

Affordable Housing Development Viability Study

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Brighton and Hove City Council



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EXECUTIVE SUMMARY

Background (Section 1)

- Brighton and Hove City Council's draft local plan policies included an Affordable Housing policy with a trigger site size threshold level of 10 units, and an affordable housing proportion of at least 40%. These are the Council's preferred targets, given the level of affordable housing need in the City, the nature of land supply and a buoyant housing market (see also paragraph 4.1.8).
- In contrast, the Local Plan Inquiry Inspector made recommendations of a threshold no lower than 15 units coupled with a maximum proportion of 30% affordable housing.
- Adams Integra were instructed by the Council to compare the likely effects of policy, on site viability, at these two levels. This was a general and relative exercise, but nevertheless enables views to be formed on the likely impacts of these different policy scenarios.

The Exercise (Section 2)

- Developer type appraisals were carried out across a range of notional sites of 10 and 15 units (based on flatted developments) in sample areas of low, medium and high house price areas of the City (sections 2.3 and 2.4). Development viability was tested by fixing assumptions (see sections 2.5 2.7) and then comparing the outcomes on a relative basis with 30 and 40% affordable housing provided on site.
- Key considerations taken into account in the assessment of viability are developer's profit and landowner's sale price. If profit levels fall below a certain point then developers may be unwilling to take the risk of developing a site or unable to secure funding. Equally, if the price offered by a developer to a landowner for a site is too low, the landowner may decide not to sell and instead continue with, or pursue, an existing or higher value land use (paragraph 2.1.4).
- A requirement for affordable housing on a site will inevitably reduce the overall sales revenue a developer can expect to receive (compared to a site with no affordable housing). The 'offset' will either be taken up in a reduced development profit, lower land price or a combination of the two (paragraph 2.1.5).

The Key Outcomes and Conclusions (Sections 3 and 4)

 Development viability will be affected to some degree by varying the percentage proportions of affordable housing required on sites and the site size threshold at which the policy will be 'triggered'. Given that developers profit expectations are generally fixed at a minimum margin, land values will be the factor most affected by the introduction of affordable housing policy. Reductions in land value must, however, be looked at from a potential 'starting point' of a 30% affordable housing policy.

- Across the example areas and site sizes tested, an average of around 9% land value is lost where our appraisals assume a transfer of 40% one-bedroom affordable housing units compared to a transfer of 30%. Where a mix of one and two bedroom units are transferred, the average reduction becomes almost 16% (paragraph 4.1.2).
- Our overall impression is that there may well be scope to support a lower trigger threshold and higher proportion of affordable housing than recommended by the Local Plan Inquiry Inspector. Many of the smaller sites should remain viable, in financial terms at least, with a proportion of affordable housing of up to 40% being provided (paragraphs 4.1.8 and 4.1.9).
- However, there will be some instances where sites will not remain viable and/or where, for a number of other reasons, a reduced proportion of affordable housing of less than 40% will ultimately be negotiated. Such reasons might include specific locational or design issues, management practicalities and the like. The detailed approach adopted would need to hinge around negotiation, in accordance with Government guidance, with the clear target of "up to 40%" in the background should the Council be minded to adhere to its proposal (4.1.10).
- Allied to this may be the need to consider a range of affordable housing tenures.
 The study is tenure neutral owing to the closeness of Total Cost Indicator based
 figures for completed affordable units provided by developers regardless of
 tenure. However in terms of the more practical site delivery issues, the ever
 changing public funding climate and market 'perceptions' of affordable housing,
 consideration of a range of tenure types, depending on site specifics, might be
 helpful (paragraphs 4.1.14 and 4.1.15).
- We would also advise adoption of open door working practices with regard to discussion of sites at the earliest possible stage, and working closely with the landowners and developers.

1. INTRODUCTION

1.1 Background

1.1.1 Brighton and Hove City Council's proposed planning policy (policy H02 of the Brighton and Hove Local Plan, Second Deposit) on affordable housing states:

"Planning permission for proposals for residential development comprising 10 dwellings or more, on sites that have not been identified for housing prior to submission of a planning application, will only be permitted where at least 40% of the total number of dwellings are affordable."

- 1.1.2 A Public Inquiry into the local plan was held (2002-2003) and the Inspector's report has recommended that the proposed threshold be raised to 15 units and the proportion lowered to a maximum of 30% (February 2004).
- 1.1.3 For this reason Brighton and Hove City Council (Planning Strategy and Projects) have instructed Adams Integra Limited to carry out a study on the likely impact of affordable housing on the viability of relatively small private residential development sites across the City.
- 1.1.4 The aim of the study is to determine whether an increased proportion and lowered threshold will significantly reduce the viability of development on smaller residential sites and whether profitable development can be maintained without a reduction in small sites coming forward for development.

2. METHODOLOGY AND ASSUMPTIONS

2.1 Introduction

- 2.1.1 This study investigates the impact of varying the proportion of affordable housing (at variable thresholds) on the market viability of relatively small residential development sites in the City of Brighton and Hove.
- 2.1.2 This report concentrates on development sites of 10 and 15 units only, as outlined in the specification brief from Brighton and Hove City Council (Planning Strategy and Projects). The schemes are not in themselves actual developments but reflect scenarios that best match the policy requirements of the Council in terms of this study. However, research into local property prices in each area was undertaken to produce realistic sales and therefore development values for each appraisal model (see Model Areas below).
- 2.1.3 In considering the options for providing affordable housing on small housing sites it has first been necessary to determine what effect reduced thresholds and increased proportions may have on the value of a potential development site. This has been carried out through the use of appraisal modelling on three model scenario areas outlined by Brighton and Hove City Council in their specification.
- 2.1.4 Developer's profit and landowner's sale price are key considerations that must be taken into account if residential development is to be undertaken. If profit levels fall below a certain level then developers will not take the risk of developing a site nor will funders lend them the finance to develop. Equally, if the price offered by a developer to a landowner for a site is too low, the landowner may not sell and instead continue with, or pursue, an existing or higher value use.
- 2.1.5 The requirement to place a proportion of affordable housing on a site will inevitably reduce the sales revenue that a developer can reasonably expect to receive. As this reduction will not be accompanied by lower construction costs, the offset must be taken up in either a reduced development profit, lower land price or a combination of the two.
- 2.1.6 Assuming that a developer will require a minimum fixed profit margin on any given site to balance risk and obtain funding, beyond a certain point it is therefore the land value that will be affected by the introduction of affordable housing, provided the developer's profit expectations are not excessive.
- 2.1.7 To establish the potential effect of affordable housing on the supply and development of relatively small housing sites, it is necessary to compare a site that either includes an affordable housing element and one that does not (or by comparing the viability of a site that falls under the Inspector's proposed policy (i.e. provides a lower proportion of affordable housing at a higher threshold) with one which will be subject to the proposed policy within the Local Plan Second Deposit. For this study both have been tested.

