

**North Dorset District Council Affordable  
Housing Provision and Developer  
Contributions in Dorset**

**Final Report**

**Three Dragons**



**January 2010**

# 1 INTRODUCTION

## Review of project aims

- 1.1 East Dorset, North Dorset and West Dorset District Councils together with Christchurch and Weymouth and Portland Borough Councils appointed Three Dragons to undertake an affordable housing and residential economic viability study covering the five authorities. The work was commissioned by Dorset Affordable Housing Task Group on behalf of the Councils and was overseen by a Project Team comprising representatives of the Councils.
- 1.2 The broad aims of the study, as set out in the study brief were to:  
*“.....measure the application and effectiveness of the Councils’ current affordable housing policies; to provide a robust evidence base that will examine the viability of different types / tenures of development in different areas; and on the basis of this evidence, to indicate ways in which policy can be developed to increase the delivery of affordable housing in Dorset. The outputs should include a model that can be used to measure the viability of different levels / types of affordable housing provision on individual sites that come forward for development in the future.”*
- 1.3 This report relates to the specific circumstances of North Dorset District Council. The report analyses the impact of affordable housing and other planning obligations on scheme viability.

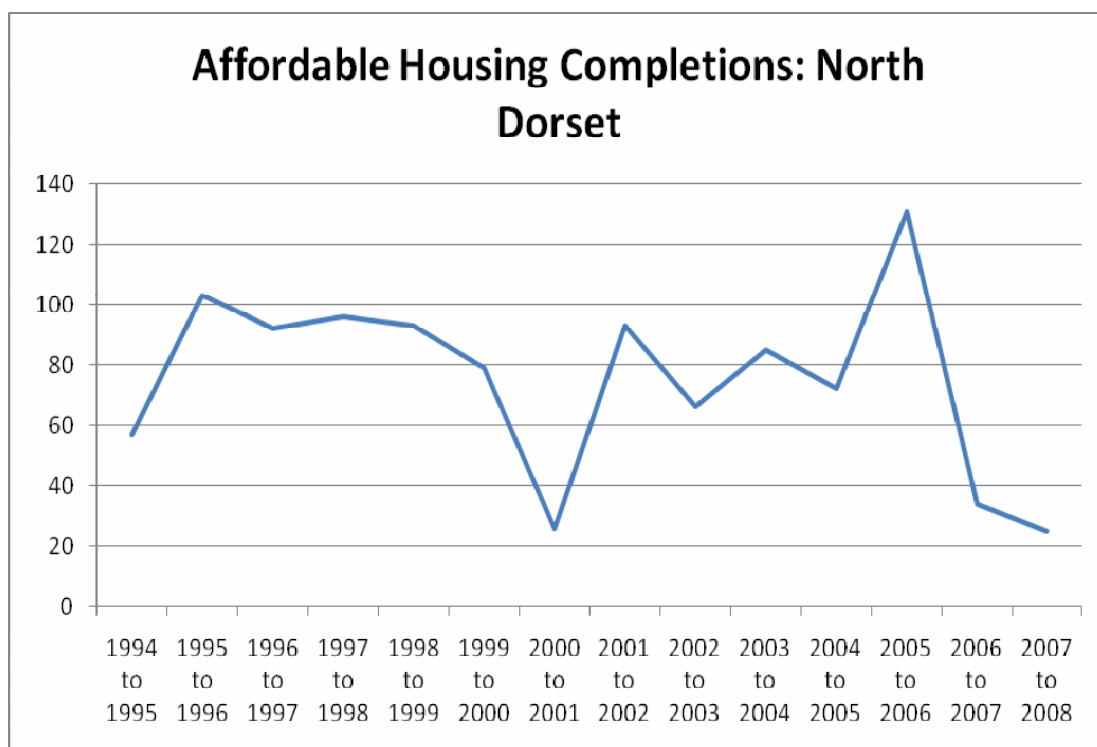
## Progress in Delivering Affordable Housing

- 1.4 Total housing completions in North Dorset have cycled through two peaks and troughs over the past 14 years. The trend line suggests that completions peaked in the mid 90’s and again in the mid 00s, but in the last 3 years have started to fall. Table 1.1 and Figure 1.1 shows the completion rates over the past 14 years. Between 1994/95 and 2007/08 they ranged from just over 200 to over 600, with only 211 dwellings, the lowest rate, completed in 2007/08. The 10 year average is 427 dwellings.
- 1.5 In terms of delivery of affordable housing, the level of affordable housing achieved is on average 15% over the past ten years. The completion rates indicate that affordable housing delivery generally remained fairly consistent in terms of the number delivered and over the past five years has averaged around 69 dpa. In comparison with the other Dorset authorities (see Figure 1.1), North Dorset is currently one of the lowest in terms of the level of affordable housing completions, although historically it has been providing more than most of the other authorities.
- 1.6 We understand that the Council currently has 1216 outstanding planning permissions of which 420 (34.5%) are for affordable housing.

**Table 1.1 Housing completions in North Dorset 1994 – 2008**

<b>Year</b>	<b>Total private dwellings</b>	<b>Total affordable dwellings</b>	<b>Total dwellings</b>	<b>Percentage affordable dwellings</b>
<b>1994/1995</b>	422	57	479	12%
<b>1995/1996</b>	342	103	445	23%
<b>1996/1997</b>	335	92	427	22%
<b>1997/1998</b>	265	96	361	27%
<b>1998/1999</b>	248	93	341	27%
<b>1999/2000</b>	289	79	368	21%
<b>2000/2001</b>	314	26	340	8%
<b>2001/2002</b>	446	93	539	17%
<b>2002/2003</b>	392	66	458	14%
<b>2003/2004</b>	528	85	613	14%
<b>2004/2005</b>	437	72	509	14%
<b>2005/2006</b>	447	131	578	23%
<b>2006/2007</b>	277	34	311	11%
<b>2007/2008</b>	186	25	211	12%
<b>1994/2008(dpa)</b>	352	75	427	18%
<b>1998/2008(dpa)</b>	356	70	427	16%
<b>2003/2008(dpa)</b>	375	69	444	16%

**Figure 1.1: North Dorset annual affordable housing completions 1994 – 2008**



### **Need for Affordable Housing**

- 1.7 The Council, with other Dorset authorities, jointly commissioned Fordham Research to produce the Dorset Survey of Housing Need and Demand (part of the Strategic Housing Market Assessment). This was published in March 2008.
- 1.8 The report provides two methods of calculating affordable housing need, namely the CLG method<sup>1</sup> and Fordham Research’s Balanced Housing Market (BHM)<sup>2</sup> method of assessment.
- 1.9 Using the CLG method, the report concludes that there is a need for 399 affordable homes per annum. In terms of the headline percentage of affordable housing, the report indicates that 63% of housing provided as affordable housing would be justified on the basis of need.

<sup>1</sup> CLG method is published in its guidance “Strategic Housing Market Assessment: Practice Guide, March 2007” It requires assessments to calculate current (backlog) need, available stock to offset need, newly arising (future) need and future supply of affordable units

<sup>2</sup> The BHM assessment looks at the whole local housing market, considering the extent to which supply and demand are ‘balanced’ across tenure and property size. It combines a technical assessment of affordability with a reasoned judgement about how the housing market operates (e.g. the private rented sector is often used to meet some affordable needs). In addition the model looks at both households’ aspirations and their expectations to provide an indication of the most likely housing solution in the particular market.

- 1.10 The Dorset Survey of Housing Need and Demand report recommends that the local planning authorities assess the economic viability of providing affordable housing in their areas and that policy should seek the highest possible proportions that are assessed as being viable.
- 1.11 In addition to the headline rates of affordable housing need the report also found, using the BHM assessment, that the demand for affordable housing is split roughly 50/50 between social rented and intermediate affordable housing – although the report advises that this split should be treated with caution as more detailed analysis shows the actual number of households that can afford intermediate housing is well below the numbers seeking intermediate housing. On this basis, a recommended tenure split that is more heavily weighted towards social rented housing appears justified.
- 1.12 Our report is not intended to deal with the issue of affordable housing need in any detail. Given the level of need reported in Survey of Housing Need and Demand and the comments made in that study, it seems reasonable for us to assume that the Council will continue to need to maximise delivery of affordable housing, consistent with financial viability considerations (and other mixed community objectives).

#### **Policy context - national**

- 1.13 This study focuses on the percentage of affordable housing sought on mixed tenure sites and the size of site from above which affordable housing is sought (the site size threshold). National planning policy, set out in PPS3 makes clear that local authorities, in setting policies for site size thresholds and the percentage of affordable housing sought, must consider development economics and should not promote policies which would make development unviable.

PPS3: Housing (November 2006) states that:

*“In Local Development Documents, Local Planning Authorities should:*

*Set out the range of circumstances in which affordable housing will be required. The national indicative minimum site size threshold is 15 dwellings. However, Local Planning Authorities can set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area. Local Planning Authorities will need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed, including their likely impact upon overall levels of housing delivery and creating mixed communities”.*  
*(Para 29)*

- 1.14 The companion guide to PPS3<sup>3</sup> provides a further indication of the approach which Government believes local planning authorities should take in planning for affordable housing. Paragraph 10 of the document states:

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<sup>3</sup> CLG, Delivering Affordable Housing, November 2006

*“Effective use of planning obligations to deliver affordable housing requires good negotiation skills, **ambitious but realistic affordable housing targets and thresholds** given site viability, funding ‘cascade’ agreements in case grant is not provided, and use of an agreement that secures standards.”* (our emphasis)

### **Policy context – South West Region**

- 1.15 The draft revised Regional Spatial Strategy (RSS) for the South West, incorporating the Secretary of State’s Proposed Changes (June 2008), has identified 7,000 dwellings or 350 per annum to be provided in North Dorset, 2006 to 2026. This was an increase on the draft RSS which identified a target of 5200 (255dpa).
- 1.16 The Proposed Changes do not identify any Strategically Significant Cities and Towns within North Dorset, so the housing targets will have to be met in towns and villages identified by the authority in their Local Development Framework.
- 1.17 Policy H1 of the Proposed Changes deals with housing affordability. It requires provision to be made for at least 35% of all housing development annually across each local authority area and housing market area to be affordable housing.

### **Policy context – North Dorset**

- 1.18 The North Dorset District-Wide Local Plan (2003) contains four saved policies regarding affordable housing.
- 1.19 Policy 2.12 seeks to achieve affordable housing through negotiation on developments of 25 or more dwellings or 1 plus hectare in Gillingham and Shaftesbury; on development of 15 or more dwellings or 0.5 plus hectare in Blandford and Sturminster and 8 or more dwellings or 0.25 plus hectares in Stalbridge and other identified villages.
- 1.20 Policy 2.13 identifies an overall target of about 1170 affordable dwellings to be provided in the District 1998-2011, split 650 subsidised and 520 low cost market housing.
- 1.21 Policy 2.4 is a rural exceptions policy that allows small scale affordable housing within or adjacent to villages and the small town of Stalbridge, providing demonstrable local need.
- 1.22 Policy 2.16 permits agricultural and forestry workers’ dwellings, subject to meeting the policy criteria.
- 1.23 North Dorset published its Issues and Options Core Strategy in June 2007. In respect of affordable housing the report presented a range of options including negotiating a higher proportion of affordable housing than in the past, lowering the threshold, requiring a mix based on local need and limiting rural exception in terms of location. The results of the consultation indicated

support for a higher proportion of affordable housing (ranging from 30 -40%), that only affordable housing should be delivered in the large villages and support for negotiation for affordable housing on sites of more than one dwelling.

### **Research undertaken**

1.24 There were four main strands to the research undertaken to complete this study:

- Discussions with a project group of officers from the five commissioning authorities which informed the structure of the research approach;
- Analysis of information held by the authority, including that which described the profile of land supply;
- Use of the Three Dragons Toolkit to analyse scheme viability (and described in detail in subsequent chapters of this report);
- A workshop held with developers, land owners, their agents and representatives from a selection of Registered Social Landlords active in the district. A full note of the workshop is shown in Appendix 1.

### **Structure of the report**

1.25 The remainder of the report uses the following structure:

- Chapter 2 explains the methodology we have followed in, first, identifying sub markets and, second, undertaking the analysis of development economics. We explain that this is based on residual value principles;
- Chapter 3 provides analysis of residual values generated across a range of different development scenarios (including alternative percentages and mixes of affordable housing) for a notional 1 hectare site.
- Chapter 4 considers options for site size thresholds. It reviews national policy and the potential future land supply and the relative importance of small sites. The chapter considers practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed);
- Chapter 5 identifies a number of case study sites (generally small sites which are currently in use), that represent examples of site types found in the authority. For each site type, there is an analysis of the residual value of the sites and compares this with their existing use value.
- Chapter 6 summarises the evidence collected through the research and provides a set of policy recommendations.





