Harborough District Council Affordable Housing Provision and Developer Contributions

Final Report

September 2009

Three Dragons and Roger Tym & Partners

INTRODUCTION

Review of project aims

1.1 Harborough DC, Oadby and Wigston Borough Council, Leicester City Council, Blaby District Council and North West Leicestershire District Council appointed Three Dragons to, "…. *prepare a joint Affordable Housing Viability Assessment (AHVA) compliant with PPS3 (paragraph 29). This will form part of the Evidence Base for their Local Development Frameworks (LDFs) and inform the development of Core Strategy Housing Policies.*" (extract from project brief).

1.2 The overall aim and purpose of the study, as set out in the brief, was to:

- Advise on the most ambitious yet achievable and viable target(s) and threshold(s) for affordable housing which fully reflect the availability of a range of finance towards affordable housing and reflects priority infrastructure needs, in line with PPS3.
- Provide a model for each authority with which local authority partners can assess any case for viability submitted by developers claiming that affordable housing target(s) render their scheme proposals unviable.
- Advise on a simple to use and to up-to-date method of calculating how much commuted sum should be sought in lieu of on-site affordable housing provision.

National Policy Context

1.3 This study focuses on the percentage of affordable housing sought on mixed tenure sites and the size of site from above which affordable housing is sought (the site size threshold). National planning policy, set out in PPS3 makes clear that local authorities, in setting policies for site size thresholds and the percentage of affordable housing sought, must consider development economics and should not promote policies which would make development unviable.

1.4 PPS3: Housing (November 2006) states that:

"In Local Development Documents, Local Planning Authorities should:

Set out the range of circumstances in which affordable housing will be required. The national indicative minimum site size threshold is 15 dwellings. However, Local Planning Authorities can set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area. Local Planning Authorities will need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed, including

their likely impact upon overall levels of housing delivery and creating mixed communities". (Para 29)

1.5 The companion guide to PPS3[1] provides a further indication of the approach which Government believes local planning authorities should take in planning for affordable housing. Paragraph 10 of the document states:

*"Effective use of planning obligations to deliver affordable housing requires good negotiation skills, ambitious but realistic affordable housing targets and thresholds given site viability, funding 'cascade' agreements in case grant is not provided, and use of an agreement that secures standards." (*our emphasis)

Regional Spatial Strategy

1.6 The current Regional Spatial Strategy for the East Midlands was published in March 2009 as the *East Midlands Regional Plan*. It provides a broad development strategy for the East Midlands up to 2026. Within the document (specifically Policy 13a - Regional Housing Provision) the document has identified a total housing provision across Leicester and Leicestershire HMA of 80,400 dwellings between 2006-2026 - equating to 4020 per annum from 2006. Of this, Harborough is allocated an annual apportionment of 350 dwellings from 2006, totalling 7,000 dwellings across the plan period.

1.7 Further to this, Policy Policy 14 of the EMRP – *Regional Priorities for Affordable Housing* allocates 26,500 units of affordable housing for 2006-2026 for Leicester and Leicestershire HMA.

Adopted Local Plan policy

1.8 The Harborough District Local Plan (2004) has two policies relating to affordable housing. Policy HS/4 identifies the amount of affordable housing required across the district. Policy HS/4 states that the District Council will take into account Circular 6/98 which specifies it is only appropriate to seek affordable housing in association with developments of 25 or more dwellings or 1 hectare (irrespective of the number of dwellings). However in settlements with a population of 3,000 or fewer, the threshold may be reduced to 15 dwellings. Policy HS/5 deals with affordable housing in rural areas ("exceptions sites").

1.9 Harborough's Affordable Housing SPD adopted in February 2006 stipulates that developments of over 5 dwellings will be required to contribute 30 per cent affordable housing.

Emerging local policy

[1] CLG, Delivering Affordable Housing, November 2006

1.10 Harborough District Council are currently in the process of preparing their Core Strategy. Adoption is provisionally expected in February 2011.The Council has recently published for consultation a 'Core Strategy Alternative Options' paper, which identifies that *'The lack of affordable housing in the District is a pressing issue and is particularly severe in the more rural areas where house prices have seen the biggest increases. Despite a relatively high proportion of housing completions in rural villages, delivery of affordable units has been disappointingly low'.* Theme 7 of the document specifically considers affordable housing: in light of the fact that house prices in the District are 48 per cent higher than the average for Leicestershire, affordability issues are stated as being 'acute' in the District.

1.11 In order to address the need for affordable housing, the Council adopted in February 2006 a Supplementary Planning Document on Affordable Housing, which introduced a requirement of 30 per cent affordable housing contribution on sites of five or more dwellings, in order for access to affordable housing to be improved across the District.

1.12 The Core Strategy Alternative Options document comments that in 2007/08, 90 affordable units were completed, which exceeded the Council's corporate target of 80 affordable dwellings per annum. However, in the rural areas, where the need for affordable houses in greatest, relatively few developments meet the '5 or more dwellings' threshold which is set out in the aforementioned SPD. No affordable units have been delivered through the 'rural exceptions' policy.

1.13 The Developer Contributions (SPD) is on hold until the Core Strategy has been progressed. Consultation on this document is expected to take place in September 2010, with adoption expected in April 2011. It is also noted that the Council will undertake further work to develop its evidence base in respect of affordable housing.

Leicester and Leicestershire Strategic Housing Market Assessment, 2007/08

1.14 The SHMA was carried out between July 2007 and September 2008, principally by B.Line Housing Information, Three Dragons and Rural Solutions. For the period 2008-2015, Harborough was found to have a projected shortfall of 264 units per year between overall need and projected provision of affordable housing. Of this 82 per cent (equating to 217 units) would need to form Social Rent, with the remaining 18 per cent (47 units) comprising Intermediate Housing, as shown in Table 1.1 below.

Figure 1.1 – SHMA findings for Harborough District.

Main composite totals table *reads from future and backlog split tables hidden above*

Housing need - *in addition to current delivery rates - annual rates to 2015 (7 year policy period)*

	Split based on combined need profile	HMA overall	Blaby	Charnwood	Harborough	Hinckley/Bosworth	Leicester	Melton	NW Leicestershire	Oadby/Wigston
	Overall need	2654	289	309	264	290	790	143	355	214
	% social rent	78%	78%	79%	82%	79%	75%	78%	79%	80%
	% Intermediate Housing	22%	22%	21%	18%	21%	25%	22%	21%	20%
	Social rent	2065	225	245	217	228	591	112	280	170
	Intermediate Housing	589	64	64	47	62	199	31	75	44
annual for 7 yrs	*overall targets for affordable*	2654	289	309	264	290	790	143	355	214
social rent	1 bed general needs	46	6	6	4	5	12	3	5	4
social rent	2 bed upsizing general needs flats	43	5	6	6	6	4	3	9	4
social rent	2 bed downsizing flats/bungalows	246	25	26	30	28	67	14	33	22
social rent	2 bed general needs houses	472	48	52	48	49	145	24	70	37
social rent	3 bed general needs flats	47	4	5	3	4	23	2	4	3
social rent	3 bed general needs houses	727	82	89	79	83	199	41	94	62
social rent	4+ bed general needs	63	3	3	3	3	32	1	16	2
social rent	1 bed elderly person(s)	often no longer an acceptable type of accommodation for the client group already in larger homes								
social rent	2 bed elderly person(s)	315	40	45	33	38	79	18	35	28
	sheltered/supported	105	12	13	11	12	30	6	14	9
	Total social rent	2064	225	245	217	228	591	112	280	170
Intermediate Housing	1 bed general needs	13	2	2	1	1	4	1	1	1
Intermediate Housing	2 bed general needs houses	306	35	35	25	34	97	17	40	24
Intermediate Housing	3 bed general needs houses	244	27	27	21	27	77	13	33	19
Intermediate Housing	4+ bed general needs	24	1	1	0	1	21	0	1	0
	Overall Intermediate	588	64	64	47	62	199	31	75	44
	Overall total affordable	2654	289	309	264	290	790	143	355	214

figures do not sum due to rounding

figures are approximate estimates based on household type and age projections or housing register composition, and will not apply for all times and places

Actual mix requested should be assessed in the light of local supply and turnover

Supply of some types and sizes maybe sufficient from existing turnover

The best indicator of existing ***backlog*** *need is up to date local authority housing registers*

These show, for example, that Leicester City has a pressing need for larger houses, especially in certain areas, while suburban and rural authorities have greater need for smaller, starter and upsizing family homes

It is therefore essential to take account of specific current local circumstances at the time any scheme or intervention is considered

Source: Leicester and Leicestershire Strategic Housing Market Assessment 2007/8.

Dwelling completions and affordable housing provision

1.15 Total housing completions in Harborough have varied considerably over the ten year period. Completions from 2003 to 2005 were as low as 197, compared to the 2001 result of 699 completions.

1.16 The tables below show the completions rates between 1996 and 2008. In terms of delivery of affordable housing in Harborough, the last four years have been quite volatile, with affordable housing completions averaging approximately 13 per cent.

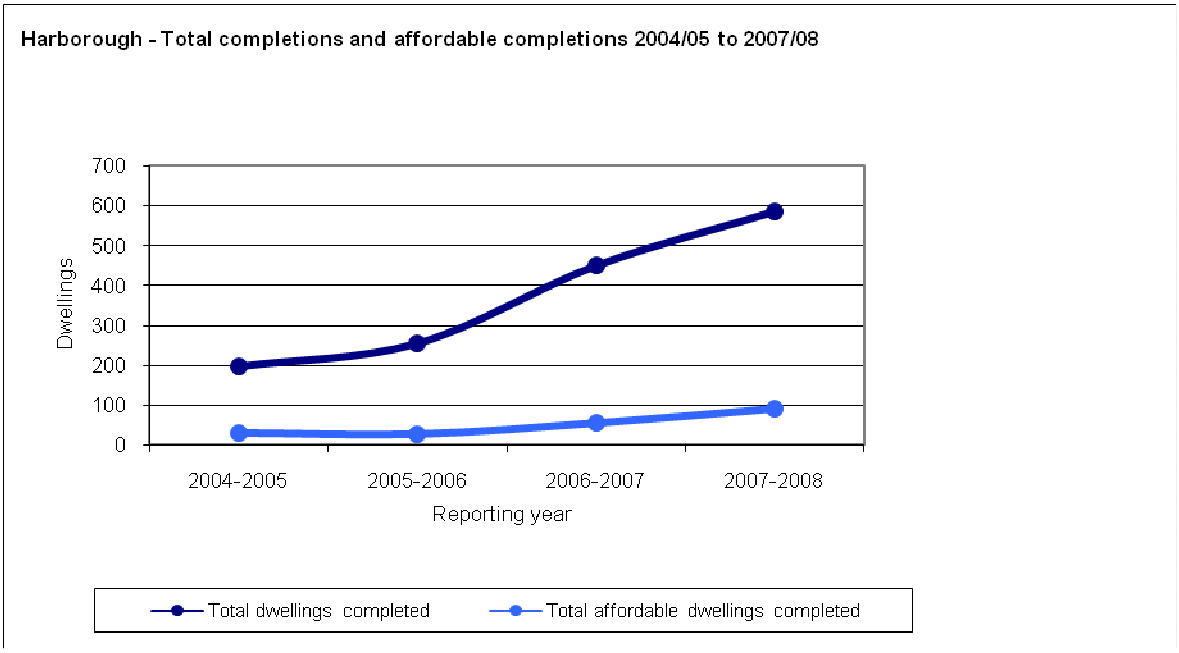
Table 1.1 – Total dwelling completions and affordable dwelling completions, Harborough District

Reporting year	Total dwellings completed	Total **affordable** dwellings completed	Percentage affordable dwellings completed
1996-1997	415		
1997-1998	440		
1998-1999	596		
1999-2000	759		
2000-2001	617		
2001-2002	699	55	8%
2002-2003	283	29	10%
2003-2004	279	61	22%
2004-2005	197	29	15%
2005-2006	255	26	10%
2006-2007	450	54	12%
2007-2008	586	90	15%
Average dpa, 2004-05 to 2007-08	**372**	**50**	**13%**

Source: Leicestershire, Leicester & Rutland Residential Land Availability Monitoring Report 2007/08

NB. Grey shaded areas denote information which is unavailable

Figure 1.2 – Graph showing total completions and affordable dwellings completions, Harborough District



Source: Leicestershire, Leicester & Rutland Residential Land Availability Monitoring Report 2007/08. Note: Data taken from Annual Monitoring Reports

above reflects net additional units built per year in the form on new builds or conversions only.

Research undertaken

1.17 There were four main strands to the research undertaken to complete this study:

- Discussions with a project group of officers from the five commissioning authorities which informed the structure of the research approach;
- Analysis of information held by the authority, including that which described the profile of land supply;
- Use of the Three Dragons Toolkit to analyse scheme viability (and described in detail in subsequent chapters of this report);
- A workshop held with developers, land owners, their agents and representatives from a selection of Registered Social Landlords active in the Borough. A full note of the workshop is shown in Appendix 1.

Structure of the report

1.18 The remainder of the report uses the following structure:

- Chapter 2 explains the methodology we have followed in, first, identifying sub markets and, secondly, undertaking the analysis of development economics. We explain that this is based on residual value principles;
- Chapter 3 provides analysis of residual values generated across a range of different development scenarios (including alternative percentages and mixes of affordable housing) for a notional 1 hectare site.
- Chapter 4 considers options for site size thresholds. It reviews national policy and the potential future land supply and the relative importance of small sites. The chapter considers practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed);
- Chapter 5 identifies a number of case study sites (generally small sites which are currently in use), that represent examples of site types found in the authority. For each site type, there is an analysis of the residual value of the sites and compares this with their existing use value.
- Chapter 6 summarises the evidence collected through the research and provides a set of policy options.

2 METHODOLOGY

Introduction

2.1 In this chapter we explain the methodology we have followed in, first, identifying sub markets (which are based on areas with strong similarities in terms of house prices) and, second, undertaking the analysis of development economics. The chapter explains the concept of a residual value approach and the relationship between residual values and existing/alternative use values.

