LEVVEL

INNOVATION IN HOUSING & PLANNING

Affordable Housing Viability Study

For

Bromsgrove District Council

By

Levvel Ltd

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www.levvel.co.uk

Executive Summary

Contents

1.0 Introduction

1.1 Levvel Ltd has been appointed to complete an Affordable Housing Viability Study on behalf of Bromsgrove District Council.

1.2 Bromsgrove District Council is currently preparing a Core Strategy and consultation on the draft version of this document commenced in January. This document will enhance the strategic framework to be set out in the adopted Core Strategy.

1.3 Bromsgrove District Council invited qualified companies to submit tenders in November 2010. Key extracts from the invitation to tender and tender brief are included at Appendix 1. This study will form part of the evidence base for the affordable housing planning policy covering the Authority area. In this regard, Levvel has approached the project in accordance with the requirements originally set out in PPS12[1] as well as the more detailed requirements set out in the Harman Review.

1.4 In summary the aim of this study is to:

- Recommend maximum viable, deliverable affordable housing targets for a range of residential development types and sizes in a variety of locations;
- Set out a range of thresholds, percentage requirements and tenure splits that would be appropriate for sustaining local communities within the District;
- Model financial viability and undertake sensitivity testing on aspects such as varying grant rates;

1.5 Thus, it is to ensure that the Council's policy approach to affordable housing is deliverable in the context of economic viability and thus in accordance with the requirement, set out in the National Planning Policy Framework, that Local Planning Authorities should plan to meet all their identified needs.

1.6 Given the scope of the tender brief and the variations across the District in respect of land values and property values, it has been essential to develop a methodology that measures viability on a consistent basis, but that is flexible enough to allow for these variables.

1.7 Furthermore, it is also essential to ensure that our methodology includes an element of "future proofing" to give the Council the confidence that the policy can be applied now and in years to come.

1.8 The study has been carried out against a backdrop of generally unfavourable and uncertain conditions in the housing market. In a rising land and property market where values are increasing and where costs do not rise to the same extent, it can be assumed that if a development scheme is appraised and a viable position achieved, then viability will be achieved in the future, (all other variables remaining

[1] Planning Policy Statement 12: creating strong safe and prosperous communities through Local Spatial Planning, Communities and Local Government 2008

the same). Recently, the property market has not behaved in this manner and therefore the future is uncertain. Given this uncertainty in the market, it has been necessary to provide a "future proofed" methodology that makes a range of predictions about where the housing market may go in the future, ranging from pessimistic to optimistic scenarios, but based on past market trends. With this range set, the results of the development appraisals can be properly contextualised and Bromsgrove District Council can set their policy accordingly.

1.9 This paper sets out the policy background of the study to place it in its proper context. A commentary on the past and present national, regional and local housing market experience and wider economic factors is given to inform the future proofing scenarios. Our methodology and assumptions are then explained, and a description of the nature and extent of local stakeholder engagement is undertaken. This is followed by an analysis of the results. A policy compliant commuted sum methodology and the principles behind it are then set out. Finally, conclusions and recommendations for policy are outlined.

2.0 Wider Context of the Study

2.1 Key national, regional and local policy information is contained in this section. Appendix 2 contains greater detail on policy and housing need information relevant to Bromsgrove and this study.

National Policy and Guidance

2.2 Affordable housing policy is set out at national level in the newly published National Planning Policy Framework, which replaces a large amount of previous guidance, including Planning Policy Statement 3 (Housing) and Planning Policy Statement 12 (Local Development Frameworks). The NPPF is a document whose aim is explicitly pro-growth and it creates a presumption in favour of Sustainable Development.

2.3 Much therefore hangs on the definition of "Sustainable" in this context and how it will, in practice, be interpreted. Clearly, the meaning will include plan compliance but the NPPF is much more emphatic than previous national Planning Policy Statements, that plans should plan to meet all the needs identified locally. Paragraph 17, for example, which sets out the core planning principles of the new system, stresses that, "Every effort should be made objectively to identify and meet the housing, business and other development needs of an area and respond positively to wider opportunities for growth." More explicitly still, Section 6 on housing, begins with the words "To boost significantly the supply of housing, local planning authorities should: use their evidence base to ensure that their local plan meets the full, objectively assessed needs for market and affordable housing in the housing market area as far as is consistent with the policies set out in this framework, including identifying key sites which are critical to the delivery of the housing strategy over the plan period."

2.4 The implications are clear, in order to be considered, sustainable, proposed development should comply with local policy but, in order to be considered a sustainable policy, Local Plans should strive to meet all objectively assessed needs.

2.5 There is a further complication here. Since the primary mechanism for the delivery of new affordable housing is through the use of planning obligations levied on the supply of market housing, it may not always be possible to meet the full need for affordable housing out of the overall need for housing of all tenures. In some cases, this may be a mathematical problem – the identified need for affordable housing may exceed the identified need for housing of all types – but in far more cases, the problem is one of economics. This would be the case where the gross need for new affordable housing exceeds the capacity of private housing development to fund it.

2.6 In such cases, the position of the NPPF is not entirely explicit. However, it would be absurd to suppose that the Government's intention was that local planning authorities should prepare plans which are economically unfeasible. And, indeed, the Framework is clear on this point. Paragraph 173 states unequivocally that, "Plans should be deliverable." It goes on, "To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable."

2.7 Local Planning Authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should asses the likely cumulative impacts on development in their area of all existing and proposed local standards, Supplementary Planning Documents and policies that support the Development Plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk and should facilitate development throughout the economic cycle. Evidence supporting the assessment should be proportionate, using only appropriate available evidence."

2.8 The role of this study is therefore to identify what is the maximum proportion of the local authority's identified need for affordable housing that could be met from forthcoming residential developments without contravening the principle that the scale of such burdens should not put the deliverability of the development plan at risk.

Regional Policy

The West Midland Regional Spatial Strategy

2.9 On 6th July 2010, the revocation of the Regional Spatial Strategies was announced with immediate effect further to s79(6) of the Local Democracy, Economic Development and Construction Act 2009.

2.10 The 6th July revocation was then the subject of a challenge in the Cala Homes (South) Ltd case (2010 EQHC 2866). In November 2010, the High Court ruled that the coalition Government had acted unlawfully in unilaterally revoking the system of regional spatial strategies. Mr. Justice Sales supported two grounds of challenge advanced by house builder Cala Homes, including one that contended that the environmental effects of removing regional spatial strategies should be considered, in line with European law. The effect of the ruling is twofold:

- The 6th July revocation decision has been quashed and as a consequence, the Regional Spatial Strategy as it stood on 5th July 2010 forms an ongoing part of the development plan;

- However, the Government's commitment to revoke Regional Spatial Strategies as announced on 27th May 2010 remained, was consolidated into Section 89 (3) of the Localism Bill and passed into law as the Local ism Act on 15th November 2011.

2.11 Despite the various actions brought by Cala homes, it is clear that a declining weight may be ascribed to Regional Policy and that only abstruse technical hurdles separate them from their final, formal abolition. However, the West Midlands Regional Spatial Strategy did rest upon a body of research and evidence which does not suddenly cease to reflect reality simply because the document in which they were enshrined ceases to exist. It may therefore continue to be appropriate to have some degree of regard to the Strategy until it is finally replaced by adopted Local Plans in all the Local Planning Authorities whose area it covered. The West Midlands Regional Spatial Strategy (WMRSS) was published in June 2004. The Secretary of State supported the principles of the strategy but suggested that several issues needed to be developed further. The revision process was planned in three phases.

2.12 Phase One of which has been completed and sets out a long terms strategy for the Black Country Area.

2.13 Phase Two is still in progress. It has focussed on housing development, employment land, town centres, transport and waste together with overarching policies relating to climate change and sustainable development. In March 2010, following detailed consideration of the WMRSS process to date the CLG had decided that further work was required before the Secretary of State could publish proposed changes. Proposed Changes were originally intended for publication by July 2010. To date they have not been released and it is unclear who would have the responsibility to release them during this transitional period before the Decentralisation and Localism Bill is approved.

2.14 The WMRSS Phase Two Revision was formally submitted to the SoS on 21st December 2007. Consultation on the revised draft closed on 8th December 2008. The Examination in Public opened in April 2009 and closed on the 24 June 2009. The EiP Panel Report was prepared in September 2009. Proposed Changes are still awaited. Policy CF3 identifies the net dwelling provision and proposes average annual net additions to the dwelling stock of 19,895 between 2006 and 2026 for the West Midlands Region. Within that the allocation for Bromsgrove is 4,000 (200 pa). The following table outlines the net dwelling provision for Worcestershire including Bromsgrove in particular and then provides the total for the West Midlands Region.

2.15 The Panel Report Policy CF7 Delivering Affordable Housing identifies that the regional affordable housing target is that across the region as a whole 35% of the net housing increase should be affordable, equivalent to an average provision of 7,000 net additional affordable housing units per annum over 20 years.

2.16 Bromsgrove falls within the South HMA region. Policy CF7 also identifies that LPA's should set an overall minimum target for their area, in light of local and sub regional assessments and subject to economic viability assessment. Only exceptionally will the proportion be either below 25% or above 40% of the total additional housing provision.

Local Policy

Bromsgrove District Local Plan 2004

2.17 The Bromsgrove District Local Plan was adopted on 13th January 2004 following two public inquiries. This is the current adopted development plan for Bromsgrove District. The Local Plan, as part of the Planning and Compulsory Purchase Act 2004 was saved in its entirety until 27th September 2007. Following the issue of a direction from the Secretary of State dated 7th September 2007, most policies have been saved, and remain in operation beyond September 2007 until they are replaced by policies in the new Development Plan Documents. Policy S15 'Affordable Housing in Urban Areas' and Policy S16 'Affordable Housing in the Green Belt' have both been saved. These policies set a basic framework for the delivery of affordable housing in the District. In addition to these two policies there is also a Draft Affordable Housing Supplementary Planning Document which provides a greater level of detail.

Draft Affordable Housing Supplementary Planning Document November 2009

2.18 The draft version of the SPD was consulted upon between November 2009 and January 2010. It was hoped the SPD would be finalised in the spring of 2010 but this has been delayed due to the uncertainty surrounding the Phase Two revisions to the RSS. The SPD was prepared to build upon Bromsgrove District Local Plan Policies SP15 'Affordable Housing in Urban Areas' and SP16 'Affordable Housing in the Greenbelt, providing a much greater level of detail. The SPD will also be linked to the emerging Core Strategy until the Core Strategy reaches the adoption stage and superseded Policies S15 and S16 of the Local Plan.

2.19 Policy AH1 requires all schemes that propose a net increase in housing units to contribute towards affordable housing provision in the district. Its sets a minimum target of 40% to be achieved on sites delivering a net increase of 5 or more dwellings or all sites equal to 0.2hectares. In exceptional circumstances where an applicant can fully demonstrate that 40% cannot be achieved the District Council may negotiate a different provision. On schemes that fall below the threshold of 5 units or 0.2 hectares a financial contribution will be required in line with Policy AH2.

Bromsgrove District Council – Draft Core Strategy 2 - January 2011

2.20 The Council is formally consulting on the Draft Core Strategy 2 document which will run from 21st January to 15th April 2011. This second draft Core Strategy differs from the first by taking on board emerging evidence and responding to consultation.

2.21 Policies CP4A) and B) contain a general requirement that all these housing sites will provide:

a. residential development to reflect local need and should therefore contain a high proportion of 2 and 3 bedroom properties;

b. Developments should contain 40% affordable housing (of which 1/3 is intermediate housing and 2/3 social rented housing);

c. Housing should be designed to be suitable for the elderly and should for example be constructed to Lifetime Home Standards.

d. Policy CP7 Affordable Housing will require all schemes that propose a net increase in housing units to contribute towards affordable housing provision in the district. Where there is a net increase of 5 or more dwellings or the site is equal or greater than 0.2 hectares a 40% affordable housing provision will be expected on site. Below this threshold a financial contribution will be negotiated with the applicant. In exceptional circumstances where an applicant can fully demonstrate that 40% cannot be achieved the Council may negotiate a lower provision.

e. The Council will seek a tenure breakdown of 2/3 social rented and 1/3 intermediate provision;

f. The affordable elements of a development should also consist of 1/3 two be properties suitable for the elderly, 1/3 two bed general needs properties and 1/3 three bedroom properties;

g. Exceptionally affordable housing will be allowed on the edge of settlements in the Green belt where a proven local need has been established through a comprehensive and recent and where the site meets relevant planning criteria;

h. To ensure that the housing meets locally driven need in the first instance a local lettings criteria will be applied to all schemes where affordable housing is delivered; and

i. Further guidance on Affordable Housing will also be provided in SPD.

3.0 The Wider Economic Picture – Informing the Scenarios

3.1 For our analysis of viability to be dynamic it is important to understand past trends in order to assess how the housing market may perform in the future. While recent history shows specific characteristics which may be peculiar to the period in question, there are still fundamental principles that suggest medium and long term cyclical trends. This will not inform a single assessment of how the market will perform but will give us the main parameters within which we can test possible scenarios.

3.2 Included at Appendix 3 is a consideration of the housing market over the past 25 years, including the wider economic context. This Appendix also outlines the evidence which has informed our dynamic assessment of the three potential future market scenarios against which all viability assessments have been undertaken.

3.3 Our analysis would suggest that there is a strong causal link between affordability and housing market prices. Other market conditions and particularly the cost and availability of finance are also an important factor in driving house price inflation. This range of factors has affected the housing market and the affordability of housing. These have included macro-economic influences and the worldwide recession. However, this analysis is useful in setting the context for our housing market scenarios. It is important to realise that we are assuming a structurally recurring cycle, intrinsic to the UK housing market. Responses to this structural cycle were aimed at controlling it. However, our housing market scenarios are founded on the basis that the patterns of the past will likely be repeated in the future. Our various scenarios attempt to ensure we cover all possible magnitudes of this cycle.

4.0 Methodology and Assumptions

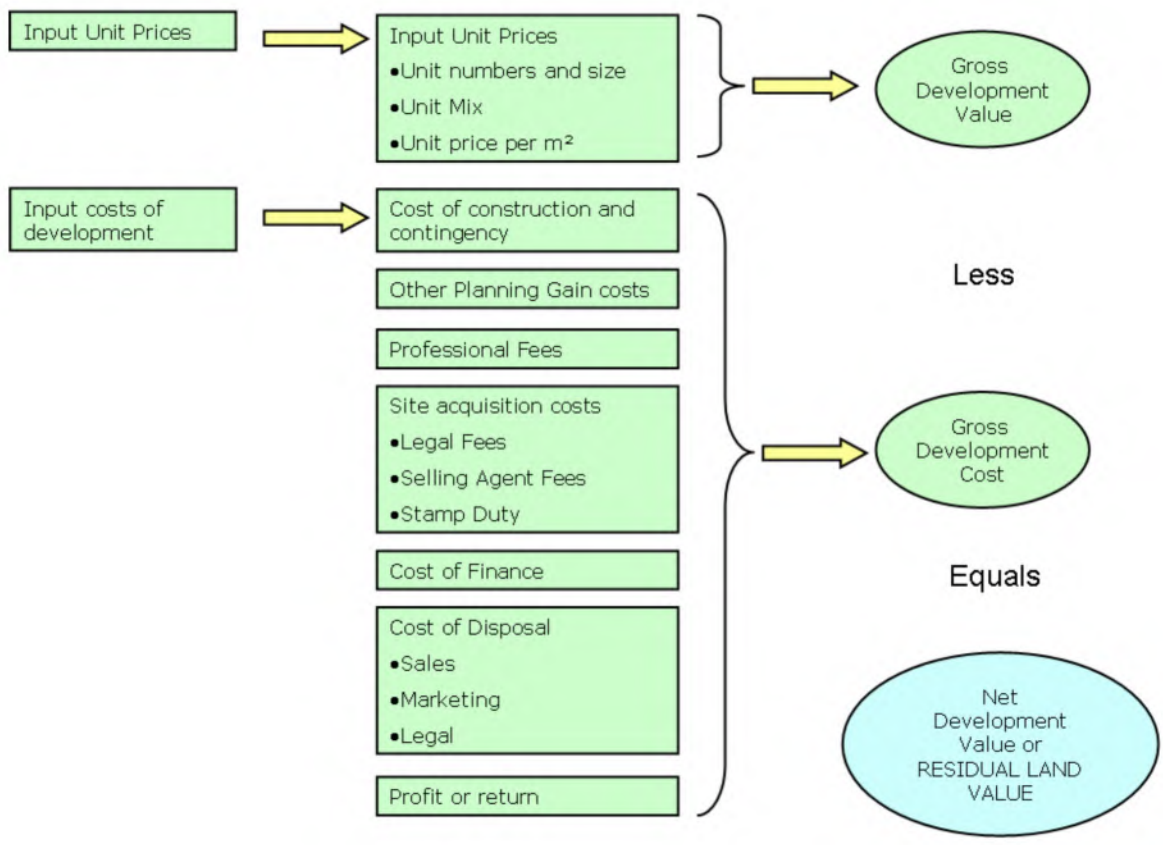
Levvel Development Viability Model

4.1 Residual land value assessment is a recognised practice within the development industry for evaluating costs and incomes associated with the development. In essence, such appraisals consider the income from a development in terms of sales or rental returns and compare this with the costs associated with developing that scheme. The amount left over, or residual, is what is left for land acquisition, i.e. the residual land value.

