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Affordable Housing Viability Study: Addendum Report following introduction of 'Affordable Rent' tenure

Prepared for

South Oxfordshire District Council

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BNP PARIBAS REAL ESTATE

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1 Introduction

1.1 Background

In 2009, BNP Paribas Real Estate South undertook an assessment of the viability of developments within the South Oxfordshire District and their ability to achieve the Council's affordable housing target. The study concluded as follows:

- That there was clear evidence that, over the plan period, 40% affordable housing would be deliverable in some circumstances and that the level of private sales values and existing use values would be crucial to determining delivery;
- The results indicated that an affordable housing threshold of 3 units would be financially viable in some circumstances;
- Although some sites in agricultural use might be able to meet the target more easily than sites in other existing uses, this did not warrant the adoption of variable targets;
- The adoption of different affordable housing targets in different areas across the District would inevitably result in market distortion;
- That there was little evidence to suggest that a sliding scale approach for sites of more than 5 units would deliver more affordable housing. On sites of less than 5 units, the study recommended that the Council might consider a hybrid approach of on-site delivery and a commuted sum (to deal with fractions of units when the 40% requirement is applied);
- Commuted sums in lieu of the on-site provision of affordable housing should not adversely affect viability; and
- Existing use value and alternative use values are one of the key variables that can impact on the provision of affordable housing.

The appraisals underpinning the study were based on varying tenure mixes, ranging from 80% social rent to 20% shared ownership, to 65% social rent and 35% shared ownership. The appraisals were run on a with and without grant assumption. Where grant was included, it was assumed to amount to £50,000 per unit for social rented housing and £25,000 per unit for shared ownership.

In February 2011, the Department for Communities and Local Government ('CLG') and the Homes and Communities Agency ('HCA') published its '*2011-15 Affordable Homes Programme – Framework'* document. This document sets out the government's intentions regarding grant funding for affordable housing and changes to affordable housing tenures. This document was clearly published after the publication of the Council's Affordable Housing Viability Study, which was published in November 2009. This addendum note updates the Viability Study to reflect the changes in the government's framework document. It should be read in conjunction with the November 2009 study.

1.2 The Government's intentions

The Framework document is pertinent to the delivery of affordable housing through planning obligations for the following reasons:

- Firstly, the amount of grant funding has been substantially reduced (from £2.8 billion per annum in the 2008-2011 programme to £0.55 billion per annum) and the first two years funding is already committed;

- Secondly, the Framework document (paragraph 5.14 and 5.15) states that affordable housing delivered through Section 106 agreements will not receive grant support. The effect is that the landowner/developer will bear full responsibility for providing the subsidy to deliver affordable housing; and
- Thirdly, the Framework document sets out the government's intention to largely replace social rented housing with the new *Affordable Rent* tenure, to be let at rents of up to 80% of market rents. In contrast, social rents are significantly lower (typically between 40% to 50% of market rents). The increased rental income will, in principle, enable registered social landlords to pay higher capital values for affordable rented units than would otherwise be the case if the affordable housing was provided as social rented units (without grant).

1.3 Report structure

This addendum report should be read in conjunction with the original Affordable Housing Viability Study (November 2009).

The remaining sections of this addendum report are structured as follows:

- Section 2 outlines the changes to our appraisal assumptions, including private sales values, build costs and the implications of the new Affordable Rent tenure and withdrawal of grant funding;
- Section 3 outlines the results of our appraisals incorporating the changes outlined in the previous section;
- Section 4 re-considers the 'key questions' addressed by the original 2009 study in light of the revised appraisals; and
- Section 5 sets out our conclusions and recommendations.

2 Changes to key assumptions

This section outlines changes made to key appraisal assumptions, reflecting either changes in the affordable housing policy approach of central government, or changes that result from improvements in market conditions. Full details of all our assumptions and their rationale are set out in detail in our November 2009 report.

2.1.1 Sales Values

In our November 2009 report, we noted that residential values in the District reflected national trends (in terms of falling values), with variations between areas across the District. The values underpinning the assessment were sourced in April/May 2009. We have reviewed value trends over the intervening period. Land Registry data (see figure 2.1.1 below) indicates that the market hit its lowest point in the recession at the time we were gathering data. Since that time, values across the County of Oxfordshire increased by 11.4% over the subsequent two years to May 2011. However, sales values remain 5% below their February 2008 peak.