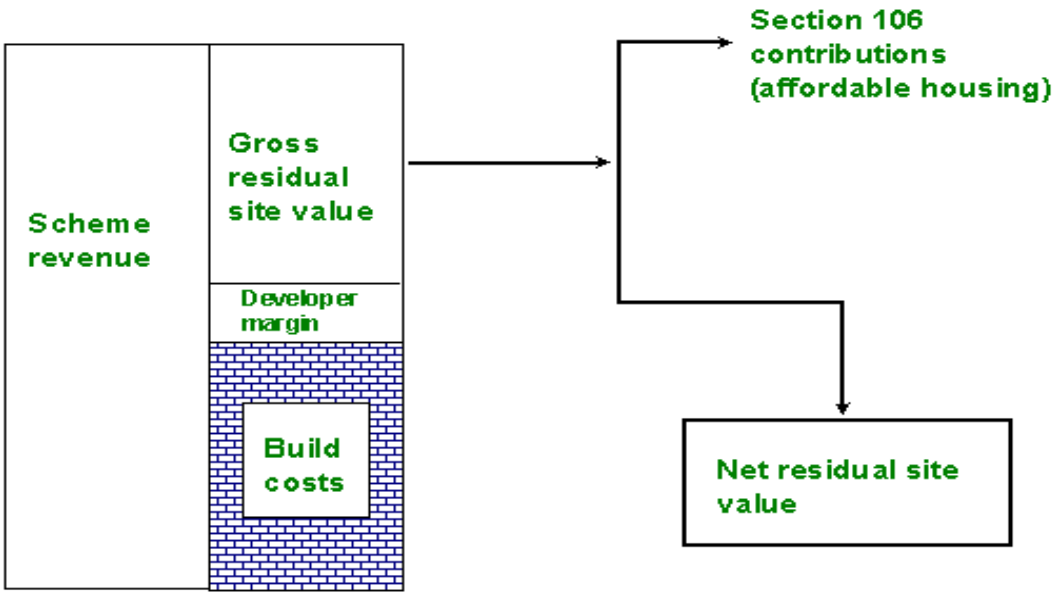
Viability – starting points

2.2 We use a residual development appraisal model to assess development viability. This mimics the approach of virtually all developers when purchasing land. This model assumes that the value of the site will be the difference between what the scheme generates and what it costs to develop. The model can take into account the impact on scheme residual value of affordable housing and other section 106 contributions.

2.3 Figure 2.1 below shows diagrammatically the underlying principles of the approach. Scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme costs assume a profit margin to the developer and the 'build costs' as shown in the diagram include such items as professional fees, finance costs, marketing fees and any overheads borne by the development company.

2.4 The gross residual value is the starting point for negotiations about the level and scope of section 106 contribution. The contribution will normally be greatest in the form of affordable housing but other section 106 items will also reduce the gross residual value of the site. Once the section 106 contributions have been deducted, this leaves a net residual value.

Figure 2.1 Theory of the Section 106 Process

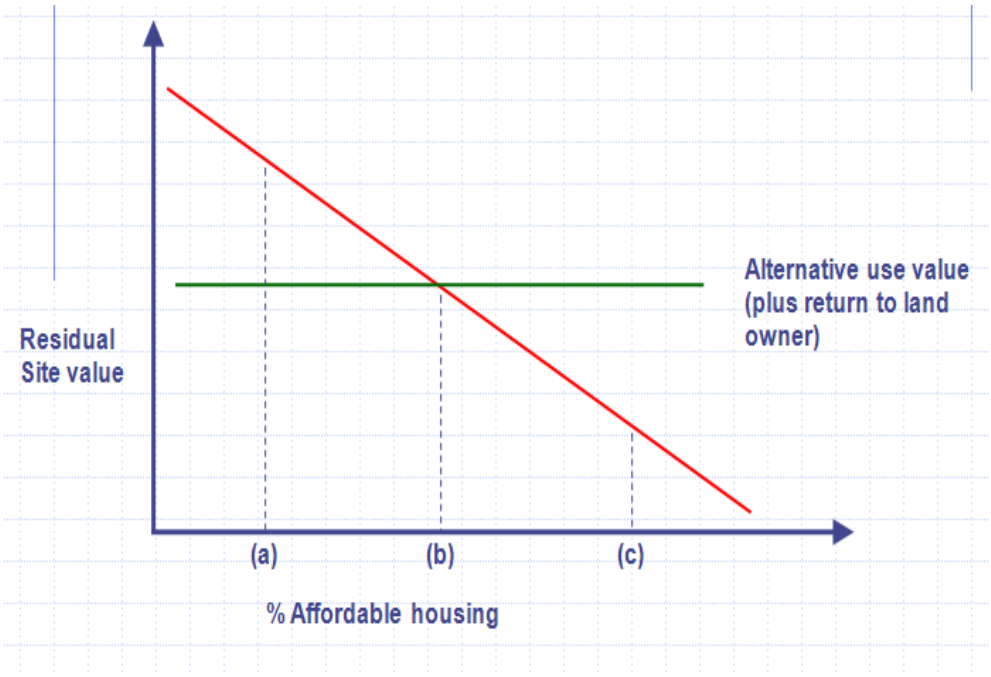


2.5 Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.

2.6 A site is extremely unlikely to proceed where the costs of a proposed scheme exceed the revenue. But simply having a positive residual value will not guarantee that development happens. The existing use value of the site, or indeed a realistic alternative use value for a site (e.g. commercial) will also play a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing.

2.7 Figure 2.2 shows how this operates in theory. Residual value falls as the proportion of affordable housing increases. At some point (here 'b'), alternative use value (or existing use value whichever is higher) will be equal to scheme value. If there is a reasonable return to the land owner at point 'b' i.e 'b' reflects best possible current use value (alternative or existing) and there is a sufficient return, then the scheme will come forward. At point 'c', affordable housing will make the site unviable. At 'a' the scheme should be viable with affordable housing. The diagram does not assume grant. Grant should be used to 'lever out' sites from their existing or best alternative uses.

Figure 2.2 Affordable housing and alternative use value



2.8 The analysis we have undertaken uses a Three Dragons Viability model. The model is explained in more detail in Appendix 2, which includes a description of the key assumptions used.

3 HIGH LEVEL TESTING

Introduction

3.1 This chapter of the report considers viability for mixed tenure residential development for a number of different proportions and types of affordable housing. The analysis is based on a notional 1 hectare site and has been undertaken for a series of market value areas that have been identified. The residual value shown will be the same whether the site is green field or on previously used land. The chapter explains this and explores the relationship between the residual value for the scenarios tested and existing/alternative use values.

Market value areas

3.2 Variation in house prices will have a significant impact on development economics and the impact of affordable housing on scheme viability.

3.3 We undertook a broad analysis of development across the housing market, using HM Land Registry data to identify market value or sub markets areas in the District. The areas are defined by reference to postcode sectors and their house prices and provide the basis for a set of indicative new build values as at June 2009. The purpose of this analysis is to help establish a broad starting point for target setting in the light of the general relationships between development revenues and development costs. Table 3.1 below sets out the market value areas or sub markets for the District.

Table 3.1 Sub markets in the Harborough DC area

HARBOROUGH			
Sub Market	PCS	Main descriptor	Further locations/areas
Harborough Rural South West	LE17 5	Harborough Rural South West	Villages of Claybrook Magna; Dunton Bassett; Peatling Parva
	LE17 6	Harborough Rural South West	Villages of Husbands Bosworth; North Kilworth; Swinford
Harborough Rural North & Central	LE16 8	Harborough Rural North East	Villages of Medbourne; Hallaton; Great Easton
	LE7 9	Rural A47 Corridor (H'borough North)	Villages of Houghton; Thurnby; Billesdon; Tilton
	LE8 0	Central Rural	The Kibworths; Tur Langton; Carlton Curlieu
	LE16 7	Harborough Rural North East	The Langtons; Glooston; Great Bowden
	LE8 9	Great Glen and Burton Overy	
	LE2 2	Stoughton	Aerodrome
Market Harborough	LE16 9	Market Harborough	South and West of town
Lutterworth	LE17 4	Lutterworth	Bitteswell; Walcote
Blaby Border Settlements	LE9 4	Harborough Rural South West	Sutton-in-the-Elms
	LE8 5	Harborough Rural South West	Peatling Magna and Arnesby (prices driven by Countesthorpe)
	LE8 8	Central Rural	Fleckney
	LE9 6	Broughton Astley	
	LE8 6	Harborough Rural South West	Willoughby Waterleys (put this one with LE8 5)

Source: Market value areas as agreed between Three Dragons and Harborough DC

Testing assumptions (notional one hectare site)

3.4 For the viability testing, we defined a number of development mix scenarios, using a range of assumptions agreed with the council. The scenarios were based on an analysis of typical development mixes and were discussed at the stakeholder workshop.

3.5 The development mixes were as follows:

- 30 dph including 10% 2 bed flats; 10% 2 bed terraces; 15% 3 bed terraces; 25% 3 bed semis; 25% 3 bed detached; 15% 4 bed detached;
- 40 dph: including 5% 2 bed flats; 15% 2 bed terraces; 20% 3 bed terraces; 25% 3 bed semis; 20% 3 bed detached; 15% 4 bed detached;
- 50 dph: including 10% 2 bed flats; 20% 2 bed terraces; 25% 3 bed terraces; 25% 3 bed semis; 15% 3 bed detached; 5% 4 bed detached;
- 80 dph: including 15% 1 bed flats; 30% 2 bed flats; 35% 2 bed terraces; 20% 3 bed terraces;
- 120 dph: including 40% 1 bed flats; 60% 2 bed flats.

3.6 We calculated residual site values for each of these (base mix) scenarios in line with a further set of tenure assumptions. These were 10%; 20%; 25%; 30%; 35%; 40% and 50%. These were tested at 75% Social Rent and 25% New Build HomeBuy in each case. For the New Build HomeBuy, the share purchase was assumed to be 40%. All the assumptions were agreed with the authority. We are aware that the current difficulties in obtaining mortgages for households on lower incomes is affecting the intermediate affordable housing sale market. In the short term, this may mean that the mix of affordable tenures which is provided will be different from that which we have modelled. However, the figures we have used are intended to provide information for the local authority to use in planning for the longer term and hence the balance of tenures we have modelled. In the short term, the authority will be able to consider the economics of individual schemes with a different affordable housing mix, using the Toolkit which will be available to them.

Other section 106 Infrastructure contributions

3.7 For the majority of the modelling we have undertaken (and unless shown otherwise) we have assumed that other planning obligations have a total cost of £4,000 per unit[2]. This was a figure agreed with the Council as being a reasonable requirement on a per unit basis based on the current level of contributions.

[2] This is based on a range that has been achieved in the past, however, in future, LA may require developers to contribute to the wider range of infrastructure for sustainable development e.g. transport, schools, leisure and green infrastructure, community, health, emergency services etc.

3.8 Planning Policy Statement 12 highlights the importance of ensuring that the core strategy of Local Development Frameworks is supported by a robust evidence base on infrastructure planning, highlighting infrastructure requirements, costs, and gaps in funding.[3] All the Leicestershire local authorities have jointly commissioned a strategic Leicestershire Infrastructure Study. The study undertaken by Roger Tym & Partners takes account of all outstanding development (housing of 58,366 dwellings and employment) to be provided to 2026; and has estimated the primary infrastructure[4] requirements to meet this level of growth, the funding currently available for this growth and the gap in funding that needs to be met. It is estimated that there is currently a funding gap of about £720m at a County level to meet the overall growth to 2026.

3.9 If this gap were to be 'plugged" by developer contributions, very simplistically, this would result in a requirement of something in the order of £12,250 per dwelling. This is based on high level estimation, and the actual requirement could be higher or lower depending on the locally specific infrastructure requirements and funding sources. However, it servers to show that there is potentially a gap between the current £4K infrastructure cost included in the estimation and the potential requirement of £12K. As shown in paragraph 2.4 above, this will be a factor influencing the net residual value and the overall viability of the development.

3.10 We comment briefly on the potential impact of higher infrastructure developer contributions later.

3.11 We also consider separately the impact on viability of the introduction of Lifetime Homes Standards and Code for Sustainable Homes at code level 4.

Results: residual values for a notional one hectare site

3.12 This section looks at a range of development mixes and densities. It shows the impacts of increasing the percentage of affordable housing on residual site values. Unless otherwise indicated, all the results are **without grant**. The full set of these results are shown in Appendix 3.

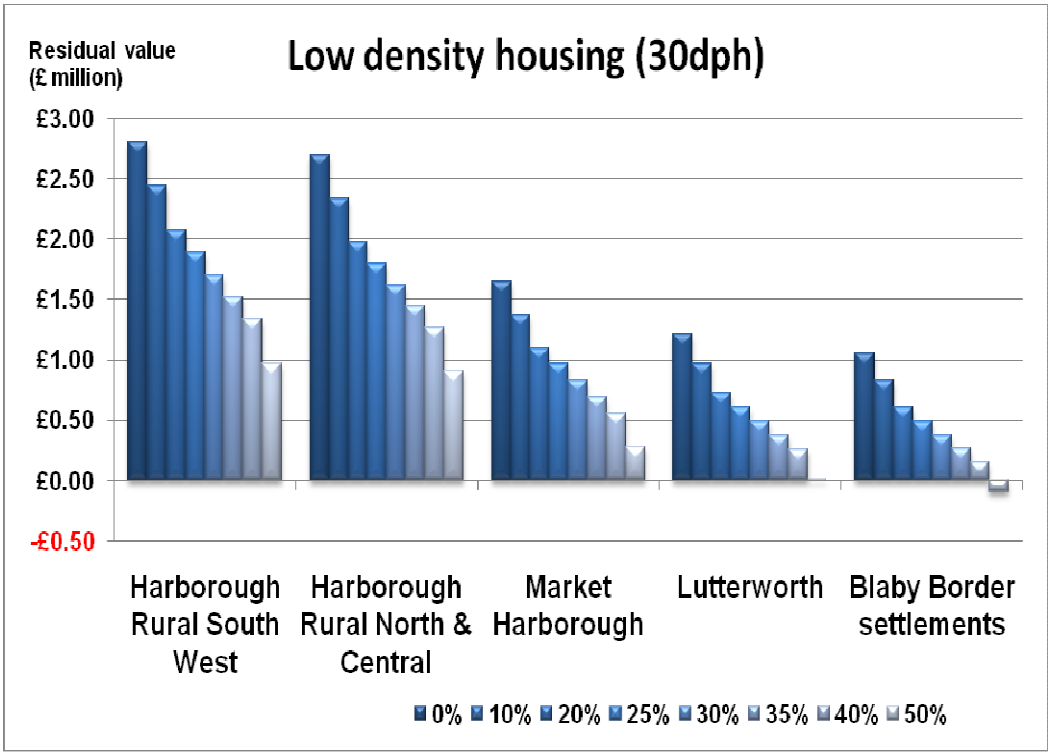
Low density housing (30 dph)

3.13 Figure 3.1 shows low density housing (30dph) and the residual values for each of the market value areas outlined in Section 3.

Figure 3.1 Low density housing (30 dph) – Residual value in £s million

[3] PPS12 June 2008 paragraphs 4.8 to 4.12

[4] Primary infrastructure for the purpose of the study included transport, education, health, community and library facilities, leisure parks and green infrastructure, utilities, flood defence, emergency services, social services and waste management. The study did not directly assess secondary infrastructure.



