

**Rochford District Council  
Viability Study**

**Final Report**

**July 2010**

**Dr Andrew Golland, BSc (Hons), PhD, MRICS**

**[drajg@btopenworld.com](mailto:drajg@btopenworld.com)**

**Three Dragons**



# 1 INTRODUCTION

## Review of project aims

1.1 Rochford District Council appointed Three Dragons to undertake a development economics study in relation to a range of housing market circumstances across the District. The project brief set out that the Viability Study will be used by the Council to inform the development of policies in Core Strategies and other Local Development Documents. The project was to:

- Identify housing sub-markets within the District;
- Make recommendations on viable and deliverable affordable housing targets and test the sensitivity of these targets, a range of development thresholds, percentage requirements and tenure splits, in order to assist the Council in its implementation of policies in the Core Strategy and to inform further aspects of the Council's Local Development Framework; and
- Assess where, in general terms, and under what circumstances, the Council is likely to have to accept less than 35% affordable housing on development sites, in order to assist the Council in its implementation of policies in the Core Strategy and to inform further aspects of the Council's Local Development Framework.
- Assess the potential to secure a financial contribution in lieu of on site provision on small schemes

1.2 The project was further to develop a viability software Toolkit which:

- Enables the Council to undertake site-by-site affordable housing viability assessments through the development management process;
- Enables the Council to critically evaluate site specific affordable housing viability assessments undertaken by third parties; and
- Is underpinned by robust, locally specific data which can be updated in response to changing market conditions.

1.3 This report explains the research undertaken to address the brief and the main findings of that research. This project will support work on the Councils' Local Development Framework (LDF).

### Policy context – national

1.4 National planning policy, set out in Planning Policy Statement (PPS) 3 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)

- 1.5 The companion guide to PPS3<sup>1</sup> provides a further indication of the approach which Government believes local planning authorities should take in planning for affordable housing. Paragraph 10 of the document states:

“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).

- 1.6 Accordingly, this study considers the percentage of affordable housing that could be sought on mixed tenure sites and the size of site from above which affordable housing could be sought (the site size threshold).

### **Regional Policy context**

- 1.7 The Revision to the East of England Regional Spatial Strategy (The Regional Plan) of May 2008 sets out in Policy H2 that:

Within the overall housing requirement in Policy H1, Development Plan Documents should set appropriate targets for affordable housing taking into account:

- the objectives of the RSS;
- local assessments of affordable housing need, as part of strategic housing market assessments;
- the need where appropriate to set specific, separate targets for social rented and intermediate housing;
- evidence of affordability pressures; and
- the Regional Housing Strategy.

At the regional level, delivery should be monitored against the target for some 35% of housing coming forward through planning permissions granted after publication of the RSS to be affordable.

### **Policy context – Rochford District**

- 1.8 The Rochford District Replacement Local Plan (June 2006) states (Policy HP 8) that:

‘In new residential development schemes of more than 25 dwellings or residential sites of 1 hectare or more, the Local Planning Authority will expect

---

<sup>1</sup> CLG, *Delivering Affordable Housing*, November 2006

not less than 15% of the new dwellings to be provided as affordable housing to meet local needs’.

- 1.9 Policy H4 of the Council’s Local Development Framework Core Strategy Submission (September 2009) states that:

‘At least 35% of dwellings on all developments of 15 or more units, or on sites greater than 0.5 hectares, shall be affordable.

The Council will aim for 80 percent of affordable housing to be social housing, 20 percent intermediate housing. The Council will constantly review the affordable housing needs of the District and developers should consult with the Council’s Housing Strategy team to ensure their proposals meet the Council’s needs before submitting planning applications.

The requirement for the provision of affordable housing will only be relaxed in highly exceptional circumstances, for example where constraints make on-site provision impossible or where the developer is able to definitely demonstrate that 35% provision will be economically unviable, rendering the site undeliverable. In such cases the Council will negotiate the proportion of affordable dwellings based on the economic viability calculations. It is expected that affordable housing will be provided on each development site; in rare cases, taking account of particular site characteristics, the affordable housing contribution may be provided by way of a commuted sum towards off-site affordable housing’.

### **Research undertaken for this study**

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

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

### **Structure of the report**

- 1.11 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 describes the 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

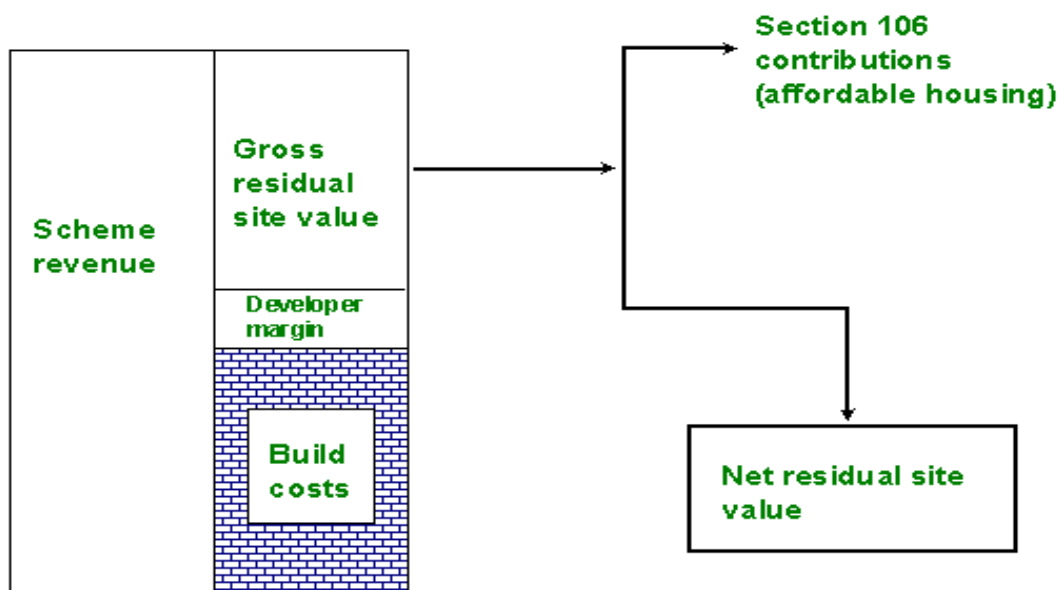
### Introduction

- 2.1 In this chapter we explain the principles underlying the methodology we have followed. 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 residual 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 values of affordable housing, s106 (or similar) contributions and other policy objectives.
- 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. A site is extremely unlikely to proceed where the costs of a proposed scheme exceed the revenue.

