Ringwood Neighbourhood Plan (RNP) – Viability

Introduction

In discussions of the RNP 'Gofour' team with policy officers from New Forest District Council (NFDC) and New Forest National Park Authority (NFNPA) on 8th December 2022, a question was raised about viability. The concern was that the proposed RNP policies, particularly Passivhaus standard of build and the requirement for affordable housing, taken together could lead to applicants claiming schemes are not viable.

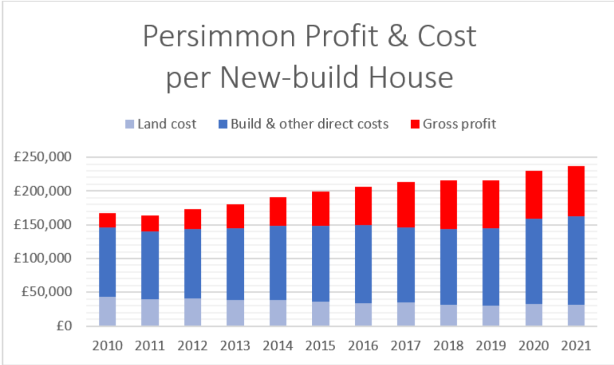
This report seeks to provide understanding of the current regulatory framework and the factors used to assess viability in planning. It is intended to be sent only to the Neighbourhood Plan Steering Group at this time.

Discussion

Appendix 1 summarises the current (30th December 2022) National Planning Policy Framework (NPPF) position on viability, Government guidance and refers to the upcoming Levelling-up and Regeneration Bill. The NPPF links to National Planning Guidance (NPG) last updated in 2021, although there is no specific guidance on how to test viability, except in specific areas. The Royal Institute of Chartered Surveyors (RICS) has issued guidance in response to the changes in the NPPF in 2019.

Very briefly (and in the author's opinion), the planning system requires that any conditions or obligations placed by a decision maker, such as an LPA, due to (Local or Neighbourhood) Plan policies fulfil certain test criteria and that these do not place an unreasonable burden on applicants. Viability is not one of the tests. A decision maker can give appropriate weight to emerging policies. Where an applicant considers the development will not support the level of affordable housing required by policies on cost grounds, a viability assessment will be required and provided by the applicant at their cost. The viability assessment must be carried out by an independent, qualified assessor using methodology provided by RICS. The weight given to the assessment is a matter for the decision maker and should be informed by evidence of, for example, affordable housing need. The assessment should be proportionate, simple, transparent and publicly available. It can also be challenged by review. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies. There is a 'presumption in favour of sustainable development'. A 15-20% of gross development value may be considered a suitable return to developers in order to establish the viability of plan policies according to the 2012 guidance. It is not clear if corporate overheads should be allocated in this calculation or whether the 15-20% value is still applicable in the current RICS guidance.

It has been suggested that the build costs for new homes have increased and therefore the profitability of development is being squeezed. This opinion is generally stated by developer organisations, but is not supported by a CPRE Kent study on the notion that building more houses will make them genuinely more affordable, reproduced in full in Appendix 2. The summary conclusions are that it is housing market demand (rather than need) that drives affordability and that increases in house sales prices impact negatively on their affordability but enhance developer profits. The example of Persimmon is given, where profits per new build house have tripled between 2010 and 2021 based on their published financial results, but costs are relatively flat.



To assess if the CPRE analysis reflects the situation in Ringwood, an examination of Crest Nicholson (CN) PLC was carried out, only because CN own the Moortown Lane strategic site (SS13) and they are relatively open with the information that they publish. Their overall accounts are published in financial statements shown in Appendix 4. Their turnover and profits are not as high as the 'big four' mentioned by CPRE, but are still substantial. The average selling price (~£360k) and margin figures in 2021 suggest consistency with the 15-20% range.

We can assume that when they purchased the SS13 site for whatever they paid for it, their business case would have been financially sound. Peter Truscott (CEO, CN) appeared on the Radio 4 programme 'The Bottom Line' (https://www.bbc.co.uk/sounds/play/m0019kks) where he stated that financials break down into land 20-25%, margin 18-20% and the rest is construction, which presumably includes planning conditions. For viability to be negatively affected since land purchase, one or more of the following will apply: the construction costs have risen; the expected margin has risen; the expected sales price of the built houses has decreased in value; or there has been an addition of extra costs from planning conditions such as s106 agreements.

