current use, but not necessarily applicable where a site has become redundant for that use.
- 2.11.22 The HCA’s draft document ‘Transparent Viability Assumptions’ that accompanies its Area Wide Viability Model suggested that *‘the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development’*. This benchmark is referred to as threshold land value in that example: *‘Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely’*. Further it goes on to say that *‘There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied’*.
- 2.11.23 RICS Guidance²⁶ refers to site value in the following *‘Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan... The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations’*.
- 2.11.24 In the Local Housing Delivery Group report²⁷ chaired by Sir John Harman, it is noted that *‘Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting*

²⁶ Financial viability in planning – RICS Guidance note (August 2012)

²⁷ Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful ‘sense check’ on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values’.

- 2.11.25 These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen. As further acknowledged later, this is one of a number of factors to be kept in mind in setting suitable policies which balance viability factors with the overall affordable housing and infrastructure needs of the district.
- 2.11.26 We note here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the redevelopment option being assumed. The influence of existing / alternative uses on site value need to be carefully considered. At a time of a low demand through depressed commercial property market circumstances, for example, we would not expect to see inappropriate levels of benchmarks or land price expectations being set for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, so will landowners’ expectations.
- 2.11.27 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. The planning related requirements, together with any CIL, will necessarily be reflected in the land values that are ultimately supportable.

3 Findings (Assessment Stage 2)

3.1 Introduction

Previous assessment – Stage 1 findings overview – to recap

- 3.1.1 This second stage of viability assessment work has been undertaken to revisit and recheck the Stage 1 review work. To recap, this is with the purpose of testing the further developed emerging EFDLP policies and their potential collective impact from a viability perspective, when taken into account alongside typical costs of development and national policy principles (based on latest available data and information in all respects – values, costs, policy positions and proposals).
- 3.1.2 To provide a relative view (compared with the Stage 1 findings) and still considered to reflect appropriately the range of smaller housing sites likely to come forward, the Stage 2 retesting has used the same basis for scenarios. These have been added to and / or refined as currently best represents the site supply picture that is being clarified and has been discussed with EFDC officers, bearing in mind the high-level overview that is necessary and appropriate for this purpose – Plan-wide view.
- 3.1.3 Accordingly, it is not necessary to revisit the detail of all scenario test results, although these are set out fully at an updated Appendix IIa to this report for the smaller / typical residential sites range scenarios (following the same format as used for DSP's 2015 Stage 1 report).
- 3.1.4 In this chapter we will provide a brief overview of the relative outcomes (updated compared with previous) and also run through the findings gleaned from the added tests. From this, our starting point is to review whether, primarily, any changes to the Stage 1 findings relating to key policies influencing viability may need to be considered by EFDC.
- 3.1.5 In looking at this, because we have to account fully for the likely costs associated with development, as agreed with EFDC we have also used our previous findings and recommendations on likely parameters for CIL charging, alongside a s.106 contingency. This means that, as far as is possible at this stage (prior to policy

positions being confirmed and subject to national policy developments on CIL following the above mentioned CIL Review Panel report findings), we are also able to verify or otherwise whether we would now expect to need to make any significant changes for our previous CIL viability related recommendations.

- 3.1.6 We consider that at least to some extent it will be appropriate to revisit the CIL findings in due course, should the Council decide to pursue the setting up of a CIL; in itself probably dependent at least to some extent on national policy direction. Owing to the volume of updated results created, we have not re-run the fine-grained iterative approach to trial CIL charging rates testing. The Appendix IIa results tables clearly show which Stage 1 indicative CIL charging rate assumption has been used in each Stage 2 scenario test as assumptions when reconsidering the viability of the emerging LP policies. So, used alongside the other (updated) development and policy costs, this approach seeks to make sure that there remains scope to pursue a CIL or equivalent in future. The level of CIL would need to be considered to reflect latest available regulations / guidance, market information and consequent viability – informed by and related to the EFDLP policies once in place or at least their likely final positions are well established.
- 3.1.7 Whichever approach to CIL (or any similar replacement) is progressed, EFDC will need to continue to operate its overall approach to parallel obligations (s.106 and other policy requirements) in an adaptable way; reacting to and discussing particular site circumstances as needed (and supported by shared viability information for review where collective policy aims are under-pressure owing to abnormal costs or similar). CIL (as we assume will also apply with any replacement following similar principles) will be fixed, but will need to be viewed as part of a wider package of costs and obligations that will need to be balanced and workable across a range of circumstances.
- 3.1.8 Also included at the rear of Appendix IIa at this Stage 2 is a table (see Table 1t) showing indicatively how the Stage 1 suggested parameters for residential CIL charging rates in Epping Forest appear when expressed as percentages (%) of the updated range of sales values assumptions – the VLs now in use – i.e. CIL trial rates as % GDV. That table (discussed further later) also provides indications as to how a residential ‘LIT’ (Local Infrastructure Tariff could look here, based on the CIL Review Panel’s recommendations. In our view this could be important information or at least

context to bear in mind, on looking ahead to a potential CIL, LIT or similar. Again, it appears likely that this or something similar, as an additional guide to rate(s) setting, could need to be considered or revisited moving ahead.

3.1.9 Similarly, the potential (but not at this stage confirmed) treatment of the proposed larger (strategic) sites is covered at a high-level here.

3.1.10 In respect of a potential CIL for commercial / non-residential development, on re-review of the values and costs associated with these types, our current view is that we would not expect to make any significantly different recommendations from those offered at Stage 1. Therefore, in terms of the general strength of relationship between values and costs that drives all of this work on viability, for the Local Plan review context at this point, we consider that those previous findings still provide a suitable overview of viability bearing in mind the nature of this type of assessment and the assumptions sets used within it. We will come back to these aspects later on in this chapter.

3.1.11 In this context, as with other elements of this Stage 2 assessment and reporting, we do not expect to revisit the detail of the results and findings in all respects. We will instead look to draw out the relative positions of new results, as above, and provide findings from the added / refined scenarios and sensitivity tests. Those additions include the following, with the added sensitivity test results (sample exploratory testing) now included within extended / new tables towards the end of Appendix IIa:

- Considering the potential impact from added costs associated with basement car parking provision – high density flats. (Table 1k at Appendix IIa provides tests outcomes alongside the updated base results with no basement parking costs added).
- Sample exploratory testing – intended for wider information and representing a potential element of Building Regulations M4(3) provision (alongside a revised base assumption that includes through all Stage 2 tests, 100% all dwellings to M4(2). (Table 1m – includes 5%, 10% and 20% M4(2) tests, for comparison with the 50 mixed dwellings updated base tests at Table 1l).