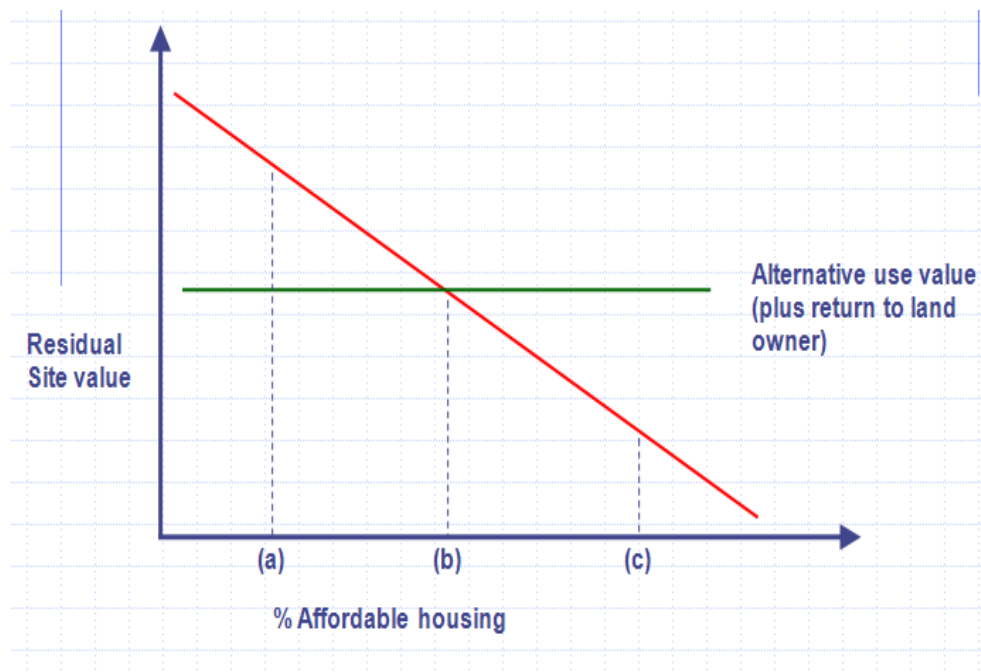
**Figure 2.1 Theory of the Section 106 Process**



- 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.
- 2.5 The net residual value effectively represents what the site is “worth” (the return to the landowner). Calculating what is likely to be the value of a site, given a specific planning permission, is however only one factor in deciding what is viable.

- 2.6 Simply having a positive net 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 deciding whether to bring land forward for development.
- 2.7 Figure 2.2 shows how this operates in theory. Residual value (depicted by the red line) falls as the proportion of affordable housing increases. At some point (here with affordable housing at a percentage represented by 'b'), the alternative use value (or existing use value whichever is higher) will be equal to the residual value with 'b' % affordable housing. With 'c' percentage affordable housing, the residual value is less than the alternative use value and the scheme is not viable. At 'a' percentage affordable housing, the residual value is well in excess of the alternative use value and the scheme is therefore likely to be viable and the site to come forward.
- 2.8 A critical issue for any viability assessment is identifying a reasonable percentage above the existing or alternative use value for the net residual value to be attractive to a landowner to bring forward their site. In the diagram below, at point 'b' (where the net residual value equals the alternative use value), the return to the landowner is unlikely to be sufficient to encourage them to bring forward their site for housing.

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



- 2.9 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 house price sub markets that have been identified. The chapter explains this and explores the relationship between the residual value for the scenarios tested and existing/alternative use values.

#### Sub Market 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 house prices in the District using HM Land Registry data to identify the sub markets. These sub markets are based on post code sectors. The house prices which relate to the sub markets provide the basis for a set of indicative new build values as at May 2010. Table 3.1 below sets out the sub markets adopted in the study.

**Table 3.1 Viability sub markets in the Rochford DC area**

Sub Markets		Larger Settlements	Smaller settlements	Other
Rayleigh South	SS6 7	Rayleigh (South)	Roach Avenue; High Road; Gt Wheatley Rd	
Hawkwell and Hockley	SS5 4	Hawkwell		
	SS5 5	Hockley		
Rural East	SS3 9		Churchend; Ridgemarsh; Courtsend	Foulness Island
	SS3 0		Little and Great Wakering; Barling; North Shoebury	Potton Island
	SS4 2		Great Stambridge; Pagleham; Eastend	
Rayleigh	SS6 8	Rayleigh (South East)		
	SS6 9	Rayleigh (North West)		
Hullbridge, Rawreth and Battlebridge	SS11 8		Rawreth; Battlebridge	
Rochford and Ashington	SS4 1	Rochford		London Southend Airport
	SS4 3	Ashington	South Farnbridge; Canewdon	

Source: Market value areas as agreed between Three Dragons and Rochford DC and tested at the Viability Workshop

#### 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 shows in Table 3.2 below:

**Table 3.2 Development densities and mixes tested in the study**

	Density (Dph)			
	30	45	60	80
<b>1 Bed Flat</b>			<b>10</b>	<b>20</b>
<b>2 Bed Flat</b>		<b>5</b>	<b>15</b>	<b>50</b>
<b>2 Bed Terrace</b>	<b>10</b>	<b>15</b>	<b>20</b>	<b>20</b>
<b>3 Bed Terrace</b>	<b>10</b>	<b>25</b>	<b>20</b>	<b>10</b>
<b>3 Bed Semi</b>	<b>35</b>	<b>25</b>	<b>20</b>	
<b>3 Bed Detached</b>	<b>25</b>	<b>20</b>	<b>10</b>	
<b>4 Bed Detached</b>	<b>15</b>	<b>10</b>	<b>5</b>	
<b>5 Bed Detached</b>	<b>5</b>			
	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

3.6 We calculated residual scheme values for each of these (base mix) scenarios in line with a further set of tenure assumptions.