Figure 2.1.1: Changes in market values – December 2006 – May 2011

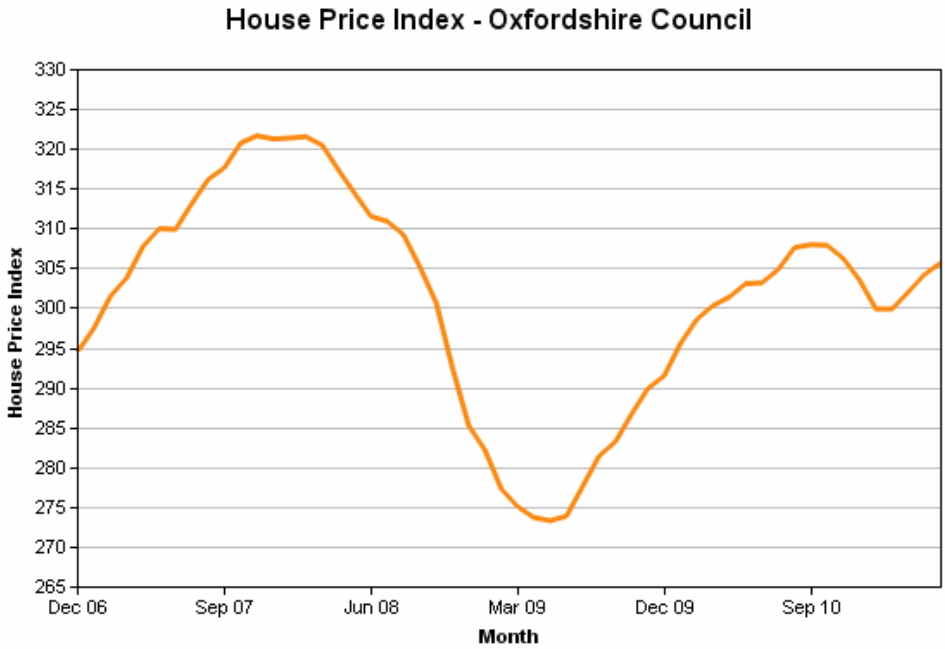

Table 2.2.2 below shows the range of sales values achieved in the District in 2007, together with example areas in the adjacent column. This table shows the original values assumed in our 2009 assessment and revised values based on the subsequent recovery in the market to May 2011.

Table 2.2.2: Sales values in South Oxfordshire, 2011, 2009 and 2007

Sales values – May 2011 (£s per sq metre)	Example areas	Sales values – May 2009 (£s per sq metre)	Example areas	Sales values – 2007 peak (£s per sq metre)	Example areas
£2,691 - £2,959		£2,691 - £2,959	**(A)** Wallingford, Didcot, Thame surrounding area, Wheatly	£2,691 - £2,959	
£2,960 - £3,228	**(A)** Wallingford, Didcot, Thame surrounding area, Wheatly	£2,960 - £3,228	**(B)** Thame Town Centre, Woodcote, Cholsey, Goring	£2,960 - £3,228	
£3,229 - £3,497	**(B)** Thame Town Centre, Woodcote, Cholsey, Goring	£3,229 - £3,497	**(C)** Sonning Common, Nettlebed, Stonor, Watlington, Ewelme	£3,229 - £3,497	**(A)** Wallingford, Didcot, Thame surrounding area, Wheatly
£3,498 - £3,766		£3,498 - £3,766		£3,498 - £3,766	**(B)** Thame Town Centre, Woodcote, Cholsey, Goring
£3,767 - £4,036	**(C)** Sonning Common, Nettlebed, Stonor, Watlington, Ewelme	£3,767 - £4,036	**(D)** Henley, Rotherfield Peppard, Middle Assendon, Benson	£3,767 - £4,036	**(C)** Sonning Common, Nettlebed, Stonor, Watlington, Ewelme
£4,037 - £4,305		£4,037 - £4,305		£4,037 - £4,305	
£4,306 - £4,574	**(D)** Henley, Rotherfield Peppard, Middle Assendon, Benson	£4,306 - £4,574		£4,306 - £4,574	**(D)** Henley, Rotherfield Peppard, Middle Assendon, Benson
£4,575 - £4,843		£4,575 - £4,843		£4,575 - £4,843	
£4,844 - £5,112		£4,844 - £5,112		£4,844 - £5,112	

Source: comparable sales evidence and local agents. May 2011 figures based on May 2009 figures, adjusted by change in Land Registry House Price Index for Oxfordshire

2.1.2 Base Construction Costs

Our November 2009 study assumed a range of base construction costs reflecting density considerations ranging from £971 per square metre to £1095 per square metre (net), incorporating the costs of meeting Lifetime Homes

requirements, but excluding infrastructure costs. These costs were drawn from the RICS Building Cost Information Service (BCIS).

The BCIS Tender Price Index indicates that tender prices have fallen by 3.4% between the second quarter of 2009 and the third quarter of 2010 (which is the most recently published data available). We have therefore reduced our base construction cost assumption by 3.4%, resulting in a range of £938 per square to £1,058 per square metre.

