

**Salisbury District Council**



**Affordable Housing Economic  
Viability Study**

*Report for the consideration of Salisbury District Council:*  
**This does not constitute Council Policy**

**Study completed January 2009**

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## **EXECUTIVE SUMMARY**

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### ***Quick overview of main outcomes from a viability viewpoint***

- A range of viability results, with typical local value levels showing good viability outcomes assuming a more normal level of development activity, but current poor market conditions exacerbating issues that flow from lower end value levels which could be seen more often if current trends continue. Affordable housing requirements are not the single cause of the mixed results – the market is arguably a bigger factor at the current time.
- Scope for the Council to consider appropriate affordable housing targets involving a headline of 40% on sites of 15 or more, alongside a suggestion to reduce targets on smaller sites. The Council could consider a sliding scale of requirements for on-site provision of affordable housing commencing from site of 5 dwellings upwards (where our view is that no more than 25% affordable housing should be sought). These positions could apply in all areas of the District.
- Where viability issues arise and are justified, a flexible approach to policy application may be needed. This could include discussing the areas of affordable housing dwelling mix, proportion and tenure mix, as well as numbers rounding and likely grant availability. The effect of these factors will need to be considered together, to arrive at solutions based on the combination of that works best for delivery in the particular circumstances. In exceptional circumstances where on-site affordable housing would not support sustainable communities' aims as well as an off-site route, the use of financial contributions in lieu (calculated to exact proportions) could be considered amongst the options.
- The study has been carried out on the basis of the Council's target affordable housing tenure mix of 75% affordable rent/25% low cost home ownership (or other intermediate model).
- This represents an ambitious set of targets particularly when viewed in current market circumstances, but they are appropriate, in our view, given the longer strategy necessary to seek to make more progress towards meeting affordable housing needs. The positions also need to be viewed alongside the background of the Council's current approach which sets affordable housing expectations, and in the context of developing policy for the wider area.
- In all cases, policy positions should be framed as clearly worded targets, to provide clarity for stakeholders and a basis for a continued practical, negotiated approach which has regard to viability matters. It should be noted that current market conditions, in particular, will mean increased emphasis on this type of approach. There will need to be particular focus on a flexible

approach to the application of policy to smaller sites, bearing in mind that other factors alongside the headline proportion are equally, if not more, influential on viability.

- In arriving at its final policy selections, the Council should also have regard to its wider information and evidence base – for example, on affordable housing needs and type of site supply.
- Finally confirmed policies, accompanying text and SPD should acknowledge the relevance of viability and the adaptable approach that will need to be applied to policy application.
- Monitoring and contingency planning will need to form part of the Council's approach.
- The report discusses all of these aspects further.

### **Background and Introduction**

- In the process of developing their planning-led affordable housing policies Salisbury District Council commissioned Adams Integra to study the effect of changes to affordable housing policy on residential development viability.
- Viability in this sense means whether a development scheme works financially.
- The Government's key statement on planning for housing, Planning Policy Statement 3 (PPS3) requires local authorities to enable bringing forward a suitable, balanced housing mix including affordable housing. It confirms the well established route for the principles of seeking integrated affordable housing within private market housing developments. It encourages local authorities to make best use of this approach bearing in mind their local markets and circumstances. As a part of this, PPS3 also requires local authorities also consider development viability when setting policy targets for affordable housing.
- This commission was therefore made against the backdrop of PPS3, in the context of building the evidence base for, and considering the affordable housing content of, Core Strategy Policies for the Council's Local Development Framework (LDF).
- The study is to be considered as part of, and alongside, the Council's developing wider evidence base, including on the local housing market and housing needs, and information on the range of site types which are likely to come forward.

- In outline, the Council's existing approach relates to seeking affordable housing on sites of 25 or more dwellings in the urban areas and to 15 or more in the smaller settlements (those with a population of 3,000 or less) subject to certain criteria. The adopted policy position also put forward the principle that a general target of 25% target was considered appropriate for allocated sites. This was set out in the Local Plan 2003.
- Since the adoption of Supplementary Planning Guidance (SPG) in 2004, the Council has stated its position as requiring a minimum of 25% as the basic affordable housing requirement, with negotiation up to 40% in light of need considerations.
- So the current approach sees affordable housing negotiated within the range 25 to 40% on sites of 15 or 25 (or more in each case) dwellings depending on location. The upper end of this target (40%) is emphasised given the need levels in the District.
- This study is required to review options around this and recommend suitable policy positions from a viability point of view.
- Maintaining the viability (in this sense meaning the financial health) of residential development schemes is crucial to ensuring release of sites and thus a continued supply of housing of all types. The study addresses only affordable housing which is required to be provided within market housing schemes under the existing established approach of setting site size thresholds (point(s) at which the affordable housing policy is triggered) and proportions of affordable housing to be sought at those points.
- The study is based on carrying out a large number of developer type appraisals. These use well established “residual land valuation” techniques to approximate the sum of money which will be left for land purchase once all the development costs, including profit requirements, are met (hence “land residual”). The study methodology is settled and tested, having been used in a wide range of local authority locations for this purpose.
- We vary the affordable housing assumptions across the range of appraisals and the outcomes inform our judgements on the likely workability of various policy positions from a viability viewpoint. Having fixed development costs and profit requirements, we can see the impact on development viability caused by variations to the amount and type of affordable housing. Two of the key ingredients to ensuring viable development are sufficient land value created by a development (relative to existing or alternative use values, or perhaps to an owner's particular circumstances) and adequate developer's profit in terms of risk reward.

- Affordable housing impacts development viability because it provides a significantly reduced level of revenue to the developer compared with market level sales values.

### **Salisbury District Property Market and Overall Viability Findings**

- Before commencing modelling Adams Integra researched the local residential property market to inform the range of appraisal assumptions we then adopted, and to help set the context for considering the outcomes.
- We have seen wide-ranging values on reviewing the overall (resale property dominated) market, although values for typical new build property were observed to be at a more consistent level across the District.
- In terms of value levels and related viability issues, we picked up no basis for evidencing distinct policy positions in terms of varying affordable housing proportions for different areas across the District without creating unduly complex policy. Generally we see higher values in the rural areas, particularly in the south and east of the Council's area. A range of values was seen across Salisbury with typical values in Durrington, Amesbury and Wilton being at the lower end of the range. Conversely, rural areas and smaller rural settlements including Tisbury and Downton show values at the top end of the range seen. Between those, value levels are relatively consistent with small differences between, for example, Salisbury and Mere.
- At the time of the study, the local market broadly reflects the type of conditions which are being experienced throughout the UK and beyond. These are discussed in this report. The market is severely lacking in confidence, funds for property finance are much less readily available than in recent times (as per the well reported term "credit crunch") and the significant downturn appears to be deepening. Property sales volumes are very markedly down, and this lack of activity is beginning to impact more significantly on sales values.
- The tone of our viability findings is mixed, because we have considered a wide range of values, including – at the low end – values which are not typically seen for new build property locally. The values at the middle to upper parts of the range we have studied suggest more scope for sites to deliver affordable housing. The Council will need to monitor the picture, especially if the market decline continues for a lengthy period and values are more commonly seen at lower levels.
- In our view the current economic downturn should not be the only factor that determines policy positions, however, given that housing need is worsening and that those same conditions are most likely to be adding to that trend. A

more strategic view needs to be taken, but applied practically – especially in the short-term.

- Whilst we have to consider the particular market conditions now in coming to our recommendations, those are very likely to change in some way over a short period of time in relation to the development plan periods being considered. We do not consider that it is appropriate or realistic to set strategic policies and targets based on a snapshot of current market features alone. Such an approach could mean regularly varying policy. That could lead to potential inequities and requirements that are uncertain.
- When considering delivery based on relatively ambitious targets, particularly in the short-term as policy expectations change and we have very difficult market conditions, it is vital that the Council continues to apply policy with flexibility where needed. As a part of this, the current financial conditions mean that the Council may need to prioritise planning obligations or other requirements within overall objectives and targets.

### **Summary of key recommendation points**

- An ambitious (in current market circumstances), but appropriately pitched, headline policy target of 40% affordable housing applicable at a site size threshold of 15 or more dwellings.
- The potential to lower the threshold where proven needs and site supply patterns dictate a reliance on contributions from a wide range of sites.
- Accompanying this, from a viability viewpoint a target of not more than 25% could be applicable to sites of 5 or more dwellings across the District.
- A step or steps could be introduced between these points to create a full “sliding scale” policy approach.
- We consider this type of approach to smaller sites to be particularly relevant at this stage of policy development – the potential first time “capture” of significantly smaller sites by policy. If pursued, it could be reviewed at a later date depending on the delivery experiences that resulted from it.
- In viability terms we are also able to support the principle of a future approach to consider contributions from sites of fewer than 5 dwellings on an equitable basis. We were asked to look at this, it being an area for potential further/future policy development. We have worked on the basis that this further policy step would most likely be allied to financial contributions rather than on-site affordable housing provision (we discuss potential issues related to the latter). Financial contributions could be calculated exactly, so there would be no distortions to the stated target proportions and, in our view, a more

equitable, as well as practical, approach could emerge compared with an on-site route.

- In the event of implementing a financial contributions driven approach to smaller sites, the Council should give further consideration to the detail of the base (per whole unit) calculation or assumption. That could be reviewed with regard to viability outcomes. A transparent strategy for the use of sums collected would need to be developed, alongside monitoring processes.
- A financial contributions driven approach could be applied to larger sites, i.e. extended upwards towards the 15 threshold where the higher 40% target would apply based on these recommendations.
- The further development of policy positions in all cases should be subject to continued evidence of needs and matching site supply patterns. These viability findings should be considered alongside the Council's wider evidence base as well as its local delivery experiences and knowledge.
- To develop unambiguous policy wording which sets clear targets as a basis for the practical, negotiated approach, acknowledging the relevance of site viability. The report discusses policy wording, which in Adams Integra's experience is critical in providing clarity for landowners, developers and others, as well as being a key part of sound policy for the purposes of the Public Examination of those.
- To build on the approach through the development of a SPD and/or DPD to set out detail which explain the working practices and help to guide expectations.
- Acknowledging current market conditions in particular, the Council will need to approach site by site delivery in an adaptable way, reacting to viability issues which may arise. This key point about the flexible, practical application of policy always applies, as the study emphasises, but it is likely to be in focus particularly in the market conditions we have seen both locally and nationally during the study period.
- This approach should extend to considering the collective burden placed on development schemes in terms of planning obligations and potentially other costs. It might be necessary to consider some degree of prioritisation of planning obligations at a local level.
- The Council will need to monitor affordable housing delivery progress and experiences alongside its site supply monitoring work. Review periods and potential delivery contingency measures will need to be considered, linked to those monitoring processes.

## **1 INTRODUCTION**

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### **1.1 Introduction**

- 1.1.1 Salisbury District Council is in the process of preparing its Core Strategy Development Plan Document (DPD) as part of the Local Development Framework (LDF).
- 1.1.2 The Council's Local Housing Needs and Market Survey 2006 shows a total annual level of outstanding affordable housing need of 1,076 units. Therefore, as a key objective the Council is aiming to increase planning-led affordable housing provision. Through the LDF process it is considering formally increasing the proportion of affordable housing sought on qualifying sites to 40% and reviewing the size of residential development sites that will need to contribute (the policy threshold position).
- 1.1.3 The need for the study has arisen as a result of national and regional policy and the need to have a robust evidence base for the LDF. The Council would like to deliver more affordable housing from new build market housing sites. However, it is conscious that the overall financial viability of development sites should not be compromised in pursuing over ambitious policies which could be ultimately undeliverable and unrealistic. Such policies could also inhibit the release of housing sites, thus affecting wider new housing supply in the District.
- 1.1.4 The District Council's current affordable housing policies are set out in Policy H25 of the Salisbury District Local Plan 2003. The Policy states that where there is a demonstrable lack of affordable housing to meet local needs, the Council will seek an element of affordable housing on appropriate sites. There are various criteria set out, but the policy is related to sites of 25 or more dwellings (or of 1 Ha or more in area) in urban areas, and to sites of 15 or more dwellings (or of 0.5 Ha or more in area) in settlements with a population of 3,000 or less.
- 1.1.5 Supporting text to the policy adds to this by saying that: 'On allocated sites, a general target of 25% is considered appropriate, although sites will be assessed individually to ensure that the figure is suitable taking into account other relevant factors.'
- 1.1.6 In the context of declining affordability and increasing need, an affordable housing SPG<sup>1</sup> was adopted in 2004 that subsequently placed additional emphasis on the need to optimise this supply of affordable housing:
- “...the District Council considers a minimum of 25% to be the basic affordable housing requirement...in light of material considerations relating to housing

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<sup>1</sup> Salisbury District Council – Delivering Affordable Housing in Salisbury District (Adoption Version – Sept 2004)

need, the Council may negotiate for proportions of up to 40% on qualifying development sites.”

1.1.7 In accordance with Planning Policy Statement 3 (PPS3) – Housing<sup>2</sup> (and its accompanying document – Delivering Affordable Housing<sup>3</sup>), and to inform and influence the policies on affordable housing provision within the Core Strategy Preferred Options, the Council requires a study that informs existing and future planning policy with regard to the delivery of affordable housing. Specifically the study is required to examine the impacts on development viability in relation to:

- lowering affordable housing thresholds;
- increasing the percentage of affordable housing required on qualifying sites (usually known as the affordable housing proportion).

1.1.8 In addition, the Council asked for the study to look briefly at the provision of affordable housing in rural areas across the District, and comment on approaches that might be considered for rural affordable housing in terms of “exceptions policy”, developer-led affordable housing on smaller rural sites and the use of a small sites allocation process.

1.1.9 Adams Integra has therefore been commissioned by the Council to provide an assessment of the economic viability of potential housing developments in order for the Council to formulate and verify policies in relation to affordable housing thresholds and proportions which will optimise the provision of affordable housing on suitable sites, without jeopardising overall housing delivery in Salisbury District.

1.1.10 This study tests a range of scenarios and provides advice on the thresholds and proportions of affordable housing that are broadly viable taking into account property type, tenure mix, location and wider planning infrastructure burdens and associated issues on the development of residential sites. There is also an emphasis placed on the need for a practical approach to be taken by Council, bearing in mind development viability – particularly given the current and likely short term market conditions.

1.1.11 A severe market downturn is with us, with very low levels of property sales volumes and consequently greatly reduced development activity compared with what might be considered more normal levels. Carrying out a study of this nature involves an assumption that the very constrained financial and weak, uncertain property market conditions will at some future point give way to a more settled picture which will re-stimulate the necessary activity. This links with taking a more strategic view than looking only at current conditions,

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<sup>2</sup> Communities and Local Government - Planning Policy Statement 3: Housing (November 2006)

<sup>3</sup> Communities and Local Government – Delivering Affordable Housing (November 2006)

and at what needs to be done to optimise contributions towards meeting severe housing needs over the longer-term.

- 1.1.12 This study investigates and assesses the impact on land values, and therefore on development viability, of potentially lowering the affordable housing thresholds and increasing the proportion of affordable housing sought on private (market sale) residential sites across Salisbury District. Where possible it provides parameters and options for the Council to consider for affordable housing policy and delivery, from a viability perspective. The Council will need to consider these findings alongside wider policy considerations and overall priorities.
- 1.1.13 It must be recognised that this planning based tool for securing affordable housing relies on market-led processes.
- 1.1.14 The range of viability testing carried out for this study is shown in Appendix I – Development Scenarios.
- 1.1.15 We use the impact of varying affordable housing requirements on Residual Land Value (RLV) as our measure in putting forward our judgements and guidelines. This, therefore, means comparing the likely impact of the range of potential policy changes with the current policy positions. The study examines the variations in approximate RLVs indicated within Salisbury District on this basis, and the implications of these are included in the assessment of site viability and deliverability.
- 1.1.16 The methodology and assumptions used are described in Chapter 2, the results are discussed in Chapter 3, the conclusions and recommendations set out in Chapter 4 and Chapter 5. Chapter 6 sets out wider points in relation to affordable housing delivery. The tables, graphs and associated information referred to throughout this study are appended to the rear of the document.

## **2 METHODOLOGY AND ASSUMPTIONS**

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### **2.1 Background**

- 2.1.1 In considering the factors that need to be taken into account in bringing sites forward that include affordable housing, it is necessary to determine what effect increased affordable housing proportions, reduced thresholds, variations to tenure mix and other development costs may have on the value of a potential development site.
- 2.1.2 This study investigates development scenarios across a range of site sizes. Site sizes of 5, 10, 15, 25, 35, 50 and 100 units have been considered (see Appendix I – Development Scenarios, for the range of appraisals carried out).
- 2.1.3 The schemes modelled are notional sites chosen to reflect scenarios that best match the various policy options to be tested. At certain site sizes, a range of unit mixes have been tested. These were arrived at through discussion with the Council's officers based on the range of site types which may come forward across the Salisbury District and bearing in mind the nature of developments seen at the time of our research. These should reasonably reflect a range of scheme types coming forward now and in the future.
- 2.1.4 Most importantly, however, the notional development scenarios have been formulated to enable development viability to be tested at a range of points with reference to site size and dwelling mix, as part of this strategic overview work. The smaller site sizes enable us to test viability at a range of potential lowered thresholds whereas the larger sites enable us to test the impact of increased proportions on site sizes that already trigger the requirement for affordable housing.
- 2.1.5 An alternative approach to testing development viability on a strategic basis could be to investigate the development viability of actual sites. We have chosen the notional approach for a number of reasons including:
- There is no published good practice guidance on a methodology to follow for carrying out development viability studies.
  - Our established approach to this viability work, including the use of notional sites, has been tested through the former Local Plan Inquiry and current Development Plan Examination processes (published Inspector's Report) stage.
  - There can be difficulties in obtaining sensitive information from developers and landowners. This leads to appraisals of actual sites becoming heavily assumption based in any event.
  - Looking at actual sites affects the ability to compare outcomes 'like with like' to assess impact of varying affordable housing requirements;

this is essential for this strategic overview and policy consideration stage.

