



# Affordable Housing Viability Assessment

Borough of Redditch  
Core Strategy  
Background Document

16 January 2012

0112 BA0872

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**Redditch Borough Council  
Affordable Housing Viability Assessment**

**Final Report**

**December 2011**

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## EXECUTIVE SUMMARY

- ES1 Redditch Borough Council appointed Dr Andrew Golland, Three Dragons to undertake an Affordable Housing Viability Assessment in relation to a range of housing market circumstances across the Borough. The Viability Study will be used by the Council to inform the development of policies in its Core Strategy, Local Plan or other Local Development Documents.
- ES2 The project brief set out that the study was to: provide evidence that 40% affordable housing on sites of 15 or more dwellings is an appropriate target for the Borough (or evidence to support an alternative figure); identify appropriate thresholds and targets for affordable housing provision; review the likely development viability impact of a potential “sliding scale” approach to affordable housing provision/ financial contributions on sites of less than 15 dwellings; and, in the case of an applicant proving non-viability for affordable housing provision on site, suggest/test a scheme(s)/ criteria(ion) for deferred financial contributions/ affordable housing provision to be provided when market conditions change.
- ES3 There were four main strands to the research undertaken to complete this study including: discussions with a project group of officers from the Council to help inform the structure of the research approach; analysis of information held by the authority, including that which described the profile of land supply; use of the Three Dragons Toolkit and a workshop held with developers, land owners, their agents and representatives.
- ES4 A residual development appraisal model was used to assess development viability. This mimics the approach of virtually all developers when purchasing land. This model assumes that the value of the site will be the difference between what the scheme generates (scheme revenue) and what it costs to develop (build costs and developer margin).
- ES5 The approach encompassed two main stages: ‘High Level’ testing using a notional one hectare site to look at viability across a range of housing market circumstances and development mixes; and Generic site testing, looking at the economics of development on typical sites across the Borough and with particular reference to smaller sites. In order to consider a full range of affordable housing targets, testing took place assuming delivery of 10%; 15%; 20%; 25% 30%; 35%; 40%; based on 65% Social Rent and 35% Intermediate Affordable (Rent) Housing, which represents the Council’s current requirement split between tenures.
- ES6 Further tests looked at the impacts of emerging national policy (e.g. Affordable Rent), an increased Section 106 contribution and the impact of increased Code (for Sustainable Homes) levels.
- ES7 It was found that 78% of housing units will be delivered on sites with a capacity of over 100 units. This demonstrates that for the Borough as a whole, larger sites will feature as a prime source of housing supply.
- ES8 Small sites were shown to be equally viable to larger ones. On this basis the Council is justified on viability grounds in setting a lower threshold. On the grounds of the profile of site supply however, there is a lesser case for a lower threshold.

- ES9 The analysis shows significant variation in residual values across the Borough. This is most marked between urban and rural areas. House prices vary significantly and residual values vary even more significantly.
- ES10 This is a very substantial difference (between urban and rural areas). Most strikingly, development at 40% affordable housing in the Rural South generates residual values three times greater than those with nil affordable housing in Redditch East.
- ES11 Residual value generally increases with density. However care is needed since the level of residual is also affected by the percentage of affordable housing. In many instances we think that affordable housing will be most viable where density is lower.
- ES12 Three policy options for target setting are:
- a. An overall target of 30% which would be applied across the Borough.
  - b. Introduce a two way target reflecting more the specifics of local sub markets. If this approach were adopted we would suggest: a 40% target for the Rural South, and a 25% target for urban Redditch (East, West and Town Centre).
  - c. A more bespoke, three way target. This would require 40% affordable housing in the Rural South, 30% target in Redditch West and the Town Centre and a 15% affordable housing target in Redditch East.
- ES13 Given the level of need for affordable housing in the Borough and the lack of any systematic evidence to indicate that viability of smaller sites is a particular problem, there is a case for a threshold significantly lower than 15, as it currently stands.
- ES14 Overall therefore we suggest a split threshold with a much lower threshold in the Rural South than elsewhere. The split policy could be set at 5 dwellings in the Rural South and at 15 dwellings for the remaining three sub markets.
- ES15 However, if the Council were to adopt say a threshold of one unit, this would not be inconsistent with the viability analysis.
- ES16 Where the threshold is set depends not only on viability. In practice the Council will need to consider the implications for its workload in reducing the threshold which could trigger a significant additional number of affordable housing negotiations.

# 1 INTRODUCTION

## Review of project aims

- 1.1 Redditch Borough Council appointed Dr Andrew Golland, Three Dragons to undertake an Affordable Housing Viability Assessment in relation to a range of housing market circumstances across the Borough. The Viability Study will be used by the Council to inform the development of policies in its Core Strategy, Local Plan or other Local Development Documents.
- 1.2 The project brief set out that the study was to:
- Provide evidence that 40% affordable housing on sites of 15 or more dwellings is an appropriate target for the Borough (or evidence to support an alternative figure);
  - Identify appropriate thresholds and targets for affordable housing provision. This should include consideration of whether, it is economically viable and appropriate for Redditch Borough Council to adopt a lower trigger threshold for affordable housing provision;
  - Review the likely development viability impact of a potential “sliding scale” approach to affordable housing provision/ financial contributions on sites of less than 15 dwellings;
  - In the case of an applicant proving non-viability for affordable housing provision on site, suggest/test a scheme(s)/ criteria(ion) for deferred financial contributions/ affordable housing provision to be provided when market conditions change.
- 1.3 This report explains the research undertaken to address the brief and the main findings of that research. This project will support work on the Councils’ Local Development Framework (LDF).

## Policy context – national

- 1.4 National planning policy, currently set out in Planning Policy Statement (PPS) 3 makes clear that local authorities, in setting policies for site size thresholds and the percentage of affordable housing sought, must consider development economics and should not promote policies which would make development unviable.

PPS3: Housing (June 2011) states that:

*“In Local Development Documents, Local Planning Authorities should:*

*Set out the range of circumstances in which affordable housing will be required. The national indicative minimum site size threshold is 15 dwellings. However, Local Planning Authorities can set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area. Local Planning Authorities will need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed, including their likely impact*



*upon overall levels of housing delivery and creating mixed communities.”*  
(Para 29, bullet point 4)

- 1.5 The companion guide to PPS3<sup>1</sup> provides a further indication of the approach which Government believes local planning authorities should take in planning for affordable housing. Paragraph 10 of the document states:

*“Effective use of planning obligations to deliver affordable housing requires good negotiation skills, **ambitious but realistic affordable housing targets and thresholds** given site viability, funding ‘cascade’ agreements in case grant is not provided, and use of an agreement that secures standards.”* (our emphasis).

- 1.6 Accordingly, this study considers the percentage of affordable housing that could be sought on mixed tenure sites and the size of site from above which affordable housing could be sought (the site size threshold). The study is in line with Para 111 of the draft NPPF which aims to set policies for meeting ....need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified.

### **Policy and delivery context – Redditch Borough**

- 1.7 The current policy position with regard to affordable housing delivery was initially set out in the Borough of Redditch Local Plan No.3 (May 2006) and supplemented by the Adopted Affordable Housing Provision SPD (January 2008).
- 1.8 The policy requires 40% affordable housing on sites of 15 dwellings (0.5 hectare) or more. The Council aims to maximise the provision of on site affordable housing in all cases.
- 1.9 Ongoing work in relation to the Worcestershire Strategic Housing Market Assessment shows that Redditch BC has seen volatile population trends, with a fall between 2001 and 2004, and growth since then, up to 2002 level. International migration has contributed significantly to recent trends.
- 1.10 The Borough has seen a weakening economy over the past few years, although this, according to the SHMA, is projected to grow over the next few years.
- 1.11 We understand that delivery at policy levels has been negotiated in several instances at a previous SPD level of 32% affordable units. The Council submits that 40% affordable housing has been negotiated on two major sites at Brockhill East (171 homes in total, forming part of a larger site of up to 850 homes) and at the former Dingleside Middle School (220 homes in total). The Council has also delivered Rural Exception Sites.
- 1.12 The Council has generally not taken commuted sums.

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<sup>1</sup> CLG, Delivering Affordable Housing, November 2006

## **Research undertaken for this study**

1.13 There were four main strands to the research undertaken to complete this study:

- Discussions with a project group of officers from the Council to help inform the structure of the research approach;
- Analysis of information held by the authority, including that which described the profile of land supply;
- Use of the Three Dragons Toolkit to analyse scheme viability (and described in detail in subsequent chapters of this report);
- A workshop held with developers, land owners, their agents and representatives from a selection of Registered Social Landlords active in the Borough.

## **Structure of the report**

1.14 The remainder of the report uses the following structure:

- Chapter 2 explains the methodology we have followed in, first, identifying sub markets and, second, undertaking the analysis of development economics. We explain that this is based on residual value.
- Chapter 3 describes the analysis of residual values generated across a range of different development scenarios (including alternative percentages and mixes of affordable housing) for a notional 1 hectare site;
- Chapter 4 provides sensitivity analysis in relation to the housing market, a higher Section 106 contribution and for a higher Code (Sustainable Homes). Most importantly, it examines the impact of an increased proportion of Intermediate Affordable housing.
- Chapter 5 considers options for site size thresholds. It reviews national policy and the potential future land supply and the relative importance of small sites. The chapter considers practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed);
- Chapter 6 identifies a number of case study sites (generally small sites which are currently being developed, that represent examples of site types found in the Borough). For each site type, there is an analysis of the residual value of the sites and compares this with their existing use value;
- Chapter 7 summarises the evidence collected through the research and provides a set of policy options.



## 2 METHODOLOGY

### Introduction

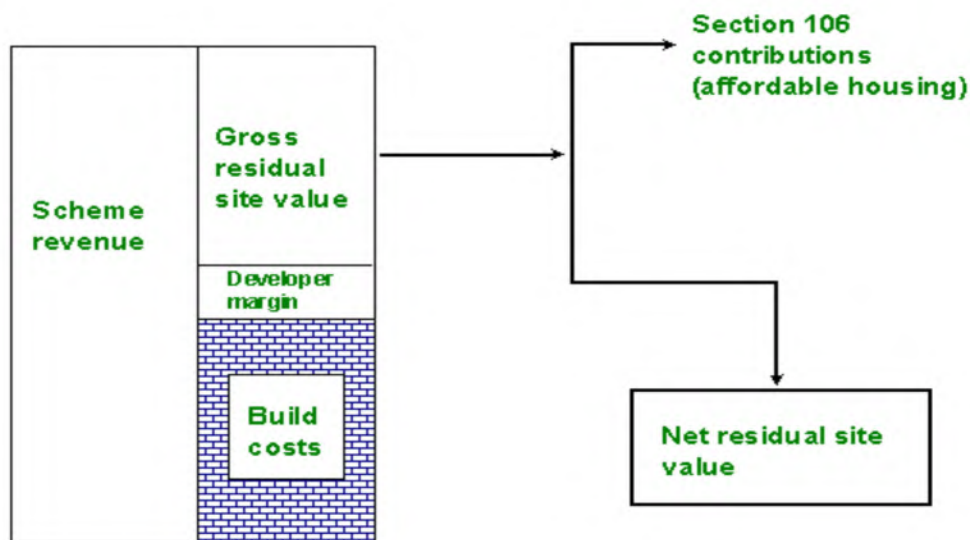
2.1 In this chapter we explain the methodology we have followed in, first, identifying sub markets (which are based on areas with strong similarities in terms of house prices) and, second, undertaking the analysis of development economics. The chapter explains the concept of a residual value approach and the relationship between residual values and existing/alternative use values.

### Viability – starting points

2.2 We use a residual development appraisal model to assess development viability. This mimics the approach of virtually all developers when purchasing land. This model assumes that the value of the site will be the difference between what the scheme generates (scheme revenue) and what it costs to develop (build costs and developer margin). The model can take into account the impact on scheme residual value of affordable housing and other Section 106 contributions.

2.3 Figure 2.1 below shows diagrammatically the underlying principles of the approach. Scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme costs assume a profit margin to the developer and the 'build costs' as shown in the diagram include such items as professional fees, finance costs, marketing fees and any overheads borne by the development company.

**Figure 2.1 Theory of the Section 106 Process**

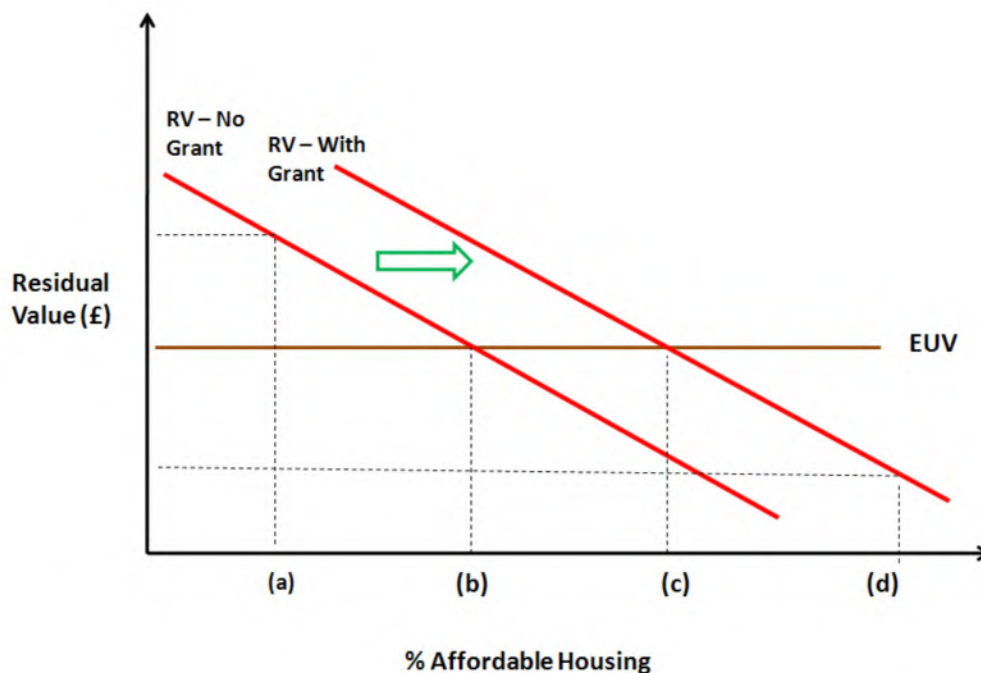


2.4 The gross residual value is the starting point for negotiations about the level and scope of Section 106 contribution. The contribution will normally be greatest in the form of affordable housing but other Section 106 items will also

reduce the gross residual value of the site. Once the Section 106 contributions have been deducted, this leaves a net residual value.