3.7 The Study was required to review the viability of existing and emerging potential policy targets. In order to consider a full range of possible targets, testing took place assuming delivery of 15%; 20%; 25%; 30%; 35% and 40% affordable targets. These were tested at 80% Social Rent and 20% New Build HomeBuy (previously known as Shared Ownership) in each case.

3.8 Following feedback from the Workshop, further testing was carried out. This assumed that the affordable element was made up of 100% Social Rented housing. This reflects concerns from RSLs that for the short to medium term, Intermediate affordable housing is in low demand.

### **Section 106 (or similar) contributions**

3.9 The testing assumptions on other Section 106 contributions were discussed with the authority in the light of monitoring information available and as a result of having discussed appropriate levels at the Workshop. We have run the baseline testing at £5,000 per unit, but then tested at £10,000 per unit to take account of higher contributions.

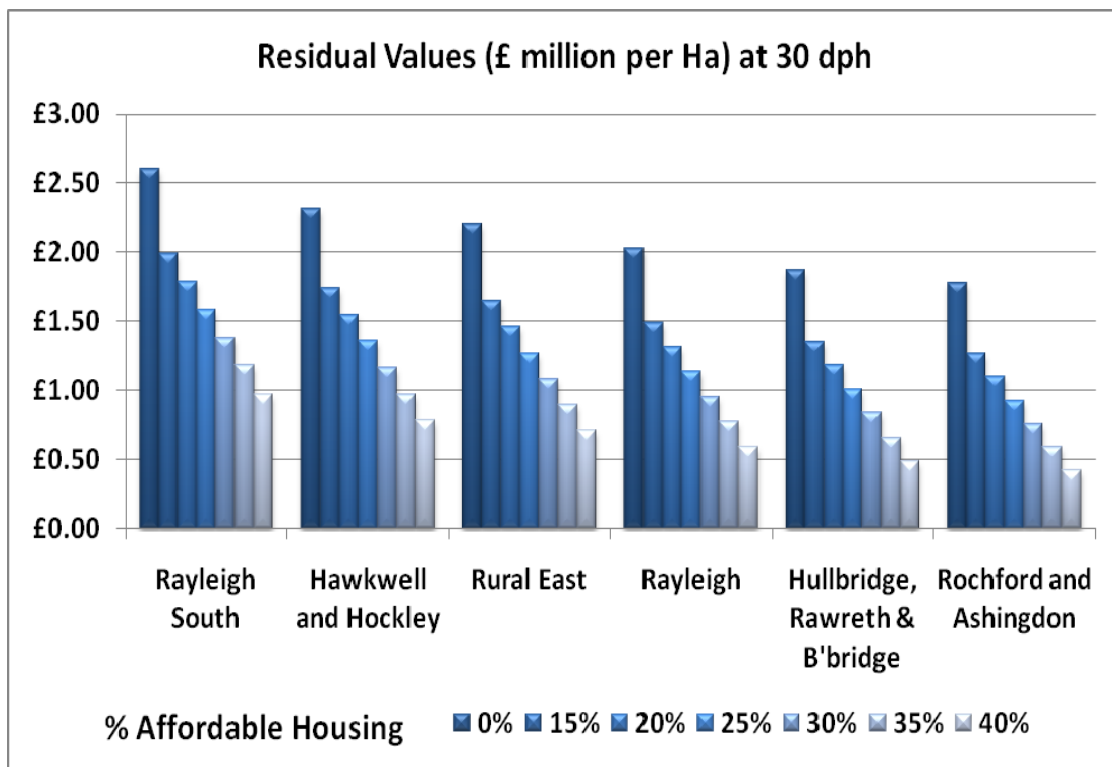
### **Results: residual values for a notional one hectare site**

3.10 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. The full set of results is shown in Appendix 3. (The term "housing" is used generically and may apply to houses or flats, as appropriate to the baseline testing for each modelled scheme).

