

Hastings Borough Council



Local Development Framework: Housing Sites Viability and the Impact of Affordable Housing

***Report for the consideration of
Hastings Borough Council:***

This document does not constitute Council Policy

March 2011



**ADAMS
INTEGRA**

Adams Integra
55 West Street
Chichester
West Sussex
PO19 1RP

T: 01243 771304
F: 01243 779951

E: enquiries@adamsintegra.co.uk
W: www.adamsintegra.co.uk

Contents

| | | |
|-----------|---|-----------|
| | Executive Summary | v |
| 1. | Introduction | 1 |
| 2. | Methodology and Assumptions | 6 |
| | Background | 6 |
| | Residual Land Value (RLV) Appraisal Methodology | 7 |
| | Property Values and Market Backdrop | 11 |
| | Gross Development Value (GDV) | 16 |
| | Developer's Profit | 17 |
| | Model Scenarios, Property Types, Size and Mix | 18 |
| | Affordable Housing Transfer (to RP) – Method of Payment | |
| | Calculation and Type of Property Transferred | 20 |
| | Indicative Site Area, Scheme Density and Resulting RLV | 25 |
| | Other Assumptions | 25 |
| | Wider Research | 30 |
| | Stakeholders and Consultation | 31 |
| | General Notes | 31 |
| 3. | Results and Related Commentary | 34 |
| | Background | 34 |
| | Property Values | 37 |
| | Indicative Value Comparisons | 42 |
| | Results Trends | 45 |
| | Schemes Above Existing 15 Unit Affordable Housing Threshold | 46 |
| | Sites Below the Existing Affordable Housing Threshold and Potential | |
| | Sliding Scale | 52 |
| | Potential to seek financial contributions – smaller sites | 58 |
| | Social Housing Grant (or equivalent other subsidy) & Tenure Mix | 63 |
| | Developer's Profit | 69 |
| | Carbon Reduction Measures | |
| | (Code for Sustainable Homes & Renewables) | 71 |
| | Increase in Planning (infrastructure) Obligations Costs | 74 |
| 4. | Conclusions & Recommendations | 77 |
| 5. | Reminders and Wider Discussion | 88 |

Figures

| | |
|---|----|
| Figure 1: Simplified Example of Residual Land Valuation calculation – Basic structure (for illustration purposes only) | 9 |
| Figure 2: Summary of Value Points Adopted (example prices based on assumed floor areas, but also applicable to other dwelling types and sizes) | 13 |
| Figure 3: Summary of Indicative Sums Payable by RP to Developer for Completed Affordable Homes – Affordable Housing Revenue Assumptions | 23 |
| Figure 4: Average asking price analysis and trends – by neighbourhood area – including indicative hierarchy | 37 |
| Figure 5: New Build Residential Property Values by Ward Area (alongside Estate Agent commentary) | 39 |
| Figure 6: New Build Range of Values | 41 |
| Figure 7: 15 Unit Housing Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (30 dph) | 48 |
| Figure 8: 25 Unit Flatted Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (45 dph) | 48 |
| Figure 9: 25 Unit Mixed Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (35dph) | 49 |
| Figure 10: 50 Unit Flatted Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (325 dph) | 49 |
| Figure 11: 100 Unit Mixed Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (35 dph) | 50 |
| Figure 12: 5 Unit Housing Scheme Results (Base Appraisals) (35 dph) | 53 |
| Figure 13: 5 Unit Flatted Scheme Results (Base Appraisals) (75 dph) | 53 |
| Figure 14: 10 Unit Housing Scheme Results (Base Appraisals) (35 dph) | 54 |
| Figure 15: 10 Unit Flatted Scheme Results (Base Appraisals) (75 dph) | 54 |
| Figure 16: Comparison of Appraisal Results With and Without Grant – Value Point 3 only; base assumptions (100% social rented affordable housing) | 64 |

| | |
|---|----|
| Figure 17: Comparison of Appraisal Results With and Without Grant with variations to tenure mix (Value Point 3 Only) | 65 |
| Figure 18: Comparison of Appraisal Results Varying Developer’s Profit (Value Point 3) | 70 |
| Figure 19: Timeline for Code for Sustainable Homes Compliance | 72 |
| Figure 20: Comparison of Appraisal Results – Increasing Code for Sustainable Homes Requirements – Value Point 3 Only | 73 |
| Figure 21a: Comparison of Appraisal Results from varying Infrastructure/ planning obligations/other costs – 100%/0% Tenure Mix | 75 |
| Figure 21b: Comparison of Appraisal Results from varying Infrastructure/ planning obligations/other costs – 50%/50% Tenure Mix | 75 |
| Figure 22: New Build Range of Values | 77 |
| Figure 23: Summary Scope for consideration of Headline Policy (PDL) | 86 |
| Figure 24: Summary Scope for consideration of Policy and future Work (Greenfield; Subject to later scheme specific review) | 87 |

Appendices

| | |
|-----------------------|--|
| Appendix I | Development Scenarios |
| Appendix II | Base Appraisals¹ Residual Land Value Results (£3,000 per Unit Infrastructure Cost) |
| Appendix IIa | Residual Land Value Results - 70%/30% Tenure Mix |
| Appendix IIb | Residual Land Value Results - 50%/50% Tenure Mix |
| Appendix IIc | Residual Land Value Results - £10,000 per unit Infrastructure Costs; All Tenure Mixes |
| Appendix IId | Residual Land Value Results - £20,000 per unit Infrastructure Costs; All Tenure Mixes |
| Appendix IIe | Residual Land Value Results – Without Grant |
| Appendix IIf | Residual Land Value Results - 20% Developer’s Profit |
| Appendix IIg | Residual Land Value Results – Sustainable Construction & Design Increased Attainment |
| Appendix IIh | Outlines results that look at the cumulative impact of costs on one scheme type at Value Point 3. |
| Appendix III A | Potential financial contributions approach (OMV less Payment to Developer) – Schemes of 1 to 14 dwellings |
| Appendix III B | Potential financial contributions approach (land value based) – Schemes of 1 to 14 dwellings |
| Appendix III | Hastings Borough Council – Property Values Report |
| Appendix IV | Details of Stakeholder Consultation |
| Appendix V | Glossary |

¹ Base appraisals assume base build costs; CfSH Level 3; 10% renewables; 17.5% developer’s profit, 100% / 0% tenure mix; £3,000 per unit planning infrastructure costs, inclusion of grant.

Executive Summary

This summary first seeks to briefly introduce and explain the study. It then provides a quick overview of the main study findings and goes on to outline the key recommendations.

For detailed information on the study methodology, results and conclusions it will be necessary to refer to the full text and appendices that follow this summary.

Background and Introduction

- 1 In the process of considering and developing its planning-led affordable housing policies, the Council commissioned Adams Integra to study the suitability of various potential policy positions – in terms of likely impact on residential development viability. Our consultants have maintained close contact with the Council’s officers throughout the study period, sharing findings as those have emerged.
- 2 The purpose of this economic viability assessment is to contribute to a robust evidence base to support the preparation of the Council’s Core Strategy, other Local Development Framework (LDF) documents and any other planning policy documents relating to affordable housing. It acts as an update by building upon the previous housing and affordable housing study work that Adams Integra completed for the Council in 2007 (Study of Housing Sites Viability and the Impact of Affordable Housing - July 2007).
- 3 The Government’s key statement on planning for housing, Planning Policy Statement 3 (PPS3), requires local authorities to enable the bringing forward of a suitable, balanced housing mix including affordable housing. It confirms the well-established route for the principles of seeking integrated affordable housing within private market housing developments. It encourages local authorities to make best use of this approach bearing in mind their local markets and circumstances. As a part of this, PPS3 also requires local authorities to consider development viability when setting policy targets for affordable housing.
- 4 This study was therefore carried out against the backdrop of PPS3, in the context of building the evidence base for, and considering the affordable housing content of, revisited Policies for the Council’s LDF. It is to be considered as part of, and alongside, the Council’s developing wider evidence base, including information on the local housing market and housing needs, and information on the range of site sizes and types which are likely to come forward.
- 5 Maintaining the viability (in this sense meaning the financial health) of residential development schemes is crucial to ensuring the release of sites

and thus a continued supply of housing of all types. The study focuses on affordable housing that is required to be provided within market housing schemes. This is through the existing established approach of setting scheme/site size thresholds (point(s) at which affordable housing policy is triggered) and proportions (percentages) of affordable housing to be sought at those points.

- 6 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 sums of money which will be left available for land purchase once all the development costs, including profit requirements, are met (hence "land residual"). The appraisals are based on a widely applied calculation structure, common also to tools such as the Homes and Communities Agency (HCA) Economic Appraisal Tool and similar approaches used by developers and others.
- 7 The basic study methodology is settled and tested, having been used in a wide range of local authority areas for this purpose and successfully supported a wide variety of policy approaches in both rural and urban areas. The assumptions, detail and particular application of calculations are varied to ensure local relevance. We make an appropriate strategic overview, as fits the LDF process, in a way that is both influenced by, and feeds back out to, the local characteristics and approach.
- 8 We vary the affordable housing assumptions across the range of appraisals. The outcomes inform our judgements on the likely suitability 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. We can also consider the impact of variations to a wide range of other assumptions, as the study sets out.
- 9 Two of the key ingredients to ensuring viable development are sufficient land value created by a development (relative to existing or alternative use values, and/or perhaps to an owner's particular circumstances), and adequate developer's profit in terms of risk reward and the profile of a scheme from a funder's point of view. Throughout the appraisals we maintain developer's profit whilst reviewing the scope to create land value depending on the affordable housing and other assumptions considered, and as those vary.
- 10 Affordable housing impacts development viability mainly because it usually provides a significantly reduced level of revenue to the developer compared with market level sales values. Essentially it is viewed as a scheme cost, therefore, which is largely passed on to the landowner by way of reduced land value. It is these dynamics that we explore through this study, in

considering the implications of a wide range of factors and costs on market residential development viability and its ability to provide affordable housing.

- 11 In considering all of this, we are looking for suitable policy targets, based on an appropriate balance between the opposing tensions of affordable housing need levels and scheme viability.

Property Market characteristics and Viability Findings

- 12 Before commencing work on appraisals, we researched the local residential property market to inform a range of appraisal assumptions, and to help set the context for considering the outcomes. This research is included within our Property Values Report, which is to be found at Appendix III to the full study document. That includes market commentary.
- 13 Through the run up to the study period, relatively poor property market conditions prevailed off the back of the economic recession triggered in late 2007. Whilst earlier in 2010 we saw some more mixed signs, and increased stability, over this study period there is still a significant degree of uncertainty around the market owing to the continued weak economic backdrop. This market uncertainty continues at the point of publishing this report.
- 14 In tune with the strategic overview needed through this study, we have considered a broad range of open market property sales value levels (house prices) that could relate to and drive new build housing schemes in Hastings Borough – as may be seen with varying scheme type and location and/or through time with varying market conditions. We did not find sufficient evidence to point to a variation of affordable housing targets for different localities and to justify the more complex policy scenario that would lead to. We are suggesting a continued simple Borough-wide approach to targets.
- 15 This exercise led to the formation of 5 ascending Value Points (numbered 1 to 5) in all, to describe the overall range of assumptions on values; i.e. from £1,600 per sq m (about £150 per sq ft) to £3,200 per sq m (about £300 per sq ft). We found the core part of the range to be around £2,000/ sq m (about £185/sq ft) to £2,800 (about £260/sq ft). [In each case here we are referring to the completed sales values in the way in which developers and estate agents tend to use as a key way of assessing these and a site's potential. Similarly, most appraisal tools are set up for the input of values information in this format. Housing per m² means per square metre; per ft² means per square foot – these terms are used throughout the study and enable us to consider pricing in a way which can more readily be applied to varying dwelling types.]

- 16 Taking the strategic view required and bearing in mind we should not focus only on the poorest market conditions experienced, in terms of local variety and also typical new build value levels we expect to be seen in the foreseeable future, we consider that our Value Point 3 (values at around £2,400/sq m (£223/sq ft) represent the most relevant part of the overall range when reviewing the study results.
- 17 These indications are summarised in the table below, which is also repeated within the report study text. This cannot be regarded as a definitive picture in any way because in practice particular scheme characteristics and specific location are also key influences on values. Variety will be seen in practice, Borough-wide.

| Value Point | Example Property Type | 1-Bed Flat (50m ²) | 2-Bed Flat (67m ²) | 2-Bed House (75m ²) | 3-Bed House (85m ²) | 4-Bed House (100m ²) | Guide – £ per m ² |
|---------------|-----------------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|----------------------------------|------------------------------|
| | | | | | | | |
| Value Point 1 | | £80,000 | £107,200 | £120,000 | £136,000 | £160,000 | £1,600 |
| Value Point 2 | | £100,000 | £134,000 | £150,000 | £170,000 | £200,000 | £2,000 |
| Value Point 3 | | £120,000 | £160,800 | £180,000 | £204,000 | £240,000 | £2,400 |
| Value Point 4 | | £140,000 | £187,600 | £210,000 | £238,000 | £280,000 | £2,800 |
| Value Point 5 | | £160,000 | £214,400 | £240,000 | £272,000 | £320,000 | £3,200 |

- 18 The study acknowledges that very local variations in value levels are going to be key to site specifics when combined with the other viability factors discussed, but this wider approach sets a background for that level of consideration and is appropriate for strategic policy development.
- 19 Reviewed alongside the wide range of factors considered and also treated as variables within the range of study assumptions (for example, including wider planning obligations, affordable housing mix, grant funding, sustainability, developers profits and land values) overall the results create a mixed picture of development viability. This includes scenarios where relatively strong local values often produce good viability outcomes, but also where lower values and/or increased overall burdens on schemes reduce what they are likely to support by way of planning obligations packages (including affordable housing content).
- 20 All in all this informs our strategic overview for clear policy development. It reflects the likely varying characteristics of different site types and scheme sizes rather than being driven by locality variety within the Borough, which distinctions in our experience are often blurred. In our view, the Council should consider varying policy to respect the sensitivities and varying land value comparisons that usually apply, so that Borough-wide policies would be set up based on varying affordable housing proportions (target percentages)

for larger Brownfield and Greenfield schemes, and associated with a range of threshold points (scheme sizes at which the percentages apply).

- 21 We consider that in the overall context of the Borough - with varying values - and assuming variable market conditions over the LDF period a 25% headline would be a sufficiently challenging and appropriately pitched target generally for application to Brownfield (previously developed) sites of 15 dwellings or more, and in the same strategic context a target set at a level at up to, and not more than, 40% on Greenfield sites accommodating 15 or more dwellings. There is also a possibility that these target positions could be considered for taking effect at 10 dwellings, as an alternative which of course would be less market sensitive compared with linking them to a threshold of 15.
- 22 A range of other requirements needs to be considered alongside affordable housing. Beyond these affordable housing levels, any target would be potentially too ambitious in our view – given the range and direction of wider planning obligations and other development costs, as well as funding uncertainties. This is referred to as the collective burden or impact on the viability development schemes. With this in mind, a key factor moving forward could well be rising build costs associated with meeting increasing Code for Sustainable Homes or other/equivalent standards. The study results point to this being the case particularly beyond Code Level 4 (or equivalent improvement) and therefore in the period 2013–2016 and beyond as increased requirements are to come into effect assuming the currently proposed timeline on this is here to stay (first affecting publicly funded affordable housing; then market housing as well). Adding to this picture, affordable housing provision needs to be about quality and mix, not just numbers.
- 23 On the other hand, we consider that a headline target of less than 25% would not go far enough in terms of the Council’s obligations to optimise its strategies for providing affordable housing in the Borough. It is a question of finding an appropriate balance to guide and inform the bringing forward of suitable mixed housing.
- 24 Recognising that smaller sites are not necessarily any less or more viable than larger ones (relative outcomes usually come down to site specifics rather than size), our view is that, alongside these headlines, lowered thresholds applied sensitively with a combination of reduced affordable housing proportions and potentially a financial contributions approach provide the scope to make up an equitable and workable overall approach.
- 25 Lowered thresholds can be viewed as a balancing factor against our suggestion to keep the headline targets (for the larger sites) at a realistic level for Hastings in comparison with many other South East authority target levels that are generally supported by a higher tone of values. If progressed

as part of the approach, an element of financial contributions has the potential to act as a useful additional housing enabling tool, especially in times of reduced funding availability uncertainty, such as this. A financial contributions approach would apply only to the smallest schemes (those of fewer than 5 dwellings which may come within the policy scope but in our view tend not to readily suit the on-site inclusion of affordable housing; as a general guide only).

Overview of main Recommendations and Key Points

- 26** **Headline affordable housing targets applicable to schemes of 15 or more dwellings - set at 25% in respect of Brownfield (previously developed) land; up to 40% in respect of Greenfield land. Applied Borough-wide.**
- 27** **Scope to lower thresholds as part of a more equitable approach overall, but bearing in mind the sensitivities and therefore based on sliding scale type principles - to include lower target proportions for reducing scheme sizes.**
- 28** **An affordable housing target not exceeding 25% put forward for Brownfield schemes of 10-14 dwellings, again Borough-wide, but with 20% suggested for this bracket as part of a more market sensitive approach.**
- 29** **Potential scope to link the Greenfield headline target (set at a point up to 40%) with smaller sites – of 10 or more dwellings.**
- 30** **A reduced affordable housing target of 20% put forward for all schemes of 5 to 9 dwellings.**
- 31** **In respect of schemes of fewer than 5 dwellings, we suggest seeking financial contributions towards meeting affordable housing needs rather than rigidly seeking on-site provision as the norm. This should be combined in any event with a target set so as not to exceed a 20% equivalent affordable housing contribution, and with a 10% target recommended for consideration at this level.**
- 32** In all cases the **policy positions should be set out as clear targets**, to help inform land value expectations and form the basis for a continued practical, negotiated approach. The Council will need to continue to be responsive and adaptable in applying the detail site by site, given the case specifics and looking to achieve the best affordable housing outcome achievable in the particular circumstances.

- 33 Policy wording will **need to acknowledge the application of flexibility through the negotiated approach and the relevance of considering development viability** on case specifics within this.
- 34 The Council will also need to consider the mathematical subtleties of its selected approach as part of providing clarity as it adds detail to the high level considerations – for example, how numbers rounding and net/gross (new dwellings numbers) application affects the working of the policy positions, particularly for smaller sites where such factors will tend to have a greater influence on outcomes.
- 35 **The affordable housing solution best suited to a particular site will be a product of this range of factors and how they come together to influence the viability of the scheme and meet overall planning objectives including the nature of the scheme (design, type, location, etc); values and affordability; management factors; funding and tenure; detailed application of the calculation (including affordable housing product and numbers rounding).**
- 36 We consider that these proposals are suitably pitched to enable the Council to set out a **clear approach at Core Strategy level, which can be built on through further layers of detail that can be more readily updated – Supplementary Planning Documents and other guidance.**
- 37 **The Council will need to monitor delivery experiences and outcomes** as part of this, and be prepared to review the detail allied to its high level strategy approach. Through seeking to apply the headlines in this way it will be better equipped to deal with new initiatives such as the emerging affordable rented tenure form, changing funding availability/criteria and other scheme viability influences.

Executive Summary ends

1 Introduction

1.1 Background

1.1.1 Hastings Borough Council is producing its Local Development Framework (LDF), in line with the requirements of the Planning and Compulsory Purchase Act 2004. Through a number of key policies, the LDF will guide and control the future use and development of land over the plan (LDF) period.

1.1.2 To help inform and influence the policies on affordable housing provision within the Core Strategy Development Plan Document (DPD) of the LDF, the Council commissioned Adams Integra to carry out an update to the previous affordable housing viability study² carried out in 2007. One of the key objectives of the original study was to gain an understanding of the development economics associated with providing planning-led affordable housing through market housing development schemes in Hastings Borough. It examined how the development viability of market housing sites is affected by various potential policy options for affordable homes. The policy options explored covered a range of potential combinations of affordable housing thresholds and proportions, and also looked at varying affordable tenure mix and public subsidy assumptions.

1.1.3 Hastings Borough's Local Plan (and existing policy) was adopted in 2004. This set out affordable housing policies as follows:

"...The Council will negotiate with developers to secure an element of social rented housing within all suitable new residential developments of 15 or more dwellings (or 0.5 or more hectares in size, irrespective of the number of dwellings). A minimum of 25% social rented housing will be sought on previously developed ('Brownfield') sites and a minimum of 30% social rented housing on Greenfield sites"

(Policy H6 of the Hastings Local Plan 2004).

1.1.4 In May 2008, the Council released for consultation a Preferred Approaches document which set out the key issues that the Core Strategy will have to address and the approach the Council will take to tackle them. Preferred Approach 23 sets out the Council's proposed policy for affordable housing based on the findings of both the Housing Needs Survey (2005) and the Housing Market Assessment (2006), and taking into account the findings of Housing Sites Viability Study (2007). The policy states that *"the Council will secure 25% affordable housing on previously developed sites of 15 or more dwellings and 40% affordable housing on Greenfield sites"*³.

² Adams Integra – Study of Housing Sites Viability and the Impact of Affordable Housing (July 2007)

³ Hastings Borough Council – Shaping Hastings: Hastings Local Development Framework Core Strategy Preferred Approaches (May 2008)

1.1.5 The update is required to ensure that that the affordable housing policy within the Core Strategy continues to be supported by robust, credible and up-to-date evidence, and to recommend policy options that are likely to be viable taking the necessary strategic view. It takes into account changes to property market conditions, build costs (including sustainable construction and design standards) and other planning obligations.

1.1.6 This update study assesses the (financial) capacity of residential development schemes in the Borough to deliver affordable housing without their viability being unduly affected. This is in the context of developing suitable affordable housing policies which aim to strike an appropriate balance between affordable housing needs and scheme viability, bearing in mind the need to also maintain overall housing supply. Specifically the study is carried out in accordance with Planning Policy Statement 3 (PPS3)⁴ - Housing and its accompanying document 'Delivering Affordable Housing'⁵. Paragraphs 27-30 of PPS3, in particular, deal with the Government's approach to, and key guidance to local authorities on, seeking affordable housing through Local Development Documents (LDDs). Paragraph 29 is the focus of this, within which local authorities are required to undertake an informed assessment of the economic viability of any proposed affordable housing thresholds and proportions.

1.1.7 The main objectives of this study are:

- A Borough-wide affordable housing viability assessment for housing delivery over the lifetime of the Core Strategy DPD.
- A viability assessment which supports the affordable housing requirements that will be set out as policy in the emerging Core Strategy DPD and other documents that will form part of the Local Development Framework.
- An assessment of potential development scenarios of sites that should be used to reflect viability in the Borough overall, in terms of scope to deliver the affordable housing requirements; and,
- Consideration of specific factors that could impact significantly on the viability of schemes including residential values, Code for Sustainable Homes, other planning obligation costs, etc.

1.1.8 Importantly, the Council's proposed policies do not include a lower threshold than that set out in PPS3. The 2007 study did, however, recommend that this area of policy be kept under review. In addition to

⁴ Communities and Local Government - Planning Policy Statement 3: Housing (Replacement version June 2010)

⁵ Communities and Local Government - Delivering Affordable Housing (November 2006)

reviewing the policies on the provision of on-site affordable housing above the current affordable housing threshold (i.e. provision integrated within market housing sites), the study therefore also includes wider work to investigate the viability of alternative approaches to reduce the threshold. This includes the potential introduction of a sliding scale of affordable housing requirements through a lower proportion of on-site affordable housing on sites below the existing affordable housing threshold.

- 1.1.9 The study tests the impact of a range of affordable housing proportions, in order to generate a feel for viability based on proposed policy and how that varies with potential changes to those. The key outcomes are advice on the thresholds and proportions of affordable housing that are considered to be broadly viable and therefore suitable as targets and whether those should vary by scheme type and size.
- 1.1.10 We use the impact of varying affordable housing requirements on Residual Land Value (RLV) as our measure in putting forward our judgements and guidelines. This process involves comparing the likely impact of (changes to RLVs from) a range of potential policy options. So the study examines the variations in approximate RLVs indicated within the Borough on this basis, as we envisage policy changing, and the implications of these variations are included in the assessment of site viability and deliverability.
- 1.1.11 It must be recognised that this planning-based tool for securing affordable housing relies on market-led processes. Throughout the study, an emphasis is placed on the need for a practical approach to be taken by Council, bearing in mind development viability – with an emphasis on that particularly given the current and likely short-term market conditions. By this we mean the Council being adaptable also to market housing scheme needs, being prepared to negotiate and consider varying solutions and being responsive to varying scheme types and circumstances. The make-up of a scheme will need to be considered in terms of how the various influences of the market, affordability, tenure mix and successful integration requirements will best come together. In formulating the detail from the targets basis, this will involve considering a range of factors such as local needs, scheme location and type, design, affordability, dwelling mix, tenure, funding, numbers rounding, management arrangements and the like. It will mean taking a view on how these things come together to impact and benefit schemes, by looking at what works best to optimise provision in the given circumstances.
- 1.1.12 The study has been carried out at a time of significant change. We were instructed and carried out the research and appraisals prior to the Government's proposal of a new form of Affordable Rent in the Autumn of 2010, as a significant example of this. At the point of closing the study, the industry in general is learning more about this and we are waiting to

see how Registered Providers (RPs) of affordable housing (including former RSLs) and others will react to the HCA's February 2011 new affordable housing funding framework in assessing risks and opportunities, etc, as part of weighing-up the financial implications and therefore potential Business Plan impacts of these changes.