- Sensitivities with reporting, information and potential effect on future negotiations on actual sites.
- Actual site sizes may not align to studying potential threshold points.
- The actual sites approach can be very resource hungry in our experience unless a very limited number of sites are considered with limited scope of outcomes), and thus can be overly costly for this stage of the process.
- Ultimately an actual sites approach does not fit well with taking the necessary strategic overview of the impact of potential affordable housing polices, when in fact sites vary so much.

2.1.6 The outcomes of the appraisals based on the range of scenarios tested provides us with a scale of results (discussed in Chapter 3) from which conclusions can be drawn as to the key factors and trends across Salisbury District, how these might be considered in reviewing policy options and policy recommendations.

## **2.2 Property Values**

2.2.1 In determining the modelling scope in a local context, it was decided to consider a range of “Value Points” rather than concentrate on the specifics of settlement areas or centres (within which values can vary greatly in any event). By taking a Value Points approach we mean that the value levels considered at each Value Point could in fact be found anywhere within Salisbury District.

2.2.2 To this end research into property prices across Salisbury District, on a detailed localised basis, was undertaken to determine realistic development values (property sales price levels) for each appraisal.

2.2.3 We reviewed ‘the asking’ and ‘subject to contract’ sale prices of all available new build 1 and 2-bed flats and 2, 3 and 4-bed houses across the area to enable us to provide reasonable average values for the District by unit type. The data was collected through a mixture of “on the ground” and desktop/internet research in May to June 2008. The study assumptions had to be fixed at that point. Fixing of assumptions at a given point is a feature of all such studies. We remained aware of market conditions throughout the study period (to January 2009), however, and Appendix V (our Property Values Report) contains updated market information. Adams Integra acknowledges that there is usually a gap between marketing and sale price. In recent difficult market circumstances this gap has typically grown, although it is not possible to make a statement about the usual gap between the two, as a particular owners’ aspiration and the saleability of particular properties clearly varies

significantly in any event. The research has been reviewed in the context of this, and the range values levels judgements made accordingly.

- 2.2.4 The results of the new build property value research led to the formation of 6 Value Points within which most areas of Salisbury District fall. As stated above, most areas have a variety of property values (even within the same postcode) therefore the results of this research can be used independently of location where approximate sales values can be estimated.

**Figure 1: Summary of Value Points Adopted for Each Property Type (based on assumed floor areas):**

Property Type	Value Point 1	Value Point 2	Value Point 3	Value Point 4	Value Point 5	Value Point 6
1-Bed Flat	£112,500	£130,000	£147,500	£165,000	£182,500	£200,000
2-Bed Flat	£150,750	£174,200	£197,650	£221,100	£244,450	£268,000
2-Bed House	£168,750	£195,000	£221,250	£247,500	£273,750	£300,000
3-Bed House	£191,250	£221,000	£250,750	£280,500	£310,250	£340,000
4-Bed House	£225,000	£260,000	£295,000	£330,000	£365,000	£400,000
<b>£/m<sup>2</sup> guide</b>	<b>£2,250</b>	<b>£2,600</b>	<b>£2,950</b>	<b>£3,300</b>	<b>£3,650</b>	<b>£4,000</b>

- 2.2.5 This is only intended to indicate general tones of values/value patterns. This helps us understand how varying policy (and the resultant range of viability outcomes) might affect housing and affordable housing delivery on sites which produce differing values across Salisbury District. In practice, very specific local factors influence value. Appendix V goes into more detail.
- 2.2.6 As part of the research, we spoke to estate agents in May and June 2008 at various locations in Salisbury District. Where little data was available at the time of the search, the data has been verified or supplemented by using Land Registry average sales figures and re-sale data. The values research has been further verified through visits to, and enquiries from, house builders' sales offices where possible. In a more general sense information was gathered through our ongoing discussions with land agents and colleagues at Adams Integra as to the way developers price their new schemes and consider sites.
- 2.2.7 This study does not attempt to provide comprehensive property valuation data, but rather identifies the typical range of new build values of various unit types. The values research is carried out to enable us to make judgements about the range of values of new build properties typically available. The values used in the appraisals are averaged across properties of varying size and type, and it must be remembered that any settlement could contain a range of property values covering a single property type. We believe, however, that the information used is reasonably representative. The key point is to consider the likely range of typical new build values which will

underpin this planning-led delivery of affordable homes, rather than consider overall resale market Land Registry type data alone, which can often dilute the new build market picture.

- 2.2.8 Also relevant in this context is the fact that while the specific values used here can only be on a snapshot/current time basis and do not reflect future property value increases or decreases, when viewed overall this approach enables us to consider how value trends might impact viability. Elsewhere within this report we acknowledge the changing market conditions which are being reported as the study progresses. The market is particularly difficult to assess, and clearly future values cannot be predicted. Indeed the Government's Valuation Office Agency (VOA) has commented that it cannot carry out its normal 6 monthly residential land forecast and stated that:

*“Due to the effects of the global financial crisis it has been decided not to include a residential land forecast in this edition of the report (July 2008). The unprecedented volatility in national and international world financial markets will not have been reflected in the previous data series used to compile the forecasts. Until these exceptional events are more fully reflected in these data series, any forecast using this method would be subject to unacceptable levels of uncertainty.”*

*Source: VOA property market report July 2008*

- 2.2.9 The range of values used includes values (Value Points 1 and 6) that are outside the range usually encountered. These have been included to provide results on the impact of changes in housing values should they fall below, or increase above, levels seen at the point of setting assumptions. Clearly that cannot be predicted, but this methodology does allow for potential future review of results in response to more established market trends or revised price levels - as well as price variations through site characteristics or location.

- 2.2.10 During the study period, there was extensive reporting at all levels of a very weak and uncertain property market, with the key feature being the very low level of sales activity – with the knock-on effects that brings. These conditions have certainly become more established with many market commentators expressing views that the severe market downturn is going to be longer lasting than first thought. There are still wide-ranging views on how deep the downturn may get, and its likely length, but nonetheless current characteristic features of such a downturn to be noted in the context of this study include:

- Some house builders reporting reduced margins overall.
- A very marked slow-down in the rate of construction of new homes.
- Incentives being offered more often - such as stamp duty/5% deposit paid/mortgage subsidy/rent-to-buy and delayed/part purchase schemes; and perhaps others – dependent on a prospective purchaser's position

together with the marketing experiences and sale potential related to particular plots, etc.

- Some use of guide pricing alone, or even no advertised pricing; but in the earlier study stages we have not encountered widespread openly stated pricing reductions by developers to date. Some schemes are still selling relatively well, but sales have slowed very significantly on many, with most difficulties perhaps typically being experienced with larger flatted schemes. This is linked to a commonly expressed feeling, more widely, that too many flats have been built in many places in recent years. This particular trend seems to be felt less in Salisbury than in many other areas, with agents expressing some demand for new build flats still.
- Some developers considering offers from RSLs for expanded affordable housing quotas on sites, or even entire schemes for affordable.
- Some reports of some developers pulling out of schemes, and delaying starts, slowing scheme progress – or even “mothballing” sites.
- Thus, extended development periods in some cases, with a knock-on effect of impacted sales progress because there is less for purchasers to see. Purchasers are far less likely to purchase off plan given uncertainty over values movements.
- Fewer investment buyers active in some instances.
- Mortgage lending dramatically down.
- Towards the end of the study period, reports of major house builders reducing staff numbers very significantly, with some companies ceasing to trade.
- Some estate agents reducing their presence/operating reduced opening hours/mothballing offices (with the same applying to some on-site developer’s sales offices).

2.2.11 In terms of study methodology, the current uncertainties are very difficult to reflect. In our view, it would be impractical for a local authority to move affordable housing and perhaps other viability related planning obligations targets in response to what could be relatively short-term market conditions and adjustments. As discussed, the use of a range of Value Points enables us to see how residual land values (and thus likely scheme viability) change as the market values of properties varies.

2.2.12 One of the principal concerns with the market currently is the volume of sales being achieved rather than simply with value levels. Sales volume is difficult to reflect in financial viability appraisal terms. It may affect developers’ views on risk levels, and it may affect development and finance periods. These will in any event be site-specific factors. To what extent the very depressed levels of market activity will ultimately affect values levels remains to be seen. However, it should also be noted (related to the point here about value levels not being the critical issue in isolation) that value levels are still high when the long term trends are reviewed. In the past, schemes have been brought forward and have therefore been viable at similar or lower values levels.

2.2.13 In our view the key message for local authorities in these circumstances is the need to monitor the market and housing delivery outcomes and trends locally, and respond to those through contingency measures and reviewing policy longer term where necessary. It is also about adopting a practical and flexible approach to secure delivery of all housing types, with a particular emphasis on this in the short term. This will be picked up again in Chapters 4 and 5.

### **2.3 Approximate Residual Land Value (RLV)**

2.3.1 In order to determine the impact of proposed affordable housing policy on the range of site sizes appraised across the range of Value Points it is necessary to determine a common indicator to ensure comparisons are made on a like-for-like basis.

2.3.2 The key viability outcome and indicator for this study is the land value that can be generated where there is a predetermined and fixed level of developer profit (alongside allowing for all other assumptions discussed in this report). It is not based on the notion of fixed land values with developer's profit varying as affordable housing or other requirements change. Land value expectations (and how those need to be adjusted over time with changing markets and changing planning and environmental requirements – not just affordable housing) are central to this work and to the ongoing negotiation and delivery processes. Local authorities and others involved in the process must recognise that developers need to make reasonable profits, and this work is not based on a premise that those should be eroded below reasonable levels. This area is discussed further below, including at 2.5 – Developer's Profit.

2.3.3 Assuming a developer reaches the conclusion in principle that a site is likely to be viable for development, an appraisal is carried out to fine tune the feasibility and discover what sum they can afford to pay for the site.

2.3.4 In this study we have to assume that a negotiation has occurred or is under way based on knowledge of the current development climate and planning policy requirements as they will apply to the scheme. Therefore, this study compares the viability outcomes from the variety of current policy requirements with those likely to result from the range of policy proposals (increased affordable housing proportions and lower site thresholds).

2.3.5 The simplest, most effective and widely understood way of checking site viability in most instances is via a developer-type Residual Land Value (RLV) appraisal (see Appendix VI – Glossary). We have developed our own spreadsheet model for this purpose. In doing so we have made what we feel are reasonable assumptions but it must be noted that individual developers will have their own varying approaches, and a developer might also apply a different approach from one site to another.

2.3.6 A highly simplified example which groups various cost elements together and showing only the basic structure of the RLV calculation, is shown in Figure 2. This is an illustrative example only and is not to be relied upon for calculation purposes. It demonstrates, in outline only, the key relationship between development values and costs. This is a dynamic relationship and determines the amount left over (residual) for land purchase from the total sales value of the site. It can be seen, that as values increase but costs remain similar, there is more scope to sustain adequate developer's profit levels together with, crucially, land values which will promote development.

**Figure 2: Simplified Example of Residual Land Value (RLV) Calculation**

**(for illustration purposes only)**

<b>Starting point is total sales value (“Gross Development Value”)</b>	
Number of Units =	10
Sales Value =	£120,000
<b>Gross Development Value = A</b>	<b>£1,200,000</b>
<b>Development Costs (build costs, fees, etc.) = B</b>	
	£575,000
<b>Development Profit (@15% of Sales Value) = C</b>	
	£180,000
<b>Land Purchase Costs and Planning Infrastructure (not including affordable housing element) = D</b>	
	£75,000
<b>“Residual Land Value” (Gross Development Value - Development Costs - Profit - Land Purchase and Planning Obligations) = E</b>	
<b>A – (B + C + D) = E</b>	<b>£370,000</b>

2.3.7 This method reflects one of the main ways of how development viability tends to be assessed. We have been able to verify our experience and thoughts on components of the model and indicative output land values through discussion with developers.

2.3.8 The model used for analysis in this instance, uses a calculation that provides an approximate RLV, after taking into account assumed normal costs for site development, but does not allow for abnormal costs. Abnormal costs can only

be properly reflected with detailed site-specific knowledge. If such varying costs were to be considered within this study, it would affect our ability to accurately compare like with like, when assessing the impacts of affordable housing requirements.

2.3.9 Added to this is the inclusion of an affordable housing element, whereby the developer receives a payment from an RSL (or other affordable homes provider) for a number of completed affordable homes based on predetermined calculation but that is not at a level comparable with open market values.

2.3.10 In addition, an allowance for other planning infrastructure costs is also included. Although in practice, these payments will vary and be calculated on a site by site basis, this study looks at a range of fixed costs (per unit) to determine the additional impact increased planning infrastructure costs may have on development viability (see Other Assumptions below).

2.3.11 Assuming that a developer will require a minimum fixed profit margin on any given site to balance risk and obtain funding, beyond a certain point it is, therefore, the land value that will be affected by the introduction of affordable housing or other infrastructure requirements. In this sense (and while there can be positive cash flow issues) affordable housing is viewed as a cost element to the developer's appraisals, in much the same way as other planning infrastructure requirements (planning obligations).

2.3.12 The results of the model calculations show the change in approximate land value or change as a percentage of approximate Gross Development Value (GDV). It should be noted that this is based on notional sites and is a relative exercise only - to determine the probable effect of revised affordable housing policy. As such it is the *changes* in results as the affordable housing criteria alter that are amongst the key outcomes.

## **2.4 Gross Development Value (GDV)**

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

2.4.2 Ultimately, land value is a product of a series of calculations that provides a residual valuation based on both the specific form of development a site can accommodate, and its development costs. While the market uses a variety of approaches to appraise sites and schemes (including comparisons between sites) in early stages of feasibility, a more detailed approach is necessary to understand how the value/cost relationship appears as used in this study.

2.4.3 Models which study cashflow over the development lead in, build and sales periods are also used – perhaps particularly for larger, phased developments. Such methods, because they take account of income being received from sales during the build period, as a general rule tend to produce slightly higher RLVs than the traditional residual approach, if used on a comparable scheme and basis.

## **2.5 Developer's Profit**

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

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

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

2.5.4 Adams Integra's experience of working with a range of developers leads us to suggest that they would need to seek a fixed profit (margin) of at least 15% (gross) of GDV. Only if the projections reveal this fixed profit margin (as a minimum) would a developer pursue a site.

2.5.5 This study, therefore, uses a developer's profit fixed at 15% of GDV, which is at the lower end of the acceptable profit range in normal circumstances. Some developers will look at alternative profit criteria, for example a higher percentage (perhaps up to 30%) of capital employed. We felt it appropriate to appraise the scenarios at the margins from the developer's perspective.

Higher profit levels than those we have assumed may well be appropriate, depending on the nature of the project and risk/reward scenario. Different profit aspirations will also be held by different types of house building and development companies.

- 2.5.6 Our experience shows that particularly for smaller and lower risk schemes, and those carried out by smaller more local developers (or contractor developers), a 15% level of developer profit may well be sufficient. However, given our acknowledgement of varying profit levels, we have also carried out sample appraisals on a 20% developer profit. Experience shows that these do not alter our findings materially, but do reinforce the need for site-specific consideration and awareness of the risk/reward balance needed, leading ultimately a negotiated approach – particularly in lower value situations where viability outcomes will be more sensitive to increasing costs.
- 2.5.7 In all cases an increased developer's profit leads to further reductions in the financial sums available for land purchase and, therefore, impacts further on site viability. We have to consider that there will be a wide range of scheme types brought forward by an equally wide range of parties. Once again, there are no firm rules when it comes to scheme specifics. In our view, however, the 15% level we use would form a reasonable general default or starting position for the Council when first considering site-specific viability appraisals, as used for example within the Housing Corporation's Economic Appraisal Tool guide assumptions.
- 2.5.8 We allow for the same development profit level on the affordable housing component, based on the contribution the affordable homes receipt makes to the GDV. This is because in this study we assume a relatively modest return to the developer for build costs on the affordable units. This profit allowance boosts the figures from the developer's perspective (assuming he bears no further costs), and it reduces further the RLV which fits with taking a conservative view of viability. So the 15% affordable homes development profit allowance we make means we do not over-inflate viability outcomes. In practice the sums within the appraisal for this may be allocated in part to other cost areas, such as the specification of the affordable homes. In this case the RLV could be maintained at our indicative points along with a lower level of profit for the developer from the affordable homes (but still full profit level from the market homes) if appropriate. In summary, this is an additional cost area within the appraisals that could be allocated in different ways. Purely for information, the Housing Corporation Economic Appraisal Tool default assumption for developer's profit on the affordable housing element is 6%.
- 2.5.9 In the current uncertain market conditions we are seeing a range of indicators on developer's profit levels, and these are becoming increasingly difficult to judge with respect to perception of risk levels. Whilst we are aware of

increased profit expectations in some instances (up from the 15% level), we have also seen schemes where profits have been adjusted downwards marginally to help maintain viability.

