South Staffordshire District Council

Local Development Framework: Affordable Housing Viability Study

Report for the consideration of South Staffordshire District Council:

This document does not constitute Council Policy

February 2011
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Appendix I – Development Scenarios

Appendix II (base appraisals) - results from the base appraisals carried out across a range of scenarios, with in all cases assumptions including tenure mix of 50% social rented and 50% intermediate; Code for Sustainable Homes Level 3; achievement of 10% on-site renewables (if required); nil social housing grant; 17.5% developer’s profit; and a £3,000 per unit infrastructure/other planning obligations cost allowance.

Appendix IIa - results of the appraisals carried out assuming no additional requirement to achieve 10% renewables on-site.

Appendix IIb - results of appraisals carried out with a tenure mix of 70% social rented/30% intermediate. All other assumptions as per the base appraisals.

Appendices IIc and IId - the results of the sample appraisals carried out assuming variations to planning obligations (or other) costs. Appendix IIc shows the results where the cost is increased to £6,000 per unit; Appendix IId shows the results where the cost is increased to £9,000 per unit. All other assumptions are as per the base appraisals.

Appendix IIe shows the results of the sample appraisals carried out assuming increased developer profit (at 20% of GDV). All other assumptions as per the base appraisals.

Appendix IIf shows the results of the sample appraisals carried out testing the requirement for Levels 4 and 5 of the Code for Sustainable Homes. All other assumptions as per the base appraisals.

Appendix IIg shows the results of the appraisals that assume an element of grant. All other assumptions as per the base appraisals.

Appendix IIh outlines results that look at the cumulative impact of costs on one scheme type at Value Point 4.

Appendix III sets out a summary of the RLV maths behind and the appraisal results relating to the potential collection of financial contributions from sites in the size range 1 to 14 dwellings.

Appendix III contains a summary of our property values and market research.

Appendix IV sample pro-forma for the stakeholders consultation process which complimented our wider and “on the ground” research.

Appendix V provides a Glossary of technical terms used throughout this study.
Executive Summary

This summary first seeks to briefly introduce and explain the study. It then provides a quick overview of the main study findings and goes on to outline the key recommendations.

For detailed information on the study methodology, results and conclusions it will be necessary to refer to the full text and appendices that follow this summary.

Background and Introduction

1 In the process of considering and developing its planning-led affordable housing policies the Council commissioned Adams Integra to study the suitability of various potential policy positions – in terms of likely impact on residential development viability. Our consultants have maintained close contact with the Council’s officers throughout the study period, sharing findings as those have emerged.

2 The purpose of this economic viability assessment is to contribute to a robust evidence base to support the preparation of the Council’s Core Strategy, other Local Development Framework (LDF) documents and any other planning policy documents relating to affordable housing.

3 The Government’s key statement on planning for housing, Planning Policy Statement 3 (PPS3), requires local authorities to enable the bringing forward of a suitable, balanced housing mix including affordable housing. It confirms the well-established route for the principles of seeking integrated affordable housing within private market housing developments. It encourages local authorities to make best use of this approach bearing in mind their local markets and circumstances. As a part of this, PPS3 also requires local authorities to consider development viability when setting policy targets for affordable housing.

4 This study was therefore carried out against the backdrop of PPS3, in the context of building the evidence base for, and considering the affordable housing content of, revisited Policies for the Council’s LDF. It is to be considered as part of, and alongside, the Council’s developing wider evidence base, including information on the local housing market and housing needs, and information on the range of site sizes and types which are likely to come forward.

5 The main purposes of this study sought by the Council are:

   ➢ To prepare a comprehensive assessment and report, advising on the potential for the provision of affordable housing in South Staffordshire from a market perspective.
In particular the report will consider viability issues in the provision of affordable housing in the context of the housing market and the potential of the use of site threshold levels to secure additional affordable housing in the District.

The report will contribute to the evidence base for the South Staffordshire LDF.

6 Maintaining the viability (in this sense meaning the financial health) of residential development schemes is crucial to ensuring the release of sites and thus a continued supply of housing of all types. The study focuses on affordable housing that is required to be provided within market housing schemes. This is through the existing established approach of setting scheme/site size thresholds (point(s) at which affordable housing policy is triggered) and proportions (percentages) of affordable housing to be sought at those points.

7 The study is based on carrying out a large number of developer-type appraisals. These use well-established “residual land valuation” techniques to approximate the sums of money which will be left available for land purchase once all the development costs, including profit requirements, are met (hence “land residual”). The appraisals are based on a widely applied calculation structure, common also to tools such as the Homes and Communities Agency (HCA) Economic Appraisal Tool and similar approaches used by developers and others.

8 The basic study methodology is settled and tested, having been used in a wide range of local authority areas for this purpose and successfully supported a wide variety of policy approaches in both rural and urban areas. The assumptions, detail and particular application of calculations are varied to ensure local relevance. We make an appropriate strategic overview, as fits the LDF process, in a way that is both influenced by, and feeds back out to, the local characteristics and approach.

9 We vary the affordable housing assumptions across the range of appraisals. The outcomes inform our judgements on the likely suitability of various policy positions from a viability viewpoint. Having fixed development costs and profit requirements, we can see the impact on development viability caused by variations to the amount and type of affordable housing. We can also consider the impact of variations to a wide range of other assumptions, as the study sets out.

10 Two of the key ingredients to ensuring viable development are sufficient land value created by a development (relative to existing or alternative use values, and/or perhaps to an owner’s particular circumstances) and adequate developer’s profit in terms of risk reward and the profile of a scheme from a funder’s point of view. Throughout the appraisals we
maintain developer’s profit whilst reviewing the scope to create land value depending on the affordable housing and other assumptions considered, and as those vary.

11 Affordable housing impacts development viability mainly because it usually provides a significantly reduced level of revenue to the developer compared with market level sales values. Essentially it is viewed as a scheme cost, therefore, which is largely passed on to the landowner by way of reduced land value. It is these dynamics that we explore through this study, in considering the implications of a wide range of factors and costs on market residential development viability and its ability to provide affordable housing.

12 In considering all of this, we are looking for suitable policy targets, based on an appropriate balance between the opposing tensions of affordable housing need levels and scheme viability.

**Property Market characteristics and Viability Findings**

13 Before commencing work on appraisals, we researched the local residential property market to inform a range of appraisal assumptions, and to help set the context for considering the outcomes. This research is included within our Property Values Report, which is to be found at Appendix III to the full study document. That includes market commentary.

14 Through the run up to the study period, relatively poor property market conditions prevailed off the back of the economic recession triggered in late 2007. Whilst earlier in 2010 we saw some more mixed signs, and increased stability, over this study period there is still a significant degree of uncertainty around the market owing to the continued weak economic backdrop. This market uncertainty continues at the point of publishing this report.

15 In tune with the strategic overview needed through this study, we have considered a broad range of open market property sales value levels (house prices) that could relate to and drive new build housing schemes in South Staffordshire – as may be seen with varying location and/or through time with varying market conditions. We kept an open mind as to whether, and if so how, the local value patterns compared with the 5 geographical Locality Areas to see if varying viability outcomes ought to be reflected in differentiated affordable housing policies for those Localities.

16 This exercise led to the formation of 7 ascending Value Points (numbered 1 to 7) in all, to describe the overall range of assumptions on values; i.e. from £1,350 per m² (about £125 per ft²) to £3,300 per m² (about £307 per ft²).
17 Within this overall range, Value Points 2 to 6 represent the full range more typically relevant – i.e. covering the £1,500 to £3,000 per m² range. Beyond these key parts of the range, the wider value levels represent additional sensitivity analysis (scenario testing) in the event of greater market falls/rises, for example. At the time of the study, from our research of new build housing schemes the pricing seen fell in the range of about £1,550 per m² to just under £2,400 per m² (or about £144 per ft² to £223 per ft²). [In each case here we are referring to the completed sales values in the way in which developers and estate agents tend to use as a key way of assessing these and a site’s potential. Similarly, most appraisal tools are set up for the input of values information in this format. Housing per m² means per square metre; per ft² means per square foot – these terms are used throughout the study and enable us to consider pricing in way which can more readily be applied to varying dwelling types.]

18 Reviewed alongside the wide range of factors considered and also treated as variables within the range of study assumptions (for example including wider planning obligations, affordable housing mix, grant funding, sustainability, developers profits and land values) overall the results create a mixed picture of development viability. This includes scenarios where relatively strong local values often produce good viability outcomes, but also where lower values and/or increased overall burdens on schemes reduce what they are likely to support by way of planning obligations packages (including affordable housing content).

19 The study acknowledges that local variations in value levels are going to be key to site specifics, but this wider approach sets a background for that level of consideration and is appropriate for strategic policy development.

20 We found that whilst the Locality Areas most typically see varying value levels, we did not see sufficiently reliable value patterns that resulted in specific sets of viability outcomes so as to justify policy distinctions based purely on the Locality Areas 1 to 5. In general we found that the highest value levels were most typically seen in Locality Areas 2 (North Western) and 5 (Southern), mid range values were most typically seen in Locality Areas 1 and 4 (Northern and Central) and the lower values tended to be seen more in Locality Area 3 (North eastern). However, this is a very broad rather than distinct picture, with blurring occurring and typically lower and mid value areas also having the potential to include higher value schemes, and vice versa. These indications are summarised in the table below, which is also repeated within the report study text. This cannot be regarded as a definitive picture in any way because in practice particular scheme characteristics and specific location are also key influences on values. Variety will be seen, District-wide.
<table>
<thead>
<tr>
<th>Value Point</th>
<th>Approx. £ / m²</th>
<th>Approx. £ / ft²</th>
<th>Related Locality with these typical value levels for new builds – Indicative only</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£1,350</td>
<td>£125</td>
<td>Market falling from current lower end</td>
</tr>
<tr>
<td>2</td>
<td>£1,500</td>
<td>£139</td>
<td>Lower/mid range values – e.g. typically Locality 3</td>
</tr>
<tr>
<td>3</td>
<td>£1,875</td>
<td>£174</td>
<td>Mid range values – e.g. typically seen in Localities 1 and 4</td>
</tr>
<tr>
<td>4</td>
<td>£2,250</td>
<td>£209</td>
<td>Mid to upper range values – e.g. typically seen in Locality 2 and 5</td>
</tr>
<tr>
<td>5</td>
<td>£2,625</td>
<td>£244</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>£3,000</td>
<td>£279</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>£3,300</td>
<td>£307</td>
<td>Market rising from current upper end</td>
</tr>
</tbody>
</table>

21 All in all this informs our strategic overview for clear policy development which reflects the varying characteristics of different site types rather than being driven purely by Locality Area. In our view the Council should consider varying policy to respect the sensitivities and varying land value comparisons that usually apply, so that District-wide policies would be set up based on varying affordable housing proportions (target %s) for larger brownfield and greenfield schemes, and associated with a range of threshold points (scheme sizes at which the %s apply).

22 We consider that in the overall context of the District - with varying values - and assuming variable market conditions over the LDF period a 30% headline would be a sufficiently challenging and appropriately pitched target generally for application to brownfield (previously developed) sites of 10 dwellings or more; and in the same strategic context 40% on greenfield sites accommodating 10 or more dwellings. A range of other requirements needs to be considered alongside affordable housing. Beyond these levels (for example at the Council’s original Policy Choices document target levels), any target would be potentially too ambitious in our view – given the range and direction of wider planning obligations and other development costs. Adding to this picture, affordable housing provision needs to be about quality and mix, and not just numbers.

23 Recognising that smaller sites are not necessarily any less or more viable than larger ones (relative outcomes usually come down to site specifics rather than size), our view is that, alongside these headlines, lowered thresholds applied sensitively with a combination of reduced affordable housing proportions and a financial contributions approach have the potential to make up an equitable and workable overall approach. Lowered thresholds can act as a balancing factor against our suggestion to reduce targets from the previously considered levels. If progressed as part of the approach, an element of financial contributions has the potential to act as a useful additional housing enabling tool, especially in times of reduced funding availability uncertainty, such as this. A financial contributions approach would apply only to the smallest schemes (those of fewer than 5
dwellings which may come within the policy scope but in our view tend not to readily suit the on-site inclusion of affordable housing as a general guide).

Overview of main Recommendations

24 **Headline affordable housing targets applicable to schemes of 10 or more dwellings;** set at 30% in respect of brownfield (previously developed) land; 40% in respect of greenfield land. Applied District-wide.

25 **An affordable housing target of 20% related to schemes of 5 to 9 dwellings,** again District-wide.

26 **In respect of schemes of fewer than 5 dwellings,** we suggest seeking financial contributions towards meeting affordable housing needs, at a target set so as not to exceed a 20% equivalent affordable housing contribution.

27 In all cases the **policy positions should be set out as clear targets,** to help inform land value expectations and form the basis for a continued practical, negotiated approach.

28 **Policy wording will need to acknowledge the application of flexibility through the negotiated approach and the relevance of considering development viability** on case specifics within this.

29 The Council will also need to consider the mathematical subtleties of its selected approach as part of providing clarity as it adds detail to the high level considerations – for example, how numbers rounding and net/gross (new dwellings numbers) application affects the working of the policy positions, particularly for smaller sites where such factors will tend to have a greater influence on outcomes.

Executive Summary ends
1 Introduction

1.1 Background

1.1.1 South Staffordshire District Council is producing its Local Development Framework (LDF), in line with the requirements of the Planning and Compulsory Purchase Act 2004. Through a number of key policies, the LDF will guide and control the future use and development of land over the plan (LDF) period to 2026.

1.1.2 The Core Strategy will be the first in a series of Local Development Documents that will ultimately replace the 1996 Local Plan. Its function is to set out the spatial development strategy for the District and it will set the basis for the site allocations document and issue of specific supplementary planning documents. The Core Strategy will identify settlements for housing growth (based on a settlement hierarchy) and will include policies covering subjects such as affordable housing, community facilities and infrastructure in order to achieve sustainable development.

1.1.3 In September 2007 the Secretary of State made a Direction on the Saved Local Plan policies for the District, which extended the life of certain policies until replaced through the LDF. Saved policies included the housing policies: H6 Affordable Housing Provision.

1.1.4 Policy H6 of the Councils adopted Local Plan set out the following affordable housing policies:

“In deciding planning applications, the District Council will seek to increase the range of housing choice available in the District in partnership with Housing Associations and private house builders. Encouragement will be given to proposals which provide affordable housing whether for sale, rent or shared ownership. On the major sites allocated for development in Policy H3, the District Council will negotiate with developers to achieve a mix of housing types, including a proportion of affordable housing”.

1.1.5 An interim policy on Affordable Housing was adopted by the Council in March 2006. The policy seeks the provision of affordable housing on qualifying sites at a rate of 30% of the total housing development, with a threshold site size of 0.5ha or 15 dwellings. Within more rural locations, with a settlement population of less than 3,000, the Council applies a lower threshold of 0.3ha or 9 dwellings. For the purposes of this study and ease of reference only we will refer to the higher threshold as relating to “Urban” areas and the lower threshold to “Rural” areas.

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1 South Staffordshire Local Plan (Adopted December 1996)
1.1.6 The Council’s Policy Choices document (January 2010) set out the following affordable housing policies in Policy H2: Provision of Affordable Housing:

"Proposals for new housing development of:

10 or more dwellings (or sites of 0.3 hectares or more) in the Main Service Villages, or

5 or more dwellings (or sites of 0.2 hectares or more) in the Local Service Villages, or

2 or more dwellings (or sites of 0.1 hectare or more) in the Small Service Villages,

must make provision for an element of affordable housing which is accessible and affordable to those unable to compete in the general housing market. The Council will seek to ensure that a proportion of affordable housing is provided on sites meeting the above threshold criteria in accordance with the following targets:

Locality Area 1 (Northern Area) 40%
Locality Area 2 (North Western Area) 50%
Locality Area 3 (North Eastern Area) 30%
Locality Area 4 (Central Area) 50%
Locality Area 5 (Southern Area) 50%

Having regard to these targets, the proportion of affordable housing required will, where appropriate be indicated for each site proposed in the Site Allocations DPD.

Proposals for development on unallocated sites, including building conversions, will be considered against the above targets. The actual provision on individual sites will be determined through negotiations, taking into account viability and the economics of provision."

1.1.7 Although the Policy Choices document allows for future consideration of development viability in the formulation of sound policy, the varying 30%, 40% and 50% requirements are based on Locality Area needs and were not at that stage verified as achievable through economic assessment of the likely viability of those policies on residential development within the District.
1.1.8 The purpose of this study is therefore to contribute to a robust evidence base to support the preparation of the Council’s Core Strategy, other LDF documents and any other documents relating to affordable housing. The study assesses the (financial) capacity of residential development schemes in the District to deliver affordable housing without their viability being unduly affected. This is in the context of developing suitable affordable housing policies which aim to strike an appropriate balance between affordable housing needs and scheme viability, bearing in mind the need to also maintain overall housing supply. Specifically the study is carried out in accordance with Planning Policy Statement 3 (PPS3) - Housing\(^3\) and its accompanying document “Delivering Affordable Housing”\(^4\). The above provisional thresholds and targets have therefore been tested in the course of this study work, along with a range of potential alternatives.

1.1.9 Paragraphs 27-30 of PPS3, in particular, deal with the Government’s approach to, and key guidance to local authorities on, seeking affordable housing through Local Development Documents (LDDs). Paragraph 29 is the focus of this, within which local authorities are required to undertake an informed assessment of the economic viability of any proposed affordable housing thresholds and proportions.

1.1.10 The main objectives of this study are:

- A District-wide affordable housing viability assessment for housing delivery over the lifetime of the Core Strategy DPD.

- A viability assessment which supports the affordable housing requirements that will ultimately be set out as policy in the Core Strategy DPD, and other documents that will form part of the Local Development Framework.

- An assessment of potential development scenarios of sites that reflect viability in the District overall, in terms of scope to deliver the affordable housing requirements; and,

- Consideration of specific factors that could impact significantly on the viability of schemes including residential values, Code for Sustainable Homes, other planning obligation costs, etc.

1.1.11 South Staffordshire is the southernmost District in the county of Staffordshire and has a population of approximately 106,000. Of the 27 parishes that make up the District, 9 have a population of less than 1,000 and 7 have a population of between 1,000 and 3,000. There are 10 parishes with populations of 3,000 to 12,000 and the most populated

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\(^3\) Communities and Local Government - Planning Policy Statement 3: Housing (November 2006)

\(^4\) Communities and Local Government – Delivering Affordable Housing (November 2006)
parish, Wombourne, has approximately 14,000 residents. Much of the District (approximately 80%) lies within the West Midlands Green Belt; the remainder to the north of the Green Belt boundary is defined as ‘Open Countryside’.

1.1.12 Findings from the Council’s Housing Market Assessment\(^5\) suggest a shortfall of affordable housing supply of 652 dwellings per year (based upon dealing with the backlog over a 10 year period). The HMA suggested that a target of 40% to 50% affordable housing be considered but recognising the key issue of viability. The HMA Update also recommends a target tenure mix of approximately 50% social rent to 50% intermediate housing. This, of course, was prior to the introduction of the Government’s new “Affordable Rent” product. In general the Council will need to monitor developments on that emerging tenure form, in conjunction with locally active Registered Providers (RPs) of affordable homes (including Housing Associations i.e. former Registered Social Landlords (RSLs)).

1.1.13 As acknowledged at 1.1.8, however, it is important that the Council’s policies do not deter development through unduly reducing the supply of land brought forward for residential development more widely. Any policy must balance delivery of affordable housing and planning obligations with maintaining sufficient incentive (reasonable land value levels) for landowners to release land – allowing developers to promote and bring forward schemes.

1.1.14 This study explores the viability impacts from a range of policy options relating to seeking various levels of affordable housing obligations from new development - including those set out in the Policy Choices document. The study process takes into account property type, market value levels, tenure mix, wider planning obligations and associated characteristics of residential development.

1.1.15 Specifically, it investigates and assesses the likely impact on land values, and therefore on development viability, of a range of affordable housing policy options being considered for application to private (market sale) residential schemes across the District. These are considered alongside wider planning obligations and costs. We also assume that a reasonable level of profit for the developer (as risk reward) is “protected” within the costs side of the equation. The range of testing carried out for this study is shown at Appendix I – Development Scenarios.

1.1.16 In addition to looking at the provision of on-site affordable housing above the current affordable housing thresholds (i.e. provision integrated within market housing sites), the study includes wider work to investigate the viability of alternative approaches to reduce the threshold. This includes

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\(^5\) David Couttie Associates – South Staffordshire Housing Market Assessment Update (2010)
the potential introduction of a sliding scale of affordable housing requirements through either the collection of financial contributions in lieu of on-site affordable housing provision on smaller sites (those below any potential on-site threshold) or through a lower proportion (%) of on-site affordable housing on smaller sites; or possibly a combination of the two. If implemented by the Council, the financial contributions route would be hinged around a strategy to direct the monies collected towards funding the provision of affordable housing on other sites, or perhaps for wider investment in affordable housing locally.

1.1.17 We use the impact of varying affordable housing requirements on Residual Land Value (RLV) as our measure in putting forward our judgements and guidelines. This process involves comparing the likely impact of (i.e. changes to RLVs caused by) a range of potential policy options. So the study examines the variations in approximate RLVs indicated within the District on this basis, as we envisage policy potentially changing, and the implications of these variations are included in the assessment of site viability and deliverability.

1.1.18 Where possible, the study provides parameters and options for the Council to consider for affordable housing policy development and implementation, from a viability perspective. The Council will need to consider these findings alongside wider policy considerations and overall priorities.

1.1.19 It must be recognised that this planning-based tool for securing affordable housing relies on market-led processes. Throughout the study, an emphasis is placed on the need for a practical approach to be taken by Council, bearing in mind development viability – with an emphasis on that particularly given the current and likely short-term ongoing market conditions. By this we mean the Council being adaptable also to market housing scheme needs, being prepared to negotiate and consider varying solutions, and being responsive to varying scheme types and circumstances. The various components of a scheme will need to be considered in terms of market homes needs, affordable homes needs and their successful integration and tenure mixes. This will involve considering local needs, scheme location, type, design, management, affordability, dwelling mix, tenure, funding, numbers rounding and the like in formulating the detail from the targets basis – so, taking a view on how these things come together to impact and benefit schemes, by looking at what works best to optimise provision in the given circumstances.

1.1.20 In carrying out this assessment from the necessary strategic viewpoint, it is assumed that there will be a variety of market conditions, including periods of more stable economic and property market climate. By this we mean where there is improved access to mortgage and development finance, on appropriate terms, that will promote demand and re-stimulate
greater levels of development activity than we have seen recently. The same applies to all such studies which look at affordable housing supplied through market-led schemes.