### Residual values at 30 dph

3.11 Figure 3.1 shows the residual values for a 30 dph scheme and for each of the market value areas.

**Figure 3.1 Housing (at a density of 30 dph) – Residual value in £s million**

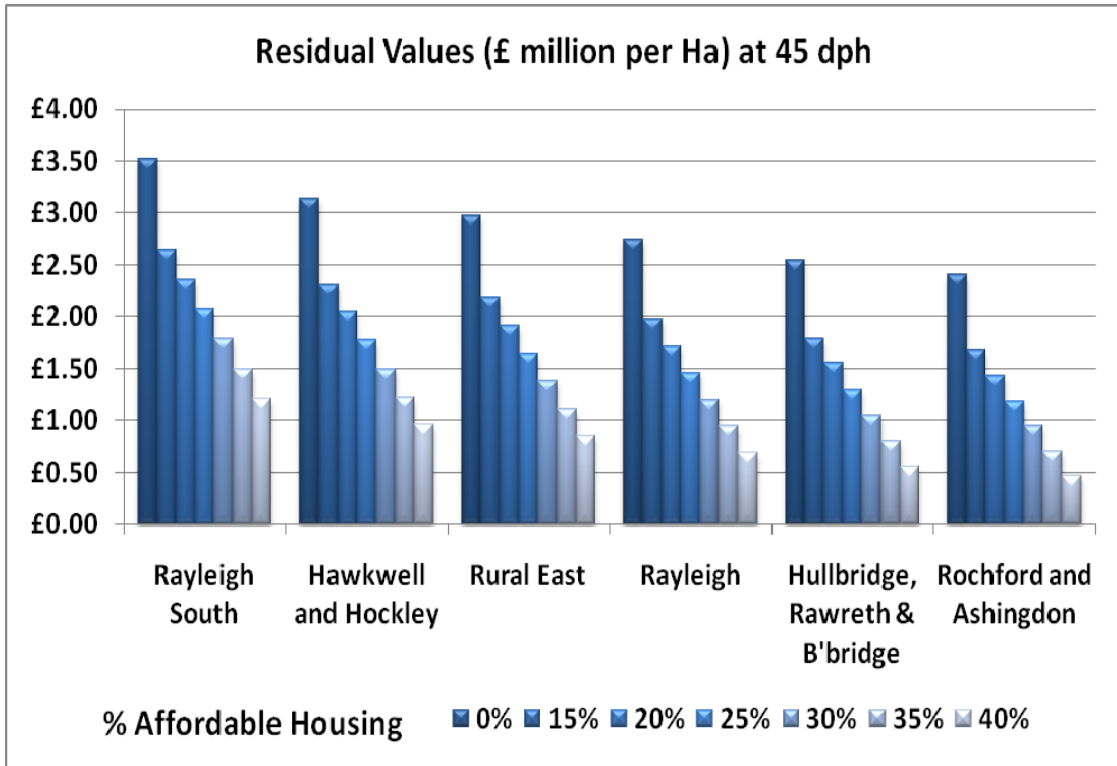


- Figure 3.1 shows a range of positive residual values. They reflect the impact of affordable at the different affordable housing targets. They reflect a £5,000 per unit planning gain package in each case. Residual values at 35% affordable housing for example range from £1.18 million per hectare in Rayleigh South to 0.59 million per hectare in Rochford and Ashingdon.
- In a mid market location such as Rayleigh, residual value at 35% affordable housing is marginally above £750,000. In this location at 25% affordable housing, residual value is around £1.1 million per hectare.
- The range in values is very significant, although in our experience, not as extensive as in most local authorities. In this sense, Rochford has a relatively 'flat' housing market with residual values that are not vastly different. That having been stated, a 20% affordable housing scheme in Rayleigh South is likely to deliver the same residual value as a scheme with no affordable housing in Rochford and Ashingdon. These differences have potentially important implications for policy making with respect to targeting within the District.

### Residual values at 45 dph

3.12 Figure 3.2 shows the residual values for a 45 dph scheme and for each of the market value areas.

**Figure 3.2 Housing development (at a density of 40 dph) – Residual value in £s million**

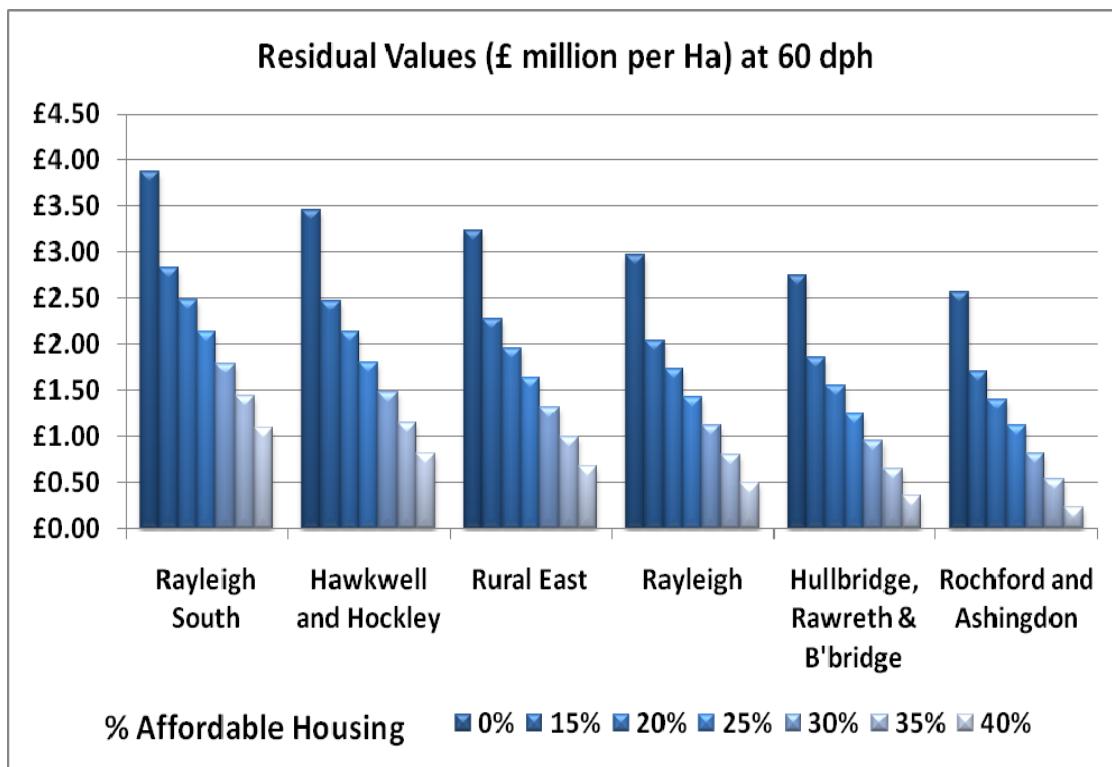


- Figure 3.2, like Figure 3.1, shows a similar pattern of residual values. All are positive; i.e. scheme revenue exceeds scheme costs. There are broadly three groups of sub markets. First, Rayleigh South, which has significantly higher residual values than the other sub markets. Then (second), Hawkwell and Hockley and Rural East and third, Rayleigh, Hullbridge, Rawreth and Battlebridge and Rochford and Ashingdon.
- Residual values at 45 dph are higher in all scenarios than they are at 30 dph. Residual values in Rayleigh South, at the top of the market are £1.5 million per hectare at 35% affordable housing. At the bottom of the market (Rochford and Ashingdon), residual values are £0.7 million per hectare at 35% affordable housing. The 40 dph density scenario provides a similar development mix, but at the higher density which in this case, increases residual value.
- At 45 dph, residual values in the lower value sub markets at higher percentages of affordable housing may become less competitive with alternative uses, in particular employment land.

