

A white map outline of Fareham is centered on a blue grid background. A blue location pin is placed on the eastern side of the map. The text 'FAREHAM LOCAL PLAN 2037' is written in bold blue letters across the middle of the map.

**FAREHAM
LOCAL PLAN
2037**

Fareham Borough Council
Local Plan Viability Assessment – Addendum
May 2021

No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.

The assessment has been undertaken following national and professional standards, with objectivity, impartially, without interference and with reference to all appropriate available sources of information. No performance related or contingent fees have been sought.

Addendum Report, May 2021

Three Dragons

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1 Introduction

- 1.1.1 Fareham Borough Council published a Reg19 consultation version of the Local Plan 2037 for consultation for 6 weeks, which ended on 18th December 2020. The Plan was based on an extensive evidence base including a viability review of policies and proposals proposed within the plan – The Fareham Local Plan Viability Assessment, November 2019 (VA2019), produced by Three Dragons.
- 1.1.2 Over 300 responses were made within the consultation period covering different aspects of the Plan. A range of comments were made through these representations, a summary of which has been produced by the Council as part of a suite of supporting documents which will accompany the submission Plan. Several of the comments received have sought further information or clarification in respect to the evidence supporting the plan policies.
- 1.1.3 To assist the Examiner the council considered that it would be helpful to try and address any information gaps or clarifications prior to the submission process through an Addendum Report to VA2019. The consultation responses have been reviewed and broad areas of concern identified and where appropriate further information or clarifications have been set out to try and address broad concerns. Also, a commentary is provided in terms of the impact of the Covid-19 pandemic which started after the viability evidence was produced.
- 1.1.4 The key areas of concern identified, where it is considered further information or clarification would be helpful to the Examiner, are as follows:
- Site typologies
 - Tenure mix
 - Accessibility standards
 - Allowances for national and local mitigation and standards
 - Impact of Covid-19 on viability

2 Clarification and further information on key issues

2.1 Site typologies

2.1.1 As set out in section 3.2 of the VA2019 it is important to consider the types of sites that are likely to come forward over the plan period. At the time of writing VA2019 around half the supply was already granted, resolution to grant or was being determined. Since this time, further sites have been developed or consented, and in addition, the housing requirements have been revised and the council is required to identify further land for development.

2.1.2 Within VA2019 there were 15 typologies tested which reflected the known supply at that time – these were set out in Table 4.1 on page 19 of VA2019 and are repeated below for ease of comparison:

Figure 2.1 – Copy of Table 4.1 Residential case studies VA2019

Table 4.1 Residential case studies

Typology	Description	Land type (Greenfield/Brownfield)	Dwellings	Density (dph)	Net site ha ³⁰	Gross site ha
R1	Small infill greenfield	Greenfield	3	38	0.08	0.08
R2	Small infill brownfield	Brownfield	3	40	0.08	0.08
R3	Small greenfield	Greenfield	8	36	0.23	0.23
R4	Small brownfield	Brownfield	8	40	0.20	0.20
R5	Medium greenfield	Greenfield	15	38	0.40	0.40
R6	Medium brownfield	Brownfield	15	38	0.40	0.40
R7	Medium brownfield	Brownfield	30	80	0.38	0.38
R8	Medium greenfield	Greenfield	50	36	1.39	1.90
R9	Medium brownfield	Brownfield	50	38	1.32	1.80
R10a	Town centre	Brownfield	80	80	1.00	1.42
R10b	Town centre	Brownfield	40	200	0.2	0.2
R11	Large greenfield	Greenfield	120	36	3.3	4.8
R12	Large brownfield	Brownfield	120	50	2.4	3.5
R13	Large greenfield	Greenfield	600	40	14.99	25.00
R14	Large greenfield	Greenfield	1000	35	28.77	50.00

2.1.3 The council are proposing to include a further 15 market housing led sites within the Plan in order to address the increased housing numbers. These are a mix of greenfield and brownfield sites and also include sites in town centres. The sites range from 6 dwellings up to just over 1,000 dwellings – the sites are as follows:

Figure 2.2 Proposed additional sites

Site	Indicative yield	BF/GF or TC
Land at Rookery Avenue, Swanwick	6	GF
Portland Chambers	6	TC
195-205 Segensworth Road	8	BF
12 West Street, Portchester	8	BF
97-99 West Street, Fareham	9	TC
Land west of Dore Avenue, Portchester	12	GF
Land adjacent to Red Lion Hotel	18	TC
76-80 Botley Road	18	BF
Redoubt Court, Fort Fareham Road	20 (net 12)	BF
Menin House, Privett Road, Fareham	50 (net 26)	BF
Land north of Henry Cort Drive, Fareham	55	BF
Land east of Crofton Cemetery	180	GF
Land west of Downend Road	550	GF
Broad location of housing growth	620	TC
Land south of Longfield Avenue	1,250	GF