## **2.6 Model Scenarios, Property Types, Size and Mix**

- 2.6.1 Salisbury District Council required a range of scenarios to be appraised to assess the viability of the potential approach to thresholds and proportions of affordable housing.
- 2.6.2 In considering on-site provision of affordable homes, the scheme types modelled range in size from 5 to 100 units to allow the study to investigate a full range of potential policy options.
- 2.6.3 The scenarios modelled tended to concentrate on smaller sites, as in our experience the most sensitive area can be around newly captured sites (which previously provided no affordable housing contribution and, therefore, which see a large viability impact). Variations to the dwelling mix help to consider the impact of various dwelling types on development viability, within and between these scenarios.
- 2.6.4 Appraisals of sites below the current affordable housing thresholds, i.e. where there is no requirement to provide affordable housing, were carried out and a range of proportions were tested from 20% to 50% affordable housing.
- 2.6.5 Schemes of 25 dwellings or more were tested using 25% (current minimum policy), along with 40% and 50% proportions of affordable housing to investigate the impact of both the Council's preferred option and of increasing affordable housing proportions beyond that point.
- 2.6.6 The reason for testing a 20% proportion of affordable housing on the smaller sites was to review the viability outcomes from the possibility of introducing a sliding scale of affordable housing on sites below the current urban threshold. This effectively investigates the possibility of "stepping up" the affordable housing proportion from a lower percentage at 5 units to a higher one at potentially 10, 15 or 25 units.
- 2.6.7 The unit sizes used in the modelling are 50sq m for 1-bed and 67 sq m for 2-bed flats. For 2, 3 and 4-bed houses we have used 75sq m, 85sq m and 100sq m respectively as representative sizes. These, as with the flats, are gross internal areas. They are thought to be reasonably representative of the type of units coming forward for smaller and average family accommodation, within the scheme types likely to be suitable for on-site integrated affordable housing. We acknowledge that these 3 and 4-bed house sizes may be small compared with some coming forward, but our research suggests that the

values for larger house types would also often exceed those we have used and would, therefore, be similar on a “£ per sq m” basis.

2.6.8 For details of the dwelling mix for each on site scenario modelled see Appendix I – Development Scenarios.

2.6.9 In practice there would be a tendency towards developers needing to maintain the higher value units within a scheme for private sales whilst also thinking about the relationship of the private units to the affordable units in terms of location. These are all factors which in reality (and dependent on the site location and characteristics) will affect the unit and tenure mix as part of the negotiated approach.

## **2.7 Site Area (“land take”)**

2.7.1 To provide broad comparisons with published land value data so as to provide an additional basis for interpretation of results, the approximate site area (land take) required for each development scenario (site type and size) has been estimated taking into account the likely building and ancillary areas footprint. These land take indicators have been estimated assuming 2 or 3 storey housing, and flats in buildings of up to 4 storeys. The land take assumptions for ancillary space (gardens, immediate access roads, parking, outbuildings, etc) have necessarily been approximated. Based on the unit sizes assumed in this study, this provides us with indicative densities of between 45 and 75 dwellings per hectare (dph) depending on unit type and dwelling mix. This part of the exercise is purely for the purposes of additional review of results. In practice, densities will be highly variable. Site sizes and their corresponding densities are shown in Appendix I and tables within Appendix III.

## **2.8 Affordable Housing Transfer (to RSL) – Method of Payment Calculation and Type of Property Transferred**

2.8.1 Discussions with the Salisbury District Council indicated that the payments developers receive from RSLs (Registered Social Landlords) for the provision of completed affordable rented homes are currently based on a negotiated approach between the parties. These are in turn driven by scheme costs and what the RSL can afford to pay based on its business planning and financial assumptions.

2.8.2 As PPS3 asks us to consider the availability of funding in looking at viability, the Council also wanted to test the impact of public subsidy (in the form of Social Housing Grant (SHG)). All appraisals were carried out without grant, giving the worse case scenario for viability, and a small sample was tested “with grant”. The “with grant” sample appraisals assume an approximate level of £15,000 per person (housed) for affordable rented units only (zero grant

was assumed for shared ownership units in those cases as well) following discussion with the Council's officers. In practice, on specific sites this might well vary considerably, dependent on property type and value for money in terms of the Housing Corporation input. It should be noted that during the course of the study, the Housing Corporation became subsumed in to the Government's new agency – known as the Homes and Communities Agency (HCA). This took effect from 1 December 2008, but all references within this work to Housing Corporation are interchangeable with HCA. This study only refers to the organisation in terms of its (social housing) grant providing role.

- 2.8.3 The likely payment that an RSL would make for an affordable rented or unit of intermediate tenure (shared ownership in this case) within this modelling was determined through carrying out a series of appraisals using industry standard software (in this case - "ProVal") and then making judgements on the range of outcomes. Effectively, the value that could be paid to a developer for completed affordable homes is usually related to the mortgage finance the RSL could raise based on the rental income stream (affordable rent) or capital and rental income stream (shared ownership).
- 2.8.4 In practice the values generated could be dependent on property size and other factors and thus would vary from case to case when looking at site specifics. The RSL may have access to other sources of funding, such as its own resources or recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm – it is highly scheme dependent and variable and thus has not been factored in here.
- 2.8.5 The figures used in the appraisals are shown in 3 below for each property type, and reflect the sums received per completed affordable home (of either tenure) by the developer in return for constructing them for (usually for an RSL to which they are transferred):

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

<b>Rent (no Grant)</b>					
Value Point	1 Bed Flat	2 Bed Flat	2 Bed House	3 Bed House	4 Bed House
1	£45,000	£54,000	£56,500	£64,000	£72,000
2	£47,500	£57,000	£59,500	£67,500	£76,000
3	£51,000	£62,000	£65,500	£74,000	£84,000
4	£56,000	£67,500	£71,500	£80,500	£92,500
5	£60,000	£73,000	£77,500	£87,500	£101,000
6	£64,000	£78,500	£84,000	£94,500	£109,000
<b>Rent (with Grant)</b>					
Value Point	1 Bed Flat	2 Bed Flat	2 Bed House	3 Bed House	4 Bed House
1	£69,000	£90,000	£98,000	£105,000	£114,000
2	£71,000	£92,500	£101,000	£108,500	£118,000

3	£75,000	£98,000	£107,000	£115,000	£126,000
4	£79,500	£104,000	£113,000	£122,500	£134,000
5	£83,500	£109,000	£119,000	£129,000	£142,000
6	£87,500	£115,000	£125,000	£136,500	£150,000
Shared Ownership					
Value Point	1 Bed Flat	2 Bed Flat	2 Bed House	(n/a) 3 Bed House	(n/a) 4 Bed House
1	£47,000	£64,250	£72,250	N/A	N/A
2	£55,500	£74,000	£83,000	N/A	N/A
3	£70,000	£93,500	£105,000	N/A	N/A
4	£85,000	£113,000	£127,000	N/A	N/A
5	£100,000	£132,500	£148,500	N/A	N/A
6	£115,000	£152,000	£170,000	N/A	N/A

2.8.6 The study tests the impact of affordable housing assuming a tenure mix of 75% affordable rent to 25% shared ownership as agreed with the Council.

2.8.7 For shared ownership accommodation we have based the calculations on a 35% initial capital sale with 2.5% rent paid by the purchaser on the retained equity. This initial capital sale share may be higher in some instances, but through discussion with the Council's officers it was decided to carry out the modelling based on a low initial capital sale share. This is due to the potential lack of affordability of shared ownership properties where higher initial capital sale shares may make properties unaffordable to the end user. This also ensures that viability has been appraised at the margins i.e. viability would improve if higher initial capital sale shares were assumed.

2.8.8 For intermediate tenures we have assumed in our modelling that only properties of 2 bedrooms or less will be transferred to an RSL with larger units remaining as private. This again relates to the affordability of those units to the end user as mentioned above.

## 2.9 Other Assumptions

2.9.1 The appraisal model includes other variables such as fees, land buying costs, finance, agency costs and planning infrastructure provision that are all taken into account when calculating an approximate land residual value.

2.9.2 These figures in some instances are factors of other elements of the appraisal and, therefore, vary by site size and type.

2.9.3 The percentages and values assumed for the purposes of this exercise are listed below and are the result of Adams Integra's experience, work with and discussions with developers, valuers and agents:

- **Base Build Costs (House Schemes) – £1,150/sq m**

- **Base Build Costs (Flatted Schemes) - £1,300/sq m**

2.9.4 The above are applied to the Gross Internal Area (GIA) of the accommodation. Base costs for flats are likely to be higher than for a scheme of houses particularly for small flatted schemes where sites are small and often difficult to work on (storage, craning, etc). Common areas have to be allowed for, as does the degree of repetition of costly elements. Cash-flows for flatted development can also be less favourable as rolling sales are more difficult to deliver. In this study we are envisaging standard low rise flats (typically not more than 3/4 storeys and allowing standard construction techniques).

2.9.5 Build cost figures have been taken as an indicative level, supported by our experience of scheme specifics, whilst also taking into account a range of information from BCIS (Building Cost Information Service) data.

2.9.6 There will always be a range of opinions on, and methods of, describing build costs. In our view, we have taken a reasonable view which lies within the range of figures generally discussed for typical new build schemes rather than high specification or complex schemes which might require particular construction techniques or materials. As with many aspects there is no single appropriate figure in reality, so a judgement on some form of benchmark is necessary.

2.9.7 We are aware that the developer's base build costs can be lower than our above base cost figures, and also that the BCIS tends to indicate lower figures. In contrast, however, there is much said about costs being higher than this, often in the context of RSLs procuring new housing through contractors and developers. So a view needs to be taken, and then monitored, tested and updated as informed by the experience of site specifics, negotiations and (from the affordable housing perspective) in light of funding availability and affordability for occupants.

2.9.8 Typical scheme-specific additions to these are (with assumptions set as follows):

- **Architect Fees:** *3.5% of build costs.*
- **Consultants Fees:** (e.g. engineer, planning supervisor, project manager) *3.0% of build costs.*
- **Contingencies:** *3.0% of build costs.*
- **Insurances:** *2.5% of build costs.*

- **Marketing and Sales Fees:** 1.5% of Estimated Gross Sales Value. *There will be instances, dependent on the location and scheme type, where some of this expense, or an additional sum will be directed to the setting up of a show home. This will, however, not be appropriate on all schemes hence we have not included for it as a standard assumption item. We would not expect it to alter the outcomes fundamentally.*
- **Legal Fees on Sale:** £400 per unit.
- **Finance (build):** 7.0% APR on above build costs over build period.
- **Build Period:** 9 months for 5 to 15 unit schemes; 12 months for 25 and 35 unit schemes; 18 months for 50 unit schemes; 24 months for 100 unit schemes.
- **Land Survey Costs:** £2,500 per site for a 5 unit scheme; £5,000 for 10 unit schemes; £7,500 for 15 unit scheme; £12,500 for 25 unit scheme; £17,500 for a 35 unit scheme; £25,000 for a 50 unit scheme, and £50,000 for a 100 unit scheme including basic ground conditions research (on larger schemes especially there will usually be additional cost associated with transport, environmental/landscape, ecology, etc dependent on the scheme and not covered here).
- **Legal Fees on Land Purchase:** 0.5% of land value (this will often produce a low figure when looking at very small or low value sites but only make a minimal difference to outcome).
- **Planning Application costs:** £335 per dwelling where the number of dwellings is 50 or fewer, where the number of dwelling houses exceeds 50 - £16,565 plus £100 per dwelling in excess of 50, subject to a maximum total of £250,000.
- **Stamp Duty Land Tax:** Between 0% and 4% depending on RLV.
- **Planning Infrastructure Payments:** Appraisals carried out assuming £5,000 per unit, £10,000 per unit and £20,000 per unit. This covers a range of potential infrastructure costs but equally could apply to other future costs e.g. increase in environmental performance (higher Code for Sustainable Homes levels, greater requirement for renewable energy provision, etc). They are notional levels. We varied this assumption so that we, and the Council, could review the sensitivity of results to this factor – using similar thinking to the Value Points methodology rather than looking only at a relatively narrow set of assumptions. This was done with the potential nationwide Community Infrastructure Levy (CIL) policy developments in mind, but also in the

context of a range of other areas which could effectively add costs to schemes from a developer's and therefore land owner's perspective.

- **Code for Sustainable Homes** £50/m<sup>2</sup> for flats and houses. Based on CLG - July 2008<sup>4</sup> report and assumes medium case scenario for flats and terraced houses.
- **Finance related to land purchase** 7.0% interest cost on land survey, planning costs, legal fees on land purchase and RLV over build time plus 26 weeks. No finance arrangement or related fees have been included for the purposes of this exercise. They might in practice be applicable, but we would not expect them to alter the viability equation fundamentally. Scheme funding arrangements will vary greatly, dependent again on the type of developer and scheme. As with much of this exercise, this is a snapshot and there are varying views as to what future trends will hold, and so over time we would need to see how added costs balanced with changes in sales values.
- In the later stages of this study, after settling at 5% for a period following a series of minor movements, the Bank of England Base Rate was reduced to 4.5% on 9 October 2008. This adjustment came as part a co-ordinated move by various international central banks in response to the global credit crunch. On fixing our assumptions in the early study stages we decided to leave our finance rate assumptions unchanged in response to the base rate reductions. In light of the daily "credit crunch" reporting (on the reduced availability and associated likely terms of finance) as the study progressed, we considered this approach to be further validated and therefore to remain appropriate.
- Given the economic climate, we have included any update of this information in Appendix V, Property Values Report.

## 2.10 Caveats and Limitations to this Study

2.10.1 This study requires judgements based on the development values and changes seen in land values as a result of varying potential policy positions. This is in the context of seeking to guide policy development and arrive at clear policy targets. The results cannot be a definitive guide to how specific sites will be appraised or how outcomes on a site-specific basis will look. As this is a relative exercise aimed at determining the likely effect of a range of policy options, the most important factor is consistency between assumptions used for modelling scenarios. Specific assumptions and values for our notional schemes may not be appropriate for any particular actual development. We are confident, however, that our assumptions are reasonable in terms of making this viability overview.

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<sup>4</sup> DCLG – Cost Analysis of the Code for Sustainable Homes (July 2008)

- 2.10.2 Development viability will vary from site to site, and there will be no substitute for scheme-specific discussions. The context of this study is the setting of clear policy targets as a basis for a, necessarily, negotiated approach to provision.
- 2.10.3 There can be no definite viability cut off point owing to individual landowner's circumstances. It is not appropriate to assume that because a development appears to produce some land value, the land will change hands and the development proceed. This must be viewed alongside the owner's enjoyment /use of the land, existing use value and alternative uses that the site may be put to in order for a greater receipt to be achieved as discussed within this report.
- 2.10.4 In reality, scheme-specific land values have to be considered alongside existing or alternative use values and the latter, being very location and planning use or business dependent, will vary significantly too.
- 2.10.5 To attempt to make detailed comparisons with existing or alternative uses in this type of overview work for policy context would, in our view, have limited meaning. We have, however, attempted to provide examples of, and comparisons with, alternative use values. Values are highly site-specific. Nonetheless this study acknowledges that the level of value created by a residential scheme after making allowance for affordable housing and other planning obligations requirements will need to be weighed up against any existing or alternative use relevant to a particular site.
- 2.10.6 The use of notional sites most effectively enables like-for-like comparisons to be made, i.e. the testing of impacts of the varying requirements on the same typical scheme in a range of value locations. The fact that individual schemes vary makes like-for-like comparison very difficult when studying those for this purpose of trying to measure policy impacts, with full reliable and readily comparable information being critical.
- 2.10.7 We have not definitively labelled specific locations, areas or settlements as higher/lower value, or similar. This is because, in practice, we found that values can vary from street to street and within very small areas. The Value Point approach used in this study means that viability outcomes can effectively be transported around the Salisbury District area and a feel for viability gained in relation to relevant value levels. As noted, this range of values approach also relates well to enable consideration of viability impacts and trends at a future point with regard to market adjustment of values.