## **2 METHODOLOGY**

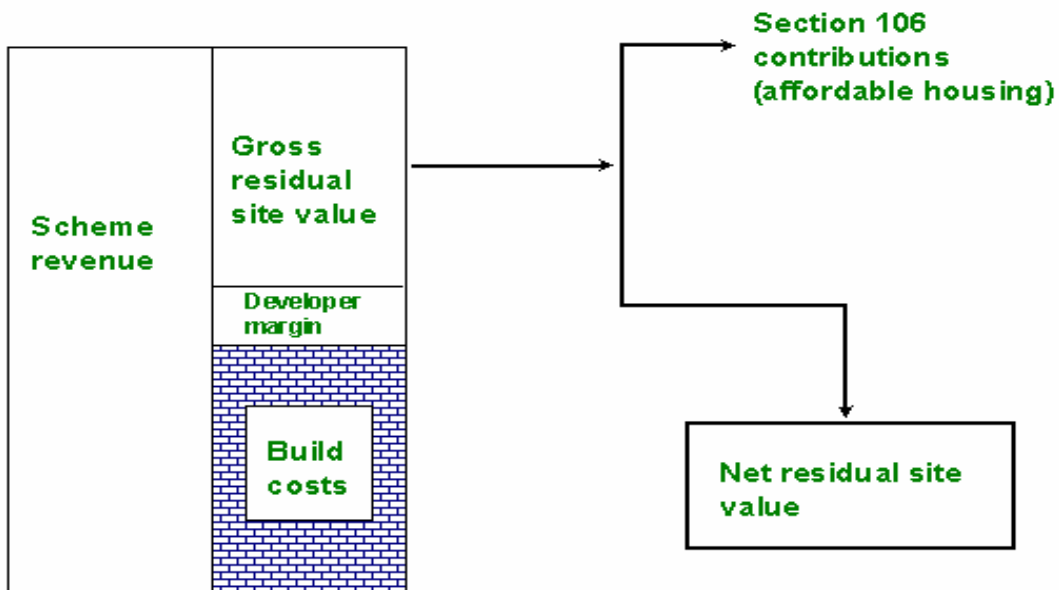
### **Introduction**

- 2.1 In this chapter we explain the methodology we have followed in, first, identifying sub markets (which are based on areas with strong similarities in terms of house prices) and, second, undertaking the analysis of development economics. The chapter explains the concept of a residual value approach and the relationship between residual values and existing/alternative use values.

### **Viability – starting points**

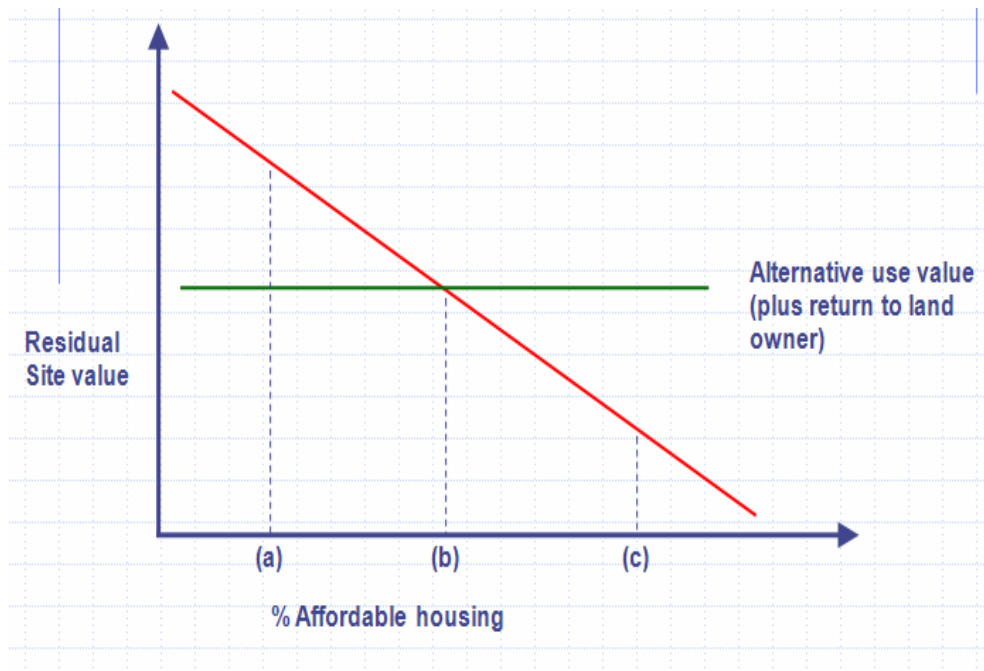
- 2.2 We use a residual development appraisal model to assess development viability. This mimics the approach of virtually all developers when purchasing land. This model assumes that the value of the site will be the difference between what the scheme generates and what it costs to develop. The model can take into account the impact on scheme residual value of affordable housing and other s106 contributions.
- 2.3 Figure 2.1 below shows diagrammatically the underlying principles of the approach. Scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme costs assume a profit margin to the developer and the 'build costs' as shown in the diagram include such items as professional fees, finance costs, marketing fees and any overheads borne by the development company.
- 2.4 The gross residual value is the starting point for negotiations about the level and scope of s106 contribution. The contribution will normally be greatest in the form of affordable housing but other s106 items will also reduce the gross residual value of the site. Once the s106 contributions have been deducted, this leaves a net residual value.

**Figure 2.1 Theory of the Section 106 Process**



- 2.5 Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.
- 2.6 A site is extremely unlikely to proceed where the costs of a proposed scheme exceed the revenue. But simply having a positive residual value will not guarantee that development happens. The existing use value of the site, or indeed a realistic alternative use value for a site (e.g. commercial) will also play a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing.
- 2.7 Figure 2.2 shows how this operates in theory. Residual value falls as the proportion of affordable housing increases. At some point (here 'b'), alternative use value (or existing use value whichever is higher) will be equal to scheme value. If there is a reasonable return to the land owner at point 'b' (i.e 'b' reflects best possible current use value (alternative or existing) and there is a sufficient return, then the scheme will come forward. At point 'c', affordable housing will make the site unviable. At 'a' the scheme should be viable with affordable housing. The diagram does not assume grant. Grant should be used to 'lever out' sites from their existing or best alternative uses.

**Figure 2.2 Affordable housing and alternative use value**



2.8 The analysis we have undertaken uses a Three Dragons Viability model. The model is explained in more detail in Appendix 2, which includes a description of the key assumptions used.

### 3 HIGH LEVEL TESTING

#### Introduction

- 3.1 This chapter of the report considers viability for mixed tenure residential development for a number of different proportions and types of affordable housing. The analysis is based on a notional 1 hectare site and has been undertaken for a series of market value areas that have been identified. The chapter explains this and explores the relationship between the residual value for the scenarios tested and existing/alternative use values.

#### Market value areas

- 3.2 Variation in house prices will have a significant impact on development economics and the impact of affordable housing on scheme viability.
- 3.3 We undertook a broad analysis of development across the housing market, using HM Land Registry data to identify market value areas in the District. The areas are defined by reference to postcode sectors and their house prices and provide the basis for a set of indicative new build values as at December 2008. The purpose of this analysis is to help establish a broad starting point for target setting in the light of the general relationships between development revenues and development costs. Table 3.1 below sets out the market value areas for the District.

**Table 3.1 Market value areas in North Dorset**

NORTH DORSET		
Sub Market	Postcode Sector	Key settlements/areas
Shaftesbury & Gillingham Rural Hinterland	SP8 5	Rural North (Milton on Stour; Kingston Magna; East Stour)
	SP7 9	Rural North (Motcombe)
	SP7 0	Shaftesbury Rural Hinterland
Blandford Forum Rural Hinterland	DT11 9	Rural South (Blandford St Mary; Winterhorne; Kingston; Spetisbury; Tarrant Keyneston)
	DT11 0	Rural South (Oxford; Fitzpaine; Milton Abbas; Woolland; Bryanston)
	DT11 8	Rural East (Iwerne Minster; Courtney Shroton; Pimperne; Blandford Camp; Tarrant Gunville)
Rural West	DT10 2	Rural West (Stalbridge; Hazlebury Bryan)
	DT10 1	Rural West (Marnhull; Hinton St Mary; Sturminster Newton)
Shaftesbury	SP7 8	Shaftesbury
Blandford Forum	DT11 7	Blandford Forum
Gillingham	SP8 4	Gillingham

Source: Market value areas as agreed between Three Dragons and North Dorset DC

### **Testing assumptions (notional one hectare site)**

- 3.4 For the viability testing, we defined a number of development mix scenarios, using a range of assumptions agreed with the Council. The scenarios were based on an analysis of typical development mixes and were discussed at the stakeholder workshop.
- 3.5 The development mixes were as follows:
- 20 dph: including 30% 3 bed semis; 30% 3 bed detached and 40% 4 bed detached;
  - 30 dph: including 10% 2 bed terraces; 20% 3 bed terraces; 15% 3 bed semis; 30% 3 bed detached; 25% 4 bed detached;
  - 40 dph: including 10% 2 bed flats; 10% 2 bed terraces; 15% 3 bed terraces; 30% 3 bed semis; 20% 3 bed detached; 15% 4 bed detached;
  - 50 dph: including 5% 1 bed flats; 10% 2 bed flats; 10% 2 bed terraces; 15% 3 bed terraces; 35% 3 bed semis; 15% 3 bed detached; 10% 4 bed detached;
  - 60 dph: including 10% 1 bed flats; 30% 2 bed flats; 20% 2 bed terraces; 15% 3 bed terraces; 25% 3 bed semis.
- 3.6 We calculated residual site values for each of these (base mix) scenarios in line with a further set of tenure assumptions. These were 25%; 30%; 35%; 40%; 50% and 60% affordable housing. These were tested at 70% Social Rent and 30% New Build HomeBuy in each case. For the New Build HomeBuy, the share purchase was assumed to be 40% with 2.75% being charged on the unsold equity. All the assumptions were agreed with the authority.

### **Other s106 contributions**

- 3.7 For the majority of the modelling we have undertaken (and unless shown otherwise) we have assumed that other planning obligations have a total cost of £5,000 per unit.

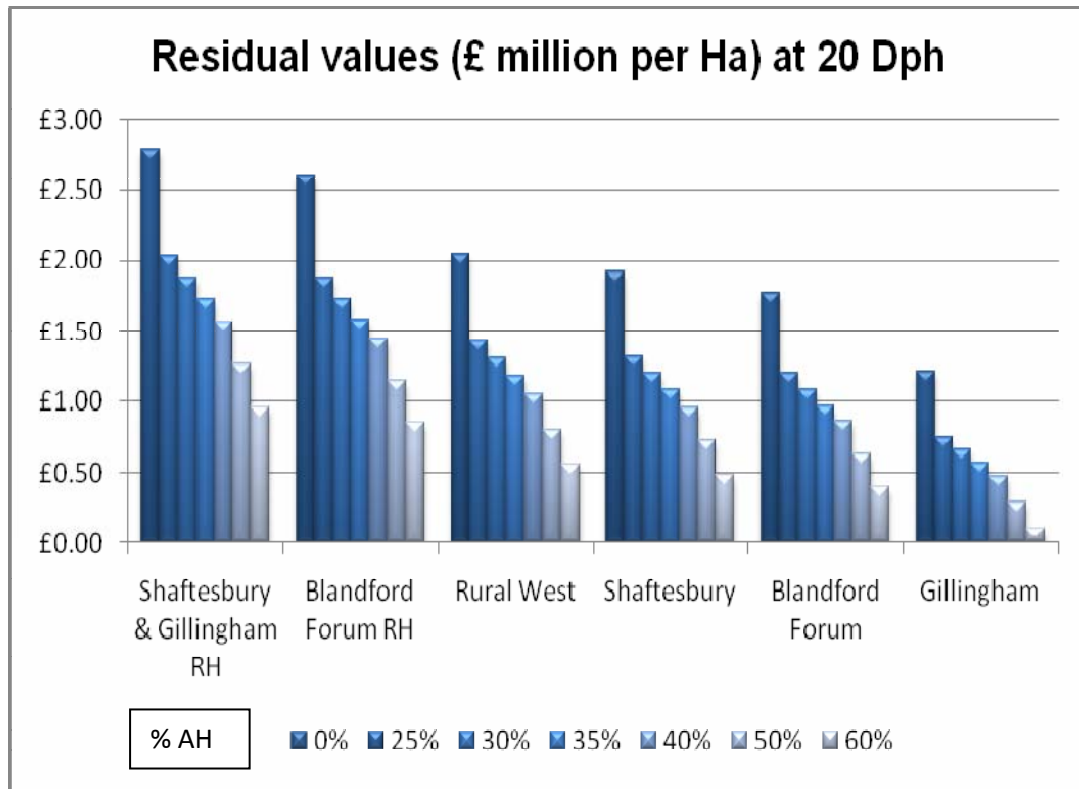
### **Results: residual values for a notional one hectare site**

- 3.8 This section looks at a range of development mixes and densities. It shows the impact of increasing the percentage of affordable housing on residual site values. The full set of results are shown in Appendix 3.

