West Oxfordshire District Council
Affordable Housing Viability Study

Final Report
November 2009

Three Dragons

1 INTRODUCTION

Review of project aims

1.1 West Oxfordshire District Council appointed Three Dragons to undertake an affordable housing viability study (AHVS). The study brief explained that the AHVS will be used by the Council to inform the development of Core Strategy housing policies and other Local Development Documents under preparation.

1.2 The brief further stated that the need to undertake an Affordable Housing Viability Study which examines the potential impact on development viability of different policy options for new qualifying thresholds and percentages for requiring the provision of affordable housing. This project will support work on the Council's Local Development Framework (LDF);

1.3 This report explains the research undertaken to address the brief and the findings of that research.

Policy context - national

1.4 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 Planning Policy Statement (PPS) 3 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.

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)

[1] CLG, Delivering Affordable Housing, November 2006

Policy context – South East Region

1.6 The South East Plan has now been published. Policy H3 covers affordable housing. It sets out the following provisions:

- Development and inclusion of targets for the provision of affordable housing, taking account of housing need and having regard to the overall regional target that 25% of all new housing should be social rented accommodation and 10% intermediate affordable housing. Where indicative targets for sub-regions are set out in the relevant sections of this RSS, these should take precedence over the regional target.

- Setting affordable housing targets which are supported by evidence of financial viability and the role of public subsidy in the light of guidance from the regional planning body and the regional housing board.

- The incorporation of locally set thresholds covering the size of site above which an affordable housing contribution will be required. These may vary across a local authority area depending on the anticipated pattern of new development. Such thresholds will have regard to an assessment of economic viability, scale of need and impact on overall levels of housing delivery.

Policy context – West Oxfordshire DC

1.7 The West Oxfordshire Local Plan (adopted 2006) states that:

1.8 "An element of affordable housing will be sought on the following basis:

On land allocated in [the] Plan for residential development or mixed uses including housing: 30% on sites in the towns of Witney and Carterton and up to 50% in the remainder of the District.

On unallocated land, which comes forward in accordance with the locational policies of [the] Plan, up to 50% affordable housing will be sought where: the site is in Witney, Carterton, Chipping Norton or Eynsham and has an area of 0.5 Ha or greater or when 15 or more dwellings are proposed or; elsewhere, when a development of 2 or more dwellings are proposed".

1.9 The adopted Supplementary Planning Document (SPD) of April 2007 sets out a policy of 50% affordable housing on all sites with the exception of sites in Witney and Carterton which are allocated in the Local Plan; here a target of 30% applies. SPD policy suggests a policy split of 70% Social Rent to 30% Intermediate affordable housing.

1.10 Thresholds apply (SPD 2007) at 15 for developments in Witney, Carterton, Chipping Norton and Eynsham (0.5 Hectare sites) and at 2 dwellings elsewhere in the District.

Delivery

1.11 Table 1.1 sets out recent completions of affordable housing in relation to all completions. The table shows that delivery of affordable housing (2003/4 to 2008/9) has been 17%.

1.12 Many of these sites pre-dated current Local Plan policy.

WODC Housing Completions (Net)	Total completions (Gross)	Affordable completions (Net)	Affordable % (Net)
2003/04	567	75	13
2004/05	629	53	8
2005/06	733	218	30
2006/07	810	113	14
2007/08	865	186	22
2008/09	578	99	17
Totals & average	4182	744	17%

Source: WODC Annual Monitoring reports

Research undertaken

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

- Discussions with a project group of officers from the Council and that 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 district.

Structure of the report

1.14 The remainder of the report uses the following structure:

- Chapter 2 explains the methodology we have followed in, first, identifying sub markets and, second, 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 principles underlying the methodology we have followed. The chapter explains the concept of a residual value approach and the relationship between residual values and existing/alternative use values.

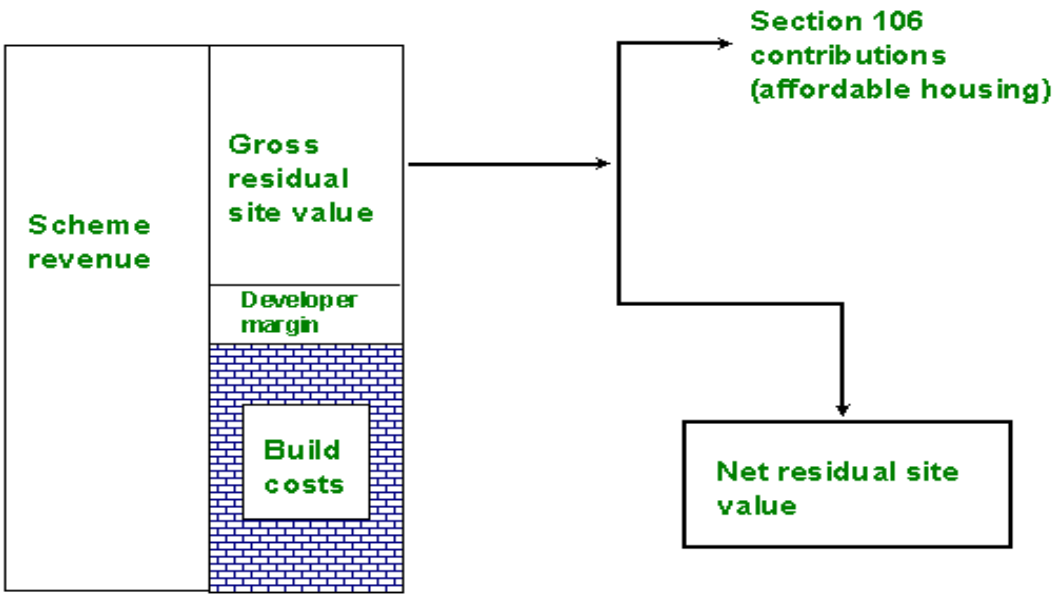
Viability – starting points

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 residual 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 s106 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 s106 contribution. The contribution will normally be greatest in the form of affordable housing but other s106 items will also reduce the gross residual value of the site. Once the s106 contributions have been deducted, this leaves a net residual value.

Figure 2.1 Theory of the Section 106 Process



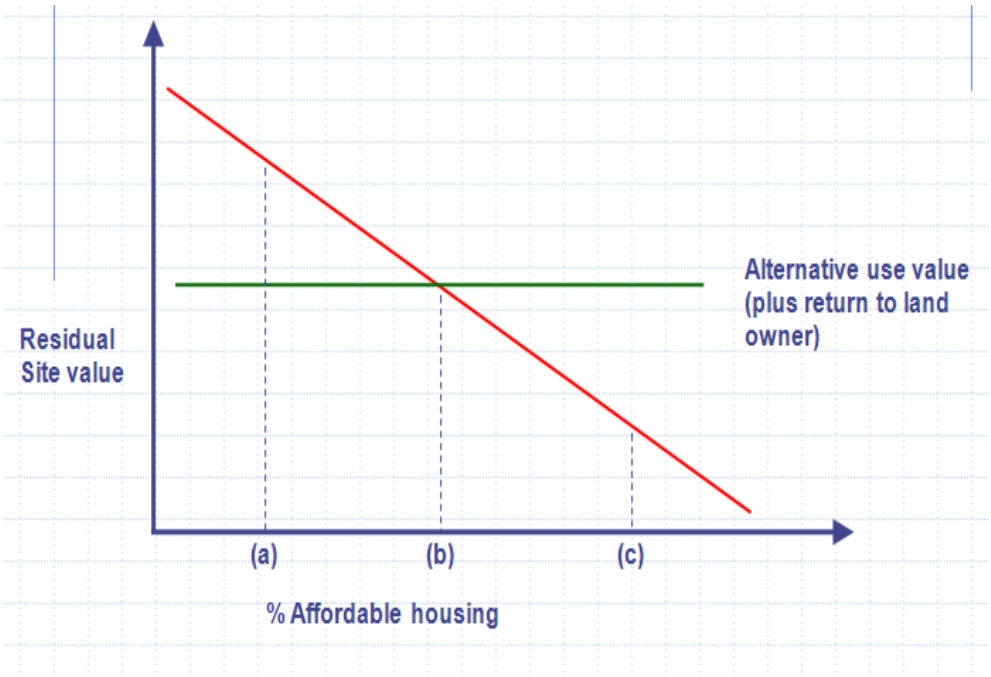
2.5 Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.

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 deciding whether to bring land forward for development.

2.7 Figure 2.2 shows how this operates in theory. Residual value (depicted by the red line) falls as the proportion of affordable housing increases. At some point (here with affordable housing at a percentage represented by 'b'), the alternative use value (or existing use value whichever is higher) will be equal to the residual value with 'b' % affordable housing. With 'c' percentage affordable housing, the residual value is less than the alternative use value and the scheme is not viable. At 'a' percentage affordable housing, the residual value is well in excess of the alternative use value and the scheme is therefore likely to be viable and the site to come forward.

2.8 A critical issue for any viability assessment is identifying a reasonable percentage above the existing use value for the residual value to be attractive to a landowner to bring forward their site. In the diagram below, at point 'b' (where the residual value equals the alternative use value), the return to the landowner is unlikely to encourage them to bring forward their site for housing.

Figure 2.2 Affordable housing and alternative use value



2.9 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.

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 sub markets that have been identified. The residual value shown will be the same whether the site is greenfield 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 house prices in West Oxfordshire using HM Land Registry data to identify the sub markets. These sub markets are based on post code sectors. The house prices which relate to the sub markets provide the basis for a set of indicative new build values as at October 2009. Table 3.1 below sets out the sub markets developed for the study.

Table 3.1 Viability sub markets in the West Oxon DC area

WEST OXFORDSHIRE		
SUB MARKETS	PCSs	Settlements: Locations
Prime West Oxon	OX7 4	Great Tew; Little Tew; Swerford
	OX18 4	Burford; Shilton; Holwell; Westwell; Taynton; Fulbrook; Swinbrook and Widford
Woodstock and Rural East	OX20 1	Woodstock & Blenheim; Bladon; Wootton; Glympton; Kiddington with Asterleigh
	OX29 5	Stanton Harcourt; Northmoor; South Leigh; Standlake
Chipping Norton & Rural North	OX5 3	Tackley; Rousham
	OX7 3	Charlbury; Chadlington; Chilson; Spelsbury; Ramsden; Finstock; Cornbury & Wychwood; Fawler
	OX7 5	Chipping Norton; Cornwell; Chastleton; Salford; Rollright; Over Norton
	OX7 6	Bruern; Milton; Idbury; Fifield; Shipton; Ascott-u-Wychwood; Kingham; Churchill; Sarsden; Lyneham;
	OX7 7	Middle Barton; Sandford St Martin
	OX25 4	Steeple Barton; Westcot Barton
Witney Higher Value	OX28 1	Witney
	OX28 4	Witney
	OX28 6	Witney
Rural South	GL7 3	Grafton; Broadwell; Kelmscott; Langford; Little Farringdon; Filkins & Broughton Poggs; Kencot
	OX18 2	Bampton; Aston, Cote, Shifford & Chimney; Clanfield; Alvescot; Black Bourton
	OX29 7	Combe; Ducklington; Curbridge; Lew; Hardwick
Eynsham, Mid Rural & Rural East	OX29 0	Minster Lovell & Asthall
	OX29 4	Eynsham; Cassington
	OX29 6	North Leigh
	OX29 8	Hanborough; Freeland; Stonesfield
	OX29 9	Hailey; Crawley; Leafield
Carterton & Brize Norton	OX18 1	Carterton (North)
	OX18 3	Carterton (East); Brize Norton
Witney Lower Value	OX28 2	Witney
	OX28 3	Witney
	OX28 5	Witney

Source: Market value areas as agreed between Three Dragons and West Oxon 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 – split down into percentages:

	Density (Dwellings per Hectare)				
	30	40	50	80	120
1 Bed Flat				25	40
2 Bed Flat		5	10	50	60
2 Bed Terrace	10	15	20	15	
3 Bed Terrace	15	20	25	10	
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

3.6 We calculated residual scheme values for each of these (base mix) scenarios in line with a further set of tenure assumptions. These were 25%; 30%; 35%, 40%; 50% and 60% affordable housing. These were tested at 70% Social Rent and 30% 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. Unless stated, testing was carried out assuming nil grant.

