

# CONSULTATION RESPONSE



**Bridgend LDP Examination – Affordable Housing**

**6/11/2012**

**Qn1a. Has the LHMA update addressed the Welsh Government concerns?**

We have issues with the LHMA update, particularly with respect to the sensitivity analysis. These are covered within our response to the Matters and Issues agenda issued for the Housing Need and Supply session.

**Qn1k. Increased housing development costs derived from raised sustainability costs and fire sprinkler installation will apply to all housing developments across Wales. What if any account should be taken of such costs on the viability assessment and associated targets for provision?**

Since our Deposit representations on this matter, there has been additional evidence provided by the Welsh Government on the cost and impact of the proposed legislation. We summarise this new evidence and its potential impact on affordable housing delivery in Bridgend below.

In July of this year, the Welsh Government released a consultation on the proposed changes to Part L of Building Regulations in Wales. The consultation sets out the Welsh Government's proposed direction on changes to Part L and also includes information on the introduction of fire sprinklers. An examination of the cost and impact on land values was also included within the consultation.

In light of the above, we are now in a position to update our viability analysis, in order to take account of the Welsh Government's new evidence. However, before we do this, we believe it is important to understand how the Welsh Government envisages the implementation of the proposed legislation and the consequent impact on development viability and affordable housing delivery.

We have enclosed the Part L consultation information with our response for ease of reference.

## The impact on affordable housing delivery

In terms of viability and deliverability, the *Cumulative Impact of Policies* section under paragraph 3.3 of Section 1 of the Part L consultation documentation, contains a section on viability modelling. In this respect, paragraph 95, fifth bullet point, states “*Higher construction costs are likely to be accommodated in higher land value areas (Cardiff, Newport, Swansea) for both the 25 and 40% improvement through realistic reductions in planning contributions, developers profit and/or the land value paid to the land owner.*” Essentially, this paragraph suggests that high values areas could accommodate the proposed changes, if planning obligations are reduced and developer profits/land values are reduced. Therefore it is clear the Welsh Government is expecting a significant reduction in land values and other section 106 requirements in order to deliver the proposed changes.

However, given that this is the approach the authority is taking to set challenging affordable housing targets in the LDP, and also given that the proposed changes are being brought in through building regulations (which therefore cannot be negotiated), there would seem to be very little scope for the Council to make any alterations to land values or other planning obligations, in order to deliver the proposed levels of affordable housing, when these changes are introduced.

In addition to the above, the Welsh Government’s consultation information states that, in the quest to understand how the proposed regulation changes can be deemed viable and deliverable, the delivery of affordable housing has been used as a ‘variable’ within their own viability analysis. In this respect, as a result of this viability analysis, the sixth bullet point under paragraph 95 of Section 1 of the Part L consultation documentation states that, in addition to **no contribution to affordable housing** a reduction in developers profit or land value would be required if the development was to be considered viable.

In light of this, you can see that the Welsh Government also expects affordable housing contributions within local authorities to be reduced, in order to deliver the proposed changes.

We believe the issues described above will have fundamental implications for the delivery of affordable housing in Bridgend and hence the delivery of the LDP affordable housing target. We would be interested to hear the Council's views on this.

### **Updated viability analysis**

As we have stated above, the Welsh Government has provided information on the cost of achieving the proposed changes to building regulations and fire sprinklers through their recent consultation. As such, we are now in a position to update our viability analysis undertaken at the Deposit stage, to include this additional evidence on costs. This is described in detail below.

#### **a) Assumed cost of the proposed changes to Part L of Building Regulations and Fire Sprinklers**

In terms of these costs, there are several pieces of information provided in various parts of the Part L consultation documentation that provide information on potential additional construction costs for the proposed changes. However, perhaps the most useful indication of costs is provided in Table 3.2 (repeated below), which provides an indication of the likely cost of the changes to Part L for different dwelling types, in addition to an average cost per dwelling.

**Table 3.2: Increases in capital costs**

	<b>Mid terrace house</b>	<b>End of terrace house</b>	<b>Detached House</b>	<b>4-storey apartment block</b>	<b>Average cost per dwelling</b>
25% reduction	<b>£2,000</b>	<b>£3,000</b>	<b>£5,100</b>	<b>£1,800</b>	<b>£3,300</b>
40% reduction	<b>£2,800</b>	<b>£3,900</b>	<b>£6,600</b>	<b>£2,300</b>	<b>£4,200</b>

In light of the above, for the purposes of our updated assessment, we will use the average cost per home for each proposed building regulation change i.e. 25% and 40%.

