North West Leicestershire District Council Affordable Housing Provision and Developer Contributions

Final Draft Report

September 2009

Three Dragons and Roger Tym & Partners

INTRODUCTION

Review of project aims

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

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

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

National Policy Context

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

1.4 PPS3: Housing (November 2006) states that:

"In Local Development Documents, Local Planning Authorities should:

Set out the range of circumstances in which affordable housing will be required. The national indicative minimum site size threshold is 15 dwellings. However, Local Planning Authorities can set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area. Local Planning Authorities will need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed, including their likely impact upon overall levels of housing delivery and creating mixed communities". (Para 29)

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

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

Regional Spatial Strategy

1.6 The current Regional Spatial Strategy for the East Midlands was published in March 2009 as the *East Midlands Regional Plan*. It provides a broad development strategy for the East Midlands up to 2026. Within the document (specifically Policy 13a - Regional Housing Provision) the document has identified a total housing provision across Leicester and Leicestershire HMA of 80,400 dwellings between 2006-2026 - equating to 4,020 per annum from 2006. Of this, North West Leicestershire is allocated an annual apportionment of 510 dwellings from 2006-2026, totalling 10,200 dwellings across the plan period.

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

Adopted Local Plan policy

1.8 The North West Leicestershire Local Plan 1991-2006 was adopted on 22nd August 2002 with three alterations subsequently adopted in 2004 and 2005. Policy H8 ('Affordable Housing') states that '*Where there is a demonstrable need for affordable housing the District Council will negotiate with applicants/developers to secure the provision of an element of affordable housing as part of any development proposal. Where there is a demonstrable need for affordable housing the Council will seek provision on all proposed housing sites – whether allocated in the Local Plan or not – of 1.0 ha or more in size or would yield 25 or more dwellings*.'

1.9 The Affordable Housing (SPD) (Adopted 16 Oct 2007) sets a target of 30 per cent affordable housing in Coalville, and 40 per cent elsewhere in the District. The site size threshold is 15 dwellings.

Emerging local policy

1.10 North West Leicestershire's Core Strategy DPD is currently underway. Consultation on the emerging approach took place between November 2008 and March 2009.

[1] CLG, Delivering Affordable Housing, November 2006

1.11 The Core Strategy Consultation set out two possible options for seeking affordable housing:

Option 1 (favoured approach) - Secure the provision of new affordable housing as part of new developments with a target of 30% in the Coalville Urban Area and 40% elsewhere, on developments of 15 or more units. This reflects the Affordable Housing SPD adopted October 2007.

Option 2 - Secure the provision of new affordable housing as part of new developments with target of 40% on all sites of more than 0.2Ha and/or capable of accommodating 6 or more dwellings in the Coalville Urban Area and the Rural Towns and on sites of 0.1Ha and/or capable of accommodating 3 dwellings elsewhere. This option was rejected when we were preparing the Affordable Housing SPD because it was recognised that the suggested thresholds would be likely to impact upon the economic viability of development sites which would then hinder the overall delivery of new housing.

1.12 The consultation identified that the favoured approach was *'option 1 as it is much less likely to affect the viability of sites than option 2. In addition, whilst option 2 would potentially benefit our rural communities our overall Development Strategy would make allowance for development which meets a local need, including that for affordable housing.'*

Leicester and Leicestershire Strategic Housing Market Assessment 2007/8

1.14 The SHMA was carried out between July 2007 and September 2008, principally by B.Line Housing Information, Three Dragons and Rural Solutions.

1.15 For the period 2008-2015, North West Leicestershire was found to have a projected affordable housing shortfall of 355 units per year between overall need and projected provision. Of this 79 per cent (equating to 280 units) would need to form Social Rent, with the remaining 21 per cent (75 units) would comprise Intermediate Housing, shown in Figure 1.1 below.

Figure 1.1 – SHMA findings for North West Leicestershire District.

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

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

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

figures do not sum due to rounding

figures are approximate estimates based on household type and age projections or housing register composition,
and will not apply for all times and places *Actual mix requested should be assessed in the light of local supply and turnover*
Supply of some types and sizes maybe sufficient from existing turnover

The best indicator of existing ***backlog*** *need is up to date local authority housing registers*
These show, for example, that Leicester City has a pressing need for larger houses, especially in certain areas,
while suburban and rural authorities have greater need for smaller, starter and upsizing family homes
It is therefore essential to take account of specific current local circumstances at the time any scheme or intervention is considered

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

Dwelling completions and affordable housing provision

1.16 Total housing completions in North West Leicestershire have remained fairly constant over the ten year period with the exception of a spike in completions in 1998-1999. This was because the data for 1999 was based at October rather than April and hence covered an 18 month time period (i.e. April 98 to October 99) rather than April to March. The tables below show the completions rates between 1994 and 2008.

1.17 In terms of delivery of affordable housing in North West Leicestershire the last four years have been quite volatile, with affordable housing averaging approximately 8 per cent.

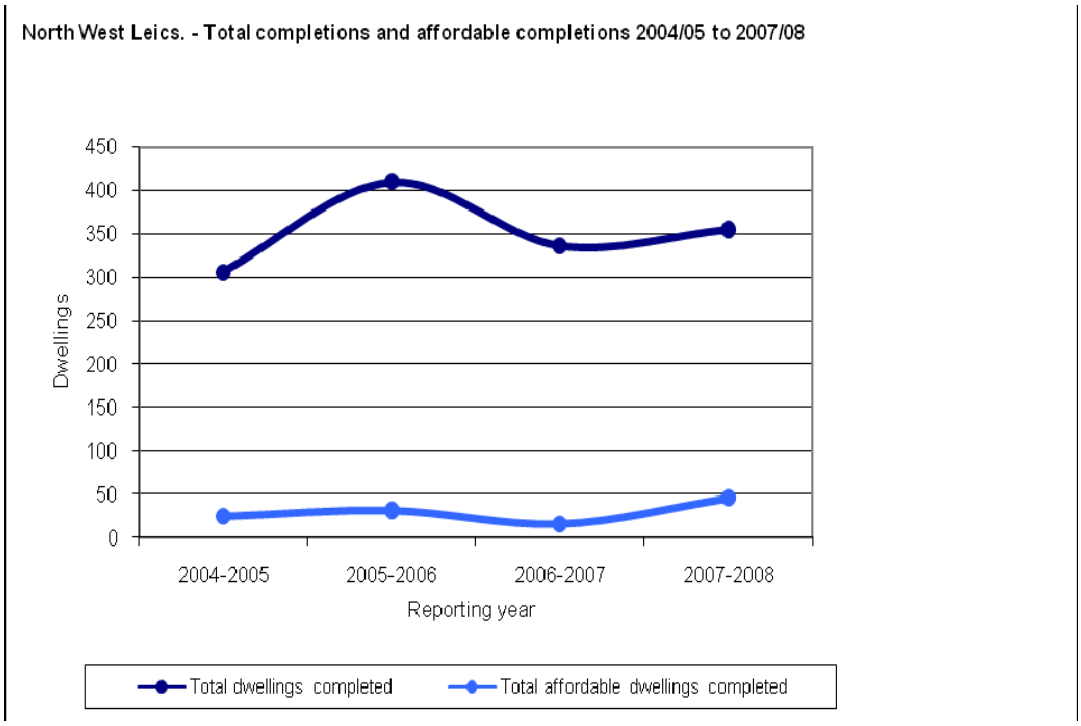
Figure 1.2 – Total dwelling completions and affordable dwelling completions, North West Leicestershire District.

Reporting year	Total dwellings completed	Total **affordable** dwellings completed	Percentage affordable dwellings completed
1994-1995	562		
1995-1996	435		
1996-1997	458		
1997-1998	467		
1998-1999	668		
1999-2000	385	3	1%
2000-2001	485	41	8%
2001-2002	493	14	3%
2002-2003	395	50	13%
2003-2004	315	31	10%
2004-2005	306	25	8%
2005-2006	410	32	8%
2006-2007	336	16	5%
2007-2008	355	46	13%
Average dpa, 2004-05 to 2007-08	**352**	**30**	**8%**

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

NB. Grey shaded areas denote information which is unavailable

Figure 1.3 – Graph showing total completions and affordable dwellings completions, North West Leicestershire District



Note: Data taken from Annual Monitoring Reports above reflects net additional units built per year in the form on new builds or conversions only.

Research undertaken

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

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

Structure of the report

1.19 The remainder of the report uses the following structure:

- Chapter 2 explains the methodology we have followed in, first, identifying sub markets and, secondly, undertaking the analysis of development economics. We explain that this is based on residual value principles;

