



CHARNWOOD LOCAL PLAN 2021-2037

Examination Statement by Charnwood Borough Council

**Matter 9:
Viability & Monitoring**

May 2022

9.1. Do the site typologies tested in the Viability Study (EB/I&D/1) reflect the type of housing sites expected to be delivered, in terms of their location, land type, density, size and tenure mix?

- 9.1.1 The Charnwood Local Plan Viability Study (EB/I&D/1) Section 5 provides the rationale for the typologies tested. The Study used market research to inform the establishment of three broad market areas with similar characteristics: Leicester Fringe, Loughborough / Shepshed and Wider Charnwood (EB/I&D/1 paragraphs 5.2 to 5.3).
- 9.1.2 The typologies were then informed by an analysis of the housing allocations, by market area, by their size and whether sites were greenfield or brownfield (paragraphs 5.4 to 5.7). The housing mix within housing typologies was informed by the Charnwood Housing Needs Assessment (EB/HSG/1).
- 9.1.3 The density assumptions are ranged between 20-40 dwellings per hectare on housing sites to over 100 dwellings per hectare for flatted developments (5.7).
- 9.1.4 The housing mix within housing typologies was informed by the Charnwood Housing Needs Assessment (EB/HSG/1). The housing tenure mix was a mix of market housing, affordable home ownership and affordable rented housing in variable proportions by size of dwellings. Affordable rented properties were assessed at 45% of market value and intermediate properties at 70% of market value.

9.2. What is the purpose of the Viability Report Addendum (EB/I&D/2) and what evidence has been used to inform the cost of 'off site' transport schemes?

- 9.2.1 The Viability Report Transport Costs Addendum, 2021 (EB/I&D/2) was undertaken to test the impact upon the Plan's viability of changes to transport costs derived from additional transport assessment of mitigation interventions for Charnwood Borough Council by AECOM in May 2021 (EB/TR/12). The 'off site' mitigation measures comprise a package approach that includes both improvements to the highway infrastructure as well as to the bus network and other sustainable transport improvements for pedestrians and cyclists. Cost assumptions are based on the mid-point between low and high-cost variants.

9.3. Have there been any changes in circumstances which could affect the assumptions made in relation to land values, sales values, build costs, developer profit and other inputs to the viability appraisals, for example recent inflationary pressures?

- 9.3.1 Further evidence has been prepared by the authors of the Charnwood Local Plan Viability Study (EB/I&D/1). This further evidence is included at EXAM 32 and makes the following points:

- Land values - House price growth in Charnwood has generally kept pace with build cost increases. Consequently, increases in costs are generally cancelled out by the increase in values. Given that development land is valued on a residual basis (having regard to values and costs), this should not have a dramatic effect on the land market.
- Sales values in Charnwood (all house types) have grown by 16.8%. Detached houses had the highest growth at 20% and flats / maisonettes the lowest level of growth at 10.6% (Land Registry data for September 2020 to February 2022)
- Build costs have increased by 12.3% on year costs to May 2022 (BCIS General Building Cost Index 2021)
- Developers profit - the current environment is not considered to contain any more risk than in 2020-21 when the Viability Assessment was undertaken.
- Inflationary pressures - there are signs that Brexit and the Russian invasion of Ukraine are beginning to have an impact on the housing and development market. The Bank of England has started to raise interest rates and this impacts both costs and values. Further inflation and higher interest rates could result in slowdown in the housing market.

9.4. The Viability Study recommends further engagement with the promoters of key sites to ensure that these will be viable and deliverable. Has this been undertaken and how would any risks to the delivery of such sites be managed?

9.4.1 Charnwood Borough Council has continued to work closely with the promoters of key sites to agree delivery arrangements including housing trajectories, and this is evidenced in a series of Statements of Common Ground EXAM 24 a - o. These partnerships will continue as proposals are refined. Policy INF1 states that the Council will enter into planning performance agreements with promoters of strategically important sites and where viability is identified as a barrier to delivery, the Council will expect all promoters of major development to enter into an open book viability appraisal.

9.5. Paragraph 7.6 of the Viability Study indicates that town centre regeneration opportunities in Loughborough are not viable. How would this affect the delivery of the Loughborough Town Centre Action Plan and how would the risks be managed?

9.5.1. The typology for large brownfield sites (flatted developments over 200 dwellings) in Loughborough / Shepshed was found to be unviable because of higher build costs (EB/I&D1 paragraph 7.15). Paragraph 7.15 also identifies that there is not yet evidence that flatted developments can achieve a premium in Loughborough that would offset these additional costs.