### Residual values at 60 dph

3.13 Figure 3.3 shows residual values for a 60 dph scheme and the residual values for each of the market value areas.

**Figure 3.3 Housing development (at a density of 60 dph) – Residual value in £s million**

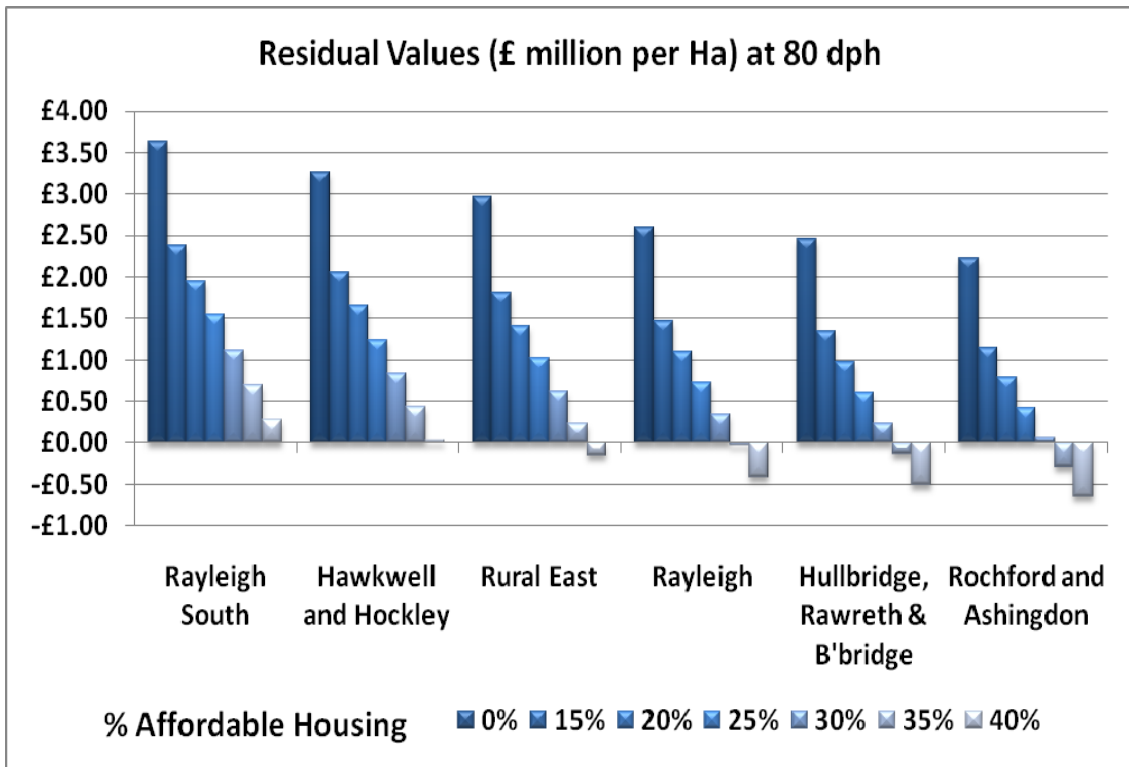


- As for the 30 and 40 dph scenarios, a range of positive land values is shown.
- An increase in density from 45 dph to 60 dph increases residual value in a significant number of cases, but by no means all. Generally, residual values are higher at 60 dph in the higher value locations at lower affordable housing percentages and lower in lower value locations and higher affordable housing percentages.
- Optimal density for maximising affordable housing is, we conclude in the case of Rochford, between 45 dph and 60 dph, depending on locations and actual proportion sought. Whereas in a mid market locations such as Rural East, where the residual is the same at 25% affordable housing between 30 dph and 45 dph, the residual in Rochford at 40% affordable housing and at 45 dph, this is double what the residual is at 60 dph (Appendix 3); correspondingly, in Rayleigh South at 15% affordable housing, the residual is £2.84 million at 60 dph versus £2.65 million per hectare at 45 dph.
- Residual value is marginal at the highest proportions of affordable housing in Rochford and Ashingdon.

### Residual values at 80 dph

3.14 Figure 3.4 shows residual values for a 80 dph scheme and the residual values for each of the market value areas outlined earlier.

**Figure 3.4 Housing development (at a density of 80 dph) – Residual value in £s million**



- At a higher density the development mix will change significantly to include a higher proportion of smaller housing units. The mix we have modelled here assumes 100% flats and terraces. Residual values are however consistently lower at 80 dph than they are at 60 dph. This trend emerges because in an area like Rochford (DC) smaller dwellings produce only a narrow gap between revenue and costs which is quickly eroded by affordable housing impacts.
- Figure 3.4 shows that, for the first time, residual value is negative – in the case of the weaker sub markets at higher proportions of affordable housing. In Rochford and Ashingdon residual value is negative beyond a 30% affordable housing target. At 30% affordable housing there is virtually no residual value with this type of higher density scheme.
- In a mid market location such as Rayleigh, residual value is negative at 35% affordable housing at (this) 80 dph scenario.

### Additional tests at 20 dph

- 3.15 We also tested the impact of affordable housing contributions at a significantly lower density – 20 dph. This was to reflect a potential relaxation in policy at national level on density.
- 3.16 The results show that lower density development will still provide positive residual values, although significantly below those at 30 dph. At Rayleigh South for example, at the top of the market, residual value is £1.38 million per hectare at 30% affordable housing at 30 dph; by comparison, at 20 dph, residual value is only £0.82 million per hectare.
- 3.17 At the lower end of the market, example Rochford and Ashingdon, residual value at 30% affordable housing is £0.76 million per hectare at 30 dph versus £0.53 million per hectare at 20 dph.
- 3.18 These are significantly lower residuals, although we have maintained similar selling prices at both densities. Selling prices may in practice be higher with lower density developments.