2.1.4 Whilst there are a wide range of additional sites to be included within the Plan, we consider that the typologies set out in Table 4.2 of VA2019 are sufficiently broad to reflect the new sites as well as the previously identified supply. Importantly the larger sites at Downend Road and Longfield Avenue are similar to existing typologies R13 and R14 in terms of their scale. Therefore, the new sites are covered by the range of viability testing already undertaken and are therefore considered viable in the context of plan policy requirements. It is acknowledged that there is a large brownfield

allocation within the town centre (broad location for growth) – however this is a wide area, which will include a range of different sites, rather than a single development opportunity and therefore it is considered that this is covered by the existing typologies (R10a/b).

2.2 Tenure mix

- 2.2.1 A couple of the representations suggested that policy HP5 and its required tenure mix was not in accordance with the NPPF and in particular the requirement for 10% affordable home ownership¹. We consider this here as the tenure mix is part of the viability testing inputs and changes could have an impact on viability.
- 2.2.2 HP5 states that the affordable housing should comprise of at least 55% rent (with at least 10% social rent), and the remainder, but no less than 10% as affordable housing home ownership.
- 2.2.3 It is contended in the representations that it would not be possible to achieve the 10% affordable home ownership required by NPPF with this policy. However, the representation is based on a starting point that 10% of all dwellings should be affordable home ownership.
- 2.2.4 The NPPF as currently written does not say this and is considered ambiguous as to whether it is 10% of all dwellings or just 10% of the affordable housing. Although it is recognised that a consultation version of the NPPF does now suggest it is 10% of all dwellings, this has not yet been finalised and therefore little weight should be applied. Similarly there are indications around requirements for First Homes but at the time of writing the details are still vague and further guidance and changes to government policy are required before this is taken forward.
- 2.2.5 Furthermore, the NPPF also states that the requirement for 10% affordable ownership does not apply in all circumstances, for example where it does not allow the ability to meet the identified affordable housing needs of specific groups and where schemes include custom and self-build. It should be noted that the council requires custom and self-build units to be provided on all sites of 40 dwellings or more.

¹ NPPF 2019 Para 64

- 2.2.6 Therefore, the council considers that its policy recognised the government's desire for more affordable housing ownership by including a minimal level but with flexibility that allows it to meet local requirements.
- 2.2.7 To assist the examination, we set out below, using three example typologies in VA2019, what the policy allows in terms of the tenure choices and what that equates to in terms of a percentage of affordable housing and all housing, should the NPPF change.

Figure 2.3 Calculation of potential home ownership (using a representation of typologies set out in VA2019)

Typology	Affordable housing requirement	Rented affordable units	Affordable home ownership	% affordable home ownership of AH units	% affordable home ownership of all units
GF 1,000 units (R14)	40% affordable housing - 55% rent & 45% affordable home ownership	220 units	180 units	45%	18%
BF 50 units (R9)	35% affordable housing – 55% rent & 45% affordable home ownership	9.63 units	7.87 units	45%	15.74%
TC 40 units (R10b)	20% affordable housing - 55% rent & 45% affordable home ownership	4.4 units	3.6 units	45%	9%

- 2.2.8 As can be seen from the table affordable home ownership as a percentage of affordable housing exceeds 10% in all cases (by some margin) and as a proportion of all dwellings it exceeds 10% on greenfield and brownfield sites. The only locations where the affordable home ownership is below 10% is for the town centre sites, which is because these sites have a lower overall affordable housing proportion.
- 2.2.9 Therefore, it is considered that the policy is in line with government aspiration whilst reflecting local circumstance. It should be noted that the viability assessment within VA2019 (page 33-35) tested either side of the tenure ranges set out above and concluded that approach towards tenure should be flexible and reflect balance between local need and viability.

