DVS Property Specialists for the Public Sector

ECONOMIC VIABILITY ASSESSMENT
AFFORDABLE HOUSING POLICY

Undertaken as part of the Council's Core Strategy

Completed on behalf of South Gloucestershire Council

By

District Valuer Services (DVS)

August 2010

EXECUTIVE SUMMARY

1. District Valuer Services, part of the Valuation Office Agency, has been commissioned by South Gloucestershire Council to determine the ability of development sites to support a level of Affordable Housing.

2. The Council wished to test viability for a range of sites in a variety of development circumstances and an appraisal approach was undertaken that would permit this reflecting a prescribed level of affordable housing and housing mix. A list of identified sites was provided by the Council, with the aim of testing sites in a variety of geographical locations. This would enable more general conclusions to be drawn about the viability implications locally of differing scenarios.

   The sites are all based on 'real' situations, and are within the broad planning framework established by the South Gloucestershire Local Plan and/or the emerging Core Strategy. Individual site characteristics, possible planning policy frameworks, and any anticipated abnormal site issues e.g. infrastructure costs, are taken into account in the appraisals. However, the sites are not specifically named or identified in order to avoid prejudicing the emerging work on the Core Strategy and/or any potential planning application which, by its nature, will involve more detailed data and will be viewed on its individual merits.

3. The valuations and appraisals were agreed to be as at 1st May 2010. The appraisals have been tested for sensitivity analyses to allow for changes in market prices ranging from those current at this date and up to plus 130%. This approach reflects the long-term nature of the proposed policy in the Core Strategy and the potential for changes in potential viability based solely on improvements in the general market for housing. In addition all sites were tested using 30%, 35% and 40% affordable housing levels.

4. It is important to stress that the prescribed 'test' developments designed to meet the Council's combined planning policies do not necessarily match any future actual development. These hypothetical developments were included solely for the purpose of testing an overall level of affordable housing that might form the basis of Core Strategy policy. No association should therefore be made between these 'test' developments and either the inclusion of development locations in the final Core Strategy or the granting of any planning permission. This will be a matter for South Gloucestershire Council, and any other appropriate decision maker, in accordance with formal planning decision making procedures. Accordingly no dialogue has been entered into with landowners or developers in respect of the specific sites in carrying out this study.

5. A total of nineteen sites were originally identified for study. Having considered the sites and any development proposals for them where they existed, in conjunction with the Council's Planning and Housing sections, we were provided with actual/notional development schemes appropriate for each site, which would meet the current Local Development Plan objectives. These schemes included the full provision of affordable housing as required in the Consultancy Brief. The nineteen sites were eventually reduced to eighteen to ensure consistency with Local Plan and emerging Core Strategy frameworks.

6. We considered assumptions in respect of development costs and other financial and site assumptions required to carry out the appraisals. Abnormal costs were assumed

to arise on a number of the sites. Appropriate assumptions were made to determine a possible building programme for each site. On all sites it was assumed that no subsidy via housing grant would be available.

7. Hypothetical development appraisals were produced for each of the eighteen sites. The approach used was to determine the residual land value of each site after taking into account assumptions on the costs of development including the proposed affordable housing requirement; the likely income from sales; an acceptable level of profit for the developer; current building costs and agreed section 106 levels but no grant.

8. The residual land value was then compared to the estimated current market value of the site, and if higher the development was deemed viable.

9. Considering the '100%' Sale Price figure as at 1st May 2010, and applying 30% to 40% affordable housing levels, the overall viability of sites is not generally high only seven of the 18 sites being either viable or marginal at 30% and six sites at 35% . This is a reflection of the current state and uncertainty of the property market.

   When a relative increase in house prices of 10% is factored into the appraisals, ("110% Sale price") then 13 of the 18 sites become viable or marginally viable at an affordable housing percentage provision of both 30% and 35%. At a 40% affordable housing content, 10 out of the 18 sites are either viable or marginal.

   When a relative increase in house prices of 20% is factored into the appraisals ("120% Sale Price") then 15 of the 18 sites become viable or marginally viable at an affordable housing percentage of both 30% and 35%. At a 40% affordable housing content, 13 out of the 18 sites are either viable or marginal.

   The context to this increase in viability is that a 10% 'sale price' increase does not simply mean a 10% increase in house prices, it means a 10% increase in house prices ***relative*** to all the other variables affecting development cost. In simple terms this could mean a 10% increase in house prices whilst all other variables (i.e. costs) remain static.

   Consideration of the results using the 110% sale price data and 120% sale price data, is in our opinion reasonable within the context of the plan. It is clearly appropriate to take account of likely house price growth across the plan period to 2026, given established historic house price trends

10 The South Gloucestershire area has almost mirrored the national market with a peak in house prices in the 3rd quarter 2007 and a low in the 1st quarter 2009. Prices fell on average by approximately 20% during this period however there has been a small recovery and by March of 2010 prices have risen from their low by approximately 10.5% whilst costs have continued to fall.

   The 110%/120% levels equate on average, depending on the location, to the relative price levels achieved at the peak of the market in 2007.

   Current market commentaries are mixed and it is impossible to predict when a return to higher house price sale levels will occur, which will make the sites economically 'viable' for development at higher levels of affordable housing provision. A reasonable estimate could be that to achieve the 120% level (compared to May 2010) may take 4 to 5 years. Although we have tested at plus 130% when all but two sites are viable across all levels of affordable housing, it is difficult to predict when this may occur.

11 Notwithstanding this, the delivery of a 35% affordable housing target is a perfectly reasonable approach for the Council to adopt in the immediate short term in order to achieve mixed and balanced communities. However, other financial support measures would need to be put in place so that total reliance is not placed on funding through land values alone; a combination of other measures is therefore likely to be required on some sites. In the medium to longer term most sites will gradually return to viability and the target will be achievable at nil public subsidy.

12 **Taking into account the above, we would recommend an affordable housing Target of 35%. This recommendation is based on the results produced by utilising the 110% and 120% sale price data, which, as stated, is considered reasonable in the context of the plan period and the current, exceptional, state of the housing market.**

We would also recommend, following our study, that the minimum site size threshold levels for residential development sites where affordable housing will be required be set at 5 dwellings and above (0.20ha +) in rural areas and 10 dwellings and above (0.33ha. +) in urban areas.