- Sample exploratory testing of the potential effect of including a ground floor commercial (retail) element beneath residential flats. (Table 1n – also assumed included basement car parking costs, so cumulative costs otherwise as per the (right hand side) Table 1k viability results).
- Provisional testing (particularly pending national level clarity on housing and tenure policy) including 10% ‘low cost home ownership’ - i.e. potential ‘affordable home ownership’ under the Government’s potential / emerging latest model. (Table 1p, for comparison with base updated set of results for 100 mixed dwellings at Table 1o).
- Alternative AH tenure mix (split between affordable rented and intermediate (assumed as shared ownership) housing. This looks, on a sample exploratory testing basis, at a potential 70/30 AH tenure mix in place of the base assumption throughout, of 81% affordable rented / 19% ‘intermediate’ (shared ownership). (Table 1q, which results may be compared with the base sets for 100 mixed dwellings at Table 1o, or the above noted Table 1p preliminary tests on low cost sale / affordable home ownership).
- Exploratory sensitivity tests at 100 mixed dwellings but this time assuming the additional costs (land take) associated with EFDC’s recently supplied to DSP emerging / draft Open Space Strategy. Land take allowance made on top of the general net to gross (developable to total) site area adjustment. (Table 1r, again for comparison with base sets at Table 1o).

3.1.12 Appendix IIb to this Stage 2 report now sets out the updated results from our assessment work on the larger (‘strategic’) sites, based on the running of new appraisals representing the proposed allocations adjoining neighbouring authority area, Harlow. Appendix IIb provides a strategic sites appraisals assumptions and results overview (single table) first and then includes the Argus Developer software print appraisal summaries for each of those.

3.1.13 The strategic sites have been approached with a different appraisal content and many altered assumptions compared with the base sets (i.e. those updated appraisals representing sites providing 1 to circa 250 dwellings as per Appendix IIa). As can be seen, these viability results necessarily follow a different format to that

used for Appendix IIa. Appendix IIb. The viability results that we can draw from this at the current stage will be considered further – within a distinct section below.

3.1.14 In the above context, and given the Staged approach to informing EFDC's emerging Plan policy directions through their development, we will now provide a quick reminder overview of the earlier findings that have been revisited culminating in this Stage 2 reporting as at October - November 2017.

Previous assessment – Stage 1 findings overview – to recap

3.1.15 So, for ease of reference, we will summarise below our main findings from the DSP Stage 1 viability assessment work undertaken for EFDC – Final Stage 1 Report dated June 2015.

3.1.16 The following (*points i. to x. in italic text below*) are extracts from our Stage 1 report (overview within the Executive Summary, section 5):

- h. Affordable housing is the primary viability consideration and in our view the setting of CIL rate(s) can only be fully considered once the affordable housing policy impacts have also been reviewed; the two need to be considered together.*
- i. For Stage 1 of this study the results indicate that an affordable housing headline target of 40% applicable to sites of 11 or more dwellings would appear more appropriate than a continued 50% target (as applied to the rural areas / smaller settlements through adopted policy). At this level, we consider that there would be meaningfully greater scope to achieve a reasonable combination of both affordable housing and CIL, bearing in mind that the CIL rates ultimately set will need to be “buffered” and well within the apparent maximum rates*
- j. Suggested approach to CIL for residential uses envisages three tier charging schedules as a potential option.*
- k. For non-strategic (smaller scale) development we are of the opinion that (assuming a 40% affordable housing policy as a target), a CIL rate of between £150 - £225/m² is likely to be appropriate across much of the district.*

- l. *Some limited level of differentiation within the overall residential approach seems likely to be warranted. In Waltham Abbey for example, residential values are typically such that it is likely that a lower CIL rate and / or lower affordable housing target may be required there or in areas / scenarios with similar values to Waltham Abbey to ensure the viability of delivery in these areas. At this stage the rate suggested is around half of the rate above -£80/m² to £100/m².*
- m. *Stage 1 results indicate that strategic scale sites with significant on-site / site specific infrastructure and mitigation costs (through s.106) are unlikely to support the same level of CIL as the smaller non-strategic sites in the rest of the district. Consideration will need to be given in those instances to a £0/sq. m CIL rate or very low rate relative to the provisional rates for the rest of the district – especially if a fixed affordable housing proportion is maintained across the district.*
- n. *Options exist for potential further variation by scale of development in response to affordable housing thresholds (i.e. higher rates where affordable housing is not required and vice versa). Affordable housing either via a financial contribution or through on-site provision for sites of 10 units or less but that provide for more than 1,000m² of development may also be considered and again, the CIL rate adjusted if necessary.*
- o. *There is potential for CIL charging scope for some forms of retail development – currently at a relatively modest rate not exceeding the residential parameters headline rates provisionally put forward (range £150-225/sq. m) and more likely within or beneath those (i.e. closer to the provisional lower residential rates scope of say £80-100/sq. m);*
- p. *All other development uses are currently expected to produce, with more certainty, nil CIL charging scope (£0/sq. m) but as with all other aspects, subject to further consideration.*
- q. *In terms of the CIL for non-residential development, we do not consider that there will be a need to differentiate geographically.*

Latest results (current Stage 2) – format and principles

- 3.1.17 As above, the presentation of the Appendix IIa results follows the Stage 1 report format – general residential typologies indicative of sites providing 1-250 dwellings in this case.
- 3.1.18 The current assessment results (residual land values – RLVs) are all shown within Appendix IIa and will not be discussed in detail here. Included after the Appendix IIa results tables are sample appraisal summaries – added to give a further insight into the residual calculation approach used. Owing to the volume of information produced for the assessment, and in accordance with DSP’s established approach proven suitable to date, it has not been considered appropriate or necessary to include this detail for all (or indeed a much wider set) of test scenarios.
- 3.1.19 Affordable housing is once again shown to have the most significant influence on viability outside the operation of the market itself. As discussed above, following the Stage 1 findings and recommendations, and now also reflecting EFDC’s subsequent proposed policies development, we have re-examined the potential to support a headline policy position at 40% affordable housing based on updated development costs and values (and with further sensitivity tests looking at other potential costs / policy impacts, as noted above). This assumes affordable housing is sought only on sites of 11 or more dwellings and / or on sites of 1,000m² or more.
- 3.1.20 On sites of less than 11 dwellings assessment work had been included at Stage 1 for the purposes of informing the potential level of CIL that may be viable including the potential for a differential rate above and below the affordable housing threshold. In our view, the updated results potentially now indicate little or no scope for differentiation above and below the affordable housing threshold. This is picked up in more detail below.
- 3.1.21 As at Stage 1, the Appendix IIa tables (numbered 1a to 1s) set out the results of the smaller sites main (base) and sensitivity appraisal sets covering, in generally ascending size, scenarios of 1 to 250 dwellings of various types and mixes (as per the Appendix I detail). The sub-tables within those also show, where relevant, moving from top to bottom, the updated increasing value level (VL) tests (lowest at VL1 to highest at VL9 indicating increasing sales value (GDV) assumptions, so that we can