- 2.5 Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.
- 2.6 A site is extremely unlikely to proceed where the costs of a proposed scheme exceed the revenue. But simply having a positive residual value will not guarantee that development happens. The Existing Use Value (EUV) of the site, or indeed a realistic alternative use value for a site (e.g. commercial) will also play a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing.
- 2.7 Figure 2.2 shows how this operates in theory. Residual value (RV) (no grant) falls as the proportion of affordable housing increases. At point (a), RV is greater than EUV and provided that this margin is sufficient for the land owner to bring the site forward, then it will be viable.

**Figure 2.2 Affordable housing and Existing Use Value (EUV)**



- 2.8 At point (b) the RV is equal to the EUV and there is relatively little incentive in theory to bring the site forward.
- 2.9 Beyond points (a) and (b), which show different hypothetical percentages of affordable housing the scheme will not come forward as the developer will not be able to pay the land owner enough relative to the land owner's EUV.
- 2.10 Where grant is available, viability for affordable housing is enhanced. Up to point (c) RV is greater than EUV and there is a land owner incentive. At point (c) RV is equal to EUV and so, whilst a higher affordable housing contribution

is likely than say at point (b), in principle the land owner is in exactly the same position as at (b) with no grant.

- 2.11 At point (d), the scheme will not be viable even with grant.
- 2.12 Under all circumstances, the Council will need to consider whether a realistic and justifiable AUV (Alternative Use Value) applies. Where the AUV is higher than the EUV, and can be justified, then the AUV becomes the appropriate threshold value against which RV is judged.
- 2.13 The analysis we have undertaken uses a Three Dragons Viability model. The model is explained in more detail in Appendix 1, which includes a description of the key assumptions used.

### 3 HIGH LEVEL TESTING

#### Introduction

- 3.1 This chapter of the report considers viability for mixed tenure residential development for a number of different proportions and types of affordable housing.
- 3.2 The analysis is based on a notional one hectare site and has been undertaken for a series of house price sub markets that have been identified. The notional one hectare site is used as a comparable and practical measure for benchmarking results.
- 3.3 The chapter explores the relationship between the residual value for the scenarios tested and existing/alternative use values.

#### Sub Market areas

- 3.4 Variation in house prices will have a significant impact on development economics and the impact of affordable housing on scheme viability.
- 3.5 We undertook a broad analysis of house prices in the Borough using HM Land Registry data to identify the sub markets. These sub markets are based on post code sectors and agreed with Redditch Borough Council as being an accurate basis for analysis.
- 3.6 The house prices which relate to the sub markets provide the basis for a set of indicative new build values as at August 2011. Table 3.1 below sets out the sub markets adopted in the study.

**Table 3.1 Viability sub markets in the Redditch area**

Sub Market	PCS	Neighbourhoods; Settlements
Redditch Rural South	B96 6	Feckenham, Astwood Bank and Rural Areas
Redditch West	B97 6	Enfield (part), Batchley (part), Brockhill
	B97 5	Crabbs Cross, Headless Cross, Hunt End, Webheath, Callow Hill, Walkwood
Redditch Town Centre	B97 4	Redditch Town Centre, Southcrest (part), Smallwood, Enfield (part), Batchley (part)
Redditch East	B98 9	Church Hill North, Church Hill South, Abbey Park
	B98 0	Matchborough East, Matchborough West, Winyates East, Winyates West, Winyates Green
	B98 7	Southcrest, Lodge Park, Green Lands, Oakenshaw South, Oakenshaw, Woodrow North, Woodrow South, Wirehill
	B98 8	Lakeside, Abbeydale, Riverside, St. Georges

Source: Market value areas as agreed between Three Dragons and Redditch Borough Council and tested at the Viability Workshop

### Testing assumptions (notional one hectare site)

- 3.7 For the viability testing, we defined a number of development mix scenarios, using a range of assumptions agreed with the Council (see Appendix 2). The scenarios were based on an analysis of typical development mixes and were discussed at the stakeholder workshop.
- 3.8 The development mixes discussed were as shown in Table 3.2 below:

**Table 3.2 Development densities and base mix scenarios tested in the study**

	Density (Dw per Hectare)			
	20	30	40	50
1 bed Flat				
2 Bed Flat			5	5
2 Bed Terrace		5	15	15
3 Bed Terrace	5	10	25	30
3 Bed Semi	25	30	25	25
3 Bed Detached	25	25	20	20
4 Bed Detached	20	15	10	5
5 Bed Detached	15	5		
3 Bed Bungalow	10	10		
<b>Total Percentage</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

- 3.9 We calculated residual scheme values for each of these (base mix) scenarios in line with a further set of tenure assumptions.
- 3.10 The Study was required to review the viability of existing and emerging potential policy targets. In order to consider a full range of possible targets, testing took place assuming delivery of 10%; 15%; 20%; 25% 30%; 35%; 40%; based on 65% Social Rent and 35% Intermediate Affordable (Rent) Housing, which represents the Council's current requirement split between tenures.

### Section 106 (or similar) contributions

- 3.11 The testing assumptions on other Section 106 contributions were discussed with the authority in the light of monitoring information available and as a result of having discussed appropriate levels at the Workshop. We have run the baseline testing at £5,000 per unit. This covers formal requirements for Open Space and Education, as set out in the Council's relevant SPD guidance.

### Results: residual values for a notional one hectare site

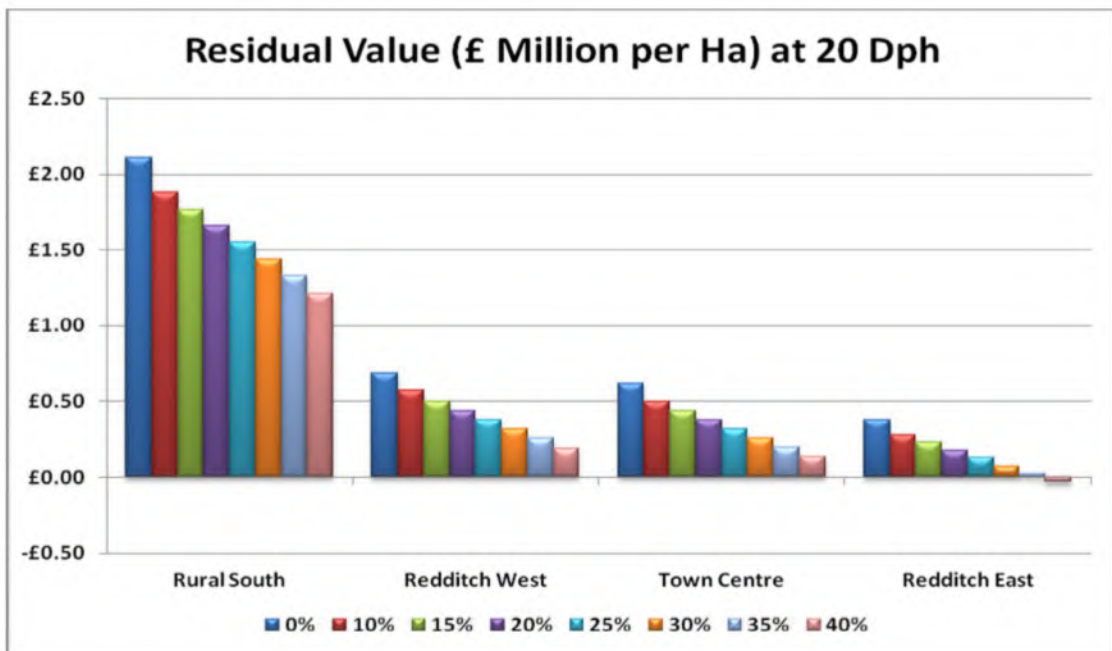
- This section looks at a range of development mixes and densities. It shows the impacts of increasing the percentage of affordable housing on residual site values. **The full set of results is shown in Appendix 3.** They reflect a £5,000 per unit planning gain package in each case and a

17.5% profit margin on gross development value to the developer on the market element of the scheme.

**Residual values at 20 dph**

3.12 Figure 3.1 shows the residual values for a 20 dph (dwellings per hectare) scheme for each of the market value areas.

**Figure 3.1 Housing (at a density of 20 dph) – Residual value in £s million**



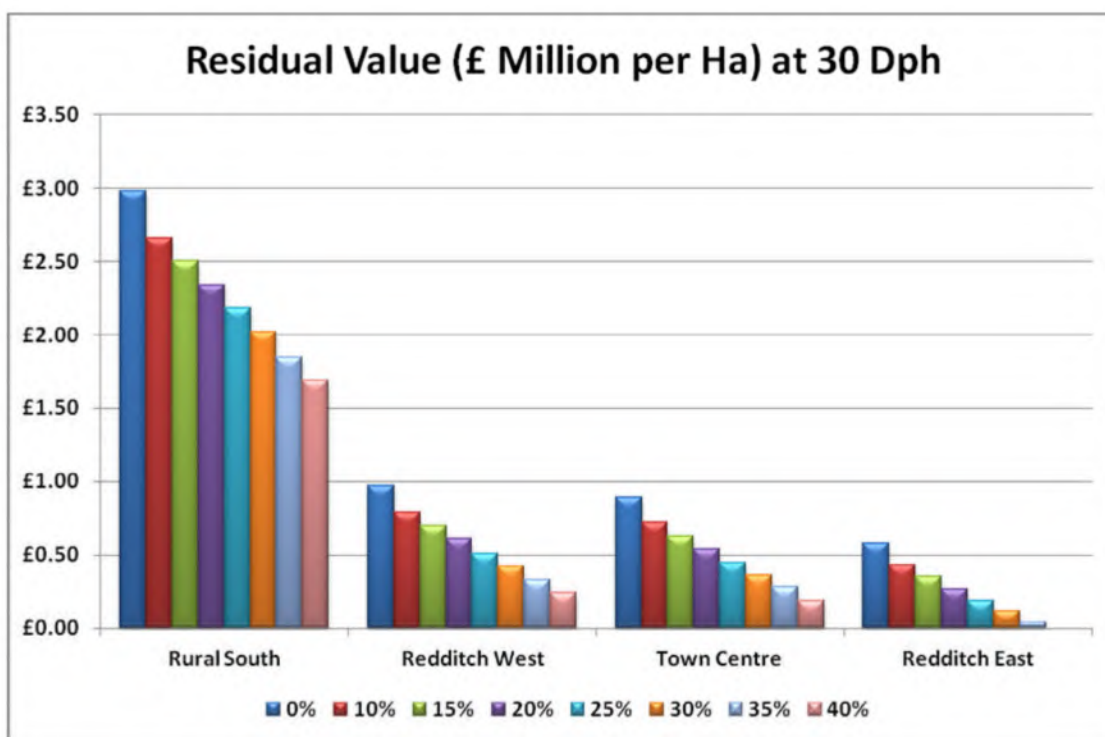
- Figure 3.1 shows a range of residual values in £ million per hectare across the Borough. The results demonstrate the impact of affordable housing at the different targets.
- The viability picture is very much split across the Borough. Although Redditch East has lower residual values than Redditch West and the Town Centre, values are very broadly similar across the town. They differ however significantly with residual values in the Rural South area.
- As an example, at this 20 dph scenario, residual value at 30% affordable housing in the Rural South is £1.44 million. This can be starkly compared with a residual value of £0.07 Million at the same affordable housing target in Redditch East. Even more stark are the figures (please see also Appendix 3) that show that a 40% affordable housing contribution in the Rural South is likely to generate a residual value three times that for a scheme with nil affordable housing in Redditch East.
- The range in residual values are important in indicating that relatively modest differences in house prices between areas can lead to very significant differences in residual values. This principle can be extended to understanding the significance of changes in the values of residential sales over time.



### **Residual values at 30 dph**

3.13 Figure 3.2 shows the residual values for a 30 dph scheme for each of the market value areas.

**Figure 3.2 Housing development (at a density of 30 dph) – Residual value in £s million**

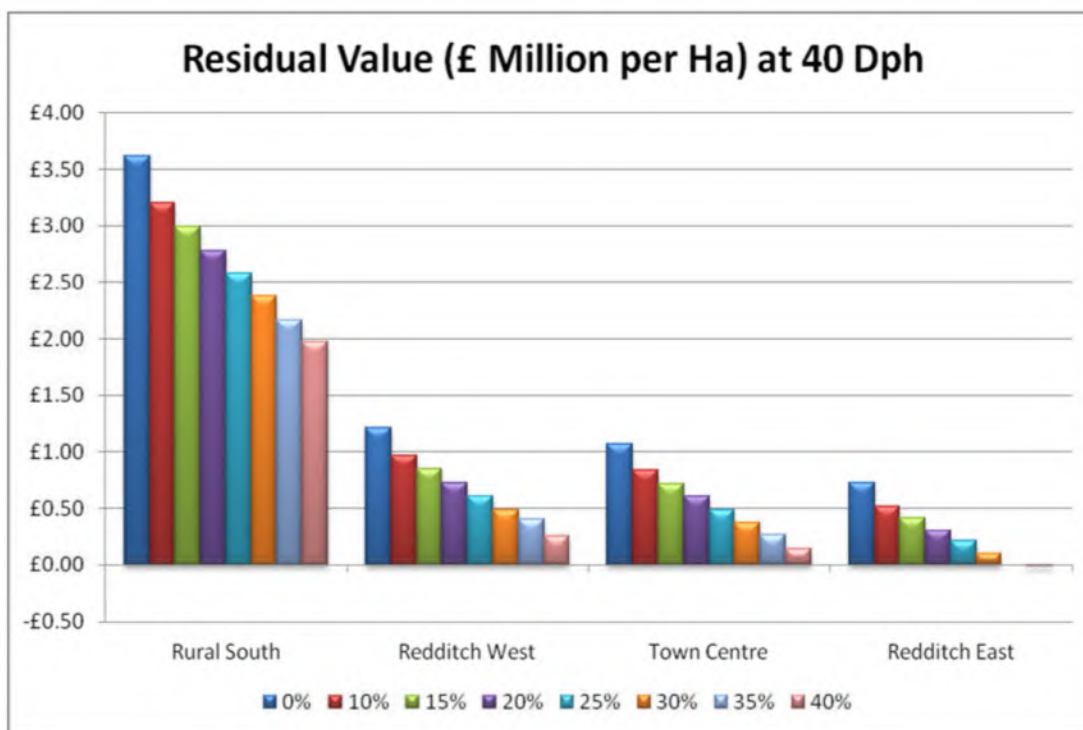


- Figure 3.2, like Figure 3.1, shows a similar pattern of residual values with the broad urban-rural split being maintained.
- Residual values remain robust at high proportions of affordable housing in the Rural South. For example, at 30% affordable housing residual value is in excess of £2 million per hectare. By contrast a residual value of less than £1 million per hectare is achieved in Redditch West at 100% market housing, the next most viable sub market.
- These differences indicate the importance in considering a differential approach to policies on affordable housing, particularly targets in the different Redditch sub markets.
- A 30 dph scheme adopting the percentage mix set out in Table 3.2 above generates higher residual values than at 20dph. This is in the region of 40% to 50% at a middle range of affordable housing (15% to 25%)
- The increase in value is largely attributable to increased density, although it should be stated that density itself is not always a good indicator of viability. In increasing from 20 dph to 30 dph, the development mix has not altered significantly and hence the overall picture is one of increasing residual values as more houses are accommodated on site.

