

RESULTS

3.1 Background

- 3.1.1 The residual land value modelling carried out for this study looks at a range of scenarios incorporating and investigating the impact on development viability of site size (affordable housing thresholds), affordable housing proportion, tenure mix, market property values, Housing Corporation grant, planning infrastructure costs and developer's profit.
- 3.1.2 The modelling necessarily creates a very extensive range of results leading to a large number of tables and graphs representing the data. These are all appended to the rear of this report and are set out in different ways depending on the particular impact we are seeking to investigate and visualise. The following results Section draws on a few examples from the results to explain the characteristics and impact of various affordable housing policies (tenure, proportion, thresholds) on development viability to help guide the reader in interpreting the results and to illustrate key points and conclusions.
- 3.1.3 Appendix II shows a summary of residual land value results for each Value Point (Tables 1 to 7), allowing us to see (across the various tables and graphs) the impact on residual land values of increases in property values, increases in affordable housing proportions and changes to tenure mix on the basis of nil grant and 15% developer's profit. The data is shown in tabular form and shows the indicative residual land value produced by each appraisal, those residual land values shown as a percentage of Gross Development Value (GDV), and the reduction in residual land values as the proportion of affordable housing is increased/tenure mix changed.
- 3.1.4 Appendix III provides an overall summary (all Value Points and all scheme types) in Tables 8 and 8a. The data is also graphically represented on a site by site basis (graphs 1 to 17).
- 3.1.5 Appendix IV shows and compares the impact of increased developer's profit (Tables 9 and 9a) and the impact of grant (Tables 10 and 10a). Appendix IV looks only at a sample of site sizes (15 and 50 unit schemes) so that we can see the impact of these factors on results trends, and bearing in mind the need to control the number of appraisals within the project scope and to add results which are useful to it.
- 3.1.6 Appendix V summarise the residual land value results across all scenarios and site sizes showing the corresponding monetary value in pounds per hectare (£ per Ha) based on assumed site areas (land take) for each scenario – for details, see Section 2 - Methodology. These graphs also show Valuation

Office Agency reported land values⁶ for various alternative uses in the West Midlands (agricultural, industrial and residential). The purpose of adding that data is purely for indicative comparison with the values levels produced by our various appraisals. In practice, as the study acknowledges elsewhere, the values likely to be attributed to various existing or potential uses of a particular site will be highly site-specific.

- 3.1.7 VOA data is not available for each Local Authority area specifically so figures are provided for the West Midlands.
- 3.1.8 Our results are compared against VOA sourced maximum agricultural land values, the range of average industrial land values (the range being shown by the vertical bars extending above and beneath the black line on the relevant graphs – for example at Figure 5 below, and Appendix V, and average Residential Land Values. Again, it should be noted that both the assumed development scenario (land take) areas and the VOA data are highly indicative. They are used within this study only to help highlight how land value varies as assumptions change; and to show the general type of information that the indicative RLV results might be compared with when it comes to considering how likely a scheme is to proceed given other valuation factors. The inclusion of this information here seeks to help with illustrating how the value (RLV) created by residential development proposals may look and may vary relative to other example uses. The indications also build on the emphasis that considering alternative or existing use values will often be important in delivery discussions.
- 3.1.9 At this strategic level overview for policy development, we are able only to make broad comparisons. Unfortunately it is impossible to provide the Councils with definitive “cut-off” points where a scheme definitely would proceed, or conversely where viability would be compromised to the degree that development would not take place. Site specifics will influence viability on individual sites.
- 3.1.10 There will need to be a second stage to this overall viability process whereby site-specific discussions prevail in situations where it is necessary to have those – for example, in the event of landowners or developers needing to demonstrate that affordable housing targets, or perhaps other planning obligations, cannot be met. The same might apply where a developer or landowner wished to explore enhanced or alternative provision of affordable housing with the Councils, possibly reliant to a varied extent on grant or other subsidy. There are a range of viability models (usually computer based spreadsheet calculation, tools reliant on a similar residual land valuation process to ours) which could be used to assist in considering viability further in such cases.

⁶ VOA Property Market Report January 2008

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

3.1.12 In some senses these value comparisons are relative – the values being compared will move relative to each other over time. In the current market conditions, however, commercial property values are suffering alongside residential. So in the event of residential values falling in this market, this does not necessarily increase the relative attractiveness to an owner of continuing with or considering an alternative use instead of pursuing a residential scheme. Some headlines from the RICS Economics Second Quarter 2008 Commercial Market Survey included:

- Market downturn intensifies as economy slows.
- Occupier and investment market both deteriorate further.
- Declines are broad based although retail sector weakest.
- The South and South East generally the best performing regions - the north generally the worst, followed by London.

It is beyond the scope of this report to focus in detail on commercial or other values and markets.

3.2 Results Trends

3.2.1 This study has looked at a range of affordable housing proportions and thresholds on development viability within Malvern Hills, Wychavon and Worcester City.

3.2.2 The study also looks at the possibility of increasing the proportion of affordable housing sought on sites below currently adopted thresholds, and at potentially removing the affordable housing threshold altogether (i.e. requiring a contribution towards affordable housing on all residential development sites).

3.2.3 The potential introduction of a “sliding scale” of policy requirements between a lower threshold of 1 unit and the current threshold policies has also been

considered purely in viability terms. This could potentially lead to a policy position where the affordable housing proportion increased with site size at set “steps”.

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

- Market property values decrease.
- The proportion of affordable housing increases.
- The proportion of affordable rented tenure increases within that.
- Availability of grant is reduced/removed.
- Developer’s profit is increased.
- Planning obligations requirements are increased and.
- Other costs are added to the scheme (in practice these could include, for example, abnormals, contaminated land etc).

3.2.5 A reduction in Residual Land Value would also be seen if any of the costs within the appraisals were increased or the revenue to the developer were reduced. These are all normal trends encountered in any such study and demonstrate the dynamic nature of the development process and of any appraisals which endeavour to understand or demonstrate that.

3.2.6 The above will all have an impact on development viability as the sums of money remaining to purchase land after all costs are met (i.e. residual value) reduce as costs (including affordable housing in the context of this study) increase.

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

3.2.8 At Value Point 1 there is no land value generated on any of the schemes appraised. As mentioned in Section 2, Value Point 1 falls below the range of values actually encountered, but was included to test viability at much lower value levels.

3.2.9 At Value Point 2, the lowest values seen across the three Local Authority areas in the current market, again negligible values are generated except on schemes that provide no affordable housing and at 20% affordable housing with the lowest planning infrastructure costs. This means that schemes are

unlikely to be viable if values fall to that level even before affordable housing requirements are introduced.

3.2.10 By Value Point 3, positive Residual Land Values are generated although as the proportion of affordable housing increases and the planning infrastructure burden increases there are still instances of very low or nil land value.

3.2.11 As an example, if we look at a 50 unit mixed scheme (Appendix IV - Table 10) the lowest residual land values are seen where there is a 50% affordable housing proportion based on a 80% affordable rented/20% shared ownership tenure mix with zero grant at the highest infrastructure payment per unit (£20,000). Here the residual land value falls to nil.

3.2.12 This is contrasted with looking at the opposite end of the scale, where the best viability outcome is seen (highest approximate RLV). On the same scheme but this time at Value Point 6 (ignoring Value Point 7 for the time being as this falls outside the range of Values seen currently as discussed previously), with 30% affordable housing requirement based on a 60% affordable rent / 40% shared ownership tenure split and with grant funding, the appraisal produces an approximate RLV of £2,999,600 (Appendix IV - Table 10).

3.2.13 This shows the two extremes in terms of the range of potential outcomes for this single example scenario when influenced by such varied assumptions. The impact of increasing the proportion of affordable housing from 30% to 50% at any given location with the value levels described is to reduce the RLV by approximately £3 million. This is the difference between:

- 30% affordable housing with grant at Value Point 6, a tenure mix of 60% affordable rent to 40% shared ownership and a planning infrastructure (and/or CIL) of £5,000 per unit and;
- 50% affordable housing without grant at Value Point 2, a tenure mix of 80% affordable rent and 20% shared ownership and a planning infrastructure cost (and/or CIL) of £20,000 per unit.

3.2.14 If we were to fix the Value Point at Value Point 6, the impact of moving from 30% to 50% affordable housing provision, without grant and at a tenure split of 80% social rent to 20% shared ownership and assuming £20,000 infrastructure costs is to reduce the RLV from £2,600,639 to £1,296,059 (Appendix IV – Table 10). This shows a reduction in RLV of approximately 50%.