### Impacts of potential grant funding

- 3.19 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. The main sources of grant which may be available is from the Homes and Communities Agency (HCA).
- 3.20 We have thus far carried out testing on the basis that grant is not available. Here we look at a ‘with grant’ scenario. For the scenarios where grant is assumed to be available, a grant of £50,000 per Social Rented unit and £15,000 per New Build HomeBuy unit has been assumed. This level of grant has been used elsewhere by Three Dragons as a reasonable assumption and was run past workshop delegates without alternative figures being suggested.
- 3.21 For our testing, we have tested the impact of grant on residual values for a 1 Ha site at 40 dph for all locations. The results are shown for selected sub markets in Table 3.2.

**Table 3.3 Comparison showing the impact of grant (versus no grant) on residual values (at 40 dph): Residual Value (£s million per hectare); Affordable Housing tenure split assumed at 80% Social Rent: 20% Shared Ownership**

40 Dph £million	Rayleigh South		Rural East		Rayleigh		Rochford & Ashingdon	
	No grant	Grant	No grant	Grant	No grant	Grant	No grant	Grant
20% AH	£1.78	£2.12	£1.46	£1.80	£1.31	£1.65	£1.10	£1.44
30% AH	£1.38	£1.90	£1.08	£1.60	£0.95	£1.47	£0.76	£1.28
40% AH	£0.97	£1.66	£0.71	£1.40	£0.59	£1.28	£0.42	£1.11

AH = percentage affordable housing

- 3.22 Table 3.3 shows that the availability of grant will enhance site viability in all scenarios.

- 3.23 As a general rule, the introduction of grant has a greater proportionate impact in the weaker sub markets. In the case of Rochford and Ashingdon, there is a 2.64 fold increase in the residual value at 40% affordable housing (from £0.42 m per hectare to £1.11m). The equivalent uplift in Rayleigh sub market is 71%.
- 3.24 We think it is important to target grant, where this is available, to the weaker sub market areas. Otherwise, there is a danger that grant simply bolsters land owner value, or land owner expectation, which would seem counter-intuitive to the objective of the Section 106 process and the use of public subsidy.

**Viability impacts where Social Rented housing makes up 100% of the affordable housing element.**

- 3.25 In the previous sections it was assumed that the affordable housing element of schemes would be made up of 80% Social Rented housing and 20% Shared Ownership housing. At the workshop we held, it was suggested that in the current market conditions, RSLs would prefer to develop the affordable element as 100% Social Rent.
- 3.26 We have therefore (Table 3.4 below) looked at the impact of this scenario on residual values. These are set out in relation to four selected sub markets across a range for affordable housing targets.

**Table 3.4 Residual values (£ million per hectare) for a 45 dph scheme assuming 100% Social Rent**

45 dph	0%	20%	25%	30%	35%	40%
Rayleigh South	£3.52	£2.18	£1.85	£1.51	£1.17	£0.83
Rural East	£2.98	£1.74	£1.43	£1.12	£0.82	£0.51
Rayleigh	£2.74	£1.55	£1.26	£0.96	£0.66	£0.37
Rochford and Ashingdon	£2.40	£1.28	£0.99	£0.72	£0.44	£0.16

- 3.27 The impact of this approach will be felt differentially across the sub markets. At 40% affordable housing in Rayleigh South residual value reduces from £1.21 million per hectare (80%:20% split) to £0.83 million per hectare (100% Social Rent). This is a percentage reduction of 31%.
- 3.28 In Rochford and Ashingdon, a shift from 80%:20% in favour of Social Rent to a 100% Social Rent scenario (affordable element only) will reduce residual value from £0.46 million per hectare to £0.16m. This means the residual with 100% Social Rent is around one third of the value it would be were the affordable element to be split 80%:20%.
- 3.29 At lower affordable housing percentages the effects are less pronounced across the range of sub markets. At 20% affordable housing the impact of moving from an 80%:20% split to a 100% Social Rent scenario will reduce residual value by around 8%. In Rochford and Ashingdon, the reduction will be around 11%.
- 3.30 In lower value areas therefore, where the Social Rented element makes up 100% of the affordable units, viability is likely to be challenging. 100% Social



Rent within the affordable element will also however be challenging in the higher value locations as generally Rochford is a relatively low house priced area.

### Market sensitivity

- 3.31 We have looked also at a situation where house prices are 10% higher and 10% lower than the levels assumed in our main testing, based at May 2010
- 3.32 Table 3.5 shows residual values for a 30 dph scheme with house prices increased and decreased by 10%. This is not a reflection of any particular forecast of how the market will perform, but aims to show the sensitivity of residual values to changes in house prices.

**Table 3.5 Residual values (£ million per hectare) for a 30 dph scheme with prices 10% higher and lower than the baseline position (April 2010). No grant assumed with a tenure split of 80% Social Rent: 20% Shared Ownership**

		Hawkwell and Hockley	Rayleigh	Rochford and Ashingdon
Price increase +10%	0%AH	£2.90	£2.56	£2.30
	20%AH	£2.03	£1.76	£1.54
	30%AH	£1.60	£1.36	£1.15
	40%AH	£1.17	£0.96	£0.77
Baseline	0%AH	£2.31	£2.03	£1.77
	20%AH	£1.55	£1.31	£1.10
	30%AH	£1.16	£0.95	£0.78
	40%AH	£0.78	£0.59	£0.42
Price decrease- 10%	0%AH	£1.74	£1.48	£1.26
	20%AH	£1.07	£0.86	£0.67
	30%AH	£0.74	£0.54	£0.37
	40%AH	£0.40	£0.23	£0.08