### Low density housing (20 dph)

3.9 Figure 3.1 shows low density housing (20dph) and the residual values for each of the market value areas outlined in Section 3.

**Figure 3.1 Lower density housing (20 dph) – Residual value in £s million**

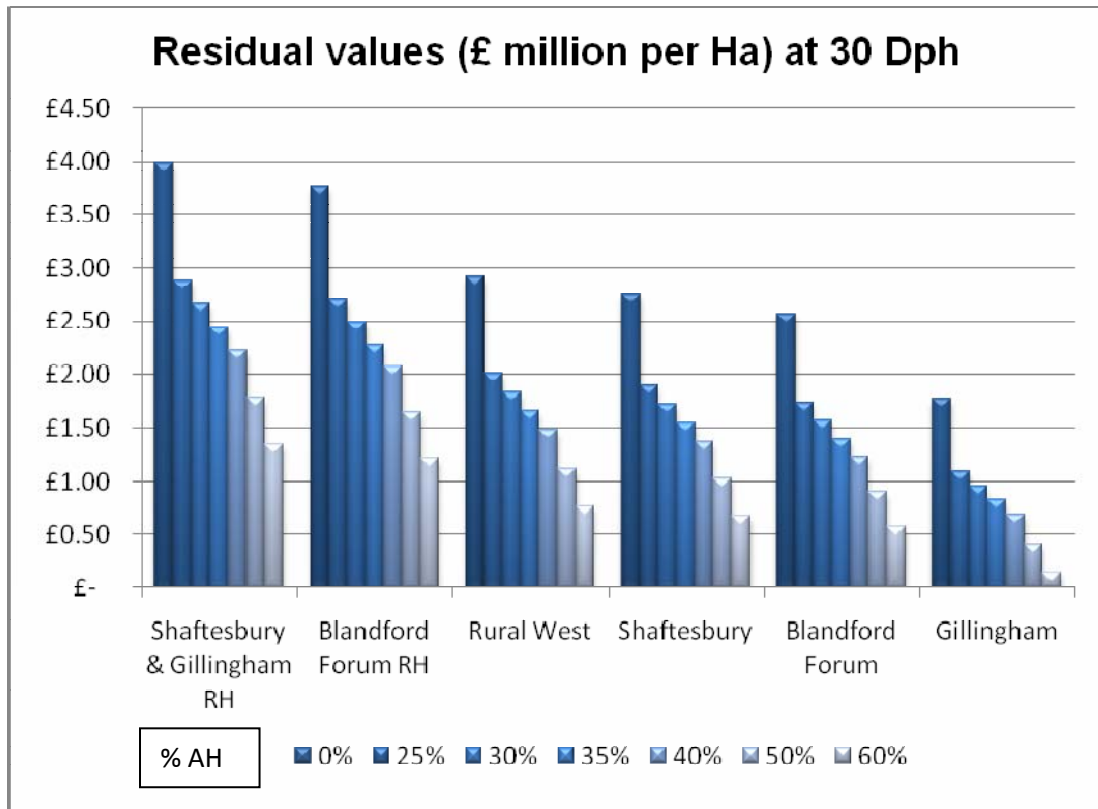


- Figure 3.1 shows that for all the scenarios tested, a positive residual value results;
- The chart shows some variation in residual values by market value area, reflecting the different house prices found in them. At, for example, 35% affordable housing, residual values range from £1.72 m per hectare in Shaftesbury and Gillingham RH to £0.57m per hectare in the lowest market value area of Gillingham.
- The range in values is important in terms of policy making. With the scenarios tested, a 50% affordable housing allocation in Shaftesbury and Gillingham RH would be expected to generate a higher residual (£1.27 million per hectare) than would a site developed for 100% market housing Gillingham (£1.22 million).
- The chart suggests three main ‘steps’ in terms of residual values. First, the rural hinterland areas of Shaftesbury, Gillingham and Blandford Forum; second, the Rural West area and the towns of Shaftesbury and Blandford Forum and third, Gillingham. This pattern (see below) is repeated across the range of densities tested.

**Lower density housing (30 dph)**

3.10 Figure 3.2 shows lower density housing (30 dph) and the residual values for each of the market value areas.

**Figure 3.2 Lower density housing (30 dph) – Residual value in £s million**

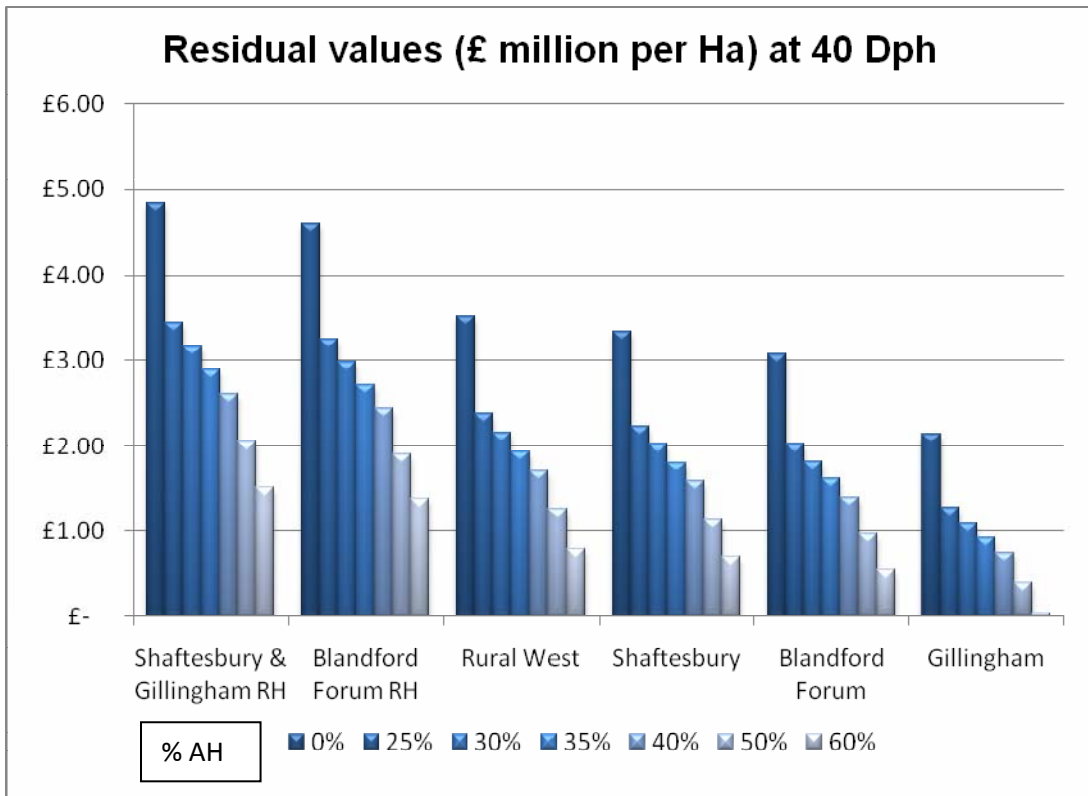


- Again, all the scenarios tested across all five market value areas, deliver a positive residual value;
- The impact of increased density has been to generally increase residual values but the effect varies between market areas and at different levels of affordable housing. The most substantial increases occur with increased density (20 dph to 30 dph) in higher value market areas and at lower proportions of affordable housing. Where affordable housing proportions are highest, then in the lower value market areas, there is only a very marginal increase in residual value.

**Medium density (40) dph scheme**

3.11 Figure 3.3 shows residual values for a (40 dph) scheme and the residual values for each of the market value areas outlined earlier.

**Figure 3.3 Medium density housing (40 dph) – Residual value in £s million**



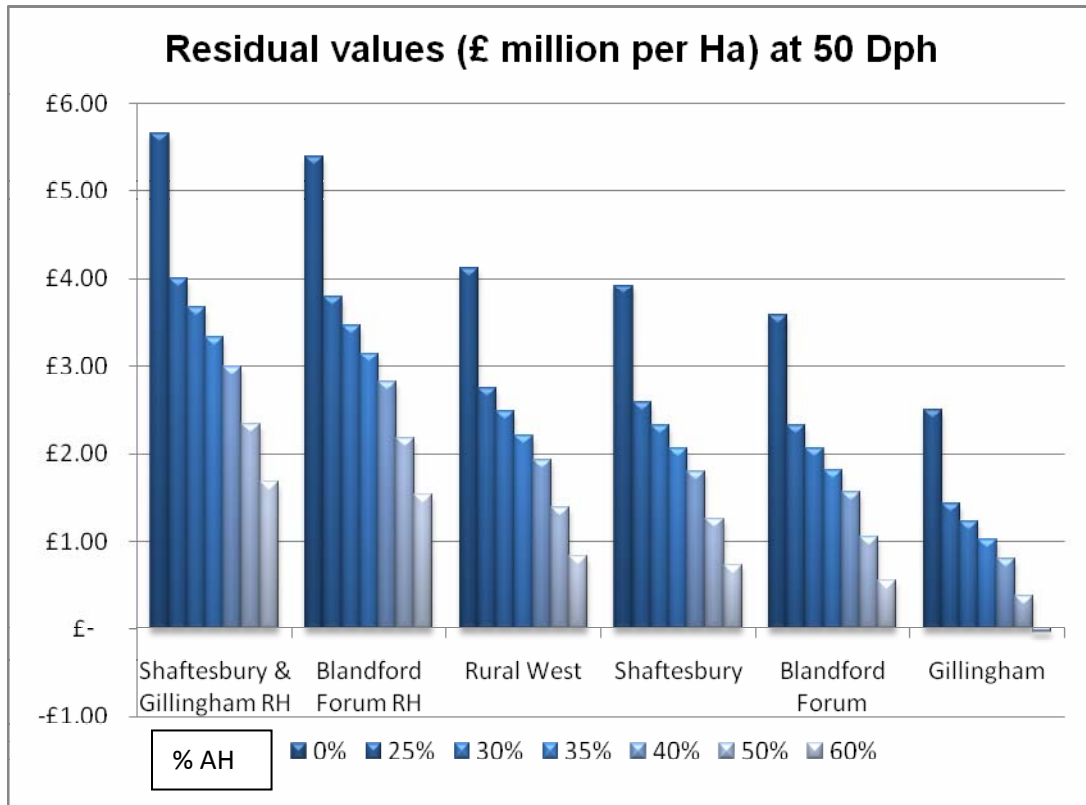
- The general impact of an increase to 40 dph (from 20 dph and 30 dph) is to increase residual values. Residuals are higher than the 30 dph scenario in all instances with the exception of the lowest two sub markets (Blandford Forum and Gillingham) at 60% affordable housing and at 50% affordable housing in Gillingham alone.
- This is an important finding about the economics, showing that at the highest percentages of affordable housing, in the weakest sub markets, low density (30 dph and less) is likely to provide the strongest residual values.
- Residual values at this (40 dph) scenario remain positive with residuals of between £2.89 million per hectare and £0.91 million per hectare at 35% affordable housing, depending on location.