2.1.3 Developer's profit

Our 2009 study assumed developer's profit on the private housing element of the schemes at three alternative levels; 15% of GDV, reflecting better market conditions prior to 2008; 20% of GDV, reflecting current market conditions in 2009; and 25% of GDV, reflecting a potential worsening of conditions. Following the recovery which began in the second half of 2009, development risk has abated somewhat and the prospects of banks increasing their expectations of scheme profit have receded. We have therefore modelled the schemes assuming a profit of 20%, reflecting current and medium term conditions, and 15% profit, reflecting a long term return to lower profit expectations.

2.1.4 Affordable Housing tenure

The Council's existing affordable housing policy is to require 75% social rented and 25% shared ownership housing. Our updated appraisals run this mix, alongside a replacement of Social Rent with Affordable Rent. The range of appraisals is shown in Table 2.1.4 below.

Table 2.1.4: Affordable housing tenure mix

Mix Number	% affordable rent	% social rent	% intermediate
Mix 1	-	75	25
Mix 2	-	65	35
Mix 3	-	80	20
Mix 4	75	-	25
Mix 5	65	-	35
Mix 6	80	-	20

2.1.5 Affordable housing values

All our appraisals are run on a nil grant basis, to reflect the presumption against grant for Section 106 sites, i.e. schemes delivered by a private sector developer who is not a Homes and Communities Agency investment partner.

As in our 2009 assessment, our appraisal model adopts as an input a fixed value that an RSL would be expected to pay for completed units of affordable housing. For rented housing, the level of rent charged is the critical factor in determining capital value. For social rented units, RSLs are assumed to pay £785 per square metre and *up to* £3,014 per square metre for intermediate housing. As intermediate housing is linked to market values, the values will fall if market values are lower.

Determining the rent levels for Affordable Rent units is made somewhat complex by affordability and the Local Housing Allowance. The HCA *Affordable Homes Programme: Framework* document states that RSLs should have regard

to Local Housing Allowances ('LHAs') when setting rents for new Affordable Rent units. LHAs are pegged to the 30th percentile of local market rents and can therefore be considerably lower than average market rents.

In setting appropriate rent levels for Affordable Rent units, we have therefore had regard to LHAs, which will act as a 'cap' in some circumstances, particularly on rents for larger units. We have also excluded the rents above the 90th percentile, as these are outlying exceptional properties, which are not reflective of the remaining units.

Table 2.1.5.1: Rent levels in South Oxfordshire (£s per week)

Unit type	Min rent	Max rent	LHA rate	90th percentile
Shared	48	126	74	94
1 bed	88	280	137	178
2 bed	121	458	167	243
3 bed	117	600	199	317
4 bed	194	1019	285	473

Source: Valuation Office Agency

Where 60%, 70% or 80% of the market rent does not exceed the LHA rate, these rents are adopted for modelling purposes. However, if LHA would be exceeded by these rents, the LHA is adopted as the 'Affordable Rent'. The resulting rents are shown in Table 2.1.5.2.

Table 2.1.5.2: Affordable Rents in South Oxfordshire (£s per week)

Unit type	60% of market rent	70% of market rent	80% of market rent
Shared	56	66	74*
1 bed	107	125	137*
2 bed	146	167*	167*
3 bed	190	199*	199*
4 bed	284	285*	285*

* indicates where rents would have exceeded the LHA and have therefore been capped at appropriate LHA level.

We then capitalised the gross Affordable Rents and deducted appropriate allowances for voids, bad debts, management and maintenance, arriving at the following capital values:

- 60% of market rents: £1,884 per square metre;
- 70% of market rents: £2,034 per square metre; and
- 80% of market rents: £2,067 per square metre.

The very modest differences in capital values between 60%, 70% and 80% of market rents reflects the affect of capping by the LHA. The rented housing mix

in our appraisal is weighted heavily towards two bed units and above, which will be affected by LHA caps more significantly than one bed properties.

3 Appraisal results

The results of our analysis are presented in the same format as the analyses in our main study. An annotated guide to the data tables is provided on the next two pages.

The full set of data tables are attached as Appendix 1, which also show the residual land values from which the symbols are derived. The data tables show the following variables:

- Affordable housing 10%, 20%, 30%, 35% 40%, 45% and 50% of units;
- Each of the above with a social rent to shared ownership split of 75%:25%, 65%:35% and 80%:20%;
- As an alternative to the previous bullet point, an affordable rent to shared ownership split of 75%:25%, 65%:35% and 80%:20%.
- Each of the above with other planning obligations of £5,000 and £15,000;
- Each of the above with profit levels of 15% and 20%.

For each affordable housing percentage, there are 48 separate tables, each comprising 112 residual valuations, showing the outputs of some 5,376 residual valuations. These residual valuations are then compared to four different existing use values, resulting in the analysis of 21,504 different development scenarios. The results dataset is attached as Appendix 1.