2.3 Accessibility standards

- 2.3.1 VA2019 reflects policy HP7 and includes allowances for M4(Cat2) at 15% of all dwellings and on schemes of 100 dwellings or more 7% at M4(Cat3), which is in excess of the minimum requirement of policy. It is therefore a conservative approach to the testing. Furthermore, the allowances are significant at £1,101 - £2,687 (1-4 beds) for M4(Cat2) and £10,926 - £27,635 (Cat3), based on the government's impact assessment. Arguably some of this cost is potentially already within standard build costs and changes to unit sizes, so again it is a conservative approach to the costs.
- 2.3.2 It is acknowledged that the government has consulted on changes to the accessibility standards ranging from further research and different forms of mandate either through planning policy or building regulations. The consultation period ran until December 1st, 2020. At the time of writing there was no indication as to the government's preferred approach or any transitional arrangements should they bring in a change.
- 2.3.3 As there is uncertainty as to the government's intentions, and as there is a wide range of options, it is not considered appropriate to undertake any further testing. However, as previously set out, the current testing set out in VA2019 is already conservative in terms of both its application and costs used and therefore there is some in built contingency to cover higher accessibility provision within the figures already used, should the government change its position. Also, it should be noted that there is an additional substantial 'policy contingency' of £10,000 per unit already included within the testing which helps create a significant allowance for future changes (see below for further detail). Therefore, if costs are higher than what has been tested it should be covered within this additional policy contingency, without any undue impact on viability.

2.4 Biodiversity net gain

- 2.4.1 Respondents have requested further details regarding the 10% biodiversity net gain requirement set out in policy NE2. There is already a well-established requirement to include biodiversity net gain and the council through policy NE2 has sought to quantify the requirement in line with the emerging Environment legislation².
- 2.4.2 The VA2019 includes an allowance for biodiversity net gain of £500 per unit and as explained in para 5.3.6 of VA1019 the figure was established through consultation

² [Environment Bill 2020 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/bills-2020)

with Natural England. This was considered a reasonable allowance for strategic generic testing, given that biodiversity net gain is site specific and therefore not possible to calculate using Natural England guidance for the generic typologies used in this type of study. As the figure was discussed with Natural England it was considered an appropriate response to the requirements of NE2.

- 2.4.3 During the production of VA2019 the Government published an impact assessment³ to accompany the Environment Act proposals – this suggested for this area (South East) figures of £948 per unit on greenfield sites and £207 per unit for brownfield sites.
- 2.4.4 Therefore, the figure used in VA2019 that applies to all dwellings is around halfway between the two estimates in the impact assessment. Given that the sums involved are de minimis in terms of a percentage of GDV and the strategic nature of the testing it is not considered necessary to retest with the impact assessment figures. It is also important to note that there is a substantial ‘policy contingency’ of £10,000 per unit already included within the testing which helps create a significant allowance for future changes (see below for further detail). Therefore, if costs are higher than the amounts tested it should be covered within this additional policy contingency, without any undue impact on viability.

2.5 Allowances for national and local mitigation and standards

- 2.5.1 At the time of preparing VA2019 there were uncertainties around a range of national and local policy and mitigation costs. Therefore, an allowance of £10,000 per unit was included within the testing to enable to the council to come to a view as to the potential cumulative impact of requirements to help inform policy.
- 2.5.2 Representations received to the consultation have sought further information as to what the allowance includes and how that now relates to the various requirements and in particular:
- Nitrate neutrality
 - Future Home Standards and changes to building regulations
 - Electric vehicle charging

³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/839610/net-gain-ia.pdf

- 2.5.3 Also mentioned within the representations and already considered previously (see above) are potential changes to accessibility standards and biodiversity net gain.
- 2.5.4 **Nitrate neutrality** - Natural England have produced a methodology to enable an assessment of nitrate neutrality for new development. Where developers are not able to demonstrate that their proposals maintain or reduce the levels of nitrates leaving their site, mitigation measures will be required. For the purposes of assessing viability on a strategic basis, using a set of generic case studies it is not possible to identify site specific requirements relating to nitrate neutrality. Therefore, to make an allowance within the viability assessment it is assumed that mitigation is required. On the basis of recent schemes before the council, the mitigation cost including administration fees is between c£1,900 - c£3,775 per dwelling (depending on location), when mitigation is required and will vary according to individual site circumstances. Not all sites will require additional mitigation measures, so this is a conservative estimate of likely cost.
- 2.5.5 **Future Homes Standard** - In terms of building standards at the time of preparing VA2019 there was uncertainty around what options the government may seek to implement and as importantly when and therefore it was considered that an allowance was the best option in lieu of more detailed information. The provision for changes to Building Regulations was allowed for within the £10,000 per dwelling policy contingency.
- 2.5.6 The government has since published its response to the Future Homes consultation and confirmed that it will bring in changes to Building Regulations through a stepped change of a 31% reduction in carbon emissions to be achieved through changes to Part L in 2021 and seek a 75% reduction through Future Homes at 2025. An impact assessment which accompanied the consultation suggests that in practice a developer will seek the cheapest solutions to meet the 31% reduction target and that this could be done for an additional cost above current build costs of £3,130 - £4,850 for a semi detached house and £2,260-£2,780 for a flat⁴. There is no detail on how the 2025 Future Homes Standards may be met in terms of costs nor how it will be measured.
- 2.5.7 At present the council is not proposing to go beyond building regulations and whilst it is right to include an allowance for what is imminent i.e. the 2021 changes, the implementation and costs to meet the future homes standard have yet to be verified

