St Edmundsbury Borough Council, Forest Heath District Council, East Cambridgeshire District Council, Fenland District Council

Local Development Framework: Affordable Housing Economic Viability Assessment

2009/10

Report for the consideration of
St Edmundsbury Borough, Forest Heath District,
East Cambridgeshire District and Fenland District Councils Only:

Prepared by

ADAMS INTEGRA

55 West Street
Chichester
West Sussex
PO19 1RU
01243 771304
www.adamsintegra.co.uk

This document does not constitute Policy

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- **Appendix III** contains a summary of our property values and market research.

- **Appendix IV** contains Hometrack data supplied by Cambridgeshire Horizons.

- **Appendix V** contains a Glossary of terms used in this study.

EXECUTIVE SUMMARY

This summary first seeks to outline briefly the main study findings. It then goes on to introduce and explain the study, along with the outcomes, in a little more detail.

For detailed information on the study methodology, results and conclusions it will be necessary to refer to the full text and appendices which follow this summary.

Quick overview of main outcomes from a viability viewpoint

1 The viability results might be described as mixed, at best. This is primarily because current weak market conditions are exacerbating issues that flow from the tone of property value levels typically seen in the study area. Those are relatively modest in terms of their ability to support development costs alongside a range planning obligations. Affordable housing requirements are not the single cause of the mixed results – the market is arguably a bigger factor at the current time.

2 At the point of closing the study, there are mixed views and signs in terms of what the housing market might do next. The summer of 2009 has seen a more active market with stabilising, and often gradually increasing, prices again. However, the underlying economic scenario remains weak and uncertain, whilst a number of commentators suggest that the recent period of slight recovery in market activity and house prices is fragile and we may well see another dip in 2010. Only time will tell.

3 Appropriate affordable housing targets within the parameters 20% to 40% overall, depending on site size and potentially varying to some extent – as applied to varying site types.

4 Within these parameters, and as an overall theme, our view is that headline targets for affordable housing should lean more towards 30% than 40%. Generally, we would expect targets at this level to apply to sites of 10 or 15 dwellings or more; i.e. preferably not to the very smallest sites in terms of the viability impacts, bearing in mind that many of those sites would come within policy scope for the first time.

5 So, in general, we put forward a 30% target as a headline. At the upper end of the above parameters (35 to 40%, depending on location), our view is that the Authorities could consider approaches particularly around Greenfield site allocations or certain geographies, where more challenging targets can be supported – but not as blanket/District-wide approaches (for which we consider 30% would be an appropriate main target). Existing or alternative land use values relevant to Greenfield sites are comparatively low, and opportunities for early promotion and planning with developer partners and

the HCA exist to a greater extent – through which there can be more scope to set and plan for delivery expectations.

6 Ruling out affordable housing targets - for universal application i.e. District-wide - of more than 30% (notwithstanding adopted policy positions).

7 The Councils should, in our view, give consideration to reduced targets for application to sites of fewer than 10 or 15 dwellings (dependent on where the threshold point for the headline target is set). This could result in a more equitable approach to seeking contributions towards meeting affordable housing needs through significantly reducing the large numbers of schemes which currently do not contribute at all. However, any exceptions to policy would have to be clearly justified in order to avoid over reliance on large sites.

8 Our work shows that smaller sites are not necessarily more or less viable than larger ones, so in principle there is no viability related reason why they should fall outside policy scope. We suggest reduced targets (often referred to as a sliding scale type of approach) however, because of the first time impact issue and the likelihood that smaller development values would be produced by such schemes – so there can be less scope to compete with, or better, a site's existing use value.

9 Where viability issues arise and are justified, a flexible approach to policy application is likely to be needed. This could include discussing the areas of affordable housing dwelling mix, proportion and tenure mix, as well as numbers rounding and likely grant availability. The effect of these factors will need to be considered together, to arrive at solutions based on the combination of these that works best for delivery in the particular circumstances. In exceptional circumstances where on-site affordable housing would not support sustainable communities' aims as well as an off-site route, the use of financial contributions in lieu (calculated to exact proportions and used in lieu of either part or whole provision) could be considered amongst the options.

10 In all cases, it is acknowledged that the predominant delivery needs to be of affordable rented homes. This is a key point. Specific outcomes will vary site by site. The tenure mix theme of 70% affordable rented/30% intermediate tenure approach we have modelled (alongside an alternative of 60%/40% split) would, in our view, form a suitable overall target – not always applied rigidly but as a measure for site specifics to be discussed and negotiated against (dependent on factors such as local needs, scheme type, existing tenure balance in an area, funding and viability, etc). There may be sites which need to provide a greater proportion of affordable rented homes, again subject to funding and viability.

11 The 30% headline (or perhaps more in certain cases) and suggested approach for smaller sites represent challenging but appropriate targets when

viewed in the context of a wider range of future market conditions. They are not pitched purely with current market conditions in mind, and in our view they will often be viewed as particularly challenging in current and foreseeable uncertain market conditions.

12 In all cases, policy positions should be framed as clearly worded targets, to provide clarity for stakeholders and a basis for a continued practical, negotiated approach which has regard to viability matters. It should be noted that current market conditions, in particular, will mean increased emphasis on this type of approach. There will need to be particular focus on a flexible approach to the application of policy to smaller sites, bearing in mind that other factors alongside the headline proportion are often equally, if not more, influential on viability in those cases.

13 In arriving at its final policy selections, the Councils should also have regard to their wider information and evidence bases – for example on affordable housing needs and type of site supply.

14 Finally confirmed policies, accompanying text and SPD should acknowledge the relevance of viability and the adaptable approach that will need to be applied to policy application.

15 Monitoring and contingency planning will need to form part of the Councils' approaches.

Background and Introduction

16 In the process of considering, reviewing and/or developing planning-led affordable housing policies, the 4 Councils involved – St Edmundsbury Borough, East Cambridgeshire District, Fenland District and Forest Heath District – joined together to commission Adams Integra to study the likely effect on residential development viability of a variety of potential affordable housing policy positions. The study aim was to help the 4 Councils to consider the implications of different policies for the delivery of market housing schemes. Adams Integra was required to make recommendations for the Councils to consider. In doing so we aimed to strike what we consider to be an appropriate and workable balance between the usually opposing factors of affordable housing need and overall scheme viability.

17 The Government's key statement on planning for housing, Planning Policy Statement 3 (PPS3) requires local authorities to enable the bringing forward of a suitable, balanced housing mix including affordable housing. It confirms the well established route for the principles of seeking integrated affordable housing within private market housing developments. It encourages local authorities to make best use of this approach bearing in mind their local markets and circumstances. As a part of this, PPS3 also requires local

authorities also consider development viability when setting policy targets for affordable housing.

18 This commission was, therefore, made against the backdrop of PPS3, in the context of building the evidence base for and considering the affordable housing content of Core Strategy Policies for the Councils' Local Development Frameworks (LDFs) and/or to inform their day-to-day work on housing and affordable housing delivery. The Councils are at different stages of policy development, so the application of this work will vary between them.

19 The study is to be considered as part of, and alongside, the Councils' developing wider evidence bases, including on the local housing market and housing needs, and information on the range of site types which are likely to come forward.

20 The Councils have varying existing approaches (currently adopted policy or applied approaches for negotiation purposes):

- St Edmundsbury: 40% Local Plan policy target (sites of 15 or more in larger settlements; sites of 5 or more dwellings in smaller settlements – based on -/+ 3,000 population distinction).

- Forest Heath: 35% target applicable to sites of 15 or more dwellings, all areas – operated through an Interim Statement of affordable housing, with the RSS and PPS3 behind that.

- East Cambridgeshire: The Local plan guide target was 30%, applied to sites of 25 or more dwellings in larger settlements, and to sites of 9 or more in smaller settlements (of less than 3,000 population). The LDF Core Strategy policy direction is to seek a minimum of 30% (north of District) and a minimum of 40% (south of District) – in all cases on sites of 3 or more dwellings. The Core Strategy - including its affordable housing policies and approach to viability - was found sound by an Independent Inspector and was adopted by the Council on October 20 2009. The Core Strategy approach to viability is set out in Policy H3 (and at paragraph 3.2.3.5) which is now adopted as the Council's policy.

- Fenland: A threshold of 15 is currently applied, with the current LDF policy direction looking to reduce that – thresholds of 3 for the rural areas and 10 for the urban areas have been mooted through the Preferred Options documents. In all of these cases, the target proportion sought is (or is proposed at) 35%.

21 This study is required to review options around these positions and recommend suitable policy positions from a viability point of view. With the

Councils coming together to commission this study, we were able to carry it out in a way that reviewed a wide-ranging single large set of appraisals – covering the full likely range of options in each case and across the board.

22 Maintaining the viability (in this sense meaning the financial health) of residential development schemes is crucial to ensuring the release of sites and thus a continued supply of housing of all types. The study addresses only affordable housing which is required to be provided within market housing schemes under the existing established approach of setting site size thresholds (point(s) at which the affordable housing policy is triggered) and proportions of affordable housing to be sought at those points.

23 The study is based on carrying out a large number of developer type appraisals. These use well established "residual land valuation" techniques to approximate the sum of money which will be left for land purchase once all the development costs, including profit requirements, are met (hence "land residual"). The study methodology is settled and tested, having been used in a wide range of local authority locations for this purpose, and in supporting affordable housing policy positions where those have been taken through the Examination in Public stages of formulating Development Plan Documents (DPDs) – both Core Strategies and Affordable Housing DPDs.

24 We vary the affordable housing assumptions across the range of appraisals and the outcomes inform our judgements on the likely workability of various policy positions from a viability viewpoint. Having fixed development costs and profit requirements, we can see the impact on development viability caused by variations to the amount and type of affordable housing. Two of the key ingredients to ensuring viable development are sufficient land value created by a development (relative to existing or alternative use values; or perhaps to an owner's particular circumstances) and adequate developer's profit in terms of risk reward.

25 Affordable housing impacts development viability because it provides a significantly reduced level of revenue to the developer compared with market level sales values.

Local Property Market and Viability Findings – the four Authorities

26 Before commencing modelling Adams Integra researched the local residential property market to inform the range of appraisal assumptions we then adopted, and to help set the context for considering the outcomes. The detail of the research, resulting values judgements and conclusions around this are set out in the main report text and in its accompanying property market and values report – Appendix III. The range off values studied (we call those "Value Points") means that we, and the Councils, can consider how

development land values, and, therefore, viability are affected as the property values driving them change – either by location or with time.

27 Looking across the 4 Council areas, we have seen quite wide ranging property values. This applies to both the overall (resale property dominated) market and to the pricing of new build schemes when those are viewed overall, although we picked up more consistency within the new builds pricing than within the wider market.

28 Overall, the new build values seen varied from less than £1,400 per sq metre to over £3,000 per sq m. The more typical range within this was £1,500 to £2,500 per sq m with the typical new build pricing point around the middle of this range. As a general statement most new build values were within, or did not fall too far out of, that typical £1,500 to £2,500 per sq metre range at the time of setting our series of Value Points for the appraisals.

29 Looking at wider context, this means value levels which are typically well below those we have seen in many South East locations. Our work on viability has taken us across England. It is interesting to note, and we think relevant for us in standing back and considering our findings as we firm up this work, that more often than not the value levels here have more in common with those we have seen and are seeing in areas such as Peterborough, Lincolnshire and in the West Midlands – than they do with South East values levels. As above, they do vary, but we consider this to be important for context. Significantly higher values are seen in Cambridge City and further south/west with proximity to the M11, M1 and M25/London – beyond the study area - but as a general rule the property values within it lag behind those.

30 In terms of value levels and viability issues, generally we picked up no clear and readily definable bases for evidencing distinct policy positions within Districts in terms of varying affordable housing proportions for different areas or settlements, without creating unduly complex policy. There are potential exceptions to this - that could merit an alternative approach (additional layer of policy) - and these are picked up through the recommendations.

31 At the time of the study, the local market broadly reflects the type of conditions which have been and are being experienced throughout the UK and beyond. These are discussed in the full report text. The market has been severely lacking in confidence through 2008 and into early 2009. Funds for property finance (both the domestic buying and commercial/developing levels) are much less readily available than in recent times (as per the well-reported “credit crunch”). While from Spring 2009 there have been some signs of improvement - with more confidence and optimism being expressed by agents and others - the downturn appears to still show no firm signs of ending. Although mortgage approvals have picked up a little of late, sales

volumes are still very markedly down. This lack of activity has resulted in a significant overall reduction in values (with information varying, but typically at around 15-20%) from their Autumn 2007 peak levels. Land Registry figures indicated an approximate 18% reduction in average prices in Suffolk and Cambridgeshire up to, and including, April 2009 data.

32 The tone of our viability findings is mixed. It would not be appropriate to describe the findings in more positive terms. The values at the upper end of the range we have studied suggest more scope for sites to deliver affordable housing. However, we believe even a relatively modest target based on a headline position of 30% will be challenging to deliver in some Districts given the other requirements to be considered alongside affordable housing (even if values hold up reasonably well from the point of fixing assumptions, or start to improve).

33 Beyond the 30% level, we consider that any target would be ambitious in the majority of local circumstances, and might lend itself best to certain site types or limited locations only as a firm policy – we have stated the example of Greenfield allocations. Frequently we see values below the levels which would be required to support that upper level as a more generally applicable target, indicating that negotiations are quite likely to deliver affordable housing up to, rather than usually at, those levels in the short-term in some instances.

34 In our view, the current economic downturn should not be the only factor that determines policy positions, given that housing need is worsening and that the economic conditions are, overall, most likely to be adding to that trend.

35 Whilst we have to consider the particular market conditions now in coming to our recommendations, those are very likely to change in some way over a short period of time in relation to the planning periods being considered. We do not consider that it is appropriate or realistic to set strategic polices and targets based on a snapshot of current market features alone. Such an approach could mean regularly varying policy. That type of approach could lead to potential inequities and requirements that are uncertain. In any event it is for DPDs to examine and test proposals and decide on the most appropriate policy in the round.

36 When considering delivery based on challenging targets, particularly in the short-term as policy expectations change and while we have very difficult market conditions, it is vital that the Councils continue to apply policy with flexibility where needed. As a part of this, the current financial conditions mean that they may need to prioritise planning obligations or other requirements, and their timing, within overall objectives and targets.

37 Having stated within this study that smaller sites are no more or less viable than larger ones (i.e. site size in itself is not a determinant of viability), we can

support the application of affordable housing target proportions to such smaller sites – in this case meaning of fewer than 10 or 15 dwellings (dependent on the positions to be set for the headline % target). Arguably the bringing of a wider range of sites within the policy scope could be regarded as a more equitable approach overall – and we feel is a route worthy of consideration rather than seeking to high a requirement from a narrower group of sites.

38 This is put forward notwithstanding the points we also make about first-time impact of policy in such situations and how development value tends to reduce and may become more marginal compared with existing/competing land use values as development schemes get smaller. With these factors in mind, we recommended a "sliding scale" type approach for consideration at each authorities' – whereby smaller sites come within the policy scope, but related to reduced % targets. With the potential setting of the main policy theme at a 30% target in this locality (our view and for the Councils' consideration only) there is probably not scope for a full sliding scale approach with graduated % requirements as site size (the number of new dwellings on a scheme) increases. However, there is still scope to allow for this principle and we suggest that this is considered – particularly at this sensitive stage of policy development.

Recommendations

Background/General:

39 To keep in mind that affordable housing provision is more than a numbers issue. Provision needs to be about the right types, tenures, sizes, mixes and quality of homes, without over-reliance on external funding (e.g. social housing grant) and usually alongside a range of other planning obligations.

40 Affordable housing tenure mix will generally need to reflect affordable rented needs as a priority. This is expected to be stated as a strong preference by the Authorities, reflected in targets for each.

41 The collective (overall) burden placed on development schemes also must be considered, as this study has picked up through appraisal variations. The general direction of travel with planning obligations, the Government's timeline for Code for Sustainable Homes attainment and emergence of renewable energy criteria mean that this increasing collective burden will be highly relevant in viability discussions as sites are delivered. Particularly alongside varying market conditions, we think this all points to policy which is challenging (bearing in mind the needs), but which pays appropriate attention to the balance with viability.

42 To consider policy development and/or application of an approach (depending on the policy development stage reached in each Council's case) based around:

a. A headline position targeting 30% affordable housing on sites of 10 to 15 or more dwellings (the threshold system means that its precise position is and, has always been, arbitary to large extent in most localities), and, with proven needs and site supply patterns which dictate a reliance on contributions from a wider range of sites.

b. Consideration of reduced targets – suggested at 20% - for smaller sites (applicable for schemes of fewer than 10 or 15 dwellings - again dependent on the specific local approach to thresholds).

43 To develop unambiguous policy wording which sets clear targets as a basis for the practical, negotiated approach, acknowledging the relevance of site viability. The report discusses policy wording, which in Adams Integra's experience is critical in providing clarity for landowners, developers and others, as well as being a key part of sound policy for the purposes of the Public Examination of those.

44 To build on the approach through the development of SPDs and/or DPDs to set out detail which explain the working practices and help to guide expectations.

45 Acknowledging current market conditions in particular, each Council will need to approach site-by-site delivery in an adaptable way, reacting to viability issues which may arise. This key point about the flexible, practical application of policy always applies, as the study emphasises, but it is likely to be in focus particularly in the market conditions we have seen both locally and nationally during the study period.

46 The Councils will need to monitor affordable housing delivery progress and experiences alongside their site supply monitoring work. Review periods and potential delivery contingency measures will need to be considered, linked to those monitoring processes.

Authority specific:

St Edmundsbury Borough Council

47 20% affordable housing target applicable to sites of 5 to 9 dwellings, Borough-wide (no justification for settlement type or area distinctions).

48 30% generally applicable affordable housing target – sites of 10 or more dwellings, Borough-wide (same applies).

49 Subject to further viability review and the relevant development brief/master planning processes in due course, scope for consideration of a higher target than the general 30% in respect of particular strategic development areas - particularly in the case of Greenfield releases where existing/alternative land value considerations are likely to be distinct from sites with previously established uses. We understand that this could be part of the Council's approach – most likely at the key settlements of Bury St Edmunds and Haverhill – and we are able to endorse this, subject to an extension of the target principles, which we suggest be pitched no higher than 35% in those circumstances only.

50 Potential to move the above targets (suggested at points 44 and 45) to alternative, higher, thresholds and so be effective on larger sites of 5 to 14 (related to 20%) and 15 (related to 30%) dwellings respectively. Put forward as a more market friendly alternative, but which might move away from the need to optimise affordable housing delivery.

Fenland District Council

51 **Target not exceeding 35% for Greenfield sites – most likely applicable for strategic allocations.** We understand that these could be of 100 or more dwellings. Whilst in practice there are no such clear cut-offs or distinctions in viability terms, the approach of defining a threshold for this upper level target might be positive to help create clarity and certainty.

52 **30% target for all other sites of 10 or more dwellings.** So, following the above, this target could be applicable to schemes of 10 to 99 dwellings.

53 **20% target for sites of 5 to 9 dwellings**.

East Cambridgeshire District Council

54 **Support for the adopted policy target proportions.** These encompass an overall target of at least 30% for the District (Policy CS2). Policy H3 requires at least 30% for the north of the District and at least 40% for the south of the District. The Core Strategy explains the minimum percentages of affordable housing in Policy H3 take account of the high level of need, expected level of funding, and viability testing.

55 The Council's objective remains to maximise the provision of affordable housing as far as funding and viability will allow. From the Core Strategy can be drawn the following issues for further consideration:

- Role of tenure mix.
- How developer would show site is not viable.
- Exceptional circumstances where off-site provision would be acceptable.
- Monitoring of affordable housing delivery.

56 The study outcomes could be applied to support various positions around our 30% headline point. One is a straight 30% target in line with the wider area overview - as what might be viewed a simple, more market-friendly approach bringing clarity, and given that values patterns are variable.

57 Alternatively, this could be applied through increasing the ambition levels where values and/or site circumstances permit – in which case looking at 40% as a target and basis for negotiation in certain specified circumstances. This could mean in the south of the District (although, in our view, the new build values seen are more varied by location than that suggests) – or again perhaps on Greenfield allocations. Although limited new build activity was taking place at the time of our review, it appeared possible that higher values levels (relatively) might be seen away from the south of the District (Ely being an example of a settlement with an attractive offer). The converse could also apply – i.e. lower values further south.

58 Given the stage reached by East Cambridgeshire, it is not appropriate here to set out specific recommendations or positions within these parameters for that District. Nevertheless, it is hoped that the study will help to inform ongoing work to secure much needed affordable housing in the District.

Forest Heath District Council

59 A target of no more than 35% for Greenfield releases, bearing in mind the same principles, in the event the Council considers a similar approach to the others.

60 **A headline affordable housing target of 30% applicable to sites of 10 or more dwellings on a general basis, District-wide.**

61 **A 20% affordable housing target applicable to sites of 5 to 9 dwellings, District-wide (no justification for settlement type or area distinctions).**

62 **With scope to consider exact threshold and proportion combinations carefully, based on the principles and effects discussed. Potentially this could involve an extension of the sliding scale principle to include seeking financial contribution from the smallest sites; based on a modest equivalent proportion of affordable housing as a target (certainly not more than 20%) – suggested as applicable in any event for any threshold placed below 5 dwellings.** Adams Integra considers that a starting point target of an equivalent proportion of 10% could play a role on

the very smallest sites; for consideration as a possible base point to a sliding scale approach. The Council would need to give further consideration to the detail of this aspect – accompanying strategy and calculations.

1 INTRODUCTION

1.1 Background

1.1.1 St Edmundsbury Borough Council, Forest Heath District Council, East Cambridgeshire District Council and Fenland District Council (known in this study as the Suffolk and Cambridgeshire Authorities) are based in the Cambridge Sub-Region and are at different stages in the preparation of their Local Development Framework (LDF) Documents.

1.1.2 Figures 1 to 5 below show the area covered by the four authorities and the extent of each authority's administrative area set in the context of the Cambridge Sub-Region (which is shown by green shading on figures 2 to 5).

Figure 1: Area Map

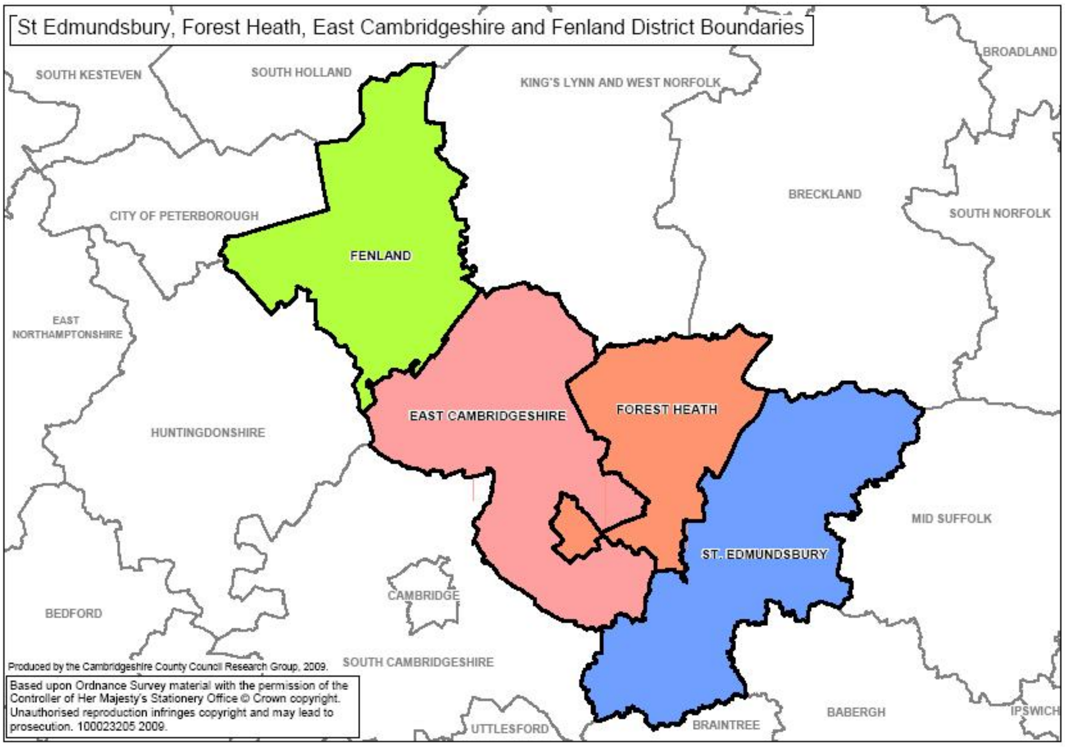

Figure 2: St Edmundsbury Borough Location Map

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Figure 3: Forest Heath District Location Map

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Figure 4: East Cambridgeshire District Location Map

Figure 5: Fenland District Location Map

1.1.3 The four authorities wish to explore further common working on a sub-regional basis as far as practically possible. They have, therefore, come together to commission this study, investigating the financial viability of the provision of affordable housing on private housing developments within each respective authority area.

1.1.4 Sub-regionally the demand for affordable housing is increasing. The 2008 Strategic Housing Market Assessment[1] showed that the key issues for affordable housing are shortages and high costs with average house prices at least seven times greater than average earnings. The supply of affordable housing is well short of the level required to address housing need. The study identified an annual requirement for East Cambridgeshire of 597 additional affordable dwellings across the District[2]. For Fenland, the SHMA identifies an annual requirement of 527 additional affordable dwellings.

1.1.5 Details were not provided within the SHMA for St Edmundsbury or Forest Heath Councils. The details for these are provided within previous studies[3]. The St Edmundsbury data suggests that at the time of the assessment there was an annual shortfall of 284 dwellings. The Forest Heath assessment identified an annual shortfall of 239 dwellings.

