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Greater Norwich Development Partnership

Affordable Housing Viability

Study

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1 Executive Summary

1.1 Introduction

Drivers Jonas Deloitte has been instructed by the Greater Norwich Development Partnership (GNDP) to undertake an affordable housing viability study (the Study), which tests the financial viability of delivering affordable housing under a range of cost and revenue assumptions.

The principal aim of the Study is to provide an evidence base to support policies relating to affordable housing targets and tenure mixes, to be included in the emerging Joint Core Strategy (JCS).

In accordance with paragraph 29 of Planning Policy Statement 3, the Study also responds to comments made by a planning assessor when reviewing the draft JCS, and recent planning case law.

1.2 Methodology

We have undertaken over 25,000 residual land valuations, and compared the results to a range of benchmark land values. This is the methodology that is commonly adopted when assessing viability, as supported by planning case law and publicly available viability toolkits.

Our residual land valuations consider a wide range of scenarios, with key variables being: affordable housing targets; build cost; density; site size; average sales values; affordable housing tenure split; social housing grant; and market conditions.

We have compared the output to six benchmarks, covering unallocated and allocated Greenfield land, and different types of Brownfield land, which we believe is representative of the types sites that may come forward for residential development.

1.3 Key Conclusions

We detail below a summary of our key conclusions:

- § viability is most sensitive to what are usually the three greatest costs and revenues in a residual cashflow: sales values, construction costs and the cost of acquiring the land (in this case our benchmarks);
- § we have seen unprecedented market conditions over the last few years. The sales values seen in the lowest points of the market make a large proportion of scenarios in our model unviable, regardless of affordable target or any other inputs;
- § a significant proportion of our appraisal outcomes are shown to be viable with an affordable housing target of 40% and no social housing grant. This

increases greatly if disregarding results from the lowest sales values and/or if including an element of social housing grant;

- § there are differences between the three local authorities in terms of viability, but not to such a degree that we would suggest diverging from an area wide policy;
- § our models suggest that a 40% target affordable housing policy is suitable. However, any policy would need to be carefully worded to account for site specific viability;
- § Social Housing Grant has a significant effect on scheme viability. It is important that developers and RSLs are encouraged to seek grant on marginal or unviable schemes. The addition of grant alone makes a large proportion of the options viable that were previously unviable without grant;
- § introducing 40% affordable housing at the proposed threshold of 5 units has a negative impact on viability, but phasing it in from 5 to 15 units improves viability considerably; and
- § changing the split of affordable housing tenures has a marginal effect on viability. Changing this variable would be unlikely to have a material effect on most schemes, but could be an important option for those that are marginal.

1.4 Recommendations

Our models show that a 40% affordable housing target is achievable in a significant number of scenarios, assuming no social housing grant.

In our opinion a strategic policy wide target of 40% affordable housing is appropriate. There are however several scenarios where this will not be viable and we would suggest that the policy is worded to allow an applicant to demonstrate that a proposed scheme is not viable.

Seeking social housing grant, altering the proportions of affordable tenures required, or reducing the overall amount of affordable sought on a certain scheme would be suitable remedies if the scheme is shown to be unviable or marginal.

We would suggest that GNDP phase the target in from 5 units to 15 units.

Changing the proportions of affordable housing tenures has a subtle effect on scheme viability, and we would suggest that a target within the range of 60/40 and 85/15 (social rent/intermediate) can be set based on need, or local socioeconomics, without having a significant impact on viability.

2 Introduction

2.1 Instructions

Drivers Jonas Deloitte has been instructed by GNDP to undertake a Study to examine the viability of delivering a variety of affordable housing options, in order to provide an evidence base for the emerging JCS.

The GNDP covers the area governed by three local authorities: Norwich City Council; South Norfolk Council; and Broadland District Council. The Study relates to these three local authority areas (the Policy Area). The GNDP also includes representatives from the Broads Authority and Norfolk County Council.

The Study considers the viability of delivering affordable housing in each of the three local authorities within the Policy Area by assessing how land values are affected by varying:

- § Affordable housing targets – we consider 20%, 30% and 40%
- § Density – we consider a range spanning from 30 units per hectare up to 100 units per hectare, which encompasses most typical development in the Policy Area
- § Site Size - to allow for schemes as small as 5 units
- § Market Value – we consider a range of different values (each with corresponding affordable housing values) to reflect current and potential future market trends
- § Affordable Housing Tenure Split – we consider the impact of delivering 85/15, 70/30 and 60/40 (social rent/intermediate)
- § Social Housing Grant – we consider the impact of no grant, 100% grant, and grant on social rented units only
- § Construction Costs – we consider a range of construction costs to account for different scheme sizes, densities, and to reflect the impact of potential additional costs such as sustainability targets
- § Unit Mix – we consider a different unit mix for each of the three local authorities within the Policy Area
- § Market Conditions – we consider weak, neutral and strong housing markets

The Strategic Housing Market Assessment shows that there is a significant need for affordable housing in the Policy Area, and it is envisaged that this need will be met, in part, by requiring developers to include a proportion of affordable housing as part of any forthcoming developments. However, the Strategic Housing Market Assessment acknowledges that the need to deliver affordable housing must be carefully balanced, so not to make development financially unviable.

The aim of the Study is to identify the point at which the maximum reasonable amount of affordable housing can be delivered, whilst still incentivising landowners and developers to operate in the residential development market.

Our methodology will be discussed at length later in the report, but, in short, we have adopted a traditional residual approach to estimating land values. It should be noted from the outset that due to the wide range of inputs and variables involved in these calculations, they can only ever serve as a guide.

Individual site characteristics are unique. This means that the three key factors that need to be considered when assessing viability are unique: the residual value; the current use value; and the current landowner's propensity to sell the site for development. This study aims to consider the majority of likely scenarios, but it cannot cover every conceivable scenario. As such, we believe that an element of flexibility must be built into policy, when considering area wide policy requirements.

3 Background

3.1 PPS3

Planning Policy Statement 3 (PPS3): Housing, 3rd Edition, was published by the Communities and Local Government in June 2010. The document sets out the national planning policy framework for delivering the Government's housing objectives. Paragraph 29 states that Local Authorities should take an 'evidence based policy approach':

Set an overall (ie plan-wide) target for the amount of affordable housing to be provided. The target should ... reflect an assessment of the likely economic viability of land for housing within the area, taking account of risks to delivery and drawing on informed assessments of the likely levels of finance available for affordable housing, including public subsidy and the level of developer contribution that can reasonably be secured. Local Planning Authorities should aim to ensure that provision of affordable housing meets the needs of both current and future occupiers, taking into account information from the Strategic Housing Market Assessment.

It was this policy, and a number of high profile planning decisions that followed it, that has led to a heightened need to consider 'economic viability' when also considering affordable housing need and targets.

3.2 Regional Policy

Policy H2 of the East of England plan relates to Affordable Housing. It states that Local Authorities should set appropriate targets for affordable housing taking into account factors such as:

- § local assessments of affordable housing need, as part of strategic housing market assessments;
- § the need where appropriate to set specific, separate targets for social rented and intermediate housing; and
- § evidence of affordability pressures.

At the regional level the Plan suggests that delivery should be monitored against the target for some 35% of housing coming forward through planning permissions granted after publication of the Regional Spatial Strategy to be affordable.

However, it does permit higher targets in certain Local Authorities, stating that housing stress varies across the region and targets of more than 35% may be justified in the more pressurised areas of housing need.

3.3 Joint Core Strategy

The Joint Core Strategy (JCS) will be a key document in each of Broadland, Norwich and South Norfolk's Local Development Framework. Policy 4 proposes housing related policies, which include:

- § a target of 40% affordable housing; and
- § a threshold for affordable housing of 5 units or 0.2Ha.

It does not include a target for the split between affordable tenures. This study examines a number of options.

It is not clear against what measure the affordable housing target will be enforced (e.g. units, internal area, habitable rooms). This study has been carried out on the basis of targeting a percentage of units.

The Draft JCS has been reviewed by the planning inspectorate and a planning assessor, Mr Nigel Jones. Both parties have highlighted the need for a viability study to be undertaken, in line with PPS 3 paragraph 29 and recent case law.

