

## **Ipswich Whole Plan Viability study**

Ipswich Borough Council commentary on approach and commissioned report  
December 2014

### **1.0 Background**

- 1.1 Viability underpins the National Planning Policy Framework (NPPF), requiring it to be considered in all aspects of planning. The NPPF requires Local Plans to be assessed on viability and deliverability matters, such that:

*“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 land owner and willing developer to enable the development to be deliverable.” (para. 173)*

- 1.2 The NPPF also goes on to require cumulative testing of policy requirements as a way of facilitating positive plan making:

*“Local planning authorities 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. Evidence supporting the assessment should be proportionate, using only appropriate available evidence.” (para. 174)*

- 1.3 In summary, policies that make some amounts of development unviable, to such an extent that it threatens the delivery of the Local Plan as a whole, should not be included.

- 1.4 There are two other forms of guidance that are highly relevant to viability and Local Plans. These are:

- *Viability Testing in Local Plans, Advice for Planning Practitioners. (Local Housing Delivery Group, Chaired by Sir John Harman) – the ‘Harman Report’; and*
- *Financial Viability in Planning, RICS guidance note, 1st edition.*

- 1.5 A suitable land value to encourage the release of a site for development is a site-specific and highly subjective matter. There are differing industry terminologies for assessing the level at which land could be transacted, including the ‘benchmark value’ and ‘threshold value’. The Harman Report defines threshold value as being:

*“the value at which a typical willing landowner is likely to release land for development, before payment of taxes (such as capital gains tax).”*

- 1.6 The definition of what could constitute viable development can also be explained as where the residual value of a scheme is greater than the threshold value i.e. is greater than the existing use value when added to a sufficient amount to induce a landowner to sell its interest in the site.

- 1.7 The Harman Report indicates the primary role of a Local Plan viability assessment is to provide evidence to show that the requirements set out within the NPPF are met, or rather that the policy requirements set out within the plan do not threaten the ability of the sites and scale of that development to be developed viably.
- 1.8 Whilst many of these policy requirements may not be straightforward to cost, it is still important that an attempt is made to consider the impact of all policies that may result in a development cost or benefit. The role of whole plan viability testing is therefore not to give a precise answer as to the viability of every development likely to take place during the plan period.
- 1.9 Instead, it should provide a high level assurance that the policies within the Local Plan are set in a way that is compatible with the likely economic viability of development that is needed to support its delivery.
- 1.10 It is considered that the key growth targets within the Local Plan relate to new residential, retail and employment-generating (Use Class B1-B8) development, and therefore it is imperative that the Council makes an assessment on whether these would be threatened by the costs of adhering to its planning policies. The targets for these types of development can broadly be identified as follows:
- Residential – 13,550 new homes (between 2011 and 2031);
  - Retail – approximately 15,000sqm net additional floor space in the Central Shopping Area; and
  - B-Class – 30ha of land to be allocated for these uses.

## **2.0 Proposed changes to adopted policy**

- 2.1 The Council's affordable housing requirement as contained in adopted Policy CS12: 'Affordable Housing' has been amended from 35% of total development floor space in schemes of 15 dwellings or more (or sites of 0.5ha or more) and 20% in schemes of between 10 and 14 dwellings (or sites of 0.3ha to 0.49ha), to the provision of at least 35% total development floor space at the proposed Ipswich Garden Suburb and at least 15% in schemes of 15 dwellings or more (or sites of 0.5ha or more) in the remainder of the Borough. Paragraphs 3.7 to 3.12 and Section 4 of this note highlight the area and development-specific issues which have informed the proposed changes. Furthermore, the previous target for at least 80% of affordable housing provision to consist of social rented housing has been amended to include the provision of both affordable rented homes and homes for social rent, which updates the policy to incorporate the different rental schemes that are available to registered providers of affordable housing.
- 2.2 In addition, the standards for the provision of Code for Sustainable Homes contained in Policy DM1: 'Sustainable Design and Construction' have been revised to require that new-build residential development achieves Level 4 or its equivalent, rather than the aspirations for Levels 5 and 6 as set out in the adopted policy. This is on the basis that the provision of Level 4 would result in a development cost in the region of £1,976 to £2,616 per unit over-and-above current Building Regulations standards, whereas the provision of Levels 5 or 6 would far exceed this to the extent that it would have a significant impact on development viability when considered alongside other policy provisions. A revised policy requirement for Level 4 however would be achievable for the majority of development sites, and as such sets a realistic target whilst promoting a more sustainable form of construction than is currently permitted by Building Regulations.

