Southend-on-Sea Combined Policy Viability Study

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Synopsis

The National Planning Policy Framework (NPPF) states that the cumulative impact of local planning authority standards and policies "should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle". The Southend-on-Sea Combined Policy Viability Study (the 'Viability Study') and its supporting appendices test this proposition within Southend.

The Viability Study has been commissioned by the Council to contribute towards its evidence base to inform the emerging Development Management DPD and Southend Central Area Action Plan. The study assesses the viability of the Council's draft planning policies and standards, alongside the adopted Core Strategy and other relevant national policies, in line with the requirements of the NPPF and the Local Housing Delivery Group guidance '*Viability Testing Local Plans: Advice for planning practitioners*' (June 2012).

The Viability Study examines adopted and emerging planning policy requirements; it does not test specific sites or detailed proposals, rather it tests a range of development typologies, i.e. hypothetical sites, that are reflective of the types of development that are likely to come forward over the plan period in different areas of the Borough derived from information on historic planning applications received and the Council's understanding of development proposals likely to come forward in the future. As a Borough-wide study, this assessment makes overarching conclusions about the viability of local planning policy. The Study does not account for or make judgements about individual site circumstances and in this regard should not be relied upon for individual site applications.

The Viability Study adopts a standard residual valuation methodology, using locally-based assumptions, in the context of testing the impact on viability of the Council's planning policies across the Borough. Due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide, particularly when applied to a Borough-wide study of this kind.

Individual site characteristics (which are unique), mean that conclusions relating to viability must always be tempered by a level of flexibility in the application of policy requirements on a site by site basis. It is therefore essential that viability appraisals which accompany individual planning applications are based on up-to-date, site specific detail and circumstances rather than the assumptions made within this Borough-wide Viability Study, which is only intended to test the overall effect of policy generally providing guidance and advice to the Council in the drafting of its planning policies.

The Study indicates that many developments could viably provide all or a large majority of the Council's planning policy requirements, however, in order to ensure the delivery of the required growth in the Borough, particularly in the lower value areas, the Council should adopt a more flexible approach to the application of a number of policies that have a cost implication. This will allow the Council to strike a balance between achieving its sustainability objectives, including meeting needs for affordable housing, whilst also demonstrating that these policy standards do not put implementation of the plan, including its growth targets, at serious risk.

Some development typologies tested within the Viability Study were identified as unviable in certain circumstances due to market factors rather than the impact of the Council's existing and proposed policy requirements and standards. The study suggests that such development schemes are not likely to come forward until market conditions change, and their current 'unviable' status should not be taken as an indication that the Council's policy requirements cannot be accommodated. Indeed, the Council has seen development, similar to typologies identified within the Study as being 'unviable', come forward in the Borough over the last five years. In this regard, it is important to highlight that on a site specific level there will be a range of factors determining whether a developer brings a site forward or not.

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Southend-on Sea Combined Policy Viability Study

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1 Executive Summary

1.1 This report tests the ability of a range of development types throughout the Borough of Southend-on-Sea to viably meet the emerging planning policy requirements of Southend-on-Sea Borough Council ('the Council') in its Draft Development Management Development Plan Document ('DPD') and Southend Central Area Action Plan ('SCAAP') DPD, alongside the adopted Core Strategy and other pertinent national policies. The study tests the cumulative impact of the Council's requirements, in line with the requirements of the National Planning Policy Framework ('NPPF') and the Local Housing Delivery Group guidance '*Viability Testing Local Plans: Advice for planning practitioners*' (June 2012).

Methodology

1.2 The study methodology compares the residual land values of a range of development typologies on sites throughout the Borough to their value in current use (plus a premium), herein after referred to as 'benchmark land value'. If a development incorporating the Council's policy requirements generates a higher residual land value than the benchmark land value, then it can be judged that the Council's requirements will not adversely impact on viability.

1.3 The study utilises the residual land value method of calculating the value of each development typology. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance, sustainability requirements, Section 106 contributions[1] and developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development, and guides a developer in determining an appropriate offer price for the site.

1.4 The housing and commercial property markets are inherently cyclical and the Council is testing its proposed Development Management DPD and SCAAP policies at a time when the market is recovering after a severe recession. Residential values in Southend have recovered to a degree but still remain circa 11.75% below the 2008 peak levels.[2] Forecasts for future house price growth indicate continuing growth in the 'mainstream' UK and East of England markets. We have allowed for this by running a sensitivity analysis which varies the base sales values and build costs, with values increasing by 22% and costs by 11%. This reflects the growth predicted by Savills in their research report, 'Residential Property Focus Q3 2013', and a return to the peak of the market build costs as identified from the RICS Build Costs Information Service ('BCIS'). This analysis is indicative only, but is intended to assist the Council in understanding the ability of developments to absorb its requirements both in today's terms but also in the future.

Key findings

1.5 The key findings of the study are as follows:

- The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that

[1] And any potential future Community Infrastructure Levy ('CIL').
[2] As identified from the Land Registry's online House Price Index database (http://www.landregistry.gov.uk/public/house-prices-and-sales/search-the-index)

the Council keeps the viability situation under review so that any potential levels of CIL proposed to be charged can be made and adjusted to reflect any future changes.

- Some development typologies tested were unviable in certain circumstances due to market factors, rather than the impact of the Council's proposed policy requirements and standards. These schemes are identified in the appraisals as being unviable at 0% affordable housing and base build costs i.e. build costs for Part L Building Regs 2010. These schemes will not come forward until changes in market conditions and their current unviable status should not be taken as an indication that the Council's requirements cannot be accommodated. We are aware that the Council has seen some developments, similar to those identified within the study as being unviable, come forward in the borough over the last five years. In this regard we would highlight that on a site specific level there will be a range of factors determining whether a developer brings the site forward or not. These include but are not limited to the developer accepting a lower profit level or achieving lower build costs or factoring in growth to revenue.

- In most cases, i.e. where schemes show viability, schemes can accommodate the Council's affordable housing requirement (Policy CP 8: Dwelling Provision) at a level somewhere between 15% to 30% without grant.

- When the cumulative effect of affordable housing and Section 106 contributions are tested on developments, some schemes are able to accommodate less affordable housing in certain scenarios that have been tested.

- We understand that the Council currently applies its affordable housing policy (CP 8: Dwelling Provision) flexibly. Based on the results in this study BNP Paribas Real Estate recommends that the Council continues to allow for flexibility in its emerging affordable housing Policy DM7 (Dwelling Mix). We consider that a flexible approach to the application of its affordable housing targets and tenures will ensure the viability of developments is not adversely affected over the economic cycle.

- The study has highlighted that a flexible approach to costs affecting commercial developments, particularly in the Central Area, is essential as at current costs and values such developments are identified as being unviable. In particular we recommend that Policy DM2 (Low Carbon Development and Efficient Use of Resources) applies the requirements for developments to meet BREEAM standards flexibly.

- Notwithstanding this, it should be noted that the results of this viability exercise, which identify certain commercial development as unviable, do not mean that sites will not be developed within the Borough for these uses. Viability is only one of many factors which affect whether a site is developed. For example, owner occupiers who wish to locate in Southend-on-Sea are likely to develop a site if it is suitable for their purposes and use. Alternatively, an existing occupier looking to re-locate may wish to develop their own premises by reference to their own cost benefit analysis, which will bear little relationship to the residual land value calculations that a speculative landlord developer may undertake.

- A flexible approach to the Council's sustainability requirements[3] is identified by the results of this study as being vital to allow them to appropriately balance the need for affordable housing, carbon reduction and the reduction of flood risk.

- It should be noted however, that the results of our appraisals suggest that achieving zero carbon by standards by 2016 in accordance with government requirements is ambitious and will require a significant reduction in costs in comparison to today's estimates.

- This study demonstrates that given a more flexible approach to applying its sustainability and affordable housing requirements, including a pragmatic approach to the 'Affordable Rent' tenure and rent levels, will ensure an appropriate balance between delivering affordable housing, sustainability objectives and the need for landowners and developers to achieve competitive returns, as required by the NPPF. This approach will lighten the 'scale of obligations and policy burdens' (para 174 of the NPPF) to ensure that sites are, as far as if possible, able to be developed viably and thus facilitate the growth envisaged by the Council's plans throughout the economic cycle without jeopardising the delivery of Southend-on-Sea's Local Plan.

[3] In particular the CSH and BREEAM requirements in Policy DM2 (Low Carbon Development and Efficient Use of Resources), Lifetimes Homes Standards in Policy DM8 (Residential Standards) and SuDs requirements in Policy IF3 (Flood Risk Management).

2 Introduction

2.1 This study has been commissioned to contribute towards an evidence base to inform the Council's draft Development Management and SCAAP DPDs. The aim of the study is to assess the viability of the Council's draft planning policies and standards, alongside the adopted Core Strategy and other pertinent national policies.

2.2 In terms of methodology, we adopted standard residual valuation approaches to test the impact on viability of the Council's policies. However, due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide. Individual site characteristics (which are unique), mean that conclusions must always be tempered by a level of flexibility in application of policy requirements on a site by site basis. It is therefore essential that affordable housing requirements reflect site-specific viability.

2.3 In light of the above we would highlight that the purpose of this viability study is to support the Council's emerging policies through Examination by providing evidence to show that the requirements set out within the NPPF are met. That is, that the policy requirements for development set out within the plan do not threaten the ability of the sites and scale of that development to be developed viably.

2.4 As an area wide study this assessment makes overall judgements as to viability in the jurisdiction of Southend-on-Sea Borough Council and does not account for individual site circumstances and in this regard should not be relied upon for individual site applications.

2.5 This is recognised within Section 2 of the Local Housing Delivery Group guidance, which identifies the purpose and role of viability assessments within plan-making. This identifies that: *"The role of the test is not to give a precise answer as to the viability of every development likely to take place during the plan period. No assessment could realistically provide this level of detail. Some site-specific tests are still likely to be required at the development management stage. Rather, it is to provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability of development needed to deliver the plan."*

National Policy Context

The National Planning Policy Framework

2.6 Since the Council adopted its Core Strategy in December 2007, the old suite of national planning policy statements and planning policy guidance has been replaced by a single document – the National Planning Policy Framework ('NPPF').

2.7 The NPPF provides more in-depth guidance on viability of development than Planning Policy Statement 3, which limited its attention to requiring local planning authorities to test the viability of their affordable housing targets. The NPPF requires that local planning authorities have regard to the impact on viability of the *cumulative effect* of all their planning requirements on viability. Paragraph 173 of the NPPF requires that local planning authorities give careful attention "*to viability and costs in plan-making and decision-taking*". The NPPF further requires that "*the sites and the scale of development identified in the plan should not be subject to* *such a scale of obligations and policy burdens that their ability to be developed viably is threatened*". After taking account of policy requirements, land values should be sufficient to "*provide competitive returns to a willing landowner and willing developer*".

2.8 The meaning of a "*competitive return*" has been the subject of considerable debate over the past year. For the purposes of testing the viability of a Local Plan, the Local Housing Delivery Group[4] has concluded that the current use value of a site (or a credible alternative use value) plus an appropriate uplift, represents a competitive return to a landowner. Some members of the RICS consider that a competitive return is determined by market value[5], although there is no consensus around this view.

Section 106 contributions and the Community Infrastructure Levy

2.9 Southend has an ambitious regeneration programme and along with planned growth within the Borough, infrastructure investment will be required to accommodate new development.

2.10 Currently the Council requires developments to pay Section 106 contributions for such infrastructure, however, from April 2014[6] or the adoption of a Community Infrastructure Levy Charging Schedule, whichever is the earliest, the Council will be required to scale back the amount of Section 106 contributions sought on sites to site specific mitigation measures only. The CIL regulations have three important repercussions for Section 106 obligations:

- making the test for the use of Section 106 obligations statutory (R122)
- ensuring that there is no overlap in the use of CIL and Section 106 (R123)
- limiting the use of 'pooled' Section 106 obligations post April 2014[5] (R123)

2.11 The Council has yet to publish their preliminary draft charging schedule, and are at the early stages of its preparation. Given this position, for the purpose of the study an allowance towards Section 106 contributions has been included in the assessment based on historic contributions secured on developments within the Borough, and are not scaled back to reflect the changes to Section 106 sought from April 2014[5].

Local Policy context

2.12 The study takes into account the adopted Core Strategy, the saved policies in the Local Plan, the Southend Replacement Structure Plan, The Essex and Southend Waste Local Plan and the Essex Mineral Plan and the emerging policies and standards set out in the draft Development Management and SCAAP DPDs, which include *inter alia* an affordable housing requirement; sustainability; open space; and Section 106 requirements addressing on-site issues.

Draft Local Plan – policy sifting

2.13 BNP Paribas Real Estate and the Council have undertaken a sifting exercise of the aforementioned documents to identify which policies might have cost implications for developments. It is not envisaged that the saved policies in the Local Plan, the Southend Replacement Structure Plan, the

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[4] Viability Testing Local Plans: Advice for planning practitioners, June 2012
[5] RICS Guidance Note: Financial Viability in Planning, August 2012
[6] This date may change to April 2015, based on the Consultation on Community Infrastructure Levy further reforms document published in April 2013.

Essex and Southend Waste Local Plan and the Essex Mineral Plan will have any direct cost implication and are therefore not analysed as part of this study or the ‘Policy Sift’. Further, the Development Management DPD and SCAAP propose to replace all remaining criteria based Local Plan saved policies upon their adoption.

