RESPONSE ON POLICY H5

PREPARED BY

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Response on H5 - Delivery of Affordable Housing

1. My name is Peter Griffiths. I am a Director of a housing consultancy firm called Home Consultancy Limited, I am a Director of an island based private provider of Affordable Housing called Capture Housing and I am a Director of a viability consultancy called Bespoke Property Consultants who carry out viability assessments across England and have worked in that role for 10 years now.

2. Prior to taking up these roles I was the Principal Planning Officer for Housing within the Isle of Wight Council (during the last local plan examination in 2011/12) and prior to that I led the Isle of Wight Council's Housing department dealing with the provision of Affordable Housing.

3. I consider that the Isle of Wight Council's submission in respect of H5 in relation to the viability of developments to appropriately provide affordable housing on the basis of viability is unsound for the following reasons:
    a) The NPPG (viability) confirms in paragraph (1) that a proportionate assessment of viability should be carried out that takes into account all relevant policies (and that policies should be clear so that they can be accurately accounted for in the price paid for the land). I do not consider this to be the case and will set out my reasoning.
    b) NPPG (viability) confirms in paragraph (2) that viability assessment should not compromise sustainable development but should be used to ensure that policies are realistic and will not undermine the deliverability of the plan. I do not consider this to be the case and will set out my reasoning.
    c) NPPG (viability) confirms in paragraph (2) that it is the responsibility of site promoters to engage in plan making. I can confirm that this was done but no follow up outcome was published and therefore I do not consider this to be in accordance with the NPPG and will set out my reasoning.
    d) NPPG (viability) confirms in paragraph (4) that Plan Makers will engage with landowners, site promoters and developers and compare data from existing case study sites to help ensure assumptions of costs and values are broadly accurate. I do not consider that this has been done fully and will set out my reasoning.

4. I consider that in order to make the plan sound the Isle of Wight Council needs to provide a clear infrastructure funding study, with confirmation of whether the

requirements meet the tests of Regulation 122 of the Community Infrastructure Regulations 2010. This is to ensure that the information that feeds into the plan wide viability assessment has a sound basis and developers can appropriately account for infrastructure in land negotiations.

5. Following this the Isle of Wight Council needs to re-run their plan wide viability appraisal, including ensuring that the assumptions in relation to affordable housing are correct and make any adjustments to plan requirements as appropriate.

a) A proportionate assessment taking into account all relevant policies

6. The Isle of Wight has had a long history of public comments being concerned that there is "insufficient infrastructure" being provided with development proposals to meet the principles of sustainable development.

7. The Isle of Wight development industry is able to provide sufficient infrastructure to meet local requirements so long as it is clear and up front and therefore can be paid for by the adjustment of land price payments.

8. However, over a long period of time, since the Unitary Development Plan in 1996, there has been no clear document of the infrastructure requirements to be provided, where the sources of funding are supposed to come from, and whether it is developers or landowners that are required to take this into consideration as part of the price paid for land.

9. One only has to look at the number of Supplementary Planning Documents introduced since 2012 which increase the requirements on land (such as the Health Contributions SPD, Housing Affordability SPD, Newport and Ryde LCWIP). There is a clear expectation from the Isle of Wight Community that these infrastructure requirements will be delivered.

10. The Inspector will note that SPD's are not part of the development plan and therefore should not introduce additional policy requirements that have not been tested through a local plan process. The introduction of additional policy requirements (such as the change of Affordable Housing Split in the Housing

Affordability SPD is a clear indication that the LPA gives the provision of infrastructure insufficient due regard and therefore is leaving itself to challenge through this process.

11. There is not a concise and clear document that sets out the requirements that can be taken forward by developers in their negotiations with landowners. This is supposed to be the Infrastructure Development Plan of which the latest version is GS9.

12. Each obligation is identified as either critical, necessary or important. The use of these words I consider should relate back to the mandatory tests set out in the NPPF that planning obligation are “necessary” to make development acceptable in planning terms.

13. I therefore consider that those items identified as “important” are not necessary and therefore would not form part of any planning obligation imposed on landowners/developers. However, this expectation is not always the case.

14. For example, GS9 identifies that for higher and further education the costs for each additional learner in education is £24,095 and funding may be sought through developer contributions – however this is only classified as important.

15. A further example is the identification of several junction improvements (junctions 6 to 15) that are necessary but do not have a current up to date cost against them.

16. There is a mention of the relocation of existing GP services in Ryde but this is not costed and therefore cannot be quantified in discussions with landowners/developers. This does not tally against the figures set out in the adopted SPD on Healthcare Facilities.

17. If Amenity, Natural and semi green space is only considered as “important” then how does it meet the test of being necessary?