2.2 Approximate Residual Land Value

- 2.2.1 In order to determine the impact of proposed affordable housing policy on a range of site types and locations it is necessary to determine a common indicator.
- 2.2.2 In normal circumstances the developer is aiming to secure a predetermined level of profit. From a developer's point of view and assuming a conclusion is reached that a site is viable for development, an appraisal is carried out to discover what sum a developer can afford to pay for the site.
- 2.2.3 The most effective way of checking site viability is via a developer type residual land value model. We have developed our own spreadsheet model for this purpose. In doing so we have made what we feel are reasonable assumptions but it must be noted that individual developers will have their own variety of approaches, and a developer might also apply a different approach from one site to another. A simplified example is shown below in Figure 1.

Figure 1: Simplified Example of Gross Development Value Calculation for illustration purposes only.

Total Sales Value	
Number of Units =	10
Sales Value =	£120,000
Gross Sales (Development) Value = A	£1,200,000
Development Costs (build costs, fees, etc.) = B	£575,000
Development Profit (@15% of Sales Value) = C	£180,000
Land Purchase Costs & Planning Infrastructure (not including affordable housing element) = D	£75,000
Land Residual (Gross Sales Value - Development Costs - Profit - Land Purchase and Planning Gain) = E	
A - (B + C + D) = E	£370,000

- 2.2.4 This general method, however, reflects one of the main ways of how land value tends to be assessed in the market place, and checked relative to sales values and development costs. Through discussion with developers we have been able to verify our thoughts on components of the model and output land values.
- 2.2.5 The model used for analysis in this instance uses a calculation that provides an approximate residual land value, after taking into account assumed normal costs for site development (nb: other than broadly estimated un-complicated site clearance costs, no allowances have been made for abnormal site costs). Added

on to this is the inclusion of an affordable housing element, whereby the developer receives a payment for a number of completed units based on predetermined calculation (discussed later), but that is not at a level comparable with open market values. The result then shows the change in approximate land value or change as a percentage of approximate gross development value. It should be noted that this is based on notional sites and is a relative exercise only - to determine the probable effect of revised policy. Therefore not too much weight should be attached to the actual values arrived at - the changes in results as the affordable housing criteria alter are the key outcomes.

- 2.2.6 Gross development value ("GDV") has been taken as the amount the developer ultimately receives on completion or sale of the scheme whether through open market sales alone or a combination of those and the receipt from a RSL for completed affordable housing units. Thus the developer's profit in each case relates to that scheme specific sum rather than to a base level of GDV that assumes no affordable housing. It therefore assumes that the developer has appraised the site and secured land in the knowledge of and reflecting policy that will apply. This can be regarded as a reasonable approach given national policy guidance on the provision of affordable housing. As policy alters, there will tend to be a hiatus in supply while previous land deals and planning consents come forward (some of those may not be able to support latest policy), but we have to envisage a period of adjustment leading to sites being appraised differently. The approach we suggest of adopting clear targets, but then being prepared to negotiate in light of site specifics, should cater for the range of scenarios that the Council will need to deal with.
- 2.2.7 Ultimately, land value is a product of a series of calculations that provides a residual valuation based on what specific form of development a site can accommodate; and its development costs. While the market uses a variety of approaches to appraise sites and schemes, this sort of approach is necessary to understand how the value/cost relationship looks.
- 2.2.8 Adams Integra's experience of working with a range of developers leads us to suggest that they would need to seek a fixed profit of at least 15% and probably more (depending on a number of other factors profit expectations could be up to 25%) of gross development value. Only if the projections reveal this profit margin (as a minimum) would they pursue a site.
- 2.2.9 This model uses a developer's profit fixed at 15% of gross development value, which is at the lower end of the acceptable profit range in normal circumstances. Some developers will look at alternative profit criteria, for example a higher percentage (perhaps up to 30%) of capital employed. We felt it appropriate to appraise the scenarios at the margins.

2.3 Model Areas and Unit Values

- 2.3.1 Brighton and Hove City Council (Planning Strategy and Projects) identified the following typical example areas on which to base the model scenarios:
 - Lower Value Areas for example Lewes Road (nr Bus Depot) area
 - Medium Value Areas for example North Road/North Laine area
 - High Value Areas for example Somerhill Road (Hove) area

- 2.3.2 The purpose behind the brief here was to ensure that the study considered the likely outcomes across a sample range of values representative of the spectrum likely to be encountered City-wide, in order to determine the impact of affordable housing policy on sites in such different value locations.
- 2.3.3 In carrying out this study, Adams Integra have reviewed the asking and subject to contract sale prices of over 250 one and two-bed flats within the specified example areas to enable us to provide reasonable average values for each area. Property prices for each of the areas modelled were assembled by utilising internet property search engines. The tables and graphs relating to this exercise are shown in Appendix II.

2.4 Model Scenarios

- 2.4.1 The Brighton and Hove City Council specification requires a range of scenarios to be tested as outlined below:
 - a) a housing scheme of 10 units; 4 of which are to be 'affordable homes';
 - b) a housing scheme of 10 units; 3 of which are to be 'affordable homes';
 - c) a housing scheme of 15 units; 6 of which are to be 'affordable homes';
 - d) a housing scheme of 15 units; 4 of which are to be 'affordable homes'.
- 2.4.2 These scenarios reflect the differing policy proposals that the Council is seeking to analyse in terms of the impact on site viability. 10 units represents the Council's proposed policy threshold while 15 is the Inspector's recommended level. 6/4 affordable units (for 15 and 10 unit thresholds respectively) represents the Council's proposed proportion of 40% (compared with the Inspector's recommended 30%).

2.5 Unit Types, Mix and Size

- 2.5.1 The dwelling types envisaged for this exercise are purpose built blocks of flats. In our experience, by the time existing buildings are repaired and/or altered and services/access etc. issues resolved, new build and conversion costs are often comparable. We have to make assumptions and, as pointed out elsewhere, it is not possible on this basis to reflect site specific circumstances. Therefore we have not modelled a conversion scenario separately.
- 2.5.2 For 10 unit sites, the development envisaged consists of one block on two storeys; 3 two-bed units and 2 one-bed units on the ground floor and repeated on the first floor. In practice this might of course be compressed over 3 or more floors; however we would usually expect such a small development to be economical on costs as far as common parts and lifts are concerned. So, our notional 10 unit scheme contains no lift for example.
- 2.5.3 For the 15 unit sites, the envisaged development comprises flats on three storeys in the same format as above but with an extra storey of 3 two-bed units and 2 one-bed units on the second floor, giving a total of nine 2-bed and six 1-bed flats.

