

4 CONCLUSIONS

- 4.1.1 Whilst new build values across the area show a higher degree of consistency than the overall market variations, there is nonetheless a relatively wide range of new build values across Malvern Hills, Wychavon and Worcester City. The range seen provides relatively weak values at one end through to relatively high values at the other.
- 4.1.2 The most important theme to recognise is that, as in all areas, a range of values are seen which are controlled, ultimately, by site-specific factors. As such, we do not seek to provide a definitive settlement listing outlining values by area or particular locations. This picture applies across the three Local Authority areas, where value patterns are blurred.
- 4.1.3 Typical (most commonly seen) new build values are generally in the range of Value Point 3 - 4. It appears that the differences occur through desirability *within* the settlements rather than between. As normal there are street by street variations and our research showed this to be a reasonable reflection of most of the information we gathered. Values can be much higher in rural areas, and favoured areas of main settlements. These higher values are normally associated with premium products. Full details of Adams Integra's property values research are found at Appendix VII.
- 4.1.4 These value levels lead on to a range of Residual Land Values and, therefore, a mixed picture of development viability. It is not possible to state that one area or settlement is consistently higher or lower than another (in terms of sales and thus Residual Land Values) and so it is also not possible to recommend variations to policy with reference to specific settlements within Malvern Hills, Wychavon or Worcester. An overall policy must therefore be set either for each authority individually (or a single South Worcestershire policy) that reflects the overall range of viability outcomes. There will also always be certain cases where abnormal site costs, particular overall planning obligations burdens, existing/alternative use value issues (or a combination of these) mean that affordable housing targets cannot be met, those issues are relevant in any area and we advise clients accordingly.
- 4.1.5 There are likely to be areas where new build values achieve modest levels (our Value Point 2) but these cases are likely to be few. Equally there will also be cases where values are very high (our Value Point 6 and above).
- 4.1.6 At the time of preparing this study, Adams Integra has also had to acknowledge the weak and uncertain market conditions which are apparent in the Summer of 2008.
- 4.1.7 In Sections 2.2 and at 3.3 we discussed the difficulties in fully reflecting the potential range of site specific level reactions to such market conditions in an

overview study. We also discussed our view that each Local Authority's most realistic reaction to this will be through monitoring, review and contingency plans, together with operating a practical and flexible view shorter term to help secure all round housing delivery as far as possible. It is also unlikely to be practical to seek to vary targets in response to uncertain market conditions which are evolving, the longevity or degree of which cannot be predicted. In the short term a practical approach will be key. Such an approach could in theory mean frequently adjusted targets, which would not serve to provide the crucial level of guidance and clarity that developers and landowners need when first considering opportunities in relation to each Councils' strategic approach.

- 4.1.8 It will be important for each Council to consider this range of factors whilst continuing to apply a practical, negotiated approach to scheme progression – potentially as influenced by appropriate viability information presented to them. We consider it much more realistic to seek to react to current and future short term market features through that mode than to expect to almost continually review such information and indeed the wider evidence base. Periodic reviews are more likely to be realistic, economic and useful in our view, possibly in conjunction with other planning obligation/CIL reviews being considered or in response to delivery experiences over a sufficient period.
- 4.1.9 The greatest reductions in Residual Land Values are seen where affordable housing is required for the first time (e.g. on sites below 15 units in larger settlements in Malvern and Wychavon or below 12 units in Worcester). The impact of implementing a 30%, 40% or 50% affordable housing policy is to dramatically reduce the Residual Land Value of sites by up to 100% (dependent on Value Point, tenure mix, grant availability and other infrastructure cost levels).
- 4.1.10 As value increases the impact of affordable housing reduces, as it does with the more favourable 60%/40% tenure mix, introduction of Social Housing Grant (SHG) and lower planning infrastructure costs. In addition, the impact of increasing the affordable housing proportion is less on sites above current policy thresholds where there is already a requirement for affordable housing (i.e. moving from 30% to 40% or 50%).
- 4.1.11 On the first time captured sites, the introduction of a 20% proportion sees RLV reduce by less (again dependent on value point, affordable housing proportion, tenure mix and grant availability). This starts to indicate the potential benefit of a sliding scale approach.
- 4.1.12 On the basis of the tenure mixes studied, appraisals carried out using Value Point 1 figures show that development viability is very poor (although these values are outside the range of values seen and have only been investigated for the purposes of investigating what happens to viability should market conditions fall significantly from today's lowest values seen).