We would further recommend that the Local Development Framework LDF allows for sites to be considered on an individual scheme-by-scheme basis with a full viability appraisal, if necessary.

In addition, we would recommend a regular review of the viability appraisal ideally on an annual basis, to establish whether the main assumptions, particularly in respect of sale prices and costs, have been subject to fluctuation. In the event that the parameters have moved to any significant degree it may be appropriate to review the affordable housing contribution target.

Anthony Williams, BSc, MRICS
For District Valuer Services

August 2010

TABLE OF CONTENTS

Page

1. INTRODUCTION **5**

Introduction 5
Brief for this work 5
District Valuer Services 5

2. THE BASIS Of ASSESSMENT **6**

The financial appraisal model 6

3. INDIVIDUAL DEVELOPMENT SITES **7**

Introduction 7
Existing Data 8
The individual sites 8
Development assumptions 9
Affordable Housing Assumptions 10
Thresholds 11

4. OTHER DEVELOPER CONTRIBUTIONS **11**

5. LOCAL MARKET CONDITIONS **12**

Introduction 12
General Comments 12
The Residential Market 13

6. ASSUMPTIONS FOR VIABILITY ANALYSIS **14**

Introduction 14
Development costs 14
Financial and other appraisal assumptions 17
Site acquisition and disposal costs 19
Sensitivities 19
Consultation 19

7. RESULTS OF VIABILITY ANALYSIS **20**

8. RESULTS **20**

APPENDICES

1: Summary of Results of Viability Analysis for Each Site **23**
2. Summary of Land Values as Varied by Changes in Costs **24**

1.0 INTRODUCTION

1.1 Introduction:

District Valuer Services, part of the Valuation Office Agency, has been commissioned by South Gloucestershire Council to produce financial appraisals in respect of a number of residential sites across the County to determine the ability of development sites to support a level of Affordable Housing. The sites have been modelled to reflect the possible types of development that might arise on such sites.

The appraisals have been designed to assess the impact, on development viability, of the requirements for provision of Affordable Housing at various levels. The Council is producing a Core Strategy as part of its Local Development Framework, which, when adopted, will serve as the statutory strategic spatial development plan for the District until 2026.

This study is a document which will be used to guide the setting of a target within the Core Strategy for the amount of affordable housing to be provided on development sites, It is not intended, nor should it be used, as a basis for any individual case being considered under Development Control guidelines. In arriving at an overall target there will be sites which will perform better than the average and those that perform less well but the study will provide a reasonable target from which policy may be derived.

1.2 Brief for this work:

The Council wished to test viability for a range of sites in a variety of development circumstances and an appraisal approach was undertaken which would permit this reflecting a prescribed level of affordable housing. A list of sites was provided, with the aim of testing sites in a variety of geographical locations. This would enable more general conclusions to be drawn about the viability implications locally of different scenarios.

The valuations and appraisals reflect an agreed valuation date of 1 May 2010. The appraisals have been tested for sensitivity analyses to allow for changes in market prices ranging from those current at this date and up to 30% above. However it should be stressed that this analysis assumes that build costs have not been increased and therefore any increase in values are net of movements in build costs. These percentage variations have been chosen to give a reasonable range of potential market changes. Variations outside these parameters are likely to require more detailed analysis of all the variables and their interactions. This approach reflects the long-term nature of the proposed Policy and the potential for changes in viability based solely on improvements in the general market for housing.

1.3 District Valuer Services:

District Valuer Services, part of The Valuation Office Agency, provides valuation advice to public bodies throughout Wales, England and Scotland. It has extensive experience in carrying out development appraisals and employs specialists in commercial and residential development work, together with dedicated environmental and quantity surveyors to assist in appraisal work. In the last few years, Councils have increasingly commissioned us to assess the viability of development schemes in relation to their ability to support affordable housing and other obligations arising in the planning process.

2.0 THE BASIS OF ASSESSMENT

2.1 The financial appraisal model:

The development appraisals undertaken for the purpose of this study are in essence relatively straightforward and can be illustrated by the following equation:

Gross Development Value

Less

Gross Development Costs

Equals

Residual Land Value

These can be defined as follows:

Gross Development Value – Total market value of all elements of a scheme including:

a) Open Market residential
b) Affordable housing
c) Commercial i.e. offices, shops or industrial (if any).

Gross Development Costs - Total development costs to build the new development including:

a) Build costs of all types of property
b) Externals i.e. estate roads, landscaping, services etc
c) Abnormals due to site conditions including decontamination, abnormal foundations etc
d) Infrastructure costs i.e. major new services and highways
e) Section 106 costs and contributions
f) Professional fees i.e. Architects, quantity surveyors, engineers etc
g) Marketing costs including promotion, show houses, agents and legal fees
h) Land acquisition costs including Agent fees, legal fees and Stamp Duty.
i) Finance i.e. the cost of borrowing money from financial institutions etc
j) Developers profit.

Residual Land Value – The result of the assessment is the Residual Land Value that the proposed scheme, taking into account the assumptions made, can justify for the site.

Viability – In the case of this report a viable site is where the residual value produced by the proposed scheme exceeds the assumed market value for the subject site as either a serviced, un-serviced site or green field site; this is discussed in more detail in section 6.

Viability can be affected by a whole range of issues including the overall economic climate/housing market but on more site specific basis factors include:

1) Assumptions on development including density and housing type and mix.
2) Percentage of affordable housing
3) Amount of Section 106 contributions
4) Local Authority planning policy
5) Final detail/conditions of planning consent
6) Site Abnormals
7) Infrastructure Requirements
8) Final development costs and profit etc.

3.0 INDIVIDUAL DEVELOPMENT SITES

3.1 Introduction:

10. The Council provided a total of nineteen sites for assessment in this study. The nineteen sites were eventually reduced to eighteen to ensure consistency with Local Plan and emerging Core Strategy frameworks.

This section considers the key characteristics of the individual sites, together with the assumptions made about the proposed development for the purposes of producing appraisals.

The sites are of varying sizes in different locations across the District and consist of a mix of brown field and green field with differing current uses

The individual sites were inspected, in April 2010.The sites are all based on 'real' situations and generally fall within the broad planning framework established by the South Gloucestershire Local Plan and/or, the Council's emerging Core Strategy; some are the subject of planning permission. Individual site characteristics, possible planning policy frameworks, and any anticipated abnormal site issues e.g. infrastructure costs, are taken into account in the appraisals.