- For the larger schemes we have allowed for the inclusion of a lift in the build costs (see Other Assumptions below). This will not always be the case of course.
- 2.5.4 The flat sizes used in the modelling are 51 sq m for one-bed and 61 sq m for two-bed flats. We have assumed a bias towards 2 bed flats. In practice (on a smaller site in particular) a developer might seek a totally uniform scheme. In terms of design and cost the floor plates, service positions etc. need to marry up reasonably.
- 2.5.5 Two-bed units would tend to be more popular on the market generally, with a wider market and increased sales figures tending to encourage developers towards those in many areas. In practice there would also be a tendency towards developers needing to maintain the higher value units within a scheme for private sales whilst thinking about the relationship of the private units to the affordable units in terms of location. These are all factors which in practice (and dependent on the site location and characteristics) will affect the unit and tenure mix.

2.6 Affordable Housing Unit Transfer (to RSL) – Method of Payment Calculation and Type of Unit Transferred

- 2.6.1 Brighton and Hove City Council supports the provision of affordable housing on Section 106 sites at 90% of the Housing Corporation's Total Cost Indicator (TCI) through a Registered Social Landlord (RSL).
- 2.6.2 Within the models used for each of the scenarios listed above we have assumed that the affordable housing element of each scheme comprises general needs rented accommodation. This is for the TCI calculation (ie the basis of the sum that the developer will receive from the RSL for completed affordable units). In practice however the TCI based calculation is only marginally different for shared ownership for example. So the appraisals are tenure neutral as per the Council's brief.
- 2.6.3 In reality each scheme will be different as it could be argued that for low cost ownership forms of tenure provided on site, the market value of the remaining private units might not be affected as much as by affordable rented tenure adjacent. As above, we have not reflected such subtleties.
- 2.6.4 These issues will again depend on the site, need, design and other factors; however as a rule and for simplicity (bearing in mind this is a relative exercise), we have assumed that the generally accepted "premium" (price addition) of say 10% for new build property over most older property (not in higher value areas listed buildings, expensive conversions etc but compared with 20+ year old purpose built flats, and sometimes poor conversions) will be cancelled out by the on site affordable housing.
- 2.6.5 This effect on values stems from a perception of affordable housing which we have to acknowledge exists and particularly affects smaller sites in many purchasers' and therefore developers' thinking.
- 2.6.6 As this is a relative exercise we have not adjusted the sales prices from the data collected when looking at the "no affordable housing" approximate land values,

as modelling that scenario was not a part of the brief. We have considered them purely in the background to help provide a general feel for how values might look where no affordable units are provided, and therefore for the impact of affordable housing policy. In any event, site and property specifics would be different every time.

- 2.6.7 To calculate the value of the units transferred to an RSL, we have carried out an appraisal using SDS Proval software to determine a 100% TCI figure for the city of Brighton & Hove. We have then taken 90% (less 12% RSL development oncosts) of this figure as the amount to be paid to the developer for completed units. This was done on an Acquisition and Works basis (envisaging RSL involvement from the outset) with fairly standard "Construction Clients' Charter" and "Sustainability" supplementary multipliers.
- 2.6.8 100% of TCI for one and two-bed flats is £112,769 and £128,555 respectively. Thus 90% of TCI minus 12% on-costs gives £89,313 for a one-bed unit and £101,815 for a two-bed unit.
- 2.6.9 The modelling has been based on two differing unit transfer scenarios. The first assumes that the affordable housing element will comprise entirely one-bed units (i.e. on a 15 unit scheme with 40% affordable housing, the six affordable units will all be one-bed flats). The second scenario assumes that one and two-bed units will be transferred in equal numbers where mathematically and physically possible (i.e. on a 15 unit scheme with 40% affordable housing, the six affordable units will comprise of three 1-bed flats and three 2-bed flats). We have assumed this as usually housing need requires a balance where possible.
- 2.6.10 Where there is an odd number of affordable units, the assumption has been made that more 1-bed units will be transferred than 2-bed, owing to likely market driven factors as in 2.5.4 and 2.5.5 above.

2.7 Other Assumptions

- 2.7.1 The appraisal model includes other variables such as fees, land buying costs, finance, agency costs and planning infrastructure provision that are all taken into account when calculating an approximate land residual value.
- 2.7.2 These figures in some instances are factors of other elements of the appraisal and therefore vary by site size and type. In practice each site and developer would vary and it is appreciated that the figures used here will not always be appropriate, but this enables a comparison to be drawn across sites on a 'like for like' basis.
- 2.7.3 The percentages and values assumed for the purposes of this exercise are listed below and are the result of Adams Integra experience and discussions with developers:
 - Build Costs (10 Unit Schemes) £1100 / sq m
 Base costs are likely to be high particularly for small flatted schemes where sites are small and often difficult to work on (storage, craning)

etc), and where the sub-contractor and labour market is relatively stretched owing to level of demand.

Build Costs (15 Unit Schemes) – £1141 / sq m
 An allowance for inclusion of a lift has been added to the build cost above.
 Assuming £35,000 for a lift, this amount has been divided by the total floor area of the scheme to provide an approximate build cost per square metre.

Typical scheme specific additions to these are:

• Demolition/Site Clearance – £25,000 & £35,000 for 10 unit and 15 unit schemes respectively. It has been assumed that development is likely to take place on brownfield/infill sites in Brighton and Hove with at least a degree of site clearance. A cost has thus been added to each appraisal to take this into account. These values are based on our best estimates for an uncomplicated small site clearance with no contamination or deleterious materials. Please note that we have made no allowance for Party Wall complications or works in this appraisal.

Architect Fees 3.5% of build costs

Engineer Fees 1.5% of build costs

Contingencies 5.0% of build costs

Insurances
 2.5% of build costs

- Selling Agents Fees 1.5% of Estimated Gross Sales Value
- Legal Fees on Sale £1000 per unit
- Finance 6.0% APR on above costs over 26 weeks (assumes rapid build programme and sales off plan as will probably be the case in Brighton)
- Land Survey Costs £3000 per site
- Legal Fees on Land Purchase 0.5% of land value (this will often produce a low figure (when looking at very small or low value sites) but only make a minimal difference to outcome.
- Planning Application costs £300 per unit
- Infrastructure Payments £2,000 per unit (applied in all cases, regardless of site specifics). Brighton and Hove City Council negotiates infrastructure payments on each site individually and for items such as outdoor recreation space provision negotiations are based on probable occupancy rates. Following discussions with Brighton & Hove Council it was decided that a maximum figure of £2,000 per unit be assumed. The Council consider this figure generous compared to what has actually been achieved on sites to date.