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

2 METHODOLOGY

Introduction

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

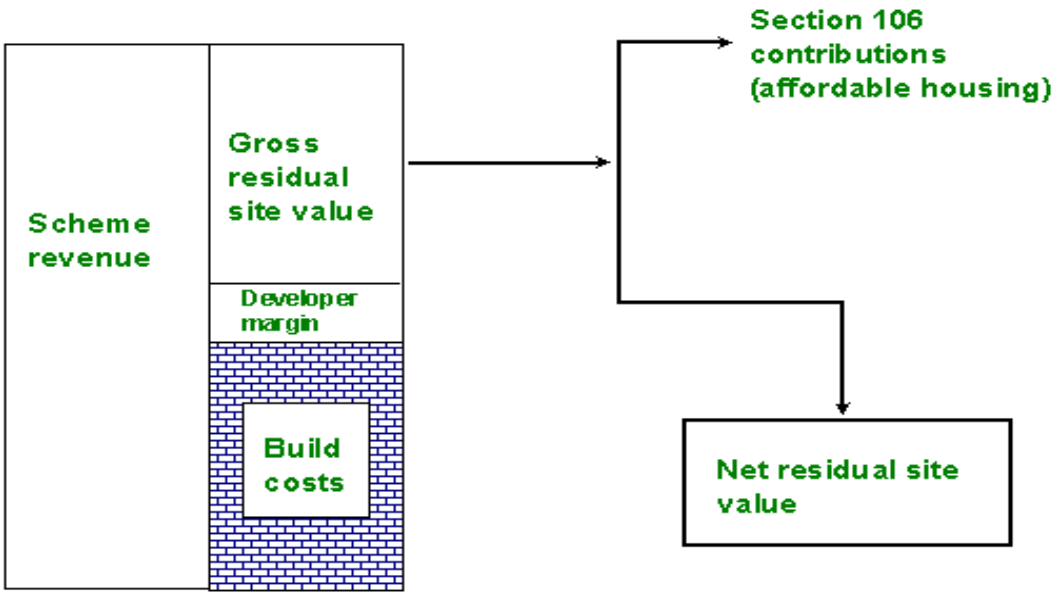
Viability – starting points

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

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

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

Figure 2.1 Theory of the Section 106 Process

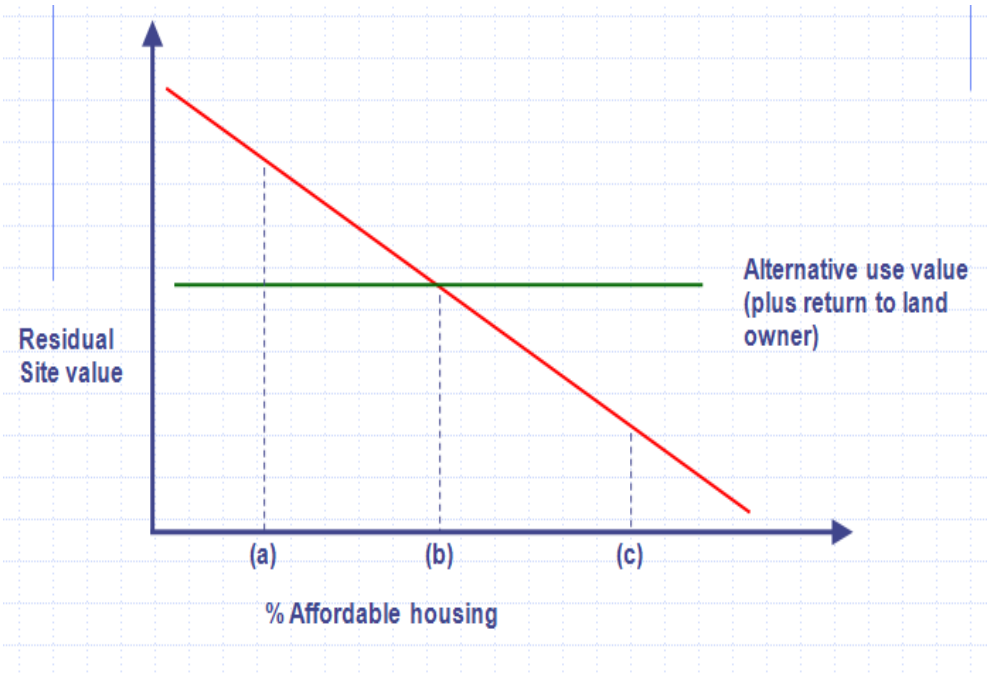


2.5 Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.

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

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

Figure 2.2 Affordable housing and alternative use value



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

3 HIGH LEVEL TESTING

Introduction

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

Market value areas

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

3.3 We undertook a broad analysis of development across the housing market, using HM Land Registry data to identify market value or sub markets areas in the District. The areas are defined by reference to postcode sectors and their house prices and provide the basis for a set of indicative new build values as at June 2009. The purpose of this analysis is to help establish a broad starting point for target setting in the light of the general relationships between development revenues and development costs. Table 3.1 below sets out the market value areas or sub markets for the District. The sub markets used in this report do not necessarily tally up with those adopted in the SHMA since the Viability driven sub markets are based on house prices only, whilst the SHMA driven sub markets are based on a wider set of factors including travel to work, migration and house prices.

Table 3.1 Sub markets in the North West Leicestershire area

NORTH WEST LEICS			
Sub Market	PCS	Main descriptor	Further locations/areas
Ashby-de-la-Zouch	LE65 1	Ashby-de-la-Zouch East	Packington
	LE65 2	Ashby-de-la-Zouch West	
	DE11 8		Blackfordby
NWL Rural South	LE67 2	NWL South East Rural	Heather; Ravenstone; Newton Burgoland; Swepstone
	DE12 8	NWL Southern Rural	Chilcote
Castle Donington, Kegworth & Rural Hinterland	DE74 2	Castle Donnington & Kegworth	Diseworth; Breedon-on-the-Hill
	LE12 9	NWL North East Rural	Belton
Thringstone & Whitwick	LE67 8	Thringstone	Coleorton; Newbold
	LE67 4	Whitwick South	
	LE67 5	Whitwick North	
Measham & Rural Hinterland	DE12 7	Measham	Donisthorpe
	DE12 6	NWL Rural South West	Moira; Norris Hill
Coalville and Ibstock	LE67 6	Ibstock	
	LE67 3	Coalville	

Source: Market value areas as agreed between Three Dragons and North West Leicestershire DC

Testing assumptions (notional one hectare site)

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

3.5 The development mixes were as follows:

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

3.6 We calculated residual site values for each of these (base mix) scenarios in line with a further set of tenure assumptions. These were 10%; 20%; 25%; 30%; 35%; 40% and 50% of affordable housing on a scheme. These were

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

Other section 106 Infrastructure contributions

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

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

3.9 If this gap was to be 'plugged" by developer contributions, very simplistically, this would result in a requirement of something in the order of £12,250 per dwelling across the county. This is based on high level estimation, and the actual requirement could be higher or lower depending on the locally specific infrastructure requirements and funding sources.

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

[3] PPS12 June 2008 paragraphs 4.8 to 4.12

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

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

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

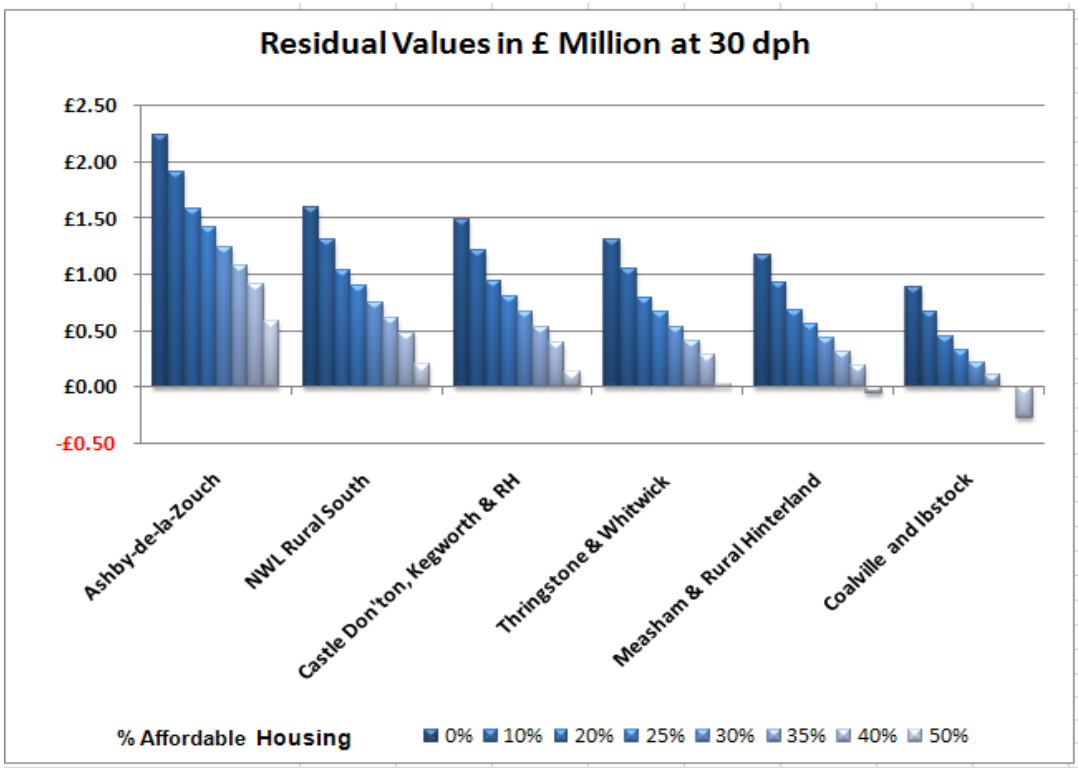
Results: residual values for a notional one hectare site

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

Low density housing (30 dph)

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

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



- Figure 3.1 shows that for most of the scenarios tested, there is a positive residual value; only in Measham and hinterland, Coalville and Ibstock are residual values negative. This is at 50% affordable housing in both cases.

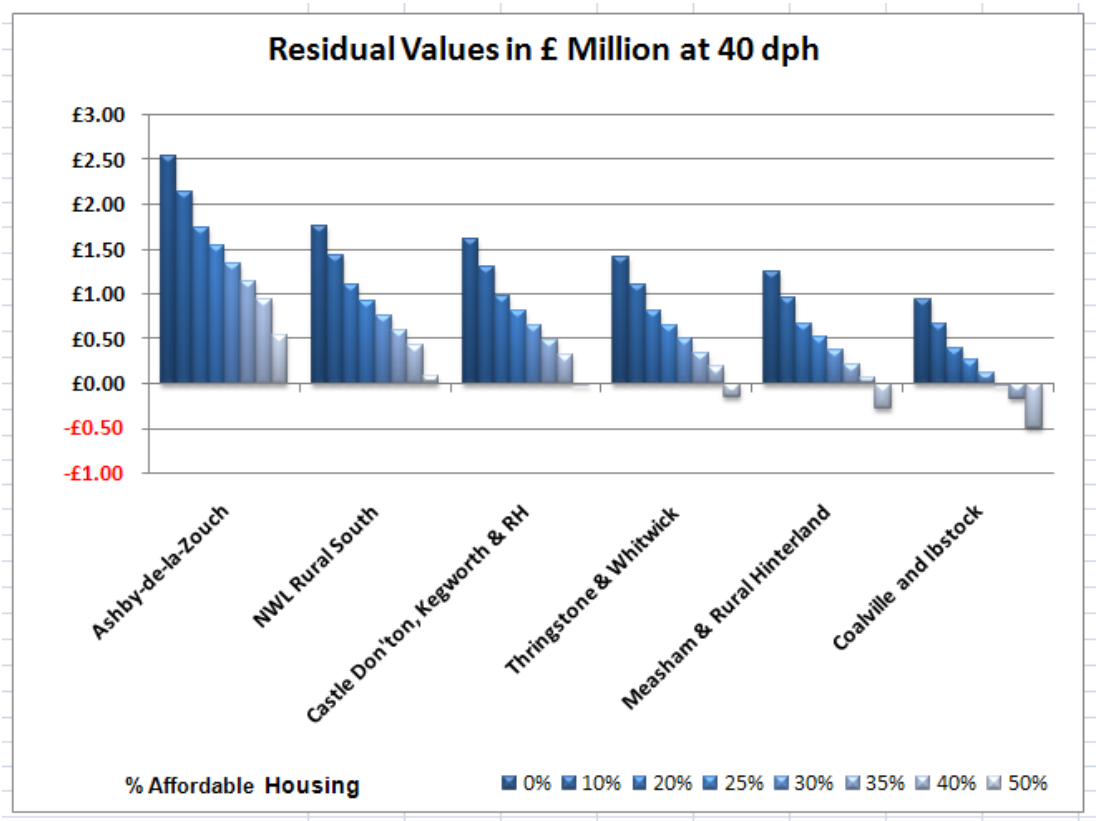
- Significant variance in residual values can be seen by comparing sub markets, reflecting the different house prices found in each of them. At, for example, 25% affordable housing, residual values range from £1.41m per hectare in Ashby de-la-Zouch ('Ashby') to £0.33 m per hectare in Coalville and Ibstock.