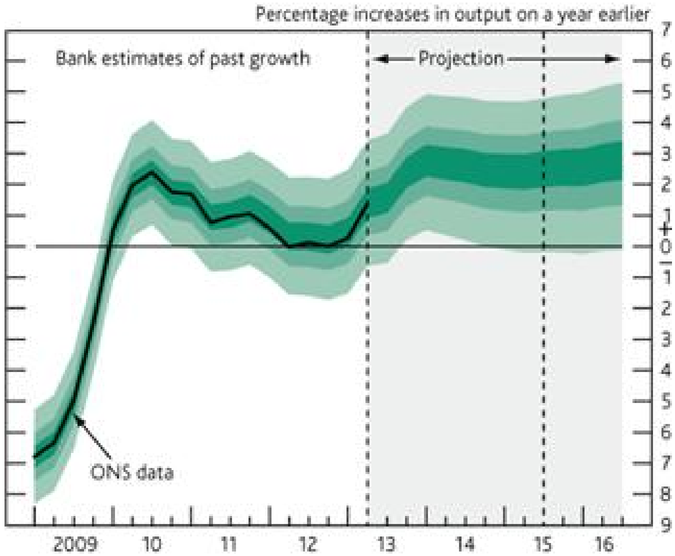
2.14 A full list of the policies analysed in the policy sifting exercise and commentary as to implications for costs for each policy is provided at **Appendix 1**.

2.15 The scoping of policies set out in Appendix 1 treats requirements for good design/layout and for necessary infrastructure as essential elements of any development, which should be factored into normal development costs. This study testing the viability of the cumulative impact of the existing and emerging policies therefore focuses on added costs where the emerging policies set requirements exceed Building Regulations or what might otherwise be considered to be acceptable in planning terms. The main added costs relate to sustainable design standards and the likely Section 106 requirements including affordable housing.

Economic and housing market context

2.16 The historic highs achieved in the UK housing market by mid 2007 followed a prolonged period of real house price growth. However, a period of ‘readjustment’ began in the second half of 2007, triggered initially by rising interest rates and the emergence of the US sub prime lending problems in the last quarter of 2007. The subsequent reduction in inter-bank lending led to a general “credit crunch” including a tightening of mortgage availability. The real crisis of confidence, however, followed the collapse of Lehman Brothers in September 2008, which forced the Government and the Bank of England to intervene in the market to relieve a liquidity crisis.

2.17 The combination of successive shocks to consumer confidence and the difficulties in obtaining finance led to a sharp reduction in transactions and a significant correction in house prices in the UK, which fell to a level some 21% lower than at their peak in August 2007 according to the Halifax House Price Index. Consequently, residential land values fell by some 50% from peak levels. One element of Government intervention involved successive interest rate cuts and as the cost of servicing many people’s mortgages is linked to the base rate, this financial burden has progressively eased for those still in employment. This, together with a return to economic growth early 2010 (see August 2013 Bank of England GDP fan chart below, showing the range of the Bank’s predictions for GDP growth to 2016) has meant that consumer confidence has started to improve to some extent.



Source: Bank of England

2.18 Throughout the first half of 2010 there were some tentative indications that improved consumer confidence was feeding through into more positive interest from potential house purchasers. Against the background of a much reduced supply of new housing, this would lead one to expect some recovery in prices. However, this brief resurgence abated with figures falling and then fluctuating in 2011 and 2012, with the Halifax House Price Indices showing a fall of 0.6% in the year to March 2012. The Halifax attributed some of recovery during that period to first time buyers seeking to purchase prior to the reintroduction of Stamp Duty from 1 April 2012. The signs of improvement in the housing market towards the end of 2012 have continued in 2013 and both The Halifax and Nationwide report positively in their July 2013 Housing Price Index updates. They both refer to signs of an upturn in the housing market, identifying July 2013 as having the "strongest rate of annual growth since 2010".

2.19 The Halifax report identifies that prices in the three months to July 2013 are 2.1% higher than in the previous three months, and prices in the three months to July 2013 were 4.6% higher than in the same three months a year earlier. This was higher than June's 3.7% increase and is the highest annual rate since August 2010 (4.6%), which is 'the strongest figure in this measure of the underlying trend for three years.' Prices are also identified as being 1.3% higher than in the same period in January 2012, marking the first annual rise for 27 months. They appear to be more optimistic than Nationwide in their view of the market, identifying that, *"Signs of improvement in the economy, underlined by the recent evidence of a rise in gross domestic product in Quarter 2 and increases in employment, appear to have boosted consumer confidence. Greater confidence is likely to have underpinned the increase in housing demand."*

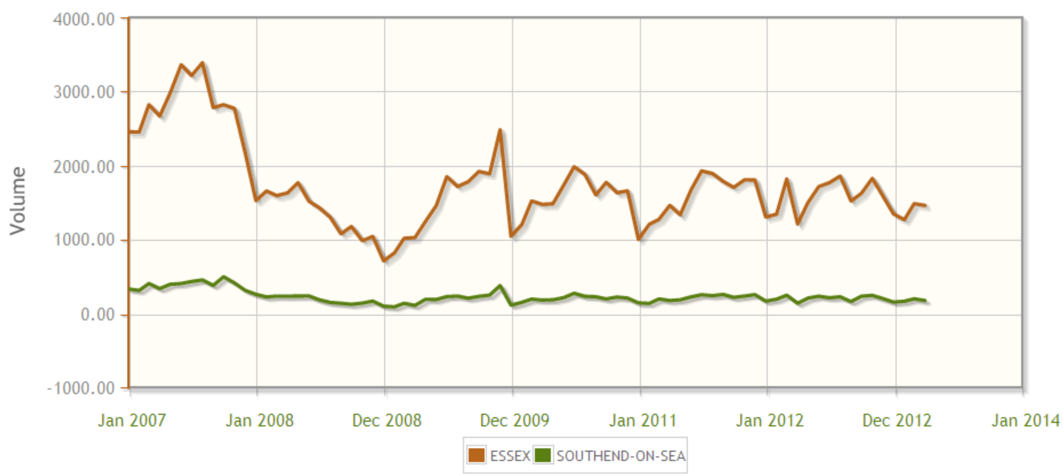
2.20 Nationwide, although positive, is more cautious in its outlook, reporting a modest increase in market activity and growth qualified by still being muted by comparison to historic standards. The annual rate of house price growth is identified as having increased to 3.9% in July 2013, however, this figure is identified as having been boosted by a low base for comparison, as prices declined by 2.6% in July 2012. Further, it is reported *that "House prices are currently around 12% higher than the lows seen in the midst of the financial crisis, though they are still around 10% below the all time highs recorded in late 2007."* They too consider *that "Signs of a modest* *improvement in wider economic conditions and further modest gains in employment are likely to be lifting buyer sentiment."*

2.21 Both Halifax and Nationwide refer to the improvement in the availability and a reduction in the cost of credit as a result of official schemes, such as the Funding for Lending Scheme and the Help to Buy equity loan scheme. These are identified as sources which may be boosting demand.

2.22 The outlook for the UK economy and house prices is identified by Martin Ellis, (the housing economist at Halifax) as being *"expected to continue to rise gradually through this year with only modest economic growth and still falling real earnings constraining housing demand and activity."*

Figure 2.22.1: Average house prices in Essex and Southend-on-Sea

Figure 2.22.2: Sales volumes in Essex and Southend-on-Sea



Source: Land Registry

2.23 According to Land Registry data, residential sales values in Southend-on-Sea and Essex have recovered since the lowest point in the cycle in June 2009. Prices fell by 20.96% in Southend-on-Sea from the peak of the market, February 2008, to June 2009. Following this process increased by circa 10% between June 2009 and October 2010. From this point sales values have remained fairly stable, fluctuating up and down from October 2010 prices by no more than 2%. In March 2013, sales values in

Southend-on-Sea were 11.75% lower than the February 2008 peak value and 10.18% lower than the March 2008 Peak value in Essex as a whole.

2.24 The future trajectory of house prices is currently uncertain, although Savills' current prediction is that values are expected to increase over the next five years. Medium term predictions are that house prices for properties in the mainstream East of England markets will grow by 22.2% over the period between 2013 to 2017[7] inclusive. This is compared to 24% for the South East and a UK average of 18.1% cumulative growth over the same period.

Development context

2.25 Developments in Southend range from small in-fill sites to larger regeneration schemes. The Core Strategy makes provision for a large share of the Borough's new growth and regeneration to be focussed in the Central Area, which is being taken forward in the SCAAP.

2.26 There are variations in residential sales values between different parts of the Borough, with areas closer to the seafront generally perceived to be more desirable and achieving higher values (including areas such as Leigh-on-Sea, Chalkwell and Thorpe Bay) and the areas to the north and around the airport, Westborough, Victoria and Prittlewell areas achieving lower values. Outside the Central Area, commercial development is likely to be more limited in scale. The Borough's retail centres are performing reasonably well given the current economic climate. However, the Council only expects to see development of a significant amount of additional floorspace linked to the regeneration of the Southend Central area in the medium to long term. New office development is also likely to be limited in the short to medium term given the current economic climate and the large amount of office space currently on the market, while industrial development is likely to be limited throughout the Borough.

7 Savills Research: Residential Property Focus,Q3 2013 (July 2013)

3 Methodology and appraisal inputs

3.1 Our methodology follows standard development appraisal conventions, using locally-based sites and assumptions that reflect local market circumstances and emerging planning policy requirements. The study is therefore specific to Southend and reflects the Council's planning policy requirements.

Approach to testing development viability

3.2 Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing and the payment from a Registered Social Landlord ('RSL') for the completed affordable housing units. For a commercial scheme, scheme value equates to the capital value of the rental income. The model then deducts the build costs, fees, interest, Section 106 contributions and developer's profit. A 'residual' amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner. The residual land value is represented by the red portion of the right hand bar in the diagram.

3.3 The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of existing use value, discussed later), it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.

3.4 Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value[8]' or another appropriate benchmark to make development worthwhile. The margin above existing use value may be considerably different on individual sites, where there might be particular

[8] For the purposes of this report, existing use value is defined as the value of the site in its existing use, assuming that it remains in that use. We are not referring to the RICS Valuation Standards definition of 'Existing Use Value'.

reasons why the premium to the landowner should be lower or higher than other sites.

3.5 Clearly, however, landowners have expectations of the value of their land which often exceed the value of the current use. Section 106 contributions and CIL, if and when the Council adopt a Charging Schedule, will be a cost to the scheme and will impact on the residual land value. Ultimately, if landowners' expectations are not met, they will not voluntarily sell their land and (unless a Local Authority is prepared to use its compulsory purchase powers) some may simply hold on to their sites, in the hope that sales values increase or policy may change at some future point with reduced requirements. It is within the scope of those expectations that developers have to formulate their offers for sites. The task of formulating an offer for a site is complicated further still during buoyant land markets, where developers have to compete with other developers to secure a site, often speculating on increases in value.

Viability benchmark

3.6 The NPPF does not prescribe any particular methodology for assessing the viability of developments in their areas for testing local plan policies. The Local Housing Delivery Group published guidance in June 2012[9] which provides guidance on testing viability of local plan policies. The guidance notes that "*consideration of an appropriate Threshold Land Value [or viability benchmark] needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy*". The RICS Guidance Note 'Viability in Planning' (August 2012) which advocates market value as a benchmark for testing viability, is therefore not applicable to a test of planning policy.

3.7 In light of the weaknesses in the market value approach, the Local Housing Delivery Group guidance recommends that benchmark land value "*is based on a premium over current use values*" with the "*precise figure that should be used as an appropriate premium above current use value [being] determined locally*". The guidance considers that this approach "*is in line with reference in the NPPF to take account of a "competitive return" to a willing land owner*".

3.8 The recent examination on the Mayor of London's CIL charging schedule considered the issue of an appropriate land value benchmark. The Mayor had adopted current use value, while certain objectors suggested that 'Market Value' was a more appropriate benchmark. The Examiner concluded that:

"The market value approach…. while offering certainty on the price paid for a development site, suffers from being based on prices agreed in an historic policy context." (para 8) and that "*I don't believe that the EUV approach can be accurately described as fundamentally flawed or that this examination should be adjourned to allow work based on the market approach to be done*" (para 9).

[9] Viability Testing Local Plans: Advice for planning practitioners, Local Housing Delivery Group, Chaired by Sir John Harman, June 2012.

3.9 In his concluding remark, the Examiner points out that

"the price paid for development land may be reduced [so that CIL may be accommodated]. *As with profit levels there may be cries that this is unrealistic, but* ***a reduction in development land value is an inherent part of the CIL concept****. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges.* (para 32 – emphasis added).

Consultation with stakeholders

3.10 In line with the Local Housing Delivery Group Guidance the Council has sought a collaborative approach at an early stage of the viability testing whereby *'viability testing is an iterative process, both informing and being informed by the emerging policies'.*

3.11 The Guidance identifies at Part 2 that, *'In working collaboratively through the assessment process, it is important the planning authority seeks engagement with the range of bodies with an interest in plan policies and their impact on deliverability, including neighbouring authorities under the Duty to Cooperate.'* Further the Guidance also sets out that, *'Where developers engage in this collaborative process, it will aid the work if they are able to share as fully as possible their own appraisals and practices, recognising that there will be commercial constraints on this.'*

3.12 The Council and BNP Paribas Real Estate undertook informal consultation with key stakeholders at an early stage of preparing the local plan viability work supporting the Council's draft Development Management and SCAAP DPDs. This was undertaken to open a dialogue regarding development viability across the Borough in relation to the aforementioned draft plans, which have already undergone consultation, and with respect to the potential future Community Infrastructure Levy Charging Schedule.

3.13 The key stakeholders invited to attend were identified by the Council through their existing databases and understanding of development in the Borough and included developers, landowners, active agents, Registered Providers (RPs) and infrastructure providers etc.

3.14 This informal consultation took the form of a workshop at which BNP Paribas Real Estate provided an introduction to the viability work being undertaken and presented our proposed methodology for the study and the proposed appraisal inputs to the stakeholders. During the workshop we sought the Stakeholders comments on both elements and welcomed any further local information and evidence that they might have to assist with the study.

