

Executive
Summary

Local Plan Viability Study

Horsham District Council



Horsham
District
Council

November 2023

Quality Assurance

Date of Report

November 2023

Version

v1.0

Filename and path

L:_Client Projects\1909 Horsham Local Plan Viability Study_Horsham District Council\2308 Horsham DC Plan Review\2311 Executive Summary\231009 Horsham Local Plan Viability Assessment Executive Summary_Horsham District Council_v0.3.docx

Prepared by

Matthew Olive MRICS, Associate Director

Checked by

Parminder Dosanjh MRICS MRTPI, Executive Director

Date

06 November 2023

Authorised by

Parminder Dosanjh MRICS MRTPI, Executive Director

Date

06 November 2023

Limitation

This report has been prepared on behalf of and for the exclusive use of Aspinall Verdi Limited's Client and it is subject to and issued in connection with the provisions of the agreement between Aspinall Verdi Limited and its Client. Aspinall Verdi Limited accepts no liability or responsibility whatsoever for or in respect of any use of or reliance upon this report by any third party.

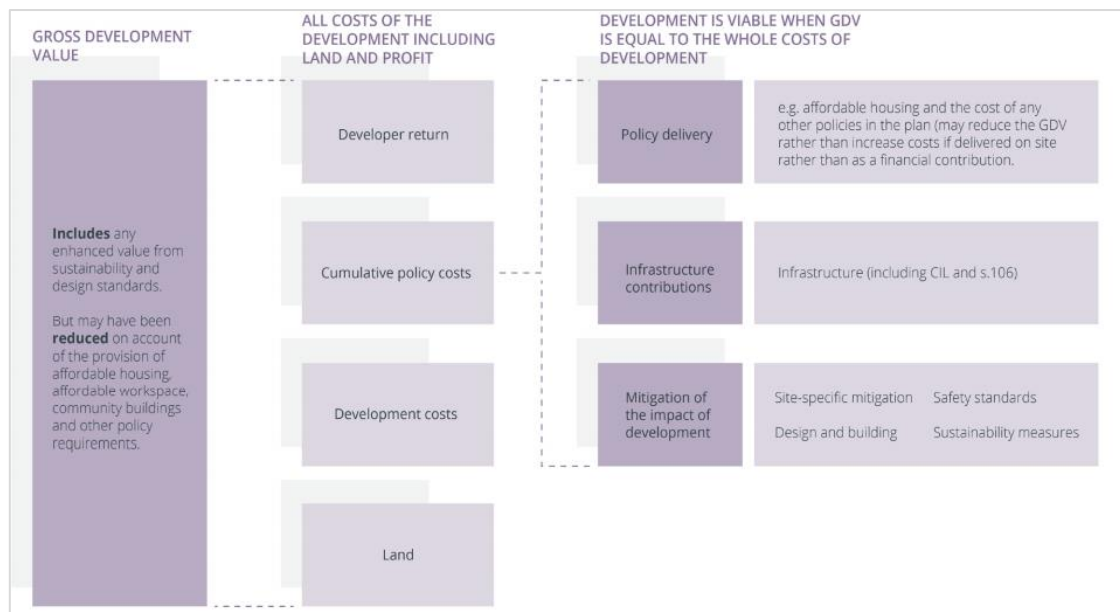
Executive Summary

- ES 1 AspinallVerdi have been instructed by Horsham District Council (hereafter referred to as “the Council”) to undertake an updated viability assessment of the Horsham District Local Plan 2023 – 40, Regulation 19 Version (December 2023). This report follows on from our previous assessment at Regulation 19 stage which was submitted to the Council in July 2021, along with a subsequent unpublished version in December 2022.
- ES 2 As demonstrated in the main body of this assessment, **the policies included within the Regulation 19 Local Plan are viable and hence deliverable**. We have tested the policy requirements against development typologies based on the sites which are expected to come forward during the plan period. This includes specific testing of the strategic sites which are being considered for allocation.
- ES 3 In making our assessment we have had regard to the following:
- National Planning Policy Framework (NPPF)
 - Planning Practice Guidance (PPG)
 - Local Housing Delivery Group publication ‘Viability Testing Local Plans’, 2012
 - RICS Financial Viability in Planning: Conduct and Reporting, Professional Standard, 1st Edition, May 2019
 - RICS, Assessing viability in planning under the National Planning Policy Framework 2019 for England, Professional Standard, 1st Edition, March 2021