3.7 Further testing took account of a situation where Social Rented housing and Intermediate Affordable housing is split 50%:50% within a scheme.

Other s106 contributions

3.8 For the modelling we have undertaken (and unless shown otherwise) we have assumed 2 levels of planning obligations at £5,000 and £10,000 per dwelling. The results below show the residual values for the baseline analysis with the £5,000 per dwelling Section 106 obligations.

Results: residual values for a notional one hectare site

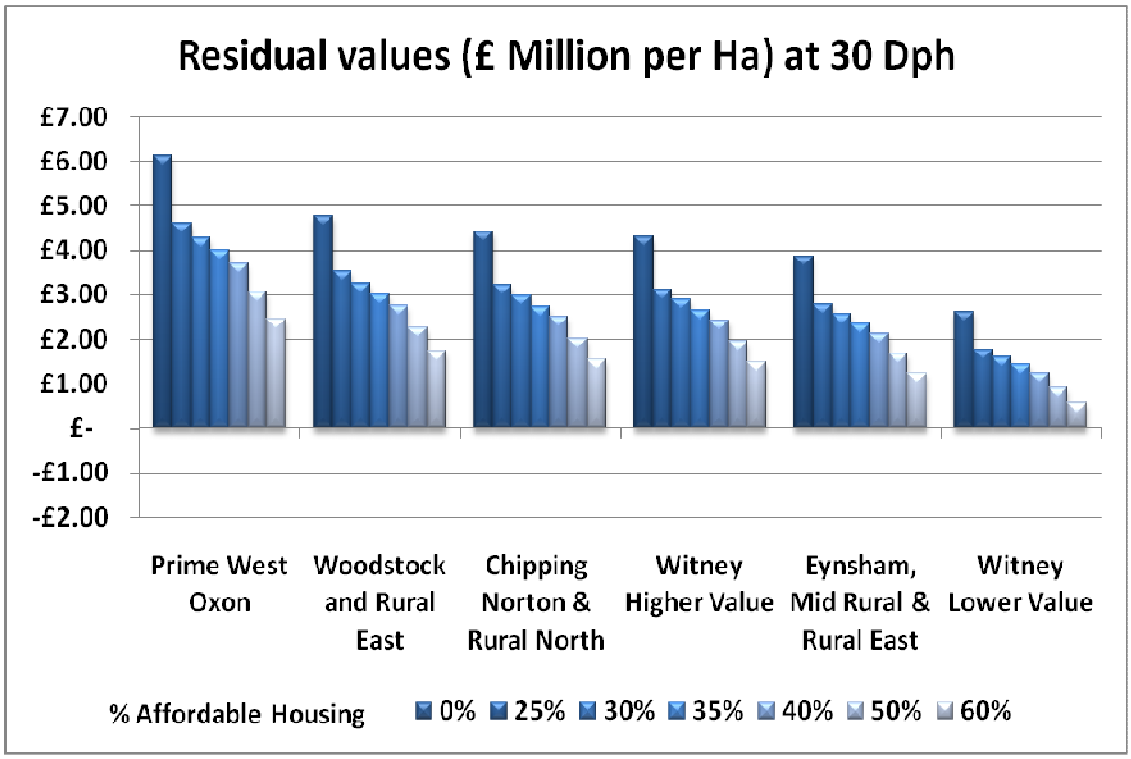
3.9 This section looks at a range of development mixes and densities. It shows the impacts of increasing the percentage of affordable housing on residual site values. The full set of results is shown in Appendix 3.

3.10 We tested a selection of sub markets – six in total. Rural South and Carterton and Brize Norton were not tested. Results for Eynsham, Mid Rural and Rural East are a good proxy for Rural South, and results for Witney Lower Value are a good proxy for Carterton and Brize Norton.

Scheme at 30 dph

3.11 Figure 3.1 shows a scheme at 30 dph and the residual values for each of the market value areas outlined in Section 3.

Figure 3.1 Scheme at 30 dph – Residual value in £s million

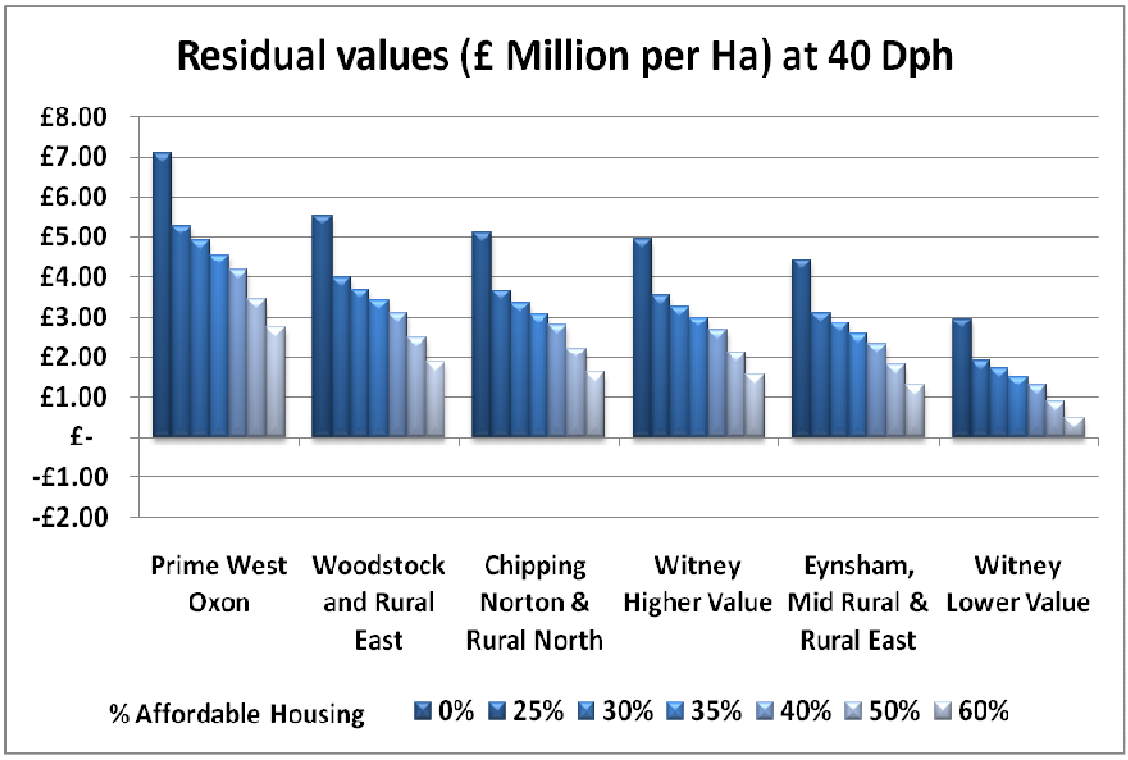


- Figure 3.1 shows a range of positive residual values, depending on the sub market and amount of affordable housing. Residual values at 40% affordable housing range from £3.9 million per hectare in Prime West Oxon to £1.2 million per hectare in Witney Lower value sub market.
- The chart shows that the rural areas are generally stronger in terms of residual values than the urban centres.
- The range in values has potentially important implications for policy making. With the scenarios tested, a higher value is generated in Prime West Oxon at 50% affordable housing than in Witney Lower Value at 100% market housing (£3.07m versus £2.61m).

Scheme at 40 dph

3.12 Figure 3.2 shows a scheme at 30 dph and the residual values for each of the market value areas outlined in Section 3.

Figure 3.2 Scheme at 40 dph – Residual value in £s million

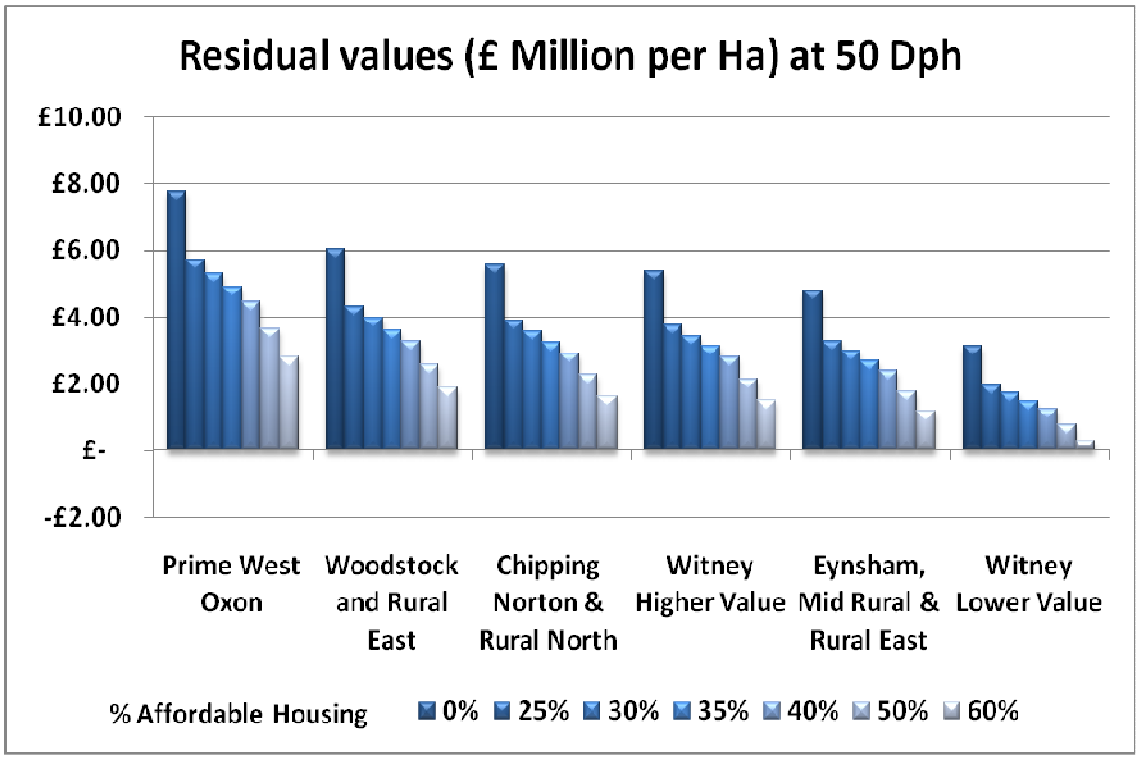


- At 40 dph, a range of positive land values is shown – as at 30 dph. At 40 dph however, residual values are lower at higher percentages of affordable housing in the lower value sub markets.
- An increase in density will, we envisage, increase residual values in West Oxfordshire in most instances. Only at 50% and 60% affordable housing in Witney Lower Value are residuals less than at 30 dph.
- The higher value areas of Prime West Oxon, Woodstock and Chipping Norton generate residual values in the range £3.4 to £2.2 million per hectare at 50% affordable housing.
- The chart (Figure 3.2) shows similar residual values in Chipping Norton and Witney Higher Value.