3.15 Following the workshop, the presentation was emailed to all attendees and invitees (i.e. including those invited but who were unable to attend). In the covering letter from the Council again confirmed that both they and BNP Paribas Real Estate would be appreciative of any comments regarding the approach and proposed appraisal inputs for the Local Plan Testing Viability Study and evidence to support any proposed amendments to the appraisal inputs, to be received within two weeks of the information being sent out.

3.16 Six responses were received to the consultation, which included Natural England, The Theatres Trust, Anglian Water and three from local developers/landowners. Comments made to this consultation were taken into consideration and as considered appropriate, revisions were made to the inputs to the viability study. We note however, that much of the comments were made with respect to the potential charging and spending of CIL.

4 Development appraisals

4.1 We have appraised 18 development typologies, reflecting both the range of sales values/capital values and also sizes/types of development and densities of development across the Borough. BNP Paribas Real Estate and the Council have reviewed historic planning applications received in the Borough and have based the appraisal typologies on a range of actual developments within the Borough. These typologies are therefore reflective of developments that have been consented/delivered as well as those expected to come forward in Southend-on-Sea in the future. Details of the schemes appraised are provided below in tables 4.1.1 for the Central Area and 4.1.2 for the rest of the Borough.

Table 4.1.1: Development typologies – Southend-on-Sea Central Area

	No. Resi units	Description of Development	Net dev area (ha)	Dev density (units per ha)
1	5	Flats	0.05	100
2	9	Flats	0.09	100
3	20	Flats & Houses	0.26	77
4	35	Flats	0.15	233
5	60	Flats	0.3	200
6	70	Flats & Houses	1	70
6a	70	Flats & Houses & commercial (12,500 sq m split 90% office and 10% retail)	1	70
7	100	Flats & Houses	1	100
7a	100	Flats & Housing & commercial (12,500 sq m split 90% office and 10% retail)	1	100
8	150	Flats & Houses	2	75
8a	150	Flats and Houses & commercial (12,500 sq m split 90% office and 10% retail)	2	75

Table 4.1.2: Development typologies – Rest of Borough

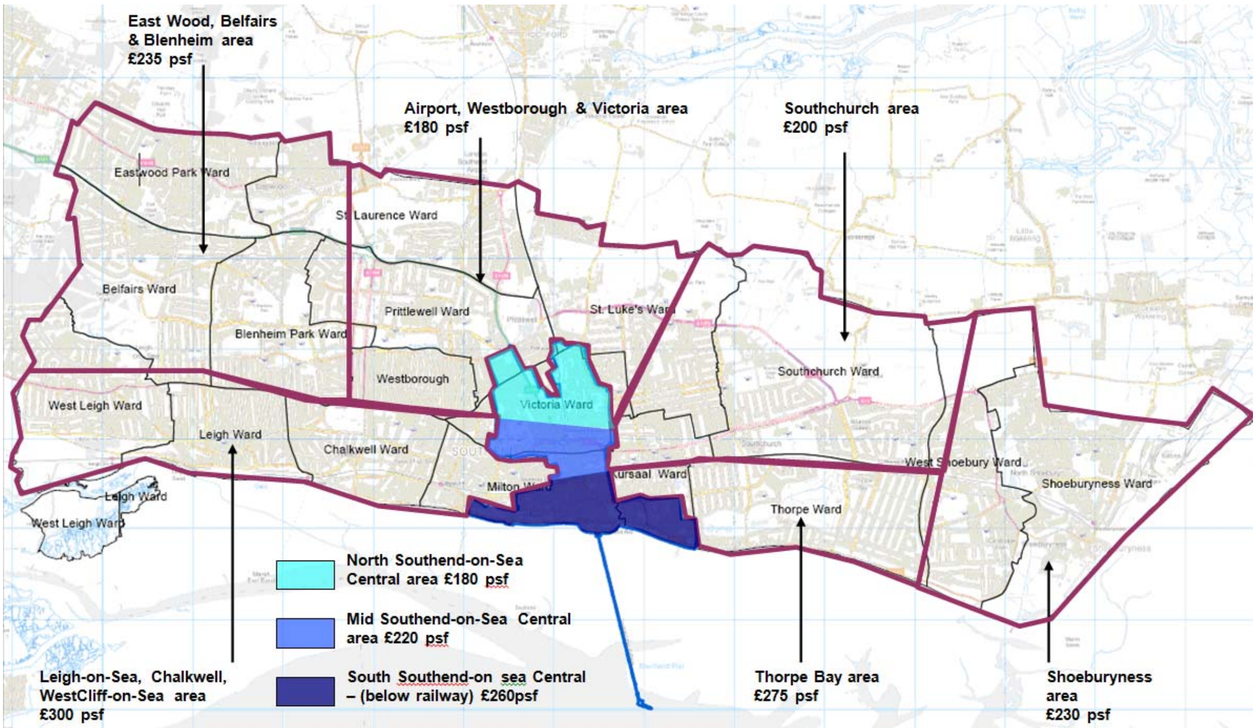
	No. Resi units	Description of Development	Net developable area (ha)	Dev density (units per ha)
9	2	Flats	0.03	67
10	4	Houses	0.12	33
11	8	Flats	0.05	160
12	12	Houses	0.35	34
13	16	Flats	0.12	133

	No. Resi units	Description of Development	Net developable area (ha)	Dev density (units per ha)
14	40	Flats & Houses (90% flats and 10% houses)	0.55	73
15	45	Flats & houses (40% flats and 60% houses)	0.68	66

Residential sales values

4.2 Residential values in the area reflect national trends in recent years but do of course vary between different sub-markets. We have considered comparable evidence of transacted properties in the area and also properties on the market to establish appropriate values for each scheme for testing purposes. This exercise indicates that developments in the Borough will attract average sales values ranging from circa £3,229 per square metre (£300 per square foot) to £1,938 per square metre (£180 per square foot). In general higher values are achieved along the seafront and particularly in the Leigh-on-Sea, Chalkwell and Thorpe Bay areas. The market areas are illustrated in Figure 4.2.1 below.

Figure 4.2.1: Sales values



4.3 We have applied the following average sales values in our appraisals, reflecting the range above (see Tables 4.3.1 and 4.3.2).

Table 4.3.1: Average sales values adopted in Southend-on-Sea Central Area appraisals

Area	Ave values £s per sq m	Ave values £s per sq ft
North central area	£1,938	£180
Mid central area	£2,369	£220
South central area (below railway)	£2,799	£260

Table 4.3.2: Average sales values adopted in Rest of Borough Area appraisals

Area	Ave values £s per sq m	Ave values £s per sq ft
Airport, Westborough, Victoria and Prittlewell	£1,938	£180
Southchurch	£2,153	£200
Eastwood, Belfairs and Blenheim	£2,530	£235
Shoeburyness	£2,476	£230
Thorpe Bay	£2,960	£275
Leigh-on-Sea and Chalkwell	£3,229	£300

4.4 As noted earlier in the report, Savills predict that sales values will increase over the medium term. Whilst this predicted growth cannot be guaranteed, we have run sensitivity analysis assuming growth in sales values of 22%, accompanied by cost inflation of 11%[10], which reflects Savills' forecast for the growth in sales values in the East of England mainstream markets and build costs from the peak of the market as identified by the RICS BCIS database for Southend-on-Sea. This sensitivity analysis provides the Council with an indication of the impact of changes in values and costs on scheme viability.

Commercial revenue

4.5 We have undertaken research on deals for commercial floorspace in the Borough using electronic databases such as EGi and Focus, as well as discussions with local agents. Our research indicates that a range of rents are currently being achieved and as such prime office space is likely to achieve between £10 to £15 per square foot and prime retail units between £25 and £30 per square foot (overall). For the purposes of this study we have assumed that top grade office and retail space would be provided, therefore it would be likely to achieve the top end of the range of rents identified.

4.6 Following our research into yields in the Borough we have identified that there have been very few recent transactions, which was confirmed by local agents. As such, the yields applied are based on advice from local agents and research undertaken in the South East and Essex area as well as our understanding of the current commercial property market in the UK. In addition we understand that there is a substantial amount of vacant office space in Southend, the majority of which is of poor quality. New build

[10] Our appraisals do not, however, include any inflation on existing use values, as commercial floorspace is not expected to increase in value over the next four to five years. This is due to general weakness in the economy and a surplus of office space outside the CAZ.

office developments are likely to attract a premium rent above second hand rents. However, such development is likely to be relatively modest in the short term given the current economic climate. Given the above we have adopted a yield of 9% on office space and 7% on retail space tested within the study. We have also allowed for a 2 year rent free/void period on both office and retail floorspace.

Housing mix

4.7 Draft Policy DM7 of the emerging Development Management DPD provides a specific housing mix, as follows:

	1 bed	2 bed	3 bed	4 bed
Affordable Housing	30%	25%	30%	15%

- Market housing: no specific percentages, but the policy identifies that *"All residential development is required to provide a dwelling mix that incorporates a range of dwelling types and bedroom sizes, including family housing on appropriate sites, to reflect the Borough's housing need and housing demand."*

4.8 It is noted, however, that the emerging Draft Thames Gateway South Essex Strategic Housing Market Assessment 2013 identifies a different size mix of Housing Requirement for 2011-31 based on Population Projection scenarios for Southend-on-Sea. This sets out a mix for all housing as well as for affordable and in particular includes a lower percentage of 1 bed and 4 bed affordable dwellings and a higher percentage of 2 and 3 bed affordable dwellings when compared to Draft Policy DM7.

4.9 Tables 4.9.1 and 4.9.2 summarise the housing mix adopted for the purpose of this assessment. These have been arrived at based on a combination of the current draft Policy DM 7, the emerging SHMA position and past completions in the Borough (2002-2012).

4.10 With respect to the size of units adopted in the study, these have been informed by the 'Housing Quality Review' document published by Southend-on-Sea Borough Council in March 2011, which sets out various residential space standards at Appendix 2.

Table 4.9.1: Unit Mix (across all tenures taken together) – Southend-on-Sea Central Area

Site type	1 Bed flat	2 bed flat	3 bed flat	2 bed house	3 bed house	4 bed house
Unit size	*37.5 sqm*	*57 sqm*	*67 sqm*	*83 sqm*	*96 sqm*	*113 sqm*
1	25%	75%	-	-	-	-
2	33.3%	33.4%	33.3%	-	-	-
3	30%	-	-	30%	40%	-
4	35%	60%	5%	-	-	-
5	25%	70%	5%	-	-	-
6, 6a, 8 & 8a	25%	20%	5%	20%	30%	-
7 & 7a	25%	60%	5%	-	5%	5%

Table 4.9.2: Unit Mix (across all tenures taken together) – Rest of Borough

Site type	1 Bed flat	2 bed flat	3 bed flat	2 bed house	3 bed house	4 bed house
Unit size	37.5 sqm	57 sqm	67 sqm	83 sqm	96 sqm	113 sqm
9	-	100%	-	-	-	-
10	-	-	-	100%	-	-
11	30%	70%	-	-	-	-
12	-	-	-	25%	45%	30%
13	25%	70%	5%	-	-	-
14	30%	50%	10%	-	5%	5%
15	25%	5%	10%	25%	30%	5%

Affordable housing tenure and values

4.11 The Council's Core Strategy Policy CP 8 (Dwelling Provision) identifies that residential developments will be expected to contribute to local housing needs, including affordable provision, and to achieve this, the Council will enter into negotiations to ensure that:

- not less than 30% of units are affordable on sites of 50+ dwellings or 2 hectares; and
- not less than 20% of units are affordable on sites of 10-49 dwellings or 0.3 hectares to 1.99 hectares;
- However, for sites providing less than 10 dwellings or below 0.3 ha or larger sites where, exceptionally, the Borough Council is satisfied that on-site provision is not practical, they will negotiate with developers to obtain a financial contribution to fund off-site provision.

4.12 Although the Council is keen to ensure that Social Rented accommodation is still provided wherever possible in order to meet local needs, they have accepted the concept of Affordable Rent in the Borough. It is appreciated that Affordable Rent is now a key part of funding for new affordable housing and social rented accommodation is expensive to provide given the current economic position and loss of grant. Given this position this study tests both tenures.

4.13 Social rents have been tested at target rents and we have modelled affordable rent units based on 80% of market rents for the rented element of our appraisals, as long as these do not exceed the Local Housing Allowance levels. These are shown in the table below:

Table 4.13.1: Summary of average private rents, 80% of private rents and

Local Housing allowance levels

Property type	Ave Market Rent per week	80% of Market Rent per week	Local Housing Allowance (per week)	Rent adopted in study
One bed	£138.46	110.77	£114.23	£110.77
Two bed	£173.08	138.46	£149.76	£138.46
Three bed	£230.77	184.62	£184.62	£184.62
Four bed	£300.00	£240.00	£229.62	£229.62

4.14 The CLG/HCA '*2011-2015 Affordable Homes Programme – Framework'* (February 2011) document clearly states that RSLs will not receive grant funding for any affordable housing provided through planning obligations. We have therefore assumed that schemes will not receive grant funding.

4.15 For shared ownership units, we have assumed that RSLs will sell 30% initial equity stakes and charge a rent of 2.75% on the retained equity. A 10% charge for management is deducted from the rental income and the net amount is capitalised using a yield of 6%.

Build costs

4.16 We have sourced build costs for the residential schemes from the RICS Building Cost Information Service (BCIS)[11], which is based on tenders for actual schemes[12]. However, adjustments to the base costs are necessary to reflect other factors which are not included in BCIS. In addition to the build costs outlined below, our appraisals include a contingency of 5% of build costs. Our approach is set out in the following paragraphs.