### **Residual values at 40 dph**

3.14 Figure 3.3 shows residual values for a 40 dph scheme for each of the market value areas.

**Figure 3.3 Housing development (at a density of 40 dph)**

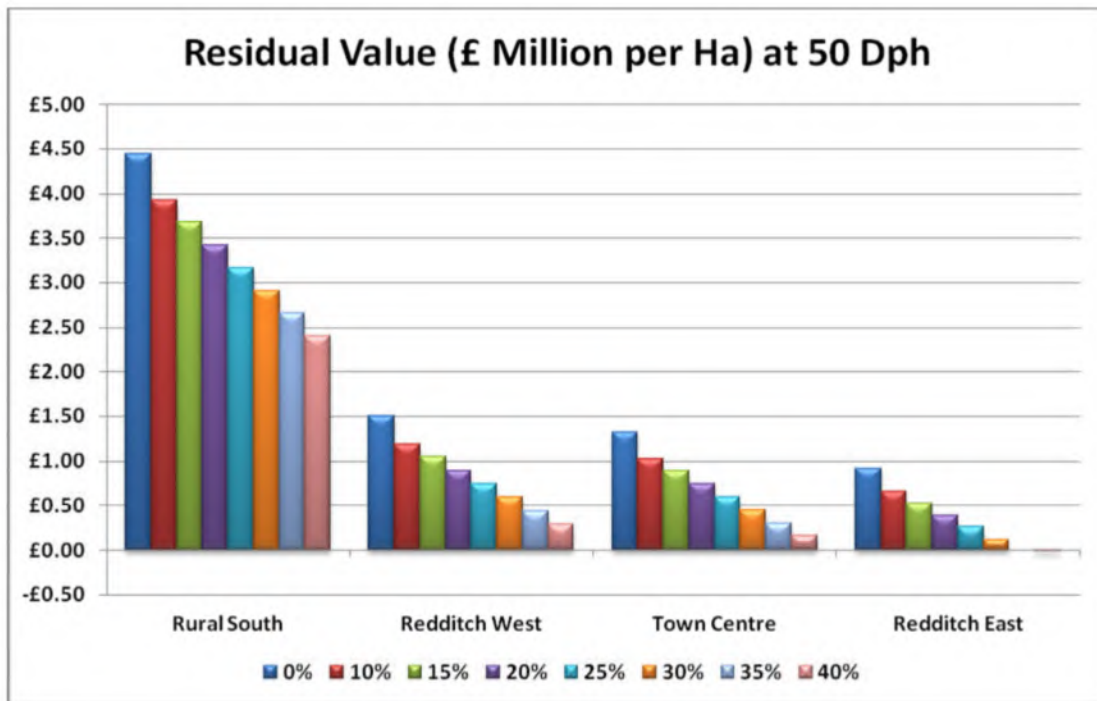


- Figure 3.3 shows a very similar pattern of residual values across the four housing sub markets. As previously, there is a significant difference between urban and rural areas.
- The 40 dph scenario is important in that it demonstrates diverging trends. When comparing a 40 dph scheme with one of 30 dph in the higher value areas such as Rural South and Redditch West, it can be seen (please see also Appendix 3), residual values rise, and in some cases, significantly.
- However, in lower value areas such as Redditch East, residual value falls between 30 dph and 40 dph. This happens only at 30% affordable housing and above, but this nevertheless highlights an important point. This is that that higher density schemes, which usually include a greater proportion of smaller units, when developed in weaker market location show lower residual values.
- As previously, when drawing conclusions about the impact of density and affordable housing, development mix is key and the Council will need to consider schemes on a site by site basis taking these factors, alongside location into account when considering the extent to which policy can be met.

### **Residual values at 50 dph**

3.15 Figure 3.4 shows residual values for a 50 dph scheme for each of the market value areas.

**Figure 3.4 Housing development (at a density of 50 dph) – Residual value in £s million**



- The chart shows that as with all previous graphs, the broad urban-rural split in residual values exists. Indeed the gap has grown at higher density with a 40% affordable housing contribution generating a residual value in the Rural South at almost 2.5 times that at 100% affordable housing in Redditch East.
- Residual values are higher in all sub markets at 50 dph than at lower densities in all sub markets with the exception of Redditch East at the highest proportions of affordable housing. This is because higher density in weaker market areas tends to deliver lower residual values.
- We have not tested for residual values at densities higher than 50 dph. Feedback suggested that higher density would be the exception rather than the rule.
- From our wide experience in carrying out viability studies of this nature we suggest that schemes of between 40 and 50 dph are likely to produce (with the exceptional cases outlined) the highest residual values in a location such as Redditch, and hence the best opportunities to deliver affordable housing and other Section 106 contributions.

## **Commentary on results**

- 3.17 This Study has assessed the residual value for a notional one hectare site for a series of scenarios across four sub market areas identified in the Borough.
- 3.18 The market value areas show significantly different residual values and, for the same set of assumptions about density/development mix and proportion of affordable housing, different residual values have been found.
- 3.19 The residual values shown are markedly different. The Borough is very broadly split between a rural area to the south, where residual values are significantly higher, and the urban itself, where values are lower. Redditch East is likely to be less viable to develop than Redditch West or the Town Centre.
- 3.20 The differences have significant implications for policy setting. A single target approach would be likely to overstate the ability of sites to deliver affordable housing in some locations, whilst understating viability in others.

## 4 FURTHER POLICY AND MARKET TESTS

### The new government policy framework

- 4.1 The Government's Localism Act (November 2011) proposes a new form of affordable housing model – the Affordable Rent model – the objective of which is to enable Registered Social Landlords (RSL) and Housing Associations (HA) to deliver flexible tenancies to social renting households and deliver a greater number of affordable homes. The Government expects Affordable Rent to play an important role in meeting future affordable housing needs, following a planned reduction in the levels of public grants available to subsidise the development of traditional social rented housing.
- 4.2 In June 2011 PPS 3 was reissued to include technical definitions changes in Annex B. This amended document included a definition for Affordable Rents defines this affordable housing product as:
- “Rented housing let by registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is not subject to the national rent regime but is subject to other rent controls that require a rent of no more than 80 per cent of the local market rent” (PPS 3, Annex B: Definitions, June 2011)*
- 4.3 The Affordable Rent Tenure has the potential to significantly enhance the viability of schemes, since Market Rents are substantially above Social Rents. However, in many parts of the country the introduction of this tenure may make little significant difference to scheme viability since the gap between Affordable and Social Rents is expected to be negligible
- 4.4 The implications for funding affordable housing are significant across the country. In February the Homes and Communities Agency (HCA) published a Framework setting out the details of the new Affordable Homes Programme of investment, inviting Registered Providers (R.Ps) to put forward proposals for £2.2bn of funding (out of the overall £4.5bn funding pot) for affordable housing during the 2011-15 Spending Review period. The Framework outlines the changes in affordable housing provision being introduced for 2011-15, and how this new approach will meet the Government's ambition to deliver up to 150,000 new homes over the next four years.
- 4.5 A key change to the new Affordable Housing Programme is the movement away from a process of “continuous market engagement”, where individual schemes were considered, to a four year bid round, where RP's had to put forward all possible opportunities likely to be developed in the four year period and all schemes considered as a 'bid package' related to the major 'Local Investment Plan' investment priorities developed by the Council and its partners in the Worcestershire Delivery Group and HCA.
- 4.6 The Affordable Rent model is central to this programme – aiming to provide a more flexible form of social housing that will allow providers to charge up to 80% of market rent on properties, with the potential to increase RP revenues and reduce the level of Government investment in affordable homes. As part

of the new funding offer, providers will also have the flexibility to convert a proportion of their social rented homes to Affordable Rent as part of a package agreed by the HCA.

4.7 The final product includes the following parameters:

Movement away from every social tenancy being for life, regardless of the households particular circumstances (although these tenancies will still be available). Instead, the Government wishes to encourage affordable rent on fixed term tenancies to contribute to cohesive communities (Localism Bill and Social Housing, 2010).

4.8 Changes to the availability of housing grant and the introduction of the new affordable rent product are likely to impact on the number of affordable houses brought forward in the short-term.

4.9 Thus grant will be focused on Affordable Rent, not Social Rent, and on lower to middle income households, rather than the lowest income households, who will equally be affected by the proposals by the Government to reform benefit entitlement via the Welfare Reform Bill (2011).

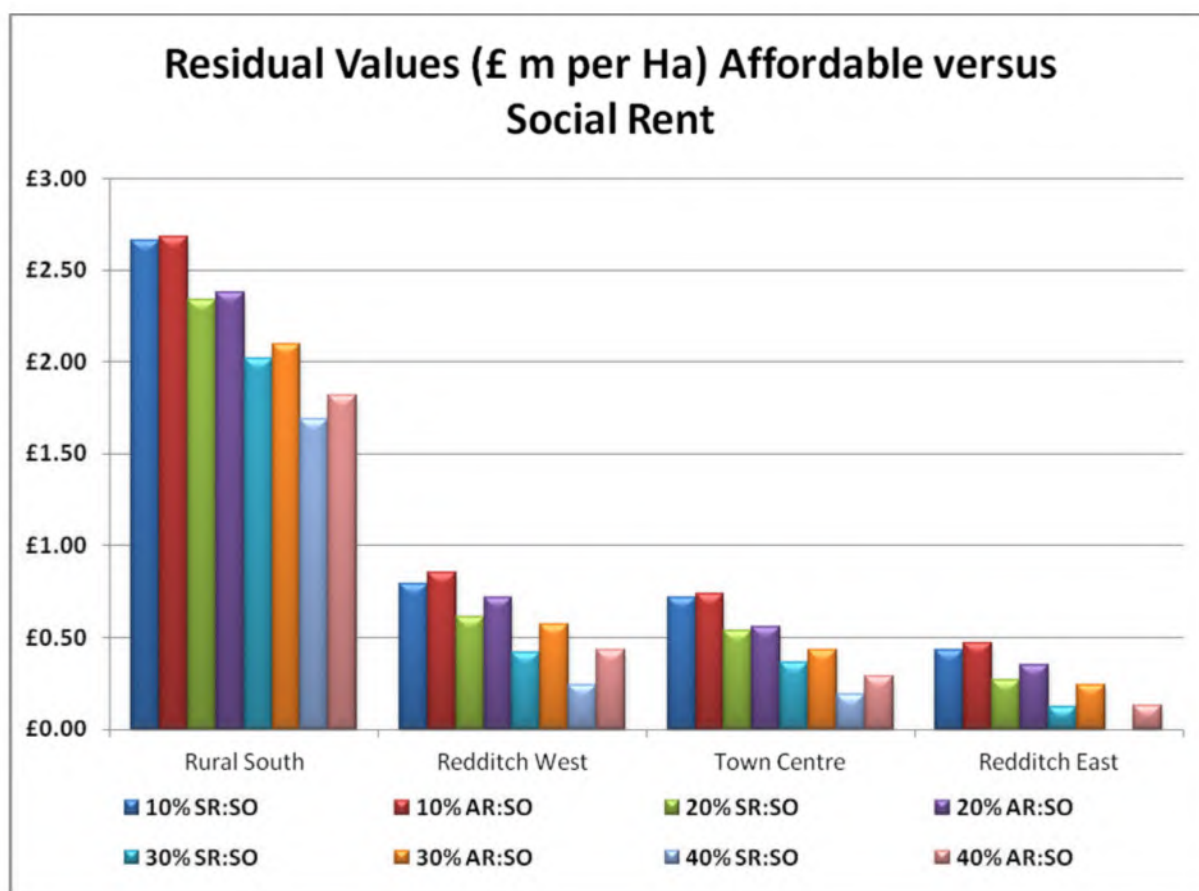
4.10 It is important to stress that local authorities are not bound to deliver Affordable Rent. The Worcestershire SHMA (GVA Grimley, Manchester 2011) will, in numerous cases, indicate that Social Rent is the appropriate tenure to meet local housing needs. Indeed, our baseline analysis here tests Social Rent as the majority tenure within the affordable housing element.

4.11 However, it looks evident that if HCA grant is to be obtained for schemes, then Affordable Rent will be the best tenure option. However, the Authority will have to seek to ensure that the housing market remains balanced and each site contributes to a range of tenures to meet the needs identified in the SHMA. Therefore, it is currently the policy of Redditch Borough Council (Nov 2011) to develop the 65% rental component on S106 sites as traditional 'social rented housing'. However, this policy may change in future and this Assessment will seek to inform future policy.

4.12 Figure 4.1 shows the impact of substituting Social Rent with Affordable Rent. This analysis is shown for a 30 dph scheme.



**Figure 4.1 Residual values: Affordable Rent versus Social Rent**



SR – Social Rent; SO – Shared Ownership; AR – Affordable Rent

- 4.13 The chart (Figure 4.1) shows that if the Council is to substitute Social Rent with Affordable Rent, an increased residual value will result. However, this will not be a significant increase generally. For example at 20% affordable housing in a middle market location such as the Town Centre, an increase of only 3% in residual value will result.
- 4.14 At higher percentages of affordable housing, there would appear to be a disproportionate advantage in developing Affordable Rented housing. However, the results need careful interpretation; we have used here a general Affordable Rent figure, applicable to the Borough. In practice, local Affordable Rents will vary across the Borough.
- 4.15 If grant is applied to the figures shown for the Affordable Rent scenarios above, the potential for sites to be viable will clearly increase. Residual value will increase in line with the level of grant. Typical levels of grant (local authorities outside the South generally) appear to have been around £40,000 per Social Rented unit and around £20,000 per Intermediate Affordable unit. At a grant per unit of say £30,000 per Affordable Rented units, this would increase residual value by around £150,000 for (this) 30 dph notional scheme.
- 4.16 Applied in a fixed way, across all sub markets, this would mean viability in weaker locations would be significantly enhanced by grant, should this be

available, but with some increase in residual values in the stronger market locations.

