DEVELOPMENT APPRAISAL TOOLKIT – Dorset authorities

GUIDANCE NOTES

For the Dorset authorities of:

Christchurch, East Dorset, North Dorset, Purbeck, West Dorset, and Weymouth and Portland

(This Toolkit is licensed only to these areas)

June 2011

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A POLICY CONTEXT AND APPLICATION

A1 The Dorset Toolkit: main applications

The Dorset Toolkit can be used in two main ways in practice.

For forward planning: this approach will be most useful for district wide policy testing purposes or for area masterplanning. The approach can however also be used to test viability within sub markets of a district. For example, a Borough may have an affordable housing target of say 35%, and it may wish to know whether this is deliverable in all locations or whether it may only be achievable in some locations. This route can be:

- Used as a basis for challenging existing affordable housing targets or for setting new ones;
- Used as a basis for testing site thresholds, potentially with a view to lowering them;
- Used as a basis for setting affordable housing targets for sites coming forward in LDFs;
- Used for area masterplanning which is seeking to set a framework for a number of potential development sites within an area.

Scheme specific appraisal': This option works best with user-defined data for the key variables – density, dwelling mix, house prices and build costs. It works best for site specific negotiations (although not exclusively). This option is more flexible in several ways. The Dorset Toolkit, if the default options are selected, brings forward a development mix that is 'activated' by the density selected. Using a scheme specific approach the user can define his/her own mix and thereafter input bespoke data for other variables – unit sizes and house prices for example.

A2 Linking the Toolkit to valuation practice and the Section 106 process

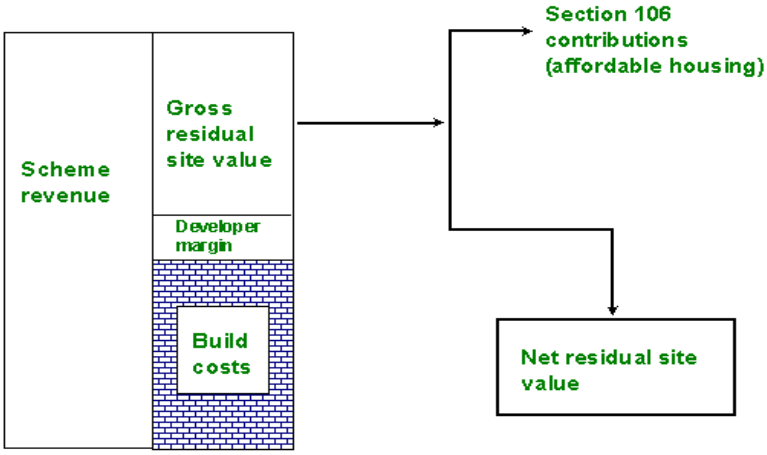
The Dorset Toolkit provides the user with an assessment of the economics of residential development. It allows the user to test the economic implications of different types and amounts of planning obligation and, in particular, the amount and mix of affordable housing. It uses a residual development appraisal approach which is the industry accepted approach in valuation practice.

The Toolkit compares the potential revenue from a site with the potential costs of development before a payment for land is made. In estimating the potential revenue, the income from selling dwellings in the market and the income from producing specific forms of affordable housing are considered. The estimates involve (1) assumptions about how the development process and the subsidy system operate and (2) assumptions about the values for specific inputs such as house prices and building costs. These assumptions are made explicit in

the guidance notes. If the user has reason to believe that reality in specific cases differs from the assumptions used, the user may either take account of this in interpreting the results or may use different assumptions.

The main output of the Toolkit is the residual value. In practice, as shown in the diagram below, there is a 'gross' residual value and a 'net' residual value. The gross residual value is that value that a scheme generates before Section 106 is required. Once Section 106 contributions have been taken into account, the scheme then has a net residual value, which is effectively the land owner's interest.

It is important to note (see diagram) that the gross residual value takes into account developer margin.



Use can be made of the Toolkit to test the sensitivity of the residual value to different input values. Thus the user can see, for instance, how different amounts of affordable housing, higher or lower house prices or higher or lower build costs influence the residual value. The residual value is estimated at a given point in time. If in the future input values change before a development has been completed, the value of the actual residual may be higher or lower than the residual value estimated by the Toolkit. For example, if house prices rise and all other items remain the same the value of the residual will rise. The Toolkit does not predict. However, if one makes assumptions about future input values, the Toolkit can estimate the effect of these assumptions on the residual value.

Residual Value should be compared with the Existing use Value of a site, Alternative Use Values, or the acquisition cost of the land. See section A.3.2 below.

A3 Interpreting the results from the Toolkit

A3.1 General principles for interpretation

In understanding whether development is viable it is important for all parties to distinguish between 'scheme viability', and 'site viability'. A scheme may 'stack up' for residential or mixed use development but if the value generated by that scheme does not exceed the value of the site in its current use, then the site will not come forward.

Under different economic circumstances it will be possible to deliver a higher proportion of affordable housing (although conversely less affordable housing will be deliverable where the site economics are weaker).

A3.2 Alternative and existing use viability issues: interpretation

Alternative use is identified as one benchmark against which the viability of a scheme can be appraised. The term 'alternative use' needs careful interpretation alongside the term 'existing use'.

The existing use of a site is simply, the value of the site in its existing use. This will usually vary between green and brown field, although there should not be a presumption that green field sites are necessarily more viable – green land in a weaker housing market combined with high infrastructure costs may be less than brown field land in a strong market location.

Under current market circumstances, a planning permission for residential, even with an element of affordable housing will raise the site value beyond its existing use.

However, alternative use value is also significant where an alternative planning permission has been granted, or might realistically be granted; for example, where retail or hotel use might also be developed on the site.

Local authorities, as a measure of good practice should take a number of factors into account when deciding whether what they are asking for in terms of an affordable housing contribution is viable or not. These factors can be summarised:

- The existing use value of the site (what the site currently has planning permission for – or does not);
- Any alternative uses. These might include existing planning permissions enhancing the value of the site over an above the existing use;
- History of the site: has the site been subject to significant developer interest (and hence is the land owner likely to take the first planning permission that comes along?)

Local authorities, in negotiating affordable housing contributions, may wish to take account of the differing circumstances by which land is brought forward

for residential development. There will be a variety of situations. Some sites will be promoted by businesses; others by merchant land owners and others by speculative housing developers through the local planning development framework.

Local authorities may wish to ask planning applicants for information relating to the history of a site in deciding whether a specified affordable housing contribution is viable or otherwise. It is quite justifiable for land owners to require a 'return' on their land. In a situation where a planning permission adds significantly to an existing land use, then the uplift in land value serves as a return. Where the land owner is a business, then there is an additional consideration in whether the business can, or needs to re-locate. Under these circumstances the residential planning permission (with or without affordable housing) will have to provide sufficient money to allow the firm to purchase another site to carry on the business. The site may be owned and being promoted by a merchant land owner, which itself operates as a business and requires a specified return.

Local authorities should be aware of land market operators that purely seek to 'turn' land with a view to reducing or re-negotiating an affordable housing or Section 106 contribution without themselves bringing forward land for housing.

A3.2.1 Interpreting results where the scheme includes a commercial element

Boroughs may require a submission to be completed for either purely the residential element, or for a mixed use scheme as a whole.

Where the scheme includes commercial property, the principles for interpreting the results of a Toolkit appraisal will remain the same. A key benchmark will be the existing site value. In many cases, although not all, (most notably where affordable commercial space is required as part of the agreement) the commercial element will add to the value of the residual, making the scheme more viable.

Whether a site comes forward will depend also however on the density to which the scheme is being developed. If a land owner or developer believes that the commercial element may not maximise site value (and could generate a higher use in the short or even, longer term) then that could delay an affordable housing contribution.

There will often be possibilities to increase the Section 106 contribution through the inclusion of a commercial element. The way this is developed on the site will often be dependent on practical planning and capacity issues such as whether employment land should be retained or otherwise.

A4 The use of default and other data for forward planning and site specific negotiations

Planning for affordable housing on the basis of viability is not a precise science, but it needs to be evidence based. This is why it is important that local authorities have the best possible information sources for forward planning and site specific negotiations.

For some inputs, such as house prices and building costs, the Toolkit has 'default' values. These are seen to be a valuable aid as a starting point to users. The default values are projected to be applicable to April 2008.

As a matter of principle, the following order of preference in choosing which values to use is recommended: 1, Own site specific values; 2, User default values developed from in house research; 3, Toolkit defaults values.

Local authorities and other users will be aware of a number of sources which may be helpful in relation to inputting data to the Toolkit and in interpreting the results it generates. There are now several key sources of data on house prices, both in the public and private realm. Where for example boroughs wish to undertake policy testing for sub markets, this can be done by purchasing data at the postcode sector level from HM Land Registry. This approach provides a reasonable sample size combined with a focused geographical area.

An additional evidence base is the Valuation Office Property Market report (the most recent version being January 2011). This source provides benchmark land values (per hectare equivalents) for both residential and industrial land. This data can be used by local authorities in comparing the site value generated by the Toolkit with data from a valid secondary source.

It is important that where affordable housing contributions are being negotiated that local authorities are in possession of full information. A 'check list' is set out in Appendix 1.

B BASIC PRINCIPLES UNDERLYING THE TOOLKIT

B1 The Scheme

The Toolkit is designed to analyse the development economics of 'schemes' and to produce scheme-specific residual values. Usually a scheme will have a defined physical boundary (for example, the 'red line' of a planning application) but the Toolkit will operate provided the user can estimate the site area of the scheme. The Toolkit does not produce results for a particular site, which will hold whatever the characteristics of the development proposed. Residual values for a site will vary depending, for example, on the mix of uses, density, percentage of affordable housing, build costs etc.

B2 Units of Measurement

The basic unit of measurement in the Toolkit is the dwelling. This dictates how prices are measured and is the basis for the Housing Corporation funding regime. Users can introduce some information about habitable rooms and bedspaces in a scheme but will need to input their own values.

B3 Core Dwelling Types

The Toolkit has 15 core dwelling types:

Ref.	Description
1	Studio Flat
2	1 Bed Flat
3	2 Bed Flat
4	3 Bed Flat
5	2 Bed Terrace/Town Hous
6	3 Bed Terrace/Town Hous
7	4 Bed Terrace/Town Hous
8	2 Bed Semi Detached
9	3 Bed Semi Detached
10	4 Bed Semi Detached
11	3 Bed Detached
12	4 Bed Detached
13	5 Bed Detached
14	2 Bed Bungalow
15	3 Bed Bungalow

The Toolkit allows the user to either input scheme specific data or to select specimen development mixes using the core dwelling types and determined by the Toolkit. The specimen development mixes are contingent on the density selected. When a higher density is selected, the Toolkit default mix which is called up will have a higher proportion of smaller units (eg flats) and a lower percentage of larger units than when a lower density is selected.

Where the user has very limited scheme information (for example, at pre-application discussion) the core dwelling types provide the basis of operation for the Toolkit.

Tenures

The tenures used in the Toolkit are defined as follows:

- 'Sale housing': housing sold on the open market.
- 'Social rent': Housing provided by a landlord where access is on the basis of housing need, and rents are regulated by target affordability.
- New Build HomeBuy (formerly called 'Shared Ownership'): low cost home ownership housing provided by registered social landlords.
- Intermediate Rent: property which is available for rent at a cost which is below that normally charged by private landlords for comparable properties. Occupancy may well be restricted to certain income or occupational groups such as keyworkers.
- Affordable Rent: the new affordable tenure. From a viability viewpoint this operates in the same way as Intermediate. Affordable rents are capped at 80% of open market value.
- Discount market: market housing sold directly to the purchaser at a percentage of the market value. The developer takes the risk as they do for market housing.
- Low cost sale: sold at a price which relates to local incomes. These units are sold direct to the purchaser at low cost and are contingent on local authority nomination.

C GETTING STARTED USING THE TOOLKIT

C1 Introduction

To run the Toolkit Microsoft Excel 2000 or a more recent version is required. The user should have a valid and licensed copy of this software installed. The Toolkit should not be copied and supplied or in any way made available to any other persons.

The conditions for use of the Toolkit are set out in the 'click wrap' agreement incorporated within it which the user should accept before undertaking appraisal work.

C2 Set-up Notes

Macros and security levels:-

This Toolkit contains macros that are required for it to function correctly.

Excel has 3 security levels:-

- High – in which case the macros will not run and the Toolkit will not function.
- Medium – in which case you will get a warning about macros each time you run the Toolkit. You should choose the 'Enable Macros' button.
- Low – this is not recommended as it offers only limited virus protection.

See the Excel help files for more information.

The recommended level is medium. To set the security level, open Excel without opening any of the Toolkit files, and select the 'security' menu option. The location of this option may vary according to which version of Excel you have.

C3 Terminology

These Guidance Notes provide a step-by-step guide through the each part of the Toolkit. Each part of the Toolkit is shown as it appears on the screen and guidance given about what the user needs to do along with some further background information and helpful tips.

Users need to be aware that on the screen, the Toolkit will often show figures as whole numbers or numbers to one decimal place although the underlying calculations may be working at a more detailed level.

Important terms used in the Guidance Notes are:

'Tick a box': means left click with the mouse above the box to show a tick (which 'turns on' that operation) – left clicking again will remove the tick (and that function is 'turned off').

'Select an option button': this instruction will arise where the user has a series of options to choose from, each identified by a button with a description alongside. 'Select an option button' means left click with the mouse above the button to highlight it (which selects the way of working described next to the button).

A 'drop down list' is a series of options set out in a list. To use a 'drop down list' left click the mouse over the arrow at the right of the list to bring down the full list. Click over the required item from the list.

A test or run of the Toolkit – refers to the completion of the Toolkit for a scheme and results shown on the Scheme Results page.

The Guidance Notes also include background policy information/advice about specific particular sections of the Toolkit. These notes are titled 'Advisory'.

C4 Layout of Toolkit

The Toolkit is made up of a number of pages. There are several types of pages:

- User input pages;
- Users own values for particular variables
- Information sheet with Toolkit values;
- Results pages.

The Toolkit uses colour coding as follows:

For the 'input pages' the user can only enter or change values in the white cells;

Some pages have menu buttons at the top of the page which give the user options in, for example, access to information and movement between the pages.

NB: Where screenshots appear in these guidance notes, they do not represent a consistent worked example. Instead they reflect a variety of situations.

C5 View and Go to

For swift navigation round the Toolkit the user can refer to the **Go To** menu button at the top of the page. This provides a set of options, which allows the user to go directly to a particular page of the Toolkit.

The **View** facility offers the user options for zooming in and out and seeing a summary page of scheme information.

C6 Data Options

For key variables, the Toolkit allows the user to choose two main ways of working which are, in order of preference:

1. Using the user's own scheme specific values;
2. Using the Toolkit default values.

Scheme specific values are provided by the user on a scheme-by-scheme basis as previously described.

C7 Density selection

The user specifies their own density, although this can be varied on the 'Basic Site Information' page.

C8 Selecting dwelling mix

Dwelling mix refers to the proportion of different dwelling types in a scheme. The dwelling types used in the Toolkit mix are either selected by the user on a scheme by scheme bespoke basis or driven by the density adopted.

C9 Selecting market values

Market values can be selected from site specific user values, or by selecting one of the market areas on the Site Location page of the Toolkit.

C10 Data Entry

Throughout the Toolkit, once you have entered a value in a cell press the 'return' key on your keyboard.

In cases where a cell does not require a value, the cell may still refuse to accept a value of zero. If you wish a cell to have no value and there is already a number entered, use the 'delete' key to leave the cell empty. Do not try to enter a zero in the cell.

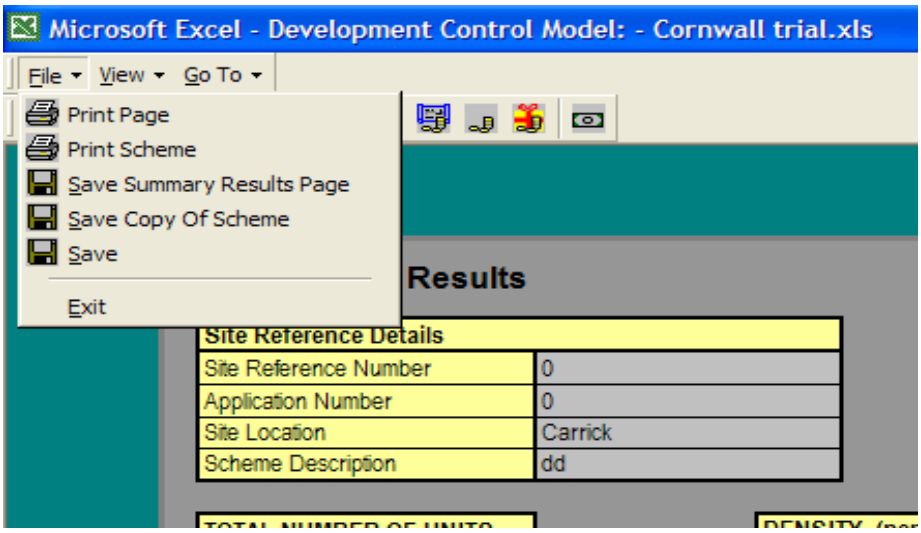
C11 Page and menu buttons

Use the “Next Page” button to move forward one page. On some sheets a “Previous Page” button allows the user to move back one page. The user can also use the ‘GO TO’ menu button to move between pages.

C12 Saving files

The toolkit allows users to save copies of the entire toolkit (with scheme data) as separate files. This makes it easier keep a record of the appraisal and to allow future amendments. You may find it helpful to save the entire Toolkit run in its own file (perhaps within a folder which deals with a particular scheme). This section advises on how to do this.

When working with the original Toolkit file go to the file menu and select ‘Save Copy Of Scheme’, as shown below.



You will be prompted for a filename for the scheme. Enter a filename and press ‘Save’. You will then be able to close the Toolkit and open the saved scheme, or alternatively carry on making changes in the Toolkit and save subsequent versions using the steps above.

Schemes that have been saved can be opened and altered. It is also possible to make changes to saved schemes and to then save those changes. The screenshot below shows how saved schemes (those derived from the original Toolkit) can have changes saved within them, or changes saved as another file.

It is possible to save many schemes within one folder on your computer, providing that they do not have same filename.