⁴ The cost range identified depends on the type of solution being used to meet standards, it assumed that development is likely to favour the most optimised i.e. lowest cost – see page 16 of the Future Home Impact Assessment:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/836925/REQUEST.pdf

and the uncertainty around this suggests that this should be a consideration for future versions of the Plan and/or CIL when more detail is known.

- 2.5.8 **Electric Vehicle Charging** - Policy NE8 requires an EV charging point per residential dwelling with off street parking and at least one EV charge point in shared parking areas per ten dwellings. The provision for electric vehicle charging was allowed for within the £10,000 per dwelling policy contingency.
- 2.5.9 The government's impact assessment suggests that domestic chargers and installation cost in the region of £615 to £1,115. Recent experience suggests the cost is at the lower end of this range and given the likely increase in demand the cost will become lower, especially to purchasers at scale. However, a cautious estimate would take the middle of the range at £865 per charger. The council does not record the proportion of on plot car parking therefore a cautious estimate is used of 90% of units having on plot parking, therefore a whole scheme average cost would be £779 per unit.
- 2.5.10 In terms of the rapid charge, these are generally provided on a commercial basis, whereby operators would install at their own cost and seek returns through payment for use. Therefore, it is not considered necessary to allow for additional costs for this type of provision.
- 2.5.11 In respect of EV charging there was comment in terms of the wider electricity network and its capacity for accommodating a high number of chargers and whether development will have to also contribute to those costs. However, it is understood that in general, planned development and any required upgrades or new provision should already be a consideration in terms of the DNOs and their statutory responsibilities. Where development does have to contribute, these will be site specific matters and not possible to quantify in terms of strategic generic site testing and as an abnormal cost should come off land value, rather than a direct impact on viability in terms of meeting policy requirements. Furthermore, the government in its EV smart charging consultation indicated that a new generation of 'smart' charging points could assist with demand and help reduce the need for grid reinforcement.

Cumulative additional policy costs

- 2.5.12 To assist those who made comments and the Examiner we set out a potential breakdown of the £10,000 per unit policy contingency, reflecting on the various costs that have been highlighted above and taking a mid to worst case scenario of a house on a greenfield site with the full additional costs of biodiversity net gain and

accessibility also added (although this is for illustration only and not an agreement that those costs should be included).

Table 2.4 Breakdown of potential additional policy costs/mitigation

Cost item	Cost (per house)	Cumulative reduction from £10,000
EV charging point	£779	£9,221
Part L BR*	£3,990	£5,231
Nitrate Neutrality*	£2,838	£2,393
Biodiversity net gain (£ above £500 allowance to move to £948 per unit)	£448	£1,945
Accessibility (£ above 15% allowance to move to 100% units)	£1,610	£335

*Mid-range figure used

2.5.13 Table 2.4 shows that the £10,000 per dwelling allowance for what were unknown costs at the time of writing VA2019 remains sufficient to cover the range of costs that have now been identified. Even with the deductions for costs that are now known, the £10,000 provides additional headroom to accommodate other site-specific issues which may lead to higher costs beyond those that can be accommodated through any adjustment to land value. It should be noted that the costs identified are conservative and potentially mid to worst-case scenario, so headroom could be significantly higher.