### **3 RESULTS and related commentary**

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#### **3.1 Background**

- 3.1.1 The residual land value modelling carried out for this study looks at a range of scenarios incorporating and investigating the impact on development viability of site size (affordable housing thresholds), affordable housing proportion, market property values, affordable housing grant, planning infrastructure costs and developer's profit.
- 3.1.2 The modelling necessarily creates a very extensive range of results leading to a large number of tables and graphs representing the data. These are all appended to the rear of this report and are set out in different ways depending on the particular impact we are seeking to investigate and visualise. The following results chapter draws on a few examples from the results to explain the characteristics and impact of various affordable housing policies on development viability to help guide the reader in interpreting the results and to illustrate key points and conclusions.
- 3.1.3 Appendix II, IIa and IIb shows a summary of residual land value results for all Value Points, allowing us to see the impact on residual land values of increases in property values, increases in affordable housing proportions and increases in infrastructure costs on the basis of nil grant and 15% developer's profit. Appendix II shows the results from appraisals carried out assuming a £5,000 per unit infrastructure cost; Appendix IIa shows the results on the basis of £10,000 per unit and Appendix IIb shows the results on the basis of £20,000 per unit. The data is shown in tabular and graphical form and shows the indicative residual land value produced by each appraisal; those residual land values shown as a percentage of gross development value (GDV), and the reduction in residual land values as the proportion of affordable housing proportions increase.
- 3.1.4 Appendix IIc provides an overall summary (all Value Points and all scheme types). Appendix IId shows the results of the sample appraisals carried out assuming increased developer profit and the inclusion of an element of public subsidy in the form of social housing grant so that we can see the impact of these factors on results trends.
- 3.1.5 Appendix III summarises the residual land value results across all scenarios and site sizes showing the corresponding monetary value in pounds per hectare (£ per Ha) based on assumed site areas (land take) for each scenario – for details, see Chapter 2 - Methodology. These graphs also show Valuation Office Agency reported land values<sup>5</sup> for various alternative uses in the South West (agricultural, industrial and residential). The purpose of adding that data is purely for indicative comparison with the values levels produced by our

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<sup>5</sup> VOA Property Market Report January 2008

various appraisals. In practice, as the study acknowledges elsewhere, the values likely to be attributed to various existing or potential uses of a particular site will be highly site specific.

- 3.1.6 VOA data is not available for the Salisbury District area specifically so figures are provided for the South West.
- 3.1.7 Our results are compared against VOA sourced maximum agricultural land values, the range of average industrial land values (the range being shown by the vertical bars extending above and beneath the black line on the relevant graphs – for example at Figure 5 below, and Appendix III, and average residential land values. Again, it should be noted that both the assumed development scenario (land take) areas and the VOA data are highly indicative. They are used within this study only to help highlight how land value varies as assumptions change, and to show the general type of information that the indicative RLV results might be compared with when it comes to considering how likely a scheme is to proceed given other valuation factors. The inclusion of this information here seeks to help with illustrating how the value (RLV) created by residential development proposals may look and may vary relative to other example uses. The indications also build on the emphasis that considering alternative or existing use values will often be important in delivery discussions.
- 3.1.8 At this strategic level overview for policy development, we are able only to make broad comparisons. Unfortunately it is impossible to provide the Council with definitive “cut-off” points where a scheme definitely would proceed, or conversely, where viability would be compromised to the degree that development would not take place. Site specifics will influence viability on individual sites.
- 3.1.9 There will need to be a second stage to this overall viability process whereby site specific discussions prevail in situations where it is necessary to have those – for example, in the event of landowners or developers needing to demonstrate that affordable housing targets, or perhaps other planning obligations, cannot be met. The same might apply where a developer or landowner wished to explore enhanced or alternative provision of affordable housing with the Council, possibly reliant to a varied extent on grant or other subsidy. There are a range of viability models (usually computer based spreadsheet calculation tools reliant on a similar residual land valuation process to ours) which could be used to assist in considering viability further in such cases.
- 3.1.10 As we have commented about existing and alternative use values (for example commercial), and how those vary greatly with site specifics, much the same will apply if the Council is considering the viability of a mixed use scheme in dialogue with a landowner or developer. Our suggested starting

point would be to consider the residential element of such a scheme in a similar way to a solely residential scheme, and then consider any positive or negative viability impact from the other scheme elements. Inevitably this consideration will be highly site and scheme-specific, but there is no reason why the general target approach, the level at which that is pitched, and the overall process would not follow that which is related to entirely residential sites.

## **3.2 Results Trends**

3.2.1 This study has looked at a range of affordable housing proportions and thresholds on development viability within Salisbury District.

3.2.2 The study also looks at the possibility of increasing the proportion of affordable housing sought on sites below the currently adopted threshold, and at potentially removing the affordable housing threshold altogether (i.e. requiring a contribution towards affordable housing from all residential development sites).

3.2.3 The potential introduction of a “sliding scale” of policy requirements has also been considered purely in viability terms. This could potentially lead to a policy position where the affordable housing proportion increased with site size at set “steps”. It would reduce the size of the steps that would otherwise occur.

3.2.4 The overall trend of results shows a decrease in residual land value (RLV) for all site sizes/types in all areas as:

- market property values decrease.
- the proportion of affordable housing increases.
- availability of grant is reduced/removed.
- developer’s profit is increased.
- planning obligations/infrastructure requirements are increased and,
- other costs are added to the scheme.

3.2.5 A reduction in residual land value would also be seen if any of the costs within the appraisals were increased or the revenue to the developer were reduced whilst maintaining the same sales values. These are all normal trends encountered in any such study and demonstrate the dynamic nature of the development process and of any appraisals which endeavour to understand or demonstrate that.

3.2.6 The above will all have an impact on development viability as the sums of money remaining to purchase land after all costs are met (i.e. residual value) reduce as costs (including affordable housing in the context of this study) increase.

- 3.2.7 A combination that includes all of the factors which decrease RLV (as per the examples listed above) will have the greatest impact on the viability of a scenario.
- 3.2.8 At Value Point 1 there is no land value generated on any of the schemes appraised except at either 0% affordable housing or 20% and 25% affordable and £5,000 per unit planning infrastructure costs on some of the schemes. As mentioned in Chapter 2, Value Point 1 falls below the range of values currently encountered on a regular basis, but was included to test viability at much lower value levels.
- 3.2.9 At Value Point 2 (the lowest values typically seen across Salisbury District in the current market), again no values are generated on schemes that require 40% affordable housing and £10,000 per unit or more planning infrastructure cost. At 25% affordable housing an element of land value is generated on most schemes where there is a £10,000 per unit infrastructure cost and in a very few cases where £20,000 per unit infrastructure cost is assumed. Although very low, the land values generated are still likely to exceed agricultural use values and lower end industrial/commercial use values. With 50% affordable housing, no land value is generated regardless of infrastructure cost assumptions.
- 3.2.10 By Value Point 3, positive residual land values are generated more often where the affordable housing requirement reaches 40% although as the planning infrastructure burden increases, there are still instances of very low or nil land values.
- 3.2.11 As an example, if we look at a 25 unit housing scheme (Appendix IIc - Table 22) the lowest residual land values are seen where there is a 50% affordable housing proportion with zero grant at the highest infrastructure payment per unit (£20,000). Here the residual land value falls to nil.
- 3.2.12 This is contrasted by looking at the opposite end of the scale, where the best viability outcome is seen (highest approximate RLV). On the same scheme, but this time at Value Point 5, (ignoring Value Point 6 for the time being as this falls outside the range of typical values seen currently, as discussed previously), with 25% affordable housing, grant funding and the lowest infrastructure payment per unit (£5,000) the appraisal produces an approximate RLV of £1,939,214 (Appendix II d - Table 24).
- 3.2.13 This shows the two extremes in terms of the range of potential outcomes for this single example scenario when influenced by such varied assumptions. The impact of increasing the proportion of affordable housing from 25% to 50% at any given location with the value levels described is to reduce the RLV by nearly £2.5 million.

3.2.14 If we were to fix the Value Point at Value Point 5, the impact of moving from 25% to 50% affordable housing provision, without grant and assuming £20,000 infrastructure costs, is to reduce the RLV from £1,504,791 to £690,844 (Appendix IId – Table 24). This shows a reduction in RLV of over 50%.

3.2.15 It should also be noted here that the scenarios tested all assume minimal abnormal costs and, as mentioned above, any increase in costs will have a further detrimental effect on the RLVs produced (assuming sales values remain constant) by the housing development scenario envisaged (and hence a further impact on development viability).

3.2.16 Although the individual figures change, the pattern and relative difference in residual land values described above occurs across all sites modelled with the relative difference only increasing when comparing the worst case scenario described above with one where there is no affordable housing requirement currently (smaller sites below 25 units in urban areas/larger settlements or below 15 units in rural areas/smaller settlements). Site size in itself is not a determinant of development viability.

3.2.17 We will now go on to describe the impact of these variables in more detail whilst drawing out examples from the results before setting out our conclusions in relation to the likely viability of various affordable housing policy options (affordable housing thresholds and proportions).

### **3.3 Property Values**

3.3.1 In terms of the property market generally there is a range of values seen across Salisbury with typical values in Durrington, Amesbury and Wilton being at the lower end of the range. Conversely, rural areas and smaller rural settlements including Tisbury and Downton show values at the top end of the range seen. Between those, value levels are relatively consistent with small differences between, for example, Salisbury and Mere.

3.3.2 Across Salisbury these trends are affected by prices in particular areas *within* settlements or volumes of particular housing types for sale at any one time (i.e. the local stock make up). Values are generally driven also by location/desirability within settlements rather than just between main settlements. The property values report (Appendix V) goes into more detail.

3.3.3 The general range of values seen and assumed for carrying out appraisals is as follows:

- Value Point 1: £2,250/m<sup>2</sup>
- Value Point 2: £2,600/m<sup>2</sup>
- Value Point 3: £2,950/m<sup>2</sup>
- Value Point 4: £3,300/m<sup>2</sup>

- Value Point 5: £3,650/m<sup>2</sup>
- Value Point 6: £4,000/m<sup>2</sup>

- 3.3.4 Value Points 2 to 5 represent the extent of the typical current range of values seen across Salisbury District. Value Points 1 and 6 represent values outside of this typical range to indicate what happens to viability at increased or reduced sales values as part of the sensitivity analysis for this study.
- 3.3.5 In terms of *new build* property in Salisbury District, again there is a range of values, but overall there is quite a high level of consistency of values between settlements when compared with the overall market, which sees more variation. It appears that the differences occur mainly through desirability within the settlements rather than between them. As normal there are variations even to the extent of street by street variations.
- 3.3.6 At the time of setting assumptions, there still appeared to be a premium value for new build properties as compared to re-sale (although data is not always on a like-for like basis). Generally, the values seen related to the range between our Value Points 2-3 (£2,600-£2,950 per sq m) and Value Point 4 (£3,300 per sq m) with values reaching up to Value Point 5 (£3,650 per sq m) on some schemes seen at the time of research. Depending on the particular scheme details, towards the end of the study period we noted views more generally that new build premiums had often become insignificant. We picked up reports that surveyors were in many cases valuing new builds as for resale properties.
- 3.3.7 There are likely to be areas where new build values achieve only modest levels (at around our Value Point 2) bearing in mind sales prices will vary from asking prices. If market conditions continue to deteriorate, however, we could see a typical move downwards within our overall scale of value levels (range of value points). The lower value occurrences could increase, at least over the short term. Equally, there will also be cases where values are much higher (our Value Point 5 or above), but again the incidence of these is low currently. A majority of the values centre on Value Points 2/3 up to 4. Values can be higher in rural areas, and in favoured areas of main settlements and also for premium housing products.
- 3.3.8 It should be noted that given the current downturn in market conditions, the property market and its likely next direction is particularly difficult to assess at the moment - both in a wider sense and more locally. This is stated by a range of commentators generally. We noted that the Valuation Office Agency stated in July 2008 that it was suspending its residential land value forecasting reporting. By looking at a range of values to drive our large number of appraisals, however, this study process is able to be used in a way which enables the review of varying viability outcomes in response to value levels as those vary.

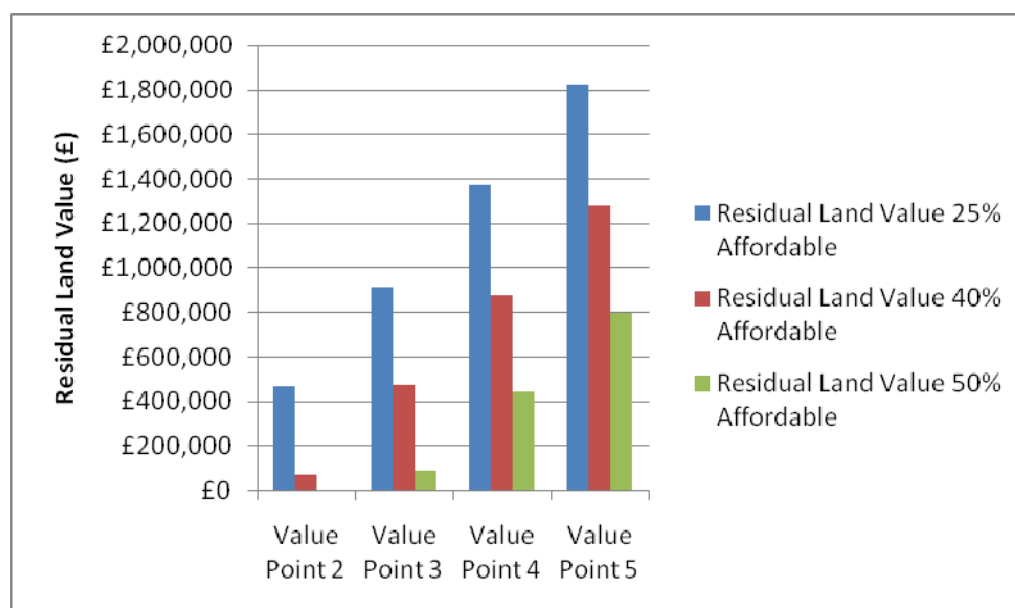
- 3.3.9 A strong feature of the housing market which has developed over the past few months (and appears to be universal) is the dramatic slow-down in the rate of sales (number of sales being agreed and proceeding). As detailed in Appendix V, property values overall are now (in Summer 2008 - at the point of reporting results based on previously fixed assumptions) similar to those seen 12 months ago, but the impact of the vastly reduced level of market activity (volume of house sales) was already affecting the level of development activity by increasing perceptions of uncertainty and risk. It remains to be seen how this will play out fully in terms of the financial appraisal of schemes and sites, and we have started seeing a range of reactions to it in terms of profit levels sought, and other assumptions applied.
- 3.3.10 We feel there is no doubt that current conditions add up to a financial viability impact when compared with how schemes are viewed and pursued in a more stable, confident market. There is a changing view of the attractiveness of larger apartment schemes in particular. Developments in general will be taking longer to sell (with build progress possibly slowed and costs outstanding for longer as a result) and varying packages of incentives are typically being offered. These factors were identified at 2.2 and are recognised in Appendix V as well.

### **3.4 Affordable Housing Proportion**

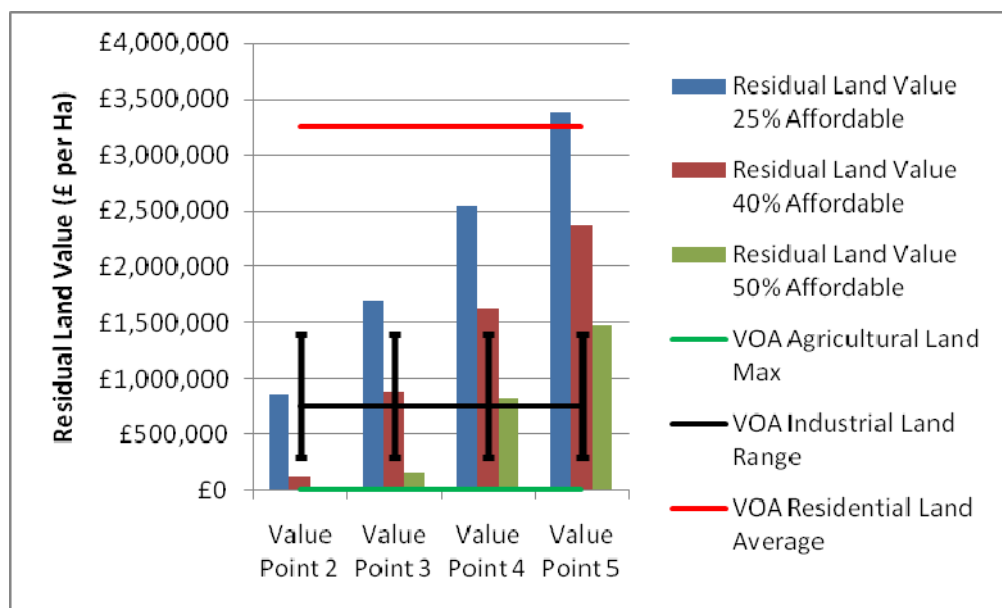
- 3.4.1 The impact of increasing the affordable housing proportion is to reduce residual land values for all scenarios tested.
- 3.4.2 The lowest RLVs occur where the property values are lowest whilst at the same time the affordable housing proportion is highest. The following is based on nil grant, current indicative £5,000 per unit infrastructure costs and 15% developer's profit. The impact of grant, profit and higher infrastructure costs are discussed later.
- 3.4.3 As an example, the results of appraisals for the 25 unit housing scheme show the decrease in RLV as values reduce and affordable housing proportions increase. The results of this scheme can be seen in Table 22 (Appendix IIc) and tables and graphs in Appendix II. At Value Point 3 with a requirement for 25% affordable housing without grant, the approximate RLV is £915,589. At 40% affordable housing the RLV reduces by 47.8% to £478,031 and falls to £92,317 at 50% affordable housing.
- 3.4.4 Using the assumed indicative densities set out in Chapter 2, this provides £1,695,536 per Ha (Appendix III, Table 26) at 25% affordable housing compared to £885,243 per Ha at 40% affordable housing. For comparison, at 40% affordable housing this indicative RLV outcome falls within the range of industrial land values provided by VOA for the South West (Graph 62).

