

**Weymouth and Portland Borough Council
Affordable Housing Provision and Developer
Contributions in Dorset**

**Final Report
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Three Dragons



1 INTRODUCTION

Review of project aims

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

Progress in Delivering Affordable Housing

- 1.4 The level of completions of affordable housing in Weymouth and Portland has varied on a year by year basis. Looking over the long term (back to 1994/95) the annual average of completions of affordable housing has been 48 dwellings or about 18% of total completions. However, the past three years has seen an improved performance both in terms of the amount of affordable housing delivered and as a percentage of total completions with 274 out of 908 dwellings being affordable or 30%. Table 1.1 below sets out in full the number of completions since 1994.

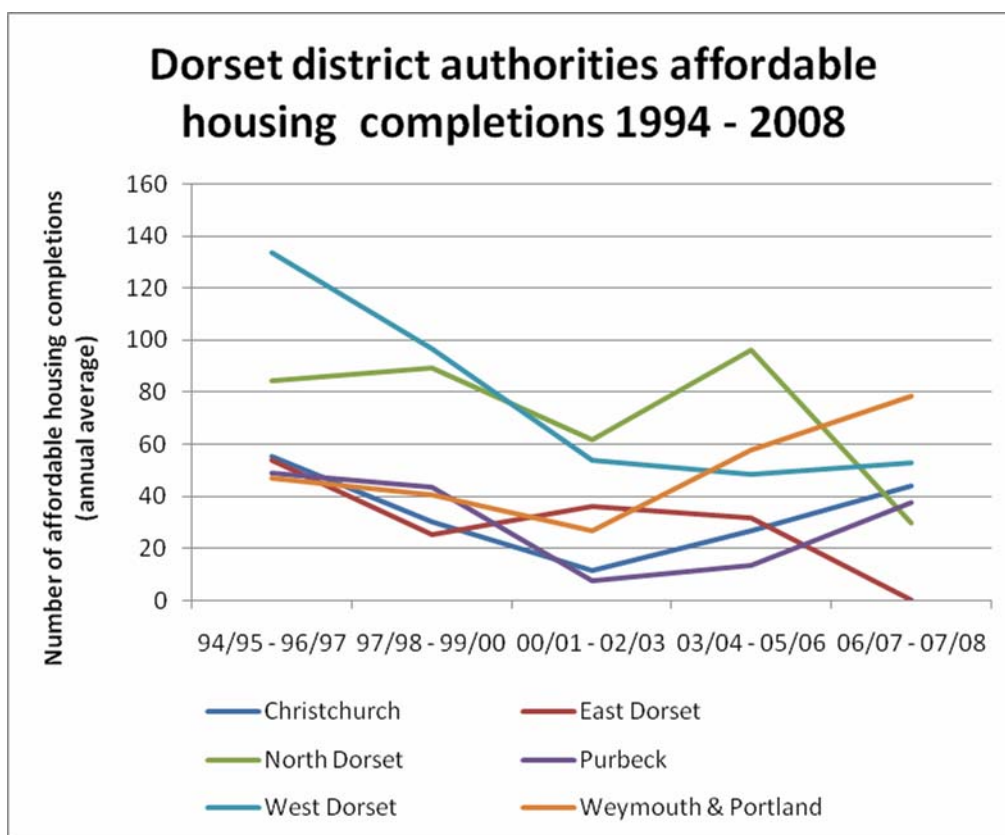
Figure 1.1: Housing completions 1994 – 2008

Year	Total private dwellings	Total affordable dwellings	Total dwellings	Percentage affordable dwellings
1994/1995	195	10	205	5%
1995/1996	204	72	276	26%
1996/1997	175	59	234	25%
1997/1998	125	29	154	19%
1998/1999	256	22	278	8%
1999/2000	236	70	306	23%
2000/2001	170	40	210	19%
2001/2002	270	0	270	0%
2002/2003	224	40	264	15%
2003/2004	335	41	376	11%
2004/2005	292	15	307	5%
2005/2006	273	117	390	30%
2006/2007	161	57	218	26%
2007/2008	200	100	300	33%
1994/2008(dpa)	223	48	271	18%
1998/2008(dpa)	242	50	292	17%
2003/2008(dpa)	252	66	318	21%

Source: Dorset County Council

- 1.5 In comparison with the other Dorset district authorities, Weymouth and Portland are currently providing the most affordable housing and have been doing so for the past three years. The chart below shows this – using a 3 year rolling average of historic completions to show trends in affordable housing completions across the Dorset district authorities (and including Purbeck to provide a complete picture across the County).

Figure 1.2: Dorset district authorities annual affordable housing completions 1994 – 2008



Need for Affordable Housing

- 1.6 The council, with other Dorset authorities, jointly commissioned Fordham Research to produce the Dorset Survey of Housing Need and Demand (part of the Strategic Housing Market Assessment). This was published in March 2008.
- 1.7 The report provides two methods of calculating affordable housing need, namely the CLG method and Fordham Research’s Balanced Housing Market (BHM) method of assessment. The methods produce significantly different estimates of affordable housing need:

CLG method results in annual need of 800 affordable homes

BHM method results in annual demand of 282 affordable homes

- 1.8 Even at the lower estimate (using the BHM approach), on an annual basis, the figure for affordable housing is almost the same as the total annual housing provision proposed for Weymouth and Portland (280 dwellings) in the Draft Revised Regional Spatial Strategy¹ for the South West.

¹ Draft Revised RSS for SW incorporating Secretary of State’s Proposed Changes June 2008.

1.9 The Dorset Survey of Housing Need and Demand report recommends that the local planning authorities assess the economic viability of providing affordable housing in their areas and that policy should seek the highest possible proportions that are assessed as being viable.

1.10 In addition to the headline rates of affordable housing need the report also found, using the BHM assessment, the following in Weymouth and Portland:

High demand for smaller properties (1 and 2 bed) across all types of tenures;

A notional 'over supply' of 3 and 4+ beds in the private rented tenure;

The demand for affordable housing is split 50/50 between social rented and intermediate affordable housing – although the report advises that this split should be treated with caution as more detailed analysis shows the actual number of households that can afford intermediate housing is well below the numbers seeking intermediate housing. On this basis, a recommended tenure split that is more heavily weighted towards social rented housing appears justified.

1.11 Our report is not intended to deal with the issue of affordable housing need in any detail. Given the level of need reported in Survey of Housing Need and Demand (whichever method is followed), it seems reasonable for us to assume that the Council will continue to need to maximise delivery of affordable housing, consistent with financial viability considerations (and other mixed community objectives).

Policy context - national

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

PPS3: Housing (November 2006) states that:

“In Local Development Documents, Local Planning Authorities should:

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

- 1.13 The companion guide to PPS3² provides a further indication of the approach which Government believes local planning authorities should take in planning for affordable housing. Paragraph 10 of the document states:

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

Policy context – South West Region

- 1.14 The draft revised Regional Spatial Strategy (RSS) for the South West, incorporating the Secretary of States Proposed Changes (June 2008), has identified 5,600 dwellings or 280 per annum to be provided in Weymouth and Portland, 2006 to 2026.
- 1.15 The Proposed Changes identify Weymouth as a Strategically Significant Cities and Town (SSCT) where 5000 dwellings are to be provided within the town. The remaining 600 are to be allocated to areas outside the Weymouth SSCT but within the Borough.
- 1.16 Policy H1 of the Proposed Changes deals with housing affordability. It requires provision to be made for at least 35% of all housing development annually across each local authority area and housing market area to be affordable housing.
- 1.17 The consultation period for the Proposed Changes has now closed. It is anticipated that the RSS will be adopted in summer 2009. When published it will form part of the development plan for the council.

Policy context – Weymouth and Portland

- 1.18 The Weymouth and Portland Local Plan (2005) includes one saved policy for affordable housing:
- Policy H7 states that the Borough Council will seek to achieve by negotiation an average of at least 30% of affordable housing on housing schemes of 9 units (or 0.3 hectares) or more subject to consideration of viability.
- 1.19 Since 2005, delivery of affordable housing has been averaging about 30% (see Figure 1.1, for years 2005/06 to 2007/08) which would imply that the above policy has been successfully implemented.
- 1.20 The council has also published “Supplementary Planning Guidance 4 – Local Needs Housing” (February 2006). The SPG reiterates the expectations set out in policy H7 in the Local Plan. It provides further guidance regarding specific housing needs in Weymouth largely based upon a 2001 housing needs survey. However, no information is provided about the split between social rented and intermediate housing.
- 1.21 More recently the council has provided guidance on the proportions of social rented and intermediate affordable housing to be sought, through a site

² CLG, Delivering Affordable Housing, November 2006

specific brief - "The Fire Station development brief" SPG (March 2008). This requires 70% of the affordable housing on the site to be for social rent and 30% for shared equity.

- 1.22 The council is currently preparing its Core Strategy. Issues and options were published for consultation in September 2007. The report asked what affordable housing contributions should be sought from development. We understand that the council will start consultation on its Preferred Option in May.

Research undertaken

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

Discussions with a project group of officers from the five commissioning authorities which informed the structure of the research approach;

Analysis of information held by the authority, including that which described the profile of land supply;

Use of the Three Dragons Toolkit to analyse scheme viability (and described in detail in subsequent chapters of this report);

A workshop held with developers, land owners, their agents and representatives from a selection of Registered Social Landlords active in the borough. A full note of the workshop is shown in Appendix 1.

Structure of the report

- 1.24 The remainder of the report uses the following structure:

Chapter 2 explains the methodology we have followed in, first, identifying sub markets and, second, undertaking the analysis of development economics. We explain that this is based on residual value principles;

Chapter 3 provides analysis of residual values generated across a range of different development scenarios (including alternative percentages and mixes of affordable housing) for a notional 1 hectare site.

Chapter 4 considers options for site size thresholds. It reviews national policy and the potential future land supply and the relative importance of small sites. The chapter considers practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed);

Chapter 5 identifies a number of case study sites (generally small sites which are currently in use), that represent examples of site types found in the authority. For each site type, there is an analysis of the residual value of the sites and compares this with their existing use value.

Chapter 6 summarises the evidence collected through the research and provides a set of policy options.

