

**Malvern Hills District Council, Wychavon District Council,  
Worcester City Council**



**South Worcestershire Authorities**

**Affordable Housing  
Development Viability Study**

*Report for the consideration of Malvern Hills District, Wychavon District  
and Worcester City Councils:*

**This does not constitute Council Policy**

**Study Period: May to September 2008**

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## CONTENTS

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	<b>Executive Summary</b>	<b>iv</b>
<b>1.</b>	<b>Introduction</b>	<b>1</b>
<b>2.</b>	<b>Methodology and Assumptions</b>	<b>6</b>
	Background	6
	Model Areas and Property Values	7
	Approximate Residual Land Value	10
	Gross Development Value	13
	Developer’s Profit	14
	Model Scenarios, Property Types, Size and Mix	16
	Site Area (“land take”)	17
	Affordable Housing Transfer (to RSL) – Method of Payment	
	Calculation and Type of Property Transferred	17
	Other Assumptions	19
	Caveats and Limitations to this Study	22
<b>3.</b>	<b>Results</b>	<b>24</b>
	Background	24
	Results Trends	26
	Property Values	29
	Affordable Housing Proportion, Tenure Mix and Grant	31
	Affordable Housing Threshold	37
	Housing Corporation Grant Availability	39
	Impact of Increased Developer’s Profit	42
	Impact of Increased Planning Infrastructure Costs	43
	Density	44
	Approach to Commuted Sums in lieu of On-Site Affordable Housing	45
<b>4.</b>	<b>Conclusions</b>	<b>54</b>
<b>5.</b>	<b>Recommendations</b>	<b>62</b>
<b>6.</b>	<b>Wider Discussion</b>	<b>67</b>

## **Figures**

Figure 1: Summary of Value Points Adopted for Each Property Type (based on assumed floor areas)	8
Figure 2: Simplified Example of Gross Development Value Calculation	12
Figure 3: Summary of Sums Payable by RSL to Developer for Completed Affordable Units	18
Figure 4: Example Results from 25 Unit Housing Scheme - 80% Affordable Rent/20% Shared Ownership – Value Points 2 to 6 – Residual Land Values	33
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	34
Figure 6: Example Results from 25 Unit Housing Scheme – 30%, 40% & 50% Affordable Housing – Variations to Tenure Mix – Value Point 4 only	35
Figure 7: Example Results All Schemes – 40% Affordable Housing (60% / 40% Tenure Mix) – Value Point 4 only	36
Figure 8: Example Results 5 Unit Housing Scheme – Value Point 4 only	38
Figure 9: Example Results 25 Unit Housing Scheme – Value Point 4 only	39
Figure 10: Comparison of Appraisal Results With and Without Grant - Value Point 4 only	40
Figure 11: Comparison of Appraisal Results at 15% and 20% Developer's Profit - Value Point 4 only	43
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	44
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)	44
Figure 14: Indicative Financial Contributions in lieu of Affordable Housing Figures Used as Basis for Appraisals (source: extracted from Appendix VI)	49

## **Appendices**

Appendix I	Development Scenarios
Appendix II	Summary of Residual Land Value Results by Value Point (1-7), 15% Developer's Profit, Without Grant
Appendix III	Summary of Residual Land Value Results (all Value Points and Schemes) and Site by Site Residual Land Value Graphs
Appendix IV	Summary of Residual Land Value Results – Comparison of 15% and 20% Developer's Profit With and Without Grant
Appendix V	Summaries of Residual Land Values in £ per Ha and Site by Site Graphs in £ per Ha
Appendix VI	Results of Financial Contributions in lieu of on-site Affordable Housing Calculations
Appendix VII	South Worcestershire Property Values Report
Appendix VIII	Glossary of Terms

## **EXECUTIVE SUMMARY**

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### **Background and Introduction**

- In formulating planning-led affordable housing policies three Local Authorities - Worcester City Council, Malvern Hills District Council and Wychavon District Council - jointly commissioned Adams Integra to study the effect of various policy positions on development viability.
- This was in the context of building the evidence base for, and considering, the affordable housing content of the South Worcestershire Joint Core Strategy, for which draft Preferred Options were being drawn up.
- The study is to be considered alongside the Councils' developing wider evidence base, including on the local housing market and housing needs, and information on the range of site types which are likely to come forward.
- Maintaining the viability (in this sense meaning the financial health) of residential development schemes is crucial to ensuring a continued supply of housing of all types. The study addresses only affordable housing which is required to be provided within market housing schemes under the existing established approach of setting site size thresholds (point(s) at which the affordable housing policy is triggered) and proportions of affordable housing to be sought at those points. For the purposes of this report the affordable housing does not include any "low cost market" or similar dwellings which would not comply with the definition of affordable housing in the Government's relevant guidance, Planning Policy Statement 3 (PPS3). PPS3 is the key guidance relating to planning-led affordable housing.
- The study is based on carrying out a large number of developer-type appraisals. These use well established "residual land valuation" techniques to approximate the sum of money which will be left for land purchase once all the development costs, including profit requirements, are met (hence "land residual"). The study methodology is settled and tested, having been used in a wide range of Local Authority locations for this purpose.
- We vary the affordable housing assumptions across the range of appraisals and the outcomes inform our judgments on the likely workability of various policy positions from a viability viewpoint. Having fixed development costs and profit requirements, we can see the impact on development viability caused by variations to the amount and type of affordable housing. Two of the key ingredients to ensuring viable development are sufficient land value created by a development (relative to existing or alternative use values; or perhaps to an owner's particular circumstances) and adequate developer's profit in terms of risk reward.