1.1.6 We understand that at the time of this study further updating work is underway on needs generally, and would need to substitute this background information once finalised. However, we can see a very high and increasing level of needs.

1.1.7 Given the very high need for affordable housing, the Councils want to explore the options for maximising the provision of affordable housing within the framework of the Regional Spatial Strategy (RSS).

1.1.8 The requirement for this study has arisen as a result of national and regional policy and the need to have a robust evidence base for the LDF. The Councils wish to deliver more affordable housing from qualifying development sites. However, they are conscious that the overall commercial viability of development sites should not be risked in pursuing policies which could be ultimately undeliverable and unrealistic.

1.1.9 Planning Policy Statement 3 (PPS3) – Housing[4] (and its accompanying document – Delivering Affordable Housing[5]), requires Local Planning Authorities when setting affordable housing targets to assess the likely economic viability of land for housing within an 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. In accordance with PPS3 and to inform and influence the policies on affordable housing provision within each of the authorities' Core Strategy, the Councils required a study that informs planning policy development with regard to the delivery of

[1] Cambridge Housing Sub-Region Strategic Housing Market Assessment (May 2008)
[2] SHMA provides results for both CLG model and Cambridge's own model. The figures quoted here are those from the Cambridge model.
[3] Opinion Research Services – St Edmundsbury Housing Requirements Study (2005) and Fordham Research – Forest Heath Housing Needs Assessment (2005)
[4] Communities and Local Government - Planning Policy Statement 3: Housing (November 2006)
[5] Communities and Local Government – Delivering Affordable Housing (November 2006)

affordable housing. Specifically the study was required to examine the impacts on development viability in relation to:

- The site/size thresholds;
- The percentage of affordable housing required on qualifying sites; and
- The mix of affordable housing in terms of tenure.

1.1.10 In terms of affordable housing delivery through S106 to date, there has been varying outcomes within and between Districts. Recent delivery from S106 has slowed, owing to reduced market development activity driving this process. However, we understand that St Edmundsbury Borough Council has delivered 395 dwellings over approximately the last 3 years – since the adoption of the Local Plan. Setting aside the 100% affordable (RSL led) schemes, the proportions delivered from individual sites ranged from 10% to 44%, depending on the circumstances. Overall, this accounted for approximately 27% of the dwelling numbers on those schemes.

1.1.11 In a variety of locations within East Cambridgeshire, delivery has varied from approximately 19% to 30% without grant (on the basis of an approximately balanced affordable tenure mix – i.e. approximately 50% affordable rent/50% intermediate). We noted examples of around 30% affordable housing achieved with an improved tenure mix (of approximately 70 to 80% affordable rent) following the input of social housing grant.

1.1.12 There has been a range of outcomes across the area.

1.2 Existing and Proposed Affordable Housing Policies

1.2.1 The four Councils currently have differing adopted affordable housing policies. The following sub-section sets out those policies.

<u>St Edmundsbury Borough Council</u>

1.2.2 St Edmundsbury Borough Council's affordable housing polices are set out in the Replacement St Edmundsbury Borough Local Plan 2016. Policy H3 and its supporting text deal with affordable housing and state:

"Developers will be expected to allocate land within sites to ensure that 40% of the proposed number of dwellings constitutes affordable housing in respect of proposals which in themselves, or as part of a wider but contiguous site, relate to:

- Sites of 0.5 hectares and above or 15 dwellings or more, in settlements of 3,000 population and above.

- Sites of 0.17 hectares and above or 5 dwellings or more, in settlements of less than 3,000 population".

1.2.3 The Council consulted on its preferred options for the LDF Core Strategy from November 2008 to January 2009 and is now preparing Core Strategy for a final round of consultations prior to submission to the Secretary of State later this year. Within the final Core Strategy the Council will set out its core policy for the provision of affordable housing, stating an overall target for affordable housing provision, the threshold in terms of housing unit numbers above which affordable housing will be required, and the approach to affordable housing tenure mix.

1.2.4 Policy H3 of St Edmundsbury Borough Council's Preferred Options[6] document sets out the preference for reducing the affordable housing threshold and asking for a smaller percentage of affordable homes on those sites within Bury St Edmunds and Haverhill. Within the rest of the Borough the preferred option is to require 40% affordable housing from sites of 5 or more dwellings.

Forest Heath District Council

1.2.5 Forest Heath District Council's existing affordable housing policy (Policy 4.26 – Affordable Housing) expired along with the Adopted Local Plan (1995) on the 27th September 2007. The affordable housing policies were not saved. As such the Council currently uses an Affordable Housing Interim Statement (2007) when making planning decisions for affordable housing.

1.2.6 The Interim Statement sets out the following:

"PPS3 and the RSS effectively supersede Policy 4.26 of the FHLP which was not saved; therefore, from 1 April 2007 planning officers will expect developers to provide affordable housing on sites of 15 units or above, irrespective of whether they are in urban or rural locations, and that at least 35% of this housing will be affordable."

1.2.7 The Council have recently consulted on their Core Strategy Proposed Submission (ending June 2009). Policy CS9 (Affordable Housing Provision) of the Council's Proposed Core Strategy Submission document sets out the Council's approach as follows:

"Planning permission for the erection of new dwellings or conversion of existing buildings to dwellings will be permitted provided that, where it is viable to do so, the scheme provides affordable housing in accordance with the following:

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[6] St Edmundsbury Core Strategy Preferred Opt ions and Strategic Sites Issues & Opt ions (November 2008)

- On all schemes of 10 or more dwellings or sites of more than 0.33 hectares in Towns and Key Service Centres, not less than 35% of the total number of dwellings proposed are affordable;

- On schemes of 5 or more units or on sites larger than 0.1 hectares in Primary Villages and Secondary Villages, not less than 35% of the total number of dwellings proposed are affordable. Within this bracket, the Council is considering building in to its approach that schemes of 3 or fewer dwellings should contribute towards meeting affordable housing needs by way of a financial contribution.

- All affordable housing contributions shall enable the provision of the required number of affordable dwellings without the need for public subsidy;

- Provision is made on the application site except for developments of 3 dwellings or fewer where financial contributions in lieu of on-site provision will ensure the same number of dwellings can be built without the need for public subsidy".

East Cambridgeshire District Council

1.2.8 The Core Strategy including its affordable housing policies and approach to viability were found sound by an Independent Inspector and was adopted by the Council on October 20 2009. The approach of the Core Strategy to viability is set out in Policy H3 and accompanying explanatory text.

1.2.9 Historically the Council's affordable housing policies were set out within the East Cambridgeshire District Local Plan (2000). Policy 19 of that plan stated:

"The Council will negotiate an appropriate proportion of affordable housing on all housing developments of 25 dwellings or more, or on sites of 1 hectare or more irrespective of the number of dwellings. In those settlements having a population of 3000 or less the Council will negotiate an appropriate proportion of affordable housing on all housing developments of 9 dwellings or more or on sites of 0.5 hectare or more, having regard to need in the area at the time."

1.2.10 The supporting text to that policy stated that "an appropriate guide for affordable housing contributions under Policy 19 is likely to be up to 30%".

1.2.11 The Core Strategy document sets out the Council's proposals for future affordable housing policy stating in Policy H3:

"Housing schemes of 3+ dwellings will be required to make appropriate provision for an element of affordable housing, in accordance with the following:

- The proportion and type of affordable housing will be the subject of negotiation with applicants

- On schemes in the south of the District, a minimum of 40% of the total number of dwellings to be provided will be sought

- On schemes in the north of the District, a minimum of 30% of the total number of dwellings to be provided will be sought

The approach to tenure split is set out in the explanatory text to Policy H3.

<u>Fenland District Council</u>

1.2.12 Fenland District Council is currently at the Preferred Options 2 stage of their LDF and consultation was carried out in late 2007. The Preferred Options proposed policy on affordable housing (Policy H3) states that the policy will:

"Seek 35% affordable housing units on market housing developments of 10 or more in urban areas and 3 or more dwellings in rural villages subject to viability."

1.2.13 The Core Strategy DPD policies will supersede previous affordable housing policies as set out in Policy H14 in the Fenland District-Wide Local Plan (1993), the Cambridgeshire and Peterborough Structure Plan 2003 and the Fenland District-Wide Local Plan: Interim Statement of Proposed Changes (2001). Policy H14 gives weight to the SHMA/HNA and underpins a 35% quota. In addition, the Council considers a threshold of 15 units in line with PPS3 as a material consideration prior to adopting policies through the LDF.

1.3 The Project

1.3.1 It is important that the Councils' proposed policies do not deter development through reducing the supply of land brought forward for residential development more widely. Any policy must balance increasing delivery of affordable housing and planning obligations with maintaining sufficient incentive (reasonable land value levels) for landowners to release land – allowing developers to promote and bring forward schemes.

1.3.2 This study explores the viability impacts of a range of policy options relating to seeking various levels of affordable housing obligations from new development, taking into account property type, market value levels, tenure mix, wider planning obligations and associated characteristics of residential development.

1.3.3 Specifically, it investigates and assesses the impact on land values, and, therefore, on development viability, of potentially lowering the affordable housing thresholds and increasing the proportion of affordable housing sought on private (market sale) residential sites across the four authority areas. This is considered alongside wider planning obligations and costs. The range of testing carried out for this study is shown at Appendix I – Development Scenarios.

1.3.4 The study tests the impact of a range of affordable housing proportions, in order to generate a feel for viability based on current requirements, and how that varies with potential changes to those. It provides advice on the thresholds and proportions of affordable housing that are considered to be broadly viable and, therefore, suitable as targets.

1.3.5 We use the impact of varying affordable housing requirements on Residual Land Value (RLV) as our measure in putting forward our judgements and guidelines. This process involves comparing the likely impact (changes to RLVs) across a range of potential policy options. So the study examines the variations in approximate RLVs (as indicated by our appraisal results) within the four areas. The implications of these are included in the assessment of site viability and deliverability.

1.3.6 Where possible, the study provides parameters and options for the Councils to consider for affordable housing policy and delivery, from a viability perspective. The Councils will need to consider these findings alongside wider policy considerations and overall priorities.

1.3.7 It must be recognised that this planning-based requirement for securing affordable housing relies on market-led processes. Throughout the study, an emphasis is placed on the need for a practical approach to be taken by Councils, bearing in mind development viability – particularly given the current and likely short-term market conditions. In carrying out this assessment it is assumed that there will be a return to more stable financial and property market conditions where improved access to mortgage and development finance, on appropriate terms, will promote demand and re-stimulate more normal levels of development activity than we have seen while working in the area at the present time. The same applies to all such studies which look at affordable housing supplied through market led schemes.

1.3.8 The methodology and assumptions used are described in Chapter 2 and the results trends are discussed in Chapter 3. The overall/combined conclusions are set out in Chapter 4 followed by individual local authority-based recommendations in Chapter 5. Chapter 6 sets out wider points in relation to affordable housing delivery. The tables, graphs and associated information referred to throughout this study are appended to the rear of the document.

2 METHODOLOGY AND ASSUMPTIONS

2.1 Background

2.1.1 In considering the factors that need to be taken into account in bringing sites forward that include affordable housing, it is necessary to determine what effect increased affordable housing proportions, reduced thresholds, variations to tenure mix and other development costs may have on the value of a potential development site.

2.1.2 This study investigates residential development scenarios across a range of site sizes between 3 and 100 dwellings (see Appendix I – Development Scenarios, for the range of appraisals carried out).

2.1.3 The schemes modelled are notional sites chosen to reflect scenarios that best match the various policy options to be tested. At certain site sizes, a range of unit mixes have been tested. These were arrived at through discussion with the Councils' officers based on the range of site types which may come forward across the area and bearing in mind the nature of developments seen at the time of our research. These should reasonably reflect a range of scheme types coming forward now and in the future.

2.1.4 Most importantly, however, they have been chosen to enable development viability to be tested at a range of points with reference to scale of development (i.e. numbers of dwellings in a scheme, as will relate to affordable housing policy thresholds) and dwelling mix, as part of this strategic overview work. The smaller site sizes enable us to test viability at lower thresholds, whereas the larger sites enable us to test the impact of increased proportions on sites that already trigger the requirement for affordable housing.

2.1.5 This approach to the strategic overview of development viability of planning policy has been considered a robust and credible approach by the Planning Inspectorate through the former Local Plan Inquiry and current Development Plan Examination processes.

2.1.6 An alternative approach to testing development viability on a strategic basis could be to investigate the development viability of actual sites. We have chosen the notional approach for a number of reasons including:

- There is no published good practice guidance on a methodology to follow for carrying out development viability studies.

- Our established approach to this viability work, including the use of notional sites, has been tested successfully.

- There can be difficulties in obtaining sensitive information from developers and landowners in relation to actual sites. This leads to appraisals of actual sites becoming heavily assumption-based in any event.

- The use of actual sites affects the ability to compare outcomes 'like with like' to assess the impact of varying affordable housing requirements. Affordable housing impacts can become blurred with, or by, other issues which vary from one site to another.

- Sensitivities with reporting, information and potential effect on future negotiations.

- Site sizes may not align to studying potential threshold points.

- An actual site approach can be very resource hungry and thus costly for this stage of the process.

- Ultimately, unless extensively applied (noting the former point) an actual sites approach does not fit well with taking a strategic overview of the impact of potential affordable housing polices, when in fact sites vary so much.

2.1.7 The outcomes of the appraisals based on the range of scenarios tested provides us with a scale of results (discussed in Chapter 3) from which conclusions can be drawn as to the key factors and trends affecting viability across each of the Districts and Borough. This leads to discussion on how these might be considered in reviewing policy options, and then to policy recommendations.

2.2 Property Values

2.2.1 In determining the modelling scope in a local context, it was decided to consider a range of "Value Points" rather than concentrate on the specifics of settlement areas or centres (within which values can vary greatly in any event). By taking a Value Points approach we mean that the value levels considered at each Value Point could, in fact, be found anywhere within St Edmundsbury Borough, Forest Heath District, East Cambridgeshire District or Fenland District. As well as considering how values may vary by location, the Value Points approach also enables us to see how land values and, therefore, viability could change through varying market conditions affecting property values over time.

2.2.2 To this end research into property prices across these Suffolk and Cambridge Authority areas, on a detailed localised basis, was undertaken to determine realistic development values (property sales values) for each of our appraisals.

2.2.3 We reviewed the ‘asking’ and ‘subject to contract’ sale prices of all available new build 1 and 2-bed flats and 2, 3 and 4-bed houses across the area as a part of making our judgements on a reasonable range of values for the study to apply, by dwelling type. The data was collected through a mixture of “on the ground” and desktop/internet research in May to June 2009. Adams Integra acknowledges that there is usually a gap between marketing and sale price. In recent difficult market circumstances this gap has typically grown, although it is not possible to make a statement about the usual gap between the two, as a particular owners’ aspiration and the saleability of particular properties clearly varies significantly in any event. The research has been reviewed in the context of this, and the range of value levels assumptions set accordingly.

2.2.4 The results of the property value research, and in particular the new build values research, led to the formation of 5 main Value Points. These 5 points (numbered 2 to 6) cover the range within which new build housing values in most areas of each District and Borough fall. Two additional Value Points (1 and 7) were also used in the modelling for this study (above and below the typical range seen) to enable us to consider the sensitivity of results to market conditions and price levels outside the typical range seen at the time of the study. Most areas have a variety of property values (even within the same postcode), therefore, the results of this research can be used independently of location where approximate sales values can be estimated.

2.2.5 In terms of Fenland District, values were noted that fell around Value Point 1 and within our Value Points 1 to 2 range. Further analysis below Point 1 values has not been carried out. As our wider experience from other studies and site specific appraisals has shown, it is simply not useful to explore viability figures in relation to values below those levels because usually they are insufficient to support the collection of schemes costs including, affordable housing assumptions, that we review. Figure 6 below shows the range of property values (Value Points) applied within our appraisals alongside the other assumptions we set out.

Figure 6: Summary of Value Points Adopted for Each Property Type (based on assumed floor areas):

Value Point / Property Type	1-Bed Flat (50m²)	2-Bed Flat (67m²)	2-Bed House (75m²)	3-Bed House (85m²)	4-Bed House (100m²)	Indicative £ per m² - overview
Value Point 1	£70,000	£93,800	£105,000	£119,000	£140,000	£1,400
Value Point 2	£85,000	£113,900	£127,500	£144,500	£170,000	£1,700
Value Point 3	£100,000	£134,000	£150,000	£170,000	£200,000	£2,000
Value Point 4	£115,000	£154,100	£172,500	£195,500	£230,000	£2,300
Value Point 5	£130,000	£174,200	£195,000	£221,000	£260,000	£2,600
Value Point 6	£145,000	£194,300	£217,500	£246,500	£290,000	£2,900
Value Point 7	£160,000	£214,400	£240,000	£272,000	£320,000	£3,200

2.2.6 This is only intended to indicate general tones of values/value patterns – the range within which values are typically seen. It helps us understand how varying policy (and the resultant range of viability outcomes) might affect housing and affordable housing delivery on sites which produce differing values across the area. In practice, very specific local factors influence value.

2.2.7 As part of the research, we spoke to estate agents at various locations across the area. This was commenced in May and June 2009, and supplemented where possible with other information we collected and discussions we had as the study progressed. The data has also been verified and supplemented by using Land Registry and resale data plus where possible through visits to, and enquiries made of, house builders' sales offices. In a more general sense, our thinking was further verified through comparison with our ongoing wider caseload and discussions with others such as land agents, for example as to the way developers consider sites and price their new schemes.

2.2.8 In addition, a review of property values across each postcode sector and ward in each area was undertaken by Cambridgeshire Horizons for Adams Integra, as part of that organisation's involvement in the project. That was prepared using Hometrack information sourced by Cambridgeshire Horizons. This helped us to understand and consider, very broadly, how values vary relatively with location across and within the four areas in the context of the Value Points. The key elements from this are set out later in this study with the Results and the full data is shown in Appendix IV which follows our research (set out in Appendix III). However, it must be reiterated that that any attempt to define values patterns can only be highly indicative as values can change over very short distances (even down to street level) dependent on a site's location and its surroundings, local amenities, etc.

2.2.9 This study does not attempt to provide comprehensive property valuation data, but rather identifies the typical range of new build values for various dwelling types based on the assumed sizes set out. The values research is carried out to enable us to make judgements about the range of values of new build properties typically available. Inevitably judgements have to be made. It is not a statistical exercise. The values used in the appraisals are averaged across properties of varying size and type, and it must be remembered that any settlement could contain a range of property values covering a single property type. We believe, however, that the information used is reasonably representative and that the range of values applied allows for a variety of market conditions as may be seen. The key point is to consider the likely range of typical new build values which will underpin this planning-led delivery of affordable homes, rather than consider overall resale market Land Registry type data alone, which can often dilute the new build market picture or not reflect it clearly.

2.2.10 Also relevant in this context is the fact that while the specific values information collected can only be on a snapshot/current time basis and does not reflect definitive future property value increases or decreases in itself, when viewed overall this approach of using a values range enables us to consider how value trends might impact viability. Elsewhere within this report we acknowledge the changing wider market conditions which are being reported as the study progresses. The range of values used includes values (at Value Points 1 and 7) that are usually outside the range currently encountered. These have been included to enable the work to be used to inform the review of the impact of changes in housing values should they fall below, or increase above, levels currently seen. Although there are a variety of forecasts, those tend to change quickly (particularly in these type of market conditions) and the future direction of values cannot be predicted. Indeed the Government's Valuation Office Agency (VOA) has commented that it cannot carry out its normal six monthly residential land forecast and stated that:

"Due to the effects of the global financial crisis it has been decided not to include a residential land forecast in this edition of the report (July 2008). The unprecedented volatility in national and international world financial markets will not have been reflected in the previous data series used to compile the forecasts. Until these exceptional events are more fully reflected in these data series, any forecast using this method would be subject to unacceptable levels of uncertainty"

Source: VOA property market report July 2008

2.2.11 Although future values cannot be predicted, this methodology does allow for potential future review of results in response to more established market trends or revised price levels - as well as sale price variations through site characteristics or location. It enables us to look more widely at the sensitivity of results to value levels.

2.2.12 Prior to and during the study period, there has been continued reporting at all levels of a weak and uncertain property market. As at July 2009 these conditions could not be described as over by any means. However, after continued fairly bleak market reporting from a range of sources into January and February, from around March 2009 there has been some more positive reporting and market sentiment to balance this picture. This has reported reduced rates of price decline and even news of very recent slight increases in average property values again in many areas. This is also discussed later in the report and our market review information is included at Appendix III – Property Prices Report. There are still wide-ranging views on how much further the downturn has to go or whether/to what extent the market is stabilising. Towards the close of the study, into the Autumn and Winter of 2009 in to 2010, some established commentators are saying that the increased level of market activity and levelling-off, or in many cases modest increases, in house prices seen of late represents only a very fragile level of recovery. The indications are that house prices have been protected to a degree by lack of supply rather than through any significant level of increase in confidence or in the availability of finance. It follows that there appears to be a growing view that 2010 could hold a further period of decline – i.e. that the fragility of the recovery period could well be seen. It certainly seems the case that the relatively weak economic backdrop and uncertain property market is a feature we will see for some time yet. Not all commentators hold this view. However, examples of characteristic features of the downturn to be noted in the context of this study include:

- Many house builders have been reporting reduced trading results, profits warnings, losses.

- A marked slow-down in the rate of construction of new homes.

- Incentives being offered fairly typically on new build sites - such as stamp duty/5% deposit paid/deferred purchase/shared equity/mortgage payments assistance, and perhaps others – dependent on a prospective purchaser's position together with the developer's marketing experience and sale potential of particular plots, etc.

- Some use of guide pricing alone, or even no advertised pricing.

- Some schemes still selling relatively well but usually with slower sales where this is so.

- Some developers considering offers from RSLs for expanded affordable housing quotas on sites, or even entire schemes for affordable.

- Increased reports of developers pulling out of schemes, and delaying starts or slowing scheme progress/"mothballing" sites.

- Extended development periods in some cases, with a knock-on effect of impacted sales progress because there is less for purchasers to see. Purchasers are far less likely to purchase off-plan given uncertainty over values movements. This creates a circular effect with regard to build progress on some schemes – i.e. some developers taking a view that build progress needs to be underpinned by firmer sales interest. Others are however proceeding based on prospective purchasers typically now wanting “to see what they will get”.

- Examples of estate agents (and developers’ sales operations combining, closing or mothballing offices, or operating restricted hours.

- Fewer investment buyers active.

- Mortgage lending well down and difficulties in obtaining funding more widely experienced by prospective purchasers.

- Some house builders and others involved in the development industry reducing staff numbers significantly, with some ceasing to trade.

2.2.13 As above, despite the small signs of the makings of a more positive market picture, it would be premature to say that the above effects are now a thing of the past. In terms of study methodology, the recent and current uncertainties are very difficult to reflect. In our view, it would be impractical for a local authority to move affordable housing and perhaps other viability related planning obligations targets in response to what could be relatively short-term market conditions and adjustments in relation to the life of the LDF. As discussed, the use of a range of Value Points enables us to see how residual land values (and thus likely scheme viability) change as the market values of properties varies.

2.2.14 One of the principal concerns with the market currently is the volume of sales being achieved rather than simply the value levels. Sales volume is difficult to reflect in financial viability terms. It may affect developers’ views on risk levels, and it may affect development and sales periods, and thus finance periods. These will in any event be site-specific factors. To what extent the very depressed levels of market activity will ultimately affect value levels remains to be seen. However, it should also be noted (related to the point here about value levels not being the critical issue in isolation) that value levels are still high when long-term trends are reviewed. In the past, schemes have been brought forward and have, therefore, been viable at similar or lower value levels.

2.2.15 In our view the key message for local authorities in this situation is the need to monitor the market, housing delivery outcomes and trends locally, and respond to those through contingency measures and possible policy review longer term. It is also about adopting a practical and flexible approach to secure delivery of all housing types in the short-term. This will be picked up again in Chapters 4 and 5. Over the long-term the property market and house-building industry has varied through cycles. Some companies will begin to gear up for success in the future but the recovery in the house-building industry may be slow.

2.3 Approximate Residual Land Value (RLV)

2.3.1 In order to determine the impact of proposed affordable housing policy on the range of site sizes appraised across the range of Value Points it is necessary to determine a common indicator to ensure comparisons are made on a like-for-like basis.

2.3.2 The key viability outcome and indicator for this study is the land value that can be generated where there is a predetermined and fixed level of developer profit (alongside allowing for all other assumptions and variations discussed in this report). It is not based on the notion of fixed land values with developer's profit varying as affordable housing or other requirements change. Land value expectations (and how those need to be adjusted over time with changing markets in addition to changing planning and environmental requirements) are central to this work and to the ongoing negotiation and delivery processes. Local authorities and others involved in the process must recognise that developers need to make reasonable profits, and this work is not based on a premise that those should be eroded below reasonable levels. This area is discussed further below, including at 2.5 – Developer's Profit.

2.3.3 Assuming a developer reaches the conclusion in principle that a site is likely to be viable for development, an appraisal is carried out to fine tune the feasibility and discover what sum they can afford to pay for the site.

2.3.4 In this study we have to assume that a negotiation has occurred or is under way based on knowledge of the current development climate and planning policy requirements as they will apply to the scheme. Therefore, this study compares the viability outcomes from the variety of potential policy requirements tested (e.g. increased affordable housing proportions and lower site thresholds).

2.3.5 The simplest, most effective and widely understood way of checking site viability in most instances is via a developer-type Residual Land Value (RLV) appraisal (see Appendix V – Glossary). We have developed our own spreadsheet tool for this purpose. In doing so we have made what we feel are reasonable assumptions but it must be noted that individual developers will have their own varying approaches, and a developer might also apply a different approach from one site to another.