see their influence across the range of results, as before. We will pick up on values again below – to provide updated context reflecting our latest information gathering and research, related to the detail provided within and updated Appendix III.

- 3.1.22 As above, all tests were conducted at 0% affordable housing (AH) and at the Stage 1 recommendation based 40% AH policy direction subsequently firmed-up by EFDC, subject to this Stage 2 re-testing. As at 3.1.18 above, the inclusion of the base 0% AH results continues to illustrate the degree of impact of an AH policy, not just applicable to the EFDC proposals but as a general and widely observed effect across all our similar work, across England.
- 3.1.23 Within each Appendix IIa table column header, the Stage 1 based and now re-tested potential CIL charging rate assumption relevant in to each test set is shown. Each set used an assumption, at one of five different levels, so that we can see a complete grid of results indicating how this assumption informs results not just at the likely most relevant VLs to a test, but across the whole range of updated values considered. This is considered likely to be informative on reconsidering a CIL or similar in due course, but also in ensuring viewing of results that reflect the AH and other policies as well as a likely / potential level of CIL or equivalent planning obligations cost, in addition to the £3,000/dwelling s.106 ‘contingency’ also allowed for as a base assumption (all updated tests, except for on the strategic sites – see below).
- 3.1.24 The results of the appraisals again show the RLV produced by each of our (updated) appraisals, being the sum remaining, and in this case representing potential land value, once all development costs are subtracted from the GDV, including finance and profit. Each RLV result is then also indicated as a RLV per hectare figure (£/ha). Once again, using the “filtering” type exercise, this then enables comparison with the range of benchmark land values (BLVs - i.e. range of indicative ‘viability tests’ shown in the coloured key beneath each table). The coloured overlaying of the table cells that include the £/ha RLVs then once again provides an indication of the strength of each result (and so the indicative strength of viability associated with each combination of AH% (now at either 40% as proposed policy, or a 0% base test only, VL and CIL being level now re-tested).
- 3.1.25 This approach to displaying and reviewing results follows the same principles as used in the earlier assessment work.

- 3.1.26 Consistent with the Stage 1 work, it is important to note that the colour-coding used in the Appendix IIa tables seeks to help provide only a rough guide to the outcomes – it aims to highlight the general results trends. Based on the accepted nature of such an exercise, i.e. this not being an exact science, this must not be over-interpreted as representing any strict cut-offs as regards viability / non-viability.
- 3.1.27 Once again, in practice, switch-points between viability and non-viability will be variable and this process explores the likelihood of various realistically assumed values and costs proving to be workable. We can see the results trends as indicative outcomes vary with increasing sales values (GDVs – as expressed through increasing VLs 1 to 9); changing scheme type with 40% AH and potential CIL charging rate all as noted above.
- 3.1.28 With the further assessment work at this Stage 2 on strategic sites (EFDC proposals at neighbouring Harlow edge), we have added a lower-end viability test (benchmark land value or similar) at a level equivalent to £250,000/Ha across the whole (gross) site area. In our experience at figure at around this level normally represents a typical minimum option price or similar related to the potential sale of greenfield (e.g. existing agricultural) land with development prospects creating a value enhancement (uplift) factor of around 10 times existing use value (EUUV). Through this, we acknowledge that circa. £250,000/Ha is likely to represent approximately a minimum level of value at which any land would sell for potential development in the local context. It could be considered that level is more likely to be relevant to bulk greenfield land purchases – e.g. in the context of strategic development and where large non-developable areas have to also be brought under control to accommodate the wider site works. It is possible that for smaller greenfield sites, for example to accommodate schemes in the Appendix IIa size range, land values would need to be reaching levels equivalent to viability tests beyond this ‘viability test 1’ level. It also appears reasonable to assume that any RLV outcome falling beneath that test 1 would be unlikely to represent a site coming forward with any real confidence; more than likely it would represent a non-viable or at best only marginally viable scenario in any circumstances locally.
- 3.1.29 It is useful to reiterate that all sites will be different to some degree, as may land owners’ situations and justifiable requirements. Land value expectations will need to be realistic and reflective of planning policy as well as other development

requirements, including any CIL or equivalent in support of new infrastructure provision and, in the case of s.106, development mitigation. Assessments will also need to be made as to whether there is an attainable prospect of securing significant value from existing or alternative uses in the prevailing market.

3.1.30 In any event it is important to note that land values could be outside the ranges that we have explored in making our indicative comparisons overviews here; including at higher levels. However, as can be seen from the results, many outcomes have the potential to support a wider range of land values if proven to be necessary, and as all of this moves around through varying economic and property market conditions through the considerable timeframe involved in the LP delivery overall.

3.2 Stage 2 Findings and recommendations

Values – variation (patterns) and range of value levels (VLs)

3.2.1 Appendix III provides our updated information gathering and research.

3.2.2 There is evidence to suggest that viewed at high-level across the district, house prices have increased by around one third (approximately 34%) since DSP fixed assumptions for the Stage 1 viability assessment work – for example Land Registry House Prices Index. However, the very latest market information, available on a “lag” basis of up to around 3 months following the completion of sales, shows a period of generally flattening-off of the recent period of significant growth, while build costs could be reasonably expected to continue increasing steadily.

3.2.3 The influence of the strength of available sales values (as represented by DSP’s range of VLs) is again very clear to see throughout the results.

3.2.4 However, Epping Forest DC is undoubtedly a very high value location, where affordability in general is a pressing issue. This means that where we refer to ‘low’, ‘lower’ or ‘lowest’ values occurring, this really is only a relative point in the context of values across a majority of the geographical area being very high and even in the general wider South-East context. The effective London fringe and yet very green location offering a high quality of lifestyle for many, drives this. This also means that whilst prices might not be moving ahead as they have been of late, the local market

remains inherently strong from what we can see – in terms of the ingredients available to support scheme viability and deliverability generally (if not on the affordability side).