AH = percentage of affordable housing

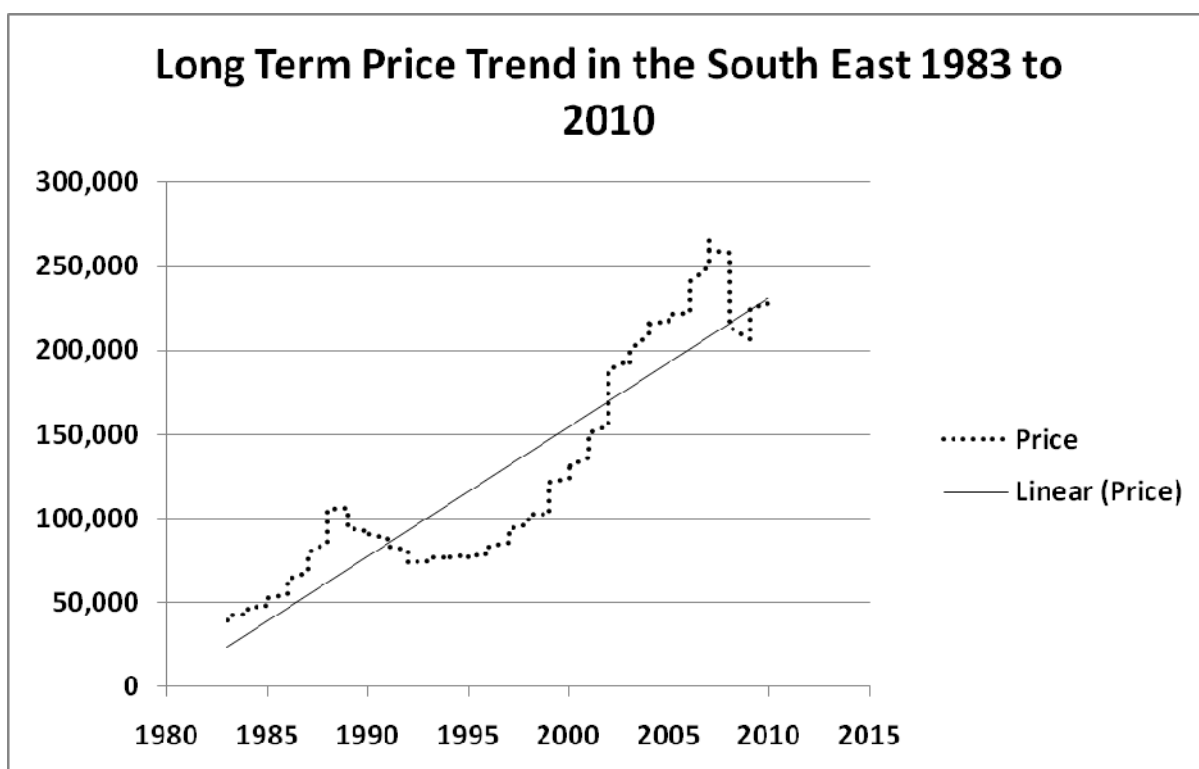
- 3.33 Table 3.5 sets out the impact on residual values, were prices to increase or fall from the current levels. The impact of price changes will tend to be felt more significantly in the lower value areas.
- 3.34 At 30% affordable housing, a 10% increase in house prices will bring about a 47% increase in residual values in the Rochford and Ashingdon sub market, compared to a 38% increase in Hawkwell and Hockley for the equivalent scenario.
- 3.35 Price falls will have similar effects with price decreases hitting lower value sub markets disproportionately hard in terms of residual value. A price fall of 10%



in Rochford and Ashingdon for example, could have significant implications for housing supply at the higher affordable housing target levels.

- 3.36 An alternative measure of viability is to look at the relationship between short and long term trends. Figure 3.5 shows trends for the South East region (no equivalent data for East of England). It demonstrates the short term volatility in house prices against the long term straight line trend.
- 3.37 It puts into context the findings of this study, in that our analysis has been based on figures in line with the long term price trend.