- Finance related to land purchase 6.0% APR on land survey, planning costs, legal fees on land purchase and residual land value over build time plus 26 weeks. No finance arrangement fee has been included for the purposes of this exercise as we are appraising small schemes. As with much of this exercise, this is a snapshot as it appears that rates are moving upwards and over time we would need to see how added costs balanced with what sales values were doing.
- 2.7.4 As this is a relative exercise aimed at determining the likely effect of the Council's proposed policy position compared with the Inspector's, the most important factor is consistency between assumptions used for modelling both scenarios. As we point out, specific assumptions and values for our notional schemes may not be appropriate for any particular actual development.

3. RESULTS ANALYSIS

3.1 Introduction

- 3.1.1 The results of our modelling are shown in Appendix I. Tables 1 and 2 show the reduction in residual land value as a consequence of lowering thresholds and increasing the proportion of affordable housing required from the Inspector's proposed levels to those being proposed by the Council. Table 1 is modelled on the basis of transferring completed affordable 1-bed units only to an RSL. Table 2 shows the results of transferring a mixture of 1 and 2-bed affordable units.
- 3.1.2 The results have also been graphically represented in a series of graphs (1 to 8) which are sourced from Tables 1 and 2. Graphs 1 to 4 reflect the transfer of only 1-bed affordable units. Graph 1 shows the reduction in approximate land residual value across all model areas and across all policy scenarios (including a zero affordable housing scenario for comparison). Graph 2 just shows the percentage reduction in approximate land residual value resulting from a shift from 30% policy to a 40% policy. This is one of the clearest ways of looking at the impact. Graphs 3 and 4 represent the approximate land residual values in monetary and percentage of gross development value terms respectively.
- 3.1.3 Graphs 5 to 8 show the same information as graphs 1-4 but are on the basis of a mixture of 1 and 2-bed affordable units being transferred to an RSL.
- 3.2 Difference in Land Residual Value (Between Inspector's Recommendation and Council's Proposed Local Plan Policy) Tables 1 and 2, Column 10
- 3.2.1 Analysis of the results indicates that, as expected, increasing the affordable housing requirement on the scenarios modelled leads to a reduction in land residual value, regardless of which mix of units are transferred.
- 3.2.2 A comparison of the reduction in land residual values in Table 1 (column 10) resulting from a proposed policy of 40% affordable housing on sites with 10 or more units indicates a reduction of between 6.5% and 8.0 % in the lower to higher value areas respectively.
- 3.2.3 The same comparison but looking at Table 2 (mix of units transferred) shows that the impact is greater. In this instance the reduction in land residual remains fairly constant - between 15.0% for the lower value areas and 15.5% for the higher value areas.
- 3.2.4 These figures show that there are varying differences across the range of value areas modelled in terms of reduction in residual land value resulting from a policy of 40% affordable housing content compared with 30%.
- 3.2.5 The appraisals look very different depending on the type of units transferred for affordable housing. Transferring a mix of units reduces the developer's GDV by more than transferring only 1-bed units. This is due to a combination of the TCI calculations not increasing proportionally with the value of the different unit types and partially by the loss of sales revenue from the higher value units. The

payment to a developer for a completed 2-bed unit is not as high, proportionally, as for a 1-bed unit, in relation to sales value. This is important to note as it reinforces the need to consider schemes on a site by site basis.

3.3 Land Residual (as a percentage of GDV) - Tables 1 and 2, Column 8

- 3.3.1 While 3.2 above highlights the impact of affordable housing on site viability by looking at the overall reduction in land residual value, it is also relevant to review the approximate land residual figures produced (in monetary terms) and compare these across the range of proportion and threshold levels considered. These are notional/illustrative only, but what we attempt to do is get a general feel for the amounts of money likely to be available to landowners, to help assess to what extent they might be incentivised to sell.
- 3.3.2 As stated above, for background and general comparison the modelling has investigated the residual land value with zero affordable housing to determine the approximate land value if planning policy promoting affordable housing did not apply. This starting point shows approximate values of between 25.0% and 37.8% of GDV from the lower to higher value areas respectively on the assumptions made (see col.8). Again, this is a relative exercise only.
- 3.3.3 Starting with Table 1, it is possible to compare approximate values firstly in the Low Value areas. Column 8 of the table shows that the land residual would be 21.1% of GDV (Brighton and Hove City Council proposed policy) compared to 22.2% if a policy of 30% affordable housing was adopted. There is a small reduction owing to the relative closeness of the 90% TCI based figure to market value in such areas.
- 3.3.4 Equally, in a fifteen unit scheme, we see a reduction from 20.8% to 19.4% resulting from a move from 30% to 40% affordable housing.
- 3.3.5 In the Medium Value areas a similar pattern emerges, showing a reduction from 27.9% to 26.3% for a 10 unit scheme and from 26.9% to 24.7% for a 15 unit scheme.
- 3.3.6 Finally in the High Value areas, similar relative figures are observed.
- 3.3.7 In Table 2 where we look at a mix of units being transferred for affordable housing, the differences are slightly more marked. In the Low Value areas the percentage land residual of GDV falls from 21.0% to 18.6% for a 10 unit scheme and from 19.2% to 16.8% for a 15 unit scheme (from 30% to 40% affordable housing respectively).
- 3.3.8 In the Medium Value areas the values are 26.9% and 24.2% (30% to 40% affordable housing respectively) for a 10 unit scheme and 25.5% to 22.5% for a 15 unit scheme.
- 3.3.9 Finally in the High Value areas, the trend continues with values of 32.5% and 29.4% for a 10 unit scheme and 31.2% and 27.9% for a 15 unit scheme. Again we are seeing slightly more marked differences where the TCI based calculation falls further behind market values in the higher value areas.

4. CONCLUSIONS

- 4.1.1 The results highlighted above and represented in Tables 1 and 2 and Graphs 1-8 indicate that whilst the transfer of larger units within a mix does affect viability more markedly, the relative reduction in land residual when altering policy from 30% to 40% affordable housing does not vary enormously dependent on the type of units transferred.
- 4.1.2 Across the various example areas (notional sites) and site sizes tested, where the affordable units are 1-bed flats the average decrease in approximate land value resulting from the 40% affordable housing content, compared with 30%, was just over 9% (average of the figures in Column 10 of Table 1). Clarifying this, an average (across all example areas and site sizes appraised) of around 9% land value is lost on the basis of our appraisals and assumptions where 1-bed units only are transferred as affordable (Table 1). Where a mix of units are transferred this average reduction becomes almost 16% (average of the figures in Column 10 of Table 2); potentially a more likely scenario based on policy requirements.
- 4.1.3 In the lower value example areas problems could arise in increasing the proportion of affordable housing. The starting approximate land residual values (as % of GDV) are low compared to those in the medium and high value areas (associated with the lower sales value for the scheme), and bearing in mind the need to encourage rather than disadvantage market activity and redevelopment in such areas under regeneration programmes and the like, this effect might not be helpful. However, each scheme will be different and a target as suggested in 4.1.14 would set a background for negotiation where necessary.
- 4.1.4 It appears that the medium and high value areas may be more able to sustain the potential higher proportion of up to 40% affordable housing as opposed to the 30% level (based on our models and the assumptions given earlier) as the approximate land residual values, although reduced, still remain relatively strong in terms of encouraging land supply. In percentage reduction terms the same appears true in the lower value areas but we make the above point because of course there the starting values are lower and so their erosion may be more damaging in terms of land owner incentive.
- 4.1.5 It needs to be remembered that values for residential development must be sufficient relative to existing/alternative use (e.g. commercial) values for residential schemes to be pursued and promoted. There is no single or simple rule as to the relationship between residential and, for example, commercial land use values. However, in terms of incentive to consider residential use over, say, a non-conforming use in a residential area (like a small factory or builders yard etc), there will tend to be more consistency between commercial values in different areas. This can mean there being a far greater difference between such existing use value and housing development value in a higher value residential area, than in a cheaper housing area (where there might not be much difference between such existing commercial and residential development values). The point here is that sometimes, and perhaps in the lower value areas especially, the schemes may need assistance through a flexible application of policy.