- 3.2.5 We have taken the view that it is appropriate and representative of the values range now seen overall - approximately £3,500 to £7,500/sq. m (i.e. a range of about £325 to £700/sq. ft.) to consider viability across that range. This is covered by our value levels (VLs) 1 to 9, reflecting lowest to highest new build housing values seen typically across the district. Each of the Stage 1 VLs has been increased by £750/sq. m (approx. £70/sq. ft.) to provide this Stage 2 range.
- 3.2.6 We consider that the most relevant and useful research on house prices is that using the latest available Land Registry sold price data. Used in conjunction with floor areas provided within the Energy Performance Certificates (EPC) Register, this enables us to estimate the value of the properties on a £/m² basis. This data was reviewed for both resale property and new builds (distinctly). Whilst a less full picture of coverage than for the resales, the new builds data provided the most important pointers towards new build values assumptions for our appraisals.
- 3.2.7 On re-review, we can still see that significant areas of Waltham Abbey on the west side of the district (adjoining Waltham Cross and particularly Enfield) typically support notably lower house prices than are seen more widely across Epping Forest District.
- 3.2.8 The lowest priced new builds that we observed from the data indicated some prices equating to approximately £3,418/sq. m (approx. £318/sq. ft.) in the Ward area of Waltham Abbey High Beach. Elsewhere on the western side, a new build development within Waltham Abbey South West Ward achieved £4,898/sq. m (approx. £455/sq. ft.). To the extent that they were found in other Waltham Abbey area Wards (e.g. in the Honey Lane and North-East areas), new build developments were noted to have achieved in excess of £5,000/sq. m (in excess of approx. £455/sq. ft.) and so to have reached values similar to or not far behind the typical range for the rest of the district – i.e. approximately £5,200 to £6,000/sq. m (approx. £483 to £557/sq. ft.).

- 3.2.9 Whilst overall this suggests a wide range of values, the higher range noted at 3.2.8 above represents the more typical picture – as seen across much of the district – from the available data. So, our overview remains that apart from clearly lower value (relatively) Waltham Abbey on the west side (so previous picture on that verified), the other areas change across a fairly small range overall - from one locality to another rather than in other clear ways in terms of a distinct overall pattern.
- 3.2.10 The data also suggests that new build values in the various areas of Waltham Abbey could continue to be quite mixed, with resales values patterns more likely to be reflected in new build values in some areas than in others.
- 3.2.11 Broadly the key values range relevant to considering the updated assessment results is between £5,000 to £6,000/sq. m. (approx. £465 to £557/sq. ft.) and so between VLs 4 to 6 across most areas of the district; with the lower values (VL1 but more commonly 2 to 4) indicatively representing Waltham Abbey.
- 3.2.12 In general, whilst the values vary over very small distances and between or even within sites locally, from review of the various information it seems fair to say that the prospects of seeing the highest values most frequently are greatest in the south and east of the district – in areas such as Loughton St Marys, Loughton Roding, Loughton St Johns, Buckhurst Hill West, Chigwell Village and Theydon Bois.
- 3.2.13 From this, and taking a cautious / realistic view in what appears to be a levelling market at the point of Stage 2 reporting, our findings suggest as above that values represented most closely by the VL2 to VL6 part of the overall values range look most relevant to the bulk of the proposed EFDLP delivery (based on a now view). At this point in time, VL1 represents a low value / reducing from low end values sensitivity test and values at beyond VL6 are considered most likely to represent a smaller set of circumstances relating to typically higher value localities and more probably the more individual / bespoke developments.
- 3.2.14 For the strategic sites reviewing (see Appendix IIb, at this stage we have used an average / overall sales value assumption placed at £4,000/sq. m (i.e. approx. £372/sq. ft.) based on researching information as far as available relating to nearby property availability and sales. This may represent a relative cautious / prudent assumption, but has been selected at this point bearing in mind the intended scale of

development in these instances. It is not possible to know to what extent the creation of a new “sense of place” in these instances will support or enhance the values that are available to support viability.

3.2.15 Appendix III outlines the information sources and data that we have reviewed, and also provides some mapping showing both the resales and new builds data – pricing points seen in various areas as per Land Registry sold prices.

3.2.16 In terms of local market activity, we have picked up circa 140 new-build dwellings sales within our Land Registry sold prices research for the district area covering approximately the last 2 years which is latest available data.

Stage 2 (updated) results – general trends – relative to Stage 1

3.2.17 As noted above, it is not practical or necessary to discuss the updated results themselves in detail, with revisiting the Stage 1 findings and the aim of updating our overview for EFDC.

3.2.18 The notable picture is that, taking account of the latest values and costs data and including the updated policies review as per our assumptions for Stage 2, a great majority of appraisals have produced RLVs either in excess of or significantly in excess of the Stage 1 RLV outcomes.

3.2.19 This positive effect is essentially seen across the board except for on the smaller sites scenario updates, covering the tests of up to 10 dwellings. Those in general have not matched such a positive trend based on the updated assumptions used – more on this is provided below.

Small housing sites (< 11 dwellings)

3.2.20 This continued Stage 2 commentary (based on the updated results at Appendix IIa) is now provided for wider information only and as above relates now more to a potential CIL or similar perhaps, reflecting EFDC’s further developed AH policy consistent with government policy at 11+ dwellings. We should note that the testing scope includes scenarios of 9 and 10 dwellings too, should there need to be any adjustment responsive to other national policy developments around this.