In addition to the cost of building regulations, it will also be necessary to make an assumption of the cost of installing fire suppression systems, which mirrors the methodology used in the viability analysis undertaken by the Welsh Government.

In terms of the requirement for sprinklers, if you study Table 3.4 of Section 1 of the Part L consultation documentation, the cost of sprinklers has been assumed as being £3075 per dwelling. Therefore, and given this is also an average cost, it will be appropriate to include this within our updated viability assessment, in order to arrive at an approximate overall cost for the changes as proposed.

In light of the information above, a summary of the costs we have used in our updated assessment is provided below.

#### **Average additional cost to development**

- 25% change to Part L - £3,300
- 40% change to Part L - £4,200
- 25% plus sprinklers - £6,375
- 40% plus sprinklers - £7,275

#### **b) Site abnormals and remediation**

Within our original viability analysis, we stated that it was necessary to include a cost for site remediation and abnormals. However, we are now in a better position to substantiate our cost assumptions used within the original assessment.

We recently undertook a consultation exercise within our membership to try and ascertain the appropriate cost to assume for site remediation and abnormals within our updated viability assessment. From this consultation exercise, we received a number of examples of the costs associated with site remediation and addressing abnormal constraints. Some of the costs we received were estimates, whilst others were actual costs taken from recently developed sites in Wales. In terms of figures,

the costs ranged from 115k per acre for more straightforward sites, to over 400k per acre for more difficult sites. On average however, from the list of sample sites that were provided and from the comments we received, the cost of remediation and addressing abnormal constraints was considered to be approximately £220k per acre. A list of the sample sites and costs received as a result of our exercise is provided within Appendix 1.

Further to the above, we also received reports from Intégral Géotechnique and Arup outlining a summary of the typical costs of remediating sites in Wales. We enclose a copy of both reports in Appendices 2 and 3. As you can see from these reports, the organisations are professional consultancies that specialise in site remediation and the redevelopment of housing sites. Both organisations have extensive experience and expertise in developing land in many areas of Wales for a variety of different clients and therefore, we have no doubt that the cost estimates provided within these reports are robust and accurate. In terms of figures, as you can see from the reports the typical costs provided for site remediation and addressing abnormal constraints ranged from between £175k per acre and £325k per acre, which on average works out at £250k per acre. However, it is evident from the advice given within the reports that due to topography and the general nature of development sites in Wales, the actual costs could be well in excess of the figures quoted. As such, we believe this should be considered a conservative estimate.

In light of the evidence above, when the costs are considered in detail, along with the various caveats provided and the comments on the nature of developable land available in Wales, we believe a reasonable average cost to assume for remediating sites and addressing any abnormal constraints would be £250k per acre or £617,500 per hectare. As such, we believe this more than substantiates the cost we have used within our original viability assessment.

### **c) TAN 22 Sustainable Buildings Standard**

In addition to the costs above, it will also be necessary to make an assumption for the costs associated with developing to the Welsh Government's Sustainable Buildings Standard set out by TAN 22. This will be necessary as the build costs

within the Three Dragons Toolkit do not include an assumption for achieving this standard. In addition to this, the WG's viability analysis also assumes a cost for this, which is set out as follows:-

- £5,000 per detached dwelling
- £4,000 per terraced dwelling
- £2,500 per apartment dwelling
- Average - £3833 per dwelling

As such, we have used the average cost within our updated assessment of £3833 per dwelling, in line with the Welsh Government's assumptions.

#### **d) Sustainable Urban Drainage Systems**

Given the requirement for Sustainable Urban Drainage on virtually all development sites in Wales, we believe it is also important to provide an assumption for the cost of installing SUDS solutions on development schemes within the updated viability assessment. Again, we have taken advice from the Welsh Government's viability analysis on this and assumed an average cost of £500 per dwelling. However, our members believe the actual costs can be a lot higher than this and therefore, this cost assumption should be considered a very conservative estimate.

#### **e) Other Section 106 requirements**

This assumption has been assumed as £5,000 per plot, as per the original assessment.

### **Results of the updated exercise**

In light of the exercise above, the results and conclusions are described below.

The graphs within the Appendix 4 below display the impact on residual land values within the authority, at varying affordable housing percentages, when the above exercise is undertaken.

You will see from the graphs that a significant number of the areas tested displayed negative residual land values, at all proposed regulation change options and in some cases without any contribution to affordable housing. In light of this, it is abundantly clear that reducing land values or affordable housing percentages in order to make housing development viable would not be an option.