4 Methodology

4.1 Introduction

Our methodology follows a traditional residual appraisal approach, based on a variety of assumptions regarding the income expected from the completed scheme and the cost of development. This follows the basic residual formula:

$$\text{Land Value} = \text{Gross Development Value} - \text{Development Costs (inc. Developer's Profit)}$$

This is the common market approach to valuing land, but is highly subjective. Below is a quote from 'Valuation Information Paper 12: Valuation of Development Land', published by the RICS in 2008:

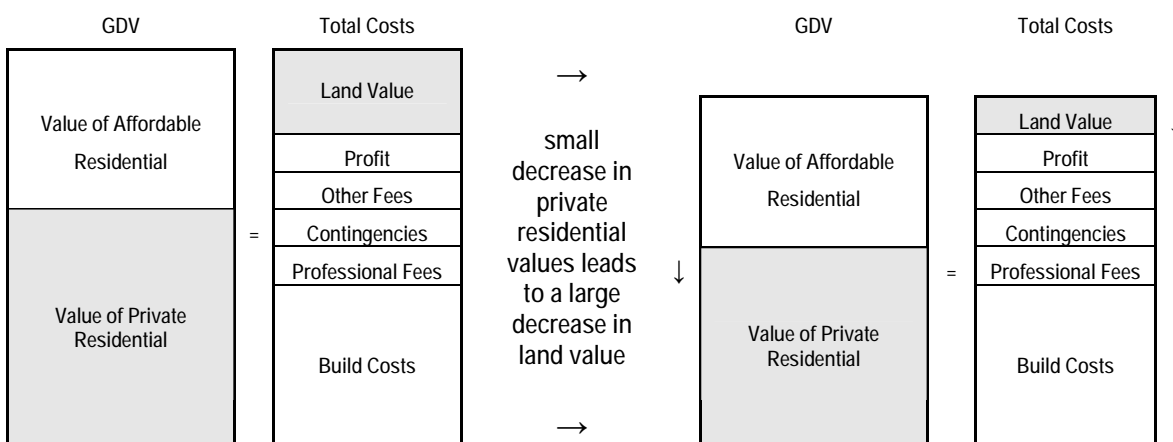
The residual method requires the input of a large amount of data, which is rarely absolute or precise, coupled with making a large number of assumptions. Small changes in any of the inputs can cumulatively lead to a large change in the land value.

4.2 Methodology

Whilst the above formula appears simple, there are a large number of inputs to the calculation. An alternative way of looking at the above formula is to consider the land value as a Development Cost.

$$\text{Gross Development Value} = \text{Total Development Costs (inc. Developer's Profit \& Land Value)}$$

The chart below expands on this formula. Whilst still simplistic, it demonstrates that when the GDV or development costs vary, this simple residual formula will always balance by varying the land value. In this case, a small decrease in the value of private residential space results in a large decrease in land value.



4.3 Key Inputs

We have run appraisals based on a menu of variables, many of which have been provided by GNDP. These assumptions can be summarised as:

- § factors affecting the GDV of a scheme; and
- § factors affecting the cost of developing that scheme.

The factors that we have considered are:

- § affordable housing targets;
- § affordable housing tenure splits;
- § differing site/scheme sizes;
- § density (although as we explain below, this relates to site/scheme size);
- § Social Housing Grant;
- § impact on viability as a result of additional costs such as CIL and meeting certain sustainability targets;
- § different Market Values, and the impact of strong and weak local markets;

We will discuss the key inputs and assumptions used in further detail in Section 8.

4.4 Concept

We have undertaken residual valuations of a large number of hypothetical developments that could be brought forward in the Policy Area. On each hypothetical scheme, we assess how land value is affected by changing key variables. The resulting land values are compared to a range of benchmark land values, in order to establish whether a particular development would be viable or not.

The study considers a one hectare site, which could represent any parcel of land in the policy area. We have chosen one hectare as an appropriate size as this will provide easy comparison with other measures, such as other land values (on a £ per hectare basis). The outputs that our model generates could be applied pro rata to most sites of a different size.

5 Stakeholder Event

5.1 Background

We held an event for stakeholders on Monday 28th June 2010 in Norwich. It is common practice to hold such an event when undertaking planning policy related studies such as this. The planning assessor also suggested that such an event was undertaken.

We outlined our proposed methodology, including every relevant proposed input, and invited discussion.

5.2 Attendees

Over 100 stakeholders were invited, made up of GNDP's contacts, all those who have previously made a representation regarding affordable housing matters on the draft JCS, and our contacts in the development industry.

There were over 25 attendees, and a number of others were also spoken to individually after the event.

5.3 Key Points Raised

A number of useful points were raised by stakeholders, which we have considered when undertaking the study:

- § Social Housing Grant: Stakeholders felt that the base position should be a no grant scenario.
- § Section 106 costs: Our assumed figure was disputed, and we have sought to confirm our calculations with the relevant local authorities and online guidance.
- § Benchmarks for Greenfield land: Whilst our existing use values were not disputed, the benchmarks that we proposed and landowner incentivisation were discussed at length.
- § Different policies for different Local Authorities: This was discussed briefly and we agreed to consider this as part of the study.

The comments received were on the whole very useful, and have helped us to refine the Study.

5.4 Other Issues Discussed

We discussed all other aspects of the Study, which drew no materially significant comments.

6 Measures of Viability

6.1 What is Viability?

Our approach seeks to appraise potential site values by varying key inputs such as those listed in the section above. Our model has appraised over 25,000 combinations of the above inputs, producing residual land values that we believe would be representative of the majority of potential development sites in the Policy Area.

The residual land value represents, in theory, the maximum price a developer would be willing to pay for a site. That price must be sufficient to incentivise the current owner of that site to sell, and consequently the results of our appraisals must be benchmarked against a measure that relates to existing or alternative land values.

This is our approach to testing viability: a residual land value must be sufficiently greater than the Existing Use Value (or alternative use value) of a site. This is for two reasons, first in order for the developer to view it as a viable proposition, and second to incentive the landowner to sell their land for development.

6.2 Existing Use Value

Existing Use Value (EUV) is defined by the RICS Valuation Standards 6th Edition as:

“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost.”

The key part of this definition is ‘disregarding alternative uses’. This means for example that any hope value or potential premium that might be attributed to a site if it is deemed suitable for redevelopment must be ignored when considering EUV.

Clearly a developer would only buy a parcel of land if it considered that there was scope for a planning consent. The existing use value is effectively the fall back position if that consent does not materialise.

Alternative Use Value is the value of the site based on any readily identifiable alternative use for which planning permission might realistically be granted (in this case, neither residential nor its existing use).

6.3 Background: Other Viability Models

The two major off the shelf development viability toolkits in use today are the Greater London Authority's (GLA) Affordable Housing Development Control Toolkit (also known as the 'Three Dragon's' toolkit), and the Homes and Communities Agency's (HCA) Economic Appraisal Tool (EAT). Our model uses similar residual valuation methodology to both these tools. The benchmark used in both toolkits is EUV.

The GLA's toolkit is the accepted model for site specific testing of affordable housing viability in London. The model is now also used in other regions of the UK (for instance, we understand Cambridgeshire local authorities now use this model). This model uses Existing Use Value as a benchmark:

Residual Value should be compared with the Existing use Value of a site ... The allowance for land owner return needs to be considered in the context of local planning and land supply circumstances... In all circumstances, it is recommended that boroughs deal with this issue in a corporate way, considering land owner return as a key driver of scheme viability alongside developer margin.

The HCA's EAT model is the model used to demonstrate whether or not a scheme requires social housing grant in order to be viable. The model is used nationwide, and the HCA's guidance states:

The land value derived from the EAT should be compared to the existing use value of the land, to determine if a scheme is viable. Clearly if the land value derived from the proposed scheme is higher than the EUV it is viable, but that does not mean the landowner will sell for that price.

6.4 Relevant Planning Case Law

The topic of development viability is still relatively new, but a few cases have now been ruled upon by the Planning Inspectorate or Secretary of State. A summary of some recent decisions is below:

- § Clay Farm, Shelford Rd, Cambridge. Countryside Properties vs Cambridge (Feb 2010): the developer argued that the price paid for the site in 2007 made the site unviable in 2010. The methodology of assessing viability was in dispute. The inspector ruled that the correct approach was a Residual Land Value benchmarked against the EUV, which is consistent with housing viability policies elsewhere. The Secretary of State agreed with the Inspector that the current economic conditions may result in these sites being left undeveloped for a time and he agrees that this is not a sufficient reason in itself to justify the grant of planning permission for the scheme.
- § 4 Oxford Street, Woodstock. Berkeley Homes vs. West Oxfordshire District Council (Oct 2009). The planning inspector deemed that it is reasonable for a Brownfield land owner to expect a 10% premium on the EUV of their land in the context of viability and residential development.
- § Former Roche site, Welwyn Garden City. Taylor Wimpey vs Welwyn Hatfield District Council (Mar 2010): The developer argued that the benchmark should be purchase price as the scheme was unviable based on the historic purchase price. The Inspector disagreed and refused the developers' appeal.
- § Lesney Toy Factory, London. Telford Homes vs Hackney (Aug 2008): the developer proposed that the council's 50% affordable housing target made this site unviable. It was ruled that the developer had paid too much for the site in

the first instance and that this was not a good enough reason to deliver less affordable housing.