- 3.2.21 The smaller sites RLV results (as per Appendix IIa tables 1a to 1e) are considered to remain strong in terms of general viability and deliverability, but have been seen to remain similar or reduce (although not critically by any means) relative to many of those sets seen at Stage 1.
- 3.2.22 These results also continue to reflect ongoing scope to support CIL or other equivalent planning infrastructure costs / obligations (based on our Stage 1 recommended parameters) – re-tested and reconfirmed here.
- 3.2.23 So, this means reaffirmed potential CIL charging scope using the Stage 1 overall parameters of say £80/sq. m to not more than say £225/sq. m maximum - depending on location and related suggested differential zoning (e.g. Waltham Abbey / remainder of district respectively). For 2 potential charging rate zones, as at 3.1.16 (para.s iv. and v.) above, our suggested parameters £80 to £100/sq. m and £150 to £225/sq. m respectively are still appropriate in our view as a starting point for any further consideration of CIL.
- 3.2.24 However, while we are able to continue to confirm the continued likely appropriateness of those findings, the change in the results relative to those seen for the larger sites (11+ dwellings scenarios) does now suggest that our previously identified potential to consider differentiating upwards for the CIL charging rates applicable to sites beneath the AH policy threshold should probably now be viewed with some caution.
- 3.2.25 From what we can see, this is attributed or largely due to the further increased (differential) build costs that are now allowed for following the publication of the BCIS FSB report (as noted at Appendix I and as per 2.6.1 above) – subsequent to our 2015 Stage 1 assessment report. While our experience in practice varies and we see that from site to site such higher costs are not consistently applicable or applied only to the smaller sites, we have considered it prudent in all of our subsequent assessment to use the BCIS FSB report suggested uplift factors.
- 3.2.26 On balance, with this now factored in, and also potentially as part of a relatively simple CIL charging set up, we would suggest consideration of no or only a relatively small upward differential for CIL on such sites (<11 dwellings) at this stage. As with other aspects of CIL, however, this could be looked at again in compiling the final

detail in support of a Preliminary Draft Charging Schedule, should that be pursued in Epping Forest District.

3.2.27 Included as assumptions as far as relevant, all other development and policy costs alongside the baseline CIL assumptions are included and supported by the outcomes.

Larger housing sites (11 + dwellings)

3.2.28 On the basis of a continued very positive set of results, largely improved over Stage 1 despite more policy costs allowances (e.g. in relation to Building Regulations on accessibility), overall our assessment is again that 40% AH remains a suitable target from a viability viewpoint.

3.2.29 Again, we would not recommend consideration of a higher target in any instance as a mainstream policy position. This remains due to what we could see from the Stage 1 results and also “protects” the need to support the full range of development costs and obligations; including headroom for a potential CIL (or perhaps a LIT) to raise a meaningful and suitable level of infrastructure contributions – again, re-tested here to include CIL costs at the previously recommended parameter levels.

3.2.30 Again, the same Stage 1 findings on likely CIL charging scope potential (as noted above) are considered appropriate.

3.2.31 We can confirm that we consider the EFDLP emerging policy set not likely to cause an undue level of negative impact on development viability.

3.2.32 Overall, we consider there to be reasonable prospects for achieving viable development across a range of scheme and site types, and we note that a continued reliance on contributions to overall housing growth from a wide range scenarios and locations is positive.

3.2.33 However, we consider it appropriate to note some uncertainties – aspects perhaps for EFDC to consider in further working-up or finalising policy positions – as may influence viability. These points will be noted in the following section on standards and other policies below.

3.2.34 First, though, we will also consider the Stage 2 assessment work and current viability results in respect of the updating on strategic sites prospects – new appraisals as per the scenario tests and results at Appendix IIb.

Strategic Sites

3.2.35 Using information available during the study process and up to the time of reporting, we have appraised scenarios considered representative of the Harlow fringe sites / proposals at Latton Priory (SP5.1 - indicatively 1050 dwellings), Water Lane Area (SP5.2 - indicatively 2,100 dwellings) and East of Harlow (SP5.3 - indicatively 750 dwellings as part of a much larger site (3,350 dwellings) that crosses the boundary between Epping Forest District and Harlow Councils).

3.2.36 These scenarios are outlined at Appendix IIb, which includes distinct assumptions as part of the Summary Table with the appraisal summaries also included.

3.2.37 The Appendix IIb Summary Table shows, using the information and assumptions supplied by EFDC and updated throughout our later project stages, for each site or development area considered in this way (viewing from left to right across the table):

- Site / EFDLP policy reference;
- Included AH % (all tests at 40%);
- Site location (Harlow fringe);
- Assumed (as per EFDC information) gross (total) and net (developable) site areas;
- Indicative average densities on developed areas (assumed at 35 dph in each case);
- Indicative (no of.) dwellings - capacities;
- ‘Sensitivity test’ – for each site 2 exploratory levels of land value (@ £250,000 and £370,000) have been appraised; also in combination in each case with a

potential nil CIL and a CIL at the full higher end parameter of £225/sq. m 'rest of district' maximum suggested potential charging rate from Stage 1.

- The land cost (in £m) assumed in total, on the basis of the above assumptions fixed within the appraisal – in the case of these appraisals this is equivalent to the stated land costs acting as a benchmark land value;
- Penultimate column - the indicative total £ surplus (residual) after allowing for the stated land cost, assumed profit, affordable housing at 40%, CIL as stated in each case, and all other development costs. These are current stage results of the development generated funds potentially available to support costs or obligations that have not been identified / settled or allowed for at this stage (again see the assumptions);
- Final (right hand end) column – that same indicative surplus figure, also expressed as a £ per dwelling equivalent (based on all dwellings – assumed scheme total number).

3.2.38 It should be noted that the surplus figures are necessarily current stage assumptions and review based results. This is a high-level picture that could and most likely will alter as more information becomes known about the sites and market conditions vary, etc.

3.2.39 As per the review process outlined above, however, the results show a reasonable prospect of viable development with potential to support a substantial package of s106 measures or equivalent in addition to affordable housing, with the latter targeted and assumed to be included as per the envisaged impact of the proposed policy (40% AH). This is in accordance with our Stage 1 findings, wider Stage 2 update findings and emerging EFDLP policy.

3.2.40 The exact nature of the s.106 or equivalent requirements that may be viable at a site-specific level will not usually be determined until the planning application stage.

3.2.41 From the results here, EFDC is able to see the potential trade-off picture – combination varying but potential balances achievable between affordable housing and other obligations / matters; all subject to how the site-specifics begin to pan out

and then develop of course. The Council may be able to begin to consider how the included policy and development costs allowances combined with the indicative potential surpluses (most appropriately viewed as likely maximums in our view) compare with the developing picture of information for these locations and sites; and how its ongoing review of this might be extended to any additional / abnormal works implications and costs not covered by the assumptions to date.