Approach

- ES 4 We have run a series of development appraisals using a bespoke Microsoft Excel model. The model calculates the viability surplus / deficit for each scenario with results displayed in a series of tables. Figure ES 1 summarises the formula used in the model to assess development viability.

Figure ES1 - Viability Assessment Components



Source: RICS, April 2023.

ES 5 The components included within the appraisals have been informed by a robust review of market evidence. We summarise the approaches taken for the key inputs below:

Values

ES 6 Residential and commercial values are based on a detailed analysis of the local property markets in Horsham District and supported by a separate report appended to this study. The property market report draws on published data from the Land Registry and CoStar (commercial property database), as well as trends from market commentaries and consultations with local agents. In turn, this data has been used to inform the value assumptions for both residential and commercial development expected to come forward during the plan period. Our property market analysis has been updated as of October 2023.

Development Costs

ES 7 Devised from recognised published data such as the RICS Building Cost Information Service¹ (BCIS) and comparable schemes being delivered across the District. For the strategic sites, costs have been informed through consultations with the promoters and their advisors, including any expected infrastructure and abnormal costs. This has been updated as of October 2023.

¹ As recommended by the PPG and RICS Professional Standard

Policy Costs

- ES 8 We have reviewed the policy requirements proposed in the Regulation 19 version of the plan (see Policy Matrix in Appendix 4). Those policies that will have a direct cost to development have been reflected in the appraisals. Policy costs that have been incorporated into our testing include on-site affordable housing, biodiversity net gain, improving housing standards (M4(2) and M4(3)), water neutrality, sustainability & carbon reduction, Community Infrastructure Levy (CIL), and electric car charging points. Education contributions have also been considered in the strategic site testing.
- ES 9 Affordable housing provision has been tested at 70% affordable rent; 25% First Homes and 5% intermediate / shared ownership. From this baseline tenure split, we can make recommendations on the level of affordable housing that is viable across the District.
- ES 10 As part of this assessment, we have also undertaken sensitivity testing on the tenure mix to demonstrate the impact of reducing the affordable rent contingent by half and replacing it with 35% social rent. Please refer to the appendices for further information.

CIL

- ES 11 In the adopted Horsham District Planning Framework (2015), two strategic sites were zero-rated for CIL (Land North of Horsham and Kilnwood Vale). A CIL review would be required for future strategic sites to be zero-rated. Accordingly, our testing has included CIL, as the sites are not currently zero-rated, with the findings to inform (amongst other things) whether a CIL review is required for strategic sites.
- ES 12 Including CIL on strategic sites may mean an element of double counting with the assumptions used for S106. Planning obligations must only be sought where they meet all of the following tests:
- a) necessary to make the development acceptable in planning terms;
 - b) directly related to the development; and
 - c) fairly and reasonably related in scale and kind to the development.
- ES 13 Notwithstanding the latest changes to the CIL Regulations (2019) which remove the requirements for a Regulation 123 list of infrastructure, these tests ensure that Local Authorities cannot charge S106 or CIL twice ('double-dip') for the same infrastructure (as this would not be fair and reasonable). The Council will need to ensure no double counting does occur.