- § Bath Road, Bristol. McCarthy & Stone vs South Gloucestershire (Nov 2008): Inspector concluded that EUV / AUV should be the basis of assessing viability, just as in the HCA's Toolkit, rather than the price paid for the site.
- § Flambard Way, Godalming. Flambard Development Ltd vs Waverley (Oct 2008): Affordable housing reduction was permitted, due to the wider benefits for delivering the site, but the Inspector concluded that EUV should be basis of assessing viability.

There are a few key conclusions that can be drawn from these decisions:

- § Whilst cases exist which allow purchase price to be the benchmark for viability, in most cases and Existing Use Value based benchmark is deemed to be the most appropriate measure, and this seems to be the general direction of travel for recent decisions.
- § An uplift of 10% from Existing Use Value has been demonstrated as reasonable for Brownfield sites.

6.5 Current Existing Land Values

As discussed elsewhere in this report, site characteristics are unique. This affects existing land values as well as residual land values. We have sought to estimate current existing land values, but these can only serve as an estimate. Site specifics and changing market conditions could cause EUV to vary considerably from the values quoted below.

Most land can be described as either 'Brownfield' sites, typically being disused/under-used commercial, residential or community use sites, or 'Greenfield' sites, where development has not previously taken place. Within Greenfield, of particular importance for residential development, is whether or not it has been allocated (i.e. earmarked for potential future development in Local or Regional Plans).

Brownfield

In assessing Brownfield Land, we have assumed that the current use has been identified as substandard and/or that the site is in need of redevelopment. We have researched the value of various commercial use types and have arrived at three benchmarks. The values are based on comparable evidence, conversations with several local land agents and rent and yield analysis:

- § Brownfield – high: £1,500,000 per Ha
- § Brownfield – mid: £1,000,000 per Ha
- § Brownfield – low: £500,000 per Ha

Different existing use values could be seen if a run down office, retail or residential site comes forward for redevelopment. In our view most land coming forward in the Policy Area, if it is not Greenfield, is of a former industrial use. There are of course exceptions to this but it would be misleading to benchmark against a high existing land value if it not typical of the types of Brownfield land coming forward for redevelopment.

Greenfield

A large proportion of development proposed for the Policy Area will take place on Greenfield Land. There is evidence to suggest that large plots of farmland (10 hectares plus) have been transacting for between £10,000 to £20,000 per hectare in the Policy Area.

It is important to note again that this is the value of Greenfield land ignoring hope value. We will discuss the benchmarks we propose in the next section.

Small Sites

Over the course of the policy period a proportion of development will take place on small sites that may not have been identified as part of the housing market assessment. These 'windfall' schemes could be derived from residential backlands (e.g. gardens), small scale conversion or sub-division, and small Greenfield or Brownfield sites.

Our study tests the viability of affordable housing targets on small sites of between 1 and 14 units. We will use a range of benchmarks based on the types of sites that come forward for small developments to help assess viability.

Alternative Uses

This study considers land suitable for residential development, and in most cases this use would give rise to the optimum residual land value. In some cases an alternative use may be appropriate, which may give rise to higher residual values.

Due to the high level nature of this Study, we have assumed that residential land use would give rise to the best value for a potential site. It would be misleading to use alternative uses as a benchmark if it is not appropriate for most sites. However, alternative uses would need to be considered on a site specific basis if it could be demonstrated that a higher development value existed.

7 Benchmarking: Our Approach

7.1 Introduction

Assessing the propensity of each individual landowner within the Policy Area to sell their site is effectively impossible. There are an indeterminable number of variables and personal circumstances to consider, many of which could not be quantified or modelled as part of a 'high level' study such as this.

That said, a study such as this must, as stated in PPS3, "reflect an assessment of the likely economic viability of land for housing within the area". That is not to say that it must consider every conceivable site in the policy area, but the types of 'likely' sites. The accepted benchmark measure is the relationship between EUV and residual land value.

Brownfield

For Brownfield sites, arriving at a benchmark is relatively straight forward. A recent planning case law decision (*Berkeley Homes vs West Oxfordshire District Council*) suggested that a reasonable uplift was considered to be 10%. There is little other guidance regarding the quantum of uplift from EUV. We have taken a prudent approach and assumed 15% as a reasonable uplift from each of the three Brownfield EUVs listed in Section 6.5.

Greenfield

The comparison with Greenfield sites is more complex. The EUV of, for example arable land, is typically low when compared to land with other uses. The uplift that the landowner would expect depends greatly on the perceived likelihood of gaining a planning consent for development. A key factor in determining this is whether or not the site is allocated (identified in a Regional or Local Plan as being earmarked for future development).

We propose to benchmark against three types of Greenfield land:

- § Greenfield – unallocated
- § Greenfield – allocated (lower value)
- § Greenfield – allocated (higher value)

Unallocated Greenfield land may be bought speculatively for a developer's land bank. Such land can transact for between £10,000 and £200,000 per hectare, or around x1 to x15 of the Greenfield EUV in the previous section. The price tends to increase as the perceived chance of gaining consent increases. We propose to use the mid point, £100,000.

When a Greenfield site is allocated the market’s perceived risk of gaining planning consent is reduced, but significant risks remain. The value of such sites can vary greatly due to a wide range of factors. We have sought to estimate two reasonable benchmark values. In doing this, we have had regard to a number of things, such as:

- § current site availability;
- § guideline/average published prices;
- § the costs and risks involved in buying Greenfield land for residential development;
- § residual appraisal analysis; and
- § the value of unallocated Greenfield land.

The VOA’s average land price for Norwich, as published in January 2010 was £1,700,000 per hectare, for “a Greenfield suburban site of 0.5 hectare, ripe for development with planning permission being available”. The VOA state that their land prices are intended to be “illustrative rather than definitive”, and in our view tend to be based on historical transactions.

Greenfield sites currently available include a site for sale with planning consent in Sprowston. The site amounts to 1.7 Ha site and is available for £2,500,000 (£1,470,000 per hectare asking price) with residential consent.

We have sought to balance landowners’ return with the risks associated with buying Greenfield land for residential development. These include, but are not limited to: planning risk; potential for unforeseen and abnormally high infrastructure costs; promotion costs; changeable timescales; political risk; and occasional reliance on other sites to deliver.

With this in mind, the benchmarks we have chosen are:

- § Greenfield – allocated (lower value): £500,000 (30 times EUV)
- § Greenfield – allocated (upper value): £750,000 (50 times EUV)

These measures are several multiples of EUV, and around a third to a half of the approximate value of Greenfield land with consent.

Summary

In summary, our benchmarks are:

Type of site	EUV	Reasonable Uplift	Benchmark
Brownfield – high	£1,500,000	15%	£1,725,000
Brownfield – mid	£1,000,000	15%	£1,150,000
Brownfield - low	£500,000	15%	£575,000
Greenfield - allocated, upper value	£15,000	x 50	£750,000
Greenfield - allocated, lower value	£15,000	x 33	£500,000
Greenfield – unallocated	£15,000	x 7	£100,000

Where our calculated residual land value is less than EUV, we have assumed it is not viable and if it is in excess of the Benchmark, we have deemed it viable. For land values between EUV and the Benchmark, we have classified them as marginal.

7.2 Small Sites

Our study tests the viability of affordable housing targets on small sites, with schemes comprising between 5 and 14 units. The draft JCS proposes a threshold for affordable housing of 5 units or 0.2 hectares.

The types of site upon which small schemes such as these can be built are usually themselves comparatively small. The types of suitable site are diverse and can include: small Brownfield sites, existing single dwellings suitable for extension or redevelopment, pubs, residential backlands and garaging.

We have appraised each option using the same methodology and inputs as outlined elsewhere in this report. Other than three changes: reduced section 106 costs; a single construction rate at the upper end of the range described in Section 8; and a slightly reduced target profit. We have considered less scenarios than in the main study, and assumed: no social housing grant, affordable tenure split of 70/30, a neutral market and a single unit mix (comprising flats and houses).

The benchmarks we have used are subject to the same caveats as for the Greenfield and Brownfield benchmarks – we believe they are representative of the types of sites that could deliver these types of schemes, but actual existing use value could vary greatly on each site as a result of site specifics.

We have considered the existing use value of the types of sites that could accommodate small schemes such as these, which are typically 0.5 hectares or less. We have referenced current site availability, recent disposals of such sites (e.g. at auction) and the value of other asset types that may be suitable for residential redevelopment. We have arrived at estimates of a range of possible benchmarks for sites capable of being developed into a given number of units:

Units	5	6	7	8	9	10	11	12	13	14
Low	£50,000	£65,000	£80,000	£95,000	£110,000	£125,000	£140,000	£155,000	£170,000	£185,000
High	£150,000	£175,000	£200,000	£225,000	£250,000	£275,000	£300,000	£325,000	£350,000	£375,000

7.3 Caveat

Whilst we believe our benchmarks are well reasoned, they can only ever be a guide. There are a great deal of site specific variables that can affect existing use value.