1.1.21 The methodology and assumptions used are described in Chapter 2; the results are discussed in Chapter 3; the conclusions and recommendations are set out in Chapter 4. Chapter 5 includes wider discussion points in relation to affordable housing delivery. The tables, graphs and associated information referred to throughout this study are appended to the rear of the document.
2 Methodology and Assumptions

2.1 Background

2.1.1 A number of factors need to be taken into account when considering bringing schemes forward that include affordable housing. It is necessary to determine what effect changes to affordable housing proportions, variations to tenure mix and other development requirements or costs may have on the value of a potential development site – and therefore whether that site may continue to come forward given those requirements. It is also important not to consider affordable housing as the sole source of declining development viability, however – as this study discusses, there are a range of interwoven factors.

2.1.2 This study investigates residential development scenarios across a range of scheme sizes (from 2 to 100 dwellings in size). The scheme scenarios are set out in Appendix I – ‘Development Scenarios’, and reasonably reflect a range of scheme types coming forward now and in the future, though it is acknowledged that a strategic overview cannot, and does not need to, cover the very wide range of potential scenarios that may be seen over time in practice.

2.1.3 The schemes modelled are notional ones chosen to reflect scenarios that best match the various policy options to be tested and reflect a range of scenarios relevant to ongoing housing supply in the District. As a starting point, notional scheme information was based on a range of types taken from the Council’s Strategic Housing Land Availability Assessment (SHLAA) and past completions records. At certain scheme sizes, a range of dwelling mixes has been tested. The scenarios were arrived at through discussion with the Council’s officers based on the range of site types which have, and are likely to, come forward across South Staffordshire District.

2.2 Developing Notional Schemes

2.2.1 The scheme types were adapted and altered to enable development viability to be tested at a range of points with reference to potential affordable housing policy thresholds and varying dwelling mix, as part of this strategic overview work. This meant taking features of these schemes to inform our assumptions and the building of our notional scenarios – so that those were informed by actual site scenarios as well. The smaller scheme sizes enable us to test viability at low thresholds, whereas the larger notional schemes enable us to test the impact of varying the proportion of affordable housing on sites that already trigger the

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6 Entec - South Staffordshire District Council Strategic Housing Land Availability Assessment (February 2008)
requirement for affordable housing (i.e. developments of 9 or 15 or more dwellings depending on location, as per the current approach).

2.2.2 The financial impact, and therefore viability, of collecting carefully judged financial contributions in lieu of on-site affordable housing provision has also been tested on sites of 1 to 14 dwellings. This enables us and the Council to consider a financial contributions approach for potential application to smaller sites or certain smaller sites within this size range, if appropriate. Whilst this could inform current considerations, it might also be used as part of exploring wider options for the future. Again this fits with our well-established route of detailed review and thinking about the potential policy scope in the District.

2.2.3 An alternative approach to the notional schemes route for testing development viability on a strategic basis could be to investigate the development viability with reference to actual sites. We have chosen an approach where we have effectively “notionalised” the sites (created site typologies) for a number of reasons including:

- Our established approach to this viability work, including the use of notional sites/site typologies, has been tested successfully through the former Local Plan Inquiry and current Development Plan Examination processes on numerous occasions.

- Understandably, there can be difficulties in obtaining sensitive information from developers and landowners in relation to actual sites. In our experience this usually leads to appraisals of actual sites becoming heavily assumption-based in any event.

- The use of actual sites affects our ability to compare outcomes ‘like with like’ to assess the impact of varying affordable housing requirements – the key viability factor being studied. Affordable housing impacts can become blurred with, or by, other issues which vary from one site to another when specifics are examined in detail.

- Sensitivities with reporting, information and potential effect on future negotiations when too many actual specific details are used.

- Site sizes may not align to studying potential threshold points.

- An actual site approach can be very resource hungry and thus costly for this stage of the process.

- Ultimately, unless extensively applied (noting the previous point) and still assumption based, an actual sites approach usually does...
not fit so well with taking a strategic overview of the impact of potential affordable housing polices, when in fact sites vary so much.

2.2.4 The outcomes of the appraisals based on the range of scenarios tested provides us with a scale of results (discussed in Chapter 3 and set out in full in the study Appendices) from which conclusions can be drawn as to the key factors and trends relevant to the District. This leads to discussion on how these might be considered in reviewing policy options, and then to policy recommendations.

2.3 Residual Land Value (RLV) Appraisal Methodology

2.3.1 In order to review the impact of proposed affordable housing policy on the range of sites appraised and across the scale of values considered for this strategic overview, it is necessary to determine a common indicator to ensure that comparisons are made on a like-for-like basis.

2.3.2 The key viability outcome and indicator for this study is the land value that can be generated where there is a predetermined and fixed level of developer profit assumed (alongside an allowance for all other assumptions that have been included and varied in this report). The study is not based on the notion of fixed land values with developer’s profit varying as affordable housing or other requirements change. Land value expectations (and how those will inevitably need to be adjusted over time with changing markets in addition to changing planning and environmental requirements) are central to this work and to the ongoing negotiation and delivery processes. Local authorities and others involved in the process must recognise that developers need to make appropriate profits, and this work is not based on a premise that those should be eroded below reasonable levels. This area is discussed further below, including at 2.6 - Developer’s Profit.

2.3.3 Assuming a developer reaches the conclusion in principle that a site is likely to be viable for development and worthy of consideration, an appraisal is usually carried as part of fine-tuning the feasibility review and checking what price can be justified for the site purchase.

2.3.4 In this study we have to assume that a negotiation has occurred or is under way based on knowledge of the current development climate and planning policy requirements as they will apply to the scheme. To inform the review of outcomes from a range of potential policy positions (e.g. increased/decreased affordable housing proportions and site size thresholds), this study compares the viability results from the current policy requirements/approach with those likely to result from the potential variations under consideration.
2.3.5 Ultimately, the land values under review are a product of a series of calculations that provide a residual valuation based on both the specific form of development a site can accommodate, and its development costs. While the market uses a variety of approaches to appraise sites and schemes (including comparisons between sites – which is particularly difficult to do in a market of few transactions) in early stages of feasibility, a more detailed approach is necessary to understand how the value/cost relationship appears - as used in this study.

2.3.6 The simplest, most effective and widely understood way of checking site viability in most instances is via a residual land value (RLV) appraisal (see Appendix V – Glossary). We have developed our own spreadsheet tool for this purpose. In doing so we have made what we feel are reasonable assumptions but it must be noted that individual developers will have their own varying approaches, and a developer might also apply a different approach from one scheme to another. Consultation has been carried out with key stakeholders locally (see section 2.12).

2.3.7 A highly simplified example which groups various cost elements together and showing only the basic structure of the RLV calculation, is shown in Figure 1 below. This is an illustrative example only and is not to be relied upon for calculation purposes. It demonstrates, in outline only, the key relationship between development values and costs. This is a dynamic relationship and determines the amount left over (hence 'residual') for land purchase from the total sales value (the 'gross development value') of the site. It can be seen that as values increase but costs remain unchanged, there is more scope to sustain adequate developer’s profit levels and, crucially, land values sufficient to promote the release of land for residential development.
Figure 1: Simplified Example of Residual Land Valuation calculation – Basic structure (for illustration purposes only)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Units =</td>
<td>10</td>
</tr>
<tr>
<td>Sales Value =</td>
<td>£200,000</td>
</tr>
<tr>
<td><strong>Gross Development Value (‘GDV’)</strong></td>
<td>£2,000,000</td>
</tr>
<tr>
<td>Development Costs (build costs, fees, etc.)</td>
<td>£850,000</td>
</tr>
<tr>
<td>Development Profit (@17.5% of GDV)</td>
<td>£350,000</td>
</tr>
<tr>
<td>Land Purchase Costs and Planning Infrastructure (not including affordable housing element)</td>
<td>£100,000</td>
</tr>
</tbody>
</table>

"Residual Land Value" (Gross Development Value - Development Costs - Profit - Land Purchase and Planning Obligations) = E

\[ A - (B + C + D) = E \] (Residual Land Value ‘RLV’) £700,000

2.3.8 We have been able to verify our experience and thoughts on the structure of, and components within, the approach and indicative output land values through our contact with developers and their advisers, through our experience of site-specific appraisal work and comparison with inputs and outputs used in/by a range of similar tools.

2.3.9 The tool used for analysis in this instance runs a calculation that provides an approximate RLV, after taking into account assumed normal costs for site development. We do not allow for abnormal costs. Those can only be properly reflected with detailed site-specific knowledge. If such varying costs were to be considered within this study, it would affect our ability to accurately compare like with like, when assessing the impacts of affordable housing requirements. Any demonstrated abnormal costs will always need to be considered as part of scheme specifics on application of policy.
2.3.10 The inclusion of the affordable housing element of a scheme is accounted for within this RLV calculation. This assumes that the developer receives a payment from a Registered Social Landlord (‘RSL’) (or other affordable homes provider) for a number of completed affordable homes provided within a market housing development. This level of receipt is based on a predetermined calculation that is not normally at a level comparable with open market values. Essentially, this reduced level of revenue to the scheme, relative to market sales receipts (sales values), is where the key viability impact of the affordable housing comes from.

2.3.11 The modelling also allows for other planning infrastructure costs (usually in the form of section 106 obligations). Although in practice these payments will be calculated on a site-by-site basis (depending on dwelling mix and location, etc), this study looks at a range of fixed overall costs (per dwelling) to determine the additional impact that varying planning infrastructure costs may have on development viability in tandem with other potential cost areas (e.g. – sustainable design and construction standards etc). This fits with the necessary strategic overview approach, and can also aid the Council’s wider thinking on collective costs and obligations. See also 2.10 ‘Other Assumptions’.

2.3.12 Assuming that a developer will require a minimum fixed profit margin on any given site to balance risk and often to underpin funding arrangements, beyond a certain point it is therefore the land value that will be affected by the introduction of affordable housing or other infrastructure requirements and obligations. In this sense (and although there can be positive cash flow effects similar to those from “off-plan” sales) affordable housing is viewed as a significant cost element within the developer's appraisals, in much the same way as other planning infrastructure requirements (planning obligations). This cost impact is seen through reduced land value (RLV) – the usual mode through which, effectively, the cost is passed on to the landowner. This then potentially affects the point at which a landowner will be prepared to release a site for residential development in comparison with other options they may have.

2.3.13 The results of the appraisal calculations show the indicative residual land values (RLVs) generated (in monetary terms), the RLVs as a percentage of the gross development value (GDV) and, the equivalent value per hectare (£ per ha). These give us indications of the strength of those RLVs after the various affordable housing and other assumptions are taken into account.

2.3.14 Where possible, the results are compared against potential existing/alternative land use values which are often a key factor in determining viability outcomes. These comparisons provide an indicator of likely scheme viability given an overview of the RLV results from a range of
appraisals and therefore help to inform our judgements and recommendations. This aspect can only be highly indicative at this strategic overview level. In practice every site will have specific characteristics and its value will be determined by its type, location, use, economic lifespan of existing premises, marketability and development potential, etc, and the cost of creating/realising that potential use or maintaining an existing/alternative use. Linked to this there can also be a level of incentive or price paid in excess of a particular established value level whereby under some circumstances an owner may require an additional level of incentive in order to release a site. This scenario will be highly variable and need to be borne in mind at the site-specific stage which sits beneath this strategic level. The setting of clear policy by the Council will be a key part of the adjustment and appropriate guiding of land value expectations over time.

2.3.15 Whilst briefly discussing existing/alternative use values it is worth mentioning that the commercial property market has been suffering and seen a greater degree of downturn, even, than the residential market as a consequence of the financial markets crisis. Although a generalised statement, demand for commercial property has fallen very dramatically with severe consequences for values. This factor needs to be borne in mind where the comparisons that are relevant are likely to change over time and the relative positions, in viability terms, of alternative proposals for sites could alter.

2.4 **Property Market and Values**

2.4.1 In determining the range of modelling to be carried out, we use a scale of “Value Points” appropriate to the District area as a whole (covering the range of values seen). This provides a better basis for the necessary strategic level of review, rather than concentrating on the specifics of neighbourhood areas or centres (across which values can vary greatly in any event). It allows a more meaningful review of trends – how viability varies with values. At the same time it also allows us to consider whether local policy variations may be required or justified. By taking a Value Points approach effectively we are considering what the viability of a particular scheme or site typology might look like if it were moved to a range of locations (in this case the Council has divided the District up into five “Localities”). The methodology also enables us to review the impact of changing market conditions as are likely to affect values over time. The resulting scope of outcomes therefore means we can see what happens as we move a particular scheme type around the District and/or expose it to varying market demand levels as could affect its values. This ensures that the study is appropriate to long-term policy formulation with the Value Points providing the flexibility required to determine how viability may be impacted by changes in residential market conditions.
2.4.2 We undertook research into property prices, across the District as a whole in October to November 2010, to determine a realistic range of development values (property sales values) for each of our appraisals. The research was kept open during the study period – so that we could also consider any further information that became available in interpreting the results.

2.4.3 We carried out a review of the pricing of all available and “sold subject to contract” properties (1 and 2-bed flats and 2, 3 and 4-bed houses) across the area. This was undertaken using internet searches (‘rightmove’7 being the key source). This part of the exercise helped us to understand and consider, very broadly, how values vary with “Locality” across the District in the context of the value points and whether (and if so what) particular values patterns are seen. It enables us to provide reasonable average values for the District, and localities within it, by dwelling type.

2.4.4 Adams Integra acknowledges that there is usually a gap between marketing and sale price. Under the difficult market conditions seen in recent years, this gap typically grew. It is not possible to make a statement about the usual gap between the two, as a particular owners’ aspiration and the saleability of particular properties clearly varies. The research has been reviewed in the context of this, and the range of value levels assumptions (value points) set accordingly.

2.4.5 The overall (re-sales dominated) market data was then considered alongside our “on the ground” research and taking of local soundings where possible. That involved visiting the area, speaking to estate agents, visiting new build schemes, speaking to developers’ sales staff where we found sales offices and gathering other leads to inform supplementary desktop research. Where little data was available at the time of the search, the data has been verified or supplemented by using Land Registry average sales figures and resale data. Appendix III, the Property Values Report, summarises the research and also provides wider regional and national property market context.

2.4.6 The review of various sources of information on values ranges is preferred to any single desktop resource, which would be limited to historic data and tends to be limited in terms of information of property types and sizes. This process of considering a wide range of values data, overall, informs our judgements on the range of values that we apply as we conduct the large number of appraisals.

2.4.7 The results of the property values research, and in particular the new build values research, led to the formation of 7 Value Points on this occasion.

7 www.rightmove.co.uk
(see Figure 2 below) within which new build housing values in most areas of the District fall. The upper and lower value points (1 and 7) were used in the modelling for this study to enable us to consider the sensitivity of results to market conditions and price levels outside the typical range seen at the time of the study. As stated above, most areas see a variety of property values (even within the same postcode area or down to street/scheme level), therefore the results of this research can be used independently of location where approximate sales values can be estimated. The overall range covers values from £1,350/m² (about £125/ft²) to £3,300/m² (about £307/ft²), with the core part of the range in the current climate being £1,500/m² (about £139/ft²) to £3,000 (about £279/ft²) as represented by our Value Points 2 to 6. Figure 2 also indicates very broadly how geographical locations may sit currently within the range of value points used. The Locality Areas referred to below are those applied within much of the Council’s current stage policy thinking and localised approached within the District. For ease of reference these are as follows:

- **Locality Area 1 (Northern Area)** – includes Penkridge, Dunston, Bednall, Huntington.
- **Locality Area 2 (North Western Area)** – includes Brewood, Wheaton Aston, Coven, Bishops Wood.
- **Locality Area 3 (North Eastern Area)** – includes Cheslyn Hay, Great Wyrley, Featherstone, Shareshill.
- **Locality Area 4 (Central Area)** – includes Codsall, Perton, Bilbrook, Pattingham.
- **Locality Area 5 (Southern Area)** – includes Womborne, Kinver, Trysull, Bobbington, Swindon.

**Figure 2: Summary of Value Points Adopted (example prices based on assumed floor areas, but also applicable to other dwelling types and sizes):**

<table>
<thead>
<tr>
<th>Value Point</th>
<th>£ / sq m</th>
<th>Approx. £ / sq ft</th>
<th>Related Locality with these typical value levels for new builds*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£1,350</td>
<td>£125</td>
<td>In the main representing market falling from current lower end</td>
</tr>
<tr>
<td>2</td>
<td>£1,500</td>
<td>£139</td>
<td>Lower/mid range values – e.g. most typically Locality Area 3</td>
</tr>
<tr>
<td>3</td>
<td>£1,875</td>
<td>£174</td>
<td>Mid range values – e.g. most typically seen in Locality Areas 1 and 4</td>
</tr>
<tr>
<td>4</td>
<td>£2,250</td>
<td>£209</td>
<td>Mid to upper range values – e.g. most typically seen in Locality Areas 2 and 5</td>
</tr>
<tr>
<td>5</td>
<td>£2,625</td>
<td>£244</td>
<td>In the main representing market rising from current upper end.</td>
</tr>
<tr>
<td>6</td>
<td>£3,000</td>
<td>£279</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>£3,300</td>
<td>£307</td>
<td></td>
</tr>
</tbody>
</table>

*Indications only – please refer to text for further explanations
2.4.8 It must be reiterated that any attempt to define value patterns can only be highly indicative. This is reflected in the above in that it is only a general picture, because values can change over very short distances dependent on a site’s location and its surroundings, local amenities etc. In practice, variations in values are often seen down to a street by street level – and sometimes even between ends or sides of streets, and within developments depending on the orientation of dwellings and their outlook, for example.

2.4.9 This study does not attempt to provide comprehensive property valuation data, but rather identifies the typical range of new build values of various dwelling types based on the assumed sizes set out. The values research is carried out to enable us to make judgements about the range of values of new build properties typically seen and likely to be seen – for us within our appraisals. It is not a statistical exercise and inevitably judgements have to be made. Making a necessary overview of values for use in this way means including an overall view of properties of varying size and type, and any settlement (set of data) can contain a range of property values covering a single property type. Our experience shows, however, that using the information in this way is reasonably representative and is certainly suitable for the necessary strategic overview. The key point is to consider the likely range of typical new build values which will underpin this planning-led delivery of affordable homes, rather than consider overall resale market Land Registry type data alone, which can often dilute or disguise the new build market picture.

2.4.10 Prior to and during the study period, there has been continued reporting at all levels of a relatively weak and uncertain property market. As at October to November 2010 (the research period) these conditions could not be described as over and, upon finalising the report, further evidence of a faltering market to some degree is apparent. It should be noted however that LDF policy needs to be considered not just based on recent weak market conditions or a “now only” view. In the past, schemes have been brought forward and have therefore been viable at similar or lower value levels. One of the principal concerns with the market recently has been the volume of sales being achieved rather than simply the value levels. Sales volume is difficult to reflect in financial viability terms. It may affect developers’ views on risk levels, and it may affect development and sales periods, and thus finance periods. These will in any event be site-specific factors.

2.4.11 Some key commentators consider there to be a strong possibility of a continued dip in the market as we move into and through 2011. This is because house prices have received some protection through a lack of supply, rather than through significantly increased confidence levels or significantly improved availability and terms of mortgage finance. In terms
of study methodology, the continued uncertainties are very difficult to reflect in the detail, beyond considering varying house price levels as those drive scheme viability. At the report writing stage in late 2010/early 2011, the economic backdrop and property market picture remains uncertain with widespread unemployment fears still apparent alongside significant public spending cuts, including for affordable housing funding. There has been frequent reporting on the prospect of a continuing period of very little economic growth (or even potential for a further recessionary period) and particular price inflation pressures pointing to the possibility of interest rate rises during the year. Only time will tell how all this plays out and influences local property markets.

2.4.12 Clearly future values cannot be predicted, but our methodology does allow for potential future review of results in response to changes over time, perhaps including more established market trends or revised price levels - as well as sale price variations through site characteristics or location. It enables us to look more widely at the sensitivity of results to value levels as part of making our strategic overview.

2.4.13 In our view, it would be impractical for a local authority to move affordable housing and perhaps other viability related planning obligations targets through Core Strategy policy in response to relatively short-term market conditions and adjustments.

2.4.14 A key message for local authorities in this situation is the need to monitor the market, housing delivery outcomes and trends locally - and respond to those through consideration of contingency measures and possible policy review longer-term. It is also about adopting a practical and flexible approach to secure delivery of all housing types, especially in the short-term. This theme will be picked up again as a key one, including in Chapters 3 and 4.

2.5 Gross Development Value (GDV)

2.5.1 In order to further explain the residual valuation principles, we will now provide further information on the various key inputs and the implications of those.

2.5.2 Gross Development Value ("GDV") is the amount the developer ultimately receives on completion or sale of the scheme, whether through open market sales alone or a combination of open market sales and the receipt from a RSL for completing the affordable homes on the scheme. Thus the developer’s profit in each case relates to that scheme-specific sum rather than to a base level of GDV that assumes no affordable housing. It assumes that the developer has appraised the site and secured land in the knowledge of, and reflecting, policy that will apply; i.e. the developer is
aware that a proportion of the receipts will be at a lower level than prior to any affordable housing policy taking effect. This can be regarded as a reasonable approach given established local and national policy guidance on the provision of affordable housing.

2.6 Developer’s Profit

2.6.1 The requirement to place an increased proportion of affordable housing on a site will inevitably reduce the sales income that a developer can reasonably expect to receive. As this reduction will not be accompanied by lower construction costs, the offset must be taken up in a reduced development profit, a lower land price or a combination of the two.

2.6.2 Developer’s profit and landowner’s sale price are key considerations that must be taken into account if residential development is to be undertaken.

2.6.3 If profit levels fall below a certain point then developers will not take the risk of developing a site, nor in many cases will funding organisations provide the necessary support. Equally, if the price offered by a developer to a landowner for a site is too low, the landowner may not sell and might instead continue with, or pursue, an existing or higher value use. There are also intangibles, for instance some smaller sites may start out as homes, gardens or small business premises which will not be sold unless certain aspirations are met. Business and tax considerations, investment values and costs, and availability and cost of replacement facilities can all influence decisions to retain or sell sites. A mix of these factors may be relevant in some cases.

2.6.4 Continued ready access to development finance is likely to be a particular issue in the current market conditions which have flowed from the recent economic recession.

2.6.5 At the time of considering the study assumptions, Adams Integra’s experience of working with a range of developers and of reviewing appraisals, lead us to suggest that they would need to seek a fixed profit (margin) of approximately 15% to 20% (gross) of GDV.

2.6.6 This study uses a developer’s profit based assumption fixed at 17.5% of GDV with further sensitivity analysis carried out assuming a 20% developer profit. Lower and higher profit levels than those we have assumed may well be appropriate, depending on the nature of the project and risk/reward scenario – and in this sense also the market conditions. Some developers will look at alternative profit criteria, for example a higher percentage (perhaps up to 30%) of capital employed (not of GDV). Different profit aspirations will also be held by different types of house building and development companies.
2.6.7 Our experience shows that particularly for smaller and lower risk schemes, and those often carried out by smaller more local developers (or contractor developers), a lower level of developer profit may well be an appropriate assumption. In any event, development profit should be regarded as a development cost. In reality, again there will be no substitute for site-specific consideration of the details – as with other assumptions that will be reviewed where viability is discussed on sites coming forward. The assumptions used here are suitable guides and starting points, but should not be regarded as fixed figures which will always suit.