- ES 14 The Levelling Up and Regeneration Bill included proposals for the introduction of a single Infrastructure Levy (11 May 2022). The Bill set out the framework for the new Levy and the detailed design will be delivered through Regulations.² The aim is to introduce the Levy through a ‘test and learn’ approach. This means it will be rolled out nationally over several years, allowing for careful monitoring and evaluation, to design the most effective system possible.
- ES 15 The Levelling Up and Regeneration Bill received Royal Assent on 26th October 2023 and is now an Act of Parliament. Sites permitted before the introduction of the new Infrastructure Levy will continue to be subject to CIL and Section 106 requirements, and this is the basis upon which our assessment has been undertaken. Under advice set out by the Chief Planner, this assessment has continued to support the preparation and adoption of the Local Plan based on the current adopted system.³ This has been maintained recently by the Secretary of State, who has encouraged authorities to continue adopting ambitious local plans whilst the new regulations, policy and guidance are being finalised.⁴

Developer’s Return / Profit

- ES 16 The testing reflects the range set out in the PPG of between 15% - 20% on gross development value (GDV). It is widely accepted that the risk profile on affordable units is lower as developers have an end-user and benefit from a golden brick payment structure (i.e. income received during the construction period). Therefore, affordable housing has been tested at 6% profit on GDV.

Land Value

- ES 17 Determined using the Existing Use Value plus Premium method (EUV+) – as set out in the PPG. For greenfield sites, we have referred to agricultural land values across the District and applied a multiplier premium. For brownfield sites, a bespoke approach has been adopted to reflect the nature of the sites and comparatively lower amount of development expected to come forward.
- ES 18 Those sites within the plan which are considered brownfield by strict definition (i.e. contain a permanent structure) are also shown to include further areas of undeveloped land within the wider red-line boundaries. As such, we have applied a brownfield EUV to the existing developed components of the sites based on low-grade employment land, along with a greenfield value on the remaining undeveloped areas of these sites. This means the viability is not disproportionately burdened by the higher land costs associated with entirely brownfield sites.

² Policy paper, Levelling Up and Regeneration: further information, Published 11 May 2022

<https://www.gov.uk/government/publications/levelling-up-and-regeneration-further-information/levelling-up-and-regeneration-further-information>

³ MHCLG, 2020, Planning Newsletter No. 3.

⁴ Planning Resource, 2023. <https://www.planningresource.co.uk/article/1844478/gove-tells-councils-pragmatic-viability-challenges-continue-plan-making-ahead-imminent-nppf-update>

ES 19 It is important to note that EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value⁵. As part of the updated study, we have undertaken a revised assessment of land values across the District to ensure the assumptions remain reasonable – this is provided in Appendix 6.

ES 20 It is important to stress that, should any development incur further site-specific costs in addition to those identified in this study, then these costs will need to be reflected in a reduced land value – this approach follows both the Viability PPG and RICS Professional Standard.

Nature of Testing

ES 21 The viability testing has considered both residential and non-residential growth identified in the Regulation 19 Local Plan, as follows:

Residential

ES 22 The residential testing is based on a typology approach, as promoted in the Planning Practice Guidance on Viability. This allows sites to be grouped together based on shared characteristics such as location, size, density, value zone and whether they are brownfield or greenfield. Please note that the typology approach does not extend to the shortlisted strategic sites, which have been tested separately.