On general construction costs, Brexit and COVID-19 has caused some supply issues which in turn has led to variations in the price of certain raw materials. However, prices have now stabilised. Also, with the introduction of modern methods of construction and materials, the costs of higher energy performance homes have decreased. In their 2021 report, CN build costs dropped by over 9% last year due to the roll out of new designs with 30% of the private open market completions being these new house designs. The Climate Change Committee estimated that the cost of achieving Passivhaus standards would add less than £5k to the average construction cost of an average house (~100m^2 floor area) built to 2013 BR standards once the market had matured. The Group Planning Director at Persimmon suggested the cost would be between £10k and £12k, which was supported by the CEO of Barratt (they built a 'zero-carbon' estate), but the Technical Director of Melius believed that the purchasing power of the 'big four' would drive the cost down to £6k to £8k (http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/business-energy-and-industrial-strategy-committee/energy-efficiency/oral/98021.pdf). The Passivhaus Trust in 2019 estimated increased building costs to be 8% higher than 2013 BR (https://passivhaustrust.org.uk/UserFiles/File/research%20papers/Costs/2019.10_Passivhaus%20Costs(1).pdf). CN are planning to introduce more new designs, which could include Passivhaus standard designs, with the impact of the increase in performance standard offset by reduced materials/construction methods costs. It should also be noted that homes requiring less energy could attract premium pricing or be easier to sell. Some mortgage companies are offering 'green' mortgages where more capital is available as household outgoings are lower.

The other way that costs can be reduced is to not pay a high price for the site in the first place. CN and Taylor-Wimpey already own the two strategic sites in Ringwood Parish, so this is not applicable to them. However, a shrewd developer will have ensured their business case is sufficiently robust at time of purchase.

On margin, any increase in the CN margin over 20% would be contrary to policy and should be discounted in a viability assessment.

On the sales value of the built homes, a decrease here could seriously affect viability. However, the UK House Price Index (for September 2022, accessed 30th December 2022; https://www.gov.uk/government/news/uk-house-price-index-for-september-2022) give an average price in the South East region of £403,515, an increase of 10.3% (over £40k) since September 2021. New build prices have risen by 19.3% in England (figures for South East region not shown). So the expected sales prices suggest a windfall of at least £40k per average house. Note also that according to HM Land Registry figures (accessed 27th December 2022), the average house price last year in Ringwood was over £485k (so well above the South East region), with detached properties commanding an average of about £675k. In common with Beaumont Park and Taylor-Wimpey (SS14 developers), CN have indicated that they wish to build mostly detached housing at SS13 at least initially.

On planning conditions, NFDC Local Plan Part One policy HOU2 has a target of 50% of new homes in large developments being affordable. As this policy was already in place, it can be assumed that CN have taken this into account in their SS13 business plan. The RNP putative policy on First Homes requires a minimum 25% of new 'affordable homes' to be discounted within the 50% affordable provision, so 12.5% of new homes in a particular development. A simple simulation based on two house types in a development like the CN SS13 one is shown in Appendix 5. It shows that the First Homes policy will affect the profit margins negatively, but that the effect is relatively small. Comparison is made to the effect that the 10.3% increase in house prices, which is well over an order of magnitude larger and a windfall.

Policy HOU2: Affordable housing

There is a requirement for all new developments of 11 or more dwellings, or of more than 1,000 sqm gross internal area of residential floorspace, to provide affordable housing as follows:

i. In Totton and the Waterside area, the target is for 35% of new homes to be affordable housing.

ii. In the rest of the Plan Area, the target is for 50% of new homes to be affordable housing.

iii. The tenure mix target is to provide 70% of affordable homes for rent, split equally between social and affordable rent, and 30% intermediate or affordable home ownership tenures including shared ownership.

iv. Affordable housing provided should be indistinguishable in appearance from the market housing on site, and distributed evenly across the site.

The viability of development will be taken into account in applying this policy as set out in Policy IMPL1: Developer contributions.

A further indication that homes built in this area are not on a knife edge regarding viability comes from local developer Pennyfarthing. Their Potters Wood development in nearby Verwood is currently attracting a number of assistance schemes to help buyers afford their homes. The development contains a variety of 2, 3 and 4 bedroom semi-detached and detached new homes, and 1 and 2 bedroom apartments. This is a screen capture from their website accessed 30th December 2022:

These 'giveaways' are not without cost of course.

Note that the website also states that these "stunning new homes are selling fast" (https://www.pennyfarthinghomes.co.uk/site/potters-wood-new-homes-apartments-for-sale-in-verwood-dorset/).

Conclusion/Next Steps

It does not appear that viability is an issue for new build properties in Ringwood, mostly due to the high prices that Ringwood housing commands compared to other sites that have been developed by major developers. The additional costs of achieving Passivhaus standard can be offset to at least some extent by reduced costs of modern designs, may command a price premium and could be accessible to more potential buyers. The provision of 'affordable housing' reduces margins and the RNP putative policy for First Homes would impact margins further, but there is no evidence that this will significantly affect site development viability compared to other factors affecting viability such as increases in house prices.

It is expected that CN and Taylor-Wimpey will make further submissions regarding the strategic sites at Moortown Lane and the Elm Tree (SS13 and SS14) in the next few weeks. It is not expected that there will be viability assessments provided as part of the plans. If there are, it is expected that they will be published on the NFDC portal and this report may be modified based on what they contain.