- 4.1.6 It is worth noting that in the higher value example area looked at, the approximate land values are thought to be approaching twice the level they are in the low value example area.
- 4.1.7 All of the above must, of course, be viewed in context. The land residual reduction must be looked at from a potential starting point of a 30% affordable housing policy. As shown above, the actual difference in the low value areas of 30% affordable housing and 40% affordable housing on a 10 unit scheme is in the region of £19,000 (6.5% reduction) or £40,000 (15% reduction) depending on unit transfer method.
- 4.1.8 Overall our initial impression is that the general level of values in Brighton and Hove is such that there might well be sufficient scope to support a lower trigger threshold and higher proportion of affordable housing than recommended by the Inspector. The development scene in the City is generally buoyant, with a high level of activity and often intense competition for sites and opportunities which are relatively scarce and often tied up quickly. The property market is strong and there is a well recognised severe affordable housing shortage. Many of the opportunities for redevelopment are fairly small in scale and are not contributing to affordable housing supply. Hence the Council's objective of increasing site capture with a threshold of 10 units. The move towards increased site capture is an increasingly common one by Authorities in the South now.
- 4.1.9 Overall, we feel that in many instances smaller developments should, in financial terms at least, support affordable housing provision at up to the 40% target level envisaged.
- 4.1.10 However, there will be instances where locational, design, servicing cost, marketing or other practical issues will mean that a reduced proportion of less than 40% affordable housing will ultimately be negotiated following open discussions with developers; or some other method of contribution to the City's affordable housing shortfall need to be considered.
- 4.1.11 There will also be cases where the development value/cost relationship will not be strong enough to support the higher proportion of affordable housing – we are unable to make a statement that the 40% target will be achievable across the board. There is no one "cut-off" point where sites become unviable; each needs to be considered given its specific characteristics.
- 4.1.12 Unless a potentially over-complicated and confusing zoned approach is considered based on value areas (which would not in any event pick up very local/street by street variations – sometimes dramatic), clear background targets might be set, but against which a negotiated approach based on site specifics would be adopted.
- 4.1.13 This is in the context of the current view on the transfer price for completed affordable units to RSLs from developers. Relative to many other Local Authority policies (and particularly the way they are developing), this 90% TCI base gives good figures especially for rented units. Often we are asked to consider policy which requires the transfer of free land and so developers receive only their reasonable build costs back for the completed affordable units.

- 4.1.14 A change of this financial aspect of policy/practice would probably impact quite severely on scheme viability. It would reduce developers' income (gross development value) quite significantly; by a minimum of say £25,000 per affordable unit transferred. We mention this because while the Policy being considered at present may have and be proved workable with this particular mechanism, should changes in grant availability, for example, mean there are difficulties in RSLs affording 90% TCI including on costs, especially for affordable rented accommodation, then the outcomes might look rather different. This is important to note.
- 4.1.15 Therefore also relevant in this context will be a flexible view on tenure to possibly include less affordable rented, cross subsidy, etc. This is an important point to bring out.
- 4.1.16 We note the reference to the Council's proposed/potential policy wording of "at least 40%" affordable housing suggesting 40% as a minimum. A target of up to 40% may be more workable since the brief reference (in the background) is to evidence of securing 40% where possible, and such an approach would be more consistent with Government guidance; setting a clear background target but acknowledging the need to negotiate dependent on site specifics.

APPENDICES

Appendix 1 - Results of Land Residual Calculations (Tables 1 & 2; Graphs 1-8)

Appendix 2 - House Price Data

-	2	9	4	5	9	7	10	6	10
Location	Unit Mix	AGD.	Development Cost	Developer Profit (@15%)	Finance & Land Costs	Residual Land Price	% Land Residual (of GDV)	% Reduction in Land Residual (From Zero Affordable Housing)	% Reduction in Land Residual From 30% Affordable Housing to 40%
	10 Links, No Affordable	£1,396,402	126,327	5209,480	£101,304	5349,317	25.0%	NUA	NIA
	10 Units, 30% Affordable	£1,318,594	251,1573	£197,789	181,183	6292,473	22.2%	16.3%	NOA
senA aul	10 Units, 40% Affordable	£1,292,658	£729,406	£193,899	828,828	6273,525	21.2%	21.7%	6.5%
Low Val	15 Units. No Affordable	52,084,603	E1,143,918	5214,190	(148,409	5490,085	23.4%	NIA	NIA
	15 Units, 30% Affordable	£1,990,859	£1,137,003	1298,629	£140,933	2414,294	20.8%	15.5%	NKA
	15 Units, 40% Affordable	£1,838,987	£1,133,546	6290,848	£138,195	895,9783	19.4%	23.2%	9:1%
	10 Units, No Affordable	£1,608,400	6739,518	E241,410	£112,954	5515,520	32.0%	NUA	NN
	10 Units, 30% Affordable	11,468,697	£733,386	1220,305	E105,407	6409,599	27.9%	20.5%	NKA
serA a	10 Units, 40% Affordable	£1,421,796	£731,343	£213,269	£102,891	C374,292	26.3%	27.4%	8.6%
ulaV mui	15 Units, No Atfordable	62,414,100	E1,148,711	5362,115	£163,684	066,9673	30.0%	NVA	NA
pey	15 Units, 30% Affordable	12,226,496	£1,140,538	E333,974	128,8213	£598,163	28.9%	19,1%	NIA
	15 Units, 40% Affordable	132,694	£1,136,452	£319,904	£148,789	£527,549	24.7%	28.7%	11.8%
10	10 Units, No Affordable	£1,640,736	1742,986	6276,110	£125,007	200'9999	37.8%	NUA	NA
	10 Units, 30% Affordable	£1,663,286	1736,305	C249,493	6116,050	6561,438	33.8%	19.3%	NIA
senA sul	10 Units, 40% Affordable	£1,604,138	£734,078	£240,620	£112,864	£516,573	32.2%	25.8%	8.0%
ra uden	15 Units, No Affordable	101,104	61,153,916	6414,166	5182,864	£1,010,159	20.0%	NIA	NA
	15 Units, 30% Affordable	£2,524,504	£1,145,008	6378,676	£170,121	6830,699	32.9%	17.8%	NUA
	All the Annual April Address and	100,000			State Water	010 010	200 000	(contract	200.00