3.2.15 It should also be noted here that the scenarios tested all assume minimal abnormal costs and, as mentioned above, any increase in costs will have a further detrimental effect on the RLVs produced by the housing development scenario envisaged (and hence a further impact on development viability).

3.2.16 Although the individual figures change, the pattern and relative difference in residual land values described above occurs across all sites modelled with the relative difference only increasing when comparing the worst case scenario described above with one where there is no affordable housing requirement currently (smaller sites below 15 or 12 units in urban areas/larger settlements). Site size in itself is not a determinant of development viability.

3.2.17 We will now go on to describe the impact of these variables in more detail whilst drawing out examples from the results before setting out our conclusions in relation to the likely viability of various affordable housing policy options (thresholds, proportions and tenure mix).

3.3 Property Values

3.3.1 There is a relatively wide range of values seen across South Worcestershire with typical values in Worcester, Pershore and Droitwich being at the lower end of the range. Conversely rural areas and smaller rural settlements in Wychavon and Malvern Districts show values at the top end of the range seen. Within those extremes, value levels are relatively consistent with small differences between Malvern and Evesham, for example (Malvern seen as higher overall value than Evesham). These are broad statements, and local variations will always be seen.

3.3.2 Across South Worcestershire these trends are affected by prices in particular areas within settlements or volumes of particular housing types for sale at any one time (i.e. the local stock make up). Values are generally driven also by location/desirability within settlements rather than just between settlements. The property values report (Appendix VII) goes into more detail.

3.3.3 The general range of new build values seen and assumed for carrying out appraisals was as follows:

- Value Point 1: £1,750/m²
- Value Point 2: £2,000/m²
- Value Point 3: £2,500/m²
- Value Point 4: £3,000/m²
- Value Point 5: £3,500/m²
- Value Point 6: £4,000/m²
- Value Point 7: £4,500/m²

3.3.4 Value points 2 and 6 represent the extremes of the range of typical values seen across the three Local Authority areas in this study. Value Points 1 and 7 represent values outside of this range to indicate what happens to viability at increased or reduced sales values as part of the sensitivity analysis for this study.

- 3.3.5 While there is a range of values across the area when viewed as a whole, this is not so much between Local Authority areas as within those areas and within individual settlements (especially larger settlements of Malvern, Evesham and Worcester). Overall there is a high level of consistency of new build values between the three Local Authority areas compared with the overall market which sees more variation between those. New build values vary more with specific location than dependent on Local Authority area. It appears that the differences occur through desirability within the settlements rather than between them. As normal there are street by street variations.
- 3.3.6 There still appears to be a premium value for new build properties as compared to re-sale (although data is not always on a like-for-like basis). In Malvern Hills new build values range between approximately £2,200 per sq m to approximately £3,500 per sq m (but with some values approaching £3,900 per sq m). This is equivalent to between our Value Point 2-3 and Value Point 6. This relates to Great and Little Malvern. Although there was little new build data for other Malvern Hills settlements, the data we do have suggests a similar pattern.
- 3.3.7 In Wychavon the new build data we have shows fewer flats which gives an overall impression of higher values, but actually the value levels are very similar to Malvern Hills. Only Evesham supplied a variety of new build property (based on current schemes seen) with Droitwich, Pershore and Inkberrow showing small, high value large dwelling schemes. This is in contrast with the re-sale market data which displays lower values overall compared to other areas.
- 3.3.8 In Worcester we have seen larger numbers of new build properties than in Wychavon and Malvern Hills. Again we have seen a very similar range of values overall in Worcester compared to Wychavon and Malvern Hills. Values for new build are between £2,300 per sq m and £3,500 per sq m (between our Value Points 2-3 to 5). We picked up reports of the Worcester market being affected by the relatively large numbers of new flats that have come forward over a short timescale.
- 3.3.9 Normally in researching the property market for development viability studies we see a range of new build value patterns that are typical of an area. In South Worcestershire, we see the same approximate range of new build values in each of the Local Authority areas (i.e. although there is quite a large spread of new build values seen, this spread is repeated in Wychavon, Malvern and Worcester rather than each having distinct patterns of values each at different levels).
- 3.3.10 There are likely to be areas where new build values achieve modest levels (our Value Point 2) bearing in mind sales prices will vary from asking prices but these cases are likely to be few. If market conditions continue to

deteriorate, however, we could see a typical move downwards within our overall scale of value levels (range of Value Points). The lower value occurrences could increase (Value Point 2), at least over the short term. Equally there will also be cases where values are very high (our Value Point 6 or above) but again the incidence of these are low. A majority of the values centre on Value Points 3-4 although again values can be higher in rural areas, and in favoured areas of main settlements. These higher values are normally associated with premium housing products.

3.3.11 It should be noted that given the current downturn in market conditions, the property market and its next direction is particularly difficult to assess at the moment - both in a wider sense and more locally. By looking at a range of values to drive our large number of appraisals, however, this study process is able to be used in a way which enables the review of varying viability outcomes in response to value levels as those vary.

3.3.12 A strong feature of the housing market which has developed over the past few months (and appears to be universal) is the dramatic slow-down in the rate of sales. As detailed in Appendix VII, the information reviewed suggests property values are still approximately comparable with those seen 12 months ago, but the impact of the vastly reduced level of market activity (volume of house sales) appears to be already affecting the level of development activity by increasing perceptions of uncertainty and risk. It remains to be seen how this will play out fully in terms of the financial appraisal of schemes and sites, and we have started seeing a range of reactions to it in terms of profit levels sought, and other assumptions applied.

3.3.13 We feel there is no doubt that current conditions add up to a financial viability impact when compared with how schemes are viewed and pursued in a more stable, confident market. There is a changing view of the attractiveness of larger apartment schemes in particular. Developments in general will be taking longer to sell (with build progress possibly slowed and costs outstanding for longer as a result) and varying packages of incentives are being offered. These factors were identified at 2.2 and are considered in Section 4 and Appendix VII as well.

3.4 Affordable Housing Proportion, Tenure Mix and Grant

3.4.1 The impact of increasing the affordable housing proportion, and of a higher percentage of affordable rented tenure within that overall proportion, is to reduce residual land values for all scenarios tested.

3.4.2 The lowest RLVs occur where the property values are lowest whilst the affordable housing proportion, and affordable rented tenure content of that, is highest. The following is based on nil grant, £5,000 per unit infrastructure (planning obligation) costs and 15% developer's profit (the impact of grant, profit and higher infrastructure costs are discussed later).

- 3.4.3 As an example, the results of appraisals for the 25 unit housing scheme show the decrease in RLV as values reduce and affordable housing proportions increase, and as the affordable housing tenure changes. Table 8 (Appendix III) and Graph 10 detail the range of value points, affordable housing proportions and tenure mixes modelled for this scheme type. At Value Point 3 with a requirement for 30% affordable housing assuming a tenure mix of 80% affordable rented and 20% shared ownership accommodation without grant, the approximate RLV is £445,598. At 40% affordable housing the RLV reduces by 54% to £204,884 and falls to nil land value at 50% affordable housing.
- 3.4.4 Using the assumed indicative densities set out in Section 2, this provides £825,182 per Ha (Appendix V, Table 11) at 30% affordable housing compared to £379,415 per Ha at 40% affordable housing. This indicative RLV outcome struggles to compete with even the lower end of the range of industrial land values provided by VOA for the West Midlands (Graph 27).
- 3.4.5 On a 25 unit scheme 30%, 40% and 50% affordable housing equate to currently adopted policies for Wychavon, Worcester and Malvern Hills respectively and show the difficulties in achieving the highest levels of affordable housing even before additional infrastructure costs and higher profit expectations are placed on a scheme. On sites with relatively low existing use values, for example greenfield release/urban extension sites, it is possible that 40% affordable housing could be accommodated with low to medium levels of additional infrastructure provision and a favourable tenure mix. At 50% affordable housing, positive residual land values are only generated with the lowest infrastructure provision and even then not on all site types tested.
- 3.4.6 At Value Point 4 and again based on the same tenure mix, the Residual Land Values are £1,023,283 at 30%, £721,453 at 40% and £456,339 at 50% affordable housing (£1,894,968 per Ha, £1,336,024 per Ha and £854,184 per Ha respectively). Again, at these value levels the impact of increasing the affordable housing proportions is still seen as a significant reduction in the indicative RLVs although by Value Point 4 we are seeing positive land values where there is a 50% requirement for affordable housing. Again looking at Graph 27 (Appendix V) we now see that residual values are exceeding the higher end of the industrial values range at 30% and 40% affordable housing and fall in the middle of that range at 50% affordable housing. This illustrates that on particular sites with low existing use values such as lower end industrial or agricultural, perhaps related to greenfield release or urban extensions, up to 50% affordable housing (meaning subsidised affordable housing in accordance with PPS3 rather than forms of low-cost market housing) could be considered as a target for the basis of negotiations, dependent on the overall infrastructure provision being considered in that process.