2.3.6 Ultimately, land value is a product of a series of calculations that provides a residual valuation based on both the specific form of development a site can accommodate, and its development costs. While the market uses a variety of approaches to appraise sites and schemes (including comparisons between sites) in early stages of feasibility, a more detailed approach is necessary to understand how the value/cost relationship appears - as used in this study

2.3.7 A highly simplified example which groups various cost elements together and showing only the basic structure of the RLV calculation, is shown in Figure 7. This is an illustrative example only and is not to be relied upon for calculation purposes. It demonstrates, in outline only, the key relationship between development values and costs. This is a dynamic relationship and determines the amount left over (hence 'residual') for land purchase from the total sales value (the 'gross development value') of the site. It can be seen that as values increase but costs remain similar, there is more scope to sustain adequate developer's profit levels together with, crucially, land values which will be sufficient to promote the release of land for residential development.

Figure 7: Simplified Example of Residual Land Value (RLV) Calculation (basic structure and principles - for illustration purposes only)

Starting point is total sales value ("Gross Development Value")	
Number of Units =	10
Sales Value =	£120,000
Gross Development Value = A	£1,200,000
Development Costs (build costs, fees, etc.) = B	£575,000
Development Profit (@15% of Sales Value for the purposes of this example) = C	£180,000
Land Purchase Costs and Planning Infrastructure (not including affordable housing element) = D	£75,000
"Residual Land Value" (Gross Development Value - Development Costs - Profit - Land Purchase and Planning Obligations) = E	
A – (B + C + D) = E	**£370,000**

2.3.8 This method reflects one of the main ways of how development viability tends to be assessed. We have been able to verify our experience and thoughts on the structure of, and components within, the model and indicative output land values through our contact with developers and their advisers.

2.3.9 The model used for analysis in this instance uses a calculation that provides an approximate RLV, after taking into account assumed normal costs for site development. It does not allow for abnormal costs. Abnormal costs can only be properly reflected with detailed site-specific knowledge. If such varying costs were to be considered within this study, it would affect our ability to accurately compare like with like, when assessing the impacts of affordable housing requirements.

2.3.10 Added to this is the inclusion of an affordable housing element, whereby the developer receives a payment from an RSL (or other affordable homes provider) for a number of completed affordable homes. This level of receipt is based on predetermined calculation, and it is not at a level comparable with open market values. In addition, an allowance for other planning infrastructure costs is also included (see Other Assumptions below).

2.3.11 Assuming that a developer will require a minimum fixed profit margin on any given site to balance risk and obtain funding, beyond a certain point it is, therefore, the land value that will be affected by the introduction of affordable housing or other infrastructure requirements. In this sense (and although there can be positive cash flow effects similar to those from “off-plan” sales) affordable housing is viewed as a significant cost element to the developer’s appraisals, in much the same way as other planning infrastructure requirements (planning obligations).

2.3.12 The results of the model calculations show the indicative residual land value (RLV) – in monetary terms – generated, and the RLV as a percentage of the gross development value (GDV). Where possible, the results are then also compared against potential alternative use values for the site types. Those comparisons build on our acknowledgements that existing or alternative use values are often a key factor in determining viability outcomes. These comparisons help to inform our judgements and are a measure which can help in determining the viability of a site. This can only be highly indicative at this strategic overview study level, however. In practice every site will have specific characteristics and its value will be determined by its type, location, use, lifespan, marketability and development potential, and the cost of creating or realising that potential use; or maintaining an existing/alternative use.

2.3.13 Regarding exiting/alternative use values, the Councils should be aware that the Commercial Property Market has been suffering and has seen a greater degree of downturn, even, than the residential market as a consequence of the financial markets crisis. Although a generalised statement, demand for commercial property has fallen very dramatically with severe consequences for values. This factor needs to be borne in mind. The comparisons that are relevant are likely to change over time. The relative positions, in viability terms, of alternative proposals for sites could alter. The LDF process involves taking a strategic, long-term view based on a variety of potential conditions.

2.4 Gross Development Value (GDV)

2.4.1 Gross Development Value ("GDV") is the amount the developer ultimately receives on completion or sale of the scheme, whether through open market sales alone or a combination of open market sales and the receipt from a RSL for completed affordable homes. Thus the developer's profit in each case relates to that scheme-specific sum rather than to a base level of GDV that assumes no affordable housing. It assumes that the developer has appraised the site and secured land in the knowledge of, and reflecting, policy that will apply; i.e. the developer is aware that receipts will be at a lower level than prior to any affordable housing policy taking effect. This can be regarded as a reasonable approach given established local and national policy guidance on the provision of affordable housing.

2.5 Developer's Profit

2.5.1 The requirement to place an increased proportion of affordable housing on a site will inevitably reduce the sales income that a developer can reasonably expect to receive. As this reduction will not be accompanied by lower construction costs, the offset must be taken up in a reduced development profit, a lower land price or a combination of the two.

2.5.2 Developer's profit and landowner's sale price are key considerations that must be taken into account if residential development is to be undertaken.

2.5.3 If profit levels fall below a certain point then developers will not take the risk of developing a site, nor in many cases will funding organisations lend them development finance. In this context, development profit should be regarded as a development cost. Equally, if the price offered by a developer to a landowner for a site is too low, the landowner may not sell and instead continue with, or pursue, an existing or higher value use. There are also other issues, for instance some of the smaller sites may start out as homes, gardens or small business premises which will not be sold unless certain aspirations are met. Business and tax considerations, investment values and costs, and availability and cost of replacement facilities can all influence decisions to retain or sell sites. A mix of these factors may be relevant in some cases.

2.5.4 Continued ready access to development finance is likely to be a particular issue in the current market conditions which have flowed from the “credit crunch”.

2.5.5 Adams Integra’s experience of working with a range of developers leads us to suggest that they would need to seek a fixed profit (margin) of at least 15% (gross) of GDV. In general, only if the projections reveal this fixed profit margin (as a minimum) would a developer pursue a site.

2.5.6 This study, therefore, uses a developer’s profit fixed at 15% of GDV as a base point, which is at the lower end of the acceptable profit range in normal circumstances. We felt it appropriate to appraise the scenarios at the margins from the developer’s perspective. Higher profit levels than those we have assumed may well be appropriate, depending on the nature of the project and risk/reward scenario – and in this sense the market conditions. Different profit aspirations will also be held by different types of house building and development companies.

2.5.7 Our experience shows that particularly for smaller and lower risk schemes, and those often carried out by smaller more local developers (or contractor developers), a 15% level of developer profit may well be an appropriate assumption. In the current uncertain market conditions we are seeing a range of indicators on developer’s profit levels, and these are becoming increasingly difficult to judge with respect to perception of risk levels. Whilst we are aware of increased profit expectations in some instances (up from the 15% level), we have also seen schemes where profits have been adjusted downwards marginally to help maintain viability.

2.5.8 However, given our acknowledgement of varying profit levels, we have also carried out appraisals on the basis of 20% developer profit. After the point of fixing the study assumptions, the HCA re-launched the (Housing Corporation) Economic Appraisal Tool with a revised guideline assumption for developer’s profit of 17.5%.

2.6 Model Scenarios, Property Types, Size and Mix

2.6.1 The four Councils required a range of scenarios to be appraised to assess the viability of the potential approach to thresholds and proportions of affordable housing alongside other planning obligations.

2.6.2 In considering on-site provision of affordable homes, the scheme types modelled range in size from 3 to 100 units to allow the study to investigate a full range of potential policy options.

2.6.3 The notional schemes with on-site affordable housing were tested at a range of affordable housing proportions. The testing included using 0%, 20%, 30%, 35%, 40% and 50% affordable housing. These investigate a range of policy options for the proportion of affordable housing to be sought (covering the range of potential policy options for each authority), including on sites below the currently applied thresholds – possibly as part of a sliding scale approach to affordable housing policy.

2.6.4 The dwelling sizes used in the modelling are 50sq m for 1-bed and 67 sq m for 2-bed flats. For 2, 3 and 4-bed houses we have used 75sq m, 85sq m and 100sq m respectively. These are all gross internal areas. They are thought to be reasonably representative of the type of units coming forward for smaller and average family accommodation, within the scheme types likely to be most suitable for on-site integrated affordable housing. We acknowledge that these 3 and 4-bed house sizes may be small compared with some coming forward, but our research suggests that the values for larger house types would also often exceed those we have used and would, therefore, be similar on a "£ per sq m" basis. It is always necessary to consider the size of new build accommodation while looking at its price.

2.6.5 This study assumes that the affordable housing mix will mirror that of the private housing and would be transferred to an RSL on a proportional basis. Clearly, in practice, the exact private and affordable housing mixes will vary from site to site, as may the consistency between them. The intention of this study assumption was to follow the principle that a mix of affordable housing dwelling types will be expected wherever that is achievable.

2.6.6 For details of the dwelling mix for each on site scenario modelled see Appendix I – Development Scenarios.

2.6.7 In practice, there would be a tendency towards developers needing to maintain the higher value units within a scheme for private sales whilst also thinking about the relationship of the private units to the affordable units in terms of location. These are all factors which in reality (and dependent on the site location and characteristics) will affect the unit and tenure mix as part of the negotiated approach.

2.7 Indicative Scheme Density

2.7.1 To provide broad comparisons with published land value data so as to provide an additional basis for interpretation of results only, the approximate site area (land take) required for each development scenario (site type and size) has been provided. These land take indicators have been estimated assuming 2 storey housing, and flats in buildings of 2.5 to 3.5 storeys. The land take assumptions for ancillary space (gardens, immediate access roads, parking, outbuildings, etc) have been approximated. Based on the unit sizes assumed in this study, this provides us with indicative densities of between 30 and 75 dwellings per hectare (dph) depending on unit type and dwelling mix.

This part of the exercise is purely for the purposes of additional review of results. In practice, densities will be highly variable. Site sizes and their corresponding densities are shown in Appendix I.

2.8 Affordable Housing Transfer (to RSL) – Method of Payment Calculation and Type of Property Transferred

2.8.1 Agreement was reached with the Councils that for the purposes of this study the payments developers receive from RSLs (Registered Social Landlords) for the provision of completed affordable homes should assume a negotiated approach between the parties. These payments are in turn driven by scheme costs and what the RSL can afford to pay based on its business planning and financial assumptions.

2.8.2 As PPS3 asks us to consider the availability of funding in looking at viability, the Councils also wanted to test the impact of public subsidy (in the form of Social Housing Grant (SHG)). All appraisals were carried out without grant, as a base position given that the receipt of grant cannot be regarded as a certainty. A small sample was tested with grant. The appraisals with grant assume an approximate level of £10,000 per person housed for affordable rented units and £3,000 per person for intermediate units.[7] In practice, on specific sites this might vary considerably, dependent on property type. It is simply not possible to predict the amount of SHG that will actually be available. The Government's drive through the HCA (formerly the Housing Corporation) is for best value, and making sure that grant money achieves the "additionality" rather than supporting land value or similar. However, in this review of land value (RLV) impacts, common to all similar tools we see RLV increasing and, therefore, viability improving as we include grant in the appraisals. Therefore, viewed on this basis, areas which receive more grant see schemes which remain more viable as affordable housing proportions are increased and/or affordable tenure mixes are improved (towards an emphasis on affordable rented homes). This may be a relevant feature locally (e.g. in East Cambridgeshire's case) but is not one that we consider can be a certainty.

2.8.3 The likely payment that an RSL would make for an affordable rented or unit of intermediate tenure within this modelling was determined through carrying out a series of appraisals using industry standard software (in this case - "ProVal") making judgements on the range of input assumptions following liaison with a number of locally active RSLs. Effectively, the value that could be paid to a developer for completed affordable homes is usually related to the mortgage finance the RSL could raise based on the rental income stream (affordable rent) or capital and rental income stream (in the case of shared ownership or similar products).

[7] Housing Corporation Regional Investment Statement 2008-11

2.8.4 In practice, the values generated could be dependent on property size and other factors including the RSLs own development strategies and thus would vary from case to case when looking at site specifics. The RSL may have access to other sources of funding, such as its own resources or recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm – it is highly scheme-dependent and variable and thus has not been factored in here.

2.8.5 The figures used in the appraisals are shown in Figure 8 below for each property type, and reflect the sums received per completed affordable home by the developer in return for constructing them (usually for an RSL to which they are transferred):

Figure 8: Summary of Sums Payable by RSL to Developer for Completed Affordable Units

Rent (no Grant)					
Value Point	1 Bed Flat	2 Bed Flat	2 Bed House	3 Bed House	4 Bed House
1	£38,000	£45,000	£47,000	£53,000	£61,000
2	£40,000	£48,000	£50,000	£57,000	£65,000
3	£42,000	£51,000	£53,000	£61,000	£69,000
4	£44,000	£54,000	£56,000	£64,000	£73,000
5	£46,000	£57,000	£60,000	£67,000	£77,000
6	£48,000	£59,000	£63,000	£71,000	£81,000
7	£50,000	£62,000	£66,000	£75,000	£85,000
Rent (with Grant)					
Value Point	1 Bed Flat	2 Bed Flat	2 Bed House	3 Bed House	4 Bed House
1	£55,000	£71,500	£82,000	£97,000	£113,000
2	£57,000	£74,000	£85,000	£100,000	£117,000
3	£59,000	£77,000	£88,000	£103,000	£121,000
4	£61,000	£80,000	£91,000	£106,000	£126,000
5	£63,000	£83,000	£94,000	£109,000	£130,000
6	£65,000	£86,000	£97,000	£112,000	£134,000
7	£67,000	£89,000	£100,000	£115,000	£138,000
Intermediate (no Grant)					
Value Point	1 Bed Flat	2 Bed Flat	2 Bed House	3 Bed House	4 Bed House
1	£40,600	£54,404	£60,900	£69,020	£81,200
2	£49,300	£66,062	£73,950	£83,810	£98,600
3	£58,000	£77,720	£87,000	£98,600	£116,000
4	£66,700	£89,378	£100,050	£113,390	£133,400
5	£75,400	£101,036	£113,100	£128,180	£150,800
6	£84,100	£112,694	£126,150	£142,970	£168,200
7	£92,800	£124,352	£139,200	£157,760	£185,600
Intermediate (with Grant)					
Value Point	1 Bed Flat	2 Bed Flat	2 Bed House	3 Bed House	4 Bed House
1	£44,800	£60,032	£67,200	£76,160	£89,600
2	£54,400	£72,896	£81,600	£92,480	£108,800
3	£64,000	£85,760	£96,000	£108,800	£128,000
4	£73,600	£98,624	£110,400	£125,120	£147,200
5	£83,200	£111,488	£124,800	£141,440	£166,400
6	£92,800	£124,352	£139,200	£157,760	£185,600
7	£102,400	£137,216	£153,600	£174,080	£204,800

2.8.6 The exact nature and mix of tenure models within an affordable housing scheme will often need to be bespoke to a particular location and site. Particular flexibility is required in the type of uncertain market and funding conditions we have. In terms of Intermediate affordable tenure what is suitable is likely to be dependent on demand as influenced by a wide range of factors. These might include mortgage product availability, changing price levels and affordability, the Government's constantly evolving range of initiatives - and developers' reactions and own practical marketing initiatives.

2.8.7 Although tenure mix is a site-specific consideration and dependent on local housing needs evidence plus the type of factors mentioned at 2.8.6, this study tests the impact of varying the tenure mix on development viability – based on certain assumptions that have to be fixed in order to run the appraisals. Experience with scheme specifics shows that in the current climate, RSL type financial appraisals for shared ownership and intermediate rent produce broadly similar outcomes in respect of what RSLs can afford to pay for dwellings. The tenure mixes tested were as follows and as agreed with the Councils:

- 60% affordable rent/40% intermediate
- 70% affordable rent/30% intermediate

2.8.8 In looking at our assumptions for intermediate tenure more generically in this way, for shared ownership accommodation our calculations were based on a 35% initial capital sale with 2.5% rent paid by the purchaser on the retained equity. We have assumed that where possible only houses and flats of 2 bedrooms or less would be transferred to an RSL with larger units remaining as private and/or being transferred for affordable rented tenure. This is due to the potential lack of affordability of shared ownership properties where larger units may be unaffordable to the end user. Intermediate rents would normally be at up to 80% of market rent levels.

2.8.9 It should be noted that where we refer to shared ownership in this study - and that may still be a part of specific site discussions between the Councils on intermediate tenure content, developers and RSLs - other tenure options or models may well now be relevant. The focus will increasingly be on "intermediate tenure" in an adaptable mix alongside the priority needed affordable rented accommodation. Other models, including rented at rates discounted from market rental costs ("intermediate rent") may well be applicable. Those could come into play depending on local specifics such as need, demand, funding, market factors (especially in the current climate) and affordability. In most cases, they will produce improved cash-flows and provide a better viability outcome, compared with affordable rent without grant; and be considered as more market-friendly by developers as part of their overall view.

2.9 Other Assumptions

2.9.1 The appraisal model includes other variables such as fees, land buying costs, finance, agency costs and planning infrastructure provision that are all taken into account when calculating an approximate land residual value.

2.9.2 These figures in some instances are factors of other elements of the appraisal and, therefore, vary by site size and type.

2.9.3 The percentages and values assumed for the purposes of this exercise are listed below and are the result of Adams Integra's experience, work with and discussions with developers, valuers and agents:

- **Build Cost (House Schemes)** – *£1,000/sq m*

- **Build Cost (Flatted Schemes – low rise)** - *£1,100/sq m*

2.9.4 The above are applied to the Gross Internal Area (GIA) of the accommodation. Base costs for flats are likely to be higher than for a scheme of houses particularly where sites are constrained and often difficult to work on (involving materials storage difficulties, craning, etc). Common areas have to be allowed for, as does the degree of repetition of costly elements. Cash-flows for flatted development can also be less favourable as rolling sales are more difficult to deliver. In this study the £1,100 per sq m figure assumes standard low-rise flats (typically no more than 3 storeys and allowing standard construction techniques). In practice, again all schemes will be different.

2.9.5 Build cost figures have been taken as an indicative level, supported by our ongoing experience of scheme specifics, whilst also taking into account a range of information from BCIS data (the Building Cost Information Service of the Royal Institution of Chartered Surveyors (RICS)).

2.9.6 There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so a judgement on some form of benchmark is necessary. There will be instances where other costs are relevant, including in overcoming abnormal site issues or characteristics.

2.9.7 We are aware that the developer's base build costs can be lower than our base cost figures, and also that the BCIS tends to indicate lower figures. In contrast, however, there is also much said about costs being higher than this, often in the context of RSLs procuring new housing through contractors and developers. Build costs are set out in a range of guises, including in BCIS, whereby items such as external works costs and fees, etc, are sometimes included, sometimes excluded. It can be difficult to carry out reliable analysis. So a view needs to be taken, and then monitored, tested and updated as informed by the experience of site specifics, negotiations and (from the affordable housing perspective) in light of funding availability and affordability for occupants.

2.9.8 Typical scheme-specific key assumptions additions to these are:

- **Architect Fees**: *3.5% of build costs.*

- **Consultants Fees**: (for example could include engineer, planning supervisor, project manager etc) *3.5% of build costs.*

- **Contingencies**: 5*.0% of build costs.*

- **Marketing and Sales Fees**: *1.5% of Estimated Gross Sales Value. There will be instances, dependent on the location and scheme type, where some of this expense, or an additional sum will be directed to the setting up of a show home. This will, however, not be appropriate on all schemes hence we have not included for it as a standard assumption item. We would not expect it to alter the outcomes fundamentally.*

- **Legal Fees on Sale**: *£400 per unit.*

- **Finance (build)**: *7.0% APR on above build costs over build period.*

- **Build Period:** *6 months for 3 and 5 unit schemes; 9 months for 10 unit schemes, 12 months for 15 to 25 unit schemes; 18 months for 50 unit schemes; 24 months for 100 unit schemes.*

- **Land Survey Costs***: Approximate cost of £500 per unit including basic ground conditions research (on larger schemes especially there will usually be additional cost associated with transport, environmental/landscape, ecology etc dependent on the scheme and not covered here).*

- **Legal Fees on Land Purchase**: *0.5% of land value (this will often produce a low figure when looking at very small or low value sites but only make a minimal difference to outcome).*

- **Planning Application costs**: *£335 per dwelling where the number of dwellings is 50 or fewer; where the number of dwelling houses exceeds 50 - £16,565 plus £100 per dwelling in excess of 50, subject to a maximum total of £250,000.*

- **Stamp Duty Land Tax**: *Between 0% and 4% depending on RLV.*

- **Infrastructure Payments (wider planning obligations)**: Historically these payments have been calculated on a site-by-site basis (depending on dwelling mix) through the use of a S106 agreement or unilateral undertaking. However the Cambridgeshire Councils are considering the introduction of a Variable Tariff[8] to improve on the traditional S106 route to securing infrastructure from developer contributions. The study recommends a tariff of £7,500 to £12,500 in East Cambridgeshire and £3,000 to £10,000 in Fenland. However, the study only covers the Cambridgeshire authorities (East Cambridgeshire and Fenland Districts). As such Adams Integra, in agreement with the Councils, decided that this study should investigate a range of fixed overall costs (per unit) to determine the additional impact a range of planning infrastructure costs may have on development viability in tandem with other potential cost areas (e.g. – but not exclusively - renewable energy, Code for Sustainable Homes, etc). Appraisals have, therefore, been carried out assuming £5,000 per unit, £10,000 per unit and £20,000 per unit. This covers a range of potential infrastructure costs but equally could apply to other future costs. They are notional levels. We varied this assumption so that we and the Councils could review the sensitivity of results to this factor – using similar thinking to the Value Points methodology rather than looking only at a relatively narrow set of assumptions. This was done with the potential nationwide Community Infrastructure Levy (CIL) policy developments in mind, but also in the context of a range of other areas which could effectively add costs to schemes from a developer's and, therefore, landowner's perspective.

  The figures used are not intended to be a guide to CIL levels or supersede any work carried out in the Variable Tariff Implementation Study. We have used the range of values to test the additional impact of those costs on development viability of the schemes types appraised.

- **Requirement for 10% reduction in CO_2 through renewable energy measures**: All base appraisals carried out including cost allowance for this basis. A sample of appraisals was run on sites of 10, 15 and 25 units with 20% CO_2 reduction through on-site renewables. Renewables allowance approximately £3,500 per unit for 10% base level (estimated cost from EST CE190[9]). 20% costs not given - estimate used of £7,000 per unit. It should be noted that there are overlaps with this and the Code for Sustainable Homes attainment requirements. The sets of assumptions used may mean an over allowance for costs, particularly in the case of Code Level 4

[8] Cambridgeshire Horizons, PricewaterhouseCoopers, Denton Wilde Sapte – Variable Tariff Implementation Study (March 2009)
[9] Energy Saving Trust - "Meeting the 10 per cent target for renewable energy in housing - a guide for developers and planners" (September 2006)

attainment. However, as these are rapidly developing areas, it was felt appropriate to make sure that at least sufficient cost levels were reflected in the relevant appraisals.

- **Code for Sustainable Homes**: Addition of £50/m² to build costs for achieving Code Level 3. Sample appraisals on 25 and 50 unit schemes carried out assuming increase to Code Level 4 (additional £100/m² over base costs) and Code Level 6 (additional £350/m² over base costs). Additional build costs based on CLG - July 2008[10] report and assumes medium case scenario for flats and terraced houses. Costs in addition to requirement for renewables although in practice there is likely to be some overlap.

- **Lifetime Homes** - is currently an area under review and debate but increasingly in the Government's thinking. While it can affect scheme viability in a wider sense - from the point of view of increasing building footprints and, therefore, potentially, site capacity - it does not necessarily add significant cost. Early design input minimises its impacts, and costs depend on to what degree standards are applied and what other standards are already to be met. There are overlaps, and even areas where it can compromise or not fit well with other requirements. It is an area that needs to be kept under review in terms of practicalities, costs and impacts – as part of the overall expectations from schemes. Conversations with RSL staff and cost information provided by Habinteg Housing Association www.lifetimehomes.org.uk) suggest that the cost of meeting lifetime homes standards is up to £545 per dwelling depending on size, layout and specification of the property. For the purposes of this study, the base build costs shown above include this allowance.

- **Finance related to land purchase**: 7.0% interest cost on land survey, planning costs, legal fees on land purchase and RLV over build time plus 26 weeks. No finance arrangement or related fees have been included for the purposes of this exercise. They might in practice be applicable, but we would not expect them to alter the viability equation fundamentally. Scheme funding arrangements will vary greatly, dependent again on the type of developer and scheme. As with much of this exercise, this is a snapshot and there are varying views as to what future trends will hold, and so over time we would need to see how added costs balanced with changes in sales values.

- During the course of the study, the Bank of England Base Rate has been maintained at 0.5%. On fixing our assumptions in the early study stages we decided to leave our finance rate assumptions unchanged.

[10] DCLG – Cost Analysis of the Code for Sustainable Homes (July 2008)

In light of the daily "credit crunch" reporting (on the reduced availability and associated likely terms of finance), we considered this approach to be further validated and, therefore, to remain appropriate. On closing the study, the impacts of the low Base Rate have not been seen in any notable way, but with further time our interest rate assumption will, we suspect, begin to look high. Nevertheless, this again fits with looking at viability cautiously rather than stripping out too many cost allowances from appraisals. Our understanding is that house-buying and development finance remains relatively difficult to access – at least on favourable terms, related to the risks perceived by the markets and to the fact that lending between institutions is still not working on terms or to the extent that had underpinned the active market in preceding years. We have had a climate recently whereby rate reductions have tended not to be passed on, certainly not to a significant degree, to borrowers, and where other charges (arrangement fees, etc) have weighed against any cuts. So far as we can see, similar applies in a commercial sense. In summary, at the time of writing, we have no reason to believe that the commercial lending climate has eased significantly.