2 METHODOLOGY

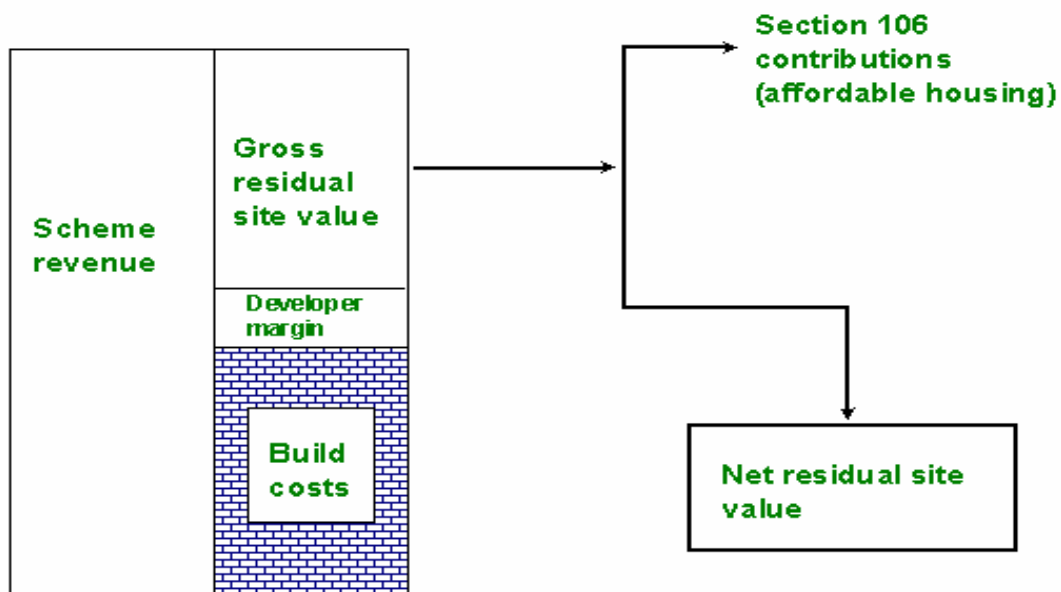
Introduction

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

Viability – starting points

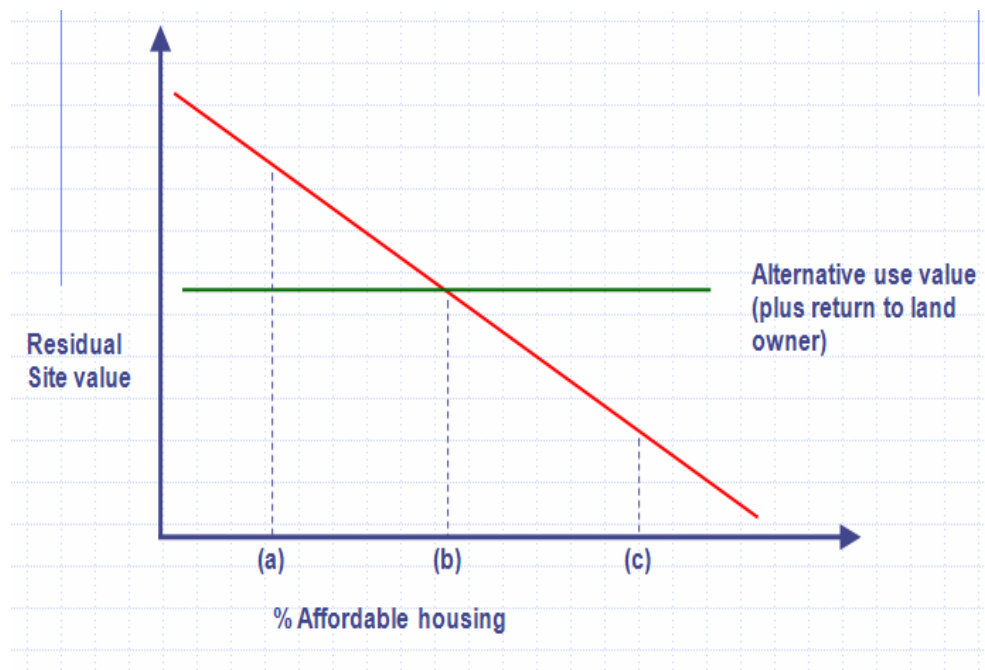
- 2.2 We use a residual development appraisal model to assess development viability. This mimics the approach of virtually all developers when purchasing land. This model assumes that the value of the site will be the difference between what the scheme generates and what it costs to develop. The model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

Figure 2.1 Theory of the Section 106 Process



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

Figure 2.2 Affordable housing and alternative use value



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

3 HIGH LEVEL TESTING

Introduction

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

Market value areas

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

Table 3.1 Market value areas in Weymouth and Portland BC area

Sub Market	Postcode Sector	Key settlements/areas
Weymouth South	DT4 8	Weymouth South
Overcombe; Preston	DT3 6	Overcombe; Preston
West Coast	DT4 9	W & P West Coast (Charlestown; Wyke Regis; Southlands)
Weymouth North	DT4 0	Westham
	DT4 7	Weymouth North
	DT3 5	Upway and Broadway; Radipole
Isle of Portland	DT5 1	Isle of Portland North (Fortuneswell)
	DT5 2	Isle of Portland South (Portland; Southwell; Weston)

Source: Market value areas as agreed between Three Dragons and Weymouth and Portland BC

Testing assumptions (notional one hectare site)

- 3.4 For the viability testing, we defined a number of development mix scenarios, using a range of assumptions agreed with the council. The scenarios were based on an analysis of typical development mixes and were discussed at the stakeholder workshop.
- 3.5 The development mixes were as follows:
- 30 dph: including 10% 2 bed terraces; 20% 3 bed terraces; 15% 3 bed semis; 30% 3 bed detached; 25% 4 bed detached;
 - 40 dph: including 10% 2 bed flats; 10% 2 bed terraces; 15% 3 bed terraces; 30% 3 bed semis; 20% 3 bed detached; 15% 4 bed detached;
 - 50 dph: including 5% 1 bed flats; 10% 2 bed flats; 10% 2 bed terraces; 15% 3 bed terraces; 35% 3 bed semis; 15% 3 bed detached; 10% 4 bed detached;
 - 90 dph: including 20% 1 bed flats; 60% 2 bed flats; 20% 2 bed terraces
 - 100 dph: including 30% 1 bed flats; 70% 2 bed flats.
 - 120 dph: including 40% 1 bed flats; 60% 2 bed flats.
- 3.6 We calculated residual site values for each of these (base mix) scenarios in line with a further set of tenure assumptions. These were 25%; 30%; 35%; 40%; 50% and 60% affordable housing. These were tested at 70% Social Rent and 30% New Build HomeBuy in each case. For the New Build HomeBuy, the share purchase was assumed to be 40%. All the assumptions were agreed with the authority. We are aware that the current difficulties in obtaining mortgages for households on lower incomes is affecting the intermediate affordable housing sale market. In the short term, this may mean that the mix of affordable tenures which is provided will be different from that which we have modelled. However, the figures we have used are intended to provide information for the local authority to use in planning for the longer term and hence the balance of tenures we have modelled. In the short term, the authority will be able to consider the economics of individual schemes with a different affordable housing mix, using the Toolkit which will be available to them.

Other s106 contributions

- 3.7 For the majority of the modelling we have undertaken (and unless shown otherwise) we have assumed that other planning obligations have a total cost of £5,000 per unit. We also consider separately the impact on viability of the introduction of Lifetime Homes Standards and Code for Sustainable Homes at code level 4.

Results: residual values for a notional one hectare site

- 3.8 This section looks at a range of development mixes and densities. It shows the impacts of increasing the percentage of affordable housing on residual

site values. Unless otherwise indicated, all the results are **without grant**. The full set of these results are shown in Appendix 3.

Low density housing (30 dph)

3.9 Figure 3.1 shows low density housing (30dph) and the residual values for each of the market value areas outlined in Section 3.

Figure 3.1 Low density housing (30 dph) – Residual value in £s million

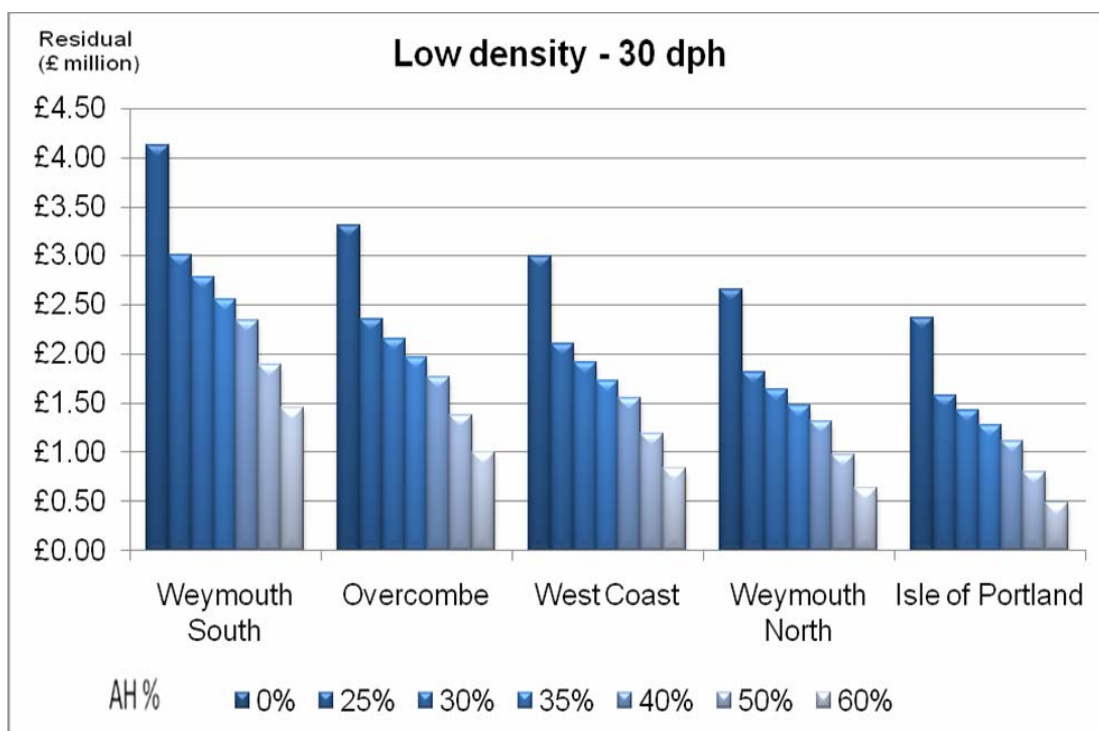


Figure 3.1 shows that for all the scenarios tested, there is a positive residual value;

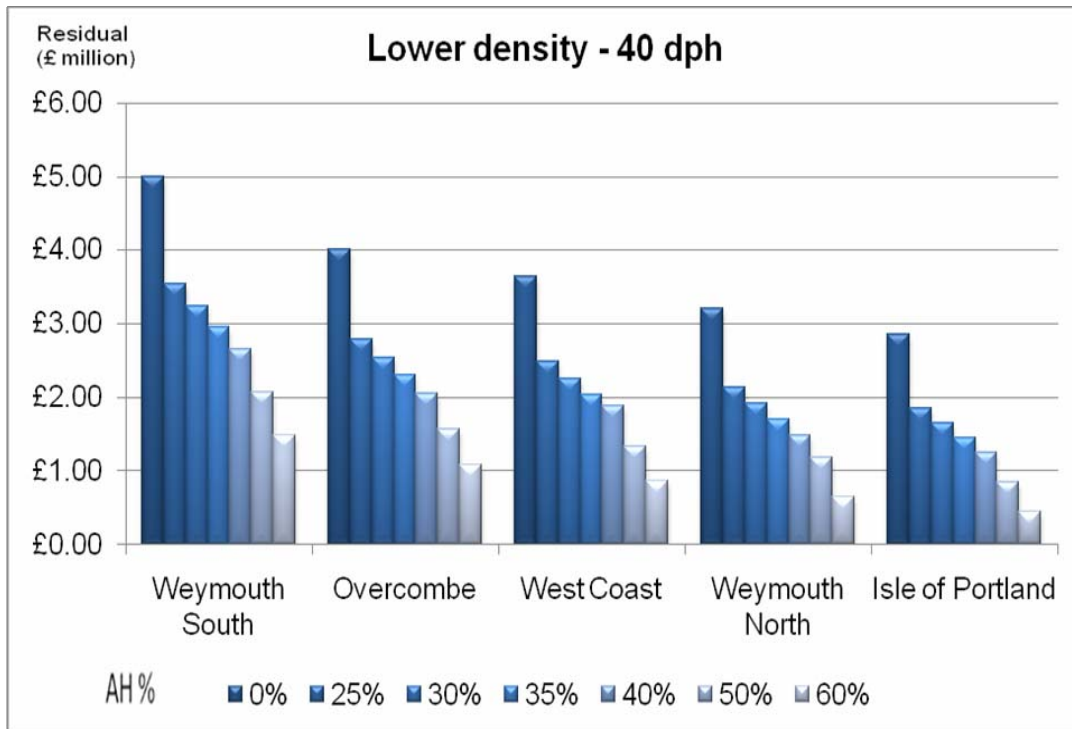
The chart also shows a significant variance in residual values by market value area, reflecting the different house prices found in each of them. At, for example, 40% affordable housing, residual values range from £2.34 m per hectare in Weymouth South to £1.11m per hectare in the lowest market value area of Isle of Portland;

The range in values has potentially important implications for policy making. With the scenarios tested, a 50% affordable housing allocation generates a higher value (£1.89) in Weymouth South than a 25% affordable housing allocation in Isle of Portland (£1.58).