Appendix 1 – Regulatory Landscape (National)

The National Planning Policy Framework (NPPF), under 'Planning conditions and obligations' (https://www.gov.uk/guidance/national-planning-policy-framework/4-decision-making), Section 55, states "Local planning authorities should consider whether otherwise unacceptable development could be made acceptable through the use of conditions or planning obligations. Planning obligations should only be used where it is not possible to address unacceptable impacts through a planning condition."

Section 56 states "Planning conditions should be kept to a minimum and only imposed where they are necessary, relevant to planning and to the development to be permitted, enforceable, precise and reasonable in all other respects." These are known as the '6 Tests'. (https://www.gov.uk/guidance/use-of-planning-conditions#Government-policy-on-use-of-conditions). Viability is not one of the tests. Agreeing conditions early is beneficial to all parties involved in the process and can speed up decision-making. Conditions that are required to be discharged before development commences should be avoided, unless there is a clear justification." Sections 100ZA(4-6) of the Town and Country Planning Act 1990 is referenced and requires the applicant's written agreement to the terms of a pre-commencement condition, unless prescribed circumstances apply (https://www.legislation.gov.uk/ukpga/2017/20/section/14#section-14-1).

Section 57 states "Planning obligations must only be sought where they meet all of the following tests: a) necessary to make the development acceptable in planning terms; b) directly related to the development; and c) fairly and reasonably related in scale and kind to the development." As an example, a 'section 106' agreement (under the Town and Country Planning Act (1990)) would be considered a planning obligation. Regulation 122(2) of the Community Infrastructure Levy Regulations 2010 is also referenced in this section (https://www.legislation.gov.uk/uksi/2010/948/regulation/122/made).

Section 58 states: "Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available."

National Planning Guidance (NPG) is provided by the Government on viability in plan making and decision taking (https://www.gov.uk/guidance/viability). It was last updated (as of 30th December 2022) in September 2019 and builds on the Harman Guidance from 2012. It includes guidance on how policy makers set policy requirements for contributions from development. It states that "These policy requirements should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of the Community Infrastructure Levy (CIL) and section 106. Policy requirements should be clear so that they can be accurately accounted for in the price paid for land. To provide this certainty, affordable housing requirements should be expressed as a single figure rather than a range. Different requirements may be set for different types or location of site or types of development."

The guidance also makes clear roles and responsibilities. For example, under 'How should site promoters engage in viability assessment in plan making?', it states: "Plan makers should engage with landowners, developers, and infrastructure and affordable housing providers to secure evidence on costs and values to inform viability assessment at the plan making stage. It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant. Policy compliant means development which fully complies with up to date plan policies. A decision maker can give appropriate weight to emerging policies. It is important for developers and other parties buying (or interested in buying) land to have regard to the total cumulative cost of all relevant policies when agreeing a price for the land. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Where up-to-date policies have set out the contributions expected from development, planning applications that fully comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage."

Under 'Viability and decision taking – Should viability be assessed in decision taking?', it states: "Where up-to-date policies have set out the contributions expected from development, planning applications that fully comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. Policy compliant in decision making means that the development fully complies with up to date plan policies. A decision maker can give appropriate weight to emerging policies. Such circumstances could include, for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force."

It is recognised that the consultation on the Levelling-up and Regeneration Bill opened on 22nd December 2022 (https://www.gov.uk/government/consultations/levelling-up-and-regeneration-bill-reforms-to-national-planning-policy/levelling-up-and-regeneration-bill-reforms-to-national-planning-policy). 'Chapter 3 – Providing certainty through local and neighbourhood plans' states: "Every local authority should have a simple, clear local plan in place to plan for housing delivery in a sustainable way for years to come. However, only around 40% of local authorities have local plans adopted within the past five years and the government is determined to change this. Plans can protect the important landscapes communities cherish, direct homes to the places local people prefer, give confidence to investors and businesses that they can grow, and secure the sorts of homes and neighbourhoods communities want to see, supported by clear design codes" and "It is right that the presumption in favour of sustainable development set out in the National Planning Policy Framework remains an important part of the planning system, to ensure that development comes forward where up-to-date plans are not in place." It is also proposed to boost the status of Neighbourhood Plans by, for example, "proposing additional protections for neighbourhood plans in circumstances where a local planning authority's policies for the area covered by the neighbourhood plan are out-of-date" and "Enabling communities with plans already in the system to benefit from changes". It is not clear yet how the Bill might affect viability assessments.

On First Homes, the NPPF has no direct reference. It does state "Local planning authorities should support the development of entry-level exception sites, suitable for first time buyers (or those looking to rent their first home), unless the need for such homes is already being met within the authority's area. These sites should be on land which is not already allocated for housing and should: a) comprise of entry-level homes that offer one or more types of affordable housing as defined in Annex 2 of this Framework; and b) be adjacent to existing settlements, proportionate in size to them" (not larger than one hectare or exceed 5% of the size of the existing settlement), "not compromise the protection given to areas or assets of particular importance in this Framework" (including National Parks), "and comply with any local design policies and standards."