2.3 Finally, the requirement in adopted Policy CS2: 'The Location and Nature of Development' for a subordinate use on a mixed use town centre site to comprise at least 20% of net floor space has been removed, to ensure that where a subordinate use is proposed that this is provided in line with the overall design of the scheme and with regard to development viability principles, rather than a subjective minimum. It is intended that the proposed amendment will help to support the delivery of such sites in an area where there are known viability issues.

### **3.0 Viability testing the Local Plan ('whole plan viability study')**

3.1 In undertaking a review of its Local Plan, the Council has commissioned Peter Brett Associates (PBA) LLP to carry out a whole plan viability study to inform the extent to which future development sites can meet the cost of adhering to its Local Plan policies.

3.2 There are fifty sites in the Council's proposed Site Allocations and Policies (incorporating IP-One Area Action Plan) development plan document that have been wholly or partly allocated for residential, retail and B-Class uses.

3.3 To avoid repetitive viability testing of residential allocations with similar characteristics in terms of density, location and site size, it was considered reasonable that a number of sites can be grouped together and one generic site appraisal tested. When considering residential appraisals, this study does not look at those sites with recent permissions or resolutions to grant permission, whilst sites with an indicative capacity of fewer than 15 dwellings have also been excluded, leaving 30 allocations to be tested (note that the proposed Ipswich Garden Suburb has not formed part of this study). It is considered that 24 of these can be reasonably grouped as follows:-

- (i) Central Brownfield High Density (small) – seven sites of 20-33 dwellings with indicative capacity of 90 dwellings per hectare (gross site area excluding other allocated uses, including open space);
- (ii) Central Brownfield High Density (large) – six sites of 43-72 dwellings at 90 dwellings per hectare;
- (iii) Central Brownfield Medium Density – three sites of 18-28 dwellings at 55 dwellings per hectare;
- (iv) Central/West Brownfield – three sites of 15-28 dwellings at 45 dwellings per hectare;
- (v) West Greenfield – three sites of 30-71 dwellings at 40-45 dwellings per hectare;
- (vi) Felixstowe Road – two sites of 66-75 dwellings at 45 dwellings per hectare.

3.4 Whilst four further sites, namely those described as Elton Park Industrial Estate (IP059a), Former Tooks Bakery (IP005), King George V Field (IP032) and Island Site (IP037) could reasonably be categorised into one of the above groups by location and density, these sites would indicatively provide for around 100+ dwellings such that additional costs in the form of road junction improvements, utility upgrades etc. would be expected when compared to smaller sites. Furthermore, the indicative density of the Silo (IP136) would be expected to be far higher than other central brownfield sites to reflect its position amongst high-rise buildings fronting the Ipswich

waterfront, whilst the Artificial Hockey Pitch (IP256) allocation has no reasonable comparators by location such that these sites have also been tested individually. Additionally, whilst not allocated due to a longstanding pending planning application, the site known as Helena Road would nevertheless be expected to contribute to the Borough's housing land supply at some point during the plan period, and therefore the dormant scheme for this site has also been tested.

- 3.5 It has been assumed that the low and medium density schemes would provide only houses (e.g. town houses at medium density) whilst high density schemes of 90 dwellings per hectare would comprise mainly 3-5 storey flats/apartments. The appraisals also consider that the Silo and Helena Road sites would accommodate 6+ storey apartment blocks only given their site characteristics and planning history.
- 3.6 The appraisals within the study should be interpreted as indicative only, as this does not account for site-specific variables and best attempts to group land and sales values into three value zones of low, medium and high, which has been informed by common sales values (mainly second hand) across several electoral wards. As such, there are likely to be a number of anomalies when applying to individual developments, and in particular there are a number of sites where higher sales values (and therefore higher land values) would be expected but the indicative sales average as found in this study has been distorted by transactions for older and more modestly-sized properties. Notwithstanding, this is a useful process in determining the extent to which an accumulation of planning policies would impact upon the deliverability of sites across the town, and in particular has been used to arrive at a revised affordable housing target.
- 3.7 The adopted affordable housing policy of at least 20% provision (by floor space) on sites of 10-14 dwellings and at least 35% on sites of 15+ has been largely aspirational rather than deliverable in recent years, which has resulted in affordable housing being provided only on the larger sites and generally at a level well below the 35% target. Consequently, the whole plan viability study findings that residential sites within the low value areas would only be able to provide for around 15% affordable housing (80% rented and 20% intermediate) was not entirely unexpected.
- 3.8 When considering this reduced level of affordable housing provision alongside other policy standards including building to Code for Sustainable Homes Level 4 (proposed policy DM1) and provision of at least 15% of energy requirements from renewable or low-carbon sources (adopted and proposed policies CS1 and DM2), in addition to planning obligations set at £1,000 per dwelling, the viability study finds that all but the Elton Park Industrial Estate site and the high density allocations in the town centre (including the Silo, Island Site and Helena Road) remain viable using current costs and values. However, those sites in the low-value area (the vast majority) do not have a significant buffer to achieve further provision – such as higher rates of affordable housing – at the present time.
- 3.9 With regard to the Elton Park site, it is considered that this is of a sufficient size (2.63ha) that the use of best practice urban design principles would help to establish a strong sense of place that in turn would enable higher sales values to be achieved. Given that the high level appraisal for this site would show a viable scheme with 15% affordable housing provision alongside the remaining environmental standards and planning obligations identified above where the sales values of the open market dwellings would increase by approximately 12%, it is not unreasonable to assume that a well-designed scheme could meet some of the Council's policy standards, even in the short term.