3.4.7 At Value Points 5 and 6, residual values significantly exceed the VOA industrial use values and start to exceed the VOA residential land average values (see Graph 27).

3.4.8 Figures 4 and 5 below (and taken from the results in Appendices II to V) show how RLV grows with increasing sales values (value points 2 to 6 on horizontal axis) and reduces with increasing affordable housing proportions assumed - in this case on a 25 unit housing scheme.

Figure 4: Example Results from 25 Unit Housing Scheme. 80% Affordable Rent/ 20% Shared Ownership – Value Points 2 to 6 – Residual Land Values

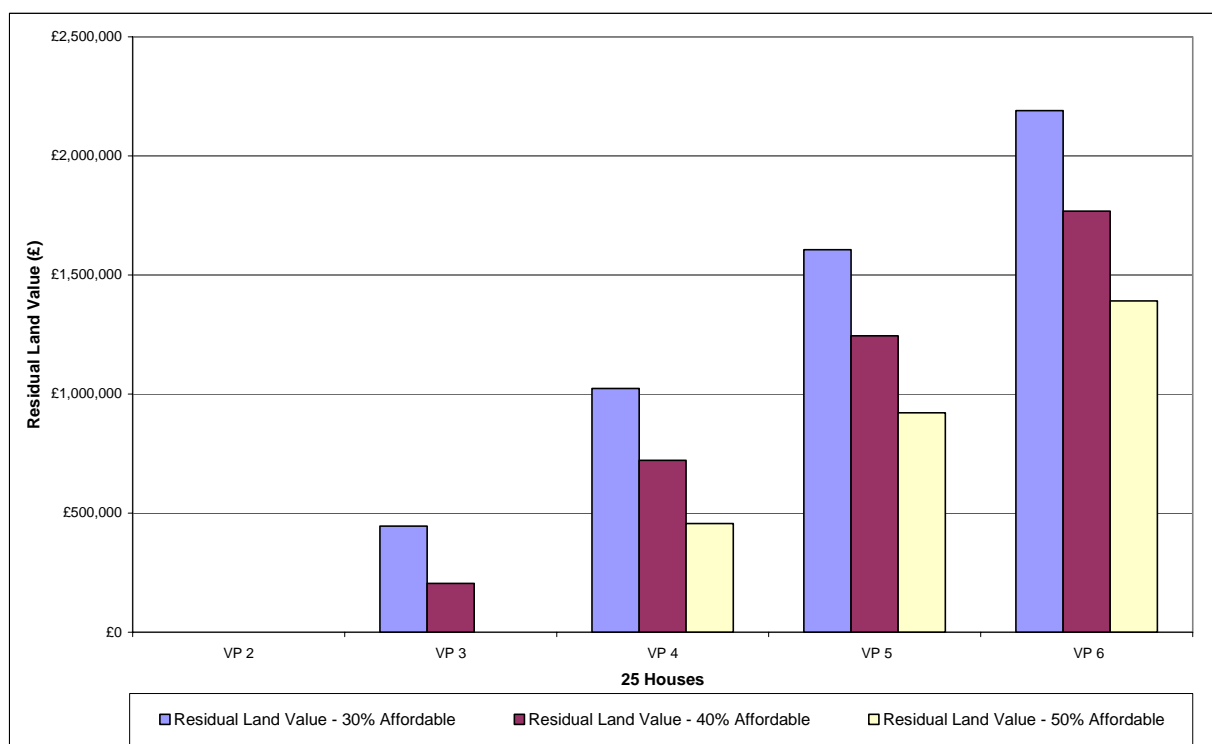
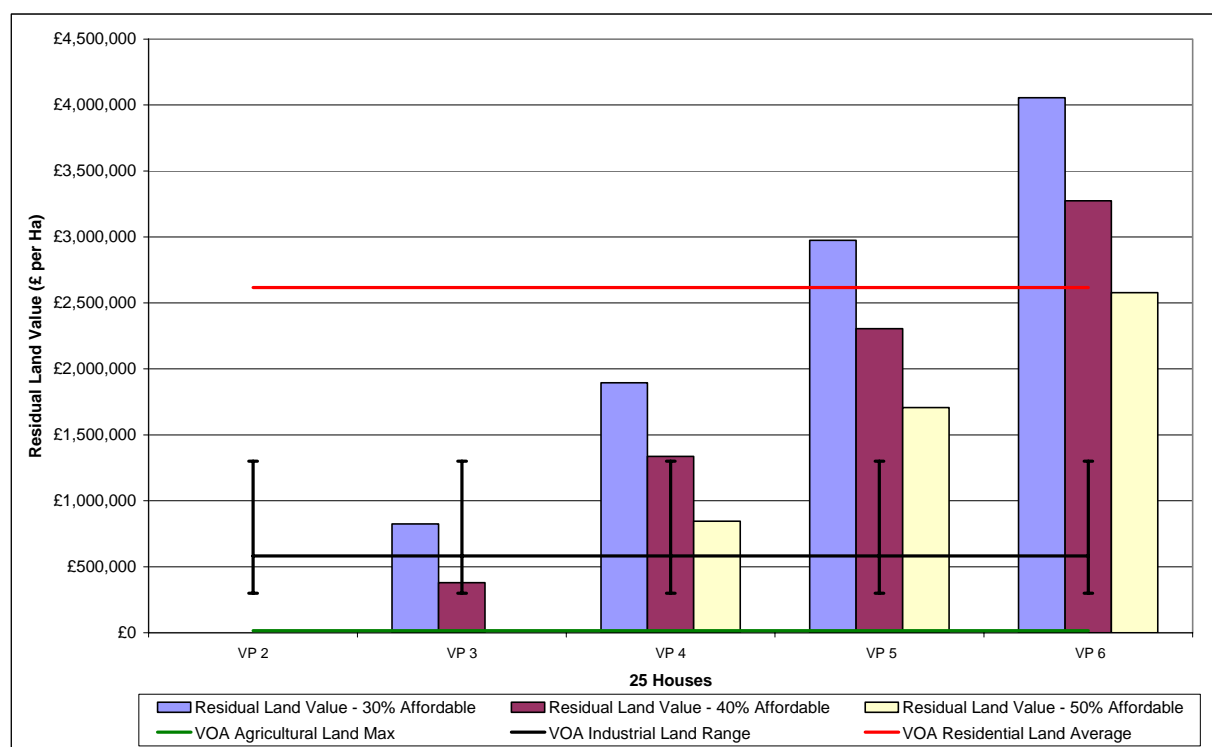


Figure 5: Example Results from 25 Unit Housing Scheme. 80% Affordable Rent/ 20% Shared Ownership – Value Points 2 to 6 – £ per Hectare with VOA Average Land Value Comparison



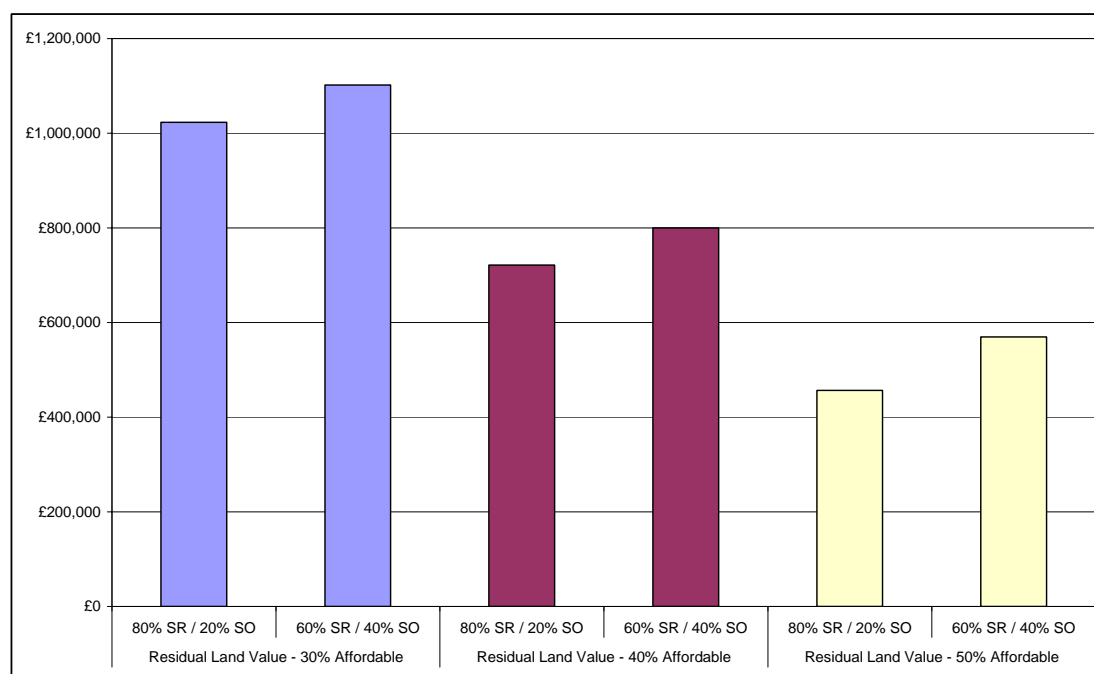
3.4.9 If the proportion of affordable housing remains static but the tenure mix changes in favour of higher proportions of shared ownership and lower proportions of affordable rent, the RLV outcomes increase and thus viability improves.

