Purbeck DC Affordable Housing Viability Study

Three Dragons

August 2008

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1 Study Objectives and Policy Context

1.1 Objectives of project

1.1.1 This study provides an economic viability assessment of residential development and affordable housing supply across the district. The study brief identified four objectives for the work which were:

- To measure the effectiveness of the Council's current affordable housing policy across the district.

- To identify how the current policy can be developed through the Core Strategy to ensure the increased delivery of affordable housing across the District.

- To assess the implications of wider factors, including existing and potential future financial contribution requirements, on the economic viability of residential development and affordable housing supply across the district.

- To provide a robust evidence base that will inform the development of Core Strategy policy options on the delivery of market housing, affordable housing, exception sites housing, renewable energy provision, existing and potential future planning contributions.

1.2 Planning and housing policy context

1.2.1 The national policy context is set by Planning Policy Statement 3: Housing (November 2006). The PPS requires local authorities to set out their affordable housing policies in their Local Development Framework. These should include a target for the amount of affordable housing to be provided (and how the target will be split between social rented and intermediate housing), the size and type of housing required and the circumstances in which affordable housing will be required. On the latter point PPS3 states that:

1.2.2 "*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. (Para 29)"

1.2.3 The importance of providing a robust evidence base to underpin the development of policy is made clear in PPS3. This study forms part of the evidence base for Purbeck District Council to set alongside its Strategic Housing Market Assessment and Strategic Housing Land Availability Assessment.

1.2.4 At the local level, the Purbeck District Local Plan Final Edition 2004 includes policy MN4, 'Affordable and / or Special Needs Housing within General Housing Development Sites'. The policy advises that the Council will negotiate for a proportion of about 25%-35% affordable and/or special needs housing on proposed new housing development:

(i) in or adjacent to settlements of fewer than 3,000 population, if they are for 5 or more dwellings, or a site area of 0.2 or more hectares;

(ii) in or adjacent to settlements of 3,000 or greater population, if they are for 15 or more dwellings or a site area of 0.6 or more hectares.

1.2.5 The Plan also includes a Rural Exception Site policy (MN5) which enables specific identified local housing needs to be met. Both policies are supplemented by guidance in the Council's Affordable Housing Supplementary Planning Guidance (2005).

1.2.6 The draft Regional Spatial Strategy for the South West identified 2,100 dwellings or 105 per annum to be provided in Purbeck, 2006 to 2026.[1] The Panel Report published in January of this year, significantly increased these figures to a total of 5,150 or 258 per annum[2]. The Panel recommended that 2,750 dwellings are to be provided in an area of search in north east Purbeck (as a western extension to Poole) and 2,400 dwellings in the remainder of the District.

1.2.7 Policy H1 of the draft Regional Spatial Strategy deals with affordable housing. The Panel recommends that 35% of all annual housing development across each authority and Housing Market Area should be affordable. Rates of up to 60% or higher may be specified in areas of greatest need.

1.2.8 When published, the Secretary of State's proposed changes to the RSS will provide a clearer indication of the amount of new dwellings that will be required to be built in the District over the Plan period 2006 to 2026.

1.3 Affordable Housing Provision

1.3.1 In recent years, total housing completions in Purbeck have varied significantly on a year by year basis. Between 1997/98 and 2006/07 they ranged from below 100 to over 200, with 187 dwellings completed in 2006/07. The 10 year average is 135 dwellings. In terms of delivery of affordable housing, the level of affordable housing achieved is falling well short of the policy target with completions of affordable housing over the period 2003/04 to 2006/07 at around 12%. The following table sets this out

[1] The Draft Regional Spatial Strategy for the South West, South West Regional Assembly, June 2006

[2] Panel Report on the draft RSS for the South West, published on the 10th January 2008

Table 1.1 Affordable Housing Delivery (Completions 2001/02 to 2006/07)

Year	Total Dwellings	Total Affordable Dwellings	Percentage
01/02	93	2	2%
02/03	112	7	6%
03/04	89	24	27%
04/05	83	0	0%
05/06	161	17	11%
06/07	187	21	11%
01/06	**538**	**50**	**9%**
01/07	**725**	**71**	**10%**
03-07	**520**	**62**	**12%**

1.3.2 The table does not indicate that affordable housing delivery is on a sustained upward trend. The peak year was 2003/04 but amounts of affordable housing provided fell back in the subsequent years.

1.3.3 The next table looks at the development mechanisms which are delivering affordable housing. The three mechanisms are i) mixed tenure schemes (where there is a mix of affordable and market housing) ii) schemes which are 100% affordable housing and iii) rural exception sites – again 100% affordable housing schemes but on sites at the edges of rural settlements of less than 3,000 population and which would not be allowed for any other housing than affordable housing. Table 1.2 below shows the relative importance of each of these mechanisms over the last 5years and the total number of completions for each – more than one scheme may have contributed to this total. In each row in the column labelled 'Mixed Tenure', the first figure is the number of affordable dwellings completed; the second line shows the total number of units (market and affordable) and the overall percentage of affordable housing in the mixed tenure schemes.

Table 1.2 Sources of Affordable Housing (Completions 2003/04 to 2006/07)

Year	Mixed Tenure	100% Affordable	Rural Exception Sites	Total Affordable Dwellings
03/04	0	24	0	24
04/05	0	0	0	0
05/06	9 (out of 21 = 43%)	3	5	17
06/07	18 (out of 60 = 30%)	3	0	21
07/08	52 (out of 149 = 35%)*	11	0	63
03/08	**79** **(out of 230 = 34%)**	**41**	**5**	**125**

* Figures include all of the site at Dorchester Road, Wool (146 dwellings in total) which part completed in 07/08.

1.3.4 The table shows that mixed tenure schemes are the most important mechanism for the provision of affordable housing – with 79 out of 125 affordable units or 63% provided by this mechanism over the last 5 years. The table also illustrates that on mixed tenure schemes, affordable housing is averaging at about 34% which is well in line with policy.

1.3.5 Mixed tenure schemes in the pipeline which have planning permission but are yet to be developed out, continue with a relatively high percentage of affordable housing[3]. Of the 8 mixed tenure schemes in the pipeline[4], there are 58 affordable dwellings or 31% out of a total of 190 dwellings.

1.3.6 But what is happening in Purbeck is that a large number of housing schemes are developed on which no affordable housing is delivered i.e. schemes which are 100% market housing. This pattern is largely explained by the size profile of sites which we look at in more detail later in the report. Most residential schemes in Purbeck fall bellow the site size threshold above which affordable housing can be sought and therefore do not contribute to the new affordable housing being provided in the District. Thus the Council is falling well short of the overall level of new affordable housing it requires whilst, at the same time,

[3] Schemes may be currently under construction or yet to start.

[4] This list excludes the final phases of the scheme at Dorchester Road, Wool which is to deliver 35% affordable housing overall.

achieving its policy target for the amount of affordable housing on new mixed tenure schemes.

1.4 Need for Affordable Housing

1.4.1 The Council has a recent assessment of the need for affordable housing. The Dorset Survey of Housing Need and Demand (part of the Strategic Housing Market Assessment) provides specific and up to date information for Purbeck.[5] This identified an affordable housing shortfall of 409 units a year for the period 2007 to 2012. This affordable housing requirement considerably exceeds total dwelling completions in the District over the last decade and would exceed the annual average requirement to 2026 implied by the RSS Panel Report. Given this level of need in relation to total housing supply, we have not paid attention to affordable housing requirements in developing our testing framework i.e. we have not constrained the % of affordable housing we have tested on the basis that there would not be demand for the units provided.

1.5 Use of this Study

1.5.1 The Council is currently preparing the Core Strategy as part of its Local Development Framework. This study will form part of the evidence base for the Strategy and will also be used to inform any SPD that the Council may wish to produce in relation to the provision of affordable housing.

[5] Dorset Survey of Housing Need and Demand 2007, Local authority report for Purbeck, Fordham Research, January 2008

2 Methodology

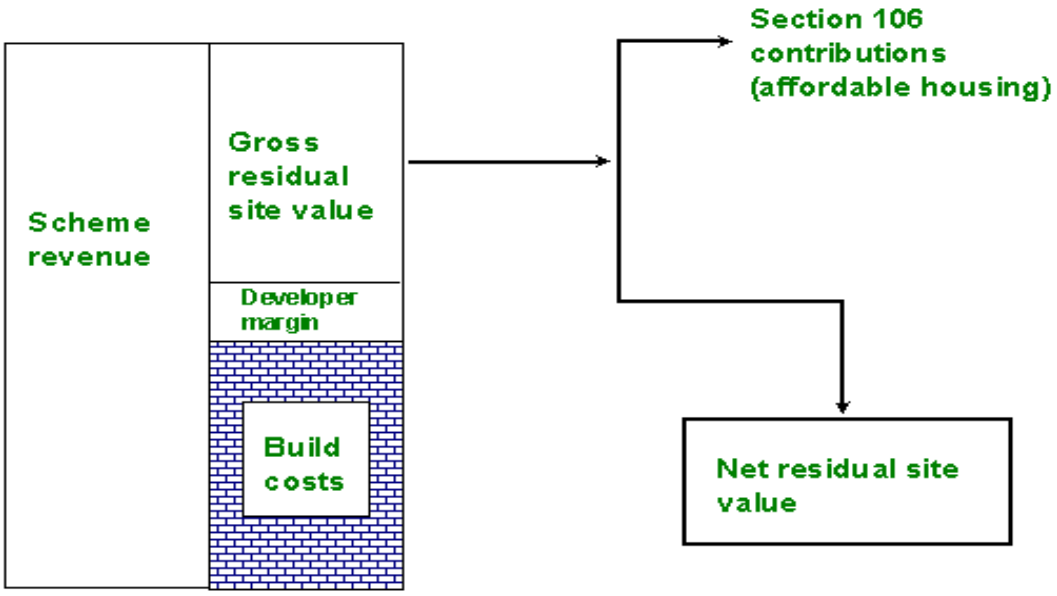
2.1 Viability – Starting Points

2.1.1 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 Section 106 contributions.

2.1.2 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.

2.1.3 The gross residual value is the starting point for negotiations about the level and scope of Section 106 contribution. The contribution will normally be greatest in the form of affordable housing but other Section 106 items such as Transport and Heathlands (particularly relevant in Purbeck) will also reduce the gross residual value of the site. Once the Section 106 contributions have been deducted, this leaves a net residual value.

Figure 2.1 Theory of the Section 106 Process



2.1.4 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.

2.1.5 Clearly a site is highly 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 will happen. 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 viable for housing.

2.1.6 The analysis we have undertaken uses a Three Dragons Viability model. The model is explained in more detail in Appendix 1, which includes a description of the key assumptions used.

2.2 Overview of Approach in this Study

2.2.1 Our approach is a detailed analysis of development economics as they are affected by affordable housing and other planning obligations. We undertake viability assessment using a range of different scenarios testing sub markets and site size.

2.2.2 Our findings also take account of a workshop held with developers, housing associations and land owners. A full note of the workshop is shown in Appendix 2. The workshop took account of the full range of views from local stakeholders involved in the provision and development of housing in the Purbeck DC area.

3 High level testing

3.1 Sub Markets

3.1.1 Our initial analysis looks at the sub district viability context. Variation in house prices will have a significant impact on development economics and the impact of affordable housing on scheme viability. We have therefore reviewed the make-up of the District in terms of house price sub markets.

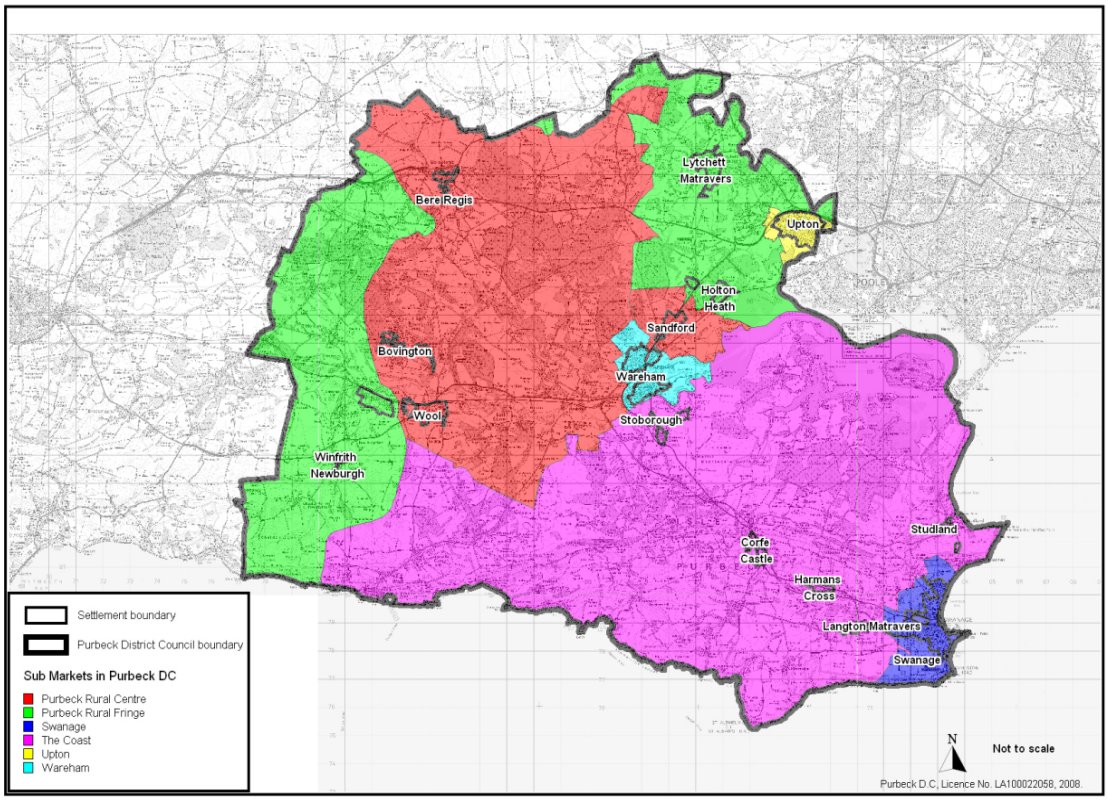
3.1.2 We have undertaken a broad analysis of viability across the housing market, using HM Land Registry data to identify sub markets in the District. The sub markets are defined by reference to house prices and provide the basis for a set of indicative new build values. The purpose of this analysis is to help establish a broad starting point for target setting in the light of the general relationships between development revenues and development costs. In all instances, a notional half hectare site is taken as a basis for the scenario testing.

3.1.3 The table below sets out the sub markets defined for the District. These show the District descriptor (e.g. 'The Coast'), the key settlements included and the post code sectors which relate to the sub markets. Map 3.1 sets out the sub markets' geographical areas.

Table 3.1 Sub Markets in Purbeck DC

MARKET AREAS	Towns	Large villages	Small villages	PCSs
The Coast		Corfe Castle; Harmans Cross Langton Matravers; Studland	Church Knowle; Kimmeridge; Kingston Stoborough; The Lulworths; Worth Matravers	BH19 3; BH20 5
Swanage	Swanage			BH19 1; BH19 2
Purbeck rural fringe		Lychett Matravers; Winfrith Newburgh	Briantspuddle; East Chaldon; Lychett Minster; Moreton Station	BH16 6; BH21 4; DT2 7 DT2 8; DT11 9
Wareham	Wareham			BH20 4
Purbeck rural centre		Bere Regis; Bovington; Sandford; Wool		BH20 6; BH20 7
Upton	Upton			BH16 5

Map 3.1 Sub Markets in Purbeck DC



3.1.4 The sub markets are defined by postcode sectors. This allows for an understanding of prices as reflected in specific settlements. In some cases, however (and we note here in particular Lychett Matravers, which has a housing market connection with Upton), it is difficult to define the sub market precisely. Stoborough (which falls within the Coast sub market is also closely linked with Wareham).

3.2 Testing Assumptions (Notional Half Hectare Site)

3.2.1 For the viability testing, we defined a number of development mix scenarios, using a range of assumptions agreed with the client:

- Lower density larger housing development at 30 dph (including 20% 2 bed semis; 35% 3 bed detached; 45% 4 bed detached).

- Medium density development at 45 dph (including 10% 2 bed semis; 20% 3 bed town houses; 30% 3 bed detached; 40% 4 bed detached).

- Higher density development at 60 dph (including 10% 1 bed flats; 15% 2 bed flats; 10% 2 bed semis; 20% 3 bed town houses; 25% 3 bed semis; 10% 3 bed detached; 10% 4 bed detached).

- High density development at 80 dph (including 20% 1 bed flats; 30% 2 bed flats; 30% 2 bed terraces; 20% 3 bed terraces).

- High density apartment scheme at 120 dph (including 40% 1 bed flats; 60% 2 bed flats).

- High density apartment scheme at 150 dph (including 50% 1 bed flats; 50% 2 bed flats).

3.2.2 We calculated residual site values for each of these (base mix) scenarios in line with further set of scenarios across a range of tenure assumptions. These were 30%; 35%; 40%; 50% and 60% affordable housing. These were tested at 75% Social Rent and 25% New Build HomeBuy in each case. For the New Build HomeBuy, the share purchase was assumed to be 40%.

3.3 Other Section 106 Contributions

3.3.1 Although affordable housing is usually the most significant factor affecting site viability, other Section 106 contributions can impact on scheme viability.

3.3.2 The Council has two contributions for which there is a standard charge. They are for Transport and Heathlands.

3.3.3 Contributions to transport vary according to dwelling size, with one bed units requiring £4,750 and six bed units requiring £9500. In addition, there is a Dorset Heathlands contribution requirement of £1,581 per house and £949 per flat;

3.3.4 We have assumed an average of £8,000 per unit for these two charges throughout our scenario testing.

3.4 Subsidy

3.4.1 For all the analysis and scenario testing, we have assumed that no Social Housing Grant or other form of subsidy will be available. This assumption is based on the historic position of nil grant in Purbeck. We comment in the report on the potential impacts for grant under differing development situations.