- 1.1.13 At the point of preparing the study in 2010, 'affordable rent' was widely recognised as the term for 'social rented' tenure – i.e. lettings at or around HCA Target Rent levels, the most affordable end of the potentially wide spectrum of affordable housing tenure products. On a review of this report text post introduction of new 'affordable rent' (i.e. rentals at up to 80% market rent levels, including service charges) we have aimed to acknowledge and reflect the changes – but bearing in mind that much more needs to be known about detailed RP reactions and funding framework outcomes in order to inform what will be seen in time with respect to a range of site specifics in any given area. In our view these factors and current uncertainties need not affect the necessary strategic nature of this study, and recognised affordable housing targets approach which local authorities need to pursue – policy development work cannot be paused indefinitely pending further information – this is all likely to be quite fluid for some time.
- 1.1.14 It follows that, where possible, the study provides parameters and options for the Council to consider for affordable housing policy implementation, from a viability perspective. The Council will need to consider these findings alongside wider policy considerations and overall priorities.
- 1.1.15 In carrying out this assessment from the necessary strategic viewpoint, it is assumed that there will be a variety of market conditions, including periods of return to a more stable economic and property market climate. By this we mean whereby improved access to mortgage and development finance, on appropriate terms, will promote demand and re-stimulate more normal levels of development activity than we have seen while working in Hastings Borough at the present time. The same applies to all such studies which look at affordable housing supplied through market-led schemes.
- 1.1.16 Although this is effectively an update from the 2007 study, given the time between the studies and the changes to a number of key factors (including the property market, design standards, etc) we have decided to include all the detailed information required to enable this document to be read as a standalone piece of work without the need to refer to the 2007 report. This study is deliberately more strategic in line with all of our recent experience on work we have carried out for policy development. This has been informed by some of the previous study assumptions in terms of shaping the site typologies, densities, etc, to ensure an appropriate strategic approach but can be regarded as superseding the original study.

1.1.17 The Methodology and Assumptions used are described in Chapter 2; the Results are discussed in Chapter 3; the Conclusions and Recommendations are set out in Chapters 4. Chapter 5 includes Reminders and Wider Discussion points in relation to affordable housing delivery. The tables, graphs and associated information referred to throughout this study are appended to the rear of the document.

2 Methodology and Assumptions

2.1 Background

- 2.1.1 A number of factors need to be taken into account when considering bringing schemes forward that include affordable housing. It is necessary to determine what effect changes to affordable housing proportions, variations to tenure mix and other development requirements or costs may have on the value of a potential development site – and therefore whether that site may continue to come forward given those requirements. It is important not to consider affordable housing as the sole source of declining development viability – as this study discusses, there are a range of interwoven factors.
- 2.1.2 This study investigates residential development scenarios across a range of scheme sizes. The scheme types are set out in Appendix I – Development Scenarios. The site typologies are based loosely on the sites and schemes used for the 2007 study. Where necessary we have altered the scheme size to ensure that the viability of the affordable housing policies being tested is carried out at specific potential thresholds that we need to investigate (for example, sites of 5, 10 and 15 units are included in this update). We have also altered and added to the site typologies to ensure we include a sufficient variety of scheme types. These should reasonably reflect a range of scheme types coming forward now and in the future, though it is acknowledged that a strategic overview cannot, and does not need to cover the very wide range of potential scenarios that may be seen in practice.
- 2.1.3 An alternative approach to testing development viability on a strategic basis could be to investigate the development viability with reference to actual sites. We have chosen an approach where we have effectively “notionalised” the sites (created site typologies) for a number of reasons including:
- Our established approach to this viability work, including the use of notional sites/site typologies, has been tested successfully through the former Local Plan Inquiry and current Development Plan Examination processes.
 - Understandably, there can be difficulties in obtaining sensitive information from developers and landowners in relation to actual sites. This leads to appraisals of actual sites becoming heavily assumption-based in any event.
 - The use of actual sites affects our ability to compare outcomes ‘like with like’ to assess the impact of varying affordable housing

requirements – the key viability factor being studied. Affordable housing impacts can become blurred with, or by, other issues which vary from one site to another when specifics are examined in detail.

- Sensitivities with reporting, information and potential effect on future negotiations.
- Site sizes may not align to studying potential threshold points.
- An actual site approach can be very resource hungry and thus costly for this stage of the process.
- Ultimately, unless extensively applied (noting the previous point) and still assumption-based, an actual sites approach does not fit well with taking a strategic overview of the impact of potential affordable housing policies, when in fact sites vary so much.
- All noting that there is no published good practice guidance on a methodology to follow for carrying out development viability studies.

2.1.4 The outcomes of the appraisals based on the range of scenarios tested provides us with a scale of results (discussed in Chapter 3 and set out in full in the study Appendices) from which conclusions can be drawn as to the key factors and trends relevant to the Borough. This leads to discussion on how these might be considered in reviewing policy options, and then to policy recommendations.

2.2 Residual Land Value (RLV) Appraisal Methodology

2.2.1 In order to review the impact of proposed affordable housing policy on the range of sites appraised and across the scale of values considered for this strategic overview, it is necessary to determine a common indicator to ensure that comparisons are made on a like-for-like basis.

2.2.2 The key viability outcome and indicator for this study is the land value that can be generated where there is a predetermined and fixed level of developer profit assumed (alongside an allowance for all other assumptions that have been included and varied in this report). The study is not based on the notion of fixed land values with developer's profit varying as affordable housing or other requirements change. Land value expectations (and how those will inevitably need to be adjusted over time with changing markets in addition to changing planning and environmental requirements) are central to this work and to the ongoing negotiation and delivery processes. Local authorities and others involved in the process must recognise that developers need to make appropriate profits, and this work is not based on a premise that those should be eroded below

reasonable levels. This area is discussed further below, including at 2.5 – Developer’s Profit.

- 2.2.3 Assuming a developer reaches the conclusion in principle that a site is likely to be viable for development and worthy of consideration, an appraisal is usually carried out as part of fine-tuning the feasibility review and checking what price can be justified for the site purchase.
- 2.2.4 In this study we have to assume that a negotiation has occurred, or is under way, based on knowledge of the current development climate and planning policy requirements as they will apply to the scheme. To inform the review of outcomes from a range of potential policy positions (e.g. increased/decreased affordable housing proportions and site size thresholds), this study compares the viability results from the current policy requirements/approach with those likely to result from the potential variations under consideration.
- 2.2.5 Ultimately, the land values under review are a product of a series of calculations that provide a residual valuation based on both the specific form of development a site can accommodate, and its development costs. While the market uses a variety of approaches to appraise sites and schemes (including comparisons between sites – which is particularly difficult to do in a market of few transactions) in early stages of feasibility, a more detailed approach is necessary to understand how the value/cost relationship appears - as used in this study.
- 2.2.6 The simplest, most effective and widely understood way of checking site viability in most instances is via a residual land value (RLV) appraisal (see Appendix V – Glossary). We have developed our own spreadsheet tool for this purpose. In doing so we have made what we feel are reasonable assumptions but it must be noted that individual developers will have their own varying approaches, and a developer might also apply a different approach from one scheme to another. Consultation has been carried out with key stakeholders locally (see section 2.11).
- 2.2.7 A highly simplified example which groups various cost elements together and showing only the **basic structure** of the RLV calculation, is shown in Figure 1 below. **This is an illustrative example only and is not to be relied upon for calculation purposes.** It demonstrates, in outline only, the key relationship between development values and costs. This is a dynamic relationship and determines the amount left over (hence ‘residual’) for land purchase from the total sales value (the ‘gross development value’) of the site. It can be seen that as values increase but costs remain unchanged, there is more scope to sustain adequate developer’s profit levels together with, crucially, land values sufficient to promote the release of land for residential development.

Figure 1: Simplified Example of Residual Land Valuation calculation – Basic structure (for illustration purposes only)

| | |
|--|-------------------|
| Starting point is total sales value (“Gross Development Value”) | |
| Number of Units = | 10 |
| Sales Value = | £120,000 |
| Gross Development Value = A | £1,200,000 |
| Development Costs (build costs, fees, etc.) = B | £575,000 |
| Development Profit (@17.5% of Sales Value) = C | £210,000 |
| Land Purchase Costs and Planning Infrastructure (not including affordable housing element) = D | £75,000 |
| “Residual Land Value” (Gross Development Value - Development Costs - Profit - Land Purchase and Planning Obligations) = E | |
| A - (B + C + D) = E | £340,000 |

2.2.8 This method reflects one of the main ways of how development viability tends to be assessed. We have been able to verify our experience and thoughts on the structure of, and components within, the approach and indicative output land values through our contact with developers and their advisers, through our experience of site-specific appraisal work and comparison with inputs and outputs used in/by a range of similar tools.

2.2.9 The tool used for analysis in this instance runs a calculation that provides an approximate RLV, after taking into account assumed normal costs for site development. We do not allow for abnormal costs. Those can only be properly reflected with detailed site-specific knowledge. If such varying costs were to be considered within this study, it would affect our ability to accurately compare like with like, when assessing the impacts of affordable housing requirements. Any demonstrated abnormal costs will always need to be considered as part of scheme specifics on application of policy.

2.2.10 Accounted for within this RLV calculation is the inclusion of an affordable housing element, whereby the developer receives a payment from a RP –

including former Registered Social Landlords (former 'RSLs') - for a number of completed affordable homes provided within a market housing development. This level of receipt is based on a predetermined calculation, and it is not at a level comparable with open market values. Essentially, this (usually significantly) reduced level of revenue to the scheme, relative to market level receipts (sales values), is where the key viability impact of the affordable housing comes from.

2.2.11 In addition, an allowance for other planning infrastructure (usually in the form of Section 106 obligations) costs is also included. Although in practice these payments will be calculated on a site-by-site basis (depending on dwelling mix and location, etc), this study looks at a range of fixed overall costs (per dwelling) to determine the additional impact that varying planning infrastructure costs may have on development viability in tandem with other potential cost areas (e.g. – but not exclusively - renewable energy, Code for Sustainable Homes, etc). This fits with the necessary strategic overview approach, and can also aid the Council's wider thinking on collective costs and obligations. See paragraphs below (from 2.9) on Other Assumptions.

2.2.12 Assuming that a developer will require a minimum fixed profit margin on any given site to balance risk and often to underpin funding arrangements, beyond a certain point it is therefore the land value that will be affected by the introduction of affordable housing or other infrastructure requirements and obligations. In this sense (and although there can be positive cash flow effects similar to those from "off-plan" sales) affordable housing is viewed as a significant cost element within the developer's appraisals, in much the same way as other planning infrastructure requirements (planning obligations). This cost impact is seen through reduced land value (RLV) – the usual mode through which, effectively, the cost is passed on to the landowner. This then potentially affects the point at which a landowner will be prepared to release a site for residential development in comparison with other options they may have.

2.2.13 The results of the appraisal calculations show the indicative residual land values (RLVs) generated (in monetary terms); the RLVs as a percentage of the gross development value (GDV) and; the equivalent value per hectare (£ per ha). These give us indications of the strength of those RLVs after the various affordable housing and other assumptions are taken into account.

2.2.14 Where possible, the results are compared against potential existing/ alternative land use values. Those comparisons build on our acknowledgements that existing or alternative use values are often a key factor in determining viability outcomes. These comparisons help to inform our judgements and provide an indicator which is part of determining the likely viability of a scheme given an overview of the RLV results from a

range of appraisals. This aspect can only be highly indicative at this strategic overview level. In practice every site will have specific characteristics and its value will be determined by its type, location, use, economic lifespan of existing premises, marketability and development potential, etc; and the cost of creating/realising that potential use or maintaining an existing/ alternative use. Linked to this there can also be a level of incentive or price paid in excess of a particular established value level whereby under some circumstances an owner may require an additional level of incentive in order to release a site. This scenario will be highly variable and need to be borne in mind at the site-specific stage which sits beneath this strategic level. The setting of clear policy by the Council will be a key part of the adjustment and appropriate guiding of land value expectations over time.

2.2.15 Whilst briefly discussing existing/alternative use values it is worth mentioning that the commercial property market has been suffering and seen a greater degree of downturn, even, than the residential market as a consequence of the financial markets crisis. Although a generalised statement, demand for commercial property has fallen very dramatically with severe consequences for values. This factor needs to be borne in mind where the comparisons that are relevant are likely to change over time and the relative positions, in viability terms, of alternative proposals for sites could alter. An existing or alternative use value comparison (i.e. level of value that has to be reached or bettered in order for a site to come forward for residential development) will depend heavily on the extent to which a ready market exists for that existing or alternative use (i.e. the prospects of realising that value potential).

2.3 Property Values and Market Backdrop

2.3.1 In determining the range of modelling to be carried out, we use a scale of "Value Points" appropriate to the Borough area as a whole, rather than concentrate on the specifics of neighbourhood areas or centres (across which values can vary greatly in any event). This fits the strategic approach needed. It allows a more meaningful review of trends – how viability varies with the key driver of values. By taking a Value Points approach effectively we are considering what the viability of a particular scheme or site typology might look like if it were moved to a range of locations. The methodology also enables us to review the impact of changing market conditions as are likely to affect values over time. The resulting scope of outcomes therefore means we can see what happens as we move a particular scheme type around the Borough and/or expose it to varying market demand levels as could affect its values.

2.3.2 We undertook research into property prices, across the Borough as a whole in May 2010, to determine a realistic range of development values (property sales values) for each of our appraisals. The research was kept

open during the study period – so that we could also consider any further information that became available in interpreting the results.

- 2.3.3 We carried out a review of the pricing of all available and “sold subject to contract” properties (1 and 2-bed flats and 2, 3 and 4-bed houses) across the area. This was undertaken using internet searching (‘rightmove’⁶ being the key source). This part of the exercise helped us to understand and consider, very broadly, how values vary with location across the Borough in the context of the Value Points and whether (and if so what) particular values patterns are seen. It enables us to provide reasonable average values for the Borough, and localities within it, by dwelling type.
- 2.3.4 Adams Integra acknowledges that there is usually a gap between marketing and sale price. Under recent more difficult market conditions this gap has typically grown. It is not possible to make a statement about the usual gap between the two, as a particular owners’ aspiration and the saleability of particular properties clearly varies. The research has been reviewed in the context of this, and the range of value levels assumptions set accordingly.
- 2.3.5 The overall (re-sales dominated) market data was then considered alongside our “on the ground” research. That involved visiting the area, speaking to estate agents, visiting new build schemes, speaking to developers’ sales staff and gathering other leads to inform supplementary desktop research. Where little data was available at the time of the search, the data has been verified or supplemented by using Land Registry average sales figures and resale data. Appendix III, the Property Values Report, summarises the research and also provides wider regional and national property market context.
- 2.3.6 The review of various sources of information on values ranges is preferred to any single desktop resource, which would be limited to historic data and tends to be limited in terms of information of property types and sizes. This process of considering a wide range of values data, overall, informs our judgements on the range of values that we apply as we conduct the large number of appraisals.
- 2.3.7 The results of the property values research, and in particular the new build values research, led to the formation of 5 Value Points (see Figure 2 below) within which new build housing values in most areas of Hastings Borough fall. The upper and lower Value Points (1 and 5) were used in the modelling for this study to enable us to consider the sensitivity of results to market conditions and price levels outside the typical range seen at the time of the study. As stated above, most areas see a variety of property

⁶ www.rightmove.co.uk

values (even within the same postcode area or down to street level) therefore the results of this research can be used independently of location where approximate sales values can be estimated. The overall range covers values from £1,600/m² (about £150/ft²) to £3,200/m² (about £300/ft²), with the core part of the range in the current climate being £2,000/m² (about £185/ft²) to £2,800 (about £260/ ft²).

Figure 2: Summary of Value Points Adopted (example prices based on assumed floor areas, but also applicable to other dwelling types and sizes):

| Value Point | Property Type | 1-Bed Flat (50m ²) | 2-Bed Flat (67m ²) | 2-Bed House (75m ²) | 3-Bed House (85m ²) | 4-Bed House (100m ²) | £ per m ² |
|---------------|---------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|----------------------------------|----------------------|
| | | | | | | | |
| Value Point 1 | | £80,000 | £107,200 | £120,000 | £136,000 | £160,000 | £1,600 |
| Value Point 2 | | £100,000 | £134,000 | £150,000 | £170,000 | £200,000 | £2,000 |
| Value Point 3 | | £120,000 | £160,800 | £180,000 | £204,000 | £240,000 | £2,400 |
| Value Point 4 | | £140,000 | £187,600 | £210,000 | £238,000 | £280,000 | £2,800 |
| Value Point 5 | | £160,000 | £214,400 | £240,000 | £272,000 | £320,000 | £3,200 |

2.3.8 It must be reiterated that any attempt to define value patterns can only be highly indicative. This is because values can change over very short distances dependent on a site's location and its surroundings, local amenities, etc. In practice, variations in values are often seen down to a street by street level – and sometimes even between ends or sides of streets, and within developments depending on the orientation of dwellings and their outlook, for example.

2.3.9 This study does not attempt to provide comprehensive property valuation data, but rather identifies the typical range of new build values of various dwelling types based on the assumed sizes set out. The values research is carried out to enable us to make judgements about the range of values of new build properties typically available. Inevitably judgements have to be made. It is not a statistical exercise. The values used in the appraisals are averaged across properties of varying size and type, and any settlement could contain a range of property values covering a single property type. We believe, however, that the information used is reasonably representative. The key point is to consider the likely range of typical new build values which will underpin this planning-led delivery of affordable homes, rather than consider overall resale market Land Registry type data alone, which can often dilute or disguise the new build market picture.

2.3.10 Prior to, and during, the study period, there has been continued reporting at all levels of a relatively weak and uncertain property market. As at July 2010 (the research period) these conditions could not be described as

over; nor can they on closing the study early in 2011. In the run up to the study period, a degree of month on month average house price increases had been seen in many areas. On review in the closing period of the study, winter 2010/11, we have noted that since summer 2010 prices have at best stabilised but more typically have reduced to some extent again, eroding the gains seen earlier in 2010. Recent price movements have, however, been relatively gentle compared with the scale of movements seen from 2007 to 2009/10. Predictions for 2011 vary as would be expected, but prices to stay relatively steady is at the more optimistic end of the range of views; prices falling by perhaps 5% during the year also seems very possible based on a wide range of articles and professional opinion. In a more general sense it should also be noted that value levels are still high when long-term trends are reviewed and that "the long-term trend in house prices is upwards in real terms"⁷ with the "norm" for house prices expected to rise over time. In the past, schemes have been brought forward and have therefore been viable at similar or lower value levels. One of the principal concerns with the market recently has been the volume of sales being achieved rather than simply the value levels. Sales volume is difficult to reflect in financial viability terms. It may affect developers' views on risk levels, and it may affect development and sales periods, and thus finance periods. These will in any event be site-specific factors. To what extent the depressed levels of market activity, if prolonged, will ultimately further affect value levels with time remains to be seen.

2.3.11 This is also discussed later in the report and our market review information is included Appendix III. There are still wide-ranging views as to what extent the market is stabilising overall. Examples of characteristic features of the downturn have included:

- Mortgage lending levels relatively low, as is still the case. High deposit requirements and difficulties in obtaining funding widely experienced by prospective purchasers – again, largely a continued scenario, especially in respect of the lower ranks of the property market; less so in respect of higher value property.
- Increased incidents of developers pulling out of schemes, with delayed starts or slowing scheme progress/"mothballing" sites. In many cases this resulted in a marked slow-down in the rate of construction of new homes – in many cases a virtual stalling of new build progress, although more recently there have been increased signs of activity with developers reviewing schemes and some being started/re-started.

⁷ South East England Partnership Board – Affordable Housing and Local Development Frameworks (June 2010)

- Some house builders and others involved in the development industry have been through a period of reducing staff numbers significantly, with some even ceasing to trade or concentrating on other business. Many house builders have been reporting reduced returns and trading results.
- Incentives being offered fairly typically on new build sites - such as stamp duty/5% deposit paid/deferred purchase/shared equity/mortgage payments assistance, and perhaps others – dependent on a prospective purchaser’s position together with the developer’s marketing experience and sale potential of particular plots, etc.
- Some use of guide pricing alone, or even no advertised pricing.
- Some schemes still selling relatively well throughout, but often with slower sales where this has been so.
- Some developers have been considering offers from RPs for expanded affordable housing quotas on sites, or even entire schemes for affordable.
- Extended development periods in some cases, with a knock-on effect of impacted sales progress because there is less for purchasers to see. Purchasers far less likely to purchase off-plan given uncertainty over values movements. This creates a circular effect with regard to build progress on some schemes – i.e. some developers taking a view that build progress needs to be underpinned by firmer sales interest. Others have been proceeding, however, based on prospective purchasers more typically now wanting “to see what they will get”.
- Examples of estate agents combining, closing or mothballing offices, or operating restricted hours. Developers’ sales operations operating reduced hours/being rationalised.
- Fewer investment buyers active.

2.3.12 As above, despite the 2010-11 signs so far of a more stable market picture, it would be premature to say that the above effects are now a thing of the past. Some key commentators consider there to be a strong possibility of a further dip in the market during 2011, following the recent faltering of prices again. This is because house prices have received some protection through a lack of supply, rather than through significantly increased confidence levels or significantly improved availability and terms of mortgage finance. In terms of study methodology, the continued uncertainties are very difficult to reflect in the detail, beyond considering

varying house price levels as those drive scheme viability. The economic backdrop remains weak, with unemployment fears still prominent for many. The Coalition Government is currently firming-up on a series of significant public sector spending cuts in response to the scale of public finance deficit which, accompanying the level of private sector caution and cost cutting we have seen, is all a part of this context and the ongoing property market uncertainty.

2.3.13 Clearly future values cannot be predicted, but our methodology does allow for potential future review of results in response to changes over time, perhaps including more established market trends or revised price levels - as well as sale price variations through site characteristics or location. It enables us to look more widely at the sensitivity of results to value levels.

2.3.14 In our view, it would be impractical for a local authority to move affordable housing and perhaps other viability related planning obligations targets through Core Strategy policy in response to what could be relatively short-term market conditions and adjustments.

2.3.15 A key message for local authorities in this situation is the need to monitor the market, housing delivery outcomes and trends locally - and respond to those through consideration of contingency measures and possible policy review longer term. This monitoring will extend to affordable housing delivery in the moving context of funding availability, tenure options and other circumstances.

2.3.16 This also relates to our need, as a recurring theme, to emphasise the importance of adopting a practical and flexible approach to secure delivery of all housing types, especially in the short-term. This feeds through in to our recommendations at Chapter 4.

2.4 Gross Development Value (GDV)

2.4.1 In order to further explain the residual valuation principles, we will now provide further information on the various key inputs and the implications of those.

2.4.2 Gross Development Value ("GDV") is the amount the developer ultimately receives on completion or sale of the scheme, whether through open market sales alone or a combination of open market sales and the receipt from a RP for completing the affordable homes on the scheme. Thus the developer's profit in each case relates to that scheme-specific sum rather than to a base level of GDV that assumes no affordable housing. It assumes that the developer has appraised the site and secured land in the knowledge of, and reflecting, policy that will apply; i.e. the developer is aware that a proportion of the receipts will be at a lower level than prior to

any affordable housing policy taking effect. This can be regarded as a reasonable approach given established local and national policy guidance on the provision of affordable housing.

2.5 Developer's Profit

- 2.5.1 The requirement to place an increased proportion of affordable housing on a site will inevitably reduce the sales income that a developer can reasonably expect to receive. As this reduction will not be accompanied by lower construction costs, the offset must be taken up in a reduced development profit, a lower land price or a combination of the two. The Government and HCA thrust regarding new affordable rent aims to secure affordable homes which are supported financially to a greater extent through their revenue streams and are therefore less reliant on public funding (grant).
- 2.5.2 Developer's profit and landowner's sale price are key considerations that must be taken into account if residential development is to be undertaken.
- 2.5.3 If profit levels fall below a certain point then developers will not take the risk of developing a site, nor in many cases will funding organisations provide the necessary support. Equally, if the price offered by a developer to a landowner for a site is too low, the landowner may not sell and might instead continue with, or pursue, an existing or higher value use. There are also intangibles, for instance some smaller sites may start out as homes, gardens or small business premises which will not be sold unless certain aspirations are met. Business and tax considerations, investment values and costs, and availability and cost of replacement facilities can all influence decisions to retain or sell sites. A mix of these factors may be relevant in some cases.
- 2.5.4 Continued ready access to development finance is likely to be a particular issue in the current market conditions which have flowed from the recent economic recession.
- 2.5.5 At the time of considering the study assumptions, Adams Integra's experience of working with a range of developers and of reviewing appraisals, lead us to suggest that they would need to seek a fixed profit (margin) of approximately 15% to 20% (gross) of GDV.
- 2.5.6 This study therefore uses a developer's profit-based assumption fixed at 17.5% of GDV. Lower and higher profit levels than those we have assumed may well be appropriate, depending on the nature of the project and risk/reward scenario – and in this sense also the market conditions. Some developers will look at alternative profit criteria, for example a higher percentage (perhaps up to 30%) of capital employed. Different

profit aspirations will also be held by different types of house building and development companies.

- 2.5.7 Previously, the former Housing Corporation Economic Appraisal Toolkit (re-launched in Summer 2009 by the HCA) developer's profit guide figure was 15%. This was raised to 17.5% at that point of re-launch.
- 2.5.8 Our experience shows that particularly for smaller and lower risk schemes, and those often carried out by smaller more local developers (or contractor developers), a lower level of developer profit may well be an appropriate assumption. However, given our acknowledgement of varying profit levels, as above, we have carried out our base appraisals assuming 17.5% developer's profit with further sensitivity analysis carried out on the basis of 20% developer profit (based on GDV). In this context, development profit can be regarded as a development cost. In reality, again there will be no substitute for site-specific consideration of the details – as with other assumptions that will be reviewed where viability is discussed on sites coming forward. The assumptions used here are suitable guides and starting points, but should not be regarded as fixed figures which will always be appropriate.