- 4.1.13 Based on the lowest values seen in the current market (Value Point 2) and given the cost assumptions assumed, viability is still extremely poor with little or no scope to provide affordable housing, planning infrastructure, environmental measures and still provide positive land values (let alone values sufficiently high compared to alternative/existing use values to encourage residential development). The only positive Residual Land Values seen are on those development appraisals where no affordable housing was assumed and in some instances where 20% affordable housing was assumed, but with the lowest planning infrastructure requirements. Even where we are seeing positive land values, it is likely that those values are still too low to trigger land release in most cases. Costs would need to be reduced from the levels we have assumed in order to sustain development, particularly with affordable housing and possibly only then at modest levels.
- 4.1.14 As mentioned previously, the incidence of Value Point 2 values are likely to be low and the lower end of the new build market is more commonly between Value Points 2 and 3. At Value Point 3 for the first time we see positive land values being produced across most development scenarios although with 40% affordable housing and increasing planning infrastructure there are still many nil value results (i.e. no land value is generated once all the costs have been taken into account). A requirement for 50% affordable housing at these value levels produces only small positive land values in a few of the lowest infrastructure cost scenarios allied to a more favourable tenure mix (60% affordable rent/40% shared ownership).
- 4.1.15 On a more positive note, the values generated (where those are positive) between Value Point 2 and 3 are still likely to be in excess of most agricultural values for the South Worcestershire area. They could potentially also exceed some commercial use land values. Unfettered Greenfield sites with intrinsically low starting or alternative use values (and low “hope” values) such as greenfield release or greenfield urban extension sites could, in theory, achieve a higher level of affordable housing provision. The viability of those would be affected by other requirements (abnormals, major infrastructure etc) and levels of costs in bringing those forward.
- 4.1.16 At Value Point 3 we can start to see the effect of infrastructure and the potential trade-off between affordable housing requirements and the level of infrastructure provision. At Value Point 4, which covers the mid-range values seen for typical new build values, we see Residual Land Values that are positive in most cases and are likely to be able to bear the assumed costs at lower infrastructure levels together with affordable housing requirements on a more consistent basis compared to lower value areas. However, at 40% or 50% affordable housing (depending on infrastructure levels), residual values are still relatively poor compared to higher value point results and with upper end VOA industrial use values. Again however, on greenfield sites with low existing or alternative use values it may be possible to consider targets of

40% to 50% in particular site allocation instances – possibly where DPD/SPD and/or development briefs would be used to shape outcomes very early on - and subject to demonstrated housing needs.

- 4.1.17 At Value Points 5 and 6 we see significantly stronger land values able to support higher proportions of affordable housing (up to 40%) in a majority of cases, but again, only at the lower planning infrastructure levels (except in cases of lower existing use land value expectations). As mentioned above, the highest proportions are likely to be viable on sites with low existing use value (greenfield agricultural values etc). In all cases and results seen, we assume no major abnormal costs. These would need to be considered as part of the overall burden on sites and could affect viability outcomes.
- 4.1.18 Our results suggest that, in general, a 50% affordable housing requirement shows very large reductions in Residual Land Values and as such, a target as high as this is unlikely to be workable on most windfall sites. With the exception of those mentioned above (e.g. large greenfield urban extensions and as discussed at 3.4.6 and 3.4.17), we are not able to support it as a policy headline and consider that scope to optimise provision, possibly beyond those levels, will be very site-specific. It will most likely be related to the distinctive characteristic of some such sites as regards relatively low existing land use values and the limited alternative prospects for creating significant land value. The opportunity for early engagement and the review of sites through the allocations process also creates a potential distinction as far as the scope to guide landowners and other expectations are concerned.
- 4.1.19 This means not only that we could not support an overall 50% affordable housing target in any of the three authority areas (in general) but also that Malvern Hills District Council should consider varying the proportion of affordable housing sought from the existing adopted policy position.
- 4.1.20 In general terms, Adams Integra's opinion (based on the results discussed previously and presented in the Appendices) is that the affordable housing proportions sought should be no higher than 40% as a general target in any of the three authority areas. The incidence of relatively low values points to the need to capture more sites with a modest affordable housing target as opposed to seeking higher proportions that may be achieved with insufficient regularity. It suggests that the Councils could consider increasing affordable housing numbers through lower overall thresholds rather than a headline target of more than 40% affordable housing.
- 4.1.21 It is important to note here that we are referring to a straightforward affordable housing target, as a basis for requiring the provision of affordable housing, as defined by PPS3. We are not referring to a target that would also comprise an element of "low cost" housing which should not be considered, for planning purposes, as affordable housing. A target which combined those two elements could have the effect of blurring provision and reducing the genuine