Scheme at 50 dph

3.13 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 Scheme at 50 dph – Residual value in £s million

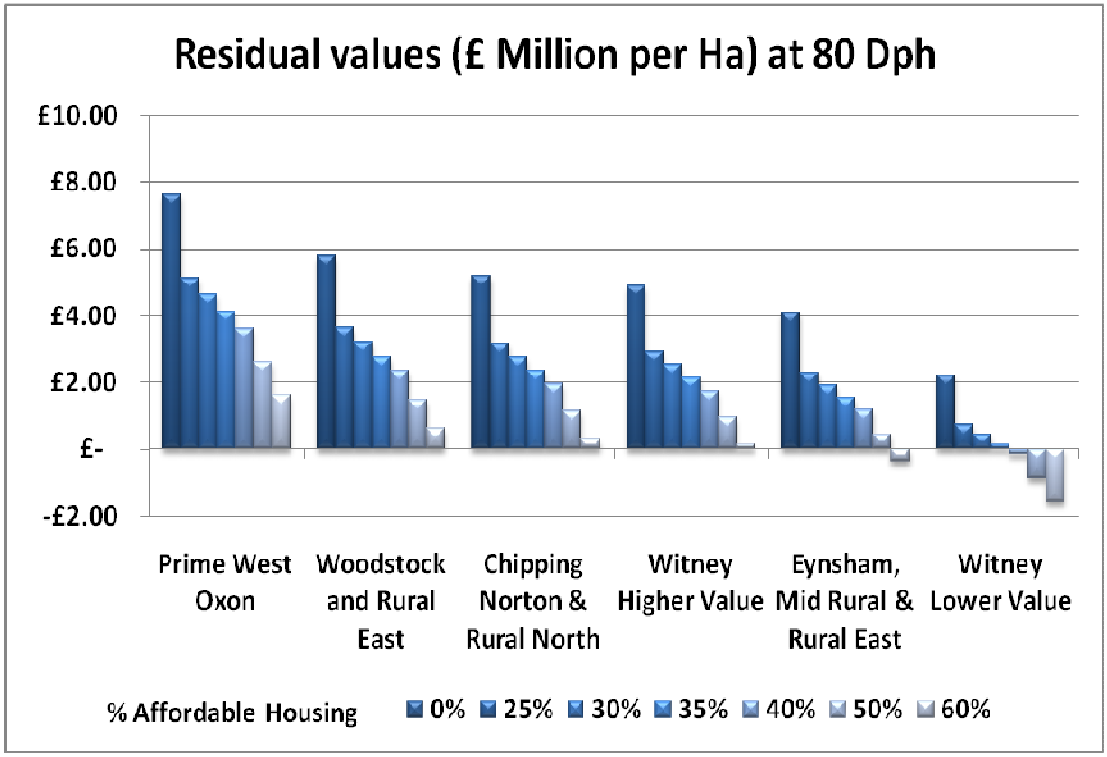


- Increasing density shows an increase in residuals for all market areas except for Witney Lower Value (35% to 60%), Eynsham (50% and 60%), Witney Higher Value (60%) and Chipping Norton (60%)
- The 50 dph scenario, on the basis of our analysis, will normally produce the highest residual values and therefore will normally provide the strongest negotiating position for Section 106 contributions.

Scheme at 80 dph

3.14 Figure 3.4 shows residual values for a (80 dph) scheme and the residual values for each of the sub markets

Figure 3.4 80 dph scheme – Residual value in £s million

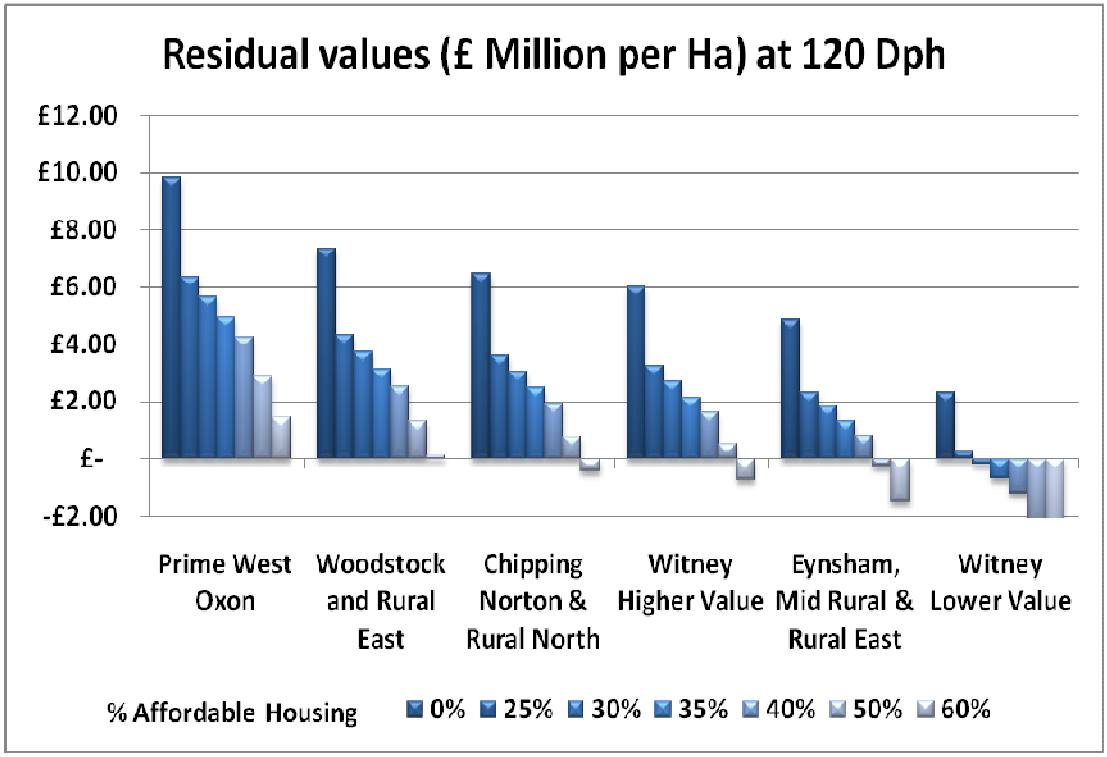


- The 80 dph scenario produces lower residuals than at 50 dph. In large measure this is because of the inclusion of a greater percentage of flats and smaller units which fail to cover development costs so well as the larger dwellings.
- At 80 dph we see negative residual values for the first time. These are at higher percentages of affordable housing in the lower value sub markets. Development of this type in Witney Lower Value looks marginal at 35% affordable housing.

120 dph scheme

3.15 Figure 3.5 shows residual values for a (120 dph) scheme and the residual values for each of the sub markets

Figure 3.5 120 dph scheme – Residual value in £s million



- The 120 dph scenario includes 100% flats – 40% one bed and 60% two bed. The consequence of this type of mix is to 'stretch' the range of residual values. In other words, residuals rise to the highest point (all densitities compared) in the higher value locations. However, residual values are now at their lowest (all densities compared) at higher percentages of affordable housing in the lowest value sub markets.
- Figure 3.5 suggests that higher density apartment housing in locations such as Winey Lower Value (and by proxy Carterton) is quite marginal in terms of affordable housing contributions above 35% affordable housing, although it will need to be recognised that developments will occur in hot spots within these towns where an affordable housing contribution will indeed be viable.

Impacts of potential grant funding

3.16 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 s106 agreement).

3.17 We have assumed grant of £50,000 per Social Rented unit and £15,000 per New Build HomeBuy unit. This level of grant is based on feedback from the workshop as being a reasonable figure to use for viability testing purposes.

3.18 For our testing, we have tested the impact of grant on residual values for a 1 Ha site at 40 dph for all locations. The results are shown in Table 3.2.

Table 3.2 Comparison of impact of grant versus on residual values (at 40 dph): Residual Value (£s million per hectare); 70% Social Rent: 30% Shared Ownership

40 Dph £million	Prime West Oxon		Woodstock		Witney Higher Value		Eynsham		Witney Lower Value	
	No grant	Grant	No grant	Grant	No grant	Grant	No grant	Grant	No grant	Grant
25% AH	£5.27	£5.66	£4.00	£4.39	£3.53	£3.92	£3.11	£3.50	£1.92	£2.31
30% AH	£4.90	£5.37	£3.70	£4.17	£3.25	£3.72	£2.85	£3.32	£1.71	£2.18
35% AH	£4.54	£5.09	£3.39	£3.94	£2.96	£3.51	£2.59	£3.14	£1.50	£2.05
40% AH	£4.17	£4.80	£3.09	£3.72	£2.68	£3.31	£2.32	£2.95	£1.30	£1.93
50% AH	£3.45	£4.24	£2.48	£3.27	£2.12	£2.91	£1.80	£2.59	£0.89	£1.68
60% AH	£2.72	£3.67	£1.87	£2.82	£1.55	£2.50	£1.28	£2.23	£0.48	£1.43

AH = percentage affordable housing

3.19 Table 3.2 shows that the availability of grant will enhance site viability. Grant will be important in helping to make sites viable where they are producing marginal residuals at higher levels of affordable housing.

3.20 As a general rule, the introduction of grant has a greater proportionate impact in the weaker sub markets. For example, in Witney Lower Value, there is a 37% increase in residual at 35% affordable housing (from £1.50m per hectare to £2.05m).

3.21 In the stronger sub markets, the impact is less pronounced. For example, in Prime West Oxon, the equivalent increase in residual value at 35% affordable housing, is 12%.

3.22 The impact of grant at higher densities, for example 50dph and 80dph will be more pronounced in being able to increase the viability of developments in weaker sub markets.

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

3.23 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 can 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 70% Social Rent and 30% Shared Ownership. Here we test a 50%:50% split in the affordable element.

Table 3.3 Site values (£ million per hectare) for a 40 dph scheme comparing 50% Social Rent and 50% Shared Ownership without grant versus grant option (70% Social Rent and 30% Shared Ownership)

40 Dph	Prime West Oxon		Woodstock		Witney Higher Value		Eynsham		Witney Lower Value	
	50:50	Grant	50:50	Grant	50:50	Grant	50:50	Grant	50:50	Grant
25% AH	£5.62	£5.66	£4.29	£4.39	£3.80	£3.92	£3.36	£3.50	£2.11	£2.31
30% AH	£5.33	£5.37	£4.05	£4.17	£3.57	£3.72	£3.15	£3.32	£1.94	£2.18
35% AH	£5.04	£5.09	£3.80	£3.94	£3.34	£3.51	£2.94	£3.14	£1.77	£2.05

40% AH	£4.74	£4.80	£3.56	£3.72	£3.11	£3.31	£2.72	£2.95	£1.61	£1.93
50% AH	£4.16	£4.24	£3.07	£3.27	£2.66	£2.91	£2.30	£2.59	£1.27	£1.68
60% AH	£3.57	£3.67	£2.57	£2.82	£2.20	£2.50	£1.88	£2.23	£0.94	£1.43

AH = percentage affordable housing

3.24 Table 3.3 suggests that grant will provide a more more effective solution to tenure flexibility in the weaker sub markets than the stronger ones.

3.25 For example, at 35% affordable housing in the Woodstock sub market, grant will produce a residual of only 4% above the residual assuming a 50% Social Rented and 50% Shared Ownership split with the affordable element. By contrast, in Witney Lower Value, grant will produce a 16% increase in residual value above the 50%:50% affordable housing option at 35% affordable housing.

3.26 The reason for these differences is that in the higher value areas, Shared Ownership is significantly more valuable to a developer than in lower value areas. Therefore in the higher value sub markets, Shared Ownership, as a form of Intermediate affordable housing is likely to be a more effective way of increasing residual values.

Market sensitivity

3.27 Given the volatility of the current housing market, we have looked a situation where house prices are 10% higher and 10% lower than the levels assumed in our main testing based at October 2009.

3.28 Table 3.4 shows residual values for a 40 dph scheme with house prices increased and decreased by 10%. This is not a reflection of any particular forecast of how the market will perform, but aims to show the sensitivity of residual values to changes in house prices.