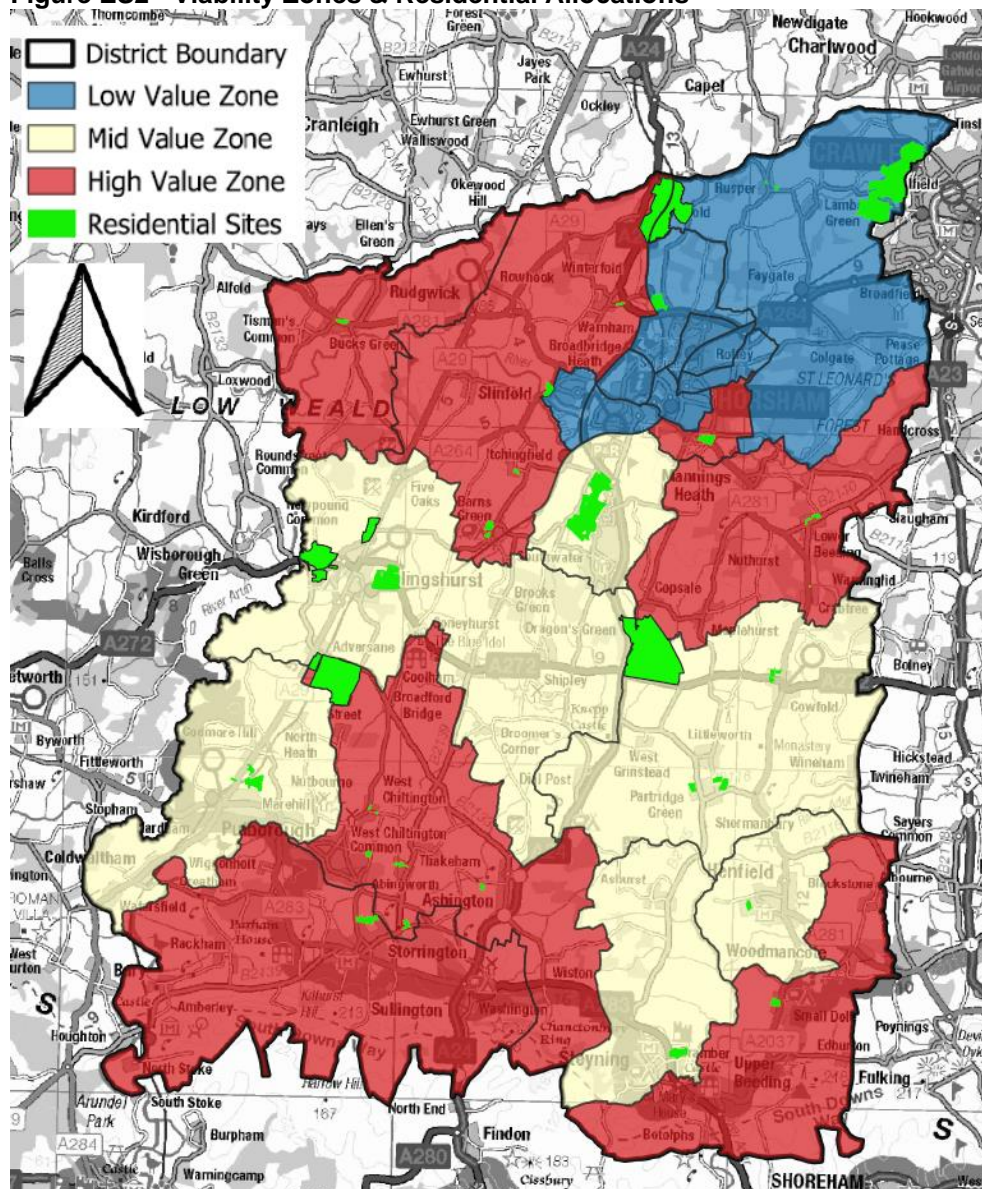
ES 23 The typologies adopted in this viability assessment are based on the sites included within the Council's Regulation 19 Site Assessment Report⁶ (SAR, August 2023) and those proposed for allocation within the Local Plan. Given the comparatively lower number of brownfield sites, we have also included two typologies based on 'windfall' development which has come forward on brownfield sites within the District in recent years.

ES 24 In determining the typologies, the guidance allows us to vary the viability testing by value zones. We have considered new-build sold prices of schemes across the District, including an analysis of individual unit prices, sizes and £ / psm rates. Based on our updated residential market review, we devised three value zones to use in the testing. We then overlaid the proposed development pattern to determine the type and size of sites expected to come forward in each value zone, as shown in Figure ES 2.

⁵ Para 015 – Existing Use Value (EUV)

⁶ Section 3.02 – Sites with potential for allocation for housing development

Figure ES2 - Viability Zones & Residential Allocations



Source: AspinallVerdi, 2023.

ES 25 The guidance also allows us to vary the testing by greenfield and brownfield development. We have therefore analysed the pattern of proposed development in each of the three value zones by land type. It was clear through this analysis that the majority of planned growth is on greenfield land, with brownfield yielding less than 3% of all planned residential growth (excluding strategic sites).