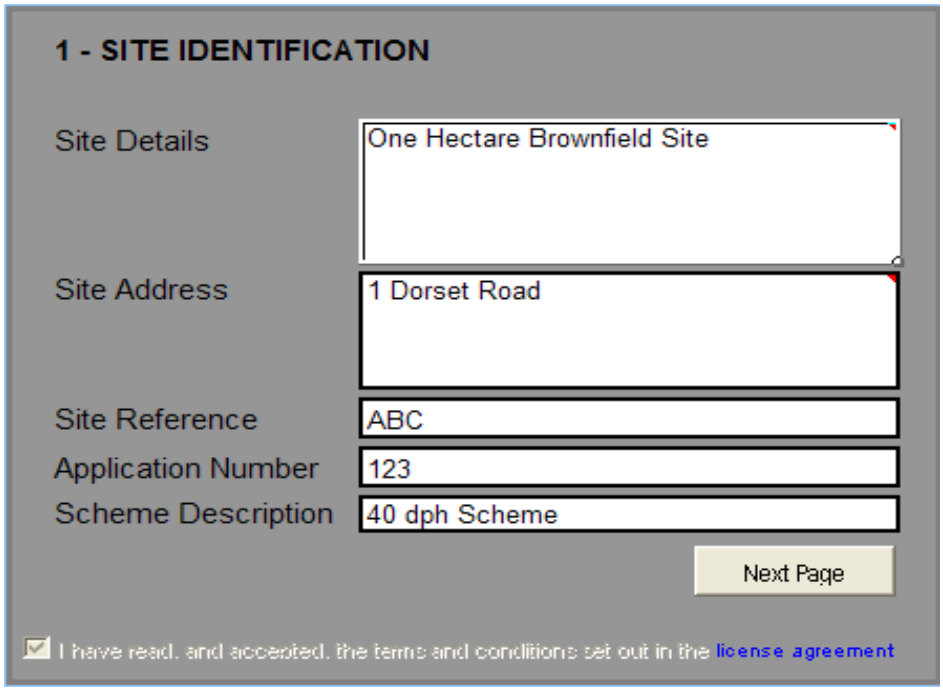
D USER INPUTS

D1 Overview

The Toolkit is organised with a number of different routes which reflect alternative ways in which users can work with the Toolkit, depending on the type of information they have available.

D2 Site Identification

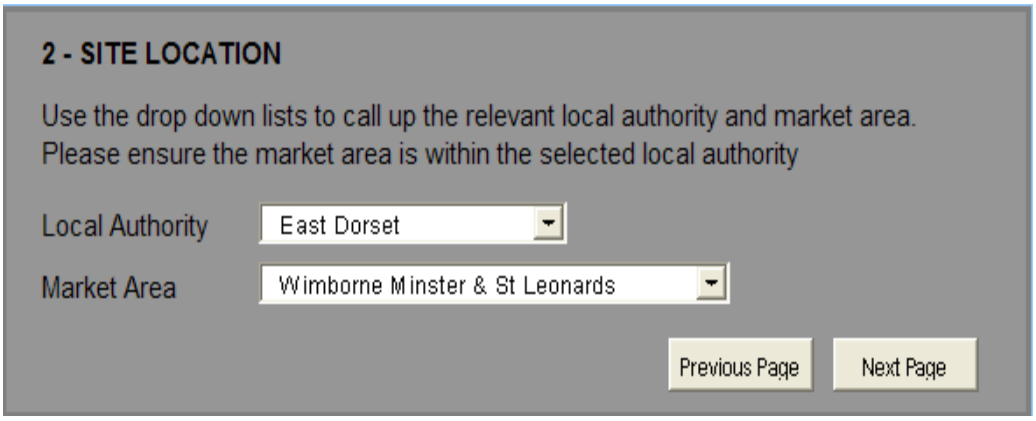
The first part of the Toolkit covers basic descriptive data about the scheme. The information should be entered in the white cells.



Press the 'Next Page' button to continue entering information in the Toolkit.

D3 Site or sub market location

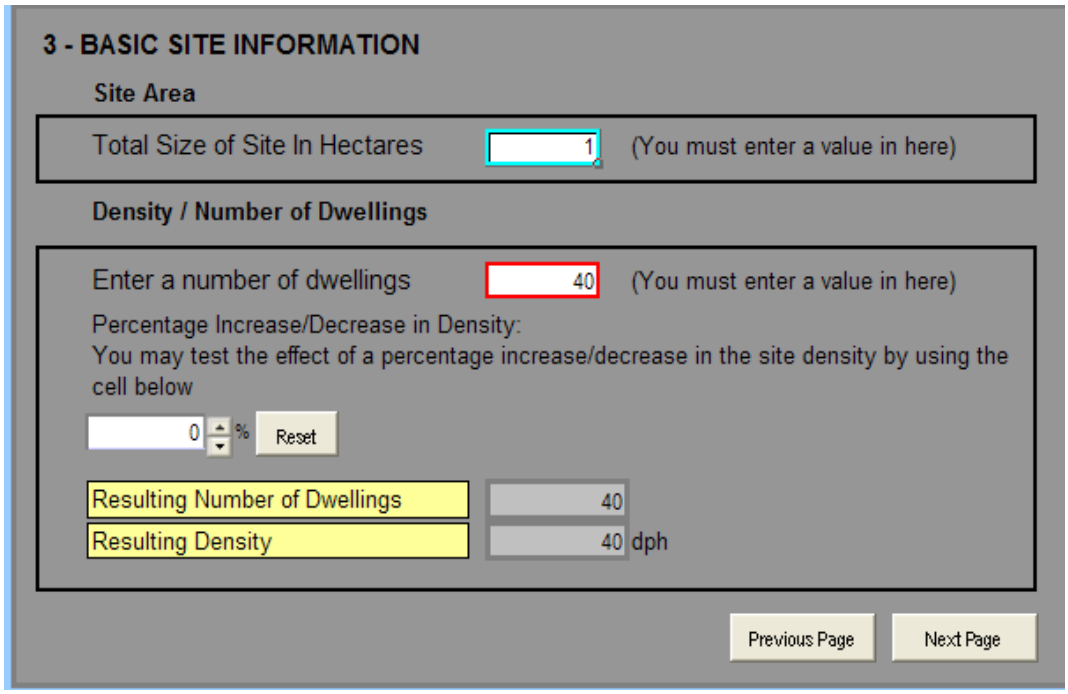
The user should select the relevant local authority and sub market area from the ‘drop down’ lists; as shown in the screenshot.



Appendix A shows the full range of market areas and the post code sectors which relate to each.

D4 Basic Site Information

On the 'Basic Site Information' sheet the user inputs the site size and the number of dwellings. The resulting density is shown in the box labelled 'Resulting Density'.



You MUST enter the site area in hectares in the white cell with the red outline. Site area includes internal roads and ancillary open spaces.

You can test the impact of a percentage increase or decrease in density by selecting a positive or negative percentage in the white box - or by using the arrows. Use the 'Reset' button to remove any density adjustment.

D5 Characteristics of development

The next page allows the user to define the characteristics of the development.

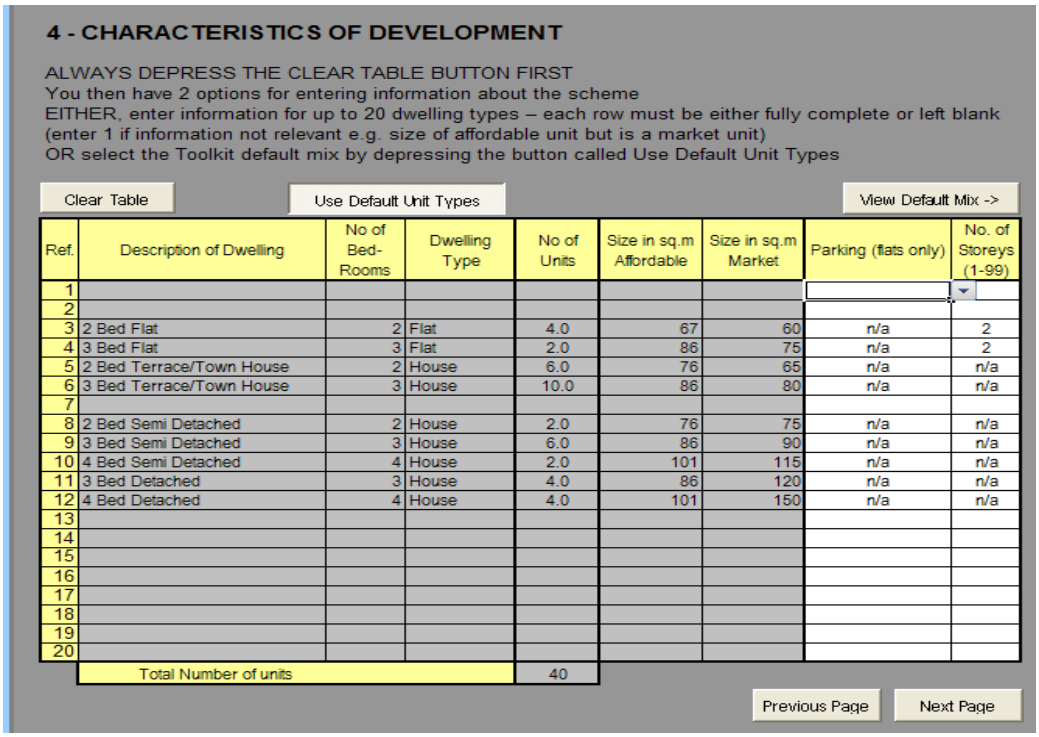
The user can either:

a) Select the Default Unit types, or:

b) Clear the tables and put own user data in.

If choice a) is made, then the Toolkit will automatically bring forward a mix that is based on the selection of density on page 3. With this choice, the user will only have to specify the parking arrangements and will have to specify the built form (in terms of the number of storeys) in which the flats are to be developed.

If choice b) is made then the user will be able to define the details of the scheme as s/he wishes.



4 - CHARACTERISTICS OF DEVELOPMENT

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST
You then have 2 options for entering information about the scheme
EITHER, enter information for up to 20 dwelling types – each row must be either fully complete or left blank
(enter 1 if information not relevant e.g. size of affordable unit but is a market unit)
OR select the Toolkit default mix by depressing the button called Use Default Unit Types

Clear Table | Use Default Unit Types | View Default Mix ->

Ref.	Description of Dwelling	No of Bed-Rooms	Dwelling Type	No of Units	Size in sq.m Affordable	Size in sq.m Market	Parking (flats only)	No. of Storeys (1-99)
1								
2								
3	2 Bed Flat	2	Flat	4.0	67	60	n/a	2
4	3 Bed Flat	3	Flat	2.0	86	75	n/a	2
5	2 Bed Terrace/Town House	2	House	6.0	76	65	n/a	n/a
6	3 Bed Terrace/Town House	3	House	10.0	86	80	n/a	n/a
7								
8	2 Bed Semi Detached	2	House	2.0	76	75	n/a	n/a
9	3 Bed Semi Detached	3	House	6.0	86	90	n/a	n/a
10	4 Bed Semi Detached	4	House	2.0	101	115	n/a	n/a
11	3 Bed Detached	3	House	4.0	86	120	n/a	n/a
12	4 Bed Detached	4	House	4.0	101	150	n/a	n/a
13								
14								
15								
16								
17								
18								
19								
20								
	Total Number of units			40				

Previous Page | Next Page

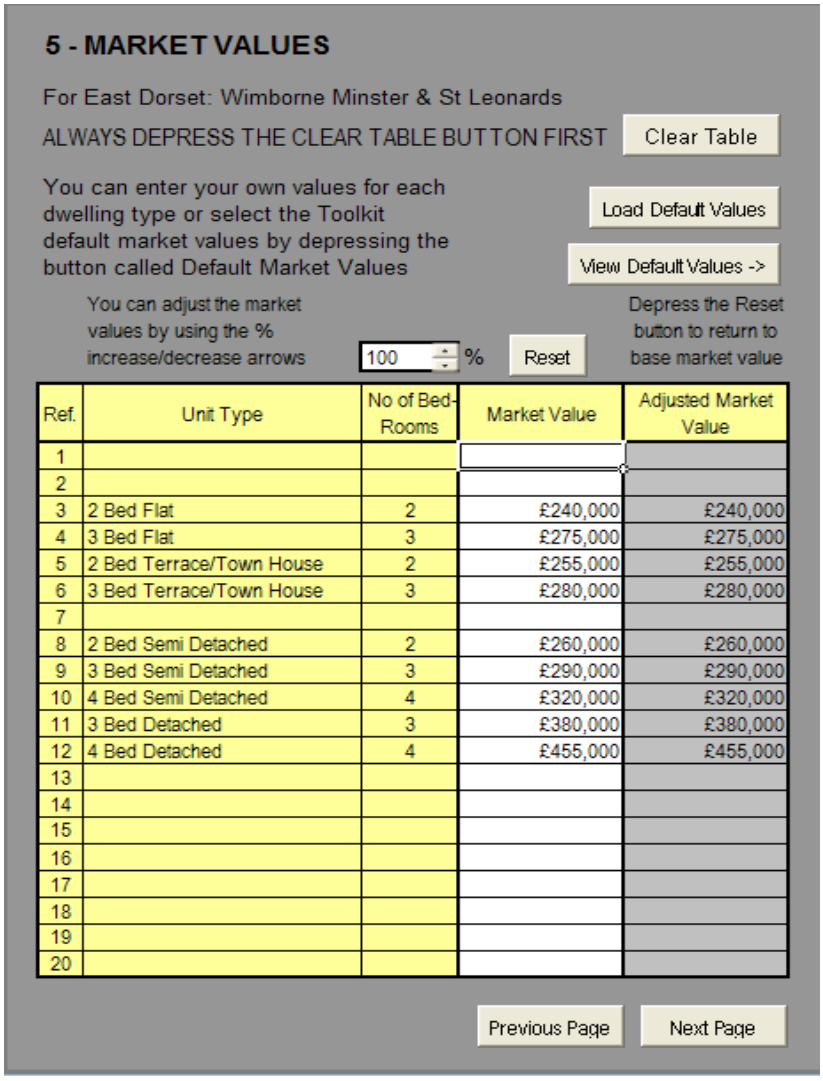
The user must also select the type of parking associated with the flats. Use the drop down list to select one of the following:

- None (N/a)
- Undercroft
- Underground

The effect of selecting one of these options is to increase the cost of development, but this should only be done having read AN 1 on development costs, building areas and parking.

D6 Market Values

The Toolkit must have information about the market value of the sale units to calculate the revenue from the scheme.



5 - MARKET VALUES

For East Dorset: Wimborne Minster & St Leonards

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST — Clear Table

You can enter your own values for each dwelling type or select the Toolkit default market values by depressing the button called Default Market Values — Load Default Values — View Default Values ->

You can adjust the market values by using the % increase/decrease arrows — 100 % — Reset — Depress the Reset button to return to base market value

Ref.	Unit Type	No of Bed-Rooms	Market Value	Adjusted Market Value
1				
2				
3	2 Bed Flat	2	£240,000	£240,000
4	3 Bed Flat	3	£275,000	£275,000
5	2 Bed Terrace/Town House	2	£255,000	£255,000
6	3 Bed Terrace/Town House	3	£280,000	£280,000
7				
8	2 Bed Semi Detached	2	£260,000	£260,000
9	3 Bed Semi Detached	3	£290,000	£290,000
10	4 Bed Semi Detached	4	£320,000	£320,000
11	3 Bed Detached	3	£380,000	£380,000
12	4 Bed Detached	4	£455,000	£455,000
13				
14				
15				
16				
17				
18				
19				
20				

Previous Page — Next Page

There are two main ways in which the Toolkit can operate:

- With scheme specific values identified by the user;
- With user default values - those provided within the Dorset Toolkit.

If a user defined mix has been selected at page 4 ‘Characteristics of Development’, then the Toolkit will require the user to put in scheme specific

or bespoke values. If the user wishes to cross refer to the default market values then s/he can select the 'View Default values' button.

If you choose, 'Clear Table' then you must enter your market values in the column headed 'Market Values'. You must enter a value for every type of unit in the scheme.

If you choose 'Default Market Values' the Market Value column displays the relevant prices.

The Toolkit allows the user to test the impact of a percentage reduction or increase in market values. To do this, enter the percentage increase or decrease. You can use the 'up' and 'down' arrows to adjust the percentage figure. To clear a figure from here, use the button marked 'RESET'.

Values shown in the column called 'Adjusted Market Value' are the basic values plus the percentage increase or decrease specified by the user. It is these figures that the Toolkit will use in its analysis.

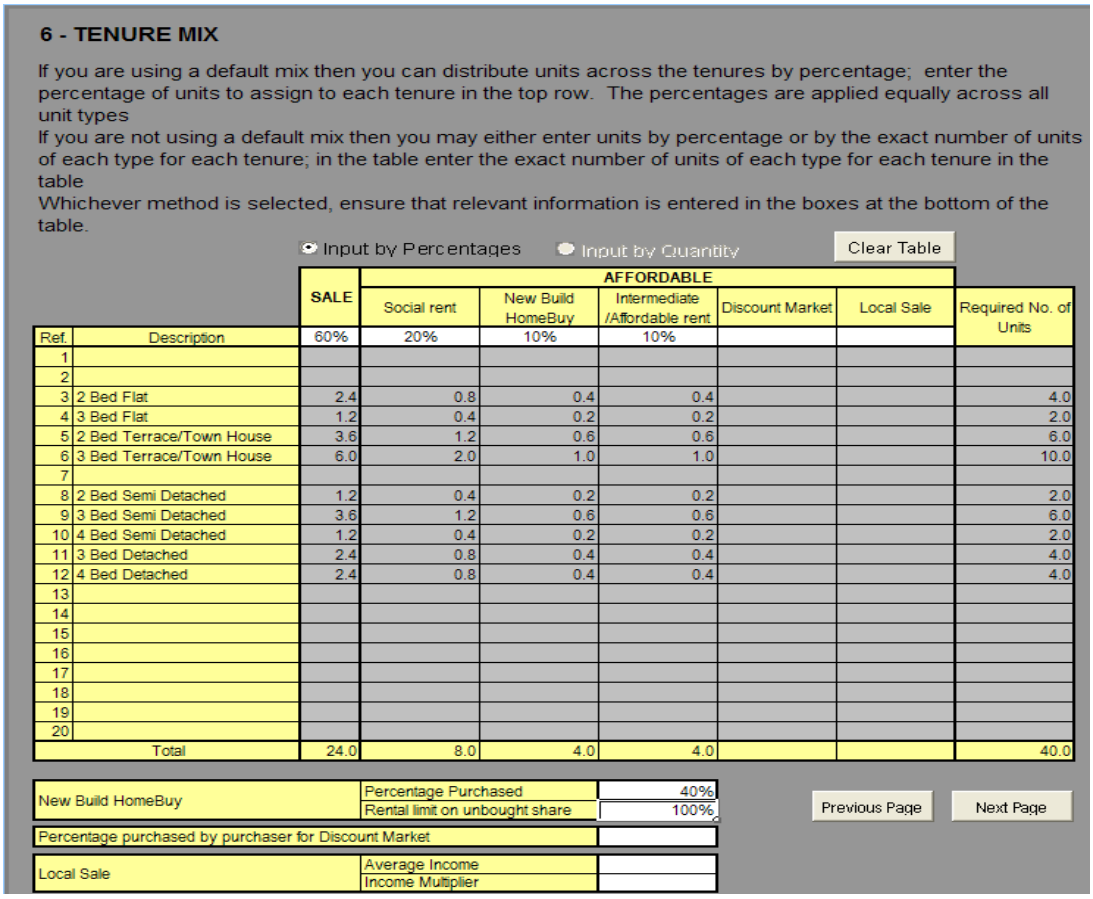
Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

For information on how the default house prices are sourced please see Advisory Note AN 2.