Table 3.4 Residual values (£ million per hectare) for a 40 dph scheme with prices 10% higher and lower than the baseline. No grant; 70% Social Rent: 30% Shared Ownership

		Prime West Oxon	Woodstock	Witney Higher Value	Eynsham	Witney Lower Value
Price increase +10%	0%AH	£7.94	£6.21	£5.57	£5.00	£3.38
	25%AH	£5.90	£4.51	£3.99	£3.53	£2.22
	30%AH	£5.50	£4.17	£3.67	£3.23	£1.98
	35%AH	£5.09	£3.83	£3.36	£2.94	£1.75
	40%AH	£4.68	£3.49	£3.04	£2.64	£1.52
	50%AH	£3.87	£2.81	£2.41	£2.06	£1.06
	60% AH	£3.06	£2.13	£1.78	£1.47	£0.59
Baseline	0%AH	£7.09	£5.52	£4.94	£4.42	£2.95
	25%AH	£5.27	£4.00	£3.53	£3.11	£1.92
	30%AH	£4.90	£3.70	£3.25	£2.85	£1.71
	35%AH	£4.54	£3.39	£2.96	£2.59	£1.50
	40%AH	£4.17	£3.09	£2.68	£2.32	£1.30
	50%AH	£3.45	£2.48	£2.12	£1.80	£0.89
	60% AH	£2.72	£1.87	£1.55	£1.28	£0.48
Price decrease-10%	0%AH	£6.26	£4.85	£4.33	£3.85	£2.53
	25%AH	£4.65	£3.51	£3.08	£2.70	£1.63
	30%AH	£4.32	£3.24	£2.83	£2.47	£1.45
	35%AH	£4.00	£2.97	£2.58	£2.24	£1.27
	40%AH	£3.68	£2.70	£2.33	£2.01	£1.09
	50%AH	£3.03	£2.16	£1.84	£1.55	£0.73
	60% AH	£2.39	£1.62	£1.34	£0.73	£0.37

AH = percentage of affordable housing

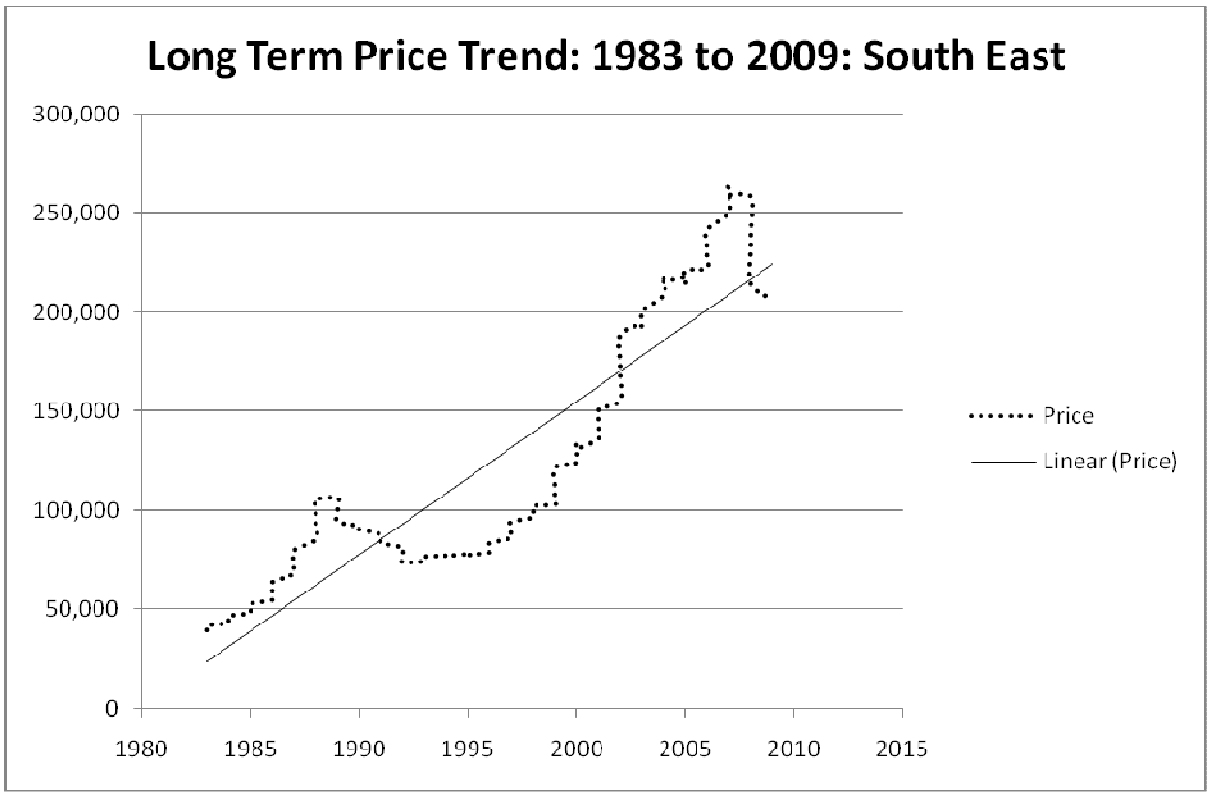
3.29 Table 3.4 sets out the impact on residual values, were prices to increase or fall from the current levels. The impact of price changes will tend to be felt more significantly in the lower value areas.

3.30 For example at 35% affordable housing a 10% increase in house prices will bring about a 12% increase in residual values in the Prime Oxon sub market, versus a 17% increase in Witney Lower Value.

3.31 Price falls will have similar effects. At 35% affordable housing, a 10% price fall will lead to a 18% fall in residual value in Witney Lower Value, whereas in Prime West Oxon, the fall will only be 13% in residual value.

3.32 Arguably a more robust measure of viability is to look at the relationship between short and long term trends. Figure 3.6 shows short term volatility in house prices against the long term straight line trend. It puts into context the findings of this study in that our analysis has been based on figures very marginally below the long term trend.

Figure 3.6 Long term house price trends



Source: Halifax House Price Index

Additional costs to a scheme - A higher planning gain package and additional Codes (for Sustainable Homes)

3.33 Schemes could incur additional costs for a number of reasons. One is a higher level of Section 106 obligations (over and above affordable housing); another is additional costs for the Code for Sustainable Homes. In testing for example at a £10,000 Section 106 'bundle' we would be adding around £5,000 per unit for either measure. This is based on the assumption that much of the development in West Oxon reaches Code Level 3 and the additional cost to reach Level 4 (according to recent DCLG research) is around £5,000 per unit.

3.34 At £5,000 per unit additional cost, this will mean a reduction, all other things equal, of around £200,000 per hectare for a 40 dph scheme. As previously, the impact will be most significant for the weaker sub markets. A reduction of this nature in a location such as Woodstock would reduce residual values by only around 6% at 35% affordable housing – a minimal impact.

3.35 The impact at the same (30% affordable) level in Witney Lower Value (at 40 dph) would reduce residual values by 15% however.

3.36 It is highly important, particularly with respect to modelling additional costs for Codes for Sustainable Homes not to necessarily consider these as making

development less viable. All other things equal, the additional costs will make development less viable. But things are not necessarily equal. Improved housing market conditions may well help to 'pay' for these additional costs, particularly as we think it is probable that the costs of meeting the codes is likely to fall in real terms with technological improvements.

Benchmarking results

3.37 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.

3.38 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 3.5 shows residential land values for selected locations within the South East.

Table 3.5 Residential land values across the Region

SOUTH EAST			
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
Brighton	3,825,000	3,600,000	5,250,000
Eastbourne	2,400,000	2,250,000	2,750,000
Folkestone	2,300,000	2,000,000	2,000,000
Medway Towns (Rochester)	2,700,000	2,500,000	2,100,000
Tunbridge Wells	3,100,000	2,900,000	2,600,000
Guildford	5,250,000	4,900,000	4,200,000
Reigate	4,900,000	4,500,000	4,000,000
Worthing	3,100,000	2,600,000	2,800,000
Aylesbury	3,700,000	3,500,000	4,200,000
Oxford	7,200,000	6,700,000	6,800,000
Wokingham	3,300,000	3,000,000	4,000,000
Basingstoke	3,500,000	3,400,000	2,750,000
Portsmouth	2,800,000	2,650,000	2,600,000
Southampton	3,600,000	3,400,000	3,000,000
Ryde, Isle of Wight	1,650,000	1,600,000	1,650,000

Source: Valuation Office; Property Market Report, July 2009

3.39 The table indicates residential land values ranged from £1.6 million to £6.7 million (Oxford). Median range would seem to be between £2 and £3 million for the region.

3.40 Another benchmark which can be referred to is that of industrial land. Table 3.6 shows values ranging across the South East.

Table 3.6 South East industrial land values

SOUTH EAST	From £s per ha	To £s per ha	Typical £s per ha
Crawley	2,250,000	2,950,000	2,250,000
Eastbourne	800,000	1,100,000	900,000
Canterbury	800,000	1,100,000	950,000
Medway Towns	995,000	1,175,000	1,060,000
Maidstone/Medway Gap	1,175,000	1,500,000	1,310,000
Guildford/Egham	1,850,000	2,400,000	2,200,000
Sunbury	2,100,000	2,750,000	2,450,000
Milton Keynes	1,000,000	1,250,000	1,125,000
Oxford	800,000	1,100,000	900,000
Reading	1,750,000	2,100,000	1,900,000
Basingstoke	1,350,000	2,100,000	1,800,000
Portsmouth	1,100,000	1,700,000	1,300,000
Southampton	1,600,000	2,250,000	1,850,000
Newport(IOW)	300,000	600,000	425,000

Source: Valuation Office; Property Market Report, July 2009

3.41 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.

Commentary on results

3.42 This chapter has provided an assessment of the residual value for a notional 1 hectare site for a series of scenarios across six market value areas identified in the District.

3.43 The market value areas perform very differently and, for the same set of assumptions about density/development mix and proportion of affordable housing, different residual values have been found.

3.44 The scheme at 50 dph generally produced the highest residual values (for the same percentage of affordable housing). With this density, at 35% affordable housing, residual values range from £4.88m per hectare in Prime West Oxon to £1.48m in Witney Lower Value.

3.45 The baseline testing was on the assumption of nil grant. The introduction of grant enhances residual values, having a greater proportionate impact in the lower value market value areas. But increasing the proportion of shared ownership (to 50% of the affordable housing) can also increase residual values above that of the baseline, nil grant position. This has more impact in mid and higher value areas.

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. The current threshold operating in West Oxon DC is 15 dwellings in Witney, Carterton, Chipping Norton and Eynsham and two dwellings for the remainder of the District. The urban threshold is in line with the national indicative minimum threshold of 15 dwellings (as set out in 4.2 below). The chapter provides an assessment of the profile of land supply and the likely relative importance of small sites. It then 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).

Purpose of the Analysis

4.2 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)

4.3 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.

4.4 In this section we examine the impact that varying site size thresholds would have on affordable housing supply. In order to do this we need to examine the likely future site supply profile.

Small sites analysis

4.5 We have analysed data on past permissions to consider how important sites of different sizes are likely to be to the future land supply. The table below (Table 4.1) shows the results of this exercise.

Table 4.1: Percentage of dwellings in different sizes of sites (annual average for last 3 years of permissions – April 2006 to March 2009

Scheme Size	Number of Dwellings	% of All Dwellings
1 to 4	534	29.97
5 to 9	227	12.74
10 to 14	166	9.32
15 to 24	123	6.90
25 to 49	128	7.18
50 to 99	257	14.42
100 to 200	347	19.47
Totals	1782	100.00

Source: West Oxon District Council

4.6 Table 4.1 shows the percentage of all dwellings to be developed by scheme size (number of dwellings). It shows data for the West Oxfordshire District as a whole. The table shows that almost 30% of all dwellings will be developed on sites of less than 5 dwellings. It also shows that over half the total gross supply will be developed on sites of less than 15 dwellings. This suggests a relatively high reliance within the District on small sites.

4.7 Table 4.2 is based on the same framework but looking only at Witney, Carterton, Chipping Norton and Eynsham. These are the settlements where, following the Local Plan and SPD, a threshold of 15 units applies.