- The range in values has potentially important implications for policy making. The graph shows the very significant difference in residual values between the highest and lowest value sub markets. With the scenarios tested, a 40% affordable housing allocation generates a higher residual value (£0.92 million per Ha) in Ashby than a 100% market housing scheme in Coalville and Ibstock.

Lower density housing (40 dph)

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

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

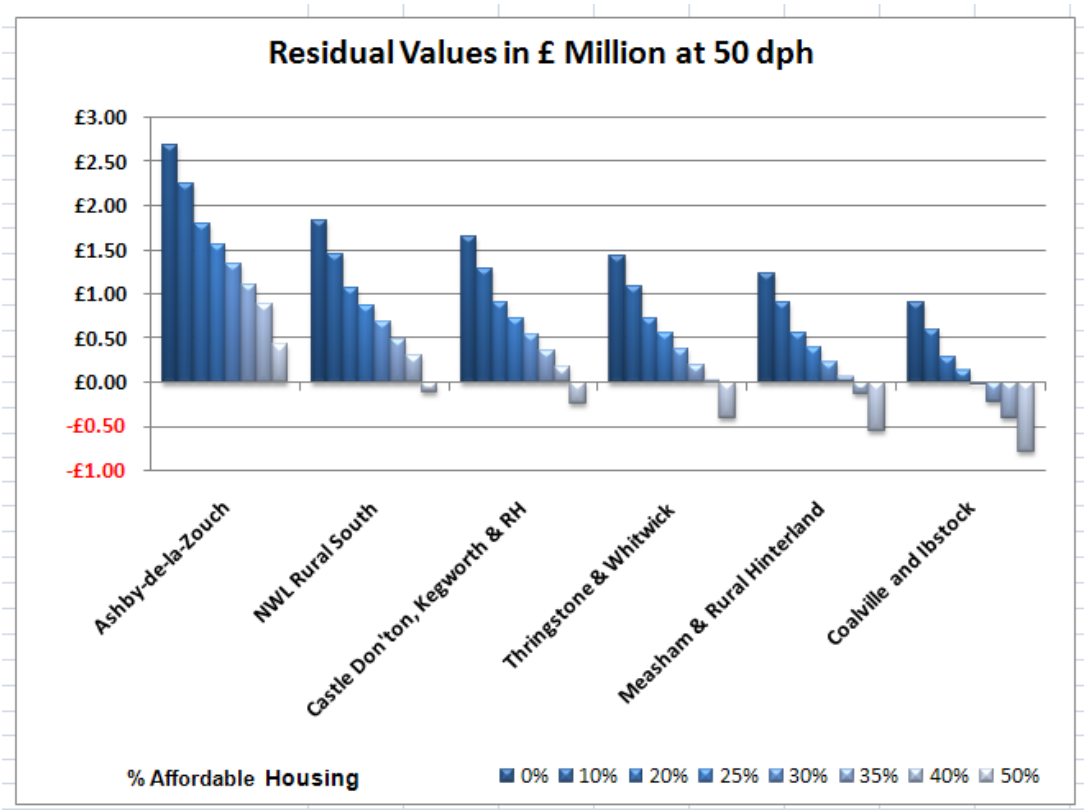


- As previously, most sub markets generate a positive residual value. At 30% affordable housing, the residual value per hectare in Ashy is £1.34 million. In Coalville and Ibstock it is still positive – at £130,000 per hectare.
- Increased density (30 dph to 40 dph) does not necessarily increase residual value. In North West Leicestershire in fact, there are more instances (see Appendix 3) where a 30 dph scenario generates a higher residual value than the 40 dph scenario. This relates to the relationship between values and costs in smaller and larger units; we comment in more detail on this at higher density examples.
- This occurs at higher proportions of affordable housing and in the weaker sub markets. As an example, residual value in Measham and Rural Hinterland at 35% affordable housing is £320,000 per hectare at 30 dph, but £220,000 at 40 dph.
- At the top end the market, intensification of development to 40dph will increase residual value. For example, at 35% affordable housing in Ashby, a 30 dph scheme will generate £1.08 million, but £1.14 million at 40 dph. At 40% affordable housing however, in the same sub market, there is only marginal increase in residual value (£0.92 million per hectare at 30dph to £0.94 million per hectare at 40 dph)

Medium density (50 dph) scheme

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

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

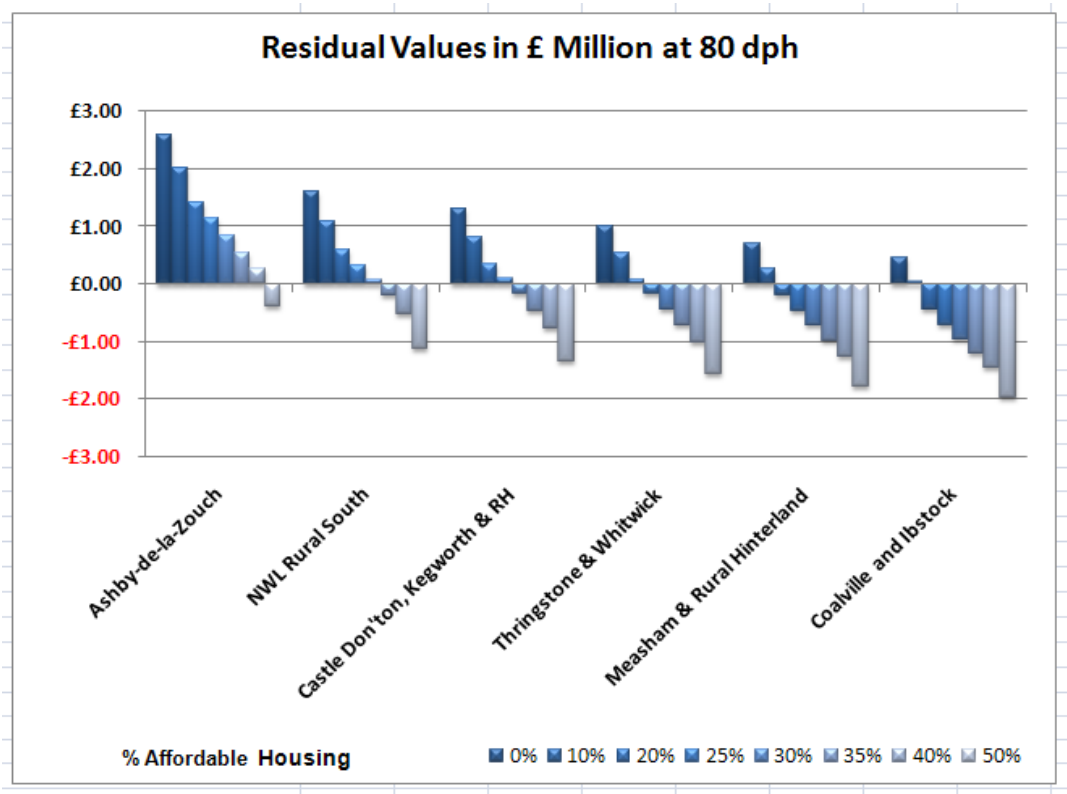


- The general impact of an increase to 50 dph (from 30 dph and 40 dph) is to increase residuals values in the highest value locations and at lower percentages of affordable housing; a trend similar to that observed when density is increased from 30dph to 40 dph.
- In the majority of cases, based on the mix assumptions we have taken, a 50 dph scenario will generate a lower residual value than the 40 dph scenario. At 100% market housing, residual values are higher at 50dph than 40dph in all locations with the exception of the lowest two sub markets. At 10% affordable housing, only the highest two value sub markets generate a residual higher at 50dph than 40 dph.
- In all sub markets, residual values are higher at 40 dph than 50 dph at 35 % affordable housing or higher.