- 3.4.5 On a 25 unit scheme 25% to 40% affordable housing equates to currently adopted policy for Salisbury District and shows the potential difficulties in achieving the highest levels of affordable housing even before any additional infrastructure costs and/or higher profit expectations are placed on a scheme at these value levels.
- 3.4.6 At Value Point 4 and again based on the infrastructure cost, the residual land values increase to £1,369,040 at 25%, £876,328 at 40% and £446,938 at 50% affordable housing (i.e. £2,535,260 per Ha, £1,622,829 per Ha and £827,663 per Ha respectively). Again, at these value levels the impact of increasing the affordable housing proportions is still seen as a significant reduction in the indicative RLVs although by Value Point 4 we are seeing more positive land values at 50% requirement for affordable housing. Again looking at Graph 62 (Appendix III) we see that residual values are exceeding the higher end of the industrial values range at 25% and 40% affordable housing but only just exceed the lower end of that range at 50% affordable housing.
- 3.4.7 At Value Point 5, residual values significantly exceed the VOA industrial use values and start to exceed the VOA residential land average values (see Graph 62).
- 3.4.8 Figures 4 and 5 below (and taken from the results in Appendices II to III) show how RLV grows with increasing sales values (Value Points 2 to 5 on horizontal axis) and reduces with increasing affordable housing proportions assumed - in this case on a 25 unit housing scheme.

**Figure 4: Example Results from 25 Unit Housing Scheme – Value Points 2 to 5 – Residual Land Values**



**Figure 5: Example Results from 25 Unit Housing Scheme – Value Points 2 to 5 – £ per Hectare with VOA Average Land Value Comparison**



- 3.4.9 Overall, the results in Appendices II to III show a range of factors affecting viability through increased affordable housing proportions. On the basis of only a £5,000 contribution per unit for infrastructure provision (indicative of the current Salisbury position) and where the worst case has been tested (nil grant) the residual land values will struggle to compete with VOA indicated alternative use values (industrial in this case) assuming sales values at Value Point 2 with 40% affordable housing.
- 3.4.10 To highlight the importance of the strength of the private market sales values to the likely viability equation, in contrast we can look at Value Point 4 with 40% affordable housing in Figure 5 above. There the indicative RLVs improve to the point that only the higher end VOA industrial use values (just for example) might compete with residential values even after the affordable housing and other costs are taken into account.
- 3.4.11 At 50% affordable housing, values need to reach our Value Point 5 to just exceed the range of alternative use values shown. The only point at which residual land values reach or exceed VOA average residential land values is in Value Point 5 at 25% proportion of affordable housing (again bearing in mind we are looking only at the lowest infrastructure cost levels).
- 3.4.12 The low residual land values produced where a 50% proportion of affordable housing is required suggests that this is unlikely to be a sustainable and viable target in a general sense on windfall sites coming forward over the plan period.
- 3.4.13 It might, however, be relevant for the Council to consider the scope to optimise affordable housing provision from sites with very low existing or

alternative use values. These could, for example, be greenfield sites with no significant competing existing or alternative use values. Such scenarios would depend, however, on the level of other costs associated with bringing forward development, such as site specific abnormalities and infrastructure requirements. The Council could consider whether such opportunities exist and whether they can be brought forward on the basis of appropriately guided land price expectations through the use of the site allocations process and development briefs, DPDs or similar, which would be developed as part of early stages involvement with the relevant landowners, developers and others. Those type of scenarios could present opportunities for the Council to optimise affordable housing contributions through early engagement and careful guiding.

3.4.14 To develop this discussion, in general, site type will be a factor in considering targets and then negotiations. While we are expressing reservations about viability in lower value scenarios with say 40% (or perhaps even a lower proportion of) affordable housing, the same principle to that at 3.4.13 might apply more widely – where, for example, greenfield or other land with low existing/competing value is being considered.

### **3.5 Affordable Housing Threshold and Potential Sliding Scale**

3.5.1 The discussion in the previous sections of Chapter 3 considers the effect on RLV, and thus likely viability, of affordable housing proportion, related to nil grant assumptions and a relatively low infrastructure cost.

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

3.5.3 The Council's established affordable housing approach sets a requirement for the provision of 25% to 40% affordable housing from sites of 25 units or more in urban settlements, and from sites of 15 or more in rural settlements. To reflect sites below current urban thresholds, i.e. falling outside the scope of the current approach, the range of modelling carried out for this study includes a 0% proportion of affordable housing on those smaller sites.

3.5.4 Analysis of the results indicates that, as expected, lowering the affordable housing threshold to 5 units (effectively increasing the proportion of affordable housing from 0% to 20%, 25% or 40%) on any of the scenarios modelled between 5 and 24 units leads to significant reductions in RLV across the entire range of Value Points and scheme types. As an example (Appendix II, Table 1b), a comparison on a 5 unit housing scheme across Value Points 2 to 5 resulting from an increase in the affordable housing requirement on qualifying sites from 0% to 25% affordable housing, indicates a reduction in

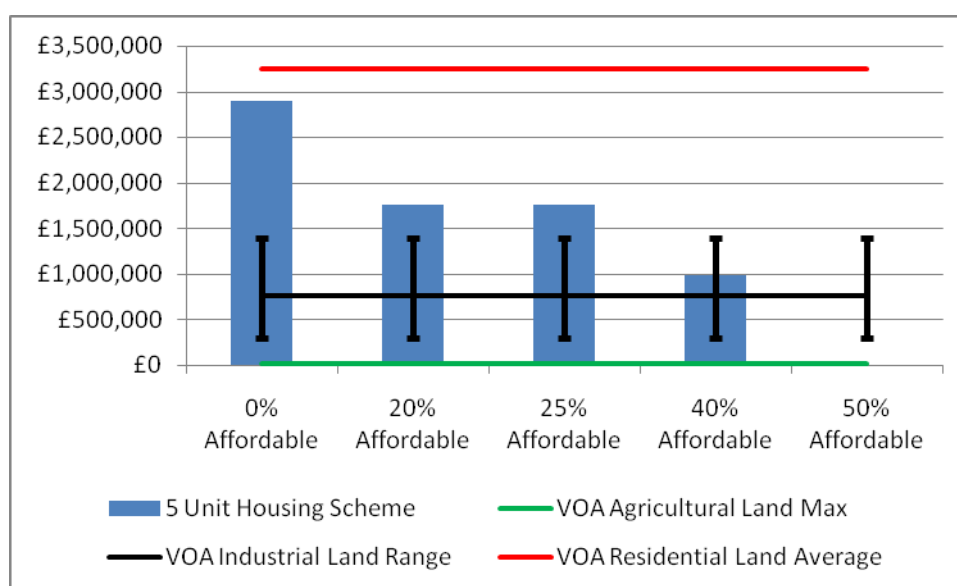
RLV of between 51.6% at Value Point 2 to 30.2% at Value Point 5 (based on £5,000 per unit infrastructure costs).

- 3.5.5 At Value Points 3 and 4, the middle of the range, where it might be said that most new build values lie, we see a reduction of 39.3% and 34.6% respectively for a 5 unit housing scheme (based on moving from 0% to 25% affordable housing requirement).
- 3.5.6 In terms of the notional residual land value remaining for the 5 unit housing scheme in the example referred to above, at Value Point 3, this lowers from £318,731 to £193,620 (Appendix II, Table 1). Alternatively, this can be expressed in value per hectare (Appendix III). So, for this 5 unit housing scheme, we see a reduction in RLV (£ per Ha) from £2,897,550 per Ha to £1,760,185 per Ha as a result of applying a 25% affordable housing policy from an original starting position where affordable housing was not required.
- 3.5.7 If the proportion of affordable housing is increased further, to 40%, at Value Point 3 for a 5 unit housing scheme, the notional RLV lowers from £318,731 to £108,093. Expressed in value per hectare these equate to a reduction from £2,897,550 per Ha to £982,662 per Ha from 0% to 40% affordable housing requirements respectively (again based on £5,000 per unit infrastructure cost).
- 3.5.8 Similar trends are seen on 10 and 15 unit schemes with different dwelling mixes with a similar reduction in land values.
- 3.5.9 The trend of results shows increases in RLV for each of the affordable housing proportions as we move through Value Points 2 to 5, i.e. as values increase. These trends again are seen across all scheme types and all potential affordable housing proportions. The market property values are the main determinant of site viability.
- 3.5.10 The results show that scheme size is not a determinant of viability in itself. There is nothing within the appraisal maths which suggests that smaller or larger sites tend to be any more or less viable. It really does come down to site specifics – the nature of sites and proposals for them relative to existing use, specific costs, etc.
- 3.5.11 We see the same basic trend of RLV deteriorating with affordable housing proportion increasing, regardless of scheme size. This is essentially a proportional effect too.
- 3.5.12 Appraisals have been carried out at 20% and 25% affordable housing on all sites below 15 units. The following results extracted, from the 5 unit scheme mentioned above, show the reduced impact that comes from introducing a 25% proportion as compared to a 40% proportion. **Note:** 20% and 25%

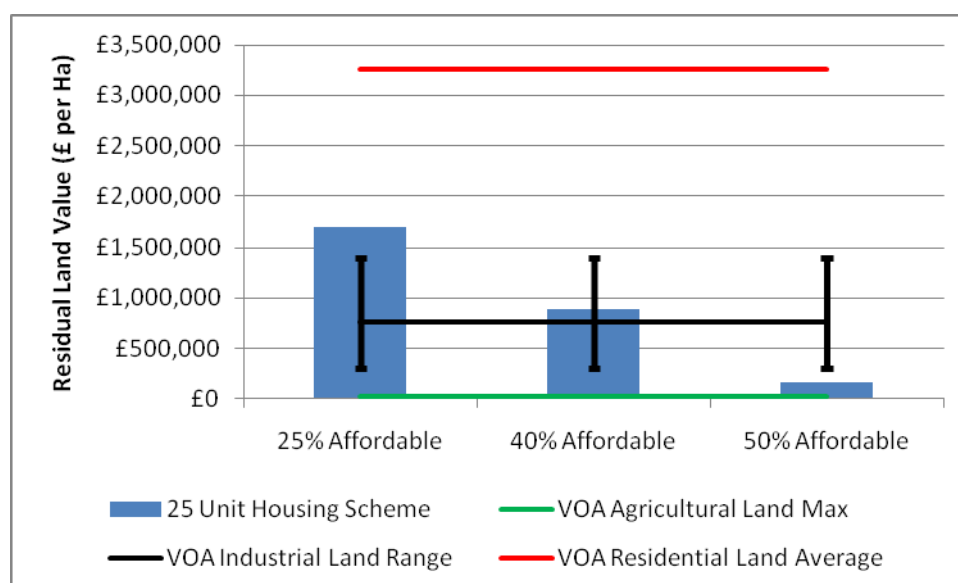
results on a 5 unit scheme are the same due to the Council's practice of rounding down part units below 0.5 of a unit.

3.5.13 By way of an example (Figure 6) a comparison of the residual land value generated at 0% affordable housing with those generated at increasing affordable housing proportions shows the size of the step down in (deterioration of) land value increasing from the landowner's current position (i.e. impact increasing) as we move from left to right. The same is seen on other similar graphs as scheme type/size varies.

**Figure 6: Example Results 5 Unit Housing Scheme – Value Point 3 Only**



3.5.14 We could then go to a graph which shows a scheme size in excess of the current 15 threshold (see Figure 7) showing a 25 unit housing scheme as affordable housing proportion increases. That increases from an assumed starting point of 25% (for example representing the lower end of current target approach in Salisbury and thus current landowner's expectation) to 40% and 50% as we look from left to right. The reduction in RLV from 25% to 40% on a 25 unit scheme is 47.8% but the reduction from 0% to 40% on a 5 unit scheme is 66.1%. What this shows is the reduced size of the impact step, since we no longer have the stronger 0% affordable housing based indicative RLVs as a benchmark or starting point. Instead we see a flatter looking graph overall as we do not have the significant initial step away from the 0% affordable housing position.

**Figure 7: Example Results 25 Unit Housing Scheme – Value Point 3 Only**

3.5.15 Consideration of the effect of the first time policy impact (i.e. moving from 0% rather than a higher proportion) helps to demonstrate why we consider a sliding scale of affordable housing requirements to have potential as a useful and effective tool for reducing viability impacts on these smallest sites which could trigger affordable housing requirements for the first time should the affordable housing thresholds be lowered.

3.5.16 Assuming that the wider evidence beyond this study points to lowered thresholds being necessary and justified to optimise affordable housing delivery, and given that there is no particular reason for smaller sites not making a carefully judged contribution on a target basis, then in our view the sliding scale would be favourable to a straight requirement for say 40% on significantly smaller sites than those captured currently.

3.5.17 We can see no reason in financial viability terms to maintain a rural/other distinction to affordable housing policy. It may, therefore, be worthwhile considering introducing a reduced proportion between 5 and 14 units in all areas with a higher proportion on sites of 15 and above. Options for a “sliding scale” are discussed in more detail in Chapter 4.

3.5.18 On the smaller sites (particularly up to 5 units), on-site provision of affordable housing may not be suitable. This has less to do with development viability alone than the practicalities of delivery on small sites including integration of affordable units, scheme design, marketing issues, perceptions, management sustainability and potentially a feeling of isolation from tenants. RSLs also often find management issues with dispersed stock of single units. The potential to collect financial contributions in lieu of on-site affordable housing (potentially below 5) is discussed in 3.6 and 3.10 below.

**3.6 Potential approach to seeking affordable housing contributions from all sites – looking to expand the contribution proposals - sites of 1 to 4 new dwellings**

- 3.6.1 The Council required the study to include consideration of the smallest development sites, with a view to those potentially contributing towards meeting affordable housing needs by way of financial contributions (rather than by providing affordable homes on-site).
- 3.6.2 The thinking behind this is the need to optimise overall contributions towards meeting affordable housing needs by seeking some level of provision from the numerous small windfall sites which typically make up a large proportion of the authority's housing delivery pattern. The Council monitors the local site supply scenario (the types of sites which have and are coming forward) in the context of its wider evidence base.
- 3.6.3 There is no particular reason why smaller sites should not contribute at an appropriate level, when larger sites are doing so and are not necessarily any more viable.
- 3.6.4 In all of our calculations for such studies we find no reason for stating that smaller sites are more or less financially viable than larger ones. Hence there is no viability reason why smaller sites should not make a carefully judged level of contribution towards meeting affordable housing needs as an expanded policy approach. It might be viewed as an extension of the sliding scale principle, if implemented (as discussed above at 3.5). It would reduce the inevitable abrupt step in requirements once the on-site affordable housing threshold takes effect.
- 3.6.5 This approach, if implemented, would effectively mean a lowering of thresholds but with financial payments being made in lieu of an on-site requirement on sites within the relevant size range.
- 3.6.6 Adams Integra's approach to commuted sums (financial contributions for) affordable housing is set out in detail below (at 3.10). In applying the approach to sites below the on-site provision threshold, we suggest that the same basis would be applied for consistency and to get to an equitable approach. The relevant per unit sums would be apportioned depending on the scheme details and relevant affordable housing proportion under this aspect of proposed policy.
- 3.6.7 The results generated on this basis are set out at Appendix IV. Given the Council's proposals to commence on-site provision at 5 units, housing schemes of 1 to 4 new dwellings were appraised on this basis and the indicative sums relevant to those notional scenarios, together with the RLV outcomes, are set out there.

- 3.6.8 What can be seen, as in all other instances of increasing affordable housing proportion, is that the RLV decreases as the calculation assumes a commuted sum (financial contribution) based on a policy position of 20% to 30%, and then 40%. Appraisals were carried out for 0% (i.e. no contribution) as a benchmark, representing current policy whereby such sites make no contribution.
- 3.6.9 As identified throughout the results and discussed above, stronger RLVs after affordable policy impacts are maintained in higher value development scenarios. There is a significant improvement to results as the scenarios move from Value Point 2 to Value Point 5 (the range which was appraised for this particular purpose). There is a notable improvement in outcomes between Value Points 2 and 3. Details are provided at Appendix IV. We will not describe these results in detail here.
- 3.6.10 Bearing in mind the occurrence of a wide range of values in Salisbury (including some modest value levels) and the deterioration of results with increasing affordable housing proportion, it is likely to be appropriate for the Council to consider a low proportion to be applied to the calculation in these instances. This would respect the viability trends and fit in with the sliding scale principle which we consider to be appropriate.
- 3.6.11 This study does not seek to cover any wider justification necessary for such an approach, and the Council should consider that.
- 3.6.12 Adams Integra is aware that many authorities are looking at, or pursuing the idea of, all sites making some form of contribution, or at financial contributions from the smallest sites below the on-site provision threshold. We have carried out work for several such authorities, including South Hams. There, after Examination in Public of the Council's Affordable Housing DPD, the Inspector supported a tiered approach to affordable housing targets, commencing on sites of 2 or more dwellings. The outcomes of Core Strategy and Affordable Housing DPD Examinations in Public will need to be monitored for further guidance on this, to then be considered in conjunction with any similarities and local relevance to Salisbury's characteristics.
- 3.6.13 Paragraph 3.10 below will guide further on the calculations which might accompany such an approach and type of guidance which could be set out as part of clarifying the approach to commuted sums (financial contributions in lieu of on-site affordable housing) in general.