4.2 The residual amount contained within the appraisal is assessed using the formula:

Gross Development Value LESS Gross Development Cost = Residual Land Value.

This is represented by the following figure:



4.3 'Delivering Affordable Housing[2]' supports the use of a viability tool such as that advocated by the Greater London Authority (GLA), or that used by the Homes and Communities Agency for the assessment of whether schemes should be supported by public funding such as Social Housing Grant. This tool is a residual land value assessment model as described above, which suggests that a site will only come forward with an affordable housing contribution where the resulting overall residual site value exceeds the existing or alternative use of that site.

4.4 Levvel has developed a dynamic model to determine the residual land value that has been used in negotiation with over 200 local authorities and used at appeal on numerous occasions. From this, a toolkit to assess viability on a district wide level has been developed, this is known as the Levvel Development Viability Model (DVM).

4.5 Robust assumptions are then required to be inputted into this model. Costs to development such as build costs, planning gain requirements, profit and development finance are arrived at through our experience and through consultation with the development industry and Council Officers. Sensitivity testing of variables such as affordable housing percentage, tenure requirements, increased/decreased levels of planning obligations and the availability of public subsidy will ensure the validity of the study outputs and demonstrate the impact upon viability across the range of study scenarios.

4.6 For a policy to be robust and reliable throughout the plan period, we believe it is necessary to assess with a methodology that is "future proofed" as far as possible. As viability is reliant on the interaction between changing costs and revenues of housing over time, it follows that this relationship must be accounted for by future proof testing. It is simply not good enough to assess current costs against a range of property values as this provides only a "snapshot" view. The relationship between values and costs over time is not taken into account.

4.7 Levvel has therefore addressed this issue by applying inflation rates for cost inputs throughout the study period. For values, it is difficult to predict where the housing market may be in even 1 year's time, so long range predictions based on popular commentary are of little use. However, we have assessed value changes based on the historic performance of the housing market as described previously. This gives us a view of where values may be in the future if the past housing market cycle was typical. However, this does not give us the necessary comfort or margin for error should the cycle vary. We have therefore reasoned that by choosing scenarios, based on an upside, middle and downside view of the housing market, we will have covered the range of positions to which the housing market may go. A detailed analysis of these scenarios is included at Appendix 3, to this document.

4.8 By then reporting on the viability of schemes where they are delivered at different points within this range, we have come to a view of how this will affect the deliverability and effectiveness of proposed policy. For instance, should the housing market perform below past trends for the next five years before picking up again, we can assess whether the proposed policy might adversely affect the viability of schemes and therefore their delivery. Similar principles apply to a more optimistic view of where values may end up.

[2] Delivering Affordable Housing, Communities and Local Government 2006

4.9 Levvel's methodology enables the effect of a range of delivery timescales to be examined, thus all development scenarios selected are tested assuming development start dates of the date of modelling, date of modelling plus 1 year, plus 2 years, plus 3 years, and so on until 2027.

4.10 The use of the Levvel methodology allows for variations in land value over time to be accounted for, again ensuring 'future proofing' of the viability study. Any affordable housing policy seeks to capture an element of the land value for the community benefit. We know that there is a minimum land value which schemes need to achieve in order to be brought forward, otherwise it becomes more economic for the site to continue in its existing (or alternative) use.

4.11 Given the range of existing land uses of housing sites within the Authority it is not sufficient, in our opinion, to assess the existing or alternative use value of a site against one indicator but rather to test a range of likely existing or alternative use values. To inform the land values that will be used as our first assessment of viability Levvel has:

- had regard to Valuation Office Agency Data regarding land values;
- sought feedback from stakeholders through the stakeholder engagement process (see Appendix 4);
- engaged Thornes Chartered Surveyors and Estate Agents to provide information and professional judgement on land values and recent land transactions undertaken in the District (see Appendix 5).

4.12 The Valuation Office Agency (VOA) provides data on agricultural land and property values. It is unrealistic however to assume that Greenfield development land would be traded for residential use at these rates. For example the average value of unequipped arable land with vacant possession in the West Midlands as at January 2010 was £15,438 per ha. Stakeholder engagement (see Appendix 4) has confirmed this view.

4.13 Thornes Chartered Surveyors have provided a range of land values which based on examination of transactions and their own professional judgement, are relevant to Bromsgrove. The results of their investigation have informed, along with stakeholder consultations, the range of values used as EUV 1, EUV 2, EUV 3 and EUV 4. These are as follows:

- EUV 1 - £250,000 per hectare;
- EUV 2 - £400,000 per hectare;
- EUV 3 - £800,000 per hectare;
- EUV 4 - £1,750,000 per hectare.

4.14 Therefore we have taken a wide range of land values as we recognise the wide range of alternative and existing uses within the Authority.

4.15 All of these values will be linked to the future growth assessments as outlined in Appendix 3 to this report to reflect the relationship between land and property values and ensure effective 'future proofing' of the assessment.

4.16 Whilst we will use these values outlined above as one test of viability, we recognise that VOA data can be as much as six months out of date and not available at a sufficiently local level to enable local variations in land values to be assessed. Furthermore, the imposition of affordable housing planning policy will necessarily reduce land values in certain schemes. We have therefore developed a methodology that assesses how much landowners have been willing to accept for their land in the past, and expressed it in terms of the ratio between Gross Development Value and Residual Land Value (GDV:RLV). That is to say how much of the revenue from a scheme can be used to pay for the land. This allows for variations due to locality to be accounted for. It is our belief that this more readily accounts for local variations in land values and represents a more robust and credible evidence base. The relationship between Gross Development Value and Residual Land Value will thus be used as our second test of viability.

4.17 The ratio between RLV and GDV has thus been assessed and advice sought from Thornes Chartered Surveyors. The effect can be seen that in a rising and somewhat overheated market, landowner expectations rise and the price that developers are willing to pay also increases (often based on future expectations of property values). However, in a falling and "normal" market landowner expectations may fall to more "reasonable" levels. Supply of land may also be a factor that impacts upon land values. Thus the relationship between GDV and RLV as a check provides a further degree of future proofing as if housing market values increase, the land value will also increase. Conversely, if values fall, then land value can also be expected to fall.

4.18 On all sites (with the exception of strategic sites), we have, based on assessments of the ratio of RLV to GDV and information from our valuer, taken a figure of 18% of Gross Development Value with a tolerance of 3% (thus 15% to 21%) as a test for the level at which the Residual Land Value may need to reach in order to incentivise the landowner sufficiently to bring forward his or her parcel of land.

4.19 Using these two tests of viability simultaneously (benchmark land values and the RLV:GDV ratio), it is possible to inform a policy position that has flexibility and is relevant throughout the life of the plan to ensure deliverability.

4.20 In respect of strategic sites testing against EUV 1 has been undertaken without recourse to the RLV:GDV test This is on the basis that the assembly cost of land on these sites is not known and neither are a number of other important issues . Since we cannot, at this stage, be remotely definitive about the cost of S106 contributions, the value of any CIL payment, the level of necessary infrastructure or the cost of servicing, we have, instead, sought to roll all these cost up into a single figure of £10,000 per unit and to investigate the Residual Land Value that results.

Site Identification Methodology

4.21 Using the Strategic Housing Land Availability Assessment (SHLAA) 2010 as a basis, and in conjunction with the District, a range of notional development sites likely to represent development over the life of the Core Strategy (in respect of site size, density and unit numbers) were identified.

4.22 Stakeholder consultation was also undertaken on the initial range of site typologies and densities and the feedback from stakeholders informed the selection of the notional sites.

4.23 Outlined below are the final notional sites identified. A detailed breakdown of unit composition for each notional development site can be found in Appendix 6.

	Net density (dwellings per hectare)		
5 units	30	40	50
10 units	30	40	50
25 units	30	40	50
50 units	30	40	50
100 units	30	40	50

Table 1: Notional sites and net densities tested

4.24 In order to address the characteristics and ability to provide affordable housing on sites below 5 units, we have also carried out assessment of the very different economics of single unit schemes. We will assess this information is a somewhat different manner and suggest policy options in respect of such schemes.

4.25 Conversely, we have carried out indicative baseline appraisals of larger schemes on the strategic scale of those identified in the SHLAA and draft Core Strategy. Whilst it is impossible to model the detailed circumstances of such large and complex schemes at this early stage when somewhat limited information is available, we have carried out preliminary work in order to investigate the overall scope for the Council to seek affordable housing, infrastructure and other forms of planning gain.

4.26 In order to reflect the relationship between gross and net site density the following ratios have been assumed. These reflect the assumptions made in the SHLAA 2010.

Site gross to net ratio	
Less than 0.4 ha	100%
0.4 - 2 ha	85%
> 2 ha	65%

Table 2: Site gross to net ratio

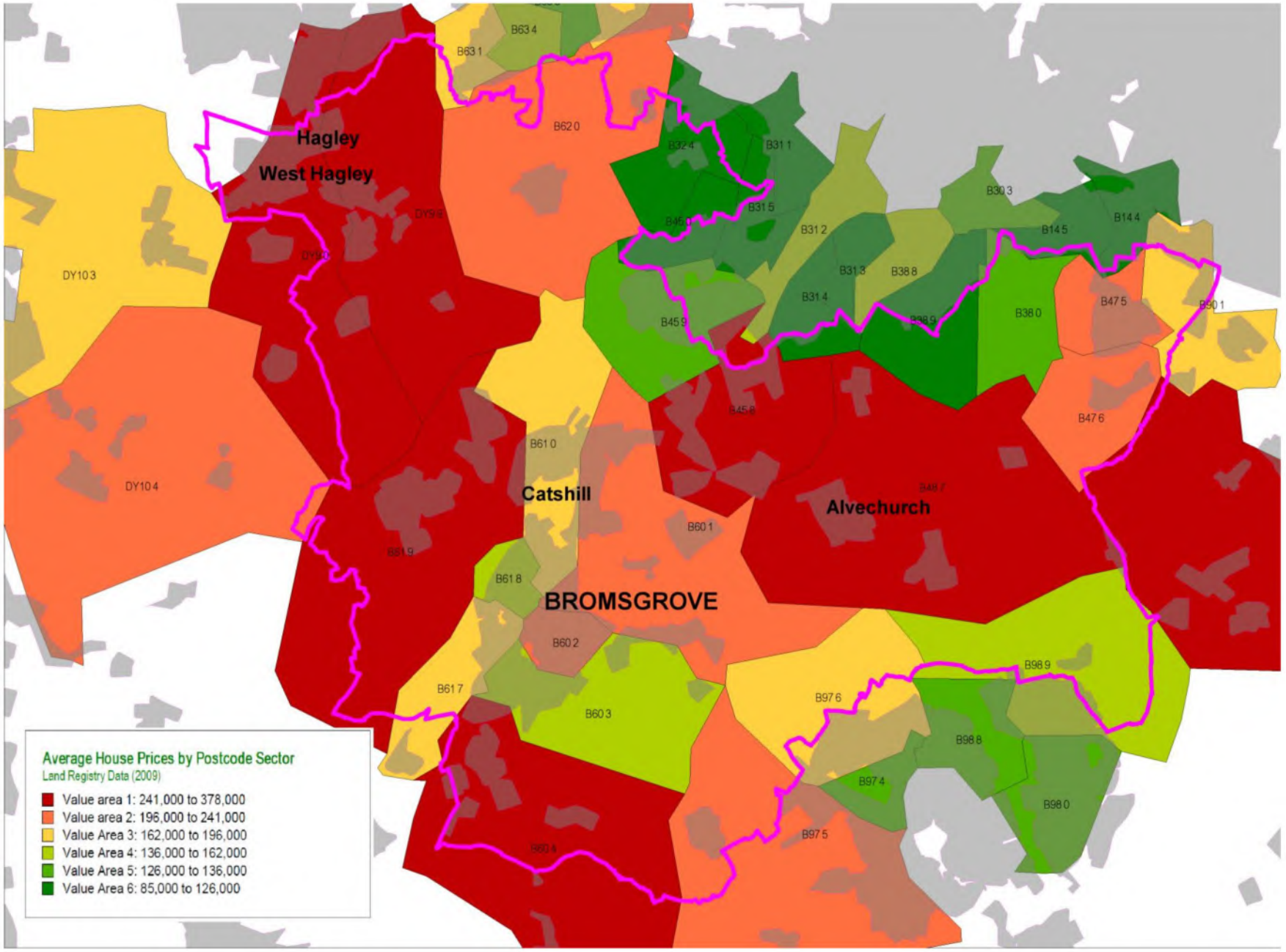
4.27 For the assessment of the Strategic scale sites, we have used the ratio between gross and net site area found in the Strategic Housing Land Availability Assessment.

Value Areas

4.28 The value of properties varies considerably within the District boundary. For the purposes of this study, we have sought to group this variation into a range of 'Value Areas', that is locations where property values are likely to be lower or higher than the average for the District as a whole. This view has been confirmed

through stakeholder engagement. Detailed research on achieved sales values across the District has been undertaken using Land Registry data at a Postcode Sector level (e.g. B60 1) for each type of property (detached, semi detached, terraced and flats and maisonettes). In depth analysis of other information sources regarding asking prices and achieved sales values in Bromsgrove such as property websites including Rightmove and Find a Property has also been undertaken. This analysis resulted in the formation of sales values on a per square metre basis for detached, semi detached, terraces and flats and maisonettes for six different Value Areas across the Authority. Appendix 7 to this report outlines in detail the Value Area methodology and the sales values for each property type and each Value Area that have been used within this study.

4.29 The map below shows the postcode sectors on a map of the district along with the settlement areas in order to assist with the identification of areas. However, it is important to note that postcode boundaries are, for the present purposes, entirely arbitrary and that values may vary considerably within as well as between sectors. With this in mind, and in view of the fact that there are nearly 20 sectors, the sectors have then been grouped into 6 value bands which have been chosen in order to ensure that there are roughly the same number of sectors in each. This has two advantages. First, it keeps the number of value bands to a manageable number. Second, it ensures that there is a sufficient number of transactions in each value band to be able to draw meaningful averages from a year's worth of transaction data.


Hagley
West Hagley
Catshill
Alvechurch
BROMSGROVE
B634
B631
B620
B324
B311
B303
B315
B312
B144
B145
B313
B388
B314
B459
B380
B475
B901
B476
B610
B601
B618
B602
B617
B603
B976
B989
B988
B974
B980
B975
DY103
DY104
Average House Prices by Postcode Sector
Land Registry Data (2009)
Value area 1: 241,000 to 378,000
Value area 2: 196,000 to 241,000
Value Area 3: 162,000 to 196,000
Value Area 4: 136,000 to 162,000
Value Area 5: 126,000 to 136,000
Value Area 6: 85,000 to 126,000

4.30 We are confident that the range of sales values used for the purposes of this assessment cover the range of sales values that will generally be achieved from new build development in the District. There may however be certain, high profile luxury developments where sales values may be in excess of those tested within the study and therefore any approach to considerations of viability in respect of schemes such as this should be carefully considered.

4.31 We also recognise that values may vary as much within Value Areas as between them. Within any Value Area there is likely to be pockets where sales values may be higher or lower that the average values assessed for the purposes of this study. The Council may therefore find it appropriate and beneficial to look more closely at the range of sales values used rather than focus specifically upon the boundaries of the postcode sectors from which the data for a particular Value Area is drawn.

4.32 All notional sites have been assessed in each Value Area outlined in this section unless explicitly stated within the results section.

4.33 Data for specialist housing products such as Category II sheltered housing is far scarcer. In some circumstances, such accommodation can command a considerable premium but the scale of that premium is difficult to quantify. We have based our appraisals on the asking prices of units currently available for sale on new developments in the District but we would welcome the assistance of the Council and its stakeholders in making such data more robust.

Study Variables

4.34 We sought to test the viability of including 15%, 30%, 40% and 50% affordable housing on notional sites in all value areas and at all scales of development with two notable exceptions. In the case of the 5 unit developments it is, of course misleading to refer to 15% affordable housing since we would then be assessing part units. On the 5 unit sites we have therefore tested only 20% and 40% affordable housing. Also, in the lower Value Areas of the District, the highest percentages were not viable under any circumstances. If we had assessed a scheme as having no potential to be viable with 40% affordable housing, we did not seek to demonstrate that it would not be viable with 50% affordable housing.

4.35 Following consultation with the Authority, a baseline tenure mix of 66:33 social rented:intermediate has been assessed, with the intermediate units comprising shared ownership housing – on the basis that this might reflect a typical mix on schemes that have historically come forward. However, we recognise that housing policy is currently undergoing radical change with the introduction of affordable rent – a tenure whose primary purpose is to provide Registered Providers (or landlords) with an increased revenue stream which they can use in order to support the delivery of affordable housing. For this reason, we have tested three other potential combinations.

a. A mix of 75% social rent and 25% shared ownership

b. 50% shared ownership and 50% affordable rent

c. 100% affordable rent

Section 106 Contributions

4.36 Bromsgrove District Council does not have an established policy seeking a fixed level of S106 contributions towards various different benefits. Nor, because of the recent moratorium is there a great deal of data from which to draw conclusions about the historic level. We have therefore had to use a range of assumed figures – a baseline of £5,000 per unit and sensitivity testing at £10,000 and £15,000 per unit.