### Higher density (50 dph) scheme

3.12 Figure 3.4 shows a higher density scheme – at 50 dph, and the residual values for each of the market value areas.

**Figure 3.4 Higher density housing (50 dph) – Residual value in £s million**

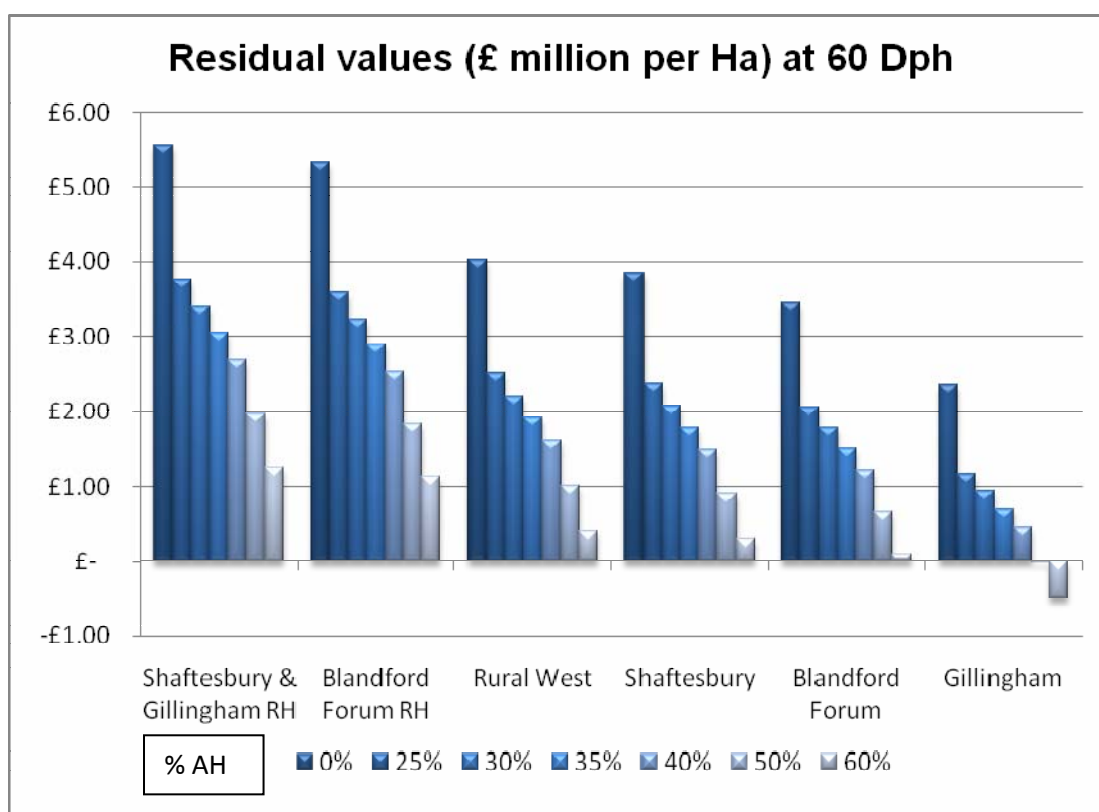


- The 50 dph scenario is important since it represents in the vast majority of instances, the highest residual values from the range of densities tested – 20 dph through to 60 dph. The exceptions are as previously, situations where the affordable housing quota is high (50% to 60%) in the weakest two sub markets. Residuals are negative in Gillingham at 60% affordable housing.
- We would expect therefore, that a 50 dph type scheme will be the best opportunity to maximise an affordable housing quota. This does of course depend however on the assumptions we have made about a typical 50 dph scheme. Other configurations of density and mix may produce different results and these will need to be tested on a scheme by scheme basis.

### High density (60 dph) scheme

3.13 Figure 3.5 shows a higher density (60 dph) scheme. The 60 dph scenario generally produces lower residuals than at 40 or 50 dph. In the case of Gillingham, residual values are negative at 50% and 60% affordable housing.

**Figure 3.5 Higher density housing (60 dph) – Residual value in £s million**



### Impacts of potential grant funding

3.14 The availability of public subsidy (in the form of grant) can have a significant impact on scheme viability. Grant given to the affordable housing providers enables them to pay more for affordable housing units, thus increasing overall scheme revenue and therefore the residual value of a mixed tenure scheme. There are two main sources of grant which may be available: from the Homes and Communities Agency and/or the local authority (for example using money collected from development in the form of a commuted sum, through a s106 agreement).

3.15 We have assumed grant of £50,000 per Social Rented unit and £15,000 per New Build HomeBuy unit. This level of grant was agreed with the local authority as being a reasonable figure to use for viability testing purposes.

3.16 We have tested the impact of grant on residual values for a 1 Ha site at 40 dph. The results are shown in Table 3.2 for five sub markets (Rural West results will be very similar to Shaftesbury).

**Table 3.2: Comparison of impact of grant versus on residual values (at 40 dph): Residual Value (£s million per hectare); £5,000 per unit planning obligation package**

40 Dph	Shaftesbury & Gillingham RH		Blandford Forum RH		Shaftesbury		Blandford Forum		Gillingham	
	No grant	Grant	No grant	Grant	No grant	Grant	No grant	Grant	No grant	Grant
0% AH	£4.83	N/A	£4.60	N/A	£3.35	N/A	£3.08	N/A	£2.14	N/A
25% AH	£3.44	£3.83	£3.25	£3.64	£2.24	£2.63	£2.02	£2.41	£1.26	£1.65
30% AH	£3.17	£3.64	£2.98	£3.45	£2.02	£2.49	£1.81	£2.28	£1.09	£1.56
35% AH	£2.89	£3.44	£2.72	£3.27	£1.80	£2.35	£1.60	£2.15	£0.91	£1.46
40% AH	£2.61	£3.24	£2.45	£3.08	£1.58	£2.21	£1.39	£2.02	£0.74	£1.37
50% AH	£2.05	£2.84	£1.91	£2.70	£1.14	£1.93	£0.97	£1.76	£0.39	£1.18
60% AH	£1.50	£2.45	£1.37	£2.32	£0.69	£1.64	£0.55	£1.50	£0.04	£0.99

3.17 Table 3.2 shows that the availability of grant will enhance site viability. This will be particularly important in the weaker sub markets of the District. For example, at 35% affordable housing, the introduction of grant increases the RV from £0.91m to £1.46m in Gillingham (an increase of 60%). At the higher end of the market however, the increase is much lower - the increase is around 19% (i.e. from £2.89m to £3.44m)

3.18 The density scenario tested here generates relatively high residual values without grant in the stronger sub markets. The introduction of grant has a greater proportionate impact in the lower value sub market and we suggest that this is where the Council focus any such resources

#### **Impacts of increasing the proportion of Intermediate housing within the affordable element**

3.19 In the previous section we considered the impact of grant on scheme viability. Where grant is not available to support schemes (or is not sufficient on its own), scheme viability can be (further) enhanced by increasing the percentage of intermediate affordable housing. We have tested all scenarios thus far assuming the relevant affordable element is split 70% Social Rent and 30% Shared Ownership. Here we test a 50%:50% split in the affordable element.

**Table 3.3: Site values (£ million per hectare) for a 40 dph scheme assuming 50% Social Rent and 50% Shared Ownership)**

40 Dph	Shaftesbury & Gillingham RH	Blandford Forum RH	Shaftesbury	Blandford Forum	Gillingham
0% AH	£4.83	£4.60	£3.35	£3.08	£2.14
25% AH	£3.72	£3.52	£2.46	£2.22	£1.43
30% AH	£3.49	£3.27	£2.28	£2.05	£1.29
35% AH	£3.27	£3.09	£2.10	£1.88	£1.14
40% AH	£3.04	£2.87	£1.93	£2.77	£1.01
50% AH	£2.59	£2.43	£1.57	£1.38	£0.72
60% AH	£2.15	£2.00	£1.21	£1.04	£0.44

- 3.20 Table 3.3 shows the residual values with a 50%:50% split in the affordable element. This demonstrates a considerable improvement over the 'no grant' residual values (compare with Table 3.2). In a middle market location, for example Shaftesbury, a 50%:50% affordable housing split generates a residual of £2.10 million per hectare at 35% affordable housing versus 'with grant' scenario (Table 3.2) of marginally higher - £2.35 million per hectare.
- 3.21 In the higher value areas, increasing the proportion of intermediate affordable housing (relative to Social Rent) will often deliver residual values which approach those generated by a 'with grant' scenario. This is because with Shared Ownership, the value to the developer generated will be based on relatively high house prices. These high prices operate to some extent as a substitute for grant.
- 3.22 In the weaker market areas this is however not the case. There, the percentage of intermediate affordable housing will have to be substantially increased (beyond 50% of the affordable split) to achieve residuals approaching those generated by a 'with grant' scenario.
- 3.23 However we recognise that shared ownership may not be a viable option for housing associations at the present time, although we expect it to return to popularity in the longer term. Intermediate rent might produce a more suitable affordable product in the current housing market.

#### **Impact of an increased S.106 requirement (£15,000 per unit)**

- 3.24 In the earlier analysis, we have assumed a planning obligation package of £5,000 per dwelling. Table 3.4 shows residual values for a notional one hectare site at varying affordable housing percentages for a 40 dph scheme assuming a Section 106 contribution package of £15,000 per unit. We have tested this level of planning obligations to assess the possible economic impact of such an approach. This should not be taken to indicate that the Council might wish to adopt this level of planning obligations package.

**Table 3.4 Site values at Section 106 of £15,000 per unit: Residual value (£s million per hectare) 40dph scheme (No grant and 70%:30% social rent to intermediate affordable)**

40 Dph	Shaftesbury & Gillingham RH	Blandford Forum RH	Shaftesbury	Blandford Forum	Gillingham
0% AH	£4.42	£4.20	£2.95	£2.68	£1.74
25% AH	£3.04	£2.85	£1.84	£1.62	£0.86
30% AH	£2.77	£2.58	£1.62	£1.41	£0.69
35% AH	£2.49	£2.32	£1.40	£1.20	£0.51
40% AH	£2.21	£2.05	£1.18	£0.99	£0.34
50% AH	£1.65	£1.51	£0.74	£0.57	£-0.01
60% AH	£1.10	£0.97	£0.29	£0.15	£-0.36

3.25 The introduction of a larger planning obligations package reduces residual values across all sub markets. We have illustrated this with the example of the 40 dph development but the pattern will be the same for all the development density scenarios. The impact of the planning obligations package is proportionately greater in the lower value areas because an equal tariff is applied to both weaker and stronger sub markets. In Gillingham, it can be noted that residual values are negative at the higher percentages of affordable housing.

#### **Lifetime Homes**

3.26 A consideration going forward is the additional cost of achieving Lifetime Homes build standards. We understand, based on the DCLG's Lifetime Homes, Lifetime Neighbourhoods report (February 2008) that the additional cost of achieving Lifetime Homes will be around £450 per dwelling (although there may be nil cost if the requirements are 'designed early enough'). This will amount to around an additional £20,000 per hectare based on a 40 dph scheme. We do not think this is a significant sum as a single issue, but when combined with other more significant additional (Section 106) costs this may not be the case.

#### **Code for Sustainable Homes**

3.27 If the Council were to consider higher levels of Code for Sustainable Homes there could be implications for development viability. The actual costs, for example, of achieving Code Level 4 range from £2,000 to £12,000 per dwelling (Cyril Sweet, 2007 – Cost Review of the Code for Sustainable Homes). This depends on the extent to which different energy sources are adopted. We have modelled scenario 2 (an additional £4,260 per end terrace) which represents 'Initial energy efficiency measures initially followed by use of small scale wind turbines and then biomass systems'. Assuming costs then of around £5,000 per unit at 50 dph, this means £250,000 per hectare off residual value.

#### **Large greenfield sites – viability issues**

3.28 It is important to comment at this stage on the economics of developing large green field sites.

- 3.29 Where these sites are brought forward, it is important to look at both value and cost sides of the equation. On the values (selling prices) side, there will be instances where large developments will be able to generate their own 'market' or selling prices which may be higher than the values generally found in the area. There could also be situations where the values might be lower. For this reason, it is important that any significant urban extensions are tested independently using the Dorset Toolkit or another appropriate approach.
- 3.30 Costs, and in particular, infrastructure costs for large greenfield sites are an issue. In our experience, these range from £100,000 to £600,000 per hectare depending on a range of factors including the availability of utilities, drainage and topography. These costs will normally be over and above any Section 106 package or equivalent and hence again, it will be important to establish the precise loading of physical infrastructure on a site.

### **Benchmarking results**

- 3.31 There is no specific guidance on the assessment of viability which is published by national government. In Section 2, we set out that we think viability should be judged against return to developer and return to land owner.
- 3.32 One approach is to take "current" land values for different development uses as a kind of 'going rate' and consider residual values achieved for the various scenarios tested against these. Table 3.5 (sourced from the Valuation Office) shows residential land values for selected locations within the South West at January 2009 (latest available data).

**Table 3.5 Residential land values**

SOUTH WEST			
REGION	Small Sites (sites for less than five houses)	Bulk Land (sites in excess of two hectares)	Sites for flats or maisonettes
	£s per hectare	£s per hectare	£s per hectare
Bournemouth	2,700,000	2,500,000	3,200,000
Weymouth	2,000,000	1,900,000	2,400,000
Exeter	2,800,000	2,000,000	2,800,000
Barnstaple	1,700,000	1,350,000	1,600,000
Plymouth	1,800,000	1,700,000	1,500,000
Truro	2,500,000	2,100,000	2,900,000
Taunton	2,250,000	2,000,000	2,250,000
Bath	3,000,000	2,100,000	2,800,000
Bristol	2,600,000	1,900,000	2,300,000
Gloucester	2,600,000	2,250,000	2,800,000
Swindon	2,000,000	2,000,000	2,400,000

Source: Valuation Office; Property Market Report, January 2009

- 3.33 There is no direct data for North Dorset. Weymouth and Bournemouth provide context, but those housing markets are different and not too much weight should be placed on the comparables.
- 3.34 A benchmark which can be referred to is that of industrial land. Table 3.6 shows values of around £650,000 per hectare in Weymouth (nearest comparable) in the first part of 2008 but at £1.5m in Poole/Bournemouth (a much more substantial employment centre).

