

Mid Sussex District Council

Viability Note – December 2023

1. HDH Planning & Development Ltd produced the *Local Plan Viability Study* (HDH, May 2022). This had three main elements:
 - assessing the cumulative impact of the emerging policies, including affordable housing and open space requirements.
 - testing the deliverability of the emerging development site allocations that may come forward over the course of the Local Plan.
 - considering the ability of development to accommodate developer contributions alongside other policy requirements.
2. The report was carried out as per the requirements of the NPPF and in accordance with the PPG and RICS Guidance. It was subject to a technical consultation with the development industry.
3. Since 2022 the costs and the values, being the main inputs into a viability assessment, have changed and several changes have been made to national policy. The Council has also refined the policies in the draft Local Plan. This brief note considers how these changes may impact on viability and whether it is necessary for the Council to fully update the viability evidence before proceeding with the Regulation 19 consultation.

Changes in Residential Values

4. Much of the data in the 2022 LPVS was gathered in late 2021 and early 2022. Since then, house prices have increased. There are a range of data sources that can be referenced, however the Land Registry is the most complete.

	Mid Sussex	West Sussex	South East	England & Wales
Dec-21	£418,318	£370,835	£367,239	£281,209
Sep-23	£476,529	£397,233	£392,174	£304,387
Change	£58,211 13.92%	£26,398 7.12%	£24,935 6.79%	£23,178 8.24%

Source: Land Registry (December 2023)

5. This data shows that average prices have increased by about 14% in Mid Sussex, which is somewhat more than in wider West Sussex and in the Region. This data can be disaggregated and newbuild sales separated out.

Table 2 Change in Average Newbuild House Prices – Mid Sussex		
	Newbuild	Existing
Dec-21	£558,071	£405,220
Jul-23	£690,082	£436,594
Change	£132,011	£31,374
	23.65%	7.74%

Source: Land Registry (December 2023)

6. The Land Registry's latest data suggests that the average newbuild sale price has increased by almost about 24% over the last 18 or so months in the Council area. This is substantially more than the average increase of existing homes.
7. The 2022 LPVS was completed following the COVID-19 pandemic and there remains uncertainty in the property markets due to the ongoing global uncertainty around the war in Ukraine and the more recent troubles in the middle east, both of which have impacted on oil and energy prices and inflation. In an effort to control inflation, the Bank of England has raised the Bank Base Rate, which has led to a fall in inflation. It is important to note that whilst interest rates are substantially greater than they were, when considered over the long term they remain relatively low.
8. HM Treasury brings together some of the forecasts in its regular *Forecasts for the UK economy: a comparison of independent forecasts* report.

Table 3 Consolidated House Price Forecasts

Table 2 - 2023: Growth in prices and monetary indicators (% change)