2.6 Model Scenarios, Property Types, Size and Mix

- 2.6.1 The Council required a range of scenarios to be appraised to assess the viability of the potential approach to thresholds and proportions of affordable housing alongside other costs that may affect the viability of residential development (e.g. sustainable construction and design standards, other planning obligation costs, etc).
- 2.6.2 In considering on-site provision of affordable homes, the scheme types modelled range in size from 5 to 100 dwellings to allow the study to investigate a full range of potential policy options. Through an addition to the study scope this time, we also explored the potential for a financial contributions approach to form an additional affordable housing enabling tool for the Council. This looked at notional schemes of 1, 2, 3, 4, 5, 9, 10 and 14 dwellings using two potential alternative routes to calculating the levels of such contributions. These principles and the RLV results produced based on the range of assumptions applied are further explained at section 3.7 below. Our work illustrates and explores the potential and does not limit the Council to either of the two calculation methodologies or the specific details considered. Rather it is intended to enable the Council to further consider this aspect and therefore the potential to create what we consider could be a more equitable overall approach to seeking planning-led affordable housing in the Borough. The workings behind and RLV results relating to the two potential calculation methods explored are included at Appendices Iii A and Iii B of this report.

- 2.6.3 As mentioned in the Introduction to this study, the scheme typologies are based on those used in the 2007 study but added to and adjusted to ensure they reflect the policy positions we are assessing (in terms of development viability).
- 2.6.4 The scenarios modelled tended to concentrate on smaller sites, as in our experience the most sensitive area can be around newly captured sites (which under adopted policy provide no affordable housing contribution and therefore which see a large – “first time” - viability impact if this form of policy were to be implemented). Variations to the dwelling mix help to consider the impact of various dwelling types on development viability, within and between these scenarios.
- 2.6.5 The schemes were tested using 0% (representing adopted policy on sites of fewer than 15 units) and at 20%, 25%, 30% and 40% affordable housing. This range of testing allows us to investigate viability related to a range of potential options for policy development around both the proportion of affordable housing sought and the threshold positions. These options include potential lower proportions of affordable housing sought from smaller sites below the current 15 unit threshold - as part of a sliding scale type approach to affordable housing policy. The modelling on scheme typologies of 15 units or more allows us to test the currently proposed policy and variations around that. It is simply not practical or economic for this type of study to appraise and consider every conceivable policy option (combination of threshold and proportion). The volume of results can grow very rapidly without adding very usefully to how the study can assist policy development. Reviewing of trends is necessary, and a degree of interpolation of results is also possible.
- 2.6.6 The indicative dwelling sizes used in the modelling are 50sq m for 1-bed and 67 sq m for 2-bed flats. For 2, 3 and 4-bed houses we have assumed 75sq m, 85sq m and 100sq m respectively. These are gross internal areas (GIAs). They are reasonably representative of the type of units coming forward for smaller and average family accommodation, within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. We acknowledge that these 3 and 4-bed house sizes, in particular, may be small compared with some coming forward, but our research suggests that the values for larger house types would also often exceed those we have used and would, therefore, be similar on a “£ per sq m” basis. Conversely, many new build flats for the private market may be below the unit sizes assumed. All will vary, and from scheme to scheme. It is always necessary to consider the size of new build accommodation while looking at its price – hence the range of prices expressed per square metre (or per square foot) is the key measure used in considering the research, working up the range of Value Points and reviewing the results.

- 2.6.7 This study assumes that the affordable housing (dwelling types) mix will broadly reflect that of the private housing and so would be transferred to a RP on a proportional basis to the market mix (or reflect that as closely as possible, to ensure a range of affordable dwellings coming forward as part of a wider sustainable approach). Clearly, in practice, the exact private and affordable housing mixes will vary from site to site, as may the consistency between them. The intention of this study assumption was to follow the principle that a mix of affordable housing dwelling types will be expected wherever that is achievable, rather than an assumption of only smaller dwellings for affordable tenure. In addition, ensuring consistent unit sizes across the scheme typologies allows us to consider the policy impacts on viability rather than changes to unit sizes – “like for like” comparison.
- 2.6.8 For details of the dwelling mix for each on site scenario appraised see Appendix I – Development Scenarios. It is acknowledged that dwelling mix will vary from site to site in practice but for the purposes of this modelling it was requested by the Council that the affordable dwelling mix broadly reflect the private mix where possible. In practice, there would be a tendency towards developers needing to maintain the higher value units within a scheme for private sales whilst also thinking about the relationship of the private units to the affordable units in terms of location. These are all factors which in reality (and dependent on the site location and characteristics) will affect the dwelling and tenure mix as part of the negotiated approach.

2.7 Affordable Housing Transfer (to RP) – Method of Payment Calculation and Type of Property Transferred

- 2.7.1 Officers at Hastings Borough Council indicated that the payments developers receive from RPs for the provision of completed affordable homes are currently based on a negotiated approach between those two parties. These are in turn driven by scheme costs and what the RP can afford to pay based on its business planning and financial assumptions when it considers the cash-flow that will be produced by a scheme (i.e. the value of/loan amount supported by the capitalised net rental flow, after allowing for management and maintenance costs, voids, etc). These principles underpin the HCA’s refreshed thinking.
- 2.7.2 PPS3 asks us to consider the availability of funding in looking at viability, and the Council also wanted to test the impact of public subsidy (in the form of Social Housing Grant (SHG) such as was understood at the point of carrying out the appraisals. The grant funding climate is uncertain but as required by the Council, all appraisals were carried out on the basis that the affordable housing on a scheme was provided with grant, based on the

Council's track record of working with grant to enhance affordable housing delivery in Hastings. We also re-ran appraisals assuming a nil grant scenario so as to consider the impact of development without public subsidy.

2.7.3 Information provided by the Council suggested that over the past 5 years social rented affordable housing and intermediate affordable housing have secured £63,000 and £27,000 per unit grant funding respectively. However, discussions with local RPs suggest that it would be prudent to assume grant rates at some 25% to 30% below this going forward. As such, and for the purposes of this exercise only, we have assumed that the "with grant" appraisals include an approximate level of £45,000 per unit housed for social rented homes and £18,000 per unit for intermediate tenure homes.⁸ In practice, on specific sites this might vary considerably, dependent on the scheme details, timing and property types. It is simply not possible to predict the amount of SHG that will actually be available. Previous and recent grant rates have often been significantly higher than these assumptions in the local context. However, rather than assume high figures based on what seems to have been quite an opportunity-led approach to funding by the HCA prior to the study period, we preferred what we consider to be more realistic, sustainable assumptions longer-term – where social housing grant is made available. Even these reduced grant assumptions, necessarily set mid 2010, may turn out to be in excess of actual funding availability. There is no getting away from the fact that this is a highly variable set of circumstances which the Council's practical application of detail will need to address and react to, rather than its high level Borough-wide Strategy. The Government's drive through the HCA is for best value, and making sure that grant money achieves the "additionality" rather than supporting land value or similar. Given the recent affordable rent (up to 80% market rents basis) announcements, it appears that the focus of any grant funding will be on that tenure form, with RPs invited to bid to participate in the programme through the HCA's framework. Early signs are also that many RPs may well consider continuing with social rents (former affordable rents) to some degree, combined with shared ownership or other intermediate tenure forms, on a no grant basis.

2.7.4 The likely payment that an RP would make for an affordable (social) rented or unit of intermediate tenure within this modelling was determined through carrying out a series of appraisals using industry standard software (in this case - "ProVal") whilst making judgements on the range of input assumptions following liaison with a number of locally active RPs. Effectively, the value that could be paid to a developer for completed affordable homes is, as above, usually related to the mortgage finance the RP could raise based on the rental income stream (affordable rent) or

⁸ Source: Hastings Borough Council/Stakeholder Consultation

capital and rental income stream (in the case of shared ownership or similar) with management and other costs deducted.

- 2.7.5 In practice, the values generated could be dependent on property size and other factors including the RP's own development strategies and thus would vary from case to case when looking at site specifics. The RP may have access to other sources of funding, such as its own resources or recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm – it is highly scheme-dependent and variable and thus has not been factored in here.
- 2.7.6 The figures used in the appraisals are shown in Figure 3 below for each property type, and reflect the sums received per completed affordable home by the developer in return for constructing them (usually for an RP to which they are transferred):

Figure 3: Summary of Indicative Sums Payable by RP to Developer for Completed Affordable Homes - Affordable Housing Revenue Assumptions

| Rent (no Grant) | | | | | |
|----------------------------------|------------|------------|-------------|-------------|-------------------|
| Value Point | 1 Bed Flat | 2 Bed Flat | 2 Bed House | 3 Bed House | 4 Bed House |
| 1 | £36,000 | £48,240 | £54,000 | £61,200 | £72,000 |
| 2 | £39,000 | £52,260 | £58,500 | £66,300 | £78,000 |
| 3 | £42,000 | £56,280 | £63,000 | £71,400 | £84,000 |
| 4 | £45,000 | £60,300 | £67,500 | £76,500 | £90,000 |
| 5 | £47,000 | £62,980 | £70,500 | £79,900 | £94,000 |
| Rent (with Grant) | | | | | |
| Value Point | 1 Bed Flat | 2 Bed Flat | 2 Bed House | 3 Bed House | 4 Bed House |
| 1 | £55,500 | £74,370 | £83,250 | £94,350 | £111,000 |
| 2 | £58,500 | £78,390 | £87,750 | £99,450 | £117,000 |
| 3 | £61,000 | £81,740 | £91,500 | £103,700 | £122,000 |
| 4 | £64,000 | £85,760 | £96,000 | £108,800 | £128,000 |
| 5 | £67,000 | £89,780 | £100,500 | £113,900 | £134,000 |
| Intermediate (no Grant) | | | | | |
| Value Point | 1 Bed Flat | 2 Bed Flat | 2 Bed House | 3 Bed House | (n/a) 4 Bed House |
| 1 | £56,000 | £75,040 | £84,000 | £95,200 | N/A |
| 2 | £70,000 | £93,800 | £105,000 | £119,000 | N/A |
| 3 | £84,000 | £112,560 | £126,000 | £142,800 | N/A |
| 4 | £98,000 | £131,320 | £147,000 | £166,600 | N/A |
| 5 | £113,600 | £152,224 | £170,400 | £193,120 | N/A |
| Intermediate (with Grant) | | | | | |
| Value Point | 1 Bed Flat | 2 Bed Flat | 2 Bed House | 3 Bed House | (n/a) 4 Bed House |
| 1 | £64,000 | £85,760 | £96,000 | £108,800 | N/A |
| 2 | £80,000 | £107,200 | £120,000 | £136,000 | N/A |
| 3 | £94,800 | £127,032 | £142,200 | £161,600 | N/A |
| 4 | £110,600 | £148,204 | £165,900 | £188,020 | N/A |
| 5 | £124,800 | £167,232 | £187,200 | £212,160 | N/A |

Note that the 'N/A' entries within Figure 3 above were where 4 (+) bed dwelling types were not considered for intermediate tenure within the base appraisal dwelling mixes, owing to likely lack of affordability to households in need. In practice this does mean that intermediate affordable tenure of 4 (+) bed homes would be ruled out – each case would be considered by the Council on site specifics.

- 2.7.7 The exact nature and range of tenure models within an affordable housing mix will often need to be bespoke to a particular location and site – particularly in market conditions where these details are currently so dependent on demand as influenced by mortgage product availability, changing price levels, the Government’s constantly evolving range of initiatives, developer’s reactions and own practical marketing initiatives and other factors. In this context, the Government’s new affordable rent

regime is linked to a criterion of 'up to' 80% market levels rents. From very early stages ideas we have been aware of, some LAs and RPs are thinking that more generally the rental levels may in some cases need to be set beneath rather than at those levels for affordability and local needs profiles (demand, effectively, but in time we will see how a variety of schemes in different areas pan out).

2.7.8 Although tenure mix is a site-specific consideration and dependent on local housing needs evidence plus the type of factors mentioned at 2.7.7 (with new affordable rent now also potentially relevant), this study tests the impact of varying the tenure mix on development viability – based on certain assumptions as have to be fixed to drive appraisals. Current experience with scheme specifics is that in the current climate the RP type financial appraisals for shared ownership and intermediate rent are producing similar outcomes in respect of what RPs can afford to pay for dwellings. As with much of this, figures will, of course, vary with scheme specifics, varying markets and over time. At the point of undertaking the large volume of appraisals, which preceded the Autumn 2010 affordable rent announcements, these were necessarily based on what was known at the time. Nevertheless, as fits this strategic study process, the key was to generate a wide range of results to enable the review of viability trends; this means that outcomes relating to assumptions between the points appraised could also be seen and can be considered through the iterative process. The tenure mixes tested were as follows and as agreed with the Council:

- 100% social rent/0% intermediate (representing in any event effectively the likely "worst case scenario" for overall scheme viability, in particular where without grant, regardless of specific rental assumptions and bearing in mind how those might vary e.g. with new affordable rent).
- 70% social rent/30% intermediate.
- 50% social rent/50% intermediate (representing the most favourable tenure mix for overall scheme viability that we appraised).

2.7.9 In looking at our assumptions for intermediate tenure more generically in this way, for shared ownership accommodation our calculations were based on a 35% initial capital sale with 2.5% rent paid by the purchaser on the retained equity. For the base appraisals we assumed that only houses and flats of 3 bedrooms or less would be transferred to a RP for intermediate tenure - with larger units remaining as private and/or being transferred for affordable rented tenure. This is due to the potential lack of affordability, particularly of shared ownership properties - where larger units may be unaffordable to the end user.

2.7.10 Although generally it is expected that housing needs will dictate a bias towards rented tenure as a strategic starting point, it is acknowledged here that there may well be local circumstances where the Council will look to work with its partners on a different approach to tenure mix in some areas in order to create mixed and balanced communities.

2.7.11 It should be noted that where we refer to shared ownership in this study - and that may still be a part of specific site discussions between the Council on intermediate tenure content, developers and RPs - other tenure options or models may well now be relevant. The focus will increasingly be on an adaptable mix alongside the priority needed rented accommodation. Various models could come into play depending on local specifics such as need, demand, funding, market factors (especially in the current climate) and affordability. In most cases, they will produce improved cash-flows and provide a better viability outcome, compared with social rent without grant, and be considered as more market friendly by developers as part of their overall view.

2.8 Indicative Site Area, Scheme Density and Resulting RLV

2.8.1 The results of all the appraisals provide us with data in both absolute value (£) terms and as a percentage (%) of GDV. To provide broad comparisons with published Valuation Office Agency (VOA) sourced land value data so as to provide an additional basis for interpretation of results, the approximate site area (land take) and density for each development scenario (site type and size) has been indicated. These generally assume medium density development for flats and houses and in one case (50 unit central urban flatted scheme) very high density.

2.8.2 Based on the unit sizes assumed in this study, this provides us with indicative densities of between 30 and 375 dwellings per hectare (dph) depending on the scheme. We can then calculate the approximate value of each scenario and appraisal variation in indicative £ per hectare (ha) terms, to enable a comparison with other published land value data. Again, in practice, densities will be highly variable. Indicative site sizes are shown within the relevant tables of the appendices.

2.9 Other Assumptions

2.9.1 The appraisals include a range of other variables that are all taken into account when calculating an approximate RLV. This is an extensive list and includes items such as fees, land buying costs, finance, agency costs and planning infrastructure provision (generally planning obligations secured through Section 106 agreements).

- 2.9.2 In some instances these figures are factors of other elements of the appraisal and, therefore, vary by site size and type.
- 2.9.3 The percentages and values assumed for the purposes of this exercise are listed below and are the result of a BCIS overview, Adams Integra's experience, work with and discussions with developers, valuers, agents and others:
- **Base Build Costs (House Schemes) – £1,000/sq m**
 - **Base Build Costs (Flatted Schemes) - £1,150/sq m**
 - **Build Costs (Higher Density Flatted Schemes e.g. 4 to 6 Storey) - £1,500/sq m**
- 2.9.4 The above are applied to the Gross Internal Area (GIA) of the accommodation. Base costs for flats are likely to be higher than for a scheme of houses particularly where sites are constrained and often difficult to work on (involving materials storage difficulties, craning etc). Common areas have to be allowed for, as does the degree of repetition of costly elements. Cash-flow for flatted development can also be less favourable as rolling sales are more difficult to deliver. In this study the £1,150 per sq m figure assumes standard low-rise flats (typically no more than 3 storeys and allowing standard construction techniques). The £1,500 per sq m figure assumes typically 4 to 6-storey construction. This form of development is representative of some larger, often higher density apartment-based schemes likely to come forward in the Borough. In practice, again all schemes will be different. We considered that we needed to assume a significant increase in build costs for this higher density type of scheme, where framed constructions and elements such as lifts become the norm.
- 2.9.5 Build cost figures have been taken as an indicative level, supported by our ongoing experience of scheme specifics, whilst also taking into account a range of information from BCIS data (the Building Cost Information Service of the Royal Institution of Chartered Surveyors (RICS)), and feedback from developers.
- 2.9.6 There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so a judgement on some form of benchmark is necessary. There

will be instances where other costs are relevant, including in overcoming abnormal site issues or characteristics.

2.9.7 We are aware that the developer's base build costs can be lower than our above base cost figures, and also that the BCIS tends to indicate lower figures. In contrast, however, there is also much said about costs being higher than this, often in the context of RPs procuring new housing through contractors and developers. Build costs are set out in a range of guises, including in BCIS, whereby items such as external works costs and fees, etc are sometimes included, sometimes excluded. It can be difficult to carry out reliable analysis. So a view needs to be taken, and then monitored, tested and updated as informed by the experience of site specifics, negotiations and (from the affordable housing perspective) in light of funding availability and affordability for occupants.

2.9.8 Typical scheme-specific additions to these are:

- **Architect's and other professional fees: 10.0 % of build costs.**
- **Contingencies and insurance allowance: 5.5% of build costs.**
- **Marketing and Sales Fees: 3.0% of Estimated Total Sales Value (GDV). There will be instances, dependent on the location and scheme type, where some of this expense, or an additional sum will be directed to the setting up of a show home or other facilities. This will, however, not be appropriate on all schemes hence we have not included for it as a standard assumption item. We would not expect it to alter the outcomes fundamentally.**
- **Legal Fees on Sale: £600 per unit.**
- **Finance (build): 7.0% - on build costs, fees, etc.**
- **Build Period: 6 to 24 months depending on scheme size within the range assumed.**
- **Land Survey Costs: Approximate cost of £500 per unit including basic ground conditions research (on larger schemes especially there will usually be additional cost associated with transport, environmental/landscape, ecology, etc, dependent on the scheme and not covered here).**
- **Legal Fees on Land Purchase: 0.75% of land value (this will often produce a low figure when looking at very small or low value sites but only make a minimal difference to outcome).**

- **Planning Application costs: £335 per dwelling where the number of dwellings is 50 or fewer; where the number of dwelling houses exceeds 50 - £16,565 plus £100 per dwelling in excess of 50, subject to a maximum total of £250,000.**
- **Stamp Duty Land Tax: Between 0% and 4% depending on RLV.**
- **Infrastructure Payments:** Appraisals carried out assuming £3,000, £10,000 and £20,000 per unit for wider planning obligations. This covers a range of potential infrastructure costs but equally could apply to other future costs. They are notional levels. We varied this assumption so that we and the Council could review the sensitivity of results to this factor – using similar thinking to the Value Points methodology rather than looking only at a relatively narrow set of assumptions. This was done with the nationwide Community Infrastructure Levy (CIL) policy developments in mind, but also in the context of a range of other areas which could effectively add costs to schemes from a developer’s and therefore landowner’s perspective, (e.g. flood risk, Special Protection Areas mitigation costs (SPA) and Suitable Alternative Natural Green Space (SANGS)).

The figures used are not intended to be a guide to CIL levels. We have used the range of values to test the additional impact of those costs on development viability of the schemes types appraised. As stated elsewhere in the study text, this group of appraisals can also serve a wider purpose in that the outcomes give a guide as to how RLVs vary when costs at these levels are added to appraisals. In fact those costs could be related to a range or group of different factors – including on sustainability measures or abnormal site costs. The results can be interpreted in a wider way.

- **Code for Sustainable Homes:** All base appraisals assume compliance with Level 3 of the Code for Sustainable Homes (for all dwellings – market and affordable). A sample of appraisals was also carried out assuming compliance with Levels 4 and 5 (again for all dwellings) of the CfSH in accordance with the requirements of the Council. The costs of achieving those levels of the Code were based on research for the Government’s Department for Communities and Local Government (CLG)⁹. These equate to an increase above our base build costs of 3–4% at level 3, 6–8% at Level 4 and 25–30% at Level 5. For each level, we assumed a middle point (3.5% increase at CfSH Level 3; 7% increase at CfSH Level 4 and; 27.5% at Level 5. These are only guides and again site-specific details will vary. Once again, the wide scope of appraisals and outcomes allows other results to be considered as also

⁹ DCLG – Code for Sustainable Homes: Cost Review (March 2010)

represents the impact of particular added costs beyond those allowances specifically mentioned in these sections.

- **Renewable Energy:** All base appraisals (at Code for Sustainable Homes Level 3) carried out on the basis of all sites achieving 10% reduction in CO₂ through the use of on-site or decentralised renewable energy. A notional allowance of £3,500 per unit for 10% generation (estimated cost from EST CE190)¹⁰. Renewable requirement assumed included within attainment of Code Level 4 and above so not allowed for again separately.
- **Lifetime Homes** - While this can affect scheme viability in a wider sense - from the point of view of increasing building footprints and therefore cost and, potentially, site capacity - it does not necessarily add significant cost but has design implications. Interpretations and opinions vary widely. Early design input minimises its impacts, and costs depend on to what degree standards are applied and what other standards are already to be met. There are overlaps, and even areas where it can compromise or not fit well with other requirements. It is an area that needs to be kept under review in terms of practicalities, costs and impacts – as part of the overall expectations from schemes. For the purposes of this exercise and to build on our acknowledgment of the relevance of this area, rather than make our own judgement we have preferred to rely on the published work by Habinteg Housing Association (www.lifetimehomes.org.uk) which suggests that the cost of meeting Lifetime Homes Standards is up to £545 per dwelling (included) depending on size, layout and specification of the property. It is an area that needs to be kept under review in terms of practicalities, costs and impacts – as part of the overall expectations from schemes. The same applies to the Council's likely approach to wheelchair adapted housing being incorporated wherever possible within schemes – specific needs, design implications and impacts will need to be considered as sites come forward and planning applicants will need to build this in to their thinking.
- **Finance related to land purchase:** 7.0% interest cost on land survey, planning costs, legal fees on land purchase and RLV over build time plus 26 weeks. No finance arrangement or related fees have been included for the purposes of this exercise. They might in practice be applicable, but we would not expect them to alter the viability equation fundamentally. Scheme funding arrangements will vary greatly, dependent again on the type of developer and scheme. As with much of this exercise, this is a snapshot and there are varying views as to

¹⁰ Energy Saving Trust - "Meeting the 10 per cent target for renewable energy in housing - a guide for developers and planners" (September 2006)

what future trends will hold, and so over time we would need to see how added costs balanced with changes in sales values.

- During the course of the study, the Bank of England Base Rate has been maintained at 0.5%. On fixing our assumptions in the early study stages we decided to leave our finance rate assumptions unchanged. Due to the continued reduced availability of finance, we considered this approach to be further validated and therefore to remain appropriate. The impacts of the low Base Rate have still not been seen in any notable way, but with further time our interest rate assumption might begin to look high – it is not possible to tell. Nevertheless, this again fits with looking at viability reasonably cautiously rather than stripping out too many cost allowances from appraisals. It also fits with the strategic view – in terms of trying to settle on assumptions reflective of a range of potential market conditions. Our understanding is that house-buying and development finance remains relatively difficult to access – at least on favourable terms, related to the risks perceived by the markets and to the fact that lending between institutions is still not working on terms or to the extent that had underpinned the active market in preceding years. We have had a climate recently whereby rate reductions have tended not to be passed on, certainly not to a significant degree, to borrowers, and where other charges (arrangement fees, etc) have weighed against any cuts. So far as we can see, similar applies in a commercial sense. In summary, at the time of writing, we have no reason to believe that the commercial lending climate has eased significantly.

2.10 Wider Research

- 2.10.1 To supplement our research on the property market local residential property values (as set out in Appendix III), Adams Integra has also carried out further desktop research and contacted a variety of organisations which are (or have been in more buoyant conditions) involved in the local land market, i.e. in selling or perhaps buying sites.
- 2.10.2 The information gathered from that process, as far as it was available, is also included in Appendix III. We collected it with the aim that it would help our understanding of land price expectations locally, potentially to enable us to consider the information offered by the VOA reporting in a more informed way, and potentially inform further comparisons with our indicative RLV results while we considered those, and thus help with the judgements we seek to make.