4.37 Because of the introduction of CIL, either as originally conceived or in a modified form as a tariff, consideration was given to the possibility of testing the S106 contributions only against the market units rather than applying it to all units. Although this approach would accord with the CIL regulations, it does make the results of an exercise of this type significantly less clear because two variables are put in play as the affordable housing percentage is adjusted

4.38 Were we to apply a £15,000 per market unit CIL contribution to a scheme of 20 units then raising the percentage of affordable from 30% to 40% would increase the burden from that source whilst simultaneously reducing the CIL contribution by £30,000.

4.39 At a time when the Council does not know what level of CIL it might seek to levy – this would seem to confuse the results unnecessarily – whereas deducing the level of CIL per market unit from the proportion of the units which are affordable and the level of S106 payment for all units is comparatively simple. For example, if the S106 contribution were £10,000 per unit on a scheme of 30% affordable housing then the CIL contribution would be £14,300 (10/7 times £10,000).

4.40 In all cases it is assumed that Section 106 costs are payable at initial occupation.

Lifetime Homes Requirements

4.41 A dedicated website providing information on Lifetime Homes standards and costs has been created by Habinteg Housing Association (lifetimehomes.org.uk), which reports that the costs of meeting Lifetime Homes standards is estimated to be up to £545 per dwelling, subject to the size, layout and specification of the property. For the purposes of our study we have assumed that Lifetime Homes costs will be at approximately this level and we have included a figure of £600 per unit in our modelling. It should be noted that a cost significantly in excess of £600 per unit may impact on the overall viability of a scheme and its ability to deliver affordable housing.

Specific Costs of Development – Model Inputs

Build Costs

4.42 Base build costs have been assessed with reference to the Build Cost Information Service at the levels set out below which are adjusted to reflect the Bromsgrove indices. These are per metre square costs for gross internal floor area.

	Bromsgrove
BCIS Location Index	96
Type	
Estate Housing	758.00
Estate Housing Detached	780.00
Estate Housing Semi-detached	766.00
Estate Housing Terraced	782.00
Flats (apartments)	933.00
Housing Mixed Developments	787.00
Sheltered Housing	928.00
One off housing (less than 3 dwellings)	1,313.00

4.43 It is immediately striking that the build cost of small sites (lacking in the economics of scale available to larger sites) are almost twice those associated with build costs. It is for this reason that national policy has historically been cautious about imposing affordable housing obligations on sites below a certain threshold.

4.44 In reality, the high build costs associated with smaller schemes would fall away gradually, as the scheme increased in size but the fact that BCIS captures data only for schemes of 1-3 units and more than 3 units makes it difficult to say at what rate. We will address this point elsewhere.

4.45 In respect of general needs flats a gross to net ratio of 85% to account for communal and circulatory space has been applied. This has been increased to 70% in respect of category II sheltered flats.

4.46 Build costs have then been uplifted by 15% to account for external works.

4.47 To these figures a further uplift was applied to account for the relevant Code for Sustainable Homes Standards in the relevant year of implementation. The source used to provide information on the relevant cost uplifts to be used was "Code for Sustainable Homes: A Cost Review March 2010".[3] Page 12 of this report provides a table of extra over costs that are likely to be incurred to achieve the different Code for Sustainable Homes Levels and range dependent upon unit type. An average percentage increase (based upon an average of the extra over costs shown in this table) has been assessed for each different Code Level (3, 4, and 6) and we have applied this percentage increase to all units in each notional development in the year that this Code Level is planned to become a mandatory requirement. We have noted and taken account of, the different timetables of introduction of the Code for Sustainable Homes in respect of market and affordable dwellings.

4.48 Finally build cost contingency of 5% of total build costs was added.

[3] March 2010 Communities and Local Government Publications

4.49 To reflect the Authorities sustainability aspirations, that is to provide on site provision of decentralised and renewable sources of energy on some developments, we have undertaken sensitivity testing of an additional sum per unit in the build cost calculations of £1,200 on all notional sites. Whilst we recognise the cost per unit of achieving such requirements is likely to differ on a site by site basis we feel it prudent to sensitivity test the impact of allowing some additional development cost in respect of this.

4.50 Baseline testing has been undertaken assuming a £0 (nil) contribution in respect of this potential requirement. The results figures clearly set out the sustainability assumptions used in the title section.

Other costs of development

- Charged Interest Rate - 6.50%

  This is the long term cost of development finance. Whilst the Bank of England Base Rate is currently at 0.5%, developers are not able to access finance at this level. Therefore a 6.5% figure has been used.

- Earned Interest Rate – 0.5%

  Again, a long term view of the earned interest rate has been taken.

- We have used a range of assumptions about professional fees – 12% for sites of 1 - 10 units, 10% for sites 11 – 100 units and 8% for strategic scale sites

- Site Investigation - £10,000 per hectare

- Agents Acquisition Fees – 1.0% of Residual Land Value

- Site Acquisition Legal Fees – 0.75% of Residual Land Value

- Marketing and Sales Fees – 3.0% of Gross Development Value

- Legal Fees on sales - £500 per unit

- Finance Arrangement Fee – 1.0% of build cost

- Planning Fees – as Communities and Local Government defined rates as set out at www.communities.gov.uk

- Developer Profit – 20% of Gross Development Value

  In line with other appraisals of this nature we have taken a long term assumption as to the necessary profit to encourage development. We have however, also assessed developer profit at 18% and 25% of Gross Development Value. The results section clearly shows the level of profit that has been assumed for each assessment.

  For affordable housing, developer profit is 6% of construction costs to reflect the contractor's return.

- Stamp Duty Land Tax – ranges between 0% and 4.0% depending on residual land value

Affordable housing assumptions

4.51 The social rents we have used were provided by Bromsgrove District Housing Trust. From our background research, we found these to be higher than the average rent for a social rented property in Bromsgrove, although the average rent, would, of course be predominantly based on the rents of existing stock rather than those applied to new homes.

4.52 The social rents we have used for modelling purposes are as follows:

- 1 bed - £69.53;
- 2 bed - £77.40;
- 3 bed - £99.10;
- 4 bed - £109.48;
- 5 bed - £118.00.

4.53 A yield of 6% is assumed on social rents. A management cost of £250 per annum, a maintenance cost of £450 per annum, a void allowance of 2.25% and a major repairs allowance of 0.8% is also assumed.

4.54 Shared ownership has been assessed as a 50% initial equity purchase with rent charged at 2.75% on the unsold equity. This has been agreed following consultation with stakeholders and discussions with the Authority. A management cost of £150 per annum has also been assumed.

4.55 Intermediate or 'affordable' rents used are as follows based upon 80% of the average Local Housing Allowance for the area:

- 1 bed - £78.46;
- 2 bed - £95.08;
- 3 bed – 107.08;
- 4 bed - £152.30;
- 5 bed - £175.38.

4.56 A yield of 6% is assumed on intermediate or 'affordable' rents. A management cost of £300 per annum, a maintenance cost of £400 per annum, a void allowance of 4% and a major repairs allowance of 0.8% is also assumed.

Grant/public subsidy assumptions

4.57 Baseline assessments assumed nil public subsidy however in a number of circumstances sensitivity testing assuming grant availability was undertaken. With reference to the West Midlands Investment Statements available from the Homes

and Communities Agency and feedback from the stakeholder engagement process three sensitivities in respect of grant availability have been assumed. These are as follows:

- Grant at £69,000 per unit for social rented units and grant at £36,600 per unit in respect of intermediate units. This reflects an average of overall grant levels per unit for social rented and intermediate housing as stated in the West Midlands overall allocations from Q4 2009/10;

- Grant at £34,500 per unit for social rented units and grant at £18,300 per unit in respect of intermediate units. This reflects 50% of the above levels – reflecting the winding down of the NAHP;

- Grant at £15,000 per unit for all affordable units. This is intended to reflect the transition to the new funding regime, in which some existing properties, upon falling vacant, are converted to Affordable Rent in order to provide a cross-subsidy for the development of new affordable housing.

4.58 In the current economic and political climate it is very difficult to make any specific assumptions in respect of grant availability, and it should be noted that some of the above figures are based broadly on past rates and may not be relevant in the future.

4.59 The results figures clearly identify the public subsidy assumptions that have been made and the majority of schemes presented in the main report have been tested on a nil-grant basis.

Absorption rates

4.60 A range of absorption rates have been assessed against each notional development site. Following the responses made during our consultation exercise all notional developments absorption rates of 35 sales per annum, 50 sales per annum and 65 sales per annum have been assessed. The rate of 50 units per annum was suggested as that most likely to be seen in the current climate, 65 was a rate consistent with the recent boom and widely considered by consultees to be unlikely to be seen again – though we have carried out sensitivity testing at this higher rate in order to assess the scale of the effect. We have also carried out testing at the lower rate – which may be more applicable to smaller schemes.

4.61 In respect of strategic scale sites, we have assessed three different rates of sale – 75 sales/annum, 140 sales/annum and 180 sales/annum

4.62 In all cases the development timetables assume periods for:

- enabling phases (for large scale developments);

- planning application;

- site acquisition;

- construction period;

- sales period.

5.0 Stakeholder Engagement

5.1 A stakeholder questionnaire (see Appendix 4) was forwarded to a circulation list of over 60 key stakeholders forwarded to Levvel by the Bromsgrove District Council. This also included an invitation to a stakeholder workshop held on 2nd December 2010. Stakeholders included housebuilders, land owners, RSLs, agents and developers. The purpose of stakeholder engagement was to inform the assumptions used within this study and ensure relevance to local circumstances.

5.2 Six responses to the stakeholder questionnaire were received and a breakdown of the responses are outlined in Appendix 4.

5.3 In addition there were 11 attendees at the stakeholder event which set out the purpose of the study, outlined the key parameters and sought feedback on a number of assumptions.

5.4 As would be expected a range of responses were received from stakeholders. All of these responses have been considered and our report has attempted to test variables taking the views of respondents into account. Appendix 4 outlines how the views and local knowledge of stakeholders helped to shape the viability study. It is an integral part of our business to ensure that we are up to date on market conditions in the project area. Planning for affordable housing on the basis of viability requires a credible and robust evidence base. Stakeholder engagement has thus allowed Levvel to consider relevant local data.

6.0 Results Analysis

6.1 This section sets out the results from each notional development scheme assessed in accordance with the assumptions outlined within this report. Full details of the unit composition for each notional development type can be found in Appendix 6**.**

6.2 Our assessment for viability involves a cross reference of the absolute land value and the RLV:GDV position. Within each test we have assumed a level of 'tolerance' so that a scheme that falls within 10% either way of the alternative or existing use value is deemed to be marginally viable against that test. The two tests are then assessed in parallel rather than sequentially but weighted so that residual against existing/alternative use values is given 50% more weight than the RLV to GDV test. This is represented in the results page as follows:

6.3 The results tables set out the three market scenarios, downside, middle and upside then record whether the notional schemes assessed are likely to be viable, marginal or not viable. The dates in the left hand column refer to the start dates for development.

6.4 The results are set out in the following sections as sites of 5 – 100 dwellings (inclusive), single unit sites and strategic scale sites. Results of each notional site assessed will be addressed in Value Area order.

6.5 As stated earlier in the report, results have been assessed against four alternative/existing land values:

- EUV 1 - £250,000;
- EUV 2 - £400,000 per hectare;
- EUV 3 - £800,000 per hectare;
- EUV 4 - £1,750,000 per hectare.

6.6 Due to the volume of information we have shown key results within the main report and, for completeness, Annex A to this report includes the results of a wider range of sensitivities assessed in each Value Area.

6.7 We have divided the results into 3 sections - those for the "notional" sites between 5 units and 100 units, those for the Strategic scale sites we have investigate and those for the smallest sites. In each of these areas, we have taken a slightly different route to describing our findings as befits the rather different nature of such developments

7.0 Results – Notional Developments 5 -100 units

7.1 This section of the report sets out the results of the assessments undertaken on notional development sites of 5 to 100 units across the District.

7.2 Having modelled and reviewed the data, it is clear that, on the basis of our current assumptions and within this range of unit sizes, the scale of overall development is not the most important determinant of a site's ability to deliver affordable housing through the planning system. Four other factors are substantially more important. These factors are:

a. Overall values;

b. The Existing Use Value of the land upon which the development is to be built;

c. The year in which the development comes forward;

d. The density of the development.

7.3 In this section then, we will concern ourselves principally with the above four factors before addressing the question of scale at the end. Before doing so, it is likely to be useful to say a few words about the importance of each of the above factors and our approach to modelling them.

7.4 In respect of values, our research has shown that there is a considerable degree of variation in the scale of residential values in Bromsgrove. The mean, unadjusted completion price in the postcodes that make up Value Area 1 was roughly three times the equivalent figure in Value Area 6. It is inevitable that this will have a substantial effect on the bottom line and that there will be a huge difference between the amount of affordable housing that could be sought from sites where values are comparable to those in Value Area 1 and the amount that could be sought from Value Area 6. Because residential values are one of the most important determinants of viability, we have structured the results around the Value Areas first.

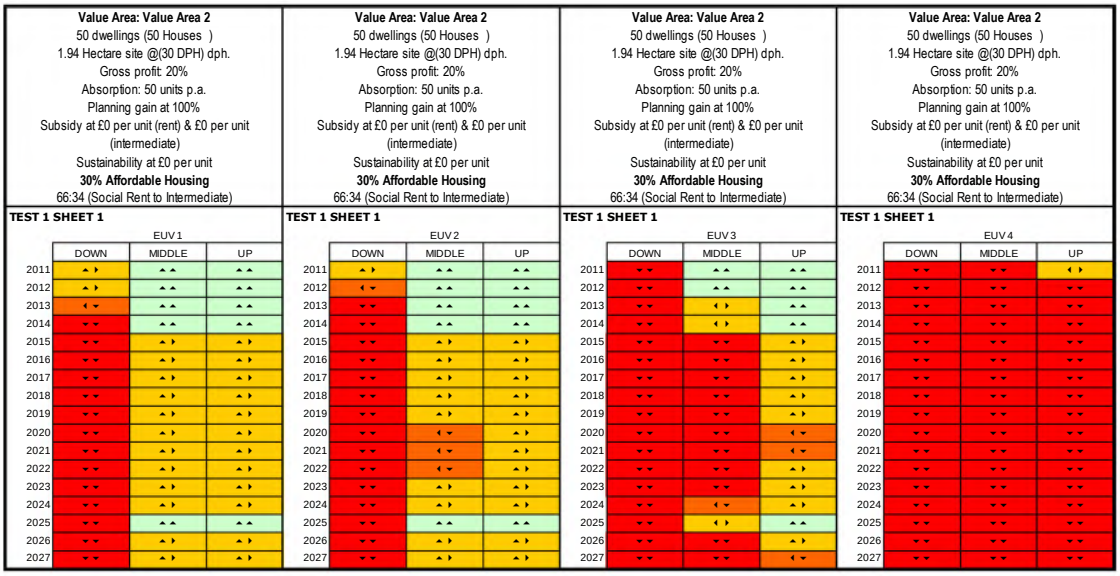
7.5 In terms of density there is a trade-off. A denser development achieves more saleable area on each hectare of land. However, denser development will not be able to accommodate the larger and more valuable properties which we understand to have the greatest attraction to developers. We have therefore used density as the secondary organising principle in laying out our results.

7.6 As to Existing Use Value, there is, once again, a considerable range of values at which land is likely to come forward for development and this will vary from plot to plot, depending on a very wide range of factors. The most significant of these is, the existing or alternative use value of the land, but other factors, such as the degree of contamination will also have a bearing. In order to recognise this fact, we test simultaneously against four different "Existing Use Values" which are intended to give a fair reflection of the range of values at which local sites are likely to come forward in Bromsgrove. The results tables in Annex A, which contains the figures referred to in this section are therefore shown in groups of four – to reflect the viability of a development of the described type coming forward on a site at each of the aforementioned values.

7.7 As regards the year in which the scheme comes forward for development, we acknowledge that it is impossible to be certain about the effect that future changes in house prices and build costs are likely to have on build costs and, inevitably, the further into the future we seek to see, the less precise we can be. However, there are certain things that we can say. We know, for example, that future development will need to comply with higher levels of the Code for Sustainable Homes and that this is likely to push construction costs up over the period to 2016. It also seems likely that house prices will remain steady or decline slightly for some years before resuming an upward trajectory linked to rising household incomes. This reflects our "middle" condition in the results tables. However, we recognise that it is impossible to predict the future housing market and we have therefore included in our results tables, sets of results based upon "upside" and "downside" market conditions. Further details of these assumptions can be found in our economic conditions report and in Appendix 3. We believe that the majority of likely market conditions going forward will lie between the "upside" and "downside" conditions although precisely where in that range is harder to say.