This approach ensured that any emerging Core Strategy policy to deliver affordable housing was tested against a range of sites which were representative of the spatial elements underpinning that strategy. However, the sites are not specifically named or identified in order to avoid prejudicing the emerging work on the Core Strategy and/or, any potential planning applications. The latter, by their very nature, will involve more detailed data and will be viewed on their individual merits.

The Study brief required that we considered a set of house types likely to be appropriate for each site and incorporated contributions likely to be required under Section 106 planning agreements, other than for affordable housing; this we did in consultation with Council officers. We were not asked as part of this study to consider the appropriateness of any other items of developer contributions.

These 'test' developments were modelled solely for developing housing affordability policies in the Core Strategy. They should not be taken to imply Council support for either the principle of development, or a particular mix of development, at any specific location within the broad sectors, or indeed for any level of required planning obligations. These will be matters for the Council and other relevant decision makers.

3.2 Existing Data:

We were only made aware of one “live” planning application submitted in respect of any of the sites. In addition upon inspection, we noted no instance of new development being underway, complete or nearing completion.

Having regard to the Council’s brief on hypothetical schemes for each site, to meet current planning objectives in terms of density and mix, we have formulated appraisals based upon house price and commercial data from our database of all reported property transactions (supported by wider market investigations), as at the agreed valuation date. Building Cost information has been obtained directly from our internal quantity surveyors and BCIS (the Building Cost Information Service of the Royal Institution of Chartered Surveyors). No allowance has been made for the impact of ecological factors on site preparation e.g. the accommodation of bats, or newts, or for major site remediation costs, as most sites are considered very low risk from this perspective.

3.3 The individual sites:

Details of the sites used to assess affordable housing viability l are set out in the table below

Table 1 – Sites

Site No.	Location		Site area (Ha)
1	East Fringe of Bristol Urban Area	BEF 01	0.44
2	East Fringe of Bristol Urban Area	BEF 02	0.59
3	East Fringe of Bristol Urban Area	BEF 03	0.95
4	East Fringe of Bristol Urban Area	BEF 04	0.22
5	East Fringe of Bristol Urban Area	BEF 05	0.15
6	East Fringe of Bristol Urban Area	BEF 06	4.6
7	North Fringe of Bristol Urban Area	BNF 01	0.46
8	North Fringe of Bristol Urban Area	BNF 02	0.27
9	North Fringe of Bristol Urban Area	BNF 03	10.00
10	North Fringe of Bristol Urban Area	BNF 04	18.40
11	North Fringe of Bristol Urban Area	BNF 05	0.14
12	Rural	RUR 01	0.23
13	Rural	RUR 02	0.32
14	Thornbury	THN 01	0.22
15	Thornbury	THN 02	12.5
16	Yate/Chipping Sodbury	YCS 01	0.55
17	Yate/Chipping Sodbury	YCS 02	3.5
18	Yate/Chipping Sodbury	YCS 03	60.00

The sites provide a mix of locations, sizes and site types, as well as being geographically spread across the District.

In the market place, there will be some variation in the specification of the final dwellings; and in the degree of aspiration for design. Recognising that across the District, the Council would aspire to achieve a high standard of urban design, we assumed the sites will be developed to a typical standard specification for South Gloucestershire, including Level 3 of the Code for Sustainable Homes (CSH) and having inspected the sites we consider that this ‘median’ level of specification is also that accepted by the market in these locations. As a result a single median building cost assumption has been made for these sites and this level of specification is reflected in the prices achieved for the individual developments.

It is recognised, however, that the Council has an objective to secure higher levels of sustainable construction. We would generally expect such provision to be reflected in higher market values for these properties. Notwithstanding this sensitivity tests for higher building costs above those assumed in this study have also been undertaken. (See Section 8)

3.4 Development assumptions:

We were provided, by the Council, with a hypothetical but not untypical level and mix of housing which might be assumed on each site, although it should not be assumed that such schemes in similar locations would be granted planning permission, that clearly is a matter for the Council to decide through its decision making processes.

The prescribed development for each site is set out below:

Table 2 – Development Mix

Site No	Site Ref	Flats 46 sq m 1 Bed	Flats 67 sq m 2 Bed	Terrace/ Semi House 75 sq m 2 Bed	Terrace/ Semi House 85 sq m 3 Bed	Terrace/ Semi House 100 sq m 4 Bed	Town House 100 sq m 3 Bed	Town House 105 sq m 4 Bed	Detached House 95 sq m 3 Bed	Detached House 108 sq m 4 Bed	Total Units
1	BEF 01	15	29								**44**
2	BEF 02		20				10	8			**38**
3	BEF 03	6	10		8	4	16	4			**48**
4	BEF 04		6				7				**13**
5	BEF 05	1	11								**12**
6	BEF 06	56	184	51			72	17			**380**
7	BNF 01		15		6	3					**24**
8	BNF 02	5	11								**16**
9	BNF 03	80	170		40		180	30			**500**
10	BNF 04	70	350	80	40	10	300	50			**900**
11	BNF 05	2	8								**10**
12	RUR 01				2					2	**4**
13	RUR 02								4		**4**
14	THN 01	6	12								**18**
15	THN 02		50	120	70	50	100	60			**450**
16	YCS 01		16	7			13	2			**38**
17	YCS 02		73	62			46	49			**230**
18	YCS 03	100	500	300	400	300	500	400			**2500**

The property sizes tested have been derived from guidance provided by the Council. They generally reflect as far as possible, outcomes on similar sites or current assumptions on possible development areas.

It is recognised that the eventual developers of each site will form their own views on what the appropriate unit type mix is but, for the purposes of consistency, the unit types detailed above have been tested across both the affordable and private tenure homes.

3.5 Affordable Housing Assumptions:

In accordance with the brief, our appraisals assume that there will be a requirement to provide affordable housing on each site. The affordable housing has also been tested on the basis of a tenure split of 80% social rented and 20% shared equity and this mix of affordable housing is compliant with the definition of affordable housing in PPS3.

The size/type mix of affordable housing is calculated from the mix provided by the Council and we have taken into account the mix detailed in the West of England Strategic Housing Market Assessment (SHMA) May 2009.

Both the tenure type and the mix of dwellings have an impact on viability and should be considered as sensitivity on the assessment of individual sites.