- Figure 3.1 shows that for most of the scenarios tested, there is a positive residual value; only in the Blaby Border Settlements are residual values negative - and this is at 50% affordable housing.

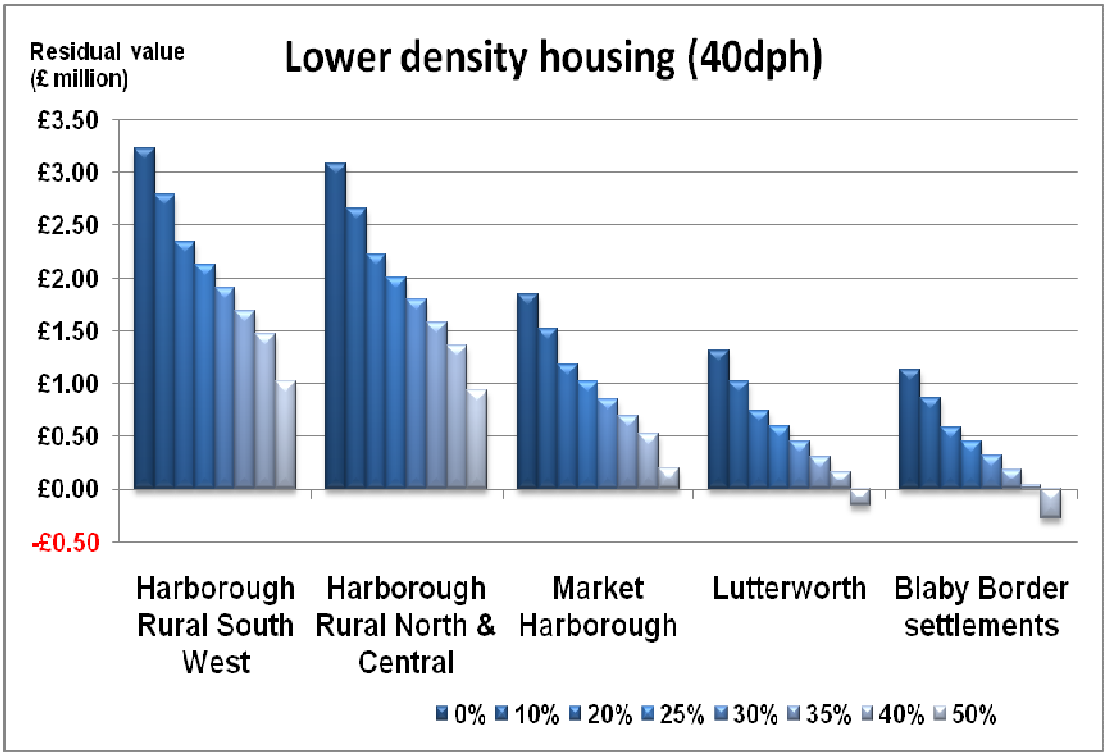
- There is significant variance in residual value as can be seen by comparing sub markets, reflecting the different house prices found in each of them. At, for example, 30% affordable housing, residual values range from £1.70m per hectare in Harborough Rural South West to £0.38m per hectare in Blaby Border Settlements.

- The range in values has important implications for policy making. The graph shows the very significant difference in residual values between the two more rural areas, and, on the other hand, Market Harborough, Lutterworth and Blaby Border settlements. With the scenarios tested, a 40% affordable housing allocation generates a higher residual value (£1.34 million per Ha) than a 100% market housing scheme in the lowest value sub market, Blaby Border settlements (at £1.06 million per hectare).

Lower density housing (40 dph)

3.14 Figure 3.2 shows lower density housing (40 dph) and the residual values for each of the market value areas.

Figure 3.2 Lower density housing (40 dph) – Residual value in £s million

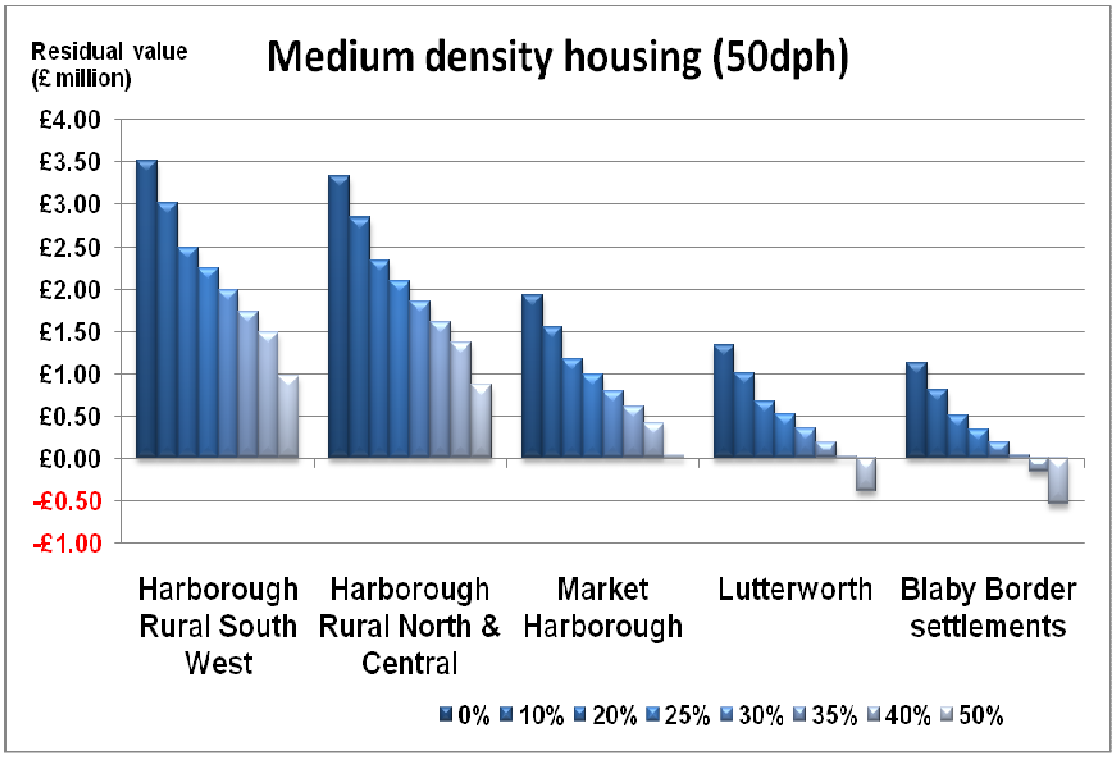


- As previously, most sub markets generate a positive residual value, although it can be noted that a marginal increase in density begins to hit values at the lower end of the sub market scale.
- Increased density (30 dph to 40 dph) does not necessarily increase residual value. It depends on location and the percentage of affordable housing under consideration. In the two lower value sub markets – Lutterworth and Blaby Border settlements, residual values are lower at 40 dph than 30 dph at 25% affordable housing and above.
- In the three higher value areas however, a 40 dph scenario generates a higher residual value at all percentages of affordable housing.

Medium density (50 dph) scheme

3.15 Figure 3.3 shows residual values for a (50 dph) scheme and the residual values for each of the market value areas outlined earlier.

Figure 3.3 Medium density housing (50 dph) – Residual value in £s million

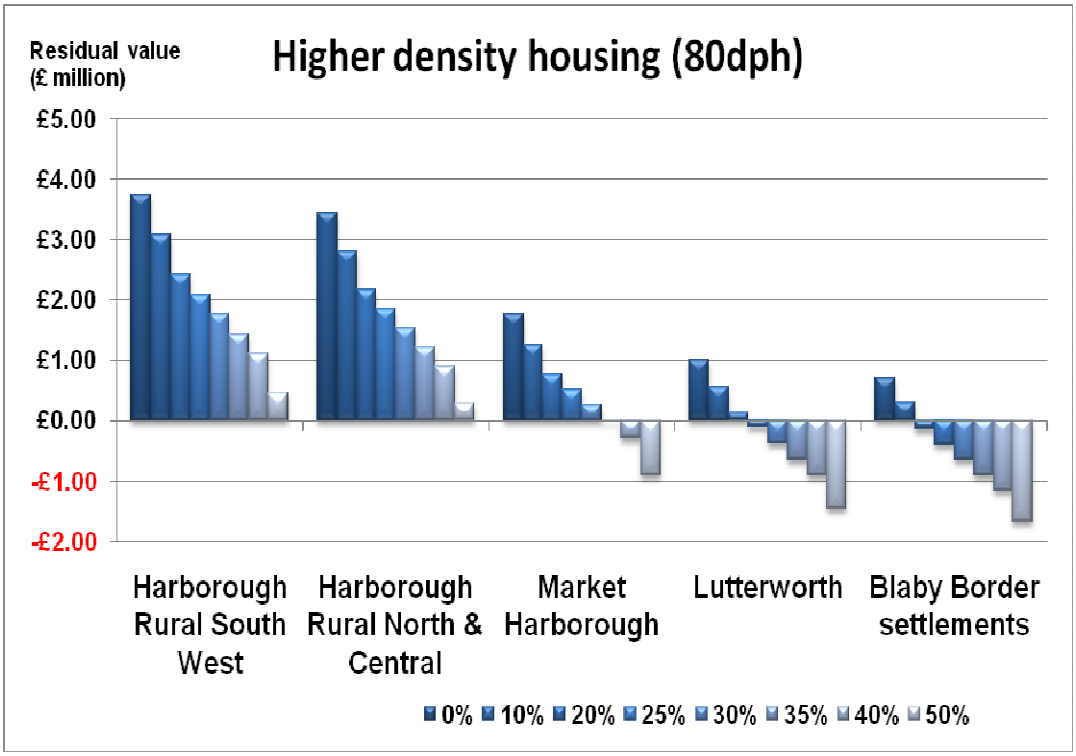


- The general impact of an increase to 50 dph (from 30 dph and 40 dph) is to increase residuals values in the highest value locations and at lower percentages of affordable housing.
- For example, at 30% affordable housing, residual value increases from £1.90 million per hectare at 40 dph to £1.99 million per hectare at 50 dph in Harborough Rural South.
- Conversely, at higher percentages of affordable housing in weaker sub markets, higher density does not help viability. For example, at 25% affordable housing in the lowest value sub market, the residual value at 40 dph is £0.45 million per hectare, whereas at 50 dph, the residual value is £0.34 million.

Higher density (80 dph) scheme

3.16 Figure 3.4 shows a higher density scheme – at 80 dph, and the residual values for each of the market value areas.

Figure 3.4 Higher density housing (80 dph) – Residual value in £s million



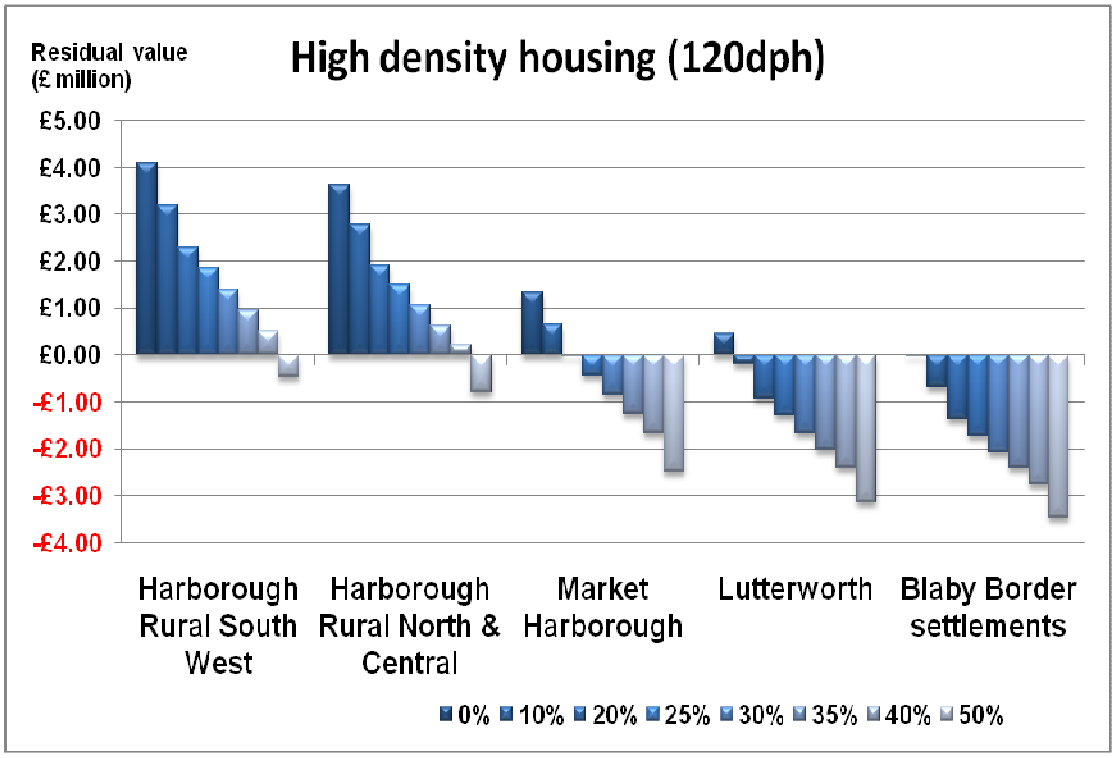
- Increasing density to 80 dph (versus 50 dph for example) will reduce residual values across the District in all but a very few instances. These are the two highest value (Rural) sub markets at 0% affordable housing, and, in the case of Harborough Rural South West, at 10% affordable housing.
- The reason for the relatively weak residual values at 80 dph is that an increased proportion of apartments in a scheme will have a negative value on residual where affordable housing is incorporated.
- The relatively close relationship between sales values and build costs, even at low proportions of affordable housing, means residuals in turn will remain low.

High density (120 dph) scheme

3.17 Figure 3.5 shows a higher density (120 dph) scheme. The main impact here is to decrease viability in all the scenarios tested; the only exceptional circumstances being a very low percentages of affordable housing in high value areas.

3.18 Figure 3.5 suggests that high density development will be marginal in weaker sub markets with Harborough DC. Clearly, whilst there will be 'hot spots' where an affordable housing contribution will be viable, in most instances, this will not be the case.

Figure 3.5 Higher density housing (120 dph) – Residual value in £s million



Impacts of potential grant funding

3.19 The availability of public subsidy (in the form of grant) can have a significant impact on scheme viability. Grant given to the affordable housing providers enables them to pay more for affordable housing units, thus increasing overall scheme revenue and therefore the residual value of a mixed tenure scheme. There are two main sources of grant which may be available: from the Homes and Communities Agency and/or the local authority (for example using money collected from development in the form of a commuted sum, through a section 106 agreement).

3.20 We have assumed grant of £30,000 per Social Rented unit and £10,000 per New Build HomeBuy unit. This level of grant was agreed with the local authority as being a reasonable figure to use for viability testing purposes.