### **3.7 Affordable Housing Grant Availability**

- 3.7.1 Using a 25 unit housing scheme example, Figure 8 below shows what happens to our notional site as grant is added to the scheme (see also Appendix IId).

**Figure 8: Comparison of Appraisal Results With and Without Grant on basis of study assumptions (Value Point 3 only)**

Appraisal Type	25 Unit Housing Scheme – (£5,000 per unit Infrastructure Cost; 15% Developer's Profit)			
	RLV – Without Grant	RLV – With Grant	RLV (£/Ha) Without Grant	RLV (£/Ha) With Grant
<b>25% Affordable</b>	£915,589	£1,033,020	£1,695,536	£1,912,999
<b>40% Affordable</b>	£478,031	£677,899	£885,243	£1,255,368
<b>50% Affordable</b>	£92,317	£385,467	£170,958	£713,828

3.7.2 Figure 8 (with data taken from Appendix IId), based on the assumptions used, indicates that adding grant to the scheme improves the residual land value by between 11%, 29%, and 76% (at 25%, 40% and 50% affordable housing respectively). Figure 10 also shows that the addition of grant to a scheme improves RLVs to the point that a better result (in terms of RLV) is produced to that without grant at a lower affordable housing proportion – e.g. the RLV produced at 50% affordable housing *with grant*, is similar to that produced *without grant* at 40% affordable housing. This ultimately improves the viability of a scheme but the availability of grant is an element that must be considered on a site-specific basis. Related to these points, the use of Cascade type mechanisms will be valuable for consideration within the Council's overall approach. This envisages the Council working with developing partners – where necessary - to adjust, but still optimise, affordable housing delivery in all the circumstances relevant to a particular site, including the funding levels ultimately available). The Council would expect to take a lead role in such discussions aimed at maintaining appropriate affordable housing delivery within the Section 106 framework agreed - avoiding going back to the start with that process, and thus avoiding significant delivery delays.

3.7.3 The findings indicate a range of values across Salisbury District from relatively weak values (where development viability is compromised even with the most favourable cost assumptions) to relatively strong values (where development viability is improved and is likely to bear greater cost).

3.7.4 This suggests that grant may have an important role to play on many sites where affordable housing numbers or deliverability of a favourable tenure mix can be improved.

3.7.5 Given the viability constraints discussed so far at Value Point 2 with 40% affordable housing plus the possibility of higher infrastructure costs (see later) it is likely that social housing grant or other public subsidy would need to be levered in to support such percentages. At the higher Value Points (Value

Points 4 and 5), there is scope for the Council to adopt a relatively robust position on the use of grant, and in negotiations with landowners and developers on what any grant input will be adding to a scheme.

- 3.7.6 There is also scope for the Council to consider mechanisms for securing of local level subsidy in working up its more detailed approach – for example, through a nil-cost land for affordable housing basis or through guiding affordable housing payment levels to developers in some way. In due course consideration might be given to reviewing the current negotiated approach, with such alternatives borne in mind. We are working from a base point here, again assuming workable site conditions, wider planning requirements and appropriate values relationships with existing/alternative uses.
- 3.7.7 Whilst (in line with the Housing Corporation’s “additionality” approach), the Council’s starting point may well be to consider what affordable housing can be achieved without grant, as discussed above, our view is that grant will have an important role to play in balanced housing delivery locally, and in particular in supporting varied and appropriate tenure provision. Through discussion with the Council’s officers, we understand that the Council’s approach over the last three years has been to seek (for the affordable housing proportion of schemes) 75% affordable rented tenure and 25% to date. In connection with this, we understand that to achieve this tenure split all schemes except for one have required social housing grant input. This appears to fit with our findings, but it also illustrates that there has been a reasonable flow of grant in to the District, and it has benefited tenure mix towards priority needs directly.
- 3.7.8 In the current funding climate, we must stress the importance of guiding tenure, seeking to influence the affordable housing procurement costs locally, (including through landowner/developer subsidy mechanisms as discussed in this study) and of continuing to consider cascade type thinking on adaptable scheme make up, depending on funding availability.
- 3.7.9 A cascade principle or mechanism allows the affordable housing element of a scheme to adapt to funding circumstances at the point of the delivery details being fixed (i.e. most likely post planning, but prior to contracts being entered into by the developer and RSL for the affordable housing construction and purchase).
- 3.7.10 The principle would normally be built in to the Section 106 agreement. It has the potential to smooth delivery at times when funding availability for the affordable homes can be uncertain, or perhaps when other planning or site issues mean that the exact details of the affordable housing delivery need to be altered. This can help avoid or reduce delays where Section 106 agreements would otherwise be renegotiated instead. An agreement including a cascade principle provides scope for the affordable housing

content of a scheme to be reshaped and usually optimised given the available funding and perhaps other financial circumstances.

- 3.7.11 Usually a local authority would expect to lead the process which redefines the affordable housing, working closely with the other parties such as the developer, Housing Corporation and any involved RSL. As an example of a potential cascade outcome, the Council may take a view that it is best to consider fewer affordable homes, but of the priority needs tenure type (i.e. usually affordable rent). Alternatively it may decide to maintain affordable homes numbers delivery by allowing the tenure mix to skew towards more financially viable home ownership or intermediate housing tenure, or to commute the affordable housing delivery in to fewer family homes. Ultimately, discussions and outcomes would be very site-specific.
- 3.7.12 The same principle as outlined above (essentially, judging the target affordable housing proportions in conjunction with funding availability and wider criteria) might also be relevant in the context of any wider consideration the Council may be giving to overall planning obligations requirements and burdens on schemes.

### 3.8 Impact of Increased Developer's Profit

- 3.8.1 So far we have looked at the results in the context of applying a fixed 15% developer's profit to the appraisals. Figure 9 below shows the additional impact on schemes appraised of increasing this assumption to 20%.

**Figure 9: Comparison of Appraisal Results at 15% and 20% Developer's Profit (Value Point 3 only)**

Appraisal Type	25 Unit Housing Scheme – Without Grant (£5,000 per unit infrastructure cost)			
	RLV – 15% Profit	RLV – 20% Profit	RLV (£/Ha) – 15% Profit	RLV (£/Ha) – 20% Profit
25% Affordable	£915,589	£690,869	£1,695,536	£1,279,388
40% Affordable	£478,031	£277,743	£885,243	£514,338
50% Affordable	£92,317	£0	£170,958	£0

- 3.8.2 The result of an increase in developer's profit from 15% to 20% leads to further reductions in the RLVs across the range. As the percentage of affordable housing increases the impact of an increased developer's profit on scheme viability becomes greater as the RLV reduces, there are more burdens on the development revenue in simple terms. The additional impact of the higher developer's profit does not materially affect our recommendations or conclusions from this study. However, there will be schemes that the Council needs to consider in this context (in negotiations)

and particularly in the short-term with regard to current market conditions and potential increased risk (and potentially higher profit expectations).

3.8.3 As the study has progressed we have seen some reporting on developers having to accept reduced profit levels in some instances in what have been weakening market conditions. However, there is also an argument to be made about increased risk in such circumstances. So, on balance, our range of assumptions is considered to be appropriate with regard to market conditions. These will need to be kept under review as part of the Council's monitoring processes, negotiations and delivery experiences.

### 3.9 Impact of Increased Planning Infrastructure Costs

3.9.1 Increased planning infrastructure burdens, as with any costs, will have a negative impact on development viability. We have discussed the combined affect of additional costs, profit, affordable housing, etc above. Figure 10 below shows a brief example of the additional impact that higher planning infrastructure costs may have on schemes when combined with the “cost” of affordable housing provision.

**Figure 10: Comparison of Appraisal Results at £5,000, £10,000 and £20,000 per unit Infrastructure Cost (Value Point 3 only)**

Appraisal Type	25 Unit Housing Scheme – Without Grant – 15% Developer's Profit					
	RLV £5,000 per Unit	RLV £10,000 per Unit	RLV £20,000 per Unit	RLV (£/Ha) £5,000 per Unit	RLV (£/Ha) £10,000 per Unit	RLV (£/Ha) £20,000 per Unit
<b>25% Affordable</b>	£915,589	£809,689	£597,889	£1,695,536	£1,499,424	£1,107,202
<b>40% Affordable</b>	£478,031	£371,028	£160,259	£885,243	£687,089	£296,777
<b>50% Affordable</b>	£92,317	£0	£0	£170,958	£0	£0

3.9.2 Figure 10 above (taken from Appendix IIc and III) shows the significant reduction in residual land value that occurs as the planning infrastructure costs are increased. The table also illustrates the combined impact of the highest proportions of affordable housing, nil grant and highest levels of infrastructure cost (reducing from approximately £1.7m per hectare to approximately £0 per hectare).

3.9.3 The trends shown in the example results above are again repeated for all scheme types. This further emphasises the potential issues surrounding seeking the highest levels of affordable housing whilst at the same time increasing the infrastructure burden on sites coming forward, especially based on an assumption of nil grant.

### **3.10 Approach to Financial Contributions (Commuted Sums) In Lieu of On-Site Affordable Housing**

- 3.10.1 Referring also to 3.6 above, Adams Integra proposes in this section a formulaic approach which it considers could be successfully applied to guide the calculation of such commuted sums (financial contributions), whether for small sites below current thresholds or for use where agreed as an appropriate route to provision on a larger site.
- 3.10.2 Modelling was carried out relating to the financial viability of requesting financial contribution payments for affordable housing. The notional sites appraised in this way were of 1 to 4 dwellings in size. At each of the key Value Points (2 to 5) we appraised a range of affordable housing proportions of 20%, 30% and 40% so that we could see how results varied over this scale; and consider with the Council the potential to align this thinking to a sliding scale approach.
- 3.10.3 Alongside this work, Adams Integra has been assisting the Council with its thinking on financial contributions. Text has been prepared for the Council's consideration of an Interim Guidance Note clarifying the approach pending the later adoption of SPD. While the figures used preliminarily in that work varied marginally to those set out here, that thinking and work was consistent with this. Currently, the Council has no formal or adopted methodology for calculating these sums. It was agreed with the Council's officers that Adams Integra would, therefore, propose a methodology and test the viability of such an approach. This does not preclude the Council from adopting a different methodology.
- 3.10.4 The methodology we discuss and propose in this section is the same type that has driven calculations and informed the negotiations for other local authorities. The suggested calculation seeks to approximate the land value of the relevant dwelling plots (those that would have been made available for on-site affordable housing).
- 3.10.5 The purpose of this element of the study is not to comment on the planning policy scope or wider merits of an approach to seek financial contributions towards meeting affordable housing needs from the smallest sites, but to inform only on the development viability aspects.
- 3.10.6 There are potential practical advantages of requesting financial contributions from the smallest sites rather than always adhering to on-site provision. There can be issues with affordability, integration, management and the like in relation to providing affordable housing on small sites. This policy approach could have practical merits with those issues in mind. If those concerns are removed through the use of financial contributions in lieu of on-site provision,

then, dependent on the scale of the payment being appropriately judged, there is unlikely to be a pure financial viability issue – subject as normal to any existing/alternative use barriers, abnormal costs issues and the normal negotiation process where necessary. Thus the same general process is envisaged as that for on-site delivery – a carefully judged target which informs expectations and, if necessary, negotiations.

- 3.10.7 Compared with previous national advice under Circular 6/98 and PPG3 (now rescinded), PPS3 gives more scope for the consideration of thresholds lower than the “national indicative minimum” of 15 it sets out, related to local circumstances “where viable and practicable”.
- 3.10.8 Policy development should include these financial contributions in lieu aspects if it they are to be pursued, so as to make clear to landowners and developers how the Council would apply its approach, and on what basis calculations would be made.
- 3.10.9 The following sub-sections will cover the payments in lieu topic in outline. It is an area of the Council’s potential approach that would need to be developed in detail through affordable housing Supplementary Planning Documents, or possibly a Development Plan Document. The potential Interim Guidance under consideration, mentioned at 3.10.3, could help with testing and establishing the thinking.
- 3.10.10 Before outlining our proposed methodology in more detail, it is worth considering other approaches briefly.
- 3.10.11 As far as establishing or indicating payment levels is concerned, local authorities adopt a number of calculation methods. In most cases this area of an authority’s approach means considering a methodology which either:
- Relates to the build cost of the affordable homes, or
  - Relates to the land cost element – allied to a nil-cost land approach to on site affordable housing, or
  - Considers the difference between the open market sale revenue and the affordable housing revenue for the relevant homes which would have formed the on-site quota. This latter route may be more complex, need more updating and be viewed as less market related.
- 3.10.12 In our view, the most appropriate route more generally may be to look at land value. In essence the thinking involves calculating how much it would cost to go elsewhere and replace the land on which the affordable housing would have been provided on-site. This is the basis we have assumed.
- 3.10.13 In summary, in carrying out viability appraisals on this principle we added the relevant (estimated) land values and acquisition expenses associated with

acquiring an equivalent plot in the market elsewhere to the costs section of the model. This is because we are assuming here a straightforward payment being made by the landowner (who may be the developer) under the terms of a Section 106 agreement in much the same way as occurs with planning obligations for aspects such as highways/transport, open space, education, etc.

- 3.10.14 The methodology assumes an additional planning obligations payment being made by the developer, albeit from the increased Gross Development Value which results from having no affordable housing on-site.
- 3.10.15 So far as we can see, the calculation should not (and this way it does not) look at the benefit to the developer of moving the affordable housing contribution off-site. PPS3 requires the contribution secured to be “of broadly equivalent value” to that which would have been secured through on-site provision.
- 3.10.16 We have advised other authorities similarly. In our experience, a market and land value based formula tends to be understood by landowners and developers better than potentially more complex affordable housing finance related mechanisms. A commuted sums methodology based on land value links better to market reality and processes, and is simpler to take account of in the early stages of site feasibility.
- 3.10.17 Some local authorities have continued using mechanisms which relate back to the former Housing Corporation Total Cost Indicator (“TCI”) regime in some way, or to RSL finance-driven models which link to how much finance RSLs are able raise or grant/other subsidy they need based on dwelling type and tenure assumptions.
- 3.10.18 Reference to TCIs is now outmoded. Furthermore, methodologies such as those relate less well to the market in our view. Methodologies which relate more closely to the market-led provision that flows from the planning obligations are preferable and more widely understood in our experience.
- 3.10.19 We will now work through our calculation methodology, which as above is based on a formulaic approach to approximating the land value that needs to be replaced elsewhere, and then allowing also for the cost of acquiring and servicing that land. In practice, the Council might not look to buy another site, but should have a strategy for monitoring, managing and spending these contributions. That strategy could include providing a variety of more creative affordable housing funding assistance to other local schemes, addressing priority needs and contributing to sustainable communities aims - again as required by PPS3.

3.10.20 We would start by taking a pre-affordable housing land value, calculated as a percentage of the market sale value of a property. This percentage would reflect the pre-affordable housing (0%) residual land value results, as taken from this study. An allowance might well be added bearing in mind that as well as land value there would be acquisition plus (potentially) servicing costs to bear in the case of replacing the land elsewhere, in the market.

3.10.21 In summary, the indicative payment figures in the table at Figure 11 below are arrived at by the following steps:

- a. Open market value (OMV) of relevant or comparative property (depending on to what degree the formulaic approach is to be site-specific, District-wide, etc.
- b. Multiply by the residual land value percentage. We have used 24.2%, derived as above (it would be possible to look at this in a variety of ways, including on a more specific RLV basis, as discussed below).
- c. Add 15% of the result of a x b to reflect site acquisition and servicing costs. This gives the per unit sum.
- d. Apply to the relevant site number and proportion (in this case 20%, 30% or 40%).

3.10.22 Figure 11 (following) sets out the per unit indicative financial contributions which we have arrived at on this basis, using our property size and wider assumptions. These figures are as applied in our additional Appendix IV appraisals of notional sites of 1 to 4 units assuming 20%, 30% and 40% proportions of affordable housing contributed.