2.10 General notes and Limitations to this Study

2.10.1 This study requires judgements based on the development values and changes seen in land values as a result of varying potential policy positions. This is in the context of seeking to guide policy development and arrive at clear policy targets as a basis for long-term policy but bearing in mind short-term flexibility required to deal with the current housing market as well as an ongoing practical approach with regard to site specifics.

2.10.2 Development viability will vary from site to site, and there will be no substitute for the negotiated approach to provision where necessary (e.g. sites with abnormal costs, low sales values, etc). The results cannot be a definitive guide to how specific sites will be appraised or how outcomes on a site-specific basis will look. As this is a relative exercise aimed at determining the likely effect of a range of policy options, the most important factor is consistency between assumptions used for modelling scenarios. Specific assumptions and values for our schemes may not be appropriate for any particular actual development. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing policy development.

2.10.3 There can be no definite viability cut off point owing to individual landowner's circumstances. In reality, scheme-specific land values have to be considered alongside existing or alternative use values and the latter, being very location and planning use or business dependent, will vary significantly too. This study requires judgements based on the development values and changes seen in land values as a result of varying potential policy positions.

2.10.4 It is not appropriate to assume that because a development appears to produce some land value (or in some cases value equivalent to an existing/alternative use), the land will change hands and the development proceed. This must be viewed alongside the owner's enjoyment/use of the land, existing use value and alternative uses that the site may be put to in order for a greater receipt to be achieved as discussed within this report.

2.10.5 This principle will in some cases extend to landowners expecting or requiring the land price to reach a higher level, perhaps even significantly above that related to an existing or alternative land use. This might be referred to as a premium, "overbid" or sufficient level of incentive to sell. In some specific cases, whilst weighing up overall planning objectives to be achieved, therefore, the proposals may need to be viewed alongside the owner's enjoyment/use of the land, and a potential "overbid" relative to existing use value or perhaps to an alternative use that the site may be put to. In practice, whether and to what extent an active market exists for an existing or alternative use will be a key part of determining whether or how site discussions develop.

2.10.6 These factors will not always come into play or always have very significant influences on outcomes. For instance, the market for an existing or alternative use proposal, and, therefore, the value it produces, will vary with time, location and economic conditions. They are likely to be highly variable as to relevance for and impact on particular schemes.

2.10.7 To attempt to make detailed comparisons with existing or alternative uses in this type of overview work for policy context would, in our view, have limited meaning. We have, however, aimed to provide examples of, and comparisons with, alternative use values. Commercial use values in particular are highly site-specific. Nonetheless this study acknowledges that the level of value created by a residential scheme after making allowance for affordable housing and other planning obligations requirements will need to be weighed up against any existing or alternative use relevant to a particular site.

2.10.8 The use of notional sites most effectively enables like-for-like comparisons to be made, i.e. the testing of impacts of the varying requirements on the same typical scheme in a range of value locations. The fact that individual schemes vary makes like-for-like comparison very difficult when studying those for this purpose of trying to measure policy impacts, with full reliable and readily comparable information being critical.

2.10.9 We have not definitively labelled specific locations, areas or settlements as higher/lower value, or similar. This is because, in practice, we found that values can vary from street to street and within very small areas. The Value Points approach used in this study means that, effectively, viability outcomes can be transported around and within the four local authority areas and a feel for viability gained in relation to relevant value levels. As noted, this approach of reviewing outcomes from a range of values also enables the consideration of viability impacts and trends as values change with regard to market adjustments.

3 RESULTS and related commentary

3.1 Background

3.1.1 The residual land value (RLV) modelling carried out for this study looks at a range of scenarios investigating the impact on development viability in accordance with the methodology as set out.

3.1.2 The number of appraisals required rises exponentially with the number of variables investigated. This is the case with all such studies. It is important to keep this exercise within practical limits. This said, the modelling creates a very extensive range of results once all the variables are considered through sensitivity testing of results. These are presented by means of a large number of tables and graphs. The tables and graphs are all appended to the rear of this report should the reader wish to view them. They are set out in different ways depending on the particular impact we are seeking to investigate and visualise. The following results chapter aims to lift from that large volume of information a few example results to explain the characteristics, impacts and trends of various potential policies on development viability. The purpose here is to help guide the reader in interpreting the results and to illustrate key points and trends which will lead to our conclusions.

3.1.3 The data is shown in tabular and graphical form and shows the indicative residual land value produced by each appraisal; those residual land values shown as a percentage of gross development value (GDV), and the reduction in residual land values as the proportion of affordable housing proportions increase.

3.1.4 The Appendices are set out as follows:

- Appendices II, II(a) and II(b) show the results from appraisals carried out assuming infrastructure costs of £5,000, £10,000 and £20,000 per unit respectively. The results are shown as a summary for all Value Points and then in more detail by individual Value Point. This allows us to see the impact on residual land values of increases in property values, increases in affordable housing proportions and increases in infrastructure costs on the basis of nil grant and 15% developer's profit. These are the base appraisals carried out across the full range of scenarios, with in all cases assumptions including Code for Sustainable Homes Level 3 attainment and 10% renewable energy. The higher levels of infrastructure cost reflect potential future increases to the planning infrastructure burden either through increases to existing calculations and requirements; or equally to potential growth in other costs e.g. associated with potential flood risk mitigation or other site works, etc).

- Appendices II(c), II(d) and II(e) show the results of the appraisals carried out assuming changes to tenure mix (60% affordable rented and 40% intermediate) again with £5,000, £10,000 and £20,000 per unit infrastructure costs respectively.

- Appendix II(f) and II(g) show the results of the appraisals that assume an element of grant (Appendix II(f) at a 70/30 and 60/40 tenure mix respectively.

- Appendix II(h) and II(i) show the results of the sample appraisals carried out assuming increased developer profit at a 70/30 and 60/40 tenure mix respectively.

- Appendix II(j) and II(k) show the results of the sample appraisals carried out testing the requirement for 20% renewable energy at a 70/30 and 60/40 tenure mix respectively.

- Appendix II(l) and II(m) show the results of the sample appraisals carried out testing the requirement for Level 4 of the Code for Sustainable Homes at a 70/30 and 60/40 tenure mix respectively.

- Appendix II(n) and II(o) show the results of the sample appraisals carried out testing the requirement for Level 6 of the Code for Sustainable Homes at a 70/30 and 60/40 tenure mix respectively.

- Appendix III contains a summary of our property values and market research.

- Appendix IV includes the Hometrack property values information sourced and supplied to Adams Integra by Cambridgeshire Horizons.

- Appendix V contains a Glossary of terms used in this study.

3.1.5 Appendices II, IIa and IIb also summarise (Table 1b, 2b and 3b respectively) the RLV results across all scenarios and site sizes showing the corresponding monetary value in pounds per hectare (£ per Ha) based on assumed site areas (land take) for each scenario. The associated graphs also show Valuation Office Agency (VOA) reported land values[11] for example alternative land uses in the local context (agricultural and industrial). For this study the values for both Peterborough and Cambridge have been used. The purpose of adding that data is purely for indicative comparison with the value levels produced by our various appraisals. It builds on our acknowledgement of the role that existing/alternative land use values tend to play in viability discussions. In practice, as the study notes elsewhere, the values likely to be

[11] VOA Property Market Report January 2009

attributed to various existing or potential uses of a particular site will be highly site specific.

3.1.6 Within Appendix III we have included information such as we have been able to find relating to land for sale and, therefore, to local land value expectations. We generally find information on land sales and reliable information or even guides/opinions on land values that can be used to make meaningful comparisons (whether for residential or commercial development, or relating to property in other uses) difficult to come by and very limited. After making contact with a number of commercial agents and reviewing web-sites such as those maintained by Primelocation, Land and New Homes Countrywide and uklanddirectory, this has been the case for this study (so, the more usual type of outcome we find on this aspect). This is no doubt because, as we comment, land values are driven by very particular circumstances. Within those dynamics, the value of commercial property and land for its development (for example for comparison with residential) is very highly sensitive to location. By this we mean very sensitive to specific location with regard to – for example – access, road frontage/visibility, passing trade, etc. It is, therefore, difficult to get or provide guides, and to make meaningful comparisons.

3.1.7 The small number of sites we found advertised for sale for commercial development (see Appendix III) indicated land value expectations in the range approximately £250,000 to almost £900,000/hectare (but with examples also falling outside that range. The VOA data we refer to covered a range of figures as would be expected, but indicated that industrial land values were typically around £600,000 per hectare (Peterborough) and £850,000 (Cambridge). Although based on a small amount of information, this appears to indicate similar figures to those seen through our limited research outcomes on this aspect (see 3.5.5 for those VOA figures).

3.1.8 Given the limited information, our RLV results are, therefore, compared against VOA sourced range of average industrial land values (the range being shown by the vertical bars extending above and beneath the black line on the relevant graphs) and maximum agricultural land values. We have looked at similar in other studies. Again, it should be noted that both the assumed development scenario site (land take) areas and the VOA data are highly indicative. This type of data can become outdated quickly – especially in times of fast-changing markets as we have currently. Such comparisons are used within this study only to help highlight how land value varies as assumptions change, and to show very generally the type or range of other information that the indicative RLV results might be compared with when it comes to considering how likely a scheme is to proceed given other valuation factors. The inclusion of this information here seeks to help with illustrating how the value (RLV) created by residential development proposals may look and vary relative to other example uses only. The key point through these indications is to build on the emphasis that considering alternative/competing or existing use values will often be important in viability and thus delivery discussions.

3.1.9 At this strategic level overview for policy development, we are able only to make broad comparisons. Unfortunately it is simply not possible to provide the Councils with definitive “cut-off” points where a scheme definitely would proceed; or conversely, where viability would be compromised to the degree that development would not take place. Site specifics will influence viability on individual sites.

3.1.10 There will need to be a second stage to this overall viability process whereby site-specific discussions prevail in situations where it is necessary to have those – for example in the event of landowners or developers needing to demonstrate that affordable housing targets, or perhaps other planning obligations, cannot be met. The same might apply where a developer or landowner wished to explore enhanced (in excess of target levels) or alternative provision of affordable housing with the Councils, possibly reliant on a varied extent on SHG or other subsidy. There are a range of viability models (usually computer based spreadsheet calculation tools reliant on a similar residual land valuation process to ours) which could be used to assist in considering viability further in such cases.

3.1.11 As we have commented about existing and alternative use values (for example, commercial), and how those vary greatly with site specifics, much the same will apply if the Councils consider the viability of a mixed use scheme in dialogue with a landowner or developer. Our suggested starting point would be to consider the residential element of such a scheme in a similar way to a solely residential scheme, and then consider any positive or negative impact, on overall viability, from the other scheme elements. Inevitably this consideration will be highly site and scheme-specific, but there is no reason why the general target approach - the level at which that is pitched, and the overall process - would not follow that which is related to entirely residential sites.

3.2 Property Values

3.2.1 Property values, which are the key driver of development viability, are wide-ranging within and across the 4 Authority areas. This is not an unusual finding as the areas and the localities within them vary in terms of housing offer, access to road and transport networks/employment, other facilities and local character. This can be said of most Districts and Boroughs we study.

3.2.2 Within our wider values research we have focused on the likely range of values that we consider to be appropriate in relation to new build property.

This range is relevant both in respect of varying location, but also in respect of how values could vary with time as a result of changing market conditions.

3.2.3 The selection of 7 Value Points at which we ran our viability appraisals covers the values range £1,400 to £3,200 per sq m sales rate (approximately £130 to £297 per sq ft). During our research phase, we found typical new build pricing across the area to fall in the range approximately £1,500 to £2,500 per sq m. We found that the middle of that range represents value levels seen most often - regardless of location. Looking by District, Fenland appeared to be the one exception to this general tone of value levels, where typical new build pricing was seen at the lower end of this range - around £1,600 to £1,800 per sq m – but often below even those levels. Lower value areas or instances within each of the other three Districts (East Cambridgeshire, Forest Heath and St Edmundsbury) also see similarly low values. Soham in East Cambridgeshire was an example that we noted, in terms of new build schemes seen at the time. It is a case of variety, but in our view with no very distinct patterns. Ely appeared to be an attractive location where varying value levels, including relatively high values in the area context, could be seen. Currently, there are very few instances of values reaching £3,000 per sq m or more, anywhere. As noted previously, value point 7 is beyond the range currently seen.

3.2.4 These are necessarily quite wide statements. As in other recent study areas, we noted a small amount of very recently completed or current development activity. This is a reflection of house building conditions, as impacted by the turmoil in the financial markets during the last year or more, leaving us with established recessionary conditions and a weak and uncertain property market. It means that there is a limited amount of current information available on new builds available, but in any event judgements always need to be made about the values and other assumptions – informed by the review of the range of data and findings as set out in Appendix III (Property Values Report). As stated elsewhere, we must also bear in mind that the process of considering policy is a strategic one which needs to weighed up in the context of a significant time period (plan period); within which varying market conditions are likely to be seen.

3.2.5 Having acknowledged that values vary within each District, as well as across the study area, we also need to consider that position in context. In our experience the variation is no more than we see within many local authority areas.

3.2.6 Values are likely to be most consistent within Forest Heath. They are most consistently at lower levels within Fenland. They appear to vary most within East Cambridgeshire and St Edmundsbury where, overall, some of the higher values (relatively and in the local context) were seen but lower to mid-range values also occur. Again, these are quite general statements with specific instances likely to go against trends in all cases. In Fenland, for example, we also saw new builds where pricing was comparable with mid to higher value areas in other Districts and Boroughs.

3.2.7 The 2006 SHMA house price data for East Cambridgeshire was divided into the north and south of the District (Chapter 8; section 8.2) with average prices for the south of the District arrived at by subtraction of relevant sales numbers from the whole District picture. It reported that the vast bulk of sales captured within the data (86%) had been in the northern part of the District.

3.2.8 Our research points to new build values most typically lying within the range of our Value Points 2-5, i.e. £1,700 to £2,600 per sq m. taking an overview of the area. Currently they are not often seen above that range. However, values down to Point 1 levels (£1,400 per sq m) are seen in Fenland and in lower value areas or instances within the other Districts and Boroughs. It should be noted that given the tone of results and our wider experience from other studies and site-specific appraisals, it is simply not useful to explore viability figures in relation to values below these lowest levels. Where lower values than those are applied, the appraisal maths show sites ceasing to be viable, even before any significant proportion of affordable housing is factored in. This is because in most cases insufficient value is created to provide scope for meeting development costs, land value and profit requirements.

3.2.9 Relating the Value Points to potentially varying future market conditions which could move values up or down from current or levels, purely for illustration, we could consider the following as indications as to how those variations might look:

Figure 9: Comparison of Value Points in Relation to Property Market Movements

Increasing value - approx. £ per sq m >>>>>>>			
	Lower	**Typical Range**	**Upper**
Current	£1,400 (VP1)	£1,500 - £2,500 (VP1/2 – 4/5	£3,000 (VP6+)
-10%	£1,260 (<VP1)	£1,350 – £2,250 (VP1-4)	£2,700 (VP5+)
+10%	£1,540 (VP1+)	£1,650 – £2,750 (VP2-5+)	£3,300 (VP7+)
+15%	£1,610 (<VP2)	£1,725 – £2,875 (VP 2-6)	£3,600 (VP7+)

3.2.10 It can be seen that a 10% reduction from current typical values increases the incidence of lower end values that will be seen but broadly means values maintained within the current typical range. A 10% increase in values within the current typical range also means no significant variance from that overall range. A 15% increase in values within the current typical range would see that part of the overall range shifted up by approximately 1 value point.

3.2.11 A deduction of say 10% from our current lower values would, in our view, produce values which would not support viable schemes in many instances (barely covering build costs). Taking our current lower end values plus 10% or plus 15% (i.e. in the event of market improvement to those degrees) would still see low values which fall between Value Points 1 and 2.

3.2.12 Values at the upper end of the range (beyond the typical range) are seen very infrequently at present. We would need to see the market pushing those levels up by more than around 10% to reach values beyond those applied amongst our appraisal assumptions.

3.2.13 This gives a feel for the scope of the range of values points - in terms of values levels that could be seen with market fluctuations. There is no way of forecasting with any confidence what the market and value levels may do over a period of time. Looking at the sensitivity of outcomes to varying value levels, in making balanced policy judgements, is the most appropriate substitute for being able to forecast.

3.2.14 This deliberately focuses on likely new build value levels (Adams Integra research – see Appendix III – Property Values Report), because those schemes from the supply source of the affordable housing we are studying. However, in making these judgements it is appropriate to also consider the overall resale market data sourced from Hometrack and supplied by Cambridgeshire Horizons (latest available average price data as at 2 July 2009) – see Figure 11. This suggests a lower tone of values, overall, than seen from the new builds information. The map at Figure 10 indicates the postcode areas with respect to the District boundaries.

Figure 10: Postcodes in relation to District boundaries

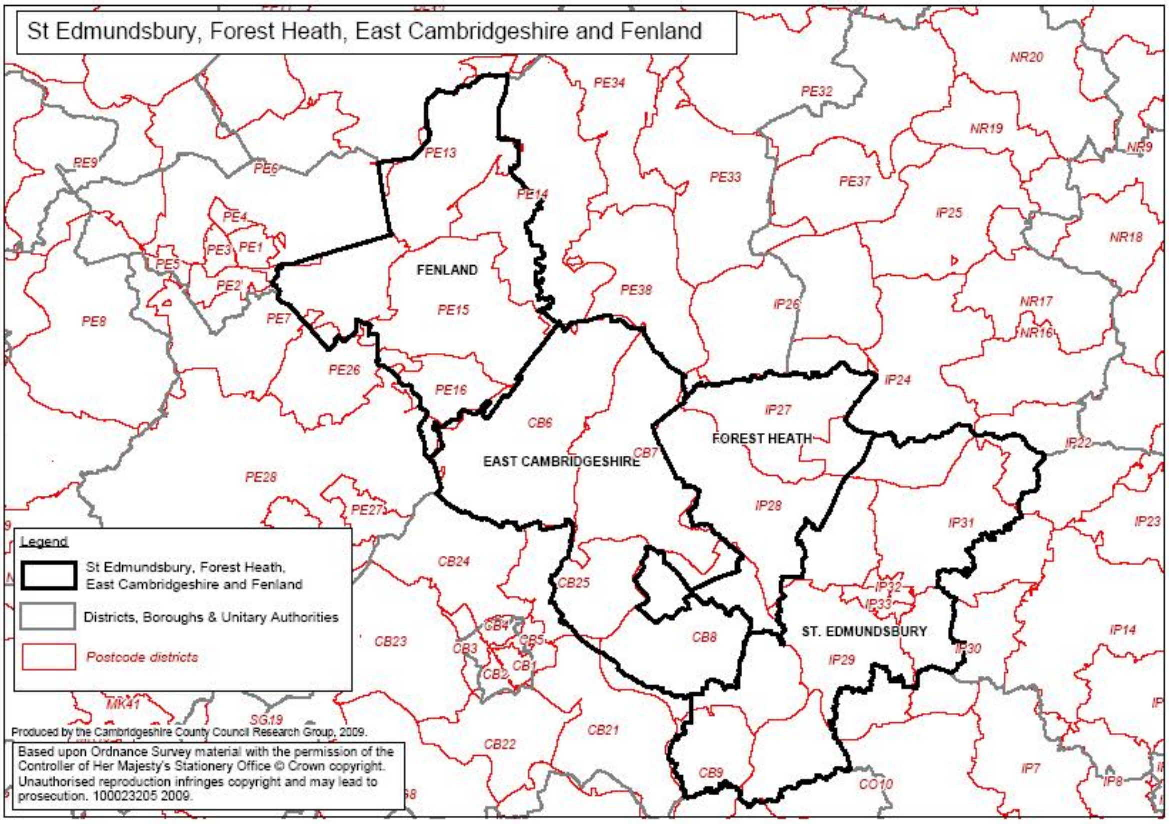


Figure 11: Comparison of Hometrack (£/m²) Data with Value Point Ranges

Postcode Area	Sector	Locality	Price (£/sq m)	Value Point Indication
CB	CB (overall avg.)		£1,927	< 3
	CB6	E Cambs - north	£1,612	<2
	CB7	E Cambs - north	£1,633	<2
	CB25	E Cambs - south	£1,808	2-3
	CB8	E Cambs - south And Forest Heath, including Newmarket, part	£1,719	2(+)
	CB9	St Edmundsbury – Haverhill Area.	£1,511	1-2
CO	CO (overall avg.)		£1,686	(<)2
	CO10	St Edmundsbury – Haverhill Area.	No detail - £1,686	(<)2
IP	IP (overall ave.)		£1,574	1-2
	IP27	Forest Heath - Brandon, with Lakenheath	£1,479	1-2
	IP28	Forest Heath – Mildenhall, Freckenham, Red Lodge	£1,566	1-2
	IP29	St Edmundsbury – Bury St Edmunds Area	£1,884	2-3
	IP30	St Edmundsbury – Bury St Edmunds Area	£1,838	2-3
	IP31	St Edmundsbury – Bury St Edmunds Area	£1,727	2(+)
	IP32	St Edmundsbury – Bury St Edmunds Area	£1,680	<2
	IP33	St Edmundsbury – Bury St Edmunds Area	£1,794	2-3
PE	PE (overall ave.)		£1,375	(<)1
	PE7	Fenland – Whittlesey area	£1,388	(<)1
	PE13	Fenland – Wisbech area	£1,175	<1
	PE14	Fenland – Wisbech area	£1,284	<1
	PE15	Fenland – March area	£1,311	<1
	PE16	Fenland – Chatteris area	£1,503	1-2

3.2.15 From the above resale market data (all sales and valuations, including new builds), the overall tone of values for the area can be seen – when viewed on this basis. Broadly speaking, it fits with our own new build values findings in that values for the area can only be described as modest in terms of the scope to support affordable housing alongside other development costs and requirements. This tone of values cannot be described as a high in the context of increasing values moving out of the study area to the south, west and south west – M11 corridor and Cambridge City areas. Many areas we have reviewed have significantly higher values.

3.2.16 This can also be compared with the Hometrack sourced mean new build price data for 2008 (the latest available within the information supplied by Cambridgeshire Horizons – see Appendix IV) – summary for the same postcode areas as follows in Figure 12. It should be noted that the information within Figure 12 has limited use on its own – it is historic, in some cases is based on small samples and there are data gaps because (like Adams Integra's data) it relies on the limited activity there has been recently). However, it helps with the overall consideration of judgements and again shows the variety of values that can be seen within and between areas.

Figure 12: Comparison of Hometrack Postcode New Build Data with Value Point Ranges

Postcode Area	Sector Locality – as previous table (at 3.2.14)	Mean new build 2008 price (£) – Flats (overall)	Mean new build price 2008 (£) – Houses (overall)	Value Point Equivalent - Indication*
CB (overall ave.)		£222,991	£260,812	2 bf P7+ 4 bh VP5; 3 bh VP6-7
CB	CB6 E Cambs - north	£117,412	£181,697	1 bf VP4; 2 bf VP2; 2 bh VP4-5; 3 bh VP3-4; 4 bh VP2+
	CB7 E Cambs - north	£150,574	£217,874	1 bf VP6+; 2 bf <VP4; 2 bh VP6; 3 bh <VP5; 4 bh VP3-4
	CB25 E Cambs - south (part/very indicative)	£214,995	£229,532	2 bf VP7; 2 bh VP6-7; 3 bh VP5+; 4 bh VP4
	CB8 E Cambs - south (part/very indicative) and Forest Heath (part / very indicative, including Newmarket, part)	£309,567	£390,616	2 bf >VP7 4 bh>VP7
	CB9 St Edmundsbury – Haverhill Area.	£117,812	£200,828	1 bf VP4(+) 2 bf VP2(+)

CO (overall ave.)		No data supplied	No data supplied	
CO	CO10	No data supplied	No data supplied	
IP (overall ave.)		£131,163	£219,753	1 bf VP5 2 bf <VP3
IP	IP27 Forest Heath-Brandon, with Lakenheath	No data	£155,542	2 bh VP3(+); 3 bh VP2(+); 4 bh VP1-2
	IP28 Forest Heath-Mildenhall, Freckenham, Red Lodge	£129,981	£222,476	1 bf VP5; 2 bf <VP3; 2 bh VP 6+ 3 bh VP5 4 bh <VP4
	IP29 St Edmundsbury – Bury St Edmunds Area	No data	£339,667	4 bh VP7(+)
	IP30 St Edmundsbury – Bury St Edmunds Area	£91,248	£268,504	1 bf VP2-3; 2 bf <VP1; 3 bh<VP7; 4 bh VP5(+)
	IP31 St Edmundsbury – Bury St Edmunds Area	No data	£233,571	2 bh VP6-7; 3 bh VP5-6; 4 bh VP4
	IP32 St Edmundsbury – Bury St Edmunds Area	£146,383	£270,256	1 bf VP6; 2 bf VP3-4; 3 bh VP7; 4 bh VP%(+)

	IP33 St Edmundsbury – Bury St Edmunds Area	£164,150	£309,448	1 bf VP7; 2 bf VP4-5; 3 bh >VP7; 4 bh VP6-7
PE (overall ave.)		£141,359	£196,345	1bf<VP6; 2 bf VP3-4; 2 bh VP5; 3 bh VP4; 4 bh <VP3
PE	PE7 Fenland – Whittlesey area	£141,590	£205,807	1bf<VP6; 2 bf VP3-4; 2 bh VP5-6; 3 bh VP4-5; 4 bh VP3(+)
	PE13 Fenland – Wisbech area	£114,548	£149,308	1 bf VP4; 2 bf VP2; 2 bh VP3; 3 bh VP2(+); 4 bh VP1(+)
	PE14 Fenland – Wisbech area	No data	£147,585	2 bh VP3; 3 bh VP2(+); 4 bh VP1(+)
	PE15 Fenland – March area	£104,995	£154,799	1 bf VP3(+) 2 bf VP1-2; 2 bh VP3(+); 3 bh VP2-3; 4 bh VP1-2
	PE16 Fenland – Chatteris area	£102,916	£160,254	1 bf VP3(+) 2 bf VP1-2; 2 bh VP3-4; 3 bh VP2-3; 4 bh VP1-2

*Purely to illustrate what the value levels could equate to, by comparison with Adams Integra's assumed property types (bf = bed flat; bh = bed house).