**Table 3.6 South West industrial land values**

SOUTH WEST			
	From £s per ha	To £s per ha	Typical £s per ha
Poole/Bournemouth	850,000	1,350,000	1,100,000
Weymouth	475,000	750,000	625,000
Exeter	725,000	975,000	850,000
Barnstaple	325,000	525,000	375,000
Plymouth	375,000	500,000	400,000
Bodmin	350,000	450,000	400,000
Yeovil	525,000	900,000	725,000
Bristol	750,000	980,000	850,000
Gloucester	750,000	1,000,000	850,000
Swindon	750,000	1,000,000	850,000

Source: Valuation Office; Property Market Report, July 2008

- 3.35 The 'benchmark' of industrial land value can be important where land, currently in use as industrial land, is being brought forward for residential development or where sites may be developed either for residential or employment use. In the weakest market value areas of the District, if

industrial represents a realistic current/alternative use, it may be difficult to bring forward residential schemes with the highest proportions of affordable housing we modelled, especially at the higher density scenarios.

- 3.36 Finally, we refer to the values quoted at the recent development industry workshop we held. Here, values for greenfield land were said to be around £1.5 million per acre last although with values considerably below this now.



## 4 LAND SUPPLY, SMALL SITES AND USE OF COMMUTED SUMS

### Introduction

- 4.1 This chapter reviews the policy context and options for identifying the size of sites above which affordable housing contributions would be sought, in the national policy context. The current thresholds operating in North Dorset are 25 dwellings in Gillingham and Shaftesbury, 15 dwellings in Blandford and Sturminster Newton and 8 dwellings elsewhere (primarily in the rural locations). The chapter provides an assessment of the profile of the future land supply and the likely relative importance of small sites. It then considers practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed).

### Purpose of the Analysis

- 4.2 PPS3 Housing sets out national policy on thresholds and affordable housing and states:

*"The national indicative minimum site size threshold is 15 dwellings. However, Local Planning Authorities can set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area." (Para 29)*

- 4.3 By reducing site size thresholds and 'capturing' more sites from which affordable housing can be sought, an authority can potentially increase the amount of affordable housing delivered through the planning system.

### Small sites analysis

- 4.4 We have analysed data on past permissions to consider how important sites of different sizes are likely to be to the future land supply. The tables below show the results of this exercise.

**Table 4.1: No of dwellings in different sizes of sites (planning permissions 2006-8)**

	Site size in dwellings				Total
	1-4	5-9	10-14	15+	
Shaftesbury & Gillingham RH	45.3%	14.8%	8.7%	31.2%	100.0%
Blandford Forum RH	37.7%	20.0%	11.4%	30.8%	100.0%
Rural West	20.7%	11.0%	8.1%	60.2%	100.0%
Shaftesbury	11.4%	5.1%	3.8%	79.7%	100.0%
Blandford Forum	13.5%	7.0%	10.5%	69.1%	100.0%
Gillingham	6.2%	5.0%	2.4%	86.4%	100.0%
<b>North Dorset Total</b>	<b>18.0%</b>	<b>9.2%</b>	<b>6.9%</b>	<b>65.9%</b>	<b>100.0%</b>

- 4.6 The trends in site supply (using the information on past permissions) shows a broad range of site sizes which are contributing to the land supply in North

Dorset. Across the local authority as a whole around 34% of dwellings granted planning permission have been on sites of less than 15 dwellings – the national indicative minimum site size threshold. 7% of all permissions have been granted on sites between 10 and 15 dwellings and sites of less than 10 dwellings contributed around 27% of the site supply, with 2/3 of these coming from sites of fewer than 5 units. Shaftesbury and Gillingham RH and Blandford Forum RH both have significantly higher provision on very small sites of under 5 units. The Rural West also has above the average number of small sites. Conversely in Gillingham, Shaftesbury and Blandford Forum provision on large sites of 15 or more units is significantly above the average for the local authority as a whole.

- 4.7 Given the high level of need for affordable housing in the district, the Council may consider that a threshold below 15 dwellings is needed in order to maximise delivery of affordable housing. The data demonstrates that small sites are particularly important to the land supply in the rural areas and particular individual settlements. A possible alternative would be to set a lower threshold, of 1 unit in the rural areas and retain a threshold of 15 units in the larger towns.

#### **Small sites and management of affordable housing**

- 4.5 We discussed the suitability of small sites for affordable housing at the workshop with the development industry, which included representatives from Registered Social Landlords (RSLs). The workshops considered the situation where there could be as few as one or two units on each site.
- 4.6 While RSLs indicated that they would prefer to have affordable housing in larger groups (say 10 to 15 dwellings), they would in some circumstances be prepared to take on small numbers of affordable units (down to 1 and 2 dwellings) in mixed tenure development. The RSLs might be less willing to manage affordable housing units if other factors e.g. scheme location and design meant they were less suitable for affordable housing: suitability for affordable housing would need to be reviewed on a scheme by scheme basis.

#### **Use of commuted sums**

- 4.7 As a general principle, we recognise that seeking on-site provision of affordable housing will be the first priority and that provision of affordable housing on an alternative site or by way of a financial payment in lieu (or commuted sum) should only be used in exceptional circumstances. This position is consistent with national guidance in Paragraph 29 of PPS3 which states:

*“In seeking developer contributions, the presumption is that affordable housing will be provided on the application site so that it contributes towards creating a mix of housing. However, where it can be robustly justified, off-site provision or a financial contribution in lieu of on-site provision (of broadly equivalent value) may be accepted as long as the agreed approach contributes to the creation of mixed communities in the local authority area” Para 29.*

- 4.8 Where commuted sums are sought as an alternative to direct on or off-site provision, PPS3 sets out the appropriate principle for assessing financial contributions - that they should be of “broadly equivalent value” (see paragraph 29 set out above). Our approach is that the commuted sum should

be equivalent to the 'developer/landowner contribution' if the affordable housing was provided on site. One way of calculating this is to take the difference between the residual value of 100% market housing and the residual value of the scheme with the relevant percentage and mix of affordable housing.

- 4.9 If the 'equivalence' principle is adopted, then the decision of the local authority to take a commuted sum will be based on the acceptability or otherwise of on-site provision as a housing and spatial planning solution.
- 4.10 Any concerns about scheme viability (whatever size of site) should be reflected by providing grant or altering tenure mix, or by a 'reduced' affordable housing contribution whether provided on-site, off-site or as a financial contribution. Other planning obligations may also need to be reduced under some circumstances.
- 4.11 However, if affordable housing is sought from very small sites, in certain circumstances it becomes impractical to achieve on site provision e.g. seeking less than 33% on a scheme of 3 dwellings or less than 50% with a scheme of 2 dwellings. There will also be occasions where on-site provision can only deliver a partial contribution towards the proportion of affordable housing sought e.g. 40% affordable housing in a scheme of 3 dwellings would deliver one affordable unit on site (representing 33% of provision). In the latter case, it is possible to devise a formula which mixes on-site provision with a commuted sum to 'make up the balance'.

## 5 CASE STUDY VIABILITY ANALYSIS

### Introduction

- 5.1 The analysis in Chapter 3 provides a good indication of the likely viability of sites in the district. The residual values can be compared with existing use values to establish whether land owners are likely to make a return over and above existing use value, taking into account a developer margin.
- 5.2 The analysis in Chapter 3 will apply for large as well as small sites (on a pro rata basis). We do not have any evidence to suggest that the economics change significantly between large and small sites. This assumption was accepted at the Dorset development industry workshops as has been the case elsewhere where we have run similar workshops. It will be noted (Table 3.5) that small sites can achieve higher land values than larger ones, suggesting that the economics of developing smaller sites could actually be more favourable than developing larger ones.
- 5.3 In theory therefore there is no real need to review in detail viability issues for small sites. However, for the sake of further illustration, and recognising that there may be special circumstances which impact on the viability of some types of smaller sites, it was felt helpful to review the development economics of some illustrative case studies.

### Sources of residential development on smaller sites

- 5.4 In this section we will look at a number of case study developments which are examples of small sites for residential development. We look initially however at the types of sites coming forward in the recent past within the District based on planning permissions 2006-8.
- 5.5 Table 5.1 shows the key sources of housing land supply and the number of sites by dwellings for the Gillingham: Shaftesbury Rural Hinterland sub market. For example, there were 16 sites of one dwelling each which were developed from agricultural buildings; as another example, there were 8 sites developed for two dwellings sourced from residential land not involving the loss of housing; etc.

**Table 5.1 Sources of housing land supply in the Gillingham: Shaftesbury Rural Hinterland sub market.**

Gillingham/Shaftesbury Hinterland		Number of units on site (gross total)															Grand		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16+	Total	% of sites
Agricultural build	No (sites)	16	3	2	0	2	0	0	0	0	0	0	0	0	0	0	0	23	10.80
Community	No (sites)	3																3	1.41
Education	No (sites)	1			1													2	0.94
Health	No (sites)	1																1	0.94
Holiday	No (sites)	1																1	0.47
Manufacturing	No (sites)	1															1	2	0.94
Offices	No (sites)	1																1	0.47
Open land	No (sites)	26	1	1	1	1	1				1			1			2	35	16.43
Residential - loss	No (sites)	29	6	1	2	1	0	1	0	0	0	0	0	0	0	0	0	40	18.78
	Units (Net)	0	5	2	5	4	0	6	0	0	0	0	0	0	0	0	0	22	0.00
Residential - no loss	No (sites)	65	8	3	2	2	3	0	0	1	1	0	0	0	0	0	0	85	39.91
Retail	No (sites)	2			1	1												4	1.88
Storage	No (sites)	5	3		1	1									2			14	5.63
transport	No (sites)	1																1	0.47
utilities	No (sites)	2																2	0.94

- 5.6 Table 5.1 shows that the most important source of housing land supply in terms of the number of sites coming forward was residential land not involving the loss of any dwellings. This source accounted for almost 40% of all sites coming forward. Over 75% of these sites were for the development of one dwelling only. Typically this type of site is developed on backland, garden land or land adjacent to an existing dwelling.
- 5.7 Other important sources of supply include the development of single dwellings on land involving the demolition of a house or number of dwellings. It is very common that this involves the replacement of an old house with a new one, although in several instances (six sites) it is typical that two new dwellings replace a single existing dwelling. There are also sites where more than one dwelling is demolished and replaced with three to seven dwellings;
- 5.8 Other significant sources of supply in this sub market are sites coming from open land (16.4% of all sites) and sites from agricultural buildings (10.8% of all sites).
- 5.9 Table 5.2 shows the key sources of housing land supply and the number of sites by dwellings for the Blandford Forum Rural Hinterland sub market.

**Table 5.2 Sources of housing land supply in the Blandford Forum sub market.**

Blandford Forum Hinterland		Number of units on site (gross total)															Grand		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16+	Total	% of sites
Agricultural build	No (sites)	23	2	2	4	1	1	1	1	1	1	0	1	0	1	0	2	41	13.02
Community	No (sites)	9																9	2.86
Education	No (sites)	5					1										1	7	2.22
Manufacturing	No (sites)	5		1							1							7	2.22
Minerals	No (sites)	1																1	0.32
Offices	No (sites)		1															1	0.32
Open land	No (sites)	20	2	0	3	0	3	2	1	2	1	0	1	0	0	1	4	40	12.70
Residential - loss	No (sites)	60	10	5	2	1	4	0	0	0	2	0	0	0	0	0	0	84	26.67
	Units (Net)	4	9	8	5	4	14	0	0	0	18	0	0	0	0	0	0	54	0.00
Residential - no loss	No (sites)	70	11	2	3	0	0	1	0	2	1	0	0	0	0	0	1	91	28.89
Retail	No (sites)	6	3	1	2	2	1	0	1	0	0	0	0	0	0	1	0	17	5.40
Sports	No (sites)	2																2	0.63
Storage	No (sites)	8	0	2	1	0	0	0	0	2	0	0	0	0	0	0	1	14	4.44
Utilities	No (sites)	1																1	0.32

- 5.10 Table 5.2 shows (for Blandford Forum) a similar pattern (to the Gillingham: Shaftesbury Rural Hinterland sub market) of housing land supply in terms of the number of sites coming forward. This is not unsurprising given the similarly rural nature of the areas.
- 5.11 In the case of the Blandford Forum Rural Hinterland sub market however, sites involving the loss of a dwelling or dwellings are almost as significant as sites which do not involve the loss of a dwelling.
- 5.12 Table 5.3 shows the key sources of housing land supply and the number of sites by dwellings for the Rural West sub market.