2.7 Model Scenarios, Property Types, Size and Mix

2.7.1 The Council required a range of scenarios to be appraised to assess the viability of the potential approach to thresholds and proportions of affordable housing alongside other costs that may affect the viability of residential development (e.g. sustainable construction and design standards, other planning obligation costs, etc).

2.7.2 In considering on-site provision of affordable homes, the scheme types modelled range in size from 2 to 100 dwellings to allow the study to investigate a full range of potential policy options. The scenarios modelled concentrate on smaller sites, as in our experience the most sensitive area can be around newly captured sites (which under adopted policy provide no affordable housing contribution and therefore which see a large “first time” viability impact if this form of policy were to be implemented). Variations to the dwelling mix help to consider the impact of various dwelling types on development viability, within and between these scenarios.

2.7.3 The schemes were tested using 0% (representing adopted policy on sites of fewer than 15 or 9 units depending on location) and at 20%, 30%, 40% and 50% affordable housing. This range of testing allows us to investigate viability related to a range of potential options for policy development around both the proportion of affordable housing sought and the threshold positions. These options include potential lower proportions of affordable housing sought from smaller sites below the current 15 or 9 unit thresholds - as part of a sliding scale type approach to affordable housing policy. The modelling on scheme typologies of 15 units or more allows us to test the currently proposed policies and variations around those. It is simply not practical or economic for this type of study to appraise and consider every conceivable policy option (combination of threshold and proportion). The volume of results can grow very rapidly without adding very usefully to how the study can assist policy development. Reviewing of
trends is necessary, and a degree of interpolation of results is also possible.

2.7.4 The indicative dwelling sizes used in the modelling are 50sq m for 1-bed and 67 sq m for 2-bed flats. For 2, 3 and 4-bed houses we have assumed 75sq m, 85sq m and 110sq m respectively. These are gross internal areas (GIAs). They are reasonably representative of the type of units coming forward for smaller and average family accommodation, within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. We acknowledge that these 3 and 4-bed house sizes, in particular, may be small compared with some coming forward, but our research suggests that the values for larger house types would also often exceed those we have used and would, therefore, be similar on a “£ per sq m” basis. Conversely, many new build flats for the private market may be below the unit sizes assumed. All will vary, and from scheme to scheme. It is always necessary to consider the size of new build accommodation while looking at its price – hence the range of prices expressed per square metre (or per square foot) is the key measure used in considering the research, working up the range of Value Points and reviewing the results.

2.7.5 This study assumes that the affordable housing mix will broadly reflect that of the private housing and so would be transferred to an RSL on a proportional basis to the market mix (or reflect that as closely as possible, to ensure a range of affordable dwellings coming forward as part of a wider sustainable approach). Clearly, in practice, the exact private and affordable housing mixes will vary from site to site, as may the consistency between them. The intention of this study assumption was to follow the principle that a mix of affordable housing dwelling types will be expected wherever that is achievable, rather than an assumption of only smaller dwellings for affordable tenure. In addition, ensuring consistent unit sizes across the scheme typologies allows us to consider the policy impacts on viability rather than changes to unit sizes – “like for like” comparison.

2.7.6 For details of the dwelling mix for each on site scenario appraised see Appendix I – Development Scenarios. In practice, there would be a tendency towards developers needing to maintain the higher value units within a scheme for private sales whilst also thinking about the relationship of the private units to the affordable units in terms of location. These are all factors which in reality (and dependent on the site location and characteristics) will affect the dwelling and tenure mix as part of the negotiated approach.
2.8 Affordable Housing Transfer (to RSL) – Method of Payment Calculation and Type of Property Transferred

2.8.1 Officers at South Staffordshire District Council and Registered Provider (RP) representatives indicated that the payments developers receive for the provision of completed affordable homes are currently based on a negotiated approach between those two parties. These are in turn driven by scheme costs and what the RP can afford to pay based on its business planning and financial assumptions when it considers the cashflow that will be produced by a scheme.

2.8.2 PPS3 asks us to consider the availability of funding in looking at viability, and the Council also wanted to test the impact of public subsidy (in the form of Social Housing Grant (SHG)). The grant funding climate is uncertain and consultation with local RPs has confirmed a general position that the Homes and Communities Agency (HCA) are not likely to be funding the affordable housing (s.106) elements of developer-led market housing schemes moving forward. All appraisals were therefore carried out without grant as standard (the base position, and also as applied to most subsequent layers of sensitivity appraisals) apart from those we have stated to be ‘with grant’. So, to ensure that the possibility of grant (or other subsidy) input had been considered too, a small sample was also tested on a ‘with grant’ basis. The ‘with grant’ appraisals assume an approximate level of £45,000 per unit for social rented dwellings and £15,000 per unit for intermediate tenure dwellings\(^8\). In practice, on specific sites this might well vary considerably, dependent on the scheme details, timing and property types and particular funding criteria and availability. The very recent emergence of a new form of ‘Affordable Rented’ tenure (in essence based on rents at up to 80% of market rental levels) means that all Local Authorities will need to assess and keep under review the implications of that once more is known about the HCA’s criteria and how RPs will react and appraise schemes in terms of detailed financial assumptions and rental projections etc.

2.8.3 Effectively, the value that could be paid to a developer for completed affordable homes is usually related to the mortgage finance the RSL could raise based on the rental income stream (social rent/new affordable rent) or capital and rental income stream (in the case of shared ownership or similar) with maintenance, management and other costs deducted. Following these principles, the likely payment that an RP would make for a social rented (established former affordable rented basis) or intermediate tenure dwelling for use within our modelling was determined through carrying out a series of appraisals using industry standard software (in this case we used “ProVal”, which many RPs use). These background appraisals were carried out using our experience through making

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\(^8\) Source: South Staffordshire DC / Registered Provider Information
judgements on the range of input assumptions. Our study process also includes liaison with a number of locally active RPs. At the present time, for all such studies the RPs tend to offer comments about the high level of uncertainty related to the new affordable rented tenure. Their views do help us to inform our appraisal assumptions, based on known factors and an emerging stages overview that in making a nil grant assumption for the study basis, we are covering a reasonably cautious and appropriate position on viability; in that through the new affordable rent model (especially where without grant) we might see some improved viability outcomes but more importantly from this study viewpoint we are unlikely to see greater viability impacts than flow from former affordable rent (i.e. social rent) with no grant (as appraised here and for most of our other studies, including many that have gone through EiP stage).

2.8.4 In practice, the values generated could be dependent on property size and other factors including the RP’s own development strategies and thus would vary from case to case when looking at site specifics. The RP may have access to other sources of funding, such as its own resources or recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm – it is highly scheme dependent and variable and thus has not been factored in here.

2.8.5 As above, at the time of carrying out the modelling for this study, it was not clear how the new Affordable Rent model introduced by Government is to be utilised on s106 sites. We have had a number of responses from RPs at various locations nationwide. In order only to provide a brief insight, since there is still much to be weighed-up some themes of debate have been around increased risk transfer to the RP, varying views on funding and return rates/loan payback periods, potential management issues, potential to see varying reactions from different types of funders, local demand/applicability/affordability and the interaction with housing benefit, etc. It was therefore decided that the modelling already carried out, on the basis of nil grant subsidy and the former established understanding of what social rent level cashflows would be likely to support in terms of payments to developers, that the approach applied here (and in other recent and current studies) still represented a reasonable approximation of a likely worst case scenario in terms of the value of an affordable unit to a developer. In other words, if payment levels to developers do increase, we would see improved viability relative to our nil grant results. It seems more likely that the Government’s and HCA’s expectation is to see any additional viability scope used as internal subsidy to support schemes (including by reducing any grant reliance) or perhaps cross-subsidy between locally linked schemes through the Local Investment Planning type processes the HCA has been promoting.
2.8.6 Following on from the above, the figures used in the appraisals are shown in Figure 3 below for each property type, and reflect the sums received per completed affordable home by the developer in return for constructing them (usually for an RSL to which they are transferred):

**Figure 3: Summary of Indicative Sums Payable by RSL to Developer for Completed Affordable Homes**

<table>
<thead>
<tr>
<th>Rent (no Grant)</th>
<th>Value Point</th>
<th>1 Bed Flat</th>
<th>2 Bed Flat</th>
<th>2 Bed House</th>
<th>3 Bed House</th>
<th>4 Bed House</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£29,025</td>
<td>£38,894</td>
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</tr>
<tr>
<td>3</td>
<td>£38,438</td>
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<td>4</td>
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<td>5</td>
<td>£51,188</td>
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<tr>
<td>6</td>
<td>£57,000</td>
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<table>
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<tr>
<th>Rent (with Grant)</th>
<th>Value Point</th>
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<th>2 Bed Flat</th>
<th>2 Bed House</th>
<th>3 Bed House</th>
<th>4 Bed House</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£45,478</td>
<td>£60,941</td>
<td>£68,217</td>
<td>£77,313</td>
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<tr>
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<td>£46,125</td>
<td>£61,808</td>
<td>£69,188</td>
<td>£78,413</td>
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</tr>
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<tr>
<td>4</td>
<td>£60,268</td>
<td>£80,759</td>
<td>£90,402</td>
<td>£102,455</td>
<td>£120,536</td>
<td></td>
</tr>
<tr>
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<td>£67,594</td>
<td>£90,576</td>
<td>£101,391</td>
<td>£114,909</td>
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<td>6</td>
<td>£73,667</td>
<td>£98,713</td>
<td>£110,500</td>
<td>£125,233</td>
<td>£147,333</td>
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</tr>
<tr>
<td>7</td>
<td>£77,550</td>
<td>£103,917</td>
<td>£116,325</td>
<td>£131,835</td>
<td>£155,100</td>
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</table>

<table>
<thead>
<tr>
<th>Intermediate (no Grant)</th>
<th>Value Point</th>
<th>1 Bed Flat</th>
<th>2 Bed Flat</th>
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<th>3 Bed House</th>
<th>(n/a) 4 Bed House</th>
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<td>£114,750</td>
<td>N/A</td>
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</tr>
<tr>
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<td>£77,438</td>
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<tr>
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</table>

<table>
<thead>
<tr>
<th>Intermediate (with Grant)</th>
<th>Value Point</th>
<th>1 Bed Flat</th>
<th>2 Bed Flat</th>
<th>2 Bed House</th>
<th>3 Bed House</th>
<th>(n/a) 4 Bed House</th>
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<td>£66,029</td>
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<td>£83,768</td>
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<tr>
<td>2</td>
<td>£54,000</td>
<td>£72,360</td>
<td>£81,000</td>
<td>£91,800</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>£65,625</td>
<td>£87,938</td>
<td>£98,438</td>
<td>£111,563</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>£77,625</td>
<td>£104,018</td>
<td>£116,438</td>
<td>£131,963</td>
<td>N/A</td>
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<tr>
<td>5</td>
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<td>£116,078</td>
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<td>£147,263</td>
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<tr>
<td>7</td>
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<td>£137,082</td>
<td>£153,450</td>
<td>£173,910</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>
Note that the ‘N/A’ entries within Figure 3 above were where 4 (+) bed dwelling types were not considered for intermediate tenure within the base appraisal dwelling mixes, owing to likely lack of affordability to households in need. In practice this does mean that intermediate affordable tenure of 4 (+) bed homes would be ruled out – each case would be considered by the Council on site specifics.

2.8.7 The exact nature and range of tenure models within an affordable housing mix will often need to be bespoke to a particular location and site – particularly in market conditions where these details are currently so dependent on demand as influenced by mortgage product availability, changing price levels, developer’s reactions and own practical marketing initiatives and other factors.

2.8.8 Although tenure mix is a site-specific consideration and dependent on local housing needs evidence plus the type of factors mentioned at 2.8.7, this study tests the impact of varying the tenure mix on development viability – based on certain assumptions as have to be fixed to drive appraisals. Experience with scheme specifics with previously established tenure forms and mixes is that in the recent climate the RP type financial appraisals for shared ownership and intermediate (sub-market) rent produced similar outcomes in respect of what RPs could afford to pay for dwellings. As with much of this and dependent on the detailed outcomes from the revised tenure form(s) discussed above, figures will, of course, vary with scheme specifics. The tenure mixes tested were as follows and as agreed with the Council:

- 50% rent/50% intermediate (shared ownership or similar)
- 70% rent/30% intermediate (shared ownership or similar)

2.8.9 In looking at our assumptions for intermediate tenure more generically in this way, for shared ownership accommodation our calculations were based on a 35% initial capital sale with 2.5% rent paid by the purchaser on the retained equity. Affordable rents as appraised were based on HCA target levels. New affordable rents, as with the former understanding of sub-market/intermediate rents) would normally be at up to 80% of market rent levels. For the base appraisals we assumed that only houses and flats of 3 bedrooms or less would be transferred to an RP for intermediate tenure (e.g. shared ownership) - with larger units remaining as private and/or being transferred for social rented tenure. This is due to the potential lack of affordability, particularly of shared ownership properties - where larger homes may become unaffordable to the occupier.

2.8.10 It should be noted that where we refer to shared ownership in this study - and that may still be a part of specific site discussions between the Council on intermediate tenure content, developers and RSLs - other tenure options or models may well now be relevant. The focus will increasingly be on “intermediate tenure” in an adaptable mix. Other models, including
renting at rates discounted from market rental costs have been potentially relevant previously, as part of a “menu” of possible tenure forms, but are now likely to be more prominent in the form of the new affordable rent approach. This range of tenure forms could come into play depending on local specifics such as need, demand, funding, market factors (especially in the current climate) and affordability. In most cases, they will produce improved cash-flows and provide a better viability outcome, compared with social rent without grant; in any event are unlikely to produce greater viability impacts (i.e. greater viability reductions) than social rent.

2.9 Indicative Site Area, Scheme Density and Resulting RLV

2.9.1 The results of all the appraisals provide us with data in both absolute value (£) terms and as a percentage (%) of GDV. To provide broad comparisons with published Valuation Office Agency (VOA) sourced land value data so as to provide an additional basis for interpretation of results, the approximate site area (land take) and density for each development scenario (site type and size) has been indicated.

2.9.2 Based on the unit sizes assumed in this study, this provides us with indicative densities of between 30 and 70 dwellings per hectare (dph) depending on the scheme type and potential location. We can then calculate the approximate value of each scenario and appraisal variation in indicative £ per hectare (ha) terms, to enable a comparison with other published land value data. Again, in practice, densities will be highly variable. Indicative site sizes are shown within the relevant tables of the appendices.

2.10 Other Assumptions

2.10.1 The appraisals include a range of other variables that are all taken into account when calculating an approximate RLV. This is an extensive list and includes items such as fees, land buying costs, finance, agency costs and planning infrastructure provision (generally planning obligations secured through section 106 agreements).

2.10.2 In some instances these figures are factors of other elements of the appraisal and, therefore, vary by site size and type.

2.10.3 The percentages and values assumed for the purposes of this exercise are listed below and are the result of a Building Cost Information Service (BCIS) overview re-based to the locality, Adams Integra’s experience, work with and discussions with developers, valuers, agents and others:

- **Base Build Costs (House Schemes)** - £900/sq m
2.10.4 The above are applied to the Gross Internal Area (GIA) of the accommodation. Base costs for flats are likely to be higher than for a scheme of houses particularly where sites are constrained and often difficult to work on (involving materials storage difficulties, craning etc). Common areas have to be allowed for, as does the degree of repetition of costly elements. Cash-flow for flatted development can also be less favourable as rolling sales are more difficult to deliver. In this study the £1,050 per sq m figure assumes standard low-rise flats (typically no more than 3 storeys and allowing standard construction techniques) as we consider are most likely to be applicable to this District. In practice, again all schemes will be different.

2.10.5 Build cost figures have been taken as an indicative level, supported by our ongoing experience of scheme specifics, whilst also taking into account a range of information from BCIS data and feedback from developers.

2.10.6 There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so a judgement on some form of benchmark is necessary. There will be instances where other costs are relevant, including in overcoming abnormal site issues or characteristics.

2.10.7 We are aware that the developer’s base build costs can be lower than our above base cost figures. In contrast, however, there is also much said about costs being higher than this, often in the context of RSLs procuring new housing through contractors and developers. Build costs are set out in a range of guises, including in BCIS, whereby items such external works costs and fees, etc, are sometimes included, sometimes excluded. It can be difficult to carry out reliable analysis. So a view needs to be taken, and then monitored, tested and updated as informed by the experience of site specifics, negotiations and (from the affordable housing perspective) in light of funding availability and affordability for occupants.

2.10.8 Typical scheme-specific additions to these are:

- **Professional fees & contingencies**: 13.0 % of build costs.
- **Marketing and Sales Fees**: 3.0% of Estimated Total Sales Value (GDV). There will be instances, dependent on the location and scheme type, where some of this expense, or an
additional sum will be directed to the setting up of a show home. This will, however, not be appropriate on all schemes hence we have not included for it as a standard assumption item. We would not expect it to alter the outcomes fundamentally.

- **Legal Fees on Sale:** £600 per unit.
- **Finance (build):** 7.0% - on build costs, fees, etc.
- **Build Period:** 6 to 24 months depending on scheme size within the range assumed.
- **Land Survey Costs:** Approximate cost of £500 per unit including basic ground conditions research (on larger schemes especially there will usually be additional cost associated with transport, environmental/landscape, ecology, etc, dependent on the scheme and not covered here).
- **Legal Fees on Land Purchase:** 0.75% of land value (this will often produce a low figure when looking at very small or low value sites but only make a minimal difference to outcome).
- **Planning Application costs:** £335 per dwelling where the number of dwellings is 50 or fewer; where the number of dwelling houses exceeds 50 - £16,565 plus £100 per dwelling in excess of 50, subject to a maximum total of £250,000.
- **Stamp Duty Land Tax:** Between 0% and 4% depending on RLV.
- **Planning Obligations (excluding Affordable Housing):** Appraisals carried out assuming £3,000, £6,000 and £9,000 per unit for wider planning obligations. This covers a range of potential planning obligations costs but equally could apply to other future costs. They are notional levels. We varied this assumption so that we and the Council could review the sensitivity of results to this factor – using similar thinking to the Value Points methodology rather than looking only at a relatively narrow set of assumptions. This was done in the context of a range of other areas which could effectively add costs to schemes from a developer’s, and therefore landowner’s, perspective (e.g. flood risk, Special Protection Areas mitigation costs (SPA) and Suitable Alternative Natural Green Space (SANGS) or other particular cost issues, etc).
The figures used are not intended to replace site-specific consideration of planning obligations levels. We have used the range of values to test the additional impact of those costs on development viability of the schemes types appraised. As stated elsewhere in the study text, this group of appraisals can also serve a wider purpose in that the outcomes give a guide as to how RLVs vary when costs at these levels are added to appraisals. In fact those costs could be related to a range or group of different factors – including on sustainability measures or abnormal site costs. The range of costs used was arrived at through discussion with the Council as to the likely estimated value of planning obligations that are, and could in the future be, reasonably secured from residential development.

Code for Sustainable Homes: All base appraisals assume compliance with Level 3 of the Code for Sustainable Homes (for all dwellings – market and affordable). The Council also requested that appraisals be carried out on a sample of scheme types showing the impact on development viability of achieving CfSH Level 4 and then CfSH Level 5. The costs of achieving those levels of the Code were based on research for the Government’s Department for Communities and Local Government (CLG)\(^9\). Figure 4 below shows the costs assumed for the purposes of this study. These are only guides and again site-specific details will vary. Once again, the wide scope of appraisals and outcomes allows other results to be considered as also represents the impact of particular added costs beyond those allowances specifically mentioned in these sections.

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\(^9\) DCLG – Code for Sustainable Homes: Cost Review (March 2010)
Figure 4: Costs Assumed for Meeting Code for Sustainable Homes

<table>
<thead>
<tr>
<th>Code Level 3 Costs (per unit) - All</th>
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</thead>
<tbody>
<tr>
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</tr>
<tr>
<td>£2,463</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Code Level 4 Costs (per unit) - All</th>
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</thead>
<tbody>
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</table>

<table>
<thead>
<tr>
<th>Code Level 5 Costs (per unit) - All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flats</td>
</tr>
<tr>
<td>£17,739</td>
</tr>
</tbody>
</table>

- **Lifetime Homes** - While this can affect scheme viability in a wider sense - from the point of view of increasing building footprints and therefore cost and, potentially, site capacity - it may not necessarily add significant cost but instead has design implications. Interpretations and opinions vary widely. Early design input minimises its impacts, and costs depend on to what degree standards are applied and what other standards are already to be met. There are overlaps, and even areas where it can compromise or not fit well with other requirements. It is an area that needs to be kept under review in terms of practicalities, costs and impacts – as part of the overall expectations from schemes. For the purposes of this exercise and to build on our acknowledgment of the relevance of this area, rather than make our own judgement we have preferred to rely on the published work by Habinteg Housing Association ([www.lifetimehomes.org.uk](http://www.lifetimehomes.org.uk)) which suggests that the cost of meeting lifetime homes standards is up to £545 per dwelling (included) depending on size, layout and specification of the property. It is an area that needs to be kept under review in terms of practicalities, costs and impacts – as part of the overall expectations from schemes. The same applies to the Council’s likely approach to wheelchair adapted housing being incorporated wherever possible within schemes – specific needs, design implications and impacts will need to be considered as sites come forward and planning applicants will need to build this in to their thinking.

- **Finance related to land purchase**: 7.0% interest cost on land survey, planning costs, legal fees on land purchase and RLV over build time plus 26 weeks. No finance arrangement or related fees have been included for the purposes of this
exercise. They might in practice be applicable, but we would not expect them to alter the viability equation fundamentally. Scheme funding arrangements will vary greatly, dependent again on the type of developer and scheme. As with much of this exercise, this is a snapshot and there are varying views as to what future trends will hold, and so over time we would need to see how added costs balanced with changes in sales values.

- During the course of the study, the Bank of England Base Rate has been maintained at 0.5%. On fixing our assumptions in the early study stages we decided to leave our finance rate assumptions unchanged. Due to the continued reduced availability of finance, we considered this approach to be further validated and therefore to remain appropriate. The impacts of the low Base Rate have still not been seen in any notable way, but with further time our interest rate assumption might begin to look high – it is not possible to tell. Nevertheless, this again fits with looking at viability reasonably cautiously rather than stripping out too many cost allowances from appraisals. It also fits with the strategic view – in terms of trying to settle on assumptions reflective of a range of potential market conditions. Our understanding is that house-buying and development finance remains relatively difficult to access – at least on favourable terms, related to the risks perceived by the markets and to the fact that lending between institutions is still not working on terms or to the extent that had underpinned the active market in preceding years. We have had a climate recently whereby rate reductions have tended not to be passed on, certainly not to a significant degree, to borrowers, and where other charges (arrangement fees, etc) have weighed against any cuts. So far as we can see, similar applies in a commercial sense. In summary, at the time of writing, we have no reason to believe that the commercial lending climate has eased very significantly.