Tables 3.1.1 to 3.1.4 summarise the appraisal outputs and compare the viability outcomes of a social rent and shared ownership tenure mix to an affordable rent and shared ownership tenure mix. The summary tables show the results across the full range of sales values (£2,691 to £6,189 per square metre) for a 75%:25% affordable tenure mix, on a 45 units per hectare scheme. The results are shown with and without grant; with Section 106 contributions of £5,000 and £15,000 per unit; and profit levels of 15%, 20% and 25%. The results are split between the four existing use values.

The results indicate that the adoption of the Affordable Rent tenure would wholly or partially mitigate the loss of grant funding, although the extent to which the Council's target of 40% affordable housing can be met depends upon the rent level selected. However, as noted in the previous section, it appears that little benefit would be gained by increasing Affordable Rents above 60% of market value due to LHA caps.

Guide to appraisal outputs

The appraisal outputs contain a series of tables, showing different scenarios (eg level of affordable housing, tenure mix, profit levels and planning obligations), as shown on the Index page. At the top of each page, we show the residual values from a series of hypothetical schemes, which are then compared to four different existing use values in the tables below. The first table below shows the layout of the residual values:

Each cell shows the residual land value of a hypothetical scheme. For example, the cell we point to here is a 40 unit per ha scheme, with average sales values of £4,575 per sqm and build costs of £971 per sqm. The residual value is £4,880,220.

Density of scheme (units per hectare)

Build costs per square metre

Sales value (per sq m)

	Density - units/ha	25 uph	30 uph	35 uph	40 uph	45 uph	50 uph	55 uph	60 uph		
		sq m									
	Build ->	£938	£942	£948	£971	£995	£1,019	£1,046	£1,070		
Sales value psm										Sales value psm	Ave sales value p.u.
£2,691		983,883	1,170,892	1,348,949	1,466,665	1,565,633	1,645,854	1,689,420	1,730,518	£2,691	208,032
£2,960		1,290,113	1,538,368	1,777,670	1,956,633	2,116,847	2,258,313	2,363,126	2,465,469	£2,960	226,781
£3,229		1,596,342	1,905,844	2,206,392	2,446,600	2,668,060	2,870,773	3,036,831	3,200,420	£3,229	247,397
£3,498		1,901,871	2,272,630	2,634,577	2,936,567	3,219,274	3,483,232	3,710,536	3,935,371	£3,498	268,014
£3,767		2,205,479	2,636,960	3,059,629	3,422,900	3,767,715	4,094,078	4,384,241	4,670,322	£3,767	288,630
£4,037		2,509,088	3,001,290	3,484,681	3,908,673	4,314,211	4,701,294	5,052,296	5,400,867	£4,037	309,247
£4,306		2,812,696	3,365,621	3,909,732	4,394,447	4,860,706	5,308,511	5,720,234	6,129,527	£4,306	329,863
£4,575		3,116,305	3,729,951	4,334,784	4,880,220	5,407,201	5,915,728	6,388,173	6,858,187	£4,575	350,479
£4,844		3,419,913	4,094,281	4,759,836	5,365,994	5,953,696	6,522,944	7,056,111	7,586,847	£4,844	371,096
£5,113		3,723,522	4,458,611	5,184,888	5,851,767	6,500,192	7,130,161	7,724,050	8,315,508	£5,113	391,712
£5,382		4,027,130	4,822,941	5,609,939	6,337,541	7,046,686	7,737,378	8,391,988	9,044,168	£5,382	412,329
£5,651		4,330,738	5,187,271	6,034,991	6,823,314	7,593,182	8,344,594	9,059,926	9,772,828	£5,651	432,945
£5,920		4,634,347	5,551,601	6,460,043	7,309,087	8,139,677	8,951,811	9,727,865	10,501,488	£5,920	453,562
£6,189		4,937,954	5,915,931	6,885,094	7,794,860	8,686,171	9,559,028	10,395,803	11,230,148	£6,189	474,178

These results are then compared to a series of existing use values, using a system of symbols. **Green** symbols show where the residual land value is 15% or higher than the existing use value (and is therefore considered viable); **yellow** symbols show where the residual value is between 14.9% below EUV and 14.9% above EUV (and is considered marginal); and **red** symbols show where the residual value is 15% or greater less than EUV and is clearly unviable.

Each cell in the table follows an identical pattern to the table on the previous page. The arrow points to a scheme of 40 units per ha, with average sales values of £4,575 per sqm and build costs of £971 per sqm. The residual value of that scheme (£4.88 million) is 40% higher than the EUV (£3.49 million). This scheme is judged as 'viable', as the residual value of exceeds EUV by more than 15%.