Forecasters and dates of forecasts		CPI (Q4 on Q4 year ago, %)	RPI (Q4 on Q4 year ago, %)	Average earnings (Q4 on Q4 year ago, %)	Sterling index (Jan 2005=100)	Official Bank rate (level in Q4, %)	Oil price (Brent, \$/bbl)	Nominal GDP	House price inflation (Q4 on Q4 year ago, %)
City forecasters									
Barclays Capital	Nov *	4.3	5.8	-	-	5.25	83.0	-	-
Bloomberg Economics	Nov *	4.7	-	-	-	5.25	-	-	-
Capital Economics	Nov *	4.6	6.2	6.1	79.4	5.25	85.0	7.3	-3.1
Citigroup	Aug	4.2	5.9	6.1	-	5.75	-	-	-0.2
Deutsche Bank	Feb	4.1	4.9	-	-	4.25	-	-	-
Goldman Sachs	Feb	3.8	-	-	-	4.25	92.0	-	-
HSBC	Oct	4.3	5.5	6.9	-	5.25	-	-	-
JP Morgan	Nov *	4.4	-	-	-	5.25	-	-	-
KPMG	Nov *	4.5	-	-	-	5.25	82.6	-	-
Morgan Stanley	Mar	2.4	3.1	-	-	4.25	-	-	-
Natwest Markets	Sep	4.7	6.1	7.2	-	5.50	82.0	5.1	-
Nomura	Aug	2.5	-	5.4	-	5.75	-	-	-
Pantheon	Oct	4.5	6.1	6.6	-	5.25	-	-	-4.7
Schroders Investment Management	Mar	3.7	4.0	-	-	4.00	-	5.8	-3.3
Societe Generale	Sep	5.1	7.0	6.6	-	5.50	84.0	6.4	-
UBS	Nov *	4.4	6.7	6.4	-	5.25	84.5	7.4	-
Non-City forecasters									
British Chambers of Commerce	Sep	5.0	-	5.5	-	5.50	-	-	-
Beacon Economic Forecasting	Nov *	4.7	5.9	6.3	81.1	5.25	83.7	8.8	-5.2
CBI	Sep	4.3	6.7	5.1	79.6	-	80.0	6.1	-5.0
CEBR	Oct	4.9	6.1	7.3	80.2	5.25	-	-	-7.5
Economic Perspectives	Apr	5.8	6.8	-	78.0	3.50	80.0	6.2	-4.5
Experian Economics	Nov *	4.6	6.3	6.7	81.9	5.25	83.8	-	-2.4
EIU	Oct	-	-	-	-	5.25	83.2	-	-
Heteronomics	Oct	4.4	5.7	7.7	80.2	5.50	78.8	-	-6.3
ICAEW	Sep	4.8	-	-	-	5.75	-	-	-
ITEM Club	Nov *	4.5	6.4	5.2	80.6	5.25	-	-	-3.3
Kern Consulting	Apr	6.9	-	-	-	3.50	84.0	-	-
Liverpool Macro Research	Nov *	5.0	8.2	5.5	79.3	5.25	-	-	-
NIESR	Nov *	5.1	10.0	8.5	-	5.25	-	-	-3.6
Oxford Economics	Nov *	4.3	6.6	6.8	81.3	5.25	84.3	7.6	-2.1
OECD	Sep	-	h	-	-	-	-	-	-
IMF	Oct	5.2	-	-	-	-	-	-	-
Average of forecasts made in the last 3 months (excludes OBR forecasts)									
Independent		4.6	6.6	6.5	80.4	5.3	82.9	7.0	-4.3
New (marked *)		4.6	6.9	6.4	80.6	5.3	83.8	7.8	-3.3
City		4.5	6.2	6.6	79.4	5.3	83.5	6.5	-3.9
Range of forecasts made in the last 3 months (excludes OBR forecasts)									
Highest		5.1	10.0	8.5	81.9	5.8	85.0	8.8	-2.1
Lowest		4.3	5.5	5.1	79.3	5.3	78.8	5.1	-7.5
Median		4.6	6.2	6.6	80.2	5.3	83.5	7.3	-4.2
OBR	Mar	2.9	4.9	5.0	-	4.2	80.6	2.7	-7.2

Source: Forecasts for the UK economy: a comparison of independent forecasts No 439 (HM Treasury, November 2023).

9. Generally, these suggest house prices will fall.
10. Property agents Savills are forecasting the following changes in house prices, suggesting that while prices may fall in 2024, they may also return to growth in 2025:



Table 4 Savills Property Price Forecasts						
	2024	2025	2026	2027	2028	5 Year
Mainstream UK	-3.0%	3.5%	5.0%	6.5%	5.0%	17.9%
South East	-3.5%	3.0%	4.5%	6.5%	5.5%	16.7%
Prime Outer Commute	-1.5%	3.0%	4.5%	6.0%	5.5%	18.6%
Mainstream Rental Values	2.5%	2.7%	3.2%	3.1%	3.4%	15.8%

Source: Savills Mainstream House Price Forecasts (November 2022) and Savills Prime Residential Property Forecasts¹

11. In this context its relevant to note that the Nationwide Building Society reported in October 2023:

House price recovery continued in November





- UK house prices rose by 0.2% in November
- Annual growth remains weak but strongest since Feb 2023
- House Prices down 2% compared to a year ago.