**Figure 3.5 Long term house price trend**

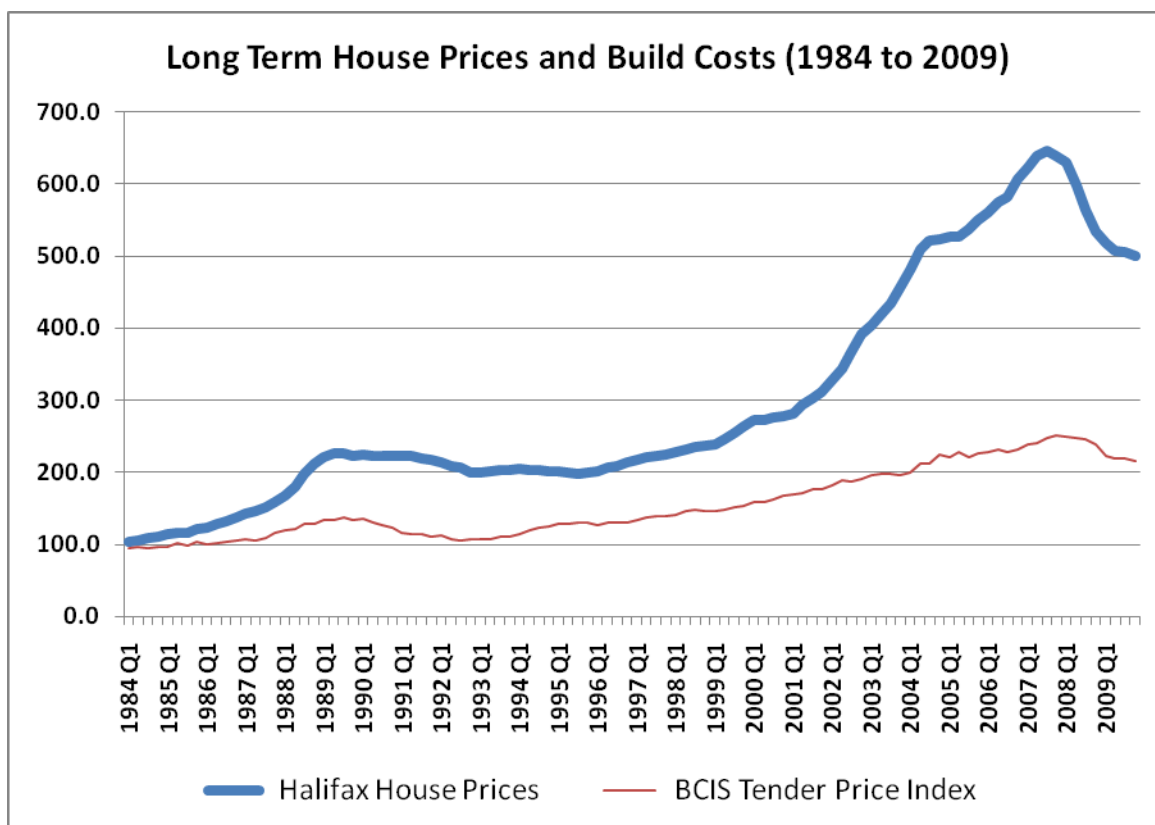


Source: Halifax House Price Index May 2010

- 3.38 Figure 3.6 shows the longer term relationship between house prices and build costs (for the UK). This shows a significant widening in the gap between prices and costs since the early 1980s with the gap between the two variables appearing most wide in 2007.
- 3.39 The trends in Figures 3.5 and 3.6 need careful interpretation. Whilst we appear to be in a market which is not far away from long term trend, it is clear that over time the gap between prices and costs has widened significantly in recent years leading to one conclusion that affordable housing has become increasingly viable to deliver as time has gone by.
- 3.40 Nevertheless, the gap has narrowed over the past two years and there is no certainty that it will not narrow over the period of the Plan.

- 3.41 We believe that there is sufficient evidence from past trends to suggest that our analysis, carried out in 2010, will produce policy recommendations which are reasonable and realistic. Indeed, the evidence could be interpreted as saying the Council may adopt a policy position whereby it assumes the local housing market will 'grow into' as conditions improve over time.

**Figure 3.6 Long term house prices and build costs**



**Source: Halifax House Price Index and the Building Cost Information Service Tender Price Index.**

- 3.42 Figure 3.6 sets out the longer term relationship between house prices and build costs (UK trends). It suggests a steadily widening long term gap between revenues and costs, which if emulated over the long term period of the Plan, should allow the local authority to find it it less challenging to deliver Section 106.

### **Impact of the Code for Sustainable Homes**

- 3.43 The Code for Sustainable Homes may have a negative impact on the viability of schemes. It should be stressed that it is uncertain whether higher levels of code will impact negatively since viability, as we define it, depends on the relationship between scheme revenue and scheme cost, not simply costs alone. Thus housing development could become more viable in the future despite the impacts of the Code.
- 3.44 As discussed at the workshop, this Viability Study uses current BCIS build cost data. As RSLs must already build to Code Level 3 of the CFSH in order

to qualify for grant funding, the average build costs are assumed to include Code Level 3 as a baseline position. The cost impact of moving from Level 3 to Level 4 of the CFSH is estimated, according to recent DCLG research (Cost Analysis of The Code for Sustainable Homes: Final Report, July 2008), at around £5000 per unit. Moving to Code Level 4 could therefore generate additional costs of around £200,000 per hectare (based on a 40 dph scheme) for example.

- 3.45 The precise impacts will vary according to location within the District. As a broad indication, reaching Code Level 4 (versus Code Level 3 now) will reduce residual value by around 11% at the top of the market but will reduce residuals by 21% at the bottom of the market. These figures relate to a 40 dph scheme at 30% affordable housing. At the top of the market this is unlikely we feel to prevent land being brought forward, although at the bottom the impacts are more significant and will be likely to make other forms of land use much more competitive to housing.
- 3.46 For a number of reasons, we have not considered it appropriate to test any additional impact of achieving higher Code Levels at this time. The DCLG recently consulted (December 2009 to March 2010) on The Code for Sustainable Homes and ZCH Energy efficiency. The objective is to seek agreement to changes to the Code for Sustainable Homes in 2010 to align it with changes to Part L of the Building Regulations and an approach to adopting a 2016 definition of zero carbon.
- 3.47 In the consultation document, it was acknowledged that there have been a number of areas where the Code may not work as well as planned. The aim is to streamline the Code where necessary to make it easier and cheaper to build sustainable homes. The outcome of this consultation may therefore result in new cost estimates being produced at a future time. Also, as achieving the Codes become part of a standard delivery package, there is evidence to suggest that reductions can be made to any additional costs. It is not possible to estimate the full and proper impact of any changes that may arise following this consultation event. Assumptions would also need to be made about house prices into the future; i.e house price growth may well 'pay for' the additional costs of the various Codes and once meeting the various Code Levels is made mandatory for all developers, the costs should become absorbed via the implementation of the Building Regulations as a standard build cost and not an exceptional cost.

#### **Impact of a higher level of Section 106 contribution**

- 3.48 We have tested our baseline analysis for Section 106 contributions (in addition to affordable housing) at £5,000 per unit. We believe this represents a reasonable reflection of current costs in schemes in Rochford.
- 3.49 Costs could be higher in some instances. At £10,000 per unit the effects on viability would, as for the impacts of the Code for Sustainable Homes, be regressive.

- 3.50 As previously, increasing the costs by £5,000 per unit will reduce residual value by around 11% at the top of the market (Peripheral villages) but will reduce residuals by 21% at the bottom of the market. These figures relate to a 40 dph scheme at 30% affordable housing.

### Lifetime Homes

- 3.51 Lifetime Homes may be included within new developments. We think the additional costs of these will be around £500 per unit and will not prove