7.8 By these means, we seek to investigate the effects of both EUV and the year in which developments come forward in each of the sets of results reproduced in Annexe A.

7.9 The following image, showing the viability of a 50 unit development at 30 DPH in Value Area 2, with 30% affordable housing is therefore a typical set of results and it may be worth explaining it in a little detail.



7.10 What these results show is that, based on the middle scenario for residential values, such a development would be viable on all but the most expensive sites in 2011. However, viability becomes slightly more constrained on more expensive sites from 2013 and on less expensive sites from 2015 as the impact of the higher levels of the Code for Sustainable Homes makes its presence felt. As of 2015, developments this type starting on sites where EUV was in the range of EUV 3

would cease to be viable with this level of affordable housing and it would not be possible to achieve this level of affordable housing again until 2024.

7.11 If values were to follow the "upside" track then viability would be somewhat improved although it would still follow the same pattern. If they were to follow the "downside" track then this level of affordable housing is not likely to be achievable on the majority of sites for most of the appraised period.

7.12 In order to ensure that we are comparing like with like, all the following figures are based on a development of 50 units and, except where otherwise stated, our baseline assumptions. For reference, these are:

- Nil grant;
- 66:34 social rent:shared ownership affordable housing mix;
- Section 106 contributions at 100% of the baseline level (£5,000/unit);
- Gross profit at 20%;
- Code for Sustainable Homes Levels introduced in accordance with mandatory timetable for market and affordable units;
- Nil additional sustainability requirements;
- Absorption rate at 50 units per annum.

Value Area One

7.13 Average transaction Values in the postcodes sectors which make up Value Area 1 are between £241,000 and £378,000. Although such sectors constitute a reasonable proportion of the District as a whole, we consider that these values might be best considered to reflect the best properties in the best areas.

30 DPH

7.14 Figure 1 & 2 show the viability profile of a scheme in Area 1 at 30DPH Fig 1 shows the viability with the inclusion of 15% affordable housing, which, on these assumptions would be viable on all types of site throughout the entire period considered by the study with the exception of a single year when viability would be marginal on the most expensive types of site. If the market were to resemble the downside, then viability would be compromised in a number of years on the most expensive sites.

7.15 Figure 2 shows the viability of the same development with 50% affordable housing. It will immediately be apparent that a development with these values should be viable on all but the most expensive sites, unless downside market conditions are experienced.

7.16 Of course, in areas where values are as high as in Value Area 1 landowners will expect significant receipts for land and it may be difficult to secure an adequate supply of land at the lower Existing Use Values. However, clarity on the part of the Council as to the operation of its policy should help to prevent the formation of unrealistic expectations.

7.17 Because these sites would appear to be viable with even 50% affordable housing, we have also looked to see how much more impact they are likely to be able to bear. Figure 3 shows the additional impact of setting the S106 contribution at 3 times its baseline level (£15,000/unit). Even then, it would appear that viability is maintained on most sites throughout most of the plan period.

40 DPH

7.18 Figures 4 – 7 show the viability of a development at 40DPH. The impact of the loss of the most valuable units associated with lower density development is immediately apparent.

7.19 Even at 15% affordable housing, schemes on the most expensive sites become marginally unviable and would cease to be viable at all as of 2015 should middle market conditions prevail.

7.20 At 30% affordable housing should downside market conditions not be experienced, viability becomes marginally viable on all sites from 2016 and marginally unviable on more valuable ones.

7.21 At 40% affordable, even lower value sites (EUV 1 and EUV2) are only marginally viable from 2014 onwards assuming the middle market scenario (although they would remain viable for a couple of years from today). Development on higher value sites (EUV3 and EUV 4) would turn unviable from 2014.

7.22 At 50% affordable housing only developments commencing in 2011 on the lowest value sites would be viable and, in the majority of cases, development would be entirely unviable unless upside market conditions are experienced.

7.23 In Figure 8 we have modelled the site with the S106 contributions set at £15,000, by way of comparison with Figure 3 above. It will be seen that, on this basis, 50% affordable housing is only marginally viable even under the most benign of conditions.

50 DPH

7.24 Figure 9 – 12show the effect of developing at 50DPH. Although we might expect this to be still worse than the results at 40DPH, they are, instead, rather better. This improvement highlights the fact that density is a double edged sword. It would appear that the achievement of more saleable area outweighs the loss of the more valuable units. However, it must be said that 50DPH is at the upper end of the range of densities we would expect to see in Bromsgrove.

7.25 Not only is it unlikely to be suitable everywhere, but the areas where 50DPH is achievable may not correlate with areas where values consistent with Value Area 1 are likely to be achieved.

7.26 Moreover, those developments where 50 DPH can be achieved are likely to be in urban locations where the very lowest EUVs are unlikely to be experienced. We would not anticipate seeing development at this density come forward on greenfield land for example – the sort of land that might be assembled at the values represented by EUV1 and we should therefore be cautious about seeing higher density as a route to increased affordable housing provision.

7.27 That said, it would certainly appear that, where 50DPH can be achieved, it does confer an improvement in the level of affordable housing that could be delivered in Value Area 1. At 40DPH we would have said that 40% affordable housing would be a highly ambitious target on most sites. However, at 50DPH, 50% might be achievable on even higher value sites, at least for the next few years.

Value Area 2

7.28 There is a very significant drop off in average transaction values from the values that make up Value Area 1 to those which make up Value Area 2, where the average transaction value ranges from £194,000 to £240,000. This, naturally has a significant effect on the level of affordable housing that a development might be able to achieve whilst still remaining a viable proposition.

30 DPH

7.29 Figures 13 – 15 show the viability of schemes at 30DPH in Value Area 2. It will be immediately apparent that, in contrast to development in Value Area 1, development does not appear viable at 50% affordable housing, even with our baseline assumption in respect of S106 payments rather than the £15,000/unit sensitivity we were able to apply in respect of Value Area 1 without undue effect.

7.30 It would therefore appear that 40% affordable housing is likely to be the maximum level of affordable housing that could be delivered from the sites in Value Area 2 at 30DPH.

7.31 However, even that will be a challenge on the sites with higher existing use values. Sites with values that approach EUV 3 will certainly struggle to achieve 40% affordable and here, only 30% might be expected. Indeed, as the impact of the Code for Sustainable Homes makes itself felt, there are some sites which may not reach even 30% from 2015 onwards.

40 DPH

7.32 As we would expect, the increase to 40DPH has a negative effect in Value Area 2, albeit perhaps not quite such a significant one as in Value Area 1. Figures 16 – 18 show that few sites are likely to achieve the provision of 40% affordable housing with development being only marginally viable in 2011. Indeed, Figure 17 shows that, unless middle market conditions are exceeded even 30% affordable housing may become a challenge on mid value sites within a few years.

7.33 That said, development at 15% affordable housing looks very much healthier and it may be possible to achieve a level of provision nearer to 30% affordable housing than 15% on most sites - at least until 2015.

7.34 Whilst these might be seen as disappointing results in such a high value area, we note that there was little appetite at the stakeholder meeting for development at 40DPH – there is little reason to assume that developers would seek to develop at this density if it renders their developments less viable.

50 DPH

7.35 Once again, we see a slight increase in the estimated viability as we look to a higher density of 50DPH. In Figures 19-22 it is clear that schemes an all but the highest value sites should be able to sustain something at or near 30% affordable housing in most years of the period under consideration and in certain circumstances on certain lower values sites, it may be possible to achieve something near to 40% affordable housing.

7.36 However, on the most expensive sites (EUV4) - perhaps those that involve the redevelopment of a site currently in residential use, it will be very difficult to achieve much more than 15% affordable housing unless upside market conditions are experienced.

Value Area 3

7.37 The average transaction value in Value Area 3 (£162,000 to £196,000) in the sampling period is, of course, slightly below that observed in Value Area 2 but the similarity of the results obtained in the two areas is striking. It is therefore possible that these two value points, taken together make up the best guide to the viability of development in Bromsgrove.

30 DPH

7.38 Figures 23 – 26 show that, under these conditions it will be hard to achieve any significant level of affordable housing on the highest value (EUV 4) sites. However, officers should be careful to examine the justification for any such high EUVs. On other types of land, development would appear to be viable, or at least marginally viable with up to 30% affordable housing. Indeed, it may be possible to approach or achieve 40% affordable housing on some sites, although this is likely to become

more challenging as the impact of the higher levels of the Code for Sustainable Homes is felt – particularly on sites where EUV is higher.

7.39 The prospects for the achievement of 50% affordable housing are likely to be limited to the very early years of the policy's implementation and, even then, only on the lowest value sites in a positive market.

40 DPH

7.40 As before, viability is significantly constrained by an increase in density to 40DPH. Figures 27 – 29 show the impact.

7.41 On medium and higher value sites (EUV2 and 3) it is unlikely that much more than 15% affordable housing will be delivered unless upside conditions prevail. Even this is likely to become challenging for a period for schemes commencing after 2015.

7.42 At 30% affordable housing, our modelling shows that development remains marginally viable for some years, on sites in the EUV 1-3 range but it is likely that many sites would deliver a little less than 30%. At 40% affordable housing, very few sites are likely to be viable.

50 DPH

7.43 At 50 DPH (Figures 30-32), we see the same improvement in viability that we have observed before. Although it remains sufficiently unlikely that many schemes will be able to deliver 40% affordable housing that we have not included the results for 50% in our conclusions, the viability of schemes appraised at 30% is significantly improved. It may even be possible to secure more than 30% on some sites, although, as ever, the impact of the Code for Sustainable Homes may make this increasingly difficult in the medium term.

7.44 It is also significant that, at this higher density, schemes built on the highest value sites (EUV4) may be able to deliver somewhere between 15% and 30% affordable housing – in marked contrast to the results at 40DPH. This is significant because, while we recognise that 50DPH is a relatively high density for Bromsgrove, those sites where development is likely to be at such high densities are likely to be in the urban areas where existing and alternative use values are likely to be strongest.

Value Area 4

7.45 The areas constituting Value Area 4 are those where the average transaction value in the sample period was between £136,000 and £162,000. Although the fall off in the average house price between Value Area 3 and Value Area 4 is roughly the same as that between Value Area 2 and Value Area 3, the impact on the viability of the results appears to be rather greater.

30 DPH

7.46 As we can see from figures 33-35, Value Area 4 is the first price point at which the delivery of at least 15% affordable housing on the higher value sites sites may be threatened. True, this threat is unlikely to materialise for some years and, until then there appears to be a reasonable prospect of securing 30% affordable housing on most sites but, where values are lower, the increased build costs associated with

the higher levels of the Code for Sustainable Homes loom larger in the economics of development.

7.47 At 30% affordable housing above, the impact of the higher standards is such that the viability of development turns firmly negative on all types of site (unless the market performs to the upside scenario) and remains so throughout the study period.

7.48 At 40% affordable housing delivery is very marginal and, for this reason we have not modelled the effect of 50% affordable housing.

40 DPH

7.49 As before, the impact of an increase in density to 40DPH (Figures 36 – 38) is firmly negative. Within the market parameters we have assessed, the delivery of 15% affordable housing becomes uncertain on all but the lowest values sites within two years and, at no time does 30% affordable housing look achievable.

7.50 With 40% affordable housing, no sites are anything other than unviable.

50 DPH

7.51 An increase to 50 DPH (Figure 39 – 40) shows some improvement in viability but this is slight. We should remember that 50 DPH is a density that is more likely to be associated with urban areas and that, consequently, sites with lower existing use values may be more scarce.

7.52 The delivery of 15% affordable housing on more expensive sites (EUV3 and EUV4) is liable to be challenging almost immediately (unless the market performs to the upside) and unviable as the higher levels of the Code for Sustainable Homes are introduced.

Value Area 5

7.53 Value Area 5 corresponds to postcode districts where the average transaction price in the sampling period was in the range £126,000 and £136,000. Whilst there were several postcodes which fell into this range in our data sampling area, most fall outside the District boundary. As we have noted above, we do not consider the values to be found in a particular area to be confined to that area and it is certainly possible that the grain of our value analysis misses small pockets of prices at the level characteristic of Value Area 5 within other areas. However, we consider it unlikely that much development would be focussed on areas where this was likely to be the case without wishing to achieve a significant premium over prevalent prices.

7.54 We therefore consider these results to be somewhat less significant than the foregoing since we consider that a relative minority of future development in Bromsgrove is likely to go ahead at these values. Nonetheless, we have included them for two reasons – first so that it could not be argued that we have sought to "cherry pick" data. Second, so that, in the event that there were to be a significant fall in residential values in some areas in the years ahead, the Council would still be able to draw on data that reflected something of the new market conditions. We will therefore discuss these results briefly.

30 DPH

7.55 Figures 41 – 43 show that the development of more than 15% affordable housing is unlikely to be achievable and even then, such development is liable to be possible only on the lowest value land and on development coming forward in the next couple of years (or for a more extensive period should upside conditions be experienced). Thereafter, rising construction cost seem to render development completely unviable.

40 DPH

7.56 Figure 44 – 45 show that the general pattern of viability is retained. At 40 DPH it is difficult to achieve even 15% affordable housing and more than that is very unlikely

50 DPH

7.57 Figure 46-47 show that there is a limited amount of scope to achieve 15% or even 30% affordable housing on sites in the EUV1 and EUV2 cost range in the early years of the study period in middle market conditions, and for a more extensive period should upside conditions be achieved.. It should be noted that the areas in which such values are currently prevalent are mostly concentrated in South West Birmingham and Longbridge, where land values are currently low and that the highest value sites are unlikely to be associated with these low residential values.

Value Area 6

7.58 As before, although several postcode sectors in our sample area had average values in the range £86,000 - £126,000, the majority of such sectors lay outside the District boundary and we therefore give them limited significance except inasmuch as they demonstrate the limits of viability.

7.59 In truth, we would consider that few developers would consider development on a site liable to deliver such low values, even without the requirement to deliver affordable housing. That said, were such values more widely prevalent, the affordability situation might be considerably less acute.

7.60 There is little point in splitting our comments into separate sections in respect of Value area 6 since the results are essentially identical. Figures 48 – 50 show that, whatever the density and whatever the level of EUV, there are hardly any circumstances in which even 15% affordable housing is liable to be deliverable.

The Effect of Scale

7.61 As we noted in the introduction to the results section, within the range of the notional sites tested (5 – 100 units) we consider the effect of scale upon overall density to be relatively slight in comparison to the effects of density and the prevalent values. Nonetheless, it is important to consider scale in case there are important inferences to be drawn from it.

7.62 We have therefore looked at a range of sites at different scales in order to compare their viability. It makes sense to consider those sites in Value Areas which we consider to be characteristic of the majority of sites coming forwards and in light of the level of affordable housing burden that those sites might be expected to bear. We have therefore tested a range of schemes in Area 2, between 5 and 100 units

with 40% affordable housing (Figures 51-55) We have also tested a similar range of schemes in Area 3 with 30% affordable housing (Figures 56-60).

7.63 There is an important caveat to this, which is to note that we cannot test 30% affordable housing on a 5 unit scheme, since this would result in a yield of 1.5 units of affordable housing. The results included at Figure 56 therefore show 20% affordable housing, which explains why they do not quite fit the overall pattern.

7.64 That aside, the results are fairly consistent with one another and form a discernable pattern, whereby larger sites are, generally speaking slightly less viable than smaller ones. The gradation is not altogether smooth for a number of reasons: first because of the relationship between gross and net site areas and secondly because of the absorption rate assumed which is the same for all the models in this comparative sample. We will say just a few words about each of these issues.

7.65 First, in respect of site size, we assume that the smallest developments occupy the whole of their site as developable are but, as the scale of development increases, it is necessary to set aside an increasing proportion of the site for open space, circulation and so on (see para 4.26) this means that the gross development density falls as scale increases, The consequence of this is that it is necessary to assemble more larger per unit of development on larger sites than it is on smaller ones. The apparent "lumpiness" in the results is, in part a consequence of the hurdles we have used for determining the gross:net ratio.

7.66 In plain terms, in respect of the figures shown, sites of 5 and 10 units are subject to a 100% gross to net ratio whilst the effect of an 85% gross to net ratio has more of an impact upon viability on the 25 unit scheme in comparison to the 50 unit scheme. Sites of 100 units are subject to a gross to net ratio of 65% and the figures clearly show the impact upon viability of this ratio on sites of this size.

7.67 The other issue that we think may be causing the slight drift from greater to lesser viability as the site size increases is to do with timing. Because all of these developments have been appraised on the basis of the same, baseline absorption rate, the sales period for smaller developments is very short whilst that for larger developments is longer. This, of course, reflects reality but, in real life, we would not expect the relationship to be proportionate.

7.68 In this sample then, the sales period for smaller developments may be slightly too long and that for larger ones slightly too short, however, had we sought to off-set this effect by varying the sales rate as well as sample size, it would be difficult to disentangle the two effects.