The shared equity tenure homes have been assessed reflecting an initial purchase of 40% equity with 1% rental on the balance, whilst the social rented were assessed having regard to target rents and initial capitalisation yield of 6% adjusted to reflect normal Registered Social Landlord's (RSL's) costs to include such factors as management, repairs, voids/bad debts, and risk .

We assume that the affordable housing will be sold by a developer to an RSL. Taking into account the above we have assumed that an RSL could reasonably be expected to pay a developer an average of 45% of market value for both social rented and shared equity in the current market.

Each of the tested schemes assumes that no Social Housing Grant has been offered in support of the development of affordable housing.

We have tested at 30%, 35% and 40% affordable housing levels as follows:

Table 3 – Affordable Housing Numbers

Site No	Ref	Hectares	Total Numbers	30% Affordable	35% Affordable	40% Affordable
Site 1	BEF 01	0.44	44	13	15	18
Site 1	BEF 02	0.59	38	11	13	15
Site 3	BEF 03	0.95	48	14	17	19
Site 4	BEF 04	0.22	13	4	5	5
Site 5	BEF 05	0.15	12	4	4	5
Site 6	BEF 06	4.6	380	114	133	152
Site 7	BNF 01	0.46	24	7	8	10
Site 8	BNF 02	0.27	16	5	6	6
Site 9	BNF 03	10	500	150	175	200
Site 10	BNF 04	18.4	900	270	315	360
Site 11	BNF 05	0.14	10	3	3	4
Site 12	RUR 01	0.235	4	0	0	0
Site 13	RUR 02	0.32	4	0	0	0
Site 14	THN 01	0.22	18	5	6	7
Site 15	THN 02	12.5	450	135	158	180
Site 16	YCS 01	0.55	38	11	13	15
Site 17	YCS 02	3.5	230	69	81	92
Site 18	YCS 03	60	2500	750	875	1,000

3.6 Thresholds:

For the purposes of the study it is assumed that there is a minimum site size threshold for which affordable dwellings will be required. This is 10 dwellings and above, or a site area of 0.33 hectares and over, in urban areas and a threshold of 5 dwellings and above or a site area of 0.20 hectares and over in rural areas.

Thresholds below the national indicative minimum site size of 15 dwellings can be set where it is viable and practical to do so; the economic viability of thresholds below this national minimum level was therefore tested in the study. In such testing, and in accordance with PPS3 Housing, the assumption was that affordable housing would be provided on site so it contributes towards creating a mix of housing. Offsite provision should be seen as provision of the last resort.

There is also a practical aspect in not setting very low site size thresholds. This includes the time and resource costs of assessing viability on very small schemes, and then subsequently negotiating Section 106 agreements, where affordable dwelling numbers may ultimately make a negligible contribution to overall affordable dwelling targets. As a general rule the larger the site, the increased number of dwellings to help subsidise affordable housing on site

Viability will also be influenced by the time period assumed for the development of a site; the longer the development period the more likely that advantage can be taken of real increases in house prices over time. Assumptions were also made on this factor.

Given the above the level of site size thresholds will therefore vary across the country, however they must take into account what is practical and deliverable .So ultimately within a particular local authority the level of the thresholds are an opinion as to what is achievable taking account of the market conditions and what in practice is deliverable.

4.0 OTHER DEVELOPER CONTRIBUTIONS

4.1 Other developer contributions:

The Council has provided general information about the range of Section 106 contributions that it would reasonably expect to secure through the type of sites tested for the purposes of this study. Typical Section 106 contributions are based on details contained in the Council's Infrastructure Delivery Plan and from professional experience on the level of average contributions in different parts of the area. As such the assumptions used are theoretical and have only been used for the purposes of this economic viability study. No association should be made between this test data and any proposed future section 106 agreement.

Table 4 – Section 106 Contributions

Site No and Ref.	Contribution per dwelling unit	No of Dwellings	Total Contribution (rounded to nearest 100)
1 BEF 01	£3,213	44	£141,400
2 BEF 02	£3,213	38	£122,100
3 BEF 03	£6,187	48	£297,000
4 BEF 04	£3,213	13	£41,800
5 BEF 05	£6,187	12	£74,200
6 BEF 06	£3557	380	£1,351,700
7 BNF 01	£1,575	24	£37,800
8 BNF 02	£1,575	16	£24,200
9 BNF 03	£15,000	500	£7,500,000
10 BNF 04	£17,600	900	£15,840,000
11 BNF 05	£1,575	10	£15,800
12 RUR 01	£1,495	4	£6,000
13 RUR 02	£1,495	4	£6,000
14 THN 01	£3,200	18	£57,600
15 THN 02	£14,200	450	£6,390,000
16 YCS 01	£3,399	38	£129,200
17 YCS 02	£5,217	230	£1,200,000
18 YCS 03	£14,062	2,500	£35,155,000

There is wide variation on the level of Section 106 contributions between areas and type of site. As a general rule the larger the site the larger the contribution per dwelling because of the need to provide major infrastructure investment to service the development. Clearly the level of contribution will affect viability and for the larger sites it is a serious constraint on the overall development.

5.0 LOCAL MARKET CONDITIONS

5.1 Introduction:

This section provides an assessment of local market conditions. This provides the basis for the assumptions on house prices used in the financial appraisals for the eighteen sites

5.2 General Comments:

In support of this exercise, we have considered values specific to the test sites identified. It is important to stress that a series of factors will influence values and that, although development schemes do have similarities, every site is unique to some degree. Consequently, whilst market conditions in general will broadly reflect national economic circumstances and local supply/demand factors, within an area there will be particular localities and site-specific factors that generate different values and costs. The range of sites tested in this study seeks to assess viability across varying localities for this reason.

The comments below relate to prevailing market conditions at the valuation date (1st May 2010). It should be stressed that values fluctuate and that assessments of viability will alter over relatively short periods of time.

5.3 The Residential Market:

Nationally: During the period since the autumn of 2007 the housing market has seen unprecedented change. The turmoil in the UK housing market caused, to a great degree, by the collapse in the financial markets has seen a fall in house prices of 20% to 25%, from their peak in autumn 2007, to a low in spring of 2009.

Since spring 2009 house prices have seen a small recovery and by the end of 2009 prices had risen by approximately 9% from the low point due to a number of factors:

1) From the peak of 2007 house purchase transactions have fallen by 65% which has caused a significant amount of pent up demand.