D7 Selecting the tenure mix

It is possible to apportion the tenure mix either by percentage, or by quantity, as described in the instructions above the table on page 6 of the Toolkit itself.

If the user has previously entered data using a default dwelling mix, then s/he must select 'Input by Percentage' on page 6. If, on the other hand, the user has entered their own dwelling mix at Page 4 of the Toolkit 'Characteristics of Development' then s/he can input the data either on a 'by Percentages' or on a 'by Quantity' basis'.



6 - TENURE MIX

If you are using a default mix then you can distribute units across the tenures by percentage; enter the percentage of units to assign to each tenure in the top row. The percentages are applied equally across all unit types

If you are not using a default mix then you may either enter units by percentage or by the exact number of units of each type for each tenure; in the table enter the exact number of units of each type for each tenure in the table

Whichever method is selected, ensure that relevant information is entered in the boxes at the bottom of the table.

Input by Percentages | Input by Quantity | Clear Table

		SALE	AFFORDABLE					
			Social rent	New Build HomeBuy	Intermediate /Affordable rent	Discount Market	Local Sale	Required No. of Units
Ref.	Description	60%	20%	10%	10%			
1								
2								
3	2 Bed Flat	2.4	0.8	0.4	0.4			4.0
4	3 Bed Flat	1.2	0.4	0.2	0.2			2.0
5	2 Bed Terrace/Town House	3.6	1.2	0.6	0.6			6.0
6	3 Bed Terrace/Town House	6.0	2.0	1.0	1.0			10.0
7								
8	2 Bed Semi Detached	1.2	0.4	0.2	0.2			2.0
9	3 Bed Semi Detached	3.6	1.2	0.6	0.6			6.0
10	4 Bed Semi Detached	1.2	0.4	0.2	0.2			2.0
11	3 Bed Detached	2.4	0.8	0.4	0.4			4.0
12	4 Bed Detached	2.4	0.8	0.4	0.4			4.0
13								
14								
15								
16								
17								
18								
19								
20								
Total		24.0	8.0	4.0	4.0			40.0

New Build HomeBuy	Percentage Purchased	40%
	Rental limit on unbought share	100%
Percentage purchased by purchaser for Discount Market		
Local Sale	Average Income	
	Income Multiplier	

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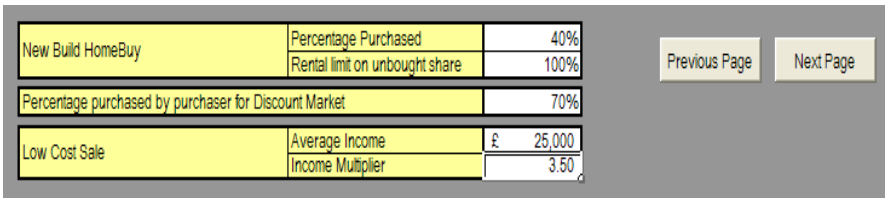
If the 'Input by Percentages' button is clicked, then the user simply has to apportion the scheme across the relevant tenures to make 100%.

The bottom part of this page refers to New Build Homebuy, Discount Market and Low Cost Sale. If these tenures are relevant to the scheme being tested, then the user must fill in the white boxes.



New Build HomeBuy	Percentage Purchased	40%
	Rental limit on unbought share	100%
Percentage purchased by purchaser for Discount Market		70%
Low Cost Sale	Average Income	£ 25,000
	Income Multiplier	3.50

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For New Build Homebuy - enter the average percentage share at which purchasers are purchasing properties available as NBHB. In addition, if the rental element of the NBHB unit is to be capped to regulate the affordability of the units, then this cap can be set here by entering a % figure in the 'Rental limit on the unbought share'. Where 100% is entered (as shown in the screenshot above), then the rent is calculated on the total difference between the equity share and the market value. Where for example 50% is selected as the limit or cap, then rent will be assumed only to be charged on half the difference between the full market value and the equity share purchased.

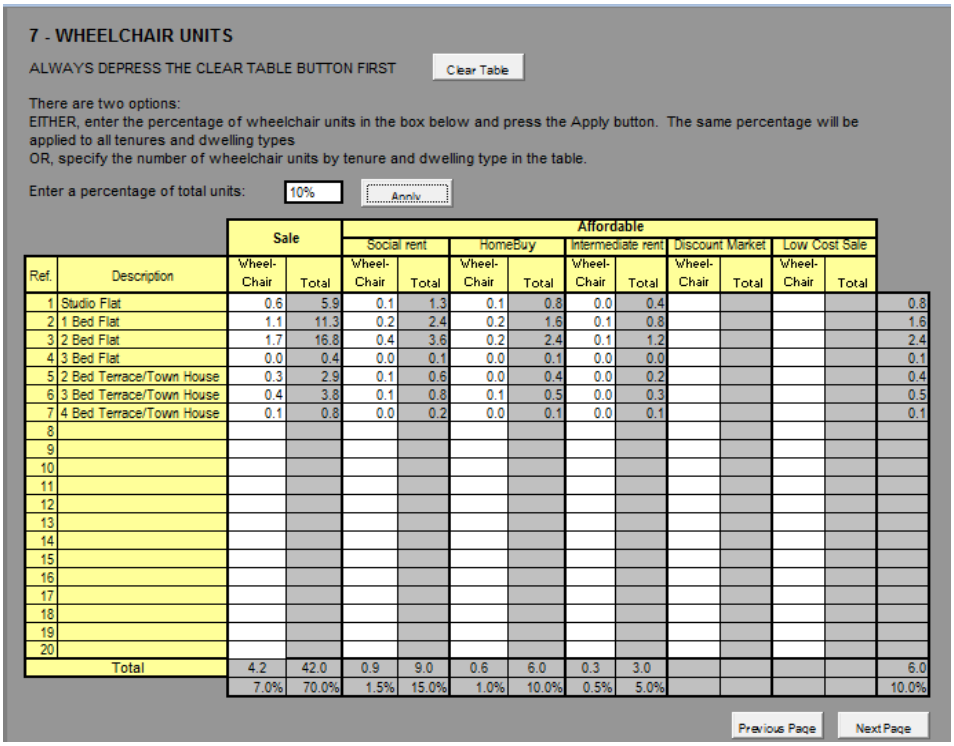
For Discount Market – enter the average percentage share at which purchasers are purchasing properties available as Discount Market.

For Low Cost Sale – enter the average income and income multiplier to reflect local authority policy e.g. Low Cost Sale is to be available at 3.5 times an average income of £25,000, then £25,000 would be entered in the Average Income box and 3.5 in the multiplier box. The Toolkit does not allow for variation between unit types e.g. where a local authority may have a policy of using an income of £18,000 for flats and £24,000 for houses. Local authorities will need to have to hand their own ready reckoner for devising a single average income and multiplier for schemes of more than one property type tested through the Toolkit.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

D8 Wheelchair Units

Users can specify the percentage of dwellings that are wheelchair units. This will be automatically applied equally to units in all tenures. To do this, enter the percentage (include the % sign) and tick the box labelled 'Apply'.



7 - WHEELCHAIR UNITS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST — Clear Table

There are two options:
EITHER, enter the percentage of wheelchair units in the box below and press the Apply button. The same percentage will be applied to all tenures and dwelling types
OR, specify the number of wheelchair units by tenure and dwelling type in the table.

Enter a percentage of total units: 10% — Apply

		Sale		Affordable										
				Social rent		HomeBuy		Intermediate rent		Discount Market		Low Cost Sale		
Ref.	Description	Wheel-Chair	Total	Wheel-Chair	Total	Wheel-Chair	Total	Wheel-Chair	Total	Wheel-Chair	Total	Wheel-Chair	Total	
1	Studio Flat	0.6	5.9	0.1	1.3	0.1	0.8	0.0	0.4					0.8
2	1 Bed Flat	1.1	11.3	0.2	2.4	0.2	1.6	0.1	0.8					1.6
3	2 Bed Flat	1.7	16.8	0.4	3.6	0.2	2.4	0.1	1.2					2.4
4	3 Bed Flat	0.0	0.4	0.0	0.1	0.0	0.1	0.0	0.0					0.1
5	2 Bed Terrace/Town House	0.3	2.9	0.1	0.6	0.0	0.4	0.0	0.2					0.4
6	3 Bed Terrace/Town House	0.4	3.8	0.1	0.8	0.1	0.5	0.0	0.3					0.5
7	4 Bed Terrace/Town House	0.1	0.8	0.0	0.2	0.0	0.1	0.0	0.1					0.1
8														
9														
10														
11														
12														
13														
14														
15														
16														
17														
18														
19														
20														
Total		4.2	42.0	0.9	9.0	0.6	6.0	0.3	3.0					6.0
		7.0%	70.0%	1.5%	15.0%	1.0%	10.0%	0.5%	5.0%					10.0%

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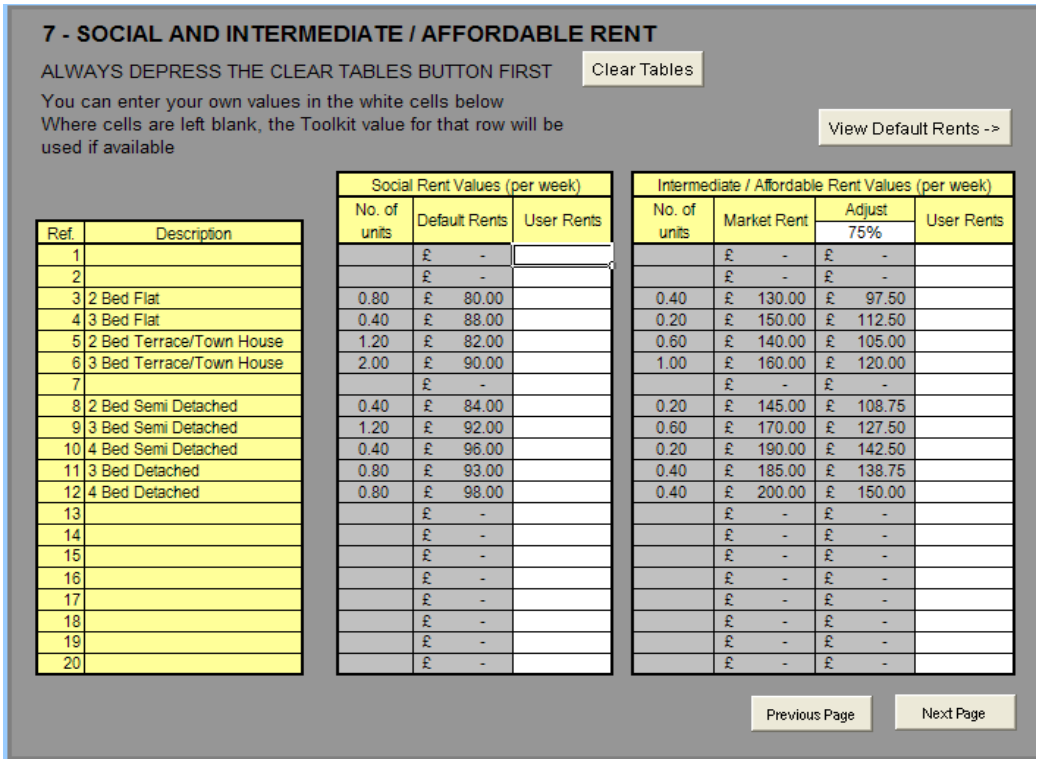
The user can alternatively apportion the wheelchair units on a bespoke basis according to dwelling mix and dwelling tenure. E.g., the user could input 3 wheelchair units as 2 bed terraced New Build Homebuy, or 1 wheelchair unit as a bed semi for sale.

It is important to note that where this page is used, costs will be added to the scheme. If these costs are added at this stage, they should be adjusted on the development cost page and reflected in a reduced base build cost. If in doubt, it may be more straightforward to leave this page blank and reflect an overall average cost per square metre which includes any additional costs for wheelchair units on the development costs page (in the base build cost per squre metre).

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

D9 Social and Intermediate/Affordable Rent Assumptions

Page 8 of the Toolkit relates to Social and Intermediate/Affordable rents. The user can adopt the default rents included in the Dorset Toolkit – as shown in the grey cells. Alternatively, the user can use their own values for both Social rents and Intermediate/Affordable Rents.

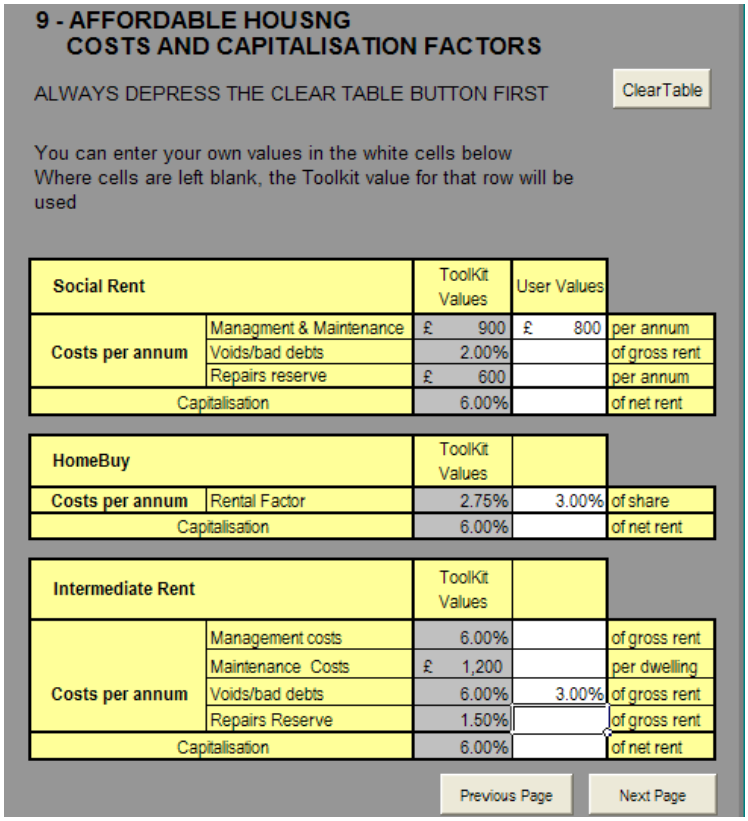


Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

See also Advisory Note AN 3.

D10 Affordable housing – costs and capitalisation factors

Page 9 relates to costs (mainly gross to net rental factors) and allows the user to either select the defaults as shown in the greyed cells or to select his/her own inputs.



9 - AFFORDABLE HOUSNG
COSTS AND CAPITALISATION FACTORS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST — ClearTable

You can enter your own values in the white cells below
Where cells are left blank, the Toolkit value for that row will be used

Social Rent		ToolKit Values	User Values	
Costs per annum	Managment & Maintenance	£ 900	£ 800	per annum
	Voids/bad debts	2.00%		of gross rent
	Repairs reserve	£ 600		per annum
Capitalisation		6.00%		of net rent

HomeBuy		ToolKit Values		
Costs per annum	Rental Factor	2.75%	3.00%	of share
Capitalisation		6.00%		of net rent

Intermediate Rent		ToolKit Values		
Costs per annum	Management costs	6.00%		of gross rent
	Maintenance Costs	£ 1,200		per dwelling
	Voids/bad debts	6.00%	3.00%	of gross rent
	Repairs Reserve	1.50%		of gross rent
Capitalisation		6.00%		of net rent

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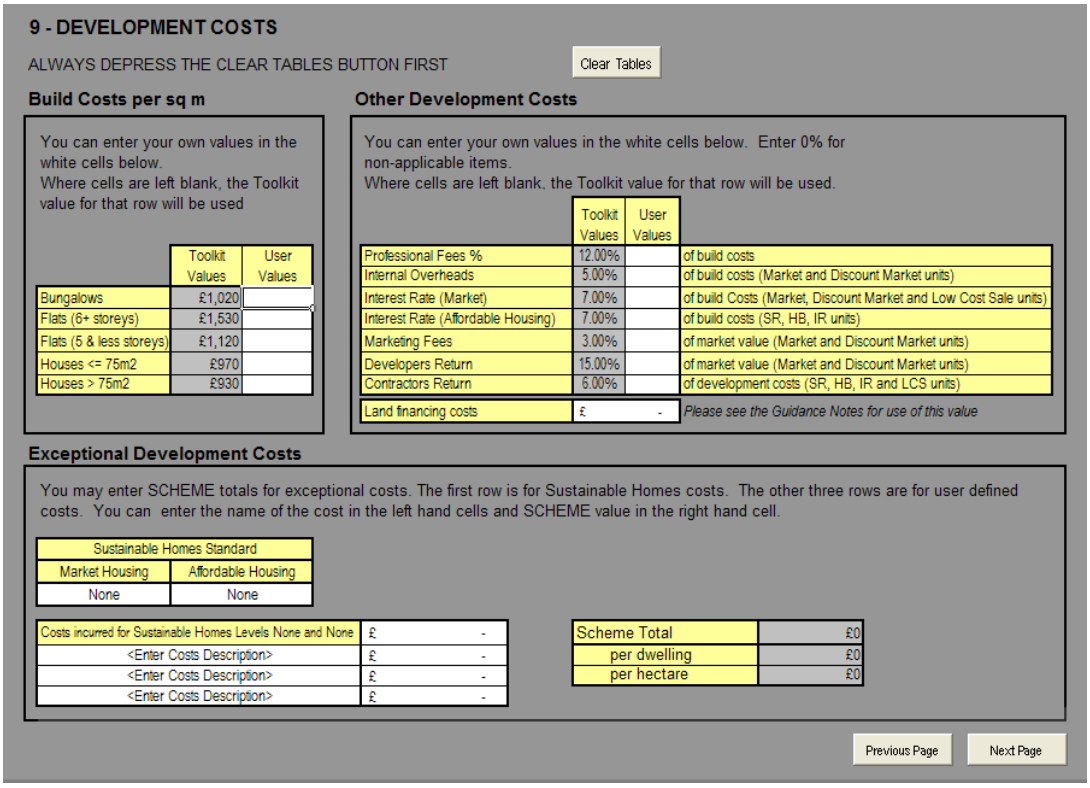
Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the ‘previous page’, press ‘Previous Page’.