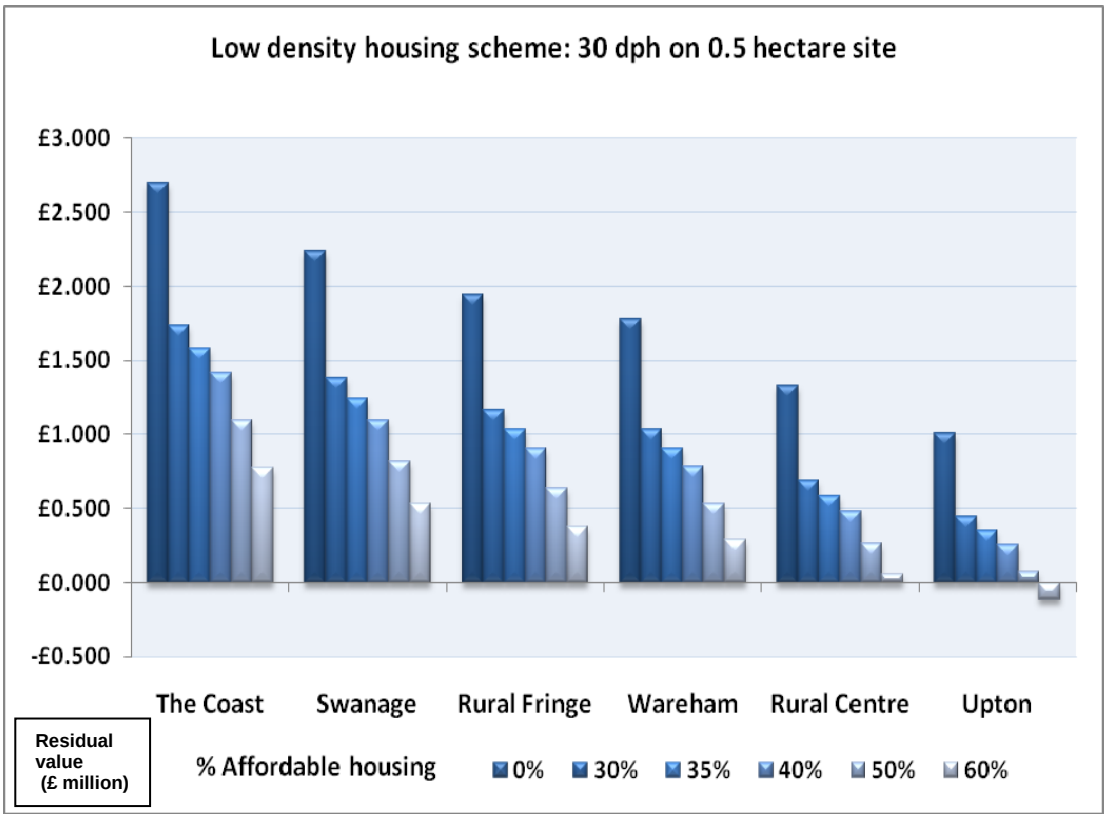
3.5 Results of the Scenario Testing

In this section we report on the results from the scenario testing. All figures in this section show residual values for the notional half hectare site in £ million.

3.5.1 Low Density Scheme

Figure 3.1 shows residual values for a notional half hectare site at low density (30 dph) and with a mix of family type housing.

Figure 3.1 Low Density Housing Scheme



- The impact which differences in market values have on RV is immediately apparent – all other things equal, the higher the market value, the higher the RV;

- The differences are such that a 'typical' site with 60% affordable housing in Swanage would be likely to be as valuable, if not more so, than a site with 30% affordable housing in Upton;

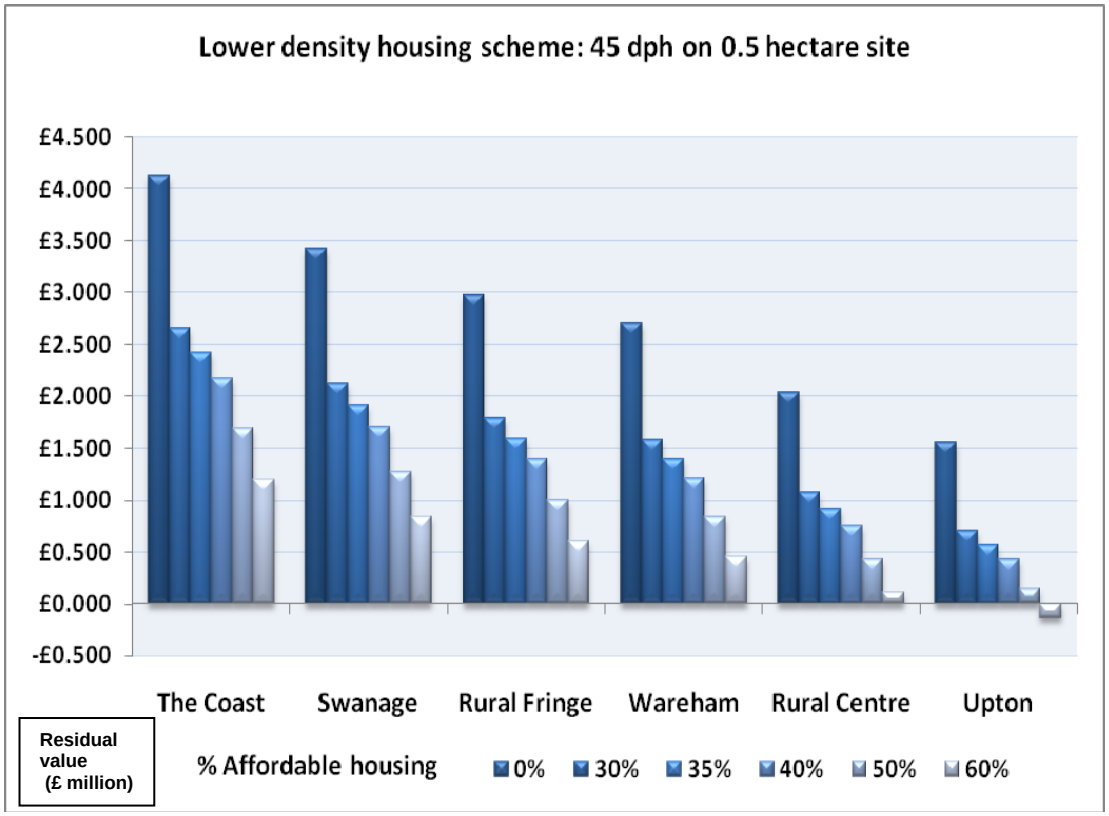
- Even in the 'middle market' locations, relatively strong RVs are maintained with affordable housing up to 40/50%. For example, in the Rural Fringe, site values would be expected to be around £2 million per hectare at 35% affordable housing and in Wareham £2 million per hectare at 30% affordable housing;

- But in the weaker markets of the Rural Centre and Upton, at higher levels of affordable housing, RVs are lower with, e.g. 40% in Upton giving a RV of £0.5 million per hectare.

3.5.2 Lower Density Scheme

Figure 3.2 assumes a similar development mix to that in Figure 3.1, although Figure 3.2 is higher density; at 45 dph.

Figure 3.2 Lower Density Housing Scheme



- The impact of increasing density with this type of development mix is to enhance site value;

- The general 'lesson' here is that by allowing a higher density 'solution', (45 dph rather than 30 dph) sites in all locations (all other things equal) will be capable of yielding a higher percentage of affordable housing.

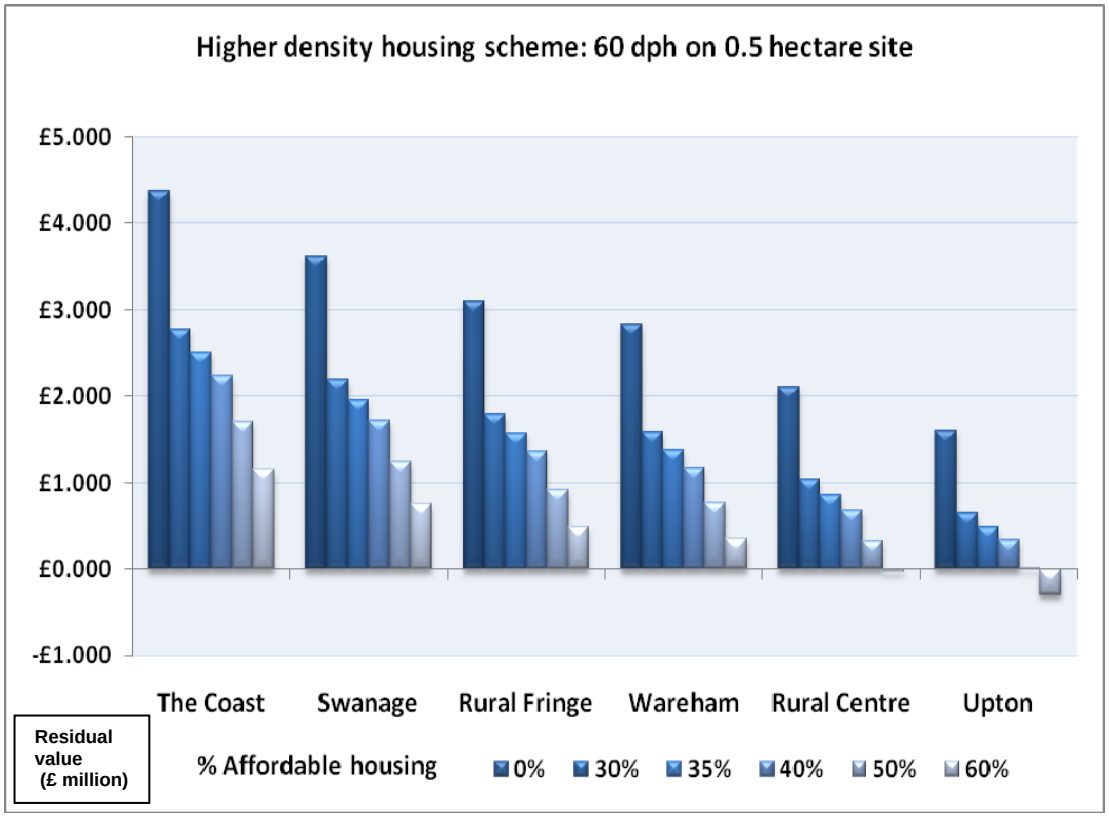
- Under this scenario (45 dph family type housing), middle market locations should be realising values in the region of £3 million per hectare at affordable housing targets of between 35% to 40% affordable housing.

3.5.3 Higher Density Housing Scheme

Figure 3.3 shows the residual value results at different affordable housing targets where site density is increased to 60 dph. This option is likely to bring in a higher proportion of smaller units and the precise mix assumed here is: 10% 1 bed flats; 15% 2 bed flats; 10% 2 bed semis; 20% 3 bed town houses; 25% 3 bed semis; 10% 3 bed detached and 10% 4 bed detached.

This would probably be towards the upper limit of development in non urban locations but it is helpful to consider the impacts on site viability.

Figure 3.3 Higher Density Housing Scheme



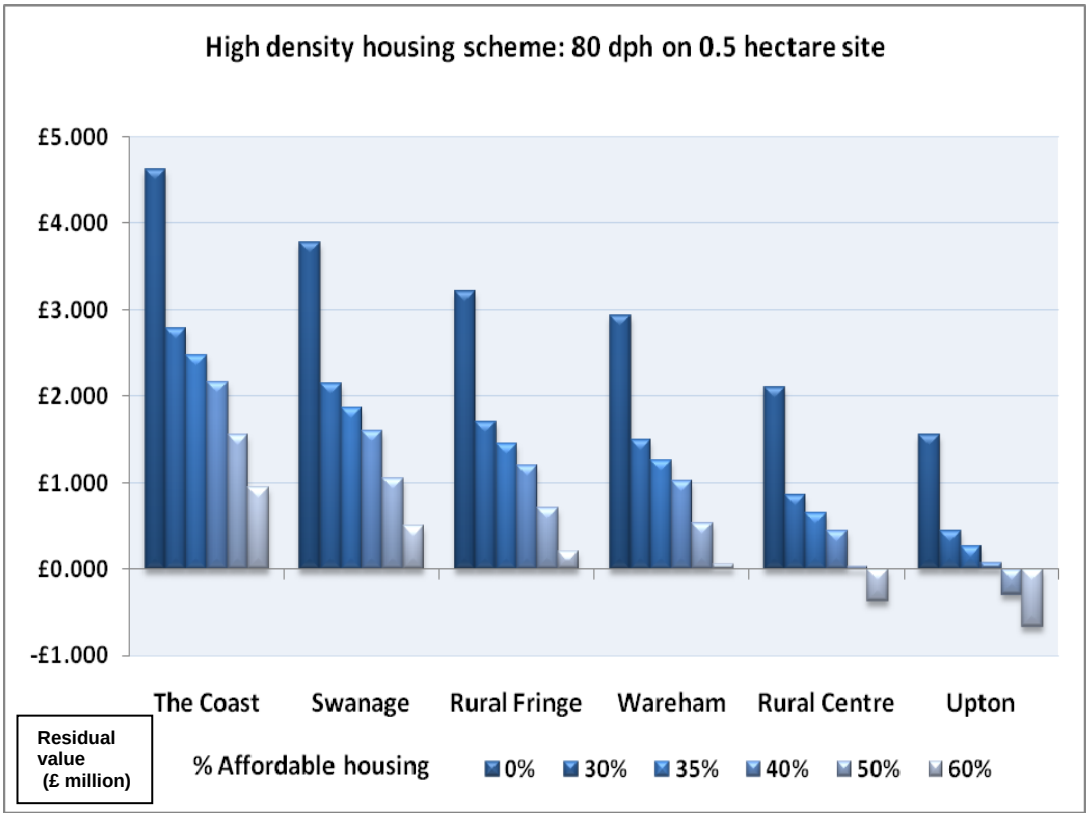
- Although increasing density from 30 dph to 45 dph enhances site value (compare Figures 3.1 and 3.2), a further increase to 60 dph with this type of development would not appear to add significantly to value, and hence the capacity of sites to support more affordable housing.

- In the weaker market areas such as Upton, the lower density option of 45 dph would seem to hold residual values higher at higher percentages of affordable housing than is the case at 60 dph (comparing Figures 3.3 and 3.2).

3.5.4 High Density Housing Scheme

Figure 3.4 shows results for schemes in the different locations – all at 80 dwellings per hectare (including 20% 1 bed flats; 30% 2 bed flats; 30% 2 bed terraces; 20% 3 bed terraces).

Figure 3.4 High Density Housing Scheme (80 dph)



- The effect of increasing density (on the basis of the assumptions made here) from 45 dph through 60 dph and to 80 dph would not appear to be significant in terms of viably delivering affordable housing in most sub markets; indeed residual values are marginally lower at 80 dph in many instances.

- With a higher proportion of smaller units, the 'advantage' of increased density is offset by a tighter relationship between sales revenues and costs.

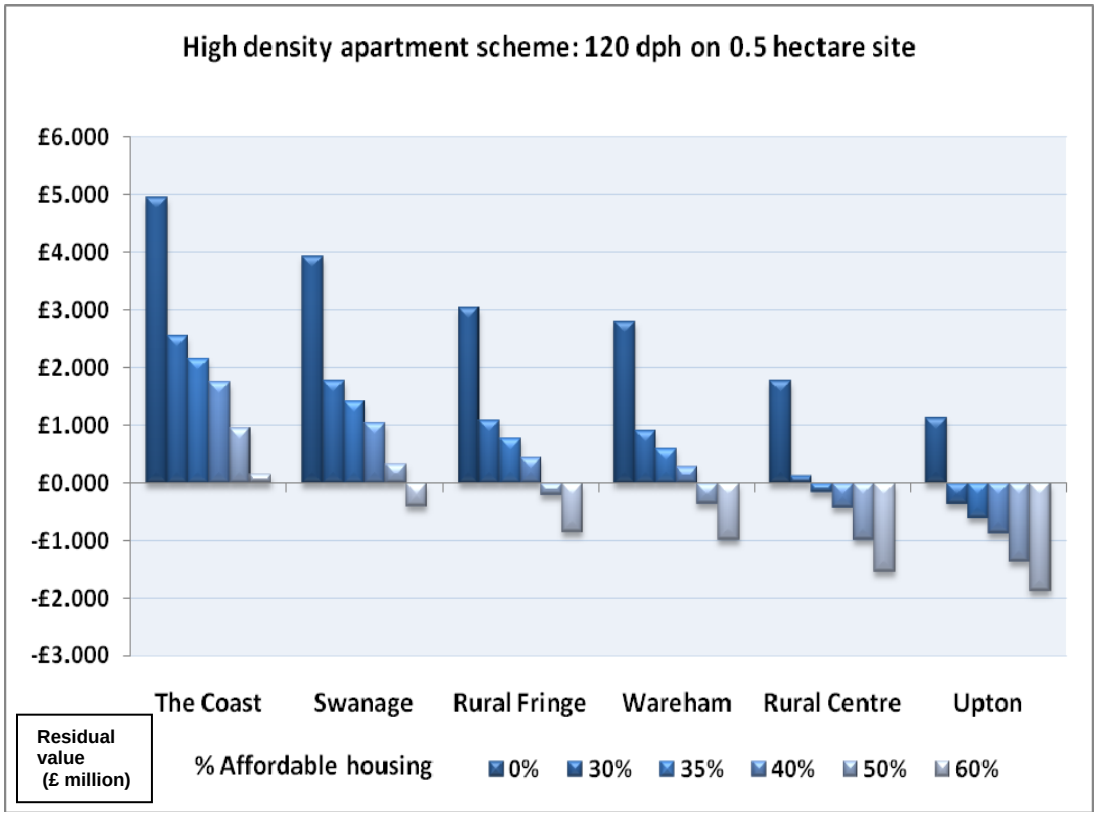
- In the middle sub markets, the policy impacts are fairly neutral across the density range although at higher affordable targets (40% upwards) higher density appears to make it more difficult to deliver affordable housing.

- It will be noted (Figure 3.4) that site values may be negative in Upton at above 40% affordable housing with this type of development.

3.5.5 High Density Apartment Scheme (120 dph)

Figure 3.5 shows the first of two (100%) apartment scheme examples.