3 Overview of cost and values

- 3.1.1 VA2019 was prepared during 2019 and therefore data on values and costs is sourced from that period. Viability assessments for plan making and CIL are based on the best available data at time of production and like most evidence base, normally it would not be reasonable for them to be updated on a monthly or even annual basis. However, given the circumstance over the past year with the COVID-19 pandemic, it was felt appropriate to review the cost and value trends and comment as to whether these would materially affect the outcome of the viability assessments within VA2019.
- 3.1.2 The data on values in VA2019 is up to January 2019, therefore the review looks at changes since that date. Data sources such as BCIS, demonstrated by the All-In Tender Price Index, are able to provide us with an indication of how build costs might have changed in recent years. A similar exercise can be shown for values by considering the House Price Index, published by Land Registry. At the time of this note, the latest estimates available for build costs is for February 2021 and for house prices is December 2020.
- 3.1.3 Figure 3.1 shows how the development climate has changed by plotting the change of these two sources together. The data is separated by a grey dotted line which notes the date at which the UK first went into lockdown measures, and therefore demonstrates the change in costs and values leading up to lockdown and the change in climate to the present date.
- 3.1.4 In the period January 2019 to February 2020, Figure 3.1. shows sales values in Fareham falling very marginally (-0.53%) over the period. After having a premium over the UK index, Figure 1.1 shows the two values converging just before the first UK lockdown in March 2020. Build costs, however, are understood to have increased from their index of 331 to 335 (+1.2%).
- 3.1.5 For the period from February 2020 to the present day, Figure 1.1. shows this trend reversing. Sales values in Fareham increased considerably from their February 2020 figure (+5.6%) whilst build costs are reported to have fallen from their peak of 335 to 328 (-2.1%).
- 3.1.6 Therefore, at time of writing the viability will have improved with higher values being achieved against a lower cost base. Although, it is acknowledged that values may have been impacted by the fiscal measures introduced by the UK government, the long term impact cannot be known with any certainty.