3.2.17 The data at 3.2.16 should not be considered in isolation. As stated above, in some cases it relies on small samples (so may be skewed by particular property types or developments that came on stream during the period) and there are gaps within it. The Value Point equivalent indications are through comparison with our Value Points and it should be noted that those are based on our unit size assumptions. In practice, some private dwelling types will be larger leading to an over-estimation in relation to our Value Points. Also it must be noted that house prices fell significantly during 2008, and continued to do so in to 2009 – this is now historical data. All value point equivalents would now be lower. However, it was useful to take account of in reaching judgements on local values ranges and checking study assumptions, because similar features and trends can be picked out as from the other data discussed, for example:

- Variable values in all Districts and Boroughs.

- Allowing for slippage of these figures in the event of further market falls, values would still be within the range typically seen - Value Points 2 to 5/6. Is should be noted, however, that some Fenland values do currently fall below this. Already, those can be at the low end of, or even beneath, the range represented by the 7 Value Points.

- In respect of the PE postcodes generally, the values seen are typically lower than those observed elsewhere within the area studied. This is relevant to Fenland, as above. Some higher values are also seen in Fenland, however. An example from the above data is the Whittlesey area.

- While the southern part of East Cambridgeshire does tend to see the highest value levels observed within the study area, it is a mixed picture there too. Adams Integra's research identified some blurring between the northern and southern area value levels. Lower values can be found in the southern area and higher value levels can be found in the northern area.

- A mixed values picture for the Newmarket area.

- Forest Heath values appear to be within or close to the typical range identified by Adams Integra (i.e. the mid part of the overall values range, normally excluding the lowest and highest values).

- Bury St Edmunds values can reach levels similar to higher (usually southern area) East Cambridgeshire values. Within St Edmundsbury, Bury St Edmunds area values tend to be higher than Haverhill area values – this varies, but can be significant.

- These figures indicate that average new build values could still be above overall resale averages, even allowing for recent reductions in values through market conditions. Clearly, whether or to what degree, this may be so will vary by locality (i.e. depend on the existing offer and housing stock) and with scheme specifics. However, this does point again to the importance of considering new builds rather than just the overall market data which can mask what is happening on those schemes.

3.2.18 Again for aiding judgements on the overall values range, the latest Hometrack average price data (based on high level postcode areas) by property type (see Appendix IV) sourced July 2009 compared with Adams Integra's assumed property types and Value Points indicates:

Figure 13: Summary Hometrack data with Value Point comparisons

Property Type	Postcode, Average Price (£) and Value Point (VP) Comparison		
	CB	IP	PE
1 bed flat	£122,162 (VP4-5)	£76,893 (VP1-2)	£82,561 (<VP2)
2 bed flat	£159,973 (VP4+)	£118,732 (VP2+)	£100,814 (VP1-2)
2 bed house	£167,837 (<VP4)	£141,009 (VP2-3)	£125,958 (VP2)
3 bed house	£203,690 (VP4-5)	£170,006 (VP3)	£150,921 (VP2+)
4 bed house	£311,393 (VP6-7)	£262,518 (VP5)	£226,522 (<VP4)

3.2.19 The data at 3.2.18 (Figure 13) is from Hometrack's Automated Valuation Model. It should be noted again that, if anything, the value point equivalents stated here are inflated particularly for larger property types due to our size assumptions. However, this section of data is quite telling. Whilst it provides a high level overview only of the values by postcode picture, it supports Adams Integra's view on the range of values currently seen, the most typical part of that range, and the wider range appropriate for overall sensitivity modelling (bearing in mind again that, whilst individual site assumptions can vary significantly, with the assumptions we have made there is no point appraising schemes with lower values than Value Point 1).

3.2.20 Again picking out overall trends, we see (general statements):

- CB postcodes with varying but typically the highest values within the study area – values at the mid to upper end of Adams Integra's typical Value Points range. (Relevant to East Cambridgeshire (but not exclusively), some parts of St Edmundsbury and parts of the Newmarket area).

- IP postcodes with varying but typically lower to mid level values within Adams Integra's typical range. (Relevant to Forest Heath and St Edmundsbury).

- PE postcodes again with varying (lower to mid-level) values but with values at the lower end of Adams Integra's typical range, potentially falling to the bottom of the range and below in certain instances and with a falling market. However some values towards the mid range again mean this is not a simple/single picture (relevant to Fenland).

3.3 Results Trends

3.3.1 This study has looked at a range of affordable housing proportions and thresholds on development viability.

3.3.2 The study also looks at the possibility of seeking affordable housing on sites below the currently adopted threshold.

3.3.3 The potential introduction of a "sliding scale" of policy requirements has also been considered, purely in viability terms. Potentially this could lead to a policy position where the affordable housing proportion increased with site size at set "steps". It would reduce the size of the steps that would otherwise occur.

3.3.4 The overall trend of results shows a decrease in residual land value (RLV) for all site sizes/types in all areas as:

- Market property values decrease.
- The proportion of affordable housing increases.
- Affordable rented tenure is increased (unless with significant grant).
- Availability of grant is reduced/removed.
- Developer's profit is increased.
- Planning obligations/infrastructure requirements are increased, and
- other costs are added (e.g. increased Code for Sustainable Homes requirements, renewable energy, etc).

3.3.5 A reduction in RLV would be seen if any of the costs within the appraisals are increased or the affordable housing revenue to the developer reduced whilst maintaining the same private sales values. These are all normal trends encountered in any such study (or indeed site-specific appraisal). They demonstrate the dynamic nature of the development process and the fluid nature of any appraisal modelling that endeavours to understand or demonstrate the process.

3.3.6 The above will all have an impact on development viability because the sums of money remaining to purchase land after all costs are met (i.e. the RLVs) reduce as development costs increase (including increasing affordable housing requirements, in the context of this study). The importance of strong sales values to viability, particularly as development costs (again including affordable housing) increase, can clearly be seen.

3.3.7 A combination that includes all of the factors which decrease RLV (as per the examples listed above) will have the greatest impact on the viability of a scenario.

3.4 General Trends

3.4.1 Looking at our base appraisals at Value Points 1, 2 and 3, with Adams Integra's appraisal assumptions applied there is little land value generated on all of the schemes appraised (see Appendix II for full results). Essentially this means that there is insufficient value in such schemes to overcome their development costs whilst still creating sufficient development profit and a meaningful land value. As such, it would not be practical to expect such schemes to deliver affordable housing in any substantial proportions, unless they were promoted on sites where existing or alternative use values were relatively low – or where land did not have to be purchased. As mentioned in Chapter 2, Value Point 1 values are below the levels seen currently generally across the study area (with the exception of certain schemes – which would mainly occur within Fenland District). Value Point 2 and 3 levels represent the lower end of the new build values range typically seen across study area in the current market. However, we could see more of Value Point 1 (or point 1 to 2) levels if market conditions worsen - where a sustained lack of buyer activity is likely to bring more downward pressure on prices.

3.4.2 By Value Point 4 (the mid point of the new build values range typically seen across study area in the current market), land value is generated across most scheme types, sizes, and proportions of affordable housing. The indicative land values (RLVs) generated by our appraisals are relatively low. With the higher proportions of affordable housing (35%, 40% and 50%) they are unlikely to regularly match existing lower end commercial or industrial use values or sites in existing residential use (residential redevelopment). By comparison however, even with 40% affordable housing, most land values generated by our results exceed agricultural use values.

3.4.3 By Value Point 5, the upper end of the range of values most regularly seen locally, much stronger residual land values are generated more often where the affordable housing requirement reaches 30% affordable housing. At 35% the residual land value regularly exceeds likely alternative lower end commercial or industrial use values but again may struggle to compete with sites in existing residential use. At 40% affordable housing the land values deteriorate further to the point that they only occasionally meet the lower end of the commercial/industrial use values and again would be unlikely to compete with sites in existing residential use (i.e. sites with permission for residential redevelopment where the purchase of one or more existing properties is required). At this point it is worth re-iterating that the requirement for affordable housing or any other "cost" to a scheme will have a negative impact on residual land value. The frequent occurrence of sites for residential redevelopment has a bearing on our judgements on potential policy positions and how ambitious those could be.

3.4.4 At Value Point 6 and above, where the frequency of these value levels reduces significantly, the indicative land values generated by our appraisals reach levels likely to be in excess of most potential competing use values where there is a requirement for 35% affordable housing. Where that requirement increases to 40% we see a continued drop in residual land values, but on most scheme types the RLVs indicated are still likely to exceed those relating to most potential competing land uses.

3.4.5 As with all study locations, there will be variations within, and exceptions, to these types of trends.

3.5 Indicative value comparisons

3.5.1 As mentioned previously, due to highly variable potential existing and alternative use values of sites, it is simply not possible to provide the Councils with definitive “cut-off” points where viability will be compromised to the degree that development may not take place. However, it is possible to provide a feel for the general type of comparisons that might be made and thus outcomes that could be seen at varying levels.

3.5.2 By way of a basic example, a residual calculation that provides an output of zero value (i.e. RLV of 0% of GDV) after testing the policy proposal means that development on this site would not go ahead unless there was a special business case for pursuing it. Conversely, on a site where the RLV approaches 20% or more of GDV after the application of affordable housing policy it becomes increasingly likely (although not definitive) that land values are going to be high enough to absorb the impacts of the new policies.

3.5.3 In addition, the indicative RLVs resulting from the application of various policy positions across the different site types can be compared very generally to land values provided by organisations such as the VOA through estimating the site area (“land take”) relevant to the notional schemes.

3.5.4 Again bearing in mind the notional nature of it, Adams Integra’s 25 unit mixed dwellings scheme (as discussed above) could occupy approximately 0.5 hectares (equivalent to a density of 50 dwellings per hectare). At this site size, the value of the land at Value Point 4 with 20% and 35% affordable housing is indicated to be £725,861 and £291,104 per hectare respectively (Appendix II, Table 1b).

3.5.5 Valuation Office statistics (as far as are available to date) for industrial land in Cambridge and Peterborough[12] (the nearest and most applicable general locations to the study area) provide values between £550,000 and £700,000 in Peterborough and £600,000 and £1,350,000 per hectare in Cambridge with typical values of £600,000 and £850,000 respectively. VOA data also suggests that agricultural land value is less than £15,000 per hectare (dependent on type).

3.5.6 What this indicates on a comparison basis with average data from the VOA, is that the value of our 25 unit mixed scheme at Value Point 4 with 20% affordable housing, as well as producing RLVs significantly higher than agricultural values, they also exceed values produced by lower end and mid-range industrial schemes and potentially lower end commercial values as well. At 35% affordable housing the indicative RLV falls to a level that is below the typical VOA industrial land figures but still well above agricultural value. Bearing in mind that Value Point 4 values are towards the middle of the typical values seen across the study area, this is a notable finding. It shows that with even the lowest cost burdens on schemes, values need to exceed this level to achieve comparable values with that shown by the VOA. On the smaller schemes it is also relevant to bear in mind that many sites coming forward may well be for residential redevelopment. This is likely to show comparable/existing use values as well in excess of that shown by the VOA data.

3.5.7 For general information, the VOA also provides average data for residential land within the Eastern Region. Although data is not available for the study area, values for Peterborough (where we see broadly similar values patterns) of between £1,500,000 and £2,000,000 per hectare are indicated. This information can only be regarded in very general terms, since we stress again that development values and appraisals are very site-specific once actual schemes are being looked at. Given the latest VOA reporting date of January 2009 at the point of our viewing that information (and that then it would have been based on previous transactions), it is also likely that values will have fallen back significantly since then. It also needs to be borne in mind that the basis of that values data may well not be consistent with particular planning obligations expectations, including on affordable housing, as well as with other assumptions used in this study.

3.5.8 It is also very important to note when comparing values with VOA data (or other historical data) that the commercial property market is currently very depressed, has lost confidence and is seeing demand levels reduced more severely even than in the residential market – with very low occupier demand levels affecting values very significantly. It needs to be borne in mind that land value comparisons between residential and other existing/potential alternative

[12] VOA Property Market Report January 2009

(commercial) uses will vary quite significantly over time, particularly in such turbulent economic conditions. The VOA data will look increasingly historic.

3.5.9 We have noted that comparisons with other information such as provided by the VOA on land values for various uses, is purely indicative. The purpose is to reinforce the relevance of considering the issue of other land use values, and that those might impact on what becomes of a site - or on what a site is able to provide. The values relating to sites (whether for existing or alternative/ potential uses) will be highly specific.

3.5.10 At 3.1.7 we commented on how the limited information we found relating to commercial development land values compared with the VOA data. As regards land for residential development, the information from agents and websites relating to land for sale suggested land value expectations ranging from less than £1m per hectare to over £3m per hectare (and sometimes significantly more, although some of those figures could be misleading as they relate to individual plots or very small land areas). Although we did not find many examples, it could be said that the typical pricing range was between £1m and £2m per hectare. This appears to fit with the VOA indications for residential land (as at 3.5.7) but again this must be treated cautiously for the reasons discussed. It is not known what assumptions and allowances (for the market, affordable housing and other planning obligations, etc) might be behind the land price expectations – and the figures we found were marketing prices. As with the VOA data, to an extent these type of figures are likely to be driven by what are now historic assumptions.

3.5.11 The site densities assumed above are for example purposes only as site specifics will influence viability on individual sites. The example values for alternative uses cannot be considered definitive. This section is provided as a guide only, and to emphasise that considering alternative use values will often be important in delivery discussions.

3.6 The Effect of Affordable Housing Proportions

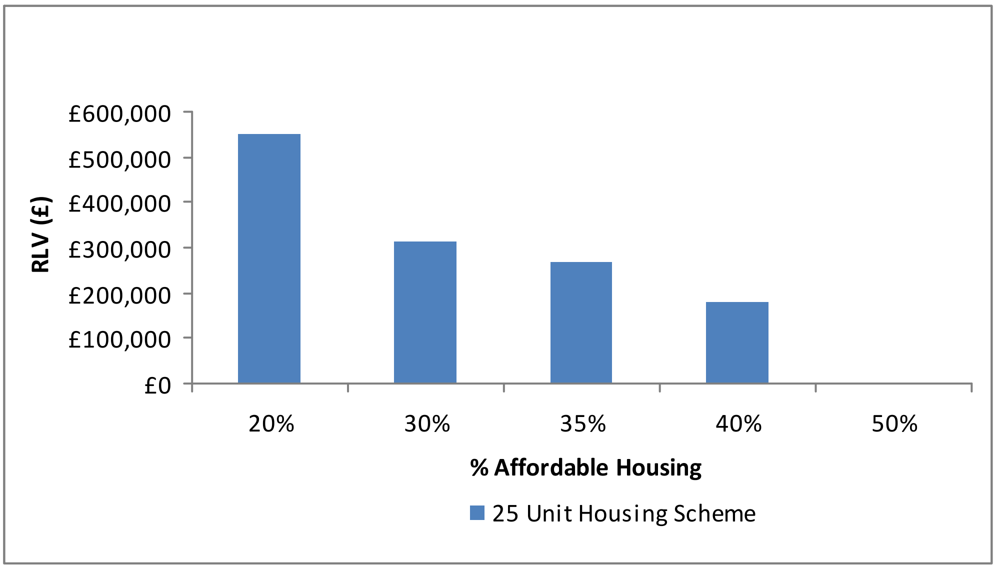
3.6.1 For schemes at or above the adopted affordable housing policy thresholds within each of the Districts and Borough, the modelling carried out for this study tests a range of affordable housing proportions (assuming that currently applied policy already requires an element of negotiated affordable housing on sites above the existing thresholds).

3.6.2 The lowest residual land values occur where the property values are lowest whilst the affordable housing proportion, and affordable rented tenure content of that, is highest. The following is based on our base appraisal costs (the impact of grant, tenure, profit, higher infrastructure costs, higher Code for Sustainable Homes costs and renewable energy are discussed later).

3.6.3 As an example, a comparison of the reduction in RLVs for a 25 unit housing scheme across Value Points 1 to 7 resulting from a requirement for affordable housing on qualifying sites from 20% through to 50% indicates a reduction of 100% at Value Point 2 to 53% at Value Point 7 (no value is generated at 25% or 50% to compare at Value Point 1).

3.6.4 The pattern of reduction in RLV is repeated across all scheme types and sizes. We see RLV reducing as the affordable housing proportion increases, but this effect is mitigated by increased market value levels as schemes are able to generate more significant land value whilst bearing more cost.

Figure 14: Example showing impact on RLV of increasing affordable housing proportion (Value Point 4)



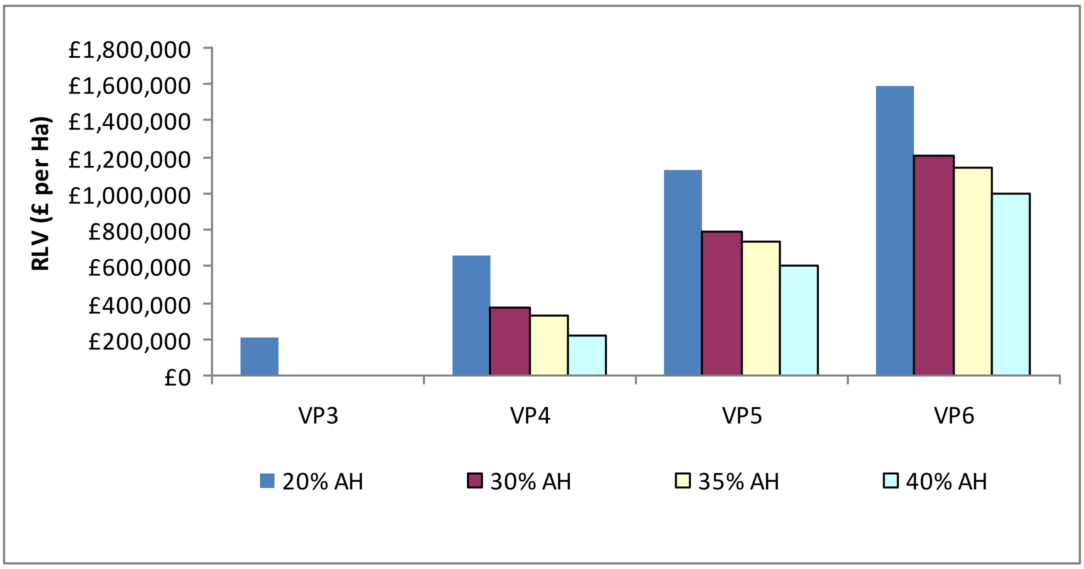
3.6.5 The results which show very large reductions in RLV are caused by relatively low starting value schemes. Only a small increase in costs (or reduction in sales receipt) results in a large relative percentage drop in RLV. This impact is principally going to have an effect on sites which are asked to provide affordable housing for the first time (i.e. go from providing 0% to potentially up to 40% or 50%, and see below at 3.6.6 and 3.6.7). However, we are also seeing it here with lower end value schemes where even 20% affordable housing deteriorates results significantly and provides very low or nil land values (as at Value Point 1, 2 and 3).

3.6.6 The results suggest that there will be difficulties experienced in applying 30% or 35% proportions of affordable housing in areas at Value Point 1, 2 and 3 levels. In those instances the RLVs produced by residential schemes are likely to be low compared to existing use values. Affordable housing requirements at the higher proportions are very unlikely to be achievable and would mean that the Councils would need to negotiate in such instances, particularly in current market conditions with even more emphasis on negotiation if the market weakens further. This would also apply to schemes with high abnormal costs, highlighting the importance of regarding the policy positions as targets, wherever they are set.

3.6.7 By Value Point 4 the RLV for our notional 25 unit housing scheme achieves £549,501 (or £662,049 per Ha) at 20% affordable housing and has improved to the point where the prospect of achieving 30% (residual land values of £313,450 or £377,651 per Ha) affordable housing becomes more marginal alongside the lower level of infrastructure cost requirements, and assuming Code for Sustainable Homes Level 3 and 10% renewable energy (but, depending on other site specifics, most likely without other potential higher cost burdens including higher infrastructure, increased renewable energy, increased developer's profit, etc).

3.6.8 By Value Point 5, the RLV of this same scheme has increased to £934,725 (£1,126,175 per Ha) at 20% affordable housing and drops to £655,642 (£789,930 per Ha), with the effect of a 30% affordable housing policy. At 35% affordable housing the residual land value drops further but is still relatively strong providing an RLV of £605,909 (equating to £730,011 per Ha) and could exceed a range of alternative use values in the local context. Figure 15 shows the detail of Value Points 3 to 6 on this 25 unit housing scheme.

Figure 15: Residual Land Value (£ per Ha) - 25 Unit Housing Scheme



3.6.9 So, with schemes around Value Point 4 the approximate RLVs appear to be able to support affordable housing at a proportion of 20% to 30% but in conjunction with the lower level base assumptions on other cost areas. This will obviously be dependent on the existing or alternative use value and owner expectation of any site value and as such there is no definitive cut off point where it is possible to say that land values can or cannot support affordable housing. However, it indicates that Value Point 4 residual values are more likely to support a 20% to 30% affordable housing requirement than

Value Point 1 to 3 linked to the discussion later on possible alternative use values. Where value reach Value Point 5 we start to see more positive results with a 35% proportion of affordable housing being more likely to be met on a regular basis.

3.6.10 Value Point 3 values generally remain positive, but only at the lower proportions of affordable housing (20%) but it is likely that negotiation is more frequently going to be required on the percentage of affordable housing to be sought, especially alongside other planning requirements. Value Point 1 and 2 residual values are in the main nominal or zero with reference to our calculations. A different view of the cost (particularly build cost)/value relationships may kick-start certain schemes and mitigate lower value development (Value Point 1 and lower Value Point 2) barriers and issues.

3.6.11 A practical approach will need to apply in all cases especially while we have depressed conditions with such a low level of market activity. In lower value cases (as above) we think there will need to be a particular emphasis on the affordable housing requirements being looked at sensitively on a site-by-site basis. In our view this does not suggest abandoning an ambitious target which clearly sets expectations for the long-term strategy; it is about how that is implemented, particularly in the short-term.

3.7 The Effect of Affordable Housing Thresholds and Potential Sliding Scale

3.7.1 The overall impact of a range of potential affordable housing policies also needs to be judged with reference to the scheme size (principally number of dwellings) at which policy requirements could take effect. These scheme sizes, or trigger points for policy, are known as thresholds.

3.7.2 The Councils' each have varying existing policies on the threshold at which affordable housing is required. This is set out in Chapter 1 but briefly, affordable housing is required currently on sites of:

- 15 and 5 units (larger and smaller settlements respectively) in St Edmundsbury,
- 15 units in Forest Heath,
- 3 units or more in East Cambridgeshire and
- 15 units in Fenland.

3.7.3 To reflect sites below these current thresholds, i.e. falling outside the scope of the current approaches, the range of modelling carried out for this study includes a starting proportion of 0% affordable housing on those smaller sites.

3.7.4 Analysis of the results indicates that, as expected, lowering the on-site affordable housing threshold to 3 or 5 units (effectively increasing the proportion of affordable housing from 0% to 20%, 30%, 35%, 40% or 50%) on any of the scenarios modelled leads to significant reductions in RLV across the entire range of Value Points and scheme types. As an example, a comparison on a 3 unit housing scheme (4-bed houses) across Value Points 2 to 7 resulting from an increase in the affordable housing requirement on qualifying sites from 0% to 20% affordable housing, indicates a reduction in RLV of between 100% at Value Point 2 to 46% at Value Point 7.

3.7.5 Based on the lower planning infrastructure costs, at Value Point 4, (around the middle of the most relevant part of the value range considered - where it might be said that the mid range of the most common new build values lies), we see a reduction of 72% for a 3 unit housing scheme (based on moving from 0% to 20% affordable housing requirement). The numbers rounding means that 20%, 30%, 35% and 40% affordable housing provide the same result (i.e. all produce one affordable unit).

3.7.6 In terms of the notional RLV produced by the 3 unit housing scheme in the example referred to above, at Value Point 4, this lowers from £160,568 at 0% affordable housing to £45,382 at 20%. (Appendix II, Table 1). Alternatively, this can be expressed in value per hectare (Appendix II, Table 1b). So, for this 3 unit housing scheme, we see a reduction in RLV (£ per Ha) from £1,605,676 per Ha at 0% affordable housing to £453,820 per Ha at 20% affordable housing from an original starting position where affordable housing was not required.

3.7.7 Similar trends are seen on all other schemes below the existing on-site affordable housing thresholds with a similar reduction in land values.

3.7.8 On 5 unit schemes similar results are produced albeit with an additional step in the actual number of affordable housing units provided (i.e. 20% of 5 units equates to one affordable unit; 30%, 35% and 40% equate to 2 affordable units).