Lower density housing (40 dph)

3.10 Figure 3.2 shows lower density housing (40 dph) and the residual values for each of the market value areas.

Figure 3.2 Lower density housing (40 dph) – Residual value in £s million



Again, all the scenarios tested across all five market value areas, deliver a positive residual value;

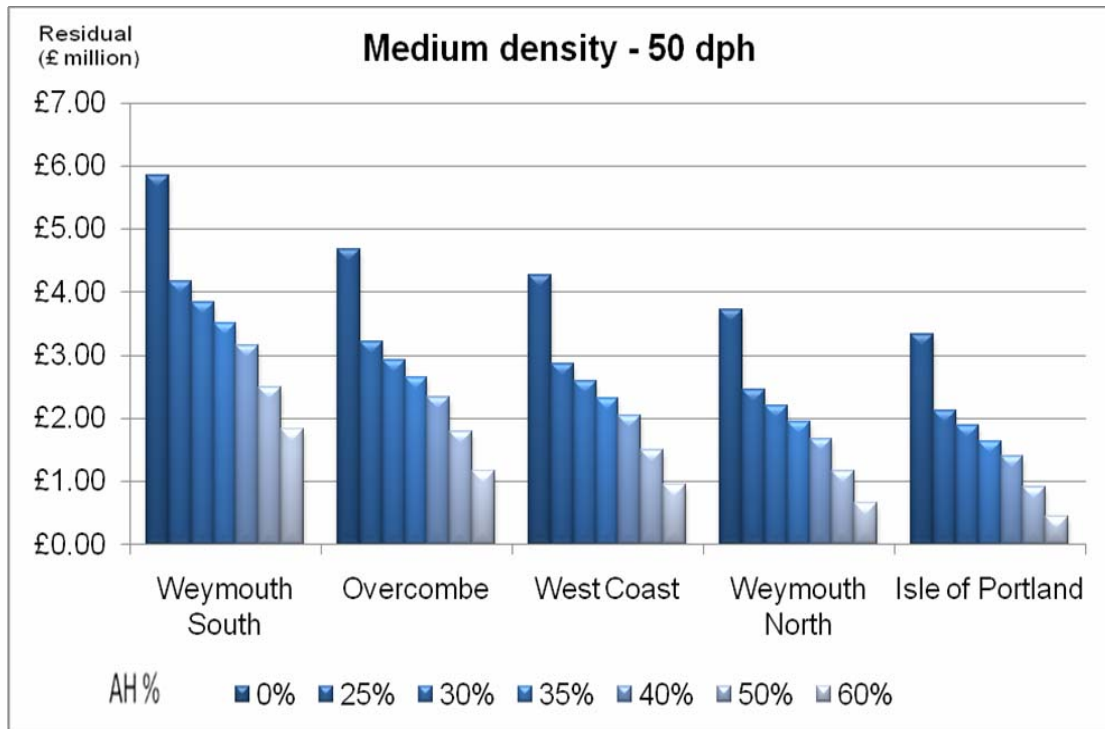
The impact of increased density has been to generally increase residual values but the effect varies between market areas and at different levels of affordable housing. The most substantial increases occur with increased density (30 dph to 40 dph) in higher values market areas and at lower proportions of affordable housing. For example, in Overcombe, at 25% affordable housing, the residual value per hectare is £2.35m at 30 dph and £2.78m at 40dph. This compares with an equivalent increase in RV in Isle of Portland from £1.58m to £1.85m. Where affordable housing proportions are highest, then in the lower value market areas, there is little or no increase in residual value (e.g. there is an uplift of £0.05m in RV in the Isle of Portland at 50% affordable housing comparing the 30 dph and 40 dph scenarios);

At 40 dph, this is a good point to look at the overall picture of market value areas. Overall, we would say that the Borough has a fairly 'flat' middle market (Overcombe, West Coast and Weymouth North). Whilst residual values differ between these market areas, we would say that these differences are not as significant as those between Weymouth South and Isle of Portland and the other market value areas.

50 dph scheme

3.11 Figure 3.3 shows residual values for a (50 dph) scheme and the residual values for each of the market value areas outlined earlier.

Figure 3.3 Medium density housing (50 dph) – Residual value in £s million



The general impact of an increase to 50 dph (from 30 dph and 40 dph) is to increase residual values. The 50 dph scenario will, across most of the scenarios we tested provide the highest residual values;

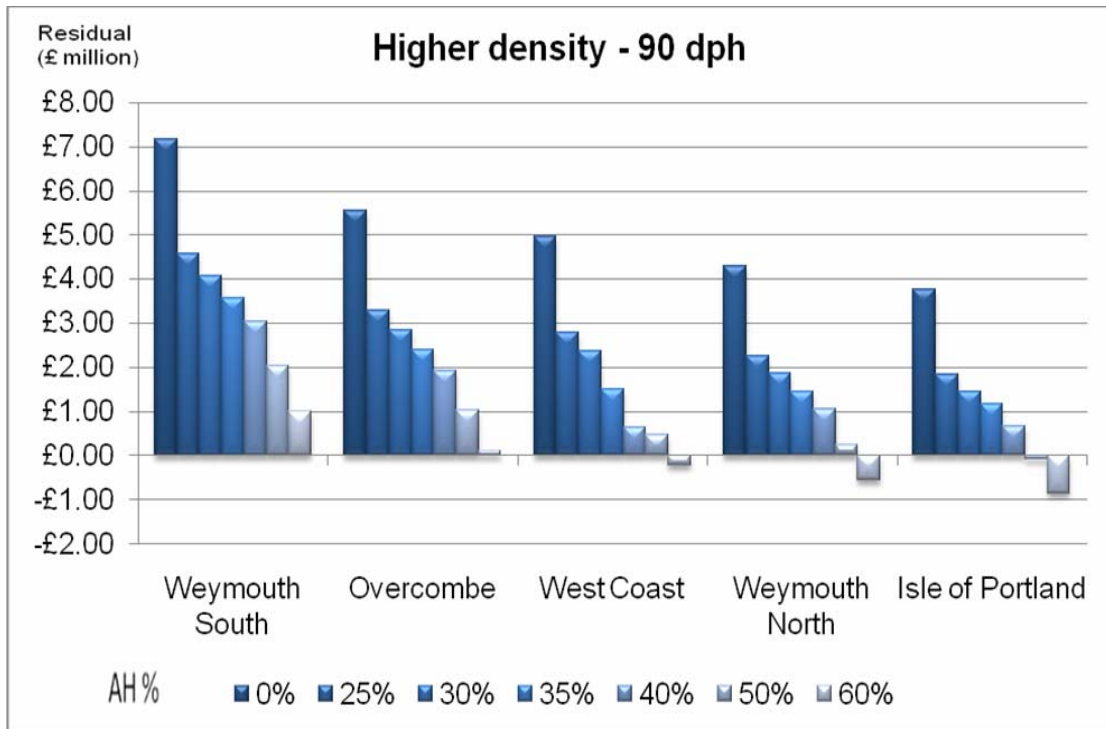
The exception to this is Weymouth South, where at lower percentages of affordable housing (specifically up to 30%), a 90 dph and above scheme may produce a higher residual than at 50 dph.

At 40% affordable housing, residual values for the scheme of 50 dph tested, range from £3.16m per hectare in Weymouth South to £2.04m in West Coast to £1.40m in the Isle of Portland.

Higher density (90 dph) scheme

3.12 Figure 3.4 shows a higher density scheme – at 90 dph, and the residual values for each of the market value areas.

Figure 3.4 Higher density housing (90 dph) – Residual value in £s million



An increase in density to 90 dph will tend to favour schemes with a lower percentage of affordable housing (25% and less) which are built in high value areas. Generally, the impact of higher density and an increased proportion of flats within a scheme is to reduce residual values at higher percentages of affordable housing;

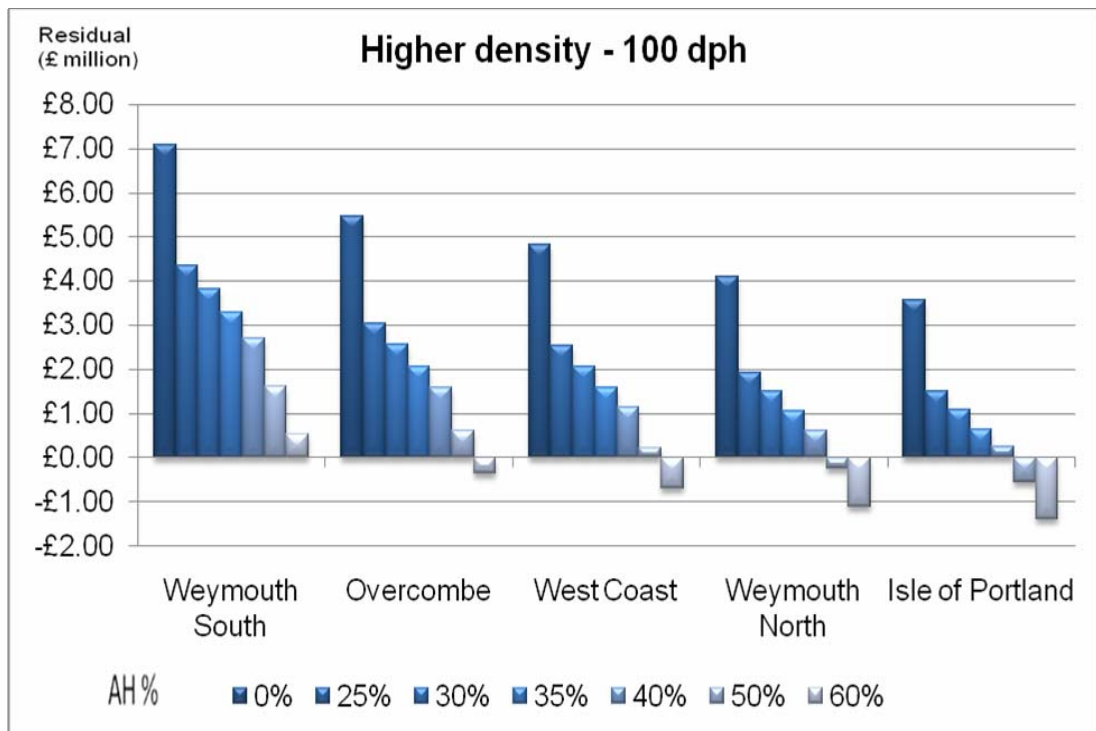
At 90 dph, in lower market value areas RVs are either negative or only just positive at the higher levels of affordable housing we tested. RVs are negative in Isle of Portland at 50% and 60% affordable housing and in West Coast and Weymouth North at 60% affordable housing;

The example of the 90dph scenario and what it shows about the impact of flats on residual value has lessons across all the density scenarios tested. At lower densities, if the % of flats were increased from those we tested, residual values would likely be lower.

High density (100 dph) scheme

3.13 Figure 3.5 shows a higher density (100 dph) scheme. The main impact here is to decrease viability in all the scenarios tested with negative residual values found in all market value areas but Weymouth South at some level of affordable housing.

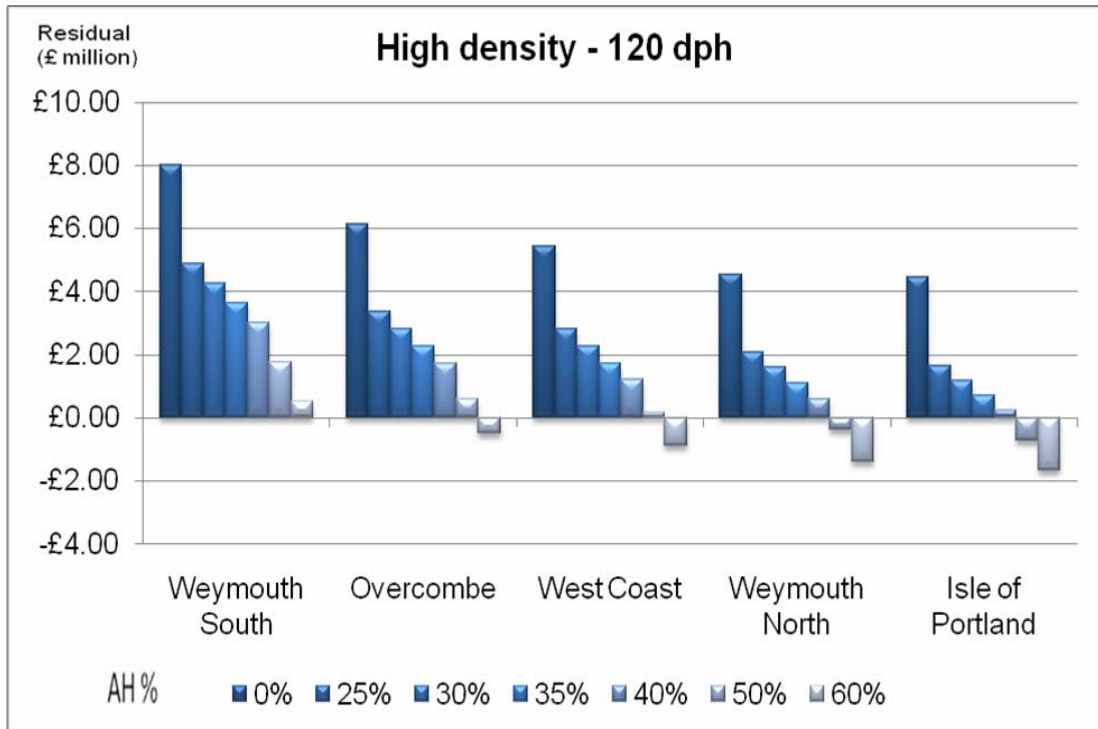
Figure 3.5 Higher density housing (100 dph) – Residual value in £s million



High density (120 dph) scheme

3.14 Figure 3.6 shows the highest density (120 dph) which was tested. As with the previous (100 dph) scenario, residual values are negative or very low, above 40% affordable housing in all but the highest market value area;

Figure 3.6 High density housing (120 dph) – Residual value in £s million



Impacts of potential grant funding

- 3.15 The availability of public subsidy (in the form of grant) can have a significant impact on scheme viability. Grant given to the affordable housing providers enables them to pay more for affordable housing units, thus increasing overall scheme revenue and therefore the residual value of a mixed tenure scheme. There are two main sources of grant which may be available: from the Homes and Communities Agency and/or the local authority (for example using money collected from development in the form of a commuted sum, through a s106 agreement).
- 3.16 We have assumed grant of £50,000 per Social Rented unit and £15,000 per New Build HomeBuy unit. This level of grant was agreed with the local authority as being a reasonable figure to use for viability testing purposes.
- 3.17 We have tested the impact of grant on residual values for a 1 Ha site at 50 dph (which we identified as likely to generate optimal residual values in weaker market areas of the density scenarios we tested). The results are shown in Table 3.2.