**Table 5.3 Sources of housing land supply in the Rural West sub market.**

Rural West		Number of units on site (gross total)															Grand			
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16+	Total	% of sites	
Agricultural build	No (sites)	18	1	0	1	1	2	0	1	0	0	12	0	1	0	0	0	37	13.26	
Community	No (sites)	1					1											2	0.72	
Education	No (sites)	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	2	0.72	
Health	No (sites)	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	2	4	1.43
Holiday	No (sites)	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0.72	
Manufacturing	No (sites)	4	0	1	2	0	1	0	3	0	0	1	0	0	0	0	0	14	5.02	
Offices	No (sites)	1																1	0.36	
Open land	No (sites)	22	1	4	0	2	0	0	1	1	3	1	0	0	1	0	7	43	15.41	
Residential - loss	No (sites)	39	8	0	2	2	1	2	0	0	0	0	0	0	0	0	0	54	19.35	
	Units (Net)	-1	7	0	4	8	2	12	0	0	0	0	0	0	0	0	0	32	0.00	
Residential - no loss	No (sites)	67	12	2	1	2	1	0	0	0	0	0	1	0	0	1	1	88	31.54	
Retail	No (sites)	8	4	1	2	1	3	0	0	0	0	0	0	0	0	0	3	22	7.89	
Storage	No (sites)	7	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	9	3.23	
Utilities	No (sites)	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0.36	

- 5.13 As previously, sites which come from residential land involving no loss of existing housing are highly significant (31% of all sites) to housing supply. Residential sites involving the loss of a dwelling or dwellings are also important as previously (here 19.4% of all sites). Again, as previously in rural areas, open land agricultural buildings are significant. Here (Rural West), these two sources of supply make up almost 30% of all sites.
- 5.14 Table 5.4 shows the key sources of housing land supply and the number of sites by dwellings for the Shaftesbury sub market.

**Table 5.4 Sources of housing land supply in the Shaftesbury sub market.**

Shaftesbury		Number of units on site (gross total)															Grand		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16+	Total	% of sites
Agricultural build	No (sites)	1			1	2												4	3.88
Education	No (sites)	1																1	0.97
Health	No (sites)											1						1	0.97
Holiday	No (sites)									1								1	0.97
Manufacturing	No (sites)		1		1	1												3	2.91
Offices	No (sites)	2	1															3	2.91
Open land	No (sites)	3					1										4	8	7.77
Residential - loss	No (sites)	10	11	8		2		1				1					1	34	33.01
	Units (Net)	0	5	9		8		6				11					15	54	N/A
Residential - no loss	No (sites)	19	4	1		1		1										26	25.24
Retail	No (sites)	7	1	3														11	10.68
Storage	No (sites)	1	2	2	2		1	1									1	10	9.71
Utilities	No (sites)												1					1	0.97

- 5.15 In Shaftesbury, the most significant (in terms of the number of sites) source of supply are sites involving the loss of a dwelling or dwellings. These account for almost a third of all sites. In more detail, there were 10 sites where one dwelling replaced another; there were 11 sites where two dwellings were constructed on each and 17 demolished (a net gain of five). This is marginally above a 'one for one' swap. There were then 8 sites where three dwellings were constructed on each and 15 demolished in total.
- 5.16 Sites involving the development of one dwelling involving no loss of housing were also significant – 25% of all sites in Shaftesbury.
- 5.17 In a more urban situation such as this, retail and storage uses provide a higher proportion of sites. Together these two sources make up over 20% of all sites.
- 5.18 Table 5.5 shows the key sources of housing land supply and the number of sites by dwellings for the Blandford Forum sub market.



**Table 5.5 Sources of housing land supply in the Blandford Forum sub market.**

Blandford Forum		Number of units on site (gross total)															Grand		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16+	Total	% of sites
Agricultural build	No (sites)				1	1												2	1.29
Community	No (sites)	2		1									1					4	2.58
Health	No (sites)	2															1	3	1.94
Holiday	No (sites)				1												1	2	1.29
Minerals	No (sites)							1										1	0.65
Offices	No (sites)	5	4		1	1	1	1			1						1	15	9.68
Open land	No (sites)	1															9	10	6.45
Residential - loss	No (sites)	5	6	5	4					1		2					1	24	15.48
	Units (Net)	0	6	9	8					8		20					26	77	N/A
Residential - no loss	No (sites)	33	11	2	4	1							1				1	53	34.19
Retail	No (sites)	9	3	3		4	1		2	1	1	1		1	2			28	18.06
Storage	No (sites)	5		1	1			1				2		1			1	12	7.74
Utilities	No (sites)			1														1	0.65

- 5.19 Residential sites make up a very significant source of housing sites in Blandford Forum. However, sites where there is no loss of housing make up a higher proportion of all sites than is the case in Shaftesbury;
- 5.20 As for Shaftesbury, retail and storage sites in Blandford are significant in providing land for housing development.
- 5.21 Table 5.6 shows the key sources of housing land supply and the number of sites by dwellings for the Gillingham sub market.

**Table 5.6 Sources of housing land supply in the Gillingham sub market.**

Gillingham		Number of units on site (gross total)														Grand			
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16+	Total	% of sites
Agricultural build	No (sites)	2		1								1						4	3.48
Community	No (sites)		1															1	0.87
Health	No (sites)					1			1									2	1.74
Holiday	No (sites)																1	1	0.87
Manufacturing	No (sites)	1				1												2	1.74
Offices	No (sites)	2															1	3	2.61
Open land	No (sites)	4	1	1	1	1	1				1	1					15	26	22.61
Residential - loss	No (sites)	3	5	2	1	2	1		2					1				17	14.78
	Units (Net)	-2	5	3	3	8	5		13					9				44	N/A
Residential - no loss	No (sites)	29	4		1	1		1									1	37	32.17
Retail	No (sites)	4		3						1							1	9	7.83
	Units (Net)	4		8						9							20	41	N/A
Sports	No (sites)	1	1															2	1.74
Storage	No (sites)	3	2	1	1		1	1									1	10	8.70
	Units (Net)	3	4	3	4		6	7									22	49	N/A
Transport	No (sites)																1	1	0.87

5.22 As with all the sub markets previously looked at, Gillingham has relied significantly on residential sites for smaller housing developments. 32% of all sites were developed not involving the loss of an existing dwelling or dwellings; a lower percentage (15%) did involve the demolition of a dwelling (s).

5.23 On sites of two and three dwellings where demolition did occur, this happened on a 'two for one' basis; i.e. on average, one dwelling was demolished and replaced with two new homes.

### Case studies

5.24 Tables 5.1 to 5.6 show a range of sources of housing land supply for smaller sites. Of all these sources, the most important are residential sites, either involving the loss of a dwelling or where there is no loss of dwelling(s). It makes sense to look at these sites in more detail.

5.25 Other sites which are significant such as open space and storage space are best analysed by considering the results of the high level testing. Open space, which tends to be more significant in the rural sub markets, will be benchmarked in terms of its existing use to agricultural land values. Storage space will be more closely benchmarked against industrial land values. Based on a value per hectare, conclusions can be drawn from the High Level testing (see Section 3) on the viability of these types of opportunity.

5.26 Some sources of supply are more complex to analyse in terms of viability. For example, retail development resulting in housing either via demolition or conversion. The viability of these opportunities for affordable housing will be highly sensitive to site specific circumstances and location and are thus best

dealt with on a scheme by scheme basis. The same conclusion applies to development coming from agricultural buildings. Whilst we anticipate that a high percentage of these schemes will be barn conversions, it is also fair to say that that type of scheme can vary significantly in terms of development costs for conversion. Again, whilst we would not suggest that this type of scheme be exempt from affordable housing contributions, we would say that the actual size of the contribution be negotiated on a scheme by scheme basis.

- 5.27 We select here three case studies based on residential development on smaller sites including one, two and three dwellings. The selection is based on typical schemes (Table 5.7). We comment on schemes with and without demolition in relation to each case study. We focus on Shaftesbury and Gillingham Rural Hinterland (Blandford Forum Rural Hinterland gives similar results); Shaftesbury (Rural West and Blandford Forum similar results) and Gillingham.

**Table 5.7 Case study sites**

<b>Case Study</b>	<b>Number of dwellings</b>	<b>Type of new development</b>	<b>Site (Ha)</b>	<b>Size</b>	<b>Resulting density</b>
<b>A</b>	<b>1</b>	1 x 4 bed detached house		0.05	20
<b>B</b>	<b>2</b>	1 x 4 bed detached house; 1 x 5 bed detached house		0.1	20
<b>C</b>	<b>3</b>	2 x 3 bed semis; 1 x 4 bed detached		0.125	25

- 5.28 For each of the case studies, we have undertaken an analysis of residual values at levels of affordable housing from 0% to 60%. All the other assumptions used are the same as for the main analysis described in Chapter 3.
- 5.29 We benchmark the residual values derived against various potential alternative/existing use values. One comparator is the value of a second hand dwelling which is a relevant comparison where the development includes the demolition of an existing dwelling. We have used the market value of a second hand 4 bed detached dwelling as the comparator for these cases. Our estimate of the 'average' market value of one 4 bed detached property for each of the three market value areas we have analysed is as follows:

Shaftesbury & Gillingham RH - £385,000

Shaftesbury - £320,000

Gillingham - £270,000

### Case study A – Develop one detached house on a 0.05 ha site

- 5.30 The first scenario assumes the development of one four bed detached house. The results, with the affordable housing impacts are shown in Table 5.8:

**Table 5.8 Develop one detached house (0.05 Ha site)**

	Percentage of Affordable Housing						
	0%	25%	30%	35%	40%	50%	60%
<b>Shaftesbury &amp; Gillingham RH</b>	£203,000	£125,000	£116,000	£107,000	£99,000	£82,000	£64,000
	£4.06	£2.50	£2.32	£2.14	£1.98	£1.64	£1.28
<b>Shaftesbury</b>	£109,000	£77,000	£72,000	£65,000	£59,000	£46,000	£33,000
	£2.18	£1.54	£1.44	£1.30	£1.18	£0.92	£0.66
<b>Gillingham</b>	£63,000	£41,000	£37,000	£32,000	£27,000	£17,000	£8,000
	£1.26	£0.82	£0.74	£0.64	£0.54	£0.34	£0.16

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million)

- 5.31 Table 5.8 shows that the development of one new detached house will generate a substantial residual value even with 40% or 50% affordable housing in the strongest sub market areas (here Shaftesbury and Gillingham Rural Hinterland, but also Blandford Forum RH). Where one dwelling of this type is built on, for instance, infill or backland sites, we would expect the uplift in site value will be substantial. For sites taken from garden land, this will also be the case although a devaluation to the existing dwelling may also occur.
- 5.32 For the other two areas, at higher percentages of affordable housing, whilst the residual on a per hectare basis may appear relatively strong, the absolute land owner return is small. This may make it difficult to bring forward these types of sites where an existing dwelling would be devalued by new development.
- 5.33 As indicated in the foregoing analysis, a significant number of cases involve the replacement of an existing property with a new one. Given the average values we set out in 5.29 above, demolishing an existing dwelling and building a single new five bed detached dwelling and which makes a contribution to affordable housing, looks normally to be viable.
- 5.34 However, in the example used above, it can be seen that the residual value generated without any affordable housing is below the existing use value. This may partly explain why this type of development is not more prolific in the District. It also implies that the circumstances in which a dwelling is brought forward for redevelopment will not be the 'average' situation for the market value area. The analysis implies that properties brought forward for redevelopment will be below average values and the new dwellings will be of

a higher value than 'average' for new properties. This implies that there will be circumstances in which residential replacements can also contribute to affordable housing but each case will need to be analysed on its own merits.

**Case study B – Develop two detached houses (one 4 bed and one five) on a 0.05 ha site.**

5.35 The viability of developing two detached houses rather than one will depend on the site size and existing use value. There will be some instances where the relationship between existing use value and residual development value is favourable and some where this may not be the case. Table 5.9 shows residual values for the development of two detached houses.

**Table 5.9 Develop two detached houses (0.1 Ha site)**

	Percentage of Affordable Housing						
	0%	25%	30%	35%	40%	50%	60%
<b>Shaftesbury &amp; Gillingham RH</b>	£395,000	£299,000	£280,000	£261,000	£243,000	£205,000	£167,000
	£3.95	£2.99	£2.80	£2.61	£2.43	£2.05	£1.67
<b>Shaftesbury</b>	£273,000	£201,000	£187,000	£173,000	£158,000	£129,000	£101,000
	£2.73	£2.01	£1.87	£1.73	£1.58	£1.29	£1.01
<b>Gillingham</b>	£175,000	£122,000	£111,000	£100,000	£90,000	£68,000	£46,000
	£1.75	£1.22	£1.11	£1.00	£2.26	£0.68	£0.46

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million)

5.10 Similar arguments apply to Case Study 1 and 2. For infill, backland and garden plots, we believe that a significant uplift in residual value will occur in the higher value sub markets and that a contribution to affordable housing would not make development unviable. However, as previously discussed, schemes involving the demolition of an existing residential dwelling may prove more challenging.

**Case study C – Develop three dwellings (Two semis and one detached) on a 0.125 ha site**

5.12 A number of schemes in the District involve the development of three dwellings. We model here the development of two (three bed) semis and one (four bed) detached house.