2) Interest rates are at an all time low.

3) Re-entry of cash rich buyers into the market.

4) Low supply of property available for sale.

5) Unemployment has not risen by as much as was anticipated but with many workers taking reduced hours and lower pay.

6) Stabilisation of the banking system.

7) Emerging signs of economic recovery.

All this has helped boost consumer confidence and tempted buyers back into the market.

The outlook for 2010 and beyond will all depend on:

1) Interest rates
2) Mortgage credit conditions
3) Employment conditions

Overall there is still uncertainty in respect of the housing market however slow growth is anticipated.

South Gloucestershire: the area has almost mirrored the national market with a peak in house prices in the 3rd quarter 2007 and a low in 1st quarter 2009. Prices fell on average by approximately 20% however there has been a small recovery and by the end of March 2010 prices had risen from their low by approximately 10.5%.

The average house price in South Gloucestershire was £232,610 at the peak and £185,832 in the trough. By May 2010 the average house price was approx £215,000 which is the same as in the 4th quarter 2006 when on the increase and 2nd quarter 2008 during the downturn. (Source Nationwide House Price Index)

Each of the test sites has been assessed having regard to new build sales prices, where available, or by reference to general value levels obtained from our database of all property sales.

As a result the following typical prices for the private housing market are reflected within the appraisals:

Table 5 – The Range of Market Values

Site No.	Site Ref	Apartments	Housing
		£ per Sq m	£ per Sq m
1	BEF 01	2422	2045
2	BEF 02	2500	2152
3	BEF 03	2500	2152
4	BEF 04	2500	2152
5	BEF 05	2500	2152
6	BEF 06	2422	2045
7	BNF 01	2600	2260
8	BNF 02	2600	2260
9	BNF 03	2600	2260
10	BNF 04	2600	2260
11	BNF 05	2600	2260
12	RUR 01	2700	2368
13	RUR 02	2600	2240
14	THN 01	2734	2346
15	THN 02	2734	2368
16	YCS 01	2500	2200
17	YCS 02	2350	2153
18	YCS 03	2368	2152

All the figures reflect conditions as at the valuation date of 1st May 2010. In order to test viability over the longer term, our analysis has been based on market values at this date, representing a benchmark value of 100%, and through a range of values up to 130%, of these May 2010 levels.

6.0 ASSUMPTIONS FOR VIABILITY ANALYSIS

6.1 Introduction:

This section considers the costs and other assumptions required to produce financial appraisals for the individual sites.

6.2 Development Costs:

(i) Construction Costs

Based upon advice from our internal quantity surveyors and taking into account recent published BCIS data, we have established a current base price per square metre construction costs for residential development in this area.

The base figure adopted is £932 per square metre for flats and £758 per square metre for houses. This is the median cost provided within the BCIS report, as at 1st May 2010 and adjusted for the South Gloucestershire location.

As stated above, the Build Costs have been taken from the Royal Institution of Chartered Surveyors' Build Cost Information Service, which calculates build costs based upon actual tender and build price information

In our experience the costs of affordable housing are unlikely to differ significantly from those used for the market housing.

The figures above also include achievement of CSH level 3, which is required from 2010 for both private and affordable housing. Although Level 4 is required for affordable housing from April 2011 by the Homes and Communities Agency (HCA) it is not included in this assessment on the basis that although there will be an additional cost there may also be a premium obtainable from sales values. In addition we have not included achievement of higher codes due to uncertainties in both the costs and implementation within the existing timescale.

(ii) Other normal development costs

In addition to the per sq m build costs described above, allowance needs to be made for a range of infrastructure costs – roads, drainage, and services within the site; parking, footpaths, landscaping and other external costs; as well as off site costs for drainage and other services.

Many of these items will depend upon individual site circumstances and can only be estimated following a detailed assessment of each site. This is not practical within the scope of this study and therefore, based upon the experience of our Quantity Surveyors, a general allowance in relation to the build costs has been made. For basic external works (gardens, fencing etc.) to the dwellings an addition of up to 5% has been made; for estate roads, incoming services etc a further addition of up to 5% has been made; and, finally, up to 5% addition has been added for 'contingencies' which is required to cover any unforeseen costs and cost increases.

(iii) Infrastructure/Abnormal development costs

The information provided to us together with site inspections indicated that exceptional or abnormal costs could arise on some sites. Whilst not having detailed information in respect of these elements we have made a broad estimate of the likely scale of abnormal costs for each site. Typically, abnormal costs would constitute items such as unusual site levelling, additional foundation costs where ground conditions are poor, provision of roundabouts/traffic lights for site access, cost of remediation for contaminated sites, etc. In addition the larger sites require extensive infrastructure to bring them forwarded for development which has been reflected in our estimates.

We have not undertaken investigations regarding the availability and capacity of existing utility services, which was considered to be beyond the scope of this study. We have, therefore, assumed that such services are available and, or, are capable of being delivered.

It may be that when discussions take place on actual sites in the future, and this will be subject to progress on the Core Strategy and actual planning applications, that provision of some utility services will be identified as an 'abnormal' cost (if such services are not readily available or require significant infrastructure contributions). This will need to be reflected in the viability of the particular site under consideration.

(iv) Land Values

All sites have been tested on the basis of the Residual Land Value that the assumed scheme can support compared to the market value for the site.

There is little evidence, due to the current state of the market, as to current site values, since very few are coming to the market for sale, but it is well established in the area that residential site values have fallen by 50% from the peak of 2007.

Sites are classified as either serviced or un-serviced sites. A serviced site means that all the required off site infrastructure etc has been provided and the purchaser only needs to take account of on-site works whilst an un-serviced site may need extensive off site infrastructure which will reduce its site value.

The current serviced site values represent approximately £1,480,000 per hectare (£600,000 per acre). However there are a number of sites being studied that require extensive infrastructure to service them on the basis that they are "green field sites". The land value will depend on the services required but could be approximately £150,000 per acre for sites. 10, 15 and 18.

In order to judge viability we have used the following basis

Sites (1 to 9, 11 to 14, 16 and 17)
Viable – Greater than £600,000 per acre
Marginal – Between £500,000 and £600,000 per acre
Unviable - Less than £500,000 per acre

Green Field Sites (Sites 10, 15 and 18)
Viable - Greater than £150,000 per acre
Marginal - Between £100,000 and £150,000 per acre
Unviable - Less than £100,000 per acre

The land values adopted reflect an opinion on the level required for the land to be released onto the market for residential development although there should be no presumption that any particular site will eventually form part of the Council's development framework. Our appraisals are based on current market conditions, with the affordable housing requirements, assuming the land is acquired at the date of valuation.