2.11 Stakeholders and Consultation

2.11.1 We invariably find that developers are, understandably, more often than not reluctant to share information on their assumptions. There are commercial sensitivities to be respected. However, as part of considering a range of information and informing our judgements for each of our studies we consult with a range of stakeholders including developers, landowners, RPs and agents as a matter of course. This is done through the “on the ground” and web based/desktop research we have mentioned. For this study details of the main assumptions were circulated to the Council’s Housing Market Partnership plus locally active RPs. Participants were given the opportunity to submit their views individually (privately) on the proposed study assumptions. The purpose of this was for Adams Integra (and the Council) to engage with a range of organisations involved in the local market and to gain an understanding of key stakeholders’ perspectives on development issues in the Borough, with a view to further informing our research and judgements in setting assumptions and so as to provide additional context for considering results. Adams Integra undertook not to disclose the detail of any of the responses but these were collated and have helped to inform our progress from that point. It is our job to make an independent view. A sample pro-forma issued to a selection of local stakeholders is shown at Appendix IV. Included there is also a request that was emailed to locally active RPs (former RSLs) with the purpose of taking soundings from them, where possible, on some similar points but also on some issues more specific to their involvement in affordable housing delivery.

2.12 General notes

2.12.1 This study requires judgements based on the development values and changes seen in land values as a result of varying potential policy positions. This is in the context of seeking to guide policy development and arrive at clear policy targets. The results cannot be a definitive guide to how specific sites will be appraised or how outcomes on a site-specific basis will look. As this is a relative exercise aimed at determining the likely effect of a range of policy options, the most important factor is consistency between assumptions used for modelling scenarios. Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments. The same could be said of any set of study assumptions. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing policy development.

2.12.2 This study is set in the context of setting clear and realistic targets as a basis for long-term policy but bearing in mind short-term flexibility required to deal with the current housing market. Development viability will vary from site to site, and there will be no substitute for the

negotiated approach to provision where necessary (e.g. sites with abnormal costs, low sales values, etc).

- 2.12.3 There can be no definite viability cut-off point owing to individual landowner's circumstances. It is not appropriate to assume that because a development appears to produce some land value (or in some cases value equivalent to an existing/alternative use), the land will change hands and the development proceed. This principle will in some cases extend to landowners expecting or requiring the land price to reach a higher level, perhaps even significantly above that related to an existing or alternative land use. This might be referred to as a premium, "overbid" or sufficient level of incentive to sell. In some specific cases, whilst weighing up overall planning objectives to be achieved, therefore, the proposals may need to be viewed alongside the owner's enjoyment/use of the land, and a potential "overbid" relative to existing use value or perhaps to an alternative use that the site may be put to. In practice, whether and to what extent an active market exists for an existing or alternative use will be a key part of determining whether or how site discussions develop.
- 2.12.4 These factors will not always come into play or always have very significant influences on outcomes. For instance, the market for an existing or alternative use proposal, and therefore the value it produces, will vary with time, location and economic conditions. They are likely to be highly variable as to relevance for, and impact on, particular schemes. In reality, scheme-specific land values have to be considered alongside existing or alternative use values and the latter, being very location and planning use or business dependent, will vary significantly too.
- 2.12.5 To attempt to make **detailed** comparisons with existing or alternative uses in this type of overview work for policy context would, in our view, have limited meaning. We have, however, attempted to provide examples of, and comparisons with, alternative use values. Commercial use values in particular are highly site-specific. Nonetheless this study acknowledges that the level of value created by a residential scheme after making allowance for affordable housing and other planning obligations requirements will need to be weighed up against any existing or alternative use relevant to a particular site.
- 2.12.6 The use of notional sites/site typologies most effectively enables like-for-like comparisons to be made, i.e. the testing of impacts of the varying requirements on the same typical scheme in a range of value locations. The fact that individual schemes vary makes like-for-like comparison very difficult when studying those for this purpose of trying to measure policy impacts, with full reliable and readily comparable information being critical.

- 2.12.7 We have not definitively labelled specific locations or areas as higher/lower value, or similar. This is because, while a general values hierarchy might be noted (see Appendix III) based on typical values, in practice we found that values can vary from street to street and within very small areas. The Value Points approach used in this study means that viability outcomes can effectively be transported around the Borough and a feel for viability gained in relation to relevant value levels as those might vary by location as well as by scheme). As noted, this approach of reviewing outcomes from a range of values also enables the consideration of viability impacts and trends as values change with regard to market adjustments.
- 2.12.8 During the period of our contact with the Council over this study, a new term has been introduced to embrace former 'Registered Social Landlords (RSLs)'. The HCA now refers to a wider group ('including ex RSLs') as 'Registered Providers (RPs)' which can also include Local Authorities and a range of private sector affordable housing providers. This terminology does not in any way affect the study methodology or outcomes. We have left in our references to RSLs since to date it appears that this term is often still the widely understood one for Housing Associations. No aspect of the study precludes developers and other organisations being involved locally as 'Registered Providers' of affordable housing.

3 Results and Related Commentary

3.1 Background

- 3.1.1 The residual land value (RLV) modelling carried out for this study looks at a range of scenarios investigating the impact on development viability in accordance with the methodology as set out in Chapter 2.
- 3.1.2 The number of appraisals required rises exponentially with the number of variables investigated. This is the case with all such studies and it is important to keep this exercise within practical limits. However, the modelling still creates a very extensive range of results, especially once all the variables are considered through additional layers of appraisals. These are presented by means of a large number of tables and graphs. The tables and graphs are all appended to the rear of this report should the reader wish to view them. They are set out in different ways depending on the particular impact we are seeking to investigate and visualise. The following Results Chapter aims to lift from that large volume of information a few example results to explain the characteristics, impacts and trends of various potential policies on development viability. The purpose here is to help guide the reader in interpreting the results and to illustrate key points and trends which have led to our conclusions.
- 3.1.3 The data is shown in tabular and graphical form and shows the indicative RLV produced by each appraisal, those RLVs shown as a percentage of gross development value (GDV), and the approximate land value as a value per hectare.
- 3.1.4 The Appendices are set out as follows:
- Appendix II shows the results from the base appraisals carried out across a range of scenarios, with in all cases assumptions including tenure mix of 100% (social) rented (and 0% intermediate); Code for Sustainable Homes Level 3; the inclusion of social housing grant; 17.5% developer's profit and a £3,000 per unit infrastructure/other planning obligations cost allowance.
 - Appendices IIa and IIb show the results of the sample appraisals carried out assuming changes to affordable tenure mix (to 70% rented/30% intermediate and 50% rented/50% intermediate respectively. These were carried out on all schemes of 70%/30% tenure mix and on a sample of schemes (15, 25 and 100 units) with the 50%/50% tenure mix.

- Appendices IIc and IIId show the results of the sample appraisals carried out assuming variations to planning infrastructure or other planning obligations costs. Appendix IIc shows the results where the cost is increased to £10,000 per unit; Appendix IIId shows the results where the cost is increased to £20,000 per unit. All other assumptions are as per the base appraisals.
- Appendix IIe shows the results of the appraisals that assume nil grant. This was carried out on a sample of site types (15, 25 and 100 units) across all tenure variations.
- Appendix IIIf shows the results of the sample appraisals carried out assuming increased developer profit (at 20% of GDV). All other assumptions as per the base appraisals.
- Appendix IIg show the results of the sample appraisals carried out testing the requirement for Level 4 and 5 of the Code for Sustainable Homes. All other assumptions as per the base appraisals.
- Appendix IIh outlines results that look at the cumulative impact of costs on one scheme type at Value Point 3.
- Appendix III contains a summary of our property values and market research.
- Appendix IV sample pro-forma for the stakeholders consultation process which complimented our wider and “on the ground” research.
- Appendix V provides a Glossary of technical terms used throughout this study.

3.1.5 The results appendices also summarise the RLV results across all scenarios and site sizes showing the corresponding monetary value in pounds per hectare (£ per ha) based on assumed indicative site areas (“land take”) and density for each scenario. These graphs also show Valuation Office Agency (VOA) reported land values¹¹ for example alternative land use types in the Hastings Borough context. Again, it should be noted that both the assumed development scenario site (land take) areas and the VOA data are highly indicative. This type of data can become outdated quickly – especially in times of fast-changing markets as we have had recently. Such comparisons are used within this study only to help highlight how land value varies as assumptions change, and to show very generally the type or range of other 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

¹¹ VOA Property Market Report January 2010

here seeks to help with illustrating how the value (RLV) created by residential development proposals may look and vary relative to other example uses only. The key point through these indications is to build on the emphasis that considering alternative/competing or existing use values (and potentially additional incentive levels, as has been discussed) will often be important in site-specific viability and thus delivery discussions. In practice, as the study notes elsewhere, the values likely to be attributed to various existing or potential uses of a particular site will be highly site-specific.

- 3.1.6 At this strategic level overview for policy development, we are able only to make broad comparisons. Unfortunately it is simply not possible to provide the Council 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. Adams Integra sought additional, more Hastings Borough specific, information on land values such as was available at the time of research. The information search was also kept open during the study period. This was done through enquiries of local agents who may be dealing with land sales – sites for commercial and residential developments. Desktop (web-based) searching for any information was also carried out. Our study process involves asking agents if they have dealt with or are aware of any specific land sale (or marketing) information – or, if not, whether through their experience they can offer any views on local land values. These are typically, but not always, different agents from those we talk to about residential property sales. Particularly in the current market, this extra research has typically resulted in little additional information – however, any that was gathered as the study progressed is included at Appendix III.
- 3.1.7 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 (in excess of target levels) or alternative provision of affordable housing with the Council.
- 3.1.8 Our comments on existing and alternative use values (for example commercial), and how those vary greatly with site specifics, will apply when the Council considers the viability of mixed use schemes in terms of the affordable housing and other requirements.
- 3.1.9 Our suggested starting point for considering the viability (and therefore the parameters for affordable housing provision and other planning obligations) of the residential element of a mixed use scheme would be to

consider that part of the development in a similar way to a solely residential scheme. Then it would be necessary to consider any positive or negative impact, on overall viability, from the other scheme elements, and to what extent those are being driven by planning requirements to create the mix and type of uses being proposed. Inevitably these considerations will always be highly site and scheme-specific. However, there is no reason why the general target approach - the level at which that is pitched, and the overall process - would not follow that which is related to wholly residential sites.

3.1.10 The following results sections cover the main scheme type/development scenarios (5 to 100 units).

3.2 Property Values

3.2.1 One of the key inputs into the appraisal process is the completed value of residential properties that will make up a scheme (i.e. the estimate of the scheme's GDV by reviewing the likely values of the component properties). Typical value levels that reliably represent particular localities are hard to pin down given the highly variable nature of housing product and local influences on price. However, on an indicative overview basis, from our research, the following hierarchy of values was indicated from our overall (re-sales dominated) market research (expressed by Ward area where information was available) – see Figure 4 below:

Figure 4: Average asking price analysis and trends - by neighbourhood area – including indicative hierarchy

| Average Asking Prices Analysis - Flats and Houses | | | | | | |
|---|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Settlement | 1 Bed Flats | 2 Bed Flats | 2 Bed House | 3 Bed House | 4 Bed House | All Properties |
| Hastings - Old Town | £82,500 | £134,961 | £229,975 | £277,488 | £353,878 | £241,181 |
| Baldslow | N/A | £139,950 | £152,000 | £166,671 | £337,960 | £220,030 |
| St Helens | £95,928 | £114,958 | £167,450 | £201,462 | £313,887 | £208,925 |
| Filsham | N/A | £166,875 | £162,627 | £178,600 | £291,050 | £202,220 |
| Mayfield | N/A | N/A | £133,750 | £175,900 | £252,960 | £195,967 |
| Conquest | £88,000 | £124,950 | £149,961 | £188,884 | £246,693 | £194,001 |
| Silverhill | N/A | £114,669 | £142,463 | £181,998 | £243,456 | £164,127 |
| St Leonards | £113,363 | £127,882 | £148,088 | £195,316 | £362,128 | £155,018 |
| Clive Vale | £101,686 | £172,725 | £162,950 | £152,081 | £176,133 | £151,385 |
| Hollington | N/A | N/A | £136,980 | £140,677 | £202,450 | £145,872 |
| Bulverhythe | £76,975 | £93,725 | £139,950 | £157,782 | N/A | £135,440 |
| Broomgrove | £82,042 | £103,306 | £148,955 | £151,314 | £179,960 | £134,767 |
| Hastings town centre | £85,298 | £157,445 | £133,600 | £155,975 | £298,750 | £126,354 |
| Ore | N/A | £77,983 | £125,950 | £125,963 | £230,000 | £121,528 |
| Bohemia | £58,725 | £106,360 | £115,000 | £169,470 | £147,450 | £119,056 |
| Central St Leonards | £77,987 | £119,050 | £156,960 | £174,617 | £284,967 | £111,051 |
| Overall | £86,487 | £125,750 | £152,940 | £172,592 | £278,598 | £155,075 |

- 3.2.2 These are based on averages and across the area these general observations and trends are affected by prices in particular locations or areas within settlements and/or by volumes of particular housing types for sale at any one time (which in turn is influenced by the local stock make up). Values can be driven by specific location and scheme desirability as much as by particular area or settlement. In certain areas there can be wide variations. This does produce some quirks within the overall trends, for example such as the pricing noted for 2 bed flats in the Clive Vale area relative to the other prices there. This is an example of particular properties or schemes producing sometimes significantly different value levels to other locally. It demonstrates how important it is not to assume that all values will be limited in an area generally having lower/modest values. It also illustrates how particular areas often see a stronger market for certain property types relative to others, as was picked up through our conversations with estate agents. From this base, we moved on to consider property values trends by Ward – see Appendix III for further information, and also Figure 5 below. We felt it would be useful to consider the data in both of these forms in terms of developing our feel for local value patterns and ranges.
- 3.2.3 In addition, information was sought on likely new build pricing via both desktop research and by talking to estate agents. We have to be careful in analysing new build pricing, since often when higher values are seen, the property floor areas are larger too. That relationship needs to be borne in mind, as explained in the methodology – at 2.6.6. Appendix III shows the results of both the desktop research and the data provided by estate agents on likely new build pricing across the Borough.
- 3.2.4 Figure 5 below (taken from Appendix III) shows data collected through discussions with residential agents with approximate new build sales rate alongside a very approximate guide to how those relate to our Value Points; to give a broad indication of how the various results relate to those areas at the current time.

Figure 5: New Build Residential Property Values by Ward Area (alongside Estate Agent commentary)

| Area/Ward | Approximate VP Equivalent | 1B Flats | | 2B Flats | | 2B Houses | | 3B Houses | | 4B Houses | | Notes: |
|-------------------------|---------------------------|----------|---------|----------|----------|-----------|----------|-----------|----------|-----------|----------|--|
| | | From | To | From | To | From | To | From | To | From | To | |
| Ashdown | 4-5 | N/A | N/A | N/A | N/A | N/A | N/A | £250,000 | N/A | £270,000 | £280,000 | Larger properties than 4 beds anywhere between £350,000 and £500,000 |
| Maze Hill | 2-4 | £100,000 | N/A | £125,000 | N/A | £190,000 | N/A | £230,000 | N/A | N/A | N/A | Historical area; not likely to be many new build houses. See also notes re Silverhill – below. |
| Conquest | 2-3 | N/A | N/A | N/A | N/A | £150,000 | £160,000 | £170,000 | £180,000 | N/A | N/A | Family housing; not really an established market for flatted development here. |
| Silverhill | 2-3 | £85,000 | N/A | £95,000 | N/A | £175,000 | £185,000 | £190,000 | N/A | N/A | N/A | Sought after location, good schools; probably the most sought after area for family housing but Maze Hill probably the most sought after area for professional / couples. Values given are average build - some schemes will see higher values than these. |
| St Helens | 2 | £80,000 | £90,000 | £110,000 | £120,000 | £170,000 | £180,000 | £200,000 | N/A | N/A | N/A | Older style properties currently. 3 bed houses £200,000 plus... |
| West St Leonards | 2 | N/A | N/A | N/A | N/A | £150,000 | N/A | £160,000 | £165,000 | N/A | N/A | Family housing |

| Area/Ward | Approximate VP Equivalent | 1B Flats | | 2B Flats | | 2B Houses | | 3B Houses | | 4B Houses | | Notes: |
|----------------------------------|---------------------------|----------|---------|----------|----------|-----------|----------|-----------|----------|-----------|-----|--|
| | | From | To | From | To | From | To | From | To | From | To | |
| Clive Valley (Ore) | 1-2 | N/A | N/A | N/A | N/A | £130,000 | £140,000 | £150,000 | £160,000 | N/A | N/A | Older style properties attain relatively good prices. |
| Braybrooke | 1-2 | £80,000 | £90,000 | £110,000 | £120,000 | N/A | N/A | N/A | N/A | N/A | N/A | Town centre area. No significant scope or established market for new build houses. More typically flats. |
| Wishing Tree / Hollington | 1-2 | £70,000 | N/A | £80,000 | N/A | £125,000 | N/A | £135,000 | N/A | N/A | N/A | Mainly ex-local authority housing; not a strong flatted market; a key 1st time buyer area |
| Old Town | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | No significant new build housing market or scope - conservation area - unlikely to be much development. |

NB: Details are only shown where information provided. N/A indicates no clear view available at the time. The notes and views indicated are our interpretation of the indications expressed to us.

3.2.5 The range of new build values used in this study to enable us to test both the variation in values as may be seen across a range of scheme types throughout the Hastings area and with a changing market over time is shown in Figure 6 below. Given the still relatively weak economic backdrop and uncertain condition of the current property market, the direction the market next takes is particularly difficult to assess at the moment - both nationally and more locally. By looking at a range of values this methodology is able to be used in a way which enables a review of viability outcomes in response to value levels as those vary. This means that overall the range of values tested is likely to remain appropriate and still capture the typical value levels locally as they move within this scale. The general range of new build values seen (in £ per sq m) and used for carrying out appraisals are as follows:

Figure 6: New Build Range of Values

| Value Point | £/sq m | Approx. £/sq ft |
|-------------|--------|-----------------|
| 1 | £1,600 | £149 |
| 2 | £2,000 | £186 |
| 3 | £2,400 | £223 |
| 4 | £2,800 | £260 |
| 5 | £3,200 | £297 |

3.2.6 Recent RICS research suggests that “asking” to sale price gaps had been reducing again prior to and at the point of research. However, sales prices usually vary from asking prices - to a variable and sometimes significant degree, especially in a weak market. Bearing this in mind, there may be occasions in certain areas where new build values achieve only low levels in the South East context. If market conditions deteriorate further we could see a general move downwards within our overall scale of value levels meaning lower value occurrences could increase, at least over the short-term. Nevertheless, even in depressed market conditions, it is likely that for highly desirable locations and schemes there will also be cases where values are much higher within the overall range considered (e.g. up to our Value Point 4-5 or perhaps higher).

3.2.7 Adams Integra’s recent research for viability studies suggests in general that there no longer appears to be a significant premium value attached to new build properties compared to re-sales of a comparable type (although care needs to be adopted in analysis because comparisons are not always on a like for like basis, i.e. housing types vary considerably and new build often seeks to provide a new or improved offer in an area). This is due to the recent and ongoing lack of confidence in the housing market triggered by the recession. Agents have tended to indicate that new build property now has to compete directly with resale in pricing terms. This is not always the case, however - for example where a scheme creates what is

considered to be a new or particularly attractive offer for a given location; something which developers will strive for.

- 3.2.8 An important feature of the housing market which was triggered in Autumn 2007, developed in 2008 and has run through to 2010 (and appears to be universal) has been the slow-down in the rate of sales (number of sales being agreed and proceeding). The impact of the vastly reduced level of market activity (volume of house sales) has been to significantly affect 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, as mentioned in Chapter 2, we see a range of reactions to it in terms of profit levels sought, and other assumptions applied.
- 3.2.9 We feel there is no doubt that current conditions add up to a negative financial viability impact when compared with how schemes are viewed and pursued in a more stable, confident market. Developments in general often take longer to sell (with build progress possibly slowed and costs outstanding for longer as a result) and varying packages of incentives are typically being offered. These factors were identified at 2.2 and are recognised in Appendix III as well. A key point here, again, is that affordable housing is not solely responsible for any viability difficulties – and it should not be regarded in that way. There is often a complex interaction of influences and recent market conditions have proved a greater obstacle than affordable housing or other requirements in themselves.

3.3 Indicative Value Comparisons

- 3.3.1 As mentioned previously, due to highly variable potential existing and alternative use values of sites, and in some cases particular “overbid” or incentive requirements, it is not possible to provide the Council with definitive “cut-off” points where viability will be compromised to the degree that development may not take place. However, it is possible to provide likely outcomes at varying levels.
- 3.3.2 By way of a basic example, a residual calculation that provides an output of zero value (i.e. RLV of 0% of GDV) after testing a particular policy requirement means that development on this site would not go ahead unless there was a special business case for pursuing it. Conversely, on a site where the RLV approaches 25% to 40% of GDV after the application of affordable housing policy it is likely (although not definitive) that land values are going to be high enough to absorb the impacts of the new policies.
- 3.3.3 In addition, the indicative RLVs in monetary terms (as at Appendix II) resulting from the application of various policy positions across the

different site types, can be compared very generally to land values provided by organisations such as the VOA through estimating the land area (“land take”) of the notional schemes (Tables suffix “b” each Appendix). These tables group together the results of the appraisals at differing densities and by location – please refer to Appendix I for the density assumptions. The density assumption clearly has a direct effect on the RLV when expressed in £ per ha terms. We decided, again to cover a range of scenarios. Density is a factor of the particular type of development, and in practice will vary significantly from scheme to scheme and area to area.

- 3.3.4 As an example and again bearing in mind the notional nature of it, Adams Integra’s 15 unit housing scheme based on a similar scheme typology from the 2007 study could occupy 0.5 ha (at a density of 30 dwellings per hectare (dph). Reviewing the base appraisals (Appendix II), the value of the land at Value Point 3 (equivalent to mid to upper value areas of the Borough) with zero (0%) affordable housing is indicated to be £1,257,297 per ha. With a requirement for 20% affordable housing this falls to £892,206 per hectare. At 25% affordable housing it falls further to £773,146 and further still at 30% to £633,077 per hectare. Valuation Office statistics for industrial land in the South East¹² provided values between £250,000 and £2,450,000 and a typical value of £1,256,000 per ha. There is no specific data for Hastings but more locally in Eastbourne (which we consider provides a more relevant general comparison than the South East overall), the VOA data suggests industrial land values of between £550,000 and £750,000 per hectare with a typical value of £650,000. The July 2009 VOA data has now been updated as of January 2010¹³ with a smaller dataset (no longer including Eastbourne). However, it comments that industrial land values have remained relatively static since January 2009 across the country. We can therefore assume that those values are still valid and for the purposes of this report, we have used those figures as one level of comparison.
- 3.3.5 VOA data also suggests that agricultural land value is below £20,000 per ha (dependent on type). Although this is true for purely agricultural land, if the case arises in Hastings that true Greenfield land comes forward for residential development (either through site allocations policy or other means) there is normally an associated uplift in. While land value expectations and payments in those cases are likely to be very much lower than with many previously developed sites, there may well still be varying degrees of incentive required – taking comparative land value situations up to perhaps £100,000 – £500,000 per hectare. Again, this is necessarily purely indicative but adds a further layer or filter when comparing the

¹² VOA Property Market Report July 2009

¹³ VOA Property Market Report January 2010

RLVs of our notional site typologies with values created by alternative uses.

- 3.3.6 What this broadly indicates on a comparison basis with average data from the VOA, is that the value of our 15 unit housing scheme at Value Point 3 with 20% and 25% affordable housing exceeds values likely to be produced by typical industrial schemes and potentially commercial values as well. At 30% affordable housing however we start to see the RLV drop below the indicative value for industrial land. However, were this to be a Greenfield scheme then our comparison may alter and we may be looking to see whether the RLV generated could exceed £100,000 to £500,000 per ha. In this case, at Value Point 3 we would see those figures exceeded up to and including 40% affordable housing.
- 3.3.7 At Value Point 4 we would see the value of the land for our 15 unit housing scheme (based on and indicative 30 units per hectare) exceed the range of industrial and upper end commercial use values at all proportions of affordable housing compared to the indications provided by the VOA data.
- 3.3.8 For general information, the VOA also provides average data for residential land within the South East as an average. The July 2009 data provides figures of between £2,370,000 and £2,590,000 per hectare are indicated. More locally, figures provided for Folkestone show a range of between £1.275m and £1.45m per hectare. These levels of RLV also align to our results as seen from our mid to high Value Points and/or lower proportions of affordable housing at lower Value Points. This information can only be regarded in very general terms, however, since we stress again that development values and appraisals are very site-specific once actual schemes are being looked at. It also needs to be borne in mind that the basis of that VOA values data may well not be consistent with particular planning obligations expectations, including on affordable housing, as well as with other current locally applicable assumptions and market trends.
- 3.3.9 It is also very important to note when comparing values with VOA data (or other historical data) that the commercial property market is currently very depressed, has lost confidence and has been seeing demand levels reduced more severely even than in the residential market – with very low occupier demand levels affecting values very significantly. It needs to be borne in mind that land value comparisons between residential and other existing/potential alternative (commercial) uses will vary quite significantly over time, particularly in such turbulent economic conditions. The VOA data will tend to look increasingly historic.
- 3.3.10 We have noted that comparisons with other information such as provided by the VOA on land values for various uses, is purely indicative. The purpose is to reinforce the relevance of considering the issue of other land use values, and that those might impact on what becomes of a site - or on

what a site is able to provide. The values relating to sites (whether for existing or alternative/potential uses) will be highly specific. Where we have been able to gather any further information or indications from agents on land values locally, details have been added to Appendix III as the study has progressed. Looking across a wide range of similar studies, this has typically been very limited, because the feedback echoes our points about the site-specific nature of comparisons. Recent and current market conditions, for residential and commercial property and development, have meant very low activity and transactions levels and resulted in such information being hard to come by.