Figure 3.5 High Density Apartment Scheme (120 dph)



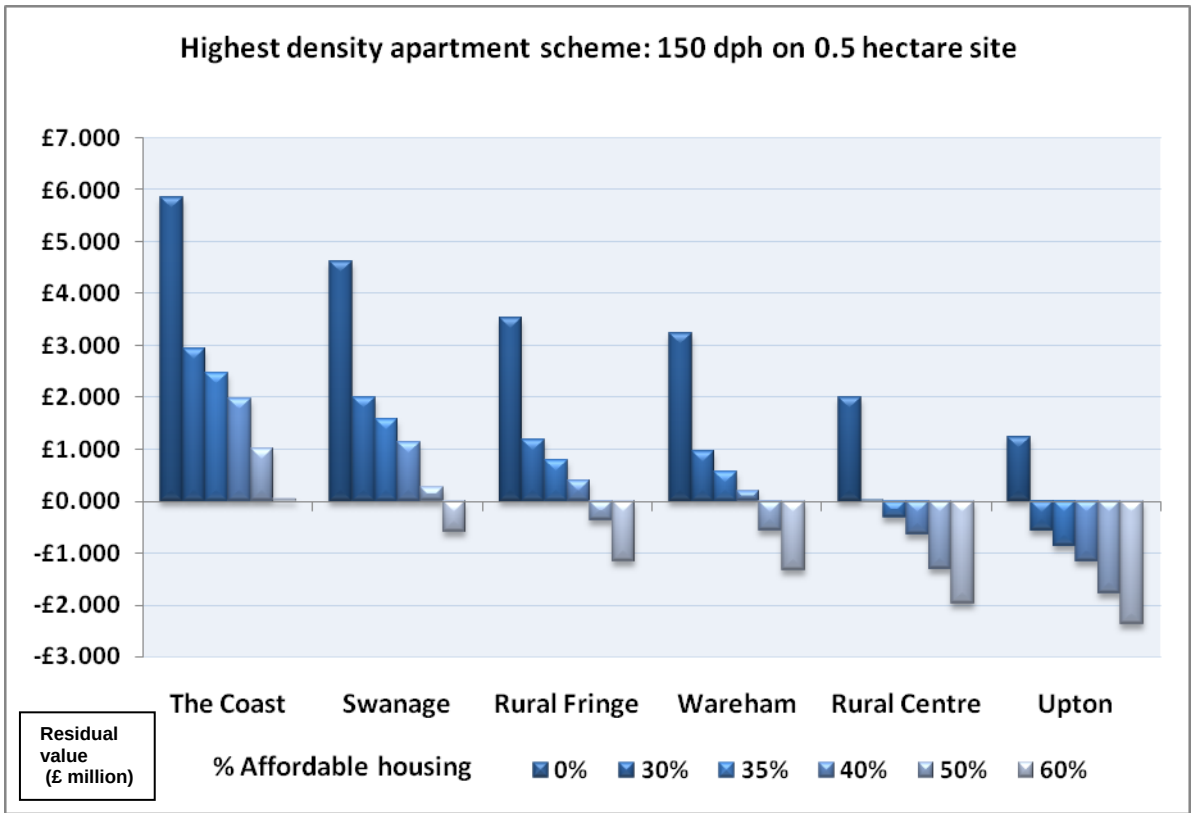
- The figure shows, interestingly, that although there is a marginal improvement in site value at 100% market housing (comparing the 80 dph and 120 dph scenarios) in the higher value sub markets, there would not appear to be significant benefit from a viability perspective in developing sites for high density apartments rather than say a higher density (45 to 60 dph) mix of housing and flats.

- Figure 3.5 suggests that in the lower market areas, residual values are negative at relatively low proportions of affordable housing.

3.5.6 Highest Density Apartment Scheme (150 dph)

Figure 3.6 shows the final notional scheme; apartments at 150 dph.

Figure 3.6 Highest Density Apartment Scheme (150 dph)



- In large measure, this graph provides similar lessons to that in the previous chart (Figure 3.5). It should be noted that locations and scenarios where affordable housing was not viable at 120 dph, are, in several instances, even less viable at 150 dph. At these higher densities, negative site residuals simply compound smaller negative residuals at lower density.

3.6 Conclusions on the High Level Testing

3.6.1 Section 3 has reviewed residual values for a number of generic scenarios for notional schemes at different densities, in the sub market areas and with different amounts of affordable housing.

3.6.2 It is clear that sub markets vary in their ability to deliver affordable housing and the other planning obligations we have modelled. Generally, it should be easier, all other things equal, to deliver affordable housing in locations such as the Coast and Swanage, than it will be to develop affordable homes in, say, Upton.

3.6.3 The analysis shows that increasing density does not necessarily lead to higher residual values. Our analysis suggests that schemes of 100% apartments do not necessarily maximise residual value. Indeed, there is evidence from the analysis to suggest that a mixed development of apartments and houses at the mid range of densities we have modelled (between 45 dph and 60 dph) may often provide the optimal development solution in terms of maximising an affordable housing contribution.

3.6.4 Our scenario testing shows that 100% apartment schemes can have low or negative RVs with relatively low proportions of affordable housing and/or other Section 106 contributions. We believe this is because of the general narrowness of the revenue-cost gap with apartments, particularly in weaker sub markets. Whilst as schemes become more dense, they add value on the market element, because the base cost-revenue relationship is negative, this residual becomes even more negative at higher density.

3.6.5 This generic analysis leads to the provisional conclusion that a District-wide target of 40% affordable housing would be a reasonable starting point for negotiations. In some sub markets it will not be achievable for certain forms of development – notably high-density apartments in lower value areas. This should not automatically mean that the Council would need to accept a lower percentage of affordable housing. It could consider a revised mix of affordable housing (with less social rent and more intermediate housing) and/or the addition of grant to support the development. The Council will need to balance the viability considerations against the emerging findings of the SHMA providing a steer on the overall tenure split within new developments.

3.6.6 It is important to emphasise that the analysis here had not factored in grant. Grant will be particularly important in cases where existing use values are high (we look more at this issue in the following section) and where residential selling prices are low.

4 Purbeck DC: analysis of generic sites

4.1 Framework for Viability Testing Generic Site Opportunities

4.1.1 The scenario testing described in Chapter 3, provides an overview of the way residual values vary between different sub markets, with different development types and different percentages of affordable housing. In this Chapter of the report, we look at a sample of sites which have proved typical of the types of sites brought forward for development in the District.

4.1.2 To establish typical site opportunities, we analysed data about dwelling completions in the District. Windfall sites have made up a significant proportion of the supply of housing sites in recent years.

4.1.3 The table below shows the main types of sites being brought forward. We identified site typologies on the basis that there were 3 or more sites of this type in the database of sites.

4.1.4 The table represents 147 individual sites from a total of 202. Hence 73% of all sites are included. The other 27% of sites are excluded on the basis that that they were a series of one-off cases and do not represent a consistent generic development opportunity. These uses include a community hall, rest home, place of worship and set of farm buildings.

Table 4.1 Analysis of Sites Currently Being Monitored in the District

Existing use	Incidence (No. of schemes	% of all significant types of supply (Ha)	Typical site size	Typical development scheme	Typical location
Builders yard	3	2.0	0.05 to 0.1	3 to 4 houses	No trend
Domestic house - extension	3	2.0	0.04 to 0.8	2 houses (?)	No trend
Farm building - 'not dwelling'	4	2.7	0.25	1 house or 1 flat	No trend
General shop	8	5.4	0.01 to 0.03	1 or 2 flats	Swanage & Wareham
Hotel or Boarding house	13	8.8	0.1 to 0.2	8 to 12 flats	Swanage
Open agricultural land	6	4.1	0.5 to 1.0	(Eg) 6 houses on 0.5 Ha	No trend
Permanent privare dwelling - infill	45	30.6	0.05 to 0.1	1 bungalow or 1 house	No trend
Permanent privare dwelling - redevelopment	42	28.6	0.05 to 0.1	1 bungalow or 1 house (7 flats @ Swanage)	No trend
Permanent privare dwelling - backland	12	8.2	0.05 to 0.1	1 bungalow or 1 house	No trend
Purpose built offices	3	2.0	0.01 to 0.05	(Eg 10 flats)	No trend
Unspecified or unused land	8	5.4	0.05 to 0.15	1 to 3 houses	No trend
	147	100.0			

4.1.5 This analysis helped to inform the selection of case studies which we outline below:

a) *Small sites currently occupied by a single dwelling*. These constitute 'residential to residential' development opportunities and thus have a very specific set of economic considerations. Typically these schemes come from sites in a size range 0.05 and 0.1 of a hectare. The new form of development on these types of sites is very often a replacement dwelling. However, in some instances this is apartments and we test these here.

b) *Hotel, or guest house (B and B) schemes*. The typical current arrangement is a large detached older house, intensively developed on the plot and which developers seek to demolish for new build apartments. This is most common in Swanage where plots with sea front views can command very high prices. Typically on plots of 0.15 hectares at between 8 and 15 dwellings.

c) *Shops and Pubs in outer town areas*. Here, there is no policy to retain retail uses and some sites are being converted to residential use. These are normally conversions which can present some challenging scheme issues. This type of opportunity is most common in the three towns - Wareham, Swanage and Upton. Typically shops are converted to between two and three apartments.

d) *Storage sites (e.g. builders yards, car repair workshops)*. These sites are seen to be relatively underused and provide an opportunity for medium density housing (typically 30 to 40 dph). Typically these sites are between 0.15 hectare and 0.25 hectare and are located in the three main towns and larger villages. Industrial or warehouse land value can be regarded as the best estimate of current use value.

e) *Gardens and back land*. This is becoming increasingly important in Purbeck as a source of housing supply. Typically sites will be around 0.5 hectare and will be developed at medium density (e.g. 35 dph). The existing use will be garden land, although there will be a premium on the sale of the land as there will usually be a devaluation on the existing property benefitting from the large garden.

4.1.6 All case study site opportunities have been tested across the range of affordable housing targets (0%; 30%; 35%; 40%; 50% 60%). Each scenario assumes a 75%: 25% split between Social Rent: Shared Ownership (New Build HomeBuy) and without subsidy.

4.1.7 The detailed analysis is quite extensive and is set out fully in Appendix 3. In the next section we provide a summary of the results and the key points for each development type.

4.2 General findings from the case studies

4.2.1 In most sub markets we would expect sites generate a positive residual value for residential development, even including affordable housing. The more difficult developments are likely to be apartment schemes in lower value sub markets.

4.2.2 But, having a positive residual value is not, of itself, enough for a scheme to be brought forward for development. It is clear that, in order for sites to be brought forward, the residual value for a scheme will have to exceed the existing use value, and by a margin that will encourage the land owner to decide to sell. In this respect, the analysis shows that the affordable housing target may have to be quite flexible to reflect the fact that some of the site types have a significantly higher existing use value than others.

4.3 Residential to residential Sites (small sites occupied by a single dwelling)

4.3.1 There are a number of scenarios where the relationship between existing use value and residual value will make it difficult to deliver any affordable housing. But this will not be the case in all sub markets. For sites with an existing residential use, we think that policy would need to be cautiously applied with 30% affordable housing being a reasonable 'marker' in the middle to higher end markets. The detailed analysis in Section A3.1 (of Appendix 3) shows that there is a very particular challenge with these sites where developers will be faced with acquisition costs which are likely to be high.

4.3.2 The analysis indicates that achieving 30% affordable housing, even in middle markets, (and less so in lower value markets) will be a challenge, particularly when combined with the Council's other aspirations for planning obligations.

4.4 Guest Houses and Hotels - Swanage

4.4.1 We think that these types of site present similar challenges to ones in residential use. The detailed analysis in Section A3.2 (Appendix 3) suggests high existing use value of around £70,000 per bedspace. There is an investment value for potential income received over the lifespan of the current building and any development proposal will have to 'clear' this to be brought forward.

4.4.2 The case study considered schemes in Swanage, a stronger housing market area. The evidence would seem to suggest that, depending on the specific location, affordable housing might be sought up to 40% on the better sites with 30% being the marker for the town.

4.5 Shops and Pubs Outer Town Locations

4.5.1 The analysis suggests that with these types of conversion schemes and at very low numbers, it will be difficult to negotiate an affordable housing contribution. Each site must however be taken on its merits, and will depend very much on the extent which the building lends itself to conversion.

4.6 Storage Sites

4.6.1 With sites that are in less valuable existing uses (e.g. storage yards) a higher percentage target is likely to be achievable. On the basis of our evidence, we would anticipate that a 40% target would not normally hold back these types of site for promotion as housing schemes. In some cases, a 50% obligation may not hold the site back. These sites will normally have industrial land value as an existing 'benchmark' and this is much less challenging to delivery of a relatively high percentage of affordable housing than other existing uses.

4.7 Back and Garden Land

4.7.1 Back land or garden land will provide opportunities to deliver affordable housing. The analysis (Section A3.5, Appendix 3) shows that these sites will often raise existing use values significantly and that across the range of market areas policy targets upwards from 40% may not be unrealistic in terms of viability. Clearly, each site will be considered on its merits. Hope value for housing and the potential devaluation of existing property through part land sales, will all play a role in defining how much affordable housing can viably be delivered.

4.8 Summary of the Results

4.8.1 The table below provides a summary of the results of the case study testing outlined in detail in Appendix 3. We have used the examples of a higher and lower value area to illustrate the key findings from the case study analysis.

4.8.2 In the table below, cells shaded in grey are scenarios where there is a positive residual value **and** this value exceeds that of the existing use – by 15% in all situations except storage sites where we have allowed a 30% land value improvement. Grey shaded cells show, as a general rule, scenarios where the scheme has the potential to be brought forward by the developer/landowner. This does not mean that residential development would not occur with the other scenarios (i.e. those cells which are not shaded) but the likelihood of development proceeding in these situations is very much less.

Table 4.2 Results from Case Study Testing

Development Typology	Existing use value in £s	Example of higher value area (Swanage) Residual value in £s million				Example of lower value area (Upton) Residual value in £s million			
		0% AH	30% AH	40% AH	50% AH	0% AH	30% AH	40% AH	50% AH
Residential to residential (0.1 Ha @ 150 dph)	£450,000 (Swanage); £300,000 (Upton)	£1.07	£0.51	£0.31	£0.15	£0.34	- £0.06	- £0.19	- £0.32
Swanage guest house (0.15 Ha @ 150 dph)	£700,000	£1.66	£0.81	£0.52	£0.23	N/A	N/A	N/A	N/A
Swanage guest house (0.15 Ha @ 150 dph) + 20% on sales	£700,000	£2.46	£1.41	£1.06	£0.72	N/A	N/A	N/A	N/A
Shop conversions (3 flats)	£200,000 (est)	£0.2	£0.09	£0.02	£0.01	£0.05	- £0.02	- £0.03	- £0.09
Storage sites (0.25 Ha; 40 dph)	£125,000	£1.54	£0.98	£0.79	£0.6	£0.72	£0.35	£0.23	£0.10
Back land & gardens	Garden land*	£2.1	£1.25	£0.96	£0.67	£0.91	£0.33	£0.14	- £0.05

* this can create diminution in value to existing properties. We have assumed here this will be relatively insignificant (maximum £50,000)

4.8.3 We have assumed that garden land has negligible existing use value, or will only devalue the existing property marginally.

4.8.5 For sites in an industrial type use (e.g. storage sites) and back land and gardens, a 40% target may well be achievable, even in the weaker locations (see Table 4.2).

5 Thresholds

5.1 Principles and Housing Need

5.1.1 National policy on the type of sites on which affordable housing may be sought, is set out in PPS3 which states that:

"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. (Para 29)"

5.1.2 The current policy framework for Purbeck has two different thresholds above which an affordable housing contribution can be sought i) a scheme of 5 or more dwellings, or a site area of 0.2 or more hectares in or adjacent to settlements of fewer than 3,000 population and ii) a scheme of 15 or more dwellings or a site area of 0.6 or more hectares in or adjacent to settlements of 3,000 or greater population.

5.1.3 One of the objectives for this study is:

- To identify how the current policy can be developed through the Core Strategy to ensure the increased delivery of affordable housing across the district.

5.1.4 A reduction in the site size threshold is one way this can be achieved – by increasing the number of housing schemes from which affordable housing can be sought. In the case of Purbeck, this would mean reducing the threshold to below the national indicative minimum, as set out in PPS3.

5.1.5 The case for increasing the delivery of affordable housing in Purbeck is very strong as evidenced by the Housing Needs Survey, the Dorset SHMA and the Purbeck HNDS. In the remainder of this Chapter we consider first, whether a reduction in the threshold would make a meaningful contribution to the supply of affordable housing and, second, whether there are practical reasons why the threshold should not be reduced; this includes a review of scheme viability.

5.2 What would be the benefits of a reduced site size threshold?

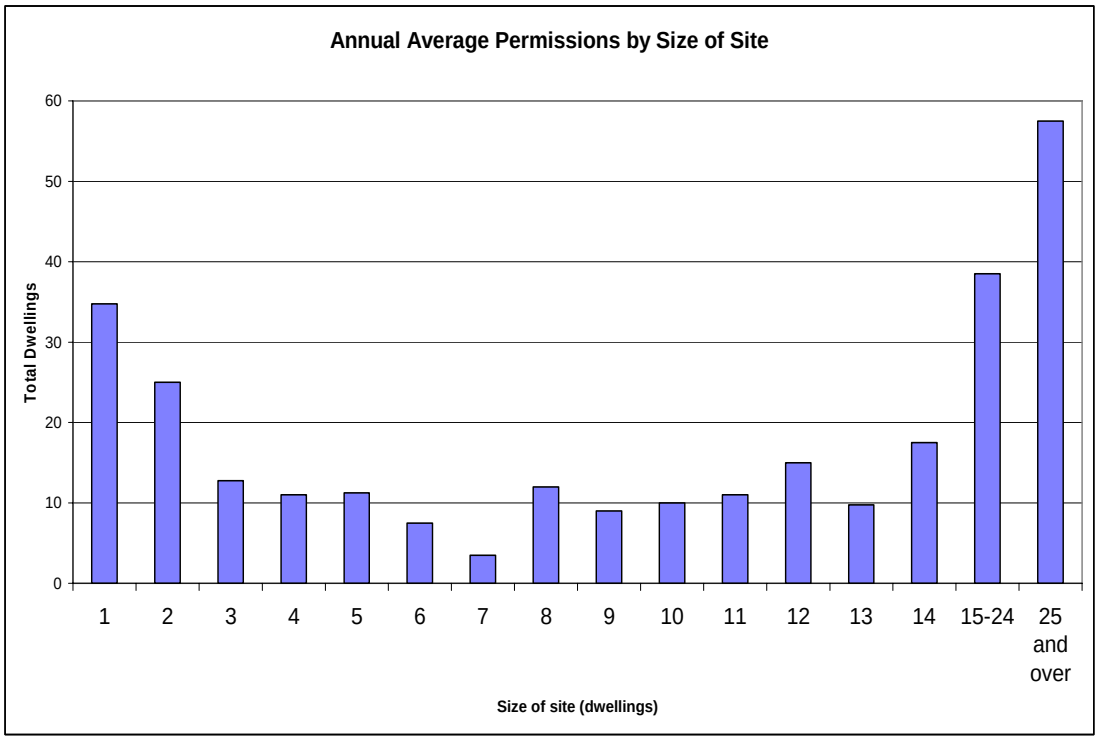
5.2.1 In considering the option of a lower site size threshold we first analyse the profile of sites which are likely to form the future land supply to assess the potential benefits, in terms of an increased supply of affordable housing. If there would be no meaningful increase in the supply of affordable housing, then there is little purpose in reducing the threshold.

5.2.2. We do not have the information to provide a full picture of the size of sites likely to come forward in the future. The Council is currently undertaking its Strategic Housing Land Availability Assessment and when this is available, it

will provide new evidence about the likely future site supply. In the absence of this information, we have analysed the pattern of permissions in the recent past and are making the assumption that this provides a reasonable guide to the future supply of sites.

5.2.3 The chart below is based on permissions granted over the four years between 2004 and 2008. An annual average has been calculated for the number of dwellings on different sizes of sites – from 1 dwelling to 14 dwellings, between 15 and 24 dwellings and sites of 25 dwellings or more.

Figure 5.1 Total Dwellings by Size of Site – Annual Average Permissions 2004 to 2008



5.2.4 The chart demonstrates that sites of less than 15 dwellings make a considerable contribution to the supply of new housing in Purbeck. Overall 66% of all dwellings granted permission were on sites of less than 15 dwellings.

