
Matter 3 Hearing Statement

Warwick Zero Carbon Development Plan
Document Examination

Response on Behalf of Barratt David Wilson
Homes (Mercia)

Representor ID: 3

Questions: 3.1, 3.2, 3.3, 3.4, 3.5 & 3.6



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1. Introduction

1.1. Introduction

- 1.1.1. Savills has been instructed by Barratt David Wilson Homes (Mercia), referred to hereafter as “BDWH”, to submit a Hearing Statement in response to Matter 3 (Questions 3.1, 3.2, 3.3, 3.4, 3.5 & 3.6) of the Warwick Zero Carbon Development Plan Document Examination. BDWH has a number of land interests in Warwick District. Through this DPD Examination BDWH is questioning the speed at which Warwick District Council (WDC) is seeking to bring in its new policies and the robustness of the evidence underpinning these policies.
- 1.1.2. BDWH is part of the national Barratt Developments Plc, which has been involved in housebuilding for over 60 years. Barratt Developments is supportive of the decarbonisation agenda and has already put a number of initiatives in place, including following its own Zero Carbon Home Roadmap, through which it aims for all of its house types to be zero carbon (regulated only) by 2030.

2. Matter 3: Viability Testing and Assessment

2.1. Question 3.1

“Does the viability testing, assessment and evidence submitted in support of the DPD reasonably and robustly demonstrate that the majority of development types in the majority of locations are viable when meeting all of the requirements of the Plan, including the adopted Warwick Local Plan?”

- 2.1.1. The Revised Viability Study¹ by BNP tests 24 development typologies across the District *“reflecting schemes to represent the types of sites that the Council expects to come forward over the life of the NZC DPD” (para 4.2, page 21)*. These includes sites of 3 units to 300 residential units, and include schemes that are flatted and housing led. However, only 11 residential schemes (C3) are tested, with the remaining 13 schemes either employment or other quasi-residential scheme (e.g. C2 or student).

¹ Net-Zero Carbon Development Plan Document: Revised Viability Study. April 2022. Prepared by BNP Paribas Real Estate.

- 2.1.2. The larger, more strategic, sites often require the delivery of a greater quantum of costly infrastructure than smaller sites, which has an impact on the viability position. Therefore in order to be robust, the viability appraisal process should be testing the viability of sites that are much larger than 300 dwellings. It would be inappropriate to consider the viability of larger sites as simply a case of amalgamating a number of smaller developments.
- 2.1.3. The PPG² highlights the importance of considering strategic sites and their viability at the plan making stage, where it states:
- “It is important to consider the specific circumstances of strategic sites. Plan makers can undertake site specific viability assessment for sites that are critical to delivering the strategic priorities of the plan. This could include, for example, large sites, sites that provide a significant proportion of planned supply, sites that enable or unlock other development sites or sites within priority regeneration areas”.*
- 2.1.4. However, this consideration has not been done. This appears to be at odds with the adopted Local Plan, which allocates 10no. greenfield sites for over 300 dwellings, collectively providing 8,470 residential units through the Plan period (making up almost 80% of the housing numbers in allocated sites).
- 2.1.5. It is our opinion that by not testing any schemes above 300 units (which quite often have their own challenges regarding additional strategic infrastructure costs), the DPD can not be said to have reasonably and robustly tested the “majority of development types in the majority of locations”.
- 2.1.6. In addition, the Viability Study states a “Growth Scenario” and a “Downside Scenario” have been run. The viability study summarises the scenarios used at Table 4.7.1 and 4.8.1 respectively. The growth scenario looks at the values increasing by 3-5.5% over the period 2022 – 2027 (and each year thereafter), with costs increasing by 2% per annum in the same years. The downside looks at no growth in 2022 (BNP states values falling in 2021, but since this is not modelled we assume that this is a typo) and then growth rates of 2.5% - 4% in the same period as above, with costs also remaining at 2% per annum.
- 2.1.7. It is our consideration that this does not represent sufficiently robust testing of the scenarios, particularly in the current economic climate from both a growth and a cost perspective.