Table 3.2 Comparison of impact of grant versus on residual values (at 50 dph): Residual Value (£s million per hectare)

50 Dph	Weymouth South		Overcombe: Preston		West Coast		Weymouth North		Isle of Portland	
	No grant	Grant	No grant	Grant	No grant	Grant	No grant	Grant	No grant	Grant
0% AH	£5.85	N/A	£4.68	N/A	£4.26	N/A	£3.73	N/A	£3.33	N/A
25% AH	£4.17	£4.62	£3.22	£3.66	£2.87	£3.32	£2.45	£2.89	£2.12	£2.57
30% AH	£3.83	£4.37	£2.93	£3.46	£2.59	£3.13	£2.19	£2.73	£1.88	£2.42
35% AH	£3.50	£4.12	£2.64	£3.26	£2.32	£2.94	£1.94	£2.56	£1.64	£2.27
40% AH	£3.16	£3.87	£2.34	£3.05	£2.04	£2.75	£1.68	£2.39	£1.40	£2.11
50% AH	£2.49	£3.38	£1.79	£2.65	£1.49	£2.39	£1.16	£2.05	£0.92	£1.81
60% AH	£1.49	£2.88	£1.17	£2.24	£0.94	£2.01	£0.65	£1.72	£0.44	£1.50

3.18 Table 3.2 shows that the availability of grant will enhance site viability. This will be particularly important in the weaker sub markets of Weymouth North and Isle of Portland. For example, at 40% affordable housing, the introduction of grant increases the RV from £1.68m to £2.39m in Weymouth North (an increase of 42%). But in Weymouth South the increase is around 22% (i.e. from £3.16m to £3.87m)

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

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

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

Table 3.3 Site values (£ million per hectare) for a 50 dph scheme assuming 50% Social Rent and 50% Shared Ownership), without grant.

50 Dph	Weymouth South	Overcombe: Preston	West Coast	Weymouth North	Isle of Portland
0% AH	£5.85	£4.65	£4.26	£3.73	£3.33
25%	£5.00	£3.52	£3.16	£2.71	£2.39
30% AH	£4.71	£3.29	£2.94	£2.50	£2.18
35% AH	£4.42	£3.05	£2.72	£2.30	£1.99
40% AH	£4.14	£2.83	£2.50	£2.10	£1.79
50%	£3.57	£2.36	£2.06	£1.69	£1.41
60%	£3.02	£1.90	£1.62	£1.28	£1.03

- 3.21 Table 3.3 shows the residual values with a 50%:50% split in the affordable element. This demonstrates a considerable improvement over the ‘no grant’ residual values (compare with Table 3.2). In a middle market location, for example West Coast, a ‘with grant’ scenario (Table 3.2) produces a marginally higher result to the 50%:50% affordable option, across all the percentages of affordable housing tested. There is not a perfect ‘trade off’, but a marginally higher intermediate affordable housing option (eg 60% Shared Ownership) would make the trade off with grant closer.
- 3.22 In the higher value areas, a higher percentage of intermediate affordable housing will generate very high residual value. It will be noted by comparing Tables 3.2 and 3.3. that in Weymouth South for example, the 50%: 50% affordable housing option generates higher residual values than the ‘with grant option’. In the weaker sub markets the opposite is the case with grant producing higher residuals.

Impacts of achieving Lifetime Homes standards

- 3.23 A consideration going forward is the additional cost of achieving Lifetime Homes Standards. DCLG’s report, Lifetime Homes, Lifetime Neighbourhoods report³ indicates that the additional cost of achieving Lifetime Homes Standards will be around £550 per dwelling (although additional costs can be avoided if they are “*designed-out early enough.*”⁴). We have modelled the additional costs of introducing the Lifetime Homes standard at £500 per dwelling. However, we are aware that Lifetime Homes Standards may not be compatible with current developer standard house types, particularly for smaller units and that there may be additional cost implications of meeting Lifetime Homes Standards. These costs would need to be taken into account on a scheme by scheme basis.
- 3.24 As noted above, to assess the impact on scheme viability of potential Lifetime Homes Standards, we have modelled at £500 per dwelling. Using the example of the 50 dph scenario, this adds £25,000 per hectare to costs and

³ Communities and Local Government, Lifetime Homes and Lifetime Neighbourhoods: A National Strategy for Housing in an Ageing Society, DCLG, February 2008

⁴ Lifetime Homes and Lifetime Neighbourhoods, page 90

therefore reduces residuals by this amount. Taking the example of a no grant scenario, the results from this exercise are shown in Table 3.4 below.

Table 3.4 Site values (£ million per hectare) of achieving Lifetime Homes Standards – 50 dph scheme; no grant

	Weymouth South	Overcombe: Preston	West Coast	Weymouth North	Isle of Portland
0% AH	£5.83	£4.66	£4.24	£3.71	£3.31
25% AH	£4.15	£3.20	£2.85	£2.43	£2.10
30% AH	£3.81	£2.91	£2.57	£2.17	£1.86
35% AH	£3.48	£2.62	£2.30	£1.92	£1.62
40% AH	£3.14	£2.32	£2.02	£1.66	£1.20
50% AH	£2.47	£1.77	£1.47	£1.14	£0.90
60% AH	£1.47	£1.15	£0.92	£0.63	£0.42

- 3.25 Table 4 shows, when compared with Table 3.2 (no grant scenarios) that the introduction of Lifetime Homes Standards makes only a very marginal difference to residual site values.
- 3.26 At the higher value end of the market, at a nil percentage of affordable housing, residual is devalued by around 1%. At the lower end of the market (Isle of Portland) at 60% affordable housing the impact is around 5% devaluation on residual value.
- 3.27 Thus we do not think that the introduction of Lifetime Homes will make a significant difference to viability.

Impacts of achieving Code for Sustainable Homes Level 4

- 3.28 A further consideration in relation to viability is the achievement of a higher standard of build as envisaged in the Code for Sustainable Homes.
- 3.29 There are a number of problems in analysing the impacts of a higher code (we consider here Code 4) not least that there is a large range of costs which can impact on a scheme which operate within the same code.
- 3.30 The estimated costs of achieving Code Level 4 range from £2,000 to £12,000 per dwelling (Cyril Sweet, 2007 – Cost Review of the Code for Sustainable Homes). This depends on the extent to which different energy sources are adopted. We take here scenario 2 as a broad indication of costs (an additional £4,260 per end terrace) which represents ‘Initial energy efficiency measures initially followed by use of small scale wind turbines and then biomass systems’. We model at £5,000 per unit; across a scheme at 50 dph this means £250,000 per hectare taken off residual value.
- 3.31 Table 3.5 shows the joint impacts of achieving Lifetime Homes Standards and Code for Sustainable Homes Level 4.

Table 3.5 Residual value (£s million per hectare) with Lifetime Homes Standards and Code for Sustainable Homes Level 4, at 50 dph (no grant)

	Weymouth South	Overcombe: Preston	West Coast	Weymouth North	Isle of Portland
0% AH	£5.58	£4.41	£3.99	£3.46	£3.06
25% AH	£3.90	£2.95	£2.60	£2.18	£1.85
30% AH	£3.56	£2.66	£2.32	£1.92	£1.61
35% AH	£3.23	£2.37	£2.05	£1.67	£1.37
40% AH	£2.89	£2.07	£1.77	£1.41	£1.13
50% AH	£2.22	£1.52	£1.22	£0.89	£0.65
60% AH	£1.22	£0.90	£0.67	£0.38	£0.17

3.32 Whilst the impact of Lifetime Homes standards is very minimal, the joint impact (Table 3.5) in achieving Level 4 CfSH will be more significant.

3.33 Whilst residual values in the stronger market value areas will hold up, particularly at the lower percentages of affordable housing, the impact at higher percentages of affordable housing in the weaker market areas now becomes substantial. For example, at 60% affordable housing in the Isle of Portland, values are more than halved. This is a significant reduction and unless grant can be used to redress the fall in residual values, the weaker market areas may fail to deliver affordable housing where Code 4 is being promoted.

Impact of an increased s106 requirement (£15,000 per unit)

3.34 In the earlier analysis, we have assumed a planning obligation package of £5,000 per dwelling. Table 3.6 shows residual values for a notional one hectare site at varying affordable housing percentages for a 50 dph scheme assuming a s106 contribution package of £15,000 per unit. This figure was agreed with the local authority and should, we believe, be assumed to cover any additional renewable energy costs and other types of development costs set out in para 2.2.6 of the study brief (but not Lifetime Homes Standards or the Code for Sustainable Homes).

3.35 We have tested this level of planning obligations (i.e. £15,000) to assess the possible economic impact of such an approach. This should not be taken to indicate that the Council might wish to adopt this level of planning obligations package. (Lifetime Homes Standards and/or Code for Sustainable Homes Level 4 is excluded from this testing scenario and the figures shown in Table 3.6).

Table 3.6 Residual value (£s million per hectare) with Section 106 of £15,000 per unit, at 50 dph (no grant)

50 Dph	Weymouth South	Overcombe: Preston	West Coast	Weymouth North	Isle of Portland
0% AH	£5.35	£4.18	£3.76	£3.23	£2.83
25%	£3.67	£2.72	£2.37	£1.95	£1.62
30% AH	£3.33	£2.43	£2.09	£1.69	£1.38
35% AH	£3.00	£2.14	£1.82	£1.44	£1.14
40% AH	£2.66	£1.84	£1.54	£1.18	£0.90
50%	£1.99	£1.29	£0.99	£0.66	£0.42
60%	£0.99	£0.67	£0.44	£0.15	-£0.50

- 3.36 The introduction of a larger planning obligations package reduces residual values across all sub markets. We have illustrated this with the example of the 50 dph development but the pattern will be the same for all the development density scenarios. The impact of the planning obligations package is proportionately greater in the lower value areas.
- 3.37 Were the increased planning obligations package to be combined with a requirement to achieve Lifetime Homes Standards **and** Code for Sustainable Homes Level 4, the total cost per dwelling would be an extra £20,500. At 40% affordable housing, residuals values taking into account this combined cost would range from about £2.39m per hectare in Weymouth South to £0.90m in Weymouth North to £0.63m in Portland. The impact of the additional per unit costs is seen to be proportionately greater in the lower value areas (e.g. a reduction of 55% in the Isle of Portland (compared with the 'base test'⁵) and 24% in Weymouth South).

Benchmarking results

- 3.38 There is no specific guidance on the assessment of viability which is published by national government. In Section 2, we set out that we think viability should be judged against return to developer and return to land owner.
- 3.39 One approach is to take "current" land values for different development uses as a kind of 'going rate' and consider residual values achieved for the various scenarios tested against these. Tables 3.7 shows residential land values for selected locations within the South West.

⁵ That is with £5,000 per dwelling planning obligations package.

Table 3.7 Residential land values regionally

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

Source: Valuation Office; Property Market Report, July 2008

- 3.40 The table indicates residential land values of around £2.5m per hectare in Weymouth. However, we note that as house prices have fallen since last summer, the values shown by the Valuation Office for July 2008 are likely to be significantly higher than current values. At the time of writing, there is no more up to date information publicly available. But looking back to the start of 2008, values at July 2008 were already down on the values found at January 2008 – by £200,000 per hectare for ‘small sites’ and ‘bulk land’ and by £550,000 for ‘sites for flats and maisonettes’.
- 3.41 Another benchmark which can be referred to is that of industrial land. Table 3.8 shows values of around £650,000 per hectare in Weymouth in the first part of 2008.

