

**ECONOMIC VIABILITY ASSESSMENT  
AFFORDABLE HOUSING POLICY**

**REVIEW AND UPDATE**

**Completed on behalf of South Gloucestershire  
Council**

**By**

**District Valuer Services (DVS)**

**May 2012**

## 1.0 Introduction

In August 2010 DVS issued a report on the Economic Viability Assessment of the Affordable Housing Policy undertaken as part of the Councils Core Strategy. The Key recommendations of that report were as follows:

**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.**

DVS have now been requested to undertake a review of the viability appraisals in accordance with a brief dated March. In accordance with the brief the following review has been undertaken:

### 1.1 Brief:

Overall, an assessment of the continuing robustness of the original economic viability study, and the assumptions which underpin it, in supporting Core Strategy policies and in particular Policy CS18. Specifically:

1. A review of likely **gross development values** assumed on the original study sites with particular reference to the assumptions made in respect of current and future trends in house prices against the May 2010 benchmark of 100%. In particular a review of the assumption that levels of 120% against benchmark may take "4 to 5 years" to achieve ( it was at this level that 15 of the 18 study sites became "*viable or marginally viable*" at 35% affordable housing) and an assessment of the implications of any significant variations from this assumption.
2. Refresh the main assumptions made in respect of **gross development costs** with particular reference to build costs given that costs at May 2010 were used as a base for the study and were assumed to remain at that level although being subject to a 5% sensitivity test.

Other development costs identified in the original study which might be considered to impact on overall costs should also be reviewed and assessed e.g. land acquisition costs, professional fees, borrowing costs.

In addition, an assessment should be made of the possible impact on development costs of the requirement contained in Core Strategy policy CS1 that from 2013

developments in South Gloucestershire achieve Level 4 of the Code for Sustainable Homes- such an assessment should take account of likely changes in building regulations, currently the subject of consultation, which may ultimately redefine the Code and of any evidence of falls in construction costs over time to meet these standards.

3. A consideration of the **inter relationship** between any significant variations in gross development values and gross development costs and their potential impact on residual land values, and thereby on the overall economic viability of residential sites in supporting affordable housing , indicating whether the impact is considered so significant as to affect the original recommendations in the report.

Reviews of all these variables should wherever possible utilise the same indices as used in the original study in order to ensure comparability.

## **2.0 2012 Review:**

### **2.1 Review of Gross Development Values:**

In the report dated August 2010 the average house price for South Gloucestershire was stated at approx £215,000 (May 2010 – Nationwide House Price Index) and sale prices per sq m were taken from evidence available and the following ranges of rates were adopted:

Apartments - £2,350 to £2,734 per sq m  
Housing - £2,045 to £2,368 per sq m

We have now reviewed the data sourced from Nationwide House Price index for South Gloucestershire which shows that at the end of the 1<sup>st</sup> quarter 2012 (March 2012) the average house price had reduced to £209,573, i.e. a fall over the period of 2.5%.

Average houses prices, from the data published, have fallen below the 2010 reports' 100% benchmark and currently stand at 97.5% of this benchmark.

We have therefore reassessed the range of sales prices and adopted the following range based on a 2.5% reduction as an updated 100% benchmark as at March 2012:

Apartments - £2,291 to £2,666 per sq m  
Housing - £1,994 to £2,309 per sq m

The housing market is very volatile at the present time with uncertain economic conditions in the UK and Europe, uncertain unemployment conditions and the difficulty of obtaining affordable mortgages for both first timer buyers and those trading up due to the increased level of deposits and the varying finance rate charged. In order for the market to improve a level of stability is required which according to research carried out by Savills may take up to 5 years to achieve and thus create a higher level of confidence amongst both buyers and the financial institutions.

In our August 2010 report we tested at various uplift levels of house prices but the key indicator was 120% of the 2010 values and we assumed this would be reached by 2014/2015. However since the report the market has remained very flat and fallen slightly.

We have now reviewed this timescale and also taken into account publicised research by Savills (4<sup>th</sup> Quarter 2011) which suggested that over the next 5 years nationally values will grow by approx 6% , whilst in prime markets in the South West values are estimated to increase by 12.9%. On this basis it may take up to 2018 before values achieve a net increase of 20%.

Although there is relatively low growth at the present time there is evidence to support that there is pent up demand that is growing and once mortgages become available on affordable terms and the economic climate improves the rate of growth in house prices will increase considerably. This is shown by the increase from the low in spring 2009 to the end of 2009 of 9% over period of less than 12 months.

## **2.2 Review of Gross Development Costs:**

In our report dated August 2010 we provided data for construction costs, other normal development costs including external works, services and a contingency, professional fees, finance rates, developers profit, acquisition costs and disposal costs including marketing fees.