3.4.10 Affordable housing tenure impacts on viability. Indicative RLVs reduce as the proportion of affordable rented housing is increased. Figure 6 below shows this comparison using the same 25 unit housing scheme as an example and places the tenure mixes studied in order of value (lowest to highest) at Value Point 4 at each proportion for the purposes of illustrating this trend (although the same trend occurs at every Value Point and with each scheme type).

3.4.11 The significance of the lines indicating VOA values data is as was explained at 3.1.8. That information is shown to help us inform our judgments. We can see how the RLV results we produce compare with this type of data as part of considering the strength of those RLVs as we vary assumptions – in the case of Figure 5 on the proportion of affordable housing. As we mention earlier in this section, in practice existing or alternative use values will vary very significantly on a site-by-site basis. These comparisons are not definitive or relied upon solely therefore. The discussion in this section considers how the RLVs relate to those other use value indications, so that it is possible to consider how likely, for example, a former or existing industrial use is to

continue as an alternative to a residential scheme which is accompanied by increasing planning obligations or driven by reducing sales values.

Figure 6: Example Results from 25 Unit Housing Scheme – 30%, 40% & 50% Affordable Housing – Variations to Tenure Mix – Value Point 4 Only



3.4.12 Figure 6 shows that the greatest impact on viability is found with an affordable housing tenure split of 80% affordable rent to 20% shared ownership. RLV outcomes and thus likely scheme viability increase marginally where the proportion of affordable rent drops to 60% and the shared ownership tenure increase to 40%. This highlights the difference tenure can have on scheme viability given a fixed overall proportion of affordable housing. Figure 6 also illustrates the reduction in impact on scheme viability that reducing the affordable rented portion can have as the overall affordable housing proportion increases.

3.4.13 Overall, the results in Appendices II to V show a range of factors affecting viability through increased affordable housing proportions and varying tenure mix. On the basis of only a £5,000 contribution per unit for infrastructure provision and where the worst case has been tested (nil grant, 80%/20% affordable rent to shared ownership tenure mix) the residual land values will struggle to compete with VOA indicated alternative use values (industrial in this case) assuming sales values at Value Points 2 and 3 with 30% affordable housing.

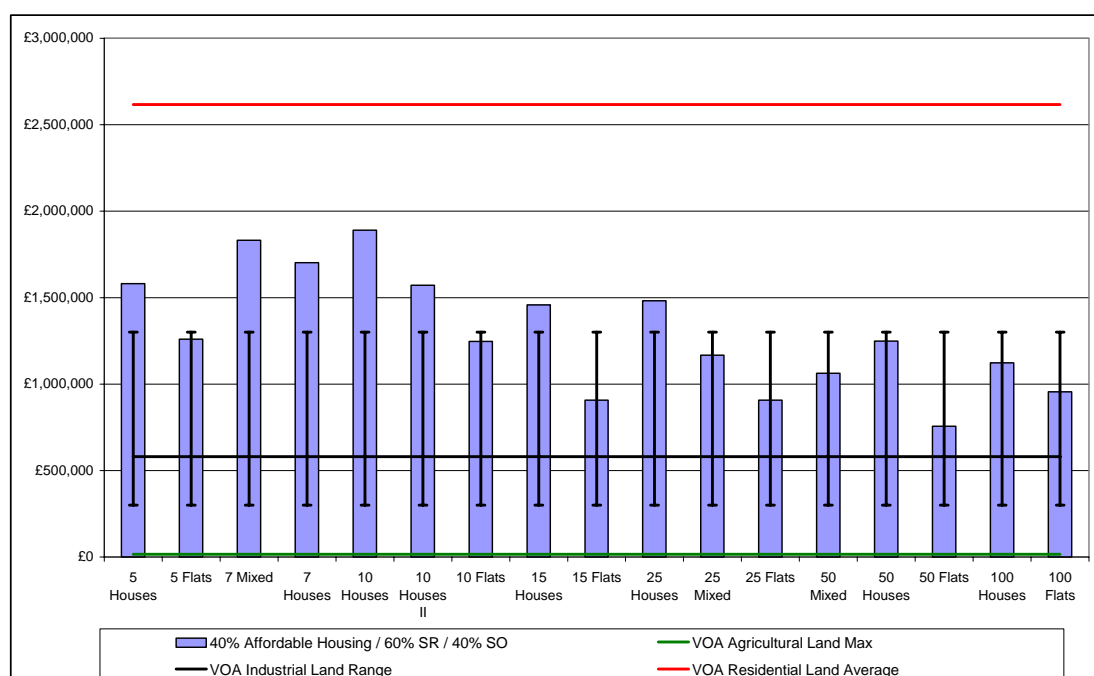
3.4.14 To highlight the importance of the strength of the private market sales values to the likely viability equation, in contrast we can look at Value Point 4 with 40% affordable housing in Figure 5 above. There the indicative RLVs improve

to the point that only the higher end VOA industrial use values (just for example) might compete with residential values even after the affordable housing and other costs are taken into account.

3.4.15 At 50% affordable housing, values need to reach our Value Point 5 to just exceed the range of alternative industrial use values indicated.

3.4.16 As tenure mix changes, these results improve as suggested above. As Figure 7 shows, with a tenure mix of 60% affordable rent/40% shared ownership across most sites at 40% affordable housing Residual Land Values just exceed VOA suggested higher end industrial use values in Value Point 4 and exceed average industrial use values in all cases. Results improve further in Value Points 5 and 6.

Figure 7: Example Results All Schemes – 40% Affordable Housing (60% / 40% Tenure Mix) – Value Point 4 Only



3.4.17 The low Residual Land Values produced where a 50% proportion (of any tenure mix) of affordable housing is required suggests that this is unlikely to be a sustainable and viable target across all of South Worcestershire on all sites. The Councils should seek to optimise affordable housing provision from particular scenarios, for example on sites with very low existing or alternative use values. As mentioned above, these could be, for example, greenfield release sites or greenfield urban extensions with no significant competing existing or alternative use values. Such scenarios would depend on the level of other costs associated with bringing forward development, such as site specific abnormalities and infrastructure requirements. The Councils could consider whether these sites could be brought forward on the basis of appropriately guided land price expectations through the use of development

briefs, DPDs or similar, which would be developed as part of early stages involvement with the relevant landowners, developers and others. This aspect of promoting and considering such sites makes them distinct in our view from windfalls in terms both of the opportunity for early engagement, and probable alternative use scenarios. This links to the relevance of the draft Preferred Options in setting the scene for the delivery of larger scale, allocated sites, and could afford opportunities for increased affordable housing delivery on particular sites, as those are appraised under the Core Strategy context in due course.

