

## **Runnymede Development Market Panel (DMP)**

### **RUNNYMEDE LOCAL PLAN VIABILITY STUDY: WORKSHOP NOTES**

#### **RUNNYMEDE BOROUGH COUNCIL, ADDLESTONE**

##### **Attendees**

John Devonshire, Runnymede Borough Council  
Andrew Golland, AGA  
Adrian Cooper, Hadley Cooper Associates  
Peter Francis, Windsor Homes  
Richard Jones, Carter Jonas LLP  
Richard Watkins, Aston Mead  
Andrew Munton, Reside Developments Ltd  
Ian Taylor, Accent Group

##### **Workshop Notes**

A workshop was held on Thursday 2<sup>nd</sup> February 2017. Members of the DMP representing the development industry were in attendance.

Runnymede Borough Council and Andrew Golland Associates would like to thank all who attended for their contributions.

At the workshop, John Devonshire gave a short introduction to the viability study, explaining its overall purpose and its role in policy development and gave an update on the Local Plan timetable and progress with evidence base studies. Andrew Golland (AGA) gave a presentation summarising the methodology and outlining the process of testing.

It was agreed that the PowerPoint presentation (attached) would be made available to all Workshop participants in conjunction with feedback notes.

#### **1 Context for the study**

The Council are aware of the need to deliver both Affordable Housing as well as open market housing generally. The study will proceed with these issues in mind.

The backdrop to the study is an emerging evidence base including a Green Belt assessment (Arup) and an Infrastructure Delivery Plan (Aecom). The government's Housing White Paper has also just been published and its potential impacts are being currently considered by the industry; in particular the impact of 'commuter hubs' for locations such as Runnymede and the requirement for starter homes.

It was explained (AGA) that an objective of the study was to generate realistic targets which can help housing supply alongside Section 106 contributions.

#### **2 Basis for interpreting viability: land owner and developer return**

AGA outlined the methodology of the viability model which is based upon scheme revenue versus development costs (including developer margin and S106 agreements).

Delegates agreed in principle to the general approach for assessing viability. This is by reference to residual scheme value and the existing use value of a site or another appropriate land value benchmark (LVB). However one stated that the approach is really a 'health check' rather than a full assessment. One member asked how long term changes in the market can be considered. JD responded that values can be sense checked i.e. build cost inflation or fall in sold house prices.

It is important to recognise that land owner motivations are key in bringing sites forward.

Members were asked what a working LVB might constitute in the Runnymede area. There were no specific responses to this although post workshop it has been suggested by one member that this should be based on market value.

One member stated that land value benchmarks are likely to vary between green and brown field, although another stated that they might be similar in that brown field sites often have a higher level of abnormalities although these are 'offset' by additional infrastructure costs on green field land.

Another member made the point that land tax needs to be taken into account and it is often the small housebuilder who takes more of a hit from this.

A point was made that the land value benchmark tends to vary according to what part of the housing market cycle we are in.

The LVB will vary according to location with land owners in Virginia Water and Wentworth expecting higher returns.

### **3 Overall methodology**

It was explained that the study will focus mainly on testing Affordable Housing targets and thresholds, although key local policies such as Thames Basin Heaths and SUDS will also need to be taken account of as well as optional housing standards.

These impacts will be mainly tested through the High Level notional one hectare site testing, although it was explained that smaller sites and a selection of larger (allocated/windfall) sites will be tested on a case study basis. It was commented that a strategic site is likely to consist of 100-200 dwellings. One member commented that housing delivery likely to be 80% small sites, 20% large. JD explained that Local Plan should not place at risk development that would form the bulk of housing delivery.

It was emphasised that the approach will not preclude the rights of developers to negotiate on a scheme by scheme basis. Developers can demonstrate that where costs for example, are higher than those tested, and can be justified, policy might be relaxed.

Participants at the workshops did not express any particularly strong comments about the approach set out.

Data sources (e.g. HMLR for house prices and BCIS for build costs) were explained to participants. The need for best primary data sources based on a large sample was understood and agreed.

#### **4 Sub markets and market values**

Generally the market in Runnymede is strong although property up to £500,000 is selling better than that at the top end; property in the £1 million and above bracket is tending to 'stick' at the moment.

A key part of the study will involve the analysis of viability at a sub market level. This provides analysis which will pick up on the 'tone' of areas and their likely viability.