We have now reviewed all of these development costs as follows:

- a) Construction Costs – In our report of August 2010 we adopted a base figure of £932 per sq metre for flats and £758 per sq metre for houses based on the Build Cost Information Service (BCIS) prepared by the Royal Institution of Chartered Surveyors median rates adjusted for the South Gloucestershire location. These costs include the incorporation of Level 3 of the Code for Sustainable Homes (CSH).

We have now reviewed these costs taking into account the BCIS Regional Tender Price Index for the South West, this shows an overall increase in construction costs from the 1<sup>st</sup> Quarter 2010, the benchmark for our 2010 report up to the 1<sup>st</sup> Quarter 2012 of 3.00%, the revised benchmark. However this has been on a downward trend recently due to the current state of the UK economy. The BCIS projections are very flat for the next 2 years but increase after 2014 up to 2016.

The construction rates used have therefore been adjusted to reflect the 3.00% increase as follows:

Flats - £960 per sq metre  
Houses - £780 per sq metre

- b) Other normal development costs etc – The following additions were used:

Basic External Costs – 5%  
Estate roads services etc – 5%  
Contingencies - 5%

These allowances have been reviewed and in the current market are sound.

- c) Professional Fees – In our report of 2010 we used a range of 6% to 8% for professional fees which on average are still applicable today.
- d) Finance rates – An interest rate of 6% was used to assess each scheme which was an average and included for arrangement fees etc. Finance is becoming increasing more expensive particularly in respect of arrangement fees etc and we have therefore increased the rate to an average of 6.5% to take this into account.

- e) Developers profit – In our 2010 report we adopted a rate of 20% on market housing and 6% on affordable housing. The level of Developers profit has not changed.
- f) Acquisition Costs – We adopted a total allowance of 5.75% which included 4% for stamp and 1.75% for fees etc. Although there have been changes to stamp duty rates over £1,000,000 on average we believe that the rates used are still applicable.
- g) Disposal Costs – Including marketing costs we adopted 4% of receipts. On the basis of 1.5% agent's fees, 0.5% legal fees and marketing costs of 2%, we are of the opinion that these are still in line with current market rates.

In addition, in accordance with the brief, we have considered the impact of adopting Level 4 of the code for Sustainable Homes contained in Core Strategy Policy CS1 from 2013.

At the present time Building Regulations to which all developments must comply include in Part L part of Code 3 but not the full requirements. In our assessment of 2010 we adopted the full cost for Code 3 which currently is approximately £3,000 per unit. Taking into account the impact of Part L this reduces to approximately £1,000. Other elements of the code are also commonly provided by developers to meet other planning policy requirements and general good practice.

If Code 4 was adopted by the Council a further cost of, on average, £4,000 per unit or 3% to 4% of total build costs would be required. We understand that changes to Building Regulations to take account of Code 4 are currently the subject of consultation but the outcome is unknown. However, it can be anticipated that Part L will be aligned more closely with the energy element of the code so that eventually a large part of the £4,000 will be represented by changes to Part L, the remainder by the extra-over costs necessary to meet the other parts of Code 4.

However any requirement to include Code 4 will be an additional cost to any development unless overall construction costs fall. In addition in the current market there is no evidence to suggest that values will rise to take account of the benefits of Code 4.

Overall therefore we are of the opinion that at the current time the costs of the requirement to meet 2013 building regulations plus the extra over to comply with Code Level 4 will cost in the order of £4,000 per dwelling over the existing 2010 building regulations and will therefore reduce viability.

### **2.3 Overall Impact on the Economic Viability on the tested Residential Sites:**

Taking into account the updated development values, costs and finance rates the viability assessments at the revised 100% of the current sale price, 110%, 120% and 130% of the current sale price (March 2012) at 30%, 35% and 40% affordable housing levels have been updated. Apart from these all other indices remain the same.

The August 2010 report made an assessment that on the basis of the '100%' Sale Price figures as at 1<sup>st</sup> May 2010, the sites did not provide sufficient viability for a recommendation of a level of affordable housing provision between 30% and 40%.

The updated assessments, with lower values at March 2012 and higher costs, reduce the viability even further, on the basis of '100% Sale Price' figures.

On the basis of an increase in house sale prices of 10% ('110% Sale Price') the 2010 report assessed that at 35% affordable housing provision 13 out of the 18 sites were either viable or marginally viable.

We have now updated the '110% Sale Price to March 2012 which now shows that at 35% affordable housing provision 9 out of the 18 sites are still either viable or marginally viable.

On the basis of an increase in house sale prices of 20% ('120% Sale Price') the 2010 report assessed that at 35% affordable housing provision 15 out of the 18 sites were either viable or marginally viable.

We have now updated the '120% Sale Price' to March 2012 which now shows that at 35% affordable housing provision 13 out of the 18 sites are now viable with no marginally viable sites.

Overall we are of the opinion that our recommendation contained within the 2010 report is still applicable as follows:

**Taking into account the above, we would continue to recommend an affordable housing target of 35% for inclusion in the 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 anticipated growth in the market during the plan period**

A copy of the updated summaries as at March 2012 at 100% Sale Price, 110% Sale Price, 120% Sale Price and 130% Sale Price are included as Appendix 1.