Headlines	Nov-23	Oct-23
Monthly Index*	518.0	516.8
Monthly Change*	0.2%	0.9%
Annual Change	-2.0%	-3.3%
Average Price (not seasonally adjusted)	£258,557	£259,423

* Seasonally adjusted figure (note that monthly % changes are revised when seasonal adjustment factors are re-estimated)

12. The Nationwide produce regional figures on a quarterly basis. This suggests data suggests, for Outer South East an annual -5.4% change in Q3 2023 and an annual -3.7% change in the previous quarter.

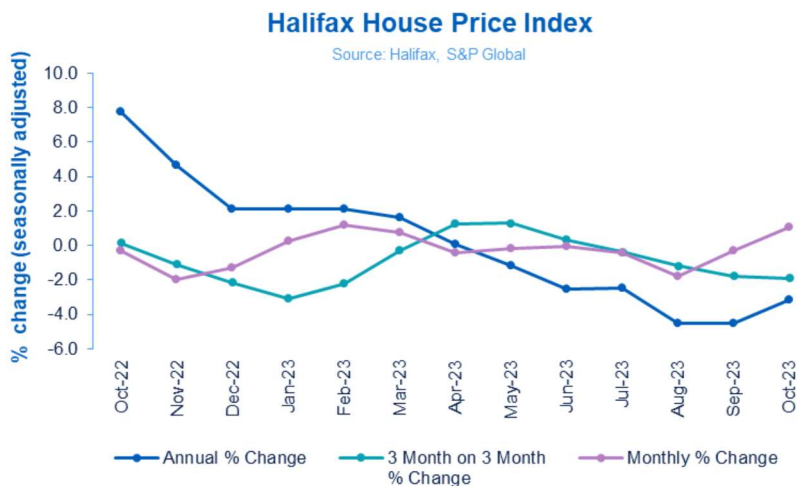
13. Halifax Building Society reported a more positive situation in October 2023:

			
Average house price	Monthly change	Quarterly change	Annual change
£281,974	+1.1%	-1.9%	-3.2%

UK house prices rise in October, ending run of six consecutive monthly falls

- Average house prices rose by +1.1% in October, compared to a fall of -0.3% in September
- Property prices dropped by -3.2% on an annual basis (vs -4.5% last month)
- Typical UK home now costs £281,974, up around £3,000 on the previous month
- South East England continues to see largest annual decline in house prices

¹ [Savills UK | Residential Property Market Forecasts](#)



14. Whilst the above suggests that house prices are no longer falling and may have returned to growth, there is uncertainty in the market.

Changes in Development Costs

15. The build costs in the 2022 LPVS, as suggested in the PPG, were derived from the BCIS data. The cost figure for Mid Sussex for ‘Estate Housing – Generally’ was £1,441/m² at that time (March 2022). The equivalent figure now (December 2023) has increased to £1,592/m². This data shows that the cost of construction has increased by just over 10% since the 2022 LPVS was undertaken.
16. There has been much coverage in the press around build cost inflation. The BCIS is predicting that, going forward, that the General Build Cost Index will increase by about 3.5% over the next year (from December 2023 – 452.7 to December 2024 – 468.2) and by about 8.8% over the next three years. (from December 2023 – 252.7 to December 2026 – 492.5)

Conclusions of the Local Plan Viability Study (HDH, May 2022)

17. The 2022 LPVS tested a broad range of policy options and, following an iterative process with the Council:
- a. Affordable Housing 30% (66.7% Affordable Rent, 25% First Homes, 8.3% Shared Ownership).
 - b. Sustainability Zero regulated and un-regulated carbon, including, EV Charging points.
Water conservation – including rainwater harvesting.
10% Biodiversity Net Gain on typologies, 20% on Significant Sites.
 - c. Design Part M4(2) / Part M4(3).
Significant Sites include 4 gypsy and traveller pitches.
 - d. Developer Contributions £12,000/unit.



18. The report concluded from paragraph 10.37:

....., all the greenfield sites are able to bear 30% affordable housing and at least £30,000/unit in developer contributions. £30,000/unit in developer contributions is substantially higher than the Council's estimate of future developer contributions so there is a high likelihood that such development would be deliverable, and the Council can be confident that it will be forthcoming. This comment applies to both the Significant Sites and the development represented by the typologies.