8 Key Inputs

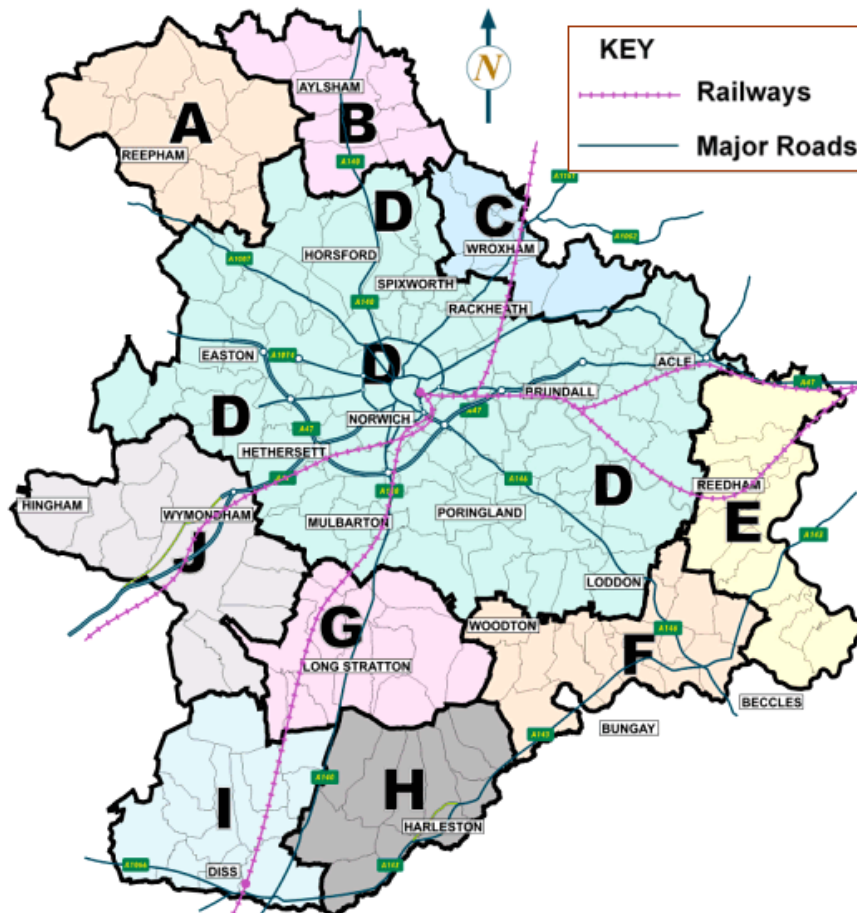
8.1 Introduction

Our approach, as discussed in the previous section, has been to appraise hypothetical sites in the Policy Area under various assumptions. We run through each of these variables in turn below.

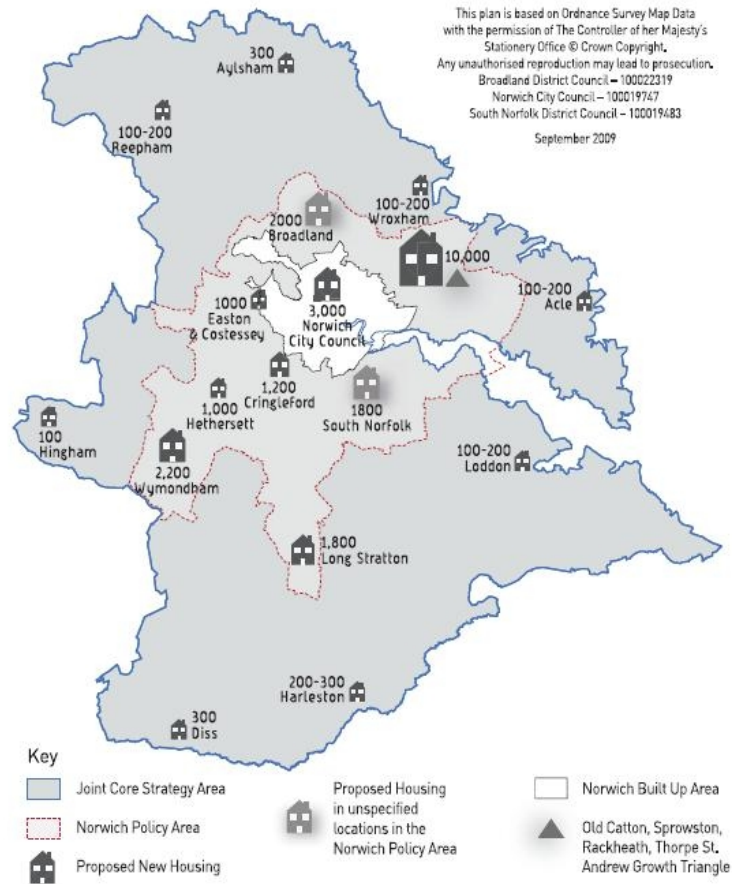
8.2 Market Value

The Policy Area covers around 1,150 sq. km. (720 sq. miles), and covers contrasting areas such as Norwich City centre, parts of the Norfolk Broads and numerous surrounding rural areas.

Ten housing market areas have been identified by GNDP:



Our research indicates that a significant proportion of new build development has taken place over recent years in areas C, D, G and J. These areas approximately cover the area, labelled in the JCS as the 'Norwich Policy Area', where the majority of locations for major new or expanded communities are situated:



We detail below the results of our comparable research. This is not intended to be an exhaustive list, but a guide to the approximate values being achieved on schemes in the policy area in 2007-8, when values were more buoyant, and 2009-10, when values were at or near the 'trough':

Scheme	Location	Local Authority	Approx. average house sales rate £ per sq m		Approx. average flat sales rate £ per sq m	
			2009-10	2007-8	2009-10	2007-8
St Michael's Place, Aylsham, (Hopkins Homes)	Aylsham	Broadland	£1,980		£2,030	-
Orchard way, Aylsham, (Norfolk Homes)	Aylsham	Broadland	£1,990	£2,370	-	-
Sprowston, Norfolk Homes	Sprowston	Broadland	£1,660	-	£1,800**	-
Read Mills (PJ Livesey)	Norwich	Norwich	£2,750	-	£2,730	£3,230*
Riverside Heights (Bryant Homes)	Norwich	Norwich	-	-	£2,070	£3,010
Fellowes Plains (Charles Church)	Norwich	Norwich	£2,600**	-	£2,570	-
Prospect Place (Hopkins Homes)	Norwich	Norwich	£2,210	-	-	-
The Rise (Bryant Homes)	Norwich	Norwich	£1,850**	-	£1,800**	-
The Walnuts (Persimmon)	Norwich	Norwich	£2,260	-	-	-
Queen Hills, (various developers)	Costessey	South Norfolk	£1,800	£2,000	£1,750	£2,330
Dereham Road, (Hopkins Homes/Bryant Homes)	Costessey	South Norfolk	£1,920	£2,310	£2,000**	-
Easton, (Norfolk Homes)	Easton	South Norfolk	£1,720	£2,110	-	-
Cringleford, (Bloor Homes)	Cringleford	South Norfolk	£1,880	-	-	-
Cringleford, (Twidgen Homes)	Cringleford	South Norfolk	£1,590	-	-	-
Cringleford, (Bovis)	Cringleford	South Norfolk	£1,920	-	£2,000	-

Scheme	Location	Local Authority	Approx. average house sales rate £ per sq m		Approx. average flat sales rate £ per sq m	
Poringland , (Norfolk Homes)	Poringland	South Norfolk	£1,730**	£2,070	£1,850	£2,480
Mulbarton, (Hopkins Homes)	Mulbarton	South Norfolk	£1,830	£2,480	£1,630	£2,100
Whispering Oaks, Wymondham (Matthew Homes)	Wymondham	South Norfolk	£1,500	£1,940	-	-
Gardeners Green Hingham (Abel Homes)	Hingham	South Norfolk	£2,200	-	-	-
Sancroft Square, Harleston (Persimmon)	Harleston	South Norfolk	£1,670	£1,880	£1,540	£2,090
Pitchers Place Harleston (Hopkins Homes)	Harleston	South Norfolk	£1,850	£2,200	-	-

* no transactional evidence, based on feedback from marketing agent at sales office

** asking price

We have appraised a range of private values on a £ per sq. m. basis to represent average values across a hypothetical scheme. We have appraised a range between £1,250 and £4,000 per sq. m (in £250 per sq. m. increments) to account for the current and recent trends in values across the policy area (around £1,500 to £3,250 per sq. m.), as well as allowing for potential future trends (i.e. potential for further decreases in value towards £1,250 per sq.m. or an increase to as much as £4,000 per sq. m.). For each private value used, we have calculated a corresponding affordable housing value.