7.69 There are, however, two further effects which may not be obvious from the figures but which should be taken account of here, both of which would tend to erode the perceived greater viability of smaller sites.

a. In general, smaller developments are carried out on infill sites and the land has a tendency to have either a higher alternative use value (in urban areas) or greater scarcity (in rural areas) it may not, therefore, be entirely appropriate to compare the viability of 5 unit scheme on land in one EUV range with a 25 unit scheme on land in the same range.

b. Second, there is the problem of construction costs. BCIS collects build costs on two bases – "one off housing", which incorporates sites from 1-3 units, and "estate

housing" which reflects everything else. The difference between these two rates of build costs is very large – reflecting the substantial economies of scale available on larger sites. Because there is no index published in between these two figures, we are compelled to use the "estate housing" for assessing the viability of even 5 unit schemes whereas the reality, in terms of economies of scale is that they may be closer to "one off" developments.

7.70 However, despite the above caveats, the overall picture is that, within the range of notional sites, viability is broadly consistent and the 50 unit sites considered in the preceding section make a reasonable proxy for all development sites with the possible exception of the smallest sites. The issue in respect of smaller sites typically being built upon more expensive land may be addressed at the development control stage, when the alternative uses of the land will be known and may be taken into account.

8.0 The Smallest Sites (1 – 3) units

8.1 PPS3 (June 2010) paragraph 29, requires that where a Planning Authority seeks to reduce a threshold below the national indicative site size threshold of 15 units it should be viable and practicable.

8.2 It is also recognised that the economics of provision on smaller sites are generally different to those of larger sites and seeking affordable housing contributions either on-site or in kind may be more challenging. It should also be noted that the additional workload and bureaucracy that may come about from seeking contributions on the very smallest sites may in some circumstances, be prohibitive.

8.3 Balancing this with the scale of need for affordable housing has however led to more examination of whether sites of this scale may be able to deliver some degree of affordable housing either on site or by means of commutation. According to the Council's SHLAA (2010), sites with residential planning permission have a total aggregate yield of 355 homes. According to the same document, 89 of these homes are on 72 sites with capacities of 1-3 units. If small sites were to account for a comparable proportion of output throughout the Core Strategy period then even a relatively modest contribution from such sites would have an important effect on the Council's ability to deliver affordable housing

8.4 The Council has asked us to consider the scope to achieve a contribution towards affordable housing from even the smallest sites. However, for this purpose, the exercise carried out previously in this report is of limited use because the economics of the smallest sites is substantially different from that on larger sites.

a. As we have noted above, the build costs associated with sites below 3 units are very different. BCIS estimates that, in Bromsgrove, the construction cost of the smallest sites is £1,313/m^2, nearly double the cost per square metre of estate housing.

b. Contributions are unlikely to be delivered on site and in kind – it would be impossible to deliver 25% of a single unit as affordable housing and somewhat unlikely that within the parameters used within this study, a development of 3 units could viably deliver one of those homes as affordable housing.

8.5 We therefore require a slightly different approach for our assessment.

8.6 What we have done is to use the same assessment methodology (but with the appropriate build costs) in order to estimate the Residual Land Value per plot generated by single houses in the different Value Areas. Any contribution towards affordable housing would have to be deducted from this land value. In effect, this is the same as the approach we recommend in respect of Commuted Sums in Section 10.0 below.

8.7 The main tables are incorporated into Annex A as Figures 61 – 66 and these show the estimated per plot values, if the development were to start in each of the years of the plan period. However, the table below summarises the values estimated based on the current i.e. 2011 position – again, including an allowance of £5,000 for other Section 106 contributions.

8.8 What is immediately striking is the sheer extent of variation, with values per plot ranging from £138,000 in the highest value areas to a negative £55,000 in the least. This would appear to make it difficult to propose the level of any contribution. A contribution that would capture a "reasonable" proportion of a site in Value Area 1 would bankrupt a site in Value Area 3 and sites in Value Areas 5 and 6 are already strongly in negative territory. However, we consider that there are ways forward.

	3 bed house	4 bed house	5 bed house
Area 1	£104,994	£121,942	£137,595
Area 2	£29,838	£34,774	£39,737
Area 3	£32,877	£38,299	£43,751
Area 4	£7,178	£8,491	£9,810
Area 5	-£12,367	-£14,179	-£16,002
Area 6	-£42,208	-£48,793	-£55,415

8.9 First of all, it is important to remember not only that the Postcode Districts from which Value Area 5 and 6 are drawn lie, in the main, outside the District itself. Second, there is no question of a policy whose effect would render such sites unviable – they are already unviable and will not come forward for development in any event.

8.10 We are therefore interested in the appropriate policy in respect of sites in Value Areas 1 - 4 there are, in effect, two potential approaches here. If the Council sought to maximise its receipts, it could insist that every development of 1 – 3 units coming forward submits a full viability appraisal, demonstrating the specific Residual Land Value in this case and comparing it to the Existing Use Value. This would be consistent with maintaining viability but it would be immensely expensive in terms of both officers' and developers' time. Introducing an effective requirement for all sites to submit a viability appraisal may also act as a disincentive for sites of this scale to come forward for development, particularly as they have not previously been encumbered with an affordable housing requirement and caution should be had towards the potential outcome of restricting supply.

8.11 It must be borne in mind that the preparation of viability appraisals and the negotiations that flow from them are often among the most time-consuming and contentious aspects of major planning applications and the amount of time it is necessary to devote to them is not directly proportionate to the size of the development.

8.12 Moreover, the affordable housing contribution would be related not to the absolute land value per plot but to the difference between that absolute value and the Existing Use Value. First, it can be exceedingly difficult to establish a robust Existing Use Value in respect of some types of site (for example, development on back gardens) and second, the variation in the level of contributions is likely to make it very difficult for land agents to price the effect of the policy in when in discussion with land owners. Since the appraisals that would decide the level of contribution are often considered commercially sensitive it is difficult to establish when a larger and when a smaller contribution should apply until the appraisal has been submitted and agreed – generally late in the application period.

8.13 Absent a clear direction, land owners will price in the lowest contributions they have seen agreed and developers will report to the Council that it is impossible to assemble land at the rates implied by the larger contributions.

8.14 There is, however, an alternative policy option, which is to set a modest financial contribution toward affordable housing which should be deliverable in the majority of the sites that are anticipated to come forward. Sites which are unable to contribute at the implied level may seek to argue for a lower contribution but only on the basis of a full viability assessment. Such a policy would then allow land agents to demonstrate to land owners the extent of the contribution that would need to be priced in. If the level of contribution were set at an appropriate level, reductions from the policy would be rare and the likelihood is that the policy would gain authority rather than lose it over time.

8.15 Contributions from this fund could then be used by the Council to provide additionality in respect of affordable housing provision on other, larger schemes within the District which may be particularly pertinent given the current position regarding the availability of Social Housing Grant.

9.0 Strategic scale developments

9.1 In addition to our "notional" site assessment, we have also undertaken assessments of larger strategic scale sites. These represent development schemes that will come forward during the Core Strategy, delivering significant numbers of housing and infrastructure. They are typified by comprising several hundred units and being developed on mostly greenfield land which is predominantly in agricultural use.

9.2 In seeking to assess these sites, we have drawn on information from the Council's SHLAA and draft Core Strategy in respect of the overall number of units, the density and the gross and net developable areas of the three strategic scale schemes.

9.3 However, assessing large schemes of this nature on a generic basis (as we must here) is fraught with issues as there are a number of important issues about which we do not currently have detailed information. These will include land assembly issues (land is unlikely to be in one ownership and may come forward on a phased basis) as well as infrastructure issues. To guess at the answers to so many important questions would risk creating a largely illusory impression of accuracy that could be deeply misleading, either in terms of setting up an unreasonable expectation as to the extent of the burden that strategic scale development in Bromsgrove could be expected to bear or, conversely, in foregoing opportunities to secure for the community vital contributions towards infrastructure and affordable housing.

9.4 In order to address these questions, we have, again adjusted our approach to the assessment of viability and the presentation of results.

9.5 First, it is vital to be clear what we are assuming and what assumptions we have changed, relative to the smaller sites. In this respect, whilst recognising that a great deal can change between a draft Development Brief and the final submitted planning application, we have modelled the three notional strategic scale sites on the three sites set out in the Core Strategy.

9.6 Brom 1 therefore comprises 270 units at a net density of 35 DPH. The developable area is 64% of the gross site area.

9.7 Brom 2 comprises 1,100 units, of which 200 are sheltered housing for the elderly, at an overall net density of 35 DPH. The developable area is 45% of the gross site area. We have omitted from our calculations the 5ha of commercial development envisaged in the Council's planning documents because there is no requirement for commercial development to contribute towards affordable housing at present.

9.8 Brom 3 comprises 470 units at a net density of 35 DPH. The developable area is 56% of the gross site area.

9.9 In addition to the amended density assumptions and the assumptions in respect of hosing mix that depend upon them, we have also adjusted some of our other assumptions in respect of these large sites.

9.10 Sales are likely to be at a much higher rate on a strategic scale site than on a smaller one. We have therefore made a baseline assumption of sales at the rate of 140 units per annum, although we have also tested sensitivities of 75 and 180 units per annum.

9.11 We would normally expect professional fees to represent a lower percentage of the overall development cost on a strategic scale scheme. Whilst this is not always the case, it seems appropriate, at least as a baseline, to assume fees at the slightly lower rate of 8% of construction cost, rather than the 10% we have used for notional sites.

9.12 Strategic scale developments will certainly face infrastructure and servicing costs in addition to Section 106 and CIL payments. Although we have no way to predict the scale of such costs at present it seems reasonable to assume that they will be higher than the cost in respect of the smaller notional sites. Our baseline assumption in this respect has therefore been raised to £10,000 in order to reflect this.

9.13 As regards values, these can be very difficult to predict on a strategic scale development since these tend to create their own market where values can exceed those prevalent in the surrounding area – something which is no longer always true of smaller developments. We have therefore appraised the sites on the basis of values in Value Area 3 but it is worth having particular regard to the "upside" value track as this may better reflect the results of the premium associated with the developments.

9.14 In respect of the approach taken to assessing the results, it is not appropriate to use the graded system described above, in which the Residual Values are graded for Viable, through to Unviable because there are too many unknown factors in play. We have therefore chosen to include the raw residual land values. Although this data is harder to read at a glance, it has the advantage that it may be more easily reinterpreted in the light of newer information. In effect, the Residual Land Values which comes out of these appraisals are the amount available for servicing, the site, assembling it, for any additional S106 or CIL payments over and above the £10,000/unit assumed and for additional financing costs associated with the above.

Brom 1

9.15 Figure 67 shows the land value per hectare that results from an appraisal of a scheme having the characteristics set out above at an absorption rate of 75 units per annum. The sub tables show the residual land value at 15% affordable housing, 30% affordable housing and 40% affordable housing.

9.16 It will immediately be obvious that if values follow the middle track, and if it is possible to meet all S106 obligations, infrastructure and servicing costs within the assumed budget of £10,000/unit then 30% affordable housing looks to be the maximum likely to be achieved. The achievement of even this level of affordable housing would necessitate the assembly of land at quite low values if the development were not to commence for a few years.

9.17 Although the Residual Land Value returned at 40% affordable housing is, in the early years of the study, considerable, that value falls away to nothing and turns negative within a few years. It is unlikely that the scheme would be able to deliver this level of affordable housing if the market were to follow the "middle" track.

9.18 If, however, the Strategic scale of the site were to succeed in creating a new market area with a position that corresponded to the "upside" track, then 40% affordable housing might be attainable. However, it should be noted that, even then, the implied Residual Land Values are not very large and, quite a small increase in the servicing costs, over and above those already assumed might render the delivery of 40% affordable housing challenging.

9.19 Figure 68 shows the same residual values on a per hectare basis but with the absorption rate set to 140 units per hectare. It should be noted that, although we have described this as the baseline absorption rate for strategic scale sites, a development of 270 units might not achieve sales at quite this rate. It is nonetheless important to see the sort of difference that the sales rate can make to overall viability.

9.20 The per hectare residual values are higher in all cases but not as much higher as a doubling of the sales rate might lead us to expect. These results suggest that the achievement of 40% affordable housing would still require the achievement of performance comparable to the "upside" value track, otherwise 30% or a little more is likely to be the maximum.

9.21 Figure 69 shows the results if the absorption rate were 180 sales per annum. This may be rather optimistic, implying as it does, a sales period of just 1.5 years, which we consider very short for a development on this scale. We include the figures both for the sake of comparison with the other strategic scale sites and in order to demonstrate that, whilst outcomes are affected by changes in the sales rate, the effect is not vast. The reason for this is that, in strategic scale developments, developers sales and development run concurrently and a developer would seek to tune the rate of construction to the rate of sales that could be achieved in order to ensure that s/he is holding the minimum quantity of unsold stock at any given time.

Brom 2

9.22 At 1,100 units, Brom 2 is a very large development. Although the net density is assumed to be the same as for the other sites, we note that the net developable area makes up a rather lower percentage of the gross development area implied in the Council's documentation. This may have a significant effect on the cost of assembling the site.

9.23 Figure 70 shows the results of an appraisal assuming an absorption rate of 75 units per annum. In the case of a scheme on this scale, we would consider this absorption rate to be too low but we have included these results for the sake of comparison. It will be immediately apparent that the residuals are considerably lower than those from Brom 1 and, indeed, at this rate of sale, would struggle to deliver more than 15% affordable housing.

9.24 There are a number of possible reasons for this,

a. the large gross area relative to the net developable area;

b. the inclusion of a significant element of sheltered housing for the elderly;

c. the simple duration of the scheme.

9.25 There are possible solutions to each of these potential problems; the gross:net developable area issue has been made to look worse than it is because of the omission of the commercial elements of the scheme. The large element of sheltered housing has been included within a scheme whose net density is 35 DPH. In fact, sheltered housing is typically delivered at far higher densities meaning that it might be possible to include more residential development within the overall site area or, alternatively to develop the remaining residential area at lower densities, allowing for a mix of larger and potentially more valuable units. Finally, the likeliest cause of the difficulty is the duration of the scheme, with land assembly separated by a considerable period from the conclusion of the scheme. A phased assembly would go a long way to resolving such issues, although we have insufficient information to suggest an appropriate phasing scheme at this point.

9.26 Figure 71 shows the results for Brom 2 based upon a more realistic rate of absorption – 140units per annum. Based on this rate of sale and "middle" market performance, the delivery of 30% affordable housing is unlikely to be achieved but values remain in positive territory in the majority of years. Dividing the site assembly into phases would certainly improve the situation but on their own, may be unlikely to deliver land values that would support land assembly at 30% affordable housing. All other things being equal, the achievement of 30% affordable housing, and certainly 40% affordable housing, would be dependent on the achievement of values which reflected the upside market conditions. This is not, of course, impossible, as the largest development, a scheme on the scale of Brom 2 might be expected to have the best chance of changing perceptions and attracting a significant premium.

9.27 Figure 72 shows the consequences of being able to achieve a sales rate of 180 units per annum on Brom 2. This is not impossible for a scheme on this scale, however, as the results show, doing so is a mixed blessing because, whilst the Residual values achieved are generally higher, there are more years when the delivery of 30% affordable housing, for example, would result in a negative overall residual. This apparently counter-intuitive finding is the result of more of the development coming forward in the years where the full impact of the Code for Sustainable Homes is being felt but residential values are not assumed to have risen sufficiently to off-set that cost. Such a result shows the extreme sensitivity of such appraisals in the face of attempts to project costs and values into the future.

Brom 3

9.28 With a capacity of 470 units, Brom 3 falls between Brom 1 and Brom 2 in terms of scale and its viability is also midway between the other two strategic scale sites appraised.

9.29 Figure 73 shows the results for Brom 3 appraised at an absorption rate of 75 units per annum. In our view, this is a little low for a scheme of this scale but, once again we have included it for the benefit of direct comparison. On this basis, we can see that, 30% affordable housing, or something near it, is likely to be deliverable in most years, albeit that residual values would get quite low if development were to

commence in the middle of the study period and the market were to perform to the "middle" scenario.

9.30 Careful phasing might be necessary in order to ensure the level of land values necessary to ensure that the land comes forward but, if all other parameters remain the same, this should nor prove an insuperable difficulty.

9.31 Figure 74 shows that, if the absorption rate were increased to 140 units per annum, viability would be improved but the effect on land value is slight – and certainly insufficient to give much confidence that any more than 30% affordable housing might realistically be delivered although, naturally, if performance were to resemble "upside" market conditions, 40% affordable housing would look considerably more plausible.

9.32 Finally, Figure 75 shows that, once again, an increase to 180 units per annum might be expected to result in a slight increase in residuals in most circumstances, but again, this is unlikely to be sufficient to deliver an increase to 40% affordable housing in and of itself.

10.0 Commuted Sums

Commuted Sum Principles

10.1 The principles outlined in ODPM Circular 05/2005 confirm that planning "obligations created run with the land"[4] and that "planning obligations should never be used as a means of securing for the local community a share in the profits of development i.e. as a means of securing a betterment levy."[5] The Circular considers that the use of planning obligations may include securing "the inclusion of an element of affordable housing in a residential or mixed use development where there is a residential component."[6] In addition, the Circular confirms that the obligations should be "fairly and reasonably related in scale and kind to the proposed development, as well as being reasonable in other respects."[7]

10.2 Paragraph B14 of Circular 05/2005 states that affordable housing is provided through a presumption of being "in kind and on site," however "there may be certain circumstances where provision on another site or a financial contribution may represent a more appropriate option."