- 9.5.2. The Council also has a wider role and responsibility to promote the vitality and viability of Loughborough Town Centre. This is articulated through the Loughborough Town Centre Masterplan which seeks to increase private sector confidence and create an environment for investment. In order to facilitate and initiate regeneration the Council can harness funding from public and private sources.
- 9.5.3. As part of its regeneration and economic development functions the Borough Council proactively monitors UK Government funding streams such, as the Levelling Up Fund. These can secure investment that facilitate regenerations. For example, investment from the Charnwood UK Shared Prosperity Fund allocation of £4m will be used to enhance Pride in Place. This could potentially include site regeneration schemes or facilitation of development activity. The Council was also successful in securing £16.9m of Town Deal funding for Loughborough.
- 9.5.4. The Borough Council also owns some key pieces of land in the Town Centre which can be used to assist in the delivery of the objectives of the Loughborough Town Centre Masterplan, including a number of allocated local plan sites such as Southfields Council Offices (HA24), the Former Limehurst Depot (HA26) and Southfields Road Car Park (HA29).
- 9.5.5. Consequently, although the Viability Study found the typology of large brownfield sites in Loughborough to be unviable does not alter the Council's commitment to use all its powers to realise these development opportunities. As a significant number of key town centre sites are in Council ownership, the scope for bringing them forward for development is far greater than would be the case where ownership is held by a private sector developer who is likely to solely focussed on commercial return on investment.

9.6 Will the monitoring indicators and targets in Appendix 1 of the Plan provide a robust basis for assessing the Plan's delivery?

- 9.6.1. Yes, the indicators and targets selected to monitor Policy DS1, and the Plan's place-based policies provide a robust basis for assessing the amount, type and pattern of development to enable an assessment of the Plan delivery against strategic objectives and the Vision.
- 9.6.2. Similarly, for topic-based policies which are set out in chapters 4 to 8 of the Pre-submission Draft Charnwood Local Plan (SD/2) indicators and targets have been identified where there are data sets that are available. These relate to the objective of each policy and therefore provide the basis for assessing the Plan delivery. All policies except for one have indicators that will be

monitored. Policy H1 has no indicators or targets because data is not readily available to monitor the policy effectively.

9.7 Does the Plan have sufficient flexibility to respond to changing circumstances and which policies/measures will ensure that?

9.7.1. The Plan includes a strategy which sets out a pattern of development for housing, employment, and town centre uses which has sufficient flexibility to respond to changing circumstances. The monitoring framework provides a robust basis for assessing the pattern of development. The Councils response to Matter 2 Question 15 provide clarity about how the decision taker would respond to housing proposals where a 5-year supply could not be demonstrated.

9.8 Overall, is the Plan viable and deliverable and are the mechanisms for monitoring and review robust and appropriate, including Policy DS2?

9.8.1. The Councils responses to questions under Matter 9 illustrate that the Plan is viable and deliverable and there are mechanisms for monitoring.

9.8.2. A main modification is proposed for Policy DS2 to improve its clarity. These are set out in the Council's response to Matter 1, Question 10.



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Our ref: 220512 Charnwood comment on
values and costs_v2

Your ref:

12 May 2022

Dear Geoff,

Charnwood Local Plan Viability

We refer to your email dated 4 May 2022 requesting commentary in respect of the following question for the examination in public:

Question 3: Have there been any changes in circumstances which could affect the assumptions made in relation to land values, sales values, build costs, developer profit and other inputs to the viability appraisals, for example recent inflationary pressures?

Our original Local Plan Viability report dated February 2021 was produced during a period of uncertainty due to the pandemic.

Anecdotally, there were various impacts on the housing market as a consequence of the pandemic including, inter alia:

- people moving away from London and the core cities;
- increased demand for larger house types with spare rooms / spaces for working from home (WFH);
- demand for houses with greater commuting distances due to WFH;
- demand for houses with more outdoor space;
- less demand for flatted typologies;
- constraints on working practices;
- increased momentum in the housing market due to the Stamp Duty holiday.

The housing market was quick to return to [new-] normal after the initial lockdown period in Spring 2020 and we have seen house price growth generally.

However, other risks have started to compound the impact on the housing and development market caused by Brexit and the war in Ukraine. These factors, together with the pandemic, have resulted in inflation in the economy. The Bank of England has started to raise interest rates and this impacts both costs and values.