Evidence of land values at the present time is limited but anecdotal evidence of asking prices suggests that landowners' price aspirations remain firm and whilst there is some greater flexibility our market research suggests that distressed landowning vendors are rare and most of the major land-holders are content to "land bank" their sites and await an improvement in the property and wider economic climates.

Establishing the level at which a landowner would 'release' development land is subjective. Factors that could be taken into account include individual circumstances (including tax liability), expectations about changes in Government policy with regard to s106 and affordable housing delivery; opinion on the present and future trend in land values.

The general view is that landowners accept the need to reflect both affordable housing and the required section 106 contributions (i.e. planning policy) in the land value they receive, and there is a general level of value for development land. This varies depending on the circumstances of each site.

(v) Fees

We have assumed professional fees (Architects, Quantity Surveyors, Planning Consultants, Engineers, etc) amounting to 8% or 10% of build costs depending on the type of scheme.

Professional fees can vary greatly from scheme to scheme, and from discussions and negotiations with developers (including at planning inquiry) we usually see fees below 12% and as low as 5% of build cost. From our evidence we feel that our range is fair and reasonable.

6.3 Financial and other appraisal assumptions:

(i) VAT

It has been assumed throughout this study that VAT either does not arise or that its effects can be ignored. This is on the basis that most VAT is payable and reclaimable on a monthly basis by developers.

(ii) Interest rate

Our appraisals assume an interest rate of 6% on all costs which is assessed on a monthly basis in accordance with a cash flow and the programme detailed in phasing.

The interest rate is dependant on the base rate of the Bank of England, the inter bank borrowing rate (LIBOR), and also the financial strength of the developer. The 6% rate adopted is an average in the market and in certain instances higher or indeed lower rates may be applicable.

(iii) Developers’ Profit

We normally assume that a residential developer requires a return of between 15% - 20% return on revenue (Gross Development Value) for ‘market or private housing’. The level of profit allowed relates to the level of risk taken by the developer. This will vary on the site circumstances and market conditions. Profit levels have increased from 15% at the peak of the market to 20% in the current market. For the purposes of this study we have adopted 20% to test the viability of each development reflecting the developer’s risks in the current market.

The appraisal model assumes that the developer will construct the affordable housing for the RSL but at a reduced profit level of 6% of the value of the affordable housing received. This reflects the fact that this element of the development carries a smaller risk than the private housing as the units are effectively pre-sold to the RSL's and a developer does not have the sale risk. This discount is acknowledged and recommended by the HCA

(iv) Phasing

For the purposes of this study we have assumed the following development periods, based upon our experience of similar schemes and discussions with our Building Surveyor colleagues. The expected time frames reflect the current state of the market and the anticipated take up of housing on new developments:

Table 6 – Development Programmes

Site No	Address	Total Development Period (Months)
1	BEF 01	18
2	BEF 02	18
3	BEF 03	18
4	BEF 04	12
5	BEF 05	12
6	BEF 06	78
7	BNF 01	12
8	BNF 02	12
9	BNF 03	90
10	BNF 04	126
11	BNF 05	12
12	RUR 01	9
13	RUR 02	9
14	THN 01	12
15	THN 02	84
16	YCS 01	18
17	YCS 02	60
18	YCS 03	192

The factors that affect development programmes include:

a) Size of site
b) Location
c) Market conditions and sales rates
d) Ownership
e) Planning

The overall programme of a development will affect viability in as far as any borrowings will have to be for the overall period albeit the larger sites will become self financing when receipts are larger than costs.

6.4 Site acquisition and disposal costs:

(i) Site holding costs and receipts

The development is assumed to proceed immediately and so other than interest on the site cost during construction, no allowance has been made for holding costs, or indeed any income arising from ownership of the site.

(ii) Acquisition Costs

Acquisition Costs include stamp duty at a rate of 4% and an allowance of 1.75% for acquisition agents' and legal fees.

(iii) Disposal costs

Sales/promotion and legal fees are assumed to amount to 4% of receipts with no separate allowance for marketing costs. In some larger schemes there may be increased marketing costs in show homes and media marketing to maintain sales rates, but this will be off set by reduced fees to agents. An overall figure of 4% is therefore considered reasonable across all schemes.

6.5 Sensitivities:

The key sensitivity tests that have been carried out are:

1) Sale Price – Current (i.e. 100%) to 130%.

2) Affordable Housing – 30%, 35% and 40%.

3) On the recommended level i.e. 120% sale price and 35% Affordable Housing a 5% increase in build cost has also been considered.

6.6 Consultation:

A consultation presentation was held on 30th July 2010 at which a wide range of parties were present including developers, consultants, RSL's, council members and officers. The purpose of the presentation was to present draft results to a stakeholder audience and to elicit appropriate constructive feedback prior to finalising the study, the key issues raised included:

1) Sales Values
2) Build Costs including costs of sustainable construction
3) Interest Costs
4) Developer Profit Levels
5) Growth of both sales values and costs estimates
6) Site Size Thresholds

This report takes account of the discussion and the outcome of the consultation meeting.

7.0 RESULTS OF VIABILITY ANALYSIS

7.1 The results of the test appraisals, based on the assumptions set out above are set out in Appendix 1 with sensitivity testing based on increased costs set out in Appendix 2.

In summary:

The table at Appendix 1 indicates whether the residual land value is in excess of the market value of the site based on an Affordable housing provision of 30%, 35% and 40% and adopting the density on each site as originally set out. The summary table provides results based on the 100%, 110%, 120% and 130% 'Sale Price'.

8. 0 RESULTS

The Brief required us to assess the economic viability of providing affordable housing at a minimum affordable housing percentage of 35%. This has been tested in the range of 30% up to 40% of all new dwellings across the District at different private housing price levels ranging from the current level (100%) up to130%.

In addition we have tested the threshold levels at 5 dwellings and above (0.20 ha. +) in rural areas and 10 dwellings plus (0.33 ha. +) in urban areas.

On the basis of the '100%' Sale Price figures as at 1st May 2010, the sites overall do not provide sufficient viability for a recommendation of a level of affordable housing provision between 30% and 40%. This is a reflection of the current and uncertain property market.