Here, the arrow points to a scheme of 40 units per ha, with sales values of £3,767 per sqm and build costs of £971 per sqm. The residual value of the scheme is £3.42 million, marginally lower than EUV. This scheme is assessed as 'marginal' and represented by a yellow symbol.

Existing use value

These columns show the range of values across the District (May 2011 values and 2007 values)

RLVs less existing use 1 - High EUV

£3,494,400 per hectare
£1,414,737 per acre

(Previously developed - residential)

Density - units/ha	25 uph	30 uph	35 uph	40 uph	45 uph	50 uph	55 uph	60 uph
	Build costs - £ per							
Build ->	£938	£942	£948	£971	£995	£1,019	£1,046	£1,070

Sales value £per sq m										Sales value £per sq m	Ave sales value p.u.
£2,691		☹	☹	☹	☹	☹	☹	☹	☹	£2,691	208,032
£2,960		☹	☹	☹	☹	☹	☹	☹	☹	£2,960	226,781
£3,229		☹	☹	☹	☹	☹	☹	😐	😐	£3,229	247,397
£3,498		☹	☹	☹	☹	😐	😐	😐	😐	£3,498	268,014
£3,767		☹	☹	😐	😐	😐	☺	☺	☺	£3,767	288,630
£4,037		☹	😐	😐	😐	☺	☺	☺	☺	£4,037	309,247
£4,306		☹	😐	😐	☺	☺	☺	☺	☺	£4,306	329,863
£4,575		😐	😐	☺	☺	☺	☺	☺	☺	£4,575	350,479
£4,844		😐	☺	☺	☺	☺	☺	☺	☺	£4,844	371,096

Table 3.1.1: Viable levels of affordable housing: high existing use value

Value Band	Values per sq m	75% Affordable Rent @ 60% of market rent and 25% shared ownership				75% Social Rent at Target Rents and 25% shared ownership			
		£5,000 S106		£15,000 S106		£5,000 S106		£15,000 S106	
		15% profit	20% profit	15% profit	20% profit	15% profit	20% profit	15% profit	20% profit
	£2,691	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%
	£2,960	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%
A	£3,229	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%
B	£3,498	20%m	10%m	<10%	<10%	10%m	<10%	<10%	<10%
	£3,767	40%m	30%m	20%m	10%m	20%m	10%m	10%m	<10%
C	£4,037	45%m	45%m	40%m	20%m	30%m	20%m	20%m	10%
	£4,306	50%m	50%m	45%m	45%m	35%m	30%m	30%m	20%
D	£4,575	50%m	50%m	50%m	50%m	40%m	35%m	35%m	30%
	£4,844	50%m	50%m	50%m	50%m	45%m	40%m	40%m	35%m
	£5,113	50%	50%	50%m	50%m	50%m	45%m	45%m	40%m
	£5,382	50%	50%	50%m	50%m	50%m	50%m	50%m	45%m
	£5,651	50%	50%	50%	50%	50%m	50%m	50%m	50%m
	£5,920	50%	50%	50%	50%	50%m	50%m	50%m	50%m
	£6,189	50%	50%	50%	50%	50%m	50%	50%	50%m

Notes: m = marginal
See Table 2.2.2 for corresponding areas in value bands A to D

Table 3.1.2: Viable levels of affordable housing: medium existing use value

Value Band	Values per sq m	75% Affordable Rent @ 60% of market rent and 25% shared ownership				75% Social Rent at Target Rents and 25% shared ownership			
		£5,000 S106		£15,000 S106		£5,000 S106		£15,000 S106	
		15% profit	20% profit	15% profit	20% profit	15% profit	20% profit	15% profit	20% profit
	£2,691	<10%	<10%	<10%	<10%	<10%	<10%	<10%	<10%
	£2,960	10%m	<10%	<10%	<10%	<10%	<10%	<10%	<10%
A	£3,229	40%m	20%m	10%m	10%m	10%m	<10%	<10%	<10%
B	£3,498	50%m	45%m	35%m	20%m	20%m	20%m	10%m	<10%
	£3,767	50%m	50%m	45%m	35%m	35%m	20%m	20%m	10%
C	£4,037	50%	50%m	50%m	50%m	40%m	35%m	30%m	20%
	£4,306	50%	50%m	50%m	50%m	45%m	40%m	40%m	35%m
D	£4,575	50%	50%	50%	50%m	50%m	45%m	45%m	40%m
	£4,844	50%	50%	50%	50%	50%m	50%m	50%m	45%m
	£5,113	50%	50%	50%	50%	50%	50%m	50%m	50%m
	£5,382	50%	50%	50%	50%	50%	50%	50%m	50%m
	£5,651	50%	50%	50%	50%	50%	50%	50%	50%m
	£5,920	50%	50%	50%	50%	50%	50%	50%	50%
	£6,189	50%	50%	50%	50%	50%	50%	50%	50%

