

**Salisbury District Council**



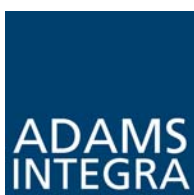
**Affordable Housing Economic  
Viability Study**

**EXECUTIVE SUMMARY**

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

**Study completed January 2009**

**Prepared by**



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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.