18. All of this leads to the fact that the level of costs identified within the plan wide viability is not demonstrated to such an extent that a clear identification of policy requirements can be demonstrated within the plan wide viability. The plan wide

viability identifies a sum of £6,000 per unit which I consider also has to include s38/s278 works. I do not consider this to be sufficiently evidenced.

19. In addition, if there are strategic sites that make up a significant proportion of housing delivery, then these have not been appropriately tested at a strategic level to consider whether they are viable.

20. The ICP/SPD/site specific requirements have not been appropriately costed so that they can be accurately accounted for within the price paid for the land.

b) Ensuring that policies are realistic

21. The transfer values for Affordable Housing in the July 2022 viability appraisal produced by Apsinall Verdi are not consistent with the approach as set out in AFF1 and H5 of the Council's DIPS.

22. Policy H5 confirms that *"To contribute to meeting the Island's housing needs, the council will require development proposals for a net gain of 10 or more dwellings to provide at least 35 per cent affordable housing (or the equivalent value of the development site) that meets the definition of affordable housing set out in policy AFF1."* It goes on to say "*The council will expect a target mix of 80 per cent for social or affordable rent and 20 per cent to be other affordable housing products that could include, but are not limited to, starter homes, discounted market sales or other affordable routes to home ownership."*

23. Policy AFF1 conforms that "*The Isle of Wight Council recognises that affordable housing as defined in the NPPF is not affordable on the island. To address this, the council will use the following definition of affordable housing: • For one and two bedroom homes: Up to 70 per cent of market sale, rent or the local housing allowance, whichever is the lowest. • For three bedroom homes: Up to 65 per cent market sale, rent or the local housing allowance, whichever is the lowest. • For homes with four or more bedrooms: Up to 60 per cent market sale, rent or the local housing allowance, whichever is the lowest."*

24. The Viability appraisal July 2022 (GS12) confirms in paragraph 5.15 that *"The policy states that on sites of 10+ dwellings, there is a 35% affordable housing*

requirement of which at least 25% should be available as First Homes. We have assumed a discount rate in line with the governments minim with a discount of 30% from full market value."

25. *In paragraph 5.16 it states that "The remaining units should be split 70% affordable rent and 30% intermediate tenures, although the Council would support alternative mixes to meet local needs. The transfer values we have assumed for these units reflect those set out in Policy AFF1 which are: • 1 and 2 beds at 70% of market value • 3 beds at 65% of market value • 4+ beds at 60% of market value".*

26. GS12 over states the value of Affordable Housing through the inclusion of First Homes in its modelling.

27. GS12 over states the value of Affordable Housing by adopted a split of 70/30 when policy H5 confirms it is 80/20.

28. GS12 overstates the value of Affordable Housing by misinterpreting the policy wording in AFF1. The values in this policy are not transfer values but starting rents and sales values and therefore the transfer values are much lower.

29. I confirm this by reference to GS11 which confirms in paragraph 5.12 what the previous version of the viability appraisal (when rents were Affordable Rents at 80% of market rents) that the transfer values were (as set out in Table 5.4 of GS11) 55% of market value. It is therefore considered that if rents are further reduced then this should lead to values that are lower than 55% of market value and not the other way around which is what has been modelled.

c) Engagement in viability appraisal

30. I can confirm that the process to engage with landowners and site promoters was held on the 1st April 2022 and I can confirm that I attended this meeting. However, since that date, and considering the significant changes to the National Economic situation no further meetings or discussions have taken place.

31. On this basis given that this is the only chance that has been given to re-engage on viability matters I do not consider that the test required in the NPPG has been fully met.

d) Engagement with landowners and site promoters

32. I have no issue with the process/manner in which the plan wide viability assessment has been carried out; however, I do not consider that the figures adopted in the 2022 plan wide viability assessment are broadly accurate in the current market for the following reasons:

Finance costs

33. In July 2022 GS12 in Table 5.6 confirms that the interest rate applied in the appraisals is 7% of 100% of debt. This works out at a rate of 10% when applied to a normal 70% loan.

34. However, the financial viability appraisal was written when the Bank of England Base Rate was 1.25% and it is currently 4.75% (at time of writing July 2025). Many experts believe that we will not return to the previous lows, and it is expected that over the next 5 years a stabilisation rate will occur at 3.25%-4.25%.

35. Therefore, this needs to be adjusted in the viability appraisals taking into consideration that the stabilisation rate is circa 200 basis points above where the July 2022 GS12 document included assumptions. This means that therefore it would be reasonable to assume a 12% interest rate (1% per month) which would lead to a 70% loan rate of 8.4%.