Notes: m = marginal
See Table 2.2.2 for corresponding areas in value bands A to D

Table 3.1.3: Viable levels of affordable housing: low existing use value – community use

Value Band	Values per sq m	75% Affordable Rent @ 60% of market rent and 25% shared ownership				75% Social Rent at Target Rents and 25% shared ownership			
		£5,000 S106		£15,000 S106		£5,000 S106		£15,000 S106	
		15% profit	20% profit	15% profit	20% profit	15% profit	20% profit	15% profit	20% profit
	£2,691	45%m	10%m	<10%	<10%	10%m	<10%	<10%	<10%
	£2,960	50%m	50%m	30%m	10%m	20%m	10%m	10%m	<10%
A	£3,229	50%	50%m	50%m	40%m	35%m	20%m	20%m	10%
B	£3,498	50%	50%	50%m	50%m	40%m	35%m	30%m	20%
	£3,767	50%	50%	50%	50%	50%m	45%m	35%m	35%m
C	£4,037	50%	50%	50%	50%	50%m	50%m	45%m	40%m
	£4,306	50%	50%	50%	50%	50%	50%m	50%m	45%m
D	£4,575	50%	50%	50%	50%	50%	50%	50%	50%m
	£4,844	50%	50%	50%	50%	50%	50%	50%	50%
	£5,113	50%	50%	50%	50%	50%	50%	50%	50%
	£5,382	50%	50%	50%	50%	50%	50%	50%	50%
	£5,651	50%	50%	50%	50%	50%	50%	50%	50%
	£5,920	50%	50%	50%	50%	50%	50%	50%	50%
	£6,189	50%	50%	50%	50%	50%	50%	50%	50%

Notes: m = marginal
See Table 2.2.2 for corresponding areas in value bands A to D

Table 3.1.4: Viable levels of affordable housing: low existing use value – agricultural

Value Band	Values per sq m	75% Affordable Rent @ 60% of market rent and 25% shared ownership				75% Social Rent at Target Rents and 25% shared ownership			
		£5,000 S106		£15,000 S106		£5,000 S106		£15,000 S106	
		15% profit	20% profit	15% profit	20% profit	15% profit	20% profit	15% profit	20% profit
	£2,691	50%	50%	50%	50%	35%m	20%	10%	10%
	£2,960	50%	50%	50%	50%	45%	35%	30%	20%
A	£3,229	50%	50%	50%	50%	50%	45%	35%	35%
B	£3,498	50%	50%	50%	50%	50%	50%	45%	40%
	£3,767	50%	50%	50%	50%	50%	50%	50%	50%
C	£4,037	50%	50%	50%	50%	50%	50%	50%	50%
	£4,306	50%	50%	50%	50%	50%	50%	50%	50%
D	£4,575	50%	50%	50%	50%	50%	50%	50%	50%
	£4,844	50%	50%	50%	50%	50%	50%	50%	50%
	£5,113	50%	50%	50%	50%	50%	50%	50%	50%
	£5,382	50%	50%	50%	50%	50%	50%	50%	50%
	£5,651	50%	50%	50%	50%	50%	50%	50%	50%
	£5,920	50%	50%	50%	50%	50%	50%	50%	50%
	£6,189	50%	50%	50%	50%	50%	50%	50%	50%

Notes: m = marginal
See Table 2.2.2 for corresponding areas in value bands A to D

3.1 Small sites analysis

Appendix 2 sets out the updated residual values for smaller developments, ranging from 2 units to 15 units. As in our previous report, the residual values are compared to existing use values of existing residential sites; industrial sites; low value community uses; and agricultural use. Our assumptions for running these appraisals are 20% developer's profit; affordable housing provided as 100% rented (either Social Rent or Affordable Rent, at 60%, 70% and 80% of market values); £5,000 Section 106 obligations; and no grant. The results are summarised in the tables below. Table 3.1.1 summarises the results assuming the affordable housing is provided as Social Rent and 3.1.2 summarises the results assuming Affordable Rent at 60% of market rents.

Table 3.1.1: Summary of small sites appraisals (Social Rent and £5,000 S106 obligations, at current market values)

	Maximum viable proportion of affordable, given various EUVs:			
No of units	High EUV	Med EUV	Low EUV	Low EUV Agric
2	0%	0%	0%	40%
3	0%	0%	0%	40%
4	0%	0%	30%	40%
5	0%	25%	35%	40%
6	0%	35%	40%	40%
7	20%	40%	40%	40%
8	25%	40%	40%	40%
9	30%	40%	40%	40%
10	30%	40%	40%	40%
11	40%	40%	40%	40%
12	40%	40%	40%	40%
13	40%	40%	40%	40%
14	40%	40%	40%	40%
15	40%	40%	40%	40%