5.2.5 Of the permissions granted between 2004 and 2008:

66% were on sites of less than 15 dwellings;
44% were on sites of less than 10 dwellings;
33% were on sites of less than 5 dwellings.

5.2.6 We have carried out a similar analysis for completions in recent years and the results are almost identical to those for permissions. Of the completions between 2004 and 2007:

68% were on sites of less than 15 dwellings;
49% were on sites of less than 10 dwellings;
32% were on sites of less than 5 dwellings.

5.2.6 The above chart and analysis of completions make a robust case for the lowering of the site size threshold. The evidence does not show a particular break-point between 1 and 15 dwellings which might indicate a logical scheme size between 1 and 15 at which to set a new threshold.

5.2.7 The table below examines the notional contribution to affordable housing supply at alternative target percentages of affordable housing and with different site size thresholds. Again the data is based on an average annual housing supply for 2004 to 2007.

Table 5.1 Notional Contribution to the Supply of Affordable Housing (for Different Target Percentages and at Different Site Size Thresholds) – Annual Average Permissions 2004 to 2008

	Size of site in dwellings				
	1 to 4	**5 to 9**	**10 to 14**	**15 and over**	**Total**
Total dwellings	84	43	63	96	286
% Affordable					
30%	25	13	19	29	86
40%	33	17	25	38	114
50%	42	22	32	48	143

5.2.8 Out of a total notional supply of 143 affordable dwellings at a 50% target, 42 would be delivered from sites of between 1 and 4 dwellings and 22 on sites between 5 and 9 dwellings. The combined contribution to affordable housing from these small sites (i.e. less than 10 dwellings) would be 64 dwellings or just under half (about 45%) of the notional annual supply of affordable housing.

5.2.9 The pattern is similar at a 40% and 30% target – albeit that the overall numbers are smaller.

5.2.10 This analysis reinforces the message that reducing the site size threshold would have a significant impact on increasing the supply of affordable housing. It also indicates that there would be good reason to reduce the threshold down to 1 dwelling, in order to maximise the potential supply of affordable housing from the many very small sites which make up the overall housing supply across the District.

5.2.11 However, whilst arguments for reducing the site size threshold appear strong, it must be recognised that the LDF may identify a number of allocated sites which could be of a significant size. This could be seen as an argument for not reducing the threshold. However, there remain strong arguments for

lowering thresholds. The need for affordable housing in Purbeck is acute and even with the future allocation of larger sites, the evidence from the recent Housing Need and Demand survey indicates that delivery from larger sites will not address local need on their own. Small sites contributing to an affordable housing supply will also help maintain a flow of affordable housing in the short term whilst any larger allocations are brought on-stream. There is also the issue of the location of any large-scale allocations – affordable housing is needed across the District and that delivered from future allocations may benefit only a small part of the District. All these reasons indicate that a lowering of the site size threshold would be justified, even if the District makes a number of large-scale allocations in its forthcoming LDF.

5.3 Viability

5.3.1 The above analysis has demonstrated a strong case for reducing the site size threshold on the basis that it would significantly increase the amount of affordable housing which could be provided to meet the high level of need in Purbeck. But a reduced threshold will serve no useful purpose if it would make small sites unattractive to develop so that they are held back by their owners.

5.3.2 The analysis carried out in Sections 3 and 4 covers a range of site sizes; that in Section 3 covers notional half hectare sites and that in Section 4 covers the case study sites, which examine schemes as small as 0.05 Ha and to 2 dwellings. The analysis suggests that with smaller sites there are a significant number of opportunities where affordable housing supply might be increased by reducing thresholds from the current policy position.

5.3.3 The case study testing work shows that very small sites (between 0.05 Ha and 0.15 Ha) can be viable and deliver affordable housing and other Section 106 contributions. The analysis shows that (with the exception of shop conversions and in some cases residential to residential sites) that a contribution in some measure will be viable in many circumstances.

5.3.4 We think the issue is not the viability of the residential scheme or the size of the site per se, but the relationship between the residual value and the existing use value. In this respect the uplift in value on non residential to residential sites is significant and 'allowing' the land owner a reasonable return, very small sites should in most cases provide a Section 106 contribution.

5.4 Other Practical Considerations

5.4.1 The option of reducing site size thresholds was discussed at the workshop held as part of the research programme for this study. Concern was expressed that a significantly reduced threshold would mean that a wide range of developers and landowners, currently unfamiliar with delivery of affordable housing, would be asked to include affordable housing in their schemes. The implication was that this would both slow down the planning

system (as developers and landowners unfamiliar with the process entered negotiations with Council officers) and deter landowners of small sites from bringing them forward for development.

5.4.2 We believe that these concerns will need to be addressed if the Council chooses to reduce the threshold significantly. The Council might consider ways of improving the information provided to (potential) applicants of small residential schemes and of introducing a tailored negotiating process with, for example, model S106 agreements.

5.4.3 Whether the introduction of a very low threshold would reduce the flow of small sites on to the market is difficult to judge. Landowners have different interests and some may choose to hold on to their land whilst others will accept that an affordable housing requirement is going to be a long-term reality and decide to press on with a development. Either way, as noted by developers of larger schemes, it would seem a matter of equity across the land market that developments of all sizes are expected to make a similar proportionate contribution to affordable housing, providing schemes remain viable and produce a residual value reasonably in excess of their current use value.

5.4.4 Another argument which is sometimes made against reduced site size threshold is that the on-site provision of affordable housing is impractical from the point of view of the occupier and the housing association which is to manage the affordable homes. Whilst there may be problems where affordable housing is relatively isolated and/or occupiers would incur high service charges, the housing associations which attended the workshop did not object, as a general rule, to the provision of very small numbers of affordable dwellings in small mixed tenure schemes.

5.5 Affordable Housing Delivered On-site or Off Site or as a Payment in Lieu

5.5.1 The Council's preference is to seek affordable housing on-site and the pressing need for affordable housing emphasises the importance of this approach. Environmental constraints, e.g. proximity to heathland buffer zones will make it very important that on-site affordable housing contributions are achieved as there will be no opportunity for off-site provision.

5.5.2 There may be a limited set of circumstances where an off-site contribution or a cash payment in lieu of this, would be acceptable. This might include, for example, where costs to occupiers would be unacceptably high (e.g. because of an additional service charge) or where the affordable housing would not contribute to wider mixed community objectives.

5.5.3 If a very low or zero threshold is adopted, then for some schemes, taking an on-site contribution is nonsensical e.g. 30% of a 2 dwelling scheme. In these circumstances, a payment in lieu of the notional on-site provision is the realistic option.

5.5.4 The Council could choose to extend this and operate a 2 tier approach to affordable housing contributions. With this approach, for schemes up to X dwellings (e.g. 3), cash payments would be sought but on larger schemes, on-site provision would be required unless there are special circumstances to justify an off-site contribution or payment in lieu (e.g. management issues or high service costs for occupiers). The reasons which the Council considered might justify an off-site contribution or a payment in lieu would need to be set out clearly in policy.

5.5.5 Were the Council to consider the introduction of such a two-tier approach to affordable housing provision, great care will need to be taken in setting the size of site below which they will only ever seek a payment in lieu. The pressing need in the District is to provide additional affordable housing units and this is usually best achieved by on-site provision. Therefore we would recommend that, as a matter of policy, payments in lieu were only collected from very small sites – say 3 or 4 dwellings. But, as noted above, there could be circumstances (again, clearly set out in policy) where a cash contribution rather than on-site provision would be justified.

5.5.6 In considering the circumstances in which taking a cash payment would be acceptable, the Council needs to consider how money collected will be spent. There is little point in collecting money if there are no opportunities to spend it effectively. Money collected in lieu of an on-site contribution could be used in a number of ways e.g. to assist RSLs to purchase dwellings from the open market, to add value to mixed tenure schemes already in the pipeline - say, by increasing the proportion of social rented homes in a scheme or to assist RSLs develop schemes for 100% affordable housing. We believe that the important point is that the Council's policy towards collecting cash payments in lieu of on-site provision should be complemented by a realistic strategy for how the money collected would be spent.

5.5.7 Where a cash payment is sought (or off-site provision), the Council will need to set out how it will calculate the size of the payment. Our view is that this should be based on a principle of equivalence – the developer/landowner should be no better or worse off financially, than they would have been had the provision of affordable housing be made on-site. This approach follows the guidance in PPS3:

"*……where it can be robustly justified, off-site provision or a financial contribution in lieu of on-site provision* ***(of broadly equivalent value)*** *maybe accepted as long as the agreed approach contributes to the creation of mixed communities in the local authority area."* (Para 29 – our emphasis)

5.5.8 The calculation for the off-site calculation would therefore be as follows:

Residual value of 100% market housing on the relevant scheme (RV Market)
Residual value at the appropriate level of affordable housing (RV AH)
Payment in lieu = RV Market less RV AH

5.5.9 The calculation can only be made using a site by site approach working out the economics which are bespoke to each situation. It would require a model to calculate the viability and to take account of the potential impacts of subsidy on the schemes. Our recommendation is that in order to maximise payments-in-lieu and to set them on an equivalent and equitable basis, a viability model should be employed by the Council. This would also have a wider use in terms of on-site negotiations.

6 Conclusions and recommendations

6.1 Affordable Housing Targets

6.1.1 On the basis of the evidence we have reviewed, our initial conclusion is that the District should look to increase its policy target from the current position (range 25% to 35%) to a higher starting point. The analysis indicates that robust residual values, can be achieved at higher percentages of affordable housing than current policy, particularly for medium density family type housing. A substantial green field site, (depending on, amongst other things, the pace of development, mix of dwelling types and other planning obligations sought), could, we feel, deliver up to 50% affordable housing on site.

6.1.2 A 50% affordable housing target would also not be unrealistic we feel, in the higher value areas, for example, the Coast sub market. Here house prices are very high in most cases and would be likely to generate substantial increases over existing or alternative use value in many instances.

6.1.3 But the analysis has also shown that the District is made up of a number of sub markets and that values (and hence residual values) vary between these areas. The level of affordable housing which can be achieved in one location may not be economically realistic in another. Whatever policy for the affordable housing target that the Council chooses to adopt, it will need to be applied flexibly to reflect these differences.

6.1.4 Our analysis has also highlighted potential differences between sites that have different existing uses. The important differences between schemes on brownfield sites, are not so much in their actual residual values but on the level of residual value in comparison with their existing use value.

6.1.5 In this respect, we think that it is important that the very particular viability challenge of 'residential to residential sites' is recognised within the negotiation process. However, policy should not, we feel, be based on the most difficult cases as many of the sites coming forward in Purbeck do not have a residential existing use and will have significantly lower existing use values and hence the potential to deliver a higher proportion of affordable housing.

6.1.6 In considering the amount of affordable housing which should be sought in the future, we are mindful of the likely continuing importance of small windfall sites to the future land supply. Given this, we believe it would be unwise to make too big a step-change in policy which could deter the delivery of housing land.

6.1.7 It is then a matter of judgement where the policy target should be pitched. On the balance of the available evidence, we are suggesting a 40% target, recognising that different sub markets will vary in their capacity to deliver

affordable housing and also that, as a general rule, residential to residential sites are unlikely to achieve this figure – although there will be exceptions.

6.1.8 For significant green field allocations, we believe that a more ambitious affordable target is realistic and suggest that 45% or even 50% should be considered. Again, though, such targets would have to be applied flexibly and it would be important to recognise that values across the District are not uniform. We would anticipate that affordable housing targets for any large-scale allocation in the forthcoming LDF will be set out – based on a robust analysis of the development economics for the scheme.

6.2 Public Subsidy

6.2.1 In all our analysis we have assumed that grant is not available. We feel it is important that the Council looks very seriously at the grant option. Our analysis has shown that there are circumstances where a relatively poor financial position will hold back sites and that the selective use of grant would help overcome these problems, or increase affordable housing numbers on site where the developers is going ahead anyway.

6.2.2 With the higher target for affordable housing which we are suggesting, grant is more likely to be needed in lower value areas and to support schemes where the existing use value is relatively high (importantly residential to residential sites). Grant could also be used to add value for the authority in other ways e.g. to rebalance the mix of affordable housing towards social rented or increase the proportion of affordable family housing in a scheme.

6.2.3 We recommend that the Council uses the findings of this study to discuss with its preferred partners how grant can be best used in the District and to demonstrate to the Housing Corporation, the way the Council is seeking to add value through the use of grant.

6.3 Site Size Thresholds

6.3.1 Purbeck is faced with very high levels of need for affordable housing and it is appropriate for the Council to consider extending the range of sites that are required to provide affordable housing. The area has relied heavily in the past on small sites to deliver its housing. For example, between 2004 and 2007, 49% of completions were on sites of less than 10 dwellings and 32% were on sites of less than 5 dwellings.

6.3.2 We recognise that the future supply of sites may include a higher proportion of larger sites but believe, on the basis of the available evidence, it would be prudent for the Council to consider a significant reduction in the size of site from which it requires an affordable housing contribution.

6.3.3 There is no natural cut-off point in the profile of sites that would suggest that sites of X or Y size should/should not be required to provide affordable housing. Our analysis of site economics shows that very small sites can be

as (relatively) viable as larger sites at the same percentages of affordable housing. As we have described, viability issues, in our view, are not about the size of site but are more closely linked to the alternative/existing use values of sites.

6.3.4 We believe that the Council should consider abolishing thresholds altogether and should seek an affordable housing contribution on all residential developments. It would seem appropriate to introduce a 2-tier approach with on-site provision sought on schemes of, say, 5 dwellings or more and a cash contribution from schemes of 1-4 dwellings. On sites of 5 + dwellings, a payment in lieu may also be appropriate but this would need to be justified on a scheme by scheme basis, in accordance with criteria which set out the very limited circumstances in which the Council will accept a contribution which is not on-site.

6.3.5 The reduction in the threshold being suggested will mean that a wide range of developers/landowners, currently unfamiliar with affordable housing procedures, will be asked to make a contribution. The Council will need to consider how it will deal with this - both to inform developers/land owners of what is happening (perhaps through its website and developer workshops) and to introduce streamlined 'negotiating' processes (perhaps through the development of exemplar unilateral undertakings and standardised information pro forma to send to potential applicants).

6.3.6 It will be important for the Council to have in place a 'spending strategy' which demonstrates the kinds of opportunities for which money collected from payments in lieu will be spent.

6.3.7 We recommend that the Council adopts the equivalence principle for the assessment of payments in lieu of on-site provision i.e. the developer/land owner should be no better or worse off whether they provide the affordable housing on-site, off-site or as a cash payment. As stated earlier (Section 5.5.8) we recommend that the Council themselves carry out financial viability assessments to establish requirements for both on and off site contributions.

6.3.8 It will further be important that viability questions are considered in the light of more onerous build quality and sustainability requirements. In the future the cost-value relationship may change making it more difficult (or indeed easier) to deliver affordable housing.

6.4 Impacts of the Code for Sustainable Homes

6.4.1 There is a potential concern about the impacts of the Code for Sustainable Homes. The report of English Partnerships and the Housing Corporation, authored by Cyril Sweet sets out a range of costs that will have to be met by developers to achieve various level of energy efficiency towards a carbon neutral home.

6.4.2 These costs are set out from Level 3 to Level 6 assuming a range of subset scenarios according to the method of energy creation, photovoltaics being a relative expensive solution.

6.4.3 The principle in factoring in these costs to analysis needs to be thought about carefully. Additional costs, particularly at higher levels (Codes 5 and 6) are not yet upon the industry to any significant extent, and whilst Level 4 may generate (according to the report) additional costs over and above Building Regulations of up to 16%, these costs should be considered in the light of a changing market. In other words, some of the additional costs, particularly at the lower end (Codes 3 and 4) may well be cushioned by house price rises in the future. It is possible (although unlikely if the current market continues for long) that house price inflation can fully offset some of the additional costs. However, it is very difficult at this stage to predict how value-costs relationship will work out in the future. In so far as schemes are concerned, viability will need to be assessed with scheme specific data to hand.

6.4.4 We have carried out some provisional analysis that suggests that in lower value areas (we took here Upton as a sub market), values for a typical 45 dph scheme could be negative at 30% affordable housing beyond Level 4. This assumes a 35% increase in build costs so this is perhaps not surprising. This would be a problem in even bringing forward green field sites. Residential to residential sites may even be marginal at 100% for sale.

6.5 The current position of the housing market

6.5.1 It is important to note that the data used in our analysis relates to late 2007. During the course of 2008, the housing market has become increasingly uncertain as the 'credit crunch' has taken hold. House building output is falling and there are predictions that house prices are likely to fall, although commentators neither agree on the scale of the fall or when the market is likely to stabilise and house building output and market values begin to rise again.

6.5.2 On this basis, one response of the development industry may be to say that planning gain and Section 106 are now no longer feasible or only viable where the requirement is considerably reduced.

6.5.3 Our advice to the Council on this issue is, first, to refer to the general movement in house prices for the period of late 2007 to the current position. Data for the County of Dorset shows that, according to HM Land Registry data, house prices rose by 0.5% between October 2007 and June 2008. On this basis, the analysis we have presented in this report remains.

6.5.4 However, we recognise that house prices may fall in the short term (and, of course, may rise further again thereafter). It is important that the Council provides policy targets which run for the period of their Development Plan and take into account the level of need for affordable housing (which remains very high) as well as delivery issues. It is our view that the current 'problems'

besetting the housing market are not fundamentally linked to planning policy constraints, but to credit – or lack of it, which is stagnating market activity. In these circumstances, we consider that the Council should not adjust its policy position on the basis of short term market volatility, although we do recognise that the situation may need to be reconsidered when the DPD is next reviewed.