10.3 PPS3 was published in November 2006 together with the guidance document Delivering Affordable Housing. It sets out the Government's strategic housing policy objectives, which include achieving a wide choice of high quality homes, widening opportunities for home ownership, improving affordability across the market by increasing supply, and the creation of sustainable, inclusive and mixed communities in all areas. PPS3 confirms the Government's commitment to the provision of high quality housing for those unable to access or afford market housing and also helping people make the step from social-rented housing to home-ownership.

10.4 PPS3 states that where it can be robustly justified, off site provision or a financial contribution in lieu of on-site provision (of a "broadly equivalent value"[8]) may be accepted as long as the agreed approach contributes to the creation of mixed communities in the local authority area.

> "Decisions on alternative options should be made with regard to what is economically viable and realistic on that site and local housing needs as well as taking into account the mix of tenures on the site (…) the level of developer contribution should be at least maintained, but it should not be assumed the developer can meet the whole cost of the shortfall."[9]

10.5 Thus, although national policy suggests that on site provision of affordable housing is the preferred approach, there may be some instances where an off site

[4] Paragraph A3 Circular 05/05

[5] Paragraph B7 Circular 05/05

[6] Paragraph B12 Circular 05/05

[7] Paragraph B5 Circular 05/05

[8] PPS3 paragraph 29 Department of Communities and Local Government November 2006

[9] Delivering Affordable Housing paragraph 95 Department of Communities and Local Government November 2006

contribution is acceptable. National policy is predicated on the basis that some forms of affordable housing in some locations require public subsidy and planning agreements therefore need to maintain flexibility to deal with the eventuality that the subsidy may not be available at the time of delivery. These principles should apply whether the affordable housing is achieved on site or whether it is achieved through a contribution.

10.6 The Community Infrastructure Levy (CIL) regulations came into force on 6th April 2010. CIL is calculated at granting of permission and is paid on implementation. The level of payment is determined by the local charging schedule. Local Authorities prepare a charging schedule, adopted through a forward plan and charges are made against net increases in floor area. CIL affects all development sites and care is needed in assessing the level of infrastructure necessary to enable development, but this should not be so great a burden as to prevent sites coming forward.

10.7 The regulations make it clear that there will be no duplication of the demands made under CIL and Section 106 agreements. Part 11 sets out a number of limitations on the use of planning obligations. It is now unlawful for a planning obligation to be taken into account when determining a planning application for a development, or any part of a development, that is capable of being charged CIL, whether there is a local CIL in operation or not, if the obligation does not meet all of the following tests:

(a) necessary to make the development acceptable in planning terms;

(b) directly related to the development; and

(c) fairly and reasonably related in scale and kind to the development.

10.8 Regulation 123 of the CIL regulations also sets out further limitations on the use of planning obligations and states that, 'this regulation applies where a relevant determination is made which results in planning permission being granted for development'.

10.9 Care is needed over timing of permission and interaction of CIL Regulation 123, especially in relation to trigger dates and pooling of section 106 contributions. Regulation 123 also needs to be considered by local authorities when deciding what infrastructure to include in their charging schedules. Once a charging schedule is in place this regulation prevents double charging by CIL and a section 106 agreement.

10.10 It is important to note that a 'relevant determination' in relation to Regulation 123 (3) refers to a determination made on or after 6th April 2014 or the date when the charging authority's first charging schedule takes effect and will apply to whichever is earlier. Therefore, there are limitations on the level of infrastructure which can be provided utilising s106. These include limitations on the number of separate planning obligations that relate to planning permissions granted for development within the area of the charging authority. This means that the cumulative impacts of development must be assessed to determine whether any other types of infrastructure should be included within the CIL.

Principle of Equivalence – Practical Methodology

10.11 This report on the viability of affordable housing has shown that it is important to understand the economics of development when seeking to achieve affordable housing. This involves looking at all costs and values and assessing whether the residual is sufficient, generally, to bring sites forward. There may be instances where it is not possible or desirable to achieve the affordable housing on site and these same principles of applying the economics of development must apply. Therefore, when considering a particular site the principle of "broad equivalence" must apply.

10.12 Bearing in mind the complexities of assessing the economic implications of affordable housing, a simple formula for developer subsidy can be derived. However, this simple formula has a number of complex inputs that are used to assess individual sites and which maintain a contribution to affordable housing that is broadly equivalent in amount of affordable housing that is achieved and which has a broadly equivalent contribution from the developer thereby ensuring a neutral effect on the economics of provision. In line with PPS3, the presumption should be that the affordable housing is provided on site, but where an off site contribution is proposed, the developer should be neither advantaged nor disadvantaged by agreeing to or proposing an off site contribution.

10.13 Our view is that the economic assessment of a development should be site and scheme specific (it should include all costs and values related to the particular use) but that these costs should be generic (they should be able to be applied to any developer and not be specific to an individual). This will maintain the planning principle that permission runs with the land and not with an individual.

10.14 If a scheme is viable the practical methodology of assessing how much a development can afford involves establishing the developer subsidy. When this is an on site contribution this will be an exercise to establish how much and what type of affordable housing can be achieved on site. When an off site contribution is to be applied it is establishing the amount of developer "subsidy" which is involved to meet the Council's objectives.

10.15 We have pointed out that the developer subsidy relates to the implications for the land use of a particular site. The developer subsidy is established by looking at the difference in residual land value between the development without an encumbrance (in this case the encumbrance is the imposition of affordable housing) and the residual land value with the encumbrance. The simple formula for developer subsidy is thus:

DEVELOPER SUBSIDY FOR AFFORDABLE HOUSING

=

RESIDUAL VALUE OF DEVELOPMENT UNENCUMBERED BY AFFORDABLE HOUSING

LESS

RESIDUAL VALUE OF DEVELOPMENT ENCUMBERED BY AFFORDABLE HOUSING

10.16 Thus the formula involves two discrete calculations and we would suggest a simple matrix that enables these two calculations to be assessed. This is as follows with example figures input:[10]

Scheme	A 100% Market	B Mixed Scheme (Affordable & Market)
Gross Development Value (GDV)	£10,000,000	**£6,500,000**
Values/ Receipts		**£2,000,000**
Grant Provided		**NIL**
Total Build Costs	£4,750,000	**£4,750,000**
Total On Costs	£475,000	**£475,000**
Total other s106 Costs	£100,000	**£100,000**
Total Sales Costs	£650,000	**£450,000**
Total Finance Costs	£1,000,000	**£700,000**
Total Acquisition Costs	£100,000	**£70,000**
Developer Profit @17% GDV	£1,700,000	**£1,225,000**
Residual (Values/Receipts Less costs)	£1,225,000	**£730,000**
Developer Subsidy Required (A-B)	**£495,000**	

10.17 In this example we have assumed the following:

Gross Development Value = Current market value of units proposed on site;

Values/Receipts = receipts from affordable housing provider and/or for any intermediate dwellings;

Grant provided = if policy assumes a certain level of public subsidy;

Total build Costs = generic assessment of construction costs (BCIS or QS assessed);

On costs = usually at a set percentage;

Other S106 costs = where known;

Sales costs = marketing and legals on market sales and LCHO;

Finance costs = net interest charged/earned during the development period;

[10] Please note that these figures are for illustrative purposes only

Acquisition costs = costs associated with acquisition of the site (Stamp Duty, legal fees etc.);

Developer Profit = at an agreed percentage.[11]

Alternative and Existing Use Values

10.18 In the example above it can be seen that the residual site value of the scheme unencumbered by affordable housing would be £495,000 higher than the site value with affordable housing assuming that the Council's target percentage and tenure split is being met. Different tenure splits and target percentages will have different effects on site residuals and, therefore, on developer subsidy.

10.19 The next stage in the assessment is to ensure that this level of developer subsidy would be sufficient to ensure that this site comes forward. We would need to assess both the alternative or existing uses of the site. If, for example, an existing use on the site generates a value of £900,000 then the residual value of the site with affordable housing is insufficient to bring this site forward and the developer subsidy would have to decrease in order to ensure that the residual site value is greater than the alternative use value. In this case the developer subsidy would have to decrease by at least £170,000 in order to bring this site forward.

10.20 The same principle applies to alternative uses of the site. In this example, it may be possible to provide a different mix of residential use that establishes an alternative use perhaps without having to provide affordable housing (the number of units would be below the threshold for affordable housing, for example). A similar exercise should be undertaken in order to establish residual values. This will use comparable assumptions as in the main assessment.

[11] It must be remembered that developer profit should be considered as a fixed cost of development and not as a variable to be increased or decreased in order to ensure a scheme "works".

10.21 Therefore the simple formula can be further modified thus:

DEVELOPER SUBSIDY

=

RESIDUAL VALUE OF DEVELOPMENT UNENCUMBERED BY AFFORDABLE HOUSING

LESS

RESIDUAL VALUE OF DEVELOPMENT ENCUMBERED BY AFFORDABLE HOUSING (TAKING INTO ACCOUNT ANY REALISTICALLY ACHIEVABLE ESTABLISHED ALTERNATIVE OR EXISTING USE)

Practical Assessment

10.22 It is important that individual site and scheme assessments are undertaken using a set of agreed principles between the developer and planning authority. It is for this reason that we propose using generic values and percentages wherever possible and for these to be agreed and audited by one or more third parties to ensure impartiality and legitimacy. Our experience has shown that agreeing these parameters should not be a difficult process and the Local Authority should make it clear and consult upon the parameters to be used. It is also incumbent upon the developer to provide the necessary information to undertake the assessment outlined above but this is not the same as proposing an "open book" approach. If an agreement can be arrived at using generic figures (and we have experience of agreeing developer subsidy where this has been achieved) then it is incumbent on the developer to ensure that the necessary information is provided as soon as possible. However, it may be that the principal input from the developer is for exceptional and abnormal costs associated with the development to be provided.

10.23 Using generic methods to generate the other inputs into the assessment will ensure that two important principles are maintained;

- the planning permission does not become personal to a particular developer (it can be transferred to another developer without having to undergo a complete re-assessment of the site); and
- the planning permission does not rely upon commercially sensitive information that would benefit a developer's competitors.

Recommendation

10.24 We therefore recommend that any commutation for affordable housing should be based on the equivalence principle supported through Circular 05/05, PPS3 and associated documents. The developer subsidy for this off site contribution should equate to the developer subsidy that would have been provided had the affordable housing been achieved on site. The developer subsidy equates to the difference in residual values between an unencumbered scheme and the scheme encumbered by affordable housing to meet the Council's target percentage and tenure mix. This will need to take into account any established alternative or existing use value

supported by evidence if necessary. This methodology can be used without recourse to cost and value tables and is able to be used for the lifetime of the affordable housing policy without further amendment to take into account revised tables or cost yardsticks of any sort.

11.0 Effect of Other Variables

11.1 Initially we set out the impact of a variety of key factors that impact upon viability, not only in Bromsgrove, but also generally.

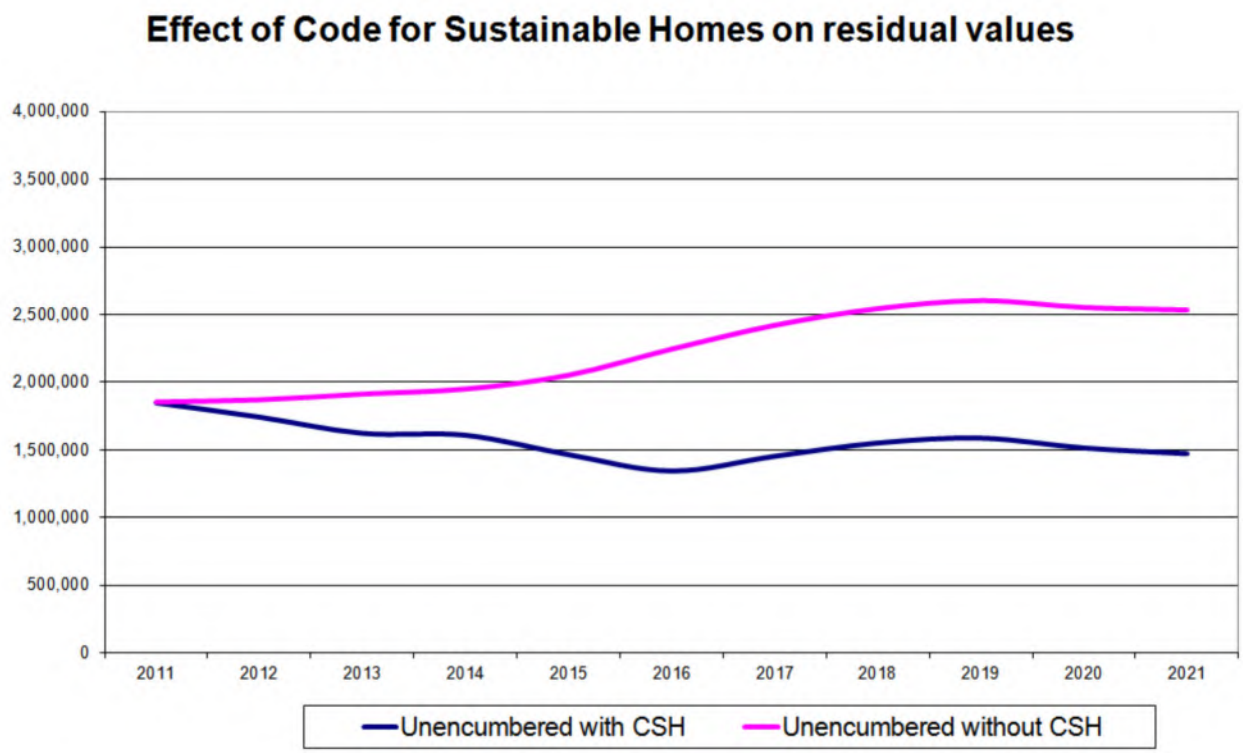
Effect of Code for Sustainable Homes Requirements

11.2 The current timetable for the introduction of increased Code Levels for the Code for Sustainable Homes was incorporated into our future scenario testing. Effectively this took the form of additional uplifts to construction cost requirements based upon studies of the potential impact of these requirements. The base requirement set market housing requirements at Code Level 3 and affordable housing based on the need to achieve Code Level 4. Uplifts in construction cost inflation were modelled to take effect in 2013 (uplift to Code Level 6 for affordable housing and Code Level 4 for market housing) and 2016 (uplift to Code Level 6 for market housing).

11.3 It is clear that the imposition of the forecast increase in construction costs has generally had an effect on the viability of schemes during the period 2013 to 2019 or thereabouts. This is especially clear where schemes are marginally viable in the first one or two years. In some cases, the desired level of contribution to affordable housing may not be achievable during this period.

11.4 The cost assumptions we have used within this report are based on estimates current at the time of preparing our report. Technological advances in building techniques and general acquaintance with the requirements may bring these costs down and reduce the overall impact. At this stage, it may be that the allowance we have made for code level costs is a "worst case" position. In that case it may ease the pressure at the time that the higher code levels come into force.

11.5 The figure below shows the impact of the effect of the costs associated with the Code for Sustainable Homes on the residual value of a 50 unit 30 dph scheme unencumbered with affordable housing.



Effect of Different Profit Assumptions

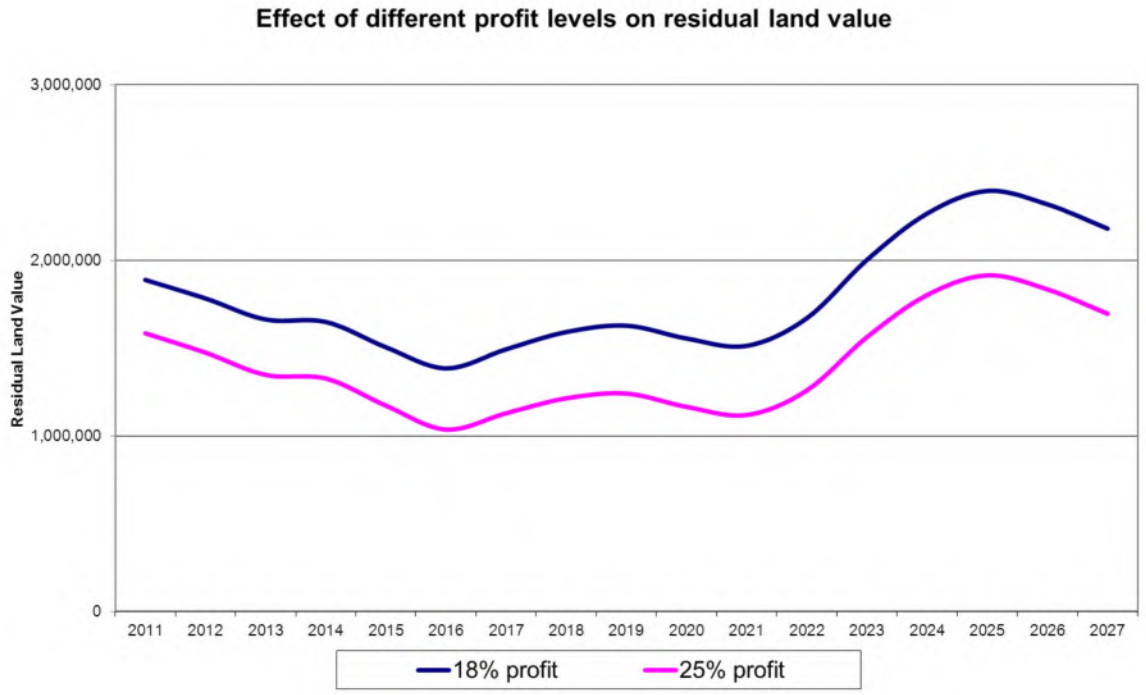
11.6 We have undertaken our testing mainly on the basis of 20% profit on GDV. We also undertook sensitivity testing at 25% profit on GDV to reflect schemes where there is a justifiable, higher level of developer risk.