### 2.11 Wider research

2.11.1 To supplement our research on the property market local residential property values (as set out in Appendix III), Adams Integra has also carried out further desktop research and contacted a variety of organisations which are (or have been in more buoyant conditions) involved in the local land market, i.e. in selling or perhaps buying sites.

2.11.2 The information gathered from that process, as far as it was available, is also included in Appendix III. We collected it with the aim that it would help our understanding of land price expectations locally, potentially to
enable us to consider the information offered by the VOA reporting in a more informed way, and potentially inform further comparisons with our indicative RLV results while we considered those, and thus help with the judgements we seek to make.

2.12 Stakeholders and Consultation

2.12.1 We invariably find that developers are, understandably, more often than not reluctant to share information on their assumptions. There are commercial sensitivities to be respected. However, as part of considering a range of information and informing our judgements for each of our studies we consult with a range of stakeholders including developers, landowners, RSLs and agents as a matter of course. This is done through the “on the ground” and web based/desktop research we have mentioned.

2.12.2 For this study details of the main assumptions were circulated to a number of organisations active in the local residential development market plus and RPs. Participants were given the opportunity to submit their views individually (privately) on the proposed study assumptions. The purpose of this was for Adams Integra (and the Council) to engage with a range of organisations involved in the local market and to gain an insight into stakeholders’ perspectives on the local market and development issues in the District. It also enables us to ensure that the appraisal variables used within the modelling reflect the costs and values associated with development within South Staffordshire.

2.12.3 Adams Integra undertook not to disclose the detail of any of the responses but these were collated and have helped to inform our progress from that point. It is our job to make an independent view. A sample pro-forma issued to stakeholders is shown in Appendix IV.

2.12 General Notes and Caveats

2.12.1 This study requires judgements based on the development values and changes seen in land values as a result of varying potential policy positions. This is in the context of seeking to guide policy development and arrive at clear policy targets. The results cannot be a definitive guide to how specific sites will be appraised or how outcomes on a site-specific basis will look. As this is a relative exercise aimed at determining the likely effect of a range of policy options, the most important factor is consistency between assumptions used for modelling scenarios. Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments. The same could be said of any set of study assumptions. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing policy development.
2.12.2 This study is set in the context of setting clear and realistic targets as a basis for long-term policy but bearing in mind short-term flexibility required to deal with the current housing market. Development viability will vary from site to site, and there will be no substitute for the negotiated approach to provision where necessary (e.g. sites with abnormal costs, low sales values etc).

2.12.3 There can be no definite viability cut off point owing to individual landowner’s circumstances. It is not appropriate to assume that because a development appears to produce some land value (or in some cases value equivalent to an existing/alternative use), the land will change hands and the development proceed. This principle will in some cases extend to landowners expecting or requiring the land price to reach a higher level, perhaps even significantly above that related to an existing or alternative land use. This might be referred to as a premium, “overbid” or sufficient level of incentive to sell. In some specific cases, whilst weighing up overall planning objectives to be achieved, therefore, the proposals may need to be viewed alongside the owner’s enjoyment/use of the land, and a potential “overbid” relative to existing use value or perhaps to an alternative use that the site may be put to. In practice, whether and to what extent an active market exists for an existing or alternative use will be a key part of determining whether or how site discussions develop.

2.12.4 These factors will not always come into play or always have very significant influences on outcomes. For instance, the market for an existing or alternative use proposal, and therefore the value it produces, will vary with time, location and economic conditions. They are likely to be highly variable as to relevance for, and impact on, particular schemes. In reality, scheme-specific land values have to be considered alongside existing or alternative use values and the latter, being very location and planning use or business dependent, will vary significantly too.

2.12.5 To attempt to make detailed comparisons with existing or alternative uses in this type of overview work for policy context would, in our view, have limited meaning. We have, however, attempted to provide examples of, and comparisons with, alternative use values. Commercial use values in particular are highly site-specific. Nonetheless this study acknowledges that the level of value created by a residential scheme after making allowance for affordable housing and other planning obligations requirements will need to be weighed up against any existing or alternative use relevant to a particular site.

2.12.6 The use of notional sites/site typologies most effectively enables like-for-like comparisons to be made, i.e. the testing of impacts of the varying requirements on the same typical scheme in a range of value locations. The fact that individual schemes vary makes like-for-like comparison very difficult when studying those for this purpose of trying to measure policy
impacts, with full reliable and readily comparable information being critical.

2.12.7 We have not definitively labelled specific locations or areas as higher/lower value, or similar. This is because, while a general values hierarchy might be noted (see Appendix III) based on typical values, in practice we found that values can vary from street to street and within very small areas. The Value Points approach used in this study means that viability outcomes can effectively be transported around the District and a feel for viability gained in relation to relevant value levels as those might vary by location as well as by scheme). As noted, this approach of reviewing outcomes from a range of values also enables the consideration of viability impacts and trends as values change with regard to market adjustments.
3 Results and Related Commentary

3.1 Background

3.1.1 The residual land value (RLV) modelling carried out for this study looks at a range of scenarios investigating the impact on development viability in accordance with the methodology as set out in Chapter 2.

3.1.2 The number of appraisals required rises exponentially with the number of variables investigated. This is the case with all such studies and it is important to keep this exercise within practical limits. However, the modelling still creates a very extensive range of results, especially once all the variables are considered through additional layers of appraisals. These are presented by means of a large number of tables and graphs. This dataset is appended to the rear of this report should the reader wish to view them. The following Results Chapter aims to lift from that large volume of information a few example results to explain the characteristics, impacts and trends of various potential policies on development viability. The purpose here is to help guide the reader in interpreting the results and to illustrate key points and trends which have lead to our conclusions.

3.1.3 The data is shown in tabular and graphical form and shows the indicative RLV produced by each appraisal, those RLVs shown as a percentage of gross development value (GDV), and the approximate land value as a value per hectare.

3.1.4 The Appendices are set out as follows:

- Appendix I – Development Scenarios
- Appendix II (base appraisals) - results from the base appraisals carried out across a range of scenarios, with in all cases assumptions including tenure mix of 50% social rented and 50% intermediate; Code for Sustainable Homes Level 3; achievement of 10% on-site renewables (if required); nil social housing grant; 17.5% developer’s profit; and a £3,000 per unit infrastructure/other planning obligations cost allowance.
- Appendix IIa - results of the appraisals carried out assuming no additional requirement to achieve 10% renewables on-site.
- Appendix IIb – results of appraisals carried out with a tenure mix of 70% social rented/30% intermediate. All other assumptions as per the base appraisals.
- Appendices IIc and IIId - the results of the sample appraisals carried out assuming variations to planning obligations (or other)
costs. Appendix IIc shows the results where the cost is increased to £6,000 per unit; Appendix IId shows the results where the cost is increased to £9,000 per unit. All other assumptions are as per the base appraisals.

- Appendix IIe shows the results of the sample appraisals carried out assuming increased developer profit (at 20% of GDV). All other assumptions as per the base appraisals.

- Appendix IIIf shows the results of the sample appraisals carried out testing the requirement for Levels 4 and 5 of the Code for Sustainable Homes. All other assumptions as per the base appraisals.

- Appendix IIg shows the results of the appraisals that assume an element of grant. All other assumptions as per the base appraisals.

- Appendix IIh outlines results that look at the cumulative impact of costs on one scheme type at Value Point 4.

- Appendix IIi sets out a summary of the RLV maths behind and the appraisal results relating to the potential collection of financial contributions from sites in the size range 1 to 14 dwellings.

- Appendix III contains a summary of our property values and market research.

- Appendix IV sample pro-forma for the stakeholders consultation process which complimented our wider and “on the ground” research.

- Appendix V provides a Glossary of technical terms used throughout this study.

3.1.5 The results appendices also summarise the RLV results across all scenarios and site sizes showing the corresponding monetary value in pounds per hectare (£ per ha) based on assumed indicative site areas (“land take”) and densities for each scenario. These tables also show Valuation Office Agency (VOA) reported land values for example alternative land use types in the South Staffordshire District context. Again, it should be noted that both the assumed development scenario site (land take) areas and the VOA data are highly indicative. This type of data can become outdated quickly – especially in times of fast-changing markets as we have had recently. Such comparisons are used within this study only to help highlight how land value varies as assumptions change, and to show very

generally the type or range of other information that the indicative RLV results might be compared with when it comes to considering how likely a scheme is to proceed given other valuation factors. The inclusion of this information here seeks to help with illustrating how the value (RLV) created by residential development proposals may look and vary relative to other example uses only. The key point through these indications is to build on the emphasis that considering alternative/competing or existing use values (and potentially additional incentive levels, as has been discussed) will often be important in site-specific viability and thus delivery discussions. In practice, as the study notes elsewhere, the values likely to be attributed to various existing or potential uses of a particular site will be highly site-specific.

3.1.6 At this strategic level overview for policy development, we are able only to make broad comparisons. Unfortunately it is simply not possible to provide the Council with definitive “cut-off” points where a scheme definitely would proceed, or conversely where viability would be compromised to the degree that development would not take place. Site specifics will influence viability on individual sites. Adams Integra sought additional, more South Staffordshire District-specific, information on land values such as was available at the time of research. The information search was also kept open during the study period. This was done through enquiries of local agents who may be dealing with land sales – sites for commercial and residential developments. Desktop (web-based) searching for any information was also carried out. Our study process involves asking agents if they have dealt with or are aware of any specific land sale (or marketing) information – or, if not, whether through their experience they can offer any views on local land values. These are typically, but not always, different agents from those we talk to about residential property sales. Particularly in the current market, this extra research has typically resulted in little additional information; however any that was gathered as the study progressed is included at Appendix III.

3.1.7 The principles here are as mentioned within a SEEPB paper on Affordable Housing\(^\text{11}\) - “There may be considerable variance between individual site circumstances and those modelled when setting an affordable housing target. It is therefore important that local authorities retain the flexibility that will enable them to negotiate individual sites”. There will need to be a second stage to the viability process often prior to, or at, the planning application stage whereby site-specific discussions are necessary – for example in the event of landowners or developers needing to demonstrate that affordable housing targets, or perhaps other planning obligations, cannot be met. The same might apply where a developer or landowner
wished to explore enhanced (in excess of target levels) or alternative provision of affordable housing with the Council.

3.1.8 Our comments on existing and alternative use values (for example commercial), and how those vary greatly with site specifics, will apply when the Council considers the viability of mixed use schemes in terms of the affordable housing and other requirements.

3.1.9 Our suggested starting point for considering the viability (and therefore the parameters for affordable housing provision and other planning obligations) of the residential element of a mixed use scheme would be to consider that part of the development in a similar way to a solely residential scheme. Then it would be necessary to consider any positive or negative impact, on overall viability, from the other scheme elements, and to what extent those are being driven by planning requirements to create the mix and type of uses being proposed. Inevitably these considerations will always be highly site and scheme-specific. However, there is no reason why the general target approach - the level at which that is pitched, and the overall process - would not follow that which is related to wholly residential sites.

3.1.10 The following results sections cover the main scheme type/development scenarios (2 to 100 units). The relationship of the range of results relative to potential policy for each of the District’s Locality Areas (1 to 5) is considered within the Conclusions, Chapter 4. We carried out the research and appraisals in a way which meant we could either report findings related to particular localities or in respect of a wider District overview, depending on the variations in values and outcomes that we saw.

3.2 Property Values

3.2.1 One of the key inputs into the appraisal process is the completed value of residential properties that will make up a scheme (i.e. the estimate of the scheme’s GDV by reviewing the likely values of the component properties). Typical value levels that reliably represent particular localities are hard to pin down given the highly variable nature of housing product and local influences on price. However, on an indicative overview basis - looking at the general pattern of values as is appropriate at this study level - the following hierarchy of values was indicated from our overall (resales dominated) market research (expressed by Council “Locality Area” where information was available) – see Figure 5 below:
3.2.2 This data has also been analysed with regard to more specific settlements that are contained within up each of the 5 Locality Areas - as shown in Figure 6 below:

**Figure 6: Average asking price analysis by settlement/ neighbourhood area**

<table>
<thead>
<tr>
<th>Settlement</th>
<th>1 Bed Flats</th>
<th>2 Bed Flats</th>
<th>2 Bed House</th>
<th>3 Bed House</th>
<th>4 Bed House</th>
<th>All Properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lapley</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>£369,950</td>
<td>£568,725</td>
<td>£528,970</td>
</tr>
<tr>
<td>Lower Penn</td>
<td>N/A</td>
<td>N/A</td>
<td>£182,475</td>
<td>£315,693</td>
<td>£488,385</td>
<td>£392,500</td>
</tr>
<tr>
<td>Codsall Wood</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>£392,500</td>
<td>£392,500</td>
</tr>
<tr>
<td>Swindon</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>£231,967</td>
<td>£423,543</td>
<td>£366,070</td>
</tr>
<tr>
<td>Seisdon</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>£296,650</td>
<td>£403,317</td>
<td>£349,983</td>
</tr>
<tr>
<td>Acton Trussell</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>£261,500</td>
<td>£360,980</td>
<td>£344,400</td>
</tr>
<tr>
<td>Penkridge</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>£346,667</td>
<td>£305,706</td>
<td>£317,995</td>
</tr>
<tr>
<td>Brewood</td>
<td>£124,950</td>
<td>N/A</td>
<td>£219,983</td>
<td>£278,607</td>
<td>£407,700</td>
<td>£316,210</td>
</tr>
<tr>
<td>Wheaton Aston</td>
<td>N/A</td>
<td>N/A</td>
<td>£145,000</td>
<td>£290,335</td>
<td>£366,633</td>
<td>£312,653</td>
</tr>
<tr>
<td>Pattingham</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>£319,480</td>
<td>£285,000</td>
<td>£311,523</td>
</tr>
<tr>
<td>Bishop's Wood</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>£242,500</td>
<td>£305,706</td>
<td>£317,995</td>
</tr>
<tr>
<td>Kinver</td>
<td>£115,000</td>
<td>£169,975</td>
<td>£179,656</td>
<td>£268,176</td>
<td>£397,729</td>
<td>£291,226</td>
</tr>
<tr>
<td>Bobbington</td>
<td>£190,000</td>
<td>£199,950</td>
<td>N/A</td>
<td>£229,973</td>
<td>£343,113</td>
<td>£268,038</td>
</tr>
<tr>
<td>Cheslyn Hay</td>
<td>N/A</td>
<td>£119,975</td>
<td>£158,252</td>
<td>£334,685</td>
<td>£237,247</td>
<td>£268,038</td>
</tr>
<tr>
<td>Codsall</td>
<td>£89,950</td>
<td>£121,250</td>
<td>£145,217</td>
<td>£191,792</td>
<td>£354,481</td>
<td>£227,345</td>
</tr>
<tr>
<td>Shareshill</td>
<td>£179,950</td>
<td>N/A</td>
<td>N/A</td>
<td>£195,658</td>
<td>£344,950</td>
<td>£227,089</td>
</tr>
<tr>
<td>Stourton</td>
<td>N/A</td>
<td>£153,450</td>
<td>£156,950</td>
<td>N/A</td>
<td>£384,750</td>
<td>£220,036</td>
</tr>
<tr>
<td>Wombourne</td>
<td>£102,470</td>
<td>£136,043</td>
<td>£136,733</td>
<td>£189,888</td>
<td>£320,503</td>
<td>£206,216</td>
</tr>
<tr>
<td>Coven</td>
<td>N/A</td>
<td>£174,986</td>
<td>£186,337</td>
<td>£259,850</td>
<td>£203,094</td>
<td>£206,216</td>
</tr>
<tr>
<td>Essington</td>
<td>N/A</td>
<td>£79,973</td>
<td>£123,658</td>
<td>£190,435</td>
<td>£276,648</td>
<td>£195,947</td>
</tr>
<tr>
<td>Perton</td>
<td>£79,784</td>
<td>£112,862</td>
<td>£133,672</td>
<td>£177,318</td>
<td>£247,574</td>
<td>£181,535</td>
</tr>
<tr>
<td>Great Wyrley</td>
<td>N/A</td>
<td>£75,713</td>
<td>£114,193</td>
<td>£162,744</td>
<td>£228,110</td>
<td>£159,076</td>
</tr>
<tr>
<td>Featherstone</td>
<td>N/A</td>
<td>£116,199</td>
<td>£149,286</td>
<td>£216,230</td>
<td>£157,501</td>
<td>£157,501</td>
</tr>
<tr>
<td>Bilbrook</td>
<td>£96,950</td>
<td>N/A</td>
<td>£149,967</td>
<td>£169,242</td>
<td>N/A</td>
<td>£157,413</td>
</tr>
<tr>
<td>Huntington</td>
<td>N/A</td>
<td>£114,698</td>
<td>£130,954</td>
<td>£197,316</td>
<td>£137,568</td>
<td>£137,568</td>
</tr>
<tr>
<td>Overall</td>
<td>£102,591</td>
<td>£136,676</td>
<td>£142,735</td>
<td>£201,657</td>
<td>£338,684</td>
<td>£232,466</td>
</tr>
</tbody>
</table>
3.2.3 These are based on averages. Across the area these general observations and trends are affected by prices in particular locations or areas within settlements and/or by volumes of particular housing types for sale at any one time (which in turn is influenced by the local stock make up). Values can be driven by specific location and scheme desirability as much as by particular area or settlement. In certain areas there can be wide variations.

3.2.4 In addition, information was sought on likely new build pricing via both desktop research and by talking to estate agents. We have to be careful in analysing new build pricing, since often when higher values are seen, the property floor areas are larger too, or the properties are not comparable in some other way. The relationship between size and value needs to be borne in mind, as explained in the methodology – at 2.7.3. Appendix III shows the results of both the desktop research and such information provided by estate agents on likely new build pricing across the District, and variations with it.

3.2.5 The range of new build values used in this study to enable us to test both the variation in values as may be seen across a range of scheme types throughout South Staffordshire District, and with a changing market over time, is shown in Figure 7 below. Given the still relatively weak economic backdrop and uncertain condition of the current property market we have discussed, the direction the market next takes is particularly difficult to assess at the moment - both nationally and more locally. By looking at a range of values, however, this methodology is able to be used in a way which enables a review of viability outcomes in response to value levels as those vary. This means that overall the range of values tested is likely to remain appropriate and still capture the typical value levels locally as they move within this scale. The general range of new build values seen (in £ per sq m) and used for carrying out appraisals is as follows:

**Figure 7: New Build Range of Values**

<table>
<thead>
<tr>
<th>Value Point</th>
<th>£ / sq m</th>
<th>Approx. £ / sq ft</th>
<th>Related Locality with these typical value levels for new builds*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£1,350</td>
<td>£125</td>
<td>Market falling from current lower end</td>
</tr>
<tr>
<td>2</td>
<td>£1,500</td>
<td>£139</td>
<td>Lower / mid range values – e.g. typically Locality 3</td>
</tr>
<tr>
<td>3</td>
<td>£1,875</td>
<td>£174</td>
<td>Mid range values – e.g. typically seen in Localities 1 and 4</td>
</tr>
<tr>
<td>4</td>
<td>£2,250</td>
<td>£209</td>
<td>Mid to upper range values – e.g. typically seen in Locality 2 and 5</td>
</tr>
<tr>
<td>5</td>
<td>£2,625</td>
<td>£244</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>£3,000</td>
<td>£279</td>
<td>Market rising from current upper end</td>
</tr>
</tbody>
</table>

*Locality values are approximate and may vary with market conditions.*
3.2.6 The range of new build values seen goes from approximately £1,550/m² to just under £2,400/m² (or about £144/sq ft to £223/sq ft). The new build averages suggest a fairly narrow range of property values across the District at the present time, with significant overlap in places. However, studying viability over a range of values enables the results to be viewed in the context of values changing as influenced by moving market conditions. Activity levels have been low recently, as in most other places we have visited. With these dynamics in mind, it is also possible that in periods of greater development activity (which may be in a wider range of locations), we could see an expanded range of new build values within the overall values scale (range of values points) that we have considered.

3.2.7 Further analysis of the pricing information indicated that the average new build marketing price point for South Staffordshire District as a whole area was just under £2,000/sq m (£186/sq ft) at the time of our research (i.e. around our value point 3 to 4). This does not take account of the number of properties for sale at each point that fed into this calculation and as such the average can be skewed. This is also on the basis of the current market picture – the potential effect of market movement is considered in reviewing our results and discussing our recommendations.

3.2.8 We reiterate that given the current condition of the property market, the direction the market next takes is very difficult to assess. By looking at this range of values this methodology is able to be used in a way which enables a review of viability outcomes in response to value levels as those vary. As mentioned previously, Value Points 1 and 7 were modelled to allow us to look at the impact on viability should the property market deteriorate further or improve from the point at which this research was carried out. This means that overall the range of values utilised is likely to remain appropriate for, and will most likely still capture, the typical value levels locally - as they move within this scale.

3.2.9 Sales prices usually vary from asking prices - to a variable and sometimes significant degree, especially in a weak market. Bearing this in mind and if market conditions deteriorate further we could see a general move downwards within our overall scale of value levels meaning lower value occurrences could increase, at least over the short-term. Nevertheless, even in depressed market conditions, it is likely that for highly desirable locations and schemes there will also be cases where values are much higher within the overall range considered (e.g. up to our Value Point 4-5 or perhaps higher).

3.2.10 Adams Integra's recent research for viability studies and feedback from the development industry suggests in general that there is no longer a significant premium value attached to new build properties compared to resales of a comparable type (although care needs to be adopted in
analysis because data is not always on a like-for-like basis – as above). This is due to the recent and ongoing lack of confidence in the housing market triggered by the recession. Many agents have indicated that new build property now has to compete directly with resale in pricing terms. This is not always the case, however - for example where a scheme creates what is considered to be a new or particularly attractive offer for a given location, something which developers will strive for.

3.2.11 An important feature of the housing market which was triggered in Autumn 2007, developed in 2008 and continues now following some level of pick-up from the trough (and appears to be universal) has been the slow-down in the rate of sales (number of sales being agreed and proceeding). The impact of the vastly reduced level of market activity (volume of house sales) has been to significantly affect the level of development activity by increasing perceptions of uncertainty and risk. It remains to be seen how this will continue to play out fully in terms of the financial appraisal of schemes and sites and, as mentioned in Chapter 2, we see a range of reactions to it in terms of profit levels sought, and other assumptions applied.

3.2.12 We feel there is no doubt that current conditions add up to a negative financial viability impact when compared with how schemes are viewed and pursued in a more stable, confident market. Developments in general take longer to sell (with build progress possibly slowed and costs outstanding for longer as a result) and varying packages of incentives are typically being offered. A key point here, again, is that affordable housing is not solely responsible for any viability difficulties – and it should not be regarded in that way. There is often a complex interaction of influences.