4.8 The table shows that almost 15% of all dwellings will be built within schemes of less than five dwellings. Moreover that less than 35% of dwellings will be built on sites of less than 15 dwellings. 55% of all dwellings will be developed on sites with a capacity greater than 50 dwellings.

Table 4.2: Percentage of dwellings in different sizes of sites (annual average for last 3 years of permissions – April 2006 to March 2009 for larger settlements

Scheme Size	Number of Dwellings	% of All Dwellings
1 to 4	190	14.59
5 to 9	143	10.98
10 to 14	117	8.99
15 to 24	107	8.22
25 to 49	29	2.23
50 to 99	369	28.34
100 to 200	347	26.65

Totals	**1302**	**100.00**

Source: West Oxon District Council

4.9 Table 4.3 looks at the supply from the smaller settlements – all settlements and locations other than Witney, Carterton, Chipping Norton and Eynsham. This analysis shows a much higher reliance on smaller sites. 66% of all dwellings in the smaller settlements will come from schemes of less than 5 dwellings. Moreover almost 92% of all dwellings will be built on schemes of less than 15 dwellings. This is a very significant number and hence a low threshold has be looked at given the importance of small sites.

Table 4.3: Percentage of dwellings in different sizes of sites (annual average for last 3 years of permissions – April 2006 to March 2009 for all settlements with the exception of Witney, Carterton, Chipping Norton and Eynsham

Scheme Size	Number of Dwellings	% of All Dwellings
1 to 4	**344**	**66.28**
5 to 9	**84**	**16.18**
10 to 14	**49**	**9.44**
15 to 24	**16**	**3.08**
25 to 49	**26**	**5.01**
50 to 99		
100 to 200		
Totals	**519**	**100.00**

Source: West Oxon District Council

Small sites and management of affordable housing

4.10 We discussed the suitability of small sites for affordable housing at the workshop with the development industry.

4.11 The housing associations present at the workshop did not object in principle to taking on small numbers of affordable homes and numbers of affordable homes as low as one or two can be acceptable. However, there are circumstances in which on-site provision is not suitable e.g. if the occupier service charges are high. Housing associations can advise on this on a scheme by scheme basis.

4.12 It was pointed out that the Council develop discounted market housing (in perpetuity).

Use of commuted sums

4.13 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.

4.14 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.

4.14 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.

4.15 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.

4.16 However, if affordable housing is sought from very small sites, in certain circumstances it becomes impractical to achieve on site provision e.g. seeking less than 33% on a scheme of 3 dwellings or less than 50% with a scheme of 2 dwellings. There will also be occasions where on-site provision can only deliver a partial contribution towards the proportion of affordable housing sought e.g. 40% affordable housing in a scheme of 3 dwellings would deliver one affordable unit on site (representing 33% of provision). In the latter case, it is possible to devise a formula which mixes on-site provision with a commuted sum to 'make up the balance'.

Commentary on the results

4.15 Considering the District as a whole, over half the dwellings (52%) will be developed on sites of less than 15 dwellings. Given the very high level of need for affordable housing, there is a strong argument for introducing a site size threshold below 15 dwellings across the District

4.16 In the urban areas 35% of all dwellings granted planning permission between 2006 and 2009 will be built on sites of less than 15 dwellings. In so far as

smaller settlements are concerned however, over 90% of all dwellings will be built within schemes of less than 15 dwellings.

4.17 There are no particular management reasons why on-site provision of affordable housing should not be sought on small sites. But on very small sites, on-site provision is not mathematically practical and on larger sites, there may be specific housing management reasons why a commuted sum would be preferred.

4.18 Where a commuted sum is sought, it should be of equivalent 'value' to that obtained by on-site provision.

5 CASE STUDY VIABILITY ANALYSIS – SMALLER SITES

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.

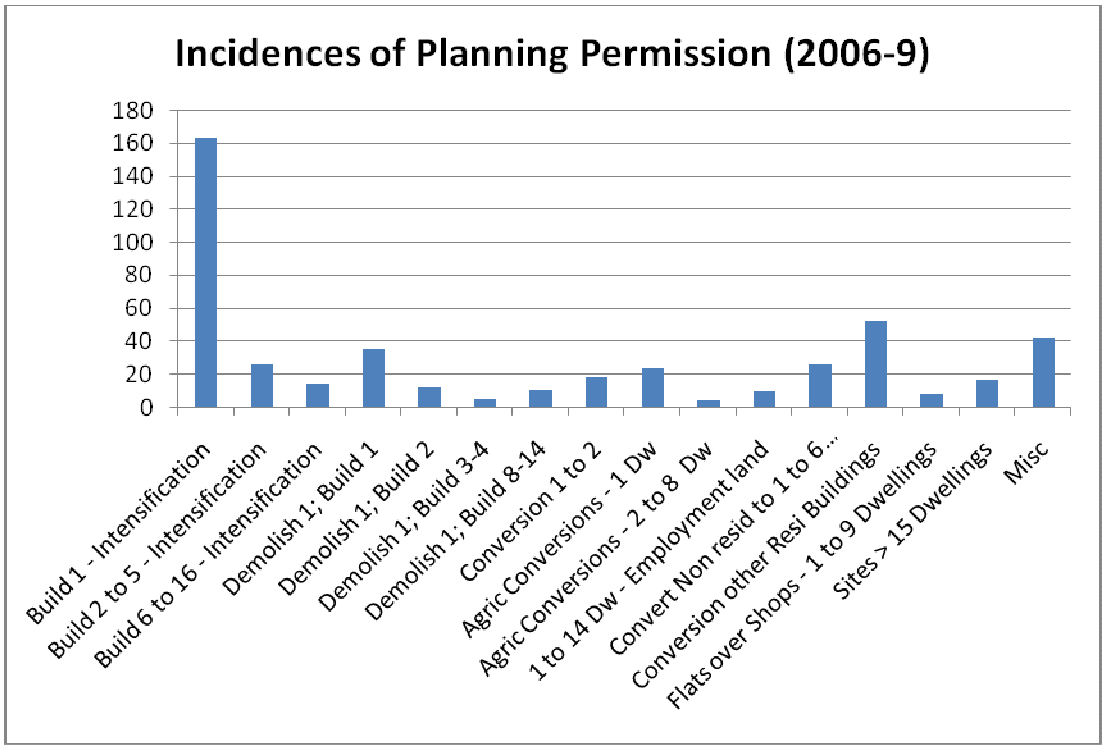
5.2 The analysis in Chapter 3 will apply for large as well as small sites (on a pro rata basis). We do not have any evidence to suggest that the economics change significantly between large and small sites. This assumption was accepted at the development industry workshop as has been the case elsewhere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

5.3 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 of smaller sites.

Case study sites

5.4 In this section we review a number of case study developments which are examples of small sites for residential development. We base the case studies on an analysis of recent planning permissions (1st April 2006 to 31st March 2009). The analysis is shown in Figure 5.1 below.

Figure 5.1 Incidences of planning permissions 2006 to 2009



5.5 The analysis shows that a very significant number of permissions result from intensification of land. In this respect we assume instances of garden, back

and amenity land. These schemes are for one dwelling and make up 35% of all instances of planning permissions over the period.

5.6 The District also has a significant supply (13% of all incidences of planning permissions) of redevelopment schemes involving the demolition of one dwelling and its replacement with one to fourteen new dwellings.

5.7 Conversions (including agricultural buildings) make up almost 10% of all incidences of planning permission. Conversions of other residential buildings (notably garages) make up around 11% of all incidences of planning permission.

5.8 On the basis of the data analysed, we have selected four case studies for further investigation. These are shown in Table 5.1

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 3 bed detached house; 1 x 4 bed detached house	0.075	27
C	**4**	2 x 3 bed semis; 2 x 4 bed detached house	0.1	40
D	**3**	4 Flats – Conversion scheme	0.05	80

5.9 For each case study we have undertaken an analysis of residual values for a selection of sub markets. We test at 30%, 40% and 50% affordable housing. 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

5.10 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 detached house

	% Affordable Housing			
	0%	**30%**	**40%**	**50%**
Woodstock & Rural East	**£286,000**	**£201,000**	**£174,000**	**£145,000**
	£5.72	**£4.02**	**£3.48**	**£2.90**
Chipping Norton & Rural North	**£266,000**	**£186,000**	**£159,000**	**£133,000**
	£5.32	**£3.72**	**£3.18**	**£2.66**
Eynsham & Mid Rural & East	**£233,000**	**£160,000**	**£137,000**	**£113,000**
	£4.66	**£3.20**	**£2.74**	**£2.26**

Witney Lower Value	**£159,000**	**£104,000**	**£85,000**	**£67,000**
	£3.18	**£2.08**	**£1.70**	**£1.34**

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)

5.11 Table 5.2 shows that the development of one new detached house will generate a substantial residual value even with 50% affordable housing housing and across all market value areas. Where one dwelling of this type is built on, for instance, infill or backland sites, we would expect the uplift in site value will be very substantial. For sites taken from garden land, this will also be the case although a devaluation to the existing dwelling may also occur.

5.12 Where a single new house replaces an existing dwelling, as may occur in some instances, we would expect the economics to be difficult. Even in a location such as Woodstock, towards the upper end of the market, such a scheme will only generate around £286,000 per plot. In most cases, we do not think this will be sufficient to cover the property acquisition costs.

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

5.13 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 two detached houses.

Table 5.3 Develop two detached houses

	% Affordable Housing			
	0%	**30%**	**40%**	**50%**
Woodstock & Rural East	**£408,000**	**£277,000**	**£234,000**	**£191,000**
	£5.44	**£3.69**	**£3.12**	**£2.55**
Chipping Norton & Rural North	**£375,000**	**£251,000**	**£211,000**	**£170,000**
	£5.00	**£3.35**	**£2.81**	**£2.27**
Eynsham & Mid Rural & East	**£330,000**	**£217,000**	**£180,000**	**£143,000**
	£4.40	**£2.89**	**£2.44**	**£1.91**
Witney Lower Value	**£211,000**	**£125,000**	**£98,000**	**£69,000**
	£2.81	**£1.67**	**£1.31**	**£0.92**

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)

5.14 As with Case Study A, for infill, backland and garden plots, we believe that a significant uplift in residual value will occur and that a contribution to affordable housing would not make development unviable.

5.15 At the top end of the market, schemes are achieving over £3.1 million per hectare at 40% affordable housing and at the bottom end, over £1 million per hectare.

5.16 There will be instances where the development of two dwellings replaces a single house (demolition). Whilst the opportunity for an affordable housing contribution will be stronger here, we nevertheless believe that the economics will routinely prove difficult. For example, at 30% affordable housing in Woodstock, site value is only £277,000. This will be unlikely in most instances to acquire a property from the second hand market.

Case study C – Develop four dwellings (Two semis and two detached houses) on a 0.1 ha site

5.17 A number of schemes in the District involve the development of three to five dwellings (we take here four dwellings as the average). We have modelled here the development of two semi-detached houses and two detached homes.

Table 5.4 Develop two (three bed) semis and two (four bed) detached houses

	% Affordable Housing			
	0%	30%	40%	50%
Woodstock & Rural East	£730,000	£497,000	£419,000	£341,000
	£7.30	£4.97	£4.19	£3.41
Chipping Norton & Rural North	£673,000	£453,000	£379,000	£306,000
	£6.73	£4.53	£3.79	£3.06
Eynsham & Mid Rural & East	£591,000	£389,000	£322,000	£255,000
	£5.91	£3.89	£3.22	£2.55
Witney Lower Value	£394,000	£238,000	£185,000	£134,000
	£3.94	£2.38	£1.85	£1.34

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)

5.21 Case Study C generates higher residual values on a per hectare basis than is the situation in Case Study B. These are substantial values which are likely to be well in excess of most existing use values.