36. This has not been discussed with the development industry since April 2022.

37. In addition, the plan wide viability appraisal does not confirm (with access to a published cashflow for each typology) when the planning obligation requirements are to be delivered (in consultation with the LPA). This has a significant impact on overall finance requirements and therefore to have these accurately profiled is imperative to understanding whether the plan is viable.

Sales rates

38. The rate of sale adopted within GS12 is 3 units per month. This does not cross relate to the delivery profile set out in the Council's own document (Housing Land Supply) ED3A which averages a rate of 2.5 units per month (30 per annum) across large sites.

39. I further refer to the current sales rates, taken from UK Land Registry House Price Index or which the July 2022 rate for the Island was 245 units and in August 2024 was 118 units. This does show a downturn since the peak (prior to the September 2022 budgetary changes) which has not been fully accounted for within the evidence base for sales rates.

40. I have therefore amended the delivery rate to 2.5 units per month.

Sales Values

41. The UK Land Registry House Price Index also for the same period provides evidence that achieved sales values have reduced over the same period. The index for the Isle of Wight stood at 155.7 in July 2022 and is now 148.5 indicating that a 5% price reduction has occurred which has not been taken into account within the viability appraisal.

42. Notwithstanding this backdrop I consider that it is appropriate to consider the values of the units in the Higher Value area by reference to the 91st decile figures for each type of unit on the island.

43. This information shows that at the 91st decile the average figures range from £348 per sqft for flats, £395 per sqft for semi-detached and £484 for detached houses. I therefore consider that in order to test whether the high value areas are acceptable that an average rate of £409 per sqft should be adopted within the plan wide modelling even though this exceeds the value of £352 per sqft for a large scale building project for 107 units in Godshill (A Rated).

Build Costs

44. The All-in TPI (all in Tender Price Index) published by BCIS over the same period indicates that build costs have increased from an index of 371 to a current index of

397 which is a 7% increase in build costs which has not been taken into account within the viability appraisal.

45. The viability appraisal uses a base build cost of £1,499 per m2 plus 15% externals and 3% contingency. This equates to £164.95 per sqft.

46. I have spoken to one of the largest builders on the Isle of Wight who have confirmed that for their scheme in Rookley (28 units) they procured at a rate of circa £190 per sqft including externals and contingency.

47. For their current scheme at Godshill (107 units) they are procuring at a rate of circa £220 for an A rated scheme including externals and contingency.

48. Finally for another scheme (B rated) I am aware that the developer procured at a rate of circa £210 including externals and contingency.

49. I therefore consider that a higher build cost of £200 per sqft is a reasonable assumption from which to base a plan wide viability appraisal given the additional requirements as set out in GS12.

Conclusion

50. I consider that the matters raised within this response significantly compromise the ability of the Isle of Wight Council to demonstrate that sustainable development won't be compromised and making the changes will undermine the deliverability of the plan for the following reasons:

51. Table 6.6 – Summary of financial appraisals as set out in GS12 confirms that for the 21 plan wide appraisals carried out 3 were unviable, 8 were marginally unviable and 10 were viable.

52. This means that 50% of the plan wide viability appraisal as submitted by the IWC showed schemes were unviable. Therefore, in order to assess the impacts of the matters raised in this submission I have picked the 100 higher value scheme (O) which was considered to have a surplus of £494,759.

53. A summary of our calculation is provided as an appendix to this response which shows that even with a lower finance rate of 7.5% that in this scenario a residual

land value of £865,895 is calculated which compares to a BLV of £1,517,900. Therefore, this results in a viability appraisal which is **<u>unviable</u>** for a scheme in the upper value area.

54. On this basis I consider that if a scheme, which is noted in the LPA's plan wide viability as viable is returning an unviable result as part of these adjustments it calls into question the whole plan wide viability appraisal used to support the submitted development plan.

55. I consider that a net return of 16.1% on GDV on a scheme within the High Value area, although within the 15-20% range as considered appropriate by the NPPG, is at significant risk of being un-fundable across the plan period.

Attached appendix A.