D11 Development costs

D11.1 Overview

The Toolkit divides development costs into a number of components. It provides default values for these and also allows the user to provide their own values if better information is available and to test the sensitivity of Toolkit results to changes in these variables (see screenshot below).



9 - DEVELOPMENT COSTS

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST — Clear Tables

Build Costs per sq m

You can enter your own values in the white cells below.
Where cells are left blank, the Toolkit value for that row will be used

	Toolkit Values	User Values
Bungalows	£1,020	
Flats (6+ storeys)	£1,530	
Flats (5 & less storeys)	£1,120	
Houses <= 75m2	£970	
Houses > 75m2	£930	

Other Development Costs

You can enter your own values in the white cells below. Enter 0% for non-applicable items.
Where cells are left blank, the Toolkit value for that row will be used.

	Toolkit Values	User Values	
Professional Fees %	12.00%		of build costs
Internal Overheads	5.00%		of build costs (Market and Discount Market units)
Interest Rate (Market)	7.00%		of build Costs (Market, Discount Market and Low Cost Sale units)
Interest Rate (Affordable Housing)	7.00%		of build costs (SR, HB, IR units)
Marketing Fees	3.00%		of market value (Market and Discount Market units)
Developers Return	15.00%		of market value (Market and Discount Market units)
Contractors Return	6.00%		of development costs (SR, HB, IR and LCS units)
Land financing costs	£ -		*Please see the Guidance Notes for use of this value*

Exceptional Development Costs

You may enter SCHEME totals for exceptional costs. The first row is for Sustainable Homes costs. The other three rows are for user defined costs. You can enter the name of the cost in the left hand cells and SCHEME value in the right hand cell.

Sustainable Homes Standard	
Market Housing	Affordable Housing
None	None

Costs incurred for Sustainable Homes Levels None and None	£	-
<Enter Costs Description>	£	-
<Enter Costs Description>	£	-
<Enter Costs Description>	£	-

Scheme Total	£0
per dwelling	£0
per hectare	£0

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D11.2 Build costs

In the area of the page called ‘Build Costs per sq m’, there are five categories of building types which reflect the different costs associated with these types.

The Toolkit defaults are in the grey cells. If the user wants to provide alternative costs, these are then entered in the white cells.

If the scheme is a conversion then users MUST provide their own build costs, since the Toolkit does not provide default values for conversions.

Users should note that the default base build costs include an allowance for external works and estate roads that would normally be considered integral to the site.

D11.3 Other Development Costs

The area of the page called ‘Other Development Costs’ sets out other costs used in the Toolkit. Those in the grey cells are Toolkit default values. If the user wants to use their own values, these should be entered in the white cells.

D11.4 Exceptional Development Costs

The section of the page called ‘Exceptional Development Costs’ allows the user to specify development costs specific to the scheme which are considered unusually onerous. The user can enter up to four different types of cost.

A note on ‘Exceptional Development Costs’ and their interpretation within the Toolkit has been prepared in the Advisory Note AN 4 below.

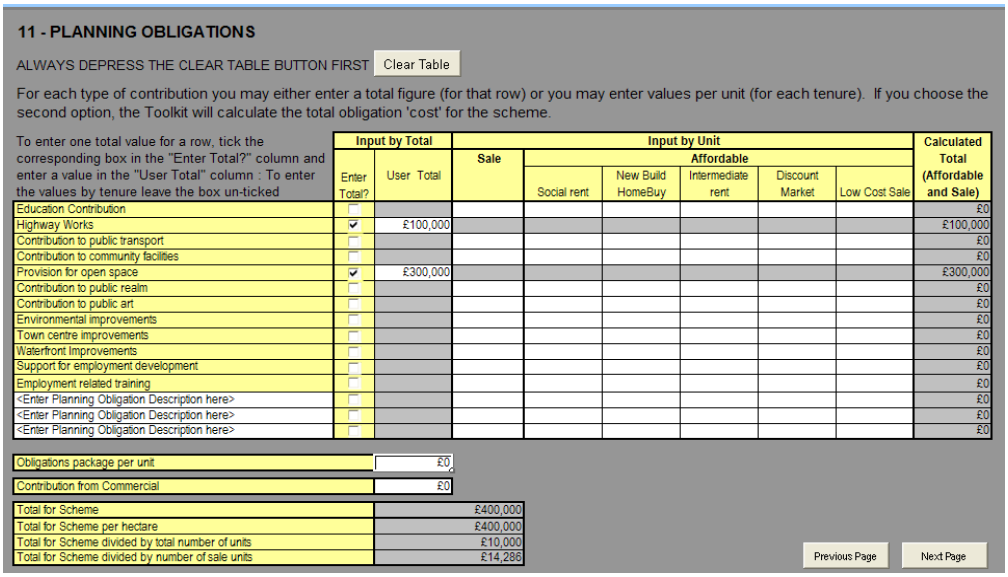
Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the ‘previous page’, press ‘Previous Page’.

D11.5 Interpretation and use of costs – generally

More detailed guidance is provided in Advisory Note AN 4 of these Guidance Notes.

D12 Planning Obligations

The Toolkit allows the user to consider the impact of a range of different planning obligations. There is a list of typical obligations and 3 user categories for items not covered by the list. The Toolkit does not provide any default values for this sheet.



11 - PLANNING OBLIGATIONS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST — Clear Table

For each type of contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure). If you choose the second option, the Toolkit will calculate the total obligation 'cost' for the scheme.

To enter one total value for a row, tick the corresponding box in the "Enter Total?" column and enter a value in the "User Total" column : To enter the values by tenure leave the box un-ticked	Input by Total		Input by Unit						Calculated Total (Affordable and Sale)
				Affordable					
	Enter Total?	User Total	Sale	Social rent	New Build HomeBuy	Intermediate rent	Discount Market	Low Cost Sale	
Education Contribution	☐								£0
Highway Works	☑	£100,000							£100,000
Contribution to public transport	☐								£0
Contribution to community facilities	☐								£0
Provision for open space	☑	£300,000							£300,000
Contribution to public realm	☐								£0
Contribution to public art	☐								£0
Environmental improvements	☐								£0
Town centre improvements	☐								£0
Waterfront Improvements	☐								£0
Support for employment development	☐								£0
Employment related training	☐								£0
<Enter Planning Obligation Description here>	☐								£0
<Enter Planning Obligation Description here>	☐								£0
<Enter Planning Obligation Description here>	☐								£0

Obligations package per unit	£0
Contribution from Commercial	£0

Total for Scheme	£400,000
Total for Scheme per hectare	£400,000
Total for Scheme divided by total number of units	£10,000
Total for Scheme divided by number of sale units	£14,286

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For each type of contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure). If you choose the second option, the Toolkit will calculate the total obligation 'cost' for the scheme.

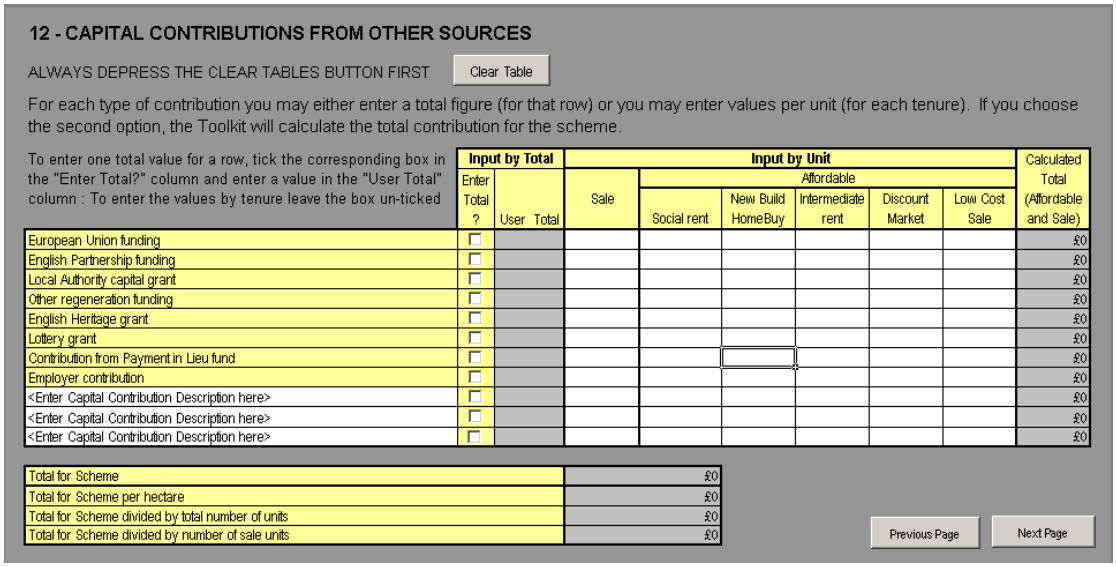
To enter one total value for a row, tick the corresponding box in the ‘Enter Total?’ column and enter a value in the ‘User Total’ column: To enter the values by tenure leave the box un-ticked.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the ‘previous page’, press ‘Previous Page’.

D13 Capital contribution from Other Sources

The Toolkit allows the user to consider sources of revenue to the residential scheme from a range of different capital contributions. There is a list of typical contributions and a category called 'other' for items not covered by the list.

The Toolkit does not provide any default values for this sheet.



12 - CAPITAL CONTRIBUTIONS FROM OTHER SOURCES

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST — Clear Table

For each type of contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure). If you choose the second option, the Toolkit will calculate the total contribution for the scheme.

To enter one total value for a row, tick the corresponding box in the "Enter Total?" column and enter a value in the "User Total" column : To enter the values by tenure leave the box un-ticked

	Input by Total		Input by Unit						Calculated Total (Affordable and Sale)
				Affordable					
	Enter Total ?	User Total	Sale	Social rent	New Build HomeBuy	Intermediate rent	Discount Market	Low Cost Sale	
European Union funding	☐								£0
English Partnership funding	☐								£0
Local Authority capital grant	☐								£0
Other regeneration funding	☐								£0
English Heritage grant	☐								£0
Lottery grant	☐								£0
Contribution from Payment in Lieu fund	☐								£0
Employer contribution	☐								£0
<Enter Capital Contribution Description here>	☐								£0
<Enter Capital Contribution Description here>	☐								£0
<Enter Capital Contribution Description here>	☐								£0

Total for Scheme	£0
Total for Scheme per hectare	£0
Total for Scheme divided by total number of units	£0
Total for Scheme divided by number of sale units	£0

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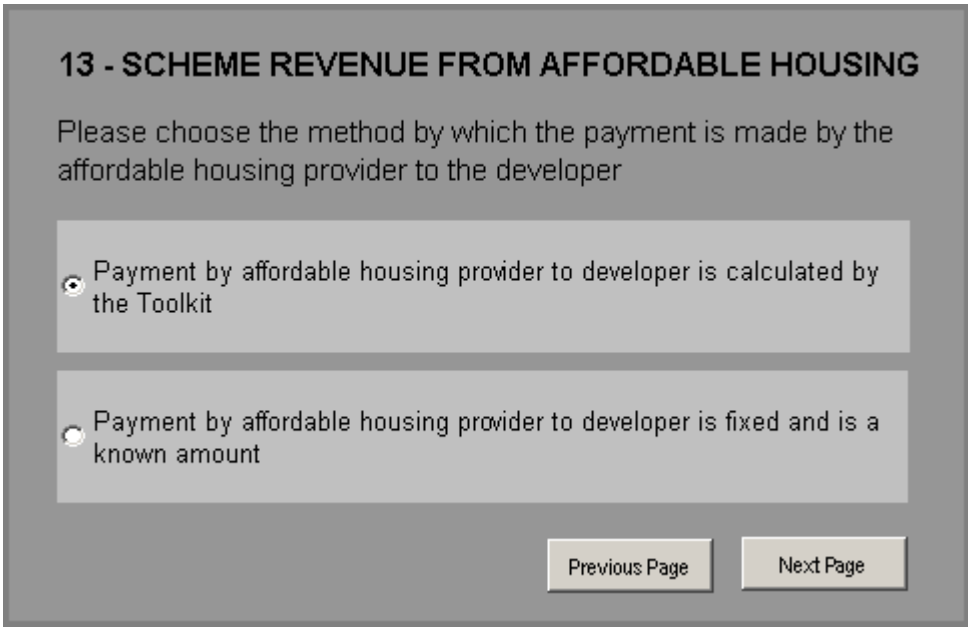
For each type of capital contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure). If you choose the second option, the Toolkit will calculate the total contribution for the scheme.

To enter one total value for a row, tick the corresponding box in the ‘Enter Total?’ column and enter a value in the ‘User Total’ column: To enter the values by tenure leave the box un-ticked.

D14 Scheme revenue from affordable housing

The scheme revenue from the affordable element is calculated in one of two ways as shown in the screenshot – sheet 13 of the Toolkit.



D14.1 Option 1:'Payment by affordable housing provider is calculated by the Toolkit'

Selecting this option allows the Toolkit to calculate the revenue for each of the affordable tenures is use. Additional information relating to Grant and On-costs is required.

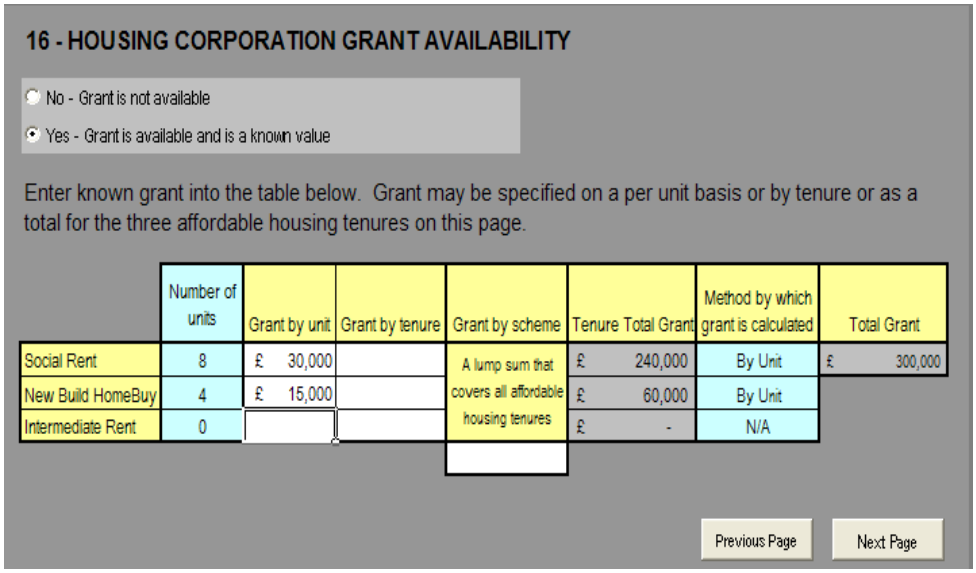
Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

D14.2 Grant

Screen 16, as below, provides the user with an option to include grant within the scheme or to assume there will be no grant.

If 'no grant' is selected, then no additional revenue is included in the scheme and the Toolkit will take the user to the 'on-costs' page (see below).

If the 'yes – grant is available and is a known value' button is selected, then the following screen appears:



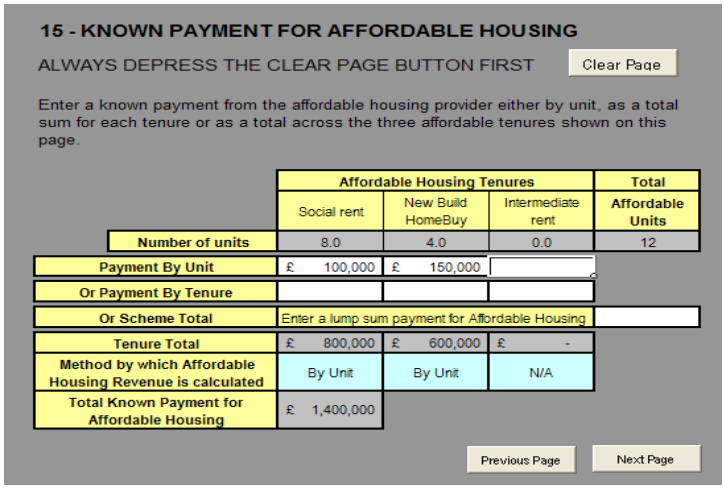
This screen allows the Toolkit user to enter an amount of grant either:

- By unit, or:
- By Tenure (lump sum); or,
- By scheme (overall lump sum).

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

D14.3 Option 2: 'Payment by affordable housing provider to developer is fixed and is a known amount'

If the lower button is pressed on Page 13 the Toolkit takes the user directly to page 15.



The user can enter the known payment from the RSL to the developer either:

- By unit, or:

- By Tenure (lump sum); or,
- By scheme (overall lump sum).

It should be noted that, with Option 2, the user is not asked to provide information about On-costs (see below). The Toolkit assumes that the fixed sum identified includes any grant and an allowance for on-costs has already been made.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the ‘previous page’, press ‘Previous Page’.