### **Impact of the Code for Sustainable Homes**

- 4.17 The Code for Sustainable Homes (CFSH) may or may not have a negative impact on the viability of schemes. It should be stressed that it is uncertain whether higher levels of code will impact negatively since viability depends on the relationship between scheme revenue and scheme cost, not simply costs alone. Thus housing development could become more viable in the future despite the impacts of the Code.
- 4.18 This Viability Study uses current Building Cost Information Service (BCIS) build cost data. The average build costs are assumed to include Code Level 3 as a baseline position. The cost impact of moving from Level 3 to Level 4 of the CFSH is estimated, according to DCLG research (Cost Analysis of The Code for Sustainable Homes: Final Report July 2008), at around £5,000 per unit, moving to Code Level 4 could therefore generate additional costs of around £200,000 per hectare (based on a 40 dph scheme) for example.
- 4.19 The impacts will vary according to location within the Borough. As a broad indication, reaching Code Level 4 (versus Code Level 3 now) will reduce residual value by around 10% at the top of the market but will virtually eradicate any positive residual value at the bottom end. These figures relate to a 30 dph scheme at 20% affordable housing. At the top of the market this is unlikely, we feel, to prevent land being brought forward, although the impacts are severe at the lower end of the market.
- 4.20 For a number of reasons, we have not considered it appropriate to test any additional impact of achieving higher Code Levels at this time. The DCLG consulted (December 2009 to March 2010) on The Code for Sustainable Homes and Zero Carbon Hub (ZCH) Energy efficiency. The objective was to seek agreement to changes to the Code for Sustainable Homes in 2010 to align it with changes to Part L of the Building Regulations.
- 4.21 In the consultation document, it was acknowledged that there have been a number of areas where the Code may not work as well as planned. The aim is to streamline the Code where necessary to make it easier and cheaper to build sustainable homes. The outcome of this consultation may therefore result in new cost estimates being produced at a future time. Also, as achieving the Codes becomes part of a standard delivery package, there is evidence to suggest that reductions can be made to any additional costs. It is not possible to estimate the full and proper impact of any changes that may arise following this consultation event.

### **Impact of a different level of Section 106 contribution**

- 4.22 We have tested our baseline analysis for Section 106 contributions (in addition to affordable housing) at £5,000 per unit which is a standard assumption we believe for a local authority such as Redditch. We believe this

represents a reasonable reflection of current costs in schemes in the Redditch Borough Council area.

- 4.23 Section 106 costs (alongside affordable housing) however could be higher in some instances. At £10,000 per unit (a figure we have tested elsewhere for similar local authorities) there would be a residual value reduction of £200,000 on a scheme of one hectare at 40 dph.
- 4.24 This will have a significant impact on viability. At 10% affordable housing at the bottom of the market for a 30 dph scheme, residual value will be almost halved. In the middle to lower range of the market in Redditch (example Town Centre) residual value will fall by around 25%. At the top of the market, residual value will fall by less than 10%.
- 4.25 These decreases are significant, particularly in the lower value areas and will make residential development including affordable housing less competitive with other land uses.

### **Lifetime Homes**

- 4.26 Lifetime Homes may be included within new developments. The estimated additional costs will be around £500 per unit and will not prove a constraint to viability.
- 4.27 Thus residual values could be expected to hold up reasonably well under these circumstances.

### **Market sensitivity**

- 4.28 We have looked also at a situation where house prices are 10% higher and 10% lower than the levels assumed in our main testing, based at August 2011.
- 4.29 Table 4.1 shows residual values for a 30 dph scheme with house prices increased and decreased by 10%. This is not a reflection of any particular forecast of how the market will perform, but aims to show the sensitivity of residual values to changes in house prices.

**Table 4.1 Residual values (£ million per hectare) for a 30 dph scheme with prices 10% higher and lower than the baseline position. No grant assumed with a tenure split of 65% Social Rent: 35% Shared Ownership**

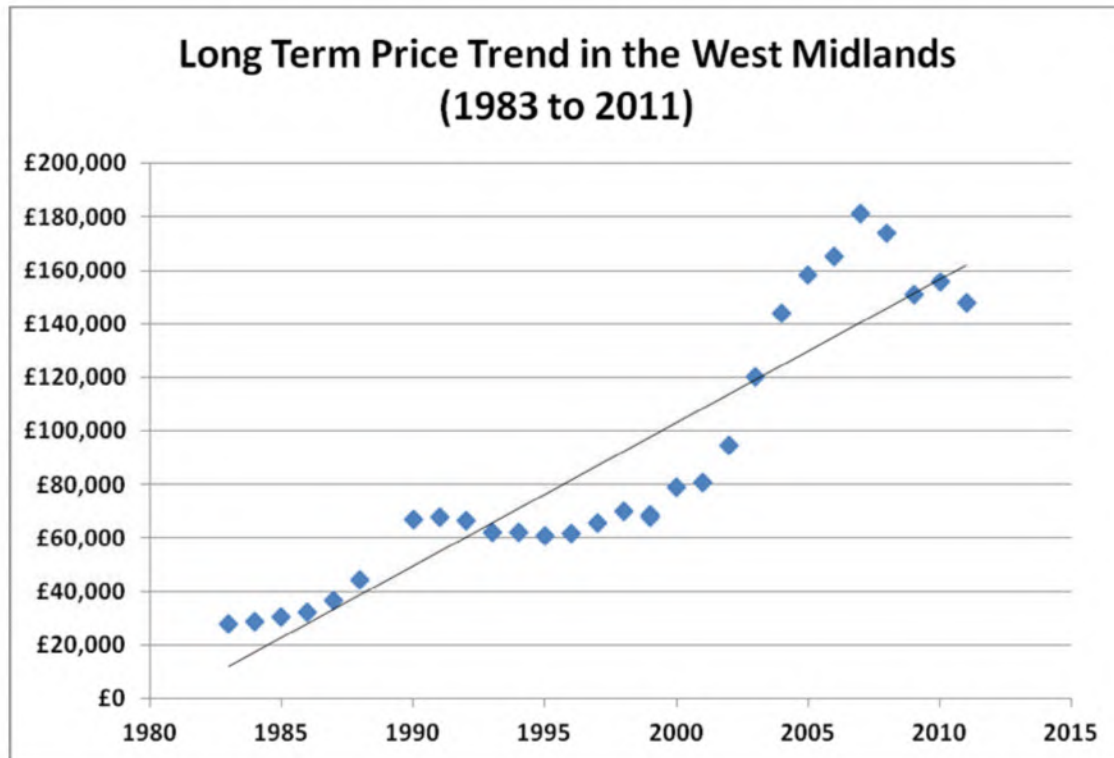
	Rural South	Redditch West	Town Centre	Redditch East	
<b>Plus 10%</b>	10% AH	£3.23	£1.20	£1.01	£0.77
	20% AH	£2.87	£0.98	£0.81	£0.59
	30% AH	£2.49	£0.77	£0.61	£0.41
	40% AH	£2.13	£0.56	£0.41	£0.23
<b>Baseline</b>	10% AH	£2.66	£0.79	£0.72	£0.43
	20% AH	£2.34	£0.61	£0.54	£0.27
	30% AH	£2.02	£0.42	£0.36	£0.12
	40% AH	£1.69	£0.24	£0.19	£0.00
<b>Minus 10%</b>	10% AH	£2.11	£0.44	£0.29	£0.09
	20% AH	£1.83	£0.29	£0.15	- £0.34
	30% AH	£1.55	£0.13	£0.00	- £0.16
	40% AH	£1.26	- £0.02	- £0.14	- £0.29

AH = percentage of affordable housing

- 4.30 Table 4.1 shows the impact on residual values, were prices to increase or fall from the current levels.
- 4.31 At 20% affordable housing, a 10% increase in house prices will bring about a 60% increase in residual values in the Redditch West sub market, compared to 23% increase in the Rural South value for the equivalent scenario. In Redditch East a 10% price increase at 20% affordable housing brings about over a twofold increase in residual value.
- 4.32 Price falls will have similar effects with price decreases hitting lower value sub markets disproportionately hard in terms of residual value.
- 4.33 An alternative, arguably more helpful measure of viability is to look at the relationship between short and long term trends.

4.34 Figure 4.2 shows trends for the West Midlands Region. It demonstrates the short term volatility in house prices against the long term straight line trend. The chart shows that current prices (indicated by the dotted line) are marginally below the long term (straight line) trend.

**Figure 4.2 Long term house price trend**



**Source: Halifax House Price Index August 2011**

4.35 Figure 4.2 suggests that the analysis set out above has not, in the light of longer term trends, been overly optimistic in the assessment of viability. Current prices are below the long term trend, even if only marginally. This means that our assessment of viability for policy making purposes, will be 'conservative' in nature and able to withstand an assertion that policy has not been realistically set.

## 5 LAND SUPPLY, SMALL SITES AND USE OF COMMUTED SUMS

### Introduction

- 5.1 This chapter reviews the policy context and options for identifying the size of sites above which affordable housing contributions would be sought, in the national policy context.
- 5.2 The current policy position with regards to affordable housing delivery is set out in the Adopted Affordable Housing Provision SPD (January 2008). The policy requires 40% affordable housing on sites of 15 dwellings (0.5 hectare) or more.
- 5.3 The chapter provides an assessment of the profile of site supply and the likely relative importance of small sites. It then considers practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed).

### Purpose of the Analysis

- 5.4 PPS3 Housing currently sets out national policy on thresholds and affordable housing and states:

*“The national indicative minimum site size threshold is 15 dwellings. However, Local Planning Authorities can set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area.” (Para 29)*

- 5.5 Redditch Borough Council’s Affordable Housing SPD currently has a threshold of 15 dwellings or 0.5ha whichever is the greater for its affordable housing policy. By reducing site size thresholds and ‘capturing’ more sites from which affordable housing can be sought, the authority can potentially increase the amount of affordable housing delivered through the planning system.
- 5.6 In this section we examine the likely future site supply profile.

### Site size analysis

- 5.7 We have analysed data from the local authority Strategic Housing Land Availability Assessment (SHLAA). This is updated and added to cumulatively on an annual basis. The data relates to 2011.
- 5.8 Sites scrutinised in the Assessment are:

- Sites previously identified in the Local Plan (including Omission sites);
- Redditch Borough Council’s Revised Preferred Draft Core Strategy (January 2011) relevant emerging strategic sites;
- Sites in Redditch Borough Council’s Supplementary Planning Documents (that are not emerging strategic sites);
- Sites identified in the White Green Young reports of 2007 and 2008;
- National Land Use Database sites within Redditch Borough;



- Submitted sites by landowners/ agents;
- Redditch Borough Council land which may have the potential to be declared surplus for disposal;
- Redditch Urban Capacity Study (March 2003) sites;
- Employment sites considered surplus.

5.9 Table 5.1 shows housing capacity identified in the SHLAA set out by size of scheme

**Table 5.1 Site supply by scheme size for the Borough as a whole**

<b>Scheme size</b>	<b>No of dwellings</b>	<b>Percentage</b>
<b>5 to 9 units</b>	<b>42</b>	<b>1.4</b>
<b>10 to 14 units</b>	<b>58</b>	<b>2.0</b>
<b>15 to 24 units</b>	<b>134</b>	<b>4.5</b>
<b>25 units to 49 units</b>	<b>175</b>	<b>5.9</b>
<b>50 units to 99 units</b>	<b>249</b>	<b>8.4</b>
<b>&gt; 100 units</b>	<b>2305</b>	<b>77.8</b>
<b>Total</b>	<b>2963</b>	<b>100</b>

**Source: Redditch Borough Council SHLAA 2011 Update**

5.10 Table 5.1 shows overall housing supply across the Borough. It excludes very small schemes (less than 5 dwellings). It shows that the smaller sites (between 5 - 14 units) generally make an insignificant contribution to supply. The table suggests that only 3.4% of all new dwellings in the SHLAA will be developed on sites with a capacity of between 5 and 14 units.

5.11 At the other end of the scale, the table shows that 78% of housing units will be delivered on sites with a capacity of over 100 units. This demonstrates that for the Borough as a whole, larger sites will feature as a prime source of housing supply.

5.12 Table 5.2 shows equivalent analysis but focusing on the picture of housing supply in the Redditch East sub market area. This analysis shows a quite similar picture to that of the Borough as a whole. Around 3% of all dwellings will be delivered on sites with a capacity of between 5 and 14 units; over 71% of supply will be delivered on sites with a capacity of over 100 dwellings.

**Table 5.2 Site supply by scheme: Redditch East**

<b>Scheme size</b>	<b>No of dwellings</b>	<b>Percentage</b>
<b>5 to 9 units</b>	<b>17</b>	<b>1.5</b>
<b>10 to 14 units</b>	<b>24</b>	<b>2.1</b>
<b>15 to 24 units</b>	<b>134</b>	<b>11.9</b>
<b>25 units to 49 units</b>	<b>99</b>	<b>8.7</b>
<b>50 units to 99 units</b>	<b>130</b>	<b>11.5</b>
<b>&gt; 100 units</b>	<b>725</b>	<b>64.2</b>
<b>Total</b>	<b>1129</b>	<b>100</b>

Source: Redditch Borough Council SHLAA 2011 Update

- 5.13 The number of new dwellings to be developed in the Town Centre sub market area are considerably less than in Redditch East. The vast majority (85%) of these (See Table 5.3) will be developed on sites with a capacity of 50 to 99 homes.

**Table 5.3 Site supply by scheme: Town Centre**

<b>Scheme size</b>	<b>No of dwellings</b>	<b>Percentage</b>
<b>5 to 9 units</b>		
<b>10 to 14 units</b>	<b>10</b>	<b>14.1</b>
<b>15 to 24 units</b>		
<b>25 units to 49 units</b>		
<b>50 units to 99 units</b>	<b>61</b>	<b>85.9</b>
<b>&gt; 100 units</b>		
<b>Total</b>	<b>71</b>	<b>100</b>

Source: Redditch Borough Council SHLAA 2011 Update

- 5.14 To complete the analysis of urban Redditch, we looked at the breakdown of supply according to SHLAA data for the Redditch West sub market. This suggests a very similar pattern to all other geographical templates – the Borough as a whole, Redditch East and the Town Centre sub markets. Table 5.4 sets out the number of dwellings to be delivered by site size.

**Table 5.4 Site supply by scheme: Redditch West**

Scheme size	No of dwellings	Percentage
5 to 9 units	13	0.7
10 to 14 units	24	1.4
15 to 24 units		
25 units to 49 units	76	4.3
50 units to 99 units	58	3.3
> 100 units	1580	90.2
<b>Total</b>	<b>1751</b>	<b>100</b>

Source: Redditch Borough Council SHLAA 2011 Update

- 5.15 For the Redditch Rural South market, two sites are recorded in the SHLAA; one for five dwellings and another for seven dwellings. This suggests, if representative of a wider sample of potential sites, that this sub market will be more likely to deliver smaller sites and on this basis the case for a lower threshold, specifically focused on this sub area, could be justified.
- 5.16 Very small sites will continue to provide housing development. Table 5.5 below shows completions trends on urban brownfield sites of less than 5 dwellings.