'Annex 2' relates to the glossary where it states "Affordable housing: Housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers); and which complies with one or more of the following definitions: a) Affordable housing for rent: meets all of the following conditions: the rent is set in accordance with the Government's rent policy for Social Rent or Affordable Rent, or is at least 20% below local market rents (including service charges where applicable); the landlord is a registered provider, except where it is included as part of a Build to Rent scheme (in which case the landlord need not be a registered provider); and it includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision. For Build to Rent schemes affordable housing for rent is expected to be the normal form of affordable housing provision (and, in this context, is known as Affordable Private Rent). b) Starter homes: is as specified in sections 2 and 3 of the Housing and Planning Act 2016 and any secondary legislation made under these sections. The definition of a starter home should reflect the meaning set out in statute and any such secondary legislation at the time of plan-preparation or decision-making. Where secondary legislation has the effect of limiting a household's eligibility to purchase a starter home to those with a particular maximum level of household income, those restrictions should be used. c) Discounted market sales housing: is that sold at a discount of at least 20% below local market value. Eligibility is determined with regard to local incomes and local house prices. Provisions should be in place to ensure housing remains at a discount for future eligible households. d) Other affordable routes to home ownership: is housing provided for sale that provides a route to ownership for those who could not achieve home ownership through the market. It includes shared ownership, relevant equity loans, other low cost homes for sale (at a price equivalent to at least 20% below local market value) and rent to buy (which includes a period of intermediate rent). Where public grant funding is provided, there should be provisions for the homes to remain at an affordable price for future eligible households, or for any receipts to be recycled for alternative affordable housing provision, or refunded to government or the relevant authority specified in the funding agreement.”

Appendix 2 – CPRE report 'Laying the building myth to rest'

The Campaign for the Protection of Rural England (CPRE) report 'laying the building myth to rest' report from 5th May 2022 is shown in full below and is linked to the CPRE archive here: https://archive.cprekent.org.uk/planning/laying-the-building-myth-to-rest/

Laying the building myth to rest

And the build goes on… but it's not of much use to local people wanting a home
*In this concerning piece, **Richard Thompson**, CPRE Kent planner, spears the ridiculous notion that simply building more houses will make them more affordable. He highlights that this concept underpins the standard methodology for calculating housing, which, if left unchallenged, will lead to yet more sacrifice of greenfield land to unaffordable market housing without the needed delivery of truly affordable housing.*

An article published in the county's media as winter drew to its close highlighted the absurdity of government thinking that private-sector housebuilding alone would solve the housing affordability crisis.

The fact is, while ever-more houses are being built, the gap between house prices and earnings is still increasing, while much-needed affordable housing is simply not being built.

A stark example of this national policy failure at the local level can be found by looking in detail at the provision of affordable housing in the Canterbury district over the last 10 years.

Within Canterbury district, the average cost of a new-build dwelling has increased from £160,476 in September 2011 to £317,381 in September 2021. That's almost a doubling of prices in 10 years.

Unsurprisingly, this market price is not affordable for most Canterbury residents. In fact, Canterbury City Council itself considers an income of more than £75,000 would be required to buy a house at this price without assistance.

It believes this equates to only 2 per cent of the population of Canterbury. Or, put another way, 98 per cent of Canterbury residents cannot afford a new-build home on the open market in the district on their incomes alone. Assistance therefore comes via affordable home-ownership 'products' such as Help to Buy and shared-ownership schemes. These all fall within the formal planning definition of affordable housing as set out in the National Planning Policy Framework (NPPF). However, many of these affordable home-ownership products are still not actually affordable to most Canterbury residents.

The table below assesses each of the different affordable home-ownership products against the income required to afford them and then considers what percentage of the district would not be able to afford these products.

Affordable Home Ownership Options Scheme	Income Required	Households Unable to Afford (all households)	Households Unable to Afford (private renters)
Help to Buy: Equity Loan (20%)	£67,018	95%	98%
Help to Buy: Shared Ownership (50%)	£60,419	93%	97%
First Homes (30% discount)	£52,567	90%	94%
Help to Buy: Shared Ownership (25%)	£50,790	90%	93%
Rent to Buy (80% of median rent)	£23,323	32%	46%

Yes, you have read correctly – it is the council's own assessment that 98 per cent of Canterbury residents who currently rent are considered unable to afford the government's flagship Help to Buy: Equity Loan scheme. Across all the schemes, at best, only 54 per cent of current renters would be able to afford the 'cheapest' rent-to-buy route to home ownership.

For those left, the only option is to rent. However, paying open-market rents is deemed unaffordable for 45 per cent of households in Canterbury.