- Affordable housing impacts development viability because it provides a significantly reduced level of revenue to the developer compared with market level sales values.

### **South Worcestershire Property Market and Viability Findings**

- Before commencing modelling we researched the local residential property market to inform our range of appraisal assumptions and to help set the context for considering the outcomes.
- We have seen a range of property values throughout the area, as would be expected. Typically, new build values appear to be more consistent than the variety in the overall market tends to suggest – with variations occurring more locally rather than necessarily from one Council area to another.
- The market is particularly difficult to assess at present, and the study picks up on the well documented “credit crunch” issues which have severely weakened demand and led to the level of current uncertainty. The market will need to be monitored by the Councils as part of their normal processes, to enable them to plan and perhaps to consider contingency measures, depending on delivery experiences in the coming months.
- Overall, the value levels seen do not support a strong viability picture in South Worcestershire generally. Overall, the results might be described as mixed. The lower and even some mid-range values produce poor viability outcomes. These have tempered our judgments and mean that the targets we are able to support are ambitious, but necessarily so given local housing needs.
- This tone of viability findings is effectively amplified by current market conditions, and could deteriorate. However, it could also improve with more regular market conditions, based on the attractiveness of the overall offer that the area provides, and the strength which the local market has seen.
- Whilst we have to consider the particular market conditions now in coming to our recommendations, those are very likely to change in some way over a short period of time in relation to the planning periods being considered. We do not consider that it is appropriate or realistic to set strategic policies and targets based on a snapshot of current market features alone. Such an approach could mean regularly varying policy. That could lead to potential inequities and requirements that are uncertain.
- When considering delivery based on ambitious targets, particularly in the short term as policy expectations change and we have very difficult market conditions, it is vital that the Councils continue to apply policy with flexibility where needed. As a part of this, the current financial conditions mean that the

Councils may need to prioritise planning obligations requirements within overall objectives and targets.

## **Recommendations**

- An ambitious headline policy target of 40% affordable housing (applicable generally at a site size threshold of 15 or more dwellings).
- A simple sliding scale of affordable housing requirements to be set out in respect of sites of 5 to 14 dwellings. This means a lowered threshold for on-site provision of 5 dwellings, and stepped affordable housing requirements, increasing with site size, up to the 15 unit threshold. This has the effect of tapering the policy impact. It reduces the size of the steps to some extent, and the potential inequity of a single arbitrary threshold point. The study explains the viability issues relating to the smaller sites, which point to the benefits of a sliding scale approach especially at this stage of policy development.
- There may be scenarios where more than 40% affordable housing could be sought dependent on needs and site specifics (as mentioned below, and the report picks up on these), but not as a policy headline.
- The study gives support, from a viability perspective, for the principle that all residential developments should contribute to affordable housing thereby optimising contributions on an equitable basis. This could be achieved by requiring appropriately judged financial contributions from sites of 1 to 4 dwellings and on-site affordable housing provision on sites of 5 or more (as above). The study comments on potential issues with requiring smaller sites to provide affordable housing on-site.
- To develop policy wording which sets clear targets as a basis for the practical, negotiated approach, acknowledging the relevance of site viability.
- To build on the approach through the development of DPDs and/or SPDs to set out detail which explain the working practices and help to guide expectations. This could include work on larger/allocated sites which might be considered in the context of increased requirements, subject to housing needs and development viability. This might be most relevant to Greenfield release sites. On some such sites, as part of exploring overall scheme potential and make up at early inception stages, there may be scope to seek in excess of 40% affordable housing (perhaps up to 50%). This will be subject to site specifics including overall infrastructure (planning obligations) costs, site conditions and values relationships (which will be a key factor in any additional scope over the 40% level).

- Acknowledging current market conditions in particular, the Councils will need to approach site by site delivery in an adaptable way, reacting to viability issues which may arise. This key point about the flexible, practical application of policy always applies, as the study emphasises, but it is likely to be in focus particularly in the market conditions we have seen both locally and nationally during the study period.
- The Councils will need to define and consider how they will approach the “low cost market” housing which may be required in addition to the affordable housing policy targets which this study covers. Adams Integra has assumed that to be a part of considering overall dwelling mix rather than being further housing which is also subsidised in some way. We recommend that this aspect is clarified and that these elements of the overall mix are considered more distinctly.