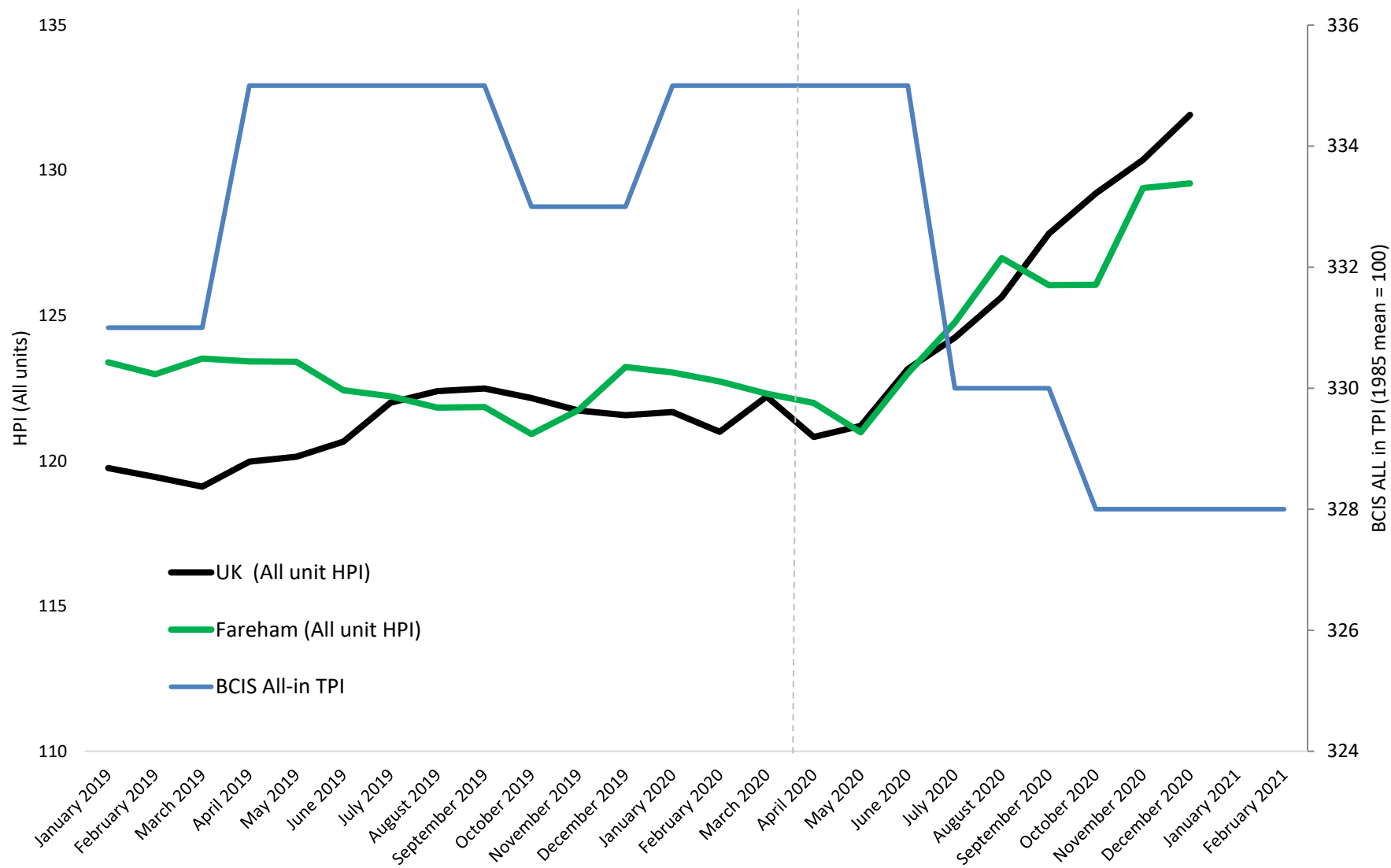


Figure 3.1 Change in build cost and HPI since January 2019

Looking forward

- 3.1.7 As the impact of the stimulus package on long term trends will not be known for some time, the only basis to provide any view on the matter in this report is by reviewing the market commentary.
- 3.1.8 Figure 3.2 provides a summary of house price forecasts for 2021 published since December 2020 by lenders and agencies such as Nationwide, Knight Frank, Rightmove. The forecasts show a range of predictions from -5% to an increase in of 5%, highlighting uncertainty in how the UK recovers from the COVID 19 pandemic. For Savills we have included two estimates, the first of 0% in December 2020 which was revised upwards to 4% in March 2021.⁵ Savills point towards an improvement in the outlook following the Government’s budget which announced measures such as the mortgage guarantee scheme and extending the furlough scheme and stamp duty holiday which they indicate has “significantly reduced the downside risks”.

Figure 3.2 Predicted change in average house prices for the year 2021 as a whole

	Annual change in 2021
Halifax	-2% to -5%
RightMove	4%
Pantheon Economics	-2%
Savills	Dec 2020: 0% March 2021: 4%
Knight Frank	1%

Source: Various

- 3.1.9 The same report by Savills provides 5-year estimates for the UK, and the separate regions. Given Fareham’s location, we include both estimates for the South East and the South West alongside the national average. Across the 5-year period it is estimated that growth in Fareham could be considered as around 18%, which is lower than the forecast for the UK as a whole (21%). That said, Savills estimate house price growth could exceed the UK average in 2021, before falling bellowing this rate towards the final years of the period.

⁵ Savills (2021) ‘Savills upgrades UK house price forecasts’ 09 March 2021 accessed via <https://www.savills.co.uk/insight-and-opinion/savills-news/311749/savills-upgrades-uk-house-price-forecasts>

Figure 3.3 Mainstream residential capital value forecasts 2021-2025

	2021	2022	2023	2024	2025	5year growth
UK Average	4.0%	5.0%	4.0%	3.5%	3.0%	21.1%
South West	5.0%	4.0%	3.5%	3.0%	2.0%	18.7%
South East	5.0%	4.5%	2.5%	2.5%	1.5%	17.7%

Source: Savills

3.1.10 In terms of build costs, BCIS presents a forecast for the next 5 years. Comparing the index at the close of 2020, with figures for the next 5 years, it is estimated that build cost growth could be at a similar rate to house price growth in the region, or marginally lower than the rate predicted for the UK as a whole. BCIS estimates for years 2021 and 2020 that, in the short term, build cost growth could be lower than house price growth.

Figure 3.4 Forecast change in build costs (2021 to 2025)

	4 th Q 2020	4 th Q 2021	4 th Q 2022	4 th Q 2023	4 th Q 2024	3 rd Q 2025 ⁶	5year growth
BCIS All-in Tender Price Index	328	336	348	362	376	386	17.7%
Year on year change		2.4%	3.6%	4.0%	3.9%	2.7%	

Source: BCIS All-In TPI (as of March 2021)

3.1.11 Therefore, whilst it is difficult to predict the future, the market commentators are suggesting that broadly, over time, value increases will match or exceed cost predictions. This would suggest that the viability assessment within VA2019 is a reasonable and robust assessment on development viability within Fareham that can inform the local plan and CIL in terms of both the now and into the future.

⁶ At the time of reporting there was no 4th Quarter 2025 figure reported, and the 3rd Quarter was the furthest estimate stated