Further to the above, it is clear that only the very high land value areas would be able to sustain any credible level of affordable housing, however, we believe even in these areas a 30% target would not be supported. In terms of Bridgend and Pencoed, clearly a 20% target would render nearly all development unviable and for the remaining areas, the prospect for affordable housing delivery is dire to say the least.

In light of the above, we believe our updated viability assessment clearly demonstrates that the proposed regulations would have a severe detrimental impact on land values and the delivery of affordable housing in many areas of the authority. As these changes are being brought in through building regulations, there will be no opportunity to negotiate their impact on the land value on an area specific basis and as such, the impact would be indiscriminate. This effectively means that the authority will have absolutely no means to devise a strategy to offset these proposals in order to ensure housing delivery, including affordable housing delivery, is supported.

We understand the council's concerns with respect to setting an affordable housing target at nil, however, the implications of these new regulations cannot be ignored and will clearly have a detrimental impact on land values and development viability in the authority. Therefore, we believe the LDP must carefully consider these issues, as it is likely that the delivery of affordable housing will be significantly affected, particularly in the lower value areas, when these changes are introduced.

**Qn11. Having regard to both site remediation costs and alternative use values, should the policy distinguish between greenfield and brownfield sites in respect of the target provision of affordable housing, or can that be suitably addressed by negotiation at the planning application stage?**

We believe it would be helpful to recognise that some sites will require additional costs with respect to development and there will always be situations where development costs on sites could be lower than we anticipate through our research. However, given the extent of the impact on land values, particularly when the proposed changes to building regulations are introduced, it will be difficult to envisage there being any meaningful scope to significantly alter land values in order to make sites viable.

### **Further concerns with the affordable housing targets**

We thought it important to reiterate that, in addition to our work on development viability, we have raised separate concerns with the Deposit LDP affordable housing targets, which are detailed within our Deposit reps. However, we do not wish to repeat these concerns here.



## Appendix 1

### **Evidence from HBF members on the average cost of remediating sites and addressing abnormal constraints**

#### **Developer no.1**

- Site 1 - A former steelworks - £263k per acre.
- Site 2 – Industrial site without contamination - £130 per acre.
- Site 3 - Site in Aberdare including raising site - £205k per acre.
- Site 4 - Site in the Vale of Glamorgan - approx £400k per acre.
- **Average £250k per acre**

#### **Developer no.2**

##### **Sites are relatively straightforward and some have benefited from prior remediation**

- Site 1 - Park Road - £115k per acre
- Site 2 - Bagworth - £134k per acre
- Site 3 - Cleobury Mortimer - £147k per acre
- Site 4 - Yately - £169k per acre
- Site 5 - Humberstone - £227k per acre
- **Average - £159 per acre**

#### **Developer no.3**

- £250k per acre is reasonable

#### **Developer no.4**

- Site 1 – Former factory, contaminated site - £439335 per acre
- Site 2 – Sloping site, largely made ground - £192908 per acre
- Site 3 – Sloping greenfield site - £164500 per acre
- **Average - £265581 per acre**

## Appendix 2

### **Evidence to support the estimated cost of remediating sites and addressing abnormal constraints**

#### Report from Arup

Your ref  
Our ref  
File ref

# ARUP

#### ***By Post & Email***

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For the attention of Richard Price

Dear Sir

#### Brownfield Sites - Remediation/Reclamation Cost Estimates

Along with Integrale Geotechnique we have been approached by a number of major house builders in South Wales to confirm to you typical costs for the remediation/reclamation works on brownfield sites.

Arup has been involved in the remediation and redevelopment of many of the brownfield sites in South Wales. We have assisted a number of clients e.g. BP, ABP, Welsh Development Agency, in the investigation and development of remediation strategies for approval by the relevant Authorities; subsequently the detailed design, construction supervision and validation of the remediation works. Many of these sites have been or will be developed for housing such as Rhoose Point, Waterfront, Barry, Coed D'Arcy, Maesteg Washery and Llanilid.

We have successfully developed remediation proposals to address various types and quantities of contamination using appropriate methods agreed with the regulatory authorities.

Due to this variation in the nature of the contamination methods used the consequent cost varied from site to site. This cost was also affected by the size of

the site (smaller the site, the higher the cost per acre), the historic use of the site and the risk posed to the environment. Reclamation/remediation costs for sites where residential development was proposed were generally higher than for other uses, particularly where domestic gardens were proposed.