- 3.3.11 As stated previously, comparisons on this sort of basis are difficult to make with any real certainty or confidence. Again, there will be no substitute for consideration of site specifics where viability issues arise, but we consider it helpful to make some cross reference between our results and this sort of information on land values. We have also discussed the potential influence of incentive/"overbid" values levels in some situations.
- 3.3.12 The site densities assumed above are for example purposes only as site specifics will influence viability on individual sites. The example values for alternative uses cannot be considered definitive. This section is provided as a guide only, and to emphasise that considering alternative use values will often be important in delivery discussions.

3.4 Results Trends

- 3.4.1 The overall trend of results shows a decrease in RLV for all site sizes and types in all cases as:
- Market property values decrease.
 - The proportion of affordable housing increases.
 - The availability of grant is reduced/removed.
 - The tenure mix moves away from intermediate (e.g. Shared ownership) to rented.
 - Developer's profit is increased.
 - Planning obligations/infrastructure requirements are increased; and
 - Other costs are added to the scheme (just for example through increased Code for Sustainable Homes attainment, but potentially through a wide range of matters).

- 3.4.2 A reduction in RLV would be seen if any of the costs within the appraisals are increased or the affordable housing revenue to the developer reduced, whilst maintaining the same private market sales values. These are all normal trends encountered in any such study (or indeed site-specific appraisal). They demonstrate the dynamic nature of the development process and the fluid nature of any appraisal modelling that endeavours to understand or demonstrate it.
- 3.4.3 The above will all have an impact on development viability because the sums of money remaining to purchase land after all costs are met (i.e. the RLVs) reduce as development costs increase (including increasing affordable housing requirements, in the context of this study). The importance of strong sales values to viability, particularly as development costs (again including affordable housing) increase, can clearly be seen.
- 3.4.4 A combination that includes multiple or all of the factors which decrease RLV (as per the examples listed above) will have the greatest impact on the viability of a scenario.

3.5 Schemes Above Existing 15 Unit Affordable Housing Threshold

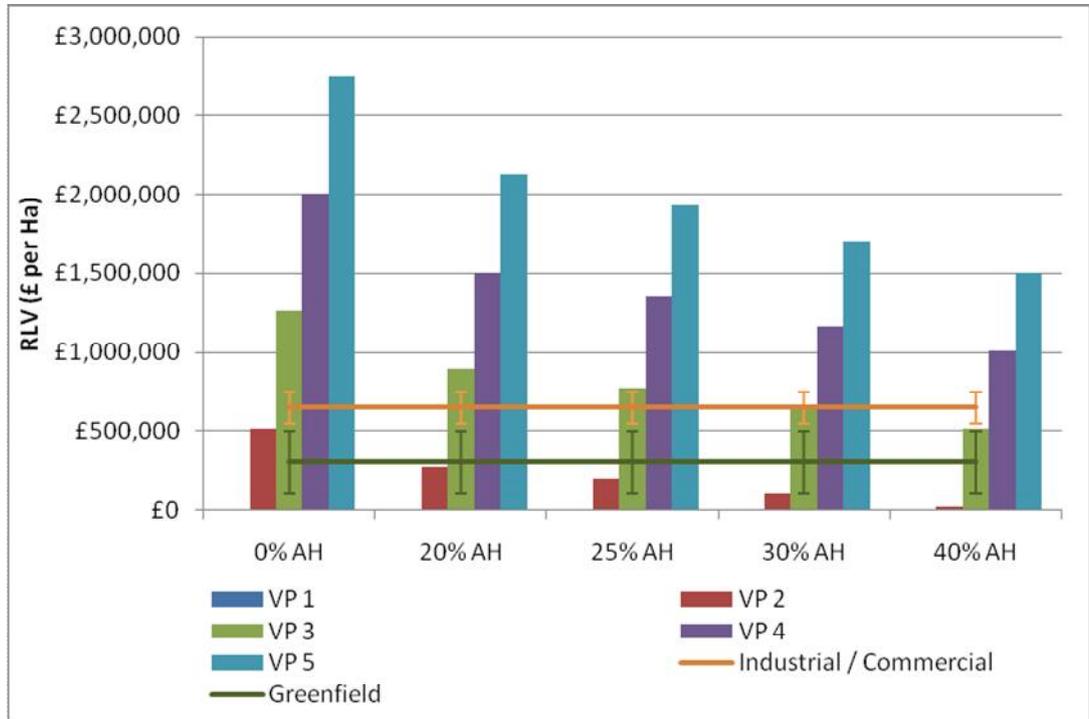
- 3.5.1 The impact of affordable housing proportion on development viability has been tested on all scheme sizes at 20%, 25%, 30% and 40%. This range of proportions has been tested to enable us to consider options around the Council's proposed policy scenarios.
- 3.5.2 The lowest RLVs occur where the property values are lowest whilst the affordable housing proportion, and rented tenure content of that, is highest. The following is based on our base appraisal assumptions. The impact of grant, varying tenure, varying profit, higher infrastructure costs, higher sustainable design and construction standards are discussed later.
- 3.5.3 Above the existing affordable housing threshold we have looked at sites of between 15 and 100 units including housing schemes, flatted schemes and schemes with a mix of flats and houses. The density of these schemes also varies depending on the type.
- 3.5.4 The graphs (Figure 7 to Figure 11) below are taken from the results in Appendix II to show how the RLV reduces as the affordable housing proportion increases, and increases with value (Value Point). Also indicated in each case is a range of possible competing use values that may be relevant for comparison with the resulting RLV of the site dependent on its type location. In this case the range of potential commercial/industrial values and "Greenfield enhancement" (shown as 'Greenfield' on the graphs) values are shown. The commercial/industrial land values are, as above, taken from the VOA data. The "Greenfield enhancement" range of values are given as potential starting point values

for land that has not been previously developed and that has no realistic alternative or competing use that will create significant value, but that includes a significant element of incentive to the landowner that may be required to release that land for development. In each case, the range within which the relevant land value comparisons are likely to be made is shown by the vertical and separate lines extending beneath and above the thicker line that represents the approximate typical value level for that comparison.

3.5.5 In summary, as an additional guide to interpretation, the following graphs (Figures 7 to 11 inclusive) referred to at 3.5.4 all show:

- The Value Point (VP – i.e. indicative market values of housing within new developments) increasing from left to right above each affordable housing proportion (%) tested.
- Consequently, increased RLVs produced by schemes as the affordable housing % and other assumptions are kept constant while the VP (market values). This is seen through the increasing height of the coloured bars – again moving from left to right over each affordable housing % tested. Increasing VP (market values) means an increasing RLV provided other key costs and assumptions are kept the same.
- How those indicative levels of RLV (the coloured bar heights) compare with indicative alternative use land value examples – in this case with 'enhanced Greenfield values' (where the owner of a Greenfield site needs to be sufficiently incentivised to sell); and a level representing a feel for potential industrial/ commercial land use values (again at an example level).
- Overall, how the increasing affordable housing proportion (%) moving left to right from one set of coloured bars to the next (0% > 20% > 25% > 30% > 40% affordable housing. What we can see is that (with other assumptions maintained) with increasing affordable housing proportion we need development to take place at higher VP (market sales values) levels so as to support viable schemes that are likely to exceed a potential range of existing or alternative land use values.

**Figure 7: 15 Unit Housing Scheme Results (Base Appraisals)
Showing Potential Indicative Alternative Use Value Comparisons
(30 dph)**



**Figure 8: 25 Unit Flatted Scheme Results (Base Appraisals)
Showing Potential Indicative Alternative Use Value Comparisons
(45 dph)**

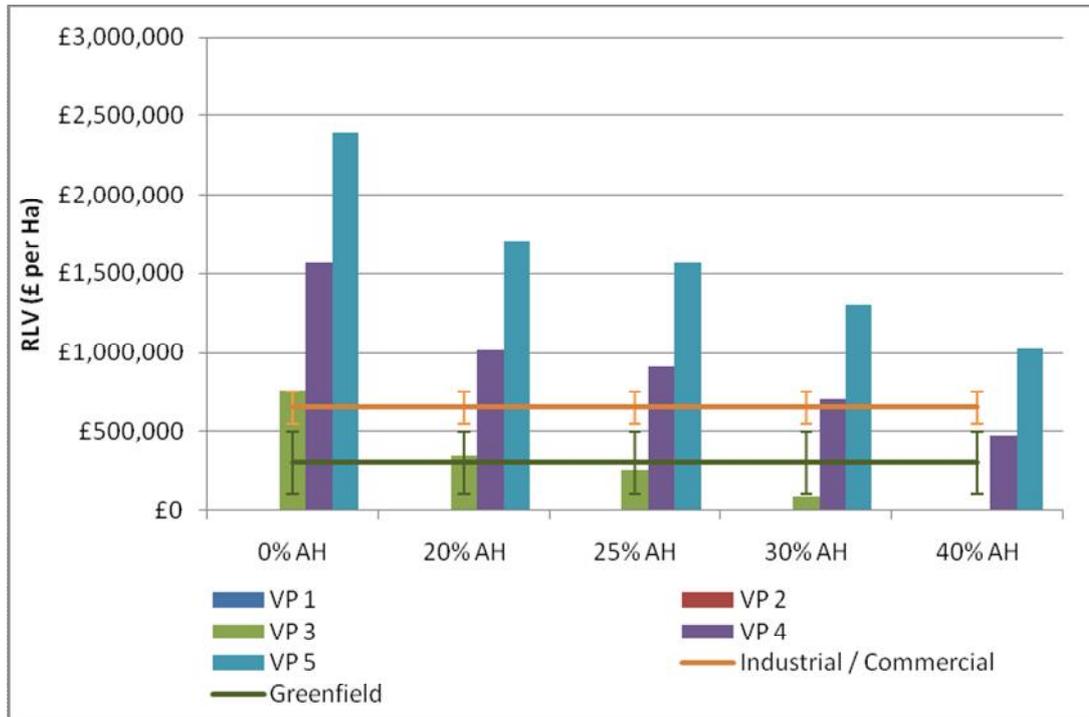


Figure 9: 25 Unit Mixed Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (35dph)

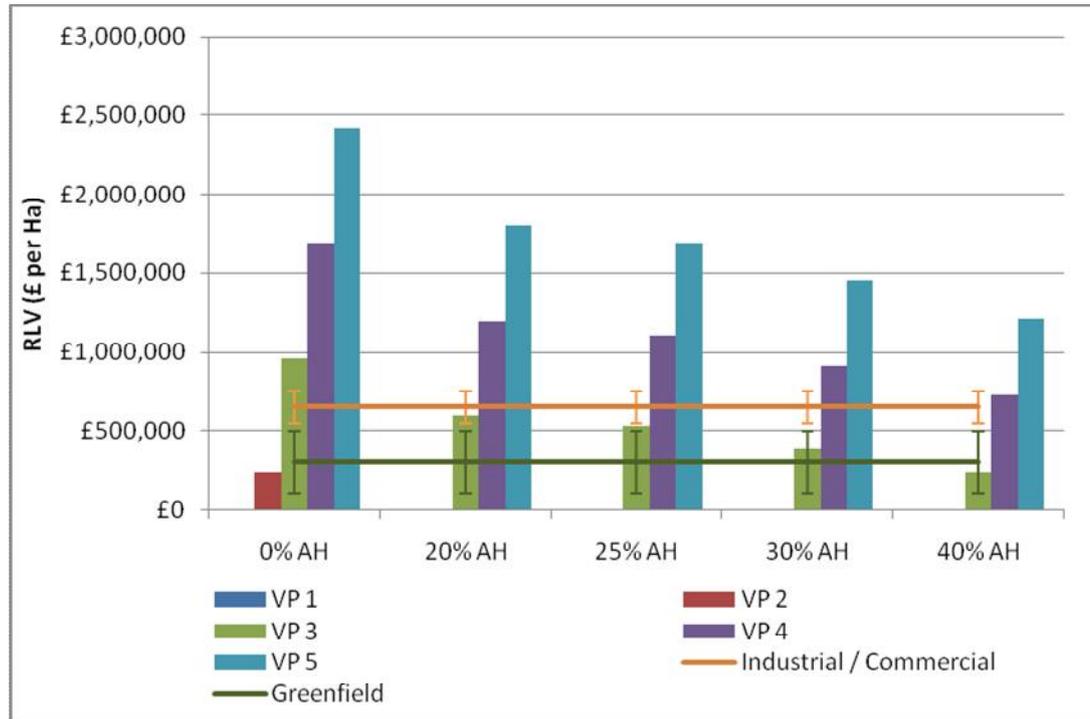
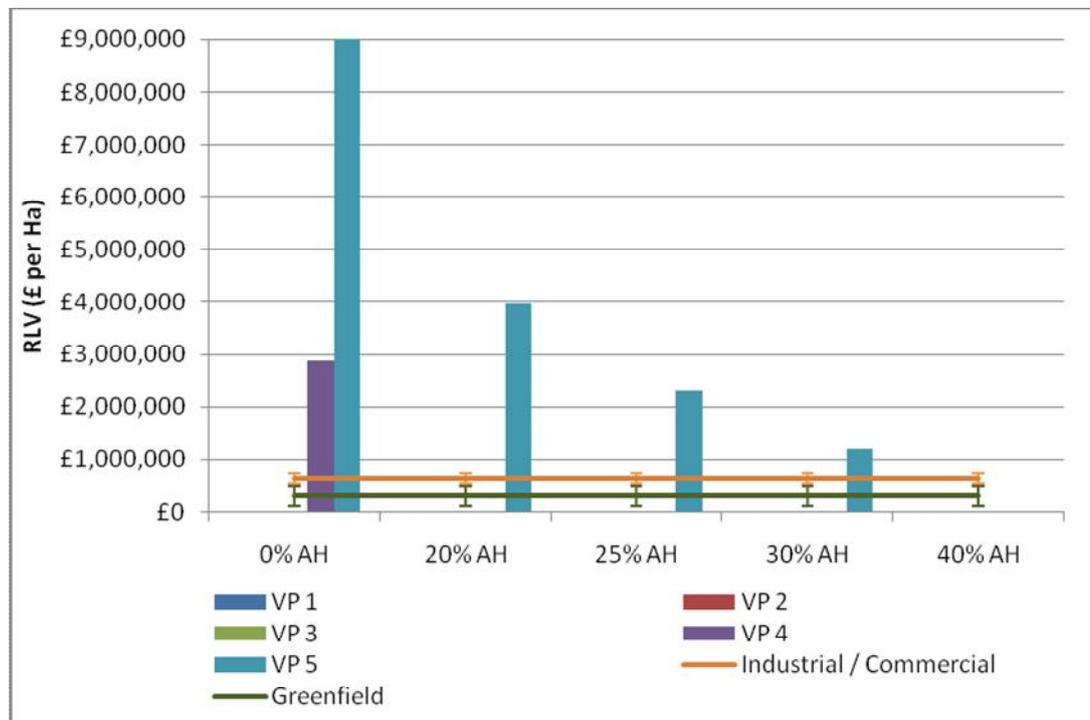
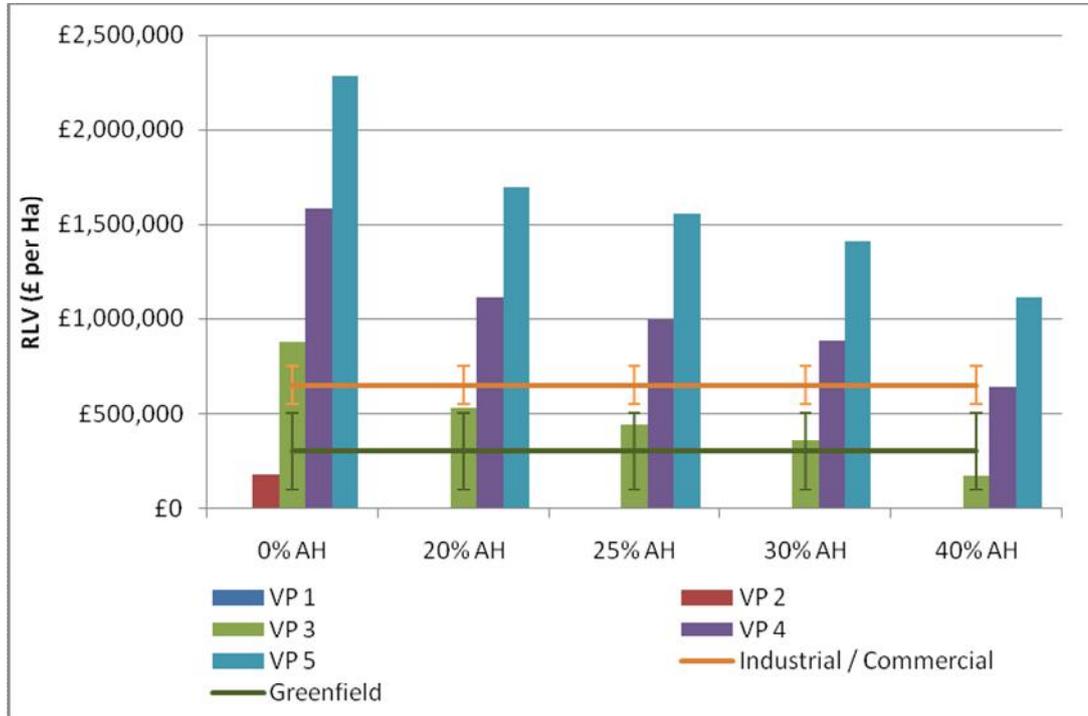


Figure 10: 50 Unit Flatted Scheme Results (Base Appraisals) Showing Potential Indicative Alternative Use Value Comparisons (325 dph)



**Figure 11: 100 Unit Mixed Scheme Results (Base Appraisals)
Showing Potential Indicative Alternative Use Value Comparisons
(35 dph)**



3.5.6 Given the development cost levels and base assumptions as set out previously, at Value Point 1 and 2 there is little or no residual land value (RLV) generated on most of the schemes appraised except where we look at 0% affordable housing; and occasionally with low proportions of affordable housing (also see Appendix II for full results). This means essentially that, on this basis, there is insufficient value in schemes to overcome their costs whilst still creating sufficient development profit and a meaningful land value. As such, it would not be practical to expect such schemes to deliver affordable housing in any substantial proportions based on these assumptions, unless they were promoted on inherently low value sites – or where land did not have to be purchased (e.g. Council/public owned land).

3.5.7 By Value Point 3, we start to see residual land values generated that could exceed industrial/commercial alternative use values and still provide an element of affordable housing. The indicative land values (RLVs) generated by our appraisals are still relatively low with the higher proportions of affordable housing (40%) applied and at this point are unlikely to match existing higher end commercial or industrial use values or sites in existing residential use (residential redevelopment) in most cases.

3.5.8 As an example, if we look at our 15 unit housing scheme and compare it to industrial/commercial alternative use values we see that at Value Point 3,

the upper end of the industrial range is only exceeded with 25% or less affordable housing. If, however, this site type came forward on previously undeveloped Greenfield land then we see that the values generated exceed likely enhanced Greenfield land values.

- 3.5.9 By contrast, our 25 unit flatted scheme struggles to generate any value until Value Point 3 and even then would only begin to compete with upper end industrial/commercial values with a nil requirement for affordable housing. If the scheme is compared to enhanced Greenfield value levels then there begins to be a possibility of this scheme achieving affordable housing (between 20% and 25%).
- 3.5.10 With the schemes where there is a mixture of housing and flats (25 unit and 100 unit schemes) we see that at Value Point 3 although the residual land values generated match or exceed the range of enhanced Greenfield values with a 25% proportion of affordable housing applied, they do not create sufficient value to exceed possible industrial or commercial alternatives.
- 3.5.11 Our 50 unit flatted scheme was modelled on much higher densities than the other schemes and came with associated increases in build costs (assuming high rise development. We see from the results that little or no value is generated at Value Points 1 to 4 as insufficient value is created to overcome the cost of development. At Value Point 5, however, we see that as soon as sufficient value is created to overcome those costs, the RLVs far exceed any alternative – with requirements of up to and including 30% affordable housing.
- 3.5.12 By Value Point 4, much stronger RLVs are generated more often. In all cases (except the 50 unit flatted scheme) we see that with 25% affordable housing, all alternative use values are exceeded, often significantly so. At 30% to 40% affordable housing this becomes more marginal in relation to alternative industrial/commercial values but still significantly exceeds potential enhanced Greenfield values. With 30% or 40% affordable housing the indicative RLV created by the schemes may struggle to compete with sites in existing residential use. At this point it is worth reiterating that the requirement for affordable housing or any other “cost” to a scheme will have a negative impact on RLV. The frequent occurrence of sites for residential redevelopment (re use of existing residential land) has a bearing on our judgements on potential policy positions and how ambitious those could be.
- 3.5.13 By Value Point 5, at the upper end of the range of values most regularly seen locally, the indicative land values generated by our appraisals reach levels likely to be well in excess of most potential existing/alternative use values where there is a requirement for 40% affordable housing.

3.5.14 As with all study locations, there will be variations within and exceptions to these types of trends.

3.6 Sites Below the Existing Affordable Housing Threshold and Potential Sliding Scale

- 3.6.1 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 policy requirements could take effect. These scheme sizes, or trigger points for policy, are known as thresholds. The study brief extended to cover wider potential options including the review of a lowered or no threshold (i.e. where a wider range of smaller sites, or perhaps all sites, would contribute in some way towards meeting affordable housing needs). The potential introduction of a “sliding scale” of policy requirements has been reviewed, purely in viability terms, for the Council’s consideration. This could lead to a policy position where the affordable housing proportion sought increased with site capacity at certain steps, if appropriate.
- 3.6.2 Hastings Borough Council’s currently applied affordable housing policies place a requirement for the provision of affordable housing on sites of 15 dwellings or more across the Borough. To reflect schemes of fewer dwellings, i.e. falling outside the scope of the current approach, the range of modelling carried out for this study also included a starting proportion of 0% affordable housing on those smaller sites – as a benchmark representing the fact that currently no affordable housing is sought from them. It then looks at the impact of applying 20%, 25%, 30% or 40% affordable housing. For the purposes of this study we have modelled a 5 unit housing and a 5 unit flatted scheme as well as a 10 unit housing and 10 unit flatted scheme. A summary of those results (from Appendix II – Base Appraisals) is shown in Figures 12 to 15 below alongside a range of potential alternative use values.