- 3.2.42 Overall, the range of results indicates that the Council is planning development that is very likely to be viable, albeit (and as is always necessarily the case) with the achievable planning obligations packages needing detailed resolution in due course.
- 3.2.43 This mirrors the general site typologies related findings (as per the Appendix IIa results).
- 3.2.44 It follows that the results provided here should at this stage be considered as approximate maximums based on the values and other assumption used. Changes in assumptions, even if apparently small, e.g. owing to unidentified abnormal costs / potentially negative viability outcomes from other forms of development or any necessary land value flex – can have an impact on the overall results.
- 3.2.45 It is possible that where robust justification is provided by a developer, the Council may need to review viability in specific circumstances, and not just in the strategic site cases. This reflects wider experience in practice, and not just in EFDC's case, and will involve working with the development industry to ensure optimum delivery in areas such as affordable housing and its tenure mix, the degree to which additional sustainability measures (e.g. beyond building regulations requirements prevailing at any point) and / or other matters, etc., might be accommodated given detailed review at appropriate points.
- 3.2.46 Additional to the base results (as reported at the Appendix IIb Summary Table) the appraisal summaries in each case also display tabled outcomes of sensitivity tests – see the page 5 sheet of each Argus summary. Those have been run within the Argus software and again follow a standard reporting format to look at the revised surplus (or deficit, where bracketed) figures that result from varying assumed combinations of values rising or falling and / or build costs rising or falling from the current base assumptions levels.

- 3.2.47 In each of these 'Sensitivity Analysis Report' grids, the base level outcomes are those seen at the centre point – where the outcome from a '0.000%' 'Construction: Rate pm²' adjustment (from base) in combination with a '0.00 pm²' 'Sales: Rate pm²' adjustment is seen. This is shown as a nil or very close to nil figure.
- 3.2.48 With the assumed land cost, a fixed input in all cases, the variable profit figures shown as positives (non-bracketed) or negatives (bracketed figures) indicate the increased or reduced total surpluses available under varying combinations of increased / reduced values and / or increased / reduced costs. This is aimed to provide additional information to EFDC, linked to the points necessarily made above and illustrating how the outcomes are sensitive to the assumptions used at a particular point in time – they are very likely to be seen to move around.
- 3.2.49 This further information suggests a capacity for values growth to balance out and probably outweigh build costs increases over time, but only through time will it be seen how this actually pans out. With increasing values, the indicative potential surplus quickly grows in each case, and likewise it is also decreases markedly with a reduction in values compared with the base assumption at £4,000/sq. m, particularly alongside rising build costs.
- 3.2.50 These additional sensitivity tests use trial steps producing comparative outcomes (i.e. RLV results equivalent to those at Appendix IIb Table 2b column '1') based on values moving up and down by £250/sq. m increments from base levels; and/or build costs moving up and down by 2.5% increments from the stated base levels.
- 3.2.51 It must be acknowledged that these again are all high-level tests, consistent with the wider assessment of development scenarios relevant to the EFDLP.
- 3.2.52 Based on the limited level of available site-specific knowledge and detail to this point, which again is not unusual in our wider experience, our appraisal approach is consistent with that we have used in other cases and seeks to inform an indicative potential level of funding that could be available to support s.106 and / or CIL related infrastructure costs (as well as any other currently unidentified costs).
- 3.2.53 The approach also includes developers' profits fixed for the assessment purpose at 20% GDV (market sale housing) and 6% GDV (affordable housing) along with a fixed

land cost and all other usual development cost allowances, including finance, allowed for. Again, purely related to the assessment purpose, the sensitivity of results to land value variance has been tested through the use of land value levels (representing greenfield enhancement value, subject to planning and unserviced, with the prospective developer meeting all development costs) at both £250,000 and £370,000/Ha applied to the gross (whole) potential site area.

- 3.2.54 To date our experience of CIL and its interaction with strategic sites proposals has generally been that by the time the site-specific infrastructure and development mitigation needs are costed in (and usually secured through a negotiated s.106 agreement that also ensures the delivery of infrastructure in a timely way to support the development progression), little or no financial viability scope also remains with which to fund CIL payments.
- 3.2.55 From what we can see here, we would not expect these scenarios to be any different. In the results overview table at the front of Appendix IIb we can see how the inclusion of CIL (for the time being in this case at £225/sq. m) reduces significantly (very approximately halves) the potential surplus for s.106 and/or other costs not currently factored in. Assumed in conjunction with the higher land value test (potentially also representative of currently unforeseen costs) the potentially available surplus falls to a negative level (effectively a nil surplus) in the case of Latton Priory and east of Harlow, and a much-reduced surplus equivalent to circa. £7,000/dwelling at the Water Lane Area.
- 3.2.56 Nevertheless, the findings related to the 'nil CIL' tests at our base land cost assumption of £250,000/Ha, which indicate potential surpluses per dwelling (all dwellings) in the range approximately £14,000 to £28,000 per dwelling after allowing for all other usual development costs for schemes of this nature. Included within those development costs assumptions, we have allowed for site-wide works – enabling and onsite infrastructure – at an equivalent of £32,000/dwelling; a level used from DSP's previous experience and placed at this stage well above the Harman report suggested parameters of £17-23,000/dwelling for this assumption.
- 3.2.57 Overall, we consider that these strategic sites early stages review outcomes certainly suggest reasonable prospects for viable development. However, the Council will need

to consider the indicative surplus outcomes compared with its developing picture on likely significant planning obligations costs as more detail / cost information emerges.

3.2.58 Therefore, we suggest that these scenarios and outcomes could usefully be reviewed further as the EFDLP proposals progress, and as the Council's work with involved development interests builds up.

Dwelling details / specification - Housing Standards - Optional housing / technical standards and other policies

3.2.59 **Proposed policies H1 (Housing mix and accommodation types), H2 (Affordable housing), DM9 (High quality design) and DM10 (Housing design and quality).** Dwellings sizes meeting the Nationally Described Space Standard have been assumed throughout, and the results indicate scope to support the use of this if required and appropriate locally – from a viability viewpoint only. It should be noted that we have not considered the needs aspects, which EFDC would also need to do as part of evidencing the justification for the inclusion of explicit policy requirements on this.

3.2.60 EFDC proposed policies also look set to require housing to meet the Building Regulations standards on the Use of and Access to buildings – related to Part M(4). However, we consider it likely that the final policy wording will need to clarify the nature and extent of the requirements. The Council has informed us that its intention is to require all new dwellings to meet Building Regulations Part M4(2) and this is the basis on which our tests have been run. Our view is that, as currently drafted, the specific policy requirement is not clear. The Council could consider reviewing the policy wording.