Tony Williams BSc MRICS  
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For District Valuer Services

May 2012

## APPENDIX 1 – UPDATED SUMMARIES

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

Viable	Greater than	£800,000 per acre	
Marginal	Between	£500,000 to	£800,000 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

Sites		Sale Price											
		100%			110%			120%			130%		
		30%	35%	40%	30%	35%	40%	30%	35%	40%	30%	35%	40%
Site	1	£ 186,077	£ 118,788	£ 32,468	£ 513,027	£ 423,637	£ 334,147	£ 830,977	£ 733,408	£ 636,836	£ 1,148,828	£ 1,043,226	£ 937,623
	2	£ 386,747	£ 328,919	£ 32,468	£ 667,073	£ 583,581	£ 510,050	£ 818,388	£ 838,204	£ 768,910	£ 1,178,724	£ 1,082,847	£ 1,005,870
	3	£ 384,877	£ 311,878	£ 258,778	£ 572,817	£ 614,207	£ 456,788	£ 780,267	£ 716,637	£ 662,818	£ 987,887	£ 918,887	£ 848,838
	4	£ 333,843	£ 272,203	£ 210,483	£ 576,371	£ 607,467	£ 438,643	£ 818,788	£ 742,710	£ 688,822	£ 1,068,226	£ 977,983	£ 897,701
	5	£ 267,873	£ 180,483	£ 103,282	£ 568,618	£ 474,808	£ 388,888	£ 881,382	£ 788,734	£ 678,106	£ 1,183,207	£ 1,082,868	£ 982,612
	6	£ -641,208	£ 98,948	£ 168,882	£ 188,500	£ 123,883	£ 58,288	£ 418,206	£ 347,714	£ 277,223	£ 847,811	£ 671,648	£ 496,181
	7	£ 524,077	£ 488,709	£ 408,340	£ 748,408	£ 886,304	£ 822,188	£ 872,741	£ 803,888	£ 836,067	£ 1,187,073	£ 1,122,484	£ 1,047,815
	8	£ 272,461	£ 217,711	£ 182,972	£ 488,503	£ 428,288	£ 368,078	£ 700,656	£ 634,887	£ 588,180	£ 914,808	£ 843,446	£ 772,264
	9	£ -28,676	£ 86,820	£ 106,084	£ 128,888	£ 83,717	£ 40,648	£ 280,348	£ 233,263	£ 188,180	£ 483,807	£ 382,788	£ 331,771
Green Field	10	£ -198,107	£ 233,080	£ 287,014	£ 86,336	£ 103,834	£ 141,033	£ 86,437	£ 26,883	£ 16,062	£ 188,208	£ 166,070	£ 110,850
	11	£ 448,776	£ 380,724	£ 312,872	£ 687,618	£ 822,868	£ 647,802	£ 963,826	£ 881,983	£ 800,300	£ 1,228,733	£ 1,141,288	£ 1,062,788
	12	£ 478,861	£ 478,861	£ 478,861	£ 583,966	£ 583,966	£ 583,966	£ 888,268	£ 888,268	£ 888,268	£ 784,683	£ 784,683	£ 784,683
	13	£ 304,843	£ 304,843	£ 304,843	£ 378,833	£ 378,833	£ 378,833	£ 448,823	£ 448,823	£ 448,823	£ 520,813	£ 520,813	£ 520,813
	14	£ 583,878	£ 504,202	£ 424,428	£ 896,822	£ 808,171	£ 720,420	£ 1,207,888	£ 1,112,140	£ 1,016,412	£ 1,618,816	£ 1,418,108	£ 1,312,403
Green Field	15	£ 104,483	£ 72,380	£ 40,288	£ 230,088	£ 184,746	£ 168,420	£ 366,848	£ 317,110	£ 278,673	£ 481,222	£ 438,474	£ 397,727
	16	£ 487,802	£ 417,798	£ 347,884	£ 780,682	£ 683,778	£ 608,984	£ 1,053,623	£ 948,768	£ 886,983	£ 1,308,483	£ 1,216,738	£ 1,124,893
	17	£ 237,043	£ 180,818	£ 124,588	£ 468,913	£ 386,083	£ 333,213	£ 678,782	£ 608,310	£ 541,838	£ 888,862	£ 823,667	£ 760,482
Green Field	18	£ -234,016	£ 267,863	£ 281,882	£ -140,786	£ 187,018	£ 188,241	£ -47,677	£ 78,183	£ 104,780	£ 46,842	£ 14,862	£ 18,338
	Viable	0	0	0	6	5	4	13	13	13	15	15	14
	Marginal	2	1	0	5	4	3	0	0	0	1	1	2
	Unviable	16	17	18	7	9	11	5	5	5	2	2	2