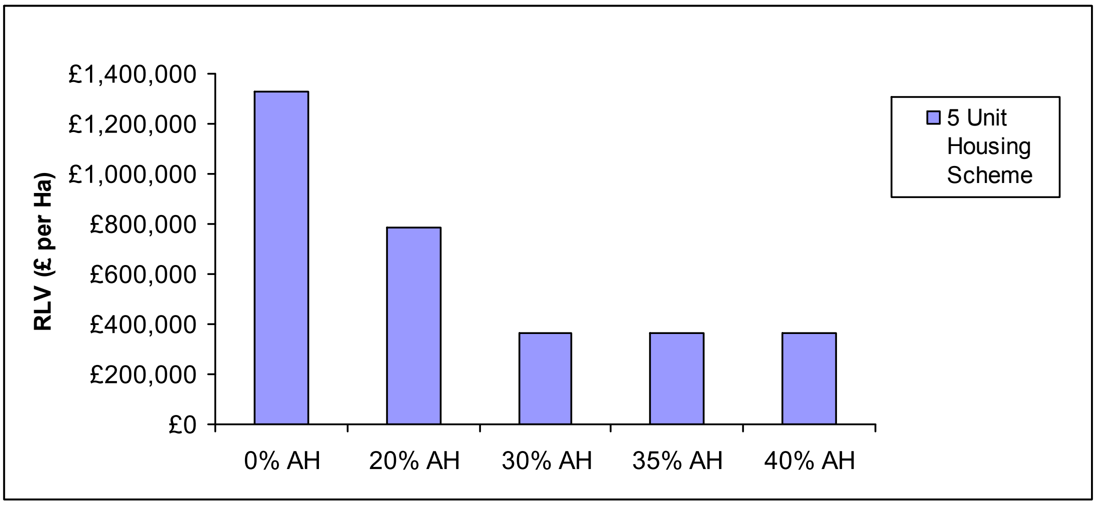
3.7.9 The trend of results shows increases in RLV for each of the affordable housing proportions (keeping those constant) as we move through Value Points 1 to 7, i.e. as values increase. These trends again are seen across all scheme types and all potential affordable housing proportions. The results show that market property values are the main determinant of site viability.

3.7.10 They also show that scheme size is not a determinant of viability in itself. This is a consistent finding across all of our studies. There is nothing within the appraisal maths which suggests that smaller or larger sites tend to be any more or less viable. It really does come down to site specifics – the nature of sites and the proposals for them and most importantly the RLV relative to existing use, specific costs etc.

3.7.11 We see the same basic trend of RLV deteriorating with affordable housing proportion increasing, regardless of scheme size. This is essentially a proportional effect too.

3.7.12 Appraisals have also been carried out at 0% to 50% affordable housing on all sites. By way of an example (Figure 16) a comparison of the RLV generated at 0% affordable housing with those generated at increasing affordable housing proportions shows the size of the step down in (deterioration of) land value increasing from the landowner's current position (i.e. impact increasing) as we move from left to right. The same is seen on other similar graphs as scheme type varies.

Figure 16: Example Results 5 Unit Housing Scheme – Value Point 4 Only



3.7.13 Consideration of the effect of the first time policy impact (i.e. moving from 0% rather than an existing proportion) helps to demonstrate why we consider a sliding scale of affordable housing requirements to have potential as a useful and effective tool for reducing viability impacts on these smaller sites which could trigger affordable housing requirements for the first time should the affordable housing thresholds be lowered.

3.7.14 Assuming that the wider evidence beyond this study points to lowered thresholds being necessary and justified to optimise affordable housing delivery, and given that there is no particular reason for smaller sites not making a carefully judged contribution on a target basis, then in our view the sliding scale would be preferable to a straight requirement for say 30% or 35% on significantly smaller sites than those captured currently.

3.7.15 On the smallest sites, on-site provision of affordable housing may not be suitable. This has less to do with development viability alone than the practicalities of delivery on small sites including integration of affordable units, scheme design, marketing issues, perceptions, management sustainability and potentially a feeling of isolation from tenants. In addition, and although not exclusively related to smaller sites, the existing use value of a site is going to play a more prominent role where the land is already in residential use (i.e. residential redevelopment. On those sites, the value of existing residential properties must, as a minimum, be overcome (in terms of development and residual land value) otherwise there is no incentive for the house owner to sell the property for redevelopment.

3.8 Impact of increased Developer's Profit

3.8.1 As mentioned at 2.5 of this report, viability has also been investigated on a small sample of scenarios using 20% developers profit in place of 15%. This been carried out on schemes of 25 and 50 units at all Value Points and infrastructure cost levels at all proportions of affordable housing. A summary of the 25 unit scheme results at Value Point 4 is provided here with a comparison to the results using a 15% developer's profit. The full results can be found in Appendix II(h) and II(i).

3.8.2 This comparison allows us to investigate the additional impact of increased profit requirements that may be more likely on schemes as a result, for example, of increased risk in bringing more complex sites forward for development. As expected, the same trends discussed previously are seen, whereby the lower the development values, the greater the additional impact on scheme viability.

3.8.3 Figure 17 below shows the additional impact on schemes appraised of increasing this assumption to 20%.

Figure 17: Comparison of Appraisal Results at 15% and 20% Developer's Profit (Value Point 4 only) – 70/30 Tenure Mix; £5,000 per Unit Infrastructure

Appraisal Type	25 Unit Housing Scheme – Without Grant			
	RLV – 15% Profit	RLV – 20% Profit	RLV (£/Ha) – 15% Profit	RLV (£/Ha) – 20% Profit
20% Affordable	£362,931	£223,693	£725,861	£447,386
30% Affordable	£189,465	£63,851	£378,931	£127,702
35% Affordable	£145,552	£25,700	£291,104	£51,400
40% Affordable	£52,954	£0	£105,908	£0

3.8.4 In all cases an increased developer's profit leads to further reductions in the financial sums available for land purchase and, therefore, impacts further on site viability. The impact is also more marked with lower starting values. The additional impact of the higher developer's profit does not alone materially affect our recommendations or conclusions from this study. There may be the need for site-specific consideration and awareness of the risk/reward balance needed, leading ultimately to a negotiated approach between the Councils and developers – particularly in lower value situations where viability outcomes will be more sensitive to increasing costs.

3.8.5 If, however, we start to add in other cost burdens to a scheme (for example increasing the planning infrastructure costs to £20,000 per unit (Appendix II(h) Table 15) in tandem with a 70%/30% tenure mix, then we see residual land values fall to negligible amounts in all but the highest value areas.

3.8.6 Conversely, if the affordable housing tenure mix is changed to 60% affordable rent/40% intermediate, we see the impact of an increase in developer's profit and planning infrastructure mitigated to some degree (Appendix II(i)).

3.8.7 We have to consider that there will be a wide range of scheme types brought forward by an equally wide range of parties. Once again, there are no firm rules when it comes to scheme specifics. In our view, however, the 15% level we use would form a reasonable general default or starting position for the Councils when first considering site-specific viability appraisals, as used for example within the Housing Corporation's (since 1 December 2008 the Homes and Communities Agency (HCA)) Economic Appraisal Tool guide assumptions.

3.8.8 As the study has progressed we have seen some reporting on developers having to accept reduced profit levels in some instances in what have been weakening market conditions. However, there is also an argument to be made about increased risk in such circumstances. In the current uncertain market conditions we are seeing a range of indicators on developer's profit levels, and these are becoming increasingly difficult to judge with respect to perception of risk levels. So, on balance, our range of assumptions is considered to be appropriate with regard to market conditions. These will need to be kept under review as part of the Councils' monitoring processes, negotiations and delivery experiences. What is appropriate for one scheme may well not be for another, and the collective costs burden on schemes will always need to be borne in mind.

3.9 The Impact of Social Housing Grant and Tenure Mix

3.9.1 Sample appraisals have also been carried out to show what happens to our notional sites as we further improve the viability picture through the addition of grant to the scheme or alter the tenure mix. All appraisals have been run at both a 70/30 and 60/40 tenure mix but also see Appendices II(f) and (g) for the results showing the impact of grant input into schemes. These appraisals were run on sites of 10, 15 and 25 dwellings. Figure 18 below compares the results of appraisals run with and without grant on a 25 unit mixed scheme. In this instance grant was added to the base appraisals.

Figure 18: Comparison of Appraisal Results With and Without Grant (in this case for illustration only - Value Point 4 only; lower infrastructure cost, 70/30 tenure mix)

Appraisal Type	25 Unit Mixed Scheme			
	Without Grant (£)	With Grant (£)	Without Grant (£/Ha)	With Grant (£/Ha)
20% Affordable (RLV)	£362,931	£484,231	£725,861	£968,462
30% Affordable (RLV)	£189,465	£361,436	£378,931	£722,872
35% Affordable (RLV)	£145,552	£325,249	£291,104	£650,497
40% Affordable (RLV)	£52,954	£268,968	£105,908	£537,936

3.9.2 Figure 18, with data taken from Appendix II and II(f) indicates that adding grant to the scheme improves the residual land value by between 25%, 48%, 55% and 80% (at 20%, 30%, 35% and 40% affordable housing respectively). Grant ultimately improves the viability of a scheme, but the availability of grant is an element that must be considered on a site-specific basis. It is not possible to predict grant availability.

3.9.3 In the example at Figure 18 above we can see that when compared, for example, to the highly indicative range of values for Industrial Land produced by the VOA for the area (between £550,000 and £1,350,000 per hectare) the addition of grant improves the RLVs to the point of exceeding the bottom of that range at 20%, 30% and 35% proportions of affordable housing.

3.9.4 The findings indicate a range of values across the study area from relatively weak values (where development viability is compromised even with the most favourable cost assumptions) to relatively strong values (where development viability is improved and schemes will usually be able bear greater costs).

3.9.5 Grant may well have an important role to play on many sites - where affordable housing numbers or deliverability of a favourable tenure mix can be improved compared with a nil grant route.

3.9.6 Given the viability constraints discussed so far at Value Points 1, 2 and 3 with even low levels of affordable housing plus the possibility of higher infrastructure costs or other cost burdens (see later) it is likely that social housing grant or other public subsidy would need to be levered in as support. At the higher Value Points there is scope for the Councils to adopt a relatively robust position on the use of grant, and in negotiations with landowners and developers on what any grant input will be adding to a scheme.

3.9.7 Figure 19 shows a comparison between the use of grant on a scheme with a 70/30 tenure mix and no grant on the same scheme with a range of tenure mixes.

Figure 19: Comparison of Appraisal Results With and Without Grant with variations to tenure mix

Appraisal Type	25 Unit Mixed Scheme			
	70/30 Mix With Grant (£/Ha)	70/30 Mix Without Grant (£/Ha)	60/40 Mix With Grant (£/Ha)	60/40 Mix Without Grant (£/Ha)
20% Affordable (RLV)	£968,462	£362,931	£987,915	£391,182
30% Affordable (RLV)	£722,872	£189,465	£742,996	£207,966
35% Affordable (RLV)	£650,497	£145,552	£670,621	£164,240
40% Affordable (RLV)	£537,936	£52,954	£558,059	£71,642

3.9.8 From the figure 19 examples and the wider results, it is possible to see broadly comparable outcomes (in RLV terms) with different combinations of affordable housing proportion, tenure mix and grant assumptions applied.

3.9.9 These results indicate:

- The significant impact (viability boost) that grant can have, though this should really be seen through improved affordable housing provision (additionality) not by way of increased land value.

- How much RLVs can deteriorate by the time we allow for the higher proportions of affordable housing, particularly with no grant and even with a more balanced tenure mix.

- That only on the largest schemes will a 70/30 tenure mix impact on viability very much more significantly than a 60/40 mix.

3.9.10 There is also scope for the Councils to consider mechanisms for securing local level subsidy in working up its more detailed approach – for example, through a nil-cost land for affordable housing basis or through guiding affordable housing payment levels to developers in some way.

3.9.11 Whilst (in line with the HCA's "additionality" approach), the Councils' starting point may well be to consider what affordable housing can be achieved without grant, as discussed above, our view is that grant may have an important role to play in balanced housing delivery locally, and in particular in supporting varied and appropriate tenure provision, perhaps especially on lower value schemes or in instances of competing alternative land use values where viability may be more marginal. As discussions have developed with the Councils' officers through the study period, we understand that the Councils' general approach will be to seek 70% affordable rented tenure and 30% intermediate tenure, although site specifics will prevail. Whether or not grant is available, and if so at what level, will be one of the key determinants of whether this tone of tenure mix can be supported on a regular basis over the longer term. Unfortunately, it is not possible to rely on, or predict, grant availability. The HCA were contacted over this issue in the course of the study and Adams Integra were provided with the following information from the regional investment manager which reflects our understanding:

"The Homes and Communities Agency works on a basis of additionality on s.106 sites whereby any social housing grant going into a scheme is to purchase outcomes above and beyond those that can be delivered through the s.106 agreement itself. The starting position is to assume no grant goes into an s.106 site as the s.106 itself should be securing affordable housing outcomes. Grant input would then be required to improve the affordable housing outputs (e.g. secure a greater percentage of social rented homes). Given this I am not in a position to be able to provide you with what grant per unit or per person may go into a scheme as this would give a skewed picture given that it would not take into consideration the s.106 sites that are delivered without social housing grant."

3.9.12 Our experience of current schemes is that HCA social housing grant funding is quite opportunity-led and many schemes are providing increased proportions of affordable rent compared with previous experience. This is because of a mixture of factors including:

- The HCA's current relatively opportunity-led funding approach.
- Wider housing market trends (crucially the limited availability, still, of suitable mortgage finance) mean that low cost homes ownership tenure such as shared ownership may be either unattractive or unworkable in many instances.
- Linked to this, affordable rent with grant can now look equally, or more attractive to RSLs in terms of their financial appraisals.

3.9.13 Overall, this can only be regarded as a fluid set of circumstances, which together with the levels of local needs and Regional Policy, point towards a significant bias to affordable rented tenure as a target position.

3.9.14 Appraisals were undertaken where the only change to the assumptions was the mix of affordable housing tenure relative to the set of assumptions being tested. These were carried out for all scenarios and scheme types. The results of the 25 unit scheme as an example are summarised in Figure 17 above (all other assumptions as per the base appraisals).

3.9.15 Figure 19 shows the minimal impact on scheme viability of altering the tenure mix on relatively small schemes. For example with an overall proportion of 35% affordable housing the RLV reduces by £18,688 (or by 11%) when the mix is changed to 60% affordable rent from 70%/30% affordable rented to intermediate balance. Again, the decrease in RLV is made worse (percentage reduction grows) with low starting values. Similarly, the impacts of changes to tenure are lessened by higher market values.

3.9.16 Again, it may be useful to the Councils, to make some comparisons between these various results – in terms of the RLVs that the various combinations of assumptions produce. Although we see a reduction in RLV as the proportion of affordable rent increases, this has much less of an impact than increasing the overall affordable housing percentage.

3.9.17 These figures are based purely on the appraisals carried out and assume that the intermediate product is feasible for RSLs and their customers. Aside from the well-established difficulties that can arise with the overall affordability (total costs) of shared ownership for its purchasers, there are increased experiences of difficulties with shared ownership saleability in the current market. This is largely due to mortgage availability. As we understand it, experiences are mixed, and tend to echo the open market in that the most popular, well located and attractively priced schemes can still sell relatively well while others are attracting little or no interest.

3.9.18 We have looked generically at the intermediate tenure, since what counts for financial viability is the level of revenue it produces for the developer. This reflects the increased likelihood that it will be seen in varied forms and combinations within schemes from now on. This is purely for the purposes of financial viability and fixing assumptions, where we are looking at increased payments to the developer compared with affordable rented tenure (particularly with no grant). It does not prevent the Councils and their range of partners from considering and perhaps trialling a range of tenure models, or from varying the assumptions we have applied. Indeed such an approach is to be encouraged – we expect that there will be a role for a wider menu of tenure options.

3.9.19 In our experience, approximately balanced tenure can be achieved with little or no grant, providing the affordable housing proportions sought are not too high. However, as above, we consider that there is likely to be a role for grant to support a bias towards the priority needed affordable rented tenure in particular, especially where the proportion of that tenure rises. As an example of the possible positive impact of grant, with regard to the current mortgage access issues that can be experienced with home ownership products, it may be that through increased grant input more affordable rent could produce more viable schemes which are also more acceptable financially to RSLs in the current conditions. Although there is much uncertainty surrounding grant funding availability, the Councils and their development partners will need to consider such factors in relation to site specifics.

3.9.20 In the current funding climate, we must stress the importance of guiding tenure, seeking to influence the affordable housing procurement costs locally, (including through landowner/developer subsidy mechanisms as discussed in this study) and of continuing to consider cascade type thinking on adaptable scheme make up, depending on funding availability.

3.9.21 The use of cascade type mechanisms will be valuable for consideration within the Councils' overall approach. This envisages the Councils working with developing partners – where necessary - to adjust, but still optimise, affordable housing delivery in all the circumstances relevant to a particular site, including the funding levels ultimately available.

3.9.22 A cascade principle or mechanism allows the affordable housing element of a scheme to adapt to funding circumstances at the point of the delivery details being fixed (i.e. most likely post planning, but prior to contracts being entered in to by the developer and RSL for the affordable housing construction and purchase).

3.9.23 A cascade arrangement would normally be built in to the S106 agreement. It has the potential to help delivery when the availability of funding is uncertain, or perhaps when other planning or site issues mean that the exact details of the affordable housing delivery need to be agreed. This can help avoid or reduce delays where S106 agreements would otherwise be renegotiated instead. An agreement including a cascade principle provides scope for the affordable housing content of a scheme to be reshaped and usually optimised given the available funding and perhaps other financial circumstances.

3.9.24 Usually a local authority would expect to lead the process which redefines the affordable housing, working closely with the other parties such as the developer, HCA and any involved RSL. As an example of a potential cascade outcome, the Councils may take a view that it is best to consider fewer affordable homes, but of the priority needs tenure type (i.e. usually affordable rent). Alternatively it may decide to maintain affordable homes numbers delivery by allowing the tenure mix to skew towards more financially viable home ownership or intermediate housing tenure, or to commute the affordable housing delivery into fewer family homes. Ultimately, discussions and outcomes would be very site-specific.

3.9.25 The same principle as outlined above (the need to inform judgements on the affordable housing target proportions in conjunction with wider criteria including likely funding availability) is also relevant in the context of any wider consideration the Councils may be giving to overall planning obligations requirements and other burdens on schemes. The wider costs and obligations also affecting viability always need to be taken account of.

3.10 Renewable Energy

3.10.1 All base results (for all notional schemes and dwellings) are generated assuming a 10% reduction in CO_2 achieved through renewable energy means. The Appendix II(j) and II(k) results include a 20% CO_2 reduction through renewable energy assumption instead, so that we can see how that might impact viability when combined with the other base assumptions applied.

Figure 20: Comparison of Appraisal Results – 10% and 20% CO_2 reduction through renewable energy measures (Value Point 4 Only) 70/30 Tenure Mix

Appraisal Type	25 Unit Housing Scheme	
	RLV (£ / Ha) – 10% Renewables	RLV (£ / Ha) – 20% Renewables
20% Affordable	£662,049	£563,398
30% Affordable	£377,651	£277,714
35% Affordable	£324,094	£223,053
40% Affordable	£220,328	£113,742

3.10.2 Figure 20 shows the additional impact on residual land value caused by this increased renewable energy requirement. The results here are taken from Appendix II (Table 1b) and Appendix II(j) (Table 19b) – based on 70/30 tenure mix without grant and £5,000 planning infrastructure per unit. This is to illustrate potential effects, rather than because local policy is known to be developing on this at present. The assumptions are based on an estimate of costs (see Chapter 2) and of course these costs may increase or decrease dependent on the renewable technology employed and potentially the size of a site (there may potentially be cost savings through economies of scale on larger sites and future reductions in costs as technology becomes more mainstream).

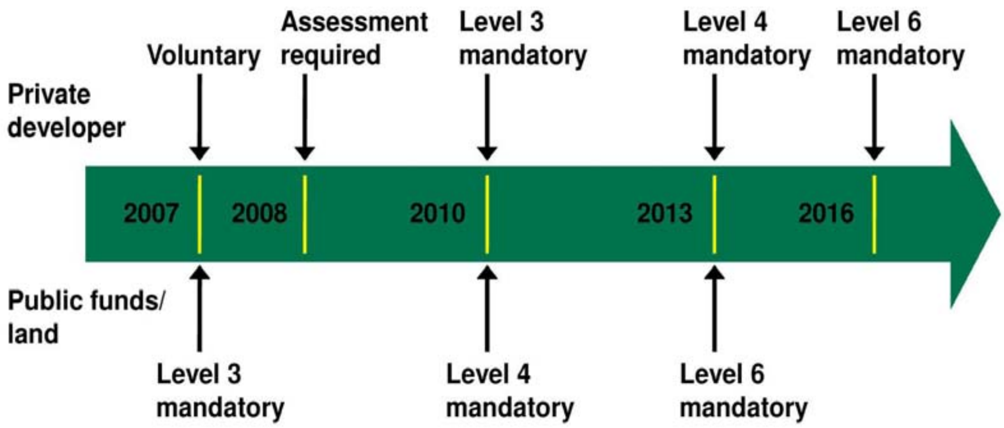
3.10.3 Again the reduction in RLV is relatively small but as with other potential added cost areas, we can see a limited degree of trade-off between a scheme with a higher proportion or enhanced tenure mix of affordable housing versus a lower renewable energy requirement. It could have an important effect when viewed along with other assumptions. Other comparisons could be made by the Councils in analysing impacts in more detail, and assessing the collective burdens overall. Again, however, increasing the overall affordable housing proportion has the biggest impact.

3.11 Code for Sustainable Homes

3.11.1 Further sensitivity analysis has been carried out on the impact of applying likely additional development costs to schemes as the requirement for the level of the Code for Sustainable Homes increases over time.

3.11.2 Currently the legislative timetable for all residential development to meet increasing level of the Code is set out by the Government as follows[13]:

Figure 21: Legislative Timeline for Code for Sustainable Homes Compliance



3.11.3 The sensitivity analysis has been carried out on schemes of 25 and 50 units only and on an example scheme of 25 units, the comparison of the residual land values created after the addition of each level of cost is shown in Figure 22 below (all other assumptions as per the base appraisals).

[13] From: www.tarmachomesproject.co.uk/what_is_the_code/2016_legislative_timeline.

Figure 22: Comparison of Appraisal Results – Increasing Code for Sustainable Homes Requirements

Appraisal Type	25 Unit Housing Scheme (VP4)		
	RLV (£ / Ha) CfSH Level 3	RLV (£ / Ha) CfSH Level 4	RLV (£ / Ha) CfSH Level 6
20% Affordable	£725,861	£544,646	£0
30% Affordable	£378,931	£195,938	£0
35% Affordable	£291,104	£104,284	£0
40% Affordable	£105,908	£0	£0
Appraisal Type	25 Unit Housing Scheme (VP5)		
	RLV (£ / Ha) CfSH Level 3	RLV (£ / Ha) CfSH Level 4	RLV (£ / Ha) CfSH Level 6
20% Affordable	£1,372,501	£1,193,154	£308,678
30% Affordable	£961,434	£790,234	£0
35% Affordable	£870,948	£689,733	£0
40% Affordable	£659,336	£487,979	£0

3.11.4 The results clearly show the significant impact a requirement to meet Code for Sustainable Homes Level 6 has on residual land values when taking into account the other base assumptions in this study. Code Level 4 requirements have a much smaller impact, but still significantly deteriorate the residual land values generated and this is before the addition of potentially higher infrastructure costs. There are potentially cost savings to be made over time as the likelihood of meeting the CfSH requirements becomes cheaper (potentially as technologies and their supply improve and cost savings are made through future innovations in this area). These results assume approximate costs as known today and as set out in DCLG report.[14]

3.11.5 As with the renewable energy requirements, again we can see the trade-off that may be required in order to meet these requirements and still provide profitable residential development. It is worth reiterating here that the full collective burden of all the costs analysed within this study will not be met through development alone without significant subsidy from elsewhere.

3.12 Impact of Increased Planning Infrastructure Costs

3.12.1 One of the biggest impacts on development viability (other than the proportion and type of affordable housing) is the level of other (i.e. not affordable housing) planning infrastructure requirements. Appraisals were carried out assuming varying infrastructure (planning obligations) contribution levels of £5,000, £10,000 and £10,000 per dwelling (applied to all dwellings). This part of the work also has a wider potential relevance in that it enables the Councils

[14] DCLG – Cost Analysis of the Code for Sustainable Homes (July 2008)

to see how viability results deteriorate when costs are added. An increase in costs could come from a wide variety of sources – related to planning requirements, site conditions, scheme specification or as combination of those.

3.12.2 Increased planning infrastructure burdens, as with any costs, have a negative impact on development viability. We have discussed the effect of additional costs, profit, affordable housing, etc above. Figure 23 below shows a brief example of the additional impact that higher planning infrastructure costs may have on schemes when combined with the "cost" of affordable housing provision.

Figure 23: Comparison of Appraisal Results from varying Infrastructure Cost/(Planning obligations/other costs) - (Value Point 4 only)

Appraisal Type	25 Unit Mixed Scheme – 70/30 tenure mix – Without Grant		
	RLV (£ / Ha) – £5,000 / unit Planning Infrastructure	RLV (£ / Ha) - £10,000 / unit Planning Infrastructure	RLV (£ / Ha) – £20,000 / unit Planning Infrastructure
20% Affordable	£725,861	£510,036	£80,811
30% Affordable	£378,931	£160,259	£0
35% Affordable	£291,104	£68,604	£0
35% Affordable	£105,908	£0	£0

3.12.3 These results (taken from Appendices II, IIa and IIb – Tables 1b, 9b and 17b) show the reduction in RLV that occurs as the planning infrastructure (or other equivalent) cost assumptions are increased. We refer to 'other costs' as an alternative here, because any equivalent increase in the appraisal cost assumptions would have the same effect. In practice, scheme costs could increase over time for a variety of reasons, not only planning obligations. Effectively, therefore, these appraisals reviews added collective cost (whether related to planning obligations in full, a mix of those and other items, or other items in full).