High Value Area

Medium Value Area

Low Value Area

%0.0

Area

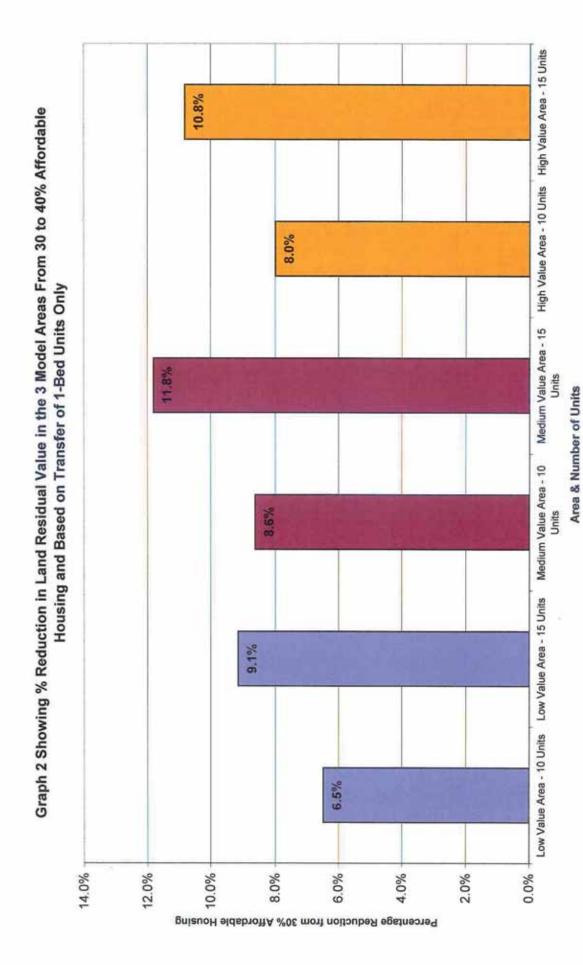
■ 10 Units - 40% Affordable ■15 Units - 40% Affordable

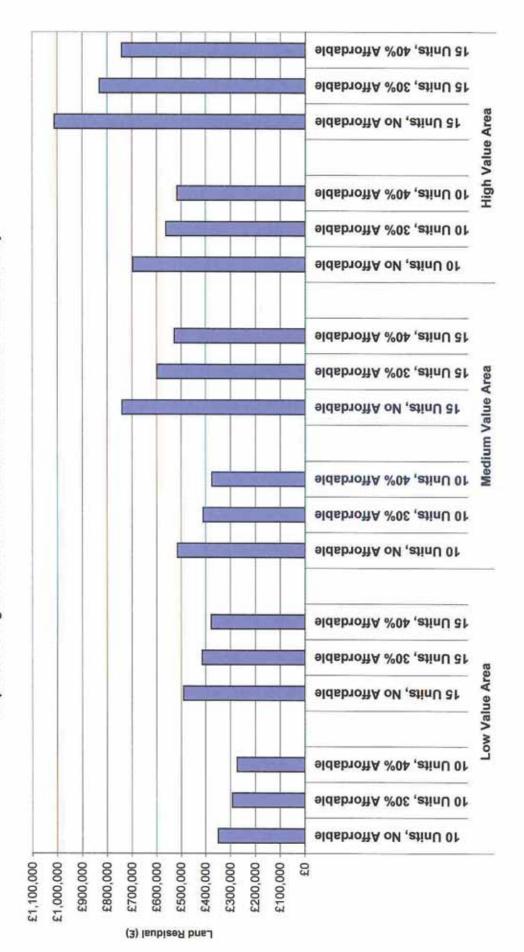
■ 10 Units - 30% Affordable ■ 15 Units - 30% Affordable

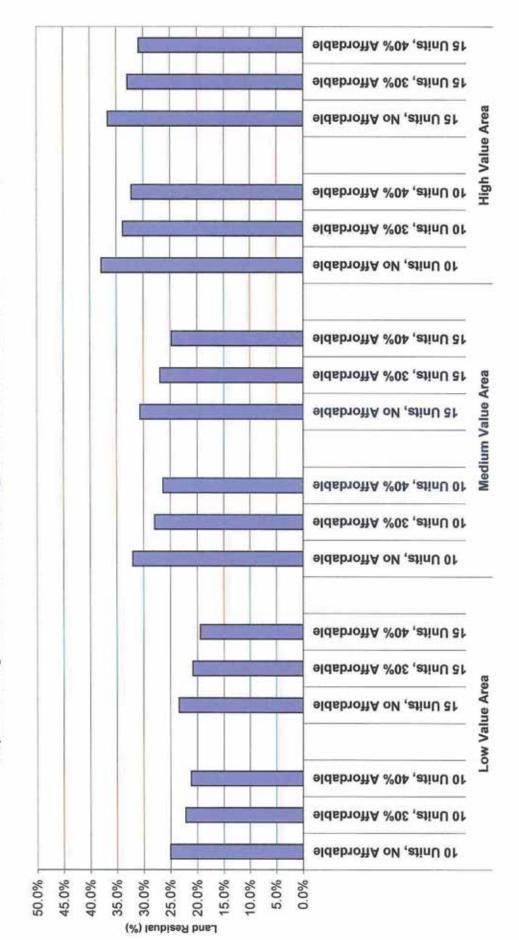
26.6% 17.8% 25.8% 19.3% 28.7% 19,1% 27.4% 20.5% 23.2% 15.5% 21.7% 16.3% 32.0% 18.0% 8.0% 30.0% 28.0% 26.0% 24.0% 22.0% 20.0% 16.0% 14.0% 12.0% 10.0% 80.9 4.0% 2.0%

% Reduction in Land Residual

Graph 1 Showing % Reduction in Land Residual Value in the 3 Model Areas at 30 & 40% Affordable Housing and on 10 and 15 Unit Schemes and Based on Transfer of 1-Bed Units Only