3.21 We have tested the impact of grant on residual values for a 1 hectare site at 40 dph. The results are shown in Table 3.2 for a selected number of sub markets.

Table 3.2 Comparison of impact of grant versus on residual values versus no grant (at 40 dph): Residual Value (£s million per hectare)

40 Dph	Harborough Rural South West		Harborough Rural North and Central		Market Harborough		Lutterworth		Blaby Border Settlements	
	No grant	Grant	No grant	Grant	No grant	Grant	No grant	Grant	No grant	Grant
0% AH	£3.23	N/A	£3.08	N/A	£1.84	N/A	£1.31	N/A	£1.13	N/A
10% AH	£2.79	£2.89	£2.65	£2.79	£1.51	£1.61	£1.02	£1.12	£0.86	£0.96
20% AH	£2.35	£2.55	£2.22	£2.42	£1.18	£1.38	£0.73	£0.93	£0.59	£0.79
30% AH	£1.90	£2.20	£1.79	£2.09	£0.85	£1.15	£0.45	£0.75	£0.31	£0.61
40% AH	£1.46	£1.86	£1.36	£1.76	£0.52	£0.92	£0.16	£0.56	£0.04	£0.44
50% AH	£1.02	£1.52	£0.93	£1.43	£0.19	£0.69	-£0.15	£0.35	-£0.28	£0.22

3.22 Table 3.2 shows that the availability of grant will enhance site viability. This will be more important in the weaker sub markets. At 30% affordable housing in Blaby Border Settlements, the introduction of grant increases the RV from £0.31m to £0.61m, almost a doubling in value.

3.23 In higher value sub markets, the impact of grant is less marked. For example, at 30% affordable housing in Harborough Rural South West, residual value increases by only 15% as a result of the introduction of grant at the levels assumed.

3.24 The density scenario tested here generates relatively high residual values without grant in the stronger sub markets. The introduction of grant has a greater proportionate impact in the lower value sub market and we suggest that this is where the Council focus any such resources.

Impacts of increasing the proportion of Intermediate housing within the affordable element

3.25 In the previous section we considered the impact of grant on scheme viability. Where grant is not available to support schemes (or is not sufficient on its own), scheme viability may be (further) enhanced by increasing the percentage of intermediate affordable housing. We have tested all scenarios thus far assuming the relevant affordable element is split 75% Social Rent and 25% Shared Ownership. Here we test a 50%:50% split in the affordable element.

Table 3.3 Site values (£ million per hectare) for a 50 dph scheme assuming 50% Social Rent and 50% Shared Ownership), without, and with, grant.

40 Dph	Harborough Rural South West		Harborough Rural North and Central		Market Harborough		Lutterworth		Blaby Border Settlements	
	50%:50%	Grant	50%:50%	Grant	50%:50%	Grant	50%:50%	Grant	50%:50%	Grant
0% AH	£3.23	N/A	£3.08	N/A	£1.84	N/A	£1.31	N/A	£1.13	N/A
10% AH	£2.91	£2.89	£2.77	£2.79	£1.60	£1.61	£1.01	£1.12	£0.93	£0.96
20% AH	£2.58	£2.55	£2.46	£2.42	£1.36	£1.38	£0.89	£0.93	£0.74	£0.79
30% AH	£2.26	£2.20	£2.14	£2.09	£1.12	£1.15	£0.69	£0.75	£0.54	£0.61
40% AH	£1.95	£1.86	£1.84	£1.76	£0.88	£0.92	£0.48	£0.56	£0.35	£0.44
50% AH	£1.63	£1.52	£1.52	£1.43	£0.65	£0.69	£0.27	£0.35	£0.15	£0.22

3.26 Table 3.3 shows the residual values with a 50%:50% split in the affordable element. This demonstrates a considerable improvement over the 'no grant' residual values (compare with Table 3.2).

3.27 Table 3.3 allows a comparison of the 50%:50% residuals with the grant residuals. In a middle market location such as Market Harborough, with grant scenarios are marginally higher than the 50%:50% Rented: Shared Ownership position.

3.28 At the top end of the market, Harborough Rural South West, the with grant scenarios do not produce as high residuals as the 50%:50% option. This is largely because the Shared Ownership element within the scheme generates a high value being based on high house prices.

3.29 In the weakest areas, shifting the balance within the affordable tenure from Social Rent to Intermediate housing will not be as effective a method of increasing residual value as will be through the application of grant. In turn, this is because Shared Ownership cannot benefit from high house prices in low value areas.

Impacts of achieving Code for Sustainable Homes Level 4

3.30 A further consideration in relation to viability is the achievement of a higher standard of build as envisaged in the Code for Sustainable Homes.

3.31 There are a number of problems in analysing the impacts of a higher code (we consider here Code 4) not least that there is a large range of costs which can impact on a scheme which operate within the same code.

3.32 The estimated costs of achieving Code Level 4 range from £2,000 to £12,000 per dwelling (Cyril Sweet, 2007 – Cost Review of the Code for Sustainable Homes). This depends on the extent to which different energy sources are adopted. We take here scenario 2 as a broad indication of costs (an additional £4,260 per end terrace) which represents 'Initial energy efficiency measures initially followed by use of small scale wind turbines and then biomass systems'. We model at £5,000 per unit; across a scheme at 40 dph this means £200,000 per hectare taken off residual value.

3.33 Table 3.5 shows the joint impacts of achieving Lifetime Homes Standards and Code for Sustainable Homes Level 4.

Table 3.5 Residual value (£s million per hectare) with Code for Sustainable Homes Level 4, at 40 dph (no grant)

	Harborough Rural South West	Harborough Rural North and Central	Market Harborough	Lutterworth	Blaby Border Settlements
0% AH	£3.03	£2.85	£1.64	£1.11	£0.93
10% AH	£2.59	£2.45	£1.31	£0.82	£0.66
20% AH	£2.15	£2.02	£0.98	£0.53	£0.39
30% AH	£1.70	£1.59	£0.65	£0.25	£0.11
40% AH	£1.26	£1.16	£0.32	-£0.04	-£0.2
50% AH	£0.82	£0.73	£0.00	-£0.35	-£0.48

3.34 Whilst residual values in the stronger market value areas will hold up, particularly at the lower percentages of affordable housing, the impact at higher percentages of affordable housing in the weaker market areas now becomes substantial.

A higher Section 106 Infrastructure Requirement?

3.35 The RTP study on infrastructure requirements suggests a figure of around £12,000 per unit[5] on a Leicestershire-wide basis (see para 3.8). This figure is based on all outstanding development requirements and is informed by the potential directions of growth of the larger Sustainable Urban Extensions.

3.36 There is no certainty that Harborough will adopt this figure over and above the existing levels of around £4,000 per unit. If however an additional £8,000 per unit infrastructure cost were to be applied above the baseline tests, this would reduce residual values by some £300,000 at 40 dph. Whilst this would not impact significantly in the higher value areas, it would make residual values in the lowest value sub market negative at above 25% affordable housing.

3.37 The policy response, in order to maintain affordable housing targets, could be for the District to apply differential 'loadings' such that lower value areas were effectively cross subsidised by higher value areas.

Senstivity testing market values

[5] This figure must be treated with caution as it is high level estimation and the actual infrastructure requirements could vary depending on the specific location and existing capacity and funding at any given time and does not include costs for a tram system.

3.38 The analysis set out above relates to current house prices and development costs. We set out below in Table 3.6 residual values where prices are 10% higher and 10% lower:

Table 3.6 Residual values (£ million per hectare) for a 40 dph scheme with prices 10% higher and lower than the baseline. No grant; 75% Social Rent: 25% Shared Ownership

Prices up10%	0%	10%	20%	30%	40%
Harborough Rural South West	£3.68	£3.18	£2.68	£2.19	£1.69
Harborough Rural North and Central	£3.52	£3.03	£2.55	£2.07	£1.58
Market Harborough	£2.16	£1.78	£1.41	£1.03	£0.66
Lutterworth	£1.57	£1.24	£0.91	£0.58	£0.25
Blaby Border Settlements	£1.38	£1.07	£0.76	£0.44	£0.13
Baseline position	**0%**	**10%**	**20%**	**30%**	**40%**
Harborough Rural South West	£3.23	£2.79	£2.35	£1.90	£1.46
Harborough Rural North and Central	£3.08	£2.65	£2.22	£1.79	£1.36
Market Harborough	£1.84	£1.51	£1.18	£0.85	£0.52
Lutterworth	£1.31	£1.02	£0.73	£0.45	£0.16
Blaby Border Settlements	£1.13	£0.86	-£0.59	£0.31	£0.04
Prices down 10%	**0%**	**10%**	**20%**	**30%**	**40%**
Harborough Rural South West	£2.79	£2.40	£2.02	£1.63	£1.24
Harborough Rural North and Central	£2.66	£2.29	£1.91	£1.72	£1.16
Market Harborough	£1.55	£1.26	£0.98	£0.69	£0.40
Lutterworth	£1.06	£0.81	£0.57	£0.32	£0.07
Blaby Border Settlements	£0.91	£0.68	£0.21	£0.09	-£0.04

3.39 The results show the sensitivity of residual values to changes in house prices. For example in Market Harborough, at 30% affordable housing, a 10% increase in prices will give a 20% increase in residual value.

3.40 In the stronger sub markets (example here Harborough Rural South West, the impact of price change is less marked. For example at 30% affordable housing, a 10% increase in prices leads to a 15% increase in residual value.

3.41 In the weaker sub markets, price falls will significantly impact on residual values and viability.

Larger sites

3.42 We are aware that the District Council have three larger Local Plan allocations which should be brought forward before 2021.

3.43 These allocations are at Warwick Road, Kibworth (16 hectares – 650 homes), Stretton Road, Great Glen (13.4 hectares – 300 homes) and Farndon Road, Market Harborough (25 hectares – 630 homes).

3.44 We have not appraised these site in any detail as we would anticipate that they will be dealt with through detailed site specific negotiations as and when the sites come forward. We would anticipate that these locations will 'lift' their selling prices from their local sub markets; i.e Harborough Rural North and Central. We would also anticipate that the development at Farndon Road, because of its scale, will have teh potential to lift values from the upper end of the price scale for the District, rather than Market Harborough itself, although this will need to be tested when more data becomes available.

Benchmarking results

3.45 There is no specific guidance on the assessment of viability which is published by national government. In Section 2, we set out that we think viability should be judged against return to developer and return to land owner.

3.46 One approach is to take "current" land values for different development uses as a kind of 'going rate' and consider residual values achieved for the various scenarios tested against these. Table 3.7 shows residential land values for selected locations within the East Midlands, including Leicester as a nearest location.

Table 3.7 Residential land values regionally

EAST MIDLAND			
REGION	Small Sites (sites for less than five houses)	Bulk Land (sites in excess of two hectares)	Sites for flats or maisonettes
	£s per hectare	£s per hectare	£s per hectare
Lincoln	1,200,000	1,100,000	1,100,000
Mansfield	840,000	700,000	700,000
Nottingham (suburbs)	1,470,000	1,470,000	1,470,000
Derby	1,700,000	1,550,000	1,550,000
Leicester	1,600,000	1,500,000	1,500,000
Northampton	1,480,000	1,350,000	1,350,000
Loughborough	1,600,000	1,500,000	1,500,000

Source: Valuation Office; Property Market Report, January 2009

3.47 The table indicates residential land values of around £1.5m per hectare in Leicester for both bulk land and sites for flats and maisonettes. At the time of writing, there is no more up to date information publicly available.

3.48 Another benchmark which can be referred to is that of industrial land. Table 3.8 shows values of around £425,000 per hectare in Leicester in the first part of 2009.

Table 3.8 East Midlands industrial land values

EAST MIDLANDS	From £s per ha	To £s per ha	Typical £s per ha
Lincoln	250,000	300,000	275,000
Mansfield	200,000	300,000	250,000
Nottingham	425,000	575,000	500,000
Derby	325,000	450,000	400,000
Leicester	350,000	500,000	425,000
Northampton	350,000	500,000	450,000

Source: Valuation Office; Property Market Report, January 2009

3.49 The 'benchmark' of industrial land value can be important where land, currently in use as industrial land, is being brought forward for residential development or where sites may be developed either for residential or employment use.

4 LAND SUPPLY, SMALL SITES AND USE OF COMMUTED SUMS

Introduction

4.1 This chapter reviews the policy context and options for identifying the size of sites above which affordable housing contributions would be sought, in the national policy context.

1.1 The Harborough District Local Plan, adopted in 2004, specifies affordable housing from sites of 25 or more dwellings. PPS3, as national guidance, now sets the threshold at 15 dwellings allowing local authorities to go lower than this where appropriate.

1.2 The Council's SPD stipulates that developments of over 5 dwellings will be required to contribute 30 per cent affordable housing.

4.2 This chapter provides an assessment of the profile of the likely future land supply and the relative importance of small sites. It then considers practical issues about on-site provision and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed).

Purpose of the Analysis

4.3 PPS3 Housing sets out national policy on thresholds and affordable housing and states:

"The national indicative minimum site size threshold is 15 dwellings. However, Local Planning Authorities can set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area." (Para 29)

4.4 By reducing site size thresholds and 'capturing' more sites from which affordable housing can be sought, an authority can potentially increase the amount of affordable housing delivered through the planning system.

Site supply analysis

4.5 We have analysed data on past permissions for the three years (2006-7 to 2008-9) to consider how important sites of different sizes are likely to be to the future land supply. The data shows that 929 dwellings were granted planning permission for the three years covered. The table below shows the result of this analysis.

Table 4.1: No of dwellings in different sizes of sites – permissions 2006-7 to 2008-9: Harborough DC

Harborough DC		
Site size	**No of Dwellings**	**Percentage**
1 to 4	**394**	**42.41**
5 to 9	**43**	**4.63**
10 to 14	**45**	**4.84**
15 to 25	**113**	**12.16**
26 to 50	**128**	**13.78**
50 to 100	**206**	**22.17**
	929	**100.00**

Source: Harborough DC

4.6 The table indicates that a substantial proportion of new dwelling supply comes from smaller sites. The figures indicate that over half of the dwellings (52%) given permission between 2006 and 2009 were on sites of less than 15 dwellings. Around one fifth of dwellings are being built on sites of over 50 dwellings.

4.7 Table 4.2 sets out the balance of development between smaller and larger sites but looking at the District's larger settlements only. This includes Market Harborough, Lutterworth, Kibworth, Scraptoft and Thurnby, Great Glen, Fleckney and Broughton Astley.