- 3.10 The prime viability issue with the higher density town centre developments is the relationship between building costs and sales values for flats/apartments at the present time. For instance, PBA find that the cost of building flats to include construction, externals, professional fees and contingency in a 3-5 storey development would be approximately 94% of the estimated sales values in central Ipswich, whilst the same costs would be around 120% of the values of flats in a 6+ storey development (where services installations and heavier steel frames would typically drive up costs). Moreover, this comparison does not account for land purchase costs, sales costs (e.g. marketing and legal), developer financing and any planning obligations required to mitigate the impact of the development, nor a developer profit. The inclusion of more profitable houses would improve scheme viability, although this could not be integrated into a flat-led scheme to the extent that a development site in central Ipswich could be both profitable and high density (in line with policy DM30) in the current market.
- 3.11 With no other changes to the appraisal assumptions, an uplift in sales values of around 17%, a decrease in build costs of around 14%, or a combination of the two, would be required to bring forward high density flat-led schemes in Ipswich town centre where only £1,000 per dwelling would be secured in the form of planning obligations (i.e. no affordable housing or construction standards over-and-above Building Regulations). Furthermore, market adjustments in land values over time, and reduced profit expectations from developers than that tested (accepted by many applicants in recent site-specific appraisals), would also help to create more viable town centre developments. However, the extent to which these sites would be deliverable in the next five years, even allowing for a reduction in policy standards, is questionable given the shift in values that would be required, albeit some of the generic sales values used in the high level appraisals would be expected to be higher on some sites.
- 3.12 The study finds that all other site groupings and individual sites would be viable when testing the aforementioned policy standards. Furthermore, it is encouraging to note that larger sites in higher value areas, such as the Tooks Bakery and King George V Field allocations, are viable with rates of affordable housing of at least 25%, reflecting a near 20% increase in sales values from the low to medium value areas, whilst the smaller medium value site is shown viable with 35% affordable housing provision. As such, the Council will look to secure that at least 15% of new dwellings are provided as affordable housing on all sites in Ipswich outside of the Ipswich Garden Suburb. Although in view of the viability issues identified for some central and large low-value sites, the Council will allow for this and other policy standards to be reduced where a lower provision can be justified on viability grounds, but only to the extent that this would not threaten the delivery of a sustainable form of development.
- 3.13 The study does not attempt to ascertain the viability of sites that have been allocated for a mix of uses, as the extent to which one may cross-subsidise and/or complement another would vary significantly from site to site. As such, only the viability of individual elements is considered. In view of the allocations for both small and large scale retail and office developments in Ipswich town centre, and employment parks and industrial-type developments in north-western and south-eastern areas of the town, the whole plan viability study tests the following commercial development scenarios:
- Town Centre Offices – 465 sqm;
  - Town Centre Offices – 10,000 sqm;
  - Convenience Retail – 465 sqm;

- Comparison Retail – 465 sqm;
- Convenience Retail – 5,000 sqm;
- Comparison Retail – 5,000 sqm (which could be 3-4 grouped units);
- R&D, Industrial & Distribution – 3,500 sqm; and
- Employment Parks – 5,000 sqm offices & 3,500 sqm industrial.