Table 3.8 South West industrial land values

SOUTH WEST			
	From £s per ha	To £s per ha	Typical £s per ha
Poole/Bournemouth	1,000,000	1,500,000	1,250,000
Weymouth	500,000	775,000	650,000
Exeter	725,000	975,000	875,000
Barnstaple	350,000	550,000	400,000
Plymouth	375,000	500,000	400,000
Bodmin	350,000	450,000	400,000
Yeovil	550,000	925,000	750,000
Bristol	770,000	1,140,000	955,000
Gloucester	750,000	1,100,000	925,000
Swindon	900,000	1,350,000	1,200,000

Source: Valuation Office; Property Market Report, July 2008

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

industrial represents a realistic current/alternative use, it may be difficult to bring forward residential schemes with the highest proportions of affordable housing we modelled, especially at the higher density scenarios. However, at the optimal density scenarios and at 40% affordable housing or less, residual values for mixed tenure schemes in all market value areas exceed the industrial values shown by the Valuation Office for July 2008 by a significant margin.

4 LAND SUPPLY, SMALL SITES AND USE OF COMMUTED SUMS

Introduction

- 4.1 This chapter reviews the policy context and options for identifying the size of sites above which affordable housing contributions would be sought, in the national policy context. The current threshold operating in Weymouth and Portland is 9 dwellings (Local Plan 2005). The chapter provides an assessment of the profile of the future land supply and the likely relative importance of small sites. It then considers practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed).

Purpose of the Analysis

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

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

- 4.3 By reducing site size thresholds and 'capturing' more sites from which affordable housing can be sought, an authority can potentially increase the amount of affordable housing delivered through the planning system.
- 4.4 In this section we examine the impact that varying site size thresholds would have on affordable housing supply. In order to do this we need to examine the likely future site supply profile.

Small sites analysis

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

Table 4.1: No of dwellings in different sizes of sites (annual average for last 3 years of permissions – 2005/06 to 2007/08)

Site size (dwellings)	Annual average - % of permissions
1	9.2%
2	7.1%
3	5.2%
4	6.9%
5	5.2%
6	6.2%
7	8.8%
8	8.3%
9 - 14	2.4%
15 - 24	7.6%
25 - 49	18.8%
50+	14.4%
Under 9 dws	56.8%

- 4.6 The trends in site supply (using the information on past permissions) shows a broad range of site sizes which are contributing to the land supply in Weymouth and Portland. The data indicates that around 59% of dwellings granted planning permission have been on sites of less than 15 dwellings – the national indicative minimum site size threshold. Very few permissions have been granted on sites between 9 and 15 dwellings but sites of less than 9 dwellings contributed around 57% of the supply of dwellings.
- 4.7 Given the high level of need for affordable housing in the Borough, and the importance of small sites to the land supply, there would seem to be a powerful argument for using a threshold which is both below the national indicative minimum and the current Local Plan policy level (of 9 dwellings).
- 4.8 Below 9 dwellings, there is no particular site size which is more important than another e.g. sites of 7 dwellings contributed 8.8% of dwellings whilst sites of 1 dwelling contributed 9.2% of dwellings.
- 4.9 Information from the Borough's 2008 Strategic Housing Land Availability Assessment (Appendix H)⁶ shows existing commitments (at 31 May 2008) of 172 sites of less than 0.15 hectares (giving 461 dwellings) and 34 sites of over 0.15 hectare (at 1093 dwellings). At, say, 50 dwellings per hectare, 0.15 hectare would represent about 8 dwellings. There is an additional future windfall allowance of 2601 dwellings after 10 years but this is not broken down between larger and smaller sites.

⁶ Weymouth and Portland Borough Council, Strategic Housing Land Availability Assessment, July 2008

Small sites and management of affordable housing

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

Use of commuted sums

- 4.12 As a general principle, we recognise that seeking on-site provision of affordable housing will be the first priority and that provision of affordable housing on an alternative site or by way of a financial payment in lieu (or commuted sum) should only be used in exceptional circumstances. This position is consistent with national guidance in Paragraph 29 of PPS3 which states:
- “In seeking developer contributions, the presumption is that affordable housing will be provided on the application site so that it contributes towards creating a mix of housing. However, where it can be robustly justified, off-site provision or a financial contribution in lieu of on-site provision (of broadly equivalent value) may be accepted as long as the agreed approach contributes to the creation of mixed communities in the local authority area” Para 29.*
- 4.13 Where commuted sums are sought as an alternative to direct on or off-site provision, PPS3 sets out the appropriate principle for assessing financial contributions - that they should be of “broadly equivalent value” (see para set out 29 above). Our approach is that the commuted sum should be equivalent to the ‘developer/landowner contribution’ if the affordable housing was provided on site. One way of calculating this is to take the difference between the residual value of 100% market housing and the residual value of the scheme with the relevant percentage and mix of affordable housing.
- 4.14 If the ‘equivalence’ principle is adopted, then the decision of the local authority to take a commuted sum will be based on the acceptability or otherwise of on-site provision as a housing and spatial planning solution.
- 4.15 Any concerns about scheme viability (whatever size of site) should be reflected by providing grant or altering tenure mix, or by a ‘reduced’ affordable housing contribution whether provided on-site, off-site or as a financial contribution. Other planning obligations may also need to be reduced under some circumstances.
- 4.16 However, if affordable housing is sought from very small sites, in certain circumstances it becomes impractical to achieve on site provision e.g. seeking less than 33% on a scheme of 3 dwellings or less than 50% with a scheme of 2 dwellings. There will also be occasions where on-site provision can only deliver a partial contribution towards the proportion of affordable housing

sought e.g. 40% affordable housing in a scheme of 3 dwellings would deliver one affordable unit on site (representing 33% of provision). In the latter case, it is possible to devise a formula which mixes on-site provision with a commuted sum to 'make up the balance'.

5 CASE STUDY VIABILITY ANALYSIS

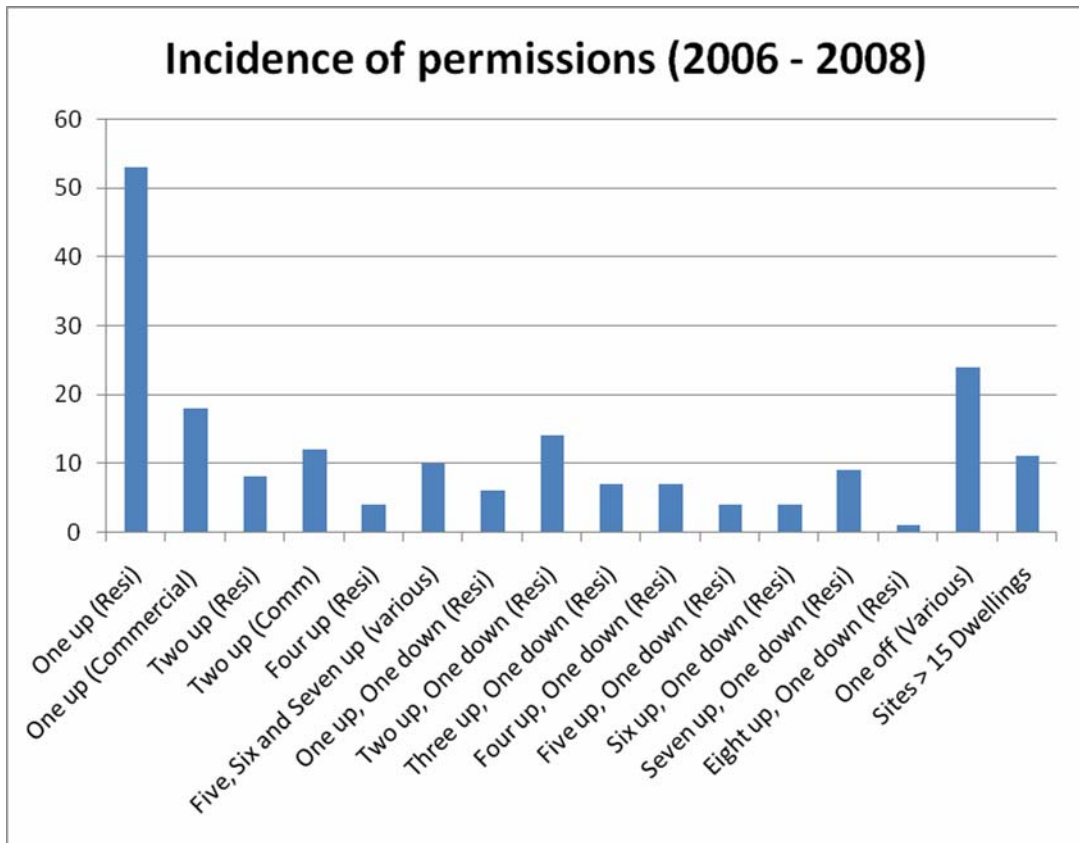
Introduction

- 5.1 The analysis in Chapter 3 provides a good indication of the likely viability of sites in the borough. The residual values can be compared with existing use values to establish whether land owners are likely to make a return over and above existing use value, taking into account a developer margin.
- 5.2 The analysis in Chapter 3 will apply for large as well as small sites (on a pro rata basis). We do not have any evidence to suggest that the economics change significantly between large and small sites. This assumption was accepted at the Dorset development industry workshops as has been the case elsewhere where we have run similar workshops. It will be noted (Table 3.7) that small sites can achieve higher land values than larger ones, suggesting that the economics of developing smaller sites could actually be more favourable than developing larger ones.
- 5.3 In theory therefore there is no real need to review in detail viability issues for small sites. However, for the sake of further illustration, and recognising that there may be special circumstances which impact on the viability of some types of smaller sites, it was felt helpful to review the development economics of some illustrative case studies.

Case study sites

- 5.4 In this section we review a number of case study developments which are examples of small sites for residential development. Figure 5.1 shows the types of schemes granted planning permission during the period 2006 to 2008, with the nature of the existing land use.

Figure 5.1 Incidence of planning permissions 2006-8



- 5.5 Figure 5.1 shows a high incidence of permission for schemes involving the development of one dwelling, mainly from land which is categorised as residential. Other significant types of schemes are the development of two, three, four, five and six dwellings on land classified as residential.
- 5.6 A significant number of permissions involve the demolition of one dwelling (we understand typically a detached house) and the redevelopment of the site with a relatively wide range in the number of new dwellings provided. We note that the replacement of an existing dwelling with a new dwelling is not a significant part of housing supply – we identified only six permissions (3% of the total) between 2006 and 2008 of this kind.
- 5.7 There are a number of schemes which do not fit neatly into any of these categories. We have called these ‘one-offs’. A third of these schemes involve the demolition of two or three dwellings and the development of a range of scheme sizes – from two through to eight.

5.8 On the basis of the data, we have selected five case studies for further investigation. These are shown in Table 5.1

Table 5.1 Case study sites

Case Study	Number of dwellings	Type of new development	Site (Ha)	Size	Resulting density
A	1	1 x 5 bed detached house		0.03	33
B	2	1 x 4 bed detached house; 1 x 5 bed detached house		0.05	40
C	4	2 x 2 bed flats; 2 x 2 bed terraces		0.05	80
D	8	1 and 2 bed flats (40%:60%)		0.08	100
E	14	1 and 2 bed flats (40%:60%)		0.12	120

5.9 For each case studies we have undertaken an analysis of residual values for three of our sub market areas (representing a lower value, mid value and high value sub market) and at levels of affordable housing from 0% to 60%. All the other assumptions used are the same as for the main analysis described in Chapter 3.

5.10 We have then benchmarked the residual values derived against various potential alternative/existing use values. One comparator is the value of a second hand dwelling which is a relevant comparison where the development includes the demolition of an existing dwelling. We have used the market value of a second hand 4 bed detached dwelling as the comparator for these cases. Our estimate of the 'average' market value of one 4 bed detached property for each of the three market value areas we have analysed is as follows:

Weymouth South - £390,000

West Coast - £330,000

Isle of Portland - £300,000

5.11 The range of sites coming forward in the Borough are very varied and include a number of commercial uses. It is very difficult to benchmark existing use values against these commercial sites as they are often valued as businesses, or are shops. However, around 25% are industrial, storage or utility uses. For these types of sites industrial land comparators are appropriate. The Valuation Office data suggests a value here of around £650,000 per hectare (July 2008).