To a large extent these results are as expected. The 30% affordable housing requirement is less than some of the neighbouring councils and Mid Sussex has not adopted CIL.....

..... In the higher policy scenario, all the greenfield sites are able to bear 30% affordable housing and at least £30,000/unit in developer contributions. £30,000/unit in developer contributions is substantially higher than the Council's estimate of future developer contributions so there is a high likelihood that such development would be deliverable, and the Council can be confident that it will be forthcoming. This comment applies to both the Significant Sites and the development represented by the typologies.

To a large extent these results are as expected. The 30% affordable housing requirement is less than some of the neighbouring councils and Mid Sussex has not adopted CIL.

Changes in National Policy

19. There have been a number of changes at a national level since the 2022 LPVS was undertaken.

National Planning Policy Framework 2023

20. A new version of the NPPF was published in September 2023. The changes in this iteration of the NPPF related to wind farms and are not material plan-making and the viability testing under the PPG.

Planning Practice Guidance

21. The viability sections of the PPG have not changed since September 2019, well before the preparation of the 2022 LPVS.

Accessible and Adaptable Standards

22. In July 2022, the Government announced the outcome of the 2020 consultation on raising accessibility standards of new homes² saying:

73. Government proposes that the most appropriate way forward is to mandate the current M4(2) (Category 2: Accessible and adaptable dwellings) requirement in Building Regulations as a minimum standard for all new homes – option 2 in the consultation. M4(1) will apply by exception only, where M4(2) is impractical and unachievable (as detailed below). Subject to a further consultation on the draft technical details, we will implement this change in due course with a change to building regulations.

² [Raising accessibility standards for new homes: summary of consultation responses and government response - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/raising-accessibility-standards-for-new-homes)

23. The Government will now consult further on the technical changes to the Building Regulations to mandate the higher M4(2) accessibility standard. No timescale has been announced.
24. The modelling in the 2022 LPVS was based on the following requirements (as set out in paragraph 8.62):

	Market Housing	Affordable Housing
Category 2 – accessible and adaptable dwellings under Building Regulations – Approved Document M Requirement M4(2)	95%	88%
Category 3 – Wheelchair-user dwellings under Building Regulations – Approved Document M Requirement M4(3)(a) (Wheelchair Adaptable)	5%	
Category 3 – Wheelchair-user dwellings under Building Regulations – Approved Document M Requirement M4(3)(b) (Wheelchair Accessible)		12%

25. The Council has updated this mix, reducing the M4(3)(b) (Wheelchair Accessible) element from 12% of the affordable housing to 4% of the affordable housing. The LPVS is consistent with the emerging national requirements.

Levelling-up and Regeneration Act

26. At the end of October 2023 the *Levelling-up and Regeneration Act* become law. The provisions within the Act will have a significant impact on the overall plan-making process, but they do not alter the place of viability in the current Local Plan process.
27. The *Levelling-up and Regeneration Act* includes reference to a new national Infrastructure Levy. The Bill suggests that the Infrastructure Levy would be set, having regard to viability and makes reference to the *Infrastructure Levy Regulations*. *Infrastructure Levy Regulations* have yet to be published.

Technical consultation on the Infrastructure Levy

28. In March 2023, the Department for Levelling Up Housing & Communities published *Open consultation, Technical consultation on the Infrastructure Levy*³ to seek views on technical aspects of the design of the Infrastructure Levy. The responses will inform the preparation and content of regulations, which will themselves be consulted on, in due course. The consultation suggests (paragraph 7.11) the levy would be fully rolled out from 2029, but there would be a 'test and learn' rollout starting in 2025.
29. Under the proposals set out in the consultation, CIL and the delivery of affordable housing would be combined into a single levy, that would be calculated as a proportion of a scheme's value. Affordable housing could be provided on-site as an in-kind payment. Under the proposals some aspects of the current s106 regime would remain:

³ [Technical consultation on the Infrastructure Levy - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/technical-consultation-on-the-infrastructure-levy)

1.34 The Levy aims to create a simpler and more consistent system than the current system of CIL and s106. However, paying the Levy may not always be enough to fully mitigate the impact of a development and make it acceptable in planning terms. Indeed, there are some situations where sites have very complex infrastructure needs, which necessitates retaining a negotiated approach to developer contributions. That is why we do not propose to remove s106 agreements altogether.