3.14 This process has identified the higher value commercial uses as retail developments of various sizes, although the viability outlook for new large scale retail is marginal as is widely found across the UK at the present time. Other forms of speculative commercial development are not currently viable in Ipswich, although PBA comment that this is not caused by accumulating policy costs but rather a lack of demand at this point in time. It is stated that some allocated sites could reasonably be developed with a pre-let or forward-sale in place, whilst there are opportunities for new commercial development in Ipswich to secure Regional Aid that would improve the viability position as presented.

#### **4.0 Ipswich Garden Suburb site**

4.1 Separate to the whole plan viability study, Ipswich Borough Council commissioned viability advice from PBA to inform a viable and deliverable framework for the phased delivery of infrastructure, services and affordable housing at the Ipswich Garden Suburb. This work resulted in the production of a similarly high level and independent viability appraisal for the site that was finalised in October 2013.

4.2 In consultation with local agents and developers, PBA found a reasonable benchmark land value for the site to be £500,000 per net developable hectare and apportioned development and policy costs across assumed phases of development. It was found that each phase of development could sustain some affordable housing provision and remain viable (with all homes built to the Code for Sustainable Homes Level 4 standard), although earlier phases would have minimal provision with latter stages providing above the 35% target. The indicative scheme average equated to 31.6% affordable housing provision by number and 28.4% by floor space, alongside the full provision of infrastructure as identified in the supplementary planning document (SPD) for the site.

4.3 The land value of £500,000 per net developable hectare generally accords with the findings of the more recent whole plan viability study, which identifies £600,000-£725,000 to be a reasonable land return in medium and high value areas (this site lies within both) for more standard forms of development, with the benchmark land value of the Ipswich Garden Suburb site being less than this when accounting for higher non-standard costs.

4.4 This appraisal has been considered when reviewing the changes to the Council's affordable housing policy, and in particular the adopted target of at least 35% affordable housing has been retained for this site given the indication that provision can be achieved at a level close to this with private residential sales values that are lower than that found for the St Margaret's and Whitton wards in the whole plan viability study (although this would be partially offset by increases in build costs over the same period). An update to the 2013 study has not been commissioned as the Council has since received a planning application for part of the site, and therefore does not wish to compromise the more fine grained approach to scheme viability that will be carried out. Furthermore, both the adopted and revised affordable housing policy allows for a reduction below the 35% standard for this site where there are demonstrable viability issues.

## 5.0 Summary

5.1 The NPPF requires all policy costs to be considered cumulatively to understand the viability impacts on new development. Whilst applicants will have the opportunity to negotiate such costs during the planning application stage, a typical site should be able to bear the policy costs included in the Local Plan.

5.2 The findings from the whole plan viability study and the Council's view on these can broadly be summarised as follows:

- The high level appraisals find that all but one site allocated for residential use outside of the town centre could meet the revised policy targets relating to affordable housing, sustainable construction and energy requirements from renewable or low-carbon sources (in addition to planning obligations set at £1,000 per dwelling), although lower value sites would be unable to provide over-and-above these standards at the present time.
- A flexible approach to meeting policy standards will be needed to deliver large scale residential sites where low sales values are predicted, in addition to higher density schemes in the town centre when the market improves for these forms of development. All other types of residential development would be viable with 15% affordable housing provision alongside policy standards including building to Code for Sustainable Homes Level 4 and the provision of at least 15% of energy requirements from renewable or low-carbon sources, although PBA highlight that this would be marginal in lower value areas such that some policy contributions may need to be negotiated on a case-by-case basis.
- Conversely, residential developments with medium and high value sales forecasts, even those of a larger scale, are viable with increased policy costs such as 25%+ affordable housing provision, such that the Council considers the setting a minimum target of 15% to be justifiable. Moreover, the viability work which underpinned the preparation of the Ipswich Garden Suburb SPD found that affordable housing provision at a level nearer to 35% than 15% was viable for the site such that the application of the existing target to land within the site boundary is considered both reasonable in viability terms and necessary in order to meet the overall housing need in the Borough.
- In terms of non-residential allocations, PBA find that speculative development providing new office and industrial developments are not currently viable. Notwithstanding, there may be a clear business case for such organisations to locate or expand in Ipswich, whilst opportunities to secure external funding may also improve the viability position of allocated sites.
- Retail remains a viable form of development in Ipswich, although the outlook for large scale convenience retail is marginal at this point in time.
- PBA comment that it is difficult to support the application of environmental standards in policy to commercial developments in Ipswich, such as BREEAM 'Very Good' and 'Excellent'. However, the Council considers that a target of Very Good will seek to deliver more sustainable forms of development where this is viable on individual sites, particularly in cases where a mix of more profitable uses could subsidise enhanced construction standards.