**Table 5.5 Urban brownfield – small developments**

Urban Brownfield Completions on sites of less than 5 dwellings															Total
96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	
17	11	24	16	13	21	16	17	18	24	20	24	11	8	12	<b>252</b>

- 5.17 Table 5.5 suggests, according to historical performance, that very small sites (these are windfall) will not make a significant contribution to overall housing delivery within the Borough.

#### **Use of commuted sums**

- 5.18 As a general principle, we recognise that seeking on-site provision of affordable housing will be the first priority and that provision of affordable housing on an alternative site or by way of a financial payment in lieu (or commuted sum) should only be used in exceptional circumstances. This position is consistent with national guidance in Paragraph 29 of PPS3 which states:

*“In seeking developer contributions, the presumption is that affordable housing will be provided on the application site so that it contributes towards creating a mix of housing. However, where it can be robustly justified, off-site provision or a financial contribution in lieu of on-site provision (of broadly equivalent value) may be accepted as long as the agreed approach contributes to the creation of mixed communities in the local authority area”  
Para 29.*

- 5.19 Where commuted sums are sought as an alternative to direct on or off-site provision, PPS3 sets out the appropriate principle for assessing financial contributions - that they should be of “broadly equivalent value” (see PPS3, para 29 above). Our approach is that the commuted sum should be equivalent to the ‘developer/landowner contribution’ if the affordable housing was provided on site. One way of calculating this is to take the difference between the residual value of 100% market housing and the residual value of the scheme with the relevant percentage and mix of affordable housing. For example:

RV at 100% market housing	£800,000
RV at say 30% affordable housing	£350,000
Commuted sum therefore:	£450,000

- 5.20 If the ‘equivalence’ principle is adopted, then the decision of the local authority to take a commuted sum will be based on the acceptability or otherwise of off-site provision as a housing and spatial planning solution. In other words, the local authority should not take viability into account when deciding whether to deliver on or off site contributions.
- 5.21 Any concerns about scheme viability (whatever size of site) should be reflected by providing grant or altering tenure mix, or by a ‘reduced’ affordable housing contribution whether provided on-site, off-site or as a financial contribution. Other planning obligations may also need to be reduced under some circumstances.
- 5.22 However, if affordable housing is sought from very small sites, in certain circumstances it becomes impractical to achieve on site provision e.g. seeking less than 33% on a scheme of 3 dwellings or less than 50% with a scheme of 2 dwellings. There will also be occasions where on-site provision can only deliver a partial contribution towards the proportion of affordable housing sought e.g. 40% affordable housing in a scheme of 3 dwellings would deliver one affordable unit on site (representing 33% of provision).

## **6 CASE STUDY VIABILITY ANALYSIS – SMALLER SITES**

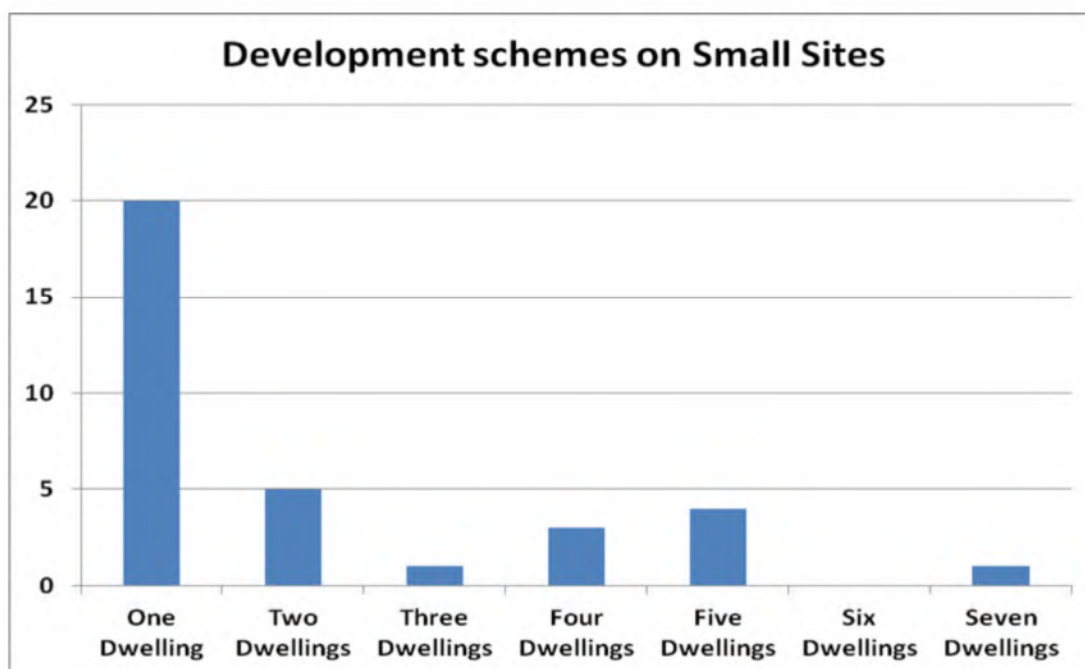
### **Introduction**

- 6.1 The analysis in Chapters 3 and 4 provides a good indication of the likely viability of sites in the Borough. The analysis in those chapters will apply for large as well as small sites (on a pro rata hectare basis). We do not have any systematic evidence to suggest that the economics change significantly between large and small sites.
- 6.2 Data produced by the Valuation Office has consistently shown that small sites can achieve higher land values than larger ones, suggesting that the economics of developing smaller sites could actually be more favourable than developing larger ones.
- 6.3 Therefore, there is no real need to review in detail viability issues for small sites. However, for the sake of further illustration, and recognising that there may be circumstances which impact on the viability of some types of smaller sites, it is felt helpful to review the development economics of some illustrative case studies of smaller sites.

### **Case study sites**

- 6.4 In this section we review a number of case study developments which are examples of small sites for residential development.
- 6.5 An analysis of the data for small site commitments (less than 10 dwellings) shows that a significant number of developments are single dwellings. Our experience suggests that many of these schemes will be built on residential amenity land: garden land, other back land and land adjacent existing dwellings. We test these sites in the analysis below.
- 6.6 Figure 6.1 shows the types of small sites coming forward.

**Figure 6.1 Nature of small development in Redditch Borough**



Source: Redditch Borough Council Small Site Commitments Database

6.7 The data underpinning Figure 6.1 relates to small sites with planning permission (less than 10 dwellings) as at 1<sup>st</sup> April 2011. It provides a reasonable guide we believe, to the nature of small sites likely to come forward. It should provide a reasonable indication of the nature of windfall in the Borough. There were no recorded sites with capacity of 8 and 9 dwellings.

6.8 On the basis of the data, we have selected three case studies for further investigation. These cover the very small single dwelling sites as well as those sites of less than five dwellings. Table 6.1 tests these schemes in a sample of sub market circumstances.

**Table 6.1 Case study sites**

Case Study	No of dwellings	Type of new development	Site Size (Ha)	Dph	Comment
A	1	1 x 4 bed detached house	0.03	32	Significant source of supply. Garden land a key source. Covers 'one for one' schemes.
B	2	1 x 3 bed detached house; 1 x 4 bed detached house	0.05	40	Covers small new build schemes on residential amenity land
C	4	2 x 3 bed semis; 2 x 3 bed detached	0.1	40	Covers new build and schemes where 4 new build replace one existing dwelling.



For each case study we have undertaken an analysis of residual values for a selection of sub markets. We test at 0%, 20%, 30% and 40% affordable housing. All the other assumptions used are the same as for the main analysis described in Chapter 3. Outputs are by scheme and the equivalent per hectare.

### Case study A – Develop one detached house on a 0.03 ha site

- 6.9 The first scenario assumes the development of one four bed detached house. The results, with the affordable housing impacts are shown in Table 6.2:

**Table 6.2 Develop one detached house**

	% Affordable Housing				
	0%	10%	20%	30%	40%
<b>Rural South</b>					
(RV for scheme)	£132,000	£120,000	£107,000	£93,000	£80,000
(RV per ha - £m)	£4.4	£4.00	£3.57	£3.10	£2.67
<b>Redditch West</b>					
(RV for scheme)	£45,000	£38,000	£31,000	£25,000	£18,000
(RV per ha - £m)	£1.35	£1.27	£1.03	£0.83	£0.60
<b>Town Centre</b>					
(RV for scheme)	£41,000	£35,000	£28,000	£21,000	£14,000
(RV per ha - £m)	£1.37	£1.17	£0.93	£0.70	£0.47
<b>Redditch East</b>					
(RV for scheme)	£25,000	£20,000	£14,000	£9,000	£4,000
(RV per ha - £m)	£0.83	£0.67	£0.47	£0.30	£0.13

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million).

- 6.10 Table 6.2 shows that the development of one new detached house will generate a reasonably robust residual value in most sub markets. In the Rural South, plot values at 30% affordable housing are around £90,000. This sort of figure we believe will present in most cases a significant uplift in value for garden and other residential amenity land.
- 6.11 At the lower end of the market, plot values are commensurately lower. However, it will be noted that these results provide generally higher residual values on a per hectare basis than is shown in the high level testing. This is largely explained by the development mix.
- 6.12 Where a single new house replaces an existing dwelling we would normally expect the economics to prevent an affordable housing contribution on the basis that EUV will be too high. Even at the top of the market such a scheme will only generate around £120,000 for a building plot at a 10% affordable housing contribution – on the basis of a market unit. In most cases, we do not think this will be sufficient to cover the property acquisition costs for an existing market dwelling, unless these are exceptionally favourable.

- 6.13 This type of scheme (demolition and replacement) may work best for self build projects where a profit margin may be lower, thereby raising the residual value.

**Case study B – Develop two detached houses (one 3 bed and one four bed) on a 0.05 ha site**

- 6.14 The viability of developing two detached houses rather than one will depend not least on location but also on development mix and the intensity to which the site is developed. Table 6.3 shows residual values for the development of two detached houses.

**Table 6.3 Develop two detached houses**

	% Affordable Housing				
	0%	10%	20%	30%	40%
<b>Rural South</b>					
(RV for scheme)	£235,000	£212,000	£186,000	£162,000	£138,000
(RV per ha - £m)	£4.70	£4.24	£3.72	£3.24	£2.76
<b>Redditch West</b>					
(RV for scheme)	£76,000	£64,000	£50,000	£37,000	£23,000
(RV per ha - £m)	£1.52	£1.28	£1.00	£0.74	£0.46
<b>Town Centre</b>					
(RV for scheme)	£68,000	£55,000	£42,000	£31,000	£17,000
(RV per ha - £m)	£1.36	£1.10	£0.84	£0.62	£0.34
<b>Redditch East</b>					
(RV for scheme)	£41,000	£30,000	£19,000	£8,000	-£3,000
(RV per ha - £m)	£0.82	£0.60	£0.38	£0.16	-£0.06

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million).

- 6.15 With schemes of two dwellings, similar issues apply (to one dwelling). For infill, backland and garden plots, we believe that a significant uplift in residual value will occur in the middle to higher value sub markets and here a contribution to affordable housing would not make development unviable.
- 6.16 At the lower end of the market, residual values of £600,000 per hectare equivalent are realised at 10% affordable housing.
- 6.17 In all cases, whether land comes forward for housing will depend on existing use considerations. With replacement dwelling schemes (i.e. one demolished and two new build) we think it unlikely that an affordable housing contribution will normally be viable. Where there is no demolition involved, then a consideration will be the potential devaluation to the existing dwelling, should a new scheme of (here) two dwellings be constructed.

### Case study C – Develop four dwellings (Two semi-detached and two detached houses) on a 0.1 ha site

- 6.18 A number of schemes in the Borough involve the development of three to five dwellings (we take here four dwellings as the average). We have modelled here the development of two, three bed semi-detached houses and two, four bed detached houses.

**Table 6.4 Develop two semis and two detached houses**

	% Affordable Housing				
	0%	10%	20%	30%	40%
<b>Rural South</b>					
(RV for scheme)	£402,000	£356,000	£312,000	£266,000	£220,000
(RV per ha - £m)	£0.40	£3.56	£3.12	£2.66	£2.20
<b>Redditch West</b>					
(RV for scheme)	£124,000	£98,000	£72,000	£46,000	£2,000
(RV per ha - £m)	£1.24	£0.98	£0.72	£0.46	£0.20
<b>Town Centre</b>					
(RV for scheme)	£108,000	£83,000	£58,000	£34,000	£9,000
(RV per ha - £m)	£1.08	£0.83	£0.58	£0.34	£0.09
<b>Redditch East</b>					
(RV for scheme)	£68,000	£46,000	£24,000	£2,000	-£20,000
(RV per ha - £m)	£0.68	£0.46	£0.24	£0.20	-£0.20

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million).

- 6.19 Case Study C generates reasonably strong residual values, reflected in most scenarios tested. In Redditch West for example, residual value at 30% affordable housing is £0.46 million per hectare and in Rural South £2.66 million per hectare.
- 6.20 At the lower value end of the market, notably Redditch East residual values are low and negligible or negative beyond 30% affordable housing.
- 6.21 Where a scheme for four new build units replaces a demolished dwelling, we still believe that in most cases the Council will only exceptionally be able to take an affordable housing contribution and these instances are likely to be confined to developments in the Rural South. The quantum of the commuted sum will be site specific.

### Rural Exception Schemes

- 6.22 From time to time the Council will may want to consider Rural Exception Schemes (RESs), raising issues about the viability of delivery. We have not tested here a RES on the basis that these schemes are normally not viable without grant input. Their numbers are also relatively insignificant within Redditch. RESs require sub market land plots to be provided, and require an

operator (to be able to meet the full costs of building less what the scheme is worth to a Registered Social Landlord (RSL). Where this is Social Rent, there will in all cases be a shortfall to build costs. Where the affordable product is intermediate, then the subsidy requirement is likely be less. In all instances where a fair proportion of the scheme is Social Rent, then some significant subsidy is likely to be needed.

- 6.23 With grant becoming less certain, these schemes will meet, we believe, with very particular viability difficulties.

