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Dear Steph,

Response to Questions Raised on the Greater Norwich Affordable Housing Viability Study

Many thanks for your letter dated 8th July 2010, addressed to GNDP and Drivers Jonas Deloitte. There appears to have been some confusion over certain parts of the Study, and we are writing with the aim of answering or clarifying the points raised in your letter. We will run through each point raised in the same order as your letter.

First though, it is important to stress that the stakeholder event was carried out to present our *proposed* methodology and inputs, and to use any feedback received to fine tune it. You'll notice from the slides (available on GNDP's website: http://www.gndp.org.uk/downloads/EIP-Affordable-housing-viability-study-stakeholder-event-28-June-2010-presentation-and-minutes.pdf) that in each case we use the word 'proposed'. We had neither started the modelling work nor finalised the inputs prior to the event - this was the whole point of the event - so any outcomes or conclusions could not have been in any way pre determined. The comments that we did receive were useful and have helped us refine the study.

We run through each point raised your letter in the same order:

1. The majority of affordable housing viability studies are based on hypothetical sites and hypothetical residential schemes. This is the accepted way of testing affordable housing policies at a strategic level, having been accepted by both the Planning Inspectorate and tested at appeal.

We have appraised over 150,000 options, based on varying factors such as: scheme size; mix; type of site; build cost; Market Value etc. We feel the range of options tested provides a robust basis for testing development viability in relation to affordable housing requirements.

Where affordable housing targets and viability become an issue on a specific site, the proposed policy allows for an applicant to seek to demonstrate this to the Local Authority.

For clarity's sake, the picture of a playing field in one of our slides at the stakeholder event is simply a picture. It was only intended to illustrate 'a site', and is not a particular focus of the study.

2. Our model will be made available on the GNDP website shortly. There is no reason to use the GLA toolkit or HCA's EAT toolkit, as neither of these are required by policy in the GNDP area. Both these models have their own flaws, and do not have the complexity or functionality we required for this Study. Our model is a MS Excel based replica of Argus (previously Circle) Developer, an industry standard site appraisal model.

3. We note your comment on the Market Value range mentioned during the stakeholder event. We also note that your opinion of current Market Values is between £170 - £250 per sq. ft. (£1,830 to £2,690 per sq. m.). The stakeholder event was held to discuss proposed methodology and to invite discussion and comments from stakeholders on the various proposed inputs. As a result of comments made by others, and our own research following the event, we have run the study using a Market Value range of between £140 and £280 per sq. ft. (£1,500 to £3,000 per sq. m.).

4. We appreciate that there will be a small number of very large sites which will deliver affordable housing. Where affordable housing targets and viability become an issue on a specific site, the proposed policy allows for an applicant to seek to demonstrate this to the Local Authority.

5. As we highlighted during our presentation, we have run sensitivity tests based on an additional cost for reaching Code for Sustainable Homes Levels 4 and 5. The cost of reaching Level 6 is relatively unknown as to date it has only been delivered in a handful of unique/one-off cases. Also, it will not be a requirement for several years, by which time other variables may have changed beyond the range we have tested. We felt that appraising Level 6 using current assumptions would be of little relevance.

If abnormally high build costs on a specific site makes viability an issue on a specific site, the proposed policy allows for an applicant to seek to demonstrate this to the Local Authority.

6. Our presentation proposed a profit on cost of 17.5%, 20% and 25%, depending on market strength. Profit on cost vs Profit on GDV is a matter of opinion. Our experience is that more and more banks and developers are referring to profit on cost. Costs have been less volatile over the last few years (compared to GDV) and has become a more acceptable and logical measure for performance (i.e. spend £1, get 20p profit).

Where viability becomes an issue on a specific site, the proposed policy allows for an applicant to seek to demonstrate this to the Local Authority.

7. The s.106 costs are based on policy (in Broadland and Norwich) and recent data on agreed contributions in the GNDP area. We can find nothing to support a higher average for modelling purposes. Taking everything into account, we feel that the figure of £7,000 is actually slightly pessimistic. In any event, where viability is an issue on a specific site, the proposed policy allows for an applicant to seek to demonstrate this to the Local Authority.

8. As mentioned above, the stakeholder event was held to discuss proposed methodology and to invite discussion and comments from stakeholders on the various proposed inputs. As a result of comments made by others, and our own research following the event, we have run the study using benchmark land values ranging from £100,000 to £1,700,000 per hectare.

9. As mentioned during the stakeholder event, we have assumed no social housing grant as a base position. That said, whilst the overall pot for social housing grant is expected to reduce in the short to medium term, it will still play an important and vital part in the housing market. So, we agree it should not be assumed, but it certainly should not be ignored. The HCA's own model works in a similar way to ours (testing viability based on residual land value and a benchmark), so it is a reasonable assumption that where sites are shown to be marginal or 'just' unviable in our study, they could present a case to the HCA for grant funding.

Our grant assumptions are based on an average of all grant allocated within the GNDP area since 2009 up to the most recent data available.

10. As mentioned during the stakeholder event, we have used industry standard affordable housing appraisal software, Proval. This is a widely accepted model, used by many RSLs to calculate offer prices for s.106 opportunities. We have generated values for each tenure, private Market Value, and mix of unit types that we have tested, which broadly follow suit with the numbers stated in your letter.

11. GNDP will respond separately on this point.

12. I think this has been answered in other questions above.

If you have any further queries or concerns please do contact us (details are within the header of this letter).

Yours sincerely

David Wakeford
for Deloitte LLP (trading as Drivers Jonas Deloitte)