Table 4.2: No of dwellings in different sizes of sites – permissions 2006-7 to 2008-9: Larger settlements

Larger settlements		
Site size	**No of Dwellings**	**Percentage**
1 to 4	**131**	**23.56**
5 to 9	**28**	**5.04**
10 to 14	**31**	**5.58**
15 to 25	**32**	**5.76**
26 to 50	**128**	**23.02**
50 to 100	**206**	**37.05**
	556	**100.00**

Source: Harborough DC

4.8 Table 4.2, relating to the larger settlements, shows a greater reliance on larger sites for new development (and hence affordable housing delivery). Over 60% of new supply (planning permissions over the last 3 years) will be developed on sites of more than 25 dwellings (the Local Plan threshold). Under 30% of new homes will be delivered on sites of less than 10 units, and less than 35% of all dwellings will be delivered on sites of less than 15 dwellings.

4.9 Table 4.3 shows planning permissions in the more rural areas (all locations excluding Market Harborough, Lutterworth, Kibworth, Scraptoft and Thurnby, Great Glen, Fleckney and Broughton Astley.)

4.10 This shows a very different picture with over 70% of all dwellings being delivered on sites of less than 5 dwellings, and almost 80% of all dwellings being delivered on sites of less than 15 dwellings. This suggests a pressing requirement to reduce the threshold below 5 dwellings in these areas.

4.11 **Table 4.3: No of dwellings in different sizes of sites – permissions 2006-7 to 2008-9: Smaller settlements**

Smaller settlements		
Site size	**No of Dwellings**	**Percentage**
1 to 4	**263**	**70.51**
5 to 9	**15**	**4.02**
10 to 14	**14**	**3.75**
15 to 25	**81**	**21.72**
26 to 50		
50 to 100		
	373	**100.00**

Source: Harborough DC

4.12 In reviewing its site size thresholds, the Council will need to consider the pattern of site supply, the scale of need for affordable housing as well as scheme viability (especially on small sites if the Council wants to consider including them within the threshold). There is a pressing need for affordable housing in the District and therefore an immediate justification for adopting a site size threshold which maximises the number of qualifying sites for affordable housing.

Management of affordable housing

4.13 We discussed the suitability of different site types (including small sites) for affordable housing at the workshop with the development industry and which included representatives from developers and Registered Social Landlords (RSLs).

4.12 Neither small nor large sites were said to be more economically viable to develop on a systematic basis. Small sites might not attract the economies of scale of larger schemes but, on the other hand, small sites can be relatively easy and quick to develop.

4.13 Some workshop participants expressed concern with 'pepper potting' of affordable housing within mixed tenure schemes and developers said that they preferred to have the affordable housing in larger 'groups' in defined parts of a site. Housing associations challenged this view and noted that good property management was important to maintaining an area's environment and image, whatever the layout of a scheme.

4.14 From the RSL perspective, there is no reason why affordable housing cannot be provided in small numbers within mixed tenure schemes, provided that there is a housing association with a local management presence, to take on the affordable housing.

Use of commuted sums

4.15 As a general principle, we recognise that seeking on-site provision of affordable housing will be the first priority and that provision of affordable housing on an alternative site or by way of a financial payment in lieu (or commuted sum) should only be used in exceptional circumstances. This position is consistent with national guidance in Paragraph 29 of PPS3 which states:

"In seeking developer contributions, the presumption is that affordable housing will be provided on the application site so that it contributes towards creating a mix of housing. However, where it can be robustly justified, off-site provision or a financial contribution in lieu of on-site provision (of broadly equivalent value) may be accepted as long as the agreed approach contributes to the creation of mixed communities in the local authority area" Para 29.

4.16 The development industry workshop acknowledged that there may be some locations and/or schemes which are not suitable for on site provision (e.g. in less sustainable locations and/or where service charges are high) and that taking a commuted sum may be a better alternative than seeking on site provision.

4.17 Where commuted sums are sought as an alternative to direct on or off-site provision, PPS3 sets out the appropriate principle for assessing financial contributions - that they should be of "broadly equivalent value" (see para set out 29 above). Our approach is that the commuted sum should be equivalent to the 'developer/landowner contribution' if the affordable housing was provided on site. One way of calculating this is to take the difference between the residual value of 100% market housing and the residual value of the scheme with the relevant percentage and mix of affordable housing.

4.18 If the 'equivalence' principle is adopted, then the decision of the local authority to take a commuted sum will be based on the acceptability or otherwise of on-site provision as a housing and spatial planning solution.

4.19 Any concerns about scheme viability (whatever size of site) should be reflected by providing grant or altering tenure mix, or by a 'reduced' affordable housing contribution whether provided on-site, off-site or as a financial contribution. Other planning obligations may also need to be reduced under some circumstances.

5 CASE STUDY VIABILITY ANALYSIS

Introduction

5.1 The analysis in Chapter 3 provides a good indication of the likely viability of sites in the District. The residual values can be compared with existing use values to establish whether land owners are likely to make a return over and above existing use value, taking into account a developer margin.

5.2 The analysis in Chapter 3 will apply for large as well as small sites (on a pro rata basis). We do not have any evidence to suggest that the economics change significantly between large and small sites. This assumption was accepted at the development industry workshops as has been the case elsewhere where we have run similar workshops.

5.3 It will be noted (Table 3.7) that small sites can achieve higher land values than larger ones, suggesting that the economics of developing smaller sites could actually be more favourable than developing larger ones.

5.4 In theory therefore there is no real need to review in detail viability issues for small sites. However, for the sake of further illustration, and recognising that there may be special circumstances which impact on the viability of some types of smaller sites, it was felt helpful to review the development economics of some illustrative case studies.

5.5 Having looked at the data on recent planning permission, it would appear that a significant proportion of new development emanates from sites which can best be described as residential backland, infill or amenity land. We consider the viability implications in the analysis below

Case study sites

5.6 On the basis of the planning consents data, we have selected three case studies for further investigation. These are shown in Table 5.1. We take a selection of (high value, medium value and low value) locations.

Table 5.1 Case study sites

Case Study	Number of dwellings	Type of new development	Site Size (Ha)	Resulting density
A	**1**	1 x 5 bed detached house	0.05	20
B	**2**	1 x 4 bed detached house; 1 x 5 bed detached house	0.075	27
C	**4**	2 x 3 bed detached houses; 3 x 4 bed detached house	0.15	33

5.7 For each case study we have undertaken an analysis of residual values at levels of affordable housing from 0%; 10%; 20%; 30% and 40%. All the other assumptions used are the same as for the main analysis described in Chapter 3.

Case study A – Develop one detached house on a 0.05 ha site

5.8 The first scenario assumes the development of one five bed detached house. The results, with the affordable housing impacts are shown in Table 5.2:

Table 5.2 Develop one five bed detached house

Case A	AH0%	AH10%	AH20%	AH30%	AH40%
Harborough Rural South West	**£166,000**	**£145,000**	**£124,000**	**£104,000**	**£83,000**
	£3.32	**£2.98**	**£2.48**	**£2.08**	**£1.66**
Market Harborough	**£104,000**	**£88,000**	**£72,000**	**£56,000**	**£41,000**
	£2.08	**£1.76**	**£1.44**	**£1.12**	**£0.82**
Blaby Border Settlements	**£71,000**	**£58,000**	**£45,000**	**£32,000**	**£18,000**
	£1.42	**£1.16**	**£0.90**	**£0.64**	**£0.36**

AH = affordable housing percentage

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million)

5.9 Table 5.2 shows residual values at the different proportions of affordable housing. All results are positive, with substantial residual values being achieved in Harborough Rural South West.

5.10 Where one dwelling of this type is built on, for instance, infill or backland sites, we would expect there to be a sizeable uplift in site value, particularly in the higher value areas. For sites taken from garden land, this will also be the case although a devaluation to the existing dwelling may also occur in some instances. The precise impacts will need to be assessed on a site by site basis should the Council lower the threshold to include this type of development.

Case study B – Develop two detached houses (one four bed and one five) on a 0.075 ha site.

5.11 The viability of developing two detached houses rather than one will depend on the site size and existing use value. There will be some instances where the relationship between existing use value and residual development value is favourable and some where this may not be the case. Table 5.3 shows residual values for the development of three detached houses.

Table 5.3 Develop two detached houses

Case A	AH0%	AH10%	AH20%	AH30%	AH40%
Harborough Rural South West	£305,000	£268,000	£229,000	£191,000	£152,000
	£4.07	£3.57	£3.05	£2.55	£2.03
Market Harborough	£191,000	£161,000	£133,000	£104,000	£74,000
	£2.55	£2.15	£1.77	£1.39	£0.99
Blaby Border Settlements	£129,000	£105,000	£81,000	£57,000	£32,000
	£1.72	£1.40	£1.08	£0.76	£0.43

AH = affordable housing percentage

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million)

5.10 Similar arguments apply to Case Studies 1 and 2. For infill, backland and garden plots, there will considerable uplift in land value. In the table above, the residuals for Market Harborough for instance are almost £1.5 million per hectare at 30% affordable housing.

5.11 In Blaby Border Settlements, the residuals are more modest although up to 30% affordable housing, a value of almost £0.75 million per hectare is achievable for this type of scheme.

5.12 The residual values per hectare generated here is marginally higher than for Case Study A. This may be significant in the lower value sub markets although at the top end, the differences will not necessarily be that significant.

Case study C – Develop five dwellings – 0.15 hectare site

5.21 The range of schemes developed in Harborough include very small ones, as well as marginally larger; e.g. 3 to 5 dwellings. Here we test five dwellings including two, three bed detached houses and three, four bed detached houses.

Table 5.3 Develop four detached dwellings

Case A	AH0%	AH10%	AH20%	AH30%	AH40%
Harborough Rural South West	£669,000	£588,000	£505,000	£423,000	£342,000
	£4.46	£3.92	£3.37	£2.82	£2.28
Market Harborough	£411,000	£350,000	£288,000	£227,000	£166,000
	£2.74	£2.33	£1.92	£1.51	£1.11
Blaby Border Settlements	£276,000	£226,000	£174,000	£125,000	£75,000
	£1.84	£1.51	£1.16	£0.83	£0.50

AH = affordable housing percentage

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million)

5.22 Table 5.3 shows the three scenarios. Residual values on an absolute basis (size of cheque land owner likely to receive) will clearly be higher with five dwellings. Yet on a per hectare basis, it is also higher, reflecting in large measure the higher density and the mix – detached housing.

5.23 This would suggest, on both measures an even more viable scenario than the previous two.

Commentary on the results

5.24 This section on case studies is primarily illustrative, looking at the economics with particular reference to smaller sites and including consideration of achieved residual values for different sites and how they compare with existing use values.

5.25 The results for the small sites reflect in large measure, the previous analysis which considered the notional 1 hectare site. This analysis however shows more clearly the focus that is needed on location, rather than site size. Residual values on a per hectare basis do not vary significantly between the one hectare examples and the smaller sites tested here.

5.26 The analysis shows that the smallest development can generate substantial residual values. However, viability does depend on existing use and we think that, even in the strongest sub markets it will normally be difficult to deliver affordable housing where the scheme involves the demolition of an existing dwelling.

5.27 Invariably, similar conclusions apply to the weaker sub markets, where grant will be needed in several instances to achieve the policy position.

6 MAIN FINDINGS AND CONCLUSIONS

Key findings

6.1 We identified five sub market areas in Harborough District. The sub market areas are defined by prices by postcode sectors and are: Harborough Rural South West; Harborough Rural North and Central; Market Harborough; Lutterworth and Blaby Border Settlements.

6.2 Market values vary significantly between these areas. These differences in market values were reflected in differences in residual values (for the different scenarios tested). We found that residual value is dependent not only on location but also on the density adopted.

6.3 The District has a broad split between the towns (Market Harborough, Lutterworth and the Blaby Border settlements) and, on other hand, the more rural locations including Harborough Rural South West and Harborough Rural North and Central.

6.4 At the top of the market – Harborough Rural South West, residual values range from £0.5 million per hectare (at 120 dph) to £1.5 million per hectare at 50 dph. These figures relate to a 40% affordable housing element. These are significantly high values, which is also the case for Harborough Rural North and Central.

6.5 In Market Harborough (as a middle market location) residual values range from £0.5 million per hectare at 80 dph to £1 million per hectare at 40 dph (all at 25% affordable housing; the 120 dph scenario is excluded here as it gives a negative site value.

6.6 The weakest sub market (Blaby border settlements including locations such as Fleckney and Broughton Astley) generates residual values in the range £300,000 to (80 dph) to £0.8 million (lower densities – 30 to 50 dph) – all at 10% affordable housing. This excludes again the 120 dph scenario where residual values are negative.

6.7 Our baseline testing was carried without assuming grant input. Grant will clearly make schemes more viable. It is largely a matter of how grant is distributed across the range of sub markets with weaker areas requiring higher levels of grant to make schemes work.

6.8 The analysis shows that increasing the proportion of intermediate affordable housing will assist in promoting the viability of affordable housing. However, the effectiveness of this solution (relative to grant funding) varies according to location. In high value locations, where intermediate affordable housing provides a valuable revenue to an RSL, reducing the amount of Social Rented housing will be more effective than putting in grant. In the lower value areas, the opposite will tend to be the case.

6.9 Viability is highly sensitive to the relationship between existing (or, where relevant, alternative) use value. Our analysis suggests that sites will be brought forward on a variety of different types of sites. The analysis suggests that many of the smaller sites will be brought forward on existing use values which are low – in particular residential and residential amenity land.

6.10 Viability is sensitive to other infrastructure costs. However, the precise impacts of infrastructure loading and the delivery of affordable housing will need to be seen in the context of a changing housing market over time. An improved housing market – towards longer terms trends - should be capable of assimilating much of the additional impact as the gap between real house prices and build costs grows.

6.11 Our analysis suggests that small sites are not problematic in terms of viability. Rather it is the specific location and nature of development (e.g. new build and/or demolition) that will be the key factor in determining viability.

6.12 From a housing management perspective, we did not find any in-principle objections from housing associations to the on-site provision of affordable housing on small sites. There may be particular schemes where on-site provision is not the preferred option, but as a general rule, on-site provision of small numbers of affordable homes is acceptable to housing associations.

6.13 The analysis indicates the importance of smaller sites to the supply of housing in the District. According to permissions data, over half the dwellings (permissions 2006 to 2009) will be developed on sites of less than 15 dwellings. Small sites are less significant in the larger settlements, but highly significant when the larger settlements are taken out of the reckoning. For example, 80% of new dwellings will be built on sites of less than 15 dwellings in locations not including Market Harborough, Lutterworth, Kibworth, Scraptoft and Thurnby, Great Glen, Fleckney and Broughton Astley.

6.14 Where a financial payment in lieu of on-site provision of affordable housing (or commuted sum) is to be sought, it should be of "broadly equivalent value". This approach is, on the evidence we have considered, a reasonable one to take in policy terms.

6.15 If this 'equivalence' principle is adopted, then the decision of the local authority to take a commuted sum will be based on the acceptability or otherwise of on-site provision as a housing and spatial planning solution, not in response to viability issues.