Appendices

Appendix 1 Full method statement

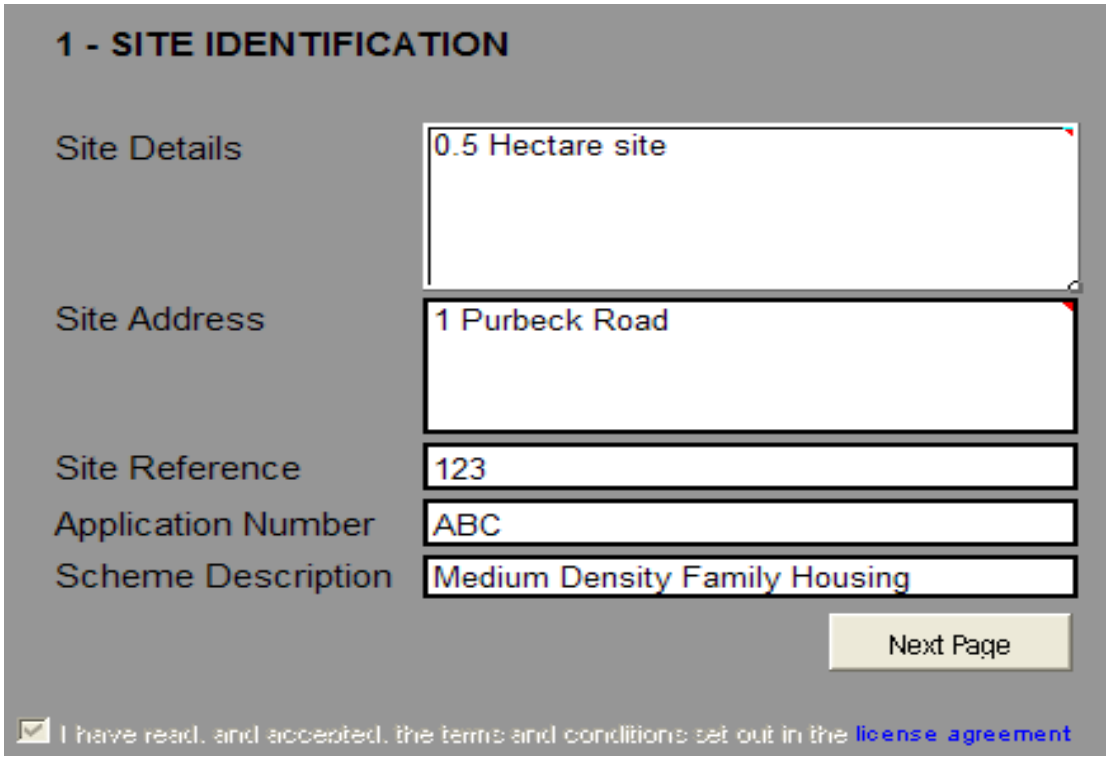
The analysis generating site residual values in this study is based on a version of the Three Dragons Affordable Housing and Section 106 Toolkit. The Toolkit provides the user with an assessment of the economics of residential development. It allows the user to test the economic implications of different 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.

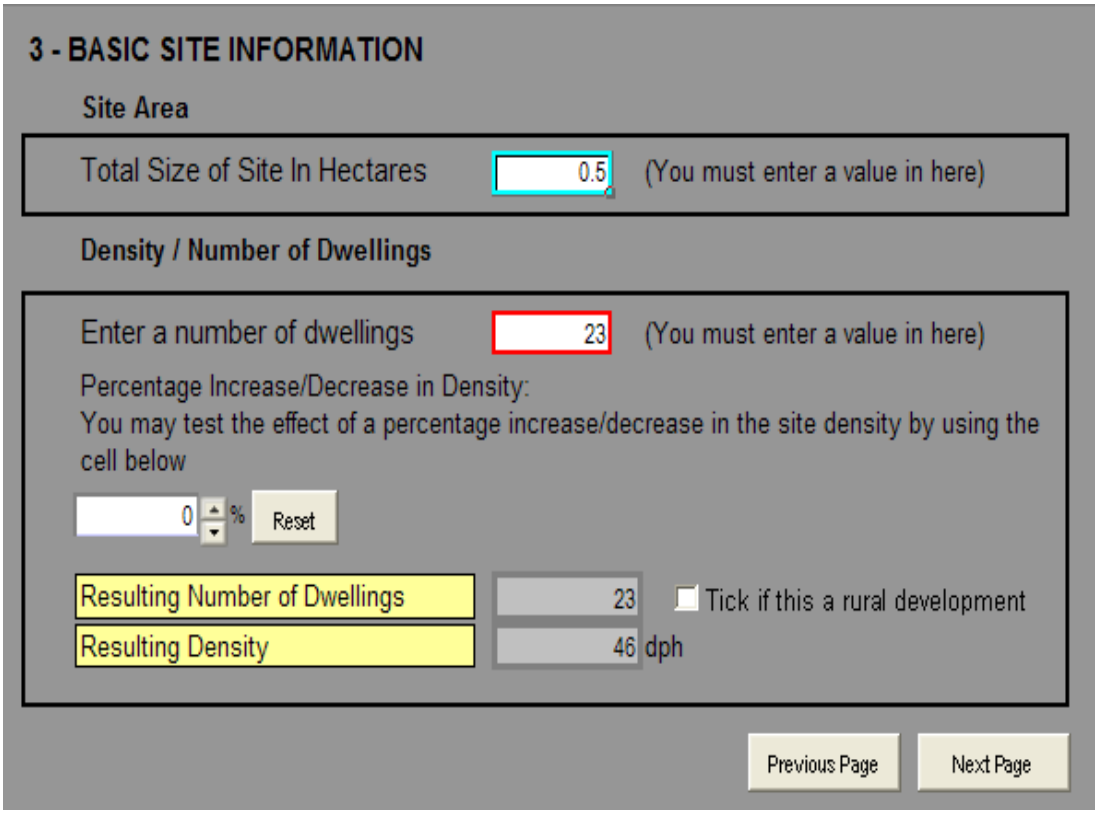
The Toolkit compares the potential revenue from a site with the potential costs of development before a payment for land is made. In estimating the potential revenue, the income from selling dwellings in the market and the income from producing specific forms of affordable housing are considered. The 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. If the user has reason to believe that reality in specific cases differs from the

The main output of the Toolkit is the residual value. In practice, 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.

Use can be made of the Toolkit to test the sensitivity of the residual value to different input variables. Thus the user can see, for instance, how different amounts of affordable housing, higher or lower house prices or higher or lower build costs influence the residual value.

Key 'screenshots' are shown below which relate to a notional scheme:


1 - SITE IDENTIFICATION
Site Details
0.5 Hectare site
Site Address
1 Purbeck Road
Site Reference
123
Application Number
ABC
Scheme Description
Medium Density Family Housing
Next Page
I have read, and accepted, the terms and conditions set out in the license agreement


3 - BASIC SITE INFORMATION
Site Area
Total Size of Site In Hectares
0.5
(You must enter a value in here)
Density / Number of Dwellings
Enter a number of dwellings
23
(You must enter a value in here)
Percentage Increase/Decrease in Density:
You may test the effect of a percentage increase/decrease in the site density by using the cell below
0
%
Reset
Resulting Number of Dwellings
23
Tick if this a rural development
Resulting Density
46
dph
Previous Page
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4 - CHARACTERISTICS OF DEVELOPMENT

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

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

Ref.	Description of Dwelling	No of Bed-Rooms	Dwelling Type	No of Units	Size in sq.m Affordable	Size in sq.m Market	Parking (flats only)	No. of Storeys (1-99)
1	2 Bed Semis	2	House	2.0	68	66	n/a	n/a
2	3 Bed Town Houses	3	House	5.0	84	80	n/a	n/a
3	3 Bed Detached	3	House	7.0	110	120	n/a	n/a
4	4 Bed Detached	4	House	9.0	116	126	n/a	n/a
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
	Total Number of units			23				

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5 - MARKET VALUES

This is a custom scheme, default values are not available.
ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST — Clear Table

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

View Default Values ->

You can adjust the market values by using the % increase/decrease arrows: 100 %

Reset

Depress the Reset button to return to base market value

Ref.	Unit Type	No of Bed-Rooms	Market Value	Adjusted Market Value
1	2 Bed Semis	2	£265,000	£265,000
2	3 Bed Town Houses	3	£290,000	£290,000
3	3 Bed Detached	3	£350,000	£350,000
4	4 Bed Detached	4	£395,000	£395,000
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

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Below are shown the full range of dwelling prices for all sub market areas:

	DETACHED			SEMIS			TERRACES/TOWN HOUSES			FLATS		
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed	3 Bed	2 Bed	1 Bed
The Coast	£500,000	£435,000	£390,000	£400,000	£350,000	£295,000	£320,000	£290,000	£205,000	£300,000	£260,000	£180,000
Swanage	£450,000	£395,000	£350,000	£360,000	£315,000	£265,000	£290,000	£260,000	£185,000	£270,000	£235,000	£165,000
Purbeck rural fringe	£420,000	£365,000	£330,000	£335,000	£290,000	£250,000	£270,000	£245,000	£170,000	£250,000	£215,000	£150,000
Wareham	£400,000	£350,000	£315,000	£320,000	£280,000	£240,000	£255,000	£235,000	£165,000	£240,000	£210,000	£145,000
Purbeck rural centre	£355,000	£310,000	£280,000	£285,000	£250,000	£210,000	£225,000	£205,000	£145,000	£210,000	£185,000	£130,000
Upton	£325,000	£280,000	£255,000	£260,000	£225,000	£190,000	£205,000	£185,000	£130,000	£190,000	£170,000	£120,000

6 - TENURE MIX

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

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

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

(•) Input by Percentages ( ) Input by Quantity Clear Table

		SALE	AFFORDABLE					
			Social rent	New Build HomeBuy	Intermediate rent	Discount Market	Local Sale	Required No. of Units
Ref.	Description	65%	26%	9%				
1	2 Bed Semis	1.3	0.5	0.2				2.0
2	3 Bed Town Houses	3.3	1.3	0.4				5.0
3	3 Bed Detached	4.6	1.8	0.6				7.0
4	4 Bed Detached	5.9	2.4	0.8				9.0
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
Total		15.0	6.0	2.0				23.0

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

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8 - SOCIAL AND INTERMEDIATE RENT

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST Clear Tables

This is a custom scheme, default rents are not applicable. Please enter your own values into the white cells

View Default Rents ->

Ref.	Description	Social Rent Values (per week) No. of units	Default Rents	User Rents	Intermediate Rent Values (per week) No. of units	Market Rent	Adjust 75%	User Rents
1	2 Bed Semis	0.53	£ -	£ 80.00		£ -	£ -	
2	3 Bed Town Houses	1.31	£ -	£ 86.00		£ -	£ -	
3	3 Bed Detached	1.84	£ -	£ 90.00		£ -	£ -	
4	4 Bed Detached	2.36	£ -	£ 100.00		£ -	£ -	
5			£ -			£ -	£ -	
6			£ -			£ -	£ -	
7			£ -			£ -	£ -	
8			£ -			£ -	£ -	
9			£ -			£ -	£ -	
10			£ -			£ -	£ -	
11			£ -			£ -	£ -	
12			£ -			£ -	£ -	
13			£ -			£ -	£ -	
14			£ -			£ -	£ -	
15			£ -			£ -	£ -	
16			£ -			£ -	£ -	
17			£ -			£ -	£ -	
18			£ -			£ -	£ -	
19			£ -			£ -	£ -	
20			£ -			£ -	£ -	

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9 - AFFORDABLE HOUSNG COSTS AND CAPITALISATION FACTORS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST ClearTable

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

Social Rent		ToolKit Values	User Values	
Costs per annum	Management & Maintenance	£ 1,000		per annum
	Voids/bad debts	3.00%		of gross rent
	Repairs reserve	£ 500		per annum
Capitalisation		6.00%		of net rent

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

Intermediate Rent		ToolKit Values		
Costs per annum	Management costs	6.00%		of gross rent
	Maintenance Costs	£ 500		per dwelling
	Voids/bad debts	5.00%		of gross rent
	Repairs Reserve	1.00%		of gross rent
Capitalisation		6.00%		of net rent

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10 - DEVELOPMENT COSTS

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST Clear Tables

Build Costs per sq m

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

	Toolkit Values	
Bungalows	£1,049	
Flats (6+ storeys)	£1,545	
Flats (5 & less storeys)	£1,115	£1,300
Houses <= 75m2	£999	£1,018
Houses > 75m2	£901	£890

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	£ 150,000		*Please see the Guidance Notes for use of this value*

Exceptional Development Costs

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

Sustainable Homes Standard	
Market Housing	Affordable Housing
None	None

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

Scheme Total	
per dwelling	
per hectare	

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11 - PLANNING OBLIGATIONS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST Clear Table

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

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

	Input by Total		Input by Unit						Calculated Total (Affordable and Sale)
				Affordable					
	Enter Total?	User Total	Sale	Social rent	New Build HomeBuy	Intermediate rent	Discount Market	Local Sale	
Education Contribution	☐								
Highway Works	☐								
Contribution to public transport	☐								
Contribution to community facilities	☐								
Provision for open space	☐								
Contribution to public realm	☐								
Contribution to public art	☐								
Environmental improvements	☐								
Town centre improvements	☐								
Waterfront Improvements	☐								
Support for employment development	☐								
Employment related training	☐								
<Enter Planning Obligation Description here>	☐								
<Enter Planning Obligation Description here>	☐								
<Enter Planning Obligation Description here>	☐								

Obligations package per unit	£8,000
Contribution from Commercial	

Total for Scheme	£184,000
Total for Scheme per hectare	£368,000
Total for Scheme divided by total number of units	£8,000
Total for Scheme divided by number of sale units	£12,308

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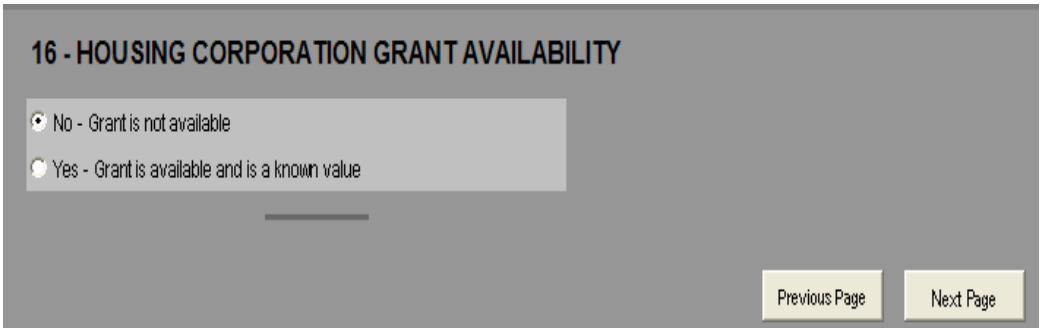
16 - HOUSING CORPORATION GRANT AVAILABILITY
No - Grant is not available
Yes - Grant is available and is a known value
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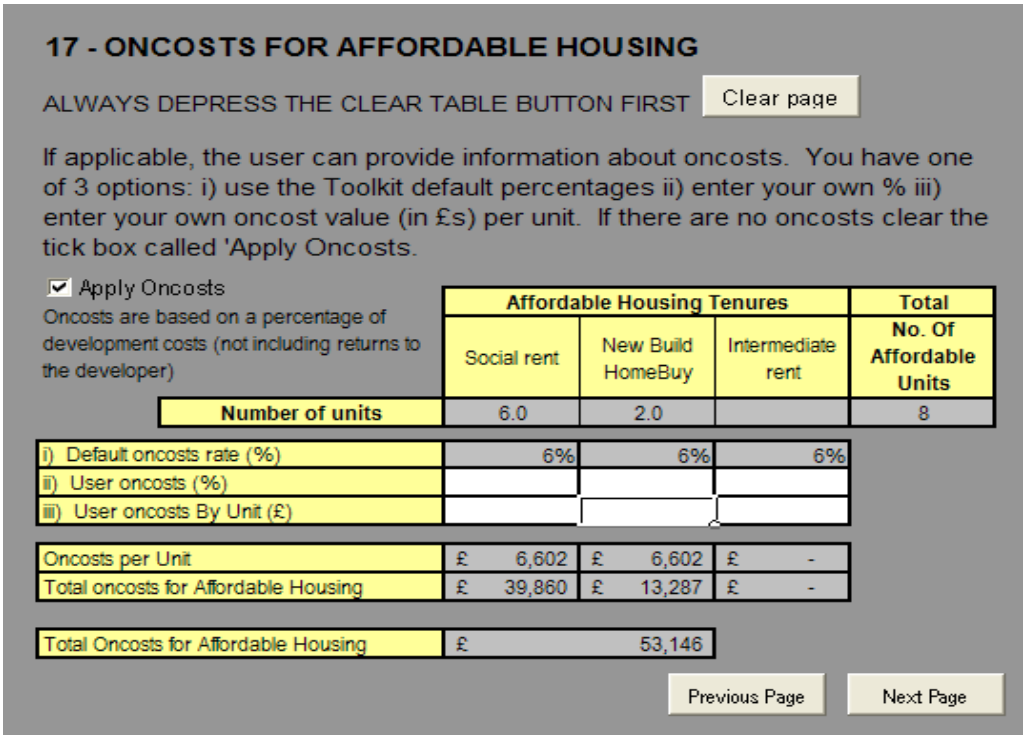
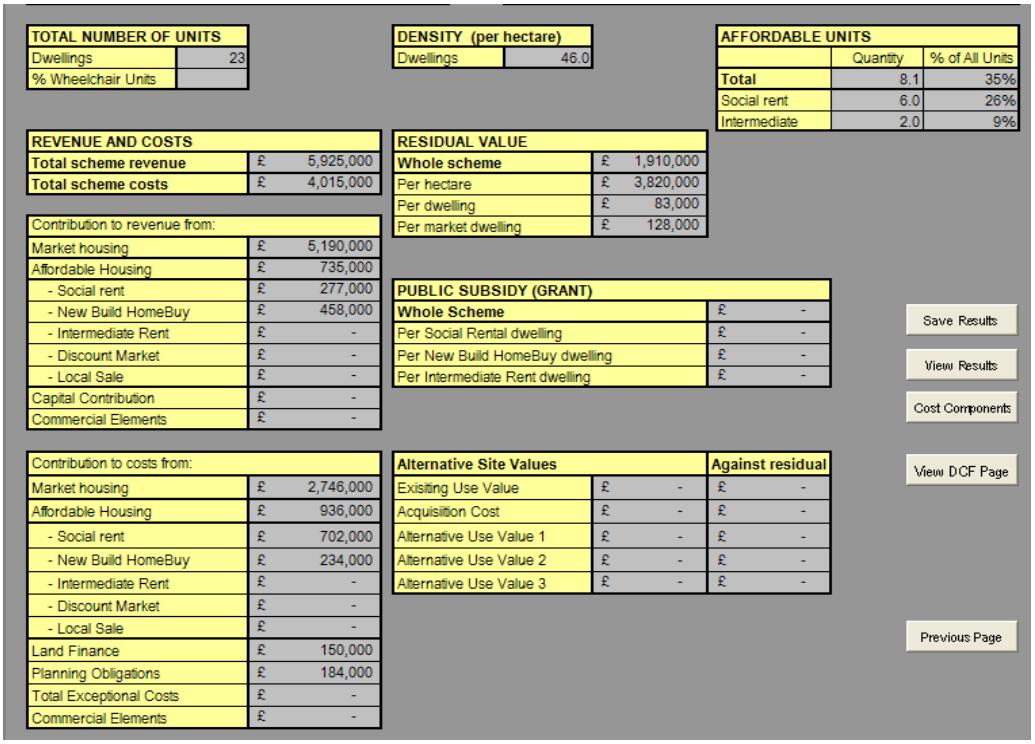