**Figure 11: Indicative Financial Contributions In Lieu of Affordable Housing Figures Used as Basis for Appraisals (source: extracted from Appendix IV)**

Value Point	1 Bed Flat		2 Bed Flat	
	OMV £	Indicative Payment £	OMV £	Indicative payment £
<b>2</b>	130,000	36,329	174,200	48,680
<b>3</b>	147,500	41,219	197,650	55,233
<b>4</b>	165,000	46,109	221,100	61,786
<b>5</b>	182,500	51,000	244,550	68,339

Value Point	2 Bed House		3 Bed House		4 Bed House	
	OMV £	Indicative payment £	OMV £	Indicative payment £	OMV £	Indicative payment £
<b>2</b>	195,000	54,493	221,000	61,758	260,000	72,657
<b>3</b>	221,250	61,828	250,750	70,072	295,000	82,438
<b>4</b>	247,500	69,164	280,500	78,386	330,000	92,219
<b>5</b>	273,750	76,499	310,250	86,699	365,000	101,999

3.10.23 Given the range of RLV results generated after applying these sums at 20%, 30% and 40% equivalent affordable housing proportion, Adams Integra considers that a proportion at the lower end of this range could be appropriate as a target were the Council to apply the thinking the smallest sites (of 1 to 4 units) at this stage of policy development. In the case of larger sites where the approach is being used in lieu of on-site provision, then the proportion appropriate to that site size would apply (dependent on thresholds adopted for those).

3.10.24 This also has to be viewed in the context of site specifics. What one landowner finds acceptable as a payment for their land will be different from another. This may be especially true on small sites where we could be discussing garden plots or residential redevelopment, etc. In real monetary terms, the residual value of land may reduce to the point whereby landowners of small plots do not feel there is sufficient recompense. Equally, where existing residential units are being bought for replacement with a larger number of units, viability issues may occur. This is due to the high existing use of the residential properties which needs to be overcome before the new development can become viable – a high enough RLV needs to be generated to finance the purchase of the existing properties to be purchased, including any relevant incentives provided to the owners.

- 3.10.25 The Council could decide to further simplify the above type of approach with District-wide single figures per property type. If this route were preferred then a mid-range figure from the above could be selected for each unit type. This would mean taking an average approach, with the outcome more favourable from some sites than others. In the case of the Salisbury local market, an appropriate point to guide the calculations could be the Figure 11 indicative per unit contribution figures relating to Value Point 3. This could be kept under review with regard to property market trends.
- 3.10.26 Alternatively the approach could be worked up further to reflect a more local residual land value percentage, rather than a District-wide (one size fits all) approach. This could then be applied to the property value in our formula. So the formula could be set out with a range of guide sums, or left for use on the basis of site specifics. With reference to that range of RLV outcomes (as a % of GDV) set out in Appendix IV, figures from say 10% to over 35% of GDV were indicated depending on the strength of values in any given scenario. For this study, however, we applied a figure of 24.2% of OMV being the average outcome (% of GDV remaining for residual land value) from all relevant 0% affordable housing appraisals assuming the current approximate £5,000 per unit planning infrastructure level.
- 3.10.27 Whether a District/City-wide or more location-specific route is taken may well depend on the Council's resource availability (in terms of staff time available to carry out negotiations on the collection of financial contributions and the monitoring of those).
- 3.10.28 Overall, the Council may feel that a "one size fits all" simple guide to contribution figures by dwelling size would be the best compromise in terms of clarity, resourcing and operation. We feel that would serve well in terms of informing landowners' expectations and supporting the necessary negotiated approach.
- 3.10.29 This formulaic approach based on land value and selecting one (value) point as a guide is felt to provide a sound basis. Whilst something more complex and reflective of particular local area values and land residuals (or even site specifics) could be used applying the same formulaic method, this fits with our overall feel for Salisbury District, where value patterns are blurred. In reality a replacement site, or scheme to be funded with the monies collected, could be anywhere within the District boundaries given the local authority-wide high affordable housing need, which again fits with the approach of a simple, single set of guide sums.
- 3.10.30 The Interim Guidance Note being considered on this topic proposes to include a worked example of the calculation.
- 3.10.31 The scenarios investigated here overlap with the on-site approach studied. This provides the Council with a range of options from which to formulate

affordable housing policy. As above, the formulaic approach suggested could be applied to a larger site (i.e. above the potential threshold for on-site affordable homes provision) in exceptional circumstances. The relevant higher proportion of affordable homes would be reflected in the calculation in such a case.

- 3.10.32 As with the on-site route, flexibility needs to be considered, with viability related negotiations taking place in the context of the valuation and site-specific issues as raised in this study. The positions wherever pitched need to be regarded as targets.
- 3.10.33 The Council may also wish to consider developing policy which can fairly and effectively derive developer/landowner financial contributions towards meeting affordable housing needs, on an equivalent basis, from the type of very “upmarket” housing schemes seen in some areas of the District. Such schemes may involve the development of a single, or a very small number of, very large and valuable homes. For example, a property type of 300 square metres (sq m) could very broadly generate a development value of approximately three times that for a more typical family home of say 100 sq m, and so on. Thus, in developing its detailed approach, the Council could consider a parallel mechanism allied to property/development size to drive the formulaic type of approach to land value equivalent that we have suggested.
- 3.10.34 This could start with considering the property size to be developed so as to establish the equivalent number of more typical homes in terms of value. That equivalent number could then be applied within the suggested formula (See note 1 below). Alternatively, there could be a straight calculation applying the relevant affordable housing proportion to the size (sq m) and value (£/sq m – as with our range of sales rates) – see note 2 below.

By way of example:

Single large property developed at 300 sq m (as for example might trigger affordable housing requirement currently through *site area* criteria rather than site numbers).

1. 300sqm property in value terms is approximately equivalent to say 3 x 100 sq m properties:

Applying affordable housing proportion of 20% to 3 properties would mean a contribution based on 0.6 of a 100 sq m property. This aligns to 0.6 of our 4 bed property contribution of say £82,438 at Value Point 3 = contribution of £49,628.

2. Same 300 sq m market property – Adams Integra formulaic approach applied:

@ sales rate say £3,000/sq m = selling price (GDV) £900,000 multiplied by suggested average RLV (% of GDV) 24.2% = £217,800 (indicative land value for market property)

Plus 15% acquisition of and servicing of land = £250,470.

Multiplied by relevant affordable housing equivalent proportion, again say 20% = contribution of £50,094.

3.10.35 In considering financial contributions calculations (particularly where, in lieu of on-site provision on larger schemes, PPS3 states the benefit secured should be of broadly equivalent value). Adams Integra's view is that care should be taken not to apply the approach inequitably. In this context the appropriateness of effectively expanding the site size to add back in what would have been the affordable housing content needs to be considered in planning terms. Of course, if applied in such a way there would also be additional viability impacts, to be tested, as compared with those modelled in this study.

### **3.11 Rural Affordable Housing: Wider Consideration and Menu of Approaches to Rural Affordable Housing Provision in Salisbury District**

3.11.1 The purpose of this report is not to cover this extensive area in detail. The following brief section will flag-up potential additional routes to rural affordable housing delivery, bearing in mind the largely rural nature of Salisbury District and the importance of having a flexible range of tools to complement the threshold-led process which this report concentrates on.

3.11.2 The potential for, and link between, locally collected commuted sums as discussed at 3.6 and 3.10 could be valuable in this context.

3.11.3 There is an evolving picture on rural housing, with it receiving current Government attention for example as a key part of the recent review by Matthew Taylor MP – report titled “Living Working Countryside”.

3.11.4 In reviewing approaches for securing more rural affordable homes, the Council will need to consider the latest definitions and funding criteria. There are various aspects to consider. For example, it must make sure that its selected approach(es) marry up with Housing Corporation (latterly HCA) funding criteria. The HCA and RSLs should be engaged in the building up the processes.

3.11.5 The Government's overall understanding of rural settlements is those having a population of less than 10,000. The importance of the role of market towns is encompassed in this expanded understanding.

- 3.11.6 Regional Housing Strategies created a sub-divisions within this overall scope – indicating funding pots split between settlements of less than 3,000 population (as per the previously widely understood definition of a rural settlement) and those falling between that and 10,000.
- 3.11.7 The 3,000 population cut off for rural settlements came from circular 6/98 – now rescinded – which amplified previous approach to planning-led affordable housing as had been set out in PPG3. It was used as a reference point for the potential setting of “appropriate” – usually lower – thresholds in rural areas.
- 3.11.8 There remains an important role for Rural Exceptions Sites which approach is likely to be linked and applicable to all settlements listed in the relevant Statutory Instruments. These are referred to at paragraph 30 of PPS3 as SI 1997/620 – 625 inclusive, and 1999/1307. Paragraph 30 of PPS3 gives a brief insight into key aspects of the Government’s view of the rural housing toolkit.
- 3.11.9 So far as we are aware the Housing Corporation has continued to refer to the “Rural Gazeteer” (2005) in considering what are appropriate rural settlements. There was also a revised classification of rural settlements put forward by DEFRA in May 2005.
- 3.11.10 Rural exceptions sites are released by landowners at nominal values and produce affordable housing in perpetuity for people, usually with local family or employment connections. They are provided on sites which would not normally be released for residential development, and are local need-led.
- 3.11.11 Linked to this, the Council could consider listing in its policy approach, or expansion of that through SPD or similar, the settlements relevant in the Salisbury context to this approach. That might help with clarity, and give encouragement to landowners, Parish Councils and others. It might also enable factors like sustainability to be factored in, in a more planned way. The exceptions process is often very time consuming, and any guidance which helps direct efforts would be beneficial.
- 3.11.12 There may also be a role for a specific small sites allocations process – either for mixed tenure sites (market and affordable) or, potentially, wholly affordable. Those might be opportunities for securing full or improved proportions of affordable housing under the normal threshold approach and planning-led targets. They might be viewed as “incentivised exceptions” schemes (where an increased value element further encourages landowners) where not wholly for affordable housing.
- 3.11.13 The workings of an allocations approach would need to be considered carefully, however. There would need to be clarity over the use of the

approach and its appropriateness in various circumstances. The Council may need to consider different approaches for different settlement types or site sizes, or where varying (market) housing demand and affordable needs are evidenced. We are aware that concerns have been expressed about using an allocations process alongside an exceptions one. These are around the potential for landowners to be put off the exceptions (or wholly affordable allocated) route through thinking that there may be scope instead to secure a future more valuable allocation.

- 3.11.14 There are a range of wider initiatives and examples available for review. However, the Council has a relatively strong rural housing record and programme, so we will not develop this point further here. It is peripheral to the key study purpose of considering viability of market-led schemes as impacted by planning led affordable housing.

## **4 CONCLUSIONS**

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- 4.1.1 Looking at Salisbury District overall, a wide range of property values are seen. With regard to new build values, these show more consistency across the District than the variations in the overall market (all properties) suggest. The range seen provides relatively weak values at the lower end, when compared with the value levels we have generally seen in the South East, Central South and South West coast. At the upper end, values are comparable with those in such areas.
- 4.1.2 Our research suggested that typical new build values in the District fall in the range £2,600 to £3,300/m<sup>2</sup> (the price expressed in a per square metre rate). This equates to around £241 to £306 per square foot. So typical (most commonly seen) new build values are generally in the range of our Value Points 2 to 4.
- 4.1.3 This is a dynamic picture. Values will sometimes fall outside this range, and given the current weak and uncertain state of the market, the Council will need to monitor value levels particularly with regard to the frequency of lower end values occurring.
- 4.1.4 As per our Value Points approach, the most important theme to recognise is that as in all areas a range of values is seen, ultimately dependent on site-specific factors. Value patterns are blurred. Therefore, we do not seek to provide a definitive settlement listing outlining values by area or particular locations.
- 4.1.5 Apart from a general position that rural settlement values tend to be higher, it appears that the main differences occur through desirability within the settlements rather than between. As normal there are street by street variations. Our research informed our judgements on the range of value levels used to drive our appraisals. It showed these to be reasonable at the time of fixing them, and a reflection of the tone of the information we gathered. As with rural areas, values can be much higher in favoured areas or for particular schemes in main settlements. These higher values are normally associated with premium housing products. Full details of Adams Integra's property values research are found at Appendix V.
- 4.1.6 These value levels feed in to a range of residual land values and, therefore, a mixed picture of development viability. It is not possible to state that one area or settlement is consistently higher or lower than another (in terms of sales and thus residual land values) and so it is also not possible to evidence or thus recommend variations to policy with reference to specific settlements or differing areas across the District.

- 4.1.7 An overall single policy position will therefore most likely be appropriate in viability terms. That would lead to the most clarity and simplest guide to inform landowners' and developers' expectations.
- 4.1.8 There will always be certain cases where abnormal site costs, particular overall planning obligations burdens, existing/alternative use value issues (or a combination of these) mean that affordable housing targets cannot be met. Those issues are relevant in any area and we advise all local authority clients accordingly.
- 4.1.9 At the time of preparing this study, Adams Integra has also had to acknowledge the weak and uncertain market conditions which were apparent in the Summer of 2008 through to winter 2008/09 as the study period was ending.
- 4.1.10 In sections 2.2 and at 3.3 we discussed the type of market features being seen. There are difficulties in fully reflecting the potential range of site specific level reactions to such market conditions in an overview study. We consider that a local authority's most realistic reaction to this will be through monitoring, review and contingency plans, together with operating a practical and flexible view shorter term to help secure all round housing delivery as far as possible.
- 4.1.11 It is unlikely to be practical to seek to vary targets in response to uncertain market conditions which are evolving, the longevity or degree of which cannot be predicted. In the short-term the practical, negotiated approach (but still based on clear targets) will be key.
- 4.1.12 An approach which attempted to regularly follow market movements through policy adjustments could in theory mean frequent target adjustments, which would not serve to provide the crucial level of guidance and clarity that developers and landowners need when first considering opportunities in relation to the Council's strategic approach.
- 4.1.13 It will be important for the Council to consider this range of factors whilst continuing to apply a practical, negotiated approach to scheme progression – potentially as informed by appropriate viability information presented to it. We consider it much more realistic to seek to react to current and future short-term market features through that mode than to expect to almost continually review such information and indeed the wider evidence base. Periodic reviews are more likely to be realistic, economic and useful in our view, possibly in conjunction with other planning obligation reviews being considered or in response to delivery experiences over a sufficient period.
- 4.1.14 The greatest reductions in residual land values are seen where affordable housing is required for the first time (e.g. on sites of fewer than 25 dwellings

in larger settlements and fewer than 15 in the smaller settlements of 3,000 population or less). In terms of considering on-site affordable housing provision, notional schemes of 25 or more dwellings were modelled at 25%, 40% and 50% proportions. Given the Council's current lower end of range/base target of 25%, it would not be logical (indeed it would be a backwards step in meeting needs) to consider or, therefore, model a lower proportion on such sites. However, a 20% proportion was also appraised on sites of up to 15 dwellings, since those sites fall beneath the current threshold and do not contribute.

- 4.1.15 The impact of increasing affordable housing proportions from the current 0% and lower end target of 25% respectively (depending on site size) is significant. The degree of impact is then dependent on the market sales values for the private market element which drives the scheme (expressed as a range of value points in this study), grant availability, infrastructure cost levels and other assumptions. As values increase, there is more scope to bear affordable housing and other costs.
- 4.1.16 The impact of increasing the affordable housing proportion is less on sites above current policy thresholds where there is already a requirement for affordable housing current expressed by the Council in the range 25 to 40%.
- 4.1.17 On the first time captured sites the introduction of a modest proportion of up to 25% has a positive viability impact when compared with that from seeking higher proportions (again, with specific outcomes dependent on value point and other accompanying assumptions).
- 4.1.18 We consider that this strongly suggests the potential value of a sliding scale approach. Bearing in mind that many sites are small, we think it more appropriate in the Salisbury context to aim to seek suitably judged contributions from a wider range of sites, rather than be over ambitious with proportion requirements. This seems particularly relevant at this stage of policy development, where many smaller sites would be captured for the first time under the policy proposals, and given the market conditions which we may well have at the potential inception of the policies.
- 4.1.19 Compared with a flat introduction of a policy target at say 5 units, a sliding scale provides a more sensitive outcome in terms of reducing the size of the steps between policy positions. It would also sit more comfortably with the reservations we have expressed on viability given the range of value levels seen.
- 4.1.20 In addition, the practicalities of delivery on the very small sites may be more of an issue than viability alone. Issues can be experienced for example with scheme design/integration of affordable homes with the market housing,

sustainable management, dealings with RSLs, marketing issues and perceptions, isolation of tenants, affordability, etc.

- 4.1.21 Relatively dispersed affordable housing stock can also result from an affordable housing requirement on very small sites, which may be an issue for RSLs from a management perspective, and this needs to be considered. Our local authority and RSL clients and contacts have taken varying views on the sustainability of this.
- 4.1.22 There may be lower risks and smaller planning obligations burdens on smaller rural sites, but conversely, there might not be the same opportunities for economies of scale. There are a range of factors which could well balance out or alter outcomes either way dependent on the circumstances. The outcomes relate to site specifics, crucially including value levels, it is simply not possible to say that a smaller site will be more or less viable than a larger one. Viability is principally value rather than site size driven.
- 4.1.23 So, whilst we consistently find in all such viability overview studies that it is not possible to say that smaller or larger sites are more or less viable than each other, we have pointed out two key features of smaller sites which again point towards a sliding scale approach. Firstly, there is the first time impact issue we have discussed. Secondly, the values generated by the smallest schemes are likely to be increasingly marginal when compared with existing/alternative uses and with owners' aspirations. Usually, the smaller the development scheme, the lower the value generated.
- 4.1.24 We will now consider briefly what the study points to in terms of the larger sites. Our recommendations in terms of both the sliding scale and position on larger sites will be confirmed in Chapter 5.
- 4.1.25 While key threshold points are to some extent always arbitrary (that is the nature of this threshold based system), the Council will no doubt have regard both PPS3's minimum indicative threshold of 15 units as a benchmark, and to the tone of targets being set and achieved through DPD preparation and Examinations in other local authority areas.
- 4.1.26 Bearing in mind the range of our results and the current Salisbury climate, we consider that an appropriate response at a site size of 15 dwellings would be a target of 40% affordable housing. This headline would be consistent with the approach of many Councils, including those with confirmed policies.
- 4.1.27 Given the range of values seen, in some senses this would be a relatively ambitious target. However, it would not represent a large leap in terms of the proportion sought - principally it would be reaffirming and formalising the upper end of the Council's existing target range and expressing that target more clearly. It would also be applying that to newly captured sites in the size

range 15 to 24 dwellings in the urban areas/larger settlements, when compared with the Council's current approach. With respect to settlements of 3,000 or less population, it would again emphasise the upper end of the current target.