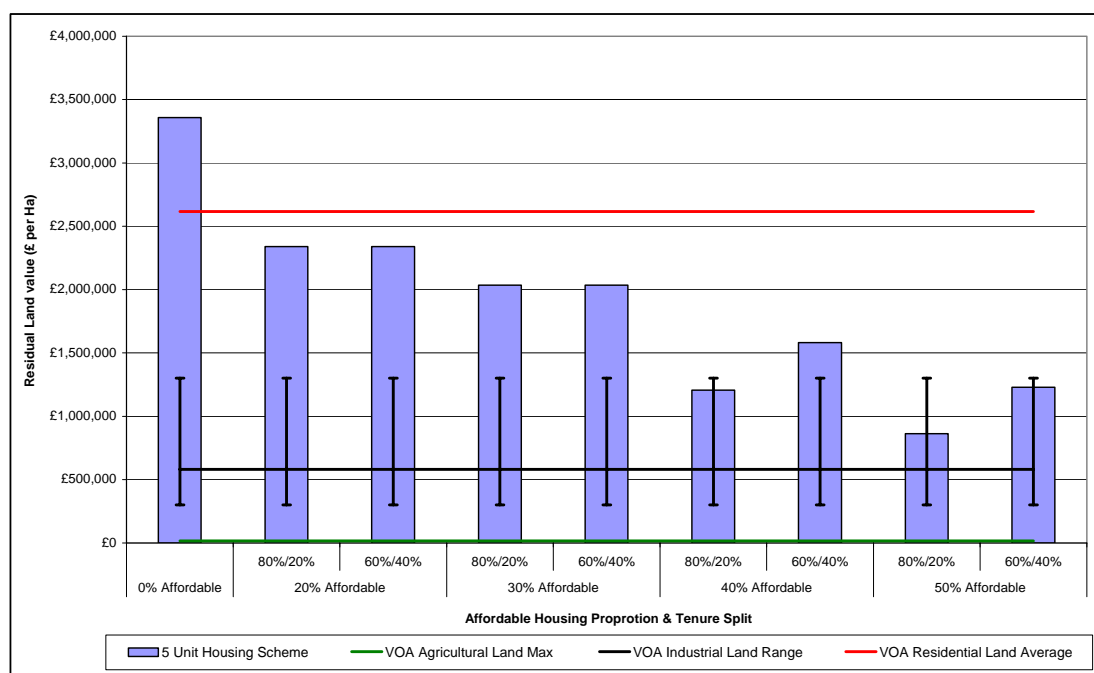
3.5 Affordable Housing Threshold

- 3.5.1 The discussion in the previous sections of Section 3 considers the effect on RLV, and thus likely viability, of affordable housing proportion and tenure mix, related to nil grant assumptions and a relatively low infrastructure cost.
- 3.5.2 The overall impact of a range of potential affordable housing policies also needs to be judged with reference to the scheme size (principally number of dwellings) at which these above requirements could take effect. These scheme sizes, or trigger points for policy, are known as thresholds.
- 3.5.3 The results show that scheme size is not a determinant of viability in itself. There is nothing within the appraisal maths which suggests that smaller or larger sites tend to be any more or less viable. It really does come down to site specifics – the nature of sites and proposals for them relative to existing use, specific costs, etc.
- 3.5.4 We see the same basic trend of RLV deteriorating with affordable housing proportion increasing, regardless of scheme size. This is essentially a proportional effect too. It should be noted that this is after allowing for variations to the overall trends shown in graphs for varying tenure assumptions, and bearing in mind that on the smallest sites appraised usually the affordable housing content cannot vary in tune with the range of study assumptions (as there is little or no scope to provide varying affordable content). For example, on a scheme of 5 dwellings at 30% proportion of affordable housing, there would be only one affordable dwelling required. As such there can be no variations to tenure. This is why outcomes are the same as we read across the graphs in some instances, but it does not affect an overview of the trends.
- 3.5.5 Within the results shown in Appendices II to V we can see how, when compared with a nil (0%) affordable housing requirement on a site of less than 15/12 units (current policy threshold relating to urban areas/larger settlements in Malvern Hills/Wychavon and Worcester respectively), a 20% or 30% requirement produces a less significant adjustment to land value than

say a 40% requirement. In terms of adjustments likely to be required to landowners' expectations, this could be significant.

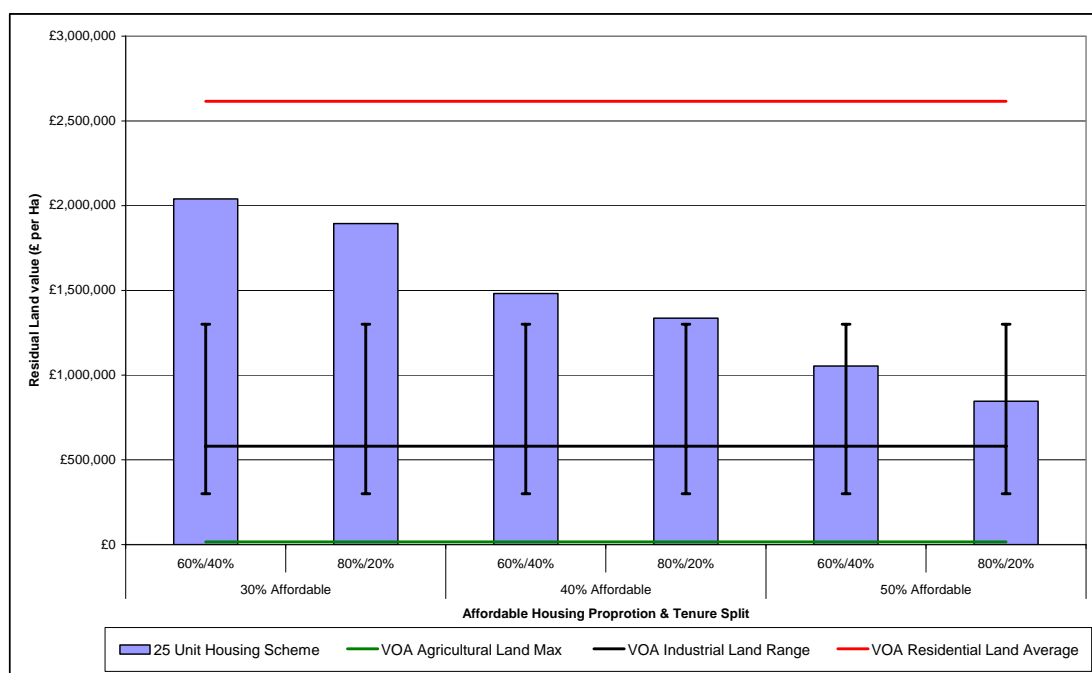
3.5.6 By way of an example, we can consider Figure 8 below where comparing the 0% affordable housing RLV outcome with those at increasing affordable housing proportions shows the size of the step down in (deterioration of) land value increasing from the landowner's current position (i.e. impact increasing) as we move from left to right. The same is seen on other similar graphs as scheme type/size varies.

Figure 8: Example Results 5 Unit Housing Scheme – Value Point 4 Only



3.5.7 We then go to a graph which shows a scheme size in excess of the current 15 threshold (see Figure 9) showing a 25 unit housing scheme as affordable housing proportion increases. That increases from an assumed starting point of 30% (for example representing current policy in Wychavon District and thus current landowner's expectation) to 40% as we look from left to right. What this shows is the reduced size of the impact step, since we no longer have the stronger 0% affordable housing based indicative RLVs as a benchmark or starting point. Instead, we see a flatter looking graph overall as we do not have the significant initial step away from the 0% affordable housing position.

Figure 9: Example Results 25 Unit Housing Scheme – Value Point 4 Only



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

3.5.9 The wider evidence beyond this study points to lowered thresholds being necessary and justified to optimise affordable housing delivery. There is no particular reason for smaller sites not making a carefully judged contribution towards affordable housing. On the basis that these are targets, then in our view the sliding scale would be favourable when compared to a straight requirement for 40% on smaller sites than those captured currently.

3.6 Housing Corporation Grant Availability

3.6.1 Using a 15 unit housing scheme example, Figure 10 below shows what happens to our notional site as grant is added to the scheme (see also Appendix IV).

Figure 10: Comparison of Appraisal Results With and Without Grant (Value Point 4 only)

Appraisal Type	15 Unit Housing Scheme – 80%/20% Affordable Tenure Mix (£20,000 per unit Infrastructure Cost)			
	RLV – Without Grant	RLV – With Grant	RLV (£/Ha) Without Grant	RLV (£/Ha) With Grant
20% Affordable	£589,817	£650,502	£1,843,179	£2,032,820
30% Affordable	£445,965	£532,034	£1,393,640	£1,662,605
40% Affordable	£233,977	£382,081	£730,867	£1,194,002
50% Affordable	£81,604	£262,378	£255,013	£819,931

3.6.2 Figure 10 (with data taken from Appendix IV), based on the assumptions used, indicates that adding grant to the scheme improves the Residual Land Value by between 10%, 18%, 38% and 69% (at 20%, 30%, 40% and 50% affordable housing respectively). Figure 10 also shows that the addition of grant to a scheme improves RLVs to the point that a similar result is produced to that without grant at a lower affordable housing proportion – e.g. the RLV produced at 40% affordable housing *with grant*, is similar to that produced *without grant* at 30% affordable housing. This ultimately improves the viability of a scheme, but the availability of grant is another element that must be considered on a site-specific basis. This discussion links to the potential role for “cascade” type thinking, whereby affordable housing delivery is adaptable to site circumstances such as viability and perhaps grant or other funding availability. It can mean that the optimal contribution towards meeting local affordable housing needs is made even when site assumptions change.