17 - ONCOSTS FOR AFFORDABLE HOUSING
ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST
Clear page
If applicable, the user can provide information about oncosts. You have one of 3 options: i) use the Toolkit default percentages ii) enter your own % iii) enter your own oncost value (in £s) per unit. If there are no oncosts clear the tick box called 'Apply Oncosts.
Apply Oncosts
Oncosts are based on a percentage of development costs (not including returns to the developer)
Affordable Housing Tenures
Total
Social rent
New Build HomeBuy
Intermediate rent
No. Of Affordable Units
Number of units
6.0
2.0
8
i) Default oncosts rate (%)
6%
6%
6%
ii) User oncosts (%)
iii) User oncosts By Unit (£)
Oncosts per Unit
£ 6,602
£ 6,602
£ -
Total oncosts for Affordable Housing
£ 39,860
£ 13,287
£ -
Total Oncosts for Affordable Housing
£ 53,146
Previous Page
Next Page



TOTAL NUMBER OF UNITS	
Dwellings	23
% Wheelchair Units	

DENSITY (per hectare)	
Dwellings	46.0

AFFORDABLE UNITS	Quantity	% of All Units
Total	8.1	35%
Social rent	6.0	26%
Intermediate	2.0	9%

REVENUE AND COSTS		
Total scheme revenue	£	5,925,000
Total scheme costs	£	4,015,000

RESIDUAL VALUE		
Whole scheme	£	1,910,000
Per hectare	£	3,820,000
Per dwelling	£	83,000
Per market dwelling	£	128,000

Contribution to revenue from:		
Market housing	£	5,190,000
Affordable Housing	£	735,000
- Social rent	£	277,000
- New Build HomeBuy	£	458,000
- Intermediate Rent	£	-
- Discount Market	£	-
- Local Sale	£	-
Capital Contribution	£	-
Commercial Elements	£	-

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

Save Results

View Results

Cost Components

View DCF Page

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Contribution to costs from:		
Market housing	£	2,746,000
Affordable Housing	£	936,000
- Social rent	£	702,000
- New Build HomeBuy	£	234,000
- Intermediate Rent	£	-
- Discount Market	£	-
- Local Sale	£	-
Land Finance	£	150,000
Planning Obligations	£	184,000
Total Exceptional Costs	£	-
Commercial Elements	£	-

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

Appendix 2 Purbeck Viability and Section 106 Consultation meeting: 3rd December 2007 at Purbeck DC offices

Attendees:

Catherine Bonnett, Synergy Housing Group
Andy Burke, AMB Dev.
J Burgess
Barry Chapman, Architects
Nathan Cronk, Raglan
Vic Dominey
Tim Hoskinson
Mark Jones, Smiths Gore
Hamish Macbeth, Cawdor Construction
Ken Morgan, Architects
Martin Miller, Terence O'Rourke
Michael Nixon, Burnham Associates
Lindsay Thompson, Terence O'Rourke
James Weld, Lulworth Estate
Dave Wells, Landlord

Tony Bird, Purbeck DC
Fiona Brown, Purbeck DC
Margaret Cheetham, Purbeck DC
Steve Dring, Purbeck DC
Chris McDermott, Purbeck DC
Mark Sturgess, Purbeck DC

Lin Cousins, Three Dragons
Andrew Golland, Three Dragons

A) Overview – the challenge in delivering affordable housing

Delegates were asked about the challenge of increasing affordable housing in the District. Initial feedback suggested that local authorities (generally) should take a more pro-active approach to target setting, recognising viability as a real potential constraints to delivering sites including affordable housing.

It was generally agreed that there is a very significant housing need in the District, although one delegate questioned whether the current perceived downturn in the market would help affordability.

Second homes put an additional strain on the local housing stock and affordability.

B) Policy specifics – targets, thresholds and commuted sums

A minority of delegates expressed the view that a 40% target would be too high and that a target of between 25% and 35% would probably be deliverable in policy terms. There was no particular reason given for this.

It was stated by one delegate that reducing the threshold to below 4 units might be impractical. There are particular difficulties in getting small land owners to understand the affordable housing policy impacts. There was considerable uncertainty as to whether the objection to low site size thresholds was about the suitability of small sites to deliver affordable housing or whether it related to the inexperience of the wider range of developers and land owners who would be brought into negotiations about affordable housing delivery.

The current two-tier threshold came in for some discussion. In the larger villages (at 15 units) this is seen to be too high by some developers. There was said to be no particular logic to the specific levels at which the thresholds are set, although there was some agreement in favour of a kind of 'sliding scale' in so far as thresholds are concerned. It was pointed out that the Three Dragons work will be looking at these and related points.

There was some discussion about the merits and role of off-site (commuted) payments. It was recognised that although commuted payments may provide an appropriate solution in some instances, planning policy considerations (e.g. sustainability of the site, management issues) should be the benchmark for deciding whether an off site payment is appropriate or not.

One issue about taking commuted is that RSLs feel that there is nowhere to spend any in-lieu payments in Purbeck – the 'land is just not there'.

C) Affordable housing and land supply

Objections were raised by some delegates that a more stringent affordable housing policy might hold back land. This was particularly the case put by the larger land owners. Three Dragons countered this point by suggesting that the cost of holding land with potential planning permission can be extremely costly, even where there is a high percentage of affordable housing. This is particularly the case where overall housing targets are low. Delegates did not universally agree with this assumption, saying that sites will nevertheless be held back.

Some delegates stated that the affordable housing policy should be 'incentivised' so that there would be advantages to land owners in bringing sites forward. One way would be to allow economies of scale to operate; this means smaller sites would be required to deliver a lesser amount of planning obligations (including affordable housing).

A point was raised about the value of the policy as a whole. The numbers being brought forward have been very low over the last few years and it was questioned whether the policy should not be 'given up on'. The counter point to this was made

that the reason why numbers are low is perhaps because the policies actually need strengthening, not weakening.

Purbeck DC are currently carrying out a SHLAA (Strategic Housing Land Availability Study) to identify future housing land supply in accordance with the Regional Spatial Strategy. The study will call for potential housing sites to be submitted to the Council for assessment.

D) Sites with potential to bring forward affordable housing

It was wholly recognised that Purbeck is likely to have great difficulty in delivering significant housing numbers. The local situation is such that large scale growth would have a very detrimental effect on the environment. The Heathlands policy is important in protecting many potential housing sites.

The RSS housing numbers are very low – some 300 homes per annum, although a green belt release would help significantly the supply of affordable homes in the District.

A key source of potential housing supply is sites in existing residential use. There is a clear potential issue here, where the residual site value (difference between gross development value and cost) does not cover, or only marginally covers, existing use value. It was noted that policy will have to reflect affordable housing targets on all types of sites, and with residential to residential sites, the economics may be 'tight' in some cases.

Residential to residential schemes are also affected by conservation area policies. It was stated that for example in Wool and Upton 'you can knock down two bungalows' (to make a new development opportunity) but 'you can't do this in Lulworth Cove'.

There are few opportunities to bring forward commercial sites. There is 'no industrial heritage' in Purbeck and the main types of commercial land will be recreational; e.g. seaside hotels, pubs and shops in secondary locations.

Land is generally expensive - £150,000 to £200,000 per plot.

There were concerns expressed by delegates that plans to incorporate affordable housing into new developments, can cause local objection and resistance, although much is down to design and good integration within the scheme. Shared ownership is to be welcomed as a viability 'lever', but very often it does little to solve the challenge of affordability and the high level of demand for social rent.

There was some further discussion about the role of exception sites. These are not usually seen to be popular with villagers, although the need for them is well understood. They normally take an extensive amount of work to deliver.

E) Sorting out viability issues in practice

It was agreed that there needs to be a mechanism through which viability is sorted out concerning affordable housing negotiations. Currently the District Valuer plays a role, although a more devolved process, using the local authority more, could improve the process.

The position with respect to Purbeck is to assume a 'no grant' starting point. It was stated that this may need to be looked at again if housing numbers are increased.

The Code for Sustainable Homes will become increasingly important going forward in sorting out viability issues.

Discussion note

Review of study

The District Council has recently appointed Three Dragons to carry out viability analysis relating to the impact of Section 106 obligations (and in particular affordable housing). The study will look at a number of questions and issues relating to appropriate and viable targets for affordable housing, at the impact of thresholds on viability and potential site supply and at the 'trade-off's perhaps needed between different forms of planning obligation.

Key issues to be covered

The discussion, which will be chaired by the consultants, will allow all attendees a full opportunity to provide feedback on issues relating to site viability, affordable housing and delivery constraints. There is not a full formal agenda, but we will aim to cover:

- The current housing market – opportunities and sub markets;
- The current policy – what type of affordable housing is being delivered;
- How is it delivered – developer – land owner – RSL arrangements;
- What type of sites bring forward affordable housing;
- The role of larger and smaller windfall sites – what opportunities and constraints;
- Land owner expectations for sites;
- Developer expectations;
- Financial specifics and policy impacts;
- What can be done to bring forward more affordable homes?
- Anything else?

These questions should cover the main issues relating to the study. There will be an opportunity to deal with related questions on the day.

We look forward to an interesting discussion.

Andrew Golland and Lin Cousins, Three Dragons.

Appendix 3 Results of Generic Site analysis

A3.1 Small sites currently occupied by a single dwelling – sale for new build apartments

A3.1.1 Assumptions

Two basic scenarios were looked at here. Apartment schemes on a very small site (0.05 ha), and on a site of 0.1 hectare, both at 150 dph. A split in all cases of 25% one bed flats and 75% two bed flats was assumed. The basic scenarios were tested in all six sub markets.

As for the high level testing we have assumed a planning obligations package in addition to affordable housing of £8,000 per unit.

A3.1.2 Results

The results are shown in Figures A3.1 and A3.2 (in £ million). This applies to all other figures in Appendix 3 which follow unless otherwise stated.

Figure A3.1 shows residual site values for a scheme of apartments at 150 dph on a 0.05 hectare site. Across the range of housing market areas, it can be seen that affordable housing reduces site value.

The figure shows, importantly, that site value varies significantly from sub market to sub market. In the lower market areas, and Upton in particular, site values for this type of scheme are negative at most affordable housing scenarios on the basis of the assumptions made.

Towards the higher end of the scale (the Coast and Swanage in particular), site values rise and in Swanage for example, are in excess of £250,000 at 30% affordable housing.

Figure A3.1 Small sites: single dwelling to flats: 0.05 Ha at 150 dph

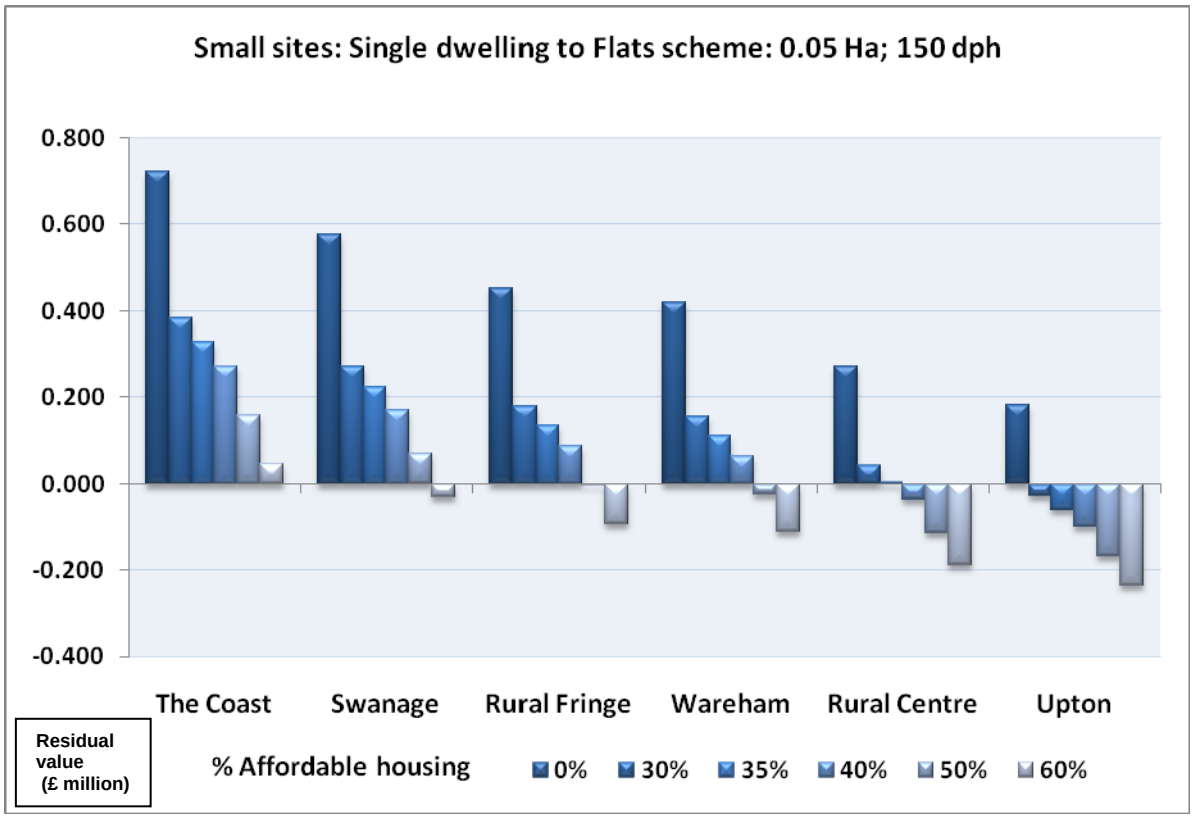
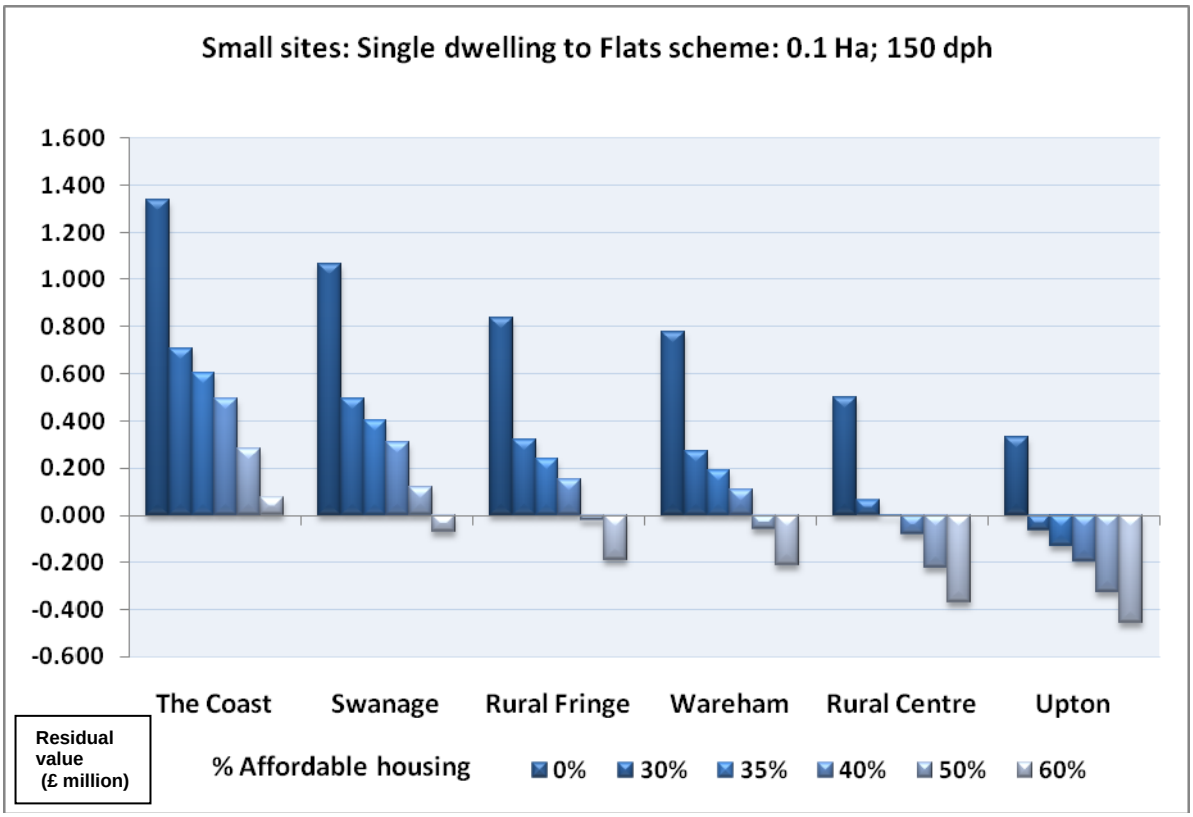


Figure A3.2 shows the results for the same (100% flats) development mix, but increasing the number of units. In this it can be seen that at a 30% target in Swanage, the site value rises to around £500,000.

All other things (density and mix) equal, the larger site (0.1 Ha) will generate a higher development land value than a smaller site. This may be important in bringing new build forward where the current house owner cannot 'recoup' value in the same way as a developer where garden land does not add value to property to the same extent as the dwelling itself. Alternatively explained, the existing use value of housing may not increase proportionately with size of plot.

Figure A3.2 Small sites: single dwelling to flats: 0.1 Ha at 150 dph



A3.1.3 Interpreting results

The key viability question is whether the affordable housing policy stops these types of sites coming forward. Figure A3.2 shows that apartment schemes can generate reasonable site values; for example, in the middle two sub markets (Rural Fringe and Wareham), site values at 30% affordable housing are around £300,000. The question is whether this is sufficient to bring land forward that already has an existing residential use.

To try to gauge whether sites will come forward from residential use, we looked at sales of detached houses in Swanage, Wareham and Upton. We selected locations with larger plots from survey work and sought benchmark prices from HM Land Registry. On this basis, we adopted a working price of £450,000 for Swanage, £425,000 for Wareham and £300,000 for Upton. These were based on the evidence in Table A3.1 below:

Table A3.1 Suggested existing use values for residential to residential sites

Settlement	Address	Price – detached house	Estimate plot size (Ha)
Swanage	Queens Road	£395,000	0.1
	Rabling Road	£550,000	0.05
	Redcliffe Road	£345,000	0.05
	Southcliffe Road	£485,000	0.1
	Suggest	£450,000	
Wareham	Bestwell Road	£440,000	0.075
	Bestwell Road	£388,000	0.1
	Church Green	£520,000	0.075
	Sandford Road	£430,000	0.0.75
	Suggest	£425,000	
Upton	Dorchester Road	£305,000	0.7
	Pinewood Road	£294,000	0.05
	Sandy Lane	£315,000	0.05
	Sandy Lane	£521,000	0.07
	Suggest	£300,000	

Given that a house owner would need some incentive to move, these 'benchmarks' have to include an allowance over and above existing use. From previous experience, we would think this needs to be around 15%. This means that residual value will need to exceed:

Swanage: £517,000;
Wareham: £488,000;
Upton: £345,000.

Although the conclusions are ultimately subject to site specific scrutiny, we would suggest that in so far as residential to residential sites are concerned, it would be unwise to try to push the requirement beyond 30%, and indeed in the weaker market areas such as Upton, with this type of development, even a 10% target looks unlikely to be achievable in most developments.