AGA explained that the price sets are based on three years of HM Land Registry data. This data set reflects every market transaction for second hand homes across the County. It was agreed that this data set is appropriate as a baseline for policy development since it sets the 'tone' for each of the postcode sectors. A new build premium has been added to this.

Delegates generally agreed with the indicative new build prices.

A few examples were discussed and the following feedback was received:

- The Virginia Water' sub market should be sub divided to provide specific prices for the Wentworth area.
- Prices in Virginia Water generally are closer to mid-market Runnymede;
- The price of detached houses look about right;
- The price of terraces look generally a bit high;

Delegates generally agreed that more time to look at the prices would be welcome

#### **5 Density and development mix**

AGA set out the suggested range of schemes which the DAT will test.

It was suggested that a range for densities through from 20 dph to 50 dph. Lower densities will drive larger housing.

Higher densities (above 50 dph) should be tested to deal with denser urban sites. One member stated that the density assumptions for some of the sites outlined in the Local Plan Issues, Options Preferred Approaches document (IOPA) were too high. JD stated that work on the capacity of sites is ongoing and will need to take account of constraints.

The SHMA promotes the requirement for smaller units in Runnymede, although this work will need to be updated.

Air quality measures have an impact on density of development, particularly where sites are next to main highways and motorways, although one member stated that measures could be designed or engineered into development to mitigate this impact

Delegates were asked to comment on typical mixes.

## **6 Development costs**

AGA presented the proposed page that will be used for the testing framework. It was explained that the construction costs (base build costs per square metre) will be calculated from the BCIS data source.

This was generally accepted as an appropriate approach, and the costs suggested were found to be appropriate for the larger house builders.

It is accepted that costs for smaller development may be higher although values may also be commensurate (i.e. higher).

## **7 Profit margin**

There was some discussion on profit margins. It was agreed that the purpose of the margin is to reflect development risk and that between different locations and over time this may change.

It was stated that most Local Plan viability studies and site specific negotiations adopt a 20% margin for Market Housing and 6% for Affordable Housing, the latter being a lower rate reflecting the fact that Affordable Housing will be developed under contract for a housing association who will be a firm buyer of the product;

These rates are considered by AGA to be consistent with appeal decisions, LDP evidence bases and leading appraisal software (e.g. GLA Toolkit and the HCA's Economic Appraisal Toolkit (EAT)).

It was stated that some developers work to a blended rate across the scheme of around 17-18%

## **8 Affordable housing tests and issues**

AGA suggested a range of policy scenarios which should be tested and questioned whether they were reasonable.

It was stated that housing associations no longer obtain grant so this makes Affordable Housing more challenging.

In some instances it is sensible to have a commuted sum instead of an Affordable Housing contribution. This will normally be where a site is in an unsustainable location or where a housing association cannot be found to manage the units.

Affordable Housing contributions on small sites are subject to national policy and to local housing needs. Some authorities in the South (examples quoted were LB Richmond, Elmbridge, Reigate and Banstead as well as Brighton) require Affordable Housing contributions on smaller sites, in apparent contravention with government policy. In some instances (notably locally Elmbridge) these are taken on a 'sliding scale' approach with the Affordable Housing target increasing with scale of development/site. Small sites could be less attractive to RPs but they are becoming more practicable.

Payments for Affordable Housing vary by tenure. Affordable Rented housing is usually purchased by housing associations at 100% of the Local Housing Allowances (circa £200 per week) and should be capitalised at around £150,000 per unit.

Social Rent payments have been affected by rent capping and this has made the tenure less attractive for housing associations.

Starter Homes were briefly discussed. The White Paper now includes reference to starter homes and this will need to be considered in the viability assessment as appropriate.

## **9 Section 106 and CIL**

Costs (other than those for Affordable Housing) were not discussed in detail. Developers raised concern over SUDS and their impact on the delay of schemes. SWALES are also expensive it was suggested.

Comment was made that costs of utilities and roads are similar for small or large sites and so there is an economy of scale.

Delegates were asked provide examples of costs of this nature on sites they are bringing forward.

The study will look at the potential for CIL (Community Infrastructure Levy) after Affordable Housing contributions have been met.

## **10 Commercial**

The commercial sector was discussed briefly at the Workshop.

If delegates wish to add any market commentary or data on the commercial sector this will be much appreciated.

## **11 AOB and Next Steps**

Feedback to this note will be key. Comments will inform all aspects of the study and where justified will be taken on board.