3.6.3 The findings indicate a range of values across South Worcestershire from relatively weak values (where development viability is compromised even with the most favourable cost assumptions) to relatively strong values (where development viability is improved and is likely to bear greater cost). This suggests that grant will have an important role to play on many sites where affordable housing numbers or deliverability of a favourable tenure mix can be improved. Given the viability constraints discussed so far at Value Points 2 to 3 with 40% or even 30% affordable housing plus the possibility of higher infrastructure costs (see later) it is likely that social housing grant or other public subsidy would need to be levered in to support affordable housing delivery at such proportions. At the higher value points (Value Points 5 and 6 and possibly 4), there is scope for the Councils to adopt a relatively robust position in negotiations with landowners and developers on the use of grant, and on what any grant input will be adding to a scheme. Currently in South Worcestershire, the level of subsidy secured from the developer and/or landowner is dependent on the level of offer received from RSLs, which may be competing with each other in submitting those offers. Offers are based on

their particular business plans, access to funds and loan arrangements, for example. There is also scope for the Councils to consider mechanisms for securing of local level subsidy in working up its more detailed approach. Examples of such mechanisms could be through a nil-cost land for affordable housing basis; or through guiding affordable housing payment levels to developers. The latter would usually result in a payment table or formula, usually based on what RSLs can afford to pay as driven by their finance models and ability to raise loan funds based on scheme cash flows. In due course consideration might be given to reviewing the current negotiated approach, with such alternatives borne in mind. We are working from a base point here, again assuming satisfactory site conditions and achievable wider planning requirements and obligations, together with appropriate values relationships with existing/alternative uses. The principles raised here are also picked up in the following paragraphs.

- 3.6.4 Whilst (in line with the Housing Corporation's "additionality" approach), the Councils' starting point may well be to consider what affordable housing can be achieved without grant, as discussed above, our view is that grant will have an important role to play in balanced housing delivery locally, and in particular in supporting varied and appropriate tenure provision. A nil grant starting point can create a good basis for examining the "additionality" which grant can create (i.e. comparing what can be achieved with grant, compared to without it). This starting position does not detract from the importance of considering and pursuing social housing grant bids; it simply creates a benchmark. Bids which show the grant input is adding to schemes and providing value for money should be encouraged. We consider that the process of seeking to attract grant will be relevant particularly for schemes which see market values in the lower to mid part of the range we have seen (typically where viability results are poorest).
- 3.6.5 In the current funding climate, we must stress the importance of guiding tenure, seeking to influence the affordable housing procurement costs locally, (including through landowner/developer subsidy mechanisms as discussed in this study) and of continuing to consider cascade-type thinking on adaptable scheme make up, depending on funding availability. As above, a key aspect of providing clarity for developers, landowners and all others involved in the delivery process, will be to set out the mechanisms by which affordable housing is transferred to RSLs by developers. This involves setting out whether, for example, there will be an expectation of nil cost (usually serviced) land provided for the affordable homes, or whether their cost will alternatively be subsidised through guiding the price which the developer receives from the RSL (as at 3.6.3). The latter method is usually linked to the amount of loan finance a RSL can raise based on the rental and/or capital income flow it will receive from the affordable homes. Either way, it amounts to a reasonable level of subsidy being secured locally to help limit the input cost of the affordable housing. Ultimately this gives more scope for achieving

genuine affordability for the occupiers. It may form an important basis for additional funds to be levered in – for example social housing grant.

- 3.6.6 A cascade principle or mechanism allows the affordable housing element of a scheme to adapt to funding circumstances at the point of the delivery details being fixed (i.e. most likely post planning, but prior to contracts being entered in to by the developer and RSL for the affordable housing construction and purchase).
- 3.6.7 The principle would normally be built in to the Section 106 agreement. It has the potential to smooth delivery at times when funding availability for the affordable homes can be uncertain, or perhaps when other planning or site issues mean that the exact details of the affordable housing delivery need to be altered. This can help avoid or reduce delays where Section 106 agreements would otherwise be renegotiated instead. An agreement including a cascade principle provides scope for the affordable housing content of a scheme to be reshaped and usually optimised given the available funding and perhaps other financial circumstances.
- 3.6.8 Usually a Local Authority would expect to lead the process which redefines the affordable housing, working closely with the other parties such as the developer, Housing Corporation and any involved RSL. As an example of a potential cascade outcome, the Councils may take a view that it is best to consider fewer affordable homes, but of the priority needs tenure type (i.e. usually affordable rent). Alternatively the Councils may decide to maintain delivery of numbers of affordable homes by allowing the tenure mix to skew towards more financially viable home ownership or intermediate housing tenure, or to commute the affordable housing delivery into fewer family homes. Ultimately, discussions and outcomes would be very site-specific.
- 3.6.9 The same principle as outlined above (essentially, judging the target affordable housing proportions in conjunction with funding availability and wider criteria) might also be relevant in the context of any wider consideration the Councils may be giving to overall planning obligations requirements and burdens on schemes.

3.7 Impact of Increased Developer's Profit

- 3.7.1 So far we have looked at the results in the context of applying a fixed 15% developer's profit to the appraisals. Figure 11 below shows the additional impact on schemes appraised of increasing this assumption to 20%.

Figure 11: Comparison of Appraisal Results at 15% and 20% Developer's Profit (Value Point 4 only)

Appraisal Type	15 Unit Housing Scheme – 80%/20% Tenure Split – Without Grant			
	RLV – 15% Profit	RLV – 20% Profit	RLV (£/Ha) – 15% Profit	RLV (£/Ha) – 20% Profit
20% Affordable	£589,817	£454,863	£1,843,179	£1,421,448
30% Affordable	£445,965	£311,576	£1,393,640	£973,676
40% Affordable	£233,877	£113,422	£730,867	£354,443
50% Affordable	£81,604	£0	£255,013	£0

3.7.2 The result of an increase in developer's profit from 15% to 20% leads to further reductions in the RLVs across the range. As the percentage of affordable housing increases (i.e. RLV reduces), the impact of an increased developer's profit on scheme viability becomes greater – in simple terms, there are more burdens on the development revenue. The additional impact of the higher developer's profit does not materially affect our recommendations or conclusions from this study. However, there will be schemes that the Councils need to consider in this context (in negotiations) and particularly in the short term with regard to current market conditions and potential increased risk (and potentially higher profit expectations).

3.7.3 As the study has progressed we have seen some reporting on developers having to accept reduced profit levels in some instances in what have been weakening market conditions. However, there is also an argument to be made about increased risk in such circumstances. So, on balance, our range of assumptions is considered to be appropriate with regard to market conditions.

3.8 Impact of Increased Planning Infrastructure Costs

3.8.1 Increased planning infrastructure (obligation) costs, will have a negative impact on development viability in terms of Residual Land Values. We have discussed the combined effect of additional costs, profit, affordable housing, etc. above and Figure 12 below shows a brief example of the additional impact that higher planning infrastructure costs may have on schemes when combined with the "cost" of affordable housing provision.

Figure 12: Comparison of Appraisal Results at £5,000, £10,000 and £20,000 per unit Infrastructure Cost (Value Point 4 only; 40% Affordable Housing)

Appraisal Type	25 Unit Housing Scheme – 80%/20% Tenure Split – Without Grant					
	RLV £5,000 per Unit	RLV £10,000 per Unit	RLV £20,000 per Unit	RLV (£/Ha) £5,000 per Unit	RLV (£/Ha) £10,000 per Unit	RLV (£/Ha) £20,000 per Unit
40% Affordable	£721,453	£615,553	£407,959	£1,336,024	£1,139,913	£755,479

3.8.2 Figure 12 above (taken from Appendix III and V) shows the significant reduction in Residual Land Value that occurs as the planning infrastructure costs are increased. The table fixes the affordable housing proportion and affordable housing tenure split, and assumes nil grant.

3.8.3 The trends shown in the example results above are again repeated for all scheme types. This further emphasises the potential issues surrounding seeking the highest levels of affordable housing whilst at the same time increasing the infrastructure burden on sites coming forward, especially with tenure heavily weighted in favour of affordable rent and with the assumption of nil grant. To compare further, Figure 13 below shows the increase in Residual Land Value generated (at 30% affordable housing and Value Point 4 only) by changing the tenure mix and adding grant to the equation (thus reducing the impact of the highest levels of infrastructure cost).