Figure 12: 5 Unit Housing Scheme Results (Base Appraisals) (35 dph)

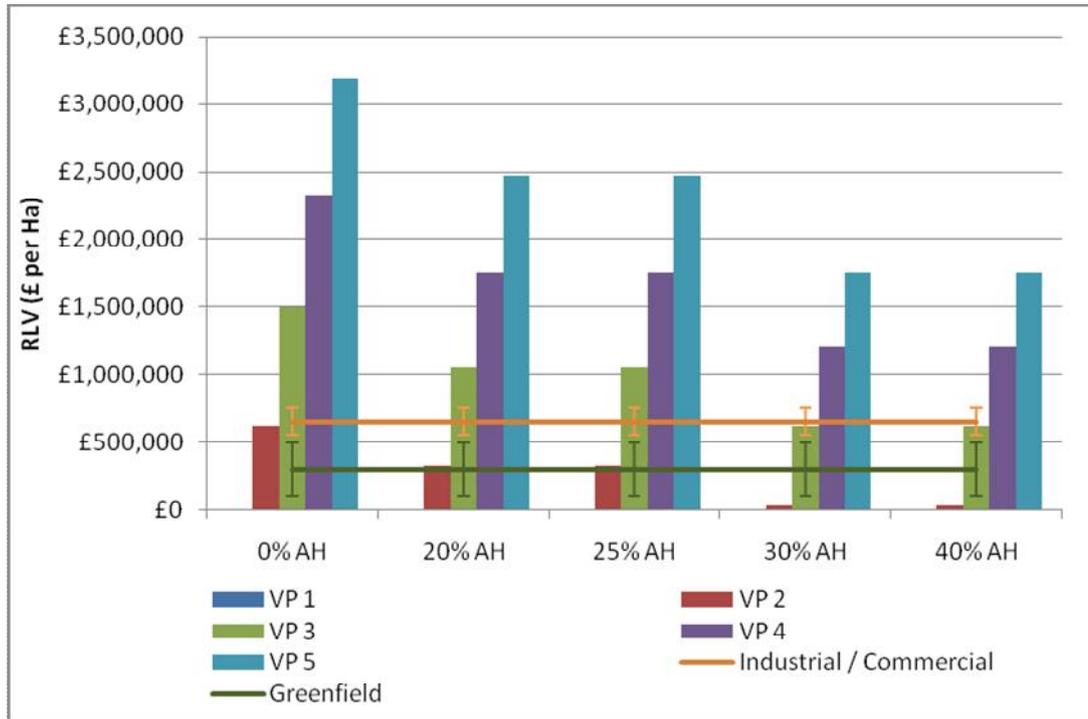


Figure 13: 5 Unit Flatted Scheme Results (Base Appraisals) (75dph)

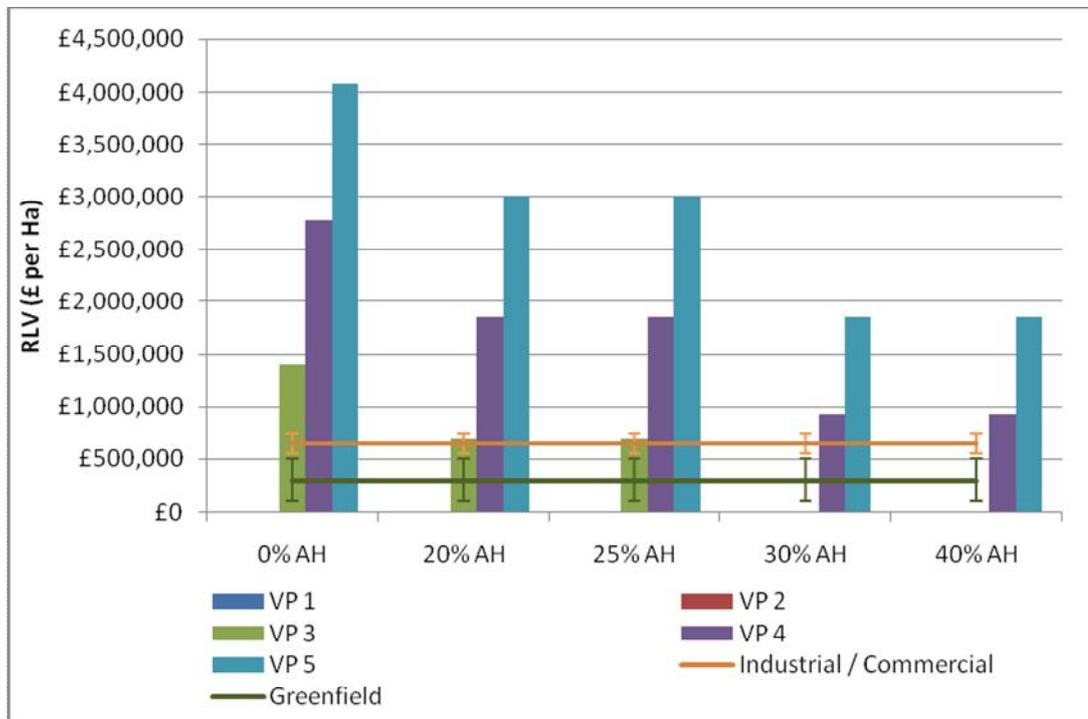


Figure 14: 10 Unit Housing Scheme Results (Base Appraisals) (35dph)

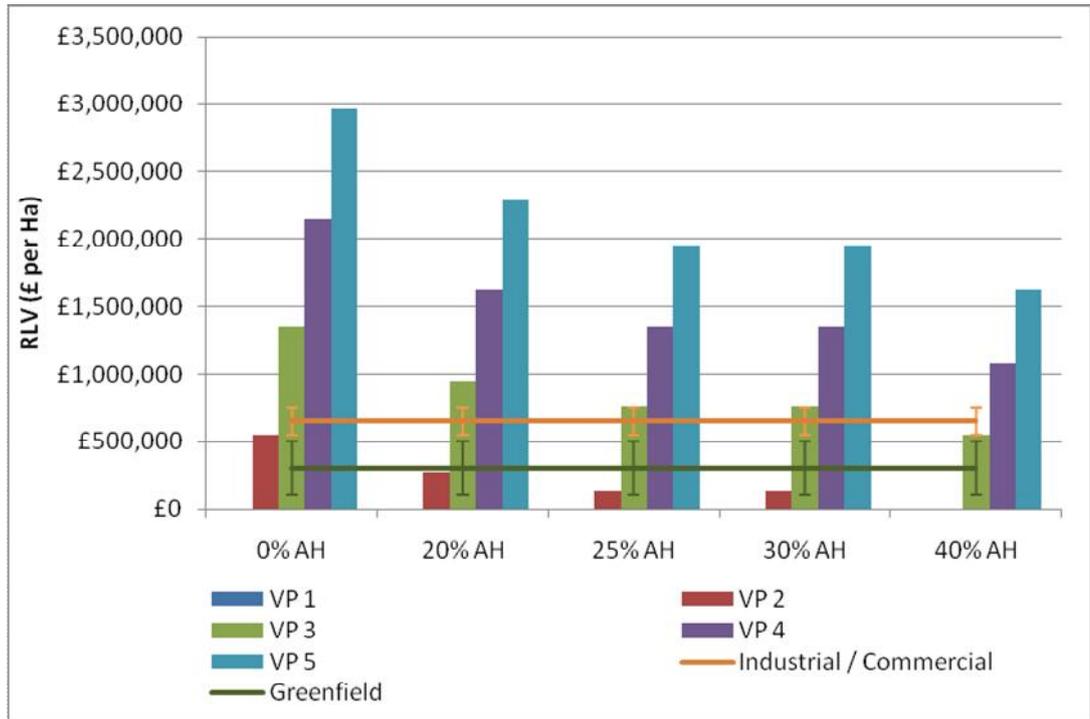
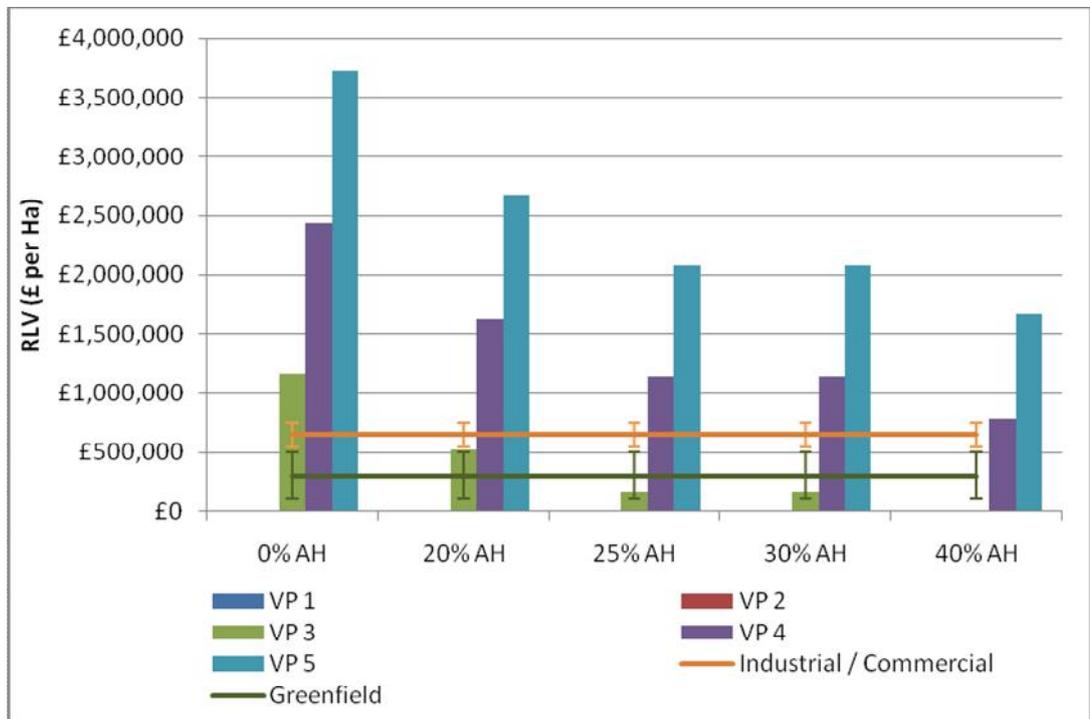


Figure 15: 10 Unit Flatted Scheme Results (Base Appraisals) (75dph)



3.6.3 The graphs above and the results in Appendix II show the RLV reducing (i.e. the viability impact increasing) from the landowner's current position (i.e. compared with 0% affordable housing) as we move from left to right.

- 3.6.4 Analysis of the results indicates that, as expected, a potential lowering of the on-site affordable housing threshold (effectively increasing the proportion of affordable housing from 0% to 20%, 25%, 30% or 40%) on any of the scenarios modelled leads to significant reductions in RLV across the entire range of scheme types and Value Points.
- 3.6.5 Figures 12 to 15 show the fall in RLV as the affordable housing proportion is introduced and then increased. The impact is similar across the 4 scheme types modelled and again we see that any alternative industrial/commercial use value is exceeded only with 20% to 25% affordable housing or less at Value Point 3. Where the comparison is against an existing Greenfield then we see a higher proportion of affordable housing can be reached whilst still exceeding the range of enhanced Greenfield values. At Value Point 4 and above we see that the residual land values generated by our notional schemes exceed most competing use values.
- 3.6.6 This pattern of reduction in approximate RLVs as affordable housing proportion increases is repeated across all scheme types and sizes below the 15 unit threshold. We see RLV reducing as the affordable housing proportion increases, but this effect is mitigated by increased market value levels as schemes are able to generate more significant land value whilst bearing greater obligations alongside the constant development costs.
- 3.6.7 The results which show very large reductions in RLV are caused by relatively low starting value schemes. Only a small increase in costs (or reduction in sales receipt) results in a large relative percentage drop in RLV. The impact of those reductions is greater at the lower end of the values scale due to the initial (pre-affordable housing requirement) lower land values which in turn lead to a reduced ability to bear cost. Although this impact is principally going to have an effect on sites which are asked to provide affordable housing for the first time (i.e. go from providing 0% to potentially up to 20%, 25%, 30% or 40%), we also see it with lower end value schemes above the current 15 unit threshold where even a low affordable housing proportion deteriorates results significantly and provides very low or nil land values.
- 3.6.8 These results show that scheme size is not a determinant of viability in itself. This is a consistent finding common to all of our studies. There is nothing within the appraisal maths which suggests that smaller or larger sites tend to be any more or less viable than each other. It really does come down to site specifics – the nature of sites and the proposals for them relative to existing use, specific costs, etc, all as discussed. In addition, the actual sum of money remaining (rather than the sum per hectare) with which to purchase land diminishes for the smaller schemes to the point that regardless of the value created in terms of the rate per hectare, there may well be insufficient value remaining in actual terms

(£s) to compete with other uses. Other effects also come into play on the smallest sites, as discussed below.

- 3.6.9 Consideration of the effect of this first time policy impact (i.e. moving from 0% rather than an existing proportion) helps to demonstrate why we consider a sliding scale of affordable housing requirements could have potential as a useful and effective tool for reducing viability impacts on these smaller sites (those that would trigger affordable housing requirements for the first time should the affordable housing threshold be lowered from 15 units).
- 3.6.10 The wider evidence beyond this study points to lowered thresholds being necessary and justified to optimise progress towards meeting affordable housing needs (for example, in 2009/10, 48% of all completions were on sites of 5 or fewer dwellings¹⁴). Given this and the finding that there is no particular reason for smaller sites not making a carefully judged contribution on a target basis, then in our view the sliding scale approach relating to sites which could often be significantly smaller than those currently within policy scope would be preferable to a straight requirement for say 25% to 30% from those – in viability terms.
- 3.6.11 On a scheme that would already be “captured” by the policy scope (i.e. of more than 15 dwellings) it must be assumed that there has been and is already a land value expectation adjustment in process. In other words, there is a growing acceptance more generally of the affordable housing requirements which affect those sites already within policy scope, and of the need for those to be factored in to early stages scheme discussions.
- 3.6.12 However, for sites falling beneath current policy scope, this is not the case (that expectation has not been in place). Those will need to be brought within that adjustment process owing to the first-time impact that we refer to. This means that the benchmarks that currently apply to such sites, in our view, need to be considered differently to those for the larger sites – and treated sensitively, particularly at this stage of policy development. Whereas, for a larger site, the no (0%) affordable housing related land value expectation should be a thing of the past, this is not the case for smaller sites when viewed at this stage of policy development.
- 3.6.13 As an example (from Table 1 of Appendix II) our 10 unit housing scheme is indicated to produce an approximate RLV of £393,604 at Value Point 3 assuming 0% affordable housing. That, rather than any lower RLV figure, is the relevant benchmark in terms of driving land value expectations in that example. If 25% or 30% affordable housing is assumed then the indicative RLV figure falls to £219,448 - a considerable (44%) reduction. As a proportion of the starting value expectation, this represents a large

¹⁴ Hastings Borough Council – 2009/10 Housing Sites Completions Analysis

drop and is likely to bring the RLV significantly closer to or below any existing or alternative use value. If, however, a lower (say 20%) affordable housing proportion is assumed then the impact is mitigated to a useful degree in viability terms. While the impact is still very significant, the RLV is boosted back to an indicative £274,545 (in this example) assuming a 20% affordable proportion. With a site of more than 15 dwellings, the starting/expectation point would be to the right of Table 1, so that we do not see this very significant first time impact – we see much smaller relative reductions, and therefore we are making different judgements about the suitability of a higher percentage target – against other, closer, alternatives.

- 3.6.14 On some of the very smallest sites, numbers rounding of the affordable housing component means that varying affordable housing percentages produce the same RLV outcomes. That means the target percentages are actually being distorted by the calculation – an anomaly which again points to careful consideration of how to most appropriately treat the smaller sites.
- 3.6.15 In addition, there may be cases on the smallest sites where the on-site provision of affordable housing may not be a suitable and practical response to seeking to meet affordable housing needs while meeting a wider range of planning obligations. This has less to do with development viability alone than the practicalities of delivery on small sites - including integration of affordable homes, scheme design, marketing issues, perceptions, management sustainability and the potential for occupiers to become isolated. As discussed above such smaller schemes can be very high value and comprise very large dwellings as well, with consequential affordability issues around suitability and affordability for affordable housing tenure, as well as around meeting wider planning objectives.
- 3.6.16 Given the points recognised at 3.6.15, and building further on the key point made at 3.6.8 that site size alone is not a determinant of viability, during the course of this study it was decided to include within the review scope the potential for a financial contributions route (in-lieu of on-site affordable housing requirements) to be part of the Council's overall approach. Further information on this aspect of our review is included below at section 3.7.
- 3.6.17 The Conclusions and Recommendations that follow this Chapter (in Chapter 4) go into more detail on the potential options for consideration around a lowered affordable housing threshold.

3.7 Potential to seek financial contributions towards meeting affordable housing needs – from smaller sites

- 3.7.1 To build on the information available to the Council for further consideration of any policy positions affecting sites falling beneath the current affordable housing policy threshold, as above, we also carried out a range modelling assuming a financial contributions approach. The following sections include a mixture of methodology and outcomes points because we consider this aspect is best explained together in this way.
- 3.7.2 The workings and appraisals were carried out related to notional schemes of 1, 2, 3, 4, 5, 9, 10 and 14 dwellings. The scenarios for this stage of consideration of this potential area were based on 3 bed dwellings for schemes of 1 to 4 dwellings, and a mix of dwelling types for the schemes of 5 or more. These are to show how these calculation scenarios could work and of course in practice they could be applied to a wider range of dwelling types. In all cases the wider assumptions, on development costs and the like, were as per those applied in our main base (Appendix II) appraisals.
- 3.7.3 The workings and RLV results relating to this study element are included to the rear of this report at:
- Appendix III A – which reviews this based on the principle of open market value of the dwelling suitable for affordable housing, less the payment sum that an RSL (RP) would expect to make to a developer for it.
 - Appendix III B – which reviews this based on the value of the land that would need to be replaced, i.e. in order to provide the affordable dwellings (that would have been provided on-site) elsewhere.
- 3.7.4 The small table at the foot of Appendix III A sets out the range of open market values (OMV) assumptions used within that route of financial contribution calculation. The range of open market values is as per our Value Point figures, again based on the dwelling sizes we have assumed. The figures deducted from those OMV levels are also set out in that same table (see Appendix III A); the 'Payment to Developer' figures. Those payment to developer figures (i.e. assumed payments made by the RP for the affordable dwelling of that type) are taken from Figure 3 at section 2.7.6 of Methodology and Assumptions. In practice both the OMVs and the payment to developer figures applied through such an approach are very likely to vary. They will be determined by a range of factors including site specifics and the timing of a scheme. Therefore, the contribution levels and related RLV outcomes are, at this stage, illustrations of how this

calculation principle might be applied; and how it would be likely to impact RLVs, based on the assumptions we have made.

3.7.5 We discussed this potential route of calculation with the Council because in housing enabling terms it was felt to fairly reflect the difference between an on-site approach where a developer would receive only the significantly reduced affordable housing levels of revenue for the relevant dwellings (the 'Payment to Developer') and an off-site one, where the scheme revenue would be boosted to market levels in respect of all dwellings; and a contribution made in lieu – usually within the scope of a Section 106 agreement.

3.7.6 This is a principle that is used by some local authorities in calculating financial contributions. It is simple and, providing guidance can be given on the developer payment levels (or RPs involved on that aspect), has the potential to be readily understood by landowners and the development industry.

3.7.7 To further illustrate the principle of the 'OMV less payment to developer' approach (as per Appendix III A), the following is a worked example:

Example – Scheme of 4 x 3 bed houses with an equivalent proportion of 10% affordable housing required by way of a financial contribution:

1. OMV 3 bed house at Value Point 3 £204,000
2. Assumed payment to developer for that dwelling as affordable housing £103,700
3. 1 minus 2 = difference between developer receipt levels
= £100,300
(= whole dwelling equivalent)
4. Apply affordable housing equivalent proportion – in this example means 10% x 4 dwellings = 0.4 dwelling equivalent for contribution basis.
5. Outcome: Financial contribution payable for affordable housing
=0.4 x £100,300 = **£40,120**

3.7.8 The main tables within Appendix III A show, by Value Point - ascending from the top table (VP1) to the bottom one (VP5) - how the financial contribution (sometimes referred to as 'commuted payments') levels increase with increasing affordable housing equivalent proportion (0% > 10% > 20% > 25% > 30%) moving from left to right.

- 3.7.9 The general trend we see is that although the size of the financial contributions increases with increasing OMV (represented in this case by increasing Value Point), the RLV results (in turn representing likely improved viability) also improve with increasing Value Point.
- 3.7.10 This fits with the general study findings that more valuable schemes tend to have a greater capacity to bear planning obligations (including affordable housing) that equate to added cost.
- 3.7.11 Below we will consider the relationship between the RLVs and financial contribution ('commuted sum') levels produced on this basis. First, we will provide similar information relating to the potential alternative route to calculating these financial contributions that we have considered (land value based) as follows.
- 3.7.12 Appendix III B sets out the workings and RLV results related to a potential alternative – a land value based route to calculating affordable housing contributions. This is a methodology that we have devised and has been used in SPD that we have been involved in developing elsewhere. In our experience it has successfully supported the negotiation of appropriate financial contribution levels. As with the OMV less developer payment route, we have found it to be readily understood (especially because it relates to land value) by the development industry where we have used it. Similarly, as with the other route discussed here, it also has the potential to be developed proportionally – so that it can relate appropriately to varying scheme value levels and dwelling types.
- 3.7.13 This works in a similar way, in that per (whole) dwelling equivalent sums are calculated and can then be applied in proportion according to the dwelling types and numbers (%) relevant to the policy approach.
- 3.7.14 It seeks to secure a sum of money, again usually through the Section 106 agreement process, which can be used to replace the land on which the affordable housing would have been sited. This approach fits particularly well where local authorities have, or are preparing, an approach to private (landowner/developer) subsidy for affordable housing which is based on nil cost land or nil cost serviced land for the on-site affordable housing element of a scheme. We have recommended it as a potential wider approach in a number of cases though, given our experience of it working in practice.
- 3.7.15 As with the other method above, the following is a worked example to illustrate the principles of this approach (taken from a scenario included at Appendix III B):

Same example scheme type as 3.7.7 above – Development of 4 x 3 bed houses with an equivalent proportion of 10% affordable housing required by way of a financial contribution:

1. OMV 3 bed house at Value Point 3 £204,000

2. Multiplied by appropriate RLV % to arrive at the land cost element within that value (residual valuation derived, consistent with the study approach, and in the case of our assumptions and modelling for this scenario in Hastings – see the second element – average RLVs table – at Appendix III B.

Land cost: $£204,000 \times 20.1\% = £41,004$

3. Add allowance of 15% to land cost – to reflect acquisition and servicing costs. (The land value alone will not be sufficient to cover purchase costs and make it ready for development; as would have been provided in the case of on-site affordable housing.)

Land after purchase, servicing: $£41,004 \times 1.15 = £47,155$
(= whole dwelling equivalent)

4. Apply affordable housing equivalent proportion – in this example means 10% x 4 dwellings = 0.4 dwelling equivalent for contribution basis.

5. Outcome: Financial contribution payable for affordable housing
 $= 0.4 \times £47,155 = \underline{£18,862}$

3.7.16 Using either calculation route outlined above, the RLV results seen at Appendices III A and B are reflective of the wider study (on-site affordable housing) results. They are mixed. Again, schemes producing the lowest market values, Value Point 1 and in many cases Value Point 2 as well, are struggling for viability based on the range of assumptions we have made and so a need for negotiation might be expected.

3.7.17 However, at Value Points 2-3 and higher, the indications are that – as with the on-site scenarios – meaningful sums could be collected as part of an approach which has the potential to be an important additional affordable housing enabling tool for the Council. As with the on-site approach, this is providing that the equivalent affordable housing proportions (target %s which will affect steps 4 and 5 of our worked examples in both cases above) and the details ultimately expanded through SPD or similar guidance calculation route selected are sensitively judged in the context of Hastings value levels and viability outcomes.

- 3.7.18 We can see that in all cases, on our Hastings assumptions, the first route trialled (OMV less payment to developer) produces higher financial contributions levels than the second (land cost based route). Whilst this would be positive regarding its usefulness as an enabling tool, this does need to be borne in mind as the Council considers this potential element of its approach further. We have deliberately been quite cautious with our payment to developer assumption levels (2.7.6, Figure 3 above), because of the need not to over-inflate potential viability outcomes for the on-site affordable housing scenarios, especially bearing in mind current funding uncertainties. If this area of policy is to be developed, the Council could consider these details further in preparing its more detailed guidance. Although the Council should be aware of these factors, it is not a level of detail appropriate for Core Strategy consideration.
- 3.7.19 The need to be sensitive to viability impacts leads us to suggest the introduction of modest equivalent affordable housing proportions linked to this approach. We consider the suitable parameters to be 10 – 20% equivalent proportions, as part of a potential sliding scale type approach to bring more developments within the overall approach as part of making that more equitable.
- 3.7.20 The Council would need to relate any financial contributions aspect of policy (and the SPD/other guidance associated with it) to a clear and publicly available strategy guiding the collection and uses of the monies.
- 3.7.21 The strategy should be locally tailored and would, in the short-term at least, also be devised to complement local delivery bearing in mind the HCA funding uncertainties and financial climate in general. The strategy should be linked to or be part of a Supplementary Planning Document (SPD) on the details and operation of the affordable housing policy approach. Examples of the types of initiatives the Council could consider promoting and pursuing through the strategy could include:
- Better meeting priority affordable needs on other sites through tenure mix improvements (e.g. improving affordable rented dwellings numbers).
 - Maintaining tenure mixes to include affordable rented accommodation where it would otherwise be under threat owing to viability or funding constraints.
 - Upgrading existing stock/empty homes initiatives.
 - Buy-backs on existing developments (former Right to Buy sales for example), possibly as part of regeneration initiatives.
 - Wider regeneration initiatives.

- Purchase of other existing properties.
- Forwarding funding affordable housing developments – e.g. pending HCA/other funding.
- Gap funding.
- Investment to secured RP sites/schemes and/or Council-owned land.
- Joint ventures for affordable housing development,
-and potentially others.

3.7.22 The strategy, or related guidance, would also need to make clear such aspects as:

- The target timings of the payments – relative to development/ sales progress.
- Any indexing arrangements (as with other Section 106 contributions there can be a large gap between negotiation and implementation of the planning consent).
- The period during which the Council should spend the monies; or otherwise return them.
- Any other operational details.

3.7.23 To accompany and inform monitoring and review of the strategy, the Council would also need to maintain full transparent records of the sums collected, their allocation and when they were spent.

3.8 Social Housing Grant (or equivalent other subsidy) & Tenure Mix

3.8.1 Appraisals have been carried out to show what happens to our notional schemes as we alter the viability picture through the removal of grant or change the tenure mix balance (the balance between (social) rented and intermediate (primarily shared ownership) was explored). All appraisals have been run at a 100% rent/0% intermediate and 70%/30% tenure mix in favour of rented but also on sites of 15, 25 and 100 units at a 50%/50% tenure mix. See Appendix IIa and IIb for the results showing the change in tenure mix (70/30 and 50/50 respectively). See Appendix IIe for the results showing the impact of removing grant subsidy from schemes of 15, 25 and 100 units at all tenure variations. Figure 16 below compares the results of appraisals run with and without grant on a 25 unit mixed scheme. In this instance grant was removed from the base appraisals.

Figure 16: Comparison of Appraisal Results With and Without Grant - Value Point 3 only; base assumptions (100% social rented affordable housing)

| Appraisal Type | 25 Unit Mixed Scheme | | | |
|-----------------------|-----------------------|--------------------|--------------------------|-----------------------|
| | RLV Without Grant (£) | RLV With Grant (£) | RLV Without Grant (£/Ha) | RLV With Grant (£/Ha) |
| 20% Affordable | £305,825 | £421,627 | £430,739 | £593,840 |
| 25% Affordable | £244,809 | £375,611 | £344,802 | £529,029 |
| 30% Affordable | £93,011 | £271,216 | £131,001 | £381,994 |
| 40% Affordable | -£45,505 | £170,261 | -£64,092 | £239,804 |

3.8.2 Figure 16, with data taken from Appendices II and IIe indicates that removing grant from the scheme reduces the RLV by 27%, 35%, 66% and 100% (at 20%, 25%, 30% and 40% affordable housing respectively) where 100% (social) rented tenure was assumed. Grant ultimately improves the viability of a scheme when viewed in this way, but the availability of grant is an element that must be considered on a site-specific basis. It is not possible to predict grant availability. Hastings Borough Council has, over the past few years, secured grant funding for its affordable housing as a matter of course, via the Council’s affordable housing capital pot and more recently fully reliant on the national affordable housing programme and recycled grant through RPs. Related to these points, the use of a flexible mechanism (“cascade”) will be valuable for consideration within the Council’s overall approach. This envisages the Council working with developing partners – where necessary - to adjust, but still optimise, affordable housing delivery in all the circumstances relevant to a particular site, including the funding levels ultimately available. The Council would expect to take a lead role in such discussions, aimed at maintaining appropriate affordable housing delivery within the s106 framework agreed - avoiding going back to the start with that process (effectively, keeping the planning consent alive), and thus avoiding significant delivery delays. These principles are discussed further below.