D15 On-costs

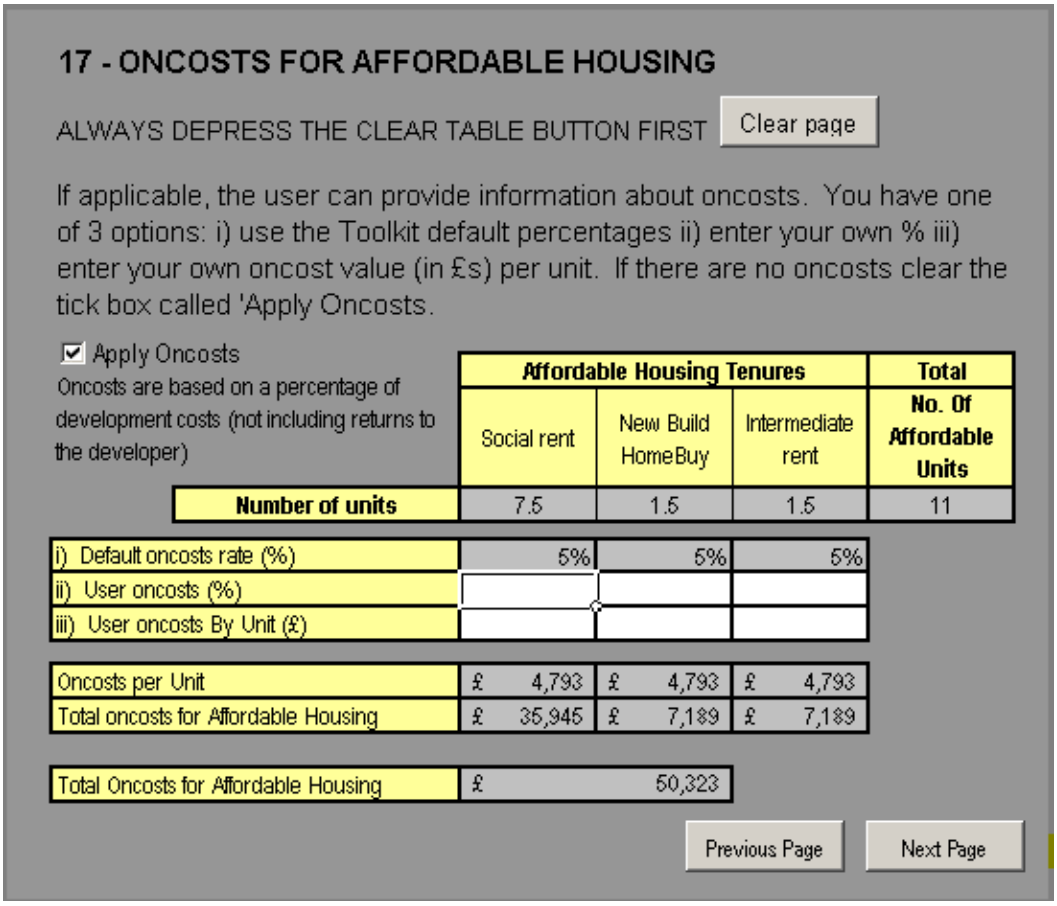
The Toolkit allows the user to enter on-costs for three tenures - Social Rent, New Build HomeBuy and Intermediate Rent.

If there are no On-costs, the 'Apply On-costs' button should be left blank and any data in the white cells deleted.

To enter an On-cost, tick the 'Apply On-costs' button.

The Toolkit calculates On-costs in one of three ways:

As a percentage of development costs (less contractor's return);
As a user defined % of development costs;
As a fixed cost entered by the user on a per unit basis.



17 - ONCOSTS FOR AFFORDABLE HOUSING

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST [Clear page]

If applicable, the user can provide information about oncosts. You have one of 3 options: i) use the Toolkit default percentages ii) enter your own % iii) enter your own oncost value (in £s) per unit. If there are no oncosts clear the tick box called 'Apply Oncosts.

☑ Apply Oncosts

Oncosts are based on a percentage of development costs (not including returns to the developer)

	Affordable Housing Tenures			Total
	Social rent	New Build HomeBuy	Intermediate rent	No. Of Affordable Units
Number of units	7.5	1.5	1.5	11
i) Default oncosts rate (%)	5%	5%	5%	
ii) User oncosts (%)				
iii) User oncosts By Unit (£)				
Oncosts per Unit	£ 4,793	£ 4,793	£ 4,793	
Total oncosts for Affordable Housing	£ 35,945	£ 7,189	£ 7,189	

Total Oncosts for Affordable Housing	£ 50,323

[Previous Page] [Next Page]

On-costs are deducted from the revenue paid to the developer. On-costs are costs which a housing association incurs when they are the end-provider of affordable housing in a mixed tenure scheme.

The Toolkit has a default on-costs rate (shown in the grey cells) of 5% for Social Rent, New Build Homebuy and Intermediate Rent.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

D16 Contribution from Commercial Elements

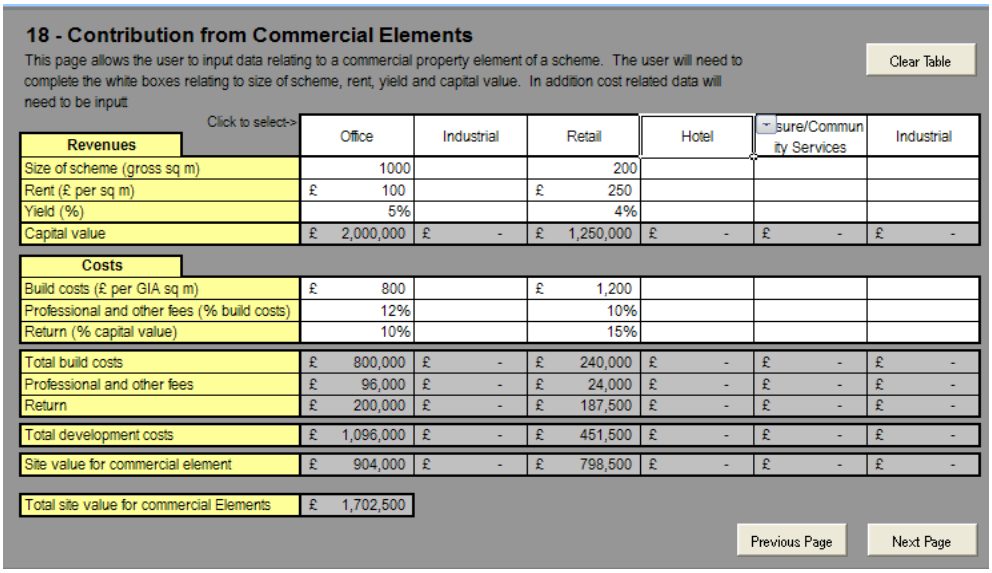
This page allows the user to input details of the commercial element of a mixed use scheme.

The page allows the user to input relevant revenue and cost data for six types of commercial property including office, industrial, retail, hotel, leisure/community services or any other relevant commercial use. The user may alter the category for each column of information according to the commercial property types included in the scheme.

The white cells can be filled in. They allow the user to input:

- The floor area of the scheme (gross floor area per m^2);

- The anticipated rent (per m^2);
- The appropriate yield;
- The build cost per m^2;
- The allowance for professional fees;
- The rate of return.



18 - Contribution from Commercial Elements

This page allows the user to input data relating to a commercial property element of a scheme. The user will need to complete the white boxes relating to size of scheme, rent, yield and capital value. In addition cost related data will need to be input

Clear Table

Click to select->	Office	Industrial	Retail	Hotel	sure/Commun ity Services	Industrial
Revenues						
Size of scheme (gross sq m)	1000		200			
Rent (£ per sq m)	£ 100		£ 250			
Yield (%)	5%		4%			
Capital value	£ 2,000,000	£ -	£ 1,250,000	£ -	£ -	£ -
Costs						
Build costs (£ per GIA sq m)	£ 800		£ 1,200			
Professional and other fees (% build costs)	12%		10%			
Return (% capital value)	10%		15%			
Total build costs	£ 800,000	£ -	£ 240,000	£ -	£ -	£ -
Professional and other fees	£ 96,000	£ -	£ 24,000	£ -	£ -	£ -
Return	£ 200,000	£ -	£ 187,500	£ -	£ -	£ -
Total development costs	£ 1,096,000	£ -	£ 451,500	£ -	£ -	£ -
Site value for commercial element	£ 904,000	£ -	£ 798,500	£ -	£ -	£ -

Total site value for commercial Elements	£ 1,702,500

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The Toolkit adds (or subtracts) the value of the commercial element to the residual value calculated for the residential.

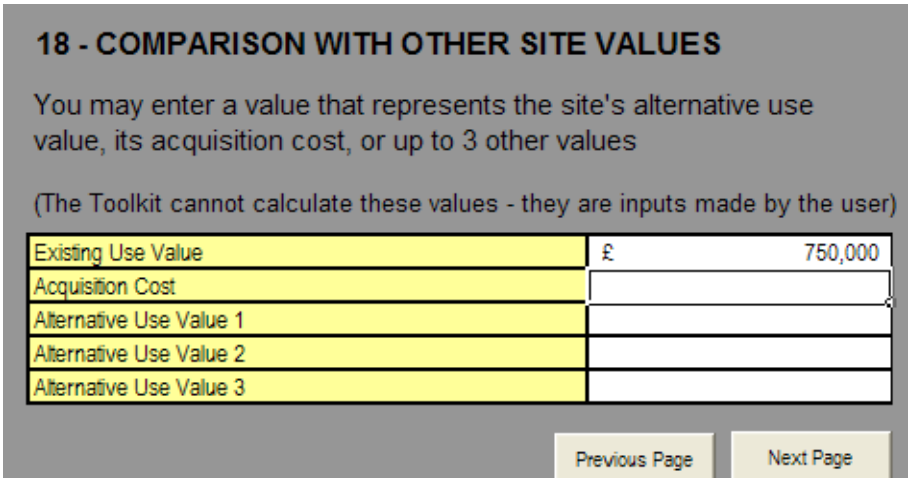
Local authorities may require an affordable or other Section 106 contribution where the commercial element of a scheme adds value. Developers may wish to reflect commercial elements which do not add value.

The Toolkit does not provide default data for this page, although this may be available in future editions, subject to appropriate research.

However, users, and those who evaluate appraisals will have access to best secondary sources of data showing yields, rents and development costs.

D17 Comparisons with other site values

Where this is relevant, users can compare the residual site value generated by the Toolkit with a range of other values for the site. Five options are shown in the page called Comparisons with other site values. Users should enter information in the appropriate white boxes (noting for themselves what is meant by Alternative Use Value 1 etc).



18 - COMPARISON WITH OTHER SITE VALUES

You may enter a value that represents the site's alternative use value, its acquisition cost, or up to 3 other values

(The Toolkit cannot calculate these values - they are inputs made by the user)

Existing Use Value	£ 750,000
Acquisition Cost	
Alternative Use Value 1	
Alternative Use Value 2	
Alternative Use Value 3	

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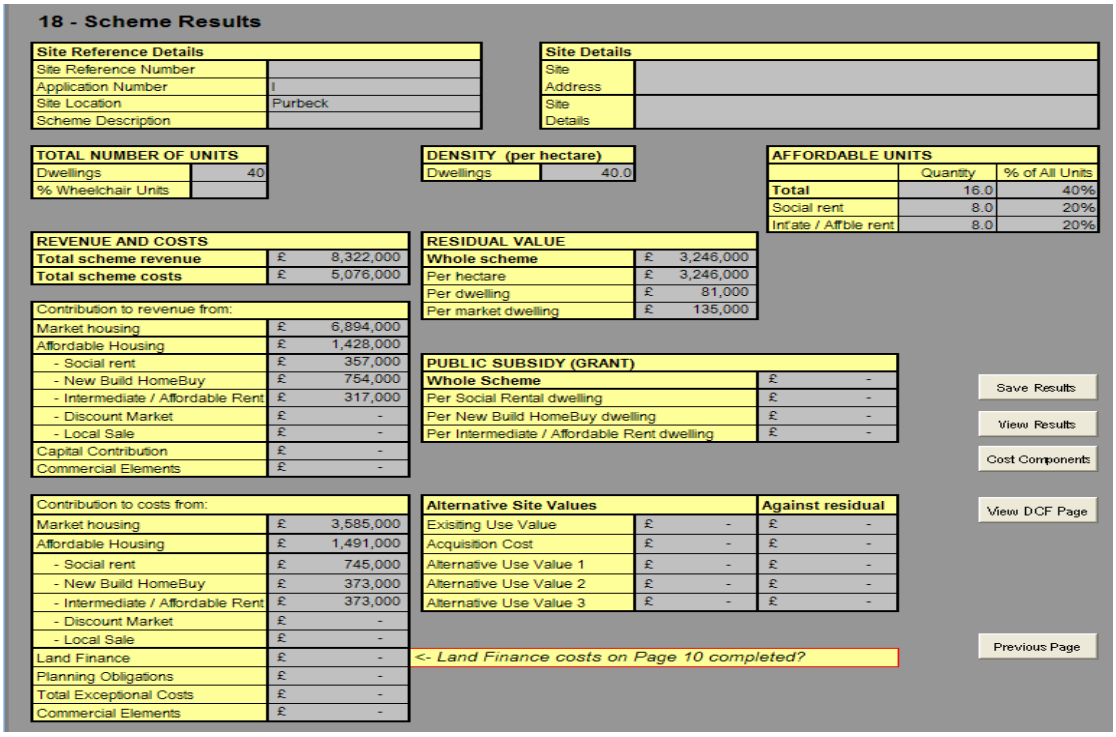
The Toolkit does not calculate these other site values. However, it summaries the differences between the Toolkit residual and any values entered in this page in the Results page which follows.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

D18 Results

When you have completed all the input pages of the Toolkit and pressed the 'Next Page' button, the Toolkit displays the results on the sheet called 'Scheme Results'. This shows the basic characteristics of the scheme in the top half of the page and financial information in the bottom half of the page.



18 - Scheme Results

Site Reference Details	
Site Reference Number	
Application Number	I
Site Location	Purbeck
Scheme Description	

Site Details	
Site Address	
Site Details	

TOTAL NUMBER OF UNITS	
Dwellings	40
% Wheelchair Units	

DENSITY (per hectare)	
Dwellings	40.0

AFFORDABLE UNITS	Quantity	% of All Units
Total	16.0	40%
Social rent	8.0	20%
Int'ate / Affble rent	8.0	20%

REVENUE AND COSTS		
Total scheme revenue	£	8,322,000
Total scheme costs	£	5,076,000

RESIDUAL VALUE		
Whole scheme	£	3,246,000
Per hectare	£	3,246,000
Per dwelling	£	81,000
Per market dwelling	£	135,000

Contribution to revenue from:		
Market housing	£	6,894,000
Affordable Housing	£	1,428,000
- Social rent	£	357,000
- New Build HomeBuy	£	754,000
- Intermediate / Affordable Rent	£	317,000
- Discount Market	£	-
- Local Sale	£	-
Capital Contribution	£	-
Commercial Elements	£	-

PUBLIC SUBSIDY (GRANT)		
Whole Scheme	£	-
Per Social Rental dwelling	£	-
Per New Build HomeBuy dwelling	£	-
Per Intermediate / Affordable Rent dwelling	£	-

Save Results
View Results
Cost Components
View DCF Page
Previous Page

Contribution to costs from:		
Market housing	£	3,585,000
Affordable Housing	£	1,491,000
- Social rent	£	745,000
- New Build HomeBuy	£	373,000
- Intermediate / Affordable Rent	£	373,000
- Discount Market	£	-
- Local Sale	£	-
Land Finance	£	-
Planning Obligations	£	-
Total Exceptional Costs	£	-
Commercial Elements	£	-

Alternative Site Values			Against residual	
Exisiting Use Value	£	-	£	-
Acquisition Cost	£	-	£	-
Alternative Use Value 1	£	-	£	-
Alternative Use Value 2	£	-	£	-
Alternative Use Value 3	£	-	£	-

<- Land Finance costs on Page 10 completed?

If you wish to print this page, or the next page (Summary Results Sheet), from the ‘File’ menu select a print option.

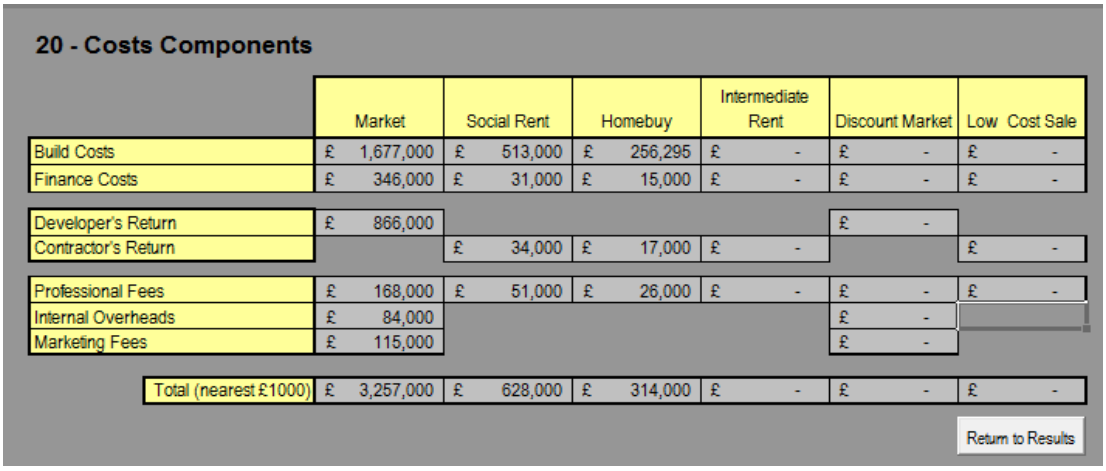
It is also possible to print all of the input pages for the entire scheme from the ‘File’ menu.

E Additional features of the Dorset Toolkit

The Dorset Toolkit has two additional features which are both accessed from the Results page, notably the Costs Components break down and the Discounted Cash Flow.

E1 Cost Components

The Toolkit provides more detailed information about the way in which development costs for individual tenures have been built up. To review the components of costs, press the Cost Components button on the Scheme Results page.



20 - Costs Components

	Market	Social Rent	Homebuy	Intermediate Rent	Discount Market	Low Cost Sale
Build Costs	£ 1,677,000	£ 513,000	£ 256,295	£ -	£ -	£ -
Finance Costs	£ 346,000	£ 31,000	£ 15,000	£ -	£ -	£ -
Developer's Return	£ 866,000				£ -	
Contractor's Return		£ 34,000	£ 17,000	£ -		£ -
Professional Fees	£ 168,000	£ 51,000	£ 26,000	£ -	£ -	£ -
Internal Overheads	£ 84,000				£ -	
Marketing Fees	£ 115,000				£ -	
Total (nearest £1000)	£ 3,257,000	£ 628,000	£ 314,000	£ -	£ -	£ -

Return to Results

This page allows the user to cross check specific components of the appraisal with information submitted by the developer; for example cost estimates from quantity surveyors.

The table breaks down the 'other development costs' shown on the main costs page into component parts for ease of comparison.

- Build costs in this summary include all other costs, but not exceptional costs. These are shown on the Results sheet.

Because of rounding, column totals may appear to vary from the sum of the individual cost components.

E2 The Discount Cash Flow Tool

E2.1 Purpose of the DCF

The discounted cash flow (DCF) model helps users take account of schemes that might run over several years.