Figure 13: Comparison of Appraisal Results at £20,000 per unit Infrastructure Cost Value Point 4 and 30% affordable housing only (with and without grant)

Appraisal Type	15 Unit Housing Scheme	
	RLV £20,000 per Unit	RLV (£/Ha) £20,000 per Unit
30% Affordable (80%/20% Tenure Split), Nil Grant	£445,965	£1,393,640
30% Affordable (60%/40% Tenure Split), Grant	£542,148	£1,694,212

3.9 Density

3.9.1 Although, in theory, RLVs may increase with increased density, in practice we would have to assume that costs would rise to take account of the need to build upwards rather than outwards which would off-set some of the gains of increasing density. Lower densities than assumed would theoretically reduce the Residual Land Values, but again it is likely that these would be off-set by higher values (larger units, bigger sq m and thus £ per sq m multiplied by a higher figure).

3.10. Approach to Commuted Sums in lieu of On-Site Affordable Housing

- 3.10.1 As requested by the South Worcestershire Authorities, Adams Integra carried out some modelling relating to the financial viability of requesting financial contribution payments for affordable housing. The notional sites appraised in this way were of 1 to 10 dwellings in size. At each point we appraised a range of affordable housing proportions of 20%, 30% and 40% so that we could see how results varied over this scale; and consider with the Councils the potential to align this thinking to a sliding scale approach. This would help optimise overall contributions towards meeting affordable housing needs by seeking some level of provision from the numerous small windfall sites which in the past have made up a large proportion of the Local Authorities' housing delivery pattern.
- 3.10.2 There is no particular reason why smaller sites should not contribute appropriately, when larger sites are doing so and are not necessarily any more viable. In essence, in all of our calculations for such studies we find no reason for stating that smaller sites are more or less financially viable than larger ones. Hence there is no viability reason why smaller sites should not make a carefully judged level of contribution towards meeting affordable housing needs as an extended policy approach. Through the draft Preferred Options work which was being continued while this study was underway, the Councils have indicated their aim to implement such an approach.
- 3.10.3 This approach, if implemented, would effectively mean a lowering of thresholds, but with financial payments being made in lieu of an on-site requirement on sites within the relevant size range.
- 3.10.4 Such an approach could add to the “sliding scale” (discussed previously) which would also reduce the abrupt step in requirements once the on-site affordable housing threshold takes effect.
- 3.10.5 The three South Worcestershire Authorities are in the process, separately, of investigating potential methods for securing financial contributions in lieu of on-site provision, but have not adopted a formal methodology for calculating these. It was agreed with the Councils' officers that Adams Integra would, therefore, propose a methodology and test the viability of such an approach. This does not preclude the Councils from adopting a different methodology, but was thought to be the best solution given the fact that the Councils were not in a position to provide a methodology at the time of the study. The methodology we discuss and propose in this section is rooted in the same type that has driven calculations and informed the negotiations for other Local Authorities. The suggested calculation seeks to equate to the land value of the relevant dwelling plots (those that would have been made available for on-site affordable housing).

- 3.10.6 The purpose of this element of the study is not to comment on the planning policy scope or wider merits of an approach to seek financial contributions towards meeting affordable housing needs from the smallest sites, but to inform only on the development viability aspects. There are potential practical advantages of requesting financial contributions from the smallest sites rather than adhering to on-site provision. There can be issues with affordability, integration, management and the like in relation to providing affordable housing on small sites. This policy approach could have practical merits with those issues in mind. If those concerns are removed through the use of financial contributions in lieu of on-site provision, then dependent on the scale of the payment being appropriately judged, there is unlikely to be a pure financial viability issue – subject as normal to any existing/alternative use barriers and the normal negotiation process where necessary.
- 3.10.7 We recognise that other Local Authorities are exploring the scope for, and potential issues with, lower thresholds and/or financial contributions from smaller sites, in a similar way. At the time of writing, so far as we are aware, there is no clear planning policy guidance which steers on the acceptability of this type of approach. However, Inspectors of LDF documents will be considering the soundness of this type of approach. Having worked in South Hams, we are aware that a similar approach received support from the Inspector there following Examination in Public of an Affordable Housing DPD. In the context of South Hams the Inspector agreed to sites of 2 or more dwellings contributing towards affordable housing. Therefore, the South Worcestershire Councils will find it useful to monitor developments elsewhere to consider how those compare and have local relevance to South Worcestershire.
- 3.10.8 The results from the appraisals carried out on this basis are set out within Appendix VI. We will not describe them in detail here.
- 3.10.9 Compared with previous national advice under Circular 6/98 and PPG3 (now rescinded), PPS3 gives more scope for the consideration of thresholds lower than the “national indicative minimum” of 15 it sets out, related to local circumstances “where viable and practicable”.
- 3.10.10 Policy guidance should clarify to landowners and developers how the Councils would apply their approach regarding in lieu contributions and on what basis calculations would be made.
- 3.10.11 The following sub-sections will cover the payments in lieu topic in outline. It is an area of the Councils’ potential approach that would need to be developed in detail through affordable housing Supplementary Planning Documents, or possibly a Development Plan Document.

3.10.12 Before outlining our thinking in more detail, it is worth considering other approaches briefly.

3.10.13 In order to establish or indicate payment levels, Local Authorities have adopted a number of calculation methods. Usually this means considering a methodology which either:

- Relates to the build cost of the affordable homes, or
- Relates to the land cost element – allied to a nil-cost land approach to on site affordable housing, or
- Considers the difference between the open market sale revenue and the affordable housing revenue for the relevant homes which would have formed the on-site quota. This latter route may be more complex, need more updating and be viewed as less market-related.

3.10.14 In our view, the most appropriate route more generally may be to look at land value. In essence, this involves calculating how much it would cost to go elsewhere and replace the land on which the affordable housing would have been provided on-site. This is the basis we have assumed.

3.10.15 In summary, in carrying out viability appraisals on this principle we added the relevant (estimated) land values and acquisition expenses associated with acquiring an equivalent plot in the market elsewhere to the costs section of the model. This is because we are assuming here a straightforward payment being made by the landowner (who may be the developer) under the terms of a Section 106 agreement in much the same way as occurs with planning obligations for aspects such as highways/transport, open space, education, etc. The methodology assumes an additional planning obligations payment being made by the developer, albeit from the increased Gross Development Value which results from having no affordable housing on-site. So far as we can see, the calculation should not (and this way it does not) provide a benefit to the developer of moving the affordable housing contribution off-site. PPS3 requires the contribution secured to be “of broadly equivalent value” to that which would have been secured through on-site provision.

3.10.16 We have advised other Authorities similarly. In our experience it tends to be understood by landowners and developers better than potentially more complex affordable housing finance related mechanisms. A commuted sums methodology based on land value links better to market reality and processes, and is simpler to take account of in the early stages of site feasibility.

3.10.17 Some Local Authorities have continued using mechanisms which relate back to the former Housing Corporation Total Cost Indicator (“TCI”) regime in some

way, or to RSL finance-driven models which link to how much finance RSLs are able raise or grant/other subsidy they need based on dwelling type and tenure assumptions.

3.10.18 Reference to TCIs is now outmoded. Furthermore, in our view such methodologies relate less well to the market. In our experience, methodologies which relate more closely to the market-led provision that flows from the planning obligations are preferable and more widely understood.

3.10.19 We will now work through our calculation methodology which, as stated above, is based on a formulaic approach to approximating the land value that needs to be replaced elsewhere, and then allowing also for the cost of acquiring and servicing that land. In practice, the Councils might not look to buy another site, but should have a strategy for monitoring, managing and spending these contributions. That strategy could include providing a variety of more creative affordable housing funding assistance to other local schemes, addressing priority needs and contributing to sustainable communities aims - again as required by PPS3.

3.10.20 We would start by taking zero affordable housing land value (the value of the land as if no affordable housing were required on site), calculated as a percentage of the market sale value of a property. This percentage would reflect the zero affordable housing RLV results, as taken from this study. For this study, we calculated a figure of 27.3% of OMV being the average outcome (% of GDV remaining for Residual Land Value) from all relevant zero affordable housing appraisals – from sites in range 1 to 10 units. An allowance might well be added bearing in mind that as well as land value there would be acquisition plus (potentially) servicing costs to bear in the case of replacing the land elsewhere, in the market.