### **Commentary on the results**

- 6.24 This section on case studies is primarily illustrative, looking at the economics with particular reference to smaller sites and including consideration of achieved residual values for different sites and how they compare with existing use values.
- 6.25 Sites with a low number of dwellings (smaller sites) are no less viable than sites with a larger number. They can be shown to generate higher land values than larger sites. This means that where existing use value is relatively low, as we think will be the case for example, with other back land, infill or garden land, the Council could pursue a robust approach to obtaining affordable housing and other Section 106 contributions.
- 6.26 It should be noted that these small schemes can generate a higher pro rata (per hectare) value than larger schemes.
- 6.27 Where a dwelling is to be replaced by one or two new dwellings, we believe the economics are not favourable to the provision of affordable housing. Normally in excess of four new dwellings will be needed where one is demolished and this applies only to the highest value locations. Elsewhere, well in excess of four new dwellings will be needed to be developed where one existing dwelling is demolished if affordable housing contributions are not to hold sites back.

## **7 MAIN FINDINGS AND CONCLUSIONS**

### **Sub market areas**

- 7.1 Our analysis of the housing market in the Borough indicates that there are four sub markets: Redditch Rural South, Redditch West, Redditch Town Centre and Redditch East.
- 7.2 House prices vary significantly across the sub market areas and these are reflected in the residual values for the different scenarios we tested. Relatively insignificant apparent differences in house prices can lead to significant differences in residual values. The range of residuals shown suggests a varying or split affordable housing target to be a reasonable stance to take.
- 7.3 We found that residual value is dependent not only on location but also on the density adopted.

### **Residual values and scenario testing**

- 7.4 The analysis shows significant variation in residual values across the Borough. This is most marked between urban and rural areas. House prices vary significantly and residual values vary even more significantly.
- 7.5 At 30 dph for example, residual value is £2.34 million at 20% affordable housing in the Rural South. By contrast, it is only £0.27 million in Redditch East. As a mid point for urban Redditch (between the Town Centre and Redditch West), residual value is between £500,000 and £600,000 per hectare.
- 7.6 This is a very substantial difference (between urban and rural areas) which can be highlighted by looking at further figures. Most strikingly, development at 40% affordable housing in the Rural South generates residual values three times greater than those with nil affordable housing in Redditch East.
- 7.7 Residual value generally increases with density. However care is needed since the level of residual is also affected by the percentage of affordable housing. In many instances we think that affordable housing will be most viable where density is lower. The conclusions depend of course on the relationship between density and development mix. They are not significantly different at mid densities. A substantial increase in flats (over the baseline assumptions made here) could significantly reduce viability, especially in urban Redditch.
- 7.8 It should be emphasised that the analysis reflects a 17.5% net profit margin to the developer which is based on gross development value and a £5,000 per unit Section 106 contribution (over and above the affordable housing). The impact of planning contributions on viability has been tested at a baseline

position of £5,000 per dwelling. The impact of this will vary by sub market, but will most affect viability at the lower end of the market.

- 7.9 Further that all the results described above are based on nil grant and assume that the intermediate affordable element of the affordable housing is Newbuild Homebuy or Shared Ownership. The split in the baseline testing assumes 65% Social rent and 35% Shared Ownership.
- 7.10 The introduction of grant significantly improves residual values across the Borough. It matters more proportionately in lower value areas because it is based on a lower baseline residual. Where grant does become available, the Council will need to direct it carefully to combat housing needs most effectively. It will need to be recognised that government policy is focused on supporting middle income households through its Affordable Rent (plus grant) policy.
- 7.11 If the Council is to substitute Social Rent with Affordable Rent, an increased residual value will result. However, this will not be a significant increase generally.
- 7.12 The Authority will need to monitor the local requirements for Social Rented and Intermediate affordable housing and balance these requirements with the viability findings of this report.

#### **Site supply and smaller sites**

- 7.13 The analysis of recent trends of the SHLAA data for Redditch indicates that the Borough will rely on mainly larger sites to deliver affordable housing going forward. For the Borough as a whole, only 8% of dwellings will be developed on sites with a capacity of between 5 and 14 units. Moreover, 78% of all housing units identified in the SHLAA will be developed on sites with a capacity of over 100 units.
- 7.14 It is also the case that when an analysis of the same data is made by sub market, a similar picture emerges for urban Redditch with the East, West and Town Centre sub markets having supply mainly coming from larger sites.
- 7.15 There is little data for the Rural South sub market, but what there is, suggests that smaller sites predominate. This indicates the need for a lower threshold in those locations.

#### **Smaller sites and viability**

- 7.16 If the planning authority wished to consider a threshold below the current national indicative minimum of 15 dwellings in any of the areas identified here, the information provided in this report about viability of small sites would become important as part of the evidence for a reduced threshold. It is important to highlight that the development industry workshop did not conclude that small sites are systematically more or less viable to develop than larger sites.



- 7.17 Viability is sensitive to the relationship between existing (or, where justified, alternative use value). Many smaller schemes involve the development of residential ancillary land – gardens, back land or infill. We do not believe, based on the likely very significant uplift in value, there is a viability problem here and therefore the Council could, if it chooses, take affordable housing contributions from these types of site.
- 7.18 Overall, it is important to highlight that it is not the size of the site per se that causes difficulties with viability, but the nature of the existing or alternative use. Moreover location, density and development mix are better indicators of viability generally.

### **Use of payments in lieu**

- 7.19 Where a financial payment in lieu of on-site provision of affordable housing (or commuted sum) is to be sought, it should be of “broadly equivalent value” to on-site provision. This means it should put the land owner in the same financial position whether an on or off site contribution is taken. This approach is, on the evidence we have considered, a reasonable one to take in policy terms.
- 7.20 If this ‘equivalence’ principle is adopted, then the decision of the local authority to take a commuted sum will be based on the acceptability or otherwise of on-site provision as a housing and spatial planning solution, not in response to viability issues.

### **Conclusions and policy options**

- 7.21 There is no detailed government guidance setting out how targets should be assessed, based on an assessment of viability. An assessment of viability for policy setting purposes might have reference to a range of factors including: past and recent delivery of affordable housing, residual values, the relationship between residual values and existing use values, what has been found to be robust targets in similar authorities through the Core Strategy process, the land supply equation and its relationship to the policy weight given to affordable housing delivery in the wider context of housing supply generally. To some extent land owner expectations are also significant. The experience of the consultant, working in conjunction with the local authority and through developer workshops helps to arrive at a robust policy stance.
- 7.22 Our analysis of residual values has led us to suggest three options for setting affordable housing proportions for spatial planning policy purposes which would be a reasonable policy conclusion from the viability information presented. In coming to our conclusions, we again note that viability is not the only consideration that the local authority will need to take into account in deciding on its policies and that it will need to consider the priority given to achieving affordable housing delivery to help address the high level of need for affordable housing in the Borough.

7.23 We consider that the three options are:

- a. An overall target of 30% which would be applied across the Borough.
- b. Introduce a two way target reflecting more the specifics of local sub markets. If this approach were adopted we would suggest: a 40% target for the Rural South, and a 25% target for urban Redditch (East, West and Town Centre).
- c. A more bespoke, three way target. This would require 40% affordable housing in the Rural South, 30% target in Redditch West and the Town Centre and a 15% affordable housing target in Redditch East.

7.24 The split target approach reflects more specifically local market circumstances. However, the Council will need to take into account the pattern of potential land supply for housing. Setting a lower (than overall at 30%) target may not optimise delivery of affordable housing in higher value areas ('hot spots'). A single target approach, where this applies, is probably a more sensible strategy.

#### **Viability on individual sites**

7.25 Our analysis has indicated that there will be site-specific circumstances where achievement of the affordable housing proportions set out above may not be possible. This should not detract from the robustness of the overall targets but the Council will need to take into account specific site viability concerns when these are justified.

7.26 If there is any doubt about viability on a particular site, it will be the responsibility of the developer to make a case that applying the Council's affordable housing requirement for their scheme makes the scheme **not viable**. Where the Council is satisfied this is the case, the Council has a number of options open to it (including changing the mix of the affordable housing and supporting a bid for grant funding from the Homes and Communities Agency and/or using their own funds) before needing to consider whether a lower level of affordable housing is appropriate. In individual scheme negotiations, the Council will also need to consider the balance between seeking affordable housing and its other planning obligation requirements.

#### **Dealing with viability changes over time**

7.27 It is impractical for the Council to have to review the policy too frequently. Our findings should be robust over the medium to longer term. There will however be instances where sites are to be developed over a long time frame or where changing local market conditions are envisaged.

- 7.28 Under these circumstances, the Council will need to have in place a protocol for dealing with deferred contributions. There are a number of options here. One, most commonly used is to compute contributions by reference to the GDV (Gross Development Value) of a scheme; in other words, as price levels increase, sums become payable to the Council; the precise mode of calculation can be bespoke to the scheme, with, in some instances, the developer taking a greater share of the downside risk.
- 7.29 There are other arrangements for calculating deferred contributions. One approach is to agree for a re-run of the appraisal models using updated figures at an agreed point in time in the whole scheme. Typically, this will relate to a given phase. This approach will normally be based on any increases in residual value attributable to the updated scheme position.

### **Thresholds**

- 7.30 The current policy position with regards to affordable housing delivery is set out in the Adopted Affordable Housing Provision SPD (January 2008). The policy requires 40% affordable housing on sites of 15 dwellings (0.5 hectare). The threshold is in line with national policy set out in PPS3.
- 7.31 Given the level of need for affordable housing in the Borough and the lack of any systematic evidence to indicate that viability of smaller sites is a particular problem, there is a case for a threshold significantly lower than 15, as it currently stands.
- 7.32 However, the analysis of the SHLAA data suggests relatively low reliance on small sites to deliver affordable housing, with the exception of sites in the Rural South.
- 7.33 Overall therefore we suggest a split threshold with a much lower threshold in the Rural South than elsewhere. The split policy could be set at 5 dwellings in the Rural South and at 15 dwellings for the remaining three sub markets.
- 7.34 If the Council were to adopt say a threshold of one unit, this would not be inconsistent with the viability analysis.
- 7.35 Where the threshold is set depends not only on viability. In practice the Council will need to consider the implications for its workload in reducing the threshold which could trigger a significant additional number of affordable housing negotiations.
- 7.36 This should not necessarily be a deterrent to lowering the threshold. It is increasingly the case that developers are required to fund the costs of viability assessments. However, the Council will need to be sure that any such costs cover staff time and/or the cost of external audits of developer submissions.

### **Commuted sums**

- 7.37 Where **commuted sums** are collected a possible approach to calculating the appropriate sum sought is to base this on the equivalent amount which would be contributed by the developer/landowner were the affordable housing provided on site. This is expressed as follows:

RV 100% M = Residual value with 100% market housing

RV AH = Residual value with X% affordable housing (say 30%)

Equivalent commuted sum = RV 100% MV minus RV AH

- 7.38 Where commuted sums are collected, the Council will need to have in place a strategy to ensure the money is spent effectively and in a timely manner. Options for spending will be a matter for the Council to consider but could include supporting schemes which would otherwise not be viable, increasing the amount of social rented housing in a scheme, increasing the proportion of family units in a scheme, seeking higher quality affordable housing (e.g. a higher level of the Code for Sustainable Homes).

### **The current housing market**

- 7.39 At the time of preparing this report, the housing market has suffered a downturn as a result of the 'credit crunch'. Our analysis of housing market values is as recent as possible and relates to August 2011. We believe this is valid over the Plan period, although the Council may wish to review the study should there be a dramatic up or downturn in the housing market.
- 7.40 Our analysis of long term house price trends suggests that the housing market is now marginally below the long term trajectory. This means that our analysis is 'conservative' in nature and more than reasonable in the policy options which are set out.
- 7.41 We think it likely however that developers will increasingly run an argument in the coming years that the affordable housing and wider Section 106 policy is holding back sites. We believe that whilst the Council should be flexible in its negotiations on specific sites, we do not think it should shift its position from the policy conclusions of this report since these will be more appropriate to the longer term trend in house prices, which has been shown to be upwards.
- 7.42 Currently it is difficult to see the direction of travel over the longer run. Historically, prices have risen by around 3% per annum above inflation. These sorts of rises, if emulated over the Plan period, should allow the authority to take a robust view towards affordable housing policy.

## Appendix 1

### REDDITCH BC AFFORDABLE HOUSING VIABILITY STUDY – WORKSHOP NOTES

#### 1 Introduction

A workshop was held on the afternoon of the 9<sup>th</sup> May 2011 at Redditch Town Hall. Representatives of the development industry, landowners were in attendance. An attendance list is given below.

Simon Newbould	D S Designs
John Dunstall	WCC Property
Mike Hill	Bromford Housing
Tim Wade	Rooftop Housing Group
Paul Wilde	John Truslove
Ann Harris	WM Housing
Chris Cole	Sanctuary Housing
Chris Lewis	BDHT
Becky Wright	Home Group
Michelle Coates	Home Group
Jill Davies	Redditch Friends Housing Assoc. Ltd
Rachel Hill	GVA
Ivan Wilcock	Planning Participation Ltd
Cllr Brandon Clayton	Redditch BC
Daniel Russell	Redditch BC
Kevin Foreman	Bridgehouse Property Consultants
Alison Grimmett	Redditch BC
Carl Taylor	BCHS Limited
Andy Warner	Festival Housing

Three Dragons and Redditch BC would like to thank all those in attendance for their inputs to the study.

At the workshop Three Dragons gave a presentation summarising the methodology and outlining the process of higher level and detailed testing which would be carried out to determine viability targets.

It was agreed that the Powerpoint presentation (attached) would be made available to all Workshop participants in conjunction with these feedback notes.

#### 2 Study overview

Three Dragons have been commissioned to carry out an Affordable Housing Viability Appraisal in accordance with the requirements of PPS3 in order to establish a robust evidence base to support emerging policy requirements as set out in the LDF. There are two parts to the commission:

- i) An Affordable Housing Viability Study to guide the setting of new affordable housing targets and thresholds for the Local Development Framework;

- ii) A Financial Appraisal Toolkit to assist negotiations on specific sites.

The Affordable Housing Viability Study is to be used to justify and demonstrate the viability of the Council's new affordable housing policies. The Financial Appraisal Toolkit will be used to assess the circumstances of individual sites where viability, and therefore the ability to provide the required level of affordable housing, is in question.

### **3 Key issues**

#### **3.1 Basis for interpreting viability**

There was no objection in principle to the over-riding method for assessing viability proposed by Three Dragons. This measures viability by reference to residual scheme value less the existing or alternative use value of a site.

One delegate questioned whether it was correct to identify affordable housing in isolation in the diagrammatic approach. Three Dragons responded that as long as both costs and revenues are accounted for, the approach remains robust.

The challenge in assessing a reasonable land owner return was recognised. One delegate suggested that a 30% to 50% land owner return is reasonable on brown field sites.