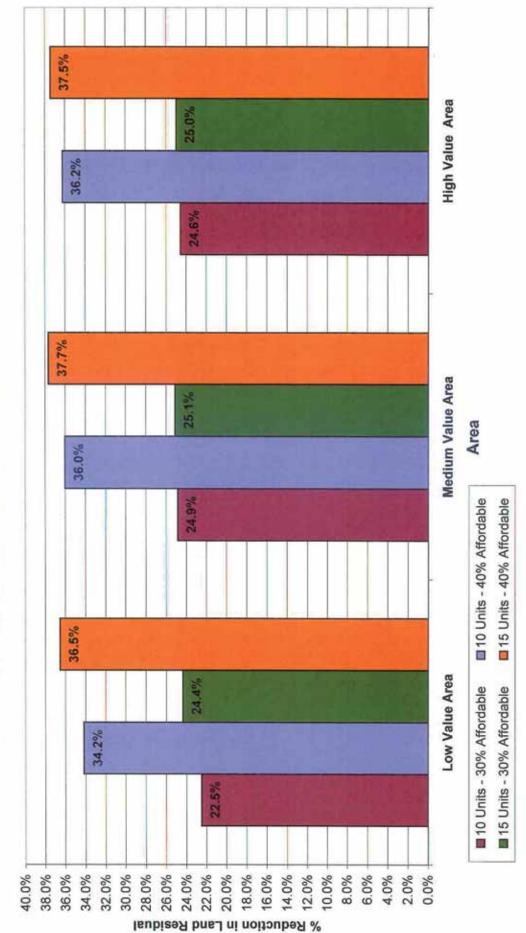


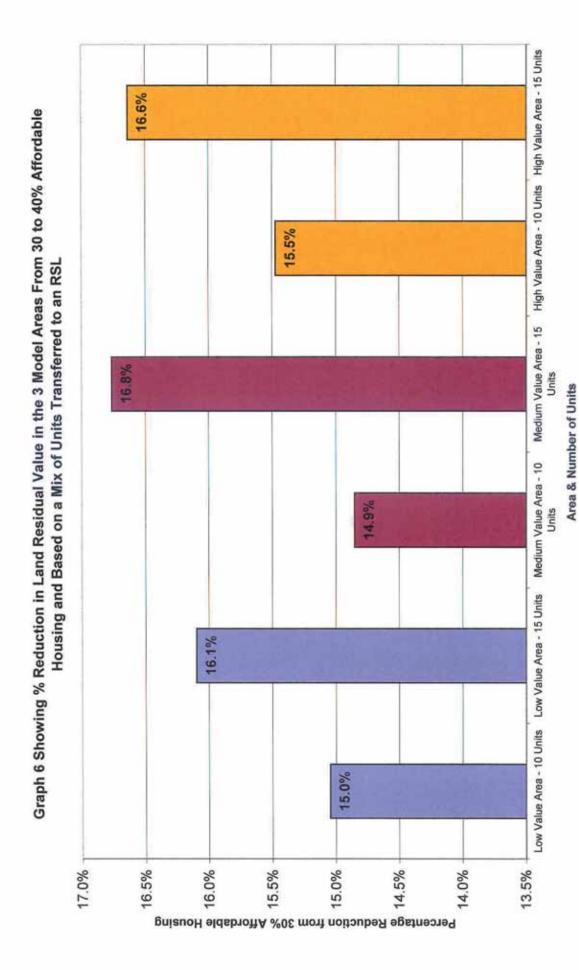




% Reduction in Land Residual From 30% Affordable Housing to 40% 15.0% 16.1% 14.9% 18.8% 15.5% 16.6% 44 MIN MA 458 N/A MA MIA M/4 N/W N/W MA NA % Reduction in Land Residual (From Zero Affordable Housing) 37.7% 37.5% 22.5% 34.2% 36.5% 24.9% 25.1% 36.0% 24.6% 36.2% * 12 1 NA × \$ d Residu 22.5% 25.0% 21,0% 27.9% 18.6% 23.4% 16.8% 26.9% 24.2% 30.0% 25.5% 37.8% 32.5% 30.0% 19.2% 32.0% 29.4% £349,317 £229,955 6515,520 878,3883 6525,082 8767,948 £631,842 6490,085 5311,044 £329,852 5.460,888 £739,390 5553,722 50996,032 5270,688 E370,724 Ance & Land Costs 200,1013 £146,409 £144,100 £125,607 £113,485 6165,010 £137,867 £133,596 £112,054 E103,844 £107,753 £182,864 £156,083 195,664 292,762 £99,785 £163,884 £150,694 Table 2: Summary Table Showing Reduction in Land Residual Based on Transfer of a Mix of Units (1 & 2-Bed Units) Developer Profit (@15%) £209,450 E276,110 E242,468 E339,849 £193,567 £230,184 6278,181 £215,998 £185,454 6241,410 £204,657 E362,115 1325,362 £306,986 £228,566 E364,621 Hopment Cost £742,986 2735,415 1756,3273 529,0573 £728,187 61,143,918 £1,135,784 51,131,717 £732,788 £730,107 £1,148,711 £1,139,302 51,134,597 E732,298 £1,153,016 £1,143,228 £1,137,883 £739,510 NB: Bold indicates proposed policy on thresholds and proportions in the 3 model £1,305,402 £1,290,444 £1,616,437 12,761,104 62,004,603 £1,609,400 £1,438,989 £2,414,100 £2,169,080 £2,046,570 £1,840,738 12,265,657 £1,236,358 £1,934,559 £1,364,380 £1,854,537 ODA 10 Units, 40% Affordable 10 Units, 40% Affordable 10 Units, 40% Affordable 10 Units, 30% Affordable 10 Units, 30% Affordable 15 Units, 40% Affordable 10 Units, 30% Affordable 5 Units, 30% Affordable 15 Units, 40% Affordable 15 Units, 30% Affordable 15 Units, 40% Affordable 15 Units, 30% Affordable 15 Units, No Affordable 10 Units, No Affordable 15 Units, No Affordable 10 Units, No Affordable 10 Units, No Affordable 15 Units, No Affordable Unit Mix sen's sulsy wou senA sulsV mulbelt senA sulkV rigiti

Graph 5 Showing % Reduction in Land Residual Value in the 3 Model Areas at 30 & 40% Affordable Housing and on 10 and 15 Unit Schemes and Based on a Mix of Units Transferred to an RSL







Graph 8 Showing Residual Land as Percentage of GDV Based on a Mix of Units Transferred to an RSL