Table 3.1.2: Summary of small sites appraisals (Affordable Rent at 60% of market rents and £5,000 S106 obligations, at current market values)

	Maximum viable proportion of affordable, given various EUVs:			
No of units	High EUV	Med EUV	Low EUV	Low EUV Agric
2	0%	0%	0%	40%
3	0%	0%	25%	40%
4	0%	0%	40%	40%
5	0%	30%	40%	40%
6	20%	40%	40%	40%
7	35%	40%	40%	40%
8	40%	40%	40%	40%
9	40%	40%	40%	40%
10	40%	40%	40%	40%
11	40%	40%	40%	40%
12	40%	40%	40%	40%
13	40%	40%	40%	40%
14	40%	40%	40%	40%
15	40%	40%	40%	40%

4 Review of 'Key Questions'

Our 2009 report posed some 'key questions' with our responses, based on the findings of our appraisals. These questions and responses were designed to assist the Council in setting its policy targets for affordable housing. This section reviews the key questions in light of the new appraisals which incorporate Affordable Rent in place of Social Rent.

4.1.1 Key question 1: on sites of 15 units or more, should a 40% affordable housing target be adopted

Our 2009 study noted that the appraisal results at that time indicated that the delivery of 40% affordable housing on every single site coming forward for development in the District was an ambitious target that some sites will be unable to achieve.

The study went on to note that within the residential sales value bands which were found within the District at the time, there were some circumstances across the District where up to 40% affordable housing might have been possible on sites in medium and low value existing uses.

Tables 3.1.1 to 3.1.4 clearly demonstrate that the Council could still achieve 40% affordable housing on some sites(with a 75% social rented and 25% shared ownership tenure mix). However, at current sales values (which are notably higher than they were in 2009) this would be limited to sites with low value existing uses. Delivery of affordable housing as a mix of Affordable Rent (with rents of 60% of market rents) and shared ownership would result in the 40% affordable housing target being viable in a considerably higher number of scenarios. Importantly, 40% affordable housing would be viable on sites both in high and medium existing use.

Our previous advice in response to this question is therefore unchanged.

4.1.2 Key question 2: on sites capable of achieving between 2 and 14 units, should affordable housing be required?

Our 2009 study noted that smaller sites often incur somewhat higher costs than larger sites, but very often values achieved upon sale of the units can be higher, as smaller schemes can attract a cachet that larger schemes do not. If on-site affordable housing proves to be impractical in some circumstances, it may be possible for developments to make a payment in lieu.

Our revised analysis of smaller sites suggests that schemes providing as few as 2 units could achieve 40% affordable housing on sites with low (agricultural) existing use values. On sites in other low value existing uses, affordable housing contributions could be secured if schemes are of 3 or greater units in size. However, as noted in our previous report, the Council would need to be mindful of the practical impacts of running viability tests on sites yielding relatively small contributions towards affordable housing. Notwithstanding this concern, the study provides evidence to support a reduction in the threshold to 2 or 3 units, with the caveat that this may only be viable on sites with the lowest existing use values.

4.1.3 Key question 3: on sites in industrial or agricultural use, could a higher proportion of affordable housing be sought and, if so, what would be the appropriate level?

Table 3.1.4 indicates that adoption of Affordable Rent in place of social rented housing would – in principle – enable the Council to adopt a 50% target for sites in agricultural use. The evidence for a higher target on sites in current industrial

use is less clear cut, as many sites in value bands A and B are unable to meet even the 40% affordable housing target.

Our advice in response to this question therefore remains unchanged from our 2009 report. Within the context of our response to key question one (suggesting that the Council adopt a 40% affordable housing target across the District), we do not consider there to be sufficient evidence that sites in industrial use could necessarily provide more affordable housing than other sites in the District. However, it is clear from our analysis that sites in agricultural use are more easily able to provide affordable housing than on sites in other uses. The ability to meet the target does not, however, necessarily warrant an increased demand for affordable housing on these sites.

4.1.4 Key question 4: Should different affordable housing targets be applied in particular parts of the District?

The updated appraisals do not give rise to any factors that would result in a change of advice from our 2009 report.

4.1.5 Key question 5: Is a 'sliding scale' approach to affordable housing thresholds and percentages on sites between 5 and 14 dwellings appropriate for larger settlements? Is a sliding scale approach below 5 units in smaller settlements appropriate?

The updated appraisals do not give rise to any factors that would result in a change of advice from our 2009 report.

4.1.6 Key question 6: Is a charge in lieu of on-site affordable housing appropriate?

The updated appraisals do not give rise to any factors that would result in a change of advice from our 2009 report. However, the Council has requested that we update the formula for calculating payments in lieu, in light of the potential adopting of Affordable Rent in place of Social Rent.