It was emphasised by Three Dragons that the study will need to be robust for the Plan period. In this respect it will be important to look at the viability of sites in the current market – against the context of the longer run.

#### **3.2 Overall methodology**

Three Dragons explained that the approach to the study will be two stage with the first stage focusing on testing a notional one hectare site, assuming different development mixes and different percentages of affordable housing, with the second stage looking at a range of generic site types, ranging from large green field through to small and large brown field sites.

The High Level Testing (Notional one hectare site) approach was explained by Three Dragons with no specific objections.

Data sources (e.g. HMLR for house prices and BCIS for build costs) were explained to participants. The need for best primary data sources based on a large sample was understood and agreed.

#### **3.3 Sub markets and market values**

A key part of the study will involve the analysis of viability at a sub market level. Sub markets will be defined by house prices. The Powerpoint presentation shows a table of draft areas. Participants were invited to submit comments on the sub markets.



It was explained by Three Dragons that prices were derived from three years worth of HM Land Registry data and then adjusted to today's values using all transactions of new and second hand.

Some comments on the market areas and indicative new build prices were:

Church Hill is different to Winyates;  
Headless Cross should be in a different sub market to Webheath;  
Callow Hill and Church Hill – values should be higher;  
Prices at top end are too high and those at bottom too low;  
Flats at £170,000 are too high.

*Any further comments are on the sub markets and prices presented at the Workshop are now invited.*

Consideration was given to the merits and demerits of differential affordable housing targets which might be applied across the Redditch Borough area.

One delegate said that in general (exception Coventry) West Midlands authorities have gone for a single target approach. The advantage of this approach is that it does not require the drawing of boundaries within the Borough.

### **3.4 Land values**

Delegates stated that land values will vary according to the scale of development. £50,000 per plot is a reasonable 'marker' for smaller sites. On larger sites this will be considerably lower: values for bulk land which is taken pro-rata from £50,000 per plot won't equate to £2 million per hectare for example.

The £50,000 per plot is based on a nil affordable housing contribution.

### **3.5 Density and development mix**

A template of development mixes was demonstrated showing proposed mixes of house types at different densities. This is included in the Powerpoint presentation.

It was suggested by Three Dragons that family type housing (density range 30 dph to 40 dph) is likely to produce the optimal opportunities for delivering affordable housing.

It was stated that in recent years a high number of apartment schemes have been developed in the Borough. These are now proving very difficult to sell.

The testing process should not include one bed flats according to one delegate.

### **3.6 Thresholds and the viability of smaller sites**

The study looks at thresholds as well as affordable housing targets.

There was support for the idea of reducing thresholds on the basis that small sites can be as viable as large ones.

It was stated that large sites often carry economies of scale. Three Dragons agreed that can be the case but suggested that it is equally the case that small sites generate higher selling prices due to the exclusivity.

### **3.7 Calculation of commuted sums**

Some delegates believe commuted sums can be a good way to deliver regeneration.

Three Dragons suggest that any commuted sum should be the difference between the residual value of a scheme with 100% market housing and one with a mix of market and affordable housing.

### **3.8 Development costs**

Three Dragons presented the proposed page that will be used for the testing framework. This is included in the Powerpoint presentation. It was explained that the base build costs per square metre will be calculated from the BCIS data source.

It was suggested that the costs adopted are fine when considering that they are a blended figure (some RPs suggested a higher figure for housing association development)

A discussion took place over developer return. It was explained that the testing work will be carried out using a 17.5% return rate. This relates to a return on development value, not cost, or ROCE (Return On Capital Employed).

Three Dragons explained that the Council will not be bound by this rate of return when negotiating sites; and may under certain economic circumstances choose to adopt a higher profit margin to reflect prevailing lender policy.

There were no specific comments on the other developer costs.

### **3.9 Affordable housing issues**

The likely revenue from affordable housing into Section 106 schemes is difficult to gauge at the current time.

It was explained that the viability testing process will need to reflect local housing needs as well as the government's recent policy directing grant into Affordable Rent.

It was stated by one RP delegate that the difference between Social Rents and Affordable Rents in Redditch was unlikely to be significant.

A starting point for testing is 65% Social Rent and 35% Intermediate Affordable housing.

It was agreed that the baseline scenario should assume no grant.

Delegates are requested to provide information on rents and capital transfer values in the Redditch BC context.

#### **4 Protocols for negotiations on Section 106**

Three Dragons explained that the project will provide the local authorities with an Affordable Housing Toolkit to assist the process of negotiations on viability and Section 106 contributions. Experience has shown that this is used most effectively when this tool is also available to local developers and landowners.

#### **5 Feedback**

THANK YOU AGAIN FOR ATTENDING AND WE LOOK FORWARD TO YOUR FEEDBACK

Comments please to:

Andrew Golland     [drajg@btopenworld.com](mailto:drajg@btopenworld.com)

## **Appendix 2 Three Dragons model: Method statement**

The Toolkit provides the user with an assessment of the economics of residential development. It allows the user to test the economic implications of different types and amounts of planning obligation and, in particular, the amount and mix of affordable housing. It uses a residual development appraisal approach which is the industry accepted approach in valuation practice.

The Toolkit compares the potential revenue from a site with the potential costs of development before a payment for land is made. In estimating the potential revenue, the income from selling dwellings in the market and the income from producing specific forms of affordable housing are considered. The estimates involve (1) assumptions about how the development process and the subsidy system operate and (2) assumptions about the values for specific inputs such as house prices and building costs. These assumptions are made explicit in the guidance notes. If the user has reason to believe that reality in specific cases differs from the assumptions used, the user may either take account of this in interpreting the results or may use different assumptions.

The main output of the Toolkit is the residual value. In practice, as shown in the diagram below, there is a 'gross' residual value and a 'net' residual value. The gross residual value is that value that a scheme generates before Section 106 is required. Once Section 106 contributions have been taken into account, the scheme then has a net residual value, which is effectively the land owner's interest.

## Key data assumptions

### Market areas and prices:

Sub Market	Detached			Semis			Terraces			Flats			Bungalows	
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	4 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed	3 Bed	2 Bed
Redditch Rural South	£395,000	£340,000	£275,000	£290,000	£255,000	£220,000	£270,000	£245,000	£215,000	£190,000	£175,000	£120,000	£305,000	£260,000
Redditch West	£265,000	£230,000	£185,000	£195,000	£170,000	£150,000	£180,000	£165,000	£145,000	£130,000	£115,000	£80,000	£205,000	£175,000
Redditch Town Centre	£260,000	£225,000	£180,000	£190,000	£165,000	£145,000	£175,000	£160,000	£140,000	£120,000	£110,000	£75,000	£200,000	£170,000
Redditch East	£235,000	£205,000	£165,000	£170,000	£155,000	£135,000	£165,000	£150,000	£130,000	£110,000	£100,000	£70,000	£180,000	£150,000

### Development mixes and densities:

	Density (Dw per Hectare)			
	20	30	40	50
1 bed Flat				
2 Bed Flat			5	5
2 Bed Terrace		5	15	15
3 Bed Terrace	5	10	25	30
3 Bed Semi	25	30	25	25
3 Bed Detached	25	25	20	20
4 Bed Detached	20	15	10	5
5 Bed Detached	15	5		
3 Bed Bungalow	10	10		
<b>Total Percentage</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Affordable housing targets:

The following affordable housing targets were tested:

Affordable housing targets 10%; 15%; 20%; 25% 30%; 35%; 40%; based on 65% SR and 35% Intermediate split.

### Unit sizes (sq.m):

	Affordable	Market
1 Bed Flat	50	45
2 Bed Flat	70	60
2 Bed Terr	72	65
3 Bed Terr	80	80
3 Bed Semi	82	90
3 Bed Det	85	100
4 Bed Det	90	120
5 Bed Det	105	130



**Appendix 3 Results – Residual values – no grant scenarios (£s million per hectare)**

<b>20 Dph</b>								
	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>25%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>
<b>Rural South</b>	£2.11	£1.88	£1.77	£1.66	£1.55	£1.44	£1.33	£1.21
<b>Redditch West</b>	£0.69	£0.57	£0.50	£0.44	£0.38	£0.32	£0.26	£0.19
<b>Town Centre</b>	£0.62	£0.50	£0.44	£0.38	£0.32	£0.26	£0.20	£0.14
<b>Redditch East</b>	£0.38	£0.28	£0.23	£0.18	£0.13	£0.07	£0.02	-£0.03
<b>30 Dph</b>								
	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>25%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>
<b>Rural South</b>	£2.98	£2.66	£2.50	£2.34	£2.18	£2.02	£1.85	£1.69
<b>Redditch West</b>	£0.97	£0.79	£0.70	£0.61	£0.51	£0.42	£0.33	£0.24
<b>Town Centre</b>	£0.89	£0.72	£0.63	£0.54	£0.45	£0.36	£0.28	£0.19
<b>Redditch East</b>	£0.58	£0.43	£0.35	£0.27	£0.19	£0.12	£0.04	£0.00
<b>40 Dph</b>								
	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>25%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>
<b>Rural South</b>	£3.61	£3.20	£2.99	£2.78	£2.58	£2.38	£2.17	£1.97
<b>Redditch West</b>	£1.21	£0.97	£0.85	£0.73	£0.61	£0.49	£0.41	£0.25
<b>Town Centre</b>	£1.07	£0.84	£0.72	£0.61	£0.49	£0.38	£0.26	£0.14
<b>Redditch East</b>	£0.73	£0.52	£0.42	£0.31	£0.21	£0.10	£0.00	-£0.02
<b>50 Dph</b>								
	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>25%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>
<b>Rural South</b>	£4.44	£3.93	£3.68	£3.42	£3.17	£2.91	£2.66	£2.40
<b>Redditch West</b>	£1.50	£1.19	£1.05	£0.89	£0.74	£0.59	£0.44	£0.29
<b>Town Centre</b>	£1.32	£1.03	£0.89	£0.74	£0.59	£0.45	£0.31	£0.16
<b>Redditch East</b>	£0.92	£0.65	£0.52	£0.39	£0.26	£0.12	£0.00	-£0.02

## Appendix 4

Worked example; one hectare site at 40 dph at 30% affordable housing in Redditch West

**1 - SITE IDENTIFICATION**

Site Details

Site Address

Site Reference

Application Number

Scheme Description

I have read, and accepted, the terms and conditions set out in the [license agreement](#)

### 3 - BASIC SITE INFORMATION

#### Site Area

Total Size of Site In Hectares  (You must enter a value in here)

#### Density / Number of Dwellings

Enter a number of dwellings  (You must enter a value in here)

Percentage Increase/Decrease in Density:

You may test the effect of a percentage increase/decrease in the site density by using the cell below

%

Resulting Number of Dwellings

40

Tick if this a rural development

Resulting Density

40 dph

Previous Page

Next Page



#### 4 - CHARACTERISTICS OF DEVELOPMENT

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

You then have 2 options for entering information about the scheme

EITHER, enter information for up to 20 dwelling types – each row must be either fully complete or left blank (enter 1 if information not relevant e.g. size of affordable unit but is a market unit)

OR select the Toolkit default mix by depressing the button called Use Default Unit Types

Clear Table      Use Default Unit Types      View Default Mix ->

Ref.	Description of Dwelling	No of Bed-Rooms	Dwelling Type	No of Units	Size in sq.m Affordable	Size in sq.m Market	Parking (flats only)	No. of Storeys (1-99)
1								
2	2 Bed Flat	2	Flat	2.0	70	60	n/a	2
3	2 Bed Terrace	2	House	6.0	72	65	n/a	n/a
4	3 Bed Terrace	3	House	10.0	80	80	n/a	n/a
5	3 Bed Semi	3	House	10.0	82	90	n/a	n/a
6	3 Bed Detached	3	House	8.0	85	100	n/a	n/a
7	4 Bed Detached	4	House	4.0	90	120	n/a	n/a
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
Total Number of units				40				

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## 5 - MARKET VALUES

This is a custom scheme, default values are not available.

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

Clear Table

You can enter your own values for each dwelling type or select the Toolkit default market values by depressing the button called Default Market Values

View Default Values ->

You can adjust the market values by using the % increase/decrease arrows

100 %

Reset

Depress the Reset button to return to base market value

Ref.	Unit Type	No of Bed-Rooms	Market Value	Adjusted Market Value
1				
2	2 Bed Flat	2	£115,000	£115,000
3	2 Bed Terrace	2	£145,000	£145,000
4	3 Bed Terrace	3	£165,000	£165,000
5	3 Bed Semi	3	£170,000	£170,000
6	3 Bed Detached	3	£185,000	£185,000
7	4 Bed Detached	4	£230,000	£230,000
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

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## 6 - TENURE MIX

If you are using a default mix then you can distribute units across the tenures by percentage; enter the percentage of units to assign to each tenure in the top row. The percentages are applied equally across all unit types

If you are not using a default mix then you may either enter units by percentage or by the exact number of units of each type for each tenure; in the table enter the exact number of units of each type for each tenure in the table

Whichever method is selected, ensure that relevant information is entered in the boxes at the bottom of the table.