3.12.4 The trends shown in the example results above are again repeated for all scheme types. This further emphasises the potential viability issues that could flow from seeking the highest levels of affordable housing whilst at the same time increasing the infrastructure burden on sites coming forward, especially in the event of nil or limited social housing grant.

4 CONCLUSIONS

4.1.1 Within this chapter we aim to provide an overview of what the value levels and viability outcomes mean for the four Authorities' consideration of Core Strategy policies for planning-led affordable housing provision. Other principles around this are discussed. Parameters for policy positions will be set out. As far as possible, Chapter 5, Recommendations, will then summarise those options following our viability review.

4.1.2 We aim to have in mind the potential scope for some level of common approach, whilst providing the necessary District specific guidance for individual Core Strategies.

4.1.3 Looking across the four local authority areas, a wide range of property values is seen. This applies both to the overall (resales dominated) market and to the pricing of new build schemes, although we picked up more consistency when looking at new builds.

4.1.4 There are severe local affordability and needs issues, as demonstrated by the Councils' wider evidence bases. Those drive the requirement to optimise affordable housing delivery. However, balance needs to be struck between those drivers and the deliverability of schemes which are needed to continue supplying market and affordable housing. This study aims to promote that type of balance.

4.1.5 We study a wide variety of localities on a national basis and we consider that, even at their highest, local value levels are relatively modest. By this we mean in comparison with areas immediately to the south, west and south west (Cambridge City, M11, M1/M25 zones) and certainly in comparison with many areas we have studied in the south east region, in the south west, and outer London Boroughs. In the mid to upper parts of the range seen locally, the values reach the lower levels we have seen in such places. The relevance of this is that the completed scheme values (i.e. property values) are the key element that underpins site viability. The viability outcomes are most sensitive to the values levels.

4.1.6 Our research suggested that new build development pricing in the area falls in the range from £1,400 or less to over £3,000 per sq m (the marketing price expressed in a per square metre rate). This equates to around £130 to about £300 per square foot. The previous chapter, Results, and the study Appendices set out the detail on the values research and findings.

4.1.7 Looking at the various sources of information, and allowing for marketing to sales price adjustments and current market trends as best we could at the time of fixing assumptions, we concluded that the approximate band £1,500 to £2,500 per sq m most appropriately reflected the typical range likely to be seen. This means we consider that new build values are generally in the range of our Value Points 2 to 5/6. From what we saw, in practice they do not dip to Value Point 1 (£1,400 per sq m) in a widespread way at present, but those levels (and sometimes lower) are seen in Fenland District at the current time. They could be seen elsewhere, infrequently. Values exceeding Value Point 6 were not seen through our own research. Value Point 7, therefore, currently represents higher local values in the event of improved market conditions.

4.1.8 This is a dynamic picture. We acknowledge that values do fall outside the range we have identified as "typical". Given the current weak and uncertain state of the market, from a viability perspective the Councils will need to monitor value levels particularly with regard to the frequency of lower end values occurring. All examples and indications here are based on the current relatively low level of new build activity and hence sometimes on small numbers of example properties (small data samples).

4.1.9 As per our Value Points approach, the most important theme to recognise is that, as in all areas, a range of values is seen, ultimately dependent on site-specific factors. They depend on the specific location and scheme type. As normal there are street by street variations. General value patterns do exist across the area, as reported in the last chapter, but we emphasise that they are blurred. Variable values are seen in all Districts. As reported in section 3.2, however, the general value patterns seen were:

- In respect of the PE postcodes generally, the values seen are typically lower than those observed elsewhere within the area studied. This is relevant to Fenland, as above. Some higher values are also seen in Fenland, however.

- While the southern part of East Cambridgeshire does tend to see the highest value levels observed within the study area, it is a mixed picture there too. We saw blurring between the northern and southern area value levels. Lower values can be also be found in the southern area of East Cambridgeshire; as can Higher value levels in that District's northern area (e.g. Ely).

- A mixed values picture for the Newmarket area.

- Forest Heath values appear to around the mid part of the overall values range, normally excluding the lowest and highest values.

- Within St Edmundsbury, Bury St Edmunds values can reach levels similar to higher (usually southern area) East Cambridgeshire values. Again within St Edmundsbury, Bury St Edmunds area values tend to be higher than Haverhill area values.

4.1.10 Our research informed our judgements on the range of value levels used to drive our appraisals. It showed these to be reasonable at the time of fixing them, and a reflection of the tone of the information we gathered. They have also been determined so as to represent to a reasonable degree the typical values likely to be seen locally in the event of a further falling or an improved market. Full details of Adams Integra's property values research are to be found at Appendix III. The Hometrack data we have discussed (as sourced and supplied by Cambridgeshire Horizons) is also included – at Appendix IV.

4.1.11 These value levels produce a range of residual land values and, therefore, a wide range of results. Whilst an overview could describe some of the local values as high (i.e. relative to the general tone), that would not represent the full range of conditions. The results can be described as very mixed. Those produced by the appraisals at lower value levels are weak in viability terms, and that factor has been significant in the shaping of our thoughts and recommendations. On our assumptions, values need to reach the mid to upper part of the range we have described as typical in order to support significant planning obligations. The general level of uplift in values that would be needed to produce a strong set of viability results is beyond what we consider even a significantly improved market would support.

4.1.12 The outcomes suggest various policy options for consideration. The overall parameters for affordable housing targets are likely to be 20-40%.

4.1.13 Within that range, we consider that anything in excess of 30% as a blanket target could well be very ambitious – potentially overly so. The tone of values and results, plus the range of generally growing other requirements in fact suggests that even 30% would be a relatively challenging but potentially appropriate headline target for most of the area, particularly given current and likely short-term market conditions. We consider that significant values uplifts would be needed to enable us to change this view alongside lowering of expectations in other potential "cost" areas (planning infrastructure costs, etc).

4.1.14 It is appropriate that targets should be set at levels in order to meet the affordable housing need, but not to the point of being delivered only infrequently. This needs to be read in conjunction with the following paragraphs, because it is not appropriate to look at the affordable housing proportion (numbers) in isolation. We also have to consider, for example:

- The need to provide the right types, mix and quality of affordable housing – not numbers alone.

- The need to acknowledge that increasing proportions of affordable housing (particularly of affordable rented homes) are likely to mean more grant input required; and to consider the case and scope for that.

- Overall housing and planning objectives, including on wider planning obligations/infrastructure/environmental objectives – as may be needed in wider community terms and for schemes to progress – and as affects the overall viability picture.

- Within these, the rapidly growing environmental agenda – the timeline for increasing Code for Sustainable Homes attainment levels, renewable energy.

- Other specification enhancements (such as Lifetime Homes, adapted/mobility housing).

- The fact that the incidence of any abnormal costs such as site clean up, flood risk mitigation, landscape and ecological or other issues could further weigh against the viability of schemes.

- The potential need to acknowledge varying risk reward for developers and thus enhanced profits from our base assumption, where appropriate.

4.1.15 We have to consider the deliverability of affordable housing alongside such factors, and we consider this to be relevant in striking the right balance between need and viability. The Councils may well have to consider priorities and compromises as schemes are negotiated. The types of priority planning obligations may well vary between schemes and locations.

4.1.16 Amongst the options, it would be possible to promote a common policy headline – applicable across the study area. If this approach were to be progressed then a target of not more than 30% would be appropriate as a widely applicable headline. Consideration could then be given to fine tuning policy around that – potentially for different site circumstances or locations with exceptional values or other characteristics. This approach would have the potential to provide a good level of clarity to inform landowners' and developers' expectations. Cross boundary working can bring benefits and, because we have been commissioned in this way, we thought this possibility worth mentioning.

4.1.17 A similar simple policy approach – single, blanket target - could be applied just as effectively for each District. While varying positions for that could be selected from one District to another, a target of no more than 30% could also be an effective starting point for consideration of that.

4.1.18 Looking on a District level, more complex/area distinctive policies usually require more resourcing, more involved monitoring and updating and more complex additional guidance through SPD, leading in to more explanation and negotiation input, etc. These aspects need to be considered. However, the study outcomes suggest such an approach could also be valid in certain Council areas.

4.1.19 Any variation of targets by area (within Districts/Boroughs) would need to be evidenced in needs terms and would also be based on property values patterns and viability outcomes. Again, higher values usually have the potential to support a larger package of planning obligations. An appropriate balance between the tensions of housing need and viability has to be struck. Given the levels of housing needs it is appropriate to set targets as high as viability will allow, i.e. for there to be a significant level of challenge within the targets.

4.1.20 Also relevant here could be the fact that where Greenfield development is proposed then usually the existing/alternative land use value for a site is small compared with that for a previously developed (Brownfield) site which could be in, or be suitable for, a range of uses – including existing residential. Clearly this is quite a general statement. Development economics always need to be considered in the round.

4.1.21 There will always be certain cases where abnormal site costs, planning obligations burdens, existing/alternative use values (or a combination of these) mean that affordable housing targets cannot be met. Those will more often be lower value schemes but may also include a wider range schemes where the combination of assumptions (collective costs and obligations burden) goes against viability and means compromises need to be looked at. Those considerations are relevant in any area and we advise all of our local authority clients accordingly.

4.1.22 Looking across each of the Council areas, the varying existing tenure mixes in different localities, and level and type of housing needs should also influence policy development in this area. The considerations go wider than viability. If variable policy targets by area (in terms of %s of affordable housing sought and/or its tenure) are considered, then in the positioning of those the Councils' wider understanding of local markets and wider evidence base needs to be taken account of.

4.1.23 Land values are in many ways a function of property values – higher property values in essence feed in to higher land values. Therefore, it should also be noted that where property values are higher locally, land value expectations are also increased. To a degree land values need to measure up appropriately to owners' expectations to ensure the release of sites. Land value expectations will need to be adjusted over time, not just because of affordable housing requirements, but also through the growing climate for higher specifications related to sustainability, wider scoped planning obligations, renewable energy and the like. It is possible that current property market trends could help with this adjustment process in the longer term. As so much of this topic area is about land prices and expectations around those, we think the current climate presents a good opportunity to consider policy, as a part of adjusting and setting expectations for potentially more active development markets ahead.

4.1.24 The peak of the market has generally been acknowledged as around November 2007. A comparison of Cambridgeshire and Suffolk house prices using the Land Registry's House price Index shows that Cambridgeshire prices peaked in November 2007 at an average of £200,211. Suffolk prices looked to have peaked in October 2007, fell slightly into Winter 2007 and then peaked in January 2008. The Suffolk average price peaked at £175,195 at that point.

4.1.25 Using the latest Land Registry House Prices Index figures comparison at the point of fixing assumptions (which includes data for June 2009) a high level comparison can be made between Cambridgeshire and Suffolk house prices and house price trends. The May 2009 figures picked up data that meant the recent low point for house prices in both Counties was shown to be at that point. From May to July, small month on month house price increases are shown, so that in each case average prices by July are now marginally above the May levels - at £164,182 (for Cambridge) and £142,485 (Suffolk). These sit either side of the England and Wales average price of £155,885 (July figure). Bearing in mind that there are stronger values within other parts of these county-based comparison areas, this adds to our view of the relative position and tone of values locally. It also tells us that Land Registry data showed around an 18% fall in values in both Counties, from the peak to the low point. The recent reversed trend, of marginal price increases is now having the effect of reducing the price falls when viewed annually.

4.1.26 So, at the time of preparing this study, Adams Integra has been required to acknowledge the very weak and uncertain market conditions which were apparent through 2008 and moving into Spring 2009 as the study period commenced. From around March 2009, we picked up more mixed messages about market conditions. By that stage, slightly more optimism was being indicated through information such as RICS research, Nationwide Building Society figures and the Land Registry House Prices Index – which showed a reducing rate of decline in house prices in many places and small house price increases, overall, in some regions. Our Property Prices report at Appendix III includes a range of market information alongside a summary of our values research. We have updated the market trends information there towards the close of the study period, in outline terms.

4.1.27 In section 2.2 and 3.2 in particular we acknowledged the type of market features that have been, and still are being, seen. However, there are difficulties in fully reflecting the potential range of market conditions, and certainly in looking at all potential site specific level reactions, in this type of study. It is simply not possible to predict market directions or forecast how the various values, cost and other assumptions could interact at some future point. The sensitivity of outcomes to values varying is a key element of approach to considering this as far as we can at this point in time.

4.1.28 We also consider it important in these circumstances to monitor and review policies and develop contingency plans; together with operating a practical and flexible view in implementing policies, especially in the shorter term, to help secure affordable housing delivery alongside other planning obligations as far as possible.

4.1.29 It is unlikely to be practical to seek to vary policy targets in response to uncertain market conditions that are evolving, and the longevity or degree of which cannot be predicted. This type of approach would also not serve to provide the crucial level of guidance and clarity which developers and landowners need. As stressed above, in the short-term the practical, negotiated approach (but still based on clear targets) will be vital.

4.1.30 We consider it much more realistic to seek to react to current and future short-term market features through this mode of flexibility (practical application of policy) than to expect to almost continually review viability information on a this type of strategic basis, with the wider evidence base, so as to regularly adjust policy targets. Periodic reviews are more likely to be realistic, economic and useful in our view; possibly in conjunction with other planning obligation reviews being considered or in response to delivery experiences over a sufficient period.

4.1.31 An alternative approach which attempted to regularly follow market movements through policy adjustments could, in theory, mean frequent target adjustments, which would not serve to provide the crucial level of guidance and clarity that developers and landowners need when first considering opportunities in relation to the Councils' strategic approach.

4.1.32 The greatest reductions in residual land values are usually seen where affordable housing is required for the first time. This effect will vary in these 4 Districts and Boroughs because the Councils' existing development plan policies vary in terms of current thresholds – for example:

- In St Edmundsbury, first time impact of policy would be relevant on sites of fewer than 15 dwellings in larger settlements (of 3,000+ population) – and potentially only within Haverhill and Bury St Edmunds (depending on how the Council develops its policy positions).

- In Forest Heath, it would be relevant to sites of fewer than 15 in all areas (those are not covered by the Affordable Housing Interim

Statement 2007 which replaced the former (not saved) Local Plan policy. We understand that it would also be relevant to sites of fewer than 15 dwellings in Fenland given the negotiating stance there.

- In East Cambridgeshire, on policy transition it would have been relevant to sites of fewer than 25 dwellings in larger settlements and of fewer than 9 dwellings in smaller settlements (of 3,000 or less population).

4.1.33 The impact of increasing affordable housing proportions from the current policy positions is also significant. This is always the case. In East Cambridgeshire the changes have been subject to consultation and Examination in Public.

4.1.34 The degree of impact is then dependent on the market sales values for the private market element which drives the scheme (expressed as a range of Value Points in this study), the affordable housing revenue (receipt to developer from RSL), planning obligations/infrastructure cost levels, grant availability and other assumptions. As values increase, broadly there is more scope to bear affordable housing and other costs.

4.1.35 For the first-time captured schemes (when thresholds are lowered), the introduction of a modest target proportion has a positive viability impact when compared with that from seeking higher proportions of up to say 40% on these smallest sites. Again, specific outcomes are dependent on value point and other accompanying assumptions. The reduced affordable housing proportion (20% and 30%) results show these outcomes.

4.1.36 The area comprises a wide selection of settlements and large rural areas. Housing supply throughout includes large proportions of smaller sites. As an example of the local site supply patterns, East Cambridgeshire estimates that approximately 81 dwellings per year (1393 total) will come forward on sites of fewer than 10 dwellings within that District. East Cambridgeshire has consulted extensively on threshold reductions.

4.1.37 In all of our viability overview studies we consistently find that it is not possible to say that smaller or larger sites are more or less viable than each other. We can provide no evidence to suggest that site size alone is a determinant of viability. There may be lower risks, reduced promotion costs and smaller planning obligations burdens on smaller sites, but conversely, there might not be the same opportunities for economies of scale. There are a range of factors which could well balance out or alter outcomes either way dependent on the circumstances. The outcomes relate to site specifics, crucially including value levels. Viability is principally value rather than site size driven.

4.1.38 From that base, there are two key features of smaller sites which point towards a sliding scale approach. Firstly, there is the first-time impact issue we have discussed. Secondly, the values generated by the smallest schemes (sums available for land purchase) are likely to be increasingly marginal when compared with existing/alternative uses and with owners' aspirations.

4.1.39 Threshold points are to some extent always arbitrary. The National indicative minimum threshold put forward by PPS3 is 15 dwellings. PPS3 also states that where practicable and viable, local authorities can set lower thresholds. We think it fair to say that there is now an established and growing base of policies pointing to lower thresholds. This is particularly the case across wide areas of the south, where lack of affordability, and, therefore, need, is so acute whilst overall housing supply relies on the contribution of smaller sites.

4.1.40 We consider that these factors strongly suggest the potential relevance of considering sliding scale approaches in policy development. A key to optimising the planning-led supply of affordable homes within the area could be to capture the widest practical range of site types - but on an equitable basis and subject to viability. We think it appropriate in the local context to aim to seek suitably judged contributions from a wider range of sites; rather than be over ambitious with proportion requirements aimed at a narrower band of sites or on particular site sizes. This seems particularly relevant at this stage of policy development, where potentially many smaller sites would be captured for the first time under the policy scope, and given the type of market conditions which we may well have at the potential inception of the policies.

4.1.41 The sliding scale type approach could take various forms as far as the final target combinations of thresholds (site sizes) and proportions (affordable housing %s) are concerned.

4.1.42 The starting point could be up to a 20% target which previously we have often recommended for consideration at 5 or 6 units for on-site provision, but not usually on sites of fewer than say 5 dwellings for practical reasons. With reference to 4.1.43 below, depending on the combination of threshold and proportion a view could also be taken that 20% and 30% targets do not result in very different actual positions.

4.1.43 It will be for each authority to consider but, in our view, there are a range of issues than can come into play to make on-site delivery unworkable on sites of fewer than about 5 dwellings. Depending on the type of scheme, design, affordability, sustainability of management arrangements, service charge levels, etc, can all be issues for consideration and which in our experience have often pointed to financial contributions in lieu of on-site provision.

4.1.44 In considering thresholds and proportions combinations the Councils may wish to consider which are most logical in terms of the numbers rounding and other practical/negotiation issues we discuss. Numbers rounding as well as dwelling mix, tenure type, grant input, etc, will all affect viability. They need to be viewed together in practice.

4.1.45 To highlight the numbers rounding point, often an increasing affordable housing proportion is meaningless or misleading on the very smallest sites, as rounding can heavily distort what is being required – for example:

- 10% of 3 units = 0.3 (means 0 or 1, so 0% or 33%; unless collected by way of financial contribution.
- 20% of 3 units = 0.6 (exactly the same as above applies, though rounds more logically to one on site – but that means 33%).
- 30% of 3 units = 0.9 (rounds logically to 1 unit; close at 33%).
- 40% of 3 units = 1.2 (rounds down to one, so again means 33%).
- 10% of 5 units = 0.5 (means 0.5; rounded to 1 = 20%).
- 20% of 5 units = 1
- 30% of 5 units = 1.5 (rounded to 2 means 40%).
- 40% of 5 units = 2

4.1.46 The examples shown at 4.1.45 above, along with the practical issues that can occur with on-site provision at such a level (4.1.43), indicate why Adams Integra has often been asked by clients to review the scope for affordable housing financial contributions from these smallest sites. Limited precedent exists for that type of approach, however, and forthcoming Inspectors' EiP Reports should guide us further. Adams Integra worked very closely with South Hams District Council to develop an approach for financial contributions from sites of 2 or more dwellings; and with Mole Valley in respect of schemes of 1 to 9 dwellings. The Councils would need to consider the appropriateness of, and wider justification for, the potential application of such principles here.

4.1.47 The exact shape of any sliding scale may also be influenced by the position selected for the headline policy which usually takes effect at 15, or perhaps 10, dwellings. Given the general policy parameters of 30% to (maximum) 40% (but with the emphasis we encourage on the lower end if applied as a blanket target) the scope for a full sliding scale with multiple steps may well be limited. This does not prevent the principle being applied to encourage the continued release and deliverability of smaller sites.

4.1.48 A sliding scale reduces the scale of adjustment needed to land price expectations. We have consistently made these points in our study work. We consider that this type of approach would bring wider delivery advantages compared with the straight introduction of, say, up to a 40% target applied for the first-time to small sites which are currently not expected to provide any affordable housing contribution. This stage of policy development, considering the first time capture of small sites at least in some localities, is a particularly sensitive one. The more market-friendly approach of a sliding scale would also fit with the current and likely short-term future market characteristics. On the very smallest sites, a financial contributions in lieu approach could potentially form an extension of the sliding scale principle – subject to detailed review.

4.1.49 In <u>all</u> cases the proportions would need to be regarded as <u>targets</u>, with the relevance of development viability to site specifics acknowledged. The Councils would in any event need to monitor the outcomes and any issues arising from their selected policy positions. The proportions also need to be considered alongside the other key factors we have outlined, such as dwelling and tenure mix, grant availability, numbers rounding, expectations on dwelling size and specification, etc. These all influence the extent to which the affordable housing impacts viability.

4.1.50 In all cases and results seen, we assume no major abnormal costs. These would need to be considered as part of the overall burden on sites and could affect viability outcomes.

4.1.51 The study modelling reviewed tenure mix targets of 70% affordable rent/30% intermediate tenure and a 60%/40% mix as an alternative.

4.1.52 Although they are varied and some schemes are still proving successful, the market implications for shared ownership have been noted so that a wider view has been taken of the intermediate tenure element. Increasingly the intermediate provision will be reactive and flexible. The Councils could consider or trial other intermediate forms of tenure, or variations to the assumptions applied. The aspiration to seek a predominance of affordable rented tenure is in line with local needs profiles, consistent with that of other Authorities and also with the Regional thrust and investment priorities.

4.1.53 An emphasis is, and will be, placed on affordable rented accommodation given that the severest needs are for that. A 70%/30% tenure mix target and starting point would be in line with regional policy and go as far as reasonably possible to respect the balance of local needs. We can support this approach - providing it is considered as a target, with site-specific consideration linked also to dwelling types, mix, specification, grant availability and numbers rounding (i.e. to the affordable housing viewed in the sense of an appropriate overall package, optimised in the actual circumstances).

4.1.54 As would be expected, the 70/30 tenure mix sample appraisals produced lower land value results – reduced viability outcomes – than the comparative 60/40. While detailed actual scheme comparisons vary and we have commented on the current market and funding trends, skewing the mix further towards affordable rented homes generally reduces viability (unless appropriate grant input is available to counter balance that effect).

4.1.55 The sample with grant appraisals showed the extent to which grant can improve viability, although in practice that would be through protecting viability while achieving an appropriate affordable dwelling and tenure mix – which in any event will always need to be in accordance with HCA value for money principles and investment priorities - rather than through boosting land value unduly. Grant availability is highly unpredictable.

4.1.56 While the Councils' starting points might be to see what can be achieved without social housing grant, we anticipate that grant input may well be necessary to help underpin delivery – particularly of the right type and most needed affordable rented homes. Grant has been secured in the past. This again links to the need in our view not to over-play the total proportion of affordable homes sought - at the expense of what those are, and the levels of grant and/or other assumptions that may be needed to support them.

4.1.57 It will be vitally important for the Councils and their partners to keep in contact with the HCA's regional investment managers so that funding priorities and allocations processes can be understood. Like others, at the time of completing this study we are observing HCA funding being available on quite a responsive basis – opportunity-led, where schemes can be delivered (bearing in mind the dramatic slowing up of the planning-led (via S106) affordable housing delivery programme. We understand from the HCA that the approach to funding is likely to move away from this opportunity-led approach and return to a more planned approach in the short-term.

4.1.58 The Councils will need to consider the wider issues of need, site supply and the like alongside our viability findings.

4.1.59 The key viability findings discussed are based on an overview of current typical planning obligations requirements – at the lower end of the wider range considered, rather than with significantly increased levels assumed for sensitivity modelling purposes. We cannot speculate on how that area may develop, but it will be need to be kept in mind and monitored in relation to viability. The Councils' consideration of wider issues and collective burdens make it appropriate to consider at this stage how these viability results might be affected by potential increased planning obligations levels.

4.1.60 Nevertheless, from our results it is possible to start considering the potential "trade-offs" which may occur should any of the Councils move to increase planning infrastructure burdens; or if other scheme costs increase in a similar way (for example through an increased renewable energy requirements target in future; or if other burdens such as flood risk mitigation or other abnormal costs were relevant). Examples of this can be seen in the results where the RLV outcomes from various combinations of affordable housing proportion, tenure mix and other obligations can be seen. The preceding results chapter gave some comparisons.

4.1.61 To build on that and give an example for illustration of this point, on a 25 unit housing scheme with 30% affordable housing assuming 70/30 tenure mix (results Table 1 within Appendix II) we see a RLV of £655,642 produced at Value Point 5 with £5,000 infrastructure costs. Once the infrastructure cost rises to the upper trial level of £20,000 per unit, to get towards a similar RLV - £614,325 in this example - the affordable housing proportion has to drop to 20% given the same assumptions otherwise.

4.1.62 To extend that example, a 30% affordable housing outcome with assumed 60/40 tenure mix instead shows that a combination of that tenure and an intermediate £10,000 per unit planning obligations cost produces a broadly similar scale of RLV - £590,808.