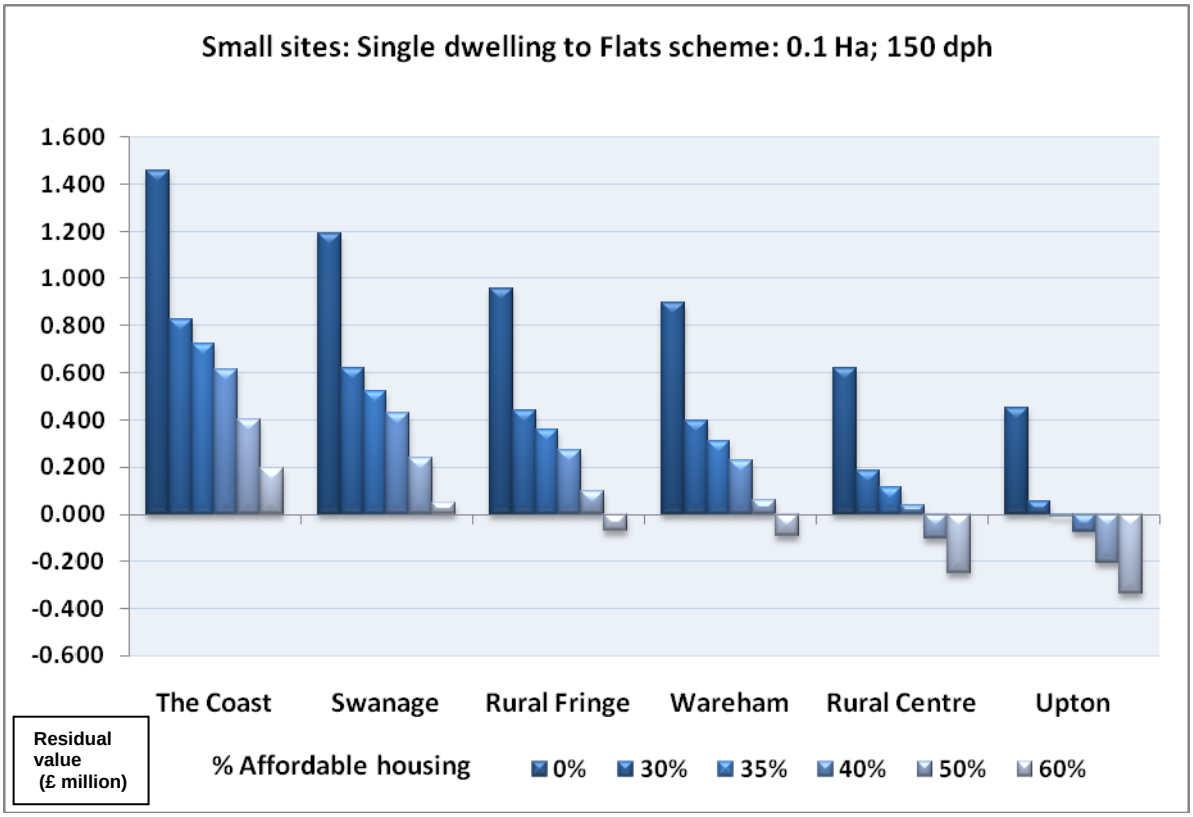
The Coast may support a higher target for these types of sites, but an evidenced based conclusion is more difficult here due to the wide variety of sub markets in that broader area.

To enhance affordable housing supply from these types of sites will almost certainly require some level of Social Housing Grant and a good case might be made to the Housing Corporation on this basis.

A3.1.4 Further testing of residential to residential sites

Figure A3.3 Small sites: single dwelling to flats: 0.1 Ha at 150 dph (with no other Section 106)

To show the impact of other Section 106 planning obligations (at £8,000 per unit), the Figure (A3.3) shows increased values. If these planning obligations are 'waived' for this type of scheme, a 30% target would seem to be reasonable.



A3.2 Hotel/Guest house/B and B scheme replaced with new build flats

A3.2.1 Assumptions

A significant source of new build housing supply has been hotels and guest houses in Swanage. It is considered by the Council that this type of scheme should continue to provide additional units and therefore the economics of development should be looked at. Typical plots sizes (based on development control data) are around 0.15 hectares.

Our research suggests that hotels and guest houses are located along the sea front and also within the town, although our understanding is that many of the sea front plots have already been re-developed for flats. The expectation is that sea front plots would have not only a higher residual site values but also a higher existing use value. For this reason, we have carried out analysis for sites not only at the Swanage average, but also at 20% and 30% above average selling prices.

In terms of the development mix, we have assumed a split in all cases of 25% one bed flats and 75% two bed flats.

A3.2.2 Results

Figure A3.4 shows the residual values for a site developed at 0.15 Ha at 100 dph density. On the basis of a 35% affordable housing contribution, the residual value is around £400,000 or a £2.6 million per hectare equivalent. The value at a 20% premium (this is an estimate for policy testing purposes) is around £750,000 at the same policy position, with a value of just under £1 million at a 30% price premium.

Figure A3.4 Hotel or Guest house: 0.15 Ha at 100 dph

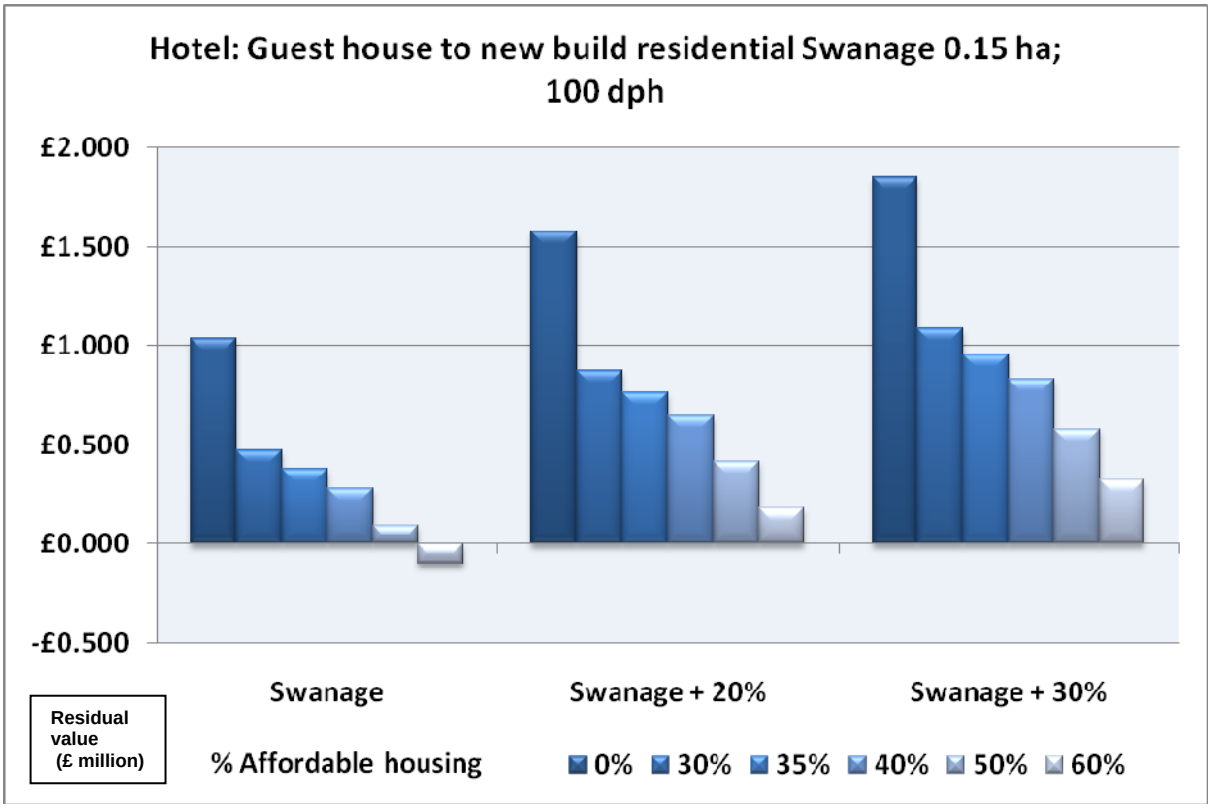
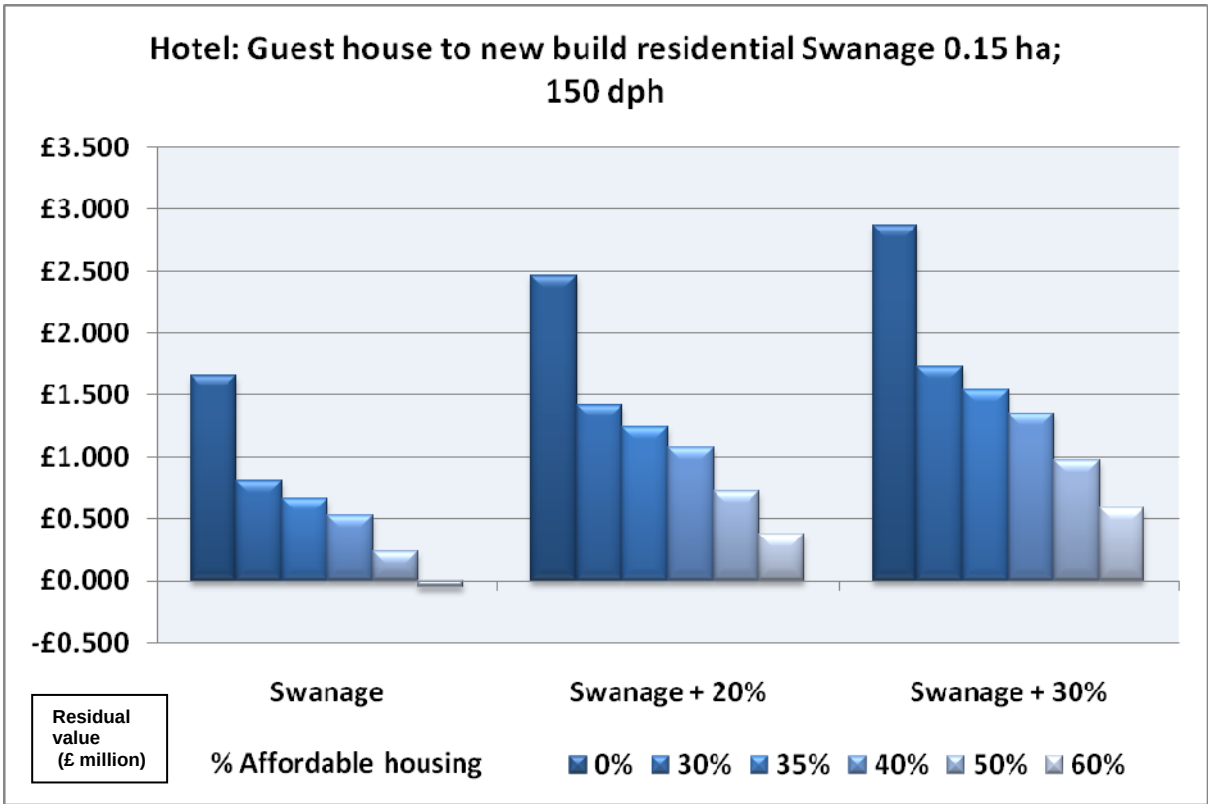


Figure A3.5 shows the same base scenarios, but with a higher (150 dph). This shows even more buoyant values; at 40% affordable housing, a better positioned site (plus 20% prices) would be expected to generate over £1 million.

Figure A3.5 Hotel or Guest house: 0.15 Ha at 150 dph



A3.2.3 Interpreting results

As with (single dwelling) residential to residential schemes there will always be a question as to whether the new development will generate sufficient value over and above what is likely to be a valuable existing use.

We have gathered evidence from four guest house/B and B schemes which are currently on the market. None of these are on the sea front and are in varying states of repair and condition. The comparables shown in Table A3.2 suggest a working value of around £70,000 per bedspace freehold as an existing use for this type of property. Working on the basis of an average of 10 bedspaces, that would give a 'going rate' existing use of around £700,000.

Table A3.2 Suggested existing use values for Hotels and Guest houses (B and Bs) in Swanage

Agent	Property type	Address	Parking	Price	Price (per bedspace)
Goadsby	7 Bed Guest House	28 Victoria Avenue	Yes (c.6 spaces)	£745,000	£124,000
	10 Bed Guest House (needs modernisation)	26 Victoria Avenue	Yes (c.6 spaces)	£600,000	£60,000
Corben & Sons	8 Bed Guest house	Park Road	No	£475,000	£59,000
Oliver Miles	11 Bed hotel	Durlston Road	Yes (c.6 spaces plus garage)	£825,000	£75,000
Wilcox and Cook	9 Bed Guest House	Victoria Avenue	Yes (5 spaces)	£599,950	£66,000

At the lower density (100 dph; Figure A3.4), it is doubtful whether an average scheme in Swanage (with no new build sales premium) will generate an affordable housing contribution although at the higher density (Figure A3.5) a 30% contribution may be achievable.

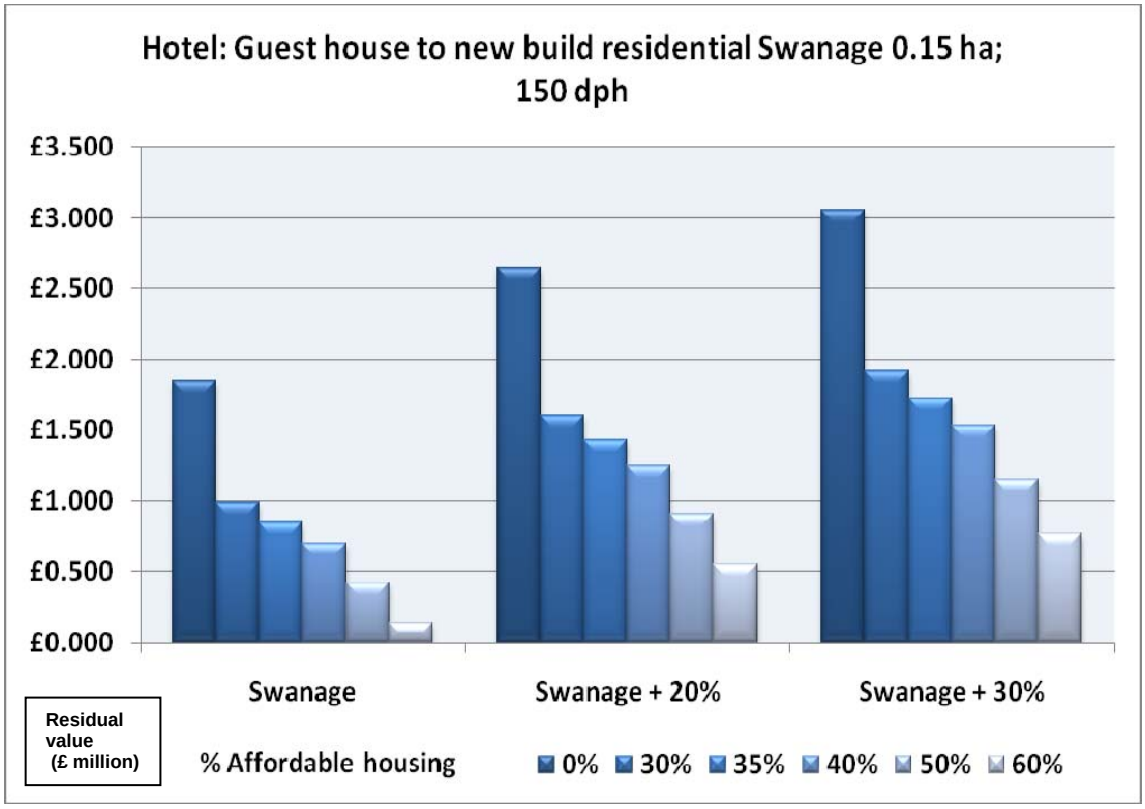
In better locations (eg those with a sea view or more prominently situated; i.e with a 20% uplift in prices or above) a target of between 30% and 40% affordable housing looks deliverable, depending on the density assumed (between 100 dph and 150 dph) and allowing for a reasonable uplift from the existing (guest house/B and B) use of say 30% which we think is a reasonable uplift. However, this conclusion is subject to the 'rider' that plots with high value potential would also be likely to themselves have a commensurately higher existing use value.

A3.2.4 Hotel or Guest house: 0.15 Ha at 150 dph (no other Section 106)

Figure A3.6 shows residual values with no other (than affordable housing) Section 106.

Waiving the requirement for other Section 106 obligations will not be such a critical requirement in a location such as Swanage, although further testing will be required as sites of this nature as brought forward.

Figure A3.6 Hotel or Guest house: 0.15 Ha at 150 dph (no other Section 106)



A3.3 Shops/pubs schemes - conversions

A3.3.1 Assumptions

A number of sites come forward from shops and pub sites in outer town areas. In these areas there is no policy to retain retail use and so units can be converted to residential. Typically, the sites are small and will yield between two and three apartments as a result of conversion schemes. We tested for all three towns – Wareham, Swanage and Upton.

As conversion schemes can be more expensive than new build, as a result of having to work around the existing fabric of the building, we ran the viability testing scenarios at average build costs, at plus 10% and plus 20% build costs.

The scenarios assume one, one bed and one two bed for a scheme of two units and one bed and two, two beds for a scheme of three units.

A3.3.2 Results

Figure A3.7 shows residual values for the two flat scheme with conversion costs assumed to be 10% above the average. It should be noted that in this chart (and the one which follows – Figure A3.8) the values are actual (not expressed in £ millions).