3.3 Indicative Value Comparisons

3.3.1 As a basic premise, development is unlikely to proceed unless there is a positive residual land value which also exceeds both any existing or alternative use value – and potentially by a margin considered reasonable under prevailing market conditions. As mentioned previously, due to highly variable potential existing and alternative use values of sites, and in some cases particular “overbid” or incentive requirements, it is not possible to provide the Council with definitive “cut-off” points where viability will be compromised to the degree that development may not take place. However, it is possible to provide likely outcomes at varying levels. The results of this study are reviewed with reference not only to comparisons with existing and alternative use values but also through other indicators such as the ratio between the gross land value and gross revenue (GDV). By way of a basic example, a residual calculation that provides an output of zero value (i.e. RLV of 0% of GDV) after testing a particular policy requirement means that development on this site would not go ahead unless there was a special business case for pursuing it. Conversely, on a
site where the RLV approaches 20% of GDV or perhaps more after the application of affordable housing policy it is more likely (although not definitive) that land values may be high enough to absorb the impacts of the potential new policy positions tested. This is obviously not always the case and very high or very low values can skew the ratios.

3.3.2 The indicative RLVs in monetary terms (as at Appendix II) resulting from the application of various policy positions across the different site types, are compared very generally to land values provided by organisations such as the VOA through estimating the land area (“land take”) of the notional schemes (Tables suffix “b” and “c in each Appendix). These tables group together the results of the appraisals at lower and higher densities respectively – please refer to Appendix I for the density assumptions. The density assumption clearly has a direct effect on the RLV when expressed in £ per ha terms. We decided, again, to cover a range of scenarios. Density is a factor of the particular type of development, and in practice will vary significantly from scheme to scheme and area to area.

3.3.3 As an example and again bearing in mind the notional nature of it, Adams Integra’s 15 unit housing scheme could occupy 0.5 ha (at a density of 30 dwellings per hectare (dph) – Appendix II Table 1b. Reviewing the base appraisals, the value of the land at Value Point 4 (very approximately equivalent to upper value areas of Locality 1 and 4; lower value areas of Locality 2 and 5) with zero (0%) affordable housing is indicated to be £1,298,027 per ha. With a requirement for 20% affordable housing this falls to £948,335 per hectare. At 30%, 40% and 50% affordable housing it falls further to £677,441, £551,268 and £339,637 per hectare. Valuation Office statistics for industrial land in the West Midlands provided values between £250,000 and £1,200,000 and a typical value of £504,000 per ha. The VOA information at this level provides no specific data for South Staffordshire, but if we look more locally (which we consider provides a more relevant general comparison than the West Midlands overall), the VOA data suggests industrial land values of between £300,000 and £500,000 per hectare (data from Stafford, Telford and Wolverhampton). The July 2009 VOA data was updated as of January 2010 with a smaller dataset. However, it commented at that stage that industrial land values had remained relatively static over the previous year (from January 2009) across the country. We can therefore assume that those levels still represent a reasonable feel for values in relation to this key component of brownfield land. For the purposes of this report, we have used those figures as one level of comparison. Further information provided by respondents to the consultation exercise point to a very similar level – also indicating local commercial land values of approximately £500,000 per ha.

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hectare. This supports the levels at which we make these purely indicative comparisons.

3.3.4 VOA data also suggests that agricultural land values are generally up to £20,000 per ha (but again variable dependent on type, quality and location). Although this is true for purely agricultural land, if the case arises in South Staffordshire District that true greenfield land comes forward for residential development (either through site allocations policy or other means) there is normally an associated uplift in value. While land value expectations and payments in those cases are likely to be very much lower than with many previously developed sites, there may well still be varying degrees of incentive required – taking comparative land value situations up to perhaps somewhere in the range £100,000 – £400,000 per hectare. Again, this is necessarily purely indicative but adds a further layer or “filter” when comparing the RLVs of our notional site typologies with values created by alternative uses.

3.3.5 What this broadly indicates on a comparison basis with average data from the VOA, is that the value of our 15 unit housing scheme (at Value Point 4 with 20%, 30% or 35% affordable housing) exceeds typical commercial land values. At 40% affordable housing however we start to see the RLV drop below the upper indicative value per hectare for commercial/industrial land. However, were this to be a greenfield scheme then we would expect the applicable comparison to alter and we may be looking to see whether the RLV generated could exceed a figure somewhere in the range £100,000 to £400,000 per ha instead. In this case, at Value Point 4 we would see those figures exceeded after assuming up to and including 40% affordable housing. At Value Point 3, based on these type of assumptions it can be seen that the workable affordable housing scenario might fall closer towards 20% but again dependent on case specifics since that scenario still shows a significantly positive RLV of £318,650/ha, potentially competing with a range of lower end commercial land values and also representing significant enhancement to agricultural values levels. Of course a range of RLV outcomes potentially could be seen on a scale between say 20% and 30% affordable housing, and 30% to 40% affordable housing so that outcomes in particular cases could also fall in those ranges.

3.3.6 At Value Point 5 we would see the value of the land for our 15 unit housing scheme (based on an indicative 30 units per hectare) exceed the range of industrial and upper end commercial use values at all appraised proportions of affordable housing compared to the values shown in the VOA (industrial land) data. It follows that we would expect generally to see that greenfield land values (with value enhancement/uptilt assumed)

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13 HCA Area Wide Viability Model Annex 1 “Transparent Viability Assumptions” (August 2010) Consultation Version suggests a benchmark of between 10 and 20 times agricultural value
would more comfortably be met or exceeded with property values at or beyond these levels and 40% affordable housing provided. Looking at the same notional scheme example, we would also see RLVs meeting or exceeding the VOA indicated value levels for residential land at Value Point 5 with up to and including 30% affordable housing (representative of a brownfield residential land price expectation according to data available – see 3.3.7 below). With 40% affordable housing, the RLV falls away from our 30% outcome of £1,244,339/ha to an indication of £1,094,089/ha – still a very positive-looking result with potential greenfield sites in mind. We can again see that while the 40% greenfield comparison still looks comfortable at Value Point 4, 40% at Value Point 4 combined with a brownfield assumption may become marginal. We can see a case here for a potential differentiation between greenfield and brownfield affordable housing scenarios, whereby the former generally provide more scope. In South Staffordshire, bearing in mind the value patterns seen (the level and distribution of values) this could emerge as a useful consideration for policy which would respect a key factor that will determine how viability will be seen to vary; more so than values patterns reliably fitting to Locality Areas as a potential key driver of affordable housing policy. In any event policy needs to set out a clear position and is best not made unduly complex.

3.3.7 In connection with these various land value comparisons (or “filter” levels for reviewing results, as they might be described) for general information, the VOA also provides data for residential land within the West Midlands. The January 2010 data provides figures of between £1,000,000 and £1,200,000 per hectare. Residential land values of approximately £1,200,000 per hectare again were reported by respondents from the consultation exercise. The land values shown also align to our results as seen from our mid to high value points and/or lower proportions of affordable housing at lower value points. This information can only be regarded in very general terms, however, since we stress again that development values and appraisals are very site-specific once actual schemes are being looked at. It also needs to be borne in mind that the basis of that VOA values data may well not be consistent with particular planning obligations expectations, including on affordable housing, as well as with other current locally applicable assumptions and market trends.

3.3.8 It is also very important to note when comparing values with VOA data (or other historical data) that the commercial property market is currently weak, has lost confidence and has been seeing demand levels reduced more severely even than in the residential market – with very low occupier demand levels affecting values very significantly as a more or less universal trend. It needs to be borne in mind that land value comparisons between residential and other existing/potential alternative (commercial) uses will vary quite significantly over time, particularly in such turbulent
economic conditions. In assuming alternative/existing use value comparisons or indicative levels that may need to be reached, in particular cases clarity is often needed that there is a ready market for a particular land use that a scheme’s likely output RLV is being compared with.

3.3.9 We have noted that comparisons with other information such as provided by the VOA on land values for various uses, is purely indicative. The purpose is to reinforce the relevance of considering the issue of other land use values, and that those might impact on what becomes of a site - or on what a site is able to provide. The values relating to sites (whether for existing or alternative/potential uses) will be highly specific. Where we have been able to gather any further information or indications from agents on land values locally, details have been added to Appendix III as the study has progressed. Looking across a wide range of similar studies, this has typically been very limited, because the feedback echoes our points about the site-specific nature of comparisons. Recent and current market conditions, for residential and commercial property and development, have meant very low activity and transactions levels and resulted in such information being hard to come by.

3.3.10 As stated previously, comparisons on this sort of basis are difficult to make with any real certainty or confidence. Again, there will be no substitute for consideration of site specifics where viability issues arise, but we consider it helpful to make some cross reference between our results and this sort of information on land values. We have also discussed the potential influence of incentive/“overbid“ values levels in some situations.

3.3.11 The site densities assumed above are for example purposes only as site specifics will influence viability on individual sites. The example values for alternative uses cannot be considered definitive. This section is provided as a guide only, and to emphasise that considering alternative use values will often be important in delivery discussions.

3.4 Results Trends

3.4.1 The overall trend of results shows a decrease in RLV for all site sizes and types in all cases as:

- Market property values decrease;
- The proportion of affordable housing increases;
- Availability of grant is reduced/removed;
- Developer’s profit is increased;
- Planning obligations/infrastructure requirements are increased, and other costs are added to the scheme (for example through increased Code for Sustainable Homes attainment, but potentially through a wide range of matters).
3.4.2 A reduction in RLV would be seen if any of the costs within the appraisals are increased or the affordable housing revenue to the developer reduced, whilst maintaining the same private market sales values. These are all normal trends encountered in any such study (or indeed site-specific appraisal). They demonstrate the dynamic nature of the development process and the fluid nature of any appraisal modelling that endeavours to understand or demonstrate it.

3.4.3 The above will all have an impact on development viability because the sums of money remaining to purchase land after all costs are met (i.e. the RLVs) reduce as development costs increase (including increasing affordable housing requirements, in the context of this study). The importance of strong sales values to viability, particularly as development costs (again including affordable housing) increase, can clearly be seen.

3.4.4 A combination that includes multiple or all of the factors which decrease RLV (as per the examples listed above) will have the greatest impact on the viability of a scenario.

3.5 Schemes Above Existing Affordable Housing Threshold

3.5.1 The impact of affordable housing proportion on development viability has been tested on all scheme sizes at 20%, 30%, 40% and 50%. This range of proportions has been tested to enable us to consider options around the Council’s proposed policy scenarios.

3.5.2 The lowest RLVs occur where the property values are lowest whilst the affordable housing proportion, and rented tenure content of that, is highest. The following relates to our base appraisal assumptions. Sensitivity tests other than on values levels and affordable housing proportions (percentages) were then carried out. Those looked at the revised impacts from varying tenure, varying profit, increasing planning infrastructure (obligations) costs, higher sustainable design and construction standards or grant then being added. The relevant outcomes are outlined later.

3.5.3 Above the existing affordable housing threshold we have looked at sites of between 15 and 100 units including housing schemes, flatted schemes and schemes containing a mix of flats and houses. The density of these schemes has also been varied depending on the type. In the examples below we have shown the results at the lower density for the area (30dph for houses, 45 dph for flats and 35 dph for mixed schemes of houses and flats). Note that ‘dph’ refers to the number of ‘dwellings per hectare’.

3.5.4 The graphs (Figures 8 to 13) below are taken from the results in Appendix II to show how the RLV reduces as the affordable housing proportion increases; and increases with value (represented by increasing Value Point
Also indicated in each case is a range of possible competing use values that may be relevant for comparison with the resulting RLV of the site dependent on its type location. In this case the range of potential commercial/industrial values and “greenfield enhancement” (shown as ‘Greenfield’ on the graphs) values are shown. The commercial/industrial land values are, as above, informed by the VOA data. The “greenfield enhancement” range of values are given as potential starting point values for land that has not been previously developed and that has no realistic alternative or competing use that will create significant value, but that includes a significant element of incentive to the landowner that may be required to release that land for development. In each case, the range within which the relevant land value comparisons are likely to be made is shown by the vertical and separate lines extending beneath and above the thicker line that represents the approximate typical value level for that comparison.
Figure 8: 15 Unit Housing Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (30 dph)

Base appraisals assume base build costs; CfSH Level 3; 17.5% developer’s profit, 50%/50% tenure mix; £3,000 per unit planning infrastructure costs, nil grant, £3,500 additional renewables costs.

Figure 9: 15 Unit Mixed Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (35 dph)
Base appraisals assume base build costs; CfSH Level 3; 17.5% developer’s profit, 50%/50% tenure mix; £3,000 per unit planning infrastructure costs, nil grant, £3,500 additional renewables costs.

**Figure 10: 25 Unit Housing Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (30dph)**

Base appraisals assume base build costs; CfSH Level 3; 17.5% developer’s profit, 50%/50% tenure mix; £3,000 per unit planning infrastructure costs, nil grant, £3,500 additional renewables costs.
Figure 11: 25 Unit Mixed Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (35 dph)

Base appraisals assume base build costs; CfSH Level 3; 17.5% developer’s profit, 50%/50% tenure mix; £3,000 per unit planning infrastructure costs, nil grant, £3,500 additional renewables costs.

Figure 12: 50 Unit Mixed Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (35 dph)
Base appraisals assume base build costs; CfSH Level 3; 17.5% developer’s profit, 50%/50% tenure mix; £3,000 per unit planning infrastructure costs, nil grant, £3,500 additional renewables costs.

**Figure 13:** 100 Unit Mixed Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (35 dph)

3.5.5 Given the development cost levels and base assumptions as set out previously, at Value Points 1 and 2 there is little or no residual land value (RLV) generated on all of the schemes appraised. This means essentially that, on this basis, there is insufficient value in schemes to overcome their costs whilst still creating sufficient development profit and a meaningful land value. As such, it would not be practical to expect such schemes to deliver affordable housing in any substantial proportions based on these assumptions, unless they were promoted on inherently low value sites – or where land did not have to be purchased (e.g. Council/public-owned land).

3.5.6 By Value Point 3, we start to see residual land values generated that could exceed enhanced agricultural existing use (greenfield) values and still provide an element of affordable housing. The indicative land values (RLVs) generated by our appraisals are still relatively low with the higher proportions of affordable housing applied and at this point are unlikely to match existing agricultural use values or sites in commercial/industrial use.
3.5.7 By Value Point 4 the indicative RLVs generated by our appraisals indicate a higher proportion of affordable housing can be supported. As an example, if we look at our 25 unit mixed scheme (Figure 11 and Appendix II) and compare it to industrial/commercial alternative use values we see that at Value Point 4, the upper end of the industrial range is only exceeded with 30% or less affordable housing. This represents a brownfield scenario. If, however, this scheme type came forward on previously undeveloped (greenfield) land then we see that the values generated exceed likely upper end of the enhanced greenfield land values range with a 40% proportion of affordable housing. With 50% affordable housing applied, the RLV exceeds the lower end of the enhanced greenfield land values range but may not reach the required levels in some situations, given our acknowledgements that there is no fixed rule on this and that situations will vary.

3.5.8 By Value Points 5, at the upper end of the range of values most regularly seen locally, much stronger RLVs are generated. In all cases we see that with 30% affordable housing, all alternative use values are exceeded, often significantly so. At 40% to 50% affordable housing this becomes more marginal in relation to existing residential value but still significantly exceeds potential industrial or enhanced greenfield values. At this point it is worth re-iterating that the requirement for affordable housing or any other “cost” to a scheme will have a negative impact on RLV. The frequent occurrence of sites for redevelopment for residential use (re-use of existing residential land) has a bearing on our judgements on potential policy positions and how ambitious those could be if placed above 30% given the general tone of values in South Staffordshire.

3.5.9 By Value Point 6 and above, the indicative land values generated by our appraisals reach levels likely to be in excess of most potential existing/alternative use values where there is a requirement for 40% affordable housing. Even at these value levels, which represent high-end/rising market levels in the local context, in excess of 40% affordable housing looks potentially unworkable for some schemes on the assumptions applied, including those containing flats. In looking at these results we also have to bear in mind that where market housing values are higher, that will tend to flow through in to higher land value expectations (so the benchmark values for comparison may well increase compared with other locations/scenarios).

3.5.10 As with all study locations, there will be variations within and exceptions to these types of trends.
3.6 Schemes Below the Existing Upper Affordable Housing Threshold and Potential Sliding Scale

3.6.1 The overall impact of a range of potential affordable housing policies also needs to be judged with reference to the scheme size (principally number of dwellings) at which policy requirements could take effect. These scheme sizes, or trigger points for policy, are known as thresholds.

3.6.2 The wider evidence beyond this study points to lowered thresholds being necessary and justified to optimise progress towards meeting affordable housing needs. In the past, small sites have played a major part in housing supply in South Staffordshire with a majority of housing delivery from sites that do not qualify to make affordable housing contributions. Moreover, a majority of delivery from those sites has been on sites of <5 units. As an example, in 2009/2010 57% of completions were on sites of fewer than 5 dwellings; 74% on sites of fewer than 10 dwellings and 93% of all completions on sites of fewer than 15 dwellings\textsuperscript{14}. Smaller sites are expected to continue to play an important role in local housing supply and choice.

3.6.3 The study brief therefore extended to cover wider potential options including the review of a lowered or removed threshold (i.e. where a wider range of smaller sites, or perhaps all sites, would contribute in some way towards meeting affordable housing needs). The potential introduction of a “sliding scale” of policy requirements has been reviewed, purely in viability terms, for the Council’s consideration. This could lead to a policy position where the affordable housing proportion sought increased with site capacity at certain steps, if appropriate.

3.6.4 To recap, South Staffordshire District Council’s currently applied affordable housing policies place a requirement for the provision of affordable housing on sites of 15 dwellings or more (or on sites over 0.5ha) in the Urban areas of the District and 9 dwellings or more in the Rural areas of the District. To reflect schemes of fewer dwellings, i.e. falling outside the scope of the current approach, the range of modelling carried out for this study also included a starting proportion of 0% affordable housing on those smaller sites – as a benchmark representing the fact that currently no affordable housing is sought from them. It then looks at the impact of applying 20%, 30%, 40% or 50% affordable housing. For the purposes of this study we have modelled 2, 4, 5 and 10 unit housing and 5 and 10 unit flatted schemes. A summary of those results (from Appendix II – Base Appraisals) is shown in Figures 14 to 19 below alongside a range of potential competing land use values.

\textsuperscript{14} Data provided by South Staffordshire District Council
Figure 14: 2 Unit Housing Scheme Results (Base Appraisals) (30 dph)

Base appraisals assume base build costs; CfSH Level 3; 17.5% developer’s profit, 50%/50% tenure mix; £3,000 per unit planning infrastructure costs, nil grant, £3,500 additional renewables costs.

Note: The 2 unit scenarios assuming on-site affordable housing provide distorted results in that 20% affordable housing calculates to 0.4 whole dwelling, rounded down to zero (0%) affordable housing. The 30%, 40% and 50% on-site affordable housing results represent 0.67 to 1 whole affordable dwelling, in each case meaning the same scheme make-up including 1 affordable dwelling after applying the same numbers rounding principles. This is why we see those results being constant in Figure 14 above (and within the Appendices). It is one of the reasons why we often discuss with clients and include modelling on a potential financial contributions approach for the smallest sites, if policy is to be expanded (thresholds are to be lowered) to include those. The following report section, 3.7, deals with potential for that.
Figure 15: 4 Unit Housing Scheme Results (Base Appraisals) (30 dph)

Base appraisals assume base build costs; CfSH Level 3; 17.5% developer’s profit, 50%/50% tenure mix; £3,000 per unit planning infrastructure costs, nil grant, £3,500 additional renewables costs.

Figure 16: 5 Unit Housing Scheme Results (Base Appraisals) (30 dph)
Base appraisals assume base build costs; CfSH Level 3; 17.5% developer’s profit, 50% / 50% tenure mix; £3,000 per unit planning infrastructure costs, nil grant, £3,500 additional renewables costs.

**Figure 17: 5 Unit Flatted Scheme Results (Base Appraisals) (45 dph)**

![Graph showing 5 Unit Flatted Scheme Results](image)

Base appraisals assume base build costs; CfSH Level 3; 17.5% developer’s profit, 50%/50% tenure mix; £3,000 per unit planning infrastructure costs, nil grant, £3,500 additional renewables costs.

**Figure 18: 10 Unit Housing Scheme Results (Base Appraisals) (30 dph)**

![Graph showing 10 Unit Housing Scheme Results](image)
Base appraisals assume base build costs; CfSH Level 3; 17.5% developer’s profit, 50%/50% tenure mix; £3,000 per unit planning infrastructure costs, nil grant, £3,500 additional renewables costs.

**Figure 19: 10 Unit Flatted Scheme Results (Base Appraisals) (45 dph)**

3.6.5 The graphs above and the results in Appendix II show the RLV reducing (i.e. the viability impact increasing) from the landowner’s current position (i.e. compared with 0% affordable housing) as we move from left to right and assume that an increasing proportion of affordable housing is included.\(^{15}\)

3.6.6 Analysis of the results indicates that, as expected, a potential lowering of the on-site affordable housing threshold (effectively increasing the proportion of affordable housing from 0% to 20%, 30%, 40% or 50%) on

\(^{15}\) Note that on the 5 units schemes, the results for 30% and 40% affordable housing are identical due to the rounding convention used e.g. 30% of 5 units equates to 1.5 which in reality can only be either 1 or 2 units provided on site. For the purposes of this study units are rounded upwards to the nearest whole number for 0.5 or above; rounded downwards to the nearest whole number for less than 0.5). We are seeing a similar effect as noted in respect of Figure 14.
any of the scenarios modelled leads to significant reductions in RLV across the entire range of scheme types and Value Points.

3.6.7 Figures 14 to 19 show the fall in RLV as the affordable housing proportion is introduced and then increased. The impact is similar across the 6 scheme types modelled on sites of <15/<9 units and again we see that any lower end existing agricultural use value (with premium) is exceeded only with between 0% and 20% affordable housing at Value Point 3. At Value Point 4 and above we see that the residual land values generated by our notional schemes in most cases exceed existing/alternative industrial/commercial use values as well.

3.6.8 This pattern of reduction in approximate RLVs as affordable housing proportion increases is repeated across all scheme types and sizes below the 15 unit threshold. We see RLV reducing as the affordable housing proportion increases, but this effect is mitigated by increased market value levels as schemes are able to generate more significant land value whilst bearing greater obligations alongside the constant development costs.

3.6.9 The results which show very large reductions in RLV are caused by relatively low starting value schemes. Only a small increase in costs (or reduction in sales receipt) results in a large relative percentage drop in RLV in those cases. The impact of those reductions is greater at the lower end of the values scale due to the initial (pre-affordable housing requirement) lower land values which in turn lead to a reduced ability to bear cost. Although this impact is principally going to have an effect on sites which are asked to provide affordable housing for the first time (i.e. go from providing 0% to potentially up to 20%, 30%, 40% or 50%), we also see it with lower end value schemes above the current 9/15 unit threshold where even a low affordable housing proportion deteriorates results significantly and provides very low or nil land values.