In terms of assessing viability, we have concentrated on our opinion of the current and recent range in average values (as shown in the table above). We believe that this will be representative of the types of average values a scheme coming forward over the next few years could achieve.

As such we have considered two value ranges when assessing which scenarios are viable: a 'base value' range; and a 'refined value' range.

The 'base value' range takes a relatively pessimistic stance and covers the approximate lows and highs of the last few years. The 'refined value' range excludes the lowest values, and covers the approximate range from current values to the higher values seen over the last few years:

	Base	Refined
Norwich	£1,750 - £3,250 psm	£2,250 - £3,250 psm,
South Norfolk	£1,500 - £2,500 psm	£2,000 - £2,500 psm
Broadland	£1,500 - £2,500 psm	£2,000 - £2,500 psm

8.3 Density

A key driver for land value is density, and we have reflected this in our study.

Broadland District Council's current policy is for a density range of between 30 and 50 units per hectare.

South Norfolk's current policy is for 30 units per hectare and 27 units per hectare in rural areas.

Norwich's current policy states that densities for new development should be "normally at least 40 dwellings per hectare". Sites allocated in Norwich's current policy suggest a density range of between around 30 and 100 units per hectare, with the majority being in the range of around 30 and 60 units per hectare.

The draft JCS does not quantify a density range, but does indicate in Policy 1 that density should vary “according to the characteristics of the area, with the highest densities in centres and on public transport routes”.

We have appraised three densities: 30, 50 and 100 units per hectare. This covers the typical range of rural and urban development density ranges that we have seen in the policy area.

As we have assumed a 1 hectare site, this means that we have essentially appraised a 30, 50 and 100 unit scheme. However, the outcomes of our study can be applied ‘pro rata’ to sites of other sizes, assuming the density remains within the same range.

We have also appraised schemes as small as 5-14 units, running specific appraisals to assess the viability of various affordable housing targets on small schemes.

8.4 Build Costs

The cost of construction is usually the largest development cost by some margin. It is also one of the more difficult things to assess without knowing specifics about a site or proposed scheme.

We have used Building Cost Information Service (BCIS) comparator schemes as compiled by the RICS as a reference of current construction costs and adjusted in line with our own experience. These have been further adjusted using the relevant BCIS regional indices, and our assumed unit mix has been taken into account.

Our costs assume a clean and cleared site, with key services running up to a site boundary. Costs exclude VAT, and assume no abnormal costs, build over agreements, party wall issues etc. Allowance has been made for on site infrastructure.

As mentioned elsewhere in this report, each scheme and site is unique and, from a construction cost perspective, an independent detailed build cost appraisal would need to be undertaken for each scheme where viability is claimed to be an issue. That said, we have sought to reflect a typical range of build costs that would be representative of the schemes that we have appraised, and, consequently, representative of the types of developments that could come forward within the policy area. The range we have used is £1,040 to £1,190 per sq. m.

We have been asked to consider the impact of certain additional costs, such as meeting sustainability targets. Our research and experience suggests that the additional costs (compared to current standards) of reaching:

§ Level 4 Code for Sustainable Homes is around £7,000 per unit

§ Level 5 Code for Sustainable Homes is around £27,000 per unit

We have also run specific appraisals to assess the impact of these costs on viability and affordable housing targets.

8.5 Affordable Housing Target

This variable is the focus of the study. We have assessed three targets:

- § 40% (current proposed target in JCS, based on need)
- § 30%
- § 20%

Targets have been assessed on a per unit basis (rather than area or habitable room).

8.6 Affordable Housing Value

We use the software package Proval, which is used by a number of the leading RSLs, to appraise affordable housing packages. For each of the average market values outlined above, we have also run affordable housing appraisals to ascertain an accurate GDV.

8.7 Affordable Housing Tenure Split

Affordable housing can be delivered in two main tenures: social rented; and intermediate. Intermediate affordable can be delivered using various products. The most common, and the tenure which we have appraised, is NewBuild HomeBuy (shared ownership).

Social rented affordable housing tends to be worth less than intermediate affordable housing, and as such the mix of tenures that are required can have an effect on viability.

We have assessed three tenure splits:

- § 60% social rented and 40% intermediate
- § 70% social rented and 30% intermediate
- § 85% social rented and 15% intermediate

8.8 Social Housing Grant

A 'no grant' position has been taken as our base assumption. This is supported by stakeholder, comments made by the Planning Assessor, as well as the market's general perception that the future supply of grant is uncertain. Public subsidy (i.e. social housing grant) is still available, albeit likely to be more limited, and other methods of funding affordable housing may come into wide-spread use in the future.

The three options we have appraised are:

- § No grant (baseline position)
- § Grant on all affordable units
- § Grant on social rented units only

The grant rates that we have used have been taken from the average of all grant allocated to social rent or intermediate tenures over the three Local Authorities between Q4 2008 and Q4 2009 (most recent data available at the time of undertaking the study), which are:

- § Social Rent: £46,900 per unit
- § Intermediate: £26,100 per unit

8.9 Housing Market

We have sought to reflect changes in strength in housing markets. The main areas that this affects are:

- § a developer's perceived risk of undertaking a scheme, and consequently the profit that the developer seeks; and
- § the demand from the market for any completed units, and consequently the rate at which completed units sell.

Our study appraises three scenarios to reflect weak, neutral or strong market conditions, with sales rates varying between 2 and 7 units per month, and developer's profits as follows:

- § 17.5% on cost in a strong market;
- § 20% on cost in a neutral market; and
- § 25% on cost in a weak market.

8.10 Section 106 and CIL Costs

Section 106 costs can vary greatly from scheme to scheme. We have followed guidance available on Broadland's and Norwich's websites, which suggest around £7,000 per unit is sought.

We have discussed this sum with members of GNDP, who ordinarily work in a planning capacity within the Local Authorities that make up GNDP. Whilst both lower and higher costs are secured on a site specific basis, it was believed that £7,000 per unit is representative of an approximate average over the policy area.

The future of the Community Infrastructure Levy (CIL) is uncertain, as is the quantum of any payments that may be required as part of it. As an aside from the main study, we have been asked to consider the impact on viability of potential CIL costs.

We have considered the impact of the following planning obligation costs:

- § £7,000 per unit on all units (current section 106 cost assumption);
- § £10,000 per unit on private market units only (potential future CIL scenario); and
- § £15,000 per unit on private market units only (potential future CIL scenario).

8.11 Other

As part of the Study, we have assumed a number of fixed costs. These include:

- § Professional fees: 12% of construction cost
- § Contingency: 5% of construction cost
- § Planning costs: £300 per unit
- § Finance: 6.5%
- § Sales & Marketing Costs: 3.5% of GDV

Our Study, as requested by GNDP, builds on work already undertaken by a group of consultants led by AECOM. This work formed part of the evidence base for the Joint Core Strategy for Broadland, Norwich and South Norfolk, and was also used to inform the development of the Greater Norwich Integrated Development Plan.

The project built on the findings of the Greater Norwich Housing Market Assessment (Sept 2007), which identifies the requirement for dwellings, by number of bedrooms for each of the three districts. It also provides information on the extent to which recent completions have come forward as houses or flats. This information was used in conjunction with their own research, and input from housing officers from each of the local authorities. A final housing mix was arrived at that considered local housing demand, market conditions, and policy recommendations.

We summarise the mix below, which we have used in our appraisals:

	South Norfolk		Norwich		Broadland	
	Flats	Houses	Flats	Houses	Flats	Houses
Market	8%	92%	62%	38%	8%	92%
Affordable: Social Rented	50%	50%	62%	38%	36%	64%
Affordable: Intermediate	25%	75%	17%	83%	33%	68%
Total	22%	78%	57%	44%	19%	81%

8.12 Summary

In summary, the key variables that our study considers are:

Input	Options
Market Value	12
Build Cost	9
Affordable Housing Target	3
Affordable Housing Tenure Split	3
Social Housing Grant	3
Local Authority	3
Housing Market	3
Total number of options appraised	26,244

This excludes other appraisals to consider factors such as: schemes as small as 5 units; CIL costs; and sustainability costs. This adds several further options that have also been appraised.

9 Results

9.1 Our brief

The focus of our study is to test how the economic viability of development is affected by setting a percentage target for affordable housing.

We have also been asked to consider:

- § The impact on viability of a threshold of 5 units/0.2 Ha
- § Effect of varying CIL or other planning related costs
- § Effect of meeting future sustainability targets.

9.2 Output of our Model

The table below is an example of the output of our model. Along the top are the nine density and associated build cost assumptions we have used. Down the sides are the 12 average sales values that we have used.

For each iteration of the variables we have discussed in Section 8, a table such as the one below is filled with residual land values – one for each combination of sales value and density/build costs.