5.22 For example, only in Witney Lower Value at 40% and 50% affordable housing would an industrial land value of £2 million per hectare prove the site unviable or marginal.

5.23 Where this type of scheme replaces a single dwelling, there is much greater scope for an affordable housing contribution than with for example one or two dwellings as new build. We think that a 30% contribution is appropriate in the higher value locations and a 20% contribution appropriate in the lower value locations.

Case study D – Develop four flats (Two, one beds and two, two beds) on a 0.05 ha site as a conversion scheme

5.18 We note (Figure 5.1) that a number of schemes in the District involve conversions. We take here the conversion of an existing dwelling to four flats, basing the appraisal on conversion costs at 60% of new build.

Table 5.4 Develop four flats: two one bed and two two bed

	% Affordable Housing			
	0%	30%	40%	50%
Woodstock & Rural East	£387,000	£264,000	£224,000	£183,000
	£7.74	£5.28	£4.48	£3.66
Chipping Norton & Rural North	£354,000	£239,000	£201,000	£163,000
	£7.08	£4.78	£4.02	£3.26
Eynsham & Mid Rural & East	£297,000	£195,000	£162,000	£127,000
	£5.94	£3.90	£3.24	£2.54
Witney Lower Value	£207,000	£126,000	£99,000	£72,000
	£4.14	£2.52	£1.98	£1.44

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)

5.24 Case Study D generates high residual values across most sub markets although viability will need to be judged against existing use value.

5.25 Where the existing use is a residential property, then even with four flats, affordable housing contributions will be difficult to attain in most instances.

5.26 The analysis in Figure 5.1 shows however that a number of schemes (around 6% of all instances of planning permission) are conversions from agricultural buildings. In these cases the existing use value will be low, probably marginally above residential amenity land, making schemes more capable of delivering affordable housing.

5.27 That said, we accept that many of these schemes (and we imagine here barn conversions) will be expensive to develop and on this basis we think they should be negotiated on a site by site basis.

Commentary on the results

5.28 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.

5.29 Sites with a low number of dwellings (smaller sites) are no less viable than sites with a larger number. They can be shown to generate higher land values than larger sites. This means that where existing use value is relatively low, as we think will be the case for example, with back-land, infill or garden land, the Council should pursue a robust approach to obtaining affordable housing and other s106 contributions.

5.30 The analysis of planning permissions suggests that a high proportion of sites in the District will come from residential land. We believe this means gardens, back or amenity land.

5.31 Schemes which involve the redevelopment of one dwelling with either one or two new dwellings will be more difficult to deliver with an affordable housing contribution because of the high existing use value. There will however be some circumstances, particularly in higher value areas where an affordable housing contribution will be viable.

6 MAIN FINDINGS AND CONCLUSIONS

Key findings

Market value areas

6.1 Our analysis of house prices in West Oxfordshire indicated that the District can be divided into 8 market value areas: Prime West Oxon, Woodstock and Rural East, Chipping Norton and Rural North, Witney Higher Value, Rural South, Eynsham, Mid Rural and Rural East, Carterton and Brize Norton and Witney Lower Value.

6.2 There is a significant difference in house prices across the market value areas and these are reflected in the residual values for the different scenarios we tested. We found that residual value is dependent not only on location but also on the density adopted.

6.3 We tested six sub markets excluding Rural South and Carterton and Brize Norton. The conclusions here which relate to Eynsham (tested) are applicable to the Rural South sub market, and the conclusions here which relate to Witney Lower Value (tested) are applicable to Carterton and Brize Norton.

Residual values and scenario testing

6.4 As a general rule, residual values were greatest at the development scenario for the 50 dwellings per hectare (dph) scheme. The main exception to this is very high value areas at very high density but low percentages of affordable housing.

6.5 Using the 40 dph scenario as a benchmark, residual values at 35% affordable housing (the Regional Plan position) vary from £4.54 million per hectare in Prime West Oxon, to £1.50m in Witney Lower Value. Again using the 40 dph scenario, at 50% affordable housing, residual values range from £3.45m in Prime West Oxon to £0.89m in Witney Lower Value.

6.6 A pattern can be identified across the market value areas which shows three broader sub markets: a) Prime West Oxon, where residual values are significantly higher than elsewhere, b) a grouping of five sub markets encompassing Woodstock, Chipping Norton, Witney Higher Value, Rural South, and Eynsham and c) Carterton and Brize Norton and Witney Lower Value. This broad division could potentially form the basis of a split affordable housing target.

6.7 All the results described above are based on nil grant and assume that the intermediate affordable element of the affordable housing was Newbuild Homebuy.

6.8 The introduction of grant significantly improves residual values across the District. It matters more proportionately in lower value areas.

6.9 The analysis shows that increasing the proportion of intermediate affordable housing from 30% to 50% (of the total affordable element) will improve residual values. For example, in Eynsham, at 40 dph and at 35% affordable housing, residual value increases from £2.59 million per hectare to £2.94 million per hectare; an increase of 13%.

6.10 Generally, increasing the proportion of intermediate affordable housing at the expense of Social Rent, will be a more effective viability solution in higher value areas. In lower value areas, this response will be less effective, particularly where Shared Ownership is based on relatively low selling prices.

6.11 It should be emphasised however that these are 'viability solutions' in isolation. Increasing the volume of intermediate housing in high value areas and the volume of Social Rent in low value areas may intensify tenure concentration and therefore work against the objective of mixed communities.

6.12 At the higher level of s106 contributions, the impact on residual values is greatest in the weaker sub markets.

Site supply and small sites

6.13 The analysis of the supply of sites in West Oxfordshire indicates that small sites make an important contribution to the District's land supply. Data on recent planning permissions indicates that the percentage of dwellings on sites below the national indicative minimum threshold of 15 dwellings is 52%.

6.14 With respect to the four main settlements - Witney, Carterton, Chipping Norton and Eynsham 35% of dwellings are on sites of less than 15 dwellings.

6.15 However, with respect to the rest of the District (i.e all other settlements than the main four), over 90% of dwellings will be built on sites of less than 15 dwellings.

6.16 Missing out on an affordable housing contribution on any site in the District is important, given the high level of need for affordable housing.

Small sites and viability

6.17 If the District wished to consider a threshold below the current national indicative minimum of 15 dwellings in the urban areas (and indeed a lower threshold in the rural areas), the information provided in this report about viability of small sites would become important as part of the evidence for a reduced threshold. It is important to highlight that the development industry workshop did not conclude that small sites are systematically more or less viable to develop than larger sites.

6.18 Viability is sensitive to the relationship between existing (or, where relevant, alternative) use value. Many smaller schemes will involve the development of residential ancillary land – gardens, back land or infill. We do not believe, based on the likely very significant uplift in value, there is a viability problem here and therefore the Council could, if it chooses, take affordable housing contributions from these types of site.

6.19 A proportion of sites (13% of all incidences of planning permission) being brought forward, involve however the redevelopment of existing residential properties – Whilst such schemes can deliver affordable housing in some circumstances it must be acknowledged that residual values, with even relatively low levels of affordable housing, will not be sufficiently above current use values to encourage land owners to bring the land forward. The use of grant could help in achieving higher levels of affordable housing on such sites.

6.20 Again, it is important to highlight that it is not the size of the site per se that causes difficulties with viability, but the nature of the existing or alternative use.

Small sites and management issues

6.21 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 (very) small numbers of affordable homes is acceptable to housing associations.

Use of payments in lieu

6.22 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.

6.23 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

6.24 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 value areas in West Oxfordshire and at the alternative levels of affordable housing tested and considered how these values compare with historic land values generally in the area.

6.25 Our analysis of residual values has led us to suggest three main options for setting affordable housing proportions for spatial planning policy purposes which would be a reasonable policy conclusion from the viability information presented. In coming to our conclusions, we again note that viability is not the only consideration that the local authority will need to take into account in deciding on its policies and that it will need to consider the priority given to achieving affordable housing delivery to help address the very high level of need for affordable housing in the District. The three options are:

- Retain the current policy target of 30% in Witney and Carterton and 50% elsewhere in the District. We do not think that this is a wholly inappropriate policy from a viability perspective although the split may be too crude and is probably not ambitious enough at the lower end of the market.
- Introduce a split target which is more directed. This would adopt a policy of 35% in Carterton and Witney, 40% in Eynsham, Mid Rural and Rural East, Rural South, Chipping Norton and Rural North and Woodstock and Rural East – and – a target of 50% in Prime West Oxon.
- A third option is a more refined one. This would follow the same split as the second option. However it would recognise that Witney has a higher

and a lower value area and as such a 40% target might be attainable in some locations, but with the rider that grant would routinely need to be available to bolster the target in weaker value areas.

6.26 In putting forward these options there is a need for a practical solution, and one which can be applied in planning terms. A single target is inappropriate and this is recognised in current policy. The second option, focusing one target on Carterton and Witney, another on Eynsham and Chipping Norton and a further target focused on the Prime Oxon sub market could work in practice. However, we recognise that our sub markets also include in some cases urban areas with rural hinterlands and this makes it more difficult for policy setting.

6.27 Indeed the most practical and realistic solution may be to aim for 35% in Carterton and Witney urban areas, 40% in Eynsham and Chipping Norton urban areas and 50% for the remaining rural areas. This would probably challenge development economics in some of the villages but would not present an unrealistic starting point.

Viability on individual sites

6.28 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.

6.29 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

6.30 There is a pressing need for affordable housing in West Oxfordshire. Smaller sites (i.e. below the national indicative minimum of 15 dwellings) make an important contribution to the overall site supply – across the District as a whole some 52% of dwellings (recent permissions 2006-9) will be built on sites of less than 15 dwellings.

6.31 Given the level of need for affordable housing in the District and the lack of any evidence to indicate that viability of smaller sites is a particular problem, we believe there is a strong argument for seeking affordable housing contributions from sites of less than 15 dwellings from across the District.

6.32 Supply in smaller settlements (those outside the main four towns) is very heavily reliant on small sites. Over 90% of dwellings in small settlements will be built on sites of less than 15 dwellings and over 66% will be built on sites of

less than 5 dwellings. On this basis there is a strong case for a split threshold – as exists under current policy.

6.33 Leaving an operating threshold of 15 will current overlook 35% of supply across Witney, Carterton, Eynsham and Chipping Norton. This means that 35% of new dwellings will be exempt from an affordable housing contribution. This is a significant number in an areas where house prices are high and house needs are great.

6.34 On this basis, and taking viability into account, we believe that the threshold should be lowered in the four main towns. The question is then what is appropriate threshold to settle on. All considered we would suggest a threshold of 5 units and more. This reflects the fact that size of site has no key bearing on its viability, but also takes into account the fact that a number of smaller sites do have high existing use values. This is particularly important where residential redevelopment schemes occur which in our experience are difficult to develop with affordable housing contributions below 5 units.

6.35 In the rural areas, a threshold of 2 currently applies. We would not recommend lowering this because of the aforementioned issue of redevelopment sites. Against a further reduction of the threshold is the additional workload for the authority in negotiating Section 106 contributions.

6.36 Should the Council decide to adopt a zero threshold in all locations (urban and rural), we could support that stance on the basis that site size has little bearing on viability. However, we recognise that this is a finely balanced judgment given the consequent need to negotiate all sites, some of which are likely to prove challenging from a viability viewpoint.

Commuted sums

6.37 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

6.38 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

6.39 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 October 2009.

6.40 Our analysis of long term house price trends suggests that the housing market is now marginally below the long term trajectory. This means that our analysis is 'conservative' in nature.

6.41 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.

6.42 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 affordable housing policy.

Appendix 1

WEST OXFORDSHIRE DC AFFORDABLE HOUSING VIABILITY STUDY

Workshop Notes

A workshop was held in Carterton on Wednesday 23rd September 2009 to consult on the Council's Affordable Housing Viability Study (AHVS) Representatives of the development industry, landowners and agents and housing associations were in attendance. A full attendance list is given below.