Case study A – Develop one detached house on a 0.03 ha site

- 5.12 The first scenario assumes the development of one five bed detached house. The results, with the affordable housing impacts are shown in Table 5.2:

Table 5.2 Develop one detached house

	Percentage of Affordable Housing						
	0%	25%	30%	35%	40%	50%	60%
Weymouth South	£239,000	£181,000	£169,000	£158,000	£147,000	£123,000	£99,000
	£7.97	£6.03	£5.63	£5.27	£4.90	£4.10	£3.30
West Coast	£177,000	£131,000	£122,000	£112,000	£104,000	£85,000	£66,000
	£5.90	£4.37	£4.07	£3.73	£3.47	£2.83	£2.20
Isle of Portland	£144,000	£104,000	£97,000	£88,000	£80,000	£64,000	£48,000
	£4.80	£3.47	£3.23	£2.93	£2.67	£2.13	£1.60

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

- 5.13 Table 5.2 shows that the development of one new detached house will generate a very substantial residual value even with 40% or 50% affordable housing and across all market value areas. Where one dwelling of this type is built on, for instance, infill or backland sites, we would expect the uplift in site value will be very substantial. For sites taken from garden land, this will also be the case although a devaluation to the existing dwelling may also occur.
- 5.14 As indicated in Figure 5.1, a small minority of cases involve the replacement of an existing property with a new one. Given the average values we set out in 5.10 above, demolishing an existing dwelling and building a single new five bed detached dwelling and which makes a contribution to affordable housing, looks unlikely to be viable.
- 5.15 However, in the example used above, it can be seen that the residual value generated without any affordable housing is below the existing use value. This will partly explain the small number of examples of this development type found in the borough. It also implies that the circumstances in which a dwelling is brought forward for redevelopment will not be the 'average' situation for the market value area. The analysis implies that properties brought forward for redevelopment will be below average values and the new dwellings will be of a higher value than 'average' for new properties. This implies that there will be circumstances in which residential replacements can also contribute to affordable housing but each case will need to be analysed on its own merits.
- 5.16 Where the existing use value is industrial or similar, then a high proportion of affordable housing could be generated as even at 60% affordable housing, values across all the value areas are in excess of industrial land values.

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

- 5.17 The viability of developing two detached houses rather than one will depend on the site size and existing use value. There will be some instances where the relationship between existing use value and residual development value is favourable and some where this may not be the case. Table 5.3 shows residual values for the development of two detached houses.

Table 5.3 Develop two detached houses

	Percentage of Affordable Housing						
	0%	25%	30%	35%	40%	50%	60%
Weymouth South	£424,000	£424,000	£296,000	£275,000	£252,000	£211,000	£167,000
	£8.48	£8.48	£5.92	£5.50	£5.04	£4.22	£3.34
West Coast	£309,000	£223,000	£207,000	£190,000	£172,000	£138,000	£104,000
	£6.18	£4.46	£4.14	£3.80	£3.44	£2.76	£2.08
Isle of Portland	£247,000	£173,000	£158,000	£145,000	£129,000	£100,000	£70,000
	£2.94	£3.46	£3.16	£2.90	£2.58	£2.00	£1.40

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

- 5.18 The same arguments apply to Case Study 1 and 2. For infill, backland and garden plots, we believe that a significant uplift in residual value will occur and that a contribution to affordable housing would not make development unviable. However, as previously discussed, schemes involving the demolition of an existing residential dwelling may prove more challenging.
- 5.19 The analysis of recent permissions (Figure 5.1) indicates that the redevelopment of a site for 2 dwellings and which includes the demolition of an existing dwelling are small in number (4% of total permissions) and their ability to generate a s106 contribution (including affordable housing) will depend on site specific circumstances.

Case study C – Develop four dwellings (Two flats and two terrace properties) on a 0.05 ha site

- 5.20 . A number of schemes in the borough involve the development of four dwellings. We have modelled a relatively high density scheme which is a mix of flats and terrace properties. Increasing development density (as compared with case study A and B) reduces the potential residual value as Table 5.4 below shows.

Table 5.4 Develop two flats and two terraces

	Percentage of Affordable Housing						
	0%	25%	30%	35%	40%	50%	60%
Weymouth South	£416,000	£281,000	£253,000	£226,000	£199,000	£145,000	£91,000
	£8.32	£5.62	£5.06	£4.52	£3.98	£2.90	£1.82
West Coast	£293,000	£181,000	£183,000	£136,000	£114,000	£68,000	£23,000
	£5.86	£3.62	£3.66	£2.72	£2.28	£1.36	£0.46
Isle of Portland	£222,000	£128,000	£107,000	£87,000	£67,000	£27,000	- £13,000
	£4.56	£2.56	£2.14	£1.74	£1.34	£0.54	-£0.26

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

- 5.21 The pattern of residual values and comparison with other use values is very similar to Case study B but at lower levels.
- 5.22 But even with Case study C, equivalent residual values per hectare with 40% affordable housing of £3.98m in Weymouth South and £1.34m in Isle of Portland are generated. This is well in excess of the notional value of industrial use or the current use value of land, such as backland or residential gardens.
- 5.23 As before, though, where this type of development involves the demolition of an existing dwelling, residual values fall short of existing use values – even at 100% market housing. But again we comment that this type of development is relatively rare, suggesting that the market already recognises the poor development economics of this option.

Case study D – Development of 8 flats on a 0.08 ha site

- 5.24 We look here at an example of an 8 dwelling development which illustrates the kind of development economics which can be found with larger ‘small’ schemes (say 6 to 9 dwellings) at relatively high densities – 100 dph in this case. As Figure 5.1 indicated, such schemes often involve the demolition of a dwelling.

Table 5.5 Develop eight flats

	Percentage of Affordable Housing						
	0%	25%	30%	35%	40%	50%	60%
Weymouth South	£547,000	£341,000	£301,000	£259,000	£218,000	£137,000	£54,000
	£6.84	£4.26	£3.76	£3.24	£2.72	£1.31	£0.67
West Coast	£354,000	£185,000	£151,000	£118,000	£83,000	£16,000	£-51,000
	£4.42	£2.31	£1.88	£1.47	£1.04	£0.20	- £0.64
Isle of Portland	£247,000	£98,000	£69,000	£39,000	£8,000	£-50,000	£110,000
	£3.09	£1.22	£0.86	£0.49	£0.10	£-0.62	£-1.37

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

- 5.25 For this case study, residual values vary significantly across the market value areas. At the highest levels of affordable housing we modelled, they become negative in Isle of Portland and, to a lesser extent, in the West Coast market value area. In Weymouth South, RVs remain positive up to and including at 60% affordable housing but values are low at this level and on a par with the notional value of industrial land. However, at 40% affordable housing, in Weymouth South, the RV is around the land value for flats and maisonettes reported by the Valuation Office in July 2008.
- 5.26 But again – where the alternative use value is that of an existing 4 bed detached house (demolished to create the new development), scheme viability becomes more difficult. Only in the case of Weymouth South would an affordable housing contribution appear realistic and this would need to be at or around 25%.

Case study E – Development of fourteen flats on a 0.12 ha site

- 5.27 The final case study is a mix of 1 and 2 bed flats in a high density scheme at 120 dph

Table 5.6 Develop fourteen flats

	Percentage of Affordable Housing						
	0%	25%	30%	35%	40%	50%	60%
Weymouth South	£930,000	£578,000	£507,000	£437,000	£367,000	£225,000	£84,000
	£7.75	£4.82	£4.22	£3.64	£3.06	£1.87	£0.70
West Coast	£602,000	£311,000	£253,000	£195,000	£137,000	£21,000	-£95,000
	£5.02	£2.59	£2.11	£1.63	£1.14	£0.17	- £0.79
Isle of Portland	£422,000	£165,000	£113,000	£63,000	£12,000	-£92,000	-
	£3.51	£1.37	£0.94	£0.52	£0.10	-£0.77	-£1.62

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

- 5.28 Results for this Case study are similar to those for Case study D but the differences between the market value areas are magnified. Increasing density in the case studies reflects the adverse impacts on residual values of increasing the number of flats in a scheme which was found in the high level testing reported in chapter 3.
- 5.29 In Weymouth South, RVs have increased over Case study D and are now well in excess of industrial land values and July 2008 average residential values, up to relatively high levels of affordable housing – 40% or more. In the lower value areas, and particularly Isle of Portland, at the higher percentages of affordable housing, RVs fall away sharply (and are all but zero or negative at 40% affordable housing or above). However, at lower levels of affordable housing, RVs are slightly higher than for Case study D, re-emphasising the importance of site specific circumstances in determining RVs for smaller schemes.
- 5.30 Where this type of scheme involves the demolition of two dwellings, we think the economics will work against affordable housing provision except in the very strongest market value areas. As previously stated however, the development of alternative schemes, probably at lower density, may provide a stronger economic foundation for s106 contributions.

Commentary on the results

- 5.31 This section on case studies is primarily illustrative, looking at the economics with particular reference to smaller sites and including consideration of achieved residual values for different sites and how they compare with existing use values.

- 5.32 Sites with a low number of dwellings (smaller sites) are no less viable than sites with a larger number. They can be shown to generate higher land values than larger sites. This means that where existing use value is relatively low, as we think will be the case for example, with back-land, infill or garden land, the council should pursue a robust approach to obtaining affordable housing and other s106 contributions.
- 5.33 Schemes which involve the redevelopment of one dwelling with either one or two new dwellings will be more difficult to deliver with an affordable housing contribution because of the high existing use value. There will however be some circumstances, particularly in higher value areas where an affordable housing contribution will be viable and hence we do not feel that there is case for a threshold which, for example cuts in at say two or three dwellings.
- 5.34 The evidence indicates that there will be schemes with one or two dwellings which do not involve the demolition of an existing dwelling and it should be noted that these appear to be in the majority.
- 5.35 In the larger, higher density case studies (D and E) the adverse impact on RVs of flatted development in the lower value market areas is apparent. In the higher value market areas (e.g. Weymouth South) which we modelled, there is a very strong positive RV, even at higher levels of affordable housing. These findings re-emphasise the importance of the market value areas, combined with scheme types, in determining residual values and the comparison with different alternative use values (including their current use value).

6 MAIN FINDINGS AND CONCLUSIONS

Key findings

- 6.1 We identified five market value areas in Weymouth and Portland Borough. The market value areas are defined by prices by postcode sectors and are: Weymouth South, Overcombe/Preston, West Coast, Weymouth North and Isle of Portland.
- 6.2 There is significant variation in market values between the five areas. These differences in market values were reflected in differences in residual values (for the different scenarios tested). We found that residual value is dependent not only on location but also on the density adopted.
- 6.3 Higher density schemes of flats will, in higher priced areas, generally generate high residuals, but the opposite is the case in lower priced areas.
- 6.4 Residual values remain positive in most market value areas even at the higher percentages of affordable housing tested. We noted, for instance, that in the strongest sub market we modelled, Weymouth South, at 50 dph and 40% affordable housing (without grant) a residual value per hectare of £3.16m was found and at 50% affordable housing, the equivalent figure was £2.49 m.
- 6.5 However, in the weaker sub markets (most notably Isle of Portland but also Weymouth North to a lesser extent) residual values are much lower. 50 dph is likely to be the optimum density development scenario. For this density scenario, the residual value at 40% affordable housing was £1.40m per hectare in Isle of Portland and £1.68m in Weymouth North. At 30% affordable housing, the RV rose to £1.88m and £2.19m respectively. But even at the RVs generated at 40% affordable housing, the values exceed the value of employment land but would be down on the average value of residential land from July 2008 as shown by the Valuation Office (noting that this will be an over statement of current residential land values and, of course, was an average across Weymouth).
- 6.6 In terms of the spread of RVs across the five market value areas, there is some 'grouping' of RVs into three main market area bands – Weymouth South being the highest value area, Overcombe and West Coast being a mid value areas and Isle of Portland being a low value area. Weymouth North somewhat falls between West Coast and the Isle of Portland in terms of its economics. This grouping of market areas is not perfect – the values are fairly evenly spread across the five value areas but the three broad bands are reasonably coherent and display broadly similar results.
- 6.7 The introduction of grant significantly improves residual values across the Borough. It matters most in the lower value areas. In higher value areas, grant is less effective in raising land values as a proportion of residual values without grant.
- 6.8 The analysis shows that increasing the proportion of intermediate affordable housing from 30% to 50% (of the total affordable element) will provide residual values marginally less than those produced by schemes supported by grant. This applies in the mid market of West Coast. At the top ends of the market, increasing the percentage of Shared Ownership housing will be a more effective way of enhancing residual value relative to the grant option. In

the lower value areas, the opposite will be the case. It should be noted that these conclusions hold in so far that Shared Ownership is the intermediate product (as its value is largely based on open market values).