ES 26 In the formation of the generic development typologies, we have also considered the gross and net densities of sites expected to come forward, along with the housing mixes set out in the Council's latest Strategic Housing Market Assessment (SHMA).

- ES 27 For the strategic site testing, we undertook consultations with the landowners, promoters and developers associated with those seeking allocation in the emerging plan. We requested the relevant parties complete a proforma detailing the nature of development, site-specific circumstances (i.e. opportunities/constraints), ownership details and their approach to viability testing. We also undertook a series of virtual meetings which lasted between 1 – 2 hours. These consultations aimed to understand the nature of development that is being promoted and how the site-specific circumstances may influence viability in the context of the emerging policy requirements. All consultations were updated and completed during October 2023.
- ES 28 Where viability inputs were provided by the landowners / promoters, we asked for supporting evidence to verify their inclusion within the testing. We then benchmarked their inputs against our own evidence base and published data. Where we have agreed with the inputs, we have adopted the same costs and values in our appraisals. Where we have disagreed, we have made appropriate adjustments based on the evidence collated.

Older Persons' Accommodation & Build to Rent (BTR)

- ES 29 Our testing has considered the provision of age-restricted accommodation, as this is what is typically provided by private developers. The typologies are based on schemes which have been delivered in the District and surrounding areas.
- ES 30 Similarly, our build-to-rent typology is based on our experience of undertaking site-specific viability assessments along with the typical size thresholds sought by the market.

Non-residential

- ES 31 Grouped into the non-residential testing are comparison and convenience retail, office and industrial uses. These typologies have been based on the sites proposed to come forward and the schemes developed locally and regionally.

Viability Testing Results

ES 32 The following results and recommendations are based on the evidence set out in this viability report and the objectives set out in the Regulation 19 version of the Local Plan.

Generic Typologies

ES 33 The results of the generic typology viability testing are summarised as follows:

Residential

ES 34 Our testing of the non-strategic sites has shown that the majority of non-strategic greenfield allocations are **viable with 45% affordable housing**.

ES 35 Of the 15 greenfield typologies which have been tested, three are considered marginal, whereby a positive residual land value is generated but this falls below the benchmark land value. It is noted that these three typologies are based on sites with lower residential densities. In some cases, this is explained by site-specific constraints that may require mitigation. The costs of addressing such constraints would be expected to reduce the land value, and hence we do not consider these typologies to be fundamentally unviable. Further, any site-specific proposal may seek to improve the density which will in turn assist viability.

ES 36 The typologies which are marginal account for c. 14% of planned growth (non-strategic), and hence the vast majority of planned residential development is shown to be viable with 45% affordable housing and full policy costs.

ES 37 The brownfield typologies tested are shown to be **viable with 10% affordable housing**. Four separate brownfield typologies have been tested – two are based on sites within the Council's Site Assessment Report, and two further typologies are based on the limited windfall development which has come forward on brownfield sites in recent years. The viability of one of the two windfall typologies is shown to be marginal, however this does not affect the viability of planned brownfield growth across the District.

ES 38 Land values and / or developer returns may need to be adjusted on some of the scenarios tested, however we consider such an approach to be reasonable given that, in reality, some land values could be lower than the BLVs included in our testing, which are instead used as a mechanism to test viability of developer contributions and policy requirements (as highlighted above). This

approach is also underpinned by the need to strike an appropriate balance between the developer, landowner and aims of the planning system.⁷

ES 39 As part of our sensitivity testing, we have demonstrated the impact of including 35% social rented units on the viability of both the greenfield and brownfield residential typologies. This has been facilitated by reducing the affordable rented contingent included in the baseline scenarios by half (i.e. 70% > 35%). The outcome is that the inclusion of social rented units reduces the viability of all typologies given the lower revenue generated by these tenures.