When a net relative increase in house prices of 10% is factored into the appraisals, ("110% Sale price") then 13 of the 18 sites become viable or marginally viable at an affordable home percentage provision of 30%; at a 35% affordable housing content, 13 out of 18 sites are either viable or marginally viable; at a 40% affordable housing content, 10 out of 18 sites are either viable or marginally viable. In our opinion development would be likely to proceed on those sites which are either 'viable' or 'marginally viable'.

The context to this increase in viability is that a 10% 'sale price' increase does not mean a 10% increase in house prices, it means a 10% increase in house prices *__relative__* to all the other variables affecting development cost. In simple terms this could mean a 10% increase in house prices whilst all other variables (i.e. costs) remain static.

When an increase in house sale prices of 20% is factored into the appraisals, ("120% Sale price") then 15 of the 18 sites become viable or marginally viable at an affordable home percentage provision of 30%; at a 35% affordable housing content, 15 out of 18 sites remain either viable or marginally viable; at a 40% affordable housing content, 13 out of 18 sites are either viable or marginal. In our opinion development would be likely to proceed on those sites which are either 'viable' or 'marginally viable'.

Consideration of the results using the 110% sale price data and 120% sale price data, is in our opinion reasonable within the context of the plan. It is clearly appropriate to take account of likely house price growth across the plan period to

2026, given established historic house price trends. We assess that the peak of house prices in 2007 represented the 120% sale price levels.

Current market commentaries are mixed and it is impossible to predict when a return to higher house price sale levels will occur, which will make the sites ‘viable’. A reasonable estimate could be that to achieve the 120% level (compared to May 2010) may take 4 to 5 years. Although we have tested at plus 130% when all but two sites are viable across all levels of affordable housing, it is difficult to predict when this may occur.

Notwithstanding this, the delivery of a 35% affordable housing target is a perfectly reasonable approach for the Council to adopt in the immediate short term in order to achieve mixed and balanced communities. However, other financial support measures would need to be put in place so that total reliance is not placed on funding through land values alone; a combination of other measures is therefore likely to be required on some sites. For example grant funding from the Homes and Communities Agency in accordance with the priorities of the Council’s investment delivery plan and/or possibly a re-examination of other cost obligations .On other sites 35% should be achievable without subsidy and it is noted that even within the last two years the Council has granted planning permissions on some sites for the current 33.3% target; funding considerations would therefore need to be dealt with on a site by site basis. In the medium to longer term most sites will gradually return to viability and the target will be achievable at nil public subsidy.

In order to provide a recommendation to the Council we have also considered a 5% cost increase as a sensitivity test on the 120% sale price results. This sensitivity has increased the build cost by 5% for all sites which has increased overall development costs but decreased the residual land values for each site. On most sites there is a sufficient margin in order to absorb these land value reductions without affecting viability. However, the overall results are that 14 sites are viable or marginally viable at 30% affordable housing, 13 sites at 35% and 13 sites at 40%. (Appendix 2).

In respect of the site size threshold levels our study has indicated that the viability of sites with lower thresholds, i.e. less than 5 in rural areas and less than 10 in urban areas, is likely to be reduced significantly on the basis that the limited amount of private housing is unable to support the loss of sales revenue resulting from the provision of affordable housing. The viability of sites will be affected if the threshold is further reduced due to the reduced value and higher costs which sites of this size are unable to absorb.

Taking into account the above, we would recommend an affordable housing target of 35%for inclusion in Core Strategy. This recommendation is based on the results produced by using the 110% sale price data and 120% sale price data, which, as stated above, is considered reasonable in the context of the plan period, which has to address the medium to long term and the current state of the market. A lower level would not capture growth in the market during the plan period.

We would also recommend, following our study, that the minimum site size threshold levels for requiring affordable housing as part of a residential development are set no lower than 5 dwellings and above (0.20 ha.+) in rural areas and 10 dwellings plus (0.33 ha.+) in urban areas.

We would further recommend that the Core Strategy policies allow for sites to be considered on an individual scheme-by-scheme basis with a full viability appraisal, if necessary.

In addition, we would recommend a regular review of the viability appraisals, ideally on an annual basis, to establish whether the main assumptions, particularly in respect of sale prices and costs, have been subject to fluctuation. In the event that the parameters have moved to any significant degree it may be appropriate to review the affordable housing contribution target.

Anthony Williams, BSc, MRICS
For District Valuer Services

August 2010

Appendix 1

SUMMARY LAND VALUE AS VARIED BY CHANGES IN AFFORDABLE HOUSING AND SALE PRICE

Viable	Greater than	£600,000 per acre			
Marginal	Between	£500,000	to	£600,000	per acre
Unviable	Less than	£500,000 per acre			

Green Field Sites

Viable	Greater than	£150,000 per acre			
Marginal	Between	£100,000	to	£150,000	per acre
Unviable	Less than	£100,000 per acre			

