

**Appendix VI**  
**Glossary of Terms**

# SALISBURY DISTRICT COUNCIL

## AFFORDABLE HOUSING VIABILITY STUDY

### GLOSSARY OF TERMS

*(The scope of this glossary is restricted to the technical viability related terms used in the study)*

#### **A**

Abnormal Development Costs – costs that are not allowed for specifically within normal development costs. These can include costs associated with unusual ground conditions, contamination etc.

Affordable Housing – “PPS3 – Housing” (November 2006) defines affordable housing as housing that includes social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market. Affordable housing should:

- Meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices.
- Include provision for the home to remain at an affordable price for future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision.

#### **B**

Base Build Costs – for construction only (excluding fees, contingencies and extras) as explained in the study.

#### **C**

Commuted Sum – See “Payment in lieu” below.

#### **D**

Developer Appraisal – An appraisal carried out by a developer to determine the approximate value of land in order that an offer can be made to a landowner. The appraisal(s) would normally look to determine an approximate *Residual Land Value* (RLV). Assuming a developer has already reached the initial conclusion that, in principle, a site is likely to be suitable and viable for development, an appraisal is then carried out to fine tune scheme feasibility and discover what sum they can afford to pay for the site. This would normally be subject to a range of caveats and clauses based on circumstances unknown to the developer at the time of making an offer. As

an example, an offer could be subject to the granting of planning permission or subject to no abnormal conditions existing, etc.

Development Plan Document (DPD) - spatial planning documents that are subject to independent examination, and together with the relevant Regional Spatial Strategy, will form the development plan for a local authority. They can include a core strategy, site-specific allocations of land, area action plans and generic development control policies.

Developer Payment Type – The sums applied to the appraisals in terms of payment to the developer in return for completed affordable units. The form modelled is based on the Mortgage Funded by Rental Stream. The Mortgage Funded by Rental Stream subsidy only pays the developer a sum per unit that is equivalent to the RSL's ability to fund the units through capitalisation of the (affordable) net rental stream from those units. The rental flows for this are based on Housing Corporation Target Rents, after e.g. management, maintenance costs and voids allowances. In this regard see also *Payment Table*. The study refers also to this payment as the “affordable housing unit transfer”.

Developer's Profit - The developer's reward for risk taken in pursuing and running the project, required to secure project funding. This is the gross profit, before tax. It will usually cover an element of overheads, but varies. The profit element used in these appraisals is profit expressed as a percentage of Gross Development Value (the most commonly expressed way) although developers will sometimes use other methods, for example a certain return on capital employed (ROCE).

Development Cost – This is the cost associated with the development of a scheme and includes professional fees (engineering, design, project management), contingencies, sale agency fees, legal fees on unit sales and of course build costs (materials, labour, etc).

Development Viability (or “viability”) – The viability of the development (in this case market led housing scheme) – in financial terms. A viable development would normally be one which proceeds (or at least there is no financial reason for it not to proceed) – it would show the correct relationship between GDV (see below) and Development Cost. There would be a sufficient gap between the GDV and Development Cost to support a sufficient return (developer's profit) for the risk taken by the developer in pursuing the scheme, and a sufficiently attractive land value for the landowner. An un-viable scheme is one where a poor relationship exists between GDV and Development Cost, so that insufficient profit rewards and/or land value can be generated.

## E

## F

Finance - Costs associated with financing the development cost. Varying views are taken on the length of the relevant construction projects as to how long these costs need to be carried for on each occasion.

Financial Contribution – see “Payment in lieu”.

## G

Gross Internal Area (GIA) - Broadly speaking GIA is the whole enclosed area of a building within the external walls taking each floor into account and excluding the thickness of the external walls. GIA will include: Areas occupied by internal walls (whether structural or not) and partitions; service accommodation such as WCs, showers, changing rooms and the like; columns, piers, whether free standing or projecting inwards from an external wall, chimney breasts, lift wells, stairwells etc; rooms, plant rooms, tank rooms, fuel stores, whether or not above roof level; open-sided covered areas.

Gross Development Value (GDV) - The amount the developer ultimately receives on completion or sale of the scheme whether through open market sales alone or a combination of those and the receipt from a RSL for completed affordable housing units - before all costs are subtracted.

## H

## I

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

## J

## K

## L

Land Costs – Costs associated with securing the land and bringing it forward – activities which precede the construction phase, and therefore costs which are usually borne for a longer period than the construction phase (a lead in period). They include financing the land acquisition and associated costs such as land surveys, planning application and sometimes infrastructure costs, land acquisition expenses and stamp duty land tax.

Land Residual as % of GDV – The amount left for land purchase expressed as a percentage of the Gross Development Value. A common guideline used in the development industry. Readers may be familiar with the rule of thumb that upwards of approximately one third of development value is comprised of land value. In practice this has always varied, but with increasing burdens on land value from a range of planning infrastructure requirements (including affordable housing) traditional views on where land values lie are having to be revised.

Local Development Framework (LDF) - a non-statutory term used to describe a folder of documents, which includes all the local planning authority's local development documents. An LDF is comprised of:

- Development Plan Documents (which form part of the statutory development plan)
- Supplementary Planning Documents

The local development framework will also comprise:

- The Statement of Community Involvement
- The Local Development Scheme
- The Annual Monitoring Report
- Any Local Development Orders or Simplified Planning Zones that may have been added

**M**

**N**

**O**

**P**

Payment in lieu – A financial payment made by a developer or landowners instead of providing the planning-led affordable housing requirement on the site of the market (private sale) housing scheme (see also “Commutated Sum/Financial Contribution”).