Older Persons' Accommodation

ES 40 Our testing has shown that the development of **older persons' accommodation is viable** on greenfield sites with all policy requirements and **30% affordable housing**. There are a number of additional costs associated with this type of development which reduce viability when compared to market sale housing and hence why the affordable housing requirement is lower.

ES 41 We understand through further correspondence with the Council that this type of development is expected to be delivered on greenfield sites. Further, as there are no sites within the plan which are specifically allocated for older persons' housing development, the typologies tested are based on hypothetical schemes by reference to capacities and site sizes which have been delivered elsewhere. Accordingly, it may be that viability is improved subject to scheme-specific design and location.

Build to Rent (BTR)

ES 42 Our testing has shown that BTR development is **viable with 40% affordable private rent on greenfield sites and 20% on brownfield sites**.

Retail

ES 43 **Convenience retail development is viable** and the Council can continue to deliver the CIL charge (indexed-linked), as well as biodiversity net gain and electric charging points.

ES 44 **Comparison retail viability is more challenging** and is very sensitive to changes in rents and yields. Small stores may be viable, however larger format comparison retail is less so. Given the challenges with viability, we recommend that the Council should not seek anything too onerous in terms of planning obligations and/or CIL.

⁷ Paragraph 010 of the Viability PPG which states: 'In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.'

ES 45 Retail development is identified as part of the uses on some of the strategic sites. The retail element of the strategic sites forms only a small element of the overall mix and our testing has shown it does not render these sites to be unviable.

Employment

ES 46 **Office viability is also challenging** in the current market. Office development is less viable on a speculative basis away from core cities and the Thames Valley but can become viable on a pre-let basis or for an owner occupier. The Council should not seek anything too onerous in terms of policy requirements to maintain viable development.

ES 47 **Industrial / warehouse development is viable** and provides a reasonable viability buffer, particularly on greenfield sites. There is one employment site within the plan which is in a mixed-use area comprising brownfield and greenfield land. We expect the approach to land value will follow that adopted for the brownfield residential typologies, reflecting a proportionate uplift on greenfield land values for any areas previously developed. Given the viability buffer shown from the greenfield warehouse typology, this type of site is not expected to be unviable.

ES 48 **The mixed-use employment typology was also shown to be unviable.** The inclusion of office space reduces the viability. The Council should not seek anything too onerous in terms of policy requirements to maintain viable mixed-use employment development.

Strategic Sites

ES 49 We have tested the proposed development for each of the strategic sites individually using bespoke viability models. This process has involved engagement with the promoters of each site to ensure we have a good understanding of the proposals, site-specific constraints, infrastructure requirements and timescales.

ES 50 A letter was sent to each of the site promoters which set out the need for engagement, along with a request for a virtual meeting to discuss the viability and delivery implications associated with each site. The letter was accompanied by a blank proforma which requested specific information about each site, including key viability inputs, landownership details, estimated infrastructure costs, Section 106 contributions and any specific delivery considerations. A copy of the letter and proforma are provided as appendices to the main report.

ES 51 Upon completion of the consultations and receipt of supporting information, we have independently reviewed the Promoter's submissions to ensure their assumptions and allowances adopted in their viability testing are reasonable. The allowances have been benchmarked against those adopted in our generic site testing, whilst taking any site-specific circumstances into

account. Where the Promoter's assumptions are shown to be reasonable, we have adopted their inputs. Where we believe there may be differences in the assumptions, we have substituted these with our own inputs. The purpose of this exercise is to provide an independent sense-check of the appraisals and ensure there are no significant viability or delivery concerns with the strategic sites.

Delivery Rates

ES 52 Our assessment has considered the rates submitted by the promoters based on an average number of dwellings per annum. We have reviewed the Icení Horsham Housing Delivery Study Update (November 2023) and compared the proposed delivery rates put forward by the site promoters within the plan period to ensure they are reasonable. Adjustments have been made in response to Icení's advice, or where we feel that the rate adopted by the promoter may be optimistic.