3.6.10 These results show that scheme size is not a determinant of viability in itself. This is a consistent finding common to all of our studies. There is nothing within the appraisal maths which suggests that smaller or larger sites tend to be any more or less viable than each other. It really does come down to site specifics – the nature of sites and the proposals for them relative to existing use, specific costs, etc, all as discussed. In addition, the actual sum of money remaining (rather than the sum per hectare) with which to purchase land diminishes for the smaller schemes to the point that regardless of the value created in terms of the rate per hectare, there may well be insufficient value remaining in actual terms (£s) to compete with existing or other uses. As an example, our 5 unit housing scheme at Value Point 4 (compare Appendix II, Tables 1 and 1b) generates value equivalent to a rate of £1,273,300 per Ha on the assumptions applied, seemingly potentially sufficient to incentivise the sale of land that is in a range of uses. However, the actual value generated
Looking at this example, we can see that it will come down to the specific nature of the site as to whether that sum of money is sufficient to enable a land transaction to take place. Other effects also come into play on the smallest sites, as discussed below.

3.6.11 Consideration of the effect of this first time policy impact (i.e. moving from 0% rather than an existing proportion) helps to demonstrate why we consider a sliding scale of affordable housing requirements could have potential as a useful and effective tool for reducing viability impacts on these smaller sites (those that would trigger affordable housing requirements for the first time should the affordable housing threshold be lowered from 9 and/or 15 units).

3.6.12 On a scheme that would already be “captured” by the policy scope (e.g. of more than 15 dwellings or 0.5ha in the Urban areas) it must be assumed that there has been and is already a land value expectation adjustment in process. In other words, there is a growing acceptance more generally of the affordable housing requirements which affect those sites already within policy scope, and of the need for those to be factored in to early stages scheme discussions.

3.6.13 However, for sites falling beneath current policy scope, this is not the case (that expectation has not been in place). Those will need to be brought within that adjustment process owing to the first time impact that we refer to. This means that the benchmarks that currently apply to such sites, in our view, need to be considered differently to those for the larger sites – and treated sensitively, particularly at this stage of policy development. Whereas, for a larger site, the no (0%) affordable housing related land value expectation should be a thing of the past, this is not the case for smaller sites when viewed at this stage of policy development.

3.6.14 As an example (from Table 1 of Appendix II) again our 5 unit housing scheme is indicated to produce an approximate RLV of £216,461 at Value Point 4 assuming 0% affordable housing. That, rather than any lower RLV figure, is the relevant benchmark in terms of driving land value expectations in that example. If 40% affordable housing is assumed then the indicative RLV figure falls to £98,676 - a considerable (54%) reduction. As a proportion of the starting value expectation, this represents a large drop and is likely to bring the RLV significantly closer to or below any existing or alternative use value. If, however, a lower (say 20%) affordable housing proportion is assumed then the impact is mitigated to a useful degree in viability terms. While the impact is still very significant, the RLV is boosted back to an indicative £141,181 (in this example) assuming a 20% affordable proportion. With a site of more than 15 dwellings, the starting/expectation point would be to the right of Table 1, so that we do not see this very significant first-time impact – we see much smaller relative reductions; and therefore we are making different
judgements about the suitability of a higher percentage target – against other, closer, alternatives.

3.6.15 We have seen that on some of the very smallest sites, numbers rounding of the affordable housing component means that varying affordable housing percentages produce the same RLV outcomes. That means the target percentages are actually being distorted by the calculation – an anomaly which again points to careful consideration of how to most appropriately treat the smaller sites.

3.6.16 In addition, there may be cases on the smallest sites where the on-site provision of affordable housing may not be a suitable and practical response to seeking to meet affordable housing needs while meeting a wider range of planning obligations. This has less to do with development viability alone than the practicalities of delivery on small sites - including integration of affordable homes, scheme design, marketing issues, perceptions, management sustainability and the potential for occupiers to become isolated. Such smaller schemes can be very high value and comprise very large dwellings as well, with consequential affordability issues around suitability and affordability for affordable housing tenure, as well as around meeting wider planning objectives. The Conclusions and Recommendations that follow this chapter go into more detail on the potential options for consideration around a lowered affordable housing threshold. The following section, 3.7, is also included in the context of this discussion – as consideration for policy options or perhaps for future policy development stages.

3.7 Potential Approach to Seeking Affordable Housing Financial Contributions

3.7.1 The Council required the study to include consideration of the collection of financial contributions on smaller development sites to test the impact as a possible additional policy strand and alternative to requiring on-site provision on smaller sites. The thinking behind this is the need to optimise overall contributions towards meeting affordable housing needs by seeking some level of provision from the numerous smaller sites which typically make up a significant proportion of the authority's housing delivery pattern. There is certainly merit in at least exploring policy options for bringing a wider range of sites, and potentially all sites, with the affordable housing policy scope in some way.

3.7.2 This study does not seek to cover any wider justification or evidence that may be necessary in the background to pursuing an approach to include the smallest sites through seeking financial contributions in lieu of on-site provision of affordable housing. The purpose of this element of the study is
not to comment on the planning policy scope or wider merits of this type of approach, but to inform only on the development viability aspects.

3.7.3 In all of our calculations for such studies we find no reason for stating that smaller sites are more or less financially viable than larger ones. Hence there is no viability reason why smaller sites should not make an appropriate, carefully judged, level of contribution towards meeting affordable housing needs.

3.7.4 The approach could reduce the inevitable abrupt step in requirements once the on-site affordable housing threshold takes effect. While specific thresholds are arbitrary, we consider that this type of approach could also have the potential to respect the practicalities that can sometimes be experienced in seeking to provide successful small developments that incorporate on-site affordable housing. In addition, the effect of rounding is removed as contributions can be calculated exactly.

3.7.5 This approach, if implemented, would effectively mean a lowering or an effective removal of thresholds but with financial payments being made (in lieu of on-site affordable housing requirements) from schemes within the relevant size range.

3.7.6 The range covered in this instance relates to the potential viability of requesting financial contribution payments for affordable housing from schemes of fewer than 15 dwellings. At each point we appraised a range of affordable housing equivalent proportions of 10%, 20%, 30%, 40% and 50% so that we could see how results varied over this scale, and consider the potential to align this thinking to a sliding scale approach. This set of results, as shown at Appendix III, overlaps with those generated for the smaller on-site affordable housing scenarios. We will not describe these results in detail here.

3.7.7 Our approach to financial contributions for affordable housing (regardless of scheme size) is set out in detail below. This is used to test the potential for the collection of carefully judged financial contributions from schemes below any on-site threshold. It does not preclude the use of any other methodology or calculation.

3.7.8 At the time of writing, we are aware that many authorities are looking at, or pursuing, the idea of all sites making some form of contribution. Most of our similar study work nationwide now includes these types of considerations – lowered thresholds, sliding scale type approaches, potential role for financial contributions. There are now a number of policy precedents that we have been involved with, and others, where these principles are in place or to be adopted following Examination in Public (EiP) stage of LDF preparation.
3.7.9 PPS3 gives scope for the consideration of thresholds, related to local circumstances “where viable and practicable”.

3.7.10 Ours is by no means the definitive or only approach that could or should be taken in the collection of financial contributions. As far as establishing or indicating payment levels is concerned, local authorities adopt a number of calculation methods. In most cases it means considering a methodology which either:

- Relates to the build cost of the affordable homes, or
- Relates to the land cost element – allied to a nil-cost land approach to on site affordable housing, or
- Considers the difference between the open market sale revenue and the affordable housing revenue for the relevant homes which would have formed the on-site quota.

3.7.11 Our suggested route is purely a mechanism to allow us to calculate a reasonable contribution and test the impact on development viability of collecting those sums of money in lieu of on-site affordable housing provision. It is an approach that has been applied usefully and successfully in negotiations, outside of South Staffordshire District. We have selected it because it relates to land value, and so shares thinking with the study basis. In our experience this also usually makes it better understood by landowners and developers compared with potentially complex and highly variable affordable housing funding related mechanisms. A commuted sums methodology based on land value links well to market reality and processes, and should be simpler to take account of in the early stages of site feasibility.

3.7.12 In essence, the methodology involves calculating how much it would cost, approximately, to go off-site and replace the land on which the affordable housing would have been provided on-site. This is the basis we have assumed, and we allow for indicative costs associated with land purchase and getting the site ready for development (aspects which would usually be provided or assumed within the arrangements and calculations for on-site affordable housing).

3.7.13 We are assuming here a straightforward payment being made by the landowner (who may be the developer) under the terms of a Section 106 agreement in much the same way as occurs with planning obligations for aspects such as highways/transport, open space, education, etc. The calculation should not (and this way it does not) look at the benefit to the developer of moving the affordable housing contribution off-site. PPS3 requires the contribution secured to be “of broadly equivalent value” to that which would have been secured through on-site provision.
3.7.14 Our suggested route involves a formulaic approach to approximating the land value that needs to be replaced elsewhere, and then allowing also for the cost of acquiring and servicing that land – as above. In practice, the Council might not look to buy another site, but should have a strategy for monitoring, managing, allocating and committing these contributions. That strategy could include providing a variety of more creative affordable housing funding assistance to other local schemes, addressing priority needs and contributing to sustainable communities aims - again as envisaged by PPS3.

3.7.15 The methodology used to calculate the financial contributions involves taking a pre-affordable housing land (plot) value, calculated as a percentage of the market sale value of a property and taking account of other planning obligations and development cost assumptions. For this study this percentage reflects the pre-affordable housing (0%) RLV results, as taken from this study. We take the view that an allowance should be added to this base sum (bearing in mind that as well as land value there would be acquisition and (potentially) site preparation and servicing costs to bear). We are envisaging being able to replace the land elsewhere as the broadly equivalent benefit being secured.

3.7.16 The details at Appendix IIi include indicative ‘per dwelling’ equivalent payment figures (financial contributions) generated through the following steps:

a. Open market value (OMV) of relevant or comparative property (depending on to what degree the formulaic approach is to be site-specific and linked to actual values or to a District-wide guide figure, etc).

b. Multiply by the RLV percentage. In this case, we have used 21.3%, derived as per 3.7.15 above (and see also Appendix IIi). (Note: it would be possible to look at this in a variety of ways, including on a more scheme specific RLV basis).

c. Add 15% of the result of [a x b] to reflect (as an estimate) site acquisition and preparation/servicing costs. This produces the (per dwelling) equivalent sum.

d. Apply to the relevant dwelling numbers and types, and to the equivalent affordable housing policy proportion (in this case we reviewed potential positions for this at 10%, 20%, 30%, 35% or 40% equivalent proportion).

3.7.18 Appendix IIi sets out the per (whole) dwelling indicative financial contributions which we have arrived at on this basis for this study, using
our dwelling size and wider assumptions as applied for the wider study modelling.

3.7.19 To further illustrate the principle, the following is a worked example:

Example – Scheme of 4 x 3 bed houses with an equivalent proportion of 10% affordable housing required by way of a financial contribution:

1. OMV of 3 bed house at Value Point 4  £191,250
2. Multiply by the RLV percentage (21.3%)  £40,736
3. Add 15% on-costs  £46,847
4. Apply affordable housing equivalent proportion
   10% x 4 dwellings = 0.4 dwelling equivalent
5. Multiply 0.4 by £46,847
6. Financial contribution payable  £18,739

3.7.20 The overall range of results across all scenarios tested shows a range of outcomes from 0% of GDV at Value Point 1 assuming a 50% affordable housing equivalent financial contribution to 38.9% of GDV at the highest Value Point and assuming 0% affordable housing. At Value Point 4 (the middle of the range studied) we see that at 0% affordable housing the RLV equates to between 20.8% and 22.9% of GDV with 0% affordable housing. This reduces to between 18.7% and 20.5% (depending on scheme type) with a 10% equivalent proportion and reduces further to between 16.4% and 18.1% at 20% affordable housing and between 11.7% and 13.4% at 40% affordable housing.

3.7.21 The results at Appendix III suggest that seeking to collect financial contributions driven by these sums in areas or instances that fall within Value Point 1 to 2 will have a significant impact on viability – again reflective of the on-site affordable housing results. At Value Point 4 value levels and above, RLVs improve to the point where, with the normal caveats applying (with regard to scheme specifics, being allied to a target approach as with on-site provision, etc), viability should be workable subject to a negotiated approach. So we see a similar pattern, as would be expected, to the on-site affordable housing results. At Value Point 3 we see relatively poor results except at the lowest proportions of financial contribution tested.

3.7.22 In all cases of moving from one level of affordable housing equivalent to the next (e.g. 10% to 20%, and so on) the RLV results deteriorate
notably. On these small sites this could potentially become critical to scheme finances including existing/alternative use value relationships, perhaps especially where residential development is concerned.

3.7.23 The results for this set of appraisals show that, as in all other instances of increasing affordable housing proportion, the indicative RLV decreases as the calculation assumes a financial contribution based on a potential policy positions where the equivalent proportion increases - from 0% to 10%, 20%, 30%, 40% and again assuming 50%.

3.7.24 As identified throughout the results and discussed above, stronger RLVs are maintained in higher value development scenarios. Consistent with the on-site affordable housing results, there is a significant improvement in indicative RLVs as the scenarios move from Value Point 1 to Value Point 7, as would be expected.

3.7.25 Bearing in mind the deterioration of results with increasing affordable housing proportion on these first time impacted sites, it may be appropriate for the Council to consider a lower proportion to be applied to the calculation in these instances. This would respect a sliding scale principle which we consider as a possibility for schemes of fewer than 15 dwellings across the District.

3.7.26 Whilst, as with other results, there can be no single right answer or definitive cut-off point, we consider that the results indicate potential or even likely viability difficulties with increasing affordable housing equivalent % at the lower end of the values range tested. The results suggest that while a 20% affordable equivalent based financial contribution could be workable on this basis, a 30% or 40% one might well be difficult to achieve on a regular basis. Also, at these value levels, the potential contributions tend to look disproportionately large in relation to the scale of RLV indicated as being produced by some of the schemes. This effect should be borne in mind (whereby if the balance is wrong, too large a contribution relative to site value would be required).

3.7.27 This also has to be viewed in the context of site specifics. In pure viability terms, similar considerations apply as with on-site situations. What one landowner finds acceptable as a payment for their land will be different from another. This is especially true on small sites where we could be considering garden plots, etc. In real monetary terms, the residual value of land may reduce to the point whereby landowners of small plots do not feel there is sufficient recompense to sell. Equally, where existing residential units are bought up and demolished to make way for a larger number of units, viability issues may occur. This is due to the high value of the existing residential properties that usually needs to be overcome before the new development can become viable. The approach needs to
respect the market-driven basis that it would be reliant upon, not be too rigid, and be sensitive to these factors.

3.7.28 The simplest interpretation of this approach to financial contributions would be setting out a District-wide single contribution figure per property type. If this route were preferred then a mid-range figure from the above could be selected for each unit type. This would mean taking an average approach, with the outcome from some sites more favourable in terms of monies secured than others (from both the Council’s and developer’s/landowner’s points of view). For South Staffordshire District Council this point is likely to be around Value Point 3 to 4 (we used VP 4 in the example above at 3.7.19.

3.7.29 Alternatively, a more sophisticated approach could be developed for the District. For example, guidance could set out lower and higher level guide or target contributions sums applicable to Localities. The approach would rely on defining the higher value areas relevant to the increased target contribution levels. In our view this would be difficult to do on a reliable basis, given the blurring of values seen.

3.7.30 Having set out a formulaic approach for schemes below the on-site provision threshold, we suggest that the same basis could also be applied for larger sites where (exceptionally) it is agreed that the most appropriate solution for meeting balanced communities and wider planning objectives is through a financial contributions route. This would promote consistency within the overall approach. In all cases the relevant per unit (dwelling) sums would be apportioned depending on the scheme details and relevant affordable housing equivalent proportion. In any event, it could play a role as an additional tool for the Council – for example in moving affordable housing subsidy to support higher priority schemes; or (if a mix of on-site homes and part contributions is applied) to cross subsidise a reduced number of priority needs social rented homes within the same scheme (for example where no grant is available to enable the target provision).

3.7.31 Distorting anomalies that result from numbers rounding and how that affects on-site provision could be set aside through this route; sums could be calculated exactly, to include part dwellings equivalents where those arise. This detail may be important for specific viability outcomes on the smallest sites where on-site provision involving rounding can significantly skew the actual proportion sought or provided.

3.7.32 The same formulaic approach could be used to develop an equitable approach to seeking financial contributions from schemes which produce much larger and more valuable properties than those envisaged through our current appraisals. The use of increased values and/or floor areas (or multiples of the more typical floor areas) could be picked up through the formula to generate appropriate contributions.
3.7.33 Similarly, the formulaic approach could be used to calculate top-up financial contributions if the Council decided to seek whole numbers of affordable homes on-site and accept payments for the part units produced by the proportion calculation.

3.7.34 Policy development should include this financial contributions aspect if it is to be pursued, so as to make clear to landowners and developers the essence of its approach and at least on what general basis calculations would be made. It is an area of the Council’s potential approach that may need to be developed in further detail through a separate SPD and/or the Development Management or other DPD.

3.8 Social Housing Grant (or equivalent other subsidy) and Tenure Mix

3.8.1 Appraisals have been carried out to also indicate what happens to our notional schemes as we alter the viability picture through the addition of grant to a scheme or change the tenure mix. In this case we assumed grant rates for social rented accommodation of £45,000 average per unit. For intermediate tenure properties we assumed £15,000 per unit.

3.8.2 During the course of the study, and particularly in its closing stages (following the Government’s Comprehensive Spending Review) a picture has developed where it now appears increasingly unlikely that public grant monies will be made available at any significant level for s.106 affordable housing. As per the commentary at 3.8.15 below, this has been a message issued by the HCA (and formerly by the Housing Corporation) for several years now, although in practice s.106 affordable housing has continued to be grant funded in many cases. Whilst, prior to the study period, we had been through a period of more flexible and opportunity-led grant funding as part of the previous Government’s programme to kick-start housing schemes during the recession, a great deal of uncertainty now exists over funding availability (Autumn/Winter 2010/11). This reinforces the study approach and starting basis of no grant as explained at around section 2.8.2 above. In fact on particular schemes grant availability could be at anywhere between nil and the sort of levels we have assumed here for the sample “with grant” scenarios, as further described in the following sections. As will also be seen here, the availability and application of grant cannot be separated from the affordable housing tenure mix – the two are closely related in that tenure mix will be directly affected by the amount of grant or other form(s) of subsidy available.

3.8.3 In addition to the above, we have acknowledged that the Government has recently introduced a new tenure form called Affordable Rent. At the time of writing, it is not possible to do much more than acknowledge this owing...
to the need for the RPs, Local Authorities, Developers and others to work through its implications once more is known and there has been time to review and react to the Government’s and HCA’s further information on it. At the time of fixing assumptions details around this emerging tenure variation were very sketchy. The level of uncertainty has been confirmed through various consultation exercises we have carried out during the course of this study and several others nationwide in the course of the last few months. At the point of the final writing-up of the report for this study, the HCA published its Affordable Homes Framework\textsuperscript{17} setting out details of funding arrangements for affordable housing for the next 4 years, including for Affordable Rent. In short, rents are expected to be set at up to 80 per cent of market rent levels, including service charges. Funding for social rented housing will only be granted in exceptional cases, where the landlord can demonstrate affordable rent would not be viable. Given that information allowing more meaningful modelling of the new scenario was not available at the time of carrying out this study, we have included all the results we generated, including those relating to the sample of appraisals that assumed an element of grant. This is in recognition of the likelihood that we will continue to see widely varying scenarios and viability outcomes and we think many of those outcomes are likely to fall within those from the assumptions ranges we have considered, or be close to them in the context of this strategic level of review.

3.8.4 All appraisals were run at 50% rent/50% intermediate and 70% rent/30% intermediate tenure mix variations assuming nil grant. On sites of 10, 15 and 25 units appraisals were also ran assuming the addition of grant. Appendix IIc shows the results relating to this change in tenure mix and Appendix IIg shows the results of the appraisals that assume grant is included (“with grant” samples). Figure 20 below compares the results of appraisals run with and without grant on a 25 unit housing scheme. In this instance grant was added to the base appraisal assumptions (assumptions otherwise at base levels).

\textsuperscript{17} Homes and Communities Agency – 2011-2015 Affordable Homes Programme Framework (February 2011)
Figure 20: Comparison of Appraisal Results With and Without Grant*

<table>
<thead>
<tr>
<th>Appraisal Type</th>
<th>25 Unit Housing Scheme</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RLV Without Grant (£/Ha)</td>
<td>RLV With Grant (£/Ha)</td>
</tr>
<tr>
<td>20% Affordable</td>
<td>£834,717</td>
<td>£942,958</td>
</tr>
<tr>
<td>30% Affordable</td>
<td>£627,450</td>
<td>£799,225</td>
</tr>
<tr>
<td>40% Affordable</td>
<td>£504,909</td>
<td>£709,911</td>
</tr>
<tr>
<td>50% Affordable</td>
<td>£270,660</td>
<td>£548,125</td>
</tr>
</tbody>
</table>

*Value Point 4 only; Base appraisals assume base build costs; CfSH Level 3; 17.5% developer’s profit, 50%/50% tenure mix; £3,000 per unit planning infrastructure costs; 30 dph

3.8.5 Figure 20, with data taken from Appendices II and IIg indicates that adding grant to the scheme at the rates assumed in this study and at Value Point 4 increases the RLV by 11%, 21%, 29% and 51% (at 20%, 30%, 40% and 50% affordable housing respectively). In this example, at Value Point 4, providing 40% affordable housing with grant produces a RLV that comfortably exceeds the indicative upper end commercial land use value comparisons discussed in 3.3. Without grant that indicative RLV falls to a level that could be marginal relative to that level of comparison. At lower values, e.g. Value Point 3, the grant addition to a scheme could mean the difference between a positive and a negative RLV at various proportions of affordable housing. Ultimately subsidy included in this way has the potential to improve the viability of a scheme as expected, but the availability of grant is an element that must be considered on a site-specific basis. Related to these points, the use of an adaptable mechanism (such as a “cascade” or similar framework) may well be valuable for consideration within the Council’s overall approach. This envisages the Council working with developing partners – where necessary - to adjust, but still optimise, affordable housing delivery in all the circumstances relevant to a particular site, including the funding levels ultimately available. The Council would expect to take a lead role in such discussions, aimed at maintaining appropriate affordable housing delivery within the s106 framework agreed - avoiding going back to the start with that process (effectively, keeping the planning consent alive), and thus avoiding significant delivery delays. Another principle that we have seen gaining ground in the recent times of a weak market and ongoing uncertainty is the phased agreement of affordable housing detail (and/or other obligations) for longer-term/larger schemes where a certain reduced proportion of affordable housing may be justified early on, and a revised proportion or approach potentially implemented for later scheme phases.
3.8.6 As above, allied to the role of grant or other subsidy is the affordable housing tenure mix required by the Council on sites coming forward for residential development, with local housing needs and markets influencing the particular provision. Figure 21 shows a comparison between indicative RLVs for a scheme with and without grant on the tenure mixes tested.