For this group, there are two types of rental products that fall within the formal planning definition of 'affordable housing'. The first is affordable rent, which in Canterbury is some 86-97 per cent of the cheapest market rents, *ie* not necessarily that affordable and subject to usual market price rises. The second is the social rent, which is set according to a complex formula but is typically between 50 per cent and 60 per cent of market rent. This is the cheapest route to accommodation and in Canterbury is about £435 a month.

It is unsurprising then that the council considers the most pressing affordable housing need for Canterbury is for the genuinely affordable social rent homes. It considers 231 social rent homes are now required a year. There is then a lesser need for affordable home-ownership products (156 required a year) and then affordable rent homes (77 required a year). In total that's 464 affordable homes required a year in Canterbury.

However, Canterbury City Council, like most Kent councils, does not generally build houses. Rather, the current model is that a developer is expected to use a small proportion of the financial gain it gets from a grant of planning permission to provide a certain number of affordable houses alongside the market houses it sells. In Canterbury, the target is that 30 per cent of all homes built should meet the NPPF planning definition of affordable (though until 2017 was set at 35 per cent for the Canterbury Urban Area).

So how many affordable homes have been provided in Canterbury under this model over the last 10 years? The next table sets out how many of each type of affordable house has been built over this period and quite clearly shows it to be nowhere near enough.

Year	Affordable rent	Affordable home ownership	Social rent	Total
2011/12	18	33	93	**144**
2012/13	10	53	58	**121**
2013/14	10	10	50	**70**
2014/15	40	0	0	**40**
2015/16	20	30	0	**50**
2016/17	38	10	0	**48**
2017/18	9	36	0	**45**
2018/19	19	37	0	**56**
2019/20	40	55	44	**139**
2020/21	35	22	0	**57**
Total	**239**	**286**	**245**	**770**

That's barely a current year's requirement of social rent homes built in total over the last 10 years. Amazingly, in six out of 10 years not a single social rent home was built. With an overall total of 6,097 new homes having been built within the Canterbury district across this period, that equates to 12.6 per cent affordable homes built across all types against the target of 30-35 per cent.

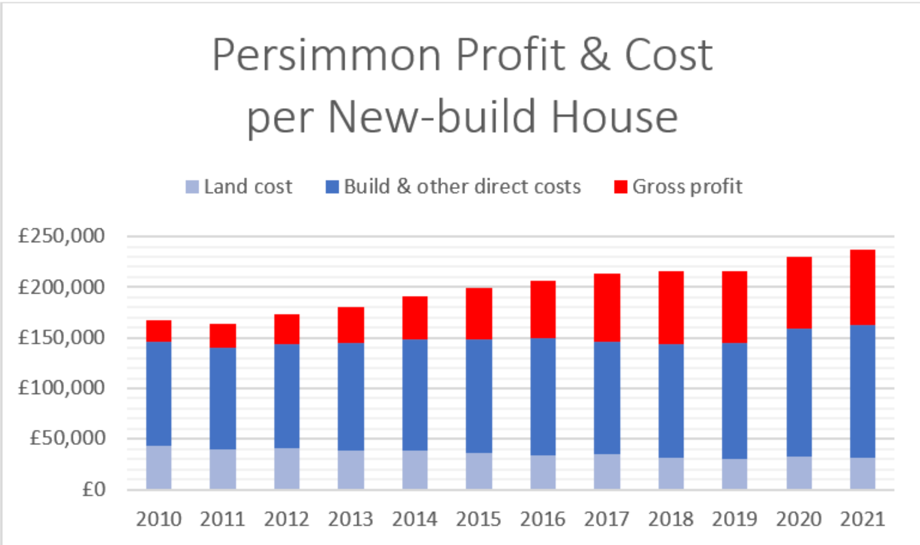
So why are the required affordable houses not being built by the development industry? For many, the main reason is that current government policies allow levels of affordable housing to be reduced if a development is not deemed 'viable'.

In the simplest terms, a development is not deemed viable if it can be demonstrated a developer would make a profit of less than 15-20 per cent once all set costs are accounted for. Significantly, one such set cost is an agreed premium to buy the land by the developer that is usually 20 times the existing value of the land though can be as much as 40 times! Added to this, the greater the perceived need for housing, the lower the ability of the council to negotiate, particularly if the council is subject to the 'tilted balance' presumption in favour of granting planning permission.

While the intricacies of viability appraisals are a topic of concern in themselves, the fact is housebuilder profits are soaring all the while the current system is not delivering affordable homes on the ground.

In 2021, when not a single social rent home was built in Canterbury, the four biggest UK housebuilders – Persimmon, Berkeley, Taylor Wimpey and Barratt Homes – reported pre-tax profits of £784 million, £504 million, £492 million and £264 million respectively.