Social Housing Grant: No Grant

		Sale Price											
		100%			**110%**			**120%**			**130%**		
Sites		**30%**	**35%**	**40%**	**30%**	**35%**	**40%**	**30%**	**35%**	**40%**	**30%**	**35%**	**40%**
Site	1	£ 369,090	£ 285,106	£ 201,122	£ 697,498	£ 605,116	£ 512,734	£ 1,025,907	£ 925,127	£ 824,346	£ 1,354,316	£ 1,245,137	£ 1,135,958
	2	£ 532,020	£ 463,010	£ 201,122	£ 801,877	£ 725,966	£ 650,055	£ 1,071,735	£ 988,922	£ 906,110	£ 1,341,592	£ 1,251,879	£ 1,162,165
	3	£ 470,906	£ 416,069	£ 361,233	£ 685,338	£ 625,018	£ 564,698	£ 899,771	£ 833,967	£ 768,163	£ 1,114,203	£ 1,042,915	£ 971,628
	4	£ 352,260	£ 291,308	£ 230,356	£ 590,606	£ 523,559	£ 456,511	£ 828,951	£ 755,809	£ 682,667	£ 1,067,297	£ 988,059	£ 908,822
	5	£ 416,304	£ 336,777	£ 257,250	£ 727,285	£ 639,805	£ 552,326	£ 1,038,265	£ 942,833	£ 847,401	£ 1,349,246	£ 1,245,861	£ 1,142,476
	6	£ 112,805	£ 51,143	-£ 10,520	£ 353,931	£ 286,102	£ 218,273	£ 595,056	£ 521,061	£ 447,065	£ 836,182	£ 756,020	£ 675,858
	7	£ 636,070	£ 576,959	£ 517,847	£ 867,218	£ 802,195	£ 737,173	£ 1,098,365	£ 1,027,432	£ 956,498	£ 1,329,513	£ 1,252,669	£ 1,175,824
	8	£ 383,775	£ 327,367	£ 270,959	£ 604,351	£ 542,302	£ 480,254	£ 824,927	£ 757,238	£ 689,548	£ 1,045,503	£ 972,173	£ 898,843
	9	£ 72,562	£ 31,276	-£ 10,010	£ 234,007	£ 188,592	£ 143,177	£ 395,452	£ 345,908	£ 296,365	£ 556,897	£ 503,225	£ 449,553
Green Field	10	-£ 106,014	-£ 141,955	-£ 177,896	£ 34,530	-£ 5,005	-£ 44,540	£ 175,074	£ 131,944	£ 88,815	£ 315,618	£ 268,894	£ 222,171
	11	£ 585,713	£ 515,587	£ 445,461	£ 844,294	£ 767,156	£ 690,017	£ 1,118,514	£ 1,034,362	£ 950,211	£ 1,392,733	£ 1,301,569	£ 1,210,406
	12	£ 524,047	£ 524,047	£ 524,047	£ 632,429	£ 632,429	£ 632,429	£ 740,811	£ 740,811	£ 740,811	£ 849,193	£ 849,193	£ 849,193
	13	£ 336,313	£ 336,313	£ 336,313	£ 410,413	£ 410,413	£ 410,413	£ 484,514	£ 484,514	£ 484,514	£ 558,615	£ 558,615	£ 558,615
	14	£ 742,555	£ 660,361	£ 578,166	£ 1,063,967	£ 973,553	£ 883,139	£ 1,385,379	£ 1,286,745	£ 1,188,112	£ 1,706,790	£ 1,599,938	£ 1,493,085
Green Field	15	£ 183,029	£ 149,283	£ 115,537	£ 314,988	£ 277,867	£ 240,747	£ 446,946	£ 406,452	£ 365,957	£ 578,905	£ 535,036	£ 491,166
	16	£ 629,849	£ 557,769	£ 485,688	£ 911,711	£ 832,423	£ 753,134	£ 1,193,574	£ 1,107,077	£ 1,020,581	£ 1,475,436	£ 1,381,732	£ 1,288,027
	17	£ 369,754	£ 310,971	£ 252,188	£ 599,619	£ 534,957	£ 470,296	£ 829,484	£ 758,944	£ 688,404	£ 1,059,348	£ 982,930	£ 906,512
Green Field	18	-£49,302,093	-£ 57,122,697	-£ 64,943,301	-£18,720,515	-£ 27,323,179	-£ 35,925,844	£ 38,598	£ 8,058	-£ 6,908,386	£ 138,115	£ 105,031	£ 71,947
	Viable	4	1	0	11	10	7	14	13	13	15	15	15
	Marginal	3	5	4	2	3	3	1	2	0	3	3	1
	Unviable	11	12	14	5	5	8	3	3	5	0	0	2

Appendix 2

SUMMARY LAND VALUE AS VARIED BY CHANGES IN AFFORDABLE HOUSING, SALE PRICE AND BUILD COST
120% Variable Only

Viable	Greater than	£600,000	per acre		
Marginal	Between	£500,000	to	£600,000	per Acre
Unviable	Less than	£500,000	per acre		

Green Field Sites

Viable	Greater than	£150,000	per acre		
Marginal	Between	£100,000	to	£150,000	per Acre
Unviable	Less than	£100,000	per acre		

Social Housing Grant: No Grant

		Sale Price Increase 120%			Sale Price Increase 120%		
		Build Cost Increase 0%			Build Cost Increase 5%		
Sites		**30%**	**35%**	**40%**	**30%**	**35%**	**40%**
Site	1	£ 1,025,907	£ 925,127	£ 824,346	£ 887,855	£ 787,075	£ 686,295
	2	£ 1,071,735	£ 988,922	£ 906,110	£ 968,616	£ 885,803	£ 802,991
	3	£ 899,771	£ 833,967	£ 768,163	£ 821,607	£ 755,803	£ 689,999
	4	£ 828,951	£ 755,809	£ 682,667	£ 735,403	£ 662,260	£ 589,118
	5	£ 1,038,265	£ 942,833	£ 847,401	£ 912,541	£ 817,108	£ 721,676
	6	£ 595,056	£ 521,061	£ 447,065	£ 484,743	£ 410,747	£ 336,752
	7	£ 1,098,365	£ 1,027,432	£ 956,498	£ 1,016,087	£ 945,154	£ 874,220
	8	£ 824,927	£ 757,238	£ 689,548	£ 739,181	£ 671,492	£ 603,803
	9	£ 395,452	£ 345,908	£ 296,365	£ 328,259	£ 278,715	£ 229,172
Green Field	10	£ 175,074	£ 131,944	£ 88,815	£ 109,608	£ 66,479	£ 23,350
	11	£ 1,118,514	£ 1,034,362	£ 950,211	£ 1,011,915	£ 927,764	£ 843,613
	12	£ 740,811	£ 740,811	£ 740,811	£ 713,289	£ 713,289	£ 713,289
	13	£ 484,514	£ 484,514	£ 484,514	£ 464,622	£ 464,622	£ 464,622
	14	£ 1,385,379	£ 1,286,745	£ 1,188,112	£ 1,266,558	£ 1,167,925	£ 1,069,292
Green Field	15	£ 446,946	£ 406,452	£ 365,957	£ 397,009	£ 356,514	£ 316,019
	16	£ 1,193,574	£ 1,107,077	£ 1,020,581	£ 1,088,255	£ 1,001,758	£ 915,262
	17	£ 829,484	£ 758,944	£ 688,404	£ 738,084	£ 667,544	£ 597,005
Green Field	18	£ 38,598	£ 8,058	-£ 6,908,386	-£4,137,080	-£ 15,998,144	-£ 22,906,530
	Viable	14	13	13	13	13	11
	Marginal	1	2	0	1	0	2
	Unviable	3	3	5	4	5	5