² Planning Practice Guidance paragraph 10-005-020180724

2.1.8. We also note that whilst BNP has referenced the Savills January 2022 Residential Housing Update at para 2.16 there is an implication that the values used in Table 4.7.1 are from this report and are Savills House Price Forecasts. However, this is not the case, as evidenced below:

Table 2.1 – House Price Forecasts (January 2022)

Year	2022	2023	2024	2025	2026	2027 and each year thereafter
BNP Values	4.5%	5.5%	5.0%	4.0%	3.0%	4.0%
Savills UK Values	3.5%	1.5%	2.5%	2.0%	1.5%	n/a
Savills West Midlands Values	4.0%	3.5%	3.0%	2.5%	2.0%	n/a

Source: Savills, 2022

2.1.9. We consider that a more realistic growth scenario should be run as an additional scenario because these house price forecasts were published in November 2021 and, given the change in the wider political and economic climate in Q1 2022, a more realistic growth scenario would be beneficial. In addition, there is no explanation as to how BNP has arrived at its forecasts, given that they are higher than the Savills rates.

2.1.10. For information (and to highlight the volatility in the market, and emphasise why robust scenario and sensitivity testing is important), we provide below the house price forecasts released in November 2022.

Table 2.2 – Savills House Price Forecasts (November 2022)

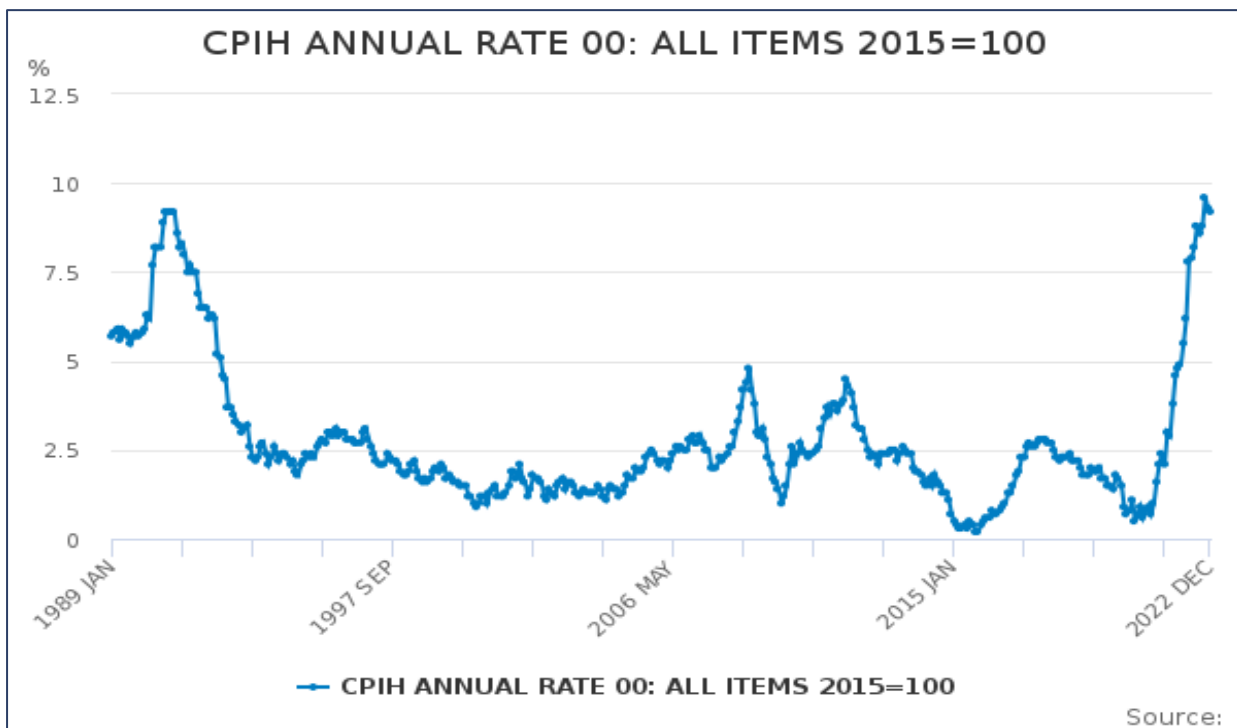
Year	2023	2024	2025	2026	2027
Savills UK Values	-10.0%	1.0%	3.5%	7.0%	5.5%
Savills West Midlands Values	-9.0%	1.5%	4.0%	7.5%	5.5%

Source: Savills, 2022

2.1.11. We provide comments in response to Question 3.6 regarding the 3% uplift on build costs for homes from the current standards later in this response, but turn our attention to the choice of 2% per annum cost inflation, which is applied to both the growth and the downside scenario. As with the choice of growth values to be tested, there is no evidence as to where this 2% per annum cost inflation has come from. We assume that it is based on the long term Bank of England inflation rate. However, the current rate (at February 2023) is 10.5%. Even at the time of the report (April 2022), the CPIH (Consumer Price Index including housing costs) was 7.9%, and had last been below 2% in April 2021 (Source: ONS). The below chart from the ONS demonstrates this.