If we delve into this a little deeper, we can see it is developer profit margins alone that have soared over the last 10 years, with the costs of buying development land and cost associated with physically building houses broadly staying the same. This can clearly be seen in the below chart taken from housebuilder Persimmon's 2021 financial results presentation dated March 2, 2022. The chart gives a total cost breakdown of an average Persimmon new-build home showing that the gross profit element has gone from accounting for £20,763 of the cost of a new-build house in 2010 to £74,481 per house in 2021. That's more than a tripling of profit margins.



Despite this, the development industry maintains the problem is simply that not enough homes are being given planning permission. The argument goes that if they were given more permissions to build more houses, then of course more affordable houses would be delivered and market housing would become more affordable.

While the above record in Canterbury suggests otherwise, this argument is flawed for other reasons.

For starters, it can be argued that there is already sufficient planning permission or land available to build on. In Canterbury, there is either an existing planning permission or an identified Local Plan land allocation for 12,334 new homes. Specifically with respect to affordable housing, as of March 2021, there were 1,757 social/affordable rental units with permission in the pipeline. This is more than double the number of affordable homes built in Canterbury over the last 10 years. Despite this, Canterbury has just failed the government's Housing Delivery Test for not building enough houses, meaning the district is now subject to the presumption that planning permission will be given even if in conflict with the adopted Local Plan. As has been pointed out by CPRE Kent, this is absurd.

There is also the small matter that housebuilders are quite simply not going to build at a level that over-supplies a local housing market, forcing them to reduce prices and lower profits.

The absorption concept was most recently highlighted by Sir Oliver Letwin in his government-commissioned independent review of buildouts. Here he found the *"fundamental driver of buildout rates once detailed planning permission is granted for large sites appears to be the 'absorption rate' – the rate at which newly-constructed homes can be sold into (or are believed by the housebuilder to be able to be sold successfully into) the local market without materially disturbing the market price".* Alongside this, there are practical constraints such as the current labour and materials shortages.

However, and perhaps most significantly, it is housing market demand rather than need that drives affordability. Currently this demand is being fed as much by monetary policy and financial markets as by physical shortages. Low interest rates and readily available mortgage credit, coupled with state assistance policies such as Help to Buy equity loans, are arguably allowing those already in the position to buy a house to offer ever more. They are often bidding against others in a similar position, pushing the market prices up in the process. Meanwhile, those not already in a position to buy get left even further behind.

So why does this matter?

At the superficial level, CPRE Kent and other similar organisations are often accused of denying local communities much-needed housing when we object to yet more greenfield land being lost to market housing. Taking the Canterbury example, however, the council itself is accepting the new-build market housing dominating the supply is simply not affordable to most existing residents in the district. For those existing residents, they are losing greenfield land important to them to satisfy a wider market demand rather than for their direct benefit.

At the far more important level, though, this matters because the government's current standard method for calculating how many houses a district needs is linked directly to housing affordability within that district. That is, the bigger the gap between new-build house prices and median earnings in a district, the higher the housing number for that district is. And the government rationale for this is that by building more houses, the cost of housing will come down…

This problem is increasingly urgent. The government affordability data are released on an annual basis, with the 2022 data due on March 23, just before we went to print. On release of these data, housing targets for each council can change overnight. With it reasonable to assume that the gap between house prices and earnings is likely to have widened over the last year for much of Kent, the consequences for the county could be dire.

The need to revisit the standard methodology for calculating housing is urgent. The need to rethink how we deliver truly affordable housing in a way that doesn't sacrifice greenfield land to bolster developer profits is arguably even more urgent.

‘Affordable housing’ schemes

The formal planning definition of affordable housing is set out in Annex 2 of National Planning Policy Framework (NPPF) and, at almost 500 words long, is rather complicated and hard to understand.

The below non-exhaustive list, however, sets out the most popular schemes that currently fall within this formal planning definition of affordable housing:

Type or tenure	Description
Social rent	These properties are provided by local authorities and some registered providers. The rent for these properties will be set at a level dictated by the national rent regime. Social rented properties are the most affordable and what people usually understand as being meant by ‘council housing’.
Affordable rent	These properties are provided by local authorities and registered providers and are subject to a control that in theory requires the level to be no more than 80% of local market rent. In practice and, as demonstrated in Canterbury, this is not always the case.
Shared ownership	Previously known as ‘part buy, part rent’, households buy a share of the property and the remaining share is rented. In time, future shares can be purchased and the property could be bought outright/subsequently sold at market rates (though some restrictions might apply in very limited circumstances).
Shared equity	The applicant purchases a share in the property and no rent is paid on the remaining share, but the purchaser is able to buy further shares in the property until it is owned outright. The house can subsequently be sold at market rates.
Help to Buy equity loan	The government provides households with an interest-free loan of 10% or 20% of the cost of a new home for a period of five years; purchasers require a mortgage and at least a 5% deposit. The house can subsequently be sold at market rates
First Homes	First Homes is a new scheme designed to help local first-time buyers and key workers on to the property ladder by offering homes at a discount of 30% compared with the market price. It is intended that the discounts will apply to the homes forever.
Build to Rent and Rent to Buy	These properties are usually built as blocks of flats. The property is rented for a set period during which time the tenant saves enough for a deposit to purchase the property at the end of the rental term.