4.1.63 So in this example it can be seen how the impact, on RLV, of affordable housing proportion and tenure mix can be compared to the impact of other assumptions varying.

4.1.64 The results can be used in this way to enable the Councils to consider, indicatively, a range of comparisons (or potential "trade-offs") – i.e. similar RLV outcomes that result from varying combinations of affordable housing requirements, planning obligations and other assumptions.

4.1.65 Given current value values and market conditions in particular, it is possible that the Councils may in some situations need to consider priority planning obligations. Based on current viability tones, this will certainly be the case if overall planning obligations costs are to be significantly increased. Future values trends, or higher value instances, could of course help this balance.

4.1.66 This same principle of trade-off and potential prioritising might apply to the area of property specification, for example related to Code for Sustainable Homes, renewable energy requirements, Lifetime Homes or other standards. Cost burdens will need to be monitored and considered collectively.

5 KEY RECOMMENDATIONS and Options by District

General

5.1.1 From the parameters we have explored, we are able to present options for the 4 Councils to consider, in terms of exact positioning of policies (and bearing in mind also East Cambridgeshire's now adopted approach).

5.1.2 From a residential site viability viewpoint, we propose that the Councils consider the following for the development of affordable housing policy headlines; thresholds and proportions – alongside their wider evidence bases, local knowledge and delivery experiences. In setting this out we acknowledge that East Cambridgeshire District Council's Core Strategy policies are now confirmed. This need not affect the combined area viability review that this commission envisaged, since it will also provide up to date information to help inform the four Authorities' ongoing work in providing this planning led affordable housing.

5.1.3 **In all cases these should be set out as clear targets, to help inform land value expectations and form the basis for a practical, negotiated approach.**

5.1.4 **Policy wording will need to acknowledge the relevance of considering development viability on case specifics.**

5.1.5 We consider that **an overall/headline affordable housing target proportion of 30% would represent a suitably challenging position in all Districts.**

5.1.6 **However, individual approaches may well be justified and pursued. There may be suitable alternatives on a more targeted local basis.** These could be where higher local property values or low site value (usually Greenfield) starting positions could point to increasing the target level but again on a negotiated basis subject to viability. **In our view, however, 40% would represent a very challenging target in the local context when viewed alongside the range of other requirements to be met from the relatively modest development values that are likely to be seen in many cases. In our opinion a target of 40% would not be suitable for widespread application.** Although the challenging nature of targets at these levels (30 to 40%) is effectively emphasised in recent and current market circumstances, in our view they would remain challenging positions in this locality in the longer-term too.

5.1.7 We consider that **the above parameters would most appropriately apply to sites which have been required to provide affordable housing to date** (no first-time impact). Application of this principle would vary by District, but **generally our suggestion would be to see the headline proportion not**

applied to sites of less than say 10 to 15 dwellings. We have acknowledged that the process cannot be scientific enough to pinpoint certain thresholds as the only correct ones; and that in any case the threshold system means particular points are to some degree arbitrary.

5.1.8 **For smaller sites, we consider there to be merit in looking at reducing the proportion sought.** This is the sliding scale type principle we have discussed. However, with the headline at 30% (or perhaps higher regarding certain specific and stated circumstances) there may be limited scope to set out a meaningful sliding scale in the sense of graduated requirements involving multiple steps. A lower target proportion would, however, be appropriate for the smallest sites in our view. The effects of numbers rounding means different targets often mean the same outcomes – the proportions alone can be misrepresentative in terms of actual calculations.

5.1.9 **The Councils should consider which options(s) have the potential to provide maximum certainty and which fit best with the anticipated land supply pattern.** This will be in the context of **seeking to optimise affordable housing supply** given the set of circumstances, which will need to be monitored over time. The **balance between this and the deliverability** of sites will be crucial. They will also need to be **mindful of the likely resourcing requirements related to each approach** – involved in guiding, updating, negotiations, appeals, etc.

5.1.10 In considering the setting and application of targets, the Councils will need to be aware of the added and **collective viability impact** which flows from other costs areas increasing within development appraisals, as modelled (e.g. planning obligations, scheme specification, developer's profit, and potentially others), and that these mean increasingly smaller sums left available for land purchase (RLVs).

5.1.11 The appraisal outcomes from these potential added cost factors (as well as the need to ensure affordable housing of an appropriate mix and quality, not just on a numbers basis) add weight to our views. It would not be appropriate to be inflexible or over-ambitious about affordable housing targets, adding to the thinking behind the parameters set out above. Adding costs from the base appraisal positions quickly erodes the land values that are generated as values assumptions rise and affordable housing proportions are reduced to workable scenarios. This will be about balance.

5.1.12 These findings and recommendations are based on current level wider requirements:

- Code for Sustainable Homes Level 3 attainment.
- 10% CO_2 reduction through on-site renewable energy measures.

- Current estimated/lower £5,000 per dwelling (all dwellings) wider planning obligations. This should be noted in the context of the four authorities considering potential implications of the Variable Tariff Study for Cambridgeshire Horizons.

- Lifetime Homes.

5.1.13 **As a target position, the Councils could aim for an affordable housing tenure mix of 70% affordable rent/30% intermediate** – providing the affordable housing element of a scheme is seen as a package which has a range of key elements and inputs that need to be considered together. As well as tenure mix, these include dwelling mix, sizes, specifications, grant availability, numbers rounding and the like. It is how these things come together to determine optimal provision on a specific site that will be important. Grant is likely to play a role in supporting significant proportions of affordable rented accommodation. Only on larger sites do the 60/40 tenure mix appraisals show a significant viability improvement by comparison.

5.1.14 **Delivery experiences from all positions will need to be monitored**, regardless of where they are pitched. The Councils should have **contingency plans** in place for reacting to those experiences.

Options and suggested positions by District

5.1.15 **<u>St Edmundsbury Borough Council</u>**

- Straight target of 30% applicable to schemes of 10/15+ Borough-wide (being the most market-friendly and simplest approach within these options).

- Same 30% Borough-wide generally applicable target, but increased to a target (single % point) set at up to 40% (maximum) only in respect of Greenfield site allocations (a similar approach but which aims to optimise affordable housing from sites where there will be early consultation and planning processes, and generally low existing/alternative use values). To maintain an appropriate level of challenge within the targets but respect likely viability outcomes, 35% could be appropriate as the upper level target for those situations in the St Edmundsbury context.

- Smaller schemes target of 20% (from 5 units), bearing in mind that 30% actually means 40% at this site size.

- Smaller schemes target of 30% (from 5 units), being a more challenging, less market friendly (assuming rounding up) and more ambitious - but potentially giving a simpler policy position overall.

- Subject to site supply and needs evidence, there is no viability reason for a lowered threshold for smaller settlements but not for larger – there is potential scope to have a uniform policy approach (to also lower the threshold in the settlements of 3,000+ population).

- 70/30 tenure mix target (in favour of affordable rent) but varying where needs, funding, viability or other matters require.

- In all cases subject to clear policy wording setting targets as a basis for a practical, negotiated approach.

- **Taking into account the above, for St Edmundsbury, the approach suggested is:**

  - **A target of no more than 35% for Greenfield releases – likely to be applicable in the case of strategic allocations at Bury St Edmunds and Haverhill. Subject to further review, including on viability, once more is known about site specifics and infrastructure requirements, etc.**

  - **A headline affordable housing target of 30% applicable to sites of 10 or more dwellings on a general basis, Borough-wide.**

  - **A 20% affordable housing target applicable to sites of 5 to 9 dwellings, Borough-wide (no justification for settlement type or area distinctions).**

5.1.16 **<u>Forest Heath District Council</u>**

- **Essentially as St Edmundsbury, but the Council is also looking at the very smallest sites with a possible financial contributions route in mind.**

- Straight target of 30% applicable to schemes of 10/15+ District-wide (being the most market friendly and simplest approach within those options).

- Same 30% District-wide target headline; but potentially increased in a similar way – i.e. only in respect of Greenfield site allocations (a similar approach but which aims to optimise affordable housing from sites where there will be early consultation and planning processes; and generally low existing/alternative use values).

- Smaller schemes suggested target of 20% (from 5 units), bearing in mind that 30% means 40% at this site size.

- Alternatively, smaller schemes target of 30% (from 5 units), being a more challenging, less market-friendly approach to smaller sites (assuming rounding up) and more ambitious - but potentially giving a simpler policy position overall.

- Subject to site supply and needs evidence, there is no viability reason for a lowered threshold for smaller settlements but not for larger settlements – there is potential scope to have a uniform policy approach (i.e. to also lower the threshold in the District's Towns and Key Service Centres).

- 70/30 tenure mix target (in favour of affordable rent) but varying where needs, funding, viability or other matters require.

- This Council is also considering seeking financial contributions towards meeting affordable housing needs – so far from sites of 3 or fewer dwellings. Providing the sums are carefully judged and a justified strategy is in place for the use of these, Adams Integra can support this in principle. Further detail would need to be considered, along with the points we have mentioned.

- As in all cases, thresholds are arbitrary to a degree. Providing the proportions (or equivalent proportions regarding a financial contributions route) are carefully judged, match up appropriately with threshold points being considered and respect the type principles we have discussed, then the Council has some scope to vary the exact final details of its approach. The Council has, for example, considered a threshold point of 3 dwellings for some circumstances – proposed for linking to a financial contributions rather than an on-site affordable housing route. We have supported a financial contributions route for the smallest sites in a number of locations – normally allied to an equivalent proportion of no more than 20%, and often at 10%.

- In all cases subject to clear policy wording setting targets as a basis for a practical, negotiated approach.

- **Summary for Forest Heath:**

    - **A target of no more than 35% for Greenfield releases, bearing in mind the same principles.**

    - **A headline affordable housing target of 30% applicable to sites of 10 or more dwellings on a general basis, District-wide.**

- **20% affordable housing target applicable to sites of 5 to 9 dwellings, District-wide (no justification for settlement type or area distinctions).**

- **With scope to consider exact threshold and proportion combinations carefully, based on the principles and effects discussed. Potentially this could involve an extension of the sliding scale principle to include seeking financial contribution from the smallest sites; based on a modest equivalent proportion of affordable housing as a target (certainly not more than 20%) – suggested as applicable in any event for any threshold placed below 5 dwellings.**

5.1.17 **Fenland District Council**

- Unless an area-wide (cross boundary) simple 30% target is applied, we consider that Fenland values point to an approach which respects the greater degree of viability issues likely to be seen there. We consider 30% to be suitably challenging as an area-wide target. In Fenland's case more than others, we need to emphasise this point.

- A straight, relatively ambitious target of 30% applied to sites of 10 here is an option. In viability terms our suggestion would be not to set a target beyond that level.

- Depending on the type of sites coming forward, it would be possible to edge that upwards (but in any event not to a target of more than 35%) in respect of Greenfield sites. We need to emphasise the element of challenge that we think would be involved in such a position, and probable market improvement needed to support these proportions along with other requirements.

- Another option would be a more market-friendly, lower, headline proportion applicable to these sites, in the bracket 20% to 30% (meaning a single target point (%) within that range).

- In any event, for sites of fewer than 10 or 15 dwellings (depending on where the larger sites threshold is set) we would recommend seeking a proportion of not more than 20% - and not doing so in respect of sites of fewer than say 5 (assuming on-site provision).

- In common with the other Districts, a strong preference for an affordable housing mix in favour of affordable rent, but varying where needs, funding, viability or other matters require. The Council's position is that it will endeavour to seek, and will support appropriate bids for, social housing grant funding to underpin its starting point as far as possible. We understand that it will seek to further underpin this approach, and improve the scope for bringing in grant by looking to developers/landowners to contribute free (nil cost) serviced land for the affordable homes required under S106 agreements.

- In all cases subject to clear policy wording setting targets as a basis for a practical, negotiated approach.

- **Overall, and bearing in mind the balance required between housing needs and viability, suggested positions for Fenland and discussed with the Council's officers as a result of this study are:**

  - **35% target for Greenfield sites – most likely applicable from strategic allocations.** We understand that these could be of 100 or more dwellings. Whilst in practice there are no such clear cut-offs or distinctions in viability terms, such an approach might be good to help create clarity and certainty.

  - **30% target for all other sites of 10 or more dwellings.** So, following the above, this target could be applicable to schemes of 10 to 99 dwellings.

  - **20% target for sites of 5 to 9 dwellings**.

5.1.18 **East Cambridgeshire District Council**

- During the preparation of the study, this authority was very well advanced with policy development.

- Whilst we recognise that values can be the highest seen across the study area (and that trend generally applies to the south of the District) we consider the values, generally, still to be relatively modest in terms of the range of costs and obligations to be met. We say this bearing in mind, again, the collection of requirements that determines and will increasingly affect site viability – especially with foreseeable market conditions and the value levels those could bring. Again, we think a balance is necessary. South East property values levels that are in our experience supporting District-wide policy targets of 40% affordable housing (taking an overview based on a range of market conditions) are typically higher; and often significantly so.

- The Core Strategy sets an overall target of at least 30% for the District (CS2), but at least 40% for the south of the District as explained in the Core Strategy and interim guidance. The Core Strategy explains that the minimum percentages of affordable housing in Policy H3 take account of the high level of need, expected level of funding, and viability testing. The objective remains to maximise the provision of affordable housing as far as funding and viability will allow. From the Core Strategy can be drawn the following issues for further consideration:

- Role of tenure mix.
- How developer would show site is not viable.
- Exceptional circumstances where off-site provision would be acceptable.
- Monitoring of affordable housing delivery.

- Options for this study are generally between 30% and 40% and whilst acknowledging the Core Strategy justification and approach to minimums explained in its interim guidance.

- This might perhaps be interpreted as straight 30% headline - as what might be viewed a simple, more market-friendly approach bringing clarity, and given that values patterns are variable.

- Alternatively, consideration might be given to increasing the ambition levels where values and/or site circumstances permit – in which case looking at 40% as a target and basis for negotiation in certain specified circumstances. This could mean in the south of the District (although in our view the new build values seen are more varied by location than that suggests) – or again perhaps on Greenfield allocations. Although limited new build activity was taking place at the time of our review, it appeared possible that higher values levels (relatively) might be seen away from the south of the District (Ely being an example of a settlement with an attractive offer). The converse could also apply – i.e. lower values further south.

- With respect to smaller sites, our same thoughts on reduced targets proportion and scheme sizes are applicable here too. This is an approach we consistently recommend and which has been supported through the Examination of DPDs process in a number of locations.

- Our preference for clarity and regarding viability implications would again always be to see policy wording which did not seek percentages as minimums; for clarity.

- 70/30 tenure mix target (in favour of affordable rent) but varying where needs, funding, viability or other matters require.

- Again, in all cases applied as targets – being the basis for a practical, negotiated approach.

- Given the stage reached by East Cambridgeshire, it is not appropriate to set out specific recommendations or positions within these parameters. Nevertheless, it is hoped that the study will help to inform ongoing work to secure much needed affordable housing in the District.

6 WIDER DISCUSSION

6.1.1 Where we have mentioned negotiation, that does not necessarily mean an overall reduction in affordable housing – it could mean negotiations over grant input or changes to the tenure mix to provide an element of cross-subsidy into a scheme. Cascade principles could be used – but where the Councils are involved actively in the re-shaping of affordable housing elements of schemes where necessary. Similarly, there may need to be a compromise position achievable rather than moving straight to an assumption that leaves a site contributing nothing to affordable housing needs, but that allows the affordable housing delivery on particular sites to react to changing viability and funding circumstances as more certainty is created with scheme progression. This may also interact with the consideration of other planning obligations – weighing up of the collective burden on market-led schemes and potential prioritising of planning obligations.

6.1.2 In recent months we have noted the level of discussion around how to keep planning consents alive to avoid major delays and added costs. Particularly with longer-term or phased schemes it may be appropriate for the parties to consider a framework approach to affordable housing and other planning obligations. There have been discussions about potential “overage” agreements, but implementation and control of these can be difficult. As an alternative, in some situations consideration could be given to deferring the detailed agreements on exactly what will be provided in response to the various targets, rather than settling on significantly reduced provision from an immediate detailed agreement which is fixed at a point where market conditions reduce the viability scope. It may be better to review the detailed provision (judge the scope for delivery against the various targets) at a later date much closer to the point of delivery – when the relevant viability and funding aspects will be clearer. This type of approach involves the same sort of principles as the cascade thinking, but with the possible outcomes not pre-determined.

6.1.3 If the policy targets cannot be met, then landowners and developers will need to clearly demonstrate why. The final judgement on exactly where this element of the policy proposals will settle should be, in our view, based on all the factors viewed together, i.e. alongside the viability outcomes. Included in these will be the key elements of forecasting of increased affordable housing units delivery based on the size and number of sites coming forward (site capture), local housing needs and practical thinking on the consequences of having small numbers of affordable homes distributed widely across a higher number of schemes. There may need to be some testing of any concerns over sustainability generally, including of the management arrangements.

6.1.4 The Councils could consider detail for potential use alongside affordable housing thresholds and proportions linked solely to dwelling numbers. It would be possible to align the thinking to habitable rooms or size of floor space added by a development scheme. There may be instances where it would be appropriate to commute the affordable housing provision in such a way. In our experience this type of approach can still result in (or even increase) difficulties in achieving a mix of dwelling types for affordable housing.

6.1.5 Crucially, and regardless of detail, the policy should be worded in clear terms. It should not be expressed as a minimum level of provision or be capable of interpretation in an ambiguous way. We have suggested that the Councils could potentially consider the idea of a limited range of proportions, depending on site specifics and site size. Supporting text and/or accompanying guidance/SPD or similar could amplify the selected approach. New policy proposals should be viewed in the context of raising the profile and delivery expectations of affordable housing across the wider development scene in the area, with the Councils seeking to secure improved delivery overall from current levels. This is not likely to be through significantly increased target proportions on the sites that are already within the scope of the Councils' approach. It is more likely to be through the potential to reduce affordable housing thresholds and bring more sites in to the delivery scope, whilst setting ambitious but achievable targets for the larger sites - so as not to unduly deter landowners and developers from bringing those forward and optimising the use of those sites.

6.1.6 Targets should be worded and regarded as such. The Councils could consider phrasing the requirements in terms of "seeks x% affordable housing" or "requires x% affordable housing", with wording which also goes on to acknowledge viability and cover the negotiated approach in supporting text.

6.1.7 It is important that a flexible and negotiated approach to policy application is adopted to ensure the continued supply of residential development land, notwithstanding the very high priority that will be given to addressing affordable housing need. The policy or supporting text would need to make this flexible approach clear. The aim is to provide clear and robust targets for guidance to developers and landowners in appraising and bringing forward sites.

6.1.8 As part of providing clarity of expectations and to aid the smooth working of the approach, the Councils will need to be clear about whether any new policy positions will be applied to the gross (total, irrespective of any dwellings existing prior to the scheme) number or net (i.e. deducting for any such dwellings) number of dwellings being provided by a development scheme. This aspect of detail will be more sensitive in light of the general tone of policy direction proposals to potentially include smaller schemes within affordable housing policy scope. It may be particularly relevant to clarify this in respect of replacement dwellings, conversions, etc.

6.1.9 We expect that in site-specific viability discussions, where necessary, the use of a toolkit (including, but not limited to, the HCA's "Economic Appraisal Tool", or developer's own workings) will be encouraged. Developers will be encouraged to work closely with their RSL partners, who will increasingly be using that type of appraisal work to support their decisions and approaches for social housing grant.

6.1.10 Policy should be kept under review in view of key drivers including housing needs, site, supply and viability. Our recommendations are considered to be sound for the current stage of policy development, but their impact and the delivery resulting from them will need to be monitored with a view to future direction. The Councils should also be monitoring their local markets and property prices regularly. This would inform the timing of updates of the viability picture periodically. This could be linked to changes to planning policy or work on SPD; or (better still) at regular intervals as part of a Council's maintaining knowledge of their local markets. The monitoring of property prices would help the Councils to understand the property market and how it reacts to changing financial circumstances over time. This could be carried out by reviewing information such as Land Registry House Price Index figures, RICS and CLG survey data, Home Track information, internet estate agents' websites or a mixture of such sources. We find it very useful to speak to estate agents and staff in developers' sales offices. The Councils' officers could seek to update and log their local knowledge periodically in similar ways.

6.1.11 It will also be important for the Councils to detail contingency plans in the event of failure to meet affordable housing targets (potentially through short-term worsening of housing markets).

6.1.12 The Councils will expect developers and landowners to come to the table and be prepared to explain and justify why, in any relevant cases, the affordable housing targets and/or other planning obligations requirements cannot be met given other demands on a scheme. The onus will be on developers to clearly and fully demonstrate the issues, with evidence to back up abnormal site complexities and the like.

6.1.13 It is expected that a methodology similar to one we have used will be appropriate for this process, to explore the relationship between development costs and values. Again, however, we reiterate that whilst this methodology is generally accepted, and the assumptions we have used might guide the Councils on starting/indicative parameters, there will be no substitute for site-specific appraisal work of this type. Such work would take into account appropriate specific assumptions.

6.1.14 Issues may arise on those sites which have already changed hands or are committed through option or similar arrangements, where figures may simply not work when set against the proposed policy requirements. In the same way, there will be some previous planning consents capable of implementation.

6.1.15 Similarly, a degree of difficulty with increasing planning-led affordable housing supply may be experienced during the adjustment process where there will be problems whilst developers/landowners get accustomed to the new policies and expectations are modified. The modelling in this study has been carried out on the assumption that knowledge of policies exists and that the landowner/developer information and adjustment process has been undertaken.

6.1.16 This type of negotiated approach, as advocated by Government Guidance, then needs to be brought to life through appropriate Supplementary Planning Documents and/or Development Plan Documents. Those might usefully include guidance for developers, RSLs and others on the local approach – including on any move towards guiding developer expectations on affordable housing revenue (e.g. through a "payment table", free serviced land approach or similar). Such documents and approaches should be regularly updated. The documents could be set up so that updating can be done through changing appendices only – rather than regularly reviewing wholesale.

6.1.17 This study has considered planning-led affordable housing in the context of integrated provision within market-led schemes, secured through planning obligations usually embodied in a S106 agreement. The Councils, along with their partners, should also continue to consider the wider routes to affordable housing provision. Housing Association or contractor/developer-led schemes can be successful in significantly bolstering local provision – sometimes on lower value, more difficult sites, for example as a part of removing non-conforming uses from older residential areas or recycling unviable former commercial land. There will always be a balance with retaining sufficient land for employment use, but the various supply sources of affordable housing need to be considered and encouraged. The use and role of Council or other publicly owned land might also be very valuable in this sense.

6.1.18 In tandem with planning-led policies to secure affordable housing, all other efforts to secure affordable housing should be optimised. Within those wider initiatives, Councils and other public sector organisations are in a position to consider the appropriateness of providing more than the standard policy elements of affordable housing on their own land holdings. This can be through sale contracts for development by others; or through developments they lead or enter into partnerships/joint ventures on. In our experience of dealing with land owning authorities previously, while there are implications around capital receipt levels, it is possible to invite dual or varying bids for sites or partnership proposals. For example, these could be based on standard and enhanced affordable housing content levels. In that way, the impact of the additional affordable housing can be seen and the benefits of its provision measured against budget factors and other criteria. In the current market conditions, where developer interest may well be limited or suppressed, alternative marketing routes, schemes ideas and types of partnerships may well be attractive financially and risk-wise as well.

6.1.19 The appraisals for RSL-led schemes can sometimes be aided by taking a reduced view on the return (profit) needed and through risk sharing. Housing Associations and others should be encouraged to be proactive in these areas, and supported by the Councils where possible.

End of main study text
Final report completed February 2010

Appendices follow

APPENDICES

- **Appendix I** sets out the Development Scenarios (scheme types and key assumptions).
- **Appendices II, II(a) and II(b)** show the results from appraisals carried out assuming infrastructure costs of £5,000, £10,000 and £20,000 per unit respectively with a 70% affordable rent / 30% intermediate tenure mix.
- **Appendices II(c), II(d) and II(e**) show the results from appraisals carried out assuming infrastructure costs of £5,000, £10,000 and £20,000 per unit respectively with a 60% affordable rent / 40% intermediate tenure mix.
- **Appendices II(f) and II(g)** show the results from appraisals carried out assuming the inclusion of grant (70% / 30% tenure mix and 60% / 40% tenure mix assumed in Appendix II(f) and II(g) respectively) and including all levels of infrastructure cost.
- **Appendices II(h) and II(i)** show the results from appraisals carried out assuming the increased developer's profit (70% / 30% tenure mix and 60% / 40% tenure mix assumed in Appendix II(h) and II(i) respectively) and including all levels of infrastructure cost.
- **Appendices II(j) and II(k)** show the results from appraisals carried out assuming 20% renewables requirement (70% / 30% tenure mix and 60% / 40% tenure mix assumed in Appendix II(j) and II(k) respectively) and including all levels of infrastructure cost.
- **Appendices II(l) and II(m)** show the results from appraisals carried out assuming a requirement for Level 4 of the Code for Sustainable Homes (70% / 30% tenure mix and 60% / 40% tenure mix assumed in Appendix II(l) and II(m) respectively) and including all levels of infrastructure cost.
- **Appendices II(n) and II(o)** show the results from appraisals carried out assuming a requirement for Level 6 of the Code for Sustainable Homes (70% / 30% tenure mix and 60% / 40% tenure mix assumed in Appendix II(n)and II(o) respectively) and including all levels of infrastructure cost.
- **Appendix III** contains a summary of our property values and market research.
- **Appendix IV** contains Hometrack data supplied by Cambridgeshire Horizons.
- **Appendix V** contains a Glossary of technical terms used throughout this study.