Build Cost (£psm)	£1,030	£1,090	£1,140	£1,030	£1,090	£1,140	£1,070	£1,130	£1,190	Build Cost (£psm)
Sales Value (£psm)	30 uph (low)	30 uph (mid)	30 uph (high)	50 uph (low)	50 uph (mid)	50 uph (high)	100 uph (low)	100 uph (mid)	100 uph (high)	Sales Value (£psm)
£4,000										£4,000
£3,750										£3,750
£3,500										£3,500
£3,250										£3,250
£3,000										£3,000
£2,750										£2,750
£2,500										£2,500
£2,250										£2,250
£2,000										£2,000
£1,750										£1,750
£1,500										£1,500

Each residual land value is then assessed against six benchmarks, as outlined in Section 7.1, which are colour coded. Black areas represent options that are not viable if built on land purchased for a certain benchmark value. Grey areas are those options that are marginal. The other colours represent an option that is viable at a given sales rate, build cost and density, if built on certain types of land:

Type of site	Colour
Brownfield - High (e.g. business use)	Dark Brown
Brownfield - Mid (e.g. industrial use)	Mid Brown
Brownfield - Low (e.g. low-end industrial use)	Light Brown
Greenfield - allocated, high	Dark Green
Greenfield - allocated, low	Mid Green
Greenfield - unallocated	Light Green

Where an option is shown as viable at, for example, a sales rate of £2,000 per sq. m., but not viable at £1,750 this means that it 'becomes' viable at some point between those two sales rates – in this instance it could become viable anywhere between £1,751 per sq. m. and £1,999 per sq. m.

Around 300 of these tables have been generated during this study, which translates to circa 30,000 residual land values. These are then in turn benchmarked against six values, providing over 180,000 tests of viability. It is not possible, or sensible, to display these results within this report. The tables will be made available to GNDP in a suitable format.

9.3 Key Findings

As discussed in section 8.2, the value ranges we have used when assessing which scenarios are viable are a 'base value' range, and a 'refined value' range.

The 'base value' range takes a relatively pessimistic stance and covers the approximate lows and highs of the last few years. The 'refined value' range excludes the lowest values, and covers the approximate range from current values to the higher values seen over the last few years:

	Base	Refined
Norwich	£1,750 - £3,250 psm	£2,250 - £3,250 psm,
South Norfolk	£1,500 - £2,500 psm	£2,000 - £2,500 psm
Broadland	£1,500 - £2,500 psm	£2,000 - £2,500 psm

The following sections discuss the scenarios that are viable, unviable or marginal at certain affordable housing targets and Social Housing Grant assumptions. Unless otherwise stated, the results will include all iterations of the other key variables: tenure split, local authority and market strength.

Our study treats the six benchmarks equally (i.e. 50/50 Greenfield/Brownfield). GNDP currently anticipate that more Greenfield sites will come forward for residential development than Brownfield sites over the Policy period. If this was the case, the results shown below may be unduly pessimistic, as the lower Greenfield benchmark values would likely make more scenarios viable.

Affordable Housing Target

Our results show that around 30% of scenarios are viable based on a target of 40% affordable housing and no social housing grant and the base range in values. 60% are unviable and 10% are marginal.

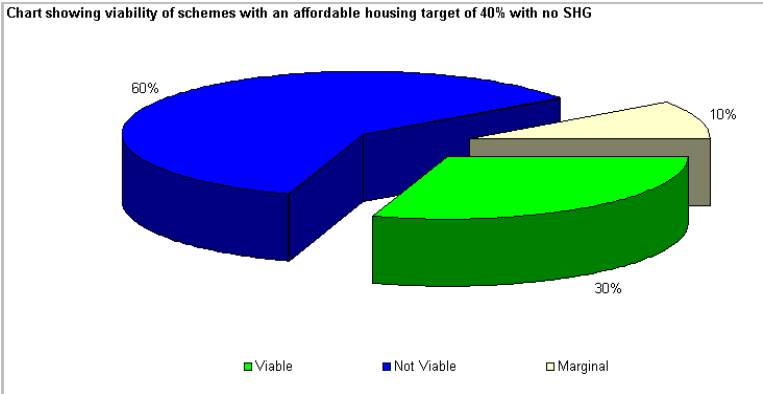


Chart 1: 40% affordable, no grant, base value range

Whilst 40% affordable housing is shown to be viable in a significant number of situations, there are inevitably also a significant number of situations where it is not viable. Reducing the affordable housing target to 30% and 20% has a noticeable effect on viability. But even at 20% there are several situations that are not viable. These are unavoidable characteristics of residential development, which highlight the need for flexibility when setting affordable housing policies.

To put this in context, the chart below shows the results of a 20% affordable housing target with no social housing grant and the base range in values:

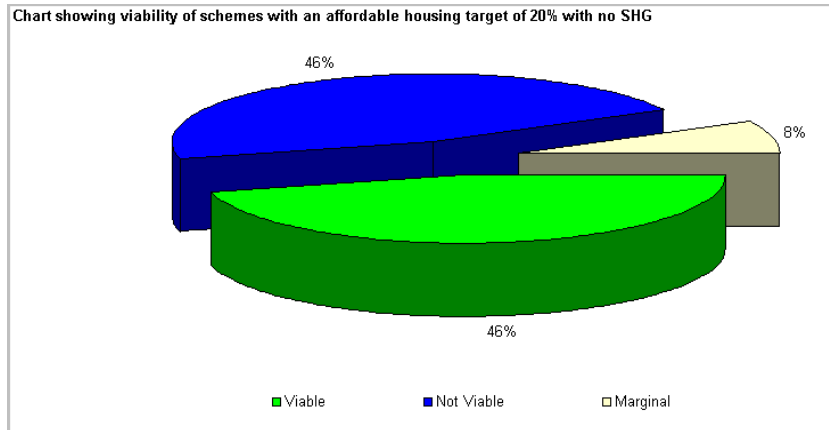


Chart 2: 20% affordable, no grant, base value range

In circumstances where private values are low, such as those seen in the lower points of the market in 2009 (e.g. £1,500 to £1,750 per sq. m. or below), our results show that the viability of any residential development is extremely constrained – regardless of affordable target, social housing grant, or any other variable appraised. This accounts for a large proportion of the unviable scenarios displayed above.

To illustrate, the chart below shows the results of the 40% affordable housing target appraisals without grant, based on the refined value range:

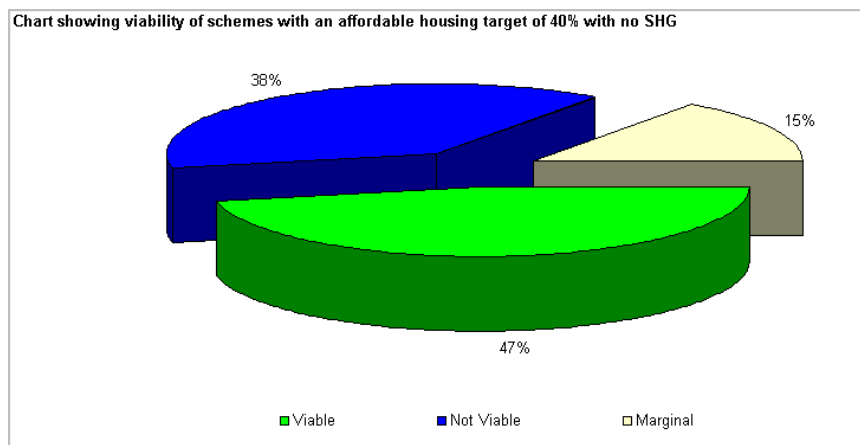


Chart 3: 40% affordable, no grant, refined value range

In our opinion 30%, or up to 50% if using the refined value range, represents a significant proportion of potential schemes that would be viable with 40% affordable housing and without grant.

