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cc. Drivas Jonas Deloitte

8th July 2010

Dear Sandra

Initial Response to Greater Norwich Development Partnership Stakeholder and Public Consultation in Relation to Policy 4: Housing Delivery of the GNDP Joint Core Strategy for Broadland, Norwich and South Norfolk

This response has been produced by Housing Expectations Limited on behalf of Hethersett Land Ltd and is provided as a formal response to the Greater Norwich Development Partnership's Joint Core Strategy (JCS) stakeholder event in relation to 'Affordable Housing Viability'. Housing Expectations Ltd have considerable experience of affordable housing delivery in the Norfolk area and beyond, advising Local Councils, RSLs, developers and land owners on the formulation and practical application of affordable housing policies.

Having attended the Stakeholder consultation event on 28th June 2010, we were disappointed to hear that the methodology being used was not intended for discussion or consultation but delivered as a fait accompli. You will note from the remaining contents of this letter why we and many others at the meeting came away from the event questioning its purpose.

If it was to inform the process and methodology then the consultation should have taken place much earlier. If it was to comment upon the conclusions reached then the event needed to be held before DJD had submitted their recommendations to the GNDP. As it was we felt the timing of the event did not serve either purpose.

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As the audience consisted of landowners, developers and site promoters, there was a wealth of knowledge and experience of the local Greater Norwich market which could have been used. I'm sure many of those who attended would have welcomed the opportunity to share that experience and knowledge.

It has been useful to receive a copy of the notes from the meeting however we do not believe they are a true record of the meeting. A number of topics are missing (e.g. the risks associated with bringing strategic sites forward and the difficulty in raising finance).

With regard to the contents of the presentation I can confirm my client is extremely concerned about the assumptions and the approach used to test the viability and delivery of JCS Policy 4's affordable housing targets. Our specific concerns are as follows:

1. The methodology uses a 1 hectare site (which is currently used as playing fields) as a working example. This hypothetical site however is not representative of the sites which will be delivering the bulk of the affordable housing in the Greater Norwich area. Approximately 70% of the Norwich Policy Area's (NPA) housing delivery will come forward on strategic sites of 1,000 dwellings or more. These larger sites face different issues in terms of viability and delivery, not least of which will be higher development and section 106 costs because of the infrastructure requirements which are associated with them.

These costs will inevitably be higher than those associated with a 1 hectare site, and simply 'factoring' them up does not reflect the higher costs that the strategic sites will require. This site should therefore not be used as a basis to test the delivery of the policy in the Greater Norwich context. To do so would not meet the robust and credible evidence test. Instead, the methodology should consider a range of sites more representative of the types of sites likely to deliver affordable housing in the area.

2. DJD have used their own appraisal model to justify the required affordable housing percentage even though there are other more widely accepted and tested models (such as the Three Dragons model or the HCA Economic appraisal tool) which are already tried and tested and approved by the HCA.

Without seeing the detail of the DJD model it is difficult to be confident that it is robust and will stand up to scrutiny at the Examination. We strongly

urge that the DJD model is made available in order that it can be scrutinized and its detailed assumptions tested/judged against 'real' situations.

3. The range of market values is far too wide and unrealistic. We would welcome evidence to illustrate where values of £420 per ft² is being achieved in the search area? The vast majority of the values will be between £170 - £250 per ft² with the upper end currently only being achievable at top of the range Greenfield housing sites in the Norwich suburbs.
4. Although the assumed build cost range seems reasonable, it needs to be recognised that build costs for larger strategic sites will be significantly higher than for smaller sites (like the one DJD has used as a working example). The majority of the sites which are delivering the bulk of the affordable housing will therefore be subject to build costs at the higher end of the suggested range and this should be reflected in the methodology.
5. The methodology needs to acknowledge that build costs over time will increase, as higher standards are required to be met. For instance, the emerging Joint Core Strategy requires (within Policy 2: Promoting Good Design) that all dwellings will need to achieve the silver standard (at least 14 points) of the Building for Life criteria. Allowance should be made for any cost implication associated with this. Also the Joint Core Strategy requires (in Policy 3: Energy and Water) that all new housing development must reach Code for Sustainable Homes level 4 for energy on adoption of the plan and Code Level 6 by 2015. The cost implication of this requirement does not appear to be taken into account within the DJD appraisal.
6. The DJD presentation refers to a developer's profit margin of 20% on cost. Although 20% is a market recognisable figure this is normally applied to the Gross Development Value (GDV). A profit margin applied to Total Cost would actually have to be higher otherwise raising the necessary bank funding would be extremely difficult.
7. The methodology's assumption of £7k per dwelling for S106 is far too low and not representative of the likely S106 costs that will be requested from new development proposals. The assumed level would only just cover the contribution to education (see Norfolk County Council's "Infrastructure, Service & Amenity Requirements For New Development" dated April 2010).