The main objectives of the DCF are to:

- Allow users to better understand the relationship between residual value and development rate and to reflect these assumptions in appraisals;
- Allow users to evaluate how changes in prices, costs and other variables impact on residual value;
- Allow users to reflect for the 'time value of money' and in particular, where relevant, to reflect potential site holding costs.

E2.2 Principles for use

The DCF function is intended not as a replacement for the main Toolkit model, but as an additional tool to help users forward plan and to negotiate sites.

The DCF function can be used alongside the main model. It is directly comparable provided that the assumptions are consistent. For example, if there are 100 units in a scheme and it is a 5 year scheme, and 20 units are apportioned to each year, then a similar (residual) result should be found provided that all other assumptions are consistent.

The DCF works from the main Toolkit, and users must enter a scheme in the main model first before the DCF can be used. This approach allows local authorities, when appraising schemes to see comparable results from the different approaches.

In the main model (previous versions of the Toolkit) if price or cost growth was anticipated, this was built into the data assumptions on the Market Prices and Development Costs pages. With the DCF it will be possible to make revenue and cost items more explicit on a year by year basis.

The DCF function will help to make the appraisal more sensitive for example to situations where abnormal development costs, or infrastructure provision have to be dealt with 'up front'. It will also help to deal with situations where costs or values need to be projected forward.

Both the residential and commercial scheme elements are 'cash flowed'.

The user can select whatever time period is appropriate to the development.

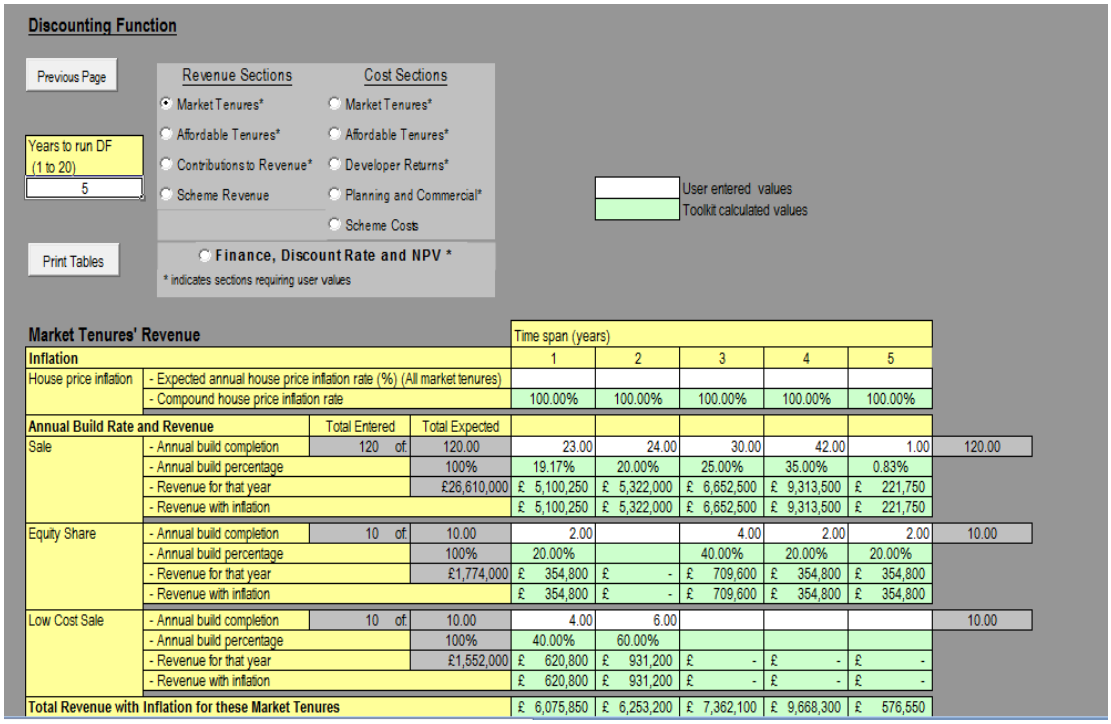
E2.3 DCF sections

The DCF has several sections which must be completed by the user in order to generate a residual site value.

The user must complete the white cells of the DCF.

E2.4 DCF - Market Tenures Revenue sheet

When the DCF option is selected from the Results sheet of the main model, sheet comes up as shown in the screenshot below.



Discounting Function

Previous Page

Revenue Sections: Market Tenures*; Affordable Tenures*; Contributions to Revenue*; Scheme Revenue

Cost Sections: Market Tenures*; Affordable Tenures*; Developer Returns*; Planning and Commercial*; Scheme Costs

Years to run DF (1 to 20): 5

Print Tables

Finance, Discount Rate and NPV *

* indicates sections requiring user values

User entered values

Toolkit calculated values

Market Tenures' Revenue				Time span (years)					
Inflation				1	2	3	4	5	
House price inflation	- Expected annual house price inflation rate (%) (All market tenures)								
	- Compound house price inflation rate			100.00%	100.00%	100.00%	100.00%	100.00%	
Annual Build Rate and Revenue		Total Entered	Total Expected						
Sale	- Annual build completion	120 of:	120.00	23.00	24.00	30.00	42.00	1.00	120.00
	- Annual build percentage		100%	19.17%	20.00%	25.00%	35.00%	0.83%	
	- Revenue for that year		£26,610,000	£ 5,100,250	£ 5,322,000	£ 6,652,500	£ 9,313,500	£ 221,750	
	- Revenue with inflation			£ 5,100,250	£ 5,322,000	£ 6,652,500	£ 9,313,500	£ 221,750	
Equity Share	- Annual build completion	10 of:	10.00	2.00		4.00	2.00	2.00	10.00
	- Annual build percentage		100%	20.00%		40.00%	20.00%	20.00%	
	- Revenue for that year		£1,774,000	£ 354,800	£ -	£ 709,600	£ 354,800	£ 354,800	
	- Revenue with inflation			£ 354,800	£ -	£ 709,600	£ 354,800	£ 354,800	
Low Cost Sale	- Annual build completion	10 of:	10.00	4.00	6.00				10.00
	- Annual build percentage		100%	40.00%	60.00%				
	- Revenue for that year		£1,552,000	£ 620,800	£ 931,200	£ -	£ -	£ -	
	- Revenue with inflation			£ 620,800	£ 931,200	£ -	£ -	£ -	
Total Revenue with Inflation for these Market Tenures				£ 6,075,850	£ 6,253,200	£ 7,362,100	£ 9,668,300	£ 576,550	

In the grey box at the top of the page entitled 'Revenue Sections' and 'Cost Sections' (which is replicated throughout the DCF), the user can toggle between the different revenue and cost elements. The user makes inputs at those pages only marked with an asterisk on this sheet. The summary box is split into two main components – Revenue and Cost sections.

In the Revenue section, the user must complete the Market Tenures, Affordable Tenures and Contributions to Revenue sections.

In the Cost section, the user must complete the Market Tenures, Affordable Tenures, Developer Returns and the Planning and Commercial sections.

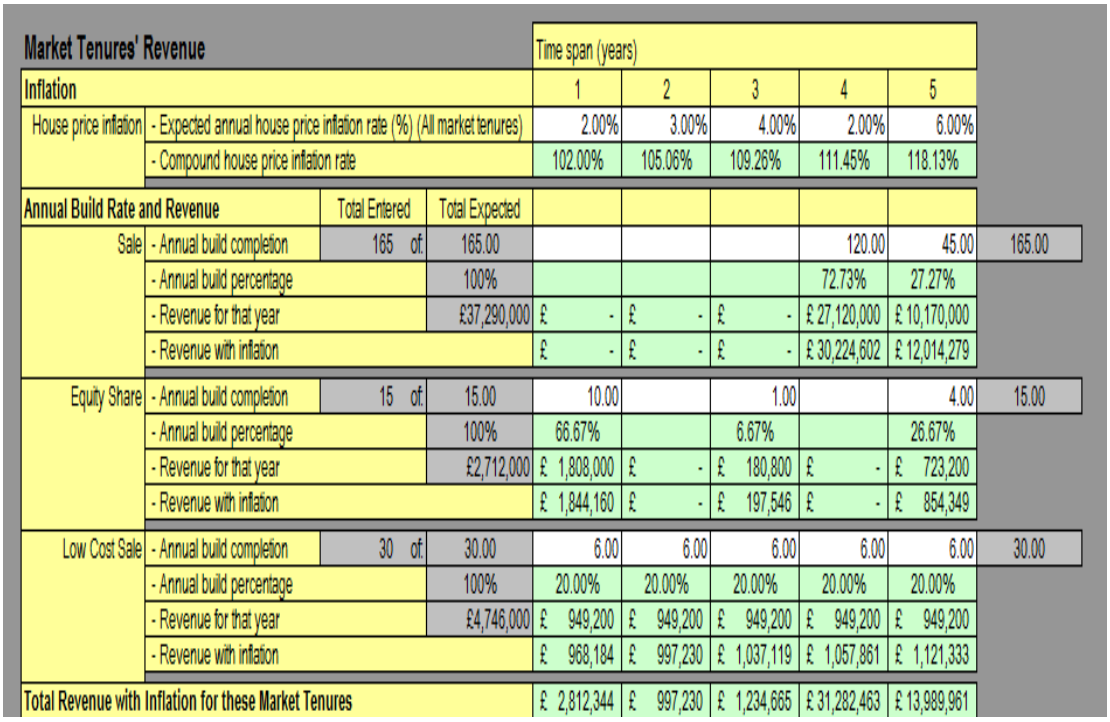
The Finance, discount rate and NPV section must also be completed.

It is important that once the data has been imputed to all 8 sections, that the user goes back through the sections, beginning at the Market Tenures section, clicking each section to ensure that the inputs have been fully recognised by the model.

E2.5 DCF - Market Tenures Revenue

When the DCF is opened it will open to show inputs for this sheet.

The user must complete the white cells. For example in the screenshot, the 120 Sale units (data transferred from the main model) must be apportioned according to the anticipated build rate. The same applies to the other tenures – Equity Share and Low Cost Sale.



Market Tenures' Revenue				Time span (years)					
Inflation				1	2	3	4	5	
House price inflation	- Expected annual house price inflation rate (%) (All market tenures)			2.00%	3.00%	4.00%	2.00%	6.00%	
	- Compound house price inflation rate			102.00%	105.06%	109.26%	111.45%	118.13%	
Annual Build Rate and Revenue		Total Entered	Total Expected						
Sale	- Annual build completion	165 of	165.00				120.00	45.00	165.00
	- Annual build percentage		100%				72.73%	27.27%	
	- Revenue for that year		£37,290,000	£ -	£ -	£ -	£ 27,120,000	£ 10,170,000	
	- Revenue with inflation			£ -	£ -	£ -	£ 30,224,602	£ 12,014,279	
Equity Share	- Annual build completion	15 of	15.00	10.00		1.00		4.00	15.00
	- Annual build percentage		100%	66.67%		6.67%		26.67%	
	- Revenue for that year		£2,712,000	£ 1,808,000	£ -	£ 180,800	£ -	£ 723,200	
	- Revenue with inflation			£ 1,844,160	£ -	£ 197,546	£ -	£ 854,349	
Low Cost Sale	- Annual build completion	30 of	30.00	6.00	6.00	6.00	6.00	6.00	30.00
	- Annual build percentage		100%	20.00%	20.00%	20.00%	20.00%	20.00%	
	- Revenue for that year		£4,746,000	£ 949,200	£ 949,200	£ 949,200	£ 949,200	£ 949,200	
	- Revenue with inflation			£ 968,184	£ 997,230	£ 1,037,119	£ 1,057,861	£ 1,121,333	
Total Revenue with Inflation for these Market Tenures				£ 2,812,344	£ 997,230	£ 1,234,665	£ 31,282,463	£ 13,989,961	

The user has, throughout the DCF appraisal, the facility to project forward revenue through anticipated price and cost increases. In the screenshot in the second row down, it can be seen that the user has estimated annual house price inflation on an annual basis.

In the absence of a specialist report on projected house prices, users may find it helpful to refer to:

http://www.housepricecrash.co.uk/

for 'all in one place' forecasts of house prices.

When the Market Tenures Revenue sheet is complete, press the toggle button for the Affordable Tenures Revenue sheet.

E2.6 DCF - Affordable Tenures Revenue

This sheet works to exactly the same principles as the Market Tenures Revenue sheet. The user apportions the build rate across the relevant tenures. The DCF will then calculate the anticipated revenue for each period.

Affordable Tenures' Revenue				Time span (years)					
Inflation				1	2	3	4	5	
Social Rent	- Expected annual house price inflation rate (%)			2.00%				5.00%	
	- Compound house price inflation rate (%)			102.00%	102.00%	102.00%	102.00%	107.10%	
Intermediate Rent	- Expected annual house price inflation rate (%)				3.00%			8.00%	
	- Compound house price inflation rate (%)			100.00%	103.00%	103.00%	103.00%	111.24%	
New build HomeBuy	- Expected annual house price inflation rate (%)				6.00%	3.00%		9.00%	
	- Compound house price inflation rate (%)			100.00%	106.00%	109.18%	109.18%	119.01%	
Build Rate and Revenue		**Total Entered**	**Total Expected**						
Social Rent	- Annual build completion	45 of:	45.00	45.00					45.00
	- Annual build percentage		100%	100.00%					
	- Revenue for that year		£1,223,000	£ 1,223,000	£ -	£ -	£ -	£ -	
	- Revenue with inflation			£ 1,247,460	£ -	£ -	£ -	£ -	
Intermediate Rent	- Annual build completion	15 of:	15.00		10.00			5.00	15.00
	- Annual build percentage		100%		66.67%			33.33%	
	- Revenue for that year		£1,793,000	£ -	£ 1,195,333	£ -	£ -	£ 597,667	
	- Revenue with inflation			£ -	£ 71,720	£ -	£ -	£ 53,790	
New build HomeBuy	- Annual build completion	30 of:	30.00		20.00	5.00	1.00	4.00	30.00
	- Annual build percentage		100%		66.67%	16.67%	3.33%	13.33%	
	- Revenue for that year		£4,389,000	£ -	£ 2,926,000	£ 731,500	£ 146,300	£ 585,200	
	- Revenue with inflation			£ -	£ 3,101,560	£ 798,652	£ 159,730	£ 696,424	
Total Revenue with Inflation for these Affordable Tenures				£ 1,247,460	£ 3,173,280	£ 798,652	£ 159,730	£ 750,214	

The Affordable Tenures revenue page, it will be noted, allows the users to project inflation (or deflation if relevant) for each of the affordable tenures.

When the Affordable Tenures Revenue sheet is complete, press the toggle button for the Contributions to Revenue page.

E2.7 DCF - Contributions to Revenue

This sheet (see screenshot below) picks up the lump sum revenue payments into the scheme that have been inputted to the main model.

The user should then apportion these payments as they believe the payments will come into the scheme.

This screen allows the user to phase the commercial development in a different way to the residential which may well be the case in practice.

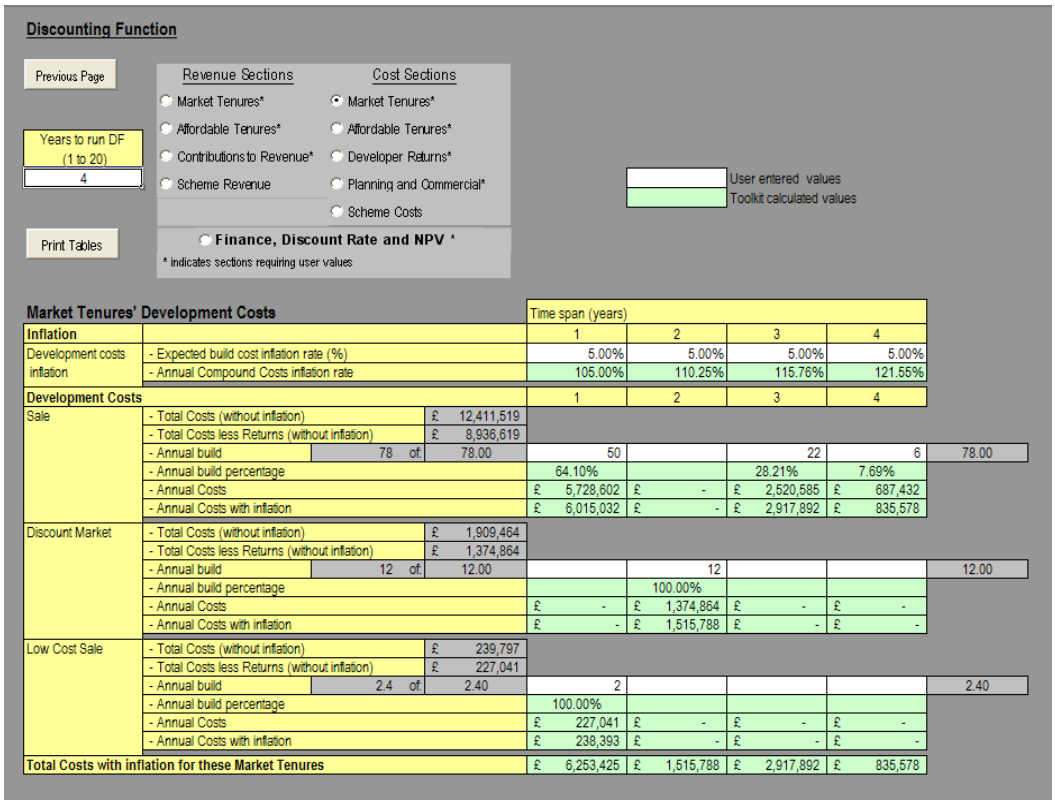
Capital and Commercial Contributions to Revenue				Time span (years)					
		Total Entered	**Total Expected**	1	2	3	4	5	
Capital Contributions	- Expected annual contribution	£ 900,000 of:	£ 1,350,000	£ 500,000	£ 50,000	£ 350,000			£ 900,000
	- Expected annual inflation rate (%)			1.00%	2.00%	2.00%			
	- Compound Capital Contributions Inflation Rate			101.00%	103.02%	105.08%	105.08%	105.08%	
	- Revenue with Inflation			£ 505,000	£ 51,510	£ 367,781	£ -	£ -	
Commercial Elements	- Expected annual contribution	**Total Entered**	**Total Expected**						
	Office	£ 168,000 of:	£ 168,000	£ 40,000	£ 40,000	£ 40,000	£ 40,000	£ 8,000	£ 168,000
	Industrial	£ - of:	£ -						£ -
	Retail	£ - of:	£ -						£ -
	Hotel	£ - of:	£ -						£ -
	Leisure/Community Services	£ 257,143 of:	£ 257,143	£ 50,000	£ 50,000	£ 50,000	£ 50,000	£ 57,143	£ 257,143
	Industrial	£ - of:	£ -						£ -
	- Expected Commercial Element annual inflation rate (%)								
	- Compound Commercial Element inflation rate			100.00%	100.00%	100.00%	100.00%	100.00%	
	- Revenue with inflation			£ 90,000	£ 90,000	£ 90,000	£ 90,000	£ 65,143	

As with previous screens, inflation assumptions can be made for the capital contributions (grant, etc) as well as for the commercial elements.