Input by Percentages     Input by Quantity

Clear Table

Ref.	Description	SALE	AFFORDABLE				Required No. of Units
			Social rent	New Build HomeBuy	Intermediate rent	Discount Market	
		70%	20%	11%			
1							
2	2 Bed Flat	1.4	0.4	0.2			2.0
3	2 Bed Terrace	4.2	1.2	0.6			6.0
4	3 Bed Terrace	7.0	2.0	1.1			10.0
5	3 Bed Semi	7.0	2.0	1.1			10.0
6	3 Bed Detached	5.6	1.6	0.8			8.0
7	4 Bed Detached	2.8	0.8	0.4			4.0
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
Total		28.0	7.8	4.2			40.0

New Build HomeBuy	Percentage Purchased	40%
	Rental limit on unbought share	100%
Percentage purchased by purchaser for Discount Market		
Local Sale	Average Income	
	Income Multiplier	

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## 8 - SOCIAL AND INTERMEDIATE RENT

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST

Clear Tables

This is a custom scheme, default rents are not applicable. Please enter your own values into the white cells

View Default Rents ->

Ref.	Description	Social Rent Values (per week)			Intermediate Rent Values (per week)			
		No. of units	Default Rents	User Rents	No. of units	Market Rent	Adjust 75%	User Rents
1			£ -			£ -	£ -	
2	2 Bed Flat	0.39	£ -	£ 80.00		£ -	£ -	
3	2 Bed Terrace	1.17	£ -	£ 80.00		£ -	£ -	
4	3 Bed Terrace	1.95	£ -	£ 85.00		£ -	£ -	
5	3 Bed Semi	1.95	£ -	£ 87.00		£ -	£ -	
6	3 Bed Detached	1.56	£ -	£ 90.00		£ -	£ -	
7	4 Bed Detached	0.78	£ -	£ 100.00		£ -	£ -	
8			£ -			£ -	£ -	
9			£ -			£ -	£ -	
10			£ -			£ -	£ -	
11			£ -			£ -	£ -	
12			£ -			£ -	£ -	
13			£ -			£ -	£ -	
14			£ -			£ -	£ -	
15			£ -			£ -	£ -	
16			£ -			£ -	£ -	
17			£ -			£ -	£ -	
18			£ -			£ -	£ -	
19			£ -			£ -	£ -	
20			£ -			£ -	£ -	

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## 9 - AFFORDABLE HOUSNG COSTS AND CAPITALISATION FACTORS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

ClearTable

You can enter your own values in the white cells below  
Where cells are left blank, the Toolkit value for that row will be used

Social Rent		ToolKit Values	User Values	
Costs per annum	Management & Maintenance	£ 1,000		per annum
	Void/bad debts	3.00%		of gross rent
	Repairs reserve	£ 500		per annum
Capitalisation		6.00%	6.75%	of net rent
New Build HomeBuy		ToolKit Values		
Costs per annum	Rental Factor	2.75%		of share
Capitalisation		6.00%		of net rent
Intermediate Rent		ToolKit Values		
Costs per annum	Management costs	6.00%		of gross rent
	Maintenance Costs	£ 500		per dwelling
	Void/bad debts	5.00%		of gross rent
	Repairs Reserve	1.00%		of gross rent
Capitalisation		6.00%	6.75%	of net rent

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## 10 - DEVELOPMENT COSTS

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST

Clear Tables

### Build Costs per sq m

You can enter your own values in the white cells below.  
Where cells are left blank, the Toolkit value for that row will be used

	Toolkit Values	
Bungalows	£1,049	£1,040
Flats (6+ storeys)	£1,545	£1,639
Flats (5 & less storeys)	£1,115	£1,065
Houses <= 75m2	£999	£905
Houses > 75m2	£901	£893

### Other Development Costs

You can enter your own values in the white cells below. Enter 0% for non-applicable items.  
Where cells are left blank, the Toolkit value for that row will be used.

	Toolkit Values	User Values	
Professional Fees %	12.00%		of build costs
Internal Overheads	5.00%		of build costs (Market and Discount Market units)
Interest Rate (Market)	7.00%		of build Costs (Market, Discount Market and Low Cost Sale units)
Interest Rate (Affordable Housing)	7.00%		of build costs (SR, HB, IR units)
Marketing Fees	3.00%		of market value (Market and Discount Market units)
Developers Return	15.00%	17.50%	of market value (Market and Discount Market units)
Contractors Return	6.00%		of development costs (SR, HB, IR and LCS units)
Land financing costs	£	-	Please see the Guidance Notes for use of this value

### Exceptional Development Costs

You may enter SCHEME totals for exceptional costs. The first row is for Sustainable Homes costs. The other three rows are for user defined costs. You can enter the name of the cost in the left hand cells and SCHEME value in the right hand cell.

Sustainable Homes Standard	
Market Housing	Affordable Housing
None	None

Costs incurred for Sustainable Homes Levels None and None	£	-
<Enter Costs Description>	£	-
<Enter Costs Description>	£	-
<Enter Costs Description>	£	-

Scheme Total	
per dwelling	
per hectare	

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## 11 - PLANNING OBLIGATIONS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

For each type of contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure). If you choose the second option, the Toolkit will calculate the total obligation 'cost' for the scheme.

To enter one total value for a row, tick the corresponding box in the "Enter Total?" column and enter a value in the "User Total" column : To enter the values by tenure leave the box un-ticked

	Input by Total		Input by Unit					Calculated Total (Affordable and Sale)	
	Enter Total?	User Total	Sale	Affordable					
				Social rent	New Build HomeBuy	Intermediate rent	Discount Market		Local Sale
Education Contribution	<input type="checkbox"/>								
Highway Works	<input type="checkbox"/>								
Contribution to public transport	<input type="checkbox"/>								
Contribution to community facilities	<input type="checkbox"/>								
Provision for open space	<input type="checkbox"/>								
Contribution to public realm	<input type="checkbox"/>								
Contribution to public art	<input type="checkbox"/>								
Environmental improvements	<input type="checkbox"/>								
Town centre improvements	<input type="checkbox"/>								
Waterfront Improvements	<input type="checkbox"/>								
Support for employment development	<input type="checkbox"/>								
Employment related training	<input type="checkbox"/>								
<Enter Planning Obligation Description here>	<input type="checkbox"/>								
<Enter Planning Obligation Description here>	<input type="checkbox"/>								
<Enter Planning Obligation Description here>	<input type="checkbox"/>								

Obligations package per unit

Contribution from Commercial

Total for Scheme	£200,000
Total for Scheme per hectare	£200,000
Total for Scheme divided by total number of units	£5,000
Total for Scheme divided by number of sale units	£7,143

## 12 - CAPITAL CONTRIBUTIONS FROM OTHER SOURCES

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST

Clear Table

For each type of contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure). If you choose the second option, the Toolkit will calculate the total contribution for the scheme.

To enter one total value for a row, tick the corresponding box in the "Enter Total?" column and enter a value in the "User Total" column : To enter the values by tenure leave the box un-ticked

	Input by Total		Input by Unit					Calculated Total (Affordable and Sale)	
	Enter Total ?	User Total	Sale	Affordable					
				Social rent	New Build HomeBuy	Intermediate rent	Discount Market		Local Sale
European Union funding	<input type="checkbox"/>								£0
English Partnership funding	<input type="checkbox"/>								£0
Local Authority capital grant	<input type="checkbox"/>								£0
Other regeneration funding	<input type="checkbox"/>								£0
English Heritage grant	<input type="checkbox"/>								£0
Lottery grant	<input type="checkbox"/>								£0
Contribution from Payment in Lieu fund	<input type="checkbox"/>								£0
Employer contribution	<input type="checkbox"/>								£0
<Enter Capital Contribution Description here>	<input type="checkbox"/>								£0
<Enter Capital Contribution Description here>	<input type="checkbox"/>								£0
<Enter Capital Contribution Description here>	<input type="checkbox"/>								£0

Total for Scheme	£0
Total for Scheme per hectare	£0
Total for Scheme divided by total number of units	£0
Total for Scheme divided by number of sale units	£0

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### 13 - SCHEME REVENUE FROM AFFORDABLE HOUSING

Please choose the method by which the payment is made by the affordable housing provider to the developer

- Payment by affordable housing provider to developer is calculated by the Toolkit
- Payment by affordable housing provider to developer is fixed and is a known amount

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### 16 - HOUSING CORPORATION GRANT AVAILABILITY

- No - Grant is not available
- Yes - Grant is available and is a known value

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## 17 - ONCOSTS FOR AFFORDABLE HOUSING

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

Clear page

If applicable, the user can provide information about oncosts. You have one of 3 options: i) use the Toolkit default percentages ii) enter your own % iii) enter your own oncost value (in £s) per unit. If there are no oncosts clear the tick box called 'Apply Oncosts'.

Apply Oncosts

Oncosts are based on a percentage of development costs (not including returns to the developer)

	Affordable Housing Tenures			Total
	Social rent	New Build HomeBuy	Intermediate rent	No. Of Affordable Units
<b>Number of units</b>	7.8	4.2		12
i) Default oncosts rate (%)	6%	6%		6%
ii) User oncosts (%)				
iii) User oncosts By Unit (£)				
Oncosts per Unit	£ 5,204	£ 5,204		£ -
Total oncosts for Affordable Housing	£ 40,592	£ 21,857		£ -
<b>Total Oncosts for Affordable Housing</b>	£ 62,449			

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## 20 - Scheme Results

Site Reference Details	
Site Reference Number	
Application Number	
Site Location	Hertsmere
Scheme Description	

Site Details	
Site	Illustrative Scheme - Redditch West @ 40 Dph and at 20% Affordable Housing
Address	Affordable Housing
Site Details	

TOTAL NUMBER OF UNITS	
Dwellings	40
% Wheelchair Units	

DENSITY (per hectare)	
Dwellings	40.0

AFFORDABLE UNITS		
	Quantity	% of All Units
<b>Total</b>	12.0	30%
Social rent	7.8	20%
Intermediate	4.2	11%

REVENUE AND COSTS	
<b>Total scheme revenue</b>	£ 5,552,000
<b>Total scheme costs</b>	£ 5,010,000

RESIDUAL VALUE	
<b>Whole scheme</b>	£ 542,000
Per hectare	£ 542,000
Per dwelling	£ 14,000
Per market dwelling	£ 19,000

Contribution to revenue from:	
Market housing	£ 4,795,000
Affordable Housing	£ 757,000
- Social rent	£ 293,000
- New Build HomeBuy	£ 464,000
- Intermediate Rent	£ -
- Discount Market	£ -
- Local Sale	£ -
Capital Contribution	£ -
Commercial Elements	£ -

PUBLIC SUBSIDY (GRANT)	
<b>Whole Scheme</b>	£ -
Per Social Rental dwelling	£ -
Per New Build HomeBuy dwelling	£ -
Per Intermediate Rent dwelling	£ -

Contribution to costs from:	
Market housing	£ 3,710,000
Affordable Housing	£ 1,100,000
- Social rent	£ 715,000
- New Build HomeBuy	£ 385,000
- Intermediate Rent	£ -
- Discount Market	£ -
- Local Sale	£ -
Land Finance	£ -
Planning Obligations	£ 200,000
Total Exceptional Costs	£ -
Commercial Elements	£ -

Alternative Site Values		Against residual
Existing Use Value	£ -	£ -
Acquisition Cost	£ -	£ -
Alternative Use Value 1	£ -	£ -
Alternative Use Value 2	£ -	£ -
Alternative Use Value 3	£ -	£ -

Save Results

View Results

Cost Components

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## **GLOSSARY OF TERMS**

### **A**

Abnormal Development Costs: Costs associated with difficult ground conditions eg contamination.

Affordable Housing: As defined in PPS3 as housing that includes Social Rented and Intermediate Affordable housing.

Affordable Rented Housing: Housing let at above Social Rented levels and up to 80% of Open Market Rent

Appraisal: development calculation taking into account scheme revenue and scheme cost and accounting for key variables such as house prices, development costs and developer profit.

### **B**

Base Build Costs: including costs of construction: preliminaries, sub and superstructure; plus an allowance for external works.

### **C**

Commuted Sum: a sum of money paid by the applicant in lieu of providing affordable housing on site.

### **D**

Developer's Profit or margin: a sum of money required by a developer to undertake the scheme in question. Profit or margin can be based on cost, development value; and be expressed in terms of net or gross level.

Developer Cost: all encompassing term including base build costs (see above) plus any additional costs incurred such as fees, finance and developer margin.

Development Economics: The assessment of key variables included within a development appraisal; principally items such as house prices, build costs and affordable housing revenue.

### **E**

Existing Use Value (EUV): The value of a site in its current use; for example, farmland, industrial or commercial land.

### **F**

Finance (developer): usually considered in two ways. Finance on the building process; and finance on the land. Relates to current market circumstances

### **G**

Gross Development Value (GDV): the total revenue from the scheme. This may include housing as well as commercial revenue (in a mixed use scheme). It should include revenue from the sale of open market housing as well as the value of affordable units reflected in any payment by a housing association(s) to the developer.

## I

Intermediate Affordable Housing: PPS3 Housing defines intermediate affordable housing as housing at prices and rents above those of social rent, but below market price or rents, and which meet the criteria set out above. These can include shared equity products (e.g. HomeBuy), other low cost homes for sale and intermediate rent.

## L

Land Value: the actual amount paid for land taking into account the competition for sites. It should be distinguished from Residual Value (RV) which is the figure that indicates how much should be paid for a site.

Local Development Framework (LDF): a folder of planning documents encompassing DPDs (Development Plan Documents) and SPDs (Supplementary Planning Documents)

## M

Market Housing: residential units sold into the open market at full market price to owner occupiers, and in some instances, property investors. Usually financed through a mortgage or through cash purchase in less frequent cases.

## P

Planning Obligation: a contribution, either in kind or in financial terms which is necessary to mitigate the impacts of the proposed development. Affordable housing is a planning obligation as are, for example, education and open space contributions. (See Section 106)

Proportion or percentage of Affordable Housing: the proportion of the scheme given over to affordable housing. This can be expressed in terms of units, habitable rooms or floorspace

## R

Residual Valuation: a key valuation approach to assessing how much should be paid for a site. The process relies on the deduction of development costs from development value. The difference is the resulting 'residue'

Residual Value (RV): the difference between Gross Development Value (GDV) and total scheme costs. Residual value provides an indication to the developer and/or land owner of what should be paid for a site. Should not be confused with land value (see above)

Registered Provider (RP): a housing association or a not for profit company registered with the Homes and Communities Agency and which provides affordable housing

## S

Scheme: development proposed to be built. Can include a range of uses – housing, commercial or community, etc

Section 106 (of the Town and Country Planning Act 1990): This is a legally binding agreement between the parties to a development; typically the developer, housing association, local authority and/or land owner. The agreement runs with the land and binds subsequent purchasers. (See Planning Obligation)

Shared Ownership (SO): Also known as a product as 'New Build HomeBuy'. From a developer or land owner's perspective SO provides two revenue streams: to the housing association as a fixed purchase sum on part of the value of the unit; and on the rental stream. Rent charged on the rental element is normally lower than the prevailing interest rate, making this product more affordable than home ownership.

Social Rented Housing (SR): Rented housing owned and managed by local authorities and registered social landlords, for which guideline target rents are SET through the national rent regime.

Sub Markets: Areas defined in the Viability Study by reference to house price differentials. Areas defined by reference to postcode sectors, or amalgams thereof.

Supplementary Planning Document (SPD): planning documents that provide specific policy guidance on e.g. affordable housing, open space, planning obligations generally. These documents expand policies typically set out in Local Plans and LDFs.

## T

Target: Affordable housing target. Sets the requirement for the affordable housing contribution. If say 30% on a scheme of 100 units, 30 must be affordable (if viable).

Tenure Mix: development schemes usually comprise a range of housing tenures. These are described above including market and affordable housing.

Threshold: the trigger point which activates an affordable housing contribution. If a threshold is set at say 15 units, then no contribution is payable with a scheme of 14, but is payable with a scheme of 15. The appropriate affordable housing target is then applied at the 15 units, e.g. 20%, or 30%.

## V

Viability: financial variable that determines whether a scheme progresses or not. For a scheme to be viable, there must be a reasonable developer and land owner return. Scale of land owner return depends on the planning process itself.