4.17 **Houses:** we have used the mean average BCIS 'Estate housing – generally' cost, adjusted for Southend-on-Sea, which is currently £858 per square metre. In addition to these base costs, we have included an allowance which equates to an additional 22%[13] of the base cost for demolition, site preparation and external works.

4.18 **Flats**: we have used the mean average BCIS 'Flats – generally' cost, adjusted for Southend-on-Sea, which is currently £1,009 per square metre for the lower density schemes in the Borough. For the higher density schemes (typologies 4 and 5) we have used the mean BCIS 'Flats – 6+ storeys' adjusted for Southend-on-Sea, which is currently £1,320 per square metre. In addition to these base costs, we have included an allowance which equates to an additional 22%[13] of the base cost for demolition, site preparation, external works and car parking. Our appraisals assume a gross to net ratio of between 80% and 85% for flats, depending on the density of the scheme.

4.19 Our appraisals incorporate an allowance of £600 per residential unit reflecting the DCLG research on the costs of meeting Lifetime Homes standards.

4.20 The costs of making units wheelchair accessible is broadly neutral and is

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[11] The BCIS build costs were sourced on 4 May 2013 and are adjusted for the Southend-on-Sea Borough area .
[12] We understand from the Council that such schemes in the Borough are likely to be Building Regulations Part L 2010 compliant and not CSH level 3.
[13] Percentage allowance based on BNP Paribas Real Estate's professional judgement of costs to allow for demolition, site preparation, external works and car parking in Southend-on-Sea.

more of a design and unit size issue. The 10% wheelchair requirement will be accommodated within schemes by varying unit sizes to accommodate the additional floorspace required for turning circles.

4.21 Our appraisals also allow for a cost of £750 per residential unit to allow for SuDs reflecting the middle point of the range identified (i.e. £500-£1000 per unit) in the August 2011 DCLG Study '*Code for Sustainable Homes: Updated Cost Review'*.

4.22 An allowance of 1.4% has been included above the base BICS costs to allow for and uplift from 2010 part L building regulations to meet Code for Sustainable Homes (CSH) level 3. An additional 6% of base build costs is included as an allowance across all housing tenures for meeting CSH level 4. When testing CSH level 6, an additional 50% is added to the base build costs. These assumptions are based on the August 2011 CLG Study '*Code for Sustainable Homes: Updated Cost Review'*.

4.23 Policy KP2 of the Core Strategy requires a minimum of 10% energy to come from on-site renewable sources. For the purposes of this study it has been taken that the 10% renewables contribution is covered through the S106 contributions (and all/an element of the renewables requirement is covered by the uplifts for CSH 3+.

4.24 **Offices:** we have used the mean average BCIS 'Air-conditioned Offices - 6+ storey' cost, adjusted for Southend-on-Sea, which is currently £1,680 per square metre. In addition to this base cost, we have included an allowance which equates to an additional 10% of the base cost for external works.

4.25 **Retail:** we have used the mean average BCIS 'Shopping Centres' cost, adjusted for Southend-on-Sea, which is currently £964 per square metre. In addition to this base cost, we have included an allowance which equates to an additional 10% of the base cost for external works.

Professional fees

4.26 In addition to base build costs, schemes will incur professional fees covering design, valuation highways and planning consultants and the cost of preparing and submitting the planning application and so on. Our appraisals incorporate a 10% allowance, which is at the middle to higher end of the range for most schemes.

Development finance

4.27 Our appraisals assume that development finance can be secured at a rate of 7%, inclusive of arrangement and exit fees, reflective of current funding conditions.

Marketing costs

4.28 Our appraisals incorporate an allowance of 3% for marketing costs, which we consider to be an appropriate allowance for this area.

Commercial disposal costs

4.29 In line with market practice our appraisals included allowances for fees such as Letting Agents (10% of rent), Sales Agents (1% of capital value) and Legal fees (0.75% of capital value). We have also allowed for purchasers costs at 5.8% of capital value.

Section 106 costs

4.30 The Council has undertaken an exercise analysing Section 106 receipts for applications approved within the Borough in the last five years and identified that the average Section 106 contributions sought on purely residential schemes equate to circa £2,000 per unit, whilst contributions for mixed use schemes equates to circa £2,400 per unit. We have accordingly adopted these average figures within our appraisals.

Development and sales periods

4.31 Development and sales periods vary between type of scheme. However, our sales periods are based on an assumption of a sales rate of 3 units per month, with an element of off-plan sales reflected in the timing of receipts. This is reflective of current market conditions, whereas in improved markets, a sales rate of 6 units or more per month might be expected.

Developer’s profit

4.32 Developer’s profit is closely correlated with the perceived risk of residential development. The greater the risk, the greater the required profit level, which helps to mitigate against the risk, but also to ensure that the potential rewards are sufficiently attractive for a bank and other equity providers to fund a scheme. In 2007, profit levels were at around 13 – 15% of development value. However, following the impact of the credit crunch and the collapse in interbank lending and the various government bailouts of the banking sector, profit margins have increased. It is important to emphasise that the level of minimum profit is not necessarily determined by developers (although they will have their own view and the Boards of the major housebuilders will set targets for minimum profit).

4.33 The views of the banks which fund development are more important; if the banks decline an application by a developer to borrow to fund a development, it is very unlikely to proceed, as developers rarely carry sufficient cash to fund it themselves. Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards development proposals.

4.34 The near collapse of the global banking system in the final quarter of 2008 is resulting in a much tighter regulatory system, with UK banks having to take a much more cautious approach to all lending. In this context, and against the backdrop of the current sovereign debt crisis in the Eurozone, the banks may not allow profit levels to decrease much lower than their current level of 20% of scheme value. In light of this we have adopted 20% profit on GDV on the private residential development.

4.35 Our assumed return on the affordable housing GDV is 6%. A lower return on the affordable housing is appropriate as there is very limited sales risk on these units for the developer; there is often a pre-sale of the units to an RSL prior to commencement. Any risk associated with take up of intermediate housing is borne by the acquiring RSL, not by the developer. A reduced profit level on the affordable housing reflects the GLA ‘Development Control Toolkit’ guidance and Homes and Communities

Agency's guidelines in its Economic Appraisal Tool.

Exceptional costs

4.36 Exceptional costs can be an issue for development viability on previously developed land. Exceptional costs relate to works that are 'atypical', such as remediation of sites in former industrial use and that are over and above standard build costs. However, for the purposes of this exercise, it is not possible to provide a reliable estimate of what exceptional costs would be, in the absence of detailed site investigation. Our analysis therefore excludes exceptional costs, as to apply a blanket allowance would generate misleading results. An 'average' level of allowance for certain costs (e.g. piling on sites with abnormal ground conditions) is already reflected in BCIS data, as such costs are frequently encountered on sites that form the basis of the BCIS data sample. In addition, our appraisals include a contingency which will mitigate the impact of exceptional costs.

4.37 It is expected however, that when purchasing previously developed sites developers will have undertaken reasonable levels of due diligence and would therefore have reflected obvious remediation costs/suitable contingencies into their purchase price.

Benchmark land values

4.38 Benchmark land values, based on the existing use value or alternative use value of sites are key considerations in the assessment of development economics for testing planning policies and tariffs. Clearly, there is a point where the Residual Land Value (what the landowner receives from a developer) that results from a scheme may be less than the land's existing use value. Existing use values can vary significantly, depending on the demand for the type of building relative to other areas. Similarly, subject to planning permission, the potential development site may be capable of being used in different ways – as a hotel rather than residential for example; or at least a different mix of uses. Existing use value or alternative use value are effectively the 'bottom line' in a financial sense and therefore a key factor in this study.

4.39 We have arrived at a broad judgement on the likely range of benchmark land values. On previously developed sites, the calculations assume that the landowner has made a judgement that the current use does not yield an optimum use of the site; for example, it has fewer storeys than neighbouring buildings; or there is a general lack of demand for the type of space, resulting in low rentals, high yields and high vacancies (or in some cases no occupation at all over a lengthy period). We would not expect a building which makes optimum use of a site and that is attracting a reasonable rent to come forward for development, as residual value may not exceed current use value in these circumstances.

4.40 In considering the value of sites in existing commercial use, it is necessary to understand the concept of 'yields'. Yields form the basis of the calculation of a building's capital value, based on the net rental income that it generates. Yields are used to calculate the capital value of any building type which is rented, including both commercial and residential uses. Yields are used to calculate the number of times that the annual rental income will be multiplied to arrive at a capital value. Yields reflect the confidence of a potential purchaser of a building in the income stream (i.e. the rent) that the occupant will pay. They also reflect the quality of the building and its location, as well as general demand for property of that type. The lower the covenant strength of the occupier (or potential occupiers if the building is currently vacant), and the poorer the location of the building, the greater the risk that the tenant may not pay the rent. If this risk is perceived as being high, the yield will be high, resulting in a lower number of years rent purchased (i.e. a lower capital value).

4.41 Over the past four years, yields for commercial property have 'moved out' (i.e. increased), signalling lower confidence in the ability of existing tenants to pay their rent and in future demand for commercial space. This has the effect of depressing the capital value of commercial space. However, as the economy recovers, we would expect yields to improve (i.e. decrease), which will result in increased capital values. Consequently, current use values might increase, increasing the base value of sites that might come forward, which may have implications for landowners' decisions on releasing sites for alternative uses.

4.42 Redevelopment proposals that generate residual land values below current use values are unlikely to be delivered. While any such thresholds are only a guide in 'normal' development circumstances, it does not imply that individual landowners, in particular financial circumstances, will not bring sites forward at a lower return or indeed require a higher return. If proven current use value justifies a higher benchmark than those assumed, then appropriate adjustments may be necessary. As such, current use values should be regarded as benchmarks rather than definitive fixed variables on a site by site basis.

4.43 The four benchmark land values used in this study have been selected to provide a broad indication of likely land values across the Borough, but it is important to recognise that other site uses and values may exist on the ground. There can never be a single threshold land value at which we can say definitively that land will come forward for development, especially in urban areas.

4.44 It is also necessary to recognise that a landowner will require an additional incentive to release the site for development[14]. The premium above current use value would be reflective of specific site circumstances (the primary factors being the occupancy level and strength of demand from alternative occupiers). For policy testing purposes it is not possible to reflect the circumstances of each individual site, so a blanket assumption of a 20% premium has been adopted to reflect the 'average' situation

4.45 **Benchmark land value 1:** This benchmark assumes higher value secondary office space on a hectare of land, with 40% site coverage and 4 storeys. The rent assumed is based on lettings of second hand offices in the Borough at £7.50 per sq ft. We have assumed a £30 per sq ft allowance for refurbishment and a letting void of three years. The capital value of the building would be £3.419 million to which we have added a 20% premium, resulting in a benchmark of £4.103 million per Ha.

4.46 **Benchmark Land Value 2**: This benchmark assumes lower value secondary office space on a hectare of land, with 40% site coverage and 3 storeys. The rent assumed is based on lettings of second hand offices in the Borough at £5.50 per sq ft. We have assumed a £25 per sq ft allowance for refurbishment and a letting void of three years. The capital value of the building would be £1.493 million, to which we have added a

[14] This approach is therefore consistent with the National Planning Policy Framework, which indicates that development should provide "competitive returns" to landowners. A 20% return above current use value is a competitive return when compared to other forms of investment.

20% premium, resulting in a benchmark of £1.792 million per Ha.

4.47 **Benchmark Land Value 3**: This benchmark assumes lower value secondary industrial/warehousing space on a hectare of land, with 60% site coverage and 1 storey. The rent assumed is based on lettings of second hand industrial floorspace in the Borough at £4 per sq ft. We have assumed a £17 per sq ft allowance for refurbishment and a letting void of three years. The capital value of the building would be £843,000, to which we have added a 20% premium, resulting in a benchmark of £1.012 million per Ha.

4.48 **Benchmark Land Value 4**: This benchmark assumes a community building, which could include buildings owned by the Council and other public sector bodies, and community/charity groups. We have assumed site coverage of 50% across a hectare of land, with a single storey building. The rent assumed is based on our estimate of £1.50 per sq ft. We have assumed a £9 per sq ft allowance for refurbishment and a letting void of one year. The capital value of the building would be £255,000, to which we have added a 20% premium, resulting in a benchmark of £306,000 per Ha.

4.49 We would caution against reliance on land sales as evidence of minimum land value thresholds, particularly in light of the comments on this data in the Examiner's report on the Mayor of London's CIL[15], which indicates that owners will need to adjust their expectations to accommodate allowances for infrastructure.

[15] Para 32: *"the price paid for development land may be reduced…. a reduction in development land value is an inherent part of the CIL concept…. in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges."*

5 Appraisal outputs

5.1 The full outputs from our appraisals of various developments are attached as appendices 2, 3, 4 and 5. We have appraised fifteen development typologies, reflecting different densities and types of development in the Southend Central Area and the rest of the Borough. Each appraisal incorporates (where relevant) the Council's requirement for affordable housing, tested at different levels.