Payment Table – This is normally referred to where a local authority prescribes or guides as to the levels of receipt the developer will get for selling completed affordable housing units of set types and sizes to a Housing Association. In this context it normally relates to an approach which assumes nil grant and is based on what the Housing Association can afford to pay through finance raised (mortgage funded) against the rental or shared ownership income flow. See also *Developer Payment*. It is sometimes used in a looser context, for example in the setting out of financial contribution levels for payments in-lieu of on-site affordable housing provision.

Percentage Reduction in Land Residual - The percentage by which the residual land value falls as a result of the impacts from the range of affordable housing policy options. This is expressed as the fall in residual land value compared to a site that previously required zero affordable housing or a site that was required to provide affordable housing previously, but at a lower percentage.

Planning Infrastructure – We refer to this because affordable housing is one of a set of requirements which usually need to be met by new housing developments, and are secured through *Section 106* agreements. The terms “planning obligations”, “planning gain”, “infrastructure” tend to be used to describe the same. Also covers wide range of community requirements needed to support development – highways, education, open space, public art, and the like.

Planning-led affordable housing – Affordable housing required on new market (private sale) housing developments of certain types (which are set locally – see “Threshold” and “Proportion” below) as set out by “PPS3”

Planning Policy Statement 3: Housing (“PPS3”) – National statement of the Government’s planning policy on Housing – including the planning-led affordable housing we consider here.

Proportion of Affordable Housing – The percentage or proportion of affordable housing sought on site. The appraisals model a range of scenarios within all the Value Band Areas investigating the impact of a range of proportions of affordable housing on scheme viability from 20% to 50%. Each model also investigates the “no affordable housing” position as a benchmark.

## Q

## R

Residual Valuation – The process by which *Residual Land Value* is estimated. So called because it starts with the *GDV* at the top of the calculation and deducts all *Development Costs* and *Developer’s Profit* so as to indicate the amount left remaining (hence “residual”) for land purchase – including land value.

Residual Land Value (RLV) - The amount left for land purchase once all development, finance and land costs have been deducted from the *GDV*, normally expressed in monetary terms (£). This acknowledges the sum subtracted for affordable housing and other infrastructure payments/requirements where applicable. It is relevant to calculate land value in this way as land value is a direct result of what *scheme type* specifically can be created on a site, the issues that have to be dealt with to create it and costs associated with those.

Registered Social Landlord (RSL) - a housing association or a not-for-profit company registered by the Housing Corporation to provide social housing.

## S

Scheme Type – The scheme (development project) types modelled in the appraisals consist of either entirely flatted or housing schemes or schemes with a mix of houses and flats.

Section 106 – (of the Town and Country Planning Act 1990). The legally binding planning agreement which runs with the interest in the land and requires the landowner (ultimately the developer becomes landowner) through covenants to agree to meet the various planning obligations once they implement the planning permission to which it relates. Sets out the principal affordable housing obligations, and is the usual tool by which planning-led affordable housing is secured by the Local Planning Authority. Section 106 of this Act refers to “agreements regulating development or use of land”.

Shared Ownership - Shared ownership is a way of buying a stake in a property where the purchaser cannot afford to buy it outright. They have sole occupancy rights.

Shared ownership properties are usually offered for sale by housing associations or RSLs (not-for-profit organisation). The purchaser buys a share of a property and pays rent to the housing association for the remainder. The monthly outgoings will include repayments on any mortgage taken out, plus rent on the part of the property retained by the housing association. Later, as the purchaser's financial circumstances change, they may be able to increase their share until they own the whole property.

Sliding Scale – Refers in this context to a set of affordable housing policies which require a lower *proportion* on the smallest sites, increased with site size – to graduate the viability impacts, particularly as such sites often fall within the thresholds for the first time.

Social Rented Housing – “PPS3 – Housing” defines social rented housing as rented housing owned and managed by local authorities and registered social landlords, for which guideline target rents are determined through the national rent regime. The proposals set out in the Three Year Review of Rent Restructuring (July 2004) were implemented as policy in April 2006. It may also include rented housing owned or managed by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Housing Corporation as a condition of grant.

Supplementary Planning Document (SPD) - provide supplementary information in respect of the policies in Development Plan Documents. They do not form part of the development plan and are not subject to independent examination

## I

Tenure mix – The tenure types of affordable housing provided on a site – refers to the balance between for example affordable rented accommodation and shared ownership.

Threshold – Affordable housing threshold i.e. point at which the local authority determines affordable housing provision should be sought or points at which the local authority wishes to test viability with a view to determining potential future policy.

## U

## V

Valuation Office Agency (VOA) - The Valuation Office Agency (VOA) is an executive agency of HM Revenue & Customs (HMRC). Their main functions are to compile and maintain the business rating and council tax valuation lists for England and Wales; value property in England, Wales and Scotland for the purposes of taxes administered by the HM Revenue & Customs; provide statutory and non-statutory property valuation services in England, Wales and Scotland; give policy advice to Ministers on property valuation matters. The VOA publish twice yearly Property Market Reports that includes data on residential and commercial property and land values.

Value Point – Adams Integra’s usual viability study methodology is to make judgements on a range of new build property values (containing value “points”) which represent typically found prices for ordinary new developments in the Borough at the time of the study research.

Viability – See *Development Viability*.

## X

## Y

## Z