3.8.3 The findings indicate a range of values across the study area from weak values (where development viability is compromised even with the most favourable cost assumptions) to relatively strong values locally (where development viability is improved and schemes will usually be able bear greater costs). Grant may well have a continued role to play on some sites - where affordable housing numbers or deliverability of a favourable tenure mix (or both) can be improved compared with a nil grant route.

3.8.4 Given the potential viability constraints discussed so far at Value Point 1 and Value Point 2 with even low levels of affordable housing, plus the possibility of increased planning obligations or other increased cost impacts, it is likely that social housing grant or other public subsidy will need to continue be brought in to the Borough to support delivery. At the very highest values there is scope for the Council to adopt a relatively robust position on the use of grant, and in negotiations with landowners and developers on what any grant input will be adding to a scheme. On lower value schemes, it should be possible for the Council and its partners to readily demonstrate the “additionality” achieved through grant input where that is available, in accordance with HCA principles.

3.8.5 Allied to the role of grant is the affordable housing tenure mix required by the Council on sites coming forward for residential development. The HCA’s focus and funding framework will now be focused on the new affordable rent model of up to 80% market rent levels. So far as we can see, relative to this revised scenario, social rent without grant is still highly likely to represent the worst case scenario we should see in general for overall scheme viability. The Council will be able to review the affordable housing revenue assumptions (payment levels to developers by RPs) related to new affordable rent once more is known, but we expect these to fall within the parameters we have explored through our various appraisal sets – when all results are considered. As has been the case if the past, no single set of assumptions will sum things up – much will depend on particular circumstances and timing.

3.8.6 Figure 17 below shows a comparison between indicative RLVs for a scheme with and without grant on all tenure mixes tested.

Figure 17: Comparison of Appraisal Results With and Without Grant with variations to tenure mix (Value Point 3 Only)

| Appraisal Type | 25 Unit Mixed Scheme | | | | | |
|----------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
| | 100/0 Mix Without Grant (£/Ha) | 100/0 Mix With Grant (£/Ha) | 70/30 Mix Without Grant (£/Ha) | 70/30 Mix With Grant (£/Ha) | 50/50 Mix Without Grant (£/Ha) | 50/50 Mix With Grant (£/Ha) |
| 20% Affordable (RLV) | £430,739 | £593,840 | £492,837 | £643,814 | £554,935 | £686,636 |
| 25% Affordable (RLV) | £344,802 | £529,029 | £462,032 | £628,977 | £524,130 | £678,951 |
| 30% Affordable (RLV) | £131,001 | £381,994 | £256,447 | £481,943 | £375,462 | £581,891 |
| 40% Affordable (RLV) | -£64,092 | £239,804 | £105,772 | £384,882 | £231,471 | £484,830 |

3.8.7 The example in Figure 17 shows that grant being included within scheme finances has a greater impact on viability than altering the tenure mix from 100% rent to a mix of 70% rent to 30% intermediate. In this example, at 25% affordable housing, removing the grant reduces the RLV by 47%. However, altering the tenure mix from 100% rent to 70%/30% improves the RLV by 25%. Further changing the tenure mix to a 50%/50% affordable tenure mix improves the RLV further by 34% (still not as much as the addition of grant to the 100% social rented scenario but significant nonetheless).

3.8.8 Similarly, the proportion of affordable housing overall (i.e. of all tenure forms) is having a greater impact on the indicative RLVs than tenure mix alone. Tenure mix will be an important consideration for viability, but dependent on other factors such as overall proportion and grant availability – so its effect will need to be viewed alongside these other factors rather than in isolation. These are interesting findings in the context of thinking about new affordable rent compared with social rent – outcomes will also depend on other factors.

3.8.9 We can see what happens as we track a single example through Figure 17 above, for example, starting at 25% affordable housing based on a 100% rented/0% intermediate tenure mix with grant (base appraisals). This gives us an indicative RLV of £529,029/ha. If we alter the tenure mix to 50% rent/50% intermediate but without grant, we see a very similar result (£524,130/ha). In another example we can see that a 70%/30% tenure mix without grant (£492,837/ha) with 20% affordable housing produces a similar outcome to a 40% affordable housing requirement but with a 50%/50% tenure mix and the inclusion of grant funding.

3.8.10 These results indicate:

- The impact (viability boost) that grant can have, though this should really be seen through improved affordable housing provision in some way (a form of additionality) - not by way of increased land value.
- How much RLVs can deteriorate by the time we allow for the higher proportions of affordable housing, particularly with no grant and even with a more balanced tenure mix.

3.8.11 It may be useful to the Council to make some comparisons between various results – in terms of the RLVs that the various combinations of assumptions produce. Although we see a reduction in RLV as the proportion of rented tenure increases, this has less of an impact than increasing the overall affordable housing percentage. This can be monitored and reviewed as more experience is gained of the new form of affordable rent and outcomes from the HCA investment framework.

3.8.12 These figures are based purely on the appraisals carried out and assume that the intermediate product is feasible for RPs and their customers. Aside from the well-established difficulties that can arise with the overall affordability (total costs) of shared ownership for its purchasers, there are increased experiences of difficulties with shared ownership saleability in the current market. This is largely due to current deposit requirements and mortgage availability. As we understand it, experiences are mixed, and tend to echo the open market in that the most popular, well located and attractively priced schemes can still sell relatively well, while others are attracting little or no interest. In Hastings it is understood that the market for intermediate products can be limited due to their relative lack of affordability and questions over whether in the local context they are truly an affordable housing product compared to other potential options.

3.8.13 We have looked generically at the intermediate tenure, since what counts for financial viability is the level of revenue it produces for the developer. This reflects the increased likelihood that it will be seen in varied forms and combinations within schemes. This is purely for the purposes of fixing assumptions and reviewing financial viability, whereby generally we are looking at increased payments to the developer compared with rented tenure (particularly with no grant). It does not prevent the Council and its range of partners from considering and perhaps trialling a range of tenure models, or from varying the assumptions we have applied. Indeed such an approach is to be encouraged – we expect that there will be a role for a wider menu of tenure options.

3.8.14 Whilst (in line with the HCA’s “additionality” approach), the Council’s starting point may well be to consider what affordable housing can be achieved without grant, as discussed above, our view is that grant is likely to have a continued role to play in balanced housing delivery locally; in particular in supporting varied and appropriate tenure provision, perhaps especially on lower value schemes or in instances of competing alternative land use values where viability may be more marginal. We understand that the Council’s general approach will be that it may seek up to 100% rented tenure, although site specifics will prevail. Whether or not grant is available, and if so at what level, will be one of the key determinants of whether this level of tenure mix can be supported on a regular basis over the longer-term. Unfortunately, it is not possible to rely on, or predict, grant availability. The HCA have been contacted previously and Adams Integra were provided with the following information which reflects our understanding:

"The Homes and Communities Agency works on a basis of additionality on s.106 sites whereby any social housing grant going into a scheme is to purchase outcomes above and beyond those that can be delivered through the s.106 agreement itself. The starting position is to assume no grant goes into a s.106 site as the s.106 itself should be securing affordable

housing outcomes. Grant input would then be required to improve the affordable housing outputs (e.g. secure a greater percentage of social rented homes)."

3.8.15 Our pre-study timing experience of schemes is that HCA social housing grant funding has been quite opportunity-led for a period (coinciding with the difficult market conditions and HCA incentives aimed at maintaining affordable housing development) and many schemes have been providing increased proportions of affordable rent compared with previous experience. This is because of a mixture of factors including:

- This recent more opportunity-led funding approach (although we are now seeing a reversion to a more planned funding approach getting underway).
- Wider housing market trends (crucially the limited availability, still, of suitable mortgage finance) mean that low cost homes ownership tenure such as shared ownership may be either unattractive or unworkable in many instances; or at least carry increased risk to be accounted for.
- Linked to this, rented tenure with grant can in some cases look equally or more attractive to RPs in terms of their financial appraisals (and thus can mean better relative offers to developers for that form of tenure).

3.8.16 Overall, this can only be regarded as a fluid set of circumstances, which together with the levels of local needs point towards a significant bias to affordable rented tenure as a target position.

3.8.17 In our experience, approximately balanced tenure can be achieved with little or no grant, providing the affordable housing proportions sought (and other planning requirements) are not too high. However, as above, we consider that there is likely to be a role for grant to support a bias towards the priority needed rented tenure in particular, especially where the proportion of that tenure rises. As an example of the possible positive impact of grant, with regard to the current mortgage access issues often experienced with home ownership products, it may be that through increased grant input more rented accommodation could produce more viable schemes which are also more acceptable financially to RPs in uncertain conditions such as we have experienced. Although there is much uncertainty surrounding grant funding availability, the Council and their development partners will need to consider such factors in relation to site specifics.

- 3.8.18 As mentioned above, the use of “Cascade” type mechanisms will be valuable for consideration within the Council’s overall approach. This envisages the Council working with developing partners – where necessary - to adjust, but still optimise, affordable housing delivery in all the circumstances relevant to a particular site, including the funding levels ultimately available.
- 3.8.19 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 into by the developer and RP for the affordable housing construction and purchase).
- 3.8.20 Where used, it would normally be built in to the Section 106 agreement. It has the potential to help delivery when the availability of funding is uncertain, or perhaps when other planning or site issues mean that the exact details of the affordable housing delivery need to be agreed. 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.
- 3.8.21 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, HCA and any involved RP. As an example of a potential cascade outcome, the Council 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 it may decide to maintain affordable homes numbers delivery 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.
- 3.8.22 The same principle as outlined above (i.e. the need to inform judgements on the affordable housing target proportions in conjunction with wider criteria - including likely funding availability) will also be relevant in the context of any wider consideration the Council may be giving to overall planning obligations requirements, and other burdens on schemes. The wider costs and obligations also affecting viability always need to be taken account of.

3.9 Developer’s Profit

- 3.9.1 As mentioned at 2.5 of this report, viability has also been investigated on a small sample of scenarios using 20% developers profit in place of 17.5%. This has been carried out on schemes of 15, 25 and 100 units at

all Value Points. A summary of a 25 unit mixed scheme results at Value Point 3 is provided here with a comparison to the results using a 17.5% developer's profit. The full results can be found in Appendix IIf.

3.9.2 This comparison allows us to investigate the additional impact of increased profit requirements that may be more likely on schemes as a result, for example, of increased risk in bringing more complex sites forward for development. The results also allow us to see what happens if profit levels decrease from our base level, as may happen, for example, with a stronger, more confident market or on smaller, lower risk schemes. As expected, the same trends discussed previously are seen, whereby with higher profit levels the lower the development value, the greater the additional impact on scheme viability and vice versa. The impacts from increased costs are more significant news for the lower value scenarios – as values increase, there is usually more scope to bear increasing cost assumptions.

3.9.3 Figure 18 below shows the comparison where the only change made was to the developer's profit level. In this instance the developer's profit altered on the base appraisals.

Figure 18: Comparison of Appraisal Results Varying Developer's Profit (Value Point 3)

| Appraisal Type | 25 Unit Mixed Scheme – With Grant | | | |
|----------------|-----------------------------------|----------------------|-------------------------|-----------------------|
| | RLV – 17.5% Profit (£) | RLV – 20% Profit (£) | RLV 17.5% Profit (£/Ha) | RLV 20% Profit (£/Ha) |
| 20% Affordable | £421,627 | £343,115 | £593,840 | £483,260 |
| 25% Affordable | £375,611 | £300,560 | £529,029 | £423,323 |
| 30% Affordable | £271,216 | £208,223 | £381,994 | £293,271 |
| 40% Affordable | £170,261 | £110,797 | £239,804 | £156,052 |

3.9.4 As would be expected, the result of an increase or decrease in developer's profit leads to further reductions or increases in the residual land values across the range. The impacts can be quite significant. As the percentage of affordable housing increases, with reducing RLV 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 impact is also more marked with lower starting values. What can clearly be seen is the combined impact that both a high (e.g. 30% or 40%) affordable housing proportion and a 20% profit requirement have on the residual land value (and in any event what increases in both assumptions

from base levels mean for outcomes). This reinforces earlier points that there will be schemes that the Council will need to consider in this context, in negotiations. It should be noted that this effect will be more in focus when looking at lower value schemes.

- 3.9.5 We have to consider that there will be a wide range of scheme types brought forward by an equally wide range of parties. Once again, there are no firm rules when it comes to scheme-specifics. In our view, however, the 17.5% level we use would form a reasonable benchmark for the Council when first considering site-specific viability appraisals and engaging developers and other in discussions. We might expect to see some profit expectations beneath this level. In any event, the Council will be able to track its experiences of required profit levels for varying scheme types over time, as part of its ongoing dealings with developers and others over time.
- 3.9.6 Since the peak of the housing market in 2007 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. In this context we noted at 2.5 that on its summer 2009 Appraisal Tool re-launch the HCA moved its developer's profit guide assumption up to 17.5% of GDV from 15%. In the current uncertain market conditions we are seeing a range of indicators on developer's profit levels, and these are becoming increasingly difficult to judge with respect to perception of risk levels. So, on balance, our range of assumptions is considered to be appropriate with regard to market conditions. These will need to be kept under review as part of the Council's monitoring processes, negotiations and delivery experiences. What is appropriate for one scheme may well not be for another, and the collective costs burden on schemes will always need to be borne in mind.

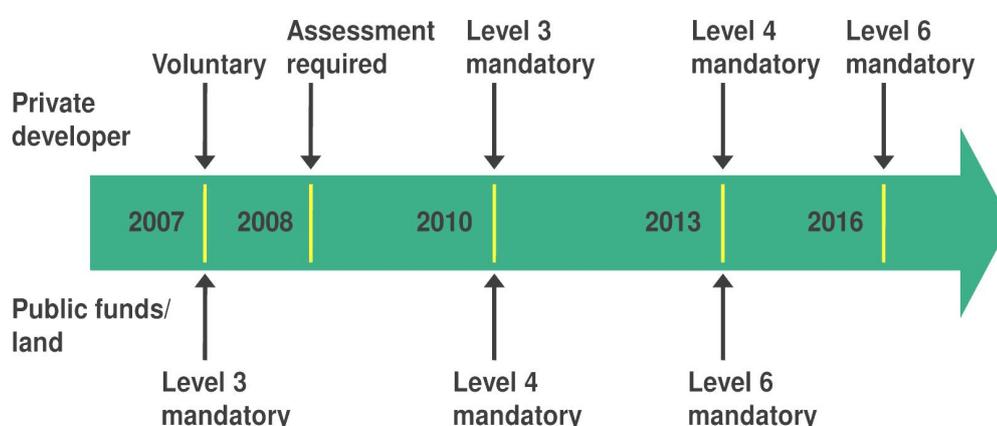
3.10 Carbon Reduction Measures (Code for Sustainable Homes & Renewables)

- 3.10.1 Further sensitivity analysis has been carried out on the impact of applying likely additional development costs to schemes as the requirement to meet higher sustainable construction and design criteria increases over time. There are various interpretations of how the requirements will progress and be laid out at a national level, but it is likely that they will be achieved through increasing Building Regulations requirements, with the Code used as a tool or mode for achieving carbon reduction measures and other criteria. For the purposes of this study we have used the attainment of varying levels of the Code for Sustainable Homes as our cost measure. All (base) appraisals have been carried out assuming that Code Level 3 is

achieved - however, on a sample of site types we have also carried out appraisals that assume Code Level 4 and 5 attainment.

3.10.2 At the time of reporting, there are many discussions taking place on such standards and their future role. The Code appears set to stay but the Council will need to follow how its use will develop alongside Building Regulations and other measures as the Government reviews what is to be expected of the house building industry in general. Currently, however, the timetable for all residential development to meet increasing environmental standards aligned to raised levels of the Code is set out by the Government as follows¹⁵:

Figure 19: Timeline for Code for Sustainable Homes Compliance



3.10.3 The sensitivity analysis has been carried out on schemes of 15, 25 and 100 units only. On an example scheme of 25 units, the comparison of the residual land values created after the addition of each level of cost is shown in Figure 20 below (all other assumptions as per the base appraisals).

¹⁵ From: www.tarmachomesproject.co.uk/what_is_the_code/2016_legislative_timeline.

Figure 20: Comparison of Appraisal Results – Increasing Code for Sustainable Homes Requirements – Value Point 3 Only

| Appraisal Type | 25 Unit Mixed Scheme (VP3) | | | |
|-----------------------------|----------------------------|------------------------|------------------------|------------------------|
| | 20% Affordable Housing | 25% Affordable Housing | 30% Affordable Housing | 40% Affordable Housing |
| | RLV (£) CfSH Level 3 | £421,627 | £375,611 | £271,216 |
| RLV (£) CfSH Level 4 | £438,586 | £392,570 | £288,175 | £187,570 |
| RLV (£) CfSH Level 5 | £10,307 | -£18,317 | -£139,583 | -£260,849 |
| RLV (£ per Ha) CfSH Level 3 | £593,840 | £529,029 | £381,994 | £239,804 |
| RLV (£ per Ha) CfSH Level 4 | £617,727 | £552,916 | £405,881 | £264,183 |
| RLV (£ per Ha) CfSH Level 5 | £14,518 | -£25,799 | -£196,596 | -£367,392 |

3.10.4 Alongside the basic assumption that all schemes will meet Code for Sustainable Homes Level 3, we have also included the potential cost of achieving a reduction in CO₂ through the use of on-site or decentralised renewable energy measures. As mentioned at 2.9, for the purposes of this study it is assumed that a reduction in CO₂ is achieved within the overall additional cost of attaining Code Level 4 and above and as such is not allowed for separately. This has the effect, as shown in Figure 20 above, of producing very similar result for both the appraisals carried out with at Code Level 3 (plus on-site or decentralised renewable energy measures) and Code Level 4 (assuming decentralised renewable energy measures are already included within the cost).

3.10.5 The results show the impact a requirement to meet the higher levels of Code for Sustainable Homes have on RLVs when taking into account the other base assumptions in this study. The additional approximate costs included to achieve Code Level 5 reduce the RLVs generated to the point that no land value is generated on the example above. In comparison with indicative information such as South East land values guides or alternative use values per hectare provided by the VOA (see section 3.3), it appears likely that in order to generate sufficient land value to consider also enabling a 25% proportion of affordable housing to be delivered we would need to see values at or around our Value Point 5 with nil grant or Value Point 4 if grant were included alongside a more balanced tenure mix than 100% social rent/0% intermediate. Of course this is likely to vary and be sensitive to site by site specifics.

3.10.6 While there can never be any defined cut-off points for scheme viability (unless looking at a specific site with known parameters on existing use value, owner's requirements, etc), the impact of the Code 4 attainment alone is not felt to be a make or break scenario for scheme viability. However, as the Code Level requirement increases beyond this (i.e. cost assumptions to Code Level 5 and above) we see a significant deterioration in RLV. There are potentially cost savings to be made over time as the likelihood of meeting the CfSH requirements becomes cheaper (potentially as technologies and their supply improve and cost savings are made through future innovations in this area). We cannot assume those and so do not build in any such savings from developments in this area. These results assume approximate costs as known at the point of fixing assumptions and as set out in the DCLG report¹⁶.

3.10.7 As with tenure mix and grant, again we can again see the trade-off that may be required in some instances in order to meet these requirements and still provide profitable residential development. It is worth reiterating here that the collective burden of all the costs analysed within this study are unlikely to be met through development alone without subsidy from elsewhere. Looking at this with current knowledge and assumptions around the techniques, technologies, the markets for those - and the current view of the costs of meeting the higher standards - we have to say that meeting greater than Code Level 4 alongside the range of other requirements looks very difficult. This is certainly not just a Hastings scenario, although some of the lower values often seen here in South East context here add to the level of challenge in this regard. This will all need to be kept under review, moving forward. We talk about the collective impact from all of the items investigated through the sensitivity analysis at the end of this Chapter.

3.11 Increase in Planning (infrastructure) Obligations Costs

3.11.1 Another cost area that impacts on development is the level of other wider (i.e. not affordable housing) planning obligations or infrastructure requirements. Appraisals were carried out assuming varying infrastructure (planning obligations) contribution levels of £3,000, £10,000 and £20,000 per dwelling (applied to all dwellings). The £3,000 per dwelling average overall level (applied to all dwellings) was agreed with the Council as reasonably representing current and likely foreseeable planning obligations package levels locally. The two higher levels tested were notional, so as to see what effects on results increased costs have. This part of the work also has a wider potential relevance in that it enables the Council to see how viability results deteriorate when costs are added regardless of what those

¹⁶ DCLG – Code for Sustainable Homes – A Cost Review (March 2010)

costs are related to. An increase in costs could come from a wide variety of sources – related to planning requirements, site conditions, scheme specification or a combination of those.

3.11.2 Increased planning obligations burdens, as with any costs, have a negative impact on development viability. We have discussed the effect of additional costs, profit, affordable housing, etc above. Figures 21a and 21b 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 21a: Comparison of Appraisal Results from varying Infrastructure/planning obligations/other costs – 100%/0% Tenure Mix

| Appraisal Type | 25 Unit Mixed Scheme – 100%/0% Tenure Mix – VP3 | | |
|-----------------------|---|----------------------------|----------------------------|
| | RLV (£/ha) £3,000/Unit | RLV (£/ha) £10,000/Unit | RLV (£/ha) £20,000/Unit |
| 20% Affordable | £593,840 | £381,653 | £80,956 |
| 25% Affordable | £529,029 | £323,374 | £14,141 |
| 30% Affordable | £381,994 | £175,059 | -£121,735 |
| 40% Affordable | £239,804 | £23,477 | -£292,532 |

Figure 21b: Comparison of Appraisal Results from varying Infrastructure/planning obligations/other costs – 50%/50% Tenure Mix

| Appraisal Type | 25 Unit Mixed Scheme – 50%/50% Tenure Mix – VP4 | | |
|-----------------------|---|----------------------------|----------------------------|
| | RLV (£/ha) £3,000/Unit | RLV (£/ha) £10,000/Unit | RLV (£/ha) £20,000/Unit |
| 20% Affordable | £1,329,615 | £1,119,615 | £819,615 |
| 25% Affordable | £1,312,484 | £1,102,484 | £802,484 |
| 30% Affordable | £1,187,110 | £977,110 | £677,110 |
| 40% Affordable | £1,061,736 | £851,736 | £557,483 |

3.11.3 These results (taken from Appendices II, IIb, IIc and IID – show the reduction in RLV that occurs as the planning infrastructure (or other equivalent) cost assumptions are increased. We refer to ‘other costs’ as an alternative here, because any equivalent increase in the appraisal cost assumptions would have the same effect. In practice, scheme costs could increase over time for a variety of reasons, not only planning obligations. Effectively, therefore, these appraisals reviews added collective cost (whether related to planning obligations in full, a mix of those and other items, or other items in full).

3.11.4 The trends shown in the example results above are again repeated for all scheme types. This further emphasises the potential viability issues that could flow from seeking the highest levels of affordable housing whilst at the same time increasing the infrastructure burden on sites coming forward, especially in the event of nil or limited social housing grant or with a tenure mix biased heavily towards social rent. Land value is effectively eliminated in the example above a Value Point 3 where the planning infrastructure is increased to £20,000 per unit at 25% affordable housing or higher when compared to the same example scheme with a £3,000 per unit cost. It must be remembered, however, that the additional infrastructure costs shown above are in addition to our other base appraisal assumptions including a 100% social rent/0% intermediate tenure split and a Code for Sustainable Homes Level 3 cost assumption on all units. Where the tenure mix improves (from a viability point of view) and at higher values we see improved figures from those shown (see lower table section).

4 Conclusions & Recommendations

4.1 Hastings Borough values and headlines for affordable housing proportions

4.1.1 Typical current new build value levels in Hastings (and to a degree, looking ahead at a potentially improving market) are best represented by our Value Points 1 to 3 (range £1,600 to £2,400/sq m) from within the wider range we studied given the strategic context of this work (as below).

Figure 22: New Build Range of Values

| Value Point | £/sq m | Approx. £/sq ft |
|-------------|--------|-----------------|
| 1 | £1,600 | £149 |
| 2 | £2,000 | £186 |
| 3 | £2,400 | £223 |
| 4 | £2,800 | £260 |
| 5 | £3,200 | £297 |

4.1.2 Within that part of our overall range of values assumptions, we consider that Value Points 2 and 3 are most relevant to the Borough and for the consideration of policy – not just now, but also looking ahead through scenario testing acknowledging that we simply do not know what the future holds, but also allowing for a wide variety of scheme and location types.

4.1.3 It follows that we must be mindful not to underpin our thinking and recommendations based on new build value levels which may not be seen frequently enough in the Hastings context. From this, we consider Value Point 3 to be a key point within our results. Beyond this the frequency of higher values tends to drop away.

4.1.4 The following subsection (4.2) will develop this finding from the key base appraisal results. While we see the parameters for the headline affordable housing policy being 20% to 30%, a target of 25% looks to strike the right balance and be appropriately challenging in viability terms through going as far as possible given the local market scope to support much needed contributions towards meeting affordable housing need. This scope refers to most situations, where land value comparisons will need to be made with other potentially valuable uses, be they existing or alternative uses.