Figure 2.1 – CPIH from January 1989 to December 2022



Source: ONS, 2023

2.1.12. Therefore, it seems strange that, in the face of record levels of inflation at the time of writing the report, BNP did not choose to run some sensitivities that looked at a change in cost inflation. The BCIS (Building Cost Information Service) stated in September 2022 that *“construction, along with the wider economy, is in for a bumpy ride over the next couple of years. A recession and double-digit inflation will affect both demand and costs.”*³

2.1.13. The BCIS Tender Price Index in Q2 2022 rose by 3.4% compared to Q1 2022, and by 9.1% on an annual basis. At this stage the BCIS forecast tender prices were anticipated to rise by 20% in the five years to Q2 2027, which is higher than the 10% suggested by BNP (i.e. their rate of 2% per annum).

2.1.14. Thus, we do not consider that the viability study has reasonably and robustly tested the proposals as part of the DPD.

³[https://bcis.co.uk/news/bcis-five-year-forecast-building-september-2022/#:-:text=Costs%20will%20rise%20by%2016,period%20\(2Q2022%20to%202Q2027\).](https://bcis.co.uk/news/bcis-five-year-forecast-building-september-2022/#:-:text=Costs%20will%20rise%20by%2016,period%20(2Q2022%20to%202Q2027).)

2.2. Question 3.2

“Has the viability evidence submitted accounted for a reasonable and proportionate level of flexibility in the delivery of the policy requirements of the DPD and, if so, is this justified and effective?”

2.2.1. We highlight in our response to Questions 3.1 and 3.5 that, in our view, there has not been sufficient testing of some of the key assumptions to demonstrate sufficient flexibility. This can, and should, be carried out with sensitivity testing and by expanding the typologies that have been assessed as part of the study.

2.3. Question 3.3

“How does development viability in relation to the policy requirements of the DPD sit against the policy requirements of the adopted Warwick Local Plan, for example affordable housing requirements?”

2.3.1. The Viability Study proposes that viability conflicts arising from bringing in the proposed NZC DPD Policies could be resolved through a reduction in affordable housing. However, the evidence base (including the Sustainability Appraisal) does not include consideration of the trade-off between the environmental benefits from the proposed NZC DPD, the potential social disbenefits arising from advocating a reduction in affordable housing and the economic and social implications that might arise if the proposed policy provisions result in a reduction in the overall delivery of housing within Warwick District as a result of viability or deliverability factors.

2.4. Question 3.4

“Is the approach to viability within the DPD policies consistent with that of the adopted Warwick Local Plan?”

2.4.1. The approach to viability within the DPD policies NZC1, NZC2(a) and NCZ2(b) is based on the inclusion of “subject to viability” clauses. It is noted that “subject to viability” clauses are also included in the adopted Local Plan (e.g. Policy H2 and Policy CC3). Adopted Local Plan Policy DM2 also provides the ability for a viability review to be undertaken to support planning application proposals.

- 2.4.2. However BDWH considers that there is a need for the proposed DPD policies to be subject to a robust viability testing and shown to be viable now, in advance of the proposed adoption of the Net Zero Carbon DPD. As set out in the responses to the other questions for this Matter, some of the inputs used for the Revised Viability Study are queried.
- 2.4.3. Post-adoption, and assuming that the DPD is underpinned by a robust evidence base, the proposed “subject to viability” clauses in the policy wording would provide flexibility to allow for site specific considerations and market changes to be accommodated in the future. It is nevertheless noted that proposed DPD policy NZC2(c) does not include “subject to viability” provisions. This is considered to be an omission and should be included in order to provide the necessary flexibility to ensure soundness is achieved in the application of this Policy.

2.5. Question 3.5

“Has the viability testing and assessment undertaking to support the DPD and its policy requirements been based on reasonable and appropriate source data that is up to date and relevant?”

- 2.5.1. We note that the Revised Viability Study is an update to a 2021 Study, and that there will inevitably be a time lag associated with the collection and analysis of data. However, as we have already stated in our response to Question 3.1, we do not consider that the growth and downside scenarios are based on reasonable and appropriate sources of data. However, we now turn our attention to the selected appraisal assumptions adopted in Chapter 4 of the study with which we have concerns regarding the source data and approach adopted.