5.2 Within each Appendix, the fifteen development typologies are appraised separately. For each site, where relevant, the results of the following analyses are provided:

- 0% affordable housing;
  - Base values and cost;
  - values +22% and cost +11%;
- 10% affordable housing;
  - 70% Social rented and 30% intermediate; base values and cost;
  - Affordable Rent and intermediate; base values and cost;
  - Social rented and intermediate; values +22% and cost +11%; and
  - Affordable Rent and intermediate; values +22% and cost +11%.
- 15% affordable housing;
  - 70% Social rented and 30% intermediate; base values and cost;
  - Affordable Rent and intermediate; base values and cost;
  - Social rented and intermediate; values +22% and cost +11%; and
  - Affordable Rent and intermediate; values +22% and cost +11%.
- 20% affordable housing;
  - 70% Social rented and 30% intermediate; base values and cost;
  - Affordable Rent and intermediate; base values and cost;
  - Social rented and intermediate; values +22% and cost +11%; and
  - Affordable Rent and intermediate; values +22% and cost +11%.
- 25% affordable housing;
  - 70% Social rented and 30% intermediate; base values and cost;
  - Affordable Rent and intermediate; base values and cost;
  - Social rented and intermediate; values +22% and cost +11%; and
  - Affordable Rent and intermediate; values +22% and cost +11%.
- 30% affordable housing;
  - 70% Social rented and 30% intermediate; base values and cost;
  - Affordable Rent and intermediate; base values and cost;
  - Social rented and intermediate; values +22% and cost +11%; and
  - Affordable Rent and intermediate; values +22% and cost +11%.
- 30% affordable housing:
  - 50% Social rented and 50% intermediate; base values and cost;
  - Affordable Rent and intermediate; base values and cost;
  - Social rented and intermediate; values +22% and cost +11%; and
  - Affordable Rent and intermediate; values +22% and cost +11%.

5.3 Viability has been tested at these seven levels of affordable housing, although it should be noted that if a scheme is shown to be viable, a greater level of affordable housing might be deliverable within the 'interval' that has been tested. For example, if a scheme is shown to be viable with 25% affordable housing, but not with 30% affordable housing the actual level of affordable housing that could be provided will fall between 25 and

29%. Likewise if a scheme is viable at 20% and unviable with 25%, the scheme will be able to provide between 20 and 24%. Schemes that are viable at 30% affordable housing could potentially provide a higher level of affordable housing.

5.4 Each page of the Appendix shows the residual land value generated by the scheme (based on the particular combination of affordable housing percentage, sales values and costs), in the grey boxes, and compares this to each of the four benchmark land values, in the yellow boxes.

- Green shading in the results indicates that scheme is viable (where the residual land value is higher than the benchmark land value)**,**
- Orange shading indicates that the scheme generates a residual value less than the benchmark value incorporating a 20% premium but greater than or equal to the Existing Use Value[16]; and
- Red shading indicates that the scheme is unviable (where the residual land value is lower than the **Existing Use Value**).

5.5 The appendices test the cumulative impact of the Council's requirements. The first set of results indicate the residual values of schemes with no Section 106 contributions and no affordable housing or sustainability requirements. These policy requirements are added incrementally as shown in table 5.5.1 below.

Table 5.5.1 Incremental/layered testing of policy costs

Part L Building Regs 2010 (RICS BCIS Build costs)	**Part L Building Regs 2010**	**Part L Building Regs 2010**	**Part L Building Regs 2010**	**CSH level 3,** (1.4% over and above Part L Building Regs 2010)	**CSH level 4** (6% over and above Part L Building Regs 2010)	**CSH level 6** (50% over and above Part L Building Regs 2010)
	S106 contributions (£2,000 per residential unit for purely residential schemes and £2,400 per unit for mixed use schemes)	**S106 contributions**	**S106 contributions**	**S106 contributions**	**S106 contributions**	**S106 contributions**
		Lifetime homes (£600 per residential unit	**Lifetime homes**	**Lifetime homes**	**Lifetime homes**	**Lifetime homes**
			SuDs (£750 per residential unit)	**SuDs**	**SuDs**	**SuDs**

5.6 An example of the layout and costs used to present the appraisal outputs in this study is provided overleaf. The underlying assumptions on value growth and cost growth (if any) for each set of results are stated at the top of each page in the appendices.

5.7 In the example overleaf, this particular development typology located in the Leigh-on-Sea area could viably absorb the requirements for CSH level 4, Lifetime Homes, the Section 106 requirements, and SuDs alongside affordable housing of between 15% and 20% with the rented element provided as social rent. If CSH level 6 were required, the development

[16] Whether the site comes forward for development would depend on whether the landowner would accept a lower or no premium on the existing use of the site

typology would be unviable even with 100% private housing. It is also noted that a flexible approach to the tenure split of the affordable housing would improve the viability of the scheme with CSH level 3, Lifetime Homes, the Section 106 requirements, and SuDs alongside affordable housing of 30% could be provided if a split of 60:40 rented to intermediate is adopted whereas between 20 and 25% affordable housing could viably be provided at a tenure split of 70:30.

Table 5.5.2 Example of layout of appraisal outputs

SOUTHEND-ON-SEA BOROUGH COUNCIL				Sales value inflation	0%		
LOCAL PLAN VIABILITY TESTING	Site typology 13			Build cost inflation	0%		
Site location	Leigh-on-Sea, etc			Affordable Housing	Social Rent		
				No Units	16		
Residual land values:				**Site Area**	0.12 Ha		

	Part L Building Regs 2010	**Part L Building Regs 2010 AND S106**	**Part L Building Regs 2010, S106 AND LH**	**Part L Building Regs 2010, S106, LH AND SuDs**	**CSH LEVEL 3, LH, S106 AND SuDs**	**CSH LEVEL 4, LH, S106 AND SuDs**	**CSH LEVEL 6, LH, S106 AND SuDs**
0% affordable housing	£476,572	£438,948	£429,156	£416,916	£401,442	£350,597	-£137,955
10% affordable housing (70:30)	£399,349	£363,054	£353,261	£341,021	£325,547	£274,703	-£215,091
15% affordable housing (70:30)	£360,737	£325,107	£315,315	£303,073	£287,599	£236,756	-£253,659
20% affordable housing (70:30)	£322,126	£287,159	£277,367	£265,127	£249,653	£198,808	-£292,226
25% affordable housing (70:30)	£283,515	£249,213	£239,420	£227,179	£211,705	£160,862	-£330,795
30% affordable housing (70:30)	£244,903	£211,265	£201,472	£189,232	£173,758	£122,914	-£369,362
30% affordable housing (60:40)	£307,122	£272,413	£262,621	£250,381	£234,907	£184,062	-£307,213

Residual Land values compared to benchmark land values
Benchmark 2 - offices (lower) **£1,792,000**

	Part L Building Regs 2010	**Part L Building Regs 2010 AND S106**	**Part L Building Regs 2010, S106 AND LH**	**Part L Building Regs 2010, S106, LH AND SuDs**	**CSH LEVEL 3, LH, S106 AND SuDs**	**CSH LEVEL 4, LH, S106 AND SuDs**	**CSH LEVEL 6, LH, S106 AND SuDs**
0% affordable housing	£261,532	£223,908	£214,116	£201,876	£186,402	£135,557	-£352,995
10% affordable housing (70:30)	£184,309	£148,014	£138,221	£125,981	£110,507	£59,663	-£430,131
15% affordable housing (70:30)	£145,697	£110,067	£100,275	£88,033	£72,559	£21,716	-£468,699
20% affordable housing (70:30)	£107,086	£72,119	£62,327	£50,087	£34,613	-£16,232	-£507,266
25% affordable housing (70:30)	£68,475	£34,173	£24,380	£12,139	-£3,335	-£54,178	-£545,835
30% affordable housing (70:30)	£29,863	-£3,775	-£13,568	-£25,808	-£41,282	-£92,126	-£584,402
30% affordable housing (60:40)	£92,082	£57,373	£47,581	£35,341	£19,867	-£30,978	-£522,253

6 Assessment of the results

6.1 The residual land values in our results are calculated for scenarios with sales values and capital values reflective of market conditions across the Borough. These RLVs are then compared to a range of benchmark land values.

6.2 Development value is finite and in boroughs where development is primarily sourced from previously developed sites it is rarely enhanced through the adoption of new policy requirements. This is because existing use values are to a degree relatively high prior to development. In contrast, areas which have previously undeveloped land clearly have greater scope to secure an uplift in land value through the planning process. In setting its policy requirements, the Council will need to prioritise its requirements due to finite development value.

6.3 It should be noted that with any potential future CIL adopted, which would operate as a fixed charge, the Council would need to consider the impact on two key factors. Firstly, the need to strike a balance between maximising revenue to invest in infrastructure which will help to support development and growth on the one hand and the need to *minimise* the impact upon development viability on the other. DCLG guidance stresses the need to minimise the impact of a CIL upon the delivery of the relevant development plan Secondly, as a CIL would effectively take a 'top-slice' of development value, there would be a potential impact on the percentage or tenure mix of affordable housing that could be secured. This would be a change from the current system of negotiated financial contributions, where the planning authority can weigh the need for contributions against the requirement that schemes need to contribute towards affordable housing provision.

6.4 In assessing the results, it is important to clearly distinguish between two scenarios; namely, schemes that are unviable *regardless of the Council's policy requirements* and schemes that are viable *prior* to the imposition of policy requirements. If a scheme is unviable before policy requirements, it is unlikely to come forward and planning requirements would not be a factor that come into play in the developer's/landowner's decision making. The unviable schemes will only become viable following an increase in values or a reduction in costs.

Southend Central Area

6.5 Tables 6.5.1 and 6.5.2 summarise the viability of a larger scheme tested in the Southend Central Area (70 flats and houses) at both social rent and affordable rent compared to the lower offices benchmark (Table 6.5.1) and the community use owned by the Council/public sector benchmark (Table 6.5.2). Given the scale of the development there would be a requirement for the provision of on-site affordable housing, sought at the policy level of 30%.

Table 6.5.1: Viability of developments – development typology 6 (70 flats and houses in Southend Central Area) – using lower office benchmark land value

North central area (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	-£1,929,330	-£2,056,933	-£2,099,496	-£2,152,700	-£2,222,945	-£2,453,752	-£4,661,472
10% affordable housing (70:30)	-£1,706,225	-£1,836,286	-£1,878,849	-£1,932,053	-£2,002,299	-£2,233,106	-£4,440,825
15% affordable housing (70:30)	-£1,595,778	-£1,727,025	-£1,768,903	-£1,821,730	-£1,891,975	-£2,122,782	-£4,330,502
20% affordable housing (70:30)	-£1,485,330	-£1,618,477	-£1,660,355	-£1,712,702	-£1,781,818	-£2,012,458	-£4,220,178
25% affordable housing (70:30)	-£1,374,882	-£1,509,928	-£1,551,807	-£1,604,155	-£1,673,269	-£1,902,135	-£4,109,854
30% affordable housing (70:30)	-£1,264,434	-£1,401,381	-£1,443,258	-£1,495,606	-£1,564,722	-£1,791,814	-£3,999,531
30% affordable housing (60:40)	-£1,637,731	-£1,768,257	-£1,810,432	-£1,863,636	-£1,933,881	-£2,164,688	-£4,372,408

Mid central area (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	-£628,961	-£774,778	-£815,982	-£868,097	-£937,212	-£1,164,305	-£3,361,758
10% affordable housing (70:30)	-£507,135	-£655,048	-£696,252	-£747,758	-£815,761	-£1,041,045	-£3,236,483
15% affordable housing (70:30)	-£446,222	-£595,183	-£636,387	-£687,893	-£755,896	-£979,416	-£3,173,845
20% affordable housing (70:30)	-£385,310	-£535,318	-£576,522	-£628,027	-£696,030	-£919,469	-£3,111,207
25% affordable housing (70:30)	-£324,397	-£475,452	-£516,657	-£568,162	-£636,165	-£859,604	-£3,048,570
30% affordable housing (70:30)	-£266,024	-£416,060	-£456,792	-£508,297	-£576,300	-£799,739	-£2,985,931
30% affordable housing (60:40)	-£528,529	-£676,074	-£717,279	-£768,784	-£836,787	-£1,060,225	-£3,255,009

South central area (below railway line) (Social rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£649,010	£483,237	£442,110	£390,605	£322,602	£99,163	-£2,065,060
10% affordable housing (70:30)	£361,277	£199,616	£158,411	£106,906	£38,903	-£184,535	-£2,356,230
15% affordable housing (70:30)	£217,411	£57,766	£16,562	-£34,943	-£102,946	-£326,385	-£2,501,815
20% affordable housing (70:30)	£73,545	-£84,083	-£125,287	-£176,793	-£244,796	-£468,235	-£2,647,399
25% affordable housing (70:30)	-£70,510	-£225,933	-£267,137	-£318,642	-£386,645	-£610,084	-£2,792,983
30% affordable housing (70:30)	-£214,841	-£367,782	-£408,986	-£460,491	-£528,494	-£751,933	-£2,938,568
30% affordable housing (60:40)	£25,755	-£129,299	-£169,840	-£220,819	-£288,822	-£512,261	-£2,690,993

South central area (below railway line) (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£649,010	£483,237	£442,110	£390,605	£322,602	£99,163	-£2,065,060
10% affordable housing (70:30)	£672,666	£506,486	£465,944	£415,268	£348,359	£126,502	-£2,034,935
15% affordable housing (70:30)	£684,494	£518,110	£477,568	£426,892	£359,983	£140,140	-£2,019,873
20% affordable housing (70:30)	£696,321	£529,734	£489,192	£438,517	£371,607	£151,764	-£2,004,809
25% affordable housing (70:30)	£708,149	£541,359	£500,817	£450,141	£383,232	£163,389	-£1,989,747
30% affordable housing (70:30)	£718,604	£552,983	£512,441	£461,765	£394,856	£175,013	-£1,974,684
30% affordable housing (60:40)	£559,563	£395,328	£354,786	£304,109	£237,201	£17,358	-£2,140,202

Table 6.5.2: Viability of developments – development typology 6 (70 flats and houses in Southend Central Area) – using community use benchmark land value