Higher density (80 dph) scheme

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

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

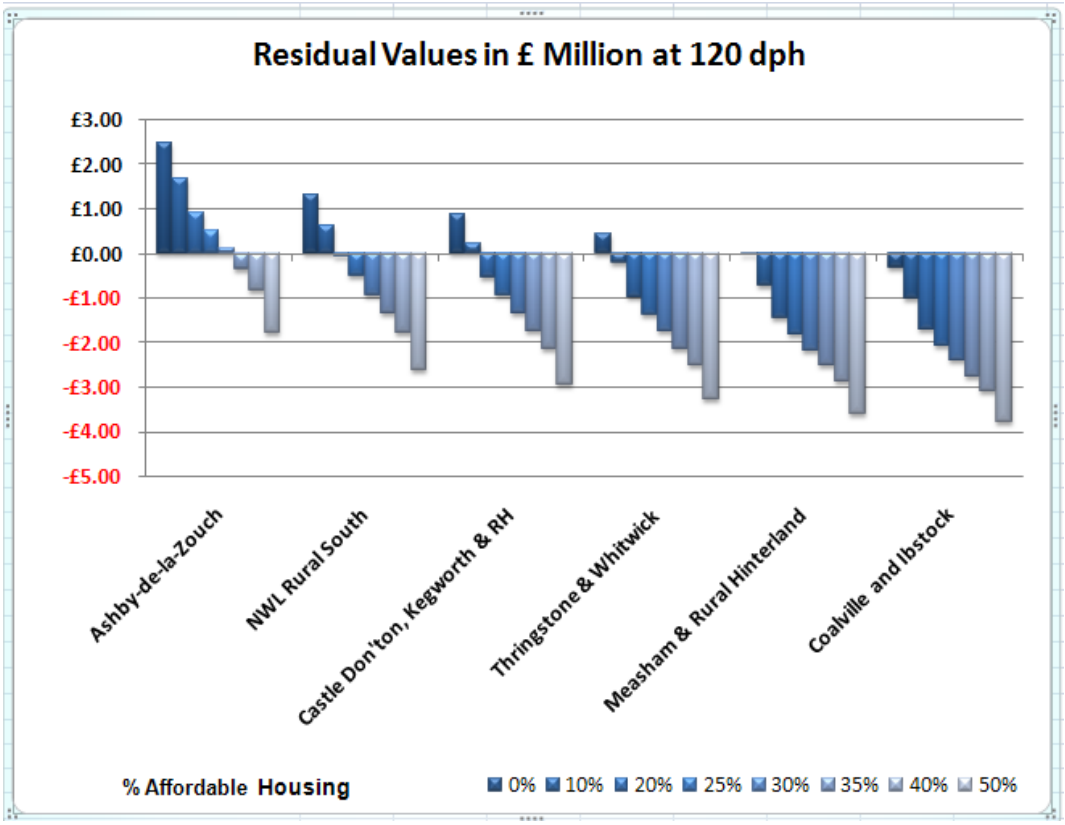


- Increasing density to 80 dph (versus 50 dph for example) will reduce residual values across the District in all sub markets (see Appendix 3) when comparing the 50 dph and 80 dph scenarios.
- In very strong (typically South East and London housing markets) increased density will result in increased residuals. This is because the value of flats well exceed the cost of development. This is not generally the case in the East Midlands and North West Leicestershire is no different. The result, where the scheme includes a relatively high percentage of flats, is for significant negative residual values to result.
- It will be noted from the chart (Figure 3.4) that residual values are negative or marginal at 10% affordable housing – or lower (i.e 0% affordable housing) in the lowest two value sub markets.

High density (120 dph) scheme

3.17 Figure 3.5 shows a higher density (120 dph) scheme. The main impact here is to decrease viability in all the scenarios tested with very significant negative residual values found in the lowest three value sub markets.

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



Impacts of potential grant funding

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

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

3.20 We have tested the impact of grant on residual values for a 1 hectare site at 40 dph. The results are shown in Table 3.2 for a selected number of sub markets. We exclude here for simplicity Measham and Rural Hinterland (proxy analysis Thringstone and Whitwick) and NWL Rural South (proxied by Castle Donington).

Table 3.2 Comparison of impact of grant versus on residual values versus no grant (at 40 dph): Residual Value (£s million per hectare); £4,000 per unit Section 106 costs.

40 Dph	Ashby-de-la-Zouch		Castle Donington & Kegworth		Thringstone & Whitwick		Coalville & Ibstock	
	No grant	Grant	No grant	Grant	No grant	Grant	No grant	Grant
0% AH	£2.53	N/A	£1.62	N/A	£1.42	N/A	£0.93	N/A
10% AH	£2.14	£2.24	£1.30	£1.40	£1.11	£1.21	£0.66	£0.76
20% AH	£1.74	£1.94	£0.97	£1.17	£0.80	£1.00	£0.40	£0.60
30% AH	£1.34	£1.64	£0.65	£0.95	£0.50	£0.80	£0.13	£0.43
40% AH	£0.94	£1.34	£0.32	£0.72	£0.19	£0.59	-£0.17	£0.23
50% AH	£0.55	£1.05	-£0.00	£0.50	-£0.15	£0.35	-£0.50	£0.00

3.21 Table 3.2 shows that the availability of grant will enhance site viability. This will be particularly important in the weaker sub markets of Coalville and Ibstock and Measham. At 20% affordable housing in Coalville and Ibstock, the introduction of grant increases the residual value from £0.40m to £0.60m (an increase of 50%).

3.22 In higher value sub markets, the impact of grant is less marked. For example, at 30% affordable housing, residual value rises by only 22% in Ashby.

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

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

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

Table 3.3 Site values (£ million per hectare) for a 40 dph scheme assuming 50% Social Rent and 50% Shared Ownership), without, and with, grant. Section 106 package at £4,000 per unit

40 Dph	Ashby-de-la-Zouch		Castle Donington & Kegworth		Thringstone & Whitwick		Coalville & Ibstock	
	50%:50 %	Grant	50%:50 %	Grant	50%:50 %	Grant	50%:50 %	Grant
0% AH	£2.53	N/A	£1.62	N/A	£1.42	N/A	£0.93	N/A
10% AH	£2.22	£2.24	£1.36	£1.40	£1.18	£1.21	£0.72	£0.76
20% AH	£1.92	£1.94	£1.11	£1.17	£0.94	£1.00	£0.51	£0.60
30% AH	£1.61	£1.64	£0.86	£0.95	£0.69	£0.80	£0.28	£0.43
40% AH	£1.30	£1.34	£0.61	£0.72	£0.46	£0.59	£0.09	£0.23
50% AH	£0.99	£1.05	£0.35	£0.50	£0.21	£0.35	-£0.12	£0.00

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

3.26 Table 3.3 allows a comparison of the 50%:50% residuals with the grant residuals. In a middle market location such as Castle Donington and Kegworth, with grant scenarios are marginally higher than the 50%:50% Rented: Shared Ownership position.

3.27 At the top end of the market, Ashby, the with grant scenarios produce a very close residual (at all percentages of affordable housing) as the 50%:50% option. This is largely because the Shared Ownership element within the scheme generates a high value being based on high house prices.

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

Impacts of achieving Code for Sustainable Homes Level 4

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

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

3.31 The estimated costs of achieving Code Level 4 range from £2,000 to £12,000 per dwelling (Cyril Sweet, 2007 – Cost Review of the Code for Sustainable Homes). This depends on the extent to which different energy sources are adopted. We take here scenario 2 as a broad indication of costs (an additional £4,260 per end terrace) which represents 'Initial energy efficiency measures initially followed by use of small scale wind turbines and then

biomass systems'. We model at £5,000 per unit; across a scheme at 40 dph this means £200,000 per hectare taken off residual value.

3.32 Table 3.5 shows the joint impacts of achieving Lifetime Homes Standards and Code for Sustainable Homes Level 4. The analysis assumes the baseline position of 75% Social Rent and 25% New Build HomeBuy.

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

	Ashby-de-la-Zouch	Castle Donington & Kegworth	Thringstone & Whitwick	Coalville & Ibstock
0% AH	£2.33	£1.42	£1.22	£0.73
10% AH	£1.94	£1.10	£0.91	£0.46
20% AH	£1.54	£0.77	£0.60	£0.20
30% AH	£1.14	£0.45	£0.30	-£0.07
40% AH	£0.74	£0.12	-£0.01	-£0.37
50% AH	£0.35	-£0.20	-£0.35	-£0.70

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

A higher Section 106 Infrastructure Requirement?

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

3.35 If for instance an additional £8,000 per unit infrastructure cost were to be applied above the baseline tests, this would reduce residual values by some £300,000 at 40 dph across the board. Whilst the impact of this could we feel, be assimilated in the higher value areas, the impact in the lower value areas could affect the delivery of housing.

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

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

Senstivity testing market values

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

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

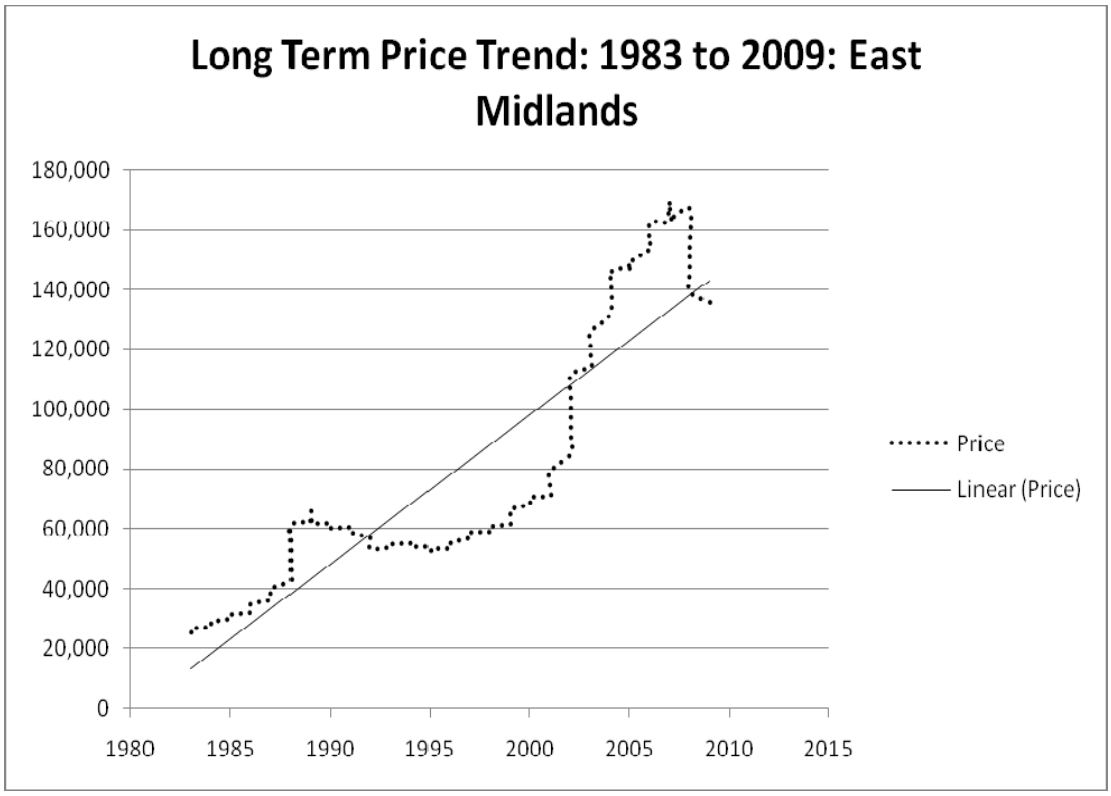
Prices up10%	**0%**	**10%**	**20%**	**30%**	**40%**	**50%**
Ashby-de-la-Zouch	£3.16	£2.76	£2.26	£1.82	£1.36	£0.92
Castle Donington & Kegworth	£2.15	£1.79	£1.42	£1.05	£0.69	£0.32
Thringstone & Whitwick	£1.93	£1.59	£1.24	£0.88	£0.54	£0.19
Coalville & Ibstock	£1.40	£1.09	£0.79	£0.48	£0.17	-£0.13
Baseline position	**0%**	**10%**	**20%**	**30%**	**40%**	**50%**
Ashby-de-la-Zouch	£2.53	£2.14	£1.74	£1.34	£0.94	£0.55
Castle Donington & Kegworth	£1.62	£1.30	£0.97	£0.65	£0.32	-£0.00
Thringstone & Whitwick	£1.42	£1.11	£0.80	£0.50	£0.19	-£0.15
Coalville & Ibstock	£0.93	£0.66	£0.40	£0.13	-£0.17	-£0.50
Prices down 10%	**0%**	**10%**	**20%**	**30%**	**40%**	**50%**
Ashby-de-la-Zouch	£1.91	£1.57	£1.22	£0.92	£0.52	£0.18
Castle Donington & Kegworth	£1.09	£0.81	£0.53	£0.25	-£0.03	-£0.32
Thringstone & Whitwick	£0.91	£0.64	£0.38	£0.11	-£0.16	-£0.42
Coalville & Ibstock	£0.47	£0.24	£0.01	-£0.22	-£0.45	-£0.68