1.35 New Section 204Z1 of the Bill sets out that regulations can provide for how s106 of the Town and Country Planning Act may or may not be used. This power enables s106 planning obligations to be crafted in the new system, to support how infrastructure will be delivered under the Levy. To create a clear distinction over how s106 agreements should be used in different circumstances, we propose creating three distinct routeways for securing developer contributions. How infrastructure is secured and how s106 agreements operate in each routeway will vary, and this will reflect the size and type of site being brought forward.

1.36 The 3 routeways are as follows:

1. The core Levy routeway
2. Infrastructure in-kind routeway
3. S106-only routeway

1.37 An overarching framework for these 'routeways' will be set out in regulations, following further consultation. Based on this framework, the routeway which will apply to a particular kind of site will be set out in the Local Plan.

Technical consultation on the Infrastructure Levy (Published 17 March 2023)

30. At this stage the relationship between the Levy and the s106 regime is not known. It will be necessary for the Council to monitor the progress the Regulations as and when they are published.
31. The 2022 LPVS is consistent with the recently announced and emerging areas of national policy – although it will be necessary for the Council to continue to monitor changes in this regard.

Changes in the Policy Requirements of the Draft Local Plan

32. On the whole, Council is not pursuing policies that are over and above those set out under the *Conclusions of the Local Plan Viability Study (HDH, May 2022)* heading above. There are however two changes that impact on viability. The Council has also considered the costs of strategic infrastructure further.

Affordable Housing Mix

33. On the updated Plan is now seeking an affordable housing mix of 75% affordable housing for rent (Social rent or Affordable Rent) and the balance as 25% First Homes, rather than the mix of 66.7% Affordable Rent, 25% First Homes, 8.3% Shared Ownership that formed the basis of the analysis in the 2022 LPVS.
34. This change will have a negative impact on viability. The value attributed to Affordable Rent was set out in paragraph 4.61 of the 2022 LPVS as being '£2,500/m² or so, being about 55% of market value'. The value attributed to Shared Ownership was set out in paragraph 4.63 of the 2022 LPVS, and the value attributed to First Homes was set out in paragraph 4.67 of the

2022 LPVS – in both cases the assumption being that these Affordable Home Ownership products would have a value of 70% of market value. Having said this, the change only relates to a very small percentage (2.4%)⁴ of the overall number of units on a site, to the impact, when considered as a whole, so the impact will be small. Further, there is a substantial difference between the Residual Value and BLV, so is unlikely that such a change will have a material impact on the recommendations of the viability assessment.

Accessible and Adaptable Standards

35. As set out above, the Council has updated the requirements in this regard, reducing the M4(3)(b) (Wheelchair Accessible) element from 12% of the affordable housing to 4% of the affordable housing.
36. This change will have a positive impact on viability as the additional cost of developing to M4(3)(b) (Wheelchair Accessible) standard, was assumed to add £32,677 to the cost of a new home, whilst the cost of the M4(2) standard was assumed to add £680 to the cost of a new home – as saving of £32,977 for each home not delivered to the M4(3)(b) (Wheelchair Accessible) standard.

Changes in Infrastructure Costs (s106).

37. In the 2022 LPVS, it was assumed all the modelled residential sites will contribute £12,000 per unit in strategic infrastructure and mitigation costs. This was assumed to be collected through the s106 regime as the Council has not adopted CIL.
38. Over the last year or so, the Council has continued to develop the evidence base in this regard and to work with West Sussex County Council. At the time of this note, the assessment of the costs remains a work-in-progress, however it is likely that the s106 cost for strategic infrastructure and mitigation costs will be between £20,000 and £25,000 per unit rather than being about £12,000 per unit.
39. The change is significant, however, as it is not unusual for the strategic infrastructure and mitigation costs to change during the plan-making process, the 2022 LPVS included sensitivity testing of this assumption – as set out in Appendix 13 – testing developer contributions of up to £30,000 per unit.
40. As set out above (and repeated for convenience) the report concluded from paragraph 10.37:

....., all the greenfield sites are able to bear 30% affordable housing and at least £30,000/unit in developer contributions. £30,000/unit in developer contributions is substantially higher than the Council's estimate of future developer contributions so there is a high likelihood that such development would be deliverable, and the Council can be confident that it will be forthcoming. This comment applies to both the Significant Sites and the development represented by the typologies.