Build Costs

According to the BCIS Quarterly briefing: February 2022 which is based on information available up to 11 February 2022:

- Tender prices in 4th quarter 2021 rose by 1.5% on a quarterly basis, and by 4.9% on an annual basis. Strong annual increases will continue over the first three quarters of 2022 in the order of 5% to 7% per annum. However, quarterly increases in tender prices are expected to slow over the second half of 2022, resulting in an annual increase of 4.4% in 4th quarter 2022, with materials related pressures subsiding, but still with pressure from site rates. With demand increasing over the remainder of the forecast period, tender prices are forecast to rise ahead of input costs, by around 4% per annum. Tender prices are expected to rise by 22% over the whole of the forecast period (4Q2021 to 4Q2026)
- Materials prices rose by 3.8% in 4th quarter 2021 on a quarterly basis and by 20.0% compared with a year earlier. The materials supply situation is expected to stabilise by 3rd quarter 2022 and prices will rise by 12% over the forecast period (4Q2021 to 4Q2026). The main risks to materials prices will be difficulty in obtaining materials during the Covid-19 crisis, oil prices, tariffs on imports (from countries with no current agreement) and sterling exchange rates
- The average of wage awards will be around 3% per annum over the forecast period. However, with labour shortages expected for a while yet, site rates are expected to see higher increases
- The BCIS General Building Cost Index rose by 2.3% in 4th quarter 2021 compared with the previous quarter, and by 10.7% compared with a year earlier. Costs will rise by 14% over the forecast period (4Q2021 to 4Q2026)

According to BCIS General Building Cost Index costs have increased by **12.3%** on year costs to May 2022.

Sales Values

The RICS publishes a regular UK Residential Market Survey. The latest report from March 2022 states that:

- Buyer demand and sales continue to rise at a modest pace in March
- New instructions indicator turns positive for the first time in twelve months
- House price growth remains firm at the headline level
- At the national level, a net balance of +9% of respondents noted an increase in new buyer enquiries during March. This marks the seventh consecutive positive reading for this indicator, although the latest reading is a little softer than the figure of +16% returned in the previous iteration of the survey.
- Respondents cited a rise in the volume of fresh listings coming onto the sales market for the first time since March 2021. ...That said, despite there being some more encouraging signs on the supply front of late, resulting in a small rise in the average number of properties on estate agents books, the current level of inventory remains close to historic lows.
- agreed sales rose in March according to a net balance of +9% of contributors. This reading is unchanged from February and remains indicative of a steady upward trend in transaction numbers. Looking ahead, near-term sales expectations remain modestly positive, with the latest net balance coming in at +16% (compared to +11% previously). Further ahead, the twelve-month

expectations indicator now points to a broadly stable outlook for residential sales volumes at the national level.

- With respect to house prices, an aggregate net balance of +74% of respondents saw a continued increase in prices over the latest survey period. This is more or less aligned with the previous month's results and almost identical to the average seen for this indicator over the past twelve months (+75% net balance). When disaggregated, all parts of the UK continue to see a strong pace of house price growth, with Northern Ireland, Wales and the North of England seeing particularly sharp rates of house price inflation currently.
- Going forward, respondents across all areas foresee further growth in house prices at both the three- and twelve-month time horizons.

We have reviewed the Land Registry data for September 2020 to February 2022 for Charnwood District and found that prices (all house types) have grown by 16.8%. Detached houses had the highest growth at 20% and flats / maisonettes the lowest level of growth at 10.6%.

Land Values

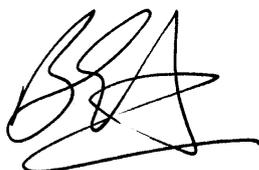
As you can see from the above, house price growth in Charnwood has generally kept pace with build cost increases and therefore the increases in costs are generally cancelled out by the increase in values. Given that development land is valued on a residual basis (having regard to values and costs), this should not have a dramatic effect on the land market.

Developers Profit

Developers profit is a reward for risk. The environment for house-building is inherently risky due to land acquisition, planning, development/construction and market risks. That said, the house-building industry is inherent to the UK economy and therefore government tends to intervene to ensure the stability of the industry (e.g. Help to Buy, Stamp Duty holiday etc). We do not consider that the current environment is any more risky than in 2020-21 when we prepared our original report, but it is important that the Council monitors the economy. Further inflation and higher interest rates (however caused) could result in a slow-down in the housing market and developers need to be mindful of this when adding to their land-banks.

We trust that the above is satisfactory for your current purposes.

Yours sincerely,



Ben E Aspinall MRICS MRTPI
Managing Director