3.38 The results show the sensitivity of residual values to changes in house prices. For example in Castle Donington and Kegworth, at 20% affordable housing, a 10% increase in prices will give a 46% increase in residual value.

3.39 In the stronger sub markets (example here Ashby), the impact of price change is less marked. For example at 30% affordable housing, a 10% increase in prices leads to a 35% increase in residual value.

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

3.41 The analysis can also be benchmarked against the longer term trend in house price. Figure 3.6 shows both short and longer term trend lines plotted over the period 1983 to today. This shows that the prices utilised for the analysis are marginally lower than the long term trend.



Source: Halifax House Price Index

Larger sites

3.42 We are aware that the Council intend to bring foward a number of larger sites in the form of sustainable urban extensions. There are currently ten potential sites with a capacity range from some 400 dwellings through to 5,000 dwellings.

3.43 It is at the moment not certain whether all sites will be needed to deliver the required number of homes, although it seems likley that Coalville will provide the focus for housing growth in the form of SUEs. A site south east of the town could deliver 5,000 homes beyond 2026.

3.44 Other key sites with housing potential are at Stephenson Way Coalville (2,300 homes) and a site north of Ashby with capacity for some 1,600 homes.

3.45 We have not appraised these sites specfically as part of this study. However, a more detailed assessment of the market conditions at the time of any possible development would be appropriate.

3.46 However, it is appropriate that we make comment on the potential for Section 106 contributions on such sites at this juncture. In this regard, we would normally expect new developments to 'lift' selling prices from housing in the existing markets. This is because any new development will be likely to sit within the same functional housing market area (commuting, migration etc). In these respects, new development at Coalville will be expected to be towards the bottom end of the price range for the District. As such, it should attract a similar affordable housing target to that which we recommend in this report (see conclusions)

3.47 Large sites are more complex on both the revenue and costs side. On the cost side, the Section 106 burden (in addition to the affordable housing); i.e the costs of schools, highway work etc, and potentialy additional green field infrastrcuture costs may well be higher than our base assumptions here. On the revenue side, a new development of significant scale, may well be capable of achieving higher values than those in the existing urban areas.

3.48 Therefore it is important that these very large settlements are considered in more details as and when more information becomes available.

Benchmarking results

3.49 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.

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

Table 3.7 Residential land values regionally

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

Source: Valuation Office; Property Market Report, January 2009

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

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

Table 3.8 East Midlands industrial land values

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

Source: Valuation Office; Property Market Report, January 2009

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

4 LAND SUPPLY, SMALL SITES AND USE OF COMMUTED SUMS

Introduction

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

4.2 The Council SPD sets out a threshold of 15 dwellings. The Local Development Framework Core Strategy Further Consultation - November 2008 states that there are two possible options for seeking affordable housing:

4.3 Option 1 (favoured approach) - Secure the provision of new affordable housing as part of new developments with a target of 30% in the Coalville Urban Area and 40% elsewhere, on developments of 15 or more units. This reflects the Affordable Housing SPD adopted October 2007.

4.4 Option 2 - Secure the provision of new affordable housing as part of new developments with target of 40% on all sites of more than 0.2Ha and/or capable of accommodating 6 or more dwellings in the Coalville Urban Area and the Rural Towns and on sites of 0.1Ha and/or capable of accommodating 3 dwellings elsewhere. This option was subsequently rejected.

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

Purpose of the Analysis

4.6 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)

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

Site supply analysis

4.8 We have analysed data on past permissions for the three years (2006 to 2009) to consider how important sites of different sizes are likely to be to the future land supply. The data shows that 1102 dwellings were granted planning permission for the three years covered. The table below shows the result of this analysis.

Table 4.1: No of dwellings in different sizes of sites – permissions 2006 to 2009. North West Leicestershire District

Scheme Size	No of Dwellings	%
1 to 4	197	17.9
5 to 9	142	12.9
10 to 14	90	8.2
15 to 24	121	11.0
25 to 49	127	11.5
>50	425	38.6
	1102	100.0

Source: North West Leics DC

4.9 Table 4.1 indicates that a substantial proportion (almost 40%) of new dwelling supply comes from larger sites.

4.10 Small sites also contribute significantly however to new supply. The table shows almost 40% of all dwellings granted permission are on sites of under 15 dwellings, with about 30% of dwellings being in schemes of less than 10 units.

4.11 When the profile of site supply is broken down by location a different picture emerges (Table 4.2)

Table 4.2: No of dwellings in different sizes of sites – permissions 2006 to 2009. North West Leicestershire District by locations

Scheme Size	Coalville, Ashby & Castle Donington		Rural Centres		Elsewhere in NWL	
	No of Dwellings	%	No of Dwellings	%	No of Dwellings	%
1 to 4	49	9.0	35	27.1	112	30.2
5 to 9	46	8.4	24	18.6	62	16.7
10 to 14	57	10.5	12	9.3	21	5.7
15 to 24	37	6.8	16	12.4	67	18.1
25 to 49	0	0.0	42	32.6	35	9.4
>50	356	65.3	0	0.0	74	19.9
	545	100.00	129	100.00	371	100.00

Source: North West Leics DC: Rural Centres = Ibstock, Kegworth and Measham.

4.12 In the largest settlements (Coalville, Ashby and Castle Donington) larger sites predominate the supply with 65% of dwellings being delivered within schemes of 50 dwellings or more. However, around 30% of dwellings will be delivered on sites of less than 15 dwellings.

4.13 In the Rural Centres (Ibstock, Kegworth and Measham), smaller sites are more significant to overall supply, with almost 70% of dwellings being

delivered on sites of less than 25 dwellings. In these locations, 55% of all dwellings will be delivered within schemes of less than 15 units.

4.14 In the remainder of the District – mainly smaller settlements – a similar picture emerges with 53% of all units being delivered within schemes of less than 15 units.

Management of affordable housing

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

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

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

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

Use of commuted sums

4.19 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.

4.20 The development industry workshop acknowledged that there may be some locations and/or schemes which are not suitable for on site provision (e.g. in less sustainable locations and/or where service charges are high) and that

taking a commuted sum may be a better alternative than seeking on site provision.

4.21 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.

4.22 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.

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

5 CASE STUDY VIABILITY ANALYSIS

Introduction

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

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

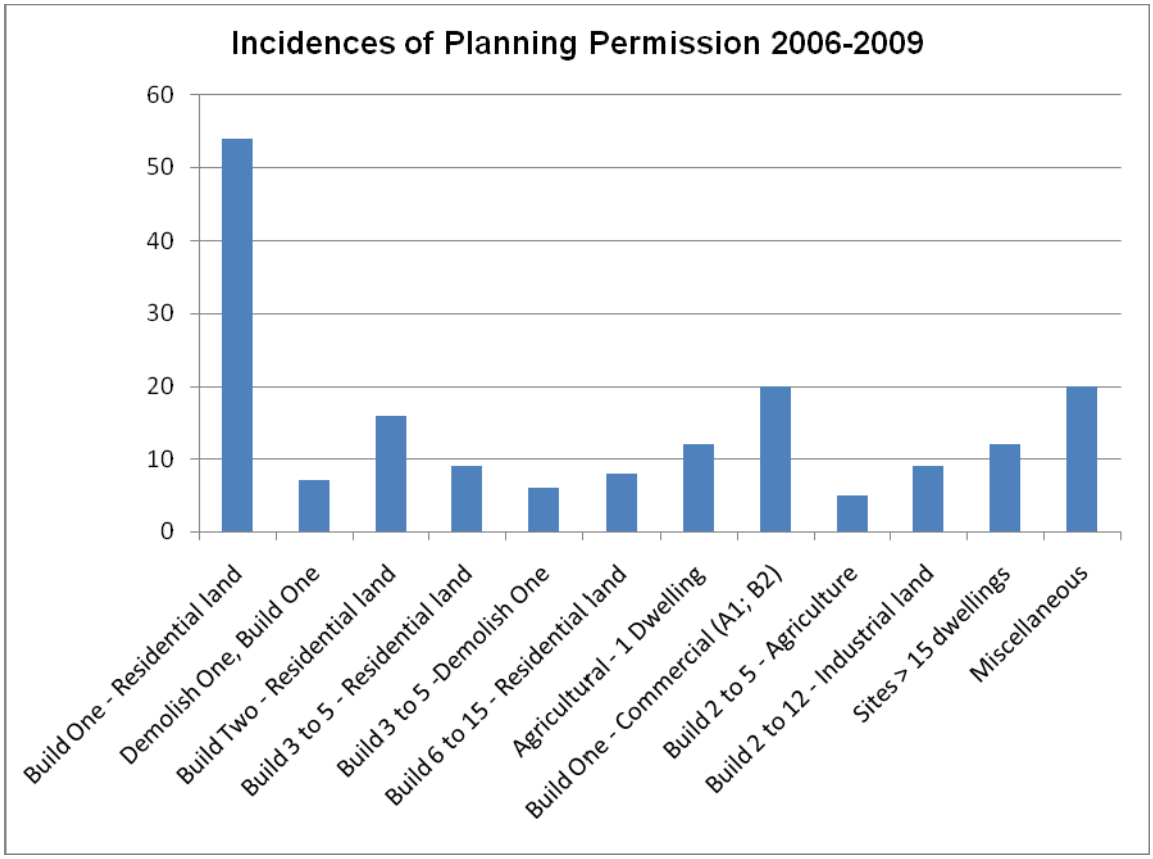
5.3 It will be noted (Table 3.7) that small sites can achieve higher land values than larger ones, suggesting that the economics of developing smaller sites could actually be more favourable than developing larger ones.