affordable housing content which accords with the PPS3 and local definitions. The Councils will need to express the requirements clearly and distinctly.

- 4.1.22 Unless particular local characteristics (for example, in terms of site supply) indicate to the Councils otherwise, from our findings here, as with all other studies, we can see that on a like-for-like basis, site size alone is not a determinant of viability. It is the impact of any new policy compared to existing that has a greater effect on these smaller sites. Therefore, we can see no reason (in pure viability terms) for having a distinction between rural and urban areas (or smaller and larger settlements) in the Councils' approach to the policy headlines. Instead, the Councils could adopt lower District or City-wide thresholds perhaps down to 5 units. The options then come down to whether the Councils require affordable housing to be on-site at these lower thresholds or provided by way of a financial contribution.
- 4.1.23 There is no right or wrong answer in terms of viability, to suggest which threshold point would be viable and which would not. Thresholds have always been arbitrary (for example, why would a scheme of 15 units provide affordable housing, but one of 14 not?). There may be lower risks associated with, and smaller planning obligations burdens on smaller sites but, conversely, there might not be the same opportunities for savings through economies of scale. There are a range of factors which could well balance out or alter outcomes either way dependent on the circumstances. The outcomes relate to site specifics, crucially including value levels; it is simply not possible to say that a smaller site will be more or less viable than a larger one.
- 4.1.24 Viability is principally value rather than site size driven. Notwithstanding this general principle, however, there are two key features of typical smaller sites which deserve consideration in relation to the combination of thresholds and proportions selected.
- 4.1.25 Firstly, in likely monetary terms, on smaller schemes the residual value of the land may reduce to the point whereby owners of smaller sites will not feel there is sufficient justification to release their land. As an example, if we are envisaging the development of a garden plot for a 5 unit housing scheme – the RLVs remaining after the application of a 30% or 40% policy are perhaps not strong enough to entice the owner to sell. Equally, where one or two existing properties are required to be bought by a developer to create a larger site for higher density housing, these will have relatively high “existing use values” – i.e. their market value will be high prior to any development taking place – these values need to be overcome before a proportion of affordable housing/other infrastructure can also be accommodated.
- 4.1.26 Secondly, the sharpest viability impacts are predominantly on sites which provide affordable housing for the first time, as opposed to sites where an increased proportion is sought over that already required. We consider that

carefully judged policies relating to smaller sites would be viable, and could be made workable from a practical point of view.