House Prices

- 2.5.2. The residential values are taken from transacted properties within the District from 1 January 2020 and 30 November 2021. The Land Registry House Price Index has then been applied between the date of transaction and “today’s date” (although the exact date is not specified). However, this does not take into account any incentives that may have been offered as part of the 265 new build properties (8.5% of the sample analysed), and thus there is a danger that if these values did include incentives the recorded transaction price will have been inflated above the actual transaction amount.

Benchmark Land Value

2.5.3. We note that the following four Benchmark Land Values (BLVs) are adopted:

- £250,000 per ha
- £370,000 per ha
- £750,000 per ha
- £1.25 million per ha

2.5.4. The majority of these are the same as the values used in the 2016 Viability Study, which were as follows:

- Greenfield (CLG low end of range) - £250,000 per ha
- Greenfield (CLG high end of range) - £370,000 per ha
- Former community sales - £500,000 per ha
- Commercial sites - £1.05 million per ha

2.5.5. In turn, we note that these were taken from the CLG 'Cumulative impacts of regulations on house builders and landowners research paper 2011'. We have concerns about the use of land values from a 2011 research paper, when the market, and landowners expectation of a competitive return for their land, was significantly depressed compared to the market today. We also note that the above BLVs were the same as those applied in the 2013 and 2014 Studies.

2.5.6. We take on board that the policy environment of treating land values has changed since 2016. However, BLV should still allow a premium for landowners, and, by using these values, it is suggested that landowners should have the same expectations for this premium as in 2011. This is unrealistic and not a reasonable and appropriate source of data.

Externals / Site Works

2.5.7. In the Study a rate of 10% is applied for flats and commercial schemes and 15% for houses. We suggest that a 15% rate should be used across all types (and note that this is what BNP did in its 2016 CIL Study). However, the greater concern is that there does not appear to be an allowance for any site works in the appraisals.

2.5.8. BNP states that the externals include outside spaces and car parking, but in their assumptions make no allowance for any site wide infrastructure works such as roads and utilities that are required. These are noted in the PPG⁴ as one of the costs that should be included in viability assessments:

“Site-specific infrastructure costs, which might include access roads, sustainable drainage systems, green infrastructure, connection to utilities and decentralised energy”.

2.5.9. The Harman Guidance (Viability Testing Local Plans, June 2012) suggests that this could be in the order of £17,000 - £23,000 per plot for larger scale schemes (and this was published in 2012). By not including an allowance for site works, the appraisals are underestimating costs and suggesting that sites are more viable than they are.

Accessibility Standards

2.5.10. The source for the accessibility standards is based on the MHCLG Housing Standards Review: Cost Impacts study. However, we note that this study was carried out in 2014. There has not been any additional benchmarking done to establish the cost uplift and thus we do not consider this can be relied upon as reasonable nor robust.

2.5.11. By looking at these four areas of assumptions, it is our opinion that the viability testing and assessment undertaken to support the DPD and its policy requirements has not been based on reasonable and appropriate source data that is up to date and relevant, notably because some of the data appears to be from over ten years ago.

2.6. Question 3.6

“Specifically, is the identified 3% uplift in build costs for homes from the current standards to the proposed build specifications, as set out in the Council’s viability assessment work, based on reasonable and robust evidence”

2.6.1. The Revised Viability Study states that BNP used a combination of the Edgars and Bioregional work (attached at their Appendix 6), which recommended a 3% cost uplift for residential dwellings. For non-

⁴ Planning Practice Guidance paragraph 10-012-20180724.

residential dwellings BNP has used a February 2021 report by Currie Brown and Etude that breaks down the costs into different headings with the conclusion that a 6% uplift should be applied to these uses.

- 2.6.2. Given that this is a key area of sensitivity, particularly when combined with the £10,000 cost for undertaking embodied carbon assessments for residential developments in excess of 50 units and £1,800 per unit to reflect the cost of undertaking construction performance assessments, it seems remiss that higher levels have not been tested as part of the sensitivity analysis process, particularly not at the higher (for non-residential uses) rate of 6%.
- 2.6.3. From June 2022 all new homes will be required to produce 31% fewer carbon emissions, and this is before the introduction of Future Homes Standard (in 2025). Savills suggests that estimates of additional costs required to implement the uplift to Part L standards range from £3,000 to £5,000 per unit, according to the major housebuilders and MHCLG. It is important to note that build costs will differ for housebuilders because there are those who have been proactive and are already partly complying with new regulations whilst others which are less advanced in their environmental strategies will incur higher costs to adhere to standards.
- 2.6.4. The new regulations will apply to all housebuilders, and therefore these additional build costs will need to be accounted for, which will result in an overall market adjustment.