Social Housing Grant

As mentioned above, our base position is a 'no grant' scenario, and this is shown to be viable in a significant proportion of normal circumstances. The inclusion of grant, either on all units or just on social rented units, has a considerable impact on viability. The chart below is the same as Chart 1, but including social housing grant:

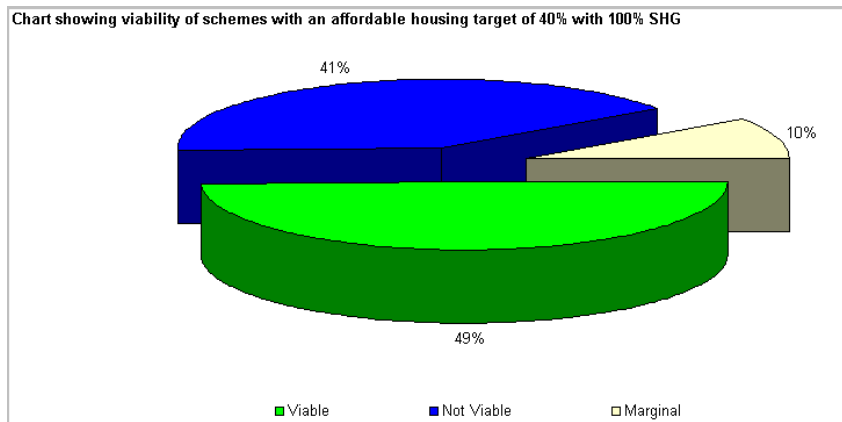


Chart 4: 40% affordable, with grant, base value range

The chart below is the same as Chart 3, but with grant:

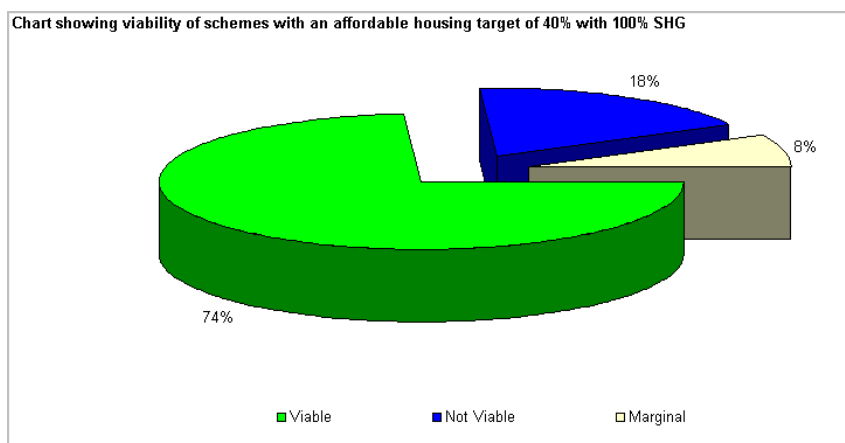


Chart 5: 40% affordable, with grant, refined value range

The HCA's own appraisal model, which works in a similar way to our model, is used to assess scheme viability. The HCA use their model to choose which schemes should be awarded grant using a similar principle as our model: residual land value benchmarked against Existing Use Value.

As such we would anticipate that, where our model indicated a scenario is either marginal or 'just' unviable, the developer could make a case to the HCA for grant funding on the affordable housing in order to make the scheme viable.

Tenure Split

The impact of changing the mix of affordable tenures has the most subtle effect on viability out of all the key variables. To illustrate, in one scenario, social rented units are worth £840 per sq. m. and intermediate units are worth £1,450 per sq. m. The below table shows how the value of the affordable housing changes by changing tenure split using the 50 units/Ha option and 40% affordable housing:

Tenure	Value £psm	Option 1	Option 2	Option 3
Social Rent	£840	60%	70%	85%
Intermediate	£1,450	40%	30%	15%
Average £psm		£1,084	£1,023	£932
Total Value		£1,610,824	£1,520,178	£1,384,209
Difference		£0	£90,646	£226,615

Whilst not insignificant sums of money, this shows that drops in revenue due to changing tenure splits are relatively small when compared to other costs/revenues. As such this only affects the most marginal of schemes.

The charts below show the effect of changing from 60/40 to 85/15, on a 40% affordable, no grant scenario:

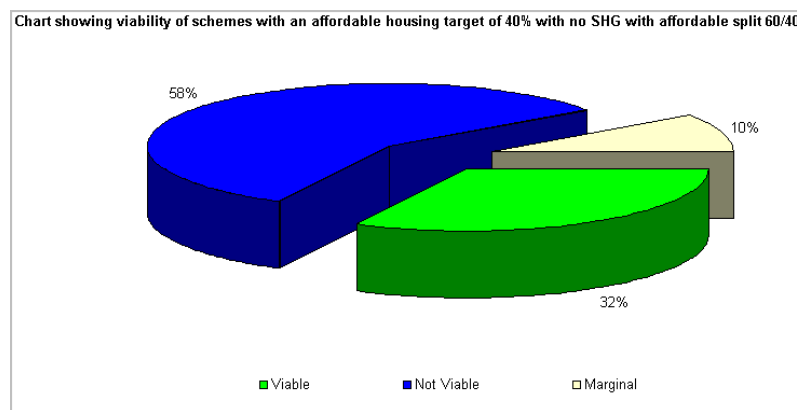


Chart 6: 40% affordable, no grant, base value range, 60/40 split

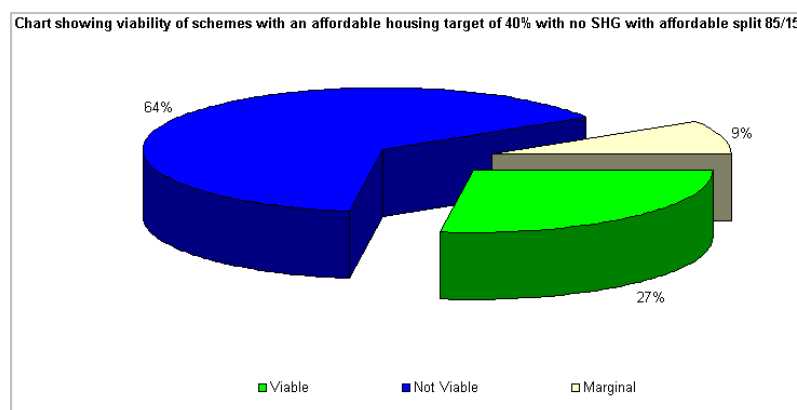


Chart 7: 40% affordable, no grant, base value range, 85/15 split

Housing Market Strength

Housing market strength has an obvious effect, with weak markets suppressing viability, and strong markets assisting it. The effect is significant, but not to the same extent as when changing social housing grant. This is not an area that should necessarily affect policy, but something that will need to be considered if considering individual site specifics. To illustrate, the below charts show the effect of changing from weak to strong housing market conditions, on a 40% affordable, no grant scenario.

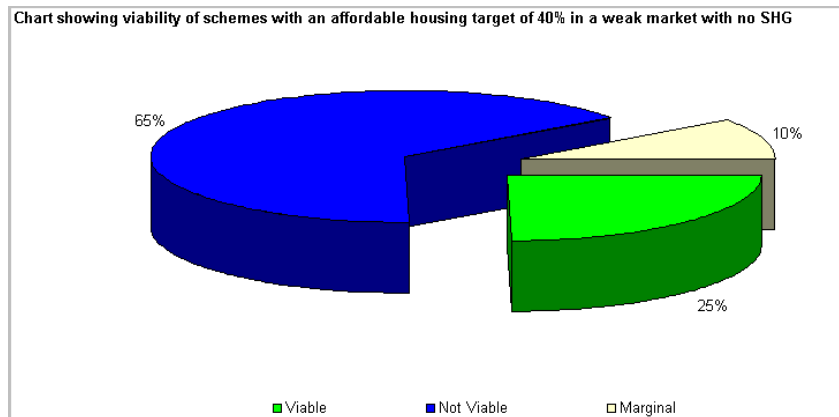


Chart 8: 40% affordable, no grant, base value range, weak market

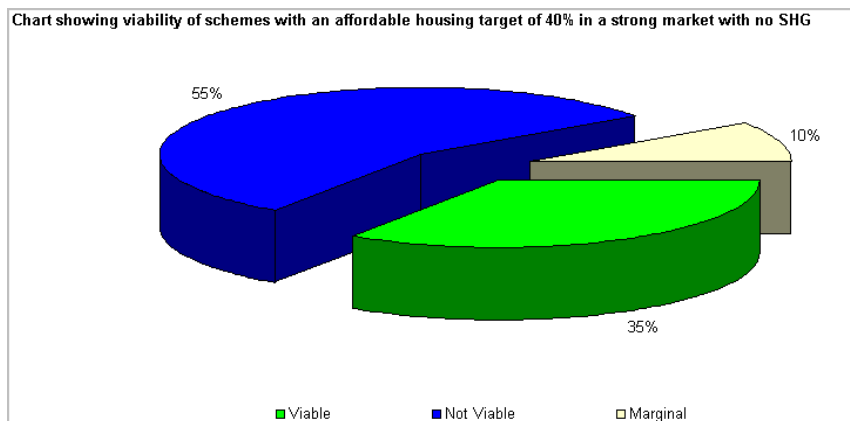


Chart 9: 40% affordable, no grant, base value range, strong market

Variance across Local Authority areas

We have looked at how viability changes between each of the three Local Authorities. Market Values, Existing Use Values and assumed unit mix are the key factors that have been varied. The net effect is that viability remains fairly consistent over the three areas with a 40% affordable target.

Effect of Scheme Size

We have tested various scenarios for small sites of between 5 and 14 units.

As the costs and revenues involved are smaller compared to other parts of this study, introducing a quantum of affordable housing has a pronounced effect. We have found that the viability of small schemes would be highly constrained if introducing a 40% target at a threshold of 5 units.