Conclusions and policy options

6.16 There is no detailed government guidance setting out how targets should be assessed, based on an assessment of viability. In coming to our conclusions, we have reviewed the residual values generated for the different sub markets in the District at the alternative levels of affordable housing tested.

6.17 From this review, we have highlighted in particular the considerable variation in residual values achieved in the two highest value rural areas, and those achieved elsewhere – in the more urban settlements. The pattern of residual values has important consequences for the way we have framed the options for the targets for affordable housing which we set out below:

- A single percentage target across the whole District. This could follow the 30% target adopted in The SPD. This should be comfortably achievable in the rural areas (the two highest value rural sub markets) but could be challenging in certain locations within the lowest two sub markets. In a mid market location, residual values would be around the £800,000 per hectare mark. This is comfortably above industrial land

use, as an alternative benchmark. A 30% affordable housing target will, we believe, be realistic taking the range of residual values into account – as a mid point marker.

- Two targets which seeks 40% affordable housing in the highest two value areas of Harborough Rural South West and Harborough Rural North and Central and, 25% in the three lower value sub markets. If this approach were to be adopted, the Council would need to look at focusing grant in the weaker sub markets, especially at higher densities.
- A more refined (three way) split target aiming to deliver 40% affordable housing in Harborough Rural South West and Harborough Rural North and Central, 30% in Market Harborough and 20% in Lutterworth and Blaby border settlements.

6.18 With respect to the options above, a single percentage target across the District is simple and leaves no room for doubt about the authority's requirements. However, given the diversity of values in the market areas we have identified, it seems that a single percentage target will only work if it is tailored to the lower value areas and hence, in the two better performing market value areas, opportunities to secure affordable housing would be lost.

6.19 We consider that some kind of split target (as set out in the second and third options) offers the better approach. This of course has the 'rider' that grant could be needed in some instances to achieve the targets being promoted.

Viability on individual sites

6.20 Our analysis has indicated that there will be site-specific circumstances where achievement of the affordable housing proportions set out above may not be possible. This should not detract from the robustness of the overall targets but the council will need to take into account specific site viability concerns when these are justified.

6.21 If there is any doubt about viability on a particular site, it will be the responsibility of the developer to make a case that applying the council's affordable housing requirement for their scheme makes the scheme **not viable.** Where the council is satisfied this is the case, the council has a number of options open to it (including changing the mix of the affordable housing and supporting a bid for grant funding from the Homes and Communities Agency and/or using their own funds) before needing to consider whether a lower level of affordable housing is appropriate. In individual scheme negotiations, the council will also need to consider the balance between seeking affordable housing and its other planning obligation requirements.

Thresholds

6.22 The Local Plan threshold is 25, but PPS3 a more recent policy document, states a policy threshold of 15. Harborough District's current policy position, as set out in the 2006 SPD, is five dwellings across the District.

6.23 Our evidence indicates that there is not a particular viability challenge in reducing the threshold down to 0 dwelling if required. The analysis shows

very small sites to be viable, with viability depending largely on location, not site size.

6.24 The data suggests that in the larger settlements, small sites do not play such a significant role. However, in the more rural areas, we feel that the District should aim for a threshold below 5 dwellings to ensure affordable housing is delivered.

6.25 Given the buoyancy of house prices, the viability of small sites and the requirement to meet housing needs, we would not conclude that a zero threshold across the District in Harborough is an unrealistic policy position to take.

6.26 The Council will however need to decide whether it could practically reduce the threshold to zero in the rural locations. From a viability viewpoint, we see no objection. However the Council may want to consider the implications of the need to potentially negotiate a greatly increased number of small sites. If it decides against a lowering of the threshold to zero, it may further decide to harmonise the threshold at 5 units across the District.

Commuted sums

6.27 Where **commuted sums** are collected a possible approach to calculating the appropriate sum sought is to base this on the equivalent amount which would be contributed by the developer/landowner were the affordable housing provided on site. This is expressed as follows:

RV 100% M = Residual value with 100% market housing
RV AH = Residual value with X% affordable housing (say 40%)
Equivalent commuted sum = RV 100% MV minus RV AH

6.28 Where commuted sums are collected, the council will need to have in place a strategy to ensure the money is spent effectively and in a timely manner. Options for spending will be a matter for the council to consider but could include supporting schemes which would otherwise not be viable, increasing the amount of social rented housing in a scheme, increasing the proportion of family units in a scheme, seeking higher quality affordable housing (e.g. a higher level of the Code for Sustainable Homes).

The current housing market

6.29 At the time of preparing this report, the housing market has suffered a down-turn as a result of the 'credit crunch'. Our analysis of housing market values is as recent as possible and relates to June 2009.

6.30 We think it likely however that developers will increasingly run an argument during 2009 and 2010 that the affordable housing and wider s106 policy is holding back sites. We believe that whilst the council should be flexible in its negotiations on specific sites, we do not think it should shift its position from the policy conclusions of this report since these will be more appropriate to the longer term trend in house prices which has been shown to be upwards. In other words, the policy position should be one which reflects the longer run and not simply the impacts of the credit crunch.

6.31 Currently it is difficult to see the direction of travel over the longer run. Historically, prices have risen by around 3% per annum above inflation. These sorts of rises, if emulated over the Plan period, should allow the authority to take a very robust view towards requiring affordable housing.

Appendix 1

DEVELOPMENT ECONOMICS WORKSHOPS
Friday 8th May 2009

The workshops were run as a morning and afternoon session. This note covers the combined comments from the two sessions.

Attendees:

David Beale, EDC;
Emma Bentinck, NWL DC
Kathy Bourassa, LCE;
Chris Brown, Harborough DC;
Adam Burdett; Intali;
Paul Burton, Hallam Land;
Chris Cole, Sanctuary Group;
Louise Cotter, Marrons;
Michelle Duffy, Pegasus Planning;
John Edmond, Marrons;
Mike Freeman, Harborough DC;
Andrew Granger, Andrew Granger & Co;
Nic Jepson, WilliamDavis;
Ian Jordan, Leicester CC;
Guy Langley, Pegasus Planning;
John Littlejohn; John Littlejohn;
Gerry McNamee, Riverside Group;
Geoff Mee, Leicester CC;
Ian Nelson; NWL DC;
Sunil Plaha, ASRA;
Sarah Robinson, Waterloo Group;
Jas Singh, Freeth Cartwright;
Bill Smedley; RG+P Ltd;
Paul Tebbitt, Blaby DC;
Rob Thornhill, Blaby DC
Richard Vickery, NCHA;
Rob Woolston, RG+P Ltd;
Lance Wiggins, Landmark Planning;

Adam Watkins Three Dragons
Andrew Golland Three Dragons
Lin Cousins Three Dragons

Introduction

As an introduction to the morning and afternoon workshops, it was explained by the councils represented that Three Dragons and Roger Tym & Partners had been appointed by the five local authorities of Blaby DC, Harborough DC, Leicester CC, North West Leicestershire DC and Oadby and Wigston BC to look at the issue of viability, affordable housing and site supply in their area. The councils are at different stages in production of their LDF but all will make use of the outputs of this

study of development economics as part of their evidence base. The councils recognised that, after the judgement on the 'Blyth Valley case', affordable housing policy needs to be backed up by evidence about development viability in the local area.

Key issues and constraints in delivering affordable housing

A number of issues were raised about delivering affordable housing through the planning system.

Concern was expressed with 'pepper potting' of affordable housing within mixed tenure schemes. It was said that this could adversely affect market values of sale houses in the vicinity and tends to exaggerate social differences. Developers generally preferred to have the affordable housing in larger 'groups' in defined parts of a site – big concern about the types of households (e.g. vulnerable single people) who were said to be concentrated in social rented housing. Housing associations present challenged this view but all noted that good property management was important to maintaining an area's environment and image.

The general view of the workshops was that the market is slow at the moment and particularly so for apartment development. New build houses still had a market but much weaker than before. Getting development going in redevelopment areas was said to be particularly difficult and there are still very weak market areas in the City. But other parts of Leicestershire are much more buoyant generally.

However, it was recognised that it was not the requirement for affordable housing which is holding back development but the general state of the economy and lack of credit.

Affordable housing is not the only form of planning contribution that the authorities seek. Other s106 obligations all add up and impact on viability. Some workshop attendees questioned whether the councils fully understood this point and the relationship between viability, delivering affordable housing and other planning obligations. It was noted that the recent study by Roger Tym & Partners had not been made available yet and some workshop attendees called for clearer guidance from the planning authorities on their future intentions on planning obligations.

Three Dragons approach to viability analysis

Three Dragons described the broad approach they will take to the study and using a PowerPoint presentation explained that they would be using a residual valuation approach using an Excel based model or toolkit for the analysis of development economics.

The general approach to the study was met with broad agreement. It was explained that the study would not be concerned with individual sites and that these will have to be negotiated on their merits as they come through the planning process.

The development industry emphasised that development must be worthwhile to the developer (and land owner) if it going to proceed. If the local authority asks for too

much by way of affordable housing and/or other planning contributions, development will falter.

Land values in the area were said to be around £1.25 m per acre for 100% market housing But housing associations could pay only as little as £40,000 per affordable housing unit which had a major dent on land values.

Landowner expectations of the land value they will obtain for their land remain high and many have not adjusted their expectations to take account of the change in the market. Landowners may decide to hang on to their land until the market improves. But it would be wrong to think of landowners as a single group – landowners expectations and decisions on selling land reflect their particular circumstances.

Market values and sub markets

Three Dragons explained that they will be analysing the local authority areas in terms of post code sectors to identify 'market value areas'. The market value areas will be defined by house prices and will not necessarily relate to any other planning areas.

Thresholds and small sites

Small sites, viability and thresholds were discussed. Neither small not large sites were more economic to develop on a systematic basis. Small sites were said to be relatively easy and quick to develop but there could be economies of scale with larger sites.

Notwithstanding earlier developer comments about 'pepper potting' of affordable housing, from the housing association perspective, there is no reason why affordable housing cannot be provided in small numbers (within mixed tenure schemes) and one dwelling in a scheme can be acceptable. Not all associations will want small numbers (single units) of affordable housing in every location – it will depend where the associations already have a management presence. But, as a general rule, there will be an association prepared to take on a small group (single unit) of affordable housing in Leicestershire.

But some locations/schemes are poor for affordable housing e.g. in less sustainable locations and/or where service charges are high – councils do better in taking a commuted sum in these sorts of situations than insisting on on-site provision. Housing associations know which schemes won't work for mixed tenure.

Other assumptions to be used by Three Dragons

Workshop attendees were asked for any further feedback on the assumptions Three Dragons indicated they would be using in the viability study. The attached copy of the presentation used at the workshop provides this information and workshop attendees are asked for any further comments in writing.

Initial views expressed at the workshop were that:

A developer return of 15% of value is just about acceptable (and would equate to a 20-25% return on costs). However, on very large sites, the returns might be different but it would depend on the site;

Important that there is a toolkit available to the councils to deal with specific scheme circumstances – schemes vary considerably;

Affordable housing is typically being asked for as a mix of 75% social rent and 25% intermediate affordable (and Three Dragons should model as (in generic terms) shared ownership.

Service charges are a significant cost

Need to reflect slow sale rate (e.g. build year 1, sell year 2)

Development mixes

Three Dragons explained that their modelling will look at a range of development mixes at different densities. It was agreed that the densities set out represented a reasonable range for testing purposes (although the highest densities of 80 and 120 dwellings per hectare would likely only be found in City schemes). The workshops made a number of detailed comments about the draft mixes put forward – mainly to reduce the proportion of flats in mid density schemes and the proportion of detached dwellings in low density schemes. As agreed at the workshops, the table below sets out a revised set of development mixes from Three Dragons in the light of the workshop comments. Further feedback from workshop attendees will be welcome.

	Density (Dwellings per Hectare)				
	30	40	50	80	120
1 Bed Flat				15	40
2 Bed Flat		5	10	30	60
2 Bed Terrace	10	15	20	35	
3 Bed Terrace	15	20	25	20	
3 Bed Semi	25	25	25		
3 Bed Detached	25	20	15		
4 Bed Detached	15	15	5		
5 Bed Detached	10				
Percentage	100	100	100	100	100

Quality standards

Requirements for increased 'quality standards' are increasing the costs of development. Where grant from the Homes and Communities Agency is available, affordable housing has to be developed to specific quality standards which includes higher space standards and Code for Sustainable Homes. This has implications for scheme costs and viability.

Appendix 2 Three Dragons model: Method statement

The Toolkit provides the user with an assessment of the economics of residential development. It allows the user to test the economic implications of different types and amounts of planning obligation and, in particular, the amount and mix of affordable housing. It uses a residual development appraisal approach which is the industry accepted approach in valuation practice.

The Toolkit compares the potential revenue from a site with the potential costs of development before a payment for land is made. In estimating the potential revenue, the income from selling dwellings in the market and the income from producing specific forms of affordable housing are considered. The estimates involve (1) assumptions about how the development process and the subsidy system operate and (2) assumptions about the values for specific inputs such as house prices and building costs. These assumptions are made explicit in the guidance notes. If the user has reason to believe that reality in specific cases differs from the assumptions used, the user may either take account of this in interpreting the results or may use different assumptions.

The main output of the Toolkit is the residual value. In practice, as shown in the diagram below, there is a 'gross' residual value and a 'net' residual value. The gross residual value is that value that a scheme generates before Section 106 is required. Once Section 106 contributions have been taken into account, the scheme then has a net residual value, which is effectively the land owner's interest.

Key data assumptions

Market areas and prices:

HARBOROUGH											
Sub Market		Detached			Semi-Det		Terraced			Flat/Mais	
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed
Harborough Rural South West	£395,000	£345,000	£295,000	£240,000	£210,000	£180,000	£190,000	£170,000	£175,000	£160,000	£120,000
Harborough Rural North & Central	£390,000	£340,000	£290,000	£235,000	£205,000	£175,000	£185,000	£165,000	£170,000	£155,000	£115,000
Market Harborough	£320,000	£280,000	£235,000	£190,000	£165,000	£145,000	£155,000	£135,000	£140,000	£125,000	£95,000
Lutterworth	£290,000	£250,000	£215,000	£175,000	£150,000	£130,000	£140,000	£120,000	£125,000	£115,000	£85,000
Blaby Border Settlements	£280,000	£245,000	£205,000	£165,000	£145,000	£125,000	£135,000	£115,000	£120,000	£110,000	£80,000

The development mixes were as follows:

- 30 dph: including 10% 2 bed terraces; 15% 3 bed terraces; 25% 3 bed semis; 25% 3 bed detached; 15% 4 bed detached;
- 40 dph: including 5% 2 bed flats; 15% 2 bed terraces; 20% 3 bed terraces; 25% 3 bed semis; 20% 3 bed detached; 15% 4 bed detached;
- 50 dph: including 10% 2 bed flats; 20% 2 bed terraces; 25% 3 bed terraces; 25% 3 bed semis; 15% 3 bed detached; 5% 4 bed detached;
- 80 dph: including 15% 1 bed flats; 30% 2 bed flats; 35% 2 bed terraces; 20% 3 bed terraces;
- 120 dph: including 40% 1 bed flats; 60% 2 bed flats.