North central area (Social rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	-£443,330	-£570,933	-£613,496	-£666,700	-£736,945	-£967,752	-£3,175,472
10% affordable housing (70:30)	-£545,740	-£671,581	-£714,144	-£767,347	-£837,593	-£1,068,400	-£3,276,119
15% affordable housing (70:30)	-£596,944	-£721,904	-£764,468	-£817,672	-£887,918	-£1,118,725	-£3,326,444
20% affordable housing (70:30)	-£648,149	-£772,229	-£814,792	-£867,995	-£938,241	-£1,169,048	-£3,376,767
25% affordable housing (70:30)	-£699,354	-£822,552	-£865,116	-£918,320	-£988,565	-£1,219,372	-£3,427,092
30% affordable housing (70:30)	-£750,558	-£872,877	-£915,439	-£968,643	-£1,038,889	-£1,269,696	-£3,477,415
30% affordable housing (60:40)	-£709,639	-£832,660	-£875,223	-£928,427	-£998,672	-£1,229,479	-£3,437,200

North central area (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	-£443,330	-£570,933	-£613,496	-£666,700	-£736,945	-£967,752	-£3,175,472
10% affordable housing (70:30)	-£220,225	-£350,286	-£392,849	-£446,053	-£516,299	-£747,106	-£2,954,825
15% affordable housing (70:30)	-£109,778	-£241,025	-£282,903	-£335,730	-£405,975	-£636,782	-£2,844,502
20% affordable housing (70:30)	£670	-£132,477	-£174,355	-£226,702	-£295,818	-£526,458	-£2,734,178
25% affordable housing (70:30)	£111,118	-£23,928	-£65,807	-£118,155	-£187,269	-£416,135	-£2,623,854
30% affordable housing (70:30)	£221,566	£84,619	£42,742	-£9,606	-£78,722	-£305,814	-£2,513,531
30% affordable housing (60:40)	-£151,731	-£282,257	-£324,432	-£377,636	-£447,881	-£678,688	-£2,886,408

Mid central area (Social rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£857,039	£711,222	£670,018	£617,903	£548,788	£321,695	-£1,875,758
10% affordable housing (70:30)	£662,384	£519,265	£477,386	£425,038	£355,923	£128,830	-£2,071,778
15% affordable housing (70:30)	£565,057	£422,832	£380,953	£328,606	£259,490	£32,397	-£2,169,788
20% affordable housing (70:30)	£467,577	£326,399	£284,521	£232,173	£163,059	-£64,035	-£2,267,797
25% affordable housing (70:30)	£369,456	£229,967	£188,088	£135,741	£66,626	-£160,468	-£2,365,806
30% affordable housing (70:30)	£271,337	£133,534	£91,656	£39,309	-£29,807	-£256,899	-£2,463,816
30% affordable housing (60:40)	£414,932	£275,234	£233,355	£181,007	£111,892	-£115,201	-£2,319,800

Mid central area (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£857,039	£711,222	£670,018	£617,903	£548,788	£321,695	-£1,875,758
10% affordable housing (70:30)	£978,865	£830,952	£789,748	£738,242	£670,239	£444,955	-£1,750,483
15% affordable housing (70:30)	£1,039,778	£890,817	£849,613	£798,107	£730,104	£506,584	-£1,687,845
20% affordable housing (70:30)	£1,100,690	£950,682	£909,478	£857,973	£789,970	£566,531	-£1,625,207
25% affordable housing (70:30)	£1,161,603	£1,010,548	£969,343	£917,838	£849,835	£626,396	-£1,562,570
30% affordable housing (70:30)	£1,219,976	£1,069,940	£1,029,208	£977,703	£909,700	£686,261	-£1,499,931
30% affordable housing (60:40)	£957,471	£809,926	£768,721	£717,216	£649,213	£425,775	-£1,769,009

South central area (below railway line) (Social rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£2,135,010	£1,969,237	£1,928,110	£1,876,605	£1,808,602	£1,585,163	-£579,060
10% affordable housing (70:30)	£1,847,277	£1,685,616	£1,644,411	£1,592,906	£1,524,903	£1,301,465	-£870,230
15% affordable housing (70:30)	£1,703,411	£1,543,766	£1,502,562	£1,451,057	£1,383,054	£1,159,615	-£1,015,815
20% affordable housing (70:30)	£1,559,545	£1,401,917	£1,360,713	£1,309,207	£1,241,204	£1,017,765	-£1,161,399
25% affordable housing (70:30)	£1,415,490	£1,260,067	£1,218,863	£1,167,358	£1,099,355	£875,916	-£1,306,983
30% affordable housing (70:30)	£1,271,159	£1,118,218	£1,077,014	£1,025,509	£957,506	£734,067	-£1,452,568
30% affordable housing (60:40)	£1,511,755	£1,356,701	£1,316,160	£1,265,181	£1,197,178	£973,739	-£1,204,993

South central area (below railway line) (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£2,135,010	£1,969,237	£1,928,110	£1,876,605	£1,808,602	£1,585,163	-£579,060
10% affordable housing (70:30)	£2,158,666	£1,992,486	£1,951,944	£1,901,268	£1,834,359	£1,612,502	-£548,935
15% affordable housing (70:30)	£2,170,494	£2,004,110	£1,963,568	£1,912,892	£1,845,983	£1,626,140	-£533,873
20% affordable housing (70:30)	£2,182,321	£2,015,734	£1,975,192	£1,924,517	£1,857,607	£1,637,764	-£518,809
25% affordable housing (70:30)	£2,194,149	£2,027,359	£1,986,817	£1,936,141	£1,869,232	£1,649,389	-£503,747
30% affordable housing (70:30)	£2,204,604	£2,038,983	£1,998,441	£1,947,765	£1,880,856	£1,661,013	-£488,684
30% affordable housing (60:40)	£2,045,563	£1,881,328	£1,840,786	£1,790,109	£1,723,201	£1,503,358	-£654,202

6.6 The results identify viability to be challenging in some instances particularly in the lower value parts of the central area (to the north) and when compared to the higher benchmark land values. The appraisals identify that schemes could possibly absorb a financial contribution in lieu of on-site affordable housing or provide contributions towards on-site affordable housing where higher sales values are achieved on sites of lower value.

6.7 It is noted that viability is seen to improve when allowing for Affordable Rent in place of Social Rent, and in fact it is identified that in the lower value areas of the Central Area, Affordable Rented units, given their lower risk and therefore profit requirement (6% as opposed to 20%) add more value to schemes than private units. It is also identified in the study that viability is seen to improve when the tenure split is amended from 70% social rented 30% intermediate to 60% social rented and 40% intermediate. However, the opposite is identified as being true with respect to the same change with Affordable Rent in place of social rent, where affordable rent is identified as being more viable than intermediate accommodation.

6.8 Viability is a concern for the denser residential schemes in the Central Area (typologies 4 and 5). This is as a result of the increased build costs and reduced efficiency (i.e. gross to net ratio) associated with denser developments.

6.9 The appraisals of schemes incorporating commercial development are identified as being particularly challenging in terms of viability. It is worth noting however, that although the results of this viability exercise which identify certain commercial development as not viable, do not mean that sites will not be developed within the Borough for these uses as viability is only one of many factors which affect whether a site is developed. For example, owner occupiers who wish to locate in Southend-on-Sea are still likely to develop a site if it is suitable for their purposes. Alternatively, an existing occupier looking to re-locate may wish to develop their own premises by reference to their own cost benefit analysis, which will bear little relationship to the residual land value calculations that a speculative landlord developer may undertake.

Sensitivity analysis on values and costs

6.10 As noted in Section 5, we carried out further analyses which consider the impact of increases in sales values of 22%, accompanied by an increase in build costs of 11%. This reflects the growth in sales values in the East of England markets as predicted by Savills[7] and an appropriate increase in costs. This data is illustrative only, as the future housing market trajectory is very uncertain given the economic outlook. However, **if** such increases were to occur, the tables contained within Appendices 4 and 5 show the results in terms of the levels of policy requirements including Section 106 and affordable housing that could be viably provided.

6.11 These appraisals indicate that such an increase in sales values and build costs would result in an improvement in viability. This is particularly noticeable in the lower density schemes at the mid and higher values and when compared to the lower benchmarks, which identify an ability to provide affordable housing in combination with Section 106 contributions and other policy requirements. It is also identified that the higher density residential schemes identify an element of viability in the highest value area when measured against the lowest benchmark. Over the life of the Local Plan, additional growth is likely, leading to a further improvement in the viability position.

Rest of Borough

6.12 The results show marked differences in viability between the lower value parts of the Borough (Airport, Westborough, Victoria and Prittlewell area Southchurch area) and the higher value areas (Shoeburness, Thorpe Bay and the Leigh-on-Sea and Chalkwell areas), with viability in the former identified as being challenging.

6.13 The results indicate that flatted developments, which accrue higher build costs, are more likely to be viable in the higher values areas and as such would be able to viably absorb a financial contribution or provide on-site affordable housing along with providing other policy requirements. The typologies comprising houses, which have lower build costs than flats and do not have the impact of the provision of communal areas and stair cores (i.e. the entire gross area of a house is treated as saleable space) identify viability in all areas. Table 6.15.1 sets out the results from each sub-market area of development typology 13 (a flatted scheme of 16 units) and development typology 12 (a housing scheme of 12 units).

Table 6.13.1: Viability of developments – development typologies 13 (16 flats) and 12 (12 houses) – using community use benchmark land value

Typology 13 - Airport, Westborough, Victoria and Prittlewell (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	-£282,286	-£307,970	-£317,923	-£330,364	-£346,091	-£397,766	-£892,053
10% affordable housing (70:30)	-£248,581	-£274,844	-£284,798	-£297,239	-£312,965	-£364,641	-£858,928
15% affordable housing (70:30)	-£231,728	-£258,282	-£268,234	-£280,675	-£296,403	-£348,078	-£842,365
20% affordable housing (70:30)	-£214,876	-£241,719	-£251,672	-£264,113	-£279,840	-£331,515	-£825,802
25% affordable housing (70:30)	-£198,023	-£225,157	-£235,109	-£247,550	-£263,278	-£314,953	-£809,239
30% affordable housing (70:30)	-£181,171	-£208,594	-£218,547	-£230,988	-£246,714	-£298,390	-£792,677
30% affordable housing (60:40)	-£248,322	-£274,590	-£284,543	-£296,984	-£312,711	-£364,387	-£858,673

Typology 12 - Airport, Westborough, Victoria and Prittlewell (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£145,550	£119,110	£111,758	£102,567	£87,932	£39,844	-£425,236
10% affordable housing (70:30)	£192,607	£165,357	£158,005	£148,814	£134,179	£86,093	-£378,232
15% affordable housing (70:30)	£216,136	£188,482	£181,129	£171,938	£157,303	£109,216	-£354,730
20% affordable housing (70:30)	£239,664	£211,606	£204,253	£195,063	£180,427	£132,340	-£331,228
25% affordable housing (70:30)	£263,193	£234,729	£227,377	£218,186	£203,551	£155,464	-£307,726
30% affordable housing (70:30)	£286,721	£257,853	£250,501	£241,310	£226,675	£178,588	-£284,223
30% affordable housing (60:40)	£194,478	£167,197	£159,845	£150,654	£136,019	£87,932	-£376,362

Typology 13 – Southchurch (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	-£160,725	-£188,500	-£198,453	-£210,893	-£226,621	-£278,296	-£772,582
10% affordable housing (70:30)	-£136,068	-£164,267	-£174,219	-£186,660	-£202,388	-£254,063	-£748,349
15% affordable housing (70:30)	-£123,739	-£152,150	-£162,102	-£174,543	-£190,271	-£241,946	-£736,232
20% affordable housing (70:30)	-£111,410	-£140,033	-£149,986	-£162,427	-£178,154	-£229,829	-£724,116
25% affordable housing (70:30)	-£99,081	-£127,917	-£137,869	-£150,310	-£166,038	-£217,713	-£711,999
30% affordable housing (70:30)	-£86,753	-£115,800	-£125,752	-£138,193	-£153,921	-£205,596	-£699,882
30% affordable housing (60:40)	-£144,580	-£172,632	-£182,585	-£195,025	-£210,753	-£262,428	-£756,715

Typology 12 - Southchurch (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£315,263	£285,903	£278,551	£269,360	£254,725	£206,638	-£255,715
10% affordable housing (70:30)	£349,618	£319,668	£312,316	£303,125	£288,490	£240,403	-£221,398
15% affordable housing (70:30)	£366,796	£336,551	£329,199	£320,008	£305,373	£257,285	-£204,239
20% affordable housing (70:30)	£383,974	£353,433	£346,080	£336,890	£322,254	£274,168	-£187,080
25% affordable housing (70:30)	£401,151	£370,316	£362,963	£353,772	£339,137	£291,050	-£169,922
30% affordable housing (70:30)	£418,329	£387,198	£379,845	£370,654	£356,019	£307,932	-£152,763
30% affordable housing (60:40)	£338,897	£309,131	£301,778	£292,588	£277,952	£229,866	-£232,107

Typology 13 - Eastwood, Belfairs and Blenheim (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£50,996	£20,062	£10,269	-£1,971	-£17,446	-£68,806	-£563,093
10% affordable housing (70:30)	£59,647	£28,563	£18,771	£6,530	-£8,944	-£60,165	-£554,452
15% affordable housing (70:30)	£63,972	£32,815	£23,022	£10,781	-£4,693	-£55,844	-£550,131
20% affordable housing (70:30)	£68,298	£37,065	£27,273	£15,033	-£442	-£51,524	-£545,811
25% affordable housing (70:30)	£72,623	£41,316	£31,524	£19,283	£3,809	-£47,204	-£541,490
30% affordable housing (70:30)	£76,948	£45,567	£35,774	£23,534	£8,060	-£42,883	-£537,170
30% affordable housing (60:40)	£36,141	£5,461	-£4,331	-£16,572	-£32,046	-£83,645	-£577,931