- 6.9 At the higher level of s106 contributions we tested, the impact on residual values is greatest in the weaker sub markets. However, even with a 50% affordable housing contribution, no grant available and a notional £15,000 planning obligation package per dwelling, in the weakest sub market, a positive residual value is still generated.
- 6.10 Viability is highly sensitive to the relationship between existing (or, where relevant, alternative) use value. A proportion of smaller sites being brought forward, involve the redevelopment of existing residential properties – either as a one for one replacement or at a higher density of development. Whilst such schemes can deliver affordable housing in some circumstances and especially in the higher value markets, it must be acknowledged that residual values, with even relatively low levels of affordable housing, will not be sufficiently above current use values to encourage land owners to bring the land forward. The use of grant could help in achieving higher levels of affordable housing on such sites.
- 6.11 But other types of small residential sites (down to one and two dwellings) which do not involve the demolition of an existing dwelling(s) are in the majority (63% of all instances of permissions) and which can be viable with relatively high levels of affordable housing. It will depend on the nature of the site and its location; for back land and garden land sites, as well as those in industrial use, there will be substantial uplift in value with affordable housing, even on very small sites.
- 6.12 Again, it is important to highlight that it is not the size of the site per se that causes difficulties with viability, but the nature of the existing or alternative use.
- 6.13 From a housing management perspective, we did not find any in- principle objections from housing associations to the on-site provision of affordable housing on small sites. There may be particular schemes where on-site provision is not the preferred option, but as a general rule, on-site provision of (very) small numbers of affordable homes is acceptable to housing associations.
- 6.14 The analysis of the supply of sites in the Borough highlighted the importance of small sites. Data on recent planning permissions indicates that around 59% of dwellings granted planning permission have been on sites of less than 15 dwellings – the national indicative minimum site size threshold. Very few permissions have been granted on sites between 9 and 15 dwellings but sites of less than 9 dwellings contributed around 57% of the site supply.
- 6.15 Where a financial payment in lieu of on-site provision of affordable housing (or commuted sum) is to be sought, it should be of “broadly equivalent value”. This approach is, on the evidence we have considered, a reasonable one to take in policy terms.
- 6.16 If this ‘equivalence’ principle is adopted, then the decision of the local authority to take a commuted sum will be based on the acceptability or

otherwise of on-site provision as a housing and spatial planning solution, not in response to viability issues.

- 6.17 In terms of current planning policy, the Council's Local Plan was adopted in 2005 and set out a target of an average of at least 30% affordable housing on schemes of over 9 units. Between 2005 and 2008, the average level of completions of affordable housing in the Borough was 30%. Average house prices since 2005 have increased by about 17% to 2008 (using quarter 3 values for both years)⁷. These figures are for all house prices and so provide a reasonable indication of changes in value, although may not be exactly the same as those for new homes and we acknowledge that prices may have fallen since Q3 of 2008.

Conclusions and policy options

- 6.18 There is no detailed government guidance setting out how targets should be assessed, based on an assessment of viability. In coming to our conclusions, we have reviewed the residual values generated for the different sub markets in the borough at the alternative levels of affordable housing tested and considered how these values compare with historic land values generally in the area.
- 6.19 From this review, we note the relative strength of the market across Weymouth and Portland and that affordable housing delivery has been meeting the current Local Plan targets. However, we also note the variations in residual values between different sub markets. This has led us to suggest four main options for setting affordable housing proportions for spatial planning policy purposes which would be a reasonable policy conclusion from the viability information presented. In coming to our conclusions we again note that viability is not the only consideration which the local authority will need to take into account in coming to a view on the policies it wishes to adopt and that it will need to consider the priority given to achieving affordable housing delivery to help address the very high level of need for affordable housing in the borough. The three options are:

A single percentage target across the whole borough and which is realistic in the lowest value market areas (and therefore readily achievable in the higher values areas). Given the range of residual values we found, we consider that a target of 30% would be a reasonable starting point and would be consistent with the current Local Plan. This percentage is influenced by the low values found in Isle of Portland. If this area is not going to make a significant contribution to housing generally in the Borough in the next plan period, a target of 35% would be more appropriate, (recognising that this will be more difficult to achieve in Isle of Portland – without flexibility on grant and/or tenure mix as well as on the percentage achieved on occasions).

A split target which achieves 30% in the Isle of Portland and 40% in Weymouth ;

⁷ CLG Live Table 581 Housing market: mean house prices based on Land Registry data. Q3 2005 value of £178,812 and Q3 2008 value of £209,571

A more refined split target with 30% in Isle of Portland and Weymouth North, 35% or 40% in West Coast and Overcombe and 40% or 45% in Weymouth South.

A target range (say 30% to 45%) across the borough with more detail on how this will be specified on a site type/area basis through later DPD (see example of Slough Core Strategy) and which could include targets for individual allocated based on site-specific analysis of viability.

- 6.20 A single percentage target across the borough is simple and leaves no room for doubt about the authority's requirements but it would mean that affordable housing which could be secured in some areas and sites remain viable, would be lost.
- 6.21 Commenting on the second and third options, the second option provides a very clear division of operation for the different target percentages (i.e. 30% and 40%). The third option is based on a more complex geography and, if it were pursued, it would be important that there can be a clear distinction between the areas where the alternative targets apply.
- 6.22 If the final option is followed, the affordable housing policy would need to be carefully drafted so that the range of proportions identified as the general target for the borough does not give rise to the argument that the lower figure in the range should be used as a starting point for individual sites/areas of the borough.
- 6.23 The above policy options and commentary is based on assumptions about the quality of development and that broadly Code for Sustainable Homes Level 3 was met.
- 6.24 Provided the costs for Lifetime Homes are those identified by CLG (i.e. about £500 per dwelling) the implications for scheme economics are marginal and should not affect decisions about the introduction of Lifetime Homes or target percentages for affordable housing policy.
- 6.25 However, achieving Code for Sustainable Homes Level 4 has much higher costs and implications for residual values. Proportionately, the impact of Code Level 4 would be felt more strongly in the weaker markets e.g. at 40% affordable housing and using the 50 dph scheme, in the Isle of Portland, residual values fall to £1.13m per hectare compared with £1.40m for our base scenario. In the higher value markets, the introduction of Code for Sustainable Homes level 4 may be more readily absorbed and continue to deliver residual values well in excess of £2m per hectare.
- 6.26 Given current market conditions, on balance, we consider that the introduction of Code Level 4 at this time would need to be accompanied by lower expectations for affordable housing delivery – perhaps a reduction of 5% on any target (although this is a matter of judgement and degree). Alternatively, the Council could give further thought to a series of tailored targets which still allowed a relatively high percentage of affordable housing to be sought in the higher value areas (see 3rd bullet point at para 6.19 above) whilst reducing the requirement in the lower value areas e.g. Weymouth North and the Isle of Portland.
- 6.27 Finally, were the Council to consider introducing both an enhanced planning obligations package and Code for Sustainable Homes Level 4 (and whose

combined effect we have costed very broadly at £20,000 per unit) then there would have to be a trade off with the level of affordable housing sought. It is difficult to be precise here but, re-working the 4 main options set out in para 6.19 above, we would suggest the following as a possible alternative policy option if the £20,000 per unit package were introduced.

A single percentage target across the whole borough with, say, 25% as a reasonable starting point but could be higher if the Isle of Portland is not going to make significant contribution to housing generally

A split target which achieves 25% in the Isle of Portland and 30% in Weymouth (the latter figure being heavily influenced by the relatively low values being achieved in Weymouth North and, to a lesser extent in West Coast) ;

A more refined split target with 25% in Isle of Portland and Weymouth North, 30% or 35% in West Coast and Overcombe and 35% or 40% in Weymouth South.

A target range (say 25% to 40%) across the borough with more detail on how this will be specified on a site type/area basis through later DPD (see example of Slough Core Strategy) and which could include targets for individual allocated based on site-specific analysis of viability.

Viability on individual sites

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

Thresholds

- 6.30 There is a very high need for affordable housing in Weymouth and Portland and it is appropriate for the council to consider a lower thresholds than the indicative national minimum (15 dwellings) set out in PPS3 and the threshold of 9 dwellings which is current policy. The supply of sites which has been coming through in recent years indicates that small sites make a major contribution to site supply and that a low threshold would capture a significant increase in affordable housing. Below 9 dwellings there is no particular

threshold which appears more appropriate than another and a threshold of 0 is not unrealistic.

- 6.31 However, it is apparent that the nature of the current land use plays a particular role in the development economics of very small sites. Some sites down to 1 dwelling will be equally capable of delivering affordable housing as much larger sites, particularly but not exclusively, in the higher value market areas, notably Weymouth South. But there will be a group of sites where the current use is as a dwelling(s) where this will not be the case and the authority will need to take a flexible view in seeking affordable housing from these sites – whichever market value area they are in. However, this group of sites is in the minority and the particular viability issues which arise with them should not, in our view, dictate policy – especially given the high level of need for affordable housing in the borough.
- 6.32 At below 2 or 3 dwellings (depending on the target percentage adopted) on-site provision is not mathematically practical and an equivalent commuted sum will need to be sought. For example, if the target percentage is 30%, on-site provision would only be practical in schemes of 4 dwellings or more and, if the target was 40%, in schemes of 3 dwellings or more.
- 6.33 To reflect these practical issues, one option which the council could consider is adopting a ‘two part’ threshold. The actual threshold for seeking affordable housing contributions would be set at zero but up to, for example, schemes of 4 dwellings, a commuted sum would be sought, with an on-site contribution above this threshold. For some small schemes, a mix of on-site provision and a commuted sum might be sought. For example:
- Site of 4 dwellings and target percentage of 40%
- 40% of 4 dwellings = 1.6 dwellings
- So, on-site contribution = 1 dwelling
- Financial contribution equivalent to 0.6 affordable dwellings
- 6.34 Alternatively, the council could consider adopting a threshold which excluded the smallest sites (say 1, 2 and 3 dwellings) but sought affordable housing on-site for all schemes above, for example, a threshold of 4 dwellings.

Commuted sums

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

RV 100% M = Residual value with 100% market housing
RV AH = Residual value with X% affordable housing (say 40%)
Equivalent commuted sum = RV 100% MV minus RV AH

- 6.36 Where commuted sums are collected, the council will need to have in place a strategy to ensure the money is spent effectively and in a timely manner. Options for spending will be a matter for the council to consider but could include supporting schemes which would otherwise not be viable, increasing

the amount of social rented housing in a scheme, increasing the proportion of family units in a scheme, seeking higher quality affordable housing (e.g. a higher level of the Code for Sustainable Homes).

The current housing market

- 6.37 At the time of preparing this report, the housing market has suffered a downturn as a result of the 'credit crunch'. Our analysis of housing market values is as recent as possible and relates to January 2009.
- 6.38 We think it likely however that developers will increasingly run an argument during 2009 and 2010 that the affordable housing and wider s106 policy is holding back sites. We believe that whilst the council should be flexible in its negotiations on specific sites, we do not think it should shift its position from the policy conclusions of this report since these will be more appropriate to the longer term trend in house prices which has been shown to be upwards. In other words, the policy position should be one which reflects the longer run and not simply the impacts of the credit crunch.
- 6.39 Currently it is difficult to see the direction of travel over the longer run. Historically, prices have risen by around 3% per annum above inflation. These sorts of rises, if emulated over the Plan period, should allow the authority to take a very robust view towards requiring affordable housing.

Appendix 1

AFFORDABLE HOUSING PROVISION AND DEVELOPER CONTRIBUTIONS IN DORSET

Notes of workshop held on Wednesday 19th November 2008 at Brownsword Hall , Poundbury, Dorchester.

Attendance:

Gill Smith	Dorset County Council
Lin Cousins	Three Dragons
Andrew Golland	Three Dragons
John Stobbart	Natural England
Philip Fry	C G Fry and sons Ltd
Nigel Jones	Humberts Commercial
Phil Easton	Western Design
Anna Puzey	Wyatt Homes
Jonathon Thornton	Knighstone Housing Association
John Loosemore	Betterment Properties Ltd
Simon Conibear	Duchy of Cornwall
Karyn Punchard	Weymouth and Portland Borough Council
Tim Davis	West Dorset District Council
Paul Harrington	Morgan Carey Architects
Paul Bedford	Persimmon Homes
Nathan Cronk	Raglan Housing Association
Ron Peak	Bournemouth Churches Housing Association.

Introduction

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

Small – large sized builders
RSLs with an interest in the area
Planning agents / architects
Natural England
Local Authority Housing and Planning officers

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

Issues in delivering affordable housing

Requirement for affordable housing in a mixed tenure scheme is now recognised as a 'given' in new (residential) development. But the affordable housing is part of a wider planning obligations bundle and the current viability study needs to recognise this.