As such, from our experience, the reclamation/remediation costs, including demolition of disused buildings varied between typically £100K to £250K per acre. In exceptional circumstances with highly contaminated sites the remediation costs could exceed £250K/acre.

The above costs do not include for special measures to be incorporated by the developer to address the specific ground conditions. Based on an average of 15 units per acre, a typical cost per acre for these abnormalities would be circa £75K. This covers raft foundations at £2,500 per unit extra over normal strips, £750 per unit for gas barrier in the slab and importation of 600mm thick clean subsoil/topsoil in the gardens.

Therefore, the total cost of remediation/reclamation works and developers abnormalities for development of brownfield sites for housing would be circa £175K to £325K per acre.

If you require further clarification or information please contact us. Hopefully the above provides a reasonable guide.

Yours faithfully



Bob Irvine

Director

**Appendix 3**

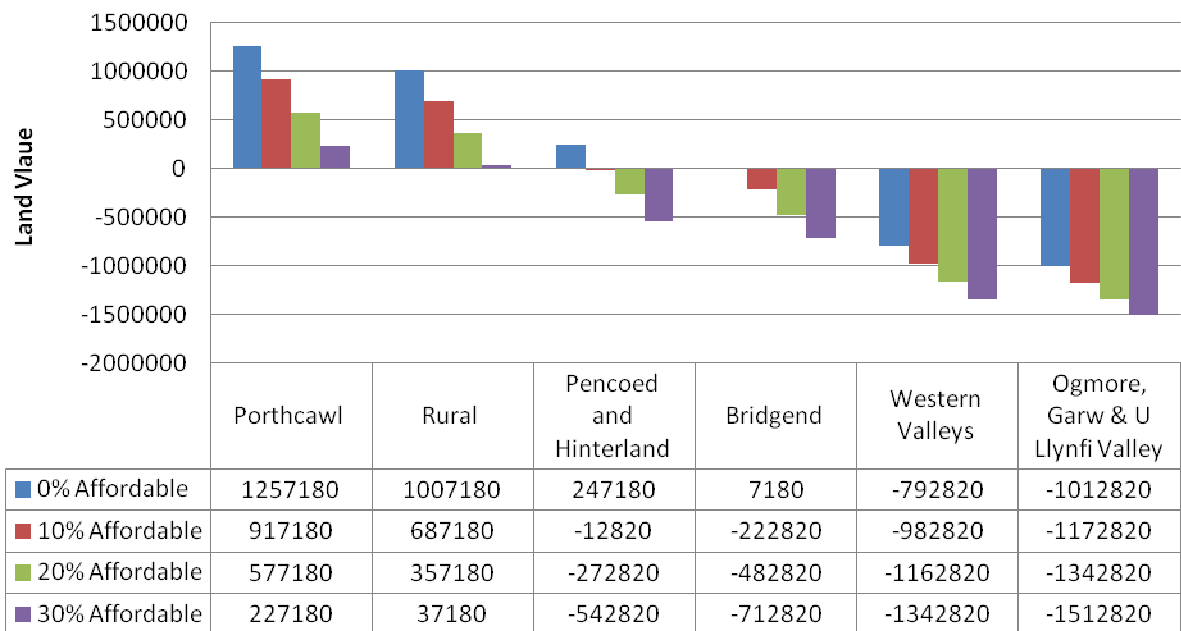
**Evidence to support the estimated cost of remediating sites and addressing  
abnormal constraints**