Figure A3.7 Shop conversion to 2 flats

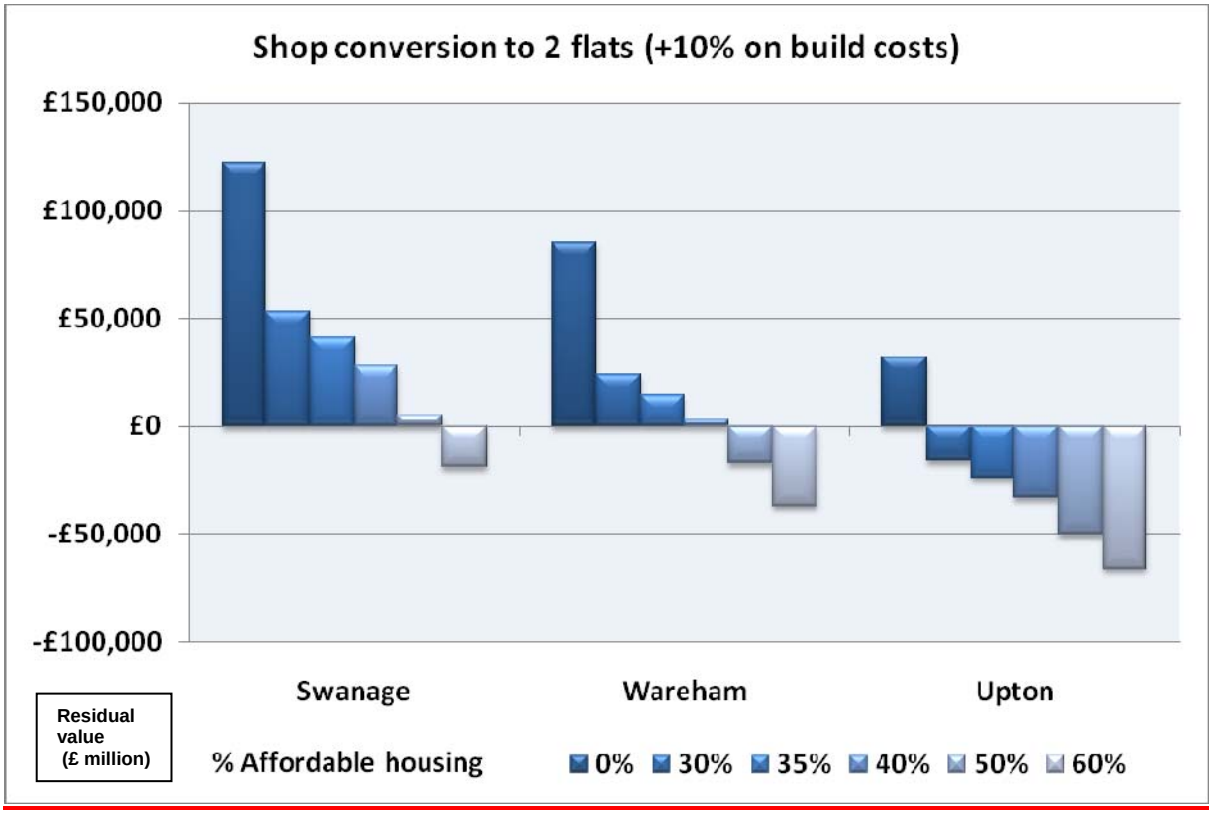
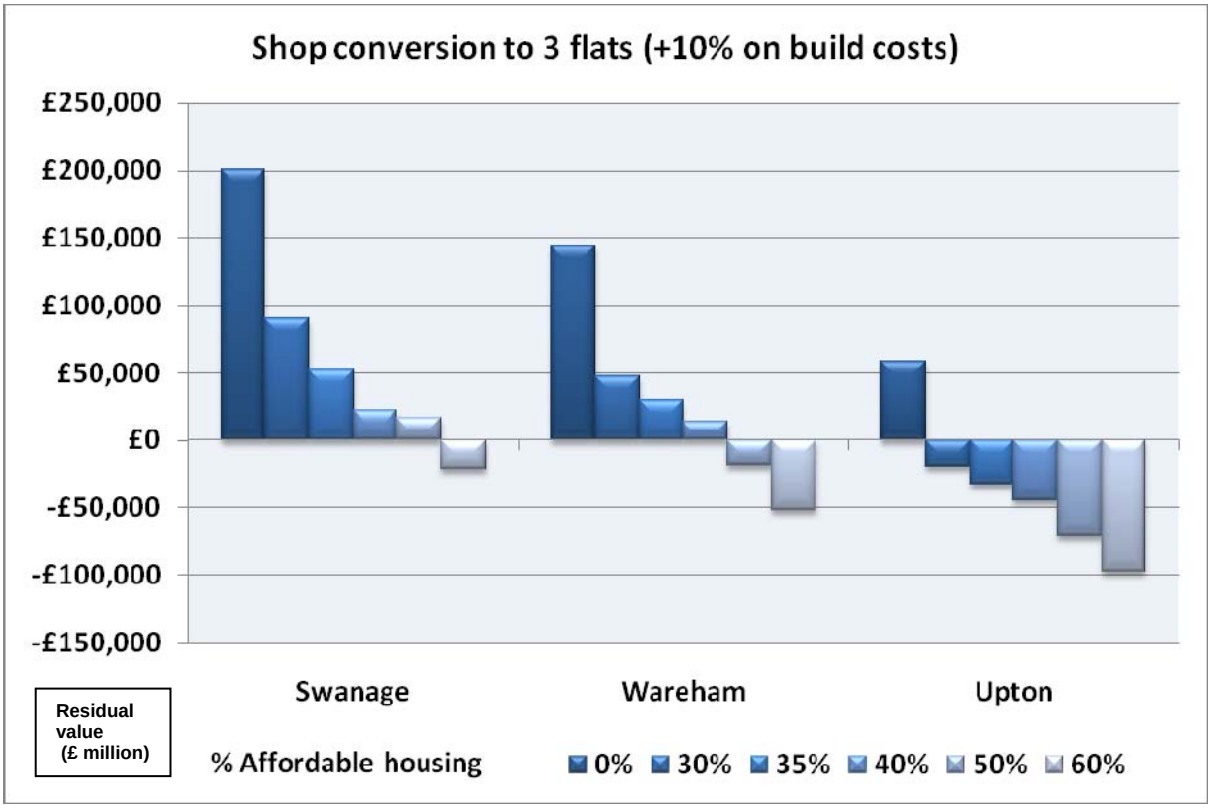


Figure A3.7 suggests that site values for a conversion scheme of two flats are likely to be very low. At the 50% marker (one sale and one affordable flat) would be likely to give a negative site value in all locations. In Upton, all affordable housing targets make the scheme residual negative.

Figure A3.8 looks at essentially the same economic 'test', although with three, rather than two flats. This shows a marginally improved position, although not one where it would be expected that sites would come forward from their existing use.

Figure A3.8 Shop conversion to 2 flats



We have not benchmarked our analysis here against specific existing use values as they would be expected to vary significantly from one scheme to the next.

We would suggest anyway, that the affordable housing policy would, on the basis of the assumptions made here, be difficult to implement without making schemes unviable.

A3.4 Storage yards

A3.4.1 Assumptions

The research showed that storage yards (e.g builders yards) are a typical source of site supply. Historically these have been developed for medium density housing on plots of, typically, 0.5 hectare. Car repair works have also brought forward housing.

We have tested this development type in two ways – assuming a site of 0.15 Ha for 3 to bed 4 dwellings (semis/detached) at 30 dph and a larger plot (0.25 Ha) with appropriate mix of town houses and flats at 40 dph. We have tested the scenarios for all three towns – Wareham, Swanage and Upton.

A3.4.2 Results

Figure A3.9 shows the residual values at the different affordable housing targets for the smaller site. It shows that in a middle market urban location such as Wareham such a development scenario should generate a site value of close to £200,000 at a 40% affordable housing target. This is an equivalent site value of £1.33 million (per hectare).

Figure A3.9 Storage yard conversion to medium density housing: 0.15 Ha at 30 dph

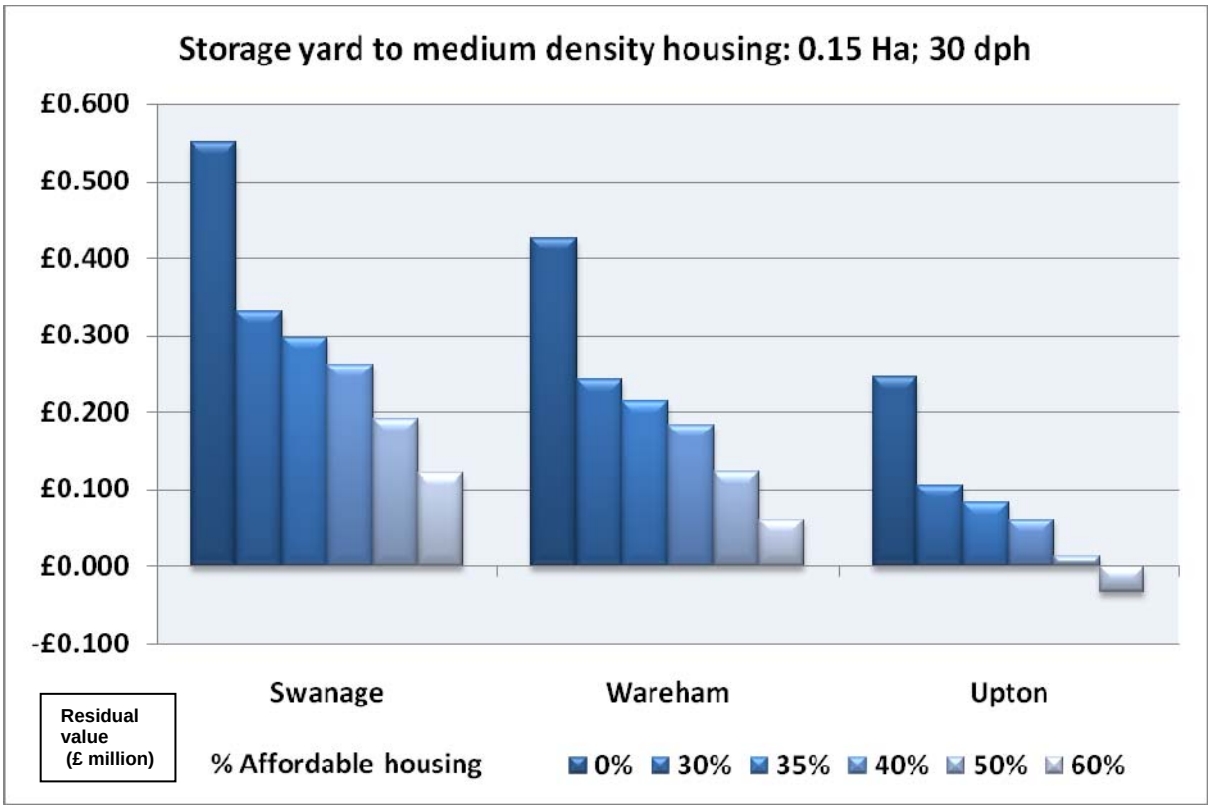
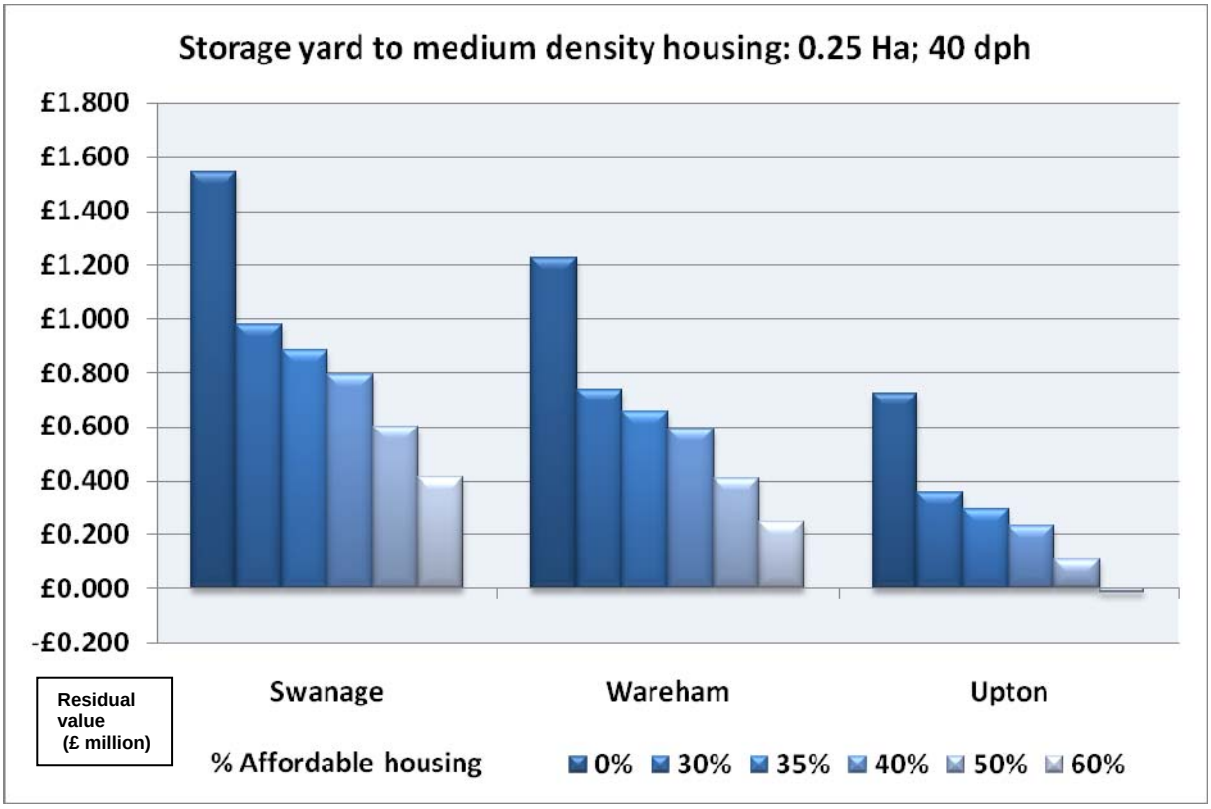


Figure A3.10 shows the residual values for the larger site which is more densely developed. In Wareham the site value at 40% affordable housing is now around £600,000 (£2.4 million per hectare equivalent). In Swanage, the site value at 60% affordable housing is approaching £0.4 million (£1.6 million per hectare equivalent).

In Upton, as with the other generic scheme types, values are lower, although at 35% affordable housing (Figure A3.10), the scheme value is still around £300,000 (£1.2 million equivalent).

Figure A3.10 Builders yard conversion to medium density housing: 0.25 Ha at 40 dph



A3.4.3 Interpreting results

These types of sites are realistically benchmarked as industrial or storage land. It is unlikely that they will be developed to any sophisticated built form and a residential scheme will normally enhance value significantly. We doubt, in this respect (see Table A3.3) that industrial or storage land in Purbeck DC would normally exceed £500,000 per hectare. Allowing for a 30% uplift on this existing use, we would normally expect sites to come forward for residential.

Table A3.3 Industrial land values

SOUTH WEST	From £s per ha	To £s per ha	Typical £s per ha
Poole/Bournemouth	900,000	1,350,000	1,100,000
Weymouth	460,000	750,000	600,000
Exeter	650,000	900,000	800,000
Barnstaple	310,000	495,000	350,000
Plymouth	325,000	450,000	350,000
Bodmin	280,000	340,000	320,000
Yeovil	430,000	850,000	640,000
Bristol	760,000	1,120,000	930,000
Gloucester	750,000	1,000,000	875,000
Swindon	900,000	1,350,000	1,200,000

A3.5 Gardens and back land

A3.5.1 Assumptions

The monitoring data suggests that larger gardens and back land generally have provided a significant number of sites. There may or may not be land assembly challenges with these sites, although these will be site specific and for the purposes of looking at the policy position this factor cannot be realistically taken into account.

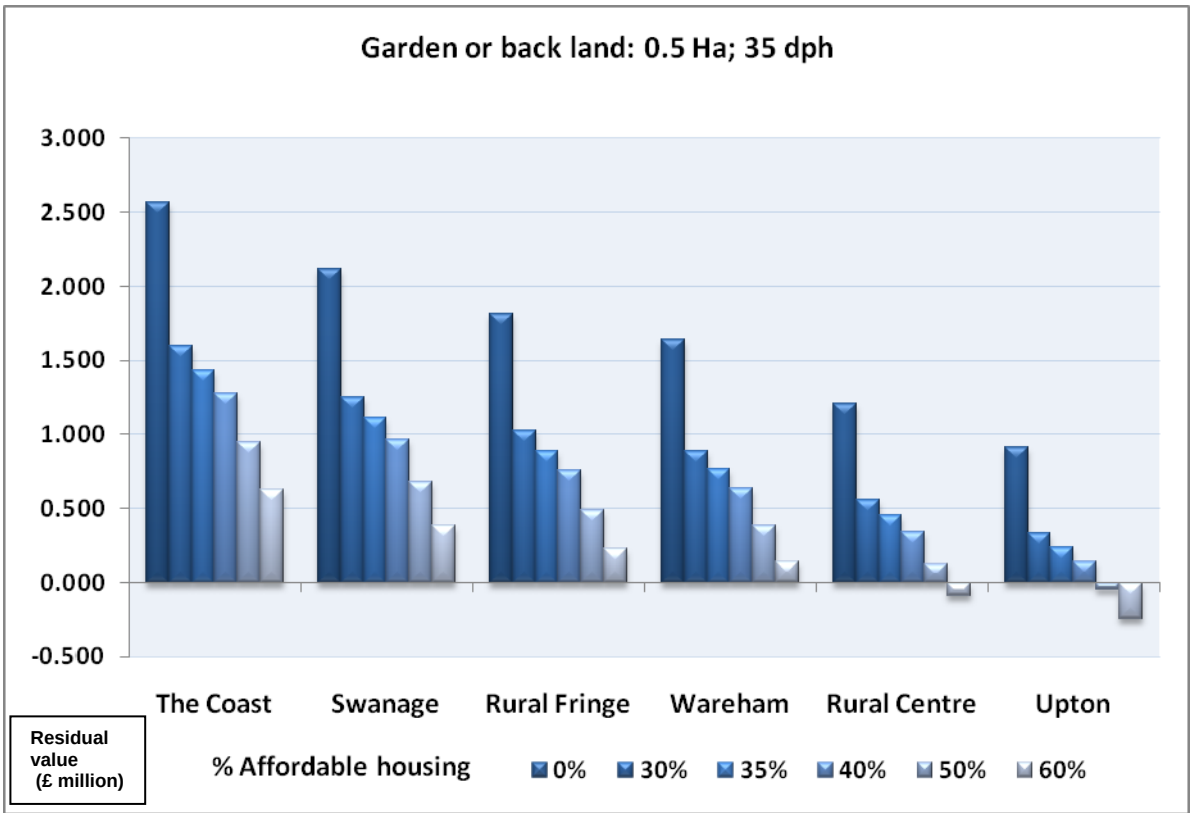
These sites typically come forward in half hectares and we model this situation here. Typically sites are developed for a mix of town houses and apartments. This type of site supply would not appear to be restricted to any particular location and hence we test across all six sub markets. We test for all locations based on a typical 35 dph mix. This includes:

2 x one bed flats;
4 x two bed flats;
6 x 3 bed town houses;
4 x 3 bed detached;
2 x 4 bed detached

A3.5.2 Results

Figure A3.11 shows residual values for this type of site at the density, mix and site size assumed. The results (£ million) suggest site values of around £750,000 million (£1.5 million per hectare) in the middle (Rural Fringe and Wareham) sub markets at a range of 35% to 40% affordable housing targets. At the bottom end of the market (Upton), the site value for such a residential scheme is expected to be closer to £200,000 (£0.4 million per hectare) at a 40% target.

Figure A3.11 Garden or back land: 0.5 Ha at 35 dph



A3.5.3 Interpreting results

The values shown in Figure A3.11 suggest that development should be viable up to a relatively high proportion of affordable housing in most locations. With back land and garden land, the existing site value is likely to be low, although an important consideration is always the impact that the sale of garden land may have on the land and property that is retained.