A common approach is to introduce the target by phasing it in. We have undertaken appraisals based on a phasing the target in from 5 to 15 units as follows:

Total Units	Target affordable units	Total Units	Target affordable units
5	0	11	3
6	1	12	4
7	1	13	4
8	2	14	5
9	2	15+	40%
10	3		

Do to the relatively small numbers of affordable units involved here we have appraised all affordable units as social rented units. In practice the council could request a proportion of the affordable units to be delivered as intermediate housing, which may improve viability.

We believe that this part of the study takes a relatively pessimistic stance, such as our affordable tenure assumption above, and with regard to costs. These types of developments may be delivered as a conversion of an existing building, which may mean that the costs of construction is lower than our assumed rate. The types of developer are often smaller outfits than developers who deliver larger schemes. This may mean that they do not operate on such commercial terms, such as requiring specific profit returns, or such a large marketing or contingency budget. There may also be an element of self-participation in the project: perhaps assisting with construction, or project management. These factors could reduce development costs and potentially improve viability.

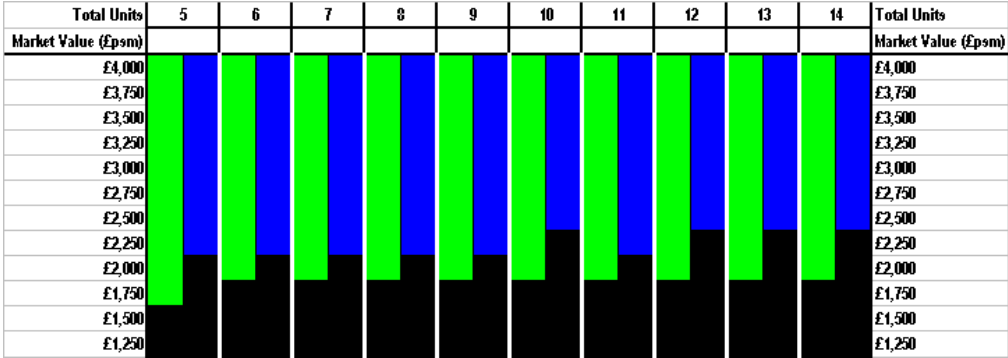
Below is an example of the appraisal output. This is similar to the example shown above for the results concerning larger sites. In this instance, we have benchmarked against two measures, a low and a high, as laid out in section 7.2. Green represents options that are viable based on a certain low benchmark. Blue represents options that are viable based on a high benchmark.

Below is a table displaying the results without social housing grant:

Total Units	5	6	7	8	9	10	11	12	13	14	Total Units
Market Value (£psm)											Market Value (£psm)
£4,000											£4,000
£3,750											£3,750
£3,500											£3,500
£3,250											£3,250
£3,000											£3,000
£2,750											£2,750
£2,500											£2,500
£2,250											£2,250
£2,000											£2,000
£1,750											£1,750
£1,500											£1,500
£1,250											£1,250

This shows that many values in the base value range, and most within the refined value range, are viable.

The chart below shows the results with social housing grant:



Our appraisals demonstrate that a 40% affordable housing target, introduced in this way and with no social housing grant is viable in most scenarios. Introducing grant has a positive impact on viability. Viability may be further improved by introducing a proportion of intermediate housing.

CIL

Our main study includes a base assumption of £7,000 per unit for Section 106 costs. We have been asked to also consider the impact of alternative planning obligation costs:

- § £10,000 per unit on private market units only (potential future CIL scenario)
- § £15,000 per unit on private market units only (potential future CIL scenario)

We have run a number of scenarios to test the impact of these different costs. The result of changing these costs, assuming all other inputs remain the same, is negligible. As this assumes CIL costs will be charged on private units only, the total sum of money reduces slightly in the £10,000 per unit option, and increases slightly in the £15,000 per unit option.

This only affects the viability of a small number of marginal options.

Sustainability Targets

We have also been asked to consider the impact of the additional cost of meeting certain sustainability targets. Our research and experience suggests that the additional costs (compared to current standards) of reaching:

- § Level 4 Code for Sustainable Homes is around £7,000 per unit
- § Level 5 Code for Sustainable Homes is around £27,000 per unit

The effect of this is more noticeable than the impact of the CIL scenarios above. The first option adds around 7-9% to total construction costs, which has a downward effect on viability, but would still be achievable in many situations.

The cost to attain Code 5 has a significant impact on viability, adding circa 30% to the total construction costs. Assuming all other inputs stay the same this makes a large proportion of the options unviable.

If sustainability targets are to be achieved in line with these levels today, other development costs such as affordable housing may have to be reduced. Looking forward, other factors such as sales values may have to increase to help viability as sustainability requirements, particularly Code 5 and above, come into effect.

10 Conclusions

10.1 Conclusions

This study has tested the financial viability of delivering various amounts of affordable housing under several different delivery options and cost and revenue scenarios. This has been done by using methodology commonly used elsewhere, which compares residual land values to existing use values.

The study has considered the impact on viability as a result of changing the following:

- § Average sales values and affordable housing values
- § Density and build costs
- § Affordable housing targets
- § Affordable housing tenure splits
- § Social Housing Grant
- § Strength of housing market
- § Scheme size
- § Section 106 and CIL costs
- § The cost of meeting sustainability targets

We have considered around 25,000 residual land values, which we have compared to six benchmarks. These represent reasoned estimates of the existing use and benchmark value of different types of Greenfield and Brownfield land, which may be purchased by a developer as a potential development site.

Individual Existing Use Values and benchmarks are unique to each site, and therefore cannot be ascertained as part of a high level study such as this. Similarly, we have calculated a large number of residual land values to represent 'typical' schemes that could come forward, but there are in reality an infinite number of iterations of the various inputs.

Our key conclusions are as follows:

- § viability is most sensitive to what are usually the three greatest costs and revenues in a residual cashflow: sales values, construction costs and the cost of acquiring the land (in this case our benchmarks);
- § we have seen unprecedented market conditions over the last few years. The sales values seen in the lowest points of the market in 2008-9 make a large proportion of scenarios in our model unviable, regardless of affordable target or any other inputs;
- § a significant proportion of our appraisal outcomes are shown to be viable with an affordable housing target of 40% and no social housing grant. This

increases greatly if disregarding results from the lowest sales values (see table at start of Section 9.3) and/or if including an element of social housing grant;

- § considering sales values in a range between today and the peak in circa 2007, which we believe will be representative of a values in the short to medium term future, a far greater number of scenarios are viable at 40% affordable housing without grant. Over the course of the policy, sales values may increase even further, which would serve to improve viability assuming other factors did not change materially;
- § the Study treats all six benchmarks equally (i.e. 50/50 Greenfield/Brownfield), but it is currently anticipated that more Greenfield land will come forward for residential development, which may make a greater proportion of the scenarios tested viable due to the lower benchmark values;
- § there are differences between the three local authorities in terms of viability, but not to such a degree that we would suggest diverging from an area wide policy;
- § our models suggest that a 40% target affordable housing policy is suitable. However, any policy would need to be carefully worded to account for site specific viability;
- § Social Housing Grant has a significant effect on scheme viability, but its future is in doubt. Social Housing Grant, or another (at present unknown) method of financing affordable housing, will still play an important role in the housing market. The HCA assess eligibility for grant using similar methodology to this study, referencing viability. It is important that developers and RSLs are encouraged to seek grant on marginal or unviable schemes. The addition of grant alone makes a large proportion of the options viable that were previously unviable without grant;
- § where existing use values and benchmarks are high, scheme viability is particularly constrained. Generally speaking this is less relevant in the higher density scenarios and/or where values are towards the upper end of the range tested;
- § the 40% target will be difficult to support on small schemes such as those between 5-15 units. Increasing the threshold or phasing the 40% target in will assist with this;
- § changing the split of affordable housing tenures has a marginal effect on viability. Changing this variable be unlikely to have material effect on most schemes, but could be an important option for those that are marginal.

10.2 Recommendations

Our models show that a 40% affordable housing target is achievable in a significant number of scenarios, assuming no social housing grant. The proportion that are viable increases greatly when including an element of social housing grant, and/or when ignoring the lowest sales values.

In our opinion a strategic policy wide target of 40% affordable housing is appropriate. There are however several scenarios where this will not be viable, especially where private sales values are low and construction costs or benchmark values are high. We would suggest that the policy is worded to allow an applicant to demonstrate that a proposed scheme is not viable, with the key costs and revenues being independently verified.

Seeking social housing grant, altering the proportions of affordable tenures required, or reducing the overall amount of affordable sought on a certain scheme would be suitable remedies if the scheme is shown to be unviable.

A 40% target is not currently achievable for most small scheme scenarios appraised. We would suggest that GNDP consider either increasing the threshold and/or consider a mechanism to phase the target in.

Changing the proportions of affordable housing tenures has a subtle effect on scheme viability, and we would suggest that a target within the range of 60/40 and 85/15 (social rent/intermediate) can be set based on need, without having a significant impact on viability.

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