- 4.1.28 It may be that on typical sites, and particularly on lower end value schemes, delivery in the range 25 to 40% will still be seen. We understand that the Council has had some success at delivering towards the upper end of this range, and there is no reason why this should not continue against a confirmed upper end target provided that an adaptable, practical approach is maintained (which amongst other things includes consideration of the market conditions).
- 4.1.29 Our proposals are for on-site provision on sites of 5 plus dwellings, with a reduced target proportion of up to 25% at that point; with the 40% target applicable from 15 dwellings.
- 4.1.30 On this basis, there is no justification as far as we can see for having distinct policy approaches for rural and urban areas (or for other area characteristics/geographies).
- 4.1.31 The policy approach would reduce the point at which the current upper end target is triggered on urban sites, and would simply reinforce the current upper end proportion target on the smaller settlement sites.
- 4.1.32 If the sliding scale idea is followed, in both cases more sites would be captured – but we suggest at reduced starting proportions.
- 4.1.33 To supplement the approach, and extend the sliding scale principle, purely from a viability viewpoint we are also able to support the potential to secure carefully judged financial contributions from sites falling beneath the threshold for on-site provision. Given the Council's policy proposals to date (Preferred Options) we have assumed that this might apply to sites of 1 to 4 dwellings and carried out appraisals accordingly (see Appendix IV).
- 4.1.34 In all cases the proportions would need to be regarded as targets, with the relevance of development viability to site specifics acknowledged. The proportions also need to be considered alongside the other key factors we have outlined, such as dwelling and tenure mix, grant availability, numbers rounding, expectations on dwelling size and specification, etc. These all influence the extent to which the affordable housing impacts viability.
- 4.1.35 The highest proportions are likely to be viable on sites with low existing use value and no significant competing use value (for example, greenfield site releases where agricultural values, perhaps with an element of hope value) set the starting point for comparison.

- 4.1.36 Whilst from a viability point of view we do not feel able to support any widely applicable target of more than 40%, the Council could consider opportunities for certain allocated sites to provide optimal affordable housing proportions, potentially in excess of 40% but dependent on the usual factors of evidencing needs and assessing overall development viability bearing in mind planning infrastructure and any abnormal costs (overall costs burdens). Specific assessments using a similar methodology could be carried out to inform the exploration of such possibilities. This theme might apply mainly to greenfield release sites, referring to the land value relationships as mentioned at 4.1.35 and elsewhere. It would fit with the opportunities presented through the planning and consultation processes, plus preparation of Guidance (in the form of DPDs, SPD, master plans or development briefs), for early engagement with landowners and developers as part of establishing delivery expectations. That process feeds in to land value expectations and can mean the consideration of such sites provides differing opportunities – depending on the circumstances.
- 4.1.37 This same principle might be considered in terms of the greater likelihood of such a site being able to bear a range of cost burdens alongside affordable housing, so that the upper end target of 40% plus a range of other infrastructure or requirements would be more likely to be delivered on such a site.
- 4.1.38 In all cases and results seen, we assume no major abnormal costs. These would need to be considered as part of the overall burden on sites and could affect viability outcomes.
- 4.1.39 Our results suggest that in general, a 50% affordable housing shows very large reductions in residual land values and as such, a target as high as that is unlikely to be workable on sites (with the possible exception of those mentioned above).
- 4.1.40 The Council has fairly ambitious tenure mix aspirations of 75% affordable rent/25% low cost home ownership. These are broadly consistent with those of other Councils, with the Regional thrust and investment priorities, with an emphasis placed on affordable rented accommodation given the severest needs are for that. We have carried out our modelling on this basis. We have noted that combined with the relatively ambitious targets and overall viability picture, particularly in the current market conditions, we anticipate that grant input may well be necessary to achieve this. We consider that in the context of Salisbury it should be possible to make a good case for the “additionality” which the Housing Corporation are looking for to secure value for money from grant allocations. So it is likely that grant will have a role to play, at least in some scenarios.

- 4.1.41 The Council will need to consider the wider issues of need, site supply and the like alongside our viability findings.
- 4.1.42 More complex/area distinctive policy usually requires more resourcing, more involved monitoring and updating and more complex additional guidance through SPD. We would therefore recommend that a 'blanket' approach to proportions sought is implemented based on site size only (not geography or value).
- 4.1.43 From our results it is possible to consider the potential trade-off which may occur should the Council move to increased planning infrastructure burdens (for example should a Community Infrastructure Levy (CIL) style charge be introduced) or other burdens expanded in a similar way. An example of this can be seen in the results. On a 15 unit housing scheme we see a RLV of £312,734 produced at Value Point 3 with £20,000 per unit infrastructure cost and 25% affordable housing. A very similar RLV (£295,552) is produced if the requirement for affordable housing increases to 40%, but the infrastructure cost per unit is reduced to £5,000 per unit.
- 4.1.44 Given current value values and market conditions in particular, it is possible that the Council may in some situations need to consider priority planning obligations. Based on current viability tones, this will certainly be the case if overall planning obligations costs are to be significantly increased. Future values trends, or higher value instances, could of course help this balance.
- 4.1.45 Our viability findings are based on current typical planning infrastructure burdens, because we cannot speculate on how that area may develop, but this will be need to be kept in mind.
- 4.1.46 This same principle of trade-off and potential prioritising might apply to the area of property specification, for example related to Code for Sustainable Homes, renewable energy requirements or other standards. Cost burdens will need to be monitored and considered collectively.
- 4.1.47 Our key policy recommendations flowing from this work are set out in the next Chapter. We will not repeat the wider messages already covered.

## 5 RECOMMENDATIONS

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- 5.1.1 We propose that the Council considers the following for key aspects of policy development, thresholds and proportions – alongside its wider evidence base.
- 5.1.2 **In all cases these are set out as clear targets, to help inform land value expectations and form the basis for a practical, negotiated approach.**
- 5.1.3 **Policy wording will need to acknowledge the relevance of considering development viability on case specifics.**
- 5.1.4 **A 40% affordable housing target, applicable on sites of 15 or more dwellings in all areas of the District.**
- 5.1.5 Beneath this, **we recommend a reduced proportion of affordable housing is sought** - on sites of 5 or more. We suggest that this could be based on a target of 25%. This could apply through to the 15 unit site size or, potentially there could be scope to consider another step between the 2 points – eg 20%/25% from 5 units; 25%/30% from say 10 to 15 units.
- 5.1.6 We refer to this reduced proportion on newly captured sites as a **sliding scale**. We consider it to be a relevant and positive measure, particularly at this stage of policy development and when value levels and market conditions are considered.
- 5.1.7 From a clarity and simplicity point of view a single target of say 20%-25% affecting the 5 to 15 site bracket would work well. Adding another step would reduce the simplicity, but also offer the positive of marginally reducing the size of the steps.
- 5.1.8 The Council will need to consider its approach to the mathematical subtleties of its selected approach – for example, how numbers rounding affects it, and at what points the threshold and proportion combinations work logically together (for example 20% of 5 gives a round number of 1) for on-site provision - any intermediate step at 10 units may also suggest 25% as a target rather than say 30% from this point of view.
- 5.1.9 To supplement the approach, **from a viability point of view we are able to support the principle of carefully judged financial contributions applicable to sites falling beneath the on-site provision threshold**. We have assumed this to be sites of less than 5 dwellings in Salisbury's case, but in fact there could also be an option to extend such an approach up to sites of 15. In any event we consider that there are likely to be practical difficulties associated with securing on-site affordable housing on many sites of fewer than 5 dwellings.

5.1.10 Within these parameters the Council will need to consider the most appropriate balance between optimising affordable housing delivery and its type, together with the continued overall delivery of an appropriate range of housing by the market in the District. This will need to be weighed up alongside other information the Council is gathering.

5.1.11 **Delivery experiences from all positions will need to be monitored**, regardless of where they are pitched. The Council should have **contingency plans** in place for reacting to those experiences.

## **6 WIDER DISCUSSION**

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- 6.1.1 The “National indicative minimum” (site size) threshold for affordable housing is regarded as 15 dwellings, as set out by the Government’s PPS3 Housing (November 2006). The PPS3 goes on to say, however, that local authorities can set lower thresholds “where viable and practicable”. The results discussed in this study show that a lower threshold could be considered, linked to a sliding scale approach to the proportion of affordable housing sought. There is also no evidence from the results, in financial viability terms, to suggest a variable threshold policy (with area/location) is required. It is possible that wider influences (for example, such as existing tenure in certain localities, housing need patterns, site supply patterns or other wider evidence) may suggest otherwise. This viability work shows no justification for, or need to, further complicate policy through particular area distinctions though.
- 6.1.2 Where we have mentioned negotiation, that does not necessarily mean an overall reduction in affordable housing – it could mean negotiations over grant input or changes to the tenure mix to provide an element of cross-subsidy into a scheme. Similarly, there may need to be a compromise position achievable rather than moving straight to an assumption that leaves a site contributing nothing to affordable housing needs, but that allows the affordable housing delivery on particular sites to react to changing viability and funding circumstances as more certainty is created with scheme progression.
- 6.1.3 If the policy targets cannot be met, then landowners and developers will need to clearly demonstrate why. The final judgement on exactly where this element of the policy proposals will settle should, in our view, be based on all the factors viewed together, i.e. alongside the viability outcomes. Included in these will be the key elements of forecasting of increased affordable housing units delivery based on the size and number of sites coming forward (site capture), local housing needs and practical thinking on the consequences of having small numbers of affordable homes distributed widely across a higher number of schemes. There may need to be some testing of any concerns over sustainability generally, but also of good RSL management regimes. RSLs’ views might be sought, although any testing of their views at this early policy consideration stage was beyond the scope of this work.
- 6.1.4 Crucially, and regardless of detail, the policy should be worded in clear terms. It should not be expressed as a minimum level of provision or be capable of interpretation in an ambiguous way. New policy proposals should be viewed in the context of raising the bar on expectations, with the Council seeking to secure significantly improved delivery overall from current levels. This can be through a combination of increased proportions or reduced affordable housing thresholds. The Council could consider phrasing the requirements in terms of “seeks x% affordable housing” or “requires x% affordable housing” but goes on to cover the negotiated approach in supporting text.

- 6.1.5 It is important that a flexible and negotiated approach to policy application is adopted to ensure the continued supply of residential development land, notwithstanding the very high priority that will be given to addressing affordable housing need. The policy or supporting text would need to make this flexible approach clear. The aim is to provide clear and robust targets for guidance to developers and landowners in appraising and bringing forward sites.
- 6.1.6 As part of providing clarity of expectations and to aid the smooth working of the approach, the Council will need to be clear about whether any new policy positions will be applied to the gross (total, irrespective of any dwellings existing prior to the scheme) number or net (i.e. deducting for any such dwellings) number of dwellings being provided by a development scheme.
- 6.1.7 It may be particularly relevant to clarify this in respect of replacement dwellings, conversions, etc.
- 6.1.8 We expect that in site-specific viability discussions, where necessary, the use of a toolkit (including but not limited to the Housing Corporation’s “Economic Appraisal Tool”, or developer’s own workings) will be encouraged. Developers will be encouraged to work closely with their RSL partners, who will increasingly be using that type of appraisal work to support their decisions and approaches for social housing grant.
- 6.1.9 Policy should be kept under review in view of key drivers including housing needs, site, supply and viability. Our recommendations are considered to be sound for the current stage of policy development, but their impact and the delivery resulting from them will need to be monitored with a view to future direction. The Council will also need to consider monitoring property prices regularly and consider updates of the viability picture periodically. This could be linked to changes to planning policy, work on SPD or (better still) at regular intervals. The monitoring of property prices will help the Council to understand the property market and how it reacts to changing financial circumstances over time. This could be carried out by reviewing Land Registry figures, Home Track information, internet estate agents’ websites or a mixture of such sources. We find it very useful to speak to estate agents and staff in developers’ sales offices.
- 6.1.10 It will also be important for the Council to detail contingency plans in the event of failure to meet affordable housing targets (potentially through short term worsening of housing markets).
- 6.1.11 The Council will expect developers and landowners to come to the table and be prepared to explain and justify why, in any relevant cases, the affordable housing targets and/or other planning obligations requirements cannot be met given other demands on a scheme. The onus will be on developers to clearly

and fully demonstrate the issues, with evidence to back up abnormal site complexities and the like.

- 6.1.12 It is expected that a methodology similar to one we have used will be appropriate for this process, to explore the relationship between development costs and values. Again, however, we reiterate that whilst this methodology is generally accepted, and the assumptions we have used might guide the Council on starting/indicative parameters, there will be no substitute for site-specific appraisal work of this type. Such work would take into account appropriate specific assumptions.
- 6.1.13 Issues may arise on those sites which have already changed hands or are committed through option or similar arrangements, where figures may simply not work when set against the proposed policy requirements. In the same way, there will be some previous planning consents capable of implementation.
- 6.1.14 Similarly, a degree of difficulty with increasing planning-led affordable housing supply may be experienced during the adjustment process where there will be problems whilst developers/landowners get accustomed to the new policies and expectations are modified. The modelling in this study has been carried out on the assumption that knowledge of policies exists and that the landowner/developer information and adjustment process has been undertaken.
- 6.1.15 This type of negotiated approach, as advocated by Government Guidance, then needs to be brought to life through appropriate Supplementary Planning Documents and/or Development Plan Documents.
- 6.1.16 The Council could consider the use of the cascade principle within its Section 106 agreements for affordable housing. We understand that the Housing Corporation is encouraging this, and the Corporation could be consulted on it as the Council develops its approach to building up the detail of its affordable housing approach more generally.
- 6.1.17 Within this overview study it has not been possible to consider in detail the viability implications of affordable housing on what could be a wide range of potential greenfield release site characteristics, should the regional housing numbers scenario dictate consideration of such sites in the future. However, one key valuation factor with such sites is likely to be that they have little alternative prospect of creating significant development value. It is not possible to say whether greenfield sites are any less or more expensive to develop than brownfield, as that needs to be viewed on site specifics. However, it is likely that greenfield release sites could support, as a target, at least the same level of affordable housing as envisaged in the headline targets proposed. It is possible that a greater proportion of affordable housing could be achieved in some cases, subject to site-specific review and to the

overall planning obligations (infrastructure) and costs burdens on the particular sites.

6.1.18 This study has considered planning-led affordable housing in the context of integrated provision within market-led schemes, secured through planning obligations usually embodied in a Section 106 agreement. The Council, along with its partners, should also continue to consider the wider routes to affordable housing provision. Housing Association or contractor/developer-led schemes can be successful in significantly bolstering local provision – sometimes on lower value, more difficult sites, for example as a part of removing non-conforming uses from older residential areas or recycling unviable former commercial land. There will always be a balance with retaining sufficient land for employment use, but the various supply sources of affordable housing need to be considered and encouraged. The use and role of Council or other publicly owned land might also be very valuable in this sense. In addition, the role of exception to policy sites and specific allocations processes could be considered for rural affordable housing provision.

6.1.19 The appraisals for RSL-led schemes can sometimes be aided by taking a reduced view on the return (profit) needed and through risk sharing. Housing Associations and others should be encouraged to be proactive in these areas, and supported by the Council where possible.

**End of main study text**

**Appendices follow**

**Study period: May 2008 to January 2009**

## **Appendices**

<b>Appendix I</b>	<b>Development Scenarios</b>
<b>Appendix II</b>	<b>Residual Land Value Results (£5,000 per Unit Infrastructure Cost)</b>
<b>Appendix IIa</b>	<b>Residual Land Value Results (£10,000 per Unit Infrastructure Cost)</b>
<b>Appendix IIb</b>	<b>Residual Land Value Results (£20,000 per Unit Infrastructure Cost)</b>
<b>Appendix IIc</b>	<b>Overall Summary of Residual Land Value Results (All)</b>
<b>Appendix IId</b>	<b>Residual Land Value Results (Sample Results Varying Developer Profit and Grant Assumptions)</b>
<b>Appendix III</b>	<b>Overall Summary of Residual Land Value Results (in £ per Ha)</b>
<b>Appendix IV</b>	<b>Results of Payment in Lieu Appraisals</b>
<b>Appendix V</b>	<b>Property Values Report</b>
<b>Appendix VI</b>	<b>Glossary of Terms</b>