11.7 Our reporting has mainly been on the basis of 20% gross profit because this is the level of profit that has been accepted by custom both in many affordable housing viability studies of this type and in negotiations on sites (and supported at appeal). Indeed, in many studies profit levels of between 15% and 17% of GDV have been used and therefore we feel it is appropriate to have drawn our main conclusions based on gross profit of 20%. Furthermore, the Homes and Communities Agency (HCA) Economic Appraisal Toolkit suggests currently a developers return for open market housing could be typically 17.5 – 20%.

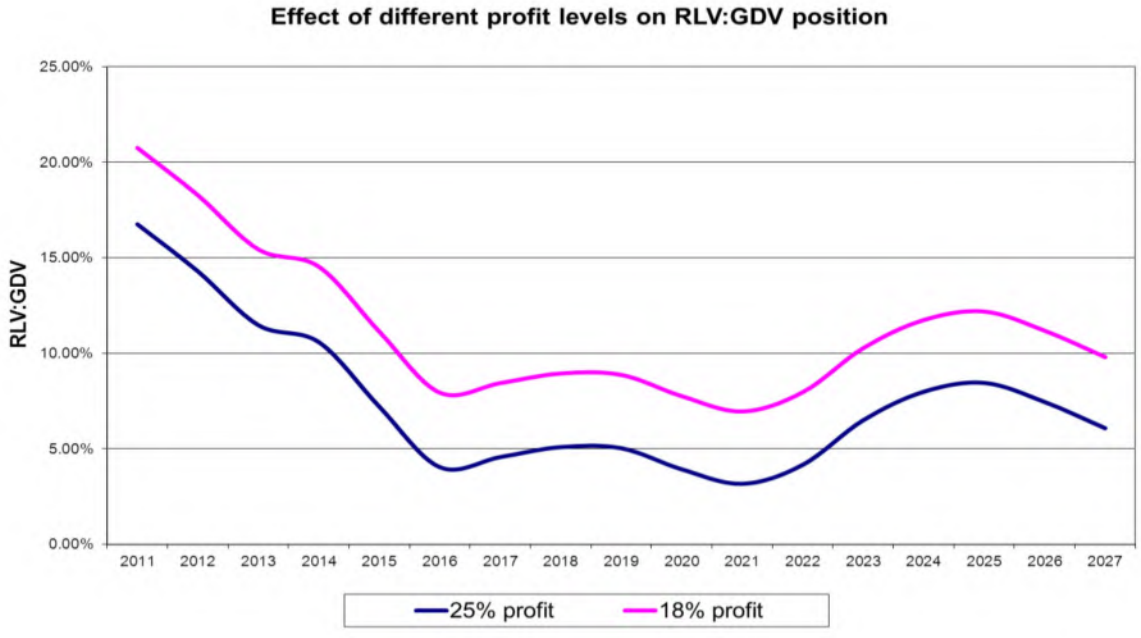
11.8 We should also be mindful that current pressures to increase the allowance for profit are in response to the specific market conditions that we are currently experiencing. This is in response to the perceived risk of development in an uncertain market and reflects, also, the difficulties many developers are finding accessing finance at reasonable rates. Therefore, basing our assessment on higher levels of profit for a policy that must last the life of the Core Strategy might not be appropriate.

11.9 However, it should be noted that the results of our testing at 18% and 25% gross profit against GDV may have a significant effect on the viability of schemes. In this case, where specific site constraints and market conditions allow, the Authority may consider the case for higher profit levels to be taken into account. It is our view that, where development viability is a particular issue, the applicant must make a reasonable case for taking into account a higher than normal profit level.

11.10 As an example the consideration of higher profit levels can be seen in the following graph which shows the effect on residual value of a higher profit level, again assuming a 50 unit, 30 dph notional scheme. It can be seen that profit affects the residual value that this scheme can achieve.

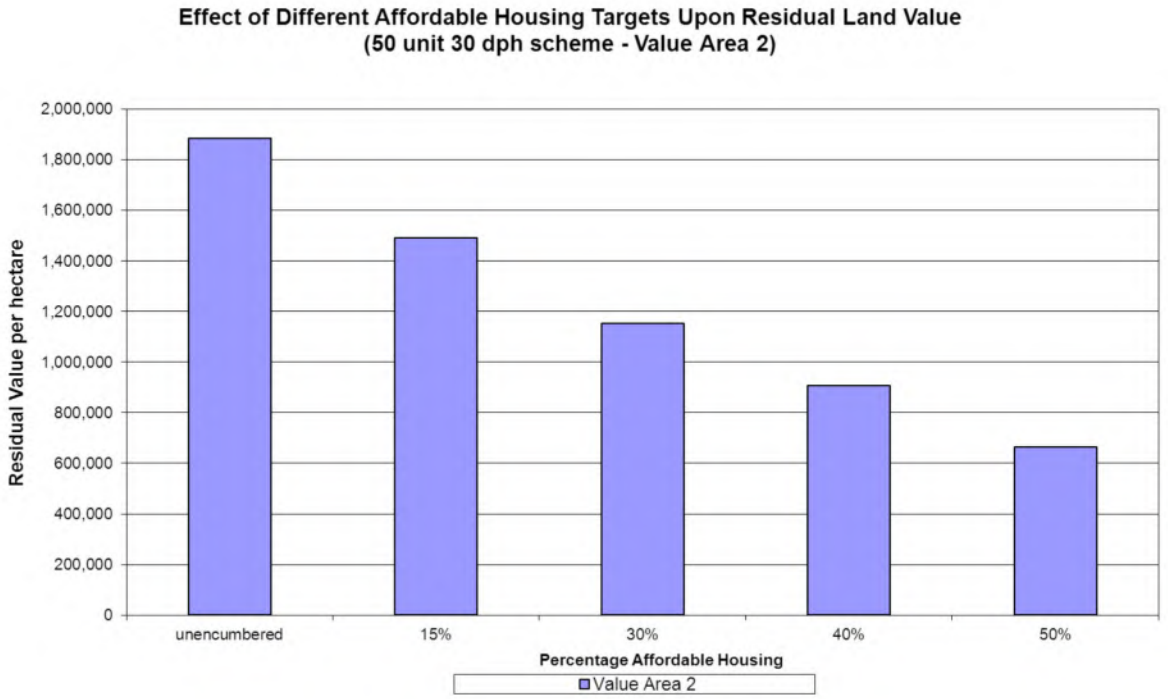


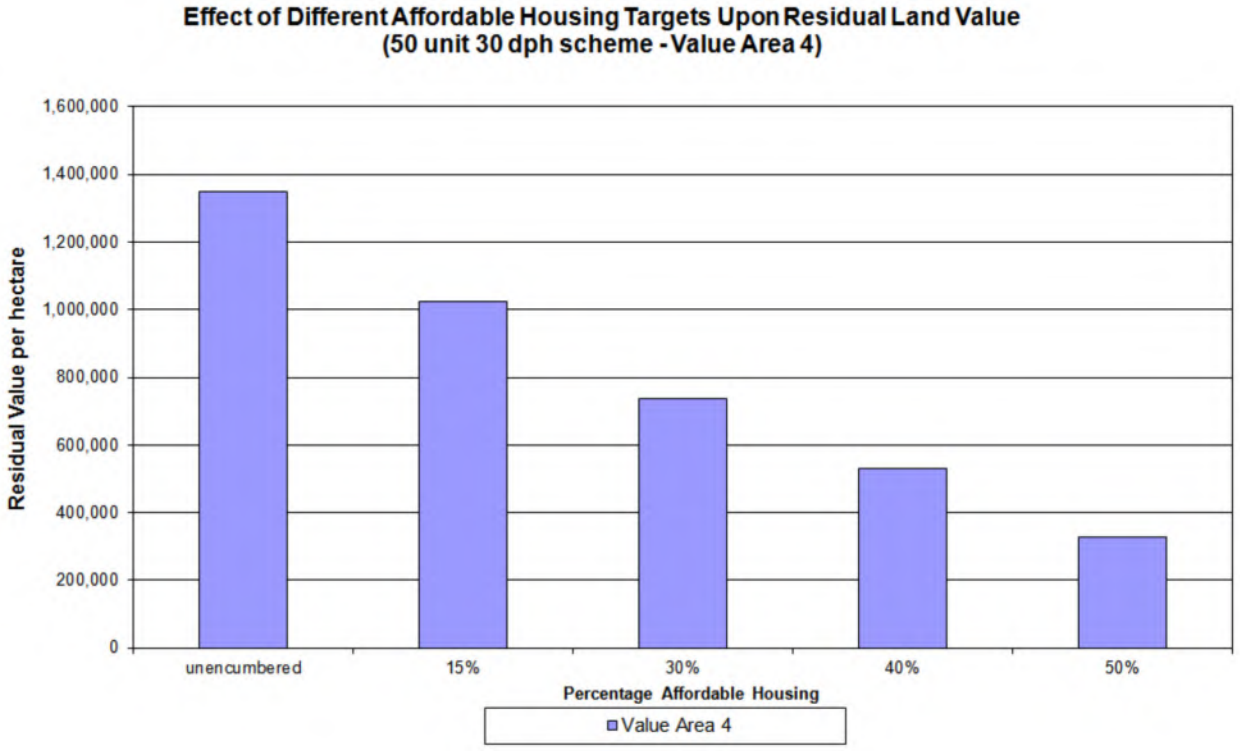
11.11 This is not the entire story, however. To understand the effect that this has on the viability of schemes, we have used the same scheme to show how higher and lower profit levels impact upon the RLV:GDV position to 2026.



Relationship between residual land value per hectare and the percentage of affordable housing

11.12 The following figures examine the relationship between residual land value per hectare and the percentage of affordable housing, again this analysis is based upon a 50 unit 30 dph notional scheme as assessed at the baseline position set out in the results section. This graph is based on a current 'snapshot' of viability and does not attempt to show how this position may change over time, nor the impact of the different market scenarios. The first figure shows the impact of the range of affordable housing percentages tested upon the residual land value and uses Value Area 2 sales values. The second figure shows the same position but assumes Value Area 4 sales values. Although the actual residual land values differ due to the sales values assumed, the important consideration is the depressing effect that higher affordable housing percentages have on the residual land value that can be achieved. This trend is seen across all Value Areas.

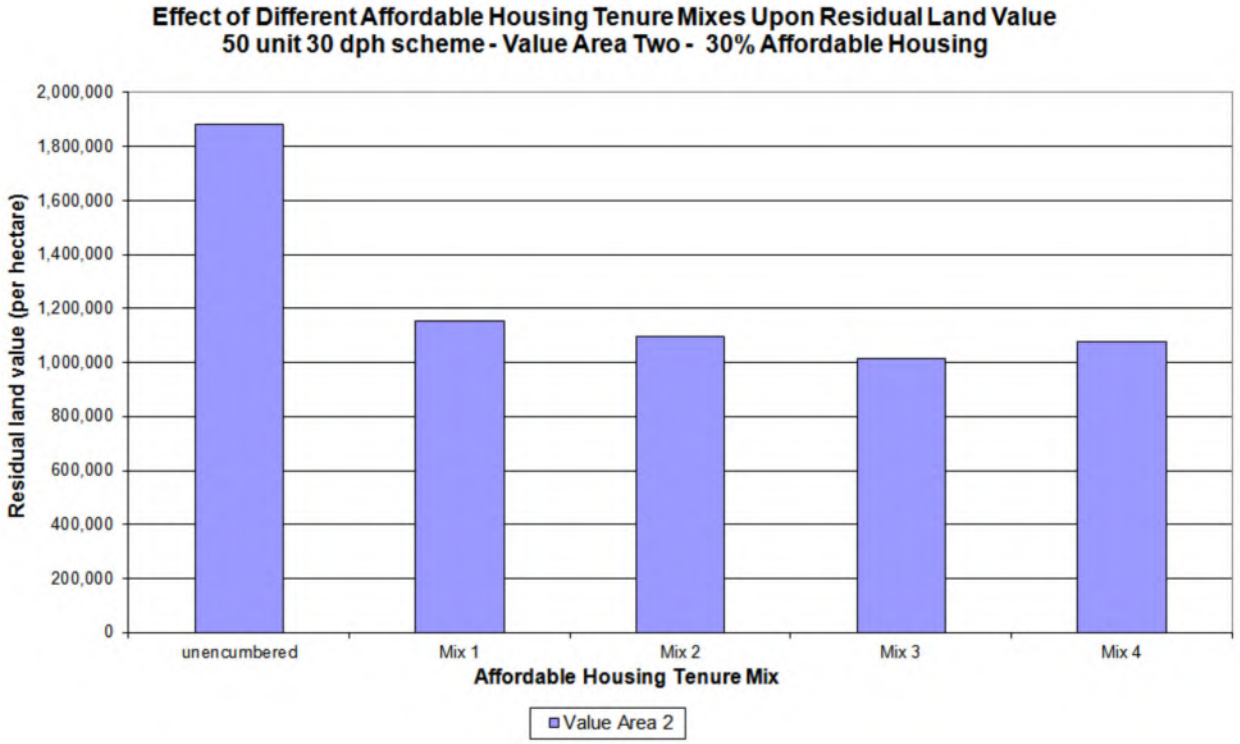


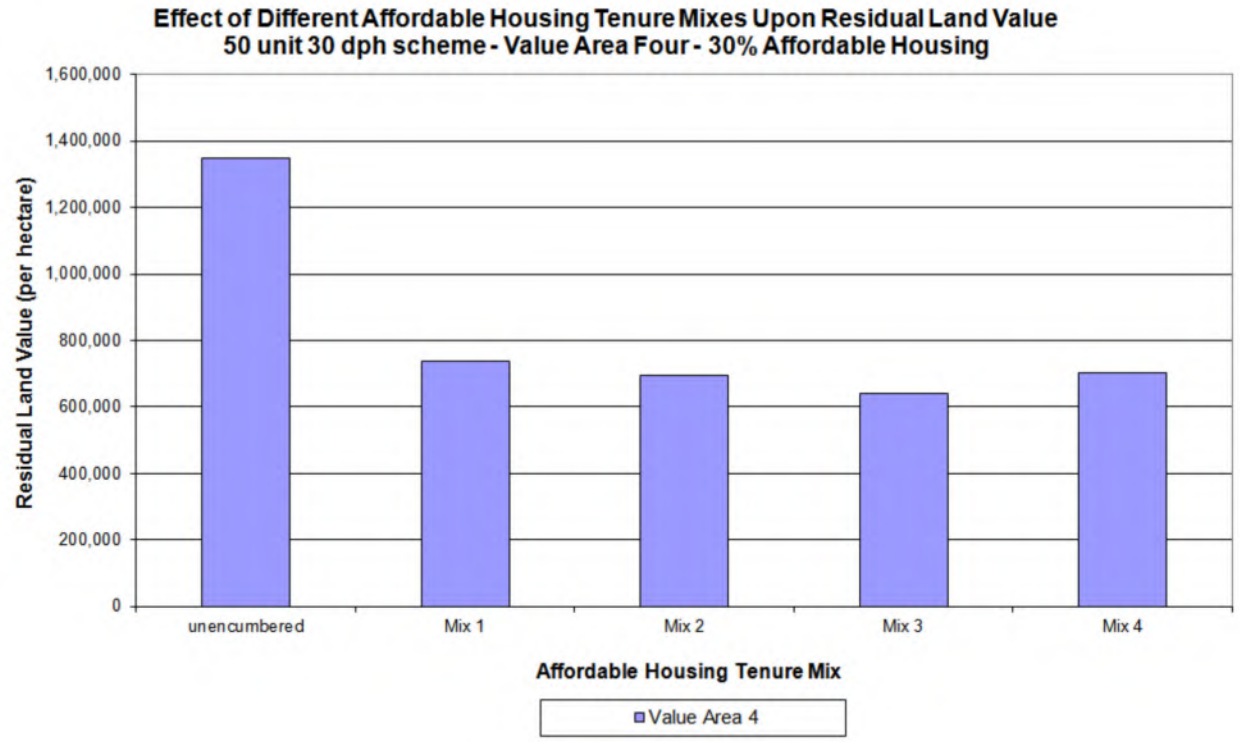


Effect of affordable housing tenure mix

11.13 The figures below show the impact upon residual land value of three different affordable housing tenure mixes of a scheme providing 30% affordable housing as well as the same scheme unencumbered by affordable housing. This analysis is based upon a 50 unit 30 dph notional scheme as assessed at the baseline position set out in the results section. The first figure shows the impact of the range of tenure mixes upon the residual land value and uses Value Area 2 sales values. The second figure shows the same position but assumes Value Area 4 sales values.