Typology 12 – Eastwood, Belfairs and Blenheim (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£612,851	£578,375	£571,021	£561,831	£547,195	£499,109	£39,147
10% affordable housing (70:30)	£624,935	£590,250	£582,897	£573,707	£559,071	£510,985	£51,023
15% affordable housing (70:30)	£630,977	£596,188	£588,835	£579,644	£565,009	£516,922	£56,962
20% affordable housing (70:30)	£637,019	£602,126	£594,773	£585,583	£570,948	£522,861	£62,899
25% affordable housing (70:30)	£642,942	£608,064	£600,711	£591,520	£576,885	£528,798	£68,837
30% affordable housing (70:30)	£648,090	£613,362	£606,129	£597,086	£582,686	£534,736	£74,775
30% affordable housing (60:40)	£592,034	£558,009	£550,657	£541,466	£526,831	£478,744	£18,782

Typology 13 - Shoeburyness (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£20,956	-£9,462	-£19,254	-£31,496	-£47,138	-£98,813	-£593,099
10% affordable housing (70:30)	£31,843	£1,237	-£8,555	-£20,795	-£36,270	-£87,938	-£582,225
15% affordable housing (70:30)	£37,286	£6,587	-£3,206	-£15,446	-£30,920	-£82,501	-£576,787
20% affordable housing (70:30)	£42,729	£11,936	£2,144	-£10,096	-£25,570	-£77,064	-£571,350
25% affordable housing (70:30)	£48,172	£17,287	£7,494	-£4,747	-£20,221	-£71,627	-£565,913
30% affordable housing (70:30)	£53,616	£22,636	£12,843	£603	-£14,871	-£66,190	-£560,476
30% affordable housing (60:40)	£10,503	-£19,735	-£29,527	-£41,850	-£57,578	-£109,253	-£603,539

Typology 12 - Shoeburyness (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£570,225	£536,482	£529,130	£519,939	£505,304	£457,216	-£2,745
10% affordable housing (70:30)	£585,500	£551,493	£544,140	£534,949	£520,314	£472,227	£12,266
15% affordable housing (70:30)	£593,137	£558,999	£551,646	£542,455	£527,820	£479,733	£19,771
20% affordable housing (70:30)	£600,773	£566,504	£559,151	£549,961	£535,325	£487,239	£27,277
25% affordable housing (70:30)	£608,410	£574,009	£566,657	£557,466	£542,831	£494,745	£34,783
30% affordable housing (70:30)	£615,329	£581,165	£573,930	£564,888	£550,337	£502,250	£42,288
30% affordable housing (60:40)	£555,858	£522,361	£515,008	£505,818	£491,182	£443,096	-£16,866

Typology 13 – Thorpe Bay (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£290,206	£255,158	£245,365	£233,124	£217,650	£166,806	-£324,152
10% affordable housing (70:30)	£281,052	£246,161	£236,369	£224,128	£208,654	£157,810	-£333,295
15% affordable housing (70:30)	£276,476	£241,663	£231,871	£219,630	£204,156	£153,312	-£337,867
20% affordable housing (70:30)	£271,899	£237,165	£227,373	£215,132	£199,658	£148,813	-£342,439
25% affordable housing (70:30)	£267,322	£232,667	£222,874	£210,634	£195,160	£144,315	-£347,010
30% affordable housing (70:30)	£262,746	£228,168	£218,376	£206,136	£190,662	£139,817	-£351,582
30% affordable housing (60:40)	£240,287	£206,097	£196,304	£184,064	£168,590	£117,746	-£374,014

Typology 12 – Thorpe Bay (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£952,276	£911,961	£904,609	£895,418	£880,783	£832,696	£372,734
10% affordable housing (70:30)	£938,906	£898,871	£891,519	£882,328	£867,693	£819,606	£359,644
15% affordable housing (70:30)	£931,421	£891,820	£884,587	£875,544	£861,144	£813,061	£353,099
20% affordable housing (70:30)	£923,936	£884,464	£877,231	£868,187	£853,788	£806,474	£346,554
25% affordable housing (70:30)	£916,452	£877,108	£869,875	£860,831	£846,432	£799,118	£340,009
30% affordable housing (70:30)	£908,967	£869,752	£862,518	£853,475	£839,076	£791,762	£333,464
30% affordable housing (60:40)	£878,117	£839,434	£832,199	£823,156	£808,757	£761,444	£302,649

Typology 13 – Leigh-on-Sea etc. (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£439,852	£402,228	£392,436	£380,196	£364,722	£313,877	-£174,675
10% affordable housing (70:30)	£419,560	£382,286	£372,493	£360,253	£344,779	£293,935	-£194,944
15% affordable housing (70:30)	£409,414	£372,315	£362,522	£350,282	£334,808	£283,963	-£205,078
20% affordable housing (70:30)	£399,268	£362,343	£352,551	£340,311	£324,837	£273,992	-£215,212
25% affordable housing (70:30)	£389,122	£352,372	£342,580	£330,339	£314,865	£264,021	-£225,347
30% affordable housing (70:30)	£378,976	£342,401	£332,608	£320,368	£304,893	£254,050	-£235,481
30% affordable housing (60:40)	£367,998	£331,611	£321,818	£309,578	£294,104	£243,260	-£246,448

Typology 12 – Leigh-on-Sea etc. (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£1,164,491	£1,120,647	£1,113,295	£1,104,104	£1,089,469	£1,041,382	£581,420
10% affordable housing (70:30)	£1,133,717	£1,090,636	£1,083,402	£1,074,359	£1,059,960	£1,012,647	£552,712
15% affordable housing (70:30)	£1,118,329	£1,075,513	£1,068,280	£1,059,236	£1,044,837	£997,524	£538,357
20% affordable housing (70:30)	£1,102,941	£1,060,390	£1,053,157	£1,044,113	£1,029,714	£982,401	£524,003
25% affordable housing (70:30)	£1,087,554	£1,045,267	£1,038,034	£1,028,991	£1,014,591	£967,278	£509,649
30% affordable housing (70:30)	£1,072,166	£1,030,145	£1,022,911	£1,013,868	£999,468	£952,155	£495,295
30% affordable housing (60:40)	£1,057,086	£1,015,324	£1,008,090	£999,046	£984,647	£937,334	£480,231

6.14 The housing scheme (Typology 12) based on the community use benchmark is viable in almost all parts of the Borough at the policy levels of affordable housing required for such developments (20%), lifetime homes, SuDs and up to CSH level 4. It is evident that the flatted scheme is less viable, with viability only identified in the higher value areas.

6.15 Once again the results of our appraisals identify that viability improves when substituting Affordable Rent for Social Rented units and/or when the tenure mix of affordable housing is amended from 70:30 to 60:40. However, as identified in the Southend Central the opposite is identified as being true with respect to the same change with Affordable Rent in place of social rent, where affordable rent is identified as being more viable than intermediate accommodation.

6.16 It is evident from the results of our appraisals that delivering CSH level 6 is challenging and in most cases is unviable. It is however noted that the technology and methods to deliver such sustainability measures is still being researched. As such, the costs associated with delivering the higher levels of CSH is widely acknowledged by the market as likely to reduce in the future as new technology and methods of attaining such code levels are discovered.

6.17 Typologies 14 and 15 are mixed schemes which include both flats and houses. Viability is seen to improve as the proportion of houses increases, which is once again related to the higher development costs associated with flats as compared to houses. It is apparent that viability is challenging in the three lowest value areas, whilst the picture improves in the higher value areas where schemes are likely to be able to provide policy levels of affordable housing and CSH levels 3/4 (dependant on the quantity of flats to be developed).

Table 6.17.1: Viability of developments – development typologies 14 and 15 (10% and 60% houses respectively) – using community use benchmark land value

Typology 14 - Airport, Westborough, Victoria and Prittlewell (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	-£652,407	-£718,598	-£743,001	-£773,507	-£812,741	-£941,654	-£2,174,731
10% affordable housing (70:30)	-£558,528	-£626,332	-£650,737	-£681,242	-£720,476	-£849,389	-£2,082,466
15% affordable housing (70:30)	-£511,588	-£580,201	-£604,604	-£635,110	-£674,343	-£803,256	-£2,036,334
20% affordable housing (70:30)	-£464,648	-£534,068	-£558,472	-£588,977	-£628,212	-£757,124	-£1,990,201
25% affordable housing (70:30)	-£417,709	-£487,936	-£512,340	-£542,845	-£582,079	-£710,992	-£1,944,069
30% affordable housing (70:30)	-£370,770	-£441,803	-£466,207	-£496,712	-£535,947	-£664,859	-£1,897,936
30% affordable housing (60:40)	-£548,802	-£616,774	-£641,178	-£671,683	-£710,917	-£839,830	-£2,072,907

Typology 15 - Airport, Westborough, Victoria and Prittlewell (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	-£28,650	-£114,217	-£141,230	-£174,996	-£220,952	-£373,723	-£1,835,018
10% affordable housing (70:30)	£111,888	£23,904	-£3,109	-£36,875	-£82,623	-£233,343	-£1,694,637
15% affordable housing (70:30)	£182,158	£92,963	£65,951	£32,185	-£13,563	-£163,876	-£1,624,448
20% affordable housing (70:30)	£252,426	£162,024	£135,011	£101,245	£55,498	-£94,815	-£1,554,257
25% affordable housing (70:30)	£322,696	£231,085	£204,072	£170,306	£124,559	-£25,755	-£1,484,067
30% affordable housing (70:30)	£392,400	£300,145	£273,132	£239,366	£193,619	£43,306	-£1,413,877
30% affordable housing (60:40)	£136,245	£47,841	£20,828	-£12,938	-£58,685	-£209,014	-£1,670,308

Typology 14 – Southchurch (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	-£332,724	-£404,412	-£428,817	-£459,321	-£498,556	-£627,468	-£1,860,546
10% affordable housing (70:30)	-£262,572	-£335,467	-£359,871	-£390,377	-£429,611	-£558,524	-£1,791,601
15% affordable housing (70:30)	-£227,496	-£300,995	-£325,398	-£355,904	-£395,138	-£524,050	-£1,757,128
20% affordable housing (70:30)	-£192,420	-£266,521	-£290,926	-£321,431	-£360,665	-£489,578	-£1,722,655
25% affordable housing (70:30)	-£157,521	-£232,049	-£256,453	-£286,958	-£326,192	-£455,105	-£1,688,182
30% affordable housing (70:30)	-£123,010	-£197,576	-£221,981	-£252,486	-£291,720	-£420,633	-£1,653,710
30% affordable housing (60:40)	-£275,579	-£348,250	-£372,654	-£403,159	-£442,394	-£571,306	-£1,804,384

Typology 15 - Southchurch (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£432,327	£338,831	£311,818	£278,052	£232,305	£81,992	-£1,374,559
10% affordable housing (70:30)	£538,651	£443,326	£416,313	£382,547	£336,800	£186,486	-£1,268,355
15% affordable housing (70:30)	£591,213	£495,573	£468,560	£434,794	£389,047	£238,734	-£1,215,253
20% affordable housing (70:30)	£642,799	£547,010	£520,433	£487,043	£441,294	£290,981	-£1,162,151
25% affordable housing (70:30)	£694,385	£597,710	£571,131	£537,909	£492,897	£343,229	-£1,109,049
30% affordable housing (70:30)	£745,972	£648,409	£621,830	£588,608	£543,596	£395,476	-£1,055,947
30% affordable housing (60:40)	£528,459	£434,636	£408,035	£374,269	£328,521	£178,208	-£1,276,769

Typology 14 - Eastwood, Belfairs and Blenheim (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£221,463	£141,442	£117,430	£87,416	£48,813	-£78,025	-£1,309,625
10% affordable housing (70:30)	£249,549	£169,045	£145,034	£115,020	£76,417	-£50,422	-£1,281,571
15% affordable housing (70:30)	£263,592	£182,846	£158,836	£128,821	£90,219	-£36,620	-£1,267,543
20% affordable housing (70:30)	£277,635	£196,649	£172,637	£142,623	£104,020	-£22,818	-£1,253,516
25% affordable housing (70:30)	£291,679	£210,450	£186,439	£156,424	£117,822	-£9,016	-£1,239,489
30% affordable housing (70:30)	£305,722	£224,252	£200,241	£170,227	£131,623	£4,786	-£1,225,460
30% affordable housing (60:40)	£197,532	£117,923	£93,911	£63,897	£25,294	-£101,544	-£1,333,530

Typology 15 – Eastwood, Belfairs and Blenheim (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£1,234,282	£1,128,320	£1,101,743	£1,068,519	£1,023,509	£875,614	-£567,151
10% affordable housing (70:30)	£1,278,174	£1,171,457	£1,144,879	£1,111,656	£1,066,645	£918,751	-£520,874
15% affordable housing (70:30)	£1,300,119	£1,193,025	£1,166,448	£1,133,224	£1,088,214	£940,319	-£497,736
20% affordable housing (70:30)	£1,322,065	£1,214,593	£1,188,016	£1,154,793	£1,109,782	£961,887	-£474,597
25% affordable housing (70:30)	£1,344,011	£1,236,162	£1,209,584	£1,176,361	£1,131,350	£983,456	-£451,459
30% affordable housing (70:30)	£1,364,377	£1,257,484	£1,231,152	£1,197,929	£1,152,918	£1,005,024	-£428,321
30% affordable housing (60:40)	£1,209,948	£1,104,406	£1,077,827	£1,044,605	£999,593	£851,699	-£586,702

Typology 14 - Shoeburyness (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£142,462	£63,800	£39,789	£9,775	-£28,828	-£155,667	-£1,388,538
10% affordable housing (70:30)	£176,412	£97,166	£73,154	£43,140	£4,537	-£122,300	-£1,354,626
15% affordable housing (70:30)	£193,388	£113,849	£89,838	£59,824	£21,221	-£105,617	-£1,337,670
20% affordable housing (70:30)	£210,362	£130,533	£106,521	£76,507	£37,904	-£88,935	-£1,320,714
25% affordable housing (70:30)	£227,337	£147,215	£123,204	£93,190	£54,587	-£72,251	-£1,303,758
30% affordable housing (70:30)	£244,312	£163,898	£139,888	£109,873	£71,270	-£55,568	-£1,286,802
30% affordable housing (60:40)	£130,013	£51,565	£27,553	-£2,461	-£41,064	-£167,902	-£1,400,973