**Report from Integrale Geotechnique**

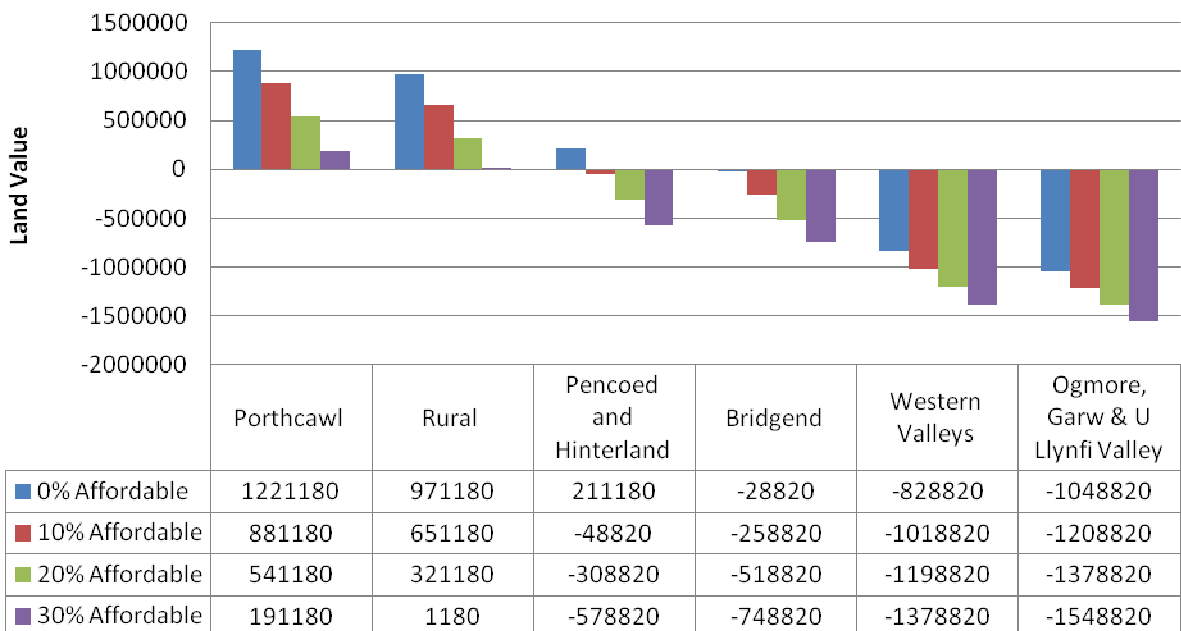
**Provided separately as a PDF**

## Appendix 4

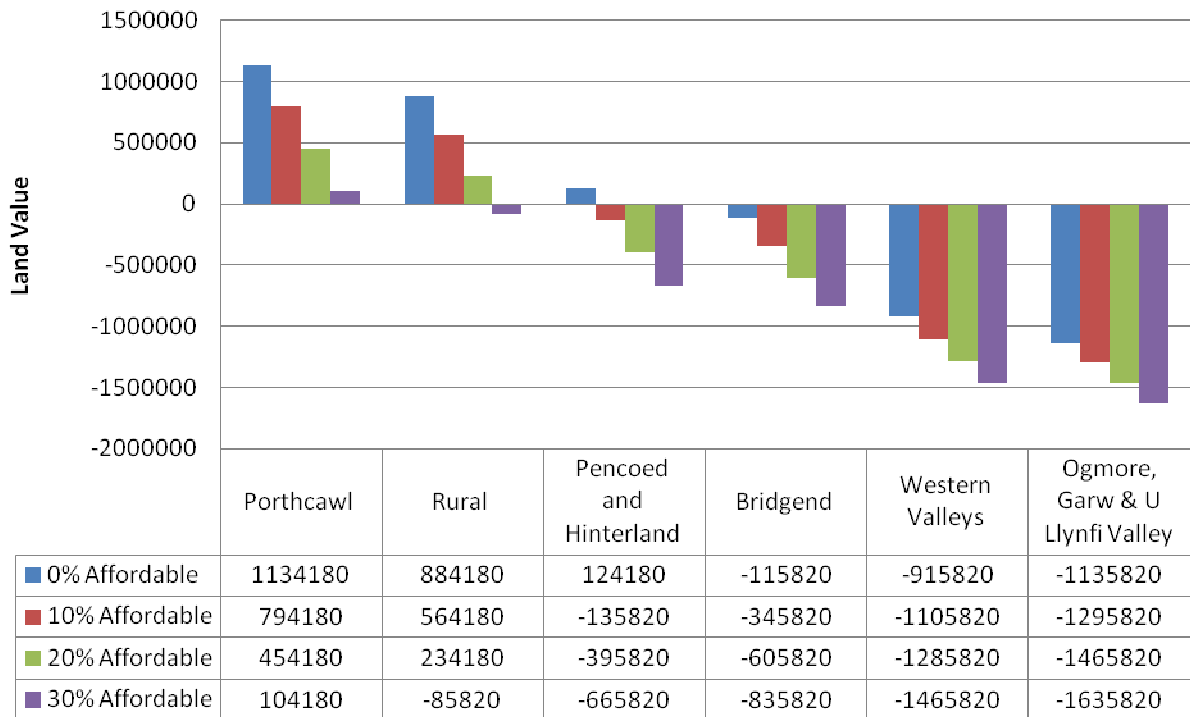
### Bridgend residual values with 25% improvement



### Bridgend residual values with 40% improvement



## Bridgend residual values with 25% plus sprinklers



## Bridgend residual values with 40% plus sprinklers

