

Inspectors' Matters, Issues and Questions – April 2022

Matter 4: Is the Plan's approach to the contributions expected from development supported by robust viability assessment so that it can be demonstrated that they do not undermine the deliverability of the Plan?

Issue (i) Are issues of development viability recognised adequately by the Plan and its evidence base? Has a final viability assessment been undertaken for the content of the Plan as a whole which supports the deliverability of the plan objectives in a manner consistent with national policy?

1. Does the Plan clearly set out the contributions expected from development⁴⁸?

Council Response:

- 4.1. Yes, in accordance with NPPF paragraph 34 the Plan clearly sets out the contributions expected from development.
- 4.2. NPPF paragraph 34 states: *Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.*
- 4.3. Strategic Policy H11.1 Housing Choice sets out the contributions expected towards affordable housing.
- 4.4. Strategic Policy CC2.1 Promoting sustainable design to mitigate and adapt to climate change and Policy CC2.2 "promoting sustainable design to mitigate and adapt to climate change" refer to achieving the relevant minimum carbon reduction targets on site (CC2.2(c)) and states that only where the carbon target cannot fully be achieved on site, carbon shortfalls are to be provided by a cash in lieu contribution to Merton's carbon offset fund.
- 4.5. Policy IN14.3(d) Re. On site play provision, requires major residential development likely to be used by children and young people to provide on site play spaces. This is in accordance with the London Plan policy S4(B)(2), which requires the same for residential development likely to be used by children and young people.
- 4.6. Policy O15.2(d) Re. Open space provision, requires the creation of new publicly accessible open space as part of major development proposals in locations that are deficient in access to public open space and support the creation of new publicly accessible open space in all developments, where suitable and viable.
- 4.7. This is in accordance with London Plan policy G4(A)(3) which states "Development Plan should: promote the creation of new areas of publicly-

⁴⁸ Per paragraph 34 of the Framework

accessible open space particularly green space, ensuring that future open space needs are planned for, especially in areas with the potential for substantial change”.

- 4.8. This policy uses the local evidence of the Green Infrastructure Study (Document 15D1), which identifies areas within the borough that are deficient in access to public open space.

2. How did the Council engage with landowners, developers and infrastructure and affordable housing providers to secure evidence on costs and values⁴⁹ to inform the Plan’s supporting viability evidence⁵⁰?

Council Response:

- 4.9. The council secured evidence on costs and values directly from landowners and developers by using the information they provided in their own Financial Viability Assessments for planning decisions and other published information.
- 4.10. Information provided by landowners for the purposes of assessing local plan viability may be viewed with a degree of scepticism, as adoption of new or amended planning policies may directly impact on the returns they receive for land. Consequently, landowners may promote pessimistic assumptions in order to engineer poorer viability outcomes than would normally be the case with more reasonable inputs.
- 4.11. The best source of information on costs and values is therefore published sources which are verified and collated in a neutral manner. The council’s consultants, BNPPRE, collected and analysed all completed residential sales transactions (350 new build transactions and 825 transactions of existing properties) over a three year period to June 2020. The transactions were all adjusted by applying the change in the Land Registry House Price Index between the point of sale and the date of analysis to bring them up to date.
- 4.12. Similarly, commercial lettings were sourced from CoStar, which collects data on 96% of transactions of commercial floorspace across the UK.
- 4.13. Costs were sourced from the RICS ‘Building Cost Information Service’ (BCIS) as recommended by the Planning Practice Guidance.
- 4.14. Other revenues and costs (affordable housing values, professional fees, finance costs, marketing costs, profit) were informed by the amounts assumed in Financial Viability Assessments relating to live planning applications across the capital (totalling circa 450 separate assessments submitted over a two-year period).

⁴⁹ Per ‘Viability’ PPG Paragraph: 006 Reference ID: 10-006-20190509

⁵⁰ Including 11D7, 2D47 and 11S14

4.15. All of the inputs to Merton's Local Plan Housing Viability Study (11D7) were set out in detail in Section 4 of the report and this was included as part of the evidence base supporting the Regulation 19 consultation and stakeholders have therefore had an opportunity to review and comment on the study and its findings.