Typology 15 - Shoeburyness (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£1,120,004	£1,016,009	£989,430	£956,208	£911,196	£762,618	-£682,800
10% affordable housing (70:30)	£1,172,387	£1,067,490	£1,040,912	£1,007,689	£962,678	£814,783	-£627,940
15% affordable housing (70:30)	£1,198,578	£1,093,231	£1,066,652	£1,033,430	£988,419	£840,524	-£600,510
20% affordable housing (70:30)	£1,224,770	£1,118,972	£1,092,393	£1,059,171	£1,014,159	£866,265	-£573,080
25% affordable housing (70:30)	£1,250,961	£1,144,713	£1,118,134	£1,084,912	£1,039,900	£892,006	-£545,649
30% affordable housing (70:30)	£1,276,497	£1,170,453	£1,143,876	£1,110,653	£1,065,642	£917,747	-£518,219
30% affordable housing (60:40)	£1,112,335	£1,008,471	£981,892	£948,670	£903,658	£755,764	-£685,544

Typology 14 – Thorpe Bay (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£847,786	£758,173	£734,549	£705,017	£667,035	£540,234	-£681,256
10% affordable housing (70:30)	£828,120	£738,845	£715,220	£685,689	£647,708	£521,949	-£699,840
15% affordable housing (70:30)	£818,287	£729,181	£705,556	£676,025	£638,043	£512,807	-£709,131
20% affordable housing (70:30)	£808,453	£719,517	£695,892	£666,361	£628,379	£503,581	-£718,423
25% affordable housing (70:30)	£798,620	£709,852	£686,228	£656,696	£618,715	£493,918	-£727,715
30% affordable housing (70:30)	£788,787	£700,188	£676,564	£647,032	£609,051	£484,254	-£737,007
30% affordable housing (60:40)	£730,204	£642,613	£618,989	£589,457	£551,476	£426,679	-£796,481

Typology 15 – Thorpe Bay (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£2,144,272	£2,022,660	£1,996,081	£1,962,859	£1,917,847	£1,769,953	£344,725
10% affordable housing (70:30)	£2,118,762	£1,998,893	£1,972,743	£1,939,543	£1,894,532	£1,746,638	£323,005
15% affordable housing (70:30)	£2,105,112	£1,985,478	£1,959,328	£1,926,640	£1,882,353	£1,734,980	£312,145
20% affordable housing (70:30)	£2,091,462	£1,972,063	£1,945,913	£1,913,225	£1,868,938	£1,723,321	£301,285
25% affordable housing (70:30)	£2,077,812	£1,958,648	£1,932,498	£1,899,810	£1,855,523	£1,710,008	£290,424
30% affordable housing (70:30)	£2,064,162	£1,945,233	£1,919,083	£1,886,395	£1,842,108	£1,696,593	£279,564
30% affordable housing (60:40)	£1,979,688	£1,862,212	£1,836,061	£1,803,373	£1,759,086	£1,613,571	£193,805

Typology 14 – Leigh-on-Sea etc. (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£1,236,219	£1,139,925	£1,116,301	£1,086,769	£1,048,788	£923,990	-£288,159
10% affordable housing (70:30)	£1,187,690	£1,092,232	£1,068,606	£1,039,076	£1,001,093	£876,296	-£335,919
15% affordable housing (70:30)	£1,163,426	£1,068,385	£1,044,760	£1,015,229	£977,246	£852,449	-£359,799
20% affordable housing (70:30)	£1,139,162	£1,044,538	£1,020,913	£991,381	£953,400	£828,603	-£383,680
25% affordable housing (70:30)	£1,114,898	£1,020,690	£997,066	£967,534	£929,553	£804,756	-£407,560
30% affordable housing (70:30)	£1,090,634	£996,844	£973,219	£943,688	£905,706	£780,909	-£431,439
30% affordable housing (60:40)	£1,061,995	£968,699	£945,073	£915,543	£877,560	£752,763	-£460,513

Typology 15 – Leigh-on-Sea etc. (Affordable Rent)

	Part L Building Regs 2010	Part L Building Regs 2010 AND S106	Part L Building Regs 2010, S106 AND LH	Part L Building Regs 2010, S106, LH AND SuDs	CSH LEVEL 3, LH, S106 AND SuDs	CSH LEVEL 4, LH, S106 AND SuDs	CSH LEVEL 6, LH, S106 AND SuDs
0% affordable housing	£2,709,766	£2,579,733	£2,553,583	£2,520,895	£2,476,608	£2,329,434	£911,563
10% affordable housing (70:30)	£2,640,489	£2,511,648	£2,485,497	£2,452,809	£2,408,523	£2,263,008	£847,771
15% affordable housing (70:30)	£2,605,851	£2,477,605	£2,451,454	£2,418,767	£2,374,480	£2,228,965	£815,875
20% affordable housing (70:30)	£2,571,212	£2,443,562	£2,417,413	£2,384,724	£2,340,437	£2,194,922	£783,979
25% affordable housing (70:30)	£2,536,574	£2,409,519	£2,383,370	£2,350,681	£2,306,394	£2,160,879	£752,084
30% affordable housing (70:30)	£2,501,935	£2,375,476	£2,349,327	£2,316,638	£2,272,351	£2,126,837	£720,132
30% affordable housing (60:40)	£2,460,640	£2,334,891	£2,308,741	£2,276,053	£2,231,766	£2,086,251	£678,264

Sensitivity analysis on values and costs

6.18 We have also run sensitivity testing on our appraisals for the Rest of the Borough (for illustrative purposes). These too reflect increases in sales values of 22%, accompanied by an increase in build costs of 11%, in line with Savills'[7] predictions for the growth in sales values in the East of England markets and including an appropriate associated increase in costs. The results of these appraisals are contained within Appendices 4 and 5. As with the sensitivity tests on the Central Area appraisals, these appraisals indicate that such an increase in sales values and build costs would result in an improvement in viability and the ability of schemes to provide affordable housing in combination with Section 106 contributions. Over the life of the Local Plan, additional growth in sales values[17] is likely, leading to a further improvement in scheme viability.

[17] Real growth i.e. with reference to increases in build costs.

7 Conclusions and recommendations

7.1 The NPPF states that the cumulative impact of local planning authority standards and policies "*should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle*". This report and its supporting appendices test this proposition within the Borough of Southend-on-Sea.

7.2 We have tested the impact of the Council's affordable housing policies and other requirements (sustainability, Lifetime Homes, SuDs and Section 106). The results generated by these appraisals indicate that although many developments could viably provide all or a large majority of the policy requirements, in order to ensure the delivery of the required growth in the Borough, particularly in the lower value areas, the Council should adopt a more flexible approach to the application of their policies with cost implications.

7.3 In considering the outputs of the appraisals, it is important to recognise that some developments will be unviable *regardless* of the Council's requirements. In these cases, the value of the existing building will be higher than a redevelopment opportunity over the medium term. However, this situation should not be taken as an indication of the viability (or otherwise) of the Council's policies and requirements. In these situations, there will be little pressure from owners to redevelop and they will re-consider the situation when values change over time. Further, we are aware that the Council has seen some developments, similar to those identified within the study as being unviable, come forward in the borough over the last five years. In this regard we would highlight that on a site specific level there will be a range of factors determining whether a developer brings the site forward or not. These include but are not limited to: the developer accepting a lower profit level or achieving lower build costs or factoring in growth to revenue.

7.4 Development in the Central Area is identified as being challenging, this is mainly due to a combination of the low values achieved for residential uses in parts of this area, and as flatted development is often the most suitable proposal given the types of sites available and the likely need to incorporate an element of commercial use. The Council will need to ensure that policies which add costs to developments are applied flexibly, within the Central Area in particular, so that such developments will be able to come forward once the market improves.

7.5 As tested in this study, commercial development in the Central Area is identified as being particularly challenging as at current rents and yields for office and retail uses are unable to meet the build costs and fees associated with their development[18]. In light of this it is recommended that the Council applies any policy requirements relating to commercial floorspace flexibly across the borough. In particular, we would recommend that Policy DM2 (Low Carbon Development and Efficient Use of Resources) which seeks to achieve higher levels of BREEAM is applied flexibly subject to viability and feasibility.

[18] It is noted that rents and yields achieved on commercial space are likely to be highest in the central area and as such the development viability of such space in other parts of the borough would also be challenging.

7.6 As previously identified however, it is worth noting that although the results of this viability exercise identify certain commercial development as not viable, it does not mean that sites will not be developed within the Borough for these uses. Viability is only one of many factors which affect whether a site is developed. For example with regard to owner occupiers who may wish to locate in Southend-on-Sea. Alternatively, an existing occupier looking to re-locate may wish to develop their own premises by reference to their own cost benefit analysis, which will bear little relationship to the residual land value calculations that a speculative landlord developer may undertake.

7.7 Across the Borough housing schemes are identified as being the most viable form of development. For such schemes, compared to the community use benchmark, many parts of the Borough are identified as being able to support policy levels of affordable housing. However, it is evident that flatted schemes are less viable given their increased build costs. Development in the low value areas such as the north Central Area and the Airport, Westborough, Victoria and Prittlewell area and Southchurch area is identified as being challenging. In this regard we would support the Council's approach to seeking contributions and the delivery of onsite affordable housing flexibly, as we understand is the current practice, i.e. subject to viability on a case by case basis. We understand that the Council is currently considering their approach to the Affordable Rent package. The results of this study have identified a positive movement in viability and the deliverability of affordable housing where Affordable Rent accommodation is substituted for Social Rent units. In addition, given that the Council's draft Policy identifies a tenure split of 70% social rent and 30% intermediate as 'indicative' we have also tested the impact of a split of 60% rented to 40% intermediate housing. The results of our appraisals identify an improvement in viability at this alternative tenure split and it would be expected that viability would be further enhanced as the proportion of Intermediate Housing increased relative to Social Rent. However, the reverse is true when considering a split between Affordable Rent and Intermediate Housing, reflecting that at current sales values, Affordable Rented Accommodation is identified as being more viable than intermediate accommodation. In light of this we support the Council's flexible approach to their tenure split in Policy DM7 (Dwelling Mix).

7.8 In light of the above, we would recommend that the Council adopts a flexible approach to Policy DM7 (Dwelling Mix) with respect to the rented tenure and the tenure split. Allowing both of these elements to be applied flexibly based on a starting position that reflects identified need would allow for changes to need in the Borough over time, as well as assist in ensuring that most developments can come forward over the economic cycle.

7.9 With respect to the cost implications of Policy DM8 (Residential Standards) (i.e. the requirement for homes to be built to Lifetime Homes Standard), and Policy IF3: Flood Risk Management (i.e. the costs associated with providing SuDs on sites) it is identified in our appraisals that these do have a cumulative impact on the viability of development, particularly in the lower value areas of the borough. On this basis we would recommend that the Council applies the requirements sought by these policies flexibly, i.e. subject to viability, to allow for the deliverability of developments.

7.10 Section 106 contributions provide funding for infrastructure that supports development within Southend. When Section 106 and the Council's sustainability requirements are incorporated, the levels of affordable housing reduce to accommodate these requirements in some cases. Viability and affordable housing provision are seen to improve marginally when increases in values are taken into account and further improve when Affordable Rented accommodation is substituted for Social Rented accommodation. Based on the assessment it is unlikely that the requirement for Section 106 contributions at the levels tested will put the overall development of the area at serious risk. Our full results give the Council an indication of where 'tipping points' might lie for different schemes and should assist the Council in achieving an appropriate balance.

7.11 The appraisal results indicate that achieving CSH levels 4 is possible in some cases, and particularly in the higher value parts of the Borough. In determining planning applications, however, the Council will need to weigh competing objectives such as sustainability against the need for affordable housing and other policy requirements. In this regard, we would strongly recommend that the Council considers adopting a flexible approach to Policy DM2 (Low Carbon Development and Efficient Use of Resources) as this will allow the Council to achieve a suitable balance in developments coming forward across the Borough and over the lifetime of their Plan. Achieving zero carbon standards by 2016 in accordance with government requirements is, however, identified as ambitious and will require a significant reduction in costs in comparison to today's estimates.

7.12 The NPPF identifies at para 173 that, '*Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable*.*'* On the basis of the result of this study BNP Paribas Real Estate considers that the Council needs to build in further flexibility into their policies which have cost implications to ensure deliverability, particularly with respect to the lower value areas in the Borough. This will allow the Council to strike a balance between achieving its sustainability objectives, including meeting needs for affordable housing and ensuring that developments generate competitive returns to willing landowners and willing developers. Effectively the inclusion of further flexibility such as the requirements of policies being 'subject to viability and feasibility' will lighten the *'scale of obligations and policy burdens'* (para 174 of the NPPF) to ensure that sites are, as far as if possible, able to be developed viably.

7.13 This study demonstrates that given a more flexible approach to applying the affordable housing and sustainability policy requirements, will ensure that these objectives are balanced appropriately to facilitate the growth envisaged by the Council's plans throughout the economic cycle.

Appendix 1 - Policy sifting exercise and commentary

Appendix 2 - Appraisal results (Social rent at current costs and values)

Appendix 3 - Appraisal results (Affordable Rent at current costs and values)

Appendix 4 - Appraisal results (Social rent reflecting 22% growth in values and 11% growth in costs)

Appendix 5 - Appraisal results (Affordable Rent reflecting 22% growth in values and 11% growth in costs)