- 4.1.27 In addition, practicalities of delivery on the very small sites may be more of an issue than viability alone, for example scheme design/integration of affordable homes with the market housing, sustainable management, dealings with RSLs, marketing issues and perceptions, isolation of tenants, etc.
- 4.1.28 Relatively dispersed affordable housing stock can also result from an affordable housing requirement on very small sites, which may be an issue for RSLs from a management perspective, and this needs to be considered. Our Local Authority and RSL clients and contacts have taken varying views on the sustainability of this.
- 4.1.29 Malvern Hills District Council and Wychavon District Council already operate policies that require on-site affordable housing in smaller settlements at 5 and 7 units respectively and we see no reason in pure viability terms why this couldn't be extended to larger settlements, but, in our opinion, it is likely to be impractical to seek on-site affordable housing below 5 units. It is possible that financial contributions could be collected below this threshold – as we have modelled. Respecting the sliding scale principle, and with carefully judged contribution levels, our results suggest that a 10% to 20% affordable housing equivalent could be workable in theory. We must highlight however, the need to consider the planning policy framework and whether that allows this scope. Forthcoming inspector's decisions should help to inform this further. We have looked at this in viability terms only.
- 4.1.30 A lower introductory proportion of 20% or 30% affordable housing provides stronger results than with higher proportions. A key way of reducing the large first time impact on smaller sites is to seek lower "introductory" proportions of affordable housing on sites below the current policy threshold(s).
- 4.1.31 It is therefore advisable, if lowering the overall site size threshold, to consider introduce a sliding scale of policy measures. 20% affordable housing on the smallest sites modelled produces better results in terms of development viability and the Residual Land Values generated, than a higher proportion. The Councils' could therefore consider introducing a sliding scale of policy requirements so that the affordable housing proportion sought increases to a maximum proportion at current ("urban") threshold levels thereby reducing the first time impact on site viability of the smaller sites. This starting point for negotiations between the Councils and developers could also lead to a reduced requirement for site-specific negotiation on sites that in practice will deliver relatively small numbers of units.
- 4.1.32 This could lead to requesting on-site affordable housing at 5 units for all three Local Authorities regardless of whether the settlement is urban or rural or has a population below or above 3,000. As a starting point, the proportion of

affordable housing sought should be between 20% and 30%, stepping up to no more than 40% at current “urban” threshold points.

- 4.1.33 The current settlement size threshold distinctions in Malvern Hills and Wychavon poses some issues for exactly where new policy positions should be, including if a sliding scale route is pursued. Bearing in mind that we see no viability justification for distinct rural/urban area approaches, a sliding scale approach could be adopted whereby on urban sites, for example, 20% affordable housing could be sought between 5 (or 7, if Wychavon Council wishes to maintain that current lower level) and 9 units; 30% between 10 (or 12 units if Worcester wish to maintain that threshold) and 14 units and 40% at 15 units and above (increasing the proportion at 10 units reduces the size of the step and could be regarded as more equitable. It might also help to incentivise developers to optimise use of sites).
- 4.1.34 On “rural” sites in Wychavon, the proportion could be maintained at 30% at 7 (or reduced to 5) units and increased to 40% at 15 units. In Malvern Hills all policies that we feel would be viable would involve reducing the proportion from current levels. This could mean introducing a 30% proportion at 5 units and increasing to 40% at 15 units. Alternatively, District wide policies for both Malvern Hills and Wychavon could be introduced whereby policy was combined for rural and urban settlements (although this would lead to a reduction in affordable housing proportions between 5 and 9 units in rural areas in both Wychavon and Malvern Hills).
- 4.1.35 Due to the range of site sizes coming forward particularly in the rural areas of Wychavon and Malvern Hills (smaller sites in particular), and local levels of housing need, many Local Authorities are now considering lowering thresholds and increasing proportions to seek to optimise delivery from this market-led source of affordable housing. The Councils will need to consider the wider issues of need, site supply and the like alongside our viability findings.
- 4.1.36 As values increase, the impact of affordable housing even on the smaller sites reduces and it is possible that the proportion of affordable housing sought could be higher than discussed above. However, this would lead to potentially overcomplicated policy and require the Councils to define detailed value areas by postcode or similar. That in turn would require more resourcing, intensive updating and monitoring, etc. We would, therefore, recommend that a ‘blanket’ approach to proportions sought is implemented based on site size only (not geography or value). On sites of 12 or 15 or more (where we already have a requirement for affordable housing) a 40% target on planning-led affordable housing sites appears to be the highest level achievable or workable, but bearing in mind the caveats regarding the fact that site-specific negotiations may, and indeed will, be necessary in some

cases dependent on existing use, site abnormalities or occurrences of lower values and current market conditions.

4.1.37 The range of options available to the Councils are summarised and shown in the next Section – Recommendations.