3. Are the site typologies set out in supporting viability evidence clear, and has a sufficient range of site typologies been considered?

Council Response:

4.16. Yes, the site typologies set out in supporting viability evidence are clear and has considered a sufficient range of site typologies.

4.17. The process for selecting development typologies is outlined in paragraphs 4.2 to 4.8 of the Viability Study (Document [11D7](#)). In summary, the council's consultants BNPPRE considered the characteristics of (a) schemes providing 20 or fewer units consented between 2010 and 2019; (b) schemes of 20 or more units consented between 2010 and 2019; (c) allocated sites; and (d) sites identified in the Strategic Housing Land Availability Assessment.

4.18. The characteristics of these sites were used as the basis for informing a range of typologies of differing scales, with heights informed by planning applications that were (at the time) submitted to the Council for determination; determined but not yet commenced; under construction; or completed.

4.19. Given the importance of small sites to the overall scale of housing envisaged over the plan period, a significant proportion (42%) of the typologies were small sites (providing between 2 and 9 units) and the remaining 58% of typologies were of sites providing between 100 and 1,000 units with densities ranging from 100 to 200 units per hectare.

4.20. The characteristics of the 24 typologies are clearly set out in Table 4.5.1 of the Viability Study, including density (units per hectare); number of units; average floor area per unit; total residential floorspace; total retail floorspace for town centre sites; and building heights (number of storeys).

4.21. The Planning Practice Guidance is not prescriptive on the number of typologies that must be tested as part of a whole plan viability assessment. The council considers that the range of typologies used by BNPPRE reflects the range of development expected to come forward over the plan period, providing a proportionate response to the requirements of the Planning Practice Guidance.

4. Are Benchmark Land Values contained in the assessments based on robust evidence?

Council Response:

- 4.22. Yes, the Benchmark Land Values (BLVs) contained in the assessments are based on robust evidence.
- 4.23. The Viability Study (Document [11D7](#)) compares the residual land value outputs to five benchmark land values, which reflect a range of property types that reflect the values of the main sources of land supply over the plan period (community land; existing residential; garden and other open land; lower quartile industrial sites; and lower quartile office land).
- 4.24. Clearly there are other sites with other benchmark land values that are not captured by the evidence. For example, some offices will have higher values than those used in the Viability Study but they are likely to stay in existing use as they have high levels of demand and are generating reasonable returns to landowners. The Council does not rely on all commercial land being redeveloped for housing to meet its housing target and this would be an undesirable outcome.
- 4.25. As noted at paragraphs 4.45 of 4.46 of the Viability Study, the benchmark land values are informed by rents for lettings of existing commercial buildings (sourced from Co-Star) and capital values of existing residential buildings (sourced from the Land Registry). A capital value is established by applying appropriate investment yields (reflective of investment sales of these types of property) and making adjustments for void and rent free period to reflect the prospects of finding tenants for low quality space. Notional allowances for upgrading certain types of space to secure lettings are incorporated where appropriate.
- 4.26. In all cases, the Viability Study applies a notional 20% premium to the existing use values to incentivise landowners to bring their sites forward for development. In practice, low quality space is likely to be difficult to let and have extensive maintenance requirements, often making them functionally obsolescent. For these types of spaces, very little incentive is usually required to incentivise a redevelopment and the 20% applied in the Study will very often exaggerate the premium required.

5. Are all policy costs flowing from the development plan (including the implications of climate change policies, the implementation of the optional technical standards, the provision of on-site play and open space provision etc) incorporated into the relevant viability assessments?