3.2.61 As the level most likely to impact on scheme viability, we have included an assumption that all dwellings meet the national optional enhanced requirements M4(2) across all tests. Of course, across a great variety of schemes, this this may not be achievable in practical terms in absolutely all scenarios; or may not be achieved viably. Perhaps this is more aspirational, but in any event the costs associated with this have been included within our assumptions for all Stage 2 tests. From this point of view, i.e. purely looking at financial viability and assuming any practical implementation issues are overcome, we can support such a policy. This is not ruled-

out on pure viability grounds here – the strength of the relationship between costs and values remains sufficient.

3.2.62 Based on the available information, and although it is not clear at this stage whether EFDC will specifically seek any planning policy led provision, on viability grounds we would again not rule out the possibility of a small element of housing being provided to the further enhanced M4(3) requirements – full accessibility e.g. for wheelchairs. As above, we have run a range of sensitivity tests on this. The results appear to remain strong enough with up to 10% or more assumed M4(3). However, assuming up to a circa. 10-fold cost compared with meeting M4(2) as per the recognised source of costing (as noted above and see Appendix I), clearly there is a limit to how far any explicit requirement could go. The fact that such added costs will not impact in isolation is also highly relevant to keep sight of. We can see from example how the RLV results fall when the M4(3) costs are added to a scenario that includes 40% AH and also assumes CIL costs at the upper-end parameter from our Stage 1 assessment work. The cumulative costs view is key.

3.2.63 In general, recently we are finding local planning authorities starting to look in some cases at generally not more than very small percentages of such dwellings – say 2 to 5% - and generally (if a strong aspiration or firm requirement) on larger sites only. We are also seeing some Councils considering this in conjunction with the affordable housing elements of schemes - looking to align their seeking of M4(2) and potentially a low level of M4(3) compliance entirely or largely to the affordable elements of developments. This appears to have the effect (or potential outcome) of both limiting the seeking of additional requirements to a potentially more attainable or at least practically deliverable level overall; and seeking to ensure that a reasonable proportion of dwellings can be genuinely market-led – i.e. unfettered in terms of various planning policy requirements effecting design and/or tenure of occupation. With some of the optional additional requirements being independent of each other and needing to be accommodated separately (as per M4(2) and M4(3) which are distinct requirements), this appears to be worth bearing in mind.

3.2.64 Overall, from the assumptions and further sensitivity test results it can be seen that M4(2) compliance is a significantly more affordable measure – greatly less viability impacting - than M4(3). We reiterate that these are exclusive standards – i.e. a

dwelling would be provided either to base Building Reg.s (M4(1)) or to one of these two enhanced specification levels.

3.2.65 Proposed policies DM9 & DM19 – High quality design & Sustainable water use. We have assumed all dwellings built to (former) Code for Sustainable Homes Level 4 equivalent standards under the Building Regulations in respect (only) of equivalent energy and water usage efficiency standards (i.e. water usage to a maximum 110 litres/person/day) being met.

3.2.66 In terms of sustainable construction related to energy usage (carbon reduction) our additional 2% contingency on base housebuilding costs ensures scope to provide items or specification enhancements that might be considered extra-over requirements - as part of the prudent approach to assumptions setting. Although this additional contingency might well not be needed given the passing of time since the raising of standards to current level under the Building Regulations, and in our experience this type of allowance is no longer regularly added expressly in site-specific cases, leaving in this cost assumption provides some additional scope within the results – contributes further to ensuring that viability not explored to its margins.

Open Space - proposed policy DM6 – Designated and undesignated open spaces

3.2.67 On completing or full draft reporting, we were supplied with an update relating to the Council’s Final Report October 2017 – ‘Open Space Strategy’. This considers deficiencies and potential requirements. Based on our interpretation of this, we added a set of sensitivity test in which we increased our assumed “land take” on a 100 mixed dwellings trial scenario. These added tests outcomes are included within the penultimate table at Appendix IIa – Table 1r.

3.2.68 In that trial / example appraisal set, the effect of our assumption based on the above (our interpretation is (in round figures) and added 1.7Ha to our base assumption site size requirement of approximately 2.9 Ha.

3.2.69 This clearly has the effect of “diluting” the residual land value greatly, so that viewed in RLV £/Ha terms the RLV is seen to fall to approximately 63% of its base level (as seen at Table 1o) – pre-additional open space assumption.

3.2.70 On the face of it, it appears that further consideration to the scoping and detail of any such policy may be needed, if indeed its impact is potentially as we have envisaged here. Whilst the signs are that this could be supported in greenfield site land value enhancement circumstances, it appears that such an expectation could place great pressure on the viability and deliverability of other more constrained scenarios – most PDL sites. On many sites, influencing as we have assumed it might, this could have the effect of unduly constraining deliverable housing numbers – on the basis that an available land area cannot usually expand readily and without significant additional cost.

3.2.71 These are points put forward for EFDC to consider. We acknowledge that an alternative interpretation of the needs and emerging strategy might well be relevant.

Elderly & Specialist Housing

3.2.72 DSP's consistent assessment findings are that housing-led development of all types (i.e. including sheltered / retirement housing for independent living) should not be differentiated for in comparison with the approach to the wide range of residential development forms falling within use Class C3 in general. These more specialist forms of housing are part of the wide spectrum of market housing provision, within which there is inevitably great variety.

3.2.73 These may or may not include an element of accommodation available for or supporting "assisted living" or similar, but in our view where they are residential rather than care-led (and so fall within Use Class C3) should generally be no less viable than market housing where they are commercially approached developments offering apartments or similar for market sale as the primary driver. In those cases, the apartments would very often command premium level values as new-builds and they form part of the wide-ranging provision within the spectrum of market housing.

3.2.74 The viability picture on this is however quite different to that relating to accommodation for care provision – typically C2 use where the viability picture may be more marginal. The particular nature of a specialist housing scheme would be considered when considering any planning application. Any policy / requirement for wheelchair adaptable / accessible housing will need to bear in mind the significant cost of achieving those goals if applicable here (as set out above).