**Figure 21: Comparison of Appraisal Results With and Without Grant with variations to tenure mix (Value Point 3 Only); 30 dph**

<table>
<thead>
<tr>
<th>Appraisal Type</th>
<th>50/50 Mix Without Grant (£/Ha)</th>
<th>50/50 Mix With Grant (£/Ha)</th>
<th>70/30 Mix Without Grant (£/Ha)</th>
<th>70/30 Mix With Grant (£/Ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20% Affordable (RLV)</td>
<td>£834,717</td>
<td>£942,958</td>
<td>£803,191</td>
<td>£918,638</td>
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<tr>
<td>30% Affordable (RLV)</td>
<td>£627,450</td>
<td>£799,225</td>
<td>£561,782</td>
<td>£744,098</td>
</tr>
<tr>
<td>40% Affordable (RLV)</td>
<td>£504,909</td>
<td>£709,911</td>
<td>£432,705</td>
<td>£654,785</td>
</tr>
<tr>
<td>50% Affordable (RLV)</td>
<td>£270,660</td>
<td>£548,125</td>
<td>£196,966</td>
<td>£492,424</td>
</tr>
</tbody>
</table>

*Value Point 4 only; Base appraisals assume base build costs; CfSH Level 3; 17.5% developer’s profit; £3,000 per unit planning infrastructure costs; 30 dph

3.8.7 The example in Figure 21 shows that grant included within scheme finances has the potential to improve viability by a greater degree than altering the tenure mix from 70% rent to 30% intermediate to 50% rent/50% intermediate. In this example, at 30% affordable housing, adding the grant assumed increases the RLV by 25%. In comparison, altering the tenure mix from 70%/30% to 50%/50% improves the RLV by just 10%. Of course in practice these two effects might well be inter-related.

3.8.8 Similarly, the proportion of affordable housing overall (i.e. of all tenure forms) is seen through our results to have a greater impact on the indicative RLVs than tenure mix alone. As an example, the 30% no grant 70%/30% tenure mix produces a better indicative RLV than 40% affordable housing on a 50%/50% mix with no grant. Tenure mix will be an important consideration for viability, but dependent on other factors such as overall proportion and grant availability – so its effect will need to be viewed alongside these other factors rather than in isolation.

3.8.9 We can see what happens as we track a single example through Figure 21 above looking at various combinations, for example starting at 20%
affordable housing based on a 70% rented/30% intermediate tenure mix without grant. This gives us an indicative RLV of £803,191/ha (comfortably in excess of the range of potential commercial land use values discussed at 3.3). If we then increase the proportion of affordable housing to 30% and vary the tenure mix to 50% social rent/50% intermediate (with grant), we see a very similar indicative RLV result (£799,225/ha). In practice, we would be likely to get that scenario working without grant, given that if we then remove the grant we still see an RLV of £627,450/ha – again well in excess of the range of commercial/industrial land use value comparisons.

3.8.10 These results sets indicate:

- The impact (viability boost) that grant or equivalent subsidy can have, though this should really be seen through improved affordable housing provision in some way (“additionality”, to use the HCA’s term) - not by way of increased land value or profit.
- How much RLVs can deteriorate by the time we allow for the higher proportions of affordable housing, particularly with no grant and even with a more balanced tenure mix.
- That only on larger schemes will a 70/30 tenure mix impact on viability very much more significantly than a 60/40 mix (and so on at various points on a scale between the 70/30 and 50/50 mixes). On smaller schemes there is often simply no or only very little scope to vary the affordable tenure mix with a very small number of affordable homes to consider.

3.8.11 It may be useful to the Council to make some comparisons between various results – in terms of the RLVs that the various combinations of assumptions produce.

3.8.12 These figures are based purely on the appraisals carried out and assume that the intermediate product is feasible for RSLs and their customers, including that there will be an appropriate level local demand for a particular tenure model, and that it will be deliverable and sufficiently affordable in the local context. Aside from the well-established difficulties that can arise with the overall affordability (total costs) of shared ownership for its purchasers, there have been increased experiences of difficulties with shared ownership saleability in the recent market conditions. This is largely due to the levels of deposit requirements, to mortgage terms and availability. As we understand it, experiences have been mixed, and tend to echo the open market in that the most popular, well located and attractively priced schemes can still sell relatively well, while some others have attracted little or no interest in the constrained conditions that have been seen.
3.8.13 We have looked generically at the intermediate tenure, since what counts for financial viability is the level of revenue it produces for the developer. This reflects the increased likelihood that it will be seen in varied forms and combinations within schemes. This was purely for the purposes of fixing assumptions and reviewing financial viability, whereby generally we are looking at increased payments to the developer compared with rented tenure (particularly with no grant). It does not prevent the Council and its range of partners from considering varying the assumptions we have applied – these were fixed simply to allow us to model potential scenarios while keeping certain factors constant, so as to see the effects of affordable housing proportions and other key variables changing.

3.8.14 Overall, the funding and tenure forms/mixes can only be regarded as a fluid set of circumstances at the current time, bearing in mind the ongoing national debate and uncertainty over these factors. In our view this need not affect the preparation of a clear strategic approach on affordable housing thresholds and target proportions, since exact scheme make-ups always need to be considered at a level beyond Core Strategy considerations and should not be predetermined by fixed rules that are intended to apply rigidly to very wide ranging circumstances. In any event, prior to the emerging affordable housing tenure proposals of the Government, a practical and adaptable approach was needed and that has consistently been a key feature of our recommendations to clients.

3.8.15 The same principles as outlined above (i.e. the need to inform judgements on the affordable housing target proportions in conjunction with wider criteria - including likely funding availability) will also be relevant in the context of any wider consideration the Council may be giving to overall planning obligations requirements, and other burdens on schemes. The wider costs and obligations also affecting viability always need to be taken account of.

3.9  Developer’s Profit

3.9.1 As mentioned at 2.6 of this report, viability has also been investigated on a small sample of scenarios using 20% developers profit in place of 17.5% (in each case as a proportion of GDV). This has been carried out on schemes of 10, 15 and 25 units at all Value Points. A summary of a 25 unit housing scheme results at Value Point 4 is provided here with a comparison to the results using a 17.5% developer’s profit. The full results can be found in Appendix IIe.

3.9.2 This comparison allows us to investigate the additional impact of increased profit requirements that may be more likely on schemes as a result, for example, of increased risk in bringing more complex sites forward for development. The results also allow us to see what happens if profit levels
decrease from our base level, as may happen, for example, with a stronger, more confident market or on smaller, lower risk schemes/where alternative criteria have been set to allow a scheme to proceed. As expected, the same trends discussed previously are seen whereby, with higher profit levels, the lower the development value, the greater the additional impact on scheme viability and vice versa. The impacts from increased costs (profit needs to be recognised an element of the overall development cost) are more significant news for the lower value scenarios. As values increase, there is usually more scope to bear increasing cost assumptions.

3.9.3 Figure 22 below shows the comparison where the only change made was to the developer’s profit level. In this instance the developer’s profit was altered on the base appraisals (assumptions otherwise as per the base appraisals).

**Figure 22: Comparison of Appraisal Results Varying Developer’s Profit (Value Point 4); 30 dph**

<table>
<thead>
<tr>
<th>Appraisal Type</th>
<th>25 Unit Housing Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RLV 17.5% Profit (£/Ha)</td>
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<tr>
<td>20% Affordable</td>
<td>£834,717</td>
</tr>
<tr>
<td>30% Affordable</td>
<td>£627,450</td>
</tr>
<tr>
<td>40% Affordable</td>
<td>£504,909</td>
</tr>
<tr>
<td>50% Affordable</td>
<td>£270,660</td>
</tr>
</tbody>
</table>

*Value Point 4 only; Base appraisals assume base build costs; CfSH Level 3; 50%/50% tenure mix; £3,000 per unit planning infrastructure costs; 30 dph

3.9.4 As would be expected, the result of an increase or decrease in developer’s profit leads to further reductions or increases in the RLVs across the range. The impacts can be quite significant. As the percentage of affordable housing increases and therefore reduces the RLV, the impact of an increased developer’s profit on scheme viability becomes greater; in simple terms there are more burdens on the development revenue. The impact is also more marked with lower starting values. What can clearly be seen is the combined impact that both a high (e.g. 50%) affordable housing proportion and a 20% profit requirement will tend to have on the RLV (and in any event what increases in both assumptions from base levels mean for outcomes). The difference between the 30% and 40% affordable housing RLV indications in Figure 22 above is quite marked when the range of potential land value comparisons is considered. Whilst at £548,806/ha the land value may be able to compete with a range of scenarios at 30% affordable housing with 20% developer’s profit justified.
in certain cases, at 40% affordable housing the outcomes may get marginal with this increased profit scenario and set of assumptions. We can also see how reducing the profit level then boosts the RLV to a notable degree. This reinforces earlier points that there will be schemes that the Council will need to consider in this context, in negotiations. Again, we note that this effect will usually be more in focus when looking at lower value schemes.

3.9.5 We have to consider that there will be a wide range of scheme types brought forward by an equally wide range of parties. Once again, there are no firm rules when it comes to scheme-specifics. In our view, however, the 17.5% level we have used as a base assumption would form a reasonable benchmark for the Council when first considering site-specific viability appraisals, working with developers and other in discussions. We might also expect to see some profit expectations beneath this level, where for example lower criteria have been set in order to progress a particular scheme and generate sales income. In any event, the Council will be able to track its experiences of required profit levels for varying scheme types over time, as part of its ongoing dealings with developers and others.

3.9.6 Since the peak of the housing market in 2007 we have seen some reporting on developers having to accept reduced profit levels in some instances in what have been weakening market conditions. However, there is also an argument to be made about increased risk in such circumstances. In this context in its summer 2009 Appraisal Tool re-launch the HCA moved its developer’s profit guide assumption up to 17.5% of GDV from 15%. In the current uncertain market conditions we are seeing a range of indicators on developer’s profit levels, and these are becoming increasingly difficult to judge with respect to perception of risk levels. So, on balance, our range of assumptions is considered to be appropriate with regard to market conditions. These will need to be kept under review as part of the Council’s monitoring processes, negotiations and delivery experiences. What is appropriate for one scheme may well not be for another, and the collective costs burden on schemes will always need to be borne in mind.

3.10 Sustainable Design and Construction Standards

3.10.1 Further sensitivity analysis has been carried out on the impact of applying likely additional development costs to schemes as the requirement to meet higher sustainable construction and design criteria increases over time. There are various interpretations of how the requirements will progress and be laid out at a national level, but it is likely that they will be achieved through increasing Building Regulations requirements, with the Code potentially used as a tool or mode for achieving carbon reduction
measures and other criteria. Currently, the Building Regulations require a 25% reduction in CO$_2$ compared to 2006 building regulations from all new dwellings. By 2013 this will increase to 44% and by 2016 there will be a 100% reduction in CO$_2$ from new residential dwellings. For the purposes of this study we have used the attainment of varying levels of the Code for Sustainable Homes as our cost measure. All (base) appraisals have been carried out assuming that Code Level 3 is achieved. In addition, on a sample of site types we have also carried out appraisals that assume Code Level 4 and 5, or equivalent, attainment.

3.10.2 The sensitivity analysis has been carried out on schemes of 10, 15 and 25 units only. On an example scheme of 25 units, the comparison of the residual land values created after the addition of each level of cost is shown in Figure 23 below (all other assumptions as per the base appraisals).

**Figure 23: Comparison of Appraisal Results – Increasing Code for Sustainable Homes Requirements – Value Point 4 Only (35 dph).**

<table>
<thead>
<tr>
<th>Appraisal Type</th>
<th>20% Affordable Housing</th>
<th>30% Affordable Housing</th>
<th>40% Affordable Housing</th>
<th>50% Affordable Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>RLV (£ per Ha) CfSH Level 3</td>
<td>£834,717</td>
<td>£627,450</td>
<td>£504,909</td>
<td>£270,660</td>
</tr>
<tr>
<td>RLV (£ per Ha) CfSH Level 4</td>
<td>£794,514</td>
<td>£587,247</td>
<td>£464,287</td>
<td>£229,200</td>
</tr>
<tr>
<td>RLV (£ per Ha) CfSH Level 5</td>
<td>£257,619</td>
<td>£44,318</td>
<td>-£71,662</td>
<td>-£350,120</td>
</tr>
</tbody>
</table>

*Value Point 4 only; Base appraisals assume base build costs; CfSH Level 3; 50%/50% tenure mix; 17.5% developer's profit; £3,000 per unit planning infrastructure costs; 30 dph

3.10.3 The results show the impact a requirement to meet Code for Sustainable Homes Level 5 has on RLVs when taking into account the other base assumptions in this study. The additional approximate costs included to achieve Code Level 5 reduce the RLVs generated to the point that little or no land value is generated on the example above. In comparison with indicative information such as West Midlands land values guides or alternative use values per hectare provided by the VOA (see section 3.3), it appears likely that in order to generate sufficient land value to consider also enabling a 30% proportion of affordable housing to be delivered we would need to see values at or around our Value Point 5 with nil grant (see Appendix IIIf) or Value Point 6 with a 40% affordable housing requirement. Of course this is likely to vary and be sensitive to site specifics which is not a scenario that affects South Staffordshire alone; achieving the highest...
sustainable design and construction standards has a universal impact on scheme viability when based on the costs as assumed today.

3.10.4 While there can never be any defined cut-off points for scheme viability (unless looking at a specific site with known parameters on existing use value, owner’s requirements, etc), the impact of the Code 4 attainment alone is not felt to be a make or break scenario for scheme viability. However, as the Code Level requirement increases beyond this we see a significant deterioration in RLV.

3.10.5 There are potentially cost savings to be made over time as the likelihood of meeting the CfSH requirements becomes cheaper (potentially as technologies and their supply improve and cost savings are made through future innovations in this area). We cannot assume those and so do not build in any such savings from developments in this area. These results assume approximate costs as known at the point of fixing assumptions and as set out in the DCLG report.\(^\text{18}\)

3.10.6 As with tenure mix and grant, again we can again see the trade-off that may be required in some instances in order to meet these requirements and still provide profitable residential development. It is worth reiterating here that the collective burden of all the costs analysed within this study are unlikely to be met through development alone without subsidy from elsewhere. We talk about the collective impact from all of the items investigated through the sensitivity analysis at the end of this chapter.

### 3.11 Increase in Planning Infrastructure (Obligations) Costs

3.11.1 Another cost area that impacts on development is the level of other wider (i.e. not affordable housing) planning obligations or infrastructure requirements. Appraisals were carried out assuming varying infrastructure (planning obligations) contribution levels of £3,000, £6,000 and £9,000 per dwelling (applied to all dwellings). This part of the work also has a wider potential relevance in that it enables the Council to see how viability results deteriorate when costs are added regardless of what those costs are. An increase in costs could come from a wide variety of sources – related to planning requirements, site conditions, scheme specification or a combination of those.

3.11.2 Increased planning obligations burdens, as with any costs, have a negative impact on development viability. We have discussed the effect of additional affordable housing costs, profits and other aspects above. Figure 24 below shows a brief example of the additional impact that higher planning infrastructure costs may have on schemes when combined with the “cost” of affordable housing provision.

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\(^{18}\) DCLG – Code for Sustainable Homes – A Cost Review (March 2010)
Figure 24: Comparison of Appraisal Results from varying Infrastructure/Planning Obligations/Other Costs

<table>
<thead>
<tr>
<th>Appraisal Type</th>
<th>25 Unit Housing Scheme – 50%/50% Tenure Mix - VP4</th>
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</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

*Value Point 4 only; Base appraisals assume base build costs; CfSH Level 3; 50%/50% tenure mix; 17.5% developer's profit; £3,000 per unit planning infrastructure costs; 30 dph

3.11.3 These results (taken from Appendices II, IIc and IIId – show the reduction in RLV that occurs as the planning infrastructure (or other equivalent) cost assumptions are increased. We refer to ‘other costs’ as an alternative here, because any equivalent increase in the appraisal cost assumptions would have the same effect. In practice, scheme costs could increase over time for a variety of reasons, not only planning obligations. Effectively, therefore, these appraisal reviews add collective cost (whether related to planning obligations in full, a mix of those and other items, or other items in full).

3.11.4 The trends shown in the example results above are again repeated for all scheme types. This further emphasises the potential viability issues that could flow from seeking the highest levels of affordable housing whilst at the same time increasing the infrastructure burden on sites coming forward, especially in the event of nil or limited social housing grant or with a tenure mix biased heavily towards social rent. Land value is significantly reduced (by 44% with a requirement for 40% affordable housing) in the example above at Value Point 4 where the planning obligations requirement is increased to £9,000 per unit when compared to the same example scheme with a £3,000 per unit cost. It must be remembered however that the additional planning obligation (or other) costs shown above are in addition to our other base appraisal assumptions.

3.11.5 The Council could develop this type of understanding as part of considering the viability implications of the Community Infrastructure Levy (CIL) which has also been confirmed recently as an element of the Government’s strategy for planning.
3.12 **Cumulative Impact of Potential Cost Areas on Development Viability**

3.12.1 The results discussed within this chapter so far have largely indicated the individual impacts of particular assumptions cost variance on the residual land value generated by the base results. That process allows us to understand the key influences on viability, the focus in this case being affordable housing. By looking at one scheme type we can also begin to see the cumulative (collective) impact of each of the revenue reducing or cost increasing factors beginning to act together. Figure 25 below shows the impact on the RLV on one scheme as each of these is added).
Figure 25: Cumulative impact of applying cost assumptions over and above base RLV results (Value Point 4); 25 Unit Housing Scheme (£ per Ha) – 30dph

<table>
<thead>
<tr>
<th>Value Point 4 Variations</th>
<th>Residual Land Value - 20% Affordable</th>
<th>Residual Land Value - 30% Affordable</th>
<th>Residual Land Value - 40% Affordable</th>
<th>Residual Land Value - 50% Affordable</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 No Grant, 20% Developer's Profit, 50/50 Tenure Split, CfSH Level 3, £3,000 Infrastructure, No additional renewables</td>
<td>£816,240</td>
<td>£625,141</td>
<td>£511,910</td>
<td>£293,883</td>
</tr>
<tr>
<td>3 No Grant, 20% Developer's Profit, 50/50 Tenure Split, CfSH Level 3, £3,000 Infrastructure, 10% renewables</td>
<td>£734,248</td>
<td>£548,806</td>
<td>£429,064</td>
<td>£209,328</td>
</tr>
<tr>
<td>4 No Grant, 20% Developer's Profit, 70/30 Tenure Split, CfSH Level 3, £3,000 Infrastructure, 10% renewables</td>
<td>£702,721</td>
<td>£476,602</td>
<td>£356,860</td>
<td>£137,005</td>
</tr>
<tr>
<td>5 No Grant, 20% Developer's Profit, 70/30 Tenure Split, CfSH Level 3, £6,000 Infrastructure, 10% renewables</td>
<td>£625,733</td>
<td>£398,812</td>
<td>£284,824</td>
<td>£56,809</td>
</tr>
<tr>
<td>6 No Grant, 20% Developer's Profit, 70/30 Tenure Split, CfSH Level 3, £9,000 Infrastructure, 10% renewables</td>
<td>£554,462</td>
<td>£321,022</td>
<td>£205,430</td>
<td>-£23,387</td>
</tr>
<tr>
<td>7 No Grant, 20% Developer's Profit, 70/30 Tenure Split, CfSH Level 4, £3,000 Infrastructure, 10% renewables</td>
<td>£580,526</td>
<td>£353,133</td>
<td>£238,203</td>
<td>£9,718</td>
</tr>
<tr>
<td>8 No Grant, 20% Developer's Profit, 70/30 Tenure Split, CfSH Level 4, £6,000 Infrastructure, 10% renewables</td>
<td>£508,783</td>
<td>£281,020</td>
<td>£158,809</td>
<td>-£51,073</td>
</tr>
<tr>
<td>9 No Grant, 20% Developer's Profit, 70/30 Tenure Split, CfSH Level 4, £9,000 Infrastructure, 10% renewables</td>
<td>£430,993</td>
<td>£201,627</td>
<td>£80,218</td>
<td>-£141,435</td>
</tr>
<tr>
<td>10 No Grant, 20% Developer's Profit, 70/30 Tenure Split, CfSH Level 5, £3,000 Infrastructure, 10% renewables</td>
<td>£37,317</td>
<td>-£200,780</td>
<td>-£339,873</td>
<td>-£600,033</td>
</tr>
<tr>
<td>11 No Grant, 20% Developer's Profit, 70/30 Tenure Split, CfSH Level 5, £6,000 Infrastructure, 10% renewables</td>
<td>-£19,975</td>
<td>-£291,141</td>
<td>-£430,234</td>
<td>-£690,394</td>
</tr>
<tr>
<td>12 No Grant, 20% Developer's Profit, 70/30 Tenure Split, CfSH Level 5, £9,000 Infrastructure, 10% renewables</td>
<td>-£110,337</td>
<td>-£381,502</td>
<td>-£520,596</td>
<td>-£780,755</td>
</tr>
</tbody>
</table>
3.12.2 Each of the results in Figure 25 show just one possible combination of increased cost/reduced revenue areas highlighting the impact on residual land value of potential collective requirements. Presenting the results in this way allows us to see the principles of prioritisation that, in some circumstances, may be needed between affordable housing requirements and other added cost areas. It needs to be reiterated that these figures are purely indicative and are based on the sets of assumptions applied for this study. They are likely to look different for any specific site. Taking the results shown in Figure 25 (from Appendix IIh), the 30% affordable housing requirement with grant at box C2 of the table indicates an RLV of £625,141/ha, similar to that produced by the appraisal with 20% affordable housing (table cell B5) but with additional cost areas applied (£625,733/ha). This indicates that on the basis of the cost and values assumptions used in this study to maintain a broadly similar land value, the affordable housing requirement can be increased from 20% with a 70/30 tenure split, 20% developer’s profit, CfSH Level 3 attainment and £6,000 per unit infrastructure cost to 30% affordable housing where the tenure split is reduced to 50/50, and other infrastructure costs reduced to £3,000 per unit. As can be seen, there are numerous examples that could be drawn out to illustrate the dynamics of this – and of course points between those.

3.12.3 This also shows the maximum impact of the accumulated cost burdens on this particular scheme example. The requirement on this scheme for the highest sustainable design and construction standards, highest proportion of social rented tenure housing within a high proportion of affordable housing overall, nil grant and 20% developer’s profit leads to nil or negative residual land value generation. Even if the proportion of affordable housing is reduced to 20%, the RLV generated is still low or negative with the full collection of increased cost assumptions included within the appraisals. Although these are all no grant scenarios, we can also see here quite clearly that a proportion of as much 50% affordable housing as a target appears to considerably reduce the scope for some flexibility in other costs and obligations.
4 Conclusions and Recommendations

4.1 South Staffordshire District values and headlines for affordable housing proportions

4.1.1 The values seen across the District show less variation than seen in some locations that we study, particularly in terms of new build housing which will be the supply source of the affordable housing being studied with a range of values occurring within each of the five Locality Areas.