**Table 5.10 Develop two semis and one detached (0.125 Ha site)**

	Percentage of Affordable Housing						
	0%	25%	30%	35%	40%	50%	60%
<b>Shaftesbury &amp; Gillingham RH</b>	£420,000	£309,000	£289,000	£266,000	£244,000	£200,000	£156,000
	£3.36	£2.47	£2.31	£2.13	£1.95	£1.60	£1.25
<b>Shaftesbury</b>	£287,000	£203,000	£187,000	£170,000	£152,000	£119,000	£84,000
	£2.29	£1.64	£1.49	£1.36	£1.22	£0.95	£0.67
<b>Gillingham</b>	£185,000	£121,000	£107,000	£94,000	£81,000	£54,000	£28,000
	£1.48	£0.97	£0.86	£0.75	£0.65	£0.43	£0.22

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million)

- 5.13 The results in Table 5.10 show a similar pattern to those in Table 5.9 (two detached houses). Residual values on a per hectare basis are lower on a per hectare basis, but in practice there may well be little substantive difference between the residuals produced by the development mix in case study B versus that in case study C. Much depends on the actual size of site relative to built form. As previously, we would suggest that these residuals generate a significant return to the owner of a site which is backland or infill or a garden plot in the higher value sub markets and we think that this type of opportunity could generate an affordable housing contribution. As before, though, where this type of development involves the demolition of an existing dwelling, residual values fall short of existing use values.
- 5.14 As previously stated (see Para 5.14 above), we would stress that development is coming forward where the economics look difficult or normally unviable, and hence policy should not necessarily be based on what looks like a worst case scenario.

#### **Commentary on the results**

- 5.15 This section on case studies is primarily illustrative, looking at the economics with particular reference to smaller sites and including consideration of achieved residual values for different sites and how they compare with existing use values.
- 5.16 Sites with a low number of dwellings (smaller sites) are in principle no less viable than sites with a larger number. They can be shown to generate higher land values on a per hectare basis than larger sites. This means that where existing use value is relatively low, as we think will be the case for example, with back-land, infill or garden land, the Council should pursue a robust approach to obtaining affordable housing and other s106 contributions.

- 5.17 Schemes which involve the redevelopment of one dwelling with either one or two new dwellings will be more difficult to deliver with an affordable housing contribution because of the high existing use value.

## 6 MAIN FINDINGS AND CONCLUSIONS

### Key findings

- 6.1 We identified six market value areas in North Dorset. The market value areas are defined by prices by postcode sectors and are: Shaftesbury and Gillingham Rural Hinterland; Blandford Forum Rural Hinterland; Rural West; Shaftesbury; Blandford Forum and Gillingham.
- 6.2 There is significant variation in market values across the six areas. These differences in market values were reflected in differences in residual values (for the different scenarios tested). We found that residual value is dependent not only on location but also on the density adopted. As a general rule, schemes of 40 dph or 50dph generate the highest residual values, although this is not so in the lowest value areas of Blandford Forum and Gillingham where 30 dph generates a higher residual at the highest percentages of affordable housing (50% and 60%).
- 6.3 It is important to note how residual values respond to house prices in the six sub markets. A 50% affordable housing quota in Shaftesbury and Gillingham Rural Hinterland generates a residual (£2.05 million per hectare) marginally below the residual for a 100% sale site in Gillingham (£2.14). These difference may have important consequences for the way in which policy is set out.
- 6.4 Residual values remain positive in most market value areas even at the higher percentages of affordable housing tested. Gillingham is an exception to this rule with negative residual values at 50% and 60% affordable housing at 50 and 60 dph.
- 6.5 The introduction of grant significantly improves residual values across the district. It matters most in the lower value areas. In higher value areas, grant is less effective in raising land values as a proportion of residual values without grant.
- 6.6 The analysis shows that increasing the proportion of intermediate affordable housing from 30% to 50% (of the total affordable element) has different impacts in different markets. In higher value markets, the impact is to significantly close the gap with the residual generated by a 'with grant' scenario. The impact of changing tenure within the affordable element in weaker sub markets is less marked. Grant will still be significant in these weaker market areas.
- 6.7 Viability is highly sensitive to the relationship between existing (or, where relevant, alternative) use value. A proportion of smaller sites being brought forward, involve the redevelopment of existing residential properties – either as a one for one replacement or at a higher density of development. Whilst such schemes can deliver affordable housing in some circumstances it must be acknowledged that residual values, with even relatively low levels of affordable housing, will not be sufficiently above current use values to encourage land owners to bring the land forward. The use of grant could help in achieving higher levels of affordable housing on such sites.



- 6.8 Again, it is important to highlight that it is not the size of the site per se that causes difficulties with viability, but the nature of the existing or alternative use.
- 6.9 From a housing management perspective, we did not find any in-principle objections from housing associations to the on-site provision of affordable housing on small sites, although associations stated that much comes down to site specific circumstances.
- 6.10 The analysis of the supply of sites in the District indicated that small sites (below the national indicative minimum of 15 dwellings) do make up an important element of the supply – over a third (34%) and that sites of 1 to 4 dwellings are particularly important here. Given the very high level of need for affordable housing in the district, the Council may consider it important to capture all opportunities for affordable housing. If this is the case, then there would seem no particular threshold below 15 dwellings which is more appropriate than another. Small sites are particularly important in rural areas and play a less important role in towns.
- 6.11 Where a financial payment in lieu of on-site provision of affordable housing (or commuted sum) is to be sought, it should be of “broadly equivalent value”. This approach is, on the evidence we have considered, a reasonable one to take in policy terms.
- 6.12 If this ‘equivalence’ principle is adopted, then the decision of the local authority to take a commuted sum will be based on the acceptability or otherwise of on-site provision as a housing and spatial planning solution, not in response to viability issues.

### **Conclusions and policy recommendations**

- 6.13 There is no detailed government guidance setting out how targets should be assessed, based on an assessment of viability. In coming to our conclusions, we have reviewed the residual values generated for the different sub markets in the District at the alternative levels of affordable housing tested and considered how these values compare with historic land values generally in the area.
- 6.14 From this review, we note that that there are differences in values generated in different market value areas. Our analysis has led us to suggest two main options for setting affordable housing proportions for spatial planning policy purposes which would be a reasonable policy conclusion from the viability information presented. In coming to our conclusions we again note that viability is not the only consideration which the local authority will need to take into account in coming to a view on the policies it wishes to adopt and that it will need to consider the priority given to achieving affordable housing delivery to help address the very high level of need for affordable housing in the district. The options are:
- A single percentage target across the whole district and which is realistic in the lowest value market areas (and therefore readily achievable in the higher values areas). Given the range of residual values we found, we consider that a target of 30% would be a reasonable starting point. However we are also of the view that because of the wide range of residual values across the district a single target is not appropriate

because if set so as to be achievable in the lowest house price area (Gillingham) it would not achieve the proportion of affordable housing which could be supported in higher value areas such as the Rural Hinterlands and Shaftesbury.

- A split target of 30% for Gillingham but 40% for the majority of the District and using grant wherever possible to bolster site values in colder spots of the relevant (two) wider markets.
- 6.15 Whichever of the above options is chosen, the authority should, in our view, retain the flexibility to include targets for individual allocated sites based on site-specific analysis of viability.
- 6.16 Commenting on the second option set out above, if this option is pursued, it will be important that there can be a clear distinction between the areas where the alternative targets apply.
- 6.17 On the other hand, a single percentage across the district is simple and leaves no room for doubt about the authority's requirements.
- 6.18 In coming to a view on target percentages for affordable housing, the Council will need to be mindful of the potential impacts of additional costs imposed in the form of a higher Section 106 planning gain package (we looked at £15,000) per unit, as well as the potential impacts of achieving a higher Code for Sustainable Homes level.
- 6.19 It will also need to be aware of the potential impacts of large scale developments on the overall proportion of affordable housing sought. We understand that at Gillingham, development on this larger scale is proposed. As such a more detailed analysis will be needed. Should this analysis support a target of 35% in line with what we understand to be the current batch of planning permissions, then a target of 35% for the Gillingham sub market may be more appropriate taking into account the 'weight' of the larger development on overall housing numbers in that area.

#### **Viability on individual sites**

- 6.20 Our analysis has indicated that there will be site-specific circumstances where achievement of the affordable housing proportions set out above may not be possible. This should not detract from the robustness of the overall targets but the Council will need to take into account specific site viability concerns when these are justified.
- 6.21 If there is any doubt about viability on a particular site, it will be the responsibility of the developer to make a case that applying the Council's affordable housing requirement for their scheme makes the scheme **not viable**. Where the Council is satisfied this is the case, the Council has a number of options open to it (including changing the mix of the affordable housing and supporting a bid for grant funding from the Homes and Communities Agency and/or using their own funds) before needing to consider whether a lower level of affordable housing is appropriate. In individual scheme negotiations, the Council will also need to consider the balance between seeking affordable housing and its other planning obligation requirements.

## Thresholds

- 6.22 There is a very high need for affordable housing in North Dorset and it is appropriate for the Council to consider a lower threshold than the indicative national minimum (15 dwellings) set out in PPS3 and current local policy. The supply of sites which has been coming through in recent years indicates that small sites make an important contribution to site supply. This is particularly the case in rural areas and in these areas in particular it seems probable that a low threshold would capture more affordable housing. Below 15 dwellings there is no particular threshold which appears more appropriate than another and a threshold of 0 is not unrealistic.
- 6.23 However, it is apparent that the nature of the current land use plays a particular role in the development economics of very small sites. Some sites down to 1 dwelling will be equally capable of delivering affordable housing as much larger sites. Our analysis shows that a very substantial number of sites are for one dwelling which does not involve demolition of an existing house(s). Certainly in the stronger market areas, we think there is a good case for pursuing an affordable contribution through policy. But there will be a group of sites where the current use is as a dwelling(s) where this will not be the case and the authority will need to take a flexible view in seeking affordable housing from these sites – whichever market value area they are in.
- 6.24 At below 2 or 3 dwellings (depending on the target percentage adopted) on-site provision is not mathematically practical and an equivalent commuted sum will need to be sought. One option which the Council could consider is adopting a 'two part' threshold. The actual threshold for seeking affordable housing contributions would be set at zero but up to, for example, from schemes of up to 4 dwellings, a commuted sum would be sought, with an on-site contribution above this threshold.
- 6.25 Alternatively, the Council could consider adopting a threshold which excluded the smallest sites (say 1, 2 and 3 dwellings) but sought affordable housing on-site for all schemes above the threshold.
- 6.26 Taking all these factors into account, the following are put forward as options for future policy on thresholds which would be reasonable to consider:
- Operate a zero threshold across the district (and maximise delivery of affordable housing). Alternatively a very low but slightly higher threshold (say above 3 dwellings) could be considered (this would avoid a significant proportion of sites involving demolition of an existing residential property and its replacement with a very small number of new dwellings and where viability difficulties are apparent);
  - Retain a 15 dwelling threshold generally but identify specific settlements and/or types of settlement where a lower threshold operates (and that this threshold could be as low as 1 dwelling). Our analysis of site supply and small sites suggests that this might most appropriately be done retaining a 15 dwelling threshold in the three main towns – Shaftesbury, Blandford and Gillingham and a lower threshold for the rural areas; three there would seem to be a reasoned starting point.

### **Commuted sums**

- 6.27 Where **commuted sums** are collected a possible approach to calculating the appropriate sum sought is to base this on the equivalent amount which would be contributed by the developer/landowner were the affordable housing provided on site. This is expressed as follows:

RV 100% M = Residual value with 100% market housing

RV AH = Residual value with X% affordable housing (say 40%)

Equivalent commuted sum = RV 100% MV minus RV AH

- 6.28 Where commuted sums are collected, the Council will need to have in place a strategy to ensure the money is spent effectively and in a timely manner. Options for spending will be a matter for the Council to consider but could include supporting schemes which would otherwise not be viable, increasing the amount of social rented housing in a scheme, increasing the proportion of family units in a scheme, seeking higher quality affordable housing (e.g. a higher level of the Code for Sustainable Homes).

### **The current housing market**

- 6.29 At the time of preparing this report, the housing market has suffered a downturn as a result of the 'credit crunch'. Our analysis of housing market values is as recent as possible and relates to January 2009.
- 6.30 We think it likely however that developers will increasingly run an argument during 2009 and 2010 that the affordable housing and wider s106 policy is holding back sites. We believe that whilst the Council should be flexible in its negotiations on specific sites, we do not think it should shift its position from the policy conclusions of this report since these will be more appropriate to the longer term trend in house prices which has been shown to be upwards. In other words, the policy position should be one which reflects the longer run and not simply the impacts of the credit crunch.