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

Case study sites

5.5 In this section we review a number of case study developments which are examples of small sites for residential development. Figure 5.1 shows the types of schemes granted planning permission during the period 2006 to 2009. Here we are measuring the number of schemes of different sizes.

Figure 5.1 Incidence of planning permissions (no of schemes) 2006 to 2009



Source: North West Leics DC

5.6 Figure 5.1 shows the range of scheme types coming forward. The development of a single dwelling is quite a significant source of supply. We understand this to be on residential or residential amenity land – gardens or back land. These sites make up 30% of all incidences of planning permission in the District.

5.7 There are a number of other types of planning permission for smaller sites involving the development of two to five dwellings. We believe these sites are almost predominantly residential or residential amenity land. They make up 14% of all incidences of planning permission.

5.8 There are a few schemes involving the demolition of a dwelling. The dwelling is replaced by one new house (4% of all incidences) or three to five homes (3% of all incidences).

5.9 A number of sites for housing involve the development of land currently in commercial use. Typically this is B2 (general industrial) or A1 use (shops). Together, these uses make up 11% of all incidences of permissions, with B2 predominating. These sites are developed for one dwelling.

5.10 There are then a number of schemes which do not fit neatly into any of these categories. These are included as miscellaneous. .

5.11 On the basis of the planning consents data, we have selected three case studies for further investigation. These are shown in Table 5.1. The case studies cover all significant types of sites identified in Figure 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	0.075	13
B	**3**	2 x 4 bed detached house; 1 x 5 bed detached house	0.1	30
C	**8**	4 x 3 bed terraces 2 x 3 bed detached 2 x 4 bed detached	0.15	53

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

Case study A – Develop one detached house on a 0.075 ha site

5.13 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:

5.14 As previously (Chapter 3) we exclude here for simplicity, Measham and Rural Hinterland (proxy analysis Thringstone and Whitwick) and NWL Rural South (proxied by Castle Donington).

5.15 For tables 5.2 to 5.4, figures in the higher rows for each sub market relate to actual residual values, and those below relate to residual values on a per hectare (£ million) basis.

Table 5.2 Develop one five bed detached house

Case A	AH0%	AH10%	AH20%	AH30%	AH40%
Ashby-de-la-Zouch	£137,000	£119,000	£99,000	£80,000	£61,000
	£1.83	£1.59	£1.32	£1.07	£0.81
Castle Donington & Kegworth	£96,000	£81,000	£65,000	£49,000	£34,000
	£1.28	£1.08	£0.87	£0.65	£0.45
Thringstone & Whitwick	£84,000	£70,000	£54,000	£41,000	£25,000
	£1.12	£0.93	£0.72	£0.55	£0.33

Coalville & Ibstock	**£63,000**	**£50,000**	**£37,000**	**£24,000**	**£12,000**
	£0.84	**£0.67**	**£0.49**	**£0.32**	**£0.16**

AH = affordable housing percentage

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

5.16 Table 5.2 shows residual values at the different proportions of affordable housing. All results are positive, with substantial residual values being achieved in Ashby, up to 40% affordable housing. At 20% affordable housing, a land owner of a plot in Coalville would be expected to receive around £40,000.

5.17 Where one dwelling of this type is built on, for instance, infill or backland sites, we would expect there to be a sizeable uplift in site value, particularly in the higher value areas. For sites taken from garden land, this will also be the case although a devaluation to the existing dwelling may also occur.

5.18 A small number of sites involve the demolition of an existing dwelling. Assuming a price of around £250,000 as a district wide average it can be seen that this type of development would be unlikely to attract an affordable housing contribution on viability grounds.

5.19 Where one dwelling of this type is developed on industrial land (see Figure 5.1), we think that a return of around £400,000 per hectare will be sought. This would mean that sites in the higher two value markets will be viable at 40% affordable housing, with the lower two sub markets being viable at 20% to 30% affordable housing. In all instances however, it will be necessary for the land owner to achieve a return which is satisfactory in absolute (£ note) terms.

Case study B – Develop three detached houses (two 4 bed and one five) on a 0.1 ha site.

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

Table 5.3 Develop three detached houses on a 0.1 hectare site

Case A	**AH0%**	**AH10%**	**AH20%**	**AH30%**	**AH40%**
Ashby-de-la-Zouch	**£368,000**	**£317,000**	**£267,000**	**£216,000**	**£166,000**
	£3.68	**£3.17**	**£2.67**	**£2.16**	**£1.66**
Castle Donington &	**£253,000**	**£211,000**	**£170,000**	**£129,000**	**£88,000**

Kegworth					
	£2.53	**£2.11**	**£1.70**	**£1.29**	**£0.88**
Thringstone & Whitwick	**£224,000**	**£186,000**	**£146,000**	**£108,000**	**£68,000**
	£2.24	**£1.86**	**£1.46**	**£1.08**	**£0.68**
Coalville & Ibstock	**£163,000**	**£128,000**	**£95,000**	**£60,000**	**£27,000**
	£1.63	**£1.28**	**£0.95**	**£0.60**	**£0.27**

AH = affordable housing percentage

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

5.21 Similar arguments apply to Case Studies 1 and 2. For infill, backland and garden plots, there will considerable uplift in land value. In the table above, the residuals for Ashby at 40% affordable housing are almost £1.75 million per hectare. In the middle markets of Castle Donington and Thringstone and Whitwick, residual values of over £1 million per hectare are achieved at 30% affordable housing.

5.22 The table shows that schemes involving demolition and replacement with three dwellings should provide a modest affordable housing contribution on viability grounds, at least in the higher value sub markets. In Ashby for example a 20% affordable housing contribution should generate a residual value £267,000.

5.23 For this type of site, where industrial land value is the current use, then residential development (including affordable housing) will need to generate in our view, over £400,000 per hectare to be viable for both developer and land owner. This makes all scenarios above viable with the exception of Coalville at 40% affordable housing.

5.24 As can be noted from Figure 5.1, there are a range of what might be termed 'larger, small schemes'. These include schemes on residential land (6 to 15 dwellings) and schemes on industrial land (2 to 11 dwellings). We take here a scheme of eight dwellings as a mid point or average example of such schemes. We assume here a mix of terraced and detached houses.

Table 5.4 Develop eight dwellings

Case A	AH0%	AH10%	AH20%	AH30%	AH40%
Ashby-de-la-Zouch	£643,000	£547,000	£451,000	£354,000	£258,000
	£4.29	£3.65	£3.00	£2.36	£1.72
Castle Donington & Kegworth	£430,000	£350,000	£272,000	£192,000	£113,000
	£2.87	£2.33	£1.81	£1.28	£0.75
Thringstone & Whitwick	£381,000	£305,000	£231,000	£155,000	£80,000
	£2.54	£2.03	£1.54	£1.03	£0.53
Coalville & Ibstock	£266,000	£199,000	£134,000	£67,000	£3,000
	£1.77	£1.33	£0.89	£0.44	£0.02

AH = affordable housing percentage

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

5.25 Table 5.4 shows the range of residual values across the sub markets. The residuals are relatively strong. In Ashby for example a residual of almost £1.75 million per hectare is achieved at 40% affordable housing. Residuals in Coalville, at the weaker end of the market, approach £1 million per hectare at 20% affordable housing.

5.26 As previously, viability will depend on existing use value. The data suggests that a significant proportion of these types of site will be residential amenity land and hence provide a good uplift from existing value in many cases. Where the site is in industrial use, the same benchmarks will apply (as in Table 3.7), suggesting viable outcomes in all but the lowest value areas.

Commentary on the results

5.27 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.

5.28 The analysis for the small sites reflect in large measure, the previous analysis which considered the notional 1 hectare site, although the results for the schemes of three and eight dwellings suggest higher residuals on a per hectare basis than with the high level testing. This is a function of site size assumed and development mix, where on small sites larger housing may make up the entire scheme or a good proportion of it.

5.29 Thus the conclusions set out in this chapter, whilst demonstrating good viability, need to be considered in the light of density and mix.

5.30 The analysis shows however can generate substantial residual values. However, viability does depend on existing use and we think that, even in the strongest sub markets it will be difficult to deliver affordable housing where the scheme involves the demolition of an existing dwelling. This is however not a significant source of site supply.

5.31 A substantial number of site emanate from industrial land. We think the Council can take a robust approach to affordable housing on these sites.

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

6 MAIN FINDINGS AND CONCLUSIONS

Key findings

6.1 We identified six sub market areas in the North West Leicestershire District:

- Ashby-de-la-Zouch;
- North West Rural South;
- Castle Donington, Kegworth and Rural Hinterland;
- Thringstone and Whitwick;
- Measham and Rural Hinterland and
- Coalville and Ibstock.

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

6.3 The District, in terms of residual value can be divided into four with Ashby having significantly higher residual values than all other locations; then North West Rural and Castle Donington being considered as similar sub markets; then Thringstone and Whitwick and Measham having similar residual values; finally Coalville with the weakest residual values.

6.4 At 40 dwellings per hectare and a 30% affordable housing contribution, residual values range from £1.34 to £0.13 million per hectare (without grant). The range of residual values across the sub markets is significant. A 40% affordable housing contribution in Ashby should generate a higher residual value than a 0% affordable housing contribution in Coalville.

6.5 In the middle value sub markets of Castle Donington and Thringstone, residual values are between £0.65 and £0.5 million per hectare at 30% affordable housing. In Coalville, at 25% affordable housing, the residual is £260,000 per hectare at 40 dph. These are by no means benchmark figures for setting viability, but they demonstrate positive residual values, very substantially above green field agricultural land for example.