Appendix A

Home Consultancy Ltd
Site 0 - 100 units

Phase 1 - Viability Review **Tab 1**

Unit Type	Tenure	Beds	Number of Units	Average ft2	Average m2	Total ft2	Total m2	£s per ft2	Average Unit Value	Total Value	Market	Affordable	Non-Resi
Market Units													
1 bed		1	3	484	45.0	1,453	135	£350.00	£169,533	£508,599	£508,599		
2 Bed flat		2	6	646	60.0	3,875	360	£350.00	£226,044	£1,356,264	£1,356,264		
2 bed house		2	14	753	70.0	10,549	980	£385.00	£290,090	£4,061,257	£4,061,257		
3 bed house		3	26	1,012	94.0	26,307	2,444	£385.00	£389,549	£10,128,278	£10,128,278		
4 bed house		4	16	1,184	110.0	18,945	1,760	£474.00	£561,235	£8,979,759	£8,979,759		
OPEN MARKET CAPITAL VALUE		**65%**	**65**	**940**	**87**	**61,129**	**5,679**	**£409.53**	**£385,141**	**£25,034,158**	£25,034,158		
Affordable Rent													
1 bed		1	11	484	45.0	5,328	495.0	£120.26	£58,250	£640,750		£640,750	
2 Bed flat		2	4	646	60.0	2,583	240.0	£118.06	£76,250	£305,000		£305,000	
2 bed house		2	4	753	70.0	3,014	280.0	£101.20	£76,250	£305,000		£305,000	
3 bed house		3	7	1,012	94.0	7,083	658.0	£81.54	£82,500	£577,500		£577,500	
4 bed house		4	2	1,184	110.0	2,368	220.0	£72.42	£85,750	£171,500		£171,500	
												£0	
TOTAL AFFORDABLE RENT		**80%**	**28**	**728**	**67.6**	**20,376**	**1,893.0**	**£98.14**	**£71,420**	**£1,999,750**			
Shared Ownership													
1 bed		1	2	484	45.0	969	90.0	£245.00	£118,673	£237,346		£237,346	
2 Bed flat		2	2	646	60.0	1,292	120.0	£245.00	£158,231	£316,462		£316,462	
2 bed house		2	2	753	70.0	1,507	140.0	£269.50	£203,063	£406,126		£406,126	
3 bed house		3	1	1,012	94.0	1,012	94.0	£250.25	£253,207	£253,207		£253,207	
4 bed house		4	0	1,184	110.0	0	0.0	£284.40	0	£0		£0	
												£0	
												£0	
TOTAL SHARED OWNERSHIP		**20%**	**7**	**683**	**63.4**	**4,779**	**444.0**	**£253.84**	**£173,306**	**£1,213,140**			
TOTAL AFFORDABLE HOUSING		**35%**	**35**	**719**	**66.8**	**25,155**	**2,337.0**	**£127.72**	**£91,797**	**£3,212,890**			
TOTAL HOUSING		**100%**	**100**	**863**	**80.2**	**86,284**	**8,016**	**£327.37**	**£282,470**	**£28,247,048**			
			size sqft				**Land Sale Hectares**	**Price per hectare**	**Yield**				
COMMERCIAL										£0			£0
		100%	**100**			**86,284**	**8,016**			**£28,247,048**			
Gross Ha/ Acres													
Average market units sales values psf							£409.53						
sales Agents									1.50%	(£375,512)	(£375,512)		
Sales legal fees									0.50%	(£125,171)	(£125,171)		
Affordable Housing Transaction Costs										(£10,000)		(£10,000)	
Marketing and disposal									1.50%	(£375,512)	(£375,512)		
								sq ft	£/ ft2				
Base build costs	inclusive of externals and contingency							87,446	£200.00	(£17,489,200)	(£17,489,200)		
Net Biodiversity								100	£1,011	(£101,100)			
Lowering Carbon								100	£4,000	(£400,000)			
Water Efficiency								100	£9	(£900)			
EV Charging								100	£1,000	(£100,000)			
SANG								100	£4,215	(£421,500)			
Solent SPA 1 bed								16	£337	(£5,392)			
Solent SPA 2 bed								32	£487	(£15,584)			
Solent SPA 3 bed								34	£637	(£21,658)			
Solent SPA 4 bed								18	£749	(£13,482)			
								Units					
								Units	£/ Unit				
Construction Fees								8.0%	(£1,399,136)	(£1,399,136)	(£1,399,136)	£0	£0
Open Market Dwelling Profit							20.0%	(£5,006,832)			(£5,006,832)		
First Homes Dwelling Profit							12.0%	£0				£0	
Affordable Housing Profit							6.0%	(£192,773)				(£192,773)	
Commercial Land Profit							15.0%	£0					£0
							18.41%		(£5,199,605)	(£5,199,605)			
Sub-Total Gross Land Value										**£2,193,296**	**£25,296,952**	**£3,010,117**	**£0**
						£/ Unit							
s106 costs/s278 costs						£6,000	(£600,000)						
								(£600,000)					
Construction Finance Costs							(£727,401)						
								(£727,401)					
									(£1,327,401)				
										(£1,327,401)			
Residual Land Value										**£865,895**			
							per hectare	**Hectares**					
BENCHMARK LAND VALUE									£1,517,900				
										£1,517,900			
Surplus / Deficit										**-£652,005**			
VIABLE/ NON-VIABLE?										**NON-VIABLE**			

Actual Developer Return	**£4,547,600**
Actual % Return on GDV	**16.1%**
Actual % Return on Costs	**16.6%**