Affordable housing targets:

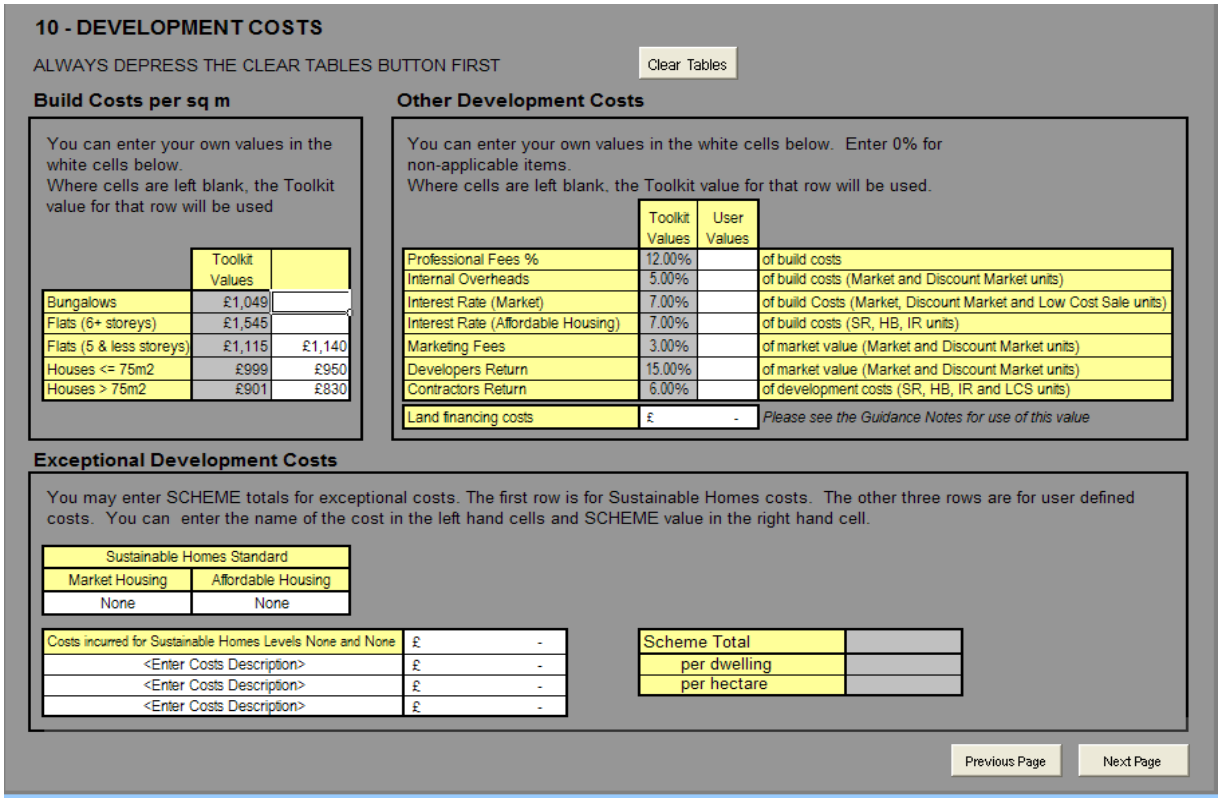
10%;
20%;
25%;
30%;
35%;
40%;
50%

Affordable housing split: 75% to 25% Social Rent to Shared Ownership

Development costs

Based on RICS BCIS database:

Costs as set out below:



10 - DEVELOPMENT COSTS

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST — Clear Tables

Build Costs per sq m

You can enter your own values in the white cells below.
Where cells are left blank, the Toolkit value for that row will be used

	Toolkit Values	
Bungalows	£1,049	
Flats (6+ storeys)	£1,545	
Flats (5 & less storeys)	£1,115	£1,140
Houses <= 75m2	£999	£950
Houses > 75m2	£901	£830

Other Development Costs

You can enter your own values in the white cells below. Enter 0% for non-applicable items.
Where cells are left blank, the Toolkit value for that row will be used.

	Toolkit Values	User Values	
Professional Fees %	12.00%		of build costs
Internal Overheads	5.00%		of build costs (Market and Discount Market units)
Interest Rate (Market)	7.00%		of build Costs (Market, Discount Market and Low Cost Sale units)
Interest Rate (Affordable Housing)	7.00%		of build costs (SR, HB, IR units)
Marketing Fees	3.00%		of market value (Market and Discount Market units)
Developers Return	15.00%		of market value (Market and Discount Market units)
Contractors Return	6.00%		of development costs (SR, HB, IR and LCS units)
Land financing costs	£ -		*Please see the Guidance Notes for use of this value*

Exceptional Development Costs

You may enter SCHEME totals for exceptional costs. The first row is for Sustainable Homes costs. The other three rows are for user defined costs. You can enter the name of the cost in the left hand cells and SCHEME value in the right hand cell.

Sustainable Homes Standard	
Market Housing	Affordable Housing
None	None

Costs incurred for Sustainable Homes Levels None and None	£ -	
<Enter Costs Description>	£ -	
<Enter Costs Description>	£ -	
<Enter Costs Description>	£ -	

Scheme Total	
per dwelling	
per hectare	

Previous Page — Next Page

No abnormals assumed

Typical unit sizes adopted (m^2):

	Market	Affordable
1 Bed Flat	45	46
2 Bed Flat	60	67
2 Bed Terrace	65	76
3 Bed Terrace	80	84
3 Bed Semi	90	86
3 Bed Detached	120	90
4 Bed Detached	150	110

Other Affordable Housing Factors:

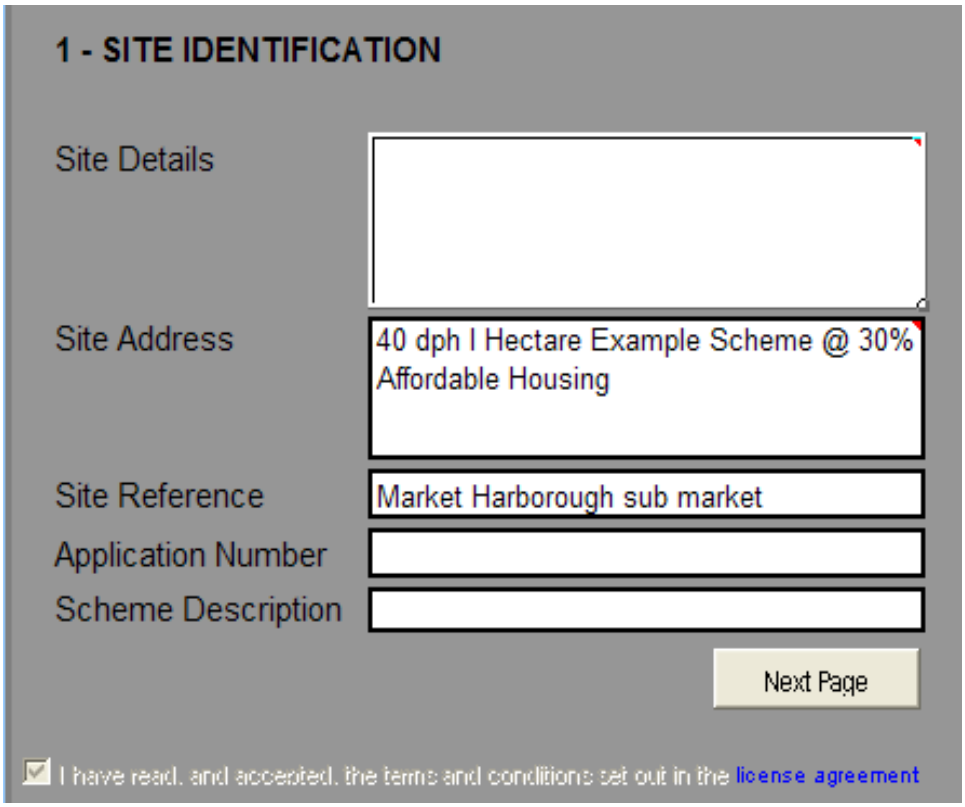
Social rents

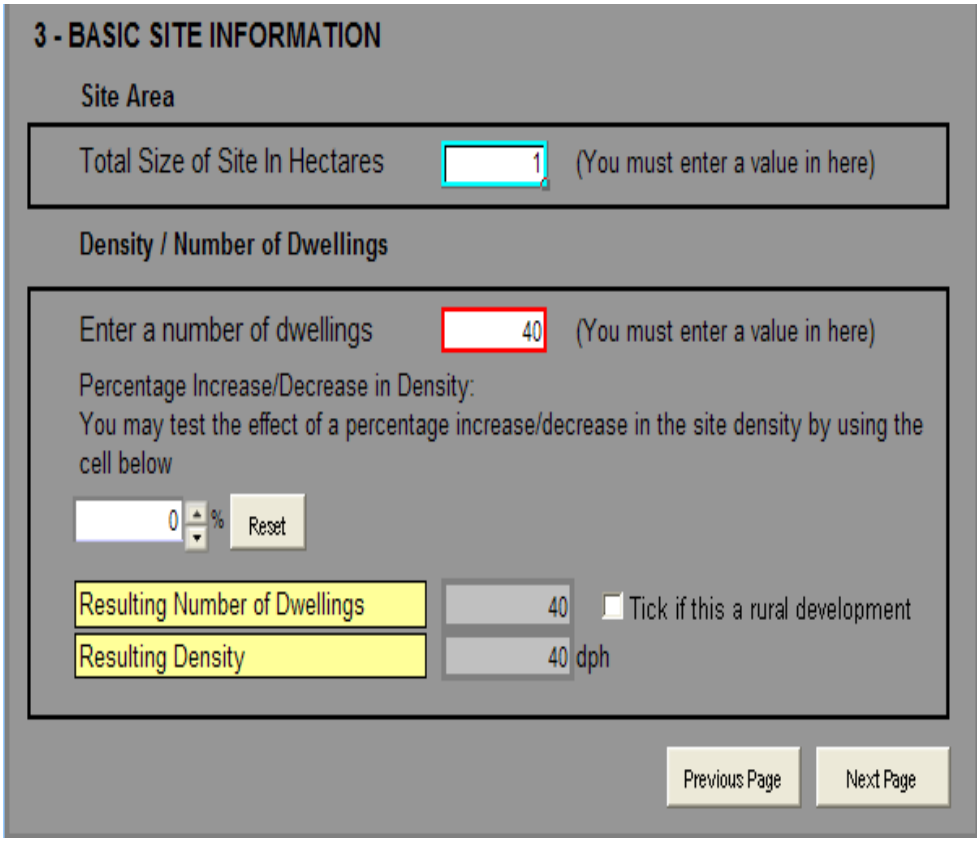
	Weekly Rent
1 Bed Flat	£68
2 Bed Flat	£77
2 Bed Terrace	£79
3 Bed Terrace	£84
3 Bed Semi	£86
3 Bed Detached	£88
4 Bed Detached	£92

Appendix 3 Results – Residual values in £s million per hectare (no grant)

30 dph	0%	10%	20%	25%	30%	35%	40%	50%
Harborough Rural South West	£2.81	£2.44	£2.07	£1.89	£1.70	£1.52	£1.34	£0.97
Harborough Rural North & Central	£2.69	£2.34	£1.98	£1.80	£1.62	£1.44	£1.26	£0.90
Market Harborough	£1.65	£1.37	£1.10	£0.96	£0.83	£0.69	£0.55	£0.28
Lutterworth	£1.21	£0.97	£0.73	£0.61	£0.49	£0.37	£0.25	£0.01
Blaby Border settlements	£1.06	£0.83	£0.60	£0.49	£0.38	£0.26	£0.15	-£0.10
40 dph	**0%**	**10%**	**20%**	**25%**	**30%**	**35%**	**40%**	**50%**
Harborough Rural South West	£3.23	£2.79	£2.35	£2.12	£1.90	£1.68	£1.46	£1.02
Harborough Rural North & Central	£3.08	£2.65	£2.22	£2.01	£1.79	£1.58	£1.36	£0.93
Market Harborough	£1.84	£1.51	£1.18	£1.02	£0.85	£0.69	£0.52	£0.19
Lutterworth	£1.31	£1.02	£0.73	£0.59	£0.45	£0.30	£0.16	-£0.15
Blaby Border settlements	£1.13	£0.86	£0.59	£0.45	£0.31	£0.18	£0.04	-£0.28
50 dph	**0%**	**10%**	**20%**	**25%**	**30%**	**35%**	**40%**	**50%**
Harborough Rural South West	£3.51	£3.00	£2.50	£2.24	£1.99	£1.74	£1.49	£0.98
Harborough Rural North & Central	£3.32	£2.83	£2.34	£2.10	£1.85	£1.61	£1.36	£0.87
Market Harborough	£1.93	£1.55	£1.17	£0.98	£0.79	£0.61	£0.42	£0.04
Lutterworth	£1.34	£1.01	£0.68	£0.51	£0.35	£0.18	£0.02	-£0.39
Blaby Border settlements	£1.13	£0.81	£0.50	£0.34	£0.19	£0.03	-£0.16	-£0.54
80 dph	**0%**	**10%**	**20%**	**25%**	**30%**	**35%**	**40%**	**50%**
Harborough Rural South West	£3.73	£3.07	£2.42	£2.09	£1.76	£1.43	£1.10	£0.44
Harborough Rural North & Central	£3.44	£2.80	£2.17	£1.85	£1.53	£1.22	£0.90	£0.27
Market Harborough	£1.75	£1.25	£0.76	£0.51	£0.26	£0.01	-£0.29	-£0.90
Lutterworth	£1.00	£0.56	£0.12	-£0.12	-£0.38	-£0.65	-£0.92	-£1.46
Blaby Border settlements	£0.70	£0.29	-£0.15	-£0.40	-£0.66	-£0.91	-£1.16	-£1.67
120 dph	**0%**	**10%**	**20%**	**25%**	**30%**	**35%**	**40%**	**50%**
Harborough Rural South West	£4.08	£3.18	£2.29	£1.84	£1.39	£0.95	£0.50	-£0.48
Harborough Rural North & Central	£3.63	£2.77	£1.92	£1.49	£1.06	£0.63	£0.20	-£0.81
Market Harborough	£1.33	£0.66	-£0.02	-£0.43	-£0.84	-£1.26	-£1.67	-£2.49
Lutterworth	£0.45	-£0.19	-£0.93	-£1.30	-£1.67	-£2.04	-£2.40	-£3.14
Blaby Border settlements	£0.00	-£0.69	-£1.38	-£1.73	-£2.08	-£2.42	-£2.77	-£3.46

Worked Example – 40 dph scheme at 30% Affordable Housing in Harborough





4 - CHARACTERISTICS OF DEVELOPMENT

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST
You then have 2 options for entering information about the scheme
EITHER, enter information for up to 20 dwelling types – each row must be either fully complete or left blank
(enter 1 if information not relevant e.g. size of affordable unit but is a market unit)
OR select the Toolkit default mix by depressing the button called Use Default Unit Types

Clear Table | Use Default Unit Types | View Default Mix ->

Ref.	Description of Dwelling	No of Bed-Rooms	Dwelling Type	No of Units	Size in sq.m Affordable	Size in sq.m Market	Parking (flats only)	No. of Storeys (1-99)
1								
2	2 Bed Flats	2	Flat	2.0	67	60	n/a	2
3	2 Bed Terraces	2	House	6.0	76	65	n/a	n/a
4	3 Bed Terraces	3	House	8.0	84	80	n/a	n/a
5	3 Bed Semis	3	House	10.0	86	90	n/a	n/a
6	3 Bed Detached	3	House	8.0	90	110	n/a	n/a
7	4 Bed Detached	4	House	6.0	110	135	n/a	n/a
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
	Total Number of units			40				

Previous Page | Next Page

5 - MARKET VALUES

This is a custom scheme, default values are not available.