References

[1] www.kentonline.co.uk/kent/news/32-per-inch-who-are-pricey-kent-new-builds-for-261858/
[2] UK House Price Index – HM Land Registry Open Data
[3] Canterbury City Council Housing Needs Assessment 2021 – https://drive.google.com/drive/u/0/folders/1BCdWC6ME7X_b6szgA1E5knDlsta1ooTY

[4] again taken from the September 2021 Canterbury Housing Needs Assessment
[5] See – https://lichfields.uk/media/6509/fine-margins_viability-assessments-in-planning-and-plan-making.pdf
[6] Canterbury Authority Monitoring Report 2020-2021
[7] Sir Oliver Letwin's final report – www.gov.uk/government/publications/independent-review-of-build-out-final-report

Appendix 4 – Crest Nicholson PLC (CN) Financial Reports

The screen prints below are taken from CN 2021 and 2017 financial statements (https://www.crestnicholson.com/pdf/media/reports/financial/2021/120-reports-media-item.pdf and https://www.crestnicholson.com/pdf/media/reports/financial/2016/54-reports-media-item.pdf).

	2021	*2020*	*2019*	*2018*	*2017*	*2016*	*2015*	*2014*	*2013*	*2012*
Revenue (£ M)	787	678	1068	1121	1043	997	805	636	526	408
Gross profit (£ M)	167	108	202	247	275	266	221	182	141	112
Gross profit margin (%)	21	16	19	22	26	27	27	29	27	27
Selling price (£ k)	359	336	388	396	388	369	311	287	250	230

	Note		2021[1]	2020[1]	2019[2]	2018[3]	2017[4]
Consolidated income statement							
Revenue		£m	786.6	677.9	1,086.4	1,121.0	1,043.2
Gross profit		£m	166.7	107.7	201.9	246.9	274.9
Gross profit margin		%	21.2	15.9	18.6	22.0	26.4
Administrative expenses		£m	(51.1)	(50.3)	(65.5)	(64.9)	(63.3)
Net impairment losses on financial assets		£m	(1.0)	(0.3)	(3.4)	–	–
Operating profit before joint ventures		£m	114.6	57.1	133.0	182.0	211.6
Operating profit before joint ventures margin		%	14.6	8.4	12.2	16.2	20.3
Share of post-tax profit/(loss) of joint ventures		£m	1.7	(0.5)	(0.9)	(1.3)	3.7
Operating profit after joint ventures		£m	116.3	56.6	132.1	180.7	215.3
Operating profit after joint ventures margin		%	14.8	8.3	12.2	16.1	20.6
Net finance expense		£m	(9.1)	(10.7)	(11.0)	(12.0)	(8.3)
Profit before taxation		£m	107.2	45.9	121.1	168.7	207.0
Income tax expense		£m	(19.9)	(8.5)	(23.7)	(32.1)	(38.4)
Profit after taxation attributable to equity shareholders		£m	87.3	37.4	97.4	136.6	168.6
Basic earnings per share		Pence	34.0	14.6	38.0	53.3	66.1
Consolidated statement of financial position							
Equity shareholders' funds	1	£m	901.6	825.3	854.4	872.7	817.8
Net cash	2	£m	(252.8)	(142.2)	(37.2)	(14.1)	(33.2)
Capital employed closing		£m	648.8	683.1	817.2	858.6	784.6
Gearing	3	%	(39.0)	(20.8)	(4.6)	(1.6)	(4.1)
Land creditors		£m	222.9	205.7	216.5	209.7	215.6
Net (cash)/debt and land creditors	4	£m	(29.9)	63.5	179.3	195.6	182.4
Return on average capital employed	5	%	17.2	7.6	15.9	22.2	29.7
Return on average equity	6	%	10.1	4.5	11.3	16.6	21.9
Housing							
Home completions	7	Units	2,407	2,247	2,912	3,048	2,935
Average selling price – open market	8	£000	359	336	388	396	388
Short-term land	9	Units	14,677	14,991	16,960	19,507	16,260
Strategic land	10	Units	22,308	22,724	20,169	16,837	18,174
Total short-term and strategic land		Units	36,985	37,715	37,129	36,344	34,434
Land pipeline gross development value	11	£m	11,834	11,360	12,137	12,166	11,736