11.14 Mix 1 assumes 66:34 social rent:shared ownership, mix 2 assumes 75:25 social rent:shared ownership, mix 3 assumes 50:50 social rent:affordable rent and mix 4 assumes 100% affordable rent. Although the actual residual land values differ due to the sales values assumed, the important consideration is the relationship between the tenure mixes and the residual land value that results. These trends are seen across all Value Areas on schemes at all densities and sizes.


Effect of Different Affordable Housing Tenure Mixes Upon Residual Land Value
50 unit 30 dph scheme - Value Area Two - 30% Affordable Housing
Residual land value (per hectare)
2,000,000
1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
unencumbered
Mix 1
Mix 2
Mix 3
Mix 4
Affordable Housing Tenure Mix
Value Area 2


Effect of Different Affordable Housing Tenure Mixes Upon Residual Land Value
50 unit 30 dph scheme - Value Area Four - 30% Affordable Housing
Residual Land Value (per hectare)
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
unencumbered
Mix 1
Mix 2
Mix 3
Mix 4
Affordable Housing Tenure Mix
Value Area 4

Conclusions and Recommendations

11.15 Our conclusions at this stage are necessarily tentative and subject to feedback received from officers, however, we will seek to draw some threads together.

The Dilemma

11.16 Values in Bromsgrove vary very greatly and the viability of development in the District varies with them. This variation in values might tempt us to suggest the introduction of different targets in different parts of the district but, on balance, we do not think that this would be the best approach. A policy based on the "heat map" included on page 17 of this report would be highly complex and subject to constant revision. Nor would simplification into a number of general areas be an easy matter since there is no obvious organising principle behind the pattern of high and low value areas. Moreover, it seems likely that there is significant variation within as well as across the boundaries identified in the heat map.

11.17 Instead, we think that it is worth recognising that the vast majority of the District experiences the values characteristic of Value Areas 1 - 4 and Value Areas 5 and 6 lie largely outside the District. Taken together with the tendency of development to focus on those areas and sub areas where the best values are to be achieved, as well as the ambition on the part of the developers of new housing, to seek to achieve a premium over the values prevalent among the existing stock, it does not seem unreasonable to assume that, in general Value Areas 2 and 3 will constitute a reasonable guide to the viability of development across most of the District.

11.18 Since the results from these two value areas are very similar, the extent of variation is immediately very much reduced.

11.19 Considerable variation remains of course inasmuch as some sites will be built on land with very low alternative values whereas others will be constructed on sites which cost a great deal to assemble and, or decontaminate. However, our results suggest that 30% affordable housing is likely to be achievable in most cases on most types of sites and that in a significant minority of cases, more will be deliverable. Moreover, although the details will not be clear until the conclusion of the HCA's consultation process, it is likely that the introduction of the new Affordable Rented tenure will increase the level of receipt for affordable housing units, rendering the delivery of affordable housing more viable – which holds out the possibility that more schemes would be able to deliver in excess of 30% affordable housing.

11.20 This leaves the central dilemma for the Council as a choice between seeking 30% and 40% affordable housing as the target for policy. Yet the risks and opportunities associated with each choice are not symmetrical. The risk of seeking a 30% target is clear – that some sites will get away with the delivery of less affordable housing than they might otherwise have been able to achieve – a loss to the community. However, there are also advantages to a lower target. If it is possible to deliver the target in full in a significant number of instances without recourse to grant (which is unlikely to be available) the policy gains credibility and must be taken seriously in all land transactions. A target which is acknowledged to be ambitious may create the expectation among developers that it can always be negotiated down, on the basis of confidential negotiations, which could reduce its effectiveness over time.

11.21 The advantages of a higher target are obvious – that it means that the most valuable sites, developed on the lowest value land would make the largest possible contribution towards affordable housing. However, there are also some disadvantages - the fact that it will only be possible to meet the target in a some cases means that extensive viability negotiations are more likely to be required in more instances. These will have consequences for the transparency of policy, for the demand on officer time and resources and for the cost of bringing forward an application. Although the fact that any target would be subject to negotiation on grounds of viability should ensure that no site is prevented from coming forward, the delays associated with lengthy viability negotiations can slow the application process considerably.

11.22 These general conclusions should be considered in light of the nature of Bromsgrove's land supply in which the majority of development will take place on two types of site – very small sites and strategic scale sites. It is worth considering each briefly.

Small sites

11.23 Roughly a quarter of the number of current residential planning permissions in the Council's SHLAA are on development of 1 - 3 units and the Council has asked us to investigate the scope for seeking a contributions towards affordable housing from these sites.

11.24 Obviously, it would be difficult to achieve on-site provision from a three unit site and impossible from a one unit site (which make up the vast majority of such small sites). It therefore makes sense that, in such cases, the contribution might take some other form, such as cash. We have therefore assessed the residual plot value of a single unit at a variety of sizes and at all the identified Value Areas. Our finding was that such plot values varied from over £100k in the most expensive areas to quite strongly negative values in the lowest value areas. However, assuming that we need only concern ourselves with those developments that are viable in the first place and discounting the outliers, it would appear that, even taking into account the increased build costs associated with small sites, the residual plot value for a single unit in value areas 2 and 3 is in the order of £30,000.

11.25 The question then, is how much of that value the Council could reasonably seek by way of affordable housing contribution. The answer to this question would then have to depend on the existing or alternative use value of the land – which can, of course, vary substantially. However, we understand that many such sites are coming forward on garden sites or "backland" which the government has recently redesignated as greenfield land. Such sites have no obvious alternative value and the price paid for them relates to the landowner's willingness to sell.

11.26 It might therefore be that an appropriate contribution might be in the region of £10,000 for each proposed dwelling. This would still leave significant value for the seller whilst still making a meaningful contribution towards affordable housing. Indeed, it would imply that approximately one third of the land value in such sites was to be put to the cause of delivering new affordable housing or, to put it another way, that the contribution towards affordable housing was broadly equivalent to the provision of free land. Finally, , it should remain sufficiently modest as to avoid, in the majority of cases, the necessity of bringing forward a viability appraisal – with its attendant difficulties of ascribing a fair value to the site.

11.27 On this same subject, we wonder whether the designation of small sites is correct. BCIS lists the construction cost of "one-off" sites with a capacity of 1 -3 units as being nearly twice those of "estate housing" where economies of scale can be achieved. In the absence of any other data, we have been compelled to use these designations for our modelling, creating the illusion of an abrupt difference in the financial circumstances of sites of 3 units and those with the capacity for 5 units. We wonder whether, in fact, 5 unit sites do not have more in common with one off sites than with larger estates and whether the expectation might not more reasonably be that they provide a financial contribution along the lines envisaged above.

11.28 Developers would, of course, remain free to negotiate to provide on-site provision where that could be achieved but it would be by common consent rather than a blanket insistence.

11.29 We do note that there are currently no more than a handful of sites identified in the SHLAA as having the capacity for 3-5 dwellings. However, this is, in part, because the SHLAA discounts such sites. The impact of a £10,000/dwelling contribution from each of the small sites identified in the SHLAA would be small. However, when windfall sites are properly accounted for, the total scale of contribution would be larger.

11.30 Moreover, it is important to recognise that contributions from the smallest sites *should* be on the conservative side, in order to ensure that they do not compromise viability except in the rarest cases. Where viability negotiations are undertaken, the combined costs on both sides can easily reach £6,000. Whilst this might be acceptable in the context of a larger site and a contribution that ran to hundreds of thousands of pounds, it would be unreasonably large in the context of a two unit development, for example.

Strategic Scale Sites

11.31 It is likely that the majority of the Council's overall housing delivery and, consequently of their affordable housing delivery will be concentrated on a small number of major developments. We have carried out some very preliminary appraisal of three notional sites with the characteristics set out in the Council's documentation but we understand that there may be one or more other sites with the potential for development on this scale. In any case, the lack of important information about the S106, obligations, the level of any future CIL and the infrastructure and servicing costs associated with the developments makes it very difficult to be categorical about the best policy in this area.

11.32 At present we have appraised all three as though the values achieved were comparable to those in Value Area 3 and on the basis that the combined cost of S106, infrastructure and servicing were £10,000/unit and our findings were that, on this basis, we did not see these developments being capable of delivering more than 30% affordable housing based on "middle" market performance.

11.33 However, we recognise that a major Sustainable Urban Extension seeks, to some extent, to set its own market conditions and to achieve a premium over the local values. In the event that it were possible to achieve values that reflected a premium consistent with our "upside" market performance track then the delivery of 40% affordable housing might be feasible. Albeit that doing so would still necessitate the assembly of the site at comparatively low values.

11.34 One thing we would suggest however, is that, given the scale of such sites, it is inevitable that the developers will submit viability appraisals of their application and that the Council will need to negotiate with them about the implications of these appraisals. Unlike with the large number of small sites discussed above, such negotiations in respect of a small number of large sites are an excellent investment of officer time.

11.35 Naturally, development appraisals submitted by the promoters of schemes on the basis of all the relevant information, including phasing, the final planning gain costs, anticipated values and the true cost of land assembly will be vastly more accurate and meaningful than we can be at this point. However, such negotiations are likely to be, in large measure, commercially sensitive and, consequently opaque.

11.36 Since the process of policy development remains at an early stage, we would recommend that the Council seek to refine the very crude assessments we have been obliged to make as soon as possible and that it treat the appraisal of all strategic scale sites as an iterative process. As the process of drawing up the Core Strategy and Development Brief goes along, the Council will gain a clearer idea of its CIL charging schedule, which can then be fed into the appraisals, along with the cost of infrastructure and servicing, which developers will, no doubt, be seeking to assess. This approach will not only assist in ensuring that expectations about the yield of affordable housing and other planning gain from these sites is kept realistic but should also ensure that it is possible to make appropriate value judgements about the different packages of benefits offered by each site.

11.37 **Greenfield Sites**

11.38 Another issue impinging upon the question of which sites might most easily sustain the largest contributions towards the delivery of affordable housing is the existing use of land. It is clear that those sites which have the lowest existing use values are likely to prove the most viable. That is, the uplift in value arising from the change of use, from which the contributions towards affordable housing must be taken, is the greatest.

11.39 The sites which experience the greatest uplift in this sense are greenfield sites and our modelling has, unsurprisingly, shown that, in all areas, development on greenfield land can deliver more affordable housing than sites on higher value land. Furthermore, in our modelling, we have assumed that the assembly value of such land might be £250,000/ha. Some might say that this is a low value at which to acquire even unserviced, greenfield land but the fact remains that even this is a very large percentage uplift over the existing use value of the land – which averages nearer to £15,000/ha.

11.40 If the Council were to wish to consider a differential in the target percentage of affordable housing sought, the existing use of the land might be a better dividing line than the scale of development. It should also be said that the largest developments in Bromsgrove are, in any case planned on greenfield land, so such a distinction would capture those large sites in any case.

11.41 With this in mind, the Council has asked that we take particular note of four sites and the outline applications made in respect of them.

a. Land at Selsdon Close; 76 units, of which "up to 40%" will be affordable;

b. Land at Church Road Catshill; up to 80 units, of which 40% were to be affordable;

c. The former Wagon Works, St Godwalds Road; 210 dwellings with 35% affordable homes;

d. Land at Kendal End Road; 88 dwellings of which 40% will be affordable

11.42 As we understand it, all these schemes have received outline consent – albeit that the Wagon Works did so at appeal. In addition the Selsdon Close scheme has now also received reserved matters consent with the inclusion of 40% affordable housing.

11.43 Clearly, all of these sites are currently offering levels of affordable provision beyond the 30% that this report has described as ordinarily achievable. It is certainly not the intention of this report to provide a justification for an immediate lowering of ambitions in these cases and it is therefore appropriate to address the issues that these sites raise.

11.44 First of all, we note that all these applications at outline in nature and the first, in particular is careful to describe the offer as "up to" 40%. However, having reviewed these offers against the results of our study, we have no reason to suppose that the level of affordable housing would need to be reduced on viability grounds at the detailed matters stage.

11.45 All four of the sites where permission has been granted are on greenfield land in areas which fall into our value areas 1 and 2. In these areas, we have concluded that 40% affordable housing might reasonably be achieved – particularly on greenfield land.

11.46 Therefore, in view of both the theoretical evidence and actual practice, we feel that it may be justified for the District to promote an affordable housing policy target of 40% on Greenfield sites. It is our understanding that such a policy would, in practice, incorporate the larger, strategic scale sites discussed above.

11.47 **Percentage Target**

11.48 Given the wide variation between the viability of the highest value areas and that of the lowest, one option would be to adopt different targets in different areas of the Borough. However, in reality, even within the value areas identified in this study, values are far from uniform. Even if they were uniform at any one time, they might not remain so. And, as we have noted, there is the potential for the largest developments to create their own market conditions. Policing the geographical boundaries of the areas in which different policies applied would be time consuming, difficult and contentious. It would consume energies and resources which could be better deployed elsewhere.

11.49 If the Council were to wish to set a differential policy, in order to maximise the delivery of affordable housing whilst minimising the administrative burden, a better line of distinction might be that between green- and brownfield land. Our research tends to suggest that at least a proportion of greenfield sites could accommodate more than 30% affordable housing whilst remaining financially viable and, those which are in higher value areas might manage 40%. Development on brownfield

sites, by contrast is generally less viable and it might, in such cases, be appropriate to adopt a general target of 30% on such land.

11.50 The distinction between greenfield and brownfield land is likely to capture most of the larger, strategic scale sites. However, for the avoidance of doubt the Council might wish to maintain a differential policy for all larger sites above a threshold of, say, 200 units. Were such a site to come forward on brownfield land which was either contaminated or had a higher existing use value, the scale of the development would make it a worthwhile use of the developer's and Council officer's time, to determine what level of affordable housing such a site could, in fact deliver.

Threshold

11.51 Despite the issues recognised above in respect of the very smallest sites, we have not found scale to be an overwhelmingly important determining factor in the viability of developments. PPS3 sets out the presumption that the threshold for the imposition of policies seeking affordable housing should normally be 15 units unless there is justification for a lower threshold.

11.52 Such a justification must surely have several strands: first that there is a need for the additional supply of affordable housing that such an amendment to the threshold would create. i.e. that the use of a 10 unit threshold would not result in an oversupply of affordable housing measured against established need. There seems little danger of this in the present case.

11.53 The second part of such a justification must be that sites with capacity for fewer than 15 dwellings are no less able to bear such a burden than sites whose capacity is greater than 15 units. This study goes some way towards answering this latter point.

11.54 In our view there is no significant different between the viability of schemes with capacities of 10-15 units and that of larger schemes. We therefore take the view that a presumption that affordable housing be provided on site an in kind, be applied to all developments which could accommodate 10 or more homes. Of course, not all sites will be able to achieve this ideal, in some cases, it may be necessary or even desirable for larger developments to make a contribution by some other means. On other schemes, smaller than 10 units, it may yet be possible to achieve some measure of delivery on site but this should perhaps be approached on the basis of mutual agreement rather than compulsion.

Other comments

11.55 The detailed consideration of financial viability has entered the planning system through affordable housing but this mechanism has come to involve many more aspects of planning policy than affordable housing alone. The process is generally carried out at two important stages – first at the policy formulation stage and then at the development control stage. This two stage process is important because the first of these stages – based on assumptions and notional allowances – is carried out in public and subject to scrutiny but the critical development control stage – which informs the actual planning permission – is often commercially sensitive and carried out between the developer and the Council's officers.

11.56 Where developers are able to persuade officers that the assumptions upon which policy rests cannot be said to apply to their site, the actual outcome of negotiations may vary considerably from that anticipated by policy. This, in turn can, lead to concerns that the policy is not being fully implemented or carried out fairly.

11.57 We would suggest that one thing that can help with this would be for the Council to engage in monitoring of its performance in negotiations. We would suggest that it may wish to follow up negotiations by asking developers to report, retrospectively, the values actually achieved for the housing and the price actually paid for the land. If this reporting duty could be added, perhaps by way of a condition to the planning agreement, then officers would have an increasingly useful resource against which it could both monitor its performance and assess new assessments as they are submitted.

11.58 Such monitoring arrangements are currently a rarity but the value to negotiators, of the ability to compare initial assumptions with actual outcomes, should be obvious. Nor does this information need to remain with the Council, none of the information that the Council would be seeking reported would be commercially sensitive at the out-turn stage, indeed, it would need to be reported to the Land Registry anyway and is, as such discoverable. However, it may assist not only officers but all development professionals in Bromsgrove to be able to refer to a resource which shows the relationship between values achieved, planning obligations delivered and the land price paid.