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST — Clear Table

You can enter your own values for each dwelling type or select the Toolkit default market values by depressing the button called Default Market Values

View Default Values ->

You can adjust the market values by using the % increase/decrease arrows — 100 % — Reset — Reset button to return to base market value

Ref.	Unit Type	No of Bed-Rooms	Market Value	Adjusted Market Value
1				
2	2 Bed Flats	2	£125,000	£125,000
3	2 Bed Terraces	2	£135,000	£135,000
4	3 Bed Terraces	3	£155,000	£155,000
5	3 Bed Semis	3	£165,000	£165,000
6	3 Bed Detached	3	£235,000	£235,000
7	4 Bed Detached	4	£280,000	£280,000
8				
9				
10				
11				
12				
13				
14				

6 - TENURE MIX

If you are using a default mix then you can distribute units across the tenures by percentage; enter the percentage of units to assign to each tenure in the top row. The percentages are applied equally across all unit types
If you are not using a default mix then you may either enter units by percentage or by the exact number of units of each type for each tenure; in the table enter the exact number of units of each type for each tenure in the table
Whichever method is selected, ensure that relevant information is entered in the boxes at the bottom of the table.

(•) Input by Percentages ( ) Input by Quantity [Clear Table]

		SALE	AFFORDABLE					
			Social rent	New Build HomeBuy	Intermediate rent	Discount Market	Local Sale	Required No. of Units
Ref.	Description	70%	23%	8%				
1								
2	2 Bed Flats	1.4	0.5	0.2				2.0
3	2 Bed Terraces	4.2	1.4	0.5				6.0
4	3 Bed Terraces	5.6	1.8	0.6				8.0
5	3 Bed Semis	7.0	2.3	0.8				10.0
6	3 Bed Detached	5.6	1.8	0.6				8.0
7	4 Bed Detached	4.2	1.4	0.5				6.0
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
Total		28.0	9.0	3.0				40.0

New Build HomeBuy	Percentage Purchased	40%
	Rental limit on unbought share	100%
Percentage purchased by purchaser for Discount Market		
Local Sale	Average Income	
	Income Multiplier	

[Previous Page] [Next Page]

8 - SOCIAL AND INTERMEDIATE RENT

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST [Clear Tables]

This is a custom scheme, default rents are not applicable. Please enter your own values into the white cells

[View Default Rents ->]

		Social Rent Values (per week)			Intermediate Rent Values (per week)			
		No. of units	Default Rents	User Rents	No. of units	Market Rent	Adjust 75%	User Rents
Ref.	Description							
1			£ -			£ -	£ -	
2	2 Bed Flats	0.45	£ -	£ 77.00		£ -	£ -	
3	2 Bed Terraces	1.35	£ -	£ 79.00		£ -	£ -	
4	3 Bed Terraces	1.80	£ -	£ 84.00		£ -	£ -	
5	3 Bed Semis	2.25	£ -	£ 86.00		£ -	£ -	
6	3 Bed Detached	1.80	£ -	£ 88.00		£ -	£ -	
7	4 Bed Detached	1.35	£ -	£ 92.00		£ -	£ -	
8			£ -			£ -	£ -	
9			£ -			£ -	£ -	
10			£ -			£ -	£ -	
11			£ -			£ -	£ -	
12			£ -			£ -	£ -	
13			£ -			£ -	£ -	
14			£ -			£ -	£ -	
15			£ -			£ -	£ -	
16			£ -			£ -	£ -	
17			£ -			£ -	£ -	
18			£ -			£ -	£ -	
19			£ -			£ -	£ -	
20			£ -			£ -	£ -	

[Previous Page] [Next Page]

9 - AFFORDABLE HOUSNG COSTS AND CAPITALISATION FACTORS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST — ClearTable

You can enter your own values in the white cells below
Where cells are left blank, the Toolkit value for that row will be used

Social Rent		ToolKit Values	User Values	
Costs per annum	Management & Maintenance	£ 1,000		per annum
	Voids/bad debts	3.00%		of gross rent
	Repairs reserve	£ 500		per annum
Capitalisation		6.00%	6.75%	of net rent

New Build HomeBuy		ToolKit Values		
Costs per annum	Rental Factor	2.75%		of share
Capitalisation		6.00%	6.75%	of net rent

Intermediate Rent		ToolKit Values		
Costs per annum	Management costs	6.00%		of gross rent
	Maintenance Costs	£ 500		per dwelling
	Voids/bad debts	5.00%		of gross rent
	Repairs Reserve	1.00%		of gross rent
Capitalisation		6.00%		of net rent

Previous Page — Next Page

8 - SOCIAL AND INTERMEDIATE RENT

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST — Clear Tables

This is a custom scheme, default rents are not applicable. Please enter your own values into the white cells

View Default Rents ->

Ref.	Description	Social Rent Values (per week) No. of units	Default Rents	User Rents	Intermediate Rent Values (per week) No. of units	Market Rent	Adjust 75%	User Rents
1			£ -			£ -	£ -	
2	2 Bed FLATS	0.45	£ -	£ 77.00		£ -	£ -	
3	2 Bed Terraces	1.35	£ -	£ 79.00		£ -	£ -	
4	3 Bed Terraces	1.80	£ -	£ 84.00		£ -	£ -	
5	3 Bed Semis	2.25	£ -	£ 86.00		£ -	£ -	
6	3 Bed Detached	1.80	£ -	£ 88.00		£ -	£ -	
7	4 Bed Detached	1.35	£ -	£ 92.00		£ -	£ -	
8			£ -			£ -	£ -	
9			£ -			£ -	£ -	
10			£ -			£ -	£ -	
11			£ -			£ -	£ -	
12			£ -			£ -	£ -	
13			£ -			£ -	£ -	
14			£ -			£ -	£ -	
15			£ -			£ -	£ -	
16			£ -			£ -	£ -	
17			£ -			£ -	£ -	
18			£ -			£ -	£ -	
19			£ -			£ -	£ -	
20			£ -			£ -	£ -	

Previous Page — Next Page

9 - AFFORDABLE HOUSNG COSTS AND CAPITALISATION FACTORS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

ClearTable

You can enter your own values in the white cells below
Where cells are left blank, the Toolkit value for that row will be used

Social Rent		ToolKit Values	User Values	
Costs per annum	Management & Maintenance	£ 1,000		per annum
	Voids/bad debts	3.00%		of gross rent
	Repairs reserve	£ 500		per annum
Capitalisation		6.00%	6.75%	of net rent

New Build HomeBuy		ToolKit Values		
Costs per annum	Rental Factor	2.75%		of share
Capitalisation		6.00%	6.75%	of net rent

Intermediate Rent		ToolKit Values		
Costs per annum	Management costs	6.00%		of gross rent
	Maintenance Costs	£ 500		per dwelling
	Voids/bad debts	5.00%		of gross rent
	Repairs Reserve	1.00%		of gross rent
Capitalisation		6.00%		of net rent

Previous Page Next Page

10 - DEVELOPMENT COSTS

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST

Clear Tables

Build Costs per sq m

You can enter your own values in the white cells below.
Where cells are left blank, the Toolkit value for that row will be used

	Toolkit Values	
Bungalows	£1,049	
Flats (6+ storeys)	£1,545	
Flats (5 & less storeys)	£1,115	£1,140
Houses <= 75m2	£999	£950
Houses > 75m2	£901	£830

Other Development Costs

You can enter your own values in the white cells below. Enter 0% for non-applicable items.
Where cells are left blank, the Toolkit value for that row will be used.

	Toolkit Values	User Values	
Professional Fees %	12.00%		of build costs
Internal Overheads	5.00%		of build costs (Market and Discount Market units)
Interest Rate (Market)	7.00%		of build Costs (Market, Discount Market and Low Cost Sale units)
Interest Rate (Affordable Housing)	7.00%		of build costs (SR, HB, IR units)
Marketing Fees	3.00%		of market value (Market and Discount Market units)
Developers Return	15.00%		of market value (Market and Discount Market units)
Contractors Return	6.00%		of development costs (SR, HB, IR and LCS units)
Land financing costs	£ -		*Please see the Guidance Notes for use of this value*

Exceptional Development Costs

You may enter SCHEME totals for exceptional costs. The first row is for Sustainable Homes costs. The other three rows are for user defined costs. You can enter the name of the cost in the left hand cells and SCHEME value in the right hand cell.

Sustainable Homes Standard	
Market Housing	Affordable Housing
None	None

Costs incurred for Sustainable Homes Levels None and None	£ -	
<Enter Costs Description>	£ -	
<Enter Costs Description>	£ -	
<Enter Costs Description>	£ -	

Scheme Total	
per dwelling	
per hectare	

Previous Page Next Page

11 - PLANNING OBLIGATIONS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST [Clear Table]

For each type of contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure). If you choose the second option, the Toolkit will calculate the total obligation 'cost' for the scheme.

To enter one total value for a row, tick the corresponding box in the "Enter Total?" column and enter a value in the "User Total" column : To enter the values by tenure leave the box un-ticked	Input by Total		Input by Unit						Calculated Total (Affordable and Sale)
	Enter Total?	User Total	Sale	Affordable					
				Social rent	New Build HomeBuy	Intermediate rent	Discount Market	Local Sale	
Education Contribution	☐								
Highway Works	☐								
Contribution to public transport	☐								
Contribution to community facilities	☐								
Provision for open space	☐								
Contribution to public realm	☐								
Contribution to public art	☐								
Environmental improvements	☐								
Town centre improvements	☐								
Waterfront Improvements	☐								
Support for employment development	☐								
Employment related training	☐								
<Enter Planning Obligation Description here>	☐								
<Enter Planning Obligation Description here>	☐								
<Enter Planning Obligation Description here>	☐								

Obligations package per unit	£4,000
Contribution from Commercial	

Total for Scheme	£160,000
Total for Scheme per hectare	£160,000
Total for Scheme divided by total number of units	£4,000
Total for Scheme divided by number of sale units	£5,333

[Previous Page] [Next Page]

16 - HOUSING CORPORATION GRANT AVAILABILITY

(•) No - Grant is not available

( ) Yes - Grant is available and is a known value

[Previous Page] [Next Page]

17 - ONCOSTS FOR AFFORDABLE HOUSING

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST [Clear page]

If applicable, the user can provide information about oncosts. You have one of 3 options: i) use the Toolkit default percentages ii) enter your own % iii) enter your own oncost value (in £s) per unit. If there are no oncosts clear the tick box called 'Apply Oncosts.

☑ Apply Oncosts

Oncosts are based on a percentage of development costs (not including returns to the developer)

	Affordable Housing Tenures			Total
	Social rent	New Build HomeBuy	Intermediate rent	No. Of Affordable Units
Number of units	7.5	2.5		10
i) Default oncosts rate (%)	6%	6%	6%	
ii) User oncosts (%)				
iii) User oncosts By Unit (£)				
Oncosts per Unit	£ 5,286	£ 5,286	£ -	
Total oncosts for Affordable Housing	£ 39,647	£ 13,216	£ -	

Total Oncosts for Affordable Housing	£ 52,862

[Previous Page] [Next Page]

20 - Scheme Results

Site Reference Details	
Site Reference Number	Market Harborough sub marke
Application Number	
Site Location	Harlow
Scheme Description	

Site Details	
Site Address	40 dph I Hectare Example Scheme @ 30% Affordable Housing
Site Details	

TOTAL NUMBER OF UNITS	
Dwellings	40
% Wheelchair Units	

DENSITY (per hectare)	
Dwellings	40.0

AFFORDABLE UNITS	Quantity	% of All Units
Total	12.0	30%
Social rent	9.0	23%
Intermediate	3.0	8%

REVENUE AND COSTS	
Total scheme revenue	£ 5,931,000
Total scheme costs	£ 4,986,000

RESIDUAL VALUE	
Whole scheme	£ 945,000
Per hectare	£ 945,000
Per dwelling	£ 24,000
Per market dwelling	£ 34,000

Contribution to revenue from:	
Market housing	£ 5,257,000
Affordable Housing	£ 674,000
- Social rent	£ 327,000
- New Build HomeBuy	£ 347,000
- Intermediate Rent	£ -
- Discount Market	£ -
- Local Sale	£ -
Capital Contribution	£ -
Commercial Elements	£ -

PUBLIC SUBSIDY (GRANT)	
Whole Scheme	£ -
Per Social Rental dwelling	£ -
Per New Build HomeBuy dwelling	£ -
Per Intermediate Rent dwelling	£ -

[Save Results] [View Results] [Cost Components]

Contribution to costs from:	
Market housing	£ 3,714,000
Affordable Housing	£ 1,112,000
- Social rent	£ 834,000
- New Build HomeBuy	£ 278,000
- Intermediate Rent	£ -
- Discount Market	£ -
- Local Sale	£ -
Land Finance	£ -
Planning Obligations	£ 160,000
Total Exceptional Costs	£ -
Commercial Elements	£ -

Alternative Site Values		Against residual
Exisiting Use Value	£ -	£ -
Acquisition Cost	£ -	£ -
Alternative Use Value 1	£ -	£ -
Alternative Use Value 2	£ -	£ -
Alternative Use Value 3	£ -	£ -

[View DCF Page]

[Previous Page]