	Note		2016	2015	2014	2013	2012
Consolidated income statement							
Revenue		£m	997.0	804.8	636.3	525.7	408.0
Gross profit		£m	265.8	221.3	182.0	141.2	111.8
Gross profit		%	26.7	27.5	28.6	26.9	27.4
Operating profit before joint ventures	1	£m	203.8	163.3	128.1	97.1	73.3
Operating profit before joint ventures	1	%	20.4	20.3	20.1	18.5	18.0
Share of post-tax (loss)/profit of joint ventures		£m	(0.7)	0.2	-	-	(1.8)
Operating profit after joint ventures	1	£m	203.1	163.5	128.1	97.1	71.5
Net finance expense		£m	8.1	9.5	11.4	10.3	9.4
Profit before taxation	1	£m	195.0	154.0	116.7	86.8	62.1
Income tax (expense)/income		£m	(38.2)	(29.9)	(17.9)	(15.3)	1.8
Profit after taxation attributable to equity shareholders	1	£m	156.8	124.1	98.8	71.5	63.9
Basic earnings per share	1	Pence	62.0	49.3	39.3	29.4	N/A
Consolidated statement of financial position							
Shareholders' funds		£m	719.2	630.7	536.5	470.3	347.1
Net (cash)/borrowings		£m	(77.0)	30.6	19.3	(42.5)	30.3
Capital employed closing		£m	642.2	661.3	555.8	427.8	377.4
Gearing		%	(10.7)	4.9	3.6	(9.0)	8.7
Return on average capital employed	2	%	31.3	26.8	26.0	24.1	20.7
Return on average equity	3	%	23.2	21.3	19.6	17.5	20.2
Housing							
Units completed		Units	2,870	2,725	2,530	2,172	1,882
Average selling price – open market		£000	369	311	287	250	230
Short-term land		Units	15,901	16,064	17,247	16,388	16,959
Strategic land		Units	17,026	17,712	16,219	14,325	12,623
Land pipeline gross development value		£m	10,646	10,466	9,342	7,672	6,799

1 2013 figures before exceptional costs of £5.9m in connection with the IPO in February 2013.
2 Return = operating profit before joint venture results and exceptional costs.
3 Return = profit after taxation and before exceptional costs.

The 2021 report also notes that new house designs have enabled a reduction in "total average build cost per square foot by over 9%" (with 30% of the private open market completions being new house designs). Note that these new designs provide a higher environmental performance standard ('Future Homes Standard ready').

£25.4M was spent on social infrastructure (combined s106 and Community Infrastructure Levy (CIL)) payments.

On 'affordable homes', CN completed 483 out of a total home completion figure in 2021 of 2,407, so 20%, with a lower revenue contribution of about 11% as shown below.

Revenue type	2021 £m	2020 £m
Open market housing including specification upgrades	654.7	581.8
Affordable housing	78.7	76.6
Total housing	**733.4**	**658.4**
Land and commercial sales	49.2	17.8
Freehold reversions	4.0	1.7
Total revenue	**786.6**	**677.9**

Land and commercial sales include revenue of £42.3m from the sale of the Longcross Film Studio to our joint unincorporated arrangement partner on that scheme. Commercial sales are immaterial in each year.

Appendix 5 – Crest Nicholson (CN) SS13 Simple Simulation

This is an extremely crude calculation from someone who isn't a Chartered Surveyor.

- Assume the CN development is 500 houses, 300 'Big Houses' at average an open market value £500k and 200 'Small Houses' at an open market value of £350k (this makes the maths easier).
- Assume the profit on open market is 30%, so £115k profit on the Big Houses and £81k on the Small Houses.
- The cost before profit of a Big House is therefore £385k & of a Small House is £269k.
- Assume profit on 'affordable' is 10% and half of each house type are 'affordable'.
- Apply NFDC 50% affordable housing as Policy HOU2.

Profit calculation:

On the Big Houses:
Open market: 150 homes x £115k profit = £17.25M
Affordable: 150 homes x £38.5k profit = £ 5.78M
On the Small Houses:
Open market: 100 homes x £81k profit = £ 8.10M
Affordable: 100 homes x £26.9k profit = £ 2.69M
Total profit = £33.82M

This is at the 20% end of the "15-20% of gross development value".

Now assume Policy R6: 'First Homes' applies, so 25% of the affordable homes are discounted to £250k, but these have to be the Small Houses, as they have to have a sales price of £250k.

On the Big Houses:
Open market: 150 homes x £115k profit = £17.25M
Affordable: 150 homes x £38.5k profit = £ 5.78M
On the Small Houses:
Open market: 100 homes x £81k profit = £ 8.10M
Affordable: 37 homes x £26.9k profit = £ 1.00M
First Homes: 63 homes x £19k loss = £ 1.20M
Total profit = £30.93M

So, the downside is a £2.89M lower profit, but it is still >18% profit overall.

Compare the profit reduction to the windfall profit of due to 10.3% increase in house values in South East according to HM House Price Index figures (for September 2022, accessed 30th December 2022; https://www.gov.uk/government/news/uk-house-price-index-for-september-2022) with new house prices rising by 19.3% in England. Using the 10.3% figure, each open market Big House would increase in value by £51.5k giving a windfall of £7.72M for that category alone.