6.6 The introduction of grant significantly improves residual values across the Borough. It matters most in the lower value areas. In higher value areas, grant is less effective in raising land values as a proportion of residual values without grant.

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

6.8 Viability is highly sensitive to the relationship between existing (or, where relevant, alternative) use value. Our analysis suggests that sites will be brought forward on variety of different types of sites. The analysis suggests

that many of the smaller sites will be brought forward on existing use values which are low – in particular residential and residential amenity land.

6.9 However, some sites will be delivered within commercial areas and on land which is in current industrial use. Existing use values here are likely to be higher.

6.10 Viability is sensitive to other infrastructure costs. Whilst the impact of higher level infrastructure requirements could we feel, be assimilated in the higher value locations, its impact could significantly hit viability in the weaker areas However, the precise impacts of infrastructure loading and the delivery of affordable housing will need to be seen in the context of a changing housing market over time. An improved housing market – towards longer terms trends - should be capable of assimilating much of the additional impact as the gap between real house prices and build costs grows.

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

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

6.13 The analysis of recent planning permissions suggests that the District as a whole does not rely significantly on larger sites. However it does not rely overly on small sites. Across the District as a whole, almost 40% of supply comes from sites with capacity for more than 50 dwellings; however, balancing this, 39% of dwellings will be delivered on sites of 15 dwellings or less. Nevertheless the Rural Centres and smaller settlements do have a greater reliance of smaller sites with 55% of dwellings in the Rural Centres being delivered on sites of less than 15 dwellings, and 53% being the corresponding figure for elsewhere in the District (mainly smaller settlements).

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

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

Conclusions and policy options

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

6.17 From this review, we have highlighted in particular the considerable variation in residual values achieved across the District and the implications for target setting. The range of residual values has important consequences for the way we have framed the options for the targets for affordable housing which we set out below:

- A single percentage target across the whole District. If a middle market location was taken an indicator, this would mean a target of 30% considering a range of different site types coming forward in the District. However 30% would be ambitious we feel in the case of Coalville where residual values are very marginal and even negative in some instances. To implement a single target of 30% there would need to be some certainty that grant could support site values in the weaker locations.
- A split (three way) target which seeks 35% affordable housing in Ashby, 30% affordable in North West Rural South, Castle Donington, Thringstone and Measham sub markets and; 20% in Coalville.
- A more refined (four way) split target aiming to deliver 35% affordable housing in Ashby; 30% affordable housing in NWL Rural South and Castle Donington; 25% in Thringstone and Measham and; 20% in Coalville.

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

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

Viability on individual sites

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

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

Thresholds

6.22 The Local Development Framework Core Strategy Further Consultation - November 2008 states that there are two possible options for seeking affordable housing:

Option 1 (favoured approach) - Secure the provision of new affordable housing as part of new developments with a target of 30% in the Coalville Urban Area and 40% elsewhere, on developments of 15 or more units. This reflects the Affordable Housing SPD adopted October 2007.

Option 2 - Secure the provision of new affordable housing as part of new developments with target of 40% on all sites of more than 0.2Ha and/or capable of accommodating 6 or more dwellings in the Coalville Urban Area and the Rural Towns and on sites of 0.1Ha and/or capable of accommodating 3 dwellings elsewhere. This option was rejected when we were preparing the Affordable Housing SPD because it was recognised that the suggested thresholds would be likely to impact upon the economic viability of development sites which would then hinder the overall delivery of new housing.

6.23 Our evidence indicates that there is not a particular viability challenge in reducing the threshold below 25 dwellings, and indeed below 15 and down to 0 dwelling if required. The analysis shows very small sites to be viable, with viability depending largely on location, not site size.

6.24 Looking at the profile of site supply however, it may not be the most sensible policy in reducing the threshold down below 15 units, at least in the larger settlements. The analysis shows that a significant proportion of supply (65%) in Coalville, Ashby and Castle Donington will be brought forward on sites accommodating more than 50 dwellings. Add to this, significant expansion at Coalville through urban extensions, and the case for a threshold lower than the national indicative one, becomes less strong.

6.25 However, a lower threshold can be justified on the basis of the profile of site supply in the Rural Centres of Ibstock, Kegworth and Measham and the remainder of the District. In these locations a significantly higher proportion of dwellings will be delivered on smaller sites (less than 15 dwellings).

6.26 On this basis, we would recommend that the Council look at a split threshold, with national guidance operating at 15 dwellings for the larger settlements (Coalville, Ashby and Castle Donington) and a threshold of say 5 dwellings elsewhere

6.27 The threshold of five dwellings would be a practical option given that the Council may not wish to negotiate every site for affordable housing. However, we stress that on the viability grounds, with the single exception of sites involving demolition of a residential property, we see no strong case against a threshold of zero if that is an option the Council wish to pursue.

6.28 Finally, we add a point of caution. Our recommendations on thresholds relate to recent planning permissions. The balance of supply (between small and large sites) may change over time either increasing or decreasing the need for a lower threshold.

Commuted sums

6.29 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

6.30 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

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

6.32 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.

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

Appendix 1

DEVELOPMENT ECONOMICS WORKSHOPS
Friday 8th May 2009

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

Attendees:

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

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

Introduction

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

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

Key issues and constraints in delivering affordable housing

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

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

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

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

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

Three Dragons approach to viability analysis

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

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

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

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

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

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

Market values and sub markets

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

Thresholds and small sites

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

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

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

Other assumptions to be used by Three Dragons

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

Initial views expressed at the workshop were that:

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

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

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

Service charges are a significant cost

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

Development mixes

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

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

Quality standards

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

Appendix 2 Three Dragons model: Method statement

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

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

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

Key data assumptions

Market areas and prices:

NORTH WEST LEICS											
Sub Market		Detached			Semi-Det		Terraced			Flat/Mais	
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed
Ashby-de-la-Zouch	£360,000	£315,000	£265,000	£215,000	£190,000	£160,000	£170,000	£150,000	£155,000	£140,000	£105,000
NWL Rural South	£315,000	£275,000	£235,000	£190,000	£165,000	£140,000	£150,000	£130,000	£135,000	£125,000	£95,000
Castle Donnington, Kegworth & Rural Hinterland	£310,000	£270,000	£230,000	£185,000	£160,000	£135,000	£145,000	£125,000	£130,000	£120,000	£90,000
Thringstone & Whitwick	£295,000	£260,000	£220,000	£180,000	£155,000	£130,000	£140,000	£120,000	£125,000	£115,000	£85,000
Measham & Rural Hinterland	£290,000	£250,000	£215,000	£170,000	£150,000	£125,000	£135,000	£115,000	£120,000	£110,000	£80,000
Coalville and Ibstock	£270,000	£235,000	£195,000	£160,000	£140,000	£120,000	£130,000	£110,000	£115,000	£105,000	£80,000

The development mixes were as follows:

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

Affordable housing targets:

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

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

Typical unit sizes adopted (m^2):

	Market	Affordable
1 Bed Flat	45	46
2 Bed Flat	60	67
2 Bed Terrace	65	76
3 Bed Terrace	80	84
3 Bed Semi	90	86
3 Bed Detached	110	90
4 Bed Detached	135	110

Other Affordable Housing Factors:

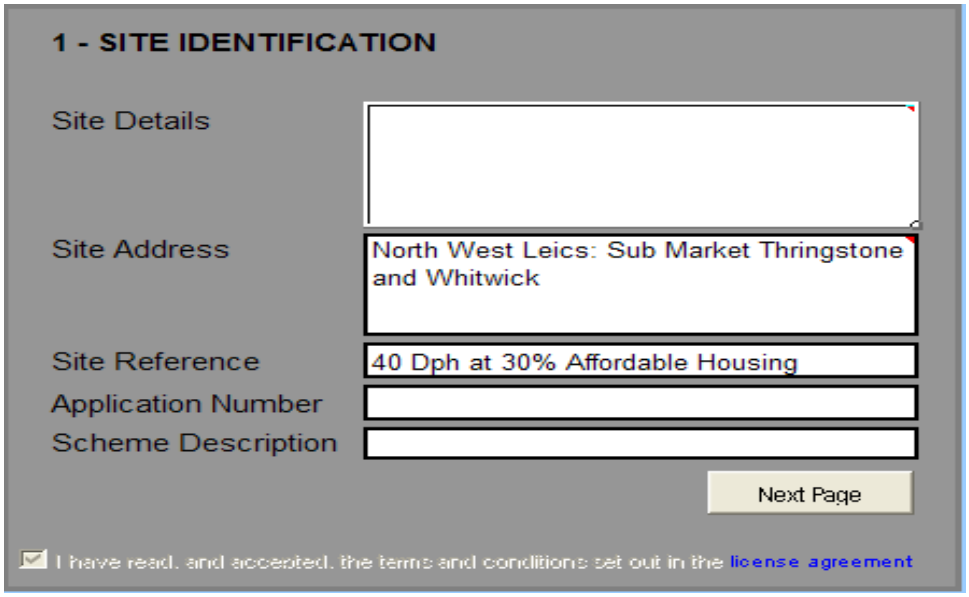
Social rents

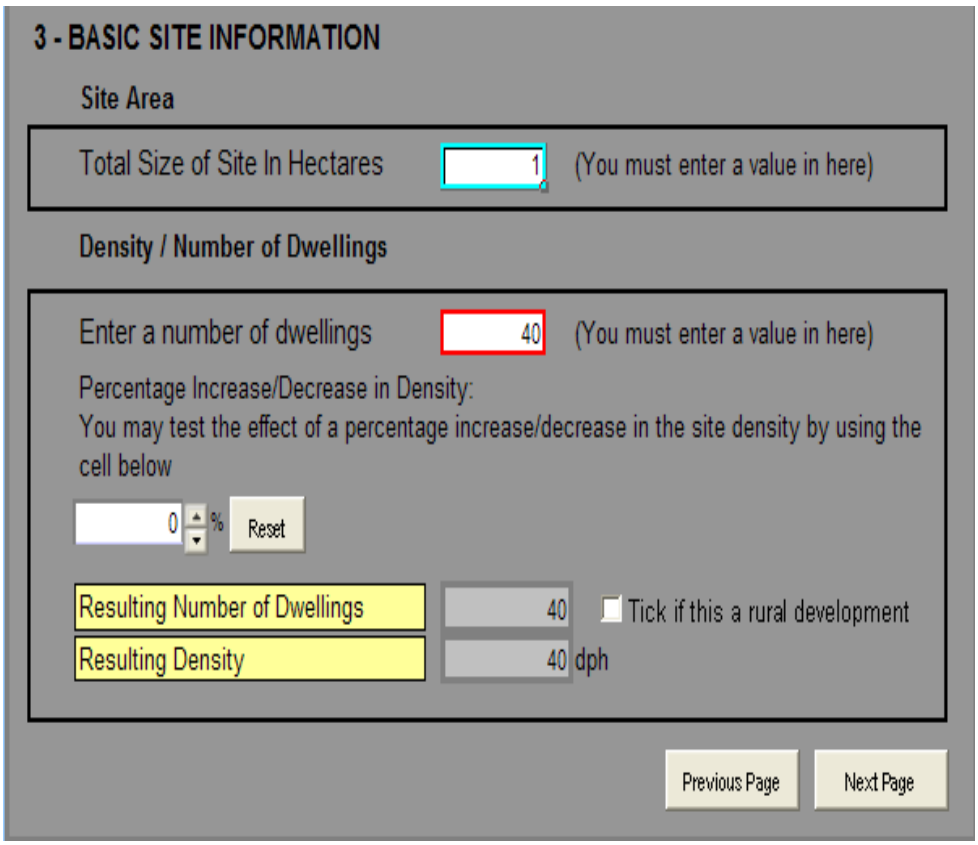
	Weekly Rent
1 Bed Flat	£66
2 Bed Flat	£72
2 Bed Terrace	£75
3 Bed Terrace	£77
3 Bed Semi	£80
3 Bed Detached	£82
4 Bed Detached	£85

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

30 dph	0%	10%	20%	25%	30%	35%	40%	50%
Ashby-de-la-Zouch	£2.24	£1.91	£1.58	£1.41	£1.25	£1.08	£0.92	£0.59
NWL Rural South	£1.59	£1.31	£1.04	£0.90	£0.76	£0.62	£0.48	£0.20
Castle Don'ton, Kegworth & RH	£1.48	£1.21	£0.94	£0.81	£0.67	£0.54	£0.40	£0.13
Thringstone & Whitwick	£1.31	£1.05	£0.79	£0.67	£0.54	£0.41	£0.28	£0.03
Measham & Rural Hinterland	£1.18	£0.93	£0.69	£0.56	£0.44	£0.32	£0.20	-£0.06
Coalville and Ibstock	£0.89	£0.67	£0.44	£0.33	£0.22	£0.11	£0.00	-£0.27
40 dph	0%	10%	20%	25%	30%	35%	40%	50%
Ashby-de-la-Zouch	£2.53	£2.14	£1.74	£1.54	£1.34	£1.14	£0.94	£0.55
NWL Rural South	£1.77	£1.43	£1.09	£0.93	£0.76	£0.59	£0.42	£0.09
Castle Don'ton, Kegworth & RH	£1.62	£1.30	£0.97	£0.81	£0.65	£0.48	£0.32	-£0.00
Thringstone & Whitwick	£1.42	£1.11	£0.80	£0.65	£0.50	£0.34	£0.19	-£0.15
Measham & Rural Hinterland	£1.25	£0.96	£0.66	£0.51	£0.37	£0.22	£0.07	-£0.27
Coalville and Ibstock	£0.93	£0.66	£0.40	£0.26	£0.13	-£0.01	-£0.17	-£0.50
50 dph	0%	10%	20%	25%	30%	35%	40%	50%
Ashby-de-la-Zouch	£2.70	£2.24	£1.79	£1.56	£1.33	£1.11	£0.88	£0.42
NWL Rural South	£1.84	£1.45	£1.07	£0.87	£0.68	£0.49	£0.30	-£0.11
Castle Don'ton, Kegworth & RH	£1.65	£1.28	£0.91	£0.73	£0.54	£0.36	£0.17	-£0.25
Thringstone & Whitwick	£1.43	£1.08	£0.73	£0.55	£0.37	£0.20	£0.02	-£0.41
Measham & Rural Hinterland	£1.24	£0.90	£0.56	£0.39	£0.23	£0.06	-£0.14	-£0.55
Coalville and Ibstock	£0.91	£0.60	£0.28	£0.13	-£0.03	-£0.22	-£0.41	-£0.79
80 dph	0%	10%	20%	25%	30%	35%	40%	50%
Ashby-de-la-Zouch	£2.59	£2.01	£1.42	£1.13	£0.84	£0.55	£0.26	-£0.40
NWL Rural South	£1.59	£1.09	£0.58	£0.33	£0.08	-£0.21	-£0.52	-£1.14
Castle Don'ton, Kegworth & RH	£1.30	£0.82	£0.33	£0.09	-£0.18	-£0.47	-£0.77	-£1.35
Thringstone & Whitwick	£1.00	£0.54	£0.09	-£0.17	-£0.45	-£0.73	-£1.01	-£1.57
Measham & Rural Hinterland	£0.70	£0.27	-£0.20	-£0.46	-£0.73	-£0.99	-£1.25	-£1.78
Coalville and Ibstock	£0.45	£0.04	-£0.45	-£0.71	-£0.96	-£1.21	-£1.46	-£1.97
120 dph	0%	10%	20%	25%	30%	35%	40%	50%
Ashby-de-la-Zouch	£2.48	£1.69	£0.90	£0.51	£0.11	-£0.34	-£0.83	-£1.79
NWL Rural South	£1.33	£0.63	-£0.08	-£0.50	-£0.93	-£1.35	-£1.78	-£2.63
Castle Don'ton, Kegworth & RH	£0.89	£0.23	-£0.53	-£0.94	-£1.34	-£1.74	-£2.15	-£2.96
Thringstone & Whitwick	£0.45	-£0.22	-£0.99	-£1.37	-£1.75	-£2.13	-£2.51	-£3.28
Measham & Rural Hinterland	£0.00	-£0.72	-£1.44	-£1.80	-£2.16	-£2.52	-£2.88	-£3.60
Coalville and Ibstock	-£0.32	-£1.02	-£1.71	-£2.06	-£2.41	-£2.75	-£3.10	-£3.80

Worked Example – 40 dph scheme at 30% Affordable Housing in Thringstone and Whitwick





4 - CHARACTERISTICS OF DEVELOPMENT

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

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

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

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5 - MARKET VALUES

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

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

Clear Table

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

View Default Values ->

You can adjust the market values by using the % increase/decrease arrows

100 %

Reset

Reset button to return to base market value

Ref.	Unit Type	No of Bed-Rooms	Market Value	Adjusted Market Value
1				
2	2 Bed FLATS	2	£115,000	£115,000
3	2 Bed Terraces	2	£120,000	£120,000
4	3 Bed Terraces	3	£140,000	£140,000
5	3 Bed Semis	3	£155,000	£155,000
6	3 Bed Detached	3	£220,000	£220,000
7	4 Bed Detached	4	£260,000	£260,000
8				
9				
10				
11				
12				
13				
14				

6 - TENURE MIX

If you are using a default mix then you can distribute units across the tenures by percentage; enter the percentage of units to assign to each tenure in the top row. The percentages are applied equally across all unit types

If you are not using a default mix then you may either enter units by percentage or by the exact number of units of each type for each tenure; in the table enter the exact number of units of each type for each tenure in the table

Whichever method is selected, ensure that relevant information is entered in the boxes at the bottom of the table.

Input by Percentages Input by Quantity Clear Table

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

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

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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)			
Ref.	Description	No. of units	Default Rents	User Rents	No. of units	Market Rent	Adjust 75%	User Rents
1			£ -			£ -	£ -	
2	2 Bed FLATS	0.45	£ -	£ 72.00		£ -	£ -	
3	2 Bed Terraces	1.35	£ -	£ 75.00		£ -	£ -	
4	3 Bed Terraces	1.80	£ -	£ 77.00		£ -	£ -	
5	3 Bed Semis	2.25	£ -	£ 80.00		£ -	£ -	
6	3 Bed Detached	1.80	£ -	£ 82.00		£ -	£ -	
7	4 Bed Detached	1.35	£ -	£ 85.00		£ -	£ -	
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

Clear Table

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

Other Development Costs

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

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

Exceptional Development Costs

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

Sustainable Homes Standard	
Market Housing	Affordable Housing
None	None

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

Scheme Total	
per dwelling	
per hectare	

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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	£4,000
Contribution from Commercial	

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

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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	7.5	2.5		10
i) Default oncosts rate (%)	6%	6%	6%	
ii) User oncosts (%)				
iii) User oncosts By Unit (£)				
Oncosts per Unit	£ 5,286	£ 5,286	£ -	
Total oncosts for Affordable Housing	£ 39,647	£ 13,216	£ -	

Total Oncosts for Affordable Housing	£ 52,862

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20 - Scheme Results

Site Reference Details	
Site Reference Number	40 Dph at 30% Affordable Hou
Application Number	
Site Location	Harlow
Scheme Description	

Site Details	
Site Address	North West Leics: Sub Market Thringstone and Whitwick
Site Details	

TOTAL NUMBER OF UNITS	
Dwellings	40
% Wheelchair Units	

DENSITY (per hectare)	
Dwellings	40.0

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

REVENUE AND COSTS	
Total scheme revenue	£ 5,465,000
Total scheme costs	£ 4,914,000

RESIDUAL VALUE	
Whole scheme	£ 551,000
Per hectare	£ 551,000
Per dwelling	£ 14,000
Per market dwelling	£ 20,000

Contribution to revenue from:	
Market housing	£ 4,858,000
Affordable Housing	£ 607,000
- Social rent	£ 287,000
- New Build HomeBuy	£ 320,000
- 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

View DCF Page

Contribution to costs from:	
Market housing	£ 3,642,000
Affordable Housing	£ 1,112,000
- Social rent	£ 834,000
- New Build HomeBuy	£ 278,000
- Intermediate Rent	£ -
- Discount Market	£ -
- Local Sale	£ -
Land Finance	£ -
Planning Obligations	£ 160,000
Total Exceptional Costs	£ -
Commercial Elements	£ -

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

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