Outcome

ES 53 Our assessment has shown that all the strategic sites are viable i.e. the residual value generated in the appraisals provides a sufficient premium (multiplier) above the agricultural existing use land values. Further details on the strategic sites are summarised in Table ES 1.

Table ES 1 - Strategic Site Testing Summary

	E. of Billingshurst	W. of Billingshurst	Adversane	Buck Barn	Kingsfold	Southwater	West of Ifield
Market Resi Units	650	1,004	2,708	3,100	2,150	1,000	3,000
Total Units (inc. other resi)	650	1,004	2,858	3,100	2,150	1,000	3,000
Baseline Policy Costs	£7,471,306	£16,513,416	£54,857,451	£38,469,838	£24,584,444	£15,204,625	£35,395,875
per unit	£11,494	£16,448	£20,258	£12,410	£11,435	£15,205	£11,799
Infrastructure Costs	£13,770,900	£23,092,000	£74,120,668	£85,237,600	£66,374,800	£19,880,000	£63,120,000
per unit	£21,186	£23,000	£27,371	£27,496	£30,872	£19,880	£21,040
Promoter's Adjusted S106	£2,604,550	£14,536,916	£17,561,380	£13,026,200	£21,450,550	£3,321,000	£39,900,000
per unit	£4,007	£14,479	£6,485	£4,201	£9,977	£3,321	£13,300
Total	£23,846,756	£54,142,332	£146,539,499	£136,733,638	£112,409,794	£38,405,625	£138,415,875
per unit	£36,687	£53,927	£54,114	£44,107	£52,284	£38,406	£46,139

<p>Delivery</p>	<p>Land in multiple ownerships [REDACTED]. No minimum land payment or BLV disclosed.</p> <p>Access needs to be obtained through the existing development to the north. But may form part of land deal to re-accommodate a school site.</p>	<p>Only one landowner who is self-promoting the land.</p> <p>Parish Council support secured, included within promotion exercise. Legal obligation to enter S106.</p> <p>Appraisals show that minimum land payment / BLV can be met.</p> <p>No significant highway work constraints identified.</p>	<p>Three landowners with options in place. [REDACTED].</p> <p>Promoter BLV [REDACTED].</p> <p>Residual land in our testing exceeds promoter's BLV.</p> <p>Construction of bridge over railway line required.</p>	<p>Nine options agreements that cover the site, all held by Promoter.</p> <p>[REDACTED] based on the Reg 18 submission, our RLV is understood to be sufficient to cover land premiums including for main option.</p>	<p>Land is controlled by a hybrid agreement – [REDACTED].</p> <p>Our RLV exceeds promoter's BLV.</p> <p>Requires bridging of railway line, which is a delivery risk. Memo of Understanding entered into, with outline business case. Parcel to the west can be delivered in isolation without the need to bridge railway.</p>	<p>Two landowners with agreements in place to bring forward the site. [REDACTED].</p> <p>Technical works undertaken on infrastructure works, no known constraints identified.</p>	<p>Most of the land under single ownership by Homes England. Approvals on Heads of Terms for other parcels expected before Reg 19 publication.</p> <p>Land held through historic interest. [REDACTED]. RLV exceeds promoter's BLV.</p> <p>Western Link Road and school required to be delivered upfront.</p>
------------------------	--	--	--	--	---	---	--

Strategic Risks

- ES 54 Our viability assessment commenced prior to the COVID-19 pandemic but has been updated throughout, with the cost and value assumptions reflecting the latest published evidence. As the impact of COVID-19 has reduced, new risks have manifested in terms of inflation, increased energy prices, mortgage interest rate rises and tax rises. This is due partly to the costs associated with the pandemic, but more recently due to the war in Ukraine and cost of living crisis in the UK.
- ES 55 The assessment has considered 'buffers' to judge the margin of viability. We recommend that, in accordance with best practice, the plan-wide viability is reviewed regularly as property market cycles change. Furthermore, to facilitate the process of review, we recommend that the Council monitors the development appraisal parameters herein, particularly data on land values across the area.