3.3 Commercial / Non-Residential

- 3.3.1 With any further consideration of an EFDC CIL held pending the EFDLP work progression, our main focus on the continued reporting for Stage 2 has been on residential development.
- 3.3.2 On review of the market and related assumptions on values (rents and yields etc.) and costs, we continue at this stage to point to the ongoing relevance in general of our Stage 1 CIL viability assessment findings for the Council. The following commentary reflects this view, again for EFDC's information.
- 3.3.3 At the point of this Stage 2 reporting, our understanding is that the strategic housing site locations are also likely to provide a focus for intended delivery of additional commercial employment development provision for the district. However, based on the available information to date, the level of provision required is relatively low overall, although with further details to be worked up. The residential review emphasis appears entirely appropriate here, particularly bearing in mind that a local planning authority's scope of influence over the viability of non-residential development is much less significant than the impact that its locally determined housing development policies (such as on affordable housing) invariably have.
- 3.3.4 Generally poor viability results were seen while considering potential CIL charging scope as part of the Stage 1 scenario tests. The exceptions to this were those representing large format retail (supermarkets, superstores, retail warehousing) and to a lesser extent other / smaller format retail. Amongst the poor results were those representing the B (business/employment) Use Class development types. These findings were not unusual in DSP's wide experience of undertaking viability assessment and review work. We have found the same more recently across a range of assessments.
- 3.3.5 The high-level study outcomes do not necessarily mean that development will not be delivered, however. Based on using appropriate assumptions for the assessment purpose only, the outcomes show that development is unlikely to occur generally, and particularly not on a speculative basis. Experience shows that such developments can be brought forward where occupiers and investors have specific business reasons. For the purpose of CIL and Local Plan viability, we have to use particular

assumptions and cannot allow for economies of scale or a potential acceptance of lower build and development costs, lower profit requirements and so on.

3.3.6 Overall therefore we are of the opinion that previous commentary and findings set out in the Stage 1 assessment remain valid currently. In respect of commercial / employment development creation, some challenges must be acknowledged in most local authority areas but that broadly large format retail and to a lesser extent; smaller format retail should continue to be viable forms of development across the district. In addition to seeking to ensure that the approach to planning obligations (including any future CIL) does not add further uncertainty to potential investment, the Council could consider the following types of areas and initiatives (outside the formal scope of the brief for this assessment, but put forward purely as practical information):

- Consideration of market cycles – Plan delivery overall is about longer-term growth as well as short term promotion; and management of growth opportunities that will contribute to the bigger picture;
- Working with the market – being responsive etc. as suitable opportunities are identified;
- Regenerating / improving and protecting key existing employment areas;
- Providing land where assessed to be and of the type most needed;
- A choice of sites and opportunities – working with the development industry to facilitate appropriate development and employment / economic improvement generating activity when the timing and market conditions are right;
- Consideration of how location is likely to influence market attractiveness and therefore the values available to support development viability. Alignment of growth planning with existing transport links and infrastructure, together with planned improvements to those. Considering higher value locations for particular development use types;

- Specific sites / locations and opportunities – for example in relation to the Plan proposals and what each are most suitable for. Focus on the most accessible, best and most valuable locations for particular uses;
- Mixed-use development with potential for cross-subsidy for example from residential / retail to help support the viability of employment (business) or other development – balance the element in deficit or with reduced viability;
- Scenarios for any particular or specialist uses related to the strengths and most established / growing sectors in the local economy; or that may be non-viable as developments but are business-plan / economic activity led;
- Explore any local specialisms or particular industries / sectors from which economic advantage and stimulation of other activity can be made;
- As with residential, consideration of the planning obligations packages again including their timing (triggers) as well as their extent.
- A likely acceptance that business development overall is unlikely to be a significant regular contributor to general community infrastructure provision in the short-term at least.
- Seeking other investment and considering incentive schemes.

3.4 Additional commentary and next steps

3.4.1 We consider that the above identifies scope to find the appropriate balance between affordable housing needs, other planning policy objectives and scheme viability. This is consistent with our wider experience of successful Local Plan and Affordable Housing related DPD evidence and Examination outcomes, as well as the detail of affordable housing and other planning policies and viability factors in operation in practice.

3.4.2 In our view, at a “Whole Plan” level, we consider the range of development scenarios and policies to be contained within and supporting the EFDLP to have good prospects of delivery - i.e. to be capable of meeting the requirements of NPPF 173 / 174, the

cumulative impacts of which are unlikely to unduly undermine viability at the overall EFDLP delivery level.

- 3.4.3 Wherever pitched, the policies need to be accompanied and explained by appropriate wording and guidance that sets out the strategic context and nature of the targets but also recognises the role of viability in implementation.
- 3.4.4 Where robustly justified by a developer, a practical approach may need to be acknowledged - which can be responsive to particular circumstances - those will continue to be highly variable with site specifics. The need for this type of approach is likely to be particularly important in the event of ongoing economic and market uncertainty such as we still have at the current time.
- 3.4.5 As discussed in the report introduction, at this stage individual infrastructure costs have not yet been accounted for, given that cost estimates are in some cases not yet available. The Council will continue to assess and consider the viability of proposals relating to the Local Plan, taking into account any changes to the CIL Regulations and proposed arrangements for s106 pooling and CIL.
- 3.4.6 As noted at 3.2.71 – 3.2.72, we recommend that in further refining its approach the Council continues to consider the details of the Open Space policy. The same applies to the policy wording on the local expectations or requirements for new dwellings to comply with Building Regulations Part M4 (2) – Policies H1 and H2.
- 3.4.7 This viability evidence will need to be considered in conjunction with wider evidence on housing needs and the shape of site supply (type, location and size of sites coming forward).
- 3.4.8 It will be also be essential to monitor, review and keep up to date evidence associated with the policies as part of finalising and maintaining a sound and deliverable overall approach; unavoidably recognising the dynamic nature of all of this.

Limitations

The purpose of the assessment reported in this document is to inform the Council's on-going work on further refining and progressing the policies of the emerging Epping Forest District Local Plan (EFDLP) and its work towards a potential Community Infrastructure Levy (CIL) Preliminary Draft Charging Schedule (PDCS). This Stage 2 assessment updates DSP's previous, Stage 1, viability assessment.

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.

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.

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.

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 test scenarios are unlikely to be appropriate for all developments. 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 policy development.

Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated, therefore the indicative surpluses (or other outcomes) generated by the development appraisals for this review will not necessarily reflect site specific circumstances.

Accordingly, 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 individual 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 Stage 2 assessment and therefore take into account the cumulative cost effects of policies where those are relevant.

Final Report ends (DSP v9)

November 2017

Assessment work supported by:

Richard Dixon BSc (Hons) MRICS CIHM (Director)

Rob Searle BSc (Hons) MSc CIHM (Director)

Helena Jones BSc (Hons) – Office & Projects Manager

Rachel T Solani – Administration and Research Assistant