When the Capital and Commercial Revenue sheet is complete, press the toggle button for the Market Tenures Cost sheet.

E2.8 DCF - Market Tenures Costs

This sheet allows the user to input anticipated build cost increases (build cost inflation) and to vary the build rate.



Discounting Function

Previous Page

Years to run DF (1 to 20): 4

Print Tables

Revenue Sections	Cost Sections
Market Tenures*	Market Tenures*
Affordable Tenures*	Affordable Tenures*
Contributions to Revenue*	Developer Returns*
Scheme Revenue	Planning and Commercial*
	Scheme Costs

Finance, Discount Rate and NPV *

* indicates sections requiring user values

User entered values
Toolkit calculated values

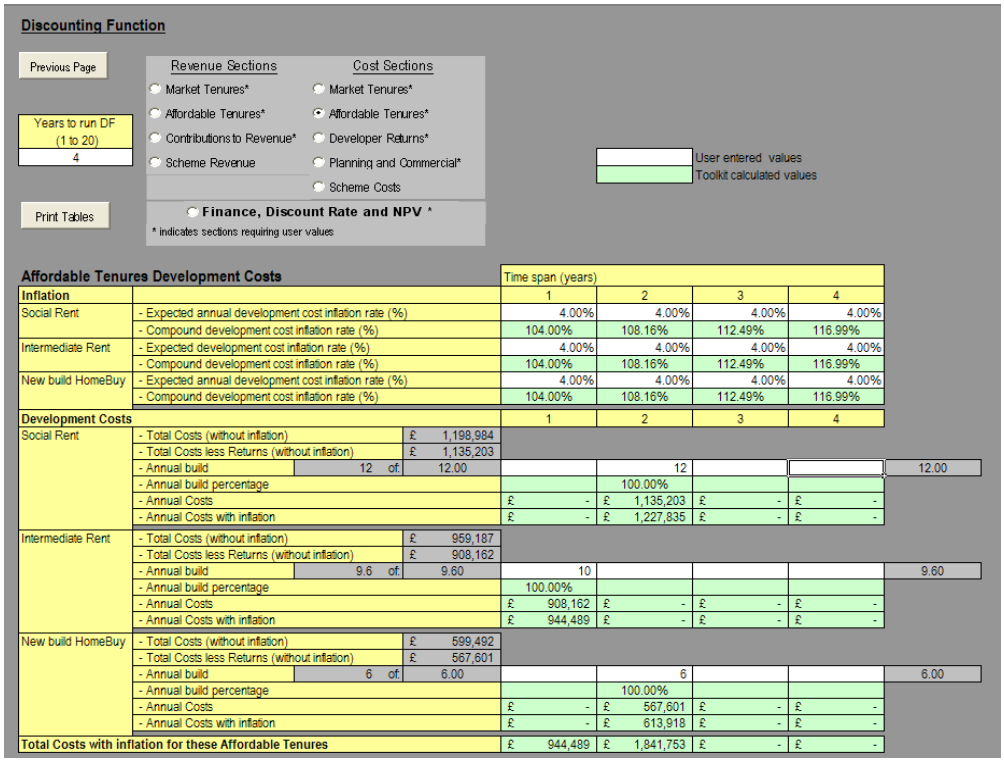
Market Tenures' Development Costs			Time span (years)				
Inflation			1	2	3	4	
Development costs inflation	- Expected build cost inflation rate (%)		5.00%	5.00%	5.00%	5.00%	
	- Annual Compound Costs inflation rate		105.00%	110.25%	115.76%	121.55%	
Development Costs			1	2	3	4	
Sale	- Total Costs (without inflation)	£ 12,411,519					
	- Total Costs less Returns (without inflation)	£ 8,936,619					
	- Annual build	78 of 78.00	50		22	6	78.00
	- Annual build percentage		64.10%		28.21%	7.69%	
	- Annual Costs		£ 5,728,602	£ -	£ 2,520,585	£ 687,432	
	- Annual Costs with inflation		£ 6,015,032	£ -	£ 2,917,892	£ 835,578	
Discount Market	- Total Costs (without inflation)	£ 1,909,464					
	- Total Costs less Returns (without inflation)	£ 1,374,864					
	- Annual build	12 of 12.00		12			12.00
	- Annual build percentage			100.00%			
	- Annual Costs		£ -	£ 1,374,864	£ -	£ -	
	- Annual Costs with inflation		£ -	£ 1,515,788	£ -	£ -	
Low Cost Sale	- Total Costs (without inflation)	£ 239,797					
	- Total Costs less Returns (without inflation)	£ 227,041					
	- Annual build	2.4 of 2.40	2				2.40
	- Annual build percentage		100.00%				
	- Annual Costs		£ 227,041	£ -	£ -	£ -	
	- Annual Costs with inflation		£ 238,393	£ -	£ -	£ -	
Total Costs with inflation for these Market Tenures			£ 6,253,425	£ 1,515,788	£ 2,917,892	£ 835,578	

We do not provide default data for projected increases. Users are referred, in the absence of bespoke advice, to the RICS's Building Cost Information Service.

When the Market Tenures Cost sheet is complete, press the toggle button for the Affordable Tenures Cost sheet.

E2.9 DCF - Affordable Tenures Costs

This sheet allows the user to input anticipated build cost increases and to vary the build rate as for the Market Tenures Costs.



Discounting Function

Previous Page

Years to run DF (1 to 20): 4

Print Tables

Revenue Sections	Cost Sections
Market Tenures*	Market Tenures*
Affordable Tenures*	Affordable Tenures*
Contributions to Revenue*	Developer Returns*
Scheme Revenue	Planning and Commercial*
	Scheme Costs

Finance, Discount Rate and NPV *

* indicates sections requiring user values

User entered values
Toolkit calculated values

Affordable Tenures Development Costs

			Time span (years) 1	2	3	4	
Inflation							
Social Rent	- Expected annual development cost inflation rate (%)		4.00%	4.00%	4.00%	4.00%	
	- Compound development cost inflation rate (%)		104.00%	108.16%	112.49%	116.99%	
Intermediate Rent	- Expected development cost inflation rate (%)		4.00%	4.00%	4.00%	4.00%	
	- Compound development cost inflation rate (%)		104.00%	108.16%	112.49%	116.99%	
New build HomeBuy	- Expected annual development cost inflation rate (%)		4.00%	4.00%	4.00%	4.00%	
	- Compound development cost inflation rate (%)		104.00%	108.16%	112.49%	116.99%	
Development Costs			1	2	3	4	
Social Rent	- Total Costs (without inflation)	£ 1,198,984					
	- Total Costs less Returns (without inflation)	£ 1,135,203					
	- Annual build 12 of:	12.00		12			12.00
	- Annual build percentage			100.00%			
	- Annual Costs		£ -	£ 1,135,203	£ -	£ -	
	- Annual Costs with inflation		£ -	£ 1,227,835	£ -	£ -	
Intermediate Rent	- Total Costs (without inflation)	£ 959,187					
	- Total Costs less Returns (without inflation)	£ 908,162					
	- Annual build 9.6 of:	9.60	10				9.60
	- Annual build percentage		100.00%				
	- Annual Costs		£ 908,162	£ -	£ -	£ -	
	- Annual Costs with inflation		£ 944,489	£ -	£ -	£ -	
New build HomeBuy	- Total Costs (without inflation)	£ 599,492					
	- Total Costs less Returns (without inflation)	£ 567,601					
	- Annual build 6 of:	6.00		6			6.00
	- Annual build percentage			100.00%			
	- Annual Costs		£ -	£ 567,601	£ -	£ -	
	- Annual Costs with inflation		£ -	£ 613,918	£ -	£ -	
Total Costs with inflation for these Affordable Tenures			£ 944,489	£ 1,841,753	£ -	£ -	

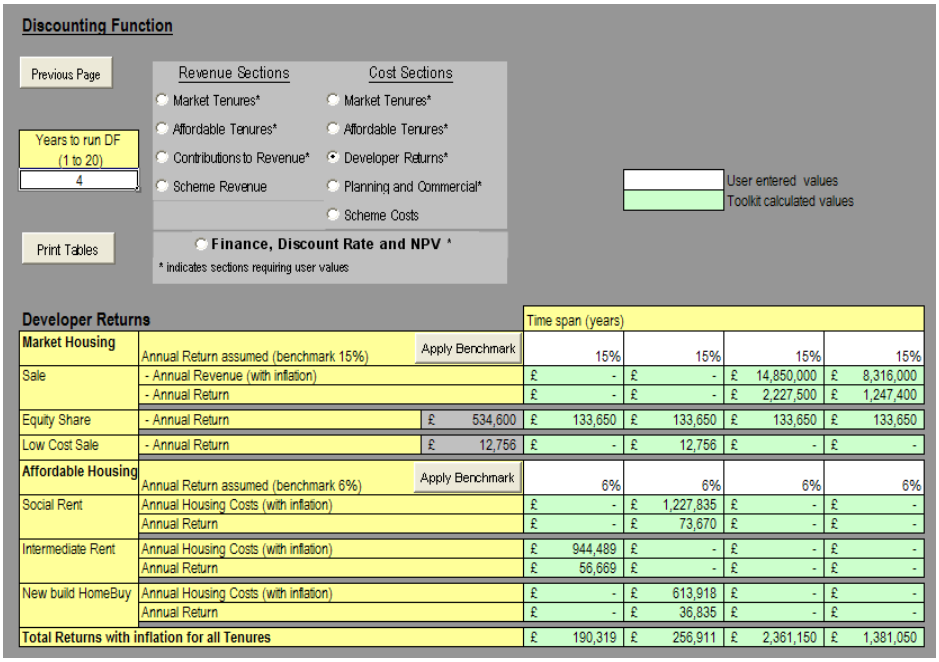
As previously, we do not provide default data for projected increases. Users are referred, in the absence of bespoke advice, to the RICS's Building Cost Information Service.

When the Affordable Tenures Cost sheet is complete, press the toggle button for the Developer Returns sheet.

E2.10 DCF - Developer Returns

The next section where the user can input data is shown in the screenshot which relates to developer returns.

The user can select the defaults (which 'lift' from the main model) or can input their own data.



Discounting Function

Previous Page

Years to run DF (1 to 20): 4

Print Tables

Revenue Sections	Cost Sections
Market Tenures*	Market Tenures*
Affordable Tenures*	Affordable Tenures*
Contributions to Revenue*	Developer Returns*
Scheme Revenue	Planning and Commercial*
	Scheme Costs
Finance, Discount Rate and NPV *	

* indicates sections requiring user values

User entered values
Toolkit calculated values

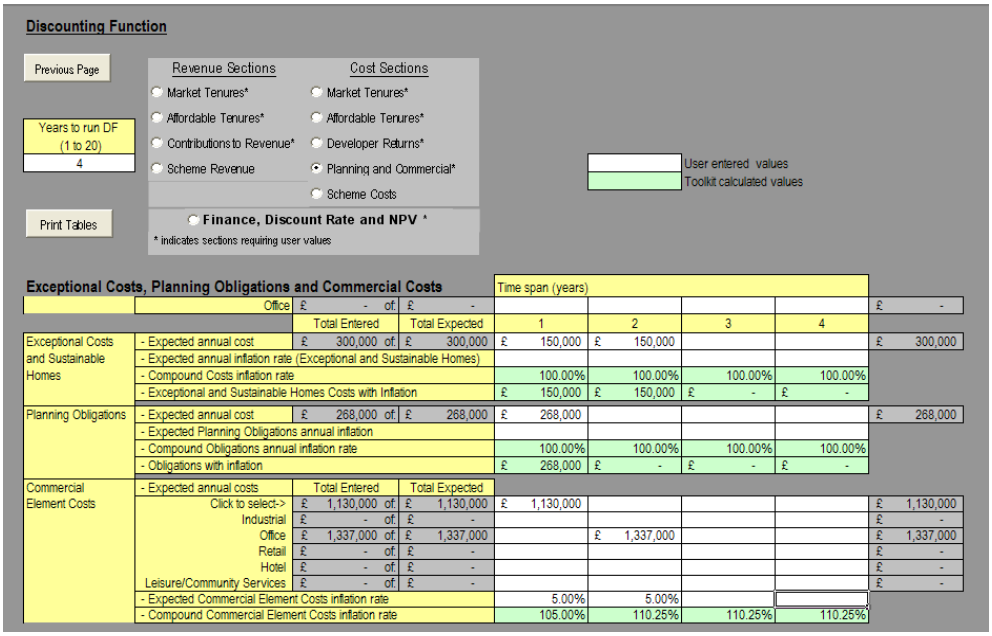
Developer Returns			Time span (years)			
Market Housing	Annual Return assumed (benchmark 15%) Apply Benchmark		15%	15%	15%	15%
Sale	- Annual Revenue (with inflation)		£ -	£ -	£ 14,850,000	£ 8,316,000
	- Annual Return		£ -	£ -	£ 2,227,500	£ 1,247,400
Equity Share	- Annual Return	£ 534,600	£ 133,650	£ 133,650	£ 133,650	£ 133,650
Low Cost Sale	- Annual Return	£ 12,756	£ -	£ 12,756	£ -	£ -
Affordable Housing	Annual Return assumed (benchmark 6%) Apply Benchmark		6%	6%	6%	6%
Social Rent	Annual Housing Costs (with inflation)		£ -	£ 1,227,835	£ -	£ -
	Annual Return		£ -	£ 73,670	£ -	£ -
Intermediate Rent	Annual Housing Costs (with inflation)		£ 944,489	£ -	£ -	£ -
	Annual Return		£ 56,669	£ -	£ -	£ -
New build HomeBuy	Annual Housing Costs (with inflation)		£ -	£ 613,918	£ -	£ -
	Annual Return		£ -	£ 36,835	£ -	£ -
Total Returns with inflation for all Tenures			£ 190,319	£ 256,911	£ 2,361,150	£ 1,381,050

Normally, appraisals will show a consistent figure for these returns – as they will reflect development already 'up and running'. However, the rate might be varied where the scheme has a longer lead in time or where a land developer might require a different level of return on his/her operation.

When the Developer Returns sheet is complete, press the toggle button for the Planning and Commercial Costs sheet.

E2.11 DCF - Planning and Commercial Costs

The next sheet allows the user to apportion exceptional costs, planning obligations and commercial property development costs over time.



Discounting Function

Previous Page

Years to run DF (1 to 20): 4

Print Tables

Revenue Sections	Cost Sections
Market Tenures*	Market Tenures*
Affordable Tenures*	Affordable Tenures*
Contributions to Revenue*	Developer Returns*
Scheme Revenue	Planning and Commercial*
	Scheme Costs
Finance, Discount Rate and NPV *	

* indicates sections requiring user values

User entered values
Toolkit calculated values

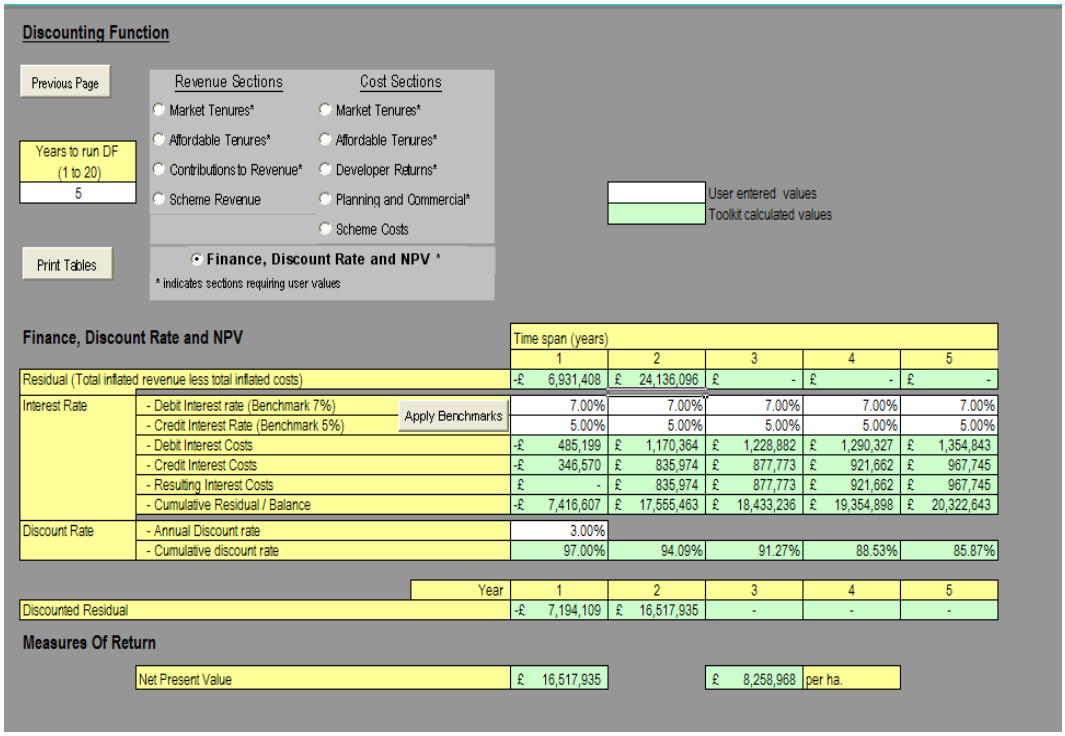
Exceptional Costs, Planning Obligations and Commercial Costs				Time span (years)				
	Office	£ - of £ -						£ -
		Total Entered	Total Expected	1	2	3	4	
Exceptional Costs and Sustainable Homes	- Expected annual cost	£ 300,000 of £ 300,000		£ 150,000	£ 150,000			£ 300,000
	- Expected annual inflation rate (Exceptional and Sustainable Homes)							
	- Compound Costs inflation rate			100.00%	100.00%	100.00%	100.00%	
	- Exceptional and Sustainable Homes Costs with Inflation			£ 150,000	£ 150,000	£ -	£ -	
Planning Obligations	- Expected annual cost	£ 268,000 of £ 268,000		£ 268,000				£ 268,000
	- Expected Planning Obligations annual inflation							
	- Compound Obligations annual inflation rate			100.00%	100.00%	100.00%	100.00%	
	- Obligations with inflation			£ 268,000	£ -	£ -	£ -	
Commercial Element Costs	- Expected annual costs	Total Entered	Total Expected					
	Click to select->	£ 1,130,000 of £ 1,130,000		£ 1,130,000				£ 1,130,000
	Industrial	£ - of £ -						£ -
	Office	£ 1,337,000 of £ 1,337,000			£ 1,337,000			£ 1,337,000
	Retail	£ - of £ -						£ -
	Hotel	£ - of £ -						£ -
	Leisure/Community Services	£ - of £ -						£ -
	- Expected Commercial Element Costs inflation rate			5.00%	5.00%			
	- Compound Commercial Element Costs inflation rate			105.00%	110.25%	110.25%	110.25%	

The sheet also allows the user to make inflation assumptions for all key elements – exceptional costs, planning obligations and commercial development build costs.