To a large extent these results are as expected. The 30% affordable housing requirement is less than some of the neighbouring councils and Mid Sussex has not adopted CIL.....

⁴ 33% less 25% = 8%. 8% of the 30% affordable housing = 2.4%

..... In the higher policy scenario, all the greenfield sites are able to bear 30% affordable housing and at least £30,000/unit in developer contributions. £30,000/unit in developer contributions is substantially higher than the Council's estimate of future developer contributions so there is a high likelihood that such development would be deliverable, and the Council can be confident that it will be forthcoming. This comment applies to both the Significant Sites and the development represented by the typologies.

To a large extent these results are as expected. The 30% affordable housing requirement is less than some of the neighbouring councils and Mid Sussex has not adopted CIL.

41. It is therefore clear that, the sensitivity testing went somewhat above the updated infrastructure and mitigation costs of between £20,00 and £25,000 per unit or so, and such an increase would not materially impact on the findings and recommendations of the 2022 LPVS.

Conclusions and Observations

42. The assessment of development viability is based on the Residual Valuation approach. The income from a scheme is estimated and the costs of delivering that scheme are then deducted. For a scheme to be viable, the Residual Value must exceed the Existing use Value by a sufficient margin to induce the landowner to sell. If values have increased more than costs, then viability will have improved, with the Residual Value increasing. If costs have increased more than values, then viability will have worsened, with the Residual Value falling.
43. The above data shows that the average values of newbuild property have increased by over 20% and build costs by about 10%. The Residual Value will have increased, indicating that viability will therefore have improved.
44. The Council has altered the affordable housing mix policy, increasing the affordable housing for rent from 66.7% to 75%. As affordable housing for rent has a lower value than Affordable Home Ownership (Shared Ownership or First Homes), this change will have a negative impact of viability. This, change only relates to a very small percentage (2.4%) of the overall number of units on a site, so the impact, when considered as a whole, will be small, so is unlikely to have a material impact on the recommendations of the viability assessment. This negative impact, will, at least in part, be countered by the change, reducing the M4(3)(b) (Wheelchair Accessible) element from 12% of the affordable housing to 4% of the affordable housing which has the consequence of saving of £32,977 for each home not delivered to the M4(3)(b) (Wheelchair Accessible) standard.
45. The 2022 LPVS assumes that the emerging national requirements will apply (or be exceeded) in the new Local Plan. The 2022 LPVS is therefore up to date in this regard, testing all national policy requirements.
46. In the 2022 Viability Assessment, it was assumed all the modelled residential sites will contribute £12,000 per unit in strategic infrastructure and mitigation costs. This was assumed to be collected through the s106 regime as the Council has not adopted CIL. The Council has continued to develop the evidence base in this regard, and, at the time of this note, it is likely that the s106 cost for strategic infrastructure and mitigation costs will be between £20,000 and £25,000 per unit rather than being about £12,000 per unit.

47. The change is significant, however, as it is not unusual for the strategic infrastructure and mitigation costs to change during the plan-making process, the 2022 LPVS included sensitivity testing of this assumption. The sensitivity testing went above the updated infrastructure and mitigation costs of between £20,000 and £25,000 or so per unit per unit, and such an increase would not materially impact on the findings and recommendations of the 2022 LPVS.
48. Based on the above the Council can continue to have confidence in the 2022 LPVS and rely on it in the plan-making process.
49. The above comments are made in the context of the increase in house prices over the last years and significant increases in build costs. House prices are not anticipated to increase in the short term, however build costs are forecast to continue to rise and there is clearly uncertainty around both house prices and inflation. It is therefore recommend that the Council continues to monitor the situation, and if appropriate revisit viability before the new Local Plan is submitted for examination.

Simon Drummond-Hay MRICS ACIH
HDH Planning & Development Ltd, December 2023