8. The methodology's assumptions on the land values are far too low and will not incentivise landowners to release land their land for development. DJD suggested top end figure equates to a land value of only £80k-£85k per acre. This was commented upon by others at the meeting and should be compared to recent real transactions of land values. Many landowners require significantly higher values to reflect the considerable time, cost and risk in promoting land through the Local Development Framework process. It would be interesting to note whether DJD would recommend the suggested land values as being acceptable to their landowner clients .
9. Hethersett Land Limited considers that the methodology's assumptions on public subsidy are overly optimistic DJD stated that they were running their viability scenarios on 'without grant'; 'with grant' and 'with grant on social rented only'. It is our experience (and this is substantiated by comments from the HCA) that grant will only be forthcoming in the future where 'additionality' can be proven (i.e. unless there is strong financial non viability evidence and a water tight S106 which cascades into a significant reduction in the affordable housing).

The Joint Core Strategy document itself states that under normal circumstances public subsidy of any form should not be assumed for the provision of the affordable housing. There is little point therefore in building in any grant assumptions into the DJD methodology.

10. The Joint Core Strategy document states that support will be given to schemes requiring public subsidy to help financial viability. However the scenario of no grant being available (even when proven to be required through financial viability arguments) is not covered within the emerging Core Strategy. We would propose that some reference to cascade mechanisms or alternative tenures should be noted within the Joint Core Strategy to cover this eventuality – and this can then be expanded upon within the individual District's Supplementary Planning Documents.

Having recently tendered a section 106 opportunity to Registered Providers (RPs) within the area we can confirm that top level current 'without grant' offer prices are in the region of the following:-

Affordable Rented

1 bed flat	circa	£55,000
2 bed flat	circa	£68,000
2 bed house	circa	£71,000

3 bed house circa £81,000

Shared Ownership

2 bed house circa £91,000

3 bed house circa £101,000

Every scheme is different though and will of course bring about varying offers from RPs.

We would be interested to know what assumptions are being used by DJD within their viability.

11. A need is identified for mixed tenure housing with care (Hethersett) and gypsy and traveller sites (28 pitches) within South Norfolk District Council. Further more detailed information relating to these needs would be welcome.
12. The Joint Core Strategy states that in 'negotiating the proportion and tenure of affordable housing, account will be taken of site characteristics and the economic viability of provision'. However this will only assist in the delivery of difficult sites if realistic assumptions are made by the GNDP in relation to land values required to incentivise land owners to offer land for development and realistic cost assumptions in developing these sites.

Concluding Comments / Recommendations

We are not convinced that the methodology being used by DJD is robust and credible. We are concerned that the methodology and assumptions made have been derived to justify the Policy target of 40%, rather than to inform what a reasonable, flexible and deliverable target should be.

Whilst the current approach may on the face of it, demonstrate the delivery of the JCS's current affordable housing targets, it does not represent the true picture of housing development and land release.

Development sites will not be brought forward if they do not return a reasonable profit to developers and an acceptable land value for landowners. This will have an impact on the delivery of all housing including affordable and will cause a hiatus or at best a slowdown in housing delivery, in the short, medium and perhaps even the longer term.

The methodology and assumptions need to be amended to reflect the above comments and if, with more realistic assumptions the exercise does not support the 40% housing target, due to viability and delivery issues, the target should be reduced or the policy at least should have sufficient flexibility built in to allow a lesser affordable housing target where viability is an issue.

We accept that this might be difficult for the GNDP to acknowledge given the affordable housing need in the area, but to propose unachievable and unviable affordable housing targets in the JCS is unsound.

We also accept that viability, values and costs etc will change over the lifetime of the plan, however, to base a target on what might be achievable in the future is also unsound. In the currently challenging economic climate we do not believe there can be a 'one size fits all' Policy. It is therefore extremely important that the Policy 4 (Housing Delivery) that is finally adopted within the Core Strategy is sufficiently transparent and flexible to allow for a changing market place both in terms of the private and affordable housing sectors taking into their respective demand; cost and financing.

If there is insufficient time to amend the methodology and re-run the appraisal then we would strongly urge that the assumptions used to formulate the Policy (in relation to the amount and type of affordable housing to be provided on any one site) be provided by way of an appendix to the Core Strategy document in order that they can be used as a benchmark for future negotiation.

In this way any of the above mentioned points that we and others may disagree with the GNDP become less relevant as the opportunity to 'prove the case' for negotiating a different affordable housing provision on the back of 'financial non viability' as outlined in PPS3.

We believe this would solve part of the problem of the proposed methodology. However we are still left with the issue of what is deemed to be a reasonable 'residual value' which of course will be the most important part of any financial viability argument. Evidence of real life examples throughout the 3 Districts should be provided by DJD as opposed to the fictitious 1 hectare site. This will enable a residual value to be incorporated



within the Appendices in order to provide a starting point for 'open book' negotiations.

We hope that these comments are helpful and will assist the GNDP in ensuring that a deliverable affordable housing policy is included in the Joint Core Strategy.

I will look forward to receiving the requested information and similarly if we can assist further in any way in relation to this consultation process please do not hesitate to contact me using the details set out below.

Yours sincerely

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