When the Planning and Commercial Costs sheet is complete, press the toggle button for the Finance, Discount and Net Present Value (NPV) sheet.

E2.12 DCF - Finance, discount rate and NPV

The final sheet (see screenshot below) allows the user to specify their assumptions in relation to the financing of the development at an appropriate discount rate.



Discounting Function

Previous Page

Years to run DF (1 to 20): 5

Print Tables

Revenue Sections	Cost Sections
Market Tenures*	Market Tenures*
Affordable Tenures*	Affordable Tenures*
Contributions to Revenue*	Developer Returns*
Scheme Revenue	Planning and Commercial*
	Scheme Costs

Finance, Discount Rate and NPV *

* indicates sections requiring user values

User entered values
Toolkit calculated values

Finance, Discount Rate and NPV

		Time span (years) 1	2	3	4	5
Residual (Total inflated revenue less total inflated costs)		-£ 6,931,408	£ 24,136,096	£ -	£ -	£ -
Interest Rate	- Debit Interest rate (Benchmark 7%)	7.00%	7.00%	7.00%	7.00%	7.00%
	- Credit Interest Rate (Benchmark 5%)	5.00%	5.00%	5.00%	5.00%	5.00%
	- Debit Interest Costs	-£ 485,199	£ 1,170,364	£ 1,228,882	£ 1,290,327	£ 1,354,843
	- Credit Interest Costs	-£ 346,570	£ 835,974	£ 877,773	£ 921,662	£ 967,745
	- Resulting Interest Costs	£ -	£ 835,974	£ 877,773	£ 921,662	£ 967,745
	- Cumulative Residual / Balance	-£ 7,416,607	£ 17,555,463	£ 18,433,236	£ 19,354,898	£ 20,322,643
Discount Rate	- Annual Discount rate	3.00%				
	- Cumulative discount rate	97.00%	94.09%	91.27%	88.53%	85.87%

Apply Benchmarks

	Year 1	2	3	4	5
Discounted Residual	-£ 7,194,109	£ 16,517,935	-	-	-

Measures Of Return

Net Present Value	£ 16,517,935	£ 8,258,968	per ha.

The user can either select the defaults for credit or debit interest or select his/her own interest rate.

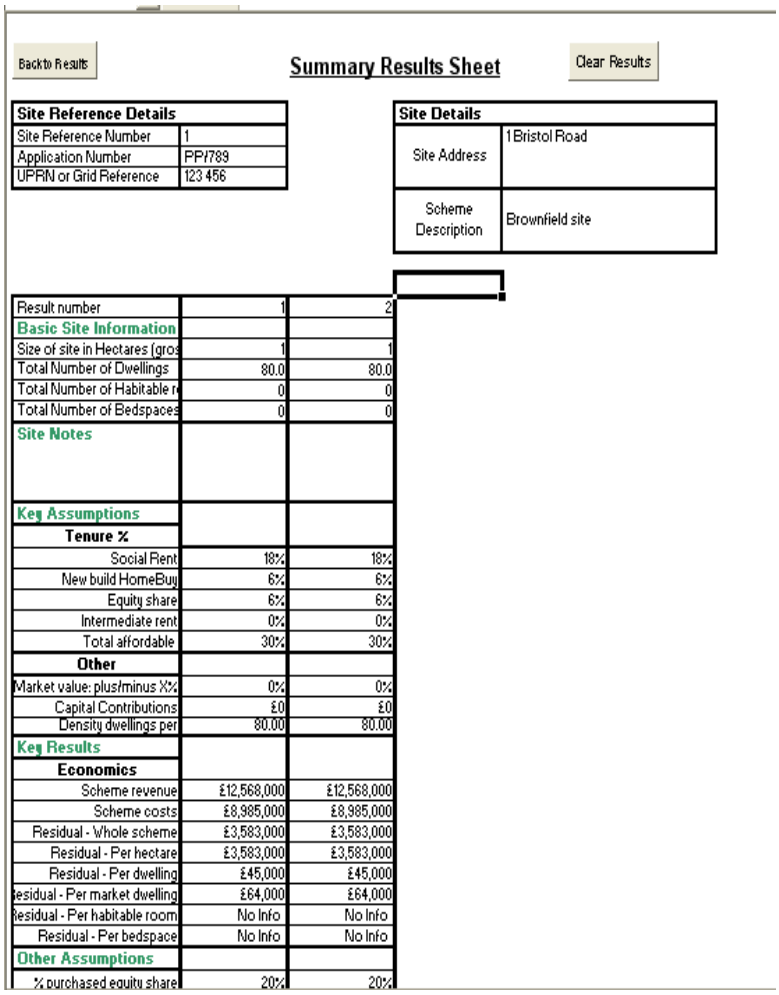
The interest rate selected 'credits' or 'debits' the annual residual site value. Where the scheme is in debit (i.e. the costs exceed the revenue and hence the site value at a particular point in time is negative), then debit interest accumulates. Where the site value is positive, it accumulates credit interest.

The user can also specify a discount rate. This rate is meant to reflect the opportunity cost of site holding, and it is recommended that for most developments this should be set at the prevailing rate of inflation (RPI)

The interpretation of this page is important and further guidance on the interpretation of results is given in Advisory Note AN 5.

E3 Saving the Results

Also accessed from the Toolkit's Results page, the user can store a number of different results for the same scheme and compare the impact on scheme finances of different sets of assumptions. To store results in the Summary Results Sheet, press the Save Results button on the 'Scheme Results' sheet.



Back to Results

Summary Results Sheet

Clear Results

Site Reference Details	
Site Reference Number	1
Application Number	PP/789
UPRN or Grid Reference	123 456

Site Details	
Site Address	1 Bristol Road
Scheme Description	Brownfield site

Result number	1	2
Basic Site Information		
Size of site in Hectares (gros	1	1
Total Number of Dwellings	80.0	80.0
Total Number of Habitable r	0	0
Total Number of Bedspaces	0	0
Site Notes		
Key Assumptions		
Tenure %		
Social Rent	18%	18%
New build HomeBuy	6%	6%
Equity share	6%	6%
Intermediate rent	0%	0%
Total affordable	30%	30%
Other		
Market value: plus/minus X%	0%	0%
Capital Contributions	£0	£0
Density dwellings per	80.00	80.00
Key Results		
Economics		
Scheme revenue	£12,568,000	£12,568,000
Scheme costs	£8,985,000	£8,985,000
Residual - Whole scheme	£3,583,000	£3,583,000
Residual - Per hectare	£3,583,000	£3,583,000
Residual - Per dwelling	£45,000	£45,000
esidual - Per market dwelling	£64,000	£64,000
esidual - Per habitable room	No Info	No Info
Residual - Per bedspace	No Info	No Info
Other Assumptions		
% purchased equity share	20%	20%

Additional facilities have been added which enable the user to store more information on the "Saved Results" sheet about modifications you have made in individual scheme runs.

The Summary Results Sheet can store over 200 different sets of results within the Toolkit. The Summary Results sheet provides scheme reference information at the top, key financial and other information and a review of the main assumptions which have been used. This information is automatically saved upon exiting the Toolkit via the "File" menu, and is recalled when the user next accesses the Toolkit.

If the user wants to remove saved results from the Summary Results Sheet, press the “Clear Results” button.

By using the menu button “File” and selecting “Save Results” you can create a file of results only. The user will be prompted to enter a name for this Results File, which is then created in the same directory as the Toolkit.

ADVISORY NOTES

AN 1 Parking

Parking provision can be dealt with in one of two ways:

Option A – deal with parking through the 'characteristics of development page':

If either 'underground parking' or 'undercroft parking' is selected on page 4 of the Toolkit 'characteristics of development', then development costs will automatically be increased; in the case of underground parking, by £15,000 per unit and for undercroft parking, by £5,000 per unit. If Option A is chosen, there will be no need to alter the floor area of the units on the 'characteristics of development' page to reflect the additional build area.

Option B – deal with parking by adjusting the floor area of the building. Under this route, the user would select 'n/a' on the 'characteristics of development' page as the parking option, but would adjust the total floor area of the development to ensure the underground or undercroft parking area is included. This requires a manual calculation (outside the Toolkit). As an example:

Undercroft parking amounts to 200 m^2. There are 20 units of 60 m^2 each, making 1,200m^2 residential area. The user would then increase the size of each unit by 16.66% (200 as a % of 1,200), giving 70 m^2 per unit.

Underground parking is defined as construction requiring digging out below the main street level. Undercroft is parking at ground where the development effectively 'forfeits' housing at ground level for parking. Users should note that where sites slope, underground parking may be less costly as the natural lie of the land may help the construction and reduce the need for dumping soil.

Development costs for garages will be included within the BCIS Base build costs and hence within the defaults. These reflect the average cost of developing estate type housing.

AN 2 House prices

The default 'market' or 'house price' values are calculated at a market area level.

Two key sources of data have used to derive and update the default values: HM Land Registry and house price data from Halifax plc. In summary, the Land Registry data provides the base for prices for three main dwelling types: flats, terraces and semi-detached properties.

The default values are based on a very large sample of transactions in the existing stock. It is not sensible to derive market values on the basis of new

sales, since these are relatively few in number and tend to be unreliable as a sample. The default values are however calculated by using an 'existing to new' conversion factor, ensuring that they emulate, in so far as possible, new selling prices. The 'existing to new' conversion is calculated on an annual basis to ensure accuracy.

The defaults reflect price expectations as at April 2008.

AN 3 Social and Intermediate/Affordable Rent Assumptions

The net rent is the gross rent minus management and maintenance costs, voids and bad debts. The net rent produces an annual sum which will service a loan on the basis of which an RSL can make a capital payment to a developer. The default factor used to 'capitalise' the net rental payment is set out in the Toolkit. Users can insert an alternative value if required.

There is no published guidance which defines the appropriate costs for use in the Toolkit. For both social rent and intermediate rent, the default values have been derived from the housing associations participating in the development of the Dorset Toolkit. For different housing associations and for individual schemes, these values may vary and Toolkit users are advised to consult with their local housing association on the most appropriate values to use in the Toolkit.

AN 4 Development Costs

AN 4.1 Terminology: 'Development' and 'Build' costs

The Toolkit provides an estimate of total 'development costs'. These are established from 'base build' costs (derived from the BCIS data). To arrive at total 'development costs' a further series of costs are added known as 'Other Development Costs'.

AN 4.2 Definition of 'build costs'

'Build costs' are taken directly from the secondary data source, namely the BCIS Quarterly Review. These 'costs' are based on tender price/m^2.

The BCIS base costs do not include an element for external infrastructure/special landscaping; they do not include an allowance for professional fees (they are usually paid separately by the client to the contractor); and although there is an element of 'profit' for the contractor, this is a minimal working profit, and not one which reflects a reasonable return to a developer engaged in speculative housing production (where there is a special risk of not selling the housing units).

The Toolkit default build costs have been adjusted in discussions with BCIS to reflect base costs including external works.

AN 4.3 Location adjustment at the DORSET level

The BCIS 'Survey of Tender prices provides adjustments at the district level to reflect the differences between particular areas and the national average. These adjustments are included in the default data that has been used.

An overall adjustment of plus 7% has been adopted (relative to the national average), based on an average for all participating authorities. Authorities should collate development cost data so that the best local data is available with which to appraise schemes.

AN 4.4 Exceptional or 'abnormal' costs

Schemes will inevitably incur exceptional development costs. These are costs over and above basic build costs and external works. Users should however not automatically assume that because a site is previously used and site clearance/decontamination is required for development to proceed that these costs are exceptional.

The question the user must ask is 'are the development costs associated with this site significantly more onerous than are found on most sites in the district?' If the answer is yes then allowance can be made for this, although from the perspective of a local authority trying to maximise a Section 106 contribution, it is always sensible and good practice to require the applicant to provide a full break down of the costs, showing how base build costs, external works and abnormal are made up.

AN 4.5 Conversions

The BCIS data relating to the conversion of buildings to residential shows a huge range of build costs associated with different schemes.

In principle, conversion schemes can be assessed for viability in the same way as for new build, but underpinning data is more difficult to come by. However, the Toolkit only allows the user to do this if they can provide per square metre build costs which are relevant to the site. In estimating appropriate build costs information can be taken directly from the developer, or the user can rely on previous similar cases and/or seek advice from their own experts, for instance, from their own estates and valuation colleagues.

AN 4.6 Use of development cost data and the measurement of buildings incorporating residential units

It is important that Toolkit users understand the relationship between the default build costs and size of units.

The calculation made by the Toolkit is to multiply the unit size entered on the 'Sizes of units' page either by the default build cost (cost per m2) or by the bespoke cost entered by the user in the white cells. As an example:

A unit of size 60m2 with a build cost of £1000 per m2 will have a total cost of £60,000 to which is then added the other relevant development costs.

The default base build costs in the Dorset Toolkit are based on the cost per square metre on a gross internal area (of the building) – GIA basis. This matches the BCIS basis and is an appropriate starting point given that many developments in the Dorset area are lower rise and will include a significant proportion of houses.

This means that where an appraisal includes flats, the floor space entered on the Characteristics of Development page (page 4) for flats should be increased if there are common areas to the flatted part of the development. Taking the example of a scheme of ten apartments with internal areas of 50 m^2 each that would mean a total net internal area (NIA) for the building of 500 m^2. If the common areas (stairways/circulation space) amounted to say 15% of the total (i.e 75 m^2), then the user should add 7.5m^2 (75m^2 divided by 10) to each apartment net size.

Alternatively, the unit sizes could be expressed on a NIA basis (at 50m^2) and the base build cost expressed on the same 'footing'.

AN 5 Finance, Interest Calculations and Discount Rate within the Toolkit (Main Model and DCF)

The addition of the Discounted Cash Flow mechanism makes it possible within the Toolkit to deal with development finance in a more explicit manner.

AN 5.1 Traditional or 'static' Toolkit appraisal:

The non phased 'traditional' Toolkit approach to finance bases interest costs on development costs. In the traditional or 'static' Toolkit, interest is calculated on all elements (market and affordable) on the basis of development costs.

If land financing costs are relevant, these should added in the box below 'Other Development Costs' on the Development Costs page of the main or static Toolkit model.

In completing appraisals, where land financing is relevant, users should complete the appraisal before filling in the Land Financing Costs box on the Development Costs page. As a rule of thumb, interest will be paid by the developer at the market rate (round 7%) on the residual site value.

For schemes running over periods longer than one year, users are encouraged to run the scheme through the DCF in tandem with the main model as the financing assumptions are sensitive to the phasing approach.

AN 5.2 DCF

The DCF takes the interest costs on the build (but not the land) directly from the main or static model. The costs of financing the land are made explicit by the calculations within the DCF (see section 'Finance, Discount Rate and NPV'.

The DCF calculates land financing costs by working out how interest is debited and credited to the annual residual value. Interest is calculated on a cumulative basis such that a scheme in 'credit' will attract positive interest, and once which is in debit will attract negative interest. The user can vary the credit and debit interest assumptions.

AN 5.3 Balancing the static model and the DCF

The user can 'balance' the two different approaches. If interest is taken out of both models and there is nothing entered to the land financing costs within the static model, then, provided that the build rate has been distributed evenly, and inflation assumptions set to zero, then the two models should 'balance' and provide a similar residual.

AN 5.4 Discount rate

The DCF allows the user to apply a 'discount rate'. This is a percentage that is applied to the annual residual values. The higher the discount rate is set, the lower the site value will be.

The discount rate is there to calculate more precisely the present value (Net Present Value) of the site. It calculates the value of the site in today's terms, given the likely eventuality that the real value of money will have fallen with time.

The discount rate devalues the annual residual values to today's terms.

It is recommended that the discount rate is set to the annual rate of inflation or RPI, currently around 3%.

NB: Care is needed in understanding the relationship between price and cost inflation, and the discount rate, based on RPI.

In assessing appraisals, local authorities are advised to obtain substantiated evidence on house price inflation, projected costs and the likely levels of inflation. These factors can make a very significant difference to site value.

APPENDICES

Appendix 1 Check list for development appraisals involving affordable housing and other Section 106 contributions:

Revenues

- Selling prices for market housing (should be supported by an independent chartered surveyor reports of expected selling prices, setting out scheme comparables used);

- Estimates of affordable housing value (what RSLs would be likely to pay for each of the affordable tenures);

- Any other potential revenues to the scheme – grant, ground rents, cross contribution from a commercial element.

Costs

- Quantity surveyor estimates of build costs. This will normally cover sub and super structure and any external works. Quote should ideally be based on a square metre Net Internal Area basis;

- Other development cost data. This should include:

  - Professional fees (expressed as % build costs);
  - Profit margin (and basis – on market value or on build cost);
  - Finance – cost;
  - Marketing and legal fees;
  - Any contractor return required if the scheme is contracted out;
  - Abnormal costs (these should always be substantiated by a specialist's report);
  - Any other costs the applicant believes are relevant.

  NB: Where costs are more than 5% over the appropriate default, a full scheme cost plan should be provided.

Site value

- An estimate of site value should be provided. If the scheme is of significant scale (eg over 20 units) the site value should be evidenced by a valuer's report.

Phasing

- The anticipated build period should be stated. With this information should be provided an estimate of projected selling prices and projected development costs for the period of the build;

- The applicant should state whether s/he anticipates that the affordable housing or other Section 106 contributions have been front loaded in their appraisal.

Development process

- The applicant should state how the development will be procured. Is the scheme being developed by a company that has its own building arm, or will the scheme be developed on a Design and Build basis.

- How is the affordable element being procured? Are on-costs to an RSL relevant?