4.1.2 We have not seen clearly defined value patterns which relate to the 5 Locality Areas defined by the Council for various wider purposes, again especially when looking at new build housing. Blurring occurs within and between the five localities, so that clear value patterns (which might drive distinct sets of viability outcomes) have not been evidenced. In a more active market we might expect to see more new build activity and therefore more information on the pricing of those schemes to help further inform our judgements but, from what we can see, we would not expect reliably clear value patterns to exist for linking to policy distinctions based on particular sets of viability outcomes. In coming to this conclusion, we looked at the District as a whole, but by reference to examples of values seen within a range of settlements from the various Locality Areas.

4.1.3 To add to this picture the general hierarchy of values we have seen (at the current time principally through the overall – resales dominated – market results in areas with similar value levels not necessarily being contiguous. This is demonstrated by the following indicative values overview extracted from the methodology section of this report.

Figure 26: New build Values – Indicative Picture

<table>
<thead>
<tr>
<th>Value Point</th>
<th>£ / sq m</th>
<th>Approx. £ / sq ft</th>
<th>Related Locality with these typical value levels for new builds*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£1,350</td>
<td>£125</td>
<td>In the main representing market falling from current lower end</td>
</tr>
<tr>
<td>2</td>
<td>£1,500</td>
<td>£139</td>
<td>Lower/mid range values – e.g. most typically Locality Area 3</td>
</tr>
<tr>
<td>3</td>
<td>£1,875</td>
<td>£174</td>
<td>Mid range values – e.g. most typically seen in Locality Areas 1 and 4</td>
</tr>
<tr>
<td>4</td>
<td>£2,250</td>
<td>£209</td>
<td>Mid to upper range values – e.g. most typically seen in Locality Areas 2 and 5</td>
</tr>
<tr>
<td>5</td>
<td>£2,625</td>
<td>£244</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>£3,000</td>
<td>£279</td>
<td>In the main representing market rising from current upper end.</td>
</tr>
<tr>
<td>7</td>
<td>£3,300</td>
<td>£307</td>
<td></td>
</tr>
</tbody>
</table>

*Indications only – please refer to text for further explanations

4.1.4 This summarises our observations of the highest values tending to occur in Locality Areas 2 (North Western) and 5 (Southern), with values most...
typically the lowest in Locality Area 3 (North Eastern) and generally in between those points (but also overlapping) in Locality Areas 1 and 4 (Northern and Central).

4.1.5 Within this picture, we also discussed with the Council other local features. For example we noted that Huntington, which lies within Locality Area 1 geographically, also shares some characteristics with areas within Locality 3 and outside the District to the East.

4.1.6 Looking at the indicative RLVs and therefore likely viability outcomes, as expected we see a range, with the strength of outcomes reflected closely by the relative values, as above. We think that, particularly for Locality Area 3 there could be a risk of creating lower affordable housing expectations through a reduced target that is unduly linked to these general patterns, when in fact variable results could be seen - as in all Locality Areas. Given these points, our view is that consideration of thresholds levels (the general potential to lower those) is in the same way likely to provide a better route to optimising affordable housing supply than looking to targets with respect to areas that may generally (rather than reliably) provide higher value schemes.

4.1.7 Add to this picture the fact that individual scheme types and specific locations can affect value as much or more than general locality, all in all we have seen a picture which – in scheme viability terms – would be best and most simply represented (for clarity of expectations for all stakeholders) by a basis of a District-wide approach to affordable housing targets and thresholds. On this basis we consider that any policy differentiations might best relate to site types and sizes or settlement types (see below) rather than to the 5 Locality Areas. If progressed, we think this would also reduce any unusual effects of affordable housing provision being skewed away from Localities with higher requirements, through operation of the development market. There may be more incentive to provide greater choice and distribution of affordable homes.

**Recommendation 1**

To consider a simpler, clear overall approach to policy, with sets of principles applied District-wide. On viability grounds, we recommend this in favour of a Locality driven approach.

4.1.8 Instead, the findings point to the policy being shaped around the nature of schemes. There are two key aspects here. Firstly, variations in scheme sizes (the detailed application of thresholds) bearing in mind the sensitivities we have discussed around smaller sites and especially those which will see a “first-time impact” from new policy positions (lowered thresholds). Secondly, principally because of the varying dynamics on land
values and what those have the potential to mean for scheme viability, we consider there is scope to differentiate between the targets and expectations set for brownfield (previously developed) and greenfield land.

**Recommendation 2**

*To consider varying targets for affordable housing driven by brownfield and greenfield considerations – with a higher expectation set for greenfield scenarios.*

**Recommendation 3**

*To carefully consider scheme size (the thresholds to be applied) as a key factor which should be linked to varying affordable housing targets that reduce on a form of sliding scale basis.*

4.1.9 Consistent with other studies of this type (undertaken by us and others) we find that scheme size in itself is not a determinant of viability. Provided the sensitivities that have been discussed are respected, we consider that a lowering of thresholds (rather than potentially over-burdening a narrower range of larger schemes) can very usefully contribute to a more equitable overall approach to seeking provision towards meeting high levels of affordable housing needs in the District.

4.1.10 We have appraised schemes containing as few as 2 dwellings (assuming on-site affordable housing) and 1 dwelling (assuming a financial contribution towards affordable housing). We consider that there is scope to extend the policy approach (lower the thresholds) to these parameters, as has been done in a number of other Local Authority Areas (rural and urban).

**Recommendation 4**

*We consider that lowered thresholds have a valuable role to play in the District as part of an equitable overall approach. We are able to support the threshold being lowered to 2 dwellings as we understand the Council is currently considering in respect of certain settlement types (Small Service Villages). While the scope of this recommendation could potentially be extended to other scenarios, we understand that to be beyond the current policy consideration. The Council will in general need to marry these findings and recommendations with its wider evidence and delivery experiences.*

4.1.11 Building on the consideration of smaller sites, and the potential range if sensitivities around those, in our view the Council should consider a
financial contributions route applicable to schemes of fewer than 5 dwellings – so allied to the potential lowest threshold of 2 dwellings for example.

**Recommendation 5**

On-site affordable housing should not be considered as a firm expectation or the mainstream approach on sites of fewer than 5 dwellings. While the Council would not want to rule out on-site provision offered on such schemes, we encourage it to look at financial contributions for schemes of 4 or fewer dwellings that will come within the policy scope. This has the potential to act as a useful additional housing enabling tool, especially in times of funding uncertainty.

4.1.12 Our findings, as discussed, point to affordable housing targets in excess of 40% being too ambitious in the local context in our view. We consider that the potential targets originally put forward in the Council’s Policy Choices Document went further than are supportable. In many scenarios and combinations of assumptions studied, the 50% affordable housing requirement produced RLV outcomes that deteriorated too far relative to a likely range of land values that may well need to be achieved to avoid site supply being unduly affected. We consider that a headline position of a 30% target applied to brownfield sites and 40% to greenfield sites would more appropriately reflect the local viability scope on a strategic basis, applied District-wide to schemes of 10 or more dwellings. Our view is that targets set at these levels would be suitably challenging but ought to be generally achievable – they strike an appropriate and necessary balance between the opposing tensions of affordable housing needs and scheme viability. We understand from the Council’s experience of affordable housing delivery via market-led schemes that 30% has been achieved and agreed on a number of occasions in a variety of brownfield situations, including in recent and current cases.

4.1.13 While we have considered alternatives around our view of the suitable headline targets, including potential scope for up to 40% (or more) as a target for all of these larger site these scenarios of all types, we are concerned that the value levels more usually seen in the District may not support that level of affordable housing regularly enough, particularly when combined with other factors that affect viability and may do so in an increased way moving forward. This is likely to be the case especially when considered as part of the collective impacts on schemes with regard to the general direction of increasing planning obligations, build enhancements through increasing Building Regulations/Code for Sustainable Homes, etc; as well as any other issues that may be encountered locally or through site specifics. To balance this comment, the testing of Code Level 3 standards
(and above), demonstrates the achievability of reasonable sustainable construction standards alongside other obligations and associated with the delivery of affordable and market homes. This reflects current Government thinking on less distinction for affordable homes specification, and reduced regulatory burden on the house building industry. However, as an industry we will all need to see how this pans out and be prepared to keep under review our understanding of how these aspects all come together. In coming to our recommendations we are also bearing in mind that affordable housing is not just about numbers but also about dwelling types and mix, tenure, affordability, quality and choice.

**Recommendation 6**

For schemes of 10 or more dwellings, a suitable policy target, applied District-wide would be 30% for brownfield (previously developed) land and 40% for greenfield sites. In all but exceptional cases, appropriate affordable housing would be sought on site. For smaller schemes, we recommend the operation of reduced targets relative to these levels – see below.

4.1.14 As well as having differing land value characteristics, greenfield site development usually follows certain planning or allocation processes so that opportunities exist for early engagement with landowners, developers, RSLs, other stakeholders and involved agencies in terms of setting and considering requirements and expectations; and the ongoing review of those as proposals are developed.

4.1.15 Developing the reduced targets for smaller sites theme and related to our discussion on smaller sites, in our view schemes falling between these headline targets at 10 dwellings and the lower end threshold(s) should be linked with a reduced affordable housing proportion (%) as a target, but with direct provision of affordable homes sought on site as the clear expectation.

**Recommendation 7**

Application of a 20% affordable housing target for schemes falling in the 5 to 9 dwellings range (affordable housing sought on site as the primary route and priority).

4.1.16 The financial contributions route put forward for the smallest schemes (as per Recommendation 5) should also be linked with an appropriate affordable housing equivalent proportion, respecting the sensitivities discussed, as also as a target.
**Recommendation 8**

Schemes of fewer than 5 dwellings, where brought within the policy scope, should be allied to an equivalent affordable housing target not exceeding 20%, which should be collected by way of a financial contribution as opposed to affordable housing sought on-site as a matter of course.

4.1.17 Strategic tenure mix targets that are generally led foremost by the profile of local affordable housing needs should not be applied rigidly. A practical, responsive approach is appropriate. Nevertheless, the Council will wish to provide clarity of expectations again within its strategies. At this stage we would not envisage the Council seeking more than an overall 70% (as a proportion of the affordable housing provision) rented tenure; 30% intermediate (assuming shared ownership or other forms of low cost home ownership or similar). We would expect to see rental provision prioritised. However, with more detail to be settled and weighed-up on the Government’s new affordable rent model and how that relates to other tenure forms, mixes and funding, for the time being the Council may need to be prepared to build and develop on any tenure targets guidance that it issues in the short-term – in common with other local authorities.

**Recommendation 9**

The Council should seek to guide on affordable housing tenure mix at a high level, as part of guiding on overall housing supply but not so as to apply targets in a fixed way at the delivery level. Affordable housing tenure mix should be related to evidenced needs and high level strategy rather than applied rigidly from site to site; much will depend on the specific circumstances. Our appraisals scope has provided outcomes assuming up to 70% rented tenure, but that may need to be kept under review once the Council and its RP and Developer partners have been able to react to the new version of affordable rent alongside the HCA’s very recently released Affordable Housing Framework for the funding bids process.

4.1.18 All outcomes will also be dependent on site specifics, so that this strategic level of consideration informs but does not override or do away with the need to consider viability at that level where issues arise. This layer creates the necessary high level strategy and certainty of expectations that flows from setting of suitable targets based on an appropriate balance between affordable housing needs and viability.

4.1.19 Clarity of expectations is needed on some aspects of affordable housing detail too, including on the net/gross application of policies (noting that in
our experience inspectors have focused on the sensitivities around this, particularly on the very smallest schemes.

4.1.20 Some flexibility may well be needed on the application of affordable housing targets particularly in the short-term (noting the ongoing market uncertainties) and especially if the collective costs burden on schemes is to rise significantly.

4.1.21 The cumulative effect of increasing cost areas will need to be viewed alongside affordable housing needs and aspirations. This approach should extend to considering the collective burden placed on development schemes in terms of planning obligations and potentially other costs – leading to the potential need for prioritisation in certain situations. Under the Government’s “Localism” approach, this might well involve assessing local priorities with the relevant communities as part of particular scheme proposals or Neighbourhood Planning processes. Again, more detail is awaited on the context for some of these types of considerations.

4.1.22 In all cases the policy positions should be set out as clear targets, to help inform land value expectations and form the basis for a continued practical, negotiated approach. Precise wording of policy is an important aspect, particularly in relation to the terms associated with the targets. It needs to create clarity.

**Recommendation 10**

Policy should be clearly worded so at to set out genuine targets (but not by reference ranges, minimums or other variables) with the approach acknowledging the role of viability and application of flexibility where required. This is the case irrespective of the threshold level and proportion combinations selected for policy progression, as it is should a financial contributions route be taken further as part of the policy approach.

4.1.23 Policy wording will need to acknowledge the relevance of considering development viability on case specifics.

4.1.24 The Council will need to consider the mathematical subtleties of its selected approach – for example, how numbers rounding and net/gross (new dwellings numbers) application affects the working of the policy positions, and we encourage the Council to illustrate how the policies would be applied to the smaller sites - especially those of fewer than 5 dwellings – again for clarity. This all means building on the Council’s existing practical approach.
4.1.25 Delivery experiences from all positions will need to be monitored, regardless of where they are pitched. The Council should have contingency plans in place for reacting to those experiences.

4.1.26 The following table summarises the scope we see for policy consideration by the Council – in terms of headlines. Again, this is intended as a quick guide to our overview and should not be read out of context of the wider report content.

4.2 Scope of recommendations – Quick summary

Figure 27: General Scope for the Council’s further consideration of Policy Development

<table>
<thead>
<tr>
<th>Site Size Range (no. of dwellings / threshold position)</th>
<th>Potential Policy Option (% target / % equivalent)</th>
<th>On-Site Affordable Housing to be sought as a priority</th>
<th>Financial Contribution as the preferred route</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4</td>
<td>20% (max)</td>
<td>X</td>
<td>✓</td>
</tr>
<tr>
<td>5-9</td>
<td>20%</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>10+ brownfield</td>
<td>30%</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>15+ greenfield</td>
<td>40%</td>
<td>✓</td>
<td>X</td>
</tr>
</tbody>
</table>
5 Further Discussion

5.1.1 The “National indicative minimum” (site size) threshold for affordable housing is regarded as 15 dwellings, as set out by the Government’s PPS3 Housing (November 2006). The PPS3 goes on to say, however, that Local Authorities can set lower thresholds “where viable and practicable”. The results discussed in this study show that lower thresholds could be considered, provided that the affordable housing target proportion is not viewed in isolation and rigidly. It is one factor to be considered alongside the numbers rounding and other points we have put forward, depending on the Council’s final policy selections.

5.1.2 Where we have mentioned negotiation, that does not necessarily mean an overall reduction in affordable housing – it could mean negotiations over grant input or changes to the tenure mix to provide an element of cross-subsidy into a scheme. Similarly, there may need to be a compromise position achievable rather than moving straight to an assumption that leaves a site contributing nothing to affordable housing needs, but that allows the affordable housing delivery on particular sites to react to changing viability and funding circumstances as more certainty is created with scheme progression.

5.1.3 If the policy targets cannot be met, then landowners and developers will need to clearly demonstrate why. In our view the final judgement on exactly where this element of the policy proposals will settle should be based on all the factors viewed together, i.e. alongside our viability outcomes. Included in these will be the key elements of forecasting of increased affordable housing units delivery based on the size and number of sites coming forward (site capture), local housing needs and practical thinking on the consequences of having small numbers of affordable homes distributed widely across a higher number of schemes.

5.1.4 Crucially, and regardless of detail, the policies should be worded in clear terms. They should not be expressed as a minimum or other potentially variable levels of provision, or be capable of interpretation in an ambiguous way.

5.1.5 It is important that a flexible and negotiated approach to policy application is adopted to ensure the continued supply of residential development land, notwithstanding the very high priority that will be given to addressing affordable housing need. The policy or supporting text would need to make this flexible approach clear. The aim is to provide clear and robust targets for guidance to developers and landowners in appraising and bringing forward sites.
5.1.6 As part of providing clarity of expectations and to aid the smooth working of the approach, Local Authorities usually need to be clear about whether any new policy positions will be applied to the gross number (total, irrespective of any dwellings existing prior to the scheme) or net number (i.e. deducting for any such dwellings) of dwellings being provided by a development scheme.

5.1.7 It may be particularly relevant to clarify this in respect of the very smallest schemes including single dwellings, replacement dwellings, conversions, etc. In our experience, Examination Inspectors have on some occasions been nervous about gross policies universally applied – particularly to the smallest schemes, because there can be such a significant difference in implications compared with a net new dwellings application. An alternative is to be clear that this forms part of the negotiated approach that will necessarily bring together affordable housing numbers, types, tenure and specification, etc as well. Overall a specified approach may be preferred for clarity.

5.1.8 We expect that in site-specific viability discussions, where necessary, the use of a toolkit (including but not limited to the HCA’s “Economic Appraisal Tool” or developer’s own workings) will be required. Developers will be encouraged to work closely with the relevant RP partners, who will increasingly be using that type of appraisal work to support their decisions and approaches for social housing subsidy in conjunction with the Council and HCA.

5.1.9 The Council will expect developers and landowners to come to the table and be prepared to explain and justify why, in any relevant cases, the affordable housing targets and/or other planning obligations requirements cannot be met given other demands on a scheme. The onus will be on developers to clearly and fully demonstrate the issues, with evidence to back-up costs associated with abnormal site complexities and the like.

5.1.10 It is expected that a methodology similar to one we have used will be appropriate for this process, to explore the relationship between development costs and values. Again, however, we reiterate that whilst this methodology is generally accepted, and the assumptions we have used might guide the Council on starting/indicative parameters, there will be no substitute for site-specific appraisal work of this type. Such work would take into account appropriate specific assumptions.

5.1.11 Issues may arise on those sites which have already changed hands or are committed through option or similar arrangements, where figures may simply not work when set against the proposed policy requirements. In the same way, there will be some previous planning consents capable of
implementation (where previous policy positions would have determined requirements).

5.1.12 Similarly, a degree of difficulty with increasing planning-led affordable housing supply may be experienced during the adjustment process where there may be issues whilst developers/landowners get accustomed to the new policies and expectations are modified. The modelling in this study has been carried out on the assumption that knowledge of policies exists and that the landowner/developer information and adjustment process has been undertaken.

5.1.13 The key factors influencing policy should be kept under review - including housing affordability and needs, site supply, economic trends/housing market and viability. Our recommendations are considered to be sound for the current stage of policy development, which is set in a strategic context. In any event their impact and the delivery resulting from them or any alternative adopted policy positions will need to be monitored with a view to longer-term future direction.

5.1.14 The Council should also monitor local property prices and development activity. This could be carried out by reviewing Land Registry figures, estate agents’ views and website information, etc, much as we have done. Maintaining a level of familiarity with the local market would assist greatly with scheme specific reviews and ongoing work in general.

5.1.15 Updates of the viability picture should be considered. Rather than looking at this purely periodically, we consider that it would be prudent to link viability updating to events or points in time which might include new Government Policy, the review of changes to wider planning policy/obligations, updating work on SPD or similar (i.e. also consider other events or influences which might impact viability, and roll those in to reviews).

5.1.16 It will also be important for the Council to consider contingency plans in the event of slippage in meeting affordable housing targets (potentially for example through short-term worsening of housing markets).

5.1.17 Where the Council collects financial contributions in lieu of affordable housing these monies may be ring-fenced and used towards meeting the Council’s affordable housing objectives as an additional enabling tool. This may be in partnership with Registered Providers (RPs). The contributions should be used to supplement affordable housing provision locally and within a predefined timescale (usually within about 5 years). The Council will need to develop a strategy for its approach and record the collection and commitment of these contributions.
5.1.18 Good practice points to bringing to life through appropriate Supplementary Planning Documents and/or Development Plan Documents the type of negotiated approach envisaged in the Council’s early stage policy thinking and supported by Government guidance.

5.1.19 This study has considered planning-led affordable housing in the context of integrated provision within market-led schemes, secured through planning obligations usually embodied in a Section 106 agreement. The Council, along with its partners, should also continue to consider the wider routes to affordable housing provision. These might include RP-led and exception schemes solely for affordable housing tenure. Housing Association or contractor/developer-led schemes can be successful in significantly bolstering local provision – sometimes on lower value, more difficult sites, for example as a part of removing non-conforming uses from older residential areas, recycling unviable former commercial land or making better use of existing estates. RPs and others should be encouraged to be proactive in these areas, and supported by the Council where possible.

5.1.20 The various supply sources of affordable housing need to be considered and encouraged. The use and role of local authority or other publicly owned land might also be very valuable in this sense. Affordable housing proportions and provision details sought on any Council-owned land could well be different to the headlines proposed in this study – using the landowner’s right to control the bidding and disposal terms. There is also an emerging role for local authorities as potential developers of housing again.

End of Final Report study text
Appendices follow
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Appendices

- **Appendix I** – Development Scenarios

- **Appendix II** (base appraisals) - results from the base appraisals carried out across a range of scenarios, with in all cases assumptions including tenure mix of 50% social rented and 50% intermediate; Code for Sustainable Homes Level 3; achievement of 10% on-site renewables (if required); nil social housing grant; 17.5% developer’s profit; and a £3,000 per unit infrastructure/other planning obligations cost allowance.

- **Appendix IIa** - results of the appraisals carried out assuming no additional requirement to achieve 10% renewables on-site.

- **Appendix IIb** – results of appraisals carried out with a tenure mix of 70% social rented/30% intermediate. All other assumptions as per the base appraisals.

- **Appendices IIc and IID** - the results of the sample appraisals carried out assuming variations to planning obligations (or other) costs. Appendix IIc shows the results where the cost is increased to £6,000 per unit; Appendix IID shows the results where the cost is increased to £9,000 per unit. All other assumptions are as per the base appraisals.

- **Appendix IIe** shows the results of the sample appraisals carried out assuming increased developer profit (at 20% of GDV). All other assumptions as per the base appraisals.

- **Appendix IIf** shows the results of the sample appraisals carried out testing the requirement for Levels 4 and 5 of the Code for Sustainable Homes. All other assumptions as per the base appraisals.

- **Appendix IIg** shows the results of the appraisals that assume an element of grant. All other assumptions as per the base appraisals.

- **Appendix IIh** outlines results that look at the cumulative impact of costs on one scheme type at Value Point 4.

- **Appendix IIi** sets out a summary of the RLV maths behind and the appraisal results relating to the potential collection of financial contributions from sites in the size range 1 to 14 dwellings.

- **Appendix III** contains a summary of our property values and market research.
- **Appendix IV** sample pro-forma for the stakeholders consultation process which complimented our wider and “on the ground” research.

- **Appendix V** provides a Glossary of technical terms used throughout this study.