3.10.21 In summary, the indicative payment figures in the table at Figure 14 below are arrived at by the following steps:

- a. Open market value (OMV) of relevant or comparative property (depending on to what degree the formulaic approach is to be site-specific, Borough-wide, etc).
- b. Multiply by the Residual Land Value percentage. We have used 27.3%, derived as above at 3.10.20 (alternatively it would be possible to look at this in a variety of ways, including on a more specific RLV basis).
- c. Add 15% of the result of a x b to reflect site acquisition and servicing costs. This gives the per unit sum.

- d. Apply to the relevant site number and proportion (in this case 20%, 30% or 40%).

Worked example (to illustrate the suggested calculation):

Scheme of 4 no. 2 bed flats selling at £167,500 each (step a above).

- Requirement for 20% equivalent affordable housing contribution (payment in lieu).
- 20% proportion means 0.8 unit for affordable housing (4 x 20%).

The equivalent sum per (whole) unit is calculated as follows:

- £167,500 x 27.3% = indicative land (plot) value for that unit £45,728 (step b).
- Add 15% acquisition and servicing cost. £45,728 x 115% = £52,587 (step c).
- (At 20% target) scheme triggers requirement for 0.8 unit .

So, indicative financial contribution would be £52,587 x 0.8 = £42,070 (step d)

3.10.22 Figure 14 sets out the per unit indicative financial contributions which we have arrived at on this basis, using our property size and wider assumptions. These figures are as applied in our additional Appendix VI appraisals of notional sites of 1 to 10 units assuming 20%, 30% and 40% proportions of affordable housing contributed.

Figure 14: Indicative Financial Contributions in lieu of Affordable Housing Figures Used as Basis for Appraisals (source: extracted from Appendix VI)

Value Point	1 Bed Flat		2 Bed Flat	
	OMV £	Indicative £ payment	OMV £	Indicative £ payment
1	£87,500	£27,471	£117,250	£36,811
2	£102,000	£32,023	£134,000	£42,069
3	£127,500	£40,029	£167,500	£52,587
4	£153,000	£48,034	£201,000	£63,104
5	£178,500	£56,040	£234,500	£73,621
6	£204,000	£64,046	£268,000	£84,139
7	£229,500	£72,052	£301,500	£94,656

Value Point	2 Bed House		3 Bed House		4 Bed House	
	OMV £	Indicative £ payment	OMV £	Indicative £ payment	OMV £	Indicative £ payment
1	£131,250	£41,206	£148,750	£46,700	£175,000	£54,941
2	£150,000	£47,093	£170,000	£53,372	£200,000	£62,790
3	£187,500	£58,866	£212,500	£66,714	£250,000	£78,488
4	£225,000	£70,639	£255,000	£80,057	£300,000	£94,185
5	£262,500	£82,412	£297,500	£93,400	£350,000	£109,883
6	£300,000	£94,185	£340,000	£106,743	£400,000	£125,580
7	£337,500	£105,958	£382,500	£120,086	£450,000	£141,278

3.10.23 Seeking to collect sums such as these in areas that fall within Value Points 1 to 3 will have a significant impact on viability to the point of making a majority of schemes unviable with the exception of low proportions of affordable housing contributions in Value Point 3. At Value Points 4-6 some potential viability difficulties may be indicated if a 40% equivalent proportion were sought. However, Residual Land Values improve to the point where, with the normal caveats applying (with regard to site specifics, being allied to a target approach as with on-site provision, etc), viability should be workable with a 20% to 30% affordable housing equivalent.

3.10.24 This also has to be viewed in the context of site specifics. What one landowner finds acceptable as a payment for their land will be different from another – this is especially true on small sites where we could be discussing garden plots or residential redevelopment etc. In real monetary terms, the residual value of land may reduce to the point whereby landowners of small plots do not feel there is sufficient recompense. Equally, where existing residential units are bought up and demolished to make way for a larger number of units viability issues may occur. This is due to the high existing use of the residential properties that have been demolished which needs to be overcome before the new development can become viable – a high enough RLV needs to be generated to finance the purchase of units which are going to be demolished.

3.10.25 The Councils could decide to further simplify the above type of approach with District and City-wide single figures per property type. If this route were preferred then an average or mid-range figure from the above could be selected for each unit type. This would mean taking an average approach, with the outcome more favourable from some sites than others. In the case of the South Worcestershire Authorities' local markets and typical value levels, as discussed, the point selected could be the Figure 14 indicative contribution figures relating to Value Point 3 to 4, but bearing in mind the impact of higher proportion at that level.

- 3.10.26 Alternatively the approach could be worked up further to reflect a more local Residual Land Value percentage (rather than a District or City-wide approach). This could then be applied to the property value in our formula. With reference to that range of RLV outcomes (as a % of GDV) set out in Appendix VI, figures of 0.4% to 40.9% of GDV were indicated depending on the strength of values on any given site (Value Points 2 -6 only were considered as these form the range of values seen across the three Local Authority areas). For this study, however, we applied a figure of 27.3% of OMV being the average outcome (% of GDV remaining for Residual Land Value) from all relevant zero affordable housing appraisals – sites in range 1 to 10 units.
- 3.10.27 Whether a District/City-wide or more location-specific route is taken will depend on resource availability (in terms of the number of staff available to carry out negotiations on the collection of financial contributions and the monitoring of those). Overall, the Councils may feel that a “one size fits all” simple guide to contribution figures by dwelling size would be the best compromise in terms of clarity, resourcing and operation. We feel that would serve well in terms of informing landowners’ expectations and supporting the necessary negotiated approach.
- 3.10.28 Overall, this formulaic approach based on land value and selected one point as a guide is felt to provide a sound basis. Whilst something more complex and reflective of particular local area values and land residuals could be used applying the same formulaic method, this fits with our overall feel for Malvern Hills, Wychavon and Worcester City values given their level and consistency. In reality a replacement site, or scheme to be funded with the monies collected, could be anywhere within the Districts or City boundaries given the Local Authority-wide high affordable housing need, which perhaps again fits with a “one size fits all” approach to this aspect.
- 3.10.29 The scenarios investigated here overlap with the on-site approach studied. This provides the Councils with a range of options from which to formulate affordable housing policy. The formulaic approach suggested could be applied to a larger site (i.e. above the potential threshold for on-site affordable homes provision) in exceptional circumstances. The relevant higher proportion of affordable homes would be reflected in the calculation in such a case.
- 3.10.30 As with the on-site route, flexibility needs to be considered, with viability related negotiations taking place in the context of the valuation and site-specific issues as raised in this study. The positions,, wherever pitched, need to be regarded as targets.
- 3.10.31 The Councils may also wish to consider developing policy which can fairly and effectively derive developer/landowner financial contributions towards meeting affordable housing needs, on an equivalent basis, from the type of

very “upmarket” housing schemes. Such schemes may involve the development of a single, or a very small number of, very large and valuable homes. For example, a property type of 300 square metres (sq m) could very broadly generate a development value of approximately three times that for a more typical family home of say 100 sq m, and so on. Thus, in developing its detailed approach, the Councils could consider a parallel mechanism allied to property/development size to drive the formulaic type of approach to land value equivalent that we have suggested.

3.10.32 This could start with considering the property size to be developed so as to establish the equivalent number of more typical homes in terms of value. That equivalent number could then be applied within the suggested formula (See note 1 below). Alternatively, there could be a straight calculation applying the relevant affordable housing proportion to the size (sq m) and value (£/sq m – as with our range of sales rates) – see note 2 below.

By way of example:

Single large property developed at 300 sq m (as for example might trigger affordable housing requirement currently through *site area* criteria rather than site numbers)

1. 300sqm property in value terms is approximately equivalent to say 3 x 100 sq m properties:

Applying affordable housing proportion of 20% to 3 properties would mean a contribution based on 0.6 of a 100 sq m property. This aligns to 0.6 of our 4 bed property contribution of say £94,185 at Value Point 4 = contribution of £56,511.

2. Same 300 sq m market property – Adams Integra formulaic approach applied:

@ sales rate say £3,000/sq m = selling price (GDV) £900,000 multiplied by suggested average RLV (% of GDV) 27.3% = £245,700 (indicative land value for market property)

Plus 15% acquisition of and servicing of land = £282,555.

Multiplied by relevant affordable housing equivalent proportion, again say 20% = contribution of £56,511.

3.10.33 In considering financial contributions calculations (particularly where, in lieu of on-site provision on larger schemes, PPS3 states the benefit secured should be of broadly equivalent value), Adams Integra’s view is that care should be taken not to apply the approach inequitably. In this context the

appropriateness of effectively expanding the site size to add back in what would have been the affordable housing content needs to be considered in planning terms. Of course, if applied in such a way there would also be additional viability impacts, to be tested, as compared with those modelled in this study.