The impact of planning obligations falls on the land owner; it is their willingness to accept a lower land value than they would otherwise receive which is important in maintaining land supply. Comment was made that this process amounts to a 'tax on land value'. Another comment from a landowner indicated that the current level of affordable housing for West Dorset (around 35%) was broadly acceptable – still providing a better return than B1 offices.

In the current market, developers may be looking to bring forward the affordable housing element of a scheme in advance of the original programme – to maintain momentum and cash flow. Local authorities are being asked to be flexible and allow for some re-packaging of affordable housing within a scheme to allow for this.

There was then a debate at the workshop about the meaning of viability. It was recognised that a negative residual value was not viable but judgement about the level of return required is critical and there are no specific ground-rules for this (other than comparison with alternative/existing use value).

Whilst it is important that there is a clear policy framework for negotiating affordable housing (and other obligations) there must also be flexibility for scheme negotiations around viability to take into account site circumstances and requirements. Gill Smith explained that the 5 authorities which had commissioned this study would be receiving a bespoke version of the 3 Dragons Toolkit but had yet to decide whether (and then how) to make this available to the development industry.

Other detailed points raised included:

CIL will be more transparent than the current system and this is to be welcomed;
The availability of grant can make a big difference to viability. But you often don't know whether grant will be available at Day 1 – this makes it very difficult for developer negotiating with a land owner;

How does any viability assessment take into account past development costs e.g. consultant costs for promotion of a scheme through an LDF process (noting that fees were said to be *much higher now than in recent years*).

Study methodology

Three Dragons explained the testing approach they will adopt. The testing will 'measure' viability by reference to residual scheme value (i.e. total scheme revenue less scheme costs) and then compare the residual value with the existing or alternative use value of a site. Viability testing is carried out using the Three Dragons toolkit – an Excel based model. The attached PowerPoint presentation illustrates the study approach, along with other key information provided at the workshop.

Workshop participants accepted this approach in principle but were particularly concerned to establish how out-turn residual values would be assessed. Specific comments from the workshop included:

Very important that the assumptions used by 3 Dragons are set out;

'The City' is looking for higher levels of developer return than they did before the credit crunch – 25% said to be current 'going rate' but could come back down as credit eases;

Housing associations have different viability benchmarks – they need to be able to clear the loan on affordable housing within 30 years;

Especially for brownfield sites, it is important to understand that landowners will expect to achieve significantly in excess of the existing use value. 3 Dragons acknowledged the point and notes that this was taken into account in their approach to viability testing;

A workshop participant offered their own view on the way to benchmark 'viability'. He argued that the difference between the headline value (or residual value) and the existing use value should be 'shared' equally between the local authority in the form of planning gain and the land owner (as uplift over the existing use value). This formula was put forward as a transparent approach which could be applied consistently. 3 Dragons agreed to consider its applicability as part of the viability testing exercise. The uplift should be at least 20% above the (Capital Gains) tax rate on the basis that previous attempts by government to tax planning gain had failed to bring forward land at that rate.

The potential impact of Greenfield infrastructure costs need to be taken into account. 3D suggested a range of £300,000 to £500,000 per hectare. One delegate suggested that these costs could be as high as £1 million per hectare.

Land owner and developer expectations

Greenfield land values were said to be around £1m per gross developable acre about 2 years ago – now looking at nearer £500k per acre.

Use of sub markets

Three Dragons explained that a key part of the study will involve the analysis of viability at a sub market level. Sub markets will be defined primarily by house prices. The PowerPoint presentation showed the proposed sub markets for use in the study and indicative new dwelling prices for different dwelling types in each sub market. House prices have been derived from Land Registry data over the past 3 years, indexed to today's prices with a premium built in for new build.

The principle of identifying sub markets for viability testing was initially questioned for West Dorset (there was no equivalent debate for Weymouth and Portland). It was argued that the West Dorset market is actually a single market with a number of hotspots. Other participants noted that if the study were to identify separate targets for different sub markets within a district, the logic for this would have to be set out and the evidence for the approach be very clear.

Other specific comments raised on this issue included:

There is currently no premium for new build over second hand prices;

The Poundbury values appear about right.

Three Dragons would ask for further feedback on the suggested sub markets and values set out in the attached PowerPoint presentation. Comments on the Weymouth and Portland sub markets will be particularly welcome.

Small sites

Workshop agreed that sites under 10 dwellings should be classified as small sites for this discussion.

The workshop did not raise any general issues about small sites which would suggest that, systematically, they generate either a lower or higher residual value than housing development on larger sites.

However, viability issues can become a problem with small sites where the previous use is residential e.g. demolish 1 detached property and provide a block of 4 flats. The existing use value can be quite high and residual value of the new scheme is not sufficient to encourage the land owner to bring forward the site.

Housing associations prefer to have affordable dwellings in larger groups (say 10 to 15 dwellings) but will take on affordable housing in small groups (say at 1 or 2 units). But factors e.g. location and layout need to be taken into account when associations consider taking on very small groups of affordable units.

Commuted sums

Commuted sums are not a preferred option in West Dorset. It is very much about obtaining land for affordable housing units.

Density and development mix.

Appropriate densities and development mixes were discussed for the purposes of policy testing. The main feedback was to take flats out of the 30 dph scenario and to reduce detached housing from the 45 dph scenario. The proposed framework is set out in the attached Powerpoint presentation and reflects feedback from all three workshops held..

Other Issues

Following is a list of other issues raised at the workshop – either through the general debate or in reply to request from Three Dragons for any final comments:

A developer view – ‘pepper potting’ of affordable units in mixed tenure schemes ‘has gone too far’ – and development practicalities are being ignored;

35% affordable housing (the current West Dorset policy) is the right sort of level. 50% would be too high a percentage;

Do housing associations want the smaller units in a scheme? There is a danger at higher percentages of affordable housing that all units of a particular type (e.g. all the smaller units) will get taken up by the affordable sector;

Local housing allowance is £105 which is higher than the capped rent of £90.

LC thanked participants and noted that the notes of the meeting would be sent out to all.

Appendix 2 Three Dragons model: Method statement

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

The Toolkit compares the potential revenue from a site with the potential costs of development before a payment for land is made. In estimating the potential revenue, the income from selling dwellings in the market and the income from producing specific forms of affordable housing are considered. The estimates involve (1) assumptions about how the development process and the subsidy system operate and (2) assumptions about the values for specific inputs such as house prices and building costs. These assumptions are made explicit in the guidance notes. If the user has reason to believe that reality in specific cases differs from the assumptions used, the user may either take account of this in interpreting the results or may use different assumptions.

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

Key data assumptions

Market areas and prices:

WEYMOUTH & PORTLAND											
Sub Market	Detached			Semis			Terraces		Flats		
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed
Weymouth South	£480,000	£435,000	£370,000	£310,000	£280,000	£255,000	£275,000	£250,000	£270,000	£235,000	£150,000
Overcombe; Preston	£430,000	£390,000	£330,000	£280,000	£250,000	£225,000	£245,000	£220,000	£240,000	£210,000	£135,000
West Coast	£405,000	£370,000	£315,000	£260,000	£240,000	£215,000	£235,000	£210,000	£230,000	£200,000	£130,000
Weymouth North	£385,000	£350,000	£300,000	£250,000	£225,000	£205,000	£220,000	£200,000	£215,000	£190,000	£120,000
Isle of Portland	£370,000	£335,000	£285,000	£240,000	£215,000	£195,000	£210,000	£190,000	£205,000	£180,000	£120,000

The development mixes were as follows:

30 dph: including 10% 2 bed terraces; 20% 3 bed terraces; 15% 3 bed semis; 30% 3 bed detached; 25% 4 bed detached;

40 dph: including 10% 2 bed flats; 10% 2 bed terraces; 15% 3 bed terraces; 30% 3 bed semis; 20% 3 bed detached; 15% 4 bed detached;

50 dph: including 5% 1 bed flats; 10% 2 bed flats; 10% 2 bed terraces; 15% 3 bed terraces; 35% 3 bed semis; 15% 3 bed detached; 10% 4 bed detached;

90 dph: including 20% 1 bed flats; 60% 2 bed flats; 20% 2 bed terraces

100 dph: including 30% 1 bed flats; 70% 2 bed flats.

120 dph: including 40% 1 bed flats; 60% 2 bed flats.

Affordable housing targets:

25%;

30%;

35%;

40%;

50%;

60%

Affordable housing split: 70% to 30% Social Rent to Shared Ownership

Development costs

Based on RICS BCIS database:

Costs as set out below:

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

Other Development Costs

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

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

No abnormals assumed

Typical unit sizes adopted (m²):

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

Other Affordable Housing Factors:

Social rents

	Weekly Rent
1 Bed Flat	62
2 Bed Flat	72
2 Bed Terrace	74
3 Bed Terrace	80
3 Bed Semi	84
3 Bed Detached	86
4 Bed Detached	92

Gross to net factors (Affordable housing revenue)

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	User Values	
Costs per annum	Rental Factor	2.75%		of share
	Capitalisation		6.00%	

Intermediate Rent		ToolKit Values	User 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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Appendix 3 Results – Residual values in £s million per hectare (no grant).

	Percentage of Affordable Housing						
	0	25	30	35	40	50	60
30 Dph							
Weymouth South	£4.12	£3.01	£2.78	£2.56	£2.34	£1.89	£1.45
Overcombe	£3.31	£2.35	£2.15	£1.96	£1.77	£1.38	£1.00
West Coast	£3.00	£2.10	£1.91	£1.73	£1.55	£1.19	£0.83
Weymouth North	£2.65	£1.81	£1.64	£1.48	£1.31	£0.97	£0.64
Isle of Portland	£2.37	£1.58	£1.43	£1.27	£1.11	£0.80	£0.48
40 Dph							
Weymouth South	£5.00	£3.54	£3.24	£2.95	£2.66	£2.07	£1.49
Overcombe	£4.01	£2.78	£2.54	£2.30	£2.05	£1.57	£1.08
West Coast	£3.64	£2.48	£2.26	£2.03	£1.88	£1.34	£0.87
Weymouth North	£3.20	£2.13	£1.92	£1.70	£1.49	£1.18	£0.64
Isle of Portland	£2.85	£1.85	£1.65	£1.45	£1.25	£0.85	£0.45
50 Dph							
Weymouth South	£5.85	£4.17	£3.83	£3.50	£3.16	£2.49	£1.82
Overcombe	£4.68	£3.22	£2.93	£2.64	£2.34	£1.79	£1.17
West Coast	£4.26	£2.87	£2.59	£2.32	£2.04	£1.49	£0.94
Weymouth North	£3.73	£2.45	£2.19	£1.94	£1.68	£1.16	£0.65
Isle of Portland	£3.33	£2.12	£1.88	£1.64	£1.40	£0.92	£0.44
90 Dph							
Weymouth South	£7.15	£4.58	£4.07	£3.56	£3.04	£2.02	£0.99
Overcombe	£5.56	£3.29	£2.84	£2.39	£1.93	£1.03	£0.12
West Coast	£4.96	£2.80	£2.37	£1.51	£0.65	£0.47	-£0.23
Weymouth North	£4.29	£2.27	£1.86	£1.46	£1.05	£0.24	-£0.57
Isle of Portland	£3.76	£1.84	£1.45	£1.18	£0.68	-£0.09	-£0.86
100 Dph							
Weymouth South	£7.08	£4.36	£3.81	£3.29	£2.71	£1.62	£0.53
Overcombe	£5.46	£3.03	£2.55	£2.06	£1.58	£0.61	-£0.36
West Coast	£4.83	£2.53	£2.06	£1.59	£1.14	£0.22	-£0.70
Weymouth North	£4.09	£1.93	£1.49	£1.05	£0.62	-£0.24	-£1.11
Isle of Portland	£3.58	£1.50	£1.09	£0.65	£0.26	-£0.57	-£1.40
120 Dph							
Weymouth South	£8.00	£4.88	£4.26	£3.64	£3.01	£1.76	£0.51
Overcombe	£6.14	£3.37	£2.82	£2.27	£1.71	£0.60	-£0.50
West Coast	£5.44	£2.80	£2.27	£1.74	£1.22	£0.16	-£0.89
Weymouth North	£4.55	£2.08	£1.59	£1.09	£0.60	-£0.39	-£1.38
Isle of Portland	£4.47	£1.65	£1.18	£0.70	£0.23	-£0.72	-£1.67