Council Response:

- 4.27. Yes, all the policy costs flowing from the development plan (including the implications of climate change policies, the implementation of the optional technical standards, the provision of on-site play and open space provision etc) are incorporated into the relevant viability assessments.
- 4.28. BNPPRE undertook a full review of the draft Local Plan policies to identify which had specific cost impacts for developments. For each of these policies, the cost was assessed, as set out in Section 4 of the Study, including the following:

- Affordable housing (tested with a range of percentages and tenure mixes);
- Carbon offset and climate change policies (a series of options tested);
- BREEAM standards for commercial elements of developments;
- Accessibility requirements;
- Mayoral CIL;
- Merton CIL;
- Planning obligations.

4.29. The typologies reflected the scale of site and quantum of development that would facilitate the provision of adequate space to meet play and open space requirements.

6. Would the recent changes to Part L of the Building Regulations be likely to have a material effect on the assumed build cost implications of Part L included in the Viability Study⁵¹?

Council Response:

4.30. No. London Plan policy (and the policies proposed by Merton in its Local Plan) require higher standards than those now required elsewhere as result of recent changes to Part L.

7. Are the site typologies tested, and in particular those representative of the types of site allocated by the Plan, demonstrably viable with full policy costs applied?

Council Response:

4.31. Like all other London boroughs, Merton has a complex development landscape that is unlike many other authorities out of London where development is more homogenous on greenfield sites. There are multiple types of land that comes forward for development, each with their own existing use value. Development proposals also vary in scale and can be constrained by conservation areas of prevailing heights of existing buildings. Furthermore, sales values in Merton vary considerably, with a range of £4,500 to £10,300 per square metre. Consequently, the viability outcomes are hugely variable, depending on the particular combination of scale of proposed development; location/value; and existing use value.

4.32. In common with other London boroughs and many large urban areas, Merton has a complex range of development scenarios, with development sites that are in various existing uses; significant variation in the types of developments that come forward; and a high degree of variability in residential sales values. In such

⁵¹ i.e the 6% figure given in paragraph 4.22 of 11D7

circumstances, setting a policy that all schemes can viably deliver would require the level of affordable housing to be set at such a low level, it would be relatively meaningless in terms of meeting affordable housing need. It would be a policy that is determined by the lowest common denominator and schemes that could have viably delivered a higher percentage would no longer be required to do so.

4.33. The Council has for a number of years applied an approach which mirrors current and previous version of the London Plan, which have set relatively high targets but accept that not all sites will be able to meet the target in full. The Council's proposed approach mirrors the London Plan Policy H3, which makes provision for a 'viability tested' route for schemes that cannot viably provide 35% affordable housing.

4.34. The evidence supports this approach, as it shows that there are numerous situations where the Council's proposed policy is viable. Adopting a lower target would never achieve a position where all developments are viable, as evidenced by the fact that some combinations of location, typology and benchmark land value generate unviable outcomes, even when zero affordable housing is applied. These results simply reflect situations that would not in reality occur; the sites are simply too valuable in their existing use for redevelopment to be viable. These sites will therefore stay in their existing use until such time as this relationship changes and is a function of the land market, rather than an indication of the viability of the emerging plan policies.

8. The Viability Study has not assessed the Mo4 Morden Regeneration Zone Allocation – In these respects, is the Plan consistent with the PPG⁵² insofar as it emphasises the importance of considering the specific circumstances of any strategic sites⁵³ in viability assessments?

Council Response

4.35. The council does not consider the Mo4 (now Mo1) Morden Regeneration Zone as a "strategic site" for the purposes of the Planning Practice Guidance paragraph 10-005-20180724.

4.36. As the site is not considered a strategic site, the Viability Study (Document [11D7](#)) is not required to assess it.

4.37. However, the council has carried out viability assessments on development options for Site Mo4 Morden Regeneration Zone that are consistent with the site allocation. The council has carried out both soft market testing and viability testing on different options for the delivery of Morden. These are set out in the Cabinet Report and other evidence (Document [5D6](#); Document [5D7](#)) The details are not published in full due to the impact on future procurement.

⁵² Per 'Viability' PPG Paragraph: 005 Reference ID: 10-005-20180724

⁵³ For the purposes of the PPG 'strategic sites' "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."