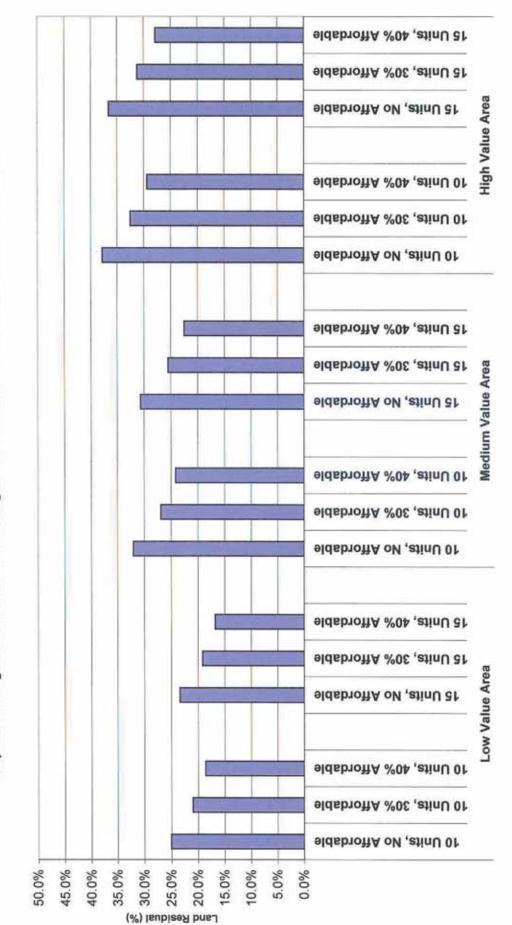
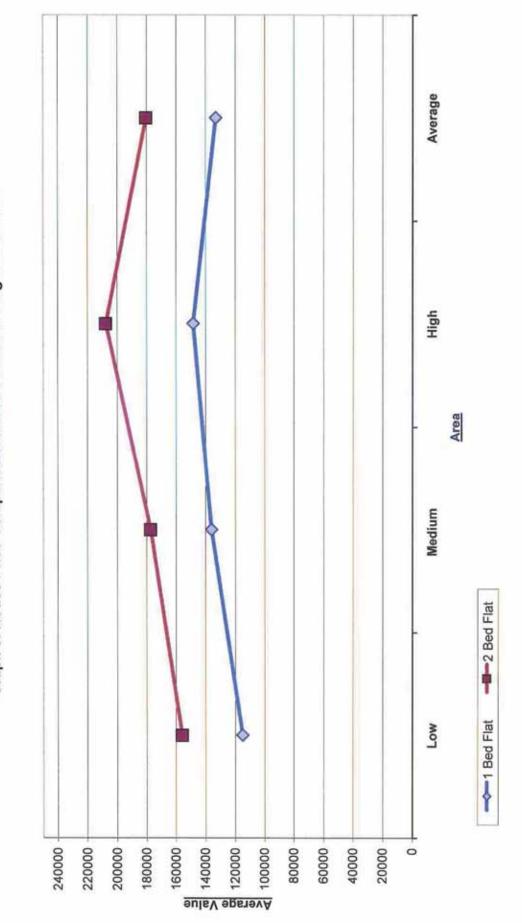


Table 3: Average House Price Data for Brighton & Hove

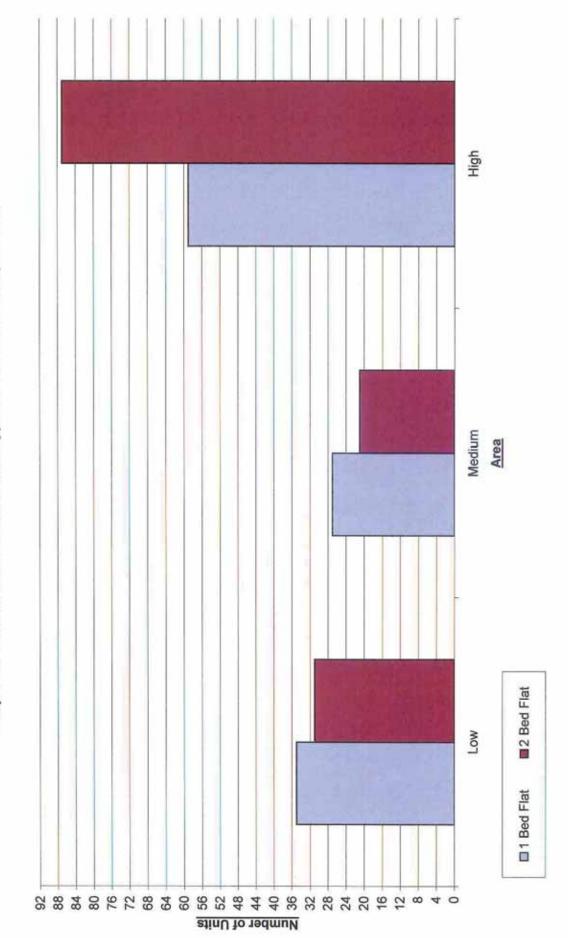
	Dwelling Type	
Area	1 Bed Flat	2 Bed Flat
Low	£115,249	£155,901
Medium	£136,214	£177,424
High	£148,463	£207,814
Average	£133,309	£180,380

Table 4: Total Number of Each Unit Type for Sale as of 30th April 2004

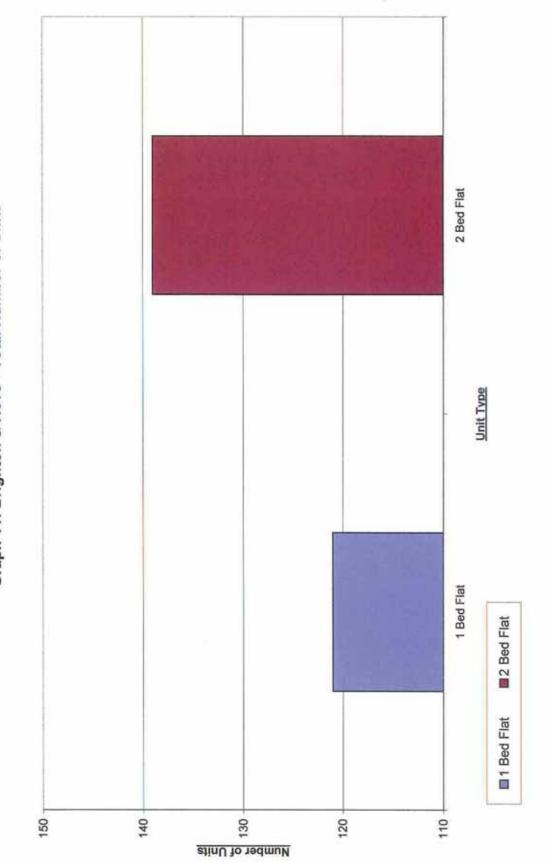
Area Low Medium High	Dwelling Type	
Area	1 Bed Flat	2 Bed Flat
Low	35	31
Medium	27	21
High	59	87
Total	121	139
Total Units	20	60



Graph 9: House Price Comparison Across 3 Areas of Brighton & Hove



Graph 10: Total Number of Each Unit Type for Sale as of 30 April 2004



Graph 11: Brighton & Hove - Total Number of Units



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