## **Appendix 1**

### **AFFORDABLE HOUSING PROVISION AND DEVELOPER CONTRIBUTIONS IN DORSET**

Notes of workshop held on Thursday 20<sup>th</sup> November 2008 at Sturminster Newton

Attendance:

Gill Smith	Dorset County Council
Andrew Golland	Three Dragons
Mark Felgate	Roger Tym and Partners
Amy Carter	Michelmores LLP
Richard Bagnall	R Bagnall Associates
David Lohfink	C G Fry and Sons Ltd
Simon Rutter	P Proctor Associates
Andrew Rowe	Midas Homes
Steve Briggs	Smiths Gore
Richard Miller	Symons and Sampson
John Dobson	Places for People
Amanda Ford	North Dorset District Council
Alison Eldergill	West Dorset District Council
Martin Pinkney	Spectrum Housing Group
William Beveridge	Sherborne Castle Estate
Mr Rolls	Local land owner
Hilary Cox	Dorset County Council

#### **Introduction**

GS welcomed attendees and explained the purpose of the study and the workshop. Participants explained who they represented. The range of interests covered:

Small – medium sized builders  
Local land owners  
RSLs with an interest in the area  
Planning agents / architects / solicitors  
Local Authorities.

It was explained that the study covered the five districts of North Dorset, West Dorset, East Dorset, Christchurch and Weymouth and Portland (Three Dragons having already completed studies for Poole, Bournemouth and Purbeck Councils). The emphasis for this workshop was on rural North and West Dorset and those invited to the workshop reflected this.

#### **Issues in delivering affordable housing**

Current market – at the present time the market is distorted therefore it is difficult to identify current constraints as very little development is being progressed at the moment.

Section 106 agreements were quoted as a potential constraint:

Lack of certainty regarding these costs make negotiations with land owners on price difficult and less informed, often the developer is 'hit' with these late on in the planning application process – this ultimately impacts on the viability of the scheme and therefore any affordable housing;

No transparency as to where money will be spent;

Uncertainty regarding which authorities will adopt CIL and which will continue with 106 and the basis for either system. Preference expressed for standard roof tax style as this provides certainty;

Accept the need – most of the developers accept the need for affordable housing and provided it during the 'good times' however the market has now changed and LPA will have to think carefully as to what can be expected and whether public subsidy will be required to make schemes that benefit all parties viable;

RSLs – developers expected RSLs to step into the breach during the current market difficulties and are very happy for this to happen. However RSLs are sometimes reluctant to fulfil this role;

### **Three Dragons Methodology**

Three Dragons explained their methodology and approach to assessing viability. This is set out with key data assumptions in the attached Powerpoint presentation.

There was a question raised about the certainty of the assumptions on other (than affordable housing) Section 106 costs, although it was agreed that a tariff approach is the correct one to adopt.

A point was made about the importance of land owner aspirations. Land owners need to be happy that there is enough return in the scheme to encourage them to bring sites forward.

### **Policy issues**

Potentially splitting targets within Districts was discussed as an option. Three Dragons explained that this might be the consequence of a district having a varied housing market including high and low values. There was some support for this policy approach although one respondent suggested that housing needs should be driving force for targets, not viability – AH may be more viable in some areas but this may not be where the greatest need is.

Quality issues – some areas and LPAs have greater expectation for quality of development, higher quality can mean higher costs although this does not necessarily mean that development is less viable, particularly where higher costs are offset by high selling prices.

A point was made about the potential impact of the Code for Sustainable Homes - as this study is going to be used in the longer term the 2016 zero carbon target comes into play, this is likely to add substantial costs to development and will therefore

reduce viability of AH. Three Dragons responded that viability would only be adversely affected where costs rise faster than revenues. Neither the trend in house prices, nor the actual costs of the Codes are certain at a local level. The costs of implementation could also fall as economies of scale kick in. Three Dragons stated that the impacts of sustainable features will be tested as part of the study analysis.

### **Small sites**

There is no evidence to suggest that small scale schemes are any less viable than large scale ones. It was emphasised that it is not the size of the site that determines viability, but the location and the type of development. However, small sites often co-incidentally have a standing value (e.g. a house already on the site), and these seem to have increased substantially over the past few years making redevelopment less viable.

There was some uncertainty as to whether RSL want to take on single dwellings within small schemes. Experiences of both taking on and not expressed by developers and HA present at workshop.

The aspirations of both landowners and LPA regarding delivery of smaller sites, issues and contentions are often magnified making such developments not worth the hassle and return. It was suggested that 5 dwellings and above are not necessarily problematic from a viability viewpoint, but that below 5, viability was not so strong. No particular reasons were given for this distinction.

### **Comments on density and development mix**

It is possible to achieve 60 in towns but any higher is unlikely, especially in a predominantly rural county such as Dorset.

Other land uses such as SUDs, attenuation and biodiversity make sites, especially smaller ones, harder to develop at higher densities, unless these can be incorporated within the developable land.

House types not necessarily reflecting what is being built in Dorset. For example 3-5 bedroom town houses, often terraced and over 3 floors are fairly common. These are sometimes linked by 1-2 bedroom coach houses over a vehicular access into courtyard parking areas (Note Powerpoint attached).

### **Land owner viewpoints**

It was stated that most landowners have an unrealistic expectation of the value of their land. Last year land landowners in Dorset, with green field sites adjacent to development boundary, were expecting values of approximately £1.5 million per acre. Actual selling prices are now expected to be very significantly below this, with one delegate quoting 'one tenth is now appropriate'.

It was stated that brown field sites generally present a greater challenge to development viability (due to high existing use values) than green field.



The role of the planning process on land owner expectations should be recognised. LDF/SHLAAs can provide alternative options which mean that expectations amongst landowners could potentially be reduced if competition between sites is increased

Hope value for Rural Exception Sites are around £6,000 to £10,000 per plot.

CGT is a consideration for most land owners.

When considering reasonable uplifts to land owners (and whether sites would come forward), one delegate pointed out the Development Land Tax which he said did not bring land forward at a 60% tax rate (i.e at 40% uplift).

### **Further comments**

Next couple of years could provide the greatest opportunity in recent times for public sector led housing development;

Public sector land could be used more for provision of AH;

Opportunity to develop rural exception sites should be taken.

### **Appendix 2 Three Dragons model: Method statement**

The 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.



## Key data assumptions

### Market areas and prices:

NORTH DORSET											
Sub Market	Detached			Semis			Terraces		Flats		
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed
Shaftesbury & Gillingham Rural Hinterland	£470,000	£425,000	£365,000	£305,000	£275,000	£250,000	£270,000	£245,000	£265,000	£230,000	£150,000
Blandford Forum Rural Hinterland	£465,000	£400,000	£360,000	£300,000	£270,000	£245,000	£265,000	£240,000	£260,000	£225,000	£145,000
Rural West	£405,000	£370,000	£310,000	£260,000	£235,000	£210,000	£230,000	£205,000	£225,000	£200,000	£130,000
Shaftesbury	£395,000	£355,000	£305,000	£250,000	£230,000	£210,000	£225,000	£205,000	£220,000	£195,000	£125,000
Blandford Forum	£380,000	£345,000	£295,000	£245,000	£220,000	£200,000	£220,000	£195,000	£215,000	£185,000	£120,000
Gillingham	£330,000	£300,000	£255,000	£210,000	£195,000	£175,000	£190,000	£170,000	£185,000	£160,000	£105,000

The development mixes were as follows:

- 20 dph: including 30% 3 bed semis; 30% 3 bed detached and 40% 4 bed detached;
- 30 dph: including 10% 2 bed terraces; 20% 3 bed terraces; 15% 3 bed semis; 30% 3 bed detached; 25% 4 bed detached;
- 40 dph: including 10% 2 bed flats; 10% 2 bed terraces; 15% 3 bed terraces; 30% 3 bed semis; 20% 3 bed detached; 15% 4 bed detached;
- 50 dph: including 5% 1 bed flats; 10% 2 bed flats; 10% 2 bed terraces; 15% 3 bed terraces; 35% 3 bed semis; 15% 3 bed detached; 10% 4 bed detached;
- 60 dph: including 10% 1 bed flats; 30% 2 bed flats; 20% 2 bed terraces; 15% 3 bed terraces; 25% 3 bed semis.

### Affordable housing targets:

25%;  
30%;  
35%;  
40%;  
50%;  
60%

### Development costs

Based on RICS BCIS database:

Costs as set out below:

### 10 - DEVELOPMENT COSTS

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#### 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	
Bungalows	£1,049	£1,075
Flats (6+ storeys)	£1,545	£1,800
Flats (5 & less storeys)	£1,115	£1,280
Houses <= 75m <sup>2</sup>	£999	£1,025
Houses > 75m <sup>2</sup>	£901	£895

#### 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

No abnormals assumed

Typical unit sizes adopted (m<sup>2</sup>):

	Market	Affordable
<b>1 Bed Flat</b>	45	46
<b>2 Bed Flat</b>	60	67
<b>2 Bed Terrace</b>	65	76
<b>3 Bed Terrace</b>	80	84
<b>3 Bed Semi</b>	90	86
<b>3 Bed Detached</b>	120	90
<b>4 Bed Detached</b>	150	110

Social rents

	Weekly Rent
<b>1 Bed Flat</b>	60
<b>2 Bed Flat</b>	68
<b>2 Bed Terrace</b>	70
<b>3 Bed Terrace</b>	78
<b>3 Bed Semi</b>	82
<b>3 Bed Detached</b>	84
<b>4 Bed Detached</b>	94

### Appendix 3 Results – Residual values – no grant scenarios

	0%	25%	30%	35%	40%	50%	60%
<b>20 DPH</b>							
Shaftesbury & Gillingham	£2.80	£2.03	£1.88	£1.72	£1.57	£1.27	£0.96
Blandford Forum Rural Hinterland	£2.60	£1.88	£1.73	£1.58	£1.44	£1.15	£0.86
Rural West	£2.05	£1.43	£1.30	£1.18	£1.05	£0.81	£0.56
Shaftesbury	£1.92	£1.32	£1.20	£1.08	£0.96	£0.72	£0.48
Blandford Forum	£1.77	£1.20	£1.09	£0.97	£0.86	£0.63	£0.40
Gillingham	£1.22	£0.75	£0.66	£0.57	£0.48	£0.29	£0.10
<b>30 DPH</b>							
Shaftesbury & Gillingham	£3.98	£2.88	£2.66	£2.44	£2.22	£1.78	£1.34
Blandford Forum Rural Hinterland	£3.76	£2.70	£2.49	£2.28	£2.07	£1.65	£1.22
Rural West	£2.92	£2.02	£1.84	£1.66	£1.48	£1.12	£0.76
Shaftesbury	£2.76	£1.89	£1.72	£1.55	£1.37	£1.03	£0.68
Blandford Forum	£2.56	£1.73	£1.57	£1.40	£1.24	£0.90	£0.57
Gillingham	£1.78	£1.10	£0.96	£0.83	£0.69	£0.42	£0.15
<b>40 DPH</b>							
Shaftesbury & Gillingham	£4.83	£3.44	£3.17	£2.89	£2.61	£2.05	£1.50
Blandford Forum Rural Hinterland	£4.60	£3.25	£2.98	£2.72	£2.45	£1.91	£1.37
Rural West	£3.53	£2.39	£2.16	£1.93	£1.70	£1.25	£0.79
Shaftesbury	£3.35	£2.24	£2.02	£1.80	£1.58	£1.14	£0.69
Blandford Forum	£3.08	£2.02	£1.81	£1.60	£1.39	£0.97	£0.55
Gillingham	£2.14	£1.26	£1.09	£0.91	£0.74	£0.39	£0.04
<b>50 DPH</b>							
Shaftesbury & Gillingham	£5.66	£4.00	£3.67	£3.33	£3.00	£2.34	£1.67
Blandford Forum Rural Hinterland	£5.40	£3.79	£3.47	£3.14	£2.82	£2.18	£1.53
Rural West	£4.12	£2.75	£2.48	£2.21	£1.93	£1.39	£0.84
Shaftesbury	£3.91	£2.59	£2.32	£2.06	£1.79	£1.26	£0.73
Blandford Forum	£3.58	£2.32	£2.07	£1.81	£1.56	£1.05	£0.55
Gillingham	£2.49	£1.44	£1.23	£1.02	£0.80	£0.38	-£0.04
<b>60 DPH</b>							
Shaftesbury & Gillingham	£5.57	£3.77	£3.41	£3.05	£2.69	£1.97	£1.24
Blandford Forum Rural Hinterland	£5.35	£3.59	£3.24	£2.88	£2.53	£1.83	£1.12
Rural West	£4.02	£2.51	£2.21	£1.91	£1.61	£1.01	£0.40
Shaftesbury	£3.84	£2.37	£2.08	£1.78	£1.49	£0.90	£0.31
Blandford Forum	£3.45	£2.06	£1.78	£1.50	£1.22	£0.66	£0.10
Gillingham	£2.36	£1.17	£0.93	£0.69	£0.46	-£0.02	-£0.50