As noted in our 2009 report, if a scheme cannot viably provide affordable housing on site, a requirement for a cash payment in lieu is no more viable than the onsite option. It is possible that a payment in lieu of affordable housing could be secured, but this would need to be based on any 'surplus' value that each individual scheme might generate and would have to be subject to individual site assessment at the time of the planning application. By 'surplus' we mean any positive balance remaining after the existing use value (plus any premium required by the landowner to incentivise them to release the site for development) has been deducted from the residual land value of the scheme.

In cases where affordable housing is not provided on-site for reasons other than financial viability (e.g. for management reasons), then there is a case for the application of a charge in-lieu of on-site provision. This should be calculated so that the Developer is no better off financially than he would have been had the affordable housing been provided on-site. Due to the significant variances in the levels of private sales values achieved across the District, it would be difficult to use a standard charge approach, unless it were set at a level that would be affordable for the lowest value schemes. This would mean the standard charge would be much more favourable for schemes in higher value areas. To resolve this issue, setting a charge on a site specific basis would be preferable and could be calculated using a formula, as follows:

$$(A - B) \times (C \times D)$$

Where

(A) equals the value of a market unit in the scheme

(B) equals the equivalent value of the same unit as affordable housing (no grant)

(C) equals the affordable housing percentage

(D) equals the number of units in the scheme

If the Council were to adopt the Affordable Rent model for the purposes of calculating the commuted sum (rather than Social Rent with no grant, as assumed in our 2009 report), the calculations would be as follows. The calculations based on Social Rent are also provided to enable comparison between the two options. Both sets of calculations assume a 15 units scheme with market values of £250,000 per unit (average unit size of 80 sqm).

Option 1: Affordable Rent @ 60% of market rent

The equivalent value of a market unit in the scheme as Affordable Rent is £151,000. The commuted sum calculation would be as follows:

(A) £250,000 - (B) £151,000 = £99,000

X

(C) 0.4 x (D) 15 units = 6 units

Equals £0.59 million.

Option 2: Social Rent @ Target Rent

The equivalent value of a market unit in the scheme as Affordable Rent is £151,000. The commuted sum calculation would be as follows:

(A) £250,000 - (B) £63,000 = £187,000

X

(C) 0.4 x (D) 15 units = 6 units

Equals £1.11 million.

If the Council decided to maintain its current basis for calculating commuted sums, it could potentially raise more revenue from sites that do not provide on-site affordable housing. However, as noted in our 2009 report, high commuted sums generated requirements that often exceeded the residual land value generated by the schemes. This necessitated a reduction in the assumed affordable housing quantum to recalculate the commuted sum. Adopting Affordable Rent as the basis for calculating commuted sums would generate a lower overall contribution, but might be viable in a greater range of circumstances.

5 Conclusions

Since we completed our 2009 study, market values in the District have increased, although they remain below their peak 2007 level. With build costs largely flat over the same period, there has been an improvement in scheme viability.

The reduction in grant announced in last year's Comprehensive Spending Review and presumption of nil grant for Section 106 schemes presents the Council with considerable challenges. Although increasing private sales values has helped to increase the ability of schemes to cross subsidise the delivery of affordable housing, this is not sufficient to mitigate the loss of grant. As a consequence, sites in high and medium existing use values are unable to meet the Council's 40% target with a policy compliant tenure mix of 75% social rent and 25% shared ownership.

The Affordable Rent tenure provides an opportunity for the Council to secure its 40% target on a wider range of schemes than would otherwise be possible with Social Rent. In modelling Affordable Rent, we have had regard to Local Housing Allowances and ensured that our rents do not exceed these levels. The result is that rents are capped at lower levels than would otherwise have been the case. There is a very marginal difference in capital values between Affordable Rent units at 60%, 70% and 80%, due to the affect of LHA caps.

Despite these caps on rents, Affordable Rent units do have a significantly higher capital value than Social Rented units, which helps to improve scheme viability. This is made clear in tables 3.1.1. to 3.1.4, which compare the levels of affordable housing that can be secured through Affordable Rent and Social Rent. The 40% target can be achieved on high and medium existing use values when sales values are £3,498 per square metre or more. In contrast, if Social Rent were provided, the 40% target could only be achieved if sales values were £4,844 per square metre or more. This exceeds the current range of sales values found in the District.

There are, however, circumstances where the 40% affordable housing target could be achieved if the 75% social rent to 25% shared ownership tenure split is retained. This could be achieved on sites in low value existing uses.

In light of these variations, the Council could retain the current presumption of 75% social rent and 25% shared ownership for sites in low value existing uses and adopt a tenure split of 75% Affordable Rent and 25% shared ownership on sites medium and high value existing use.

Appendix 1 Appraisal outputs

[See separate document]

Appendix 2 Small sites analysis

[See separate document]