Recommendation 1:

As the headline, and for previously developed land, an appropriate headline policy target would be 25% on sites of 15 or more dwellings.

Aside from the positioning of the policies, we consider there to be a key role for the Council in monitoring its local property market through regular/ongoing information reviews i.e. keeping familiar with local development activity, pricing and trends; regular capturing of agents' views, developers' and RPs' (RSLs') feedback and the like, Land Registry house price and other indicator trends, and other locally relevant information.

4.1.5 This (as per recommendation 2 and our report Appendix III) is the type of information we have gathered and reviewed and could very usefully be kept "live" and topical. We feel that this would be very beneficial in providing expanded and local context for, and links with, the wider monitoring the Council carries out (it could also be related to local incomes and other economic trends, housing supply data, etc). If this is kept up to date, it will lead to a good base level of familiarity with values levels and other aspects likely to be relevant for ongoing site-specific discussions. While we have considered alternatives around the recommended headline target, including potential scope for up to 30% as a target for these scenarios, we are concerned that the values levels may not support that level of affordable housing. This is especially true when considered as part of the collective impacts on schemes with regard to the general direction of increasing planning obligations, build enhancements through increasing Building Regulations/Code for Sustainable Homes, etc. As at 3.9.4, the collective costs burden on schemes, for example through increasing Code for Sustainable Homes standards (especially beyond level 4)/Building Regulations equivalent will also need to be kept under review.

4.1.6 In coming to this recommendation we are also bearing in mind:

- That affordable housing is not just about numbers but also about dwelling types and mix, tenure, affordability, quality and choice.
- The likely incidence of abnormal ground conditions issues in Hastings - where significant gradients, unstable slopes, remediation, ecological issues and other factors will also influence some outcomes.

4.1.7 Given the above, we do consider there to be potential to look beyond a 25% affordable housing target in respect of any Greenfield site allocations. There are two key characteristics that exist and can be crucial in

influencing the scope for affordable housing and other planning obligations:

- i. The lower level of land value (RLV) that generally needs to be reached to sufficiently incentivise a landowner to sell. This is bearing in mind there will be usually be no real prospect of securing a significant level of value through means other than residential development that at the same time also meets wider planning objectives and is accompanied by appropriate infrastructure measures and planning obligations. We have referred to this land value level as "Greenfield Enhancement" which is not an official term but we felt describes this scenario.
- ii. The opportunity that usually exists for early engagement with landowners, developers, RPs, other stakeholders and agencies in terms of setting and considering expectations and the ongoing review of those.

Recommendation 2:

For Greenfield sites, the Council could continue to consider increased scope for affordable housing – based on a target set at a level not higher than 40% - on sites of 15 or more dwellings

(meaning a target set at a single percentage point up to that level; rather than a range of percentages/minimum/maximum or linked with terms like 'up to' or at 'least' which might not create sufficient certainty and clarity. By Greenfield sites, we mean where there would be no usual presumption for development, so that a range of wider planning objectives generally need to be met in order to justify the site release. We acknowledge that some such sites come with a range of complexities which will increase overall development costs and mean negotiated solutions will be necessary, to optimise affordable housing given the particular circumstances.

Where there are elements of Previously Developed Land (Brownfield) and Greenfield within a scenario, the Council will need to consider how it would approach those scenarios.

Overall, we consider that it is likely to be most appropriate that any higher targeted proportions of affordable housing (above the 25% base target at Recommendation 1) are dealt with as part of wider scheme-specific reviews for such sites – carried out in relation to more specific DPDs or Development Briefs Associated with those; also with the benefit of early engagement with landowners, developers and other local stakeholders. This envisages the Core Strategy setting the tone regarding the principle of a potentially higher level of affordable housing from certain site types, where those are pursued, but the specifics being reviewed at a later point once more is known about the opportunities and constraints those present.

- 4.1.8 The above policy scope relates primarily to scenarios which are already within the Council’s affordable housing policy scope, i.e. of 15 or more dwellings.
- 4.1.9 The study has also investigated the scope for the Council to consider lowering the threshold for affordable housing contributions given the high frequency of schemes of fewer than 15 dwellings; and even of fewer than 5. This relates back to the frequency and role of small sites within the overall Hastings housing delivery context – as was outlined at 3.6.10. The fact that scheme size is not a determinant of viability in itself (small schemes are not necessarily any less or more viable than large ones) is also a key area of background to this – as at 3.6.8.
- 4.1.10 This could mean considering an alternative to lower the point at which the headline proportion (as per recommendations 1 and 2) takes effect – but in any event to not less than 10 dwellings at those target proportions. This leads to recommendation 3, below. As an alternative, compared with a threshold of 15 this would have a greater impact on schemes of 10 to 14 dwellings coming within the policy scope for the first time at the full target proportions.
- 4.1.11 The sensitivities we have described around the “first-time impact” need to be kept firmly in mind, and we are only able to suggest this because – at our recommended 25% in particular – there is reduced “ceiling height” for a sliding scale approach compared with that in authority areas where there is say a 40% headline target for all site types.

Recommendation 3:
As a potential alternative to Recommendations 1 and 2, the Council could also consider lowering the threshold at which the 25% (and potentially higher i.e. up to 40%) targets are applied – but to no lower than 10 dwellings. This would, however, have a greater impact on schemes of 10 -14 dwellings than positions which introduce a more graduated approach – see Recommendation 5 below.

- 4.1.12 Given the level of needs and local site supply pattern (source of new housing) we consider that a more equitable overall approach could well result from a lowered threshold for seeking affordable housing from market led housing developments.
- 4.1.13 In any event, we consider – as discussed - that there is a range of mainly practical (e.g. integration, design, affordability, management) and sustainability reasons pointing away from a requirement for on-site affordable housing on developments of fewer than 5 dwellings.

Recommendation 4:

We consider there to be scope to consider a wider lowering of thresholds – but not so as to impact schemes of fewer than 5 new dwellings in respect of on-site affordable housing requirements.

4.1.14 In addition to the first-time impact effect on smaller site, we also acknowledge the need to bear in mind that the residual land value produced by a residential development may be increasingly marginal compared with an existing or alternative use value (in terms of monetary (£ sum) rather than in £/Ha value). Various measures of land value and comparisons may need to be considered, with a focus on how the residential residual land value created compares with alternatives (possibly including an element of “uplift/incentive/overbid”) in cases where there is an effective market for a site or property in its existing or a valuable alternative use.

4.1.15 If the Council are to consider policy development around lowering the affordable housing threshold this would be best reviewed alongside a form of sliding scale (graduated) approach to policy targets. Given the limitations of the scope provided by the typical values levels, combined again with the type of factors mentioned above in suggesting policy headlines not pitched too ambitiously, we consider that these sensitivities should be acknowledged.

4.1.16 There may be various workable options for the Council to consider in developing an approach to targets applicable to lowered threshold sites.

Recommendation 5:

There are various potential options for the Council to consider around this scope to lower thresholds. In considering this and developing the approach, we recommend that the Council considers sliding scale type principles.

4.1.17 In considering this, from our viability viewpoint the Council should review the scope and principles set out in the following bullet points related to recommendation 5:

- **Lowered thresholds accompanied by sliding scale principles could operate over the scheme size range 1 to 14 dwellings; or over any part of that range.**
- **An alternative to on-site affordable housing provision (for example the use of a financial contributions strategy) would be the focus in our view for any schemes of fewer than 5 dwellings brought within policy scope.** Such an approach could be appropriate also for any schemes of up to 10 or 15 dwellings, depending on the point selected for the headline proportion to take effect, if the Council

decided to extend its use in that way. Financial contributions can be related to the exact affordable housing equivalent produced by a calculation – numbers rounding need not affect their use.

- **Whether related to on-site affordable housing provision or applied through a financial contributions route, the lowered thresholds should be allied to reduced target proportions** (or equivalent proportions in the case of financial contributions) as part of a “sliding scale” type approach.
- **These reduced target proportions could be expressed through a lower percentage (recommended for setting based on target parameters of 10 – 20%, and not more than 20% in any event);** or through a form of dwelling numbers sliding scale that set out the affordable housing provision expected from each scheme size in numerical steps beneath the “ceiling” policy level (of 15, or possibly 10, dwellings).
- To illustrate this scope, for example, an approach to seek – as a target - 20% affordable housing on sites of 5 to 14 dwellings (sitting beneath the headline policy taking effect at 15 dwellings) would provide a clear and simple approach which respects the viability sensitivities.

4.1.18 The numerical steps possibility relates to the on-site affordable housing route and means requiring a set number of affordable homes to be provided on particular scheme sizes, for example:

5 dwellings scheme – provide 1 affordable home (= 20%)

10 dwellings scheme – provide 2 affordable homes (=20%)

.....and potentially express for each scheme size in the range, depending how this is worked up.

4.1.19 The calculation and influences of numbers rounding, as well as steps in the policy positions, play a part and should always be kept in mind.

4.1.20 So, looking at this supporting text to our Recommendation 5 suggests considering a sliding scale type approach to target requirements, based for example on the following:

Recommendation 5A (fewer than 5 dwellings):

If included within the policy scope, schemes of fewer than 5 dwellings should be linked to a financial contributions approach in our view. For this, we have noted equivalent proportions parameters of 10 to 20%, but we recommend this be set at 10% which would be more sensitive to viability and would also give the Council more scope to consider various calculation methods.

Recommendation 5B (5 – 9 dwellings, or part of that range):

The options for this scheme size range are:

- **On-site affordable housing: 20% target or;**
- **Express target as providing 1 affordable dwelling (numerical steps route) or;**
- **Financial contribution sum based on no more than 20% equivalent target.**

Recommendation 5C (10-14 dwelling, dependent on whether 25% headline target takes effect at 10 or 15 dwellings):

The options for this scheme size range are:

- **On-site affordable housing: 20% or;**
- **Express target as providing 2 affordable dwelling (numerical steps route) or;**
- **Financial contribution sum based on no more than 20% equivalent target (although seeking direct provision on-site may well be the Council's priority).**

4.1.21 The Council should not have a rigidly applied tenure mix approach when considering delivery site by site, but should consider how best to express any strategic level target requirement or refer to how this will be set and monitored with reference to other evidence base documents that will be updated – for example on the housing market and needs. As a starting point we expect the Council to continue to emphasise rented tenure needs, but it will need to do so with the developing role of the new affordable rented tenure also now in mind.

Recommendation 6:

On tenure mix, as a starting point, up to a 70/30 affordable housing mix (in favour of rented tenure over a variety of other/intermediate tenure forms such as shared ownership) could be considered in terms of setting expectations and creating a basis for clarity; but with outcomes acknowledged to be dependent on a range of factors including the nature of the rented and other models adopted locally, and the level of support from HCA investment or other sources.

A 70/30 or other tenure mix target should however be reviewed once more is understood about the reactions to, and emerging outcomes from, the new HCA funding framework, including the new affordable rent.

A 100% rented tenure target is not recommended from a viability point of view and would in any event require significant subsidy levels unless, in normal circumstances, the affordable housing proportions were significantly reduced. A more balanced tenure mix (with a reduced proportion of affordable rented tenure, would usually support scheme viability and rely on less or limited HCA or other funding. The new affordable rented tenure form may help to support overall viability outcomes however – especially relative to social rent without grant. **In any event, we consider that any affordable housing tenure mix targets should be related to evidenced needs and high level strategy rather than applied rigidly from site to site;** much will depend on the specific circumstances, scheme timing and funding availability.

See also Recommendation 8 re framework and cascade principles.

- 4.1.22 All outcomes will be dependent on site specifics, notwithstanding the certainty of expectations that is required alongside an appropriate balance between affordable housing need and viability.
- 4.1.23 Clarity of expectations is needed, including on the net/gross application of policies (noting that in our experience inspectors have focused on the sensitivities around this, particularly on the very smallest schemes.
- 4.1.24 Some flexibility may well be needed on the application of affordable housing targets particularly in the short-term (noting the ongoing market uncertainties) and especially if the collective costs burden on schemes is to rise significantly (including related to higher Code for Sustainable Homes Levels/Building Regulations equivalent enhancements and/or increased wider planning obligations).

- 4.1.25 The cumulative effect of increasing cost areas will need to be viewed alongside affordable housing needs and aspirations. This approach should extend to considering the collective burden placed on development schemes in terms of planning obligations and potentially other costs – leading to the potential need for prioritisation in certain situations.
- 4.1.26 In all cases (whether on-site or through financial contributions) the policy positions should be set out as clear targets, to help inform land value expectations and form the basis for a continued practical, negotiated approach. Precise wording of policy is an important aspect, particularly in relation to the terms associated with the targets. It needs to create clarity.

Recommendation 7:

Policy should be clearly worded so as to set out clear targets (but not by reference ranges, minimums or other variables) to inform the negotiated approach, and acknowledging the role of viability and application of flexibility at a case specific level where required.

Recommendation 8:

The Council should give consideration to using framework and cascade principles in negotiating affordable housing delivery through Section 106 agreements.

A framework approach can set affordable housing (and perhaps other planning obligations) principles but leave the detail to a later date once the delivery conditions relevant to a longer-term scheme or later phase of a large scheme are better understood.

Cascade principles allow the affordable housing scheme details to be amended in response to varying delivery conditions (market, funding) without needing to go back to the start of the planning or Section 106 agreement processes, thereby limiting further delays. Outcomes could involve, for example, revised affordable homes mix or numbers, revised tenure mix, part use of financial contributions in lieu, etc. The Council should expect to have a pro-active role in agreeing the cascade scope/details in and the reconsideration of the affordable housing provision.

- 4.1.27 The Council will need to consider the mathematical subtleties of its selected approach – for example, how numbers rounding and net/gross (new dwellings numbers) application affects the working of the policy positions, and we encourage the Council to illustrate how the policies would be applied to the smaller sites - especially those of fewer than 5 dwellings – again for clarity. This all means building on the Council’s existing practical approach.

Recommendation 9:

The Council should be clear on how it will apply policy in respect of Net or Gross new dwelling numbers on schemes. Owing to the potential significant effects on smaller schemes in particular, on balance we suggest a Net approach (and certainly in respect of the smallest schemes).

4.1.28 Delivery experiences from all positions will need to be monitored, regardless of where they are pitched. The Council should have contingency plans in place for reacting to those experiences.

4.1.29 The following tables, Figures 23 and 24, summarise the scope we see for policy consideration by the Council – in terms of headlines. Again, this is intended as a quick guide to our overview and should not be read out of context of the wider report content. As per the alternatives overview above (at 4.1.16 – 4.1.20) regarding schemes of fewer than 15 dwellings there are potential options around the use of both on-site targets and financial contributions on the schemes beneath the current (15) threshold level; hence both potential routes are “ticked” for those, as follows at 4.2:

4.2 Policy development parameters - Scope of recommendations – Quick Summary

Figure 23: Summary Scope for consideration of Headline Policy (PDL)

| Site Size Range (no. of dwellings) | Potential Policy Option (% target) | On-Site | Financial Contribution |
|--|--|---------|------------------------|
| 1-4 | 10%-20% (10% recommended) | X | ✓ |
| 5-9 | 20% | ✓ | ✓ |
| 10 -14 (depending on ceiling point) | 20%/25% (graduated approach set at 20% target for these schemes better respects sensitivities). | ✓ | ✓ |
| 15+ | 25% | ✓ | X |

Figure 24: Summary Scope for consideration of Policy and future work (Greenfield; Subject to later scheme specific review)

| Site Size Range (no. of dwellings) | Potential Policy Option (% target) | On-Site | Financial Contribution |
|---|---|----------------|-------------------------------|
| 1-4 | 10-20% | X | ✓ |
| 5-9 | 20% | ✓ | ✓ |
| 10-14 | Set at up to 40% | ✓ | ✓ |
| 15+ | Set at up to 40% | ✓ | X |

Where:

- ✓ = workable policy option
- X = outside scope of recommendations

5 Reminders and Wider Discussion

- 5.1.1 The “National indicative minimum” (site size) threshold for affordable housing is regarded as 15 dwellings, as set out by the Government’s Planning Policy Statement 3 (PPS3) - Housing. PPS3 goes on to say, however, that Local Authorities can set lower thresholds “where viable and practicable”. The results discussed in this study show that lower thresholds could be considered, provided that the affordable housing target proportion is not viewed in isolation and rigidly. It is one factor to be considered alongside the numbers rounding and other points we have put forward, depending on the Council’s final policy selections.
- 5.1.2 Where we have mentioned negotiation, that does not necessarily mean an overall reduction in affordable housing – it could mean negotiations over grant input or changes to the tenure mix to provide an element of cross-subsidy into a scheme. Similarly, there may need to be a compromise position achievable rather than moving straight to an assumption that leaves a site contributing nothing to affordable housing needs, but that allows the affordable housing delivery on particular sites to react to changing viability and funding circumstances as more certainty is created with scheme progression.
- 5.1.3 If the policy targets cannot be met, then landowners and developers will need to clearly demonstrate why. In our view the final judgement on exactly where this element of the policy proposals will settle should be based on all the factors viewed together, i.e. alongside the viability outcomes. Included in these will be the key elements of forecasting of increased affordable housing units delivery based on the size and number of sites coming forward (site capture), local housing needs and practical thinking on the consequences of having small numbers of affordable homes distributed widely across a higher number of schemes.
- 5.1.4 Crucially, and regardless of detail, the policies should be worded in clear terms. They should not be expressed as a minimum level of provision or be capable of interpretation in an ambiguous way.
- 5.1.5 It is important that a flexible and negotiated approach to policy application is adopted to ensure the continued supply of residential development land, notwithstanding the very high priority that will be given to addressing affordable housing need. The policy or supporting text would need to make this flexible approach clear. The aim is to provide clear and robust targets for guidance to developers and landowners in appraising and bringing forward sites.
- 5.1.6 As part of providing clarity of expectations and to aid the smooth working of the approach, the Council will need to be clear about whether any new

policy positions will be applied to the gross (total, irrespective of any dwellings existing prior to the scheme) number or net (i.e. deducting for any such dwellings) number of dwellings being provided by a development scheme.

- 5.1.7 It may be particularly relevant to clarify this in respect of the very smallest schemes including single dwellings, replacement dwellings, conversions, etc. In our experience, Examination Inspectors have often been nervous about gross policies universally applied – particularly to the smallest schemes, because there can be such a significant difference in implications compared with a net new dwellings application. We have recommended a Net new dwellings application of policy, especially for the small schemes.
- 5.1.8 We expect that in site-specific viability discussions, where necessary, the use of a toolkit (including but not limited to the Housing Corporation’s “Economic Appraisal Tool” – re-badged by the HCA in 2009, or agreed equivalent approach) will be encouraged. Developers will be encouraged to work closely with their RP partners, who will increasingly be using that type of appraisal work to support their decisions and approaches for social housing grant in conjunction with the Council. This detail would normally be picked up in subsequent SPD that refers to the Council’s approach to reviewing viability of schemes where needed. SPD can usefully set out what sort of viability information the Council will expect to accompany any discussions about compromises needed in meeting policy requirements through poor scheme viability.
- 5.1.9 The key factors influencing policy should be kept under review - including housing affordability and needs, site supply, economic trends/housing market and viability. Our recommendations are considered to be sound for the current stage of policy development, which is set in a strategic context. Their impact and the delivery resulting from them will need to be monitored with a view to longer term future direction.
- 5.1.10 The Council should also monitor local property prices and development activity. This could be carried out by reviewing Land Registry figures, estate agents’ views and website information, etc, much as we have done. Maintaining a level of familiarity with the local market would assist greatly with scheme-specific reviews and ongoing work in general.
- 5.1.11 Updates of the viability picture should be considered. Rather than looking at this purely periodically, we consider that it would be prudent to link viability updating to events or points in time which might include the review of changes to wider planning policy/obligations, updating work on SPD or similar (i.e. also consider other events or influences which might impact viability, and roll those in to reviews).

5.1.12 It will also be important for the Council to consider contingency plans in the event of slippage in meeting affordable housing targets (potentially for example through short-term worsening of housing markets). This might involve thinking about and planning around areas such as:

- Overall priorities and wider planning objectives for the Borough – including the importance of market housing delivery, particular regeneration initiatives, the role of affordable housing locally and its importance relative to (or associated with) other planning objectives. The Strategic Housing Market Assessment (SHMA) and related work will inform the Council’s approach and this will all need to be kept under review, linked from the monitoring processes.
- Any other funding and delivery mechanisms/routes.
- Potentially exploring the allocation of land for affordable housing.
- Reviewing the operation of the application of policy – including the Guidance related to it, the type of negotiated approach, the use of Cascade and similar principles.
- The role of different tenure types and models, relative to market conditions and funding availability, etc, and especially now with reference to the recently announced new form of affordable rented tenure.
- The role of the HCA and any ongoing initiatives such as the Single Conversation, Local Investment Plans and other strategies being used locally.
- Whether cross-boundary working with other authorities on housing delivery and affordable housing provision should be considered/reviewed.
- The detail of its requirements in terms of Section 106 and planning obligations more generally – triggers, phasing, collective burdens, etc.

(This is not an exhaustive list, but aims to provide examples of the directions the Council could look in.)

5.1.13 The Council will expect developers and landowners to come to the table and be prepared to explain and justify why, in any relevant cases, the affordable housing targets and/or other planning obligations requirements cannot be met given other demands on a scheme. The onus will be on developers to clearly and fully demonstrate the issues, with evidence to back-up costs associated with abnormal site complexities and the like.

- 5.1.14 It is expected that a methodology similar to one we have used will be appropriate for this process, to explore the relationship between development costs and values. Again, however, we reiterate that whilst this methodology is generally accepted, and the assumptions we have used might guide the Council on starting/indicative parameters, there will be no substitute for site-specific appraisal work of this type. Such work would take into account appropriate specific assumptions.
- 5.1.15 Issues may arise on those sites which have already changed hands or are committed through option or similar arrangements, where figures may simply not work when set against the proposed policy requirements. In the same way, there will be some previous planning permissions capable of implementation (where previous policy positions would have determined requirements).
- 5.1.16 Similarly, a degree of difficulty with increasing planning-led affordable housing supply may be experienced during the adjustment process where there may be issues whilst developers/landowners get accustomed to the new policies and expectations are modified. The modelling in this study has been carried out on the assumption that knowledge of policies exists and that the landowner/developer information and adjustment process has been undertaken.
- 5.1.17 Good practice points to bringing to life through appropriate Supplementary Planning Documents and/or Development Plan Documents the type of negotiated approach envisaged and supported by government guidance.
- 5.1.18 This study has considered planning-led affordable housing in the context of integrated provision within market-led schemes, secured through planning obligations usually embodied in a Section 106 agreement. The Council, along with its partners, should also continue to consider the wider routes to affordable housing provision.
- 5.1.19 Housing Association or contractor/developer-led schemes can be successful in significantly bolstering local provision – sometimes on lower value, more difficult sites, for example as a part of removing non-conforming uses from older residential areas, recycling unviable former commercial land or making better use of existing estates.
- 5.1.20 The various supply sources of affordable housing need to be considered and encouraged. The use and role of local authority or other publicly owned land might also be very valuable in this sense. Affordable housing proportions and provision details sought on any Council owned land could well be different to the headlines proposed in this study – using the landowner’s right to control the bidding and disposal terms. There is also

an emerging role for local authorities as key developers of housing again. Such areas will need to be monitored and explored depending on the range of economic measures and controls/opportunities the Government introduces .

5.1.21 In addition, the role of exception to policy sites and specific allocations processes could be considered for rural affordable housing provision – as distinct extra tools.

5.1.22 RPs and others should be encouraged to be proactive in these areas, and supported by the Council where possible.

End of main study text
Appendices follow
March 2011

Appendices

| | |
|-----------------------|--|
| Appendix I | Development Scenarios |
| Appendix II | Base Appraisals¹⁷ Residual Land Value Results (£3,000 per Unit Infrastructure Cost) |
| Appendix IIa | Residual Land Value Results - 70%/30% Tenure Mix |
| Appendix IIb | Residual Land Value Results - 50%/50% Tenure Mix |
| Appendix IIc | Residual Land Value Results - £10,000 per unit Infrastructure Costs; All Tenure Mixes |
| Appendix IId | Residual Land Value Results - £20,000 per unit Infrastructure Costs; All Tenure Mixes |
| Appendix IIe | Residual Land Value Results – Without Grant |
| Appendix IIf | Residual Land Value Results - 20% Developer’s Profit |
| Appendix IIg | Residual Land Value Results – Sustainable Construction & Design Increased Attainment |
| Appendix IIh | Outlines results that look at the cumulative impact of costs on one scheme type at Value Point 3. |
| Appendix III A | Potential financial contributions approach (OMV less Payment to Developer) – Schemes of 1 to 14 dwellings |
| Appendix III B | Potential financial contributions approach (land value based) – Schemes of 1 to 14 dwellings |
| Appendix III | Hastings Borough Council – Property Values Report |
| Appendix IV | Details of Stakeholder Consultation |
| Appendix V | Glossary |

¹⁷ Base appraisals assume base build costs; CfSH Level 3; 10% renewables; 17.5% developer’s profit, 100% / 0% tenure mix; £3,000 per unit planning infrastructure costs, inclusion of grant.



Adams Integra
55 West Street
Chichester
West Sussex
PO19 1RP

T: 01243 771304

F: 01243 779951

E: enquiries@adamsintegra.co.uk

W: www.adamsintegra.co.uk