Name	Organisation
Sarah Chaudhry	Home Group HA
Graeme Soame	Planning Consultant
Rob Linnell	Savills (L & P) Limited
Lindsey Tift	Homes and Communities Agency
Harry St John	Smiths Gore
Stuart Roberts	Sovereign Housing Group
Brendan O'Brien	Empire Homes
William Twiddy	John D Wood & Co
Stephen Bowley	Stephen Bowley Planning Consultancy
Jayne Norris	Edgars Ltd
David Norris	Edgars Ltd
Rebecca Collins	Edgars Ltd
Stewart Lilly	Stewart Lilly Associates
Jeremy Flawn	Bluestone Planning
Sophia Thorpe	Gleeson Strategic Land
Alison Meigh	Savills (L & P) Limited
Rod Pearson	Guinness Trust
Stuart Wright	JA Pye (Oxford) Ltd
Andy Bateson	RPS (Bristol)
Thomas Dunn	Simmons & Sons (for Oxfordshire Land)
Sam Williams	Berkeley Homes

Three Dragons and WODC Council would like to thank all those in attendance for their inputs to the study.

At the workshop Three Dragons gave a presentation summarising the methodology and outlining the process of higher level and detailed testing which would be carried out to determine viability targets.

It was agreed that the Powerpoint presentation (attached) would be made available to all Workshop participants in conjunction with these feedback notes.

Introduction

Three Dragons has been commissioned to carry out an Affordable Housing Viability Appraisal in accordance with the requirements of PPS3 in order to establish a robust evidence base to support emerging policy requirements as set out in the LDF. There are two parts to the commission:

Affordable Housing Viability Study to guide the setting of new affordable housing targets and thresholds for the Local Development Framework;

A Financial Appraisal Toolkit to assist negotiations on specific sites and to provide the scope for updating the AHVS.

The Affordable Housing Viability Study is to be used to justify and demonstrate the viability of the Council's new affordable housing policies. The Financial Appraisal Toolkit will be used mainly to assess the circumstances of individual sites where viability, and therefore the ability to provide the required level of affordable housing, is in question.

Key issues

1 Basis for interpreting viability

There was no objection in principle to the over-riding method for assessing viability proposed by Three Dragons. This measures viability by reference to residual scheme value less the existing or alternative use value of a site.

The report by Three Dragons will enable the local authority to set broad policies. Where necessary, individual schemes will be appraised on a scheme specific basis by the local authority using the Financial Appraisal Toolkit, taking account of site conditions and market viability. This is of particular importance in the present volatile market, in which house prices nationally are falling but a recovery can be anticipated during the life of the core strategy and relevant DPDs.

There was concern that we might be entering a 'new world' in terms of viability considerations with the impacts of the credit crunch. However, it was explained that the study should look to the longer (Plan) period. It is uncertain whether credit crunch conditions will apply in the medium to longer term.

2 Overall methodology

Three Dragons explained that the approach to the study will be two stage with the first stage focusing on testing a notional one hectare site, assuming different development mixes and different percentages of affordable housing, with the second stage looking at a range of generic site types, ranging from large green field through to small and large brown field sites.

Participants at the workshops generally supported the approach set out (see also Powerpoint which explains the approach diagrammatically).

Data sources (e.g. HMLR for house prices and BCIS for build costs) were explained to participants. The need for best primary data sources based on a large sample was understood and agreed.

3 Sub markets and market values

A key part of the study will involve the analysis of viability at a sub market level. Sub markets will be defined primarily by house prices. The Powerpoint presentation

shows a map of draft areas. Participants were invited to submit comments on submarkets by email to Andrew Golland.

The method for calculating the prices was questions. It was explained that this was based on a large sample of transaction which were indexed forward to today's values. A new build premium is included in the prices.

Please can delegates comment on the prices in the attached Powerpoint.

Consideration was given to whether the use of differential affordable housing targets, responsive to house price differentials in different parts of a local authority, might be a proper policy response for some or all authorities. The Three Dragons viability study would demonstrate the effect of different AH targets in different locations but this was ultimately a policy decision for the local authority.

4 Land values

In the present market it was very difficult to establish a realistic land value. This would be determined in part by the timescale of local landowners, some of whom, such as the Oxford Colleges, had been local landowners for centuries. Delegates stated that land owner returns were site specific and depend on whether the land owner is an original land owner or an intermediary developer.

In 2007 land values for residential development in West Oxfordshire were stated to be £1.5 to £2.0 million per acre. Land values are stated to be between half and a third of these figures in the current market.

Very small sites were stated to be worth between £1.3 and £1.5 million in the current market.

5 Density and development mix

A template of development mixes was demonstrated showing proposed mixes of house types at different densities.

Full details of proposed mixes are attached in the Powerpoint and feedback welcomed.

6 Thresholds and the viability of smaller sites

A range of views was expressed in relation to thresholds and the viability of small sites.

The logic of a threshold related to site size was questioned: location is a more important determining factor of viability than site size.

It was stated that small sites sometimes carry disproportionately large set up costs, but it was unclear as to whether these potentially additionally costs would, or would not, be offset by higher selling prices reflecting a (small site) exclusivity factor.

One delegate stated that although there was not a viability issue in principle with small sites, there was a perception from smaller land owners that they did not want on site affordable housing in their locality. As a result a commuted sum would be appropriate solution.

RSLs did not suggest that there is a particular problem from a management viewpoint in integrating affordable housing in small schemes, although developments of flats were said to be more difficult.

Any policy on thresholds must be linked to overall land supply and the study would be considering the actual and anticipated supply of land by size of site

7 Calculation of commuted sums

Any commuted sum should be the difference between the residual value of a scheme with 100% market housing and one with a mix of market and affordable housing. It was agreed that this is an appropriate method.

8 Development costs

Three Dragons presented the proposed page that will be used for the testing framework. This is included in the Powerpoint presentation. It was explained that the base build costs per square metre will be calculated from the BCIS data source (NB: costs in the Powerpoint presentation are illustrative and not Local Authority specific).The other development costs (professional fees, internal overheads, profit margins, etc) are however those which Three Dragons intend to use for base viability testing. A benchmark assumption of 10% land financing costs will be incorporated in the viability testing.

The base build costs were stated to be 'about right'.

A debate concerned an appropriate profit margin for the study to use. Three Dragons stated that 15% has been the historically correct figure and this was supported by HBF in previous discussions. This is based on gross development value and will normally provide a return of around 20% on development cost. Delegates were concerned that profit margins need to be higher in the current economic climate.

As the study will need a strong evidence base, please can delegates submit scheme examples where this type of margin has been adopted.

Code for Sustainable Homes requirements could add significantly to costs at higher levels of the Code. Code level 3 is estimated to add £5,000 per dwelling to costs (from eco-homes very good) and code level 4 to add £10,000 per dwelling. Currently RSLs operating in West Oxfordshire are building to Code Level 3.

9 Affordable housing issues

Shared Ownership is still working – but, 'not in the weaker market areas'; it does not generate enough revenue for RSLS. Accessibility to mortgages is however a general problem in the current market for delivering intermediate affordable housing.

Developers were generally more in favour of Shared Equity products, not involving housing associations.

It was not clear what level of grant is normally paid by the Housing Corporation (HCA). This will depend on timing and the location of schemes.

10 Protocols for negotiations on Section 106

Three Dragons explained that the project will provide the local authorities with an Affordable Housing Toolkit to assist the process of negotiations on viability and Section 106 contributions. Experience has shown that this is used most effectively when this tool is also available to local developers and landowners.

Comments please to

Andrew Golland drajg@btopenworld.com

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:

WEST OXFORDSHIRE												
SUB MARKETS	Detached			Semis			Terraced			Flats		
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	4 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed
Prime West Oxon	£640,000	£555,000	£475,000	£370,000	£320,000	£290,000	£340,000	£305,000	£265,000	£285,000	£245,000	£175,000
Woodstock and Rural East	£550,000	£475,000	£405,000	£315,000	£275,000	£245,000	£285,000	£260,000	£230,000	£245,000	£215,000	£150,000
Chipping Norton & Rural North	£525,000	£455,000	£385,000	£305,000	£260,000	£235,000	£275,000	£250,000	£220,000	£235,000	£205,000	£140,000
Witney Higher Value	£520,000	£450,000	£380,000	£300,000	£255,000	£230,000	£270,000	£245,000	£215,000	£230,000	£200,000	£135,000
Rural South	£495,000	£430,000	£365,000	£285,000	£245,000	£225,000	£260,000	£235,000	£205,000	£220,000	£190,000	£130,000
Eynesham, Mid Rural & Rural East	£485,000	£425,000	£360,000	£280,000	£240,000	£220,000	£255,000	£230,000	£200,000	£220,000	£185,000	£125,000
Carterton & Brizewood	£400,000	£350,000	£300,000	£230,000	£205,000	£180,000	£215,000	£195,000	£170,000	£180,000	£155,000	£110,000
Witney Lower Value	£395,000	£345,000	£295,000	£225,000	£200,000	£175,000	£210,000	£190,000	£165,000	£175,000	£150,000	£105,000

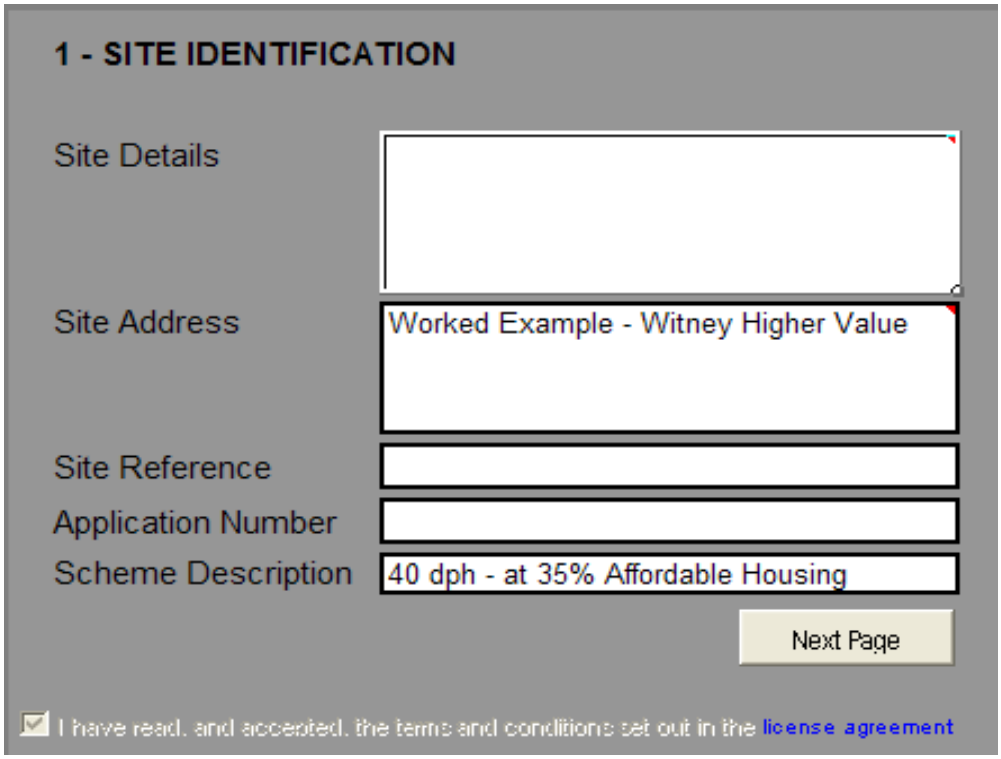
The development mixes were as follows:

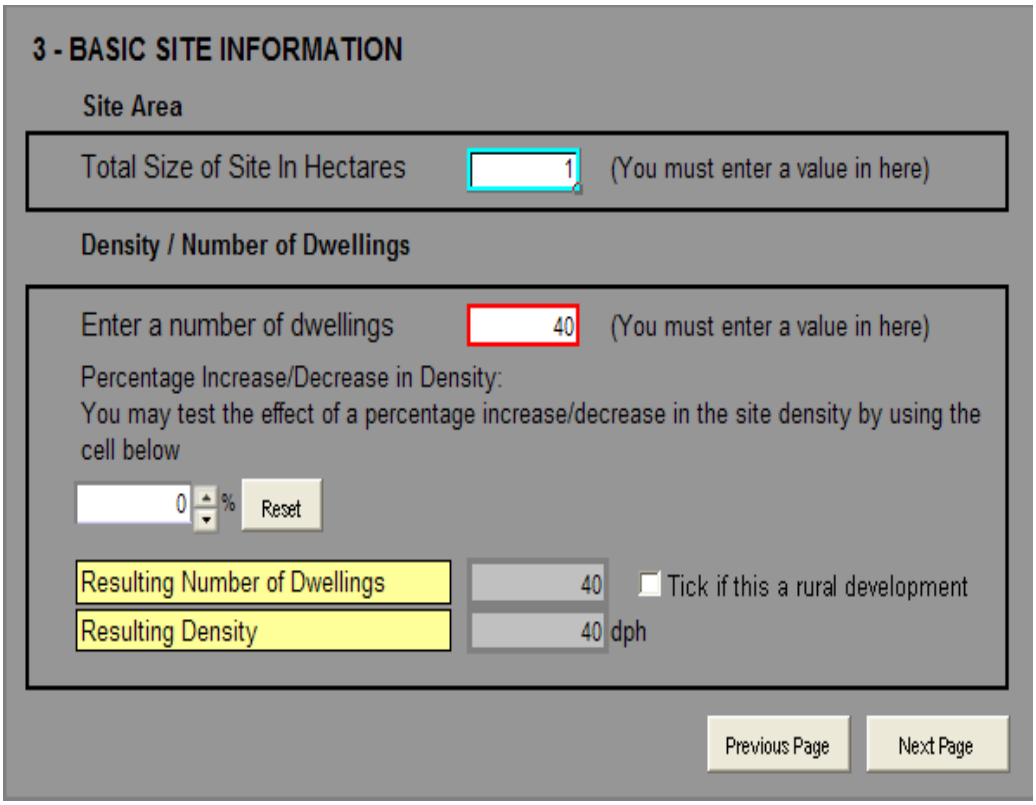
	Density (Dwellings per Hectare)				
	30	40	50	80	120
1 Bed Flat				25	40
2 Bed Flat		5	10	50	60
2 Bed Terrace	10	15	20	15	
3 Bed Terrace	15	20	25	10	
3 Bed Semi	25	25	25		
3 Bed Detached	25	20	15		
4 Bed Detached	15	15	5		
5 Bed Detached	10				
Percentage	100	100	100	100	100

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

	Affordable Housing %						
	0%	25%	30%	35%	40%	50%	60%
30 Dph							
Prime West Oxon	£ 6.11	£ 4.59	£ 4.29	£ 3.98	£ 3.68	£ 3.07	£ 2.46
Woodstock and Rural East	£ 4.78	£ 3.52	£ 3.26	£ 3.01	£ 2.76	£ 2.25	£ 1.75
Chipping Norton & Rural North	£ 4.41	£ 3.22	£ 2.98	£ 2.74	£ 2.50	£ 2.02	£ 1.54
Witney Higher Value	£ 4.30	£ 3.13	£ 2.89	£ 2.66	£ 2.42	£ 1.95	£ 1.48
Eynesham, Mid Rural & Rural East	£ 3.86	£ 2.77	£ 2.56	£ 2.34	£ 2.12	£ 1.68	£ 1.25
Witney Lower Value	£ 2.61	£ 1.76	£ 1.59	£ 1.42	£ 1.25	£ 0.91	£ 0.57
40 Dph							
Prime West Oxon	£ 7.09	£ 5.27	£ 4.90	£ 4.54	£ 4.17	£ 3.45	£ 2.72
Woodstock and Rural East	£ 5.52	£ 4.00	£ 3.70	£ 3.39	£ 3.09	£ 2.48	£ 1.87
Chipping Norton & Rural North	£ 5.09	£ 3.65	£ 3.36	£ 3.07	£ 2.79	£ 2.21	£ 1.63
Witney Higher Value	£ 4.94	£ 3.53	£ 3.25	£ 2.96	£ 2.68	£ 2.12	£ 1.55
Eynesham, Mid Rural & Rural East	£ 4.42	£ 3.11	£ 2.85	£ 2.59	£ 2.32	£ 1.80	£ 1.28
Witney Lower Value	£ 2.95	£ 1.92	£ 1.71	£ 1.50	£ 1.30	£ 0.89	£ 0.48
50 Dph							
Prime West Oxon	£ 7.77	£ 5.71	£ 5.29	£ 4.88	£ 4.46	£ 3.64	£ 2.81
Woodstock and Rural East	£ 6.04	£ 4.30	£ 3.95	£ 3.61	£ 3.26	£ 2.57	£ 1.87
Chipping Norton & Rural North	£ 5.55	£ 3.91	£ 3.58	£ 3.25	£ 2.92	£ 2.26	£ 1.61
Witney Higher Value	£ 5.37	£ 3.76	£ 3.44	£ 3.11	£ 2.79	£ 2.15	£ 1.51
Eynesham, Mid Rural & Rural East	£ 4.77	£ 3.27	£ 2.97	£ 2.67	£ 2.38	£ 1.78	£ 1.18
Witney Lower Value	£ 3.13	£ 1.95	£ 1.71	£ 1.48	£ 1.24	£ 0.77	£ 0.30
80 Dph							
Prime West Oxon	£ 7.62	£ 5.12	£ 4.62	£ 4.12	£ 3.62	£ 2.62	£ 1.62
Woodstock and Rural East	£ 5.79	£ 3.64	£ 3.21	£ 2.78	£ 2.35	£ 1.49	£ 0.62
Chipping Norton & Rural North	£ 5.20	£ 3.16	£ 2.75	£ 2.34	£ 1.94	£ 1.12	£ 0.31
Witney Higher Value	£ 4.90	£ 2.92	£ 2.52	£ 2.13	£ 1.73	£ 0.94	£ 0.14
Eynesham, Mid Rural & Rural East	£ 4.09	£ 2.26	£ 1.90	£ 1.53	£ 1.17	£ 0.44	-£ 0.36
Witney Lower Value	£ 2.22	£ 0.75	£ 0.45	£ 0.16	-£ 0.16	-£ 0.88	-£ 1.60
120 Dph							
Prime West Oxon	£ 9.82	£ 6.34	£ 5.64	£ 4.94	£ 4.25	£ 2.85	£ 1.46
Woodstock and Rural East	£ 7.34	£ 4.33	£ 3.73	£ 3.13	£ 2.52	£ 1.32	£ 0.12
Chipping Norton & Rural North	£ 6.45	£ 3.61	£ 3.04	£ 2.48	£ 1.91	£ 0.77	-£ 0.44
Witney Higher Value	£ 6.01	£ 3.25	£ 2.70	£ 2.15	£ 1.60	£ 0.50	-£ 0.74
Eynesham, Mid Rural & Rural East	£ 4.86	£ 2.32	£ 1.82	£ 1.31	£ 0.80	-£ 0.26	-£ 1.50
Witney Lower Value	£ 2.29	£ 0.25	-£ 0.20	-£ 0.70	-£ 1.20	-£ 2.20	-£ 3.20

Appendix 3 Worked example; one hectare site at 40 dph at 35% affordable housing in Witney Higher Value





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 Terr	2	House	6.0	76	65	n/a	n/a
4	3 bed terr	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 Bec Det	3	House	8.0	90	110	n/a	n/a
7	4 Bed Det	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
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

Clear Table | 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	£200,000	£200,000
3	2 Bed Terr	2	£215,000	£215,000
4	3 bed terr	3	£245,000	£245,000
5	3 Bed Semis	3	£255,000	£255,000
6	3 Bec Det	3	£380,000	£380,000
7	4 Bed Det	4	£450,000	£450,000
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	65%	25%	11%				
1								
2	2 Bed Flats	1.3	0.5	0.2				2.0
3	2 Bed Terr	3.9	1.5	0.6				6.0
4	3 bed terr	5.2	2.0	0.8				8.0
5	3 Bed Semis	6.5	2.5	1.1				10.0
6	3 Bec Det	5.2	2.0	0.8				8.0
7	4 Bed Det	3.9	1.5	0.6				6.0
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
Total		26.0	9.8	4.2				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	

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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	0.49	£ -	£ 73.00		£ -	£ -	
3	2 Bed Terr	1.47	£ -	£ 75.00		£ -	£ -	
4	3 bed terr	1.96	£ -	£ 85.00		£ -	£ -	
5	3 Bed Semis	2.45	£ -	£ 87.00		£ -	£ -	
6	3 Bec Det	1.96	£ -	£ 89.00		£ -	£ -	
7	4 Bed Det	1.47	£ -	£ 97.00		£ -	£ -	
8			£ -			£ -	£ -	
9			£ -			£ -	£ -	
10			£ -			£ -	£ -	
11			£ -			£ -	£ -	
12			£ -			£ -	£ -	
13			£ -			£ -	£ -	
14			£ -			£ -	£ -	
15			£ -			£ -	£ -	
16			£ -			£ -	£ -	
17			£ -			£ -	£ -	
18			£ -			£ -	£ -	
19			£ -			£ -	£ -	
20			£ -			£ -	£ -	

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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

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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	£1,035
Flats (6+ storeys)	£1,545	£1,700
Flats (5 & less storeys)	£1,115	£1,225
Houses <= 75m2	£999	£985
Houses > 75m2	£901	£860

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	

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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)
			Sale	Affordable					
	Enter Total?	User Total		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	£5,000
Contribution from Commercial	

Total for Scheme	£200,000
Total for Scheme per hectare	£200,000
Total for Scheme divided by total number of units	£5,000
Total for Scheme divided by number of sale units	£7,692

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16 - HOUSING CORPORATION GRANT AVAILABILITY

(•) No - Grant is not available

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

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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	9.8	4.2		14
i) Default oncosts rate (%)	6%	6%	6%	
ii) User oncosts (%)				
iii) User oncosts By Unit (£)				
Oncosts per Unit	£ 5,463	£ 5,463	£ -	
Total oncosts for Affordable Housing	£ 53,540	£ 22,946	£ -	
Total Oncosts for Affordable Housing	£ 76,485			

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20 - Scheme Results

Site Reference Details	
Site Reference Number	
Application Number	
Site Location	Hertsmere
Scheme Description	40 dph - at 35% Affordable Ho

Site Details	
Site Address	Worked Example - Witney Higher Value
Site Details	

TOTAL NUMBER OF UNITS	
Dwellings	40
% Wheelchair Units	

DENSITY (per hectare)	
Dwellings	40.0

AFFORDABLE UNITS	Quantity	% of All Units
Total	14.0	35%
Social rent	9.8	25%
Intermediate	4.2	11%

REVENUE AND COSTS		
Total scheme revenue	£	8,904,000
Total scheme costs	£	5,611,000

RESIDUAL VALUE		
Whole scheme	£	3,293,000
Per hectare	£	3,293,000
Per dwelling	£	82,000
Per market dwelling	£	127,000

Contribution to revenue from:		
Market housing	£	7,761,000
Affordable Housing	£	1,143,000
- Social rent	£	358,000
- New Build HomeBuy	£	785,000
- 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	£	4,064,000
Affordable Housing	£	1,347,000
- Social rent	£	943,000
- New Build HomeBuy	£	404,000
- Intermediate Rent	£	-
- Discount Market	£	-
- Local Sale	£	-
Land Finance	£	-
Planning Obligations	£	200,000
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	£	-	£	-

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