

Draft London Plan Viability, Delivering the Plan

M92. Would the cumulative cost of the policy requirements set out in the Plan, along with any other national and local requirements, threaten the economic viability of development and put implementation of the Plan at serious risk?

It is hard to say whether the cost of policies overall are realistic and to what extent this might enable or hinder the delivery of housing. This is because the viability assessment that informs the Draft London Plan depends much upon very generalised inputs and assumptions. This is true of key elements such as benchmark land values, CIL and S106 costs and sales values.

The LPVS makes estimates for CIL and S106 costs.

The S106 allowance of £1,500 per dwelling is possibly too low.

The LPVS approach to Benchmark Land Values (BLVs) is questionable. As explored previously in Matter 24, when you get down to the level of local plans that do use more detailed and accurate viability evidence, including actual CIL rates, then there is a risk that viability will impede delivery. In our Matter 24 statement we provided details of a number of London local authorities where the local viability evidence demonstrated the difficulty of meeting the 50% affordable housing target.

The Mayor considers his viability assessment to be robust. Many in the development industry would disagree. We consider the Mayor's BLVs to be questionable – they are too low. For example, a BLV of £10,000 before tax for a dwelling in a low value location in Band E (see Table 8.1) hardly seems like a sufficient incentive for a land owner to release his/her land for redevelopment. At the other end of the scale £300,000 for a dwelling in a high value location in Band A (Kensington & Chelsea) before tax, hardly seems adequate.

Even utilising these dubiously low BLVs, we note the following commentary in the LPVS in the section dealing with the residential case studies (chapter 9):

Para 9.5.5: "Overall, in value bands A and B schemes are able to provide higher levels of affordable housing depending on the benchmark land value and 35% affordable housing where 50% is not viable. However, in lower value areas, the viability headroom is generally smaller and there are more instances where the case studies are viable against lower benchmarks but not the medium of higher benchmarks. In relation to viability against the lower land values, this indicates that a threshold of 50% is appropriate on public sector land and industrial sites."

This does not say that on all sites, across all bands and value locations, that the 50% target is viable.

In Value Area E, the study concludes that only lower density schemes are viable (para. 9.2.14). As this section concludes:

“All the other case studies are not viable in value band E, even with no affordable housing.”

This is a significant issue for the Draft London Plan which is trying to increase the scale of delivery in the outer London boroughs. These boroughs have land values that generally fall with either Value Bands D or E. This is illustrated in figure B2 in Annex B of the LPVS 2017 report.

In chapter 11 dealing with mixed-use schemes we note the following:

Value Band D

Para: 11.2.8: *“NR10 is not able to support 50% affordable housing (although less costly forms of intensification may be viable in value band D).”*

Value Band E

Para. 11.2.11: *“None of the mixed schemes were viable in value band E, even with no affordable housing.”*

We recognise that these are selective quotes from the report, but if one reads the report carefully, and as a whole, it is very evident that 50% affordable housing is not viable in every instance across every value band and against every type of scenario. The problem of trying to sustain delivery in Value Bands D and E is quite pronounced. The ability to bring sites forward, therefore, will presumably entail the jiggling of policy: adjusting levels of affordable housing and tenure types, assuming this is still allowed.

Another problem with the LPVS 2017 is that it only presents results of the modelling against the lower BLV. If one works through Annex K – and considers the modelling results against the higher BLV for scenarios in Value Bands C, D and E then it is apparent that there are problems of viability under this scenario and even in Value Band C (look at pages 62-70).

Extra care housing

Scrutiny of Figure 10.7 illustrates the problem of providing any level of affordable housing. The majority of the scenarios modelled register a negative land value. This illustrates the difficulties that providers of housing for older people face because of the additional services and community space they must provide.

Mixed-use development on industrial land

The GLA's *Industrial Intensification and Co-Location Study Design and Delivery Testing* report (GLA, 2018) has also uncovered challenges with providing 50% affordable housing on industrial land. This study deploys the same viability assumptions as the LPVS, including BLVs of 20% above EUV (see page 52). The study concludes that sites with higher BLV are less viable. This is because EUVs for industrial land have increased significantly over the past few years.

Scrutiny of the results of modelling 35% and 50% affordable housing on industrial land, illustrated on pages 66 to 72, are worth consideration. Generally, schemes under all the modelled scenarios will struggle to achieve any level of affordable housing where BLVs are high (see in particular the overall results on page 73). But many of the other development type

scenarios modelled on sites with low or medium BLVs also struggle to sustain 35% affordable housing.

Is it sensible to set a 50% affordable housing target via the Draft London Plan?

Careful consideration of the Mayor's evidence begs the question whether the Mayor can establish a strategic policy requiring 50% affordable housing for every residential scheme in London.

Given the scale of the task we recognise that it is difficult for the Mayor to undertake anything other than a very general assessment relying on some very broad generalisations (including notional figures for CIL and S106 contributions). However, these generalisations will fail to reflect the problems in some development locations. Therefore, there is a very strong possibility that every scheme in London will be compelled down the viability tested route in order to either adjust the affordable housing contribution or waive some other policy requirement. This could clog-up the development management system both for referable schemes to the Mayor and within the London local authorities. This would be the opposite of the principle articulated in the NPPF 2012 where plans should provide a practical framework whereby decisions on planning applications can be made with a high degree of predictability and efficiency (paragraph 17) and that the weight of policy should not undermine the deliverability of the plan (NPPF 2012, paragraph 173 and NPPF 2018, paragraph 34). Paragraph 47 of the NPPF 2018 makes a similar point.

The second complication is the advent of the new NPPF and its starting assumption that all up-to-date policies are viable, and hence grounds for negotiation are more limited (paragraph 57 of the NPPF 2018). While the threshold approach is already being applied in advance of the adoption of the DLP on the basis that it is 'emerging' policy, it is unclear how the Mayor's threshold approach will fit-in with the new NPPF regime. If the requirement in the DLP or a local plan is for 50% then the threshold of 35% may not conform with national policy and negotiation may not be possible.

In short, if the London Plan Viability Assessment is wide-of-the mark in terms of its assessment of the costs and values related to residential development across London – and this is a strong possibility given the considerable variance in housing markets and land conditions, but also because London borough requirements (S106, CIL, local affordable housing targets) are harder to capture accurately – then delivery is very likely to stall. We are not sure that the Mayor can afford to take this risk.

We think it would be better if some policies, such as affordable housing targets, were established by the individual London boroughs. A target of 50 or 60% affordable housing would probably be appropriate in RBKC, but it is arguable whether the 50% requirement would be sensible in many boroughs especially the outer boroughs. Certainly, the evidence recently presented to the Tower Hamlets local plan examination demonstrates that 50% affordable housing is unviable in almost every scenario modelled. 92 out of the 98 scenarios modelled by the council were unviable when 50% affordable housing was applied.

As we have argued elsewhere (Matter 24), delivery depends on the reliability of the LPVS and how much assurance this provides the plan-maker. This study concludes that 50% and 35% affordable housing are achievable targets, but local plan viability studies have concluded otherwise.

Viability assessments carried out at the local level are better able to reflect local costs and values. If a local authority decides upon an affordable housing targets that is unrealistic, then at least the problem is confined to that borough, and it can be remedied easily through a focused review of the local plan if that target is inhibiting delivery. The problem with the DLP target of 50% is that if it is found subsequently to have delayed decisions by forcing most schemes down the fast-track route, its effect will be far-reaching.

The effectiveness of all the policy objectives needs to be monitored closely by the Mayor. Certainly, a review of the effectiveness of Policy H6: Affordable Housing may need be included as part of the immediate review of the DLP as we have recommended elsewhere in our statements. This is especially the case if the evidence suggests that this Policy is a major contributing factor to the housing targets are not being achieved. It is also something that the Mayor should monitor as part of the Housing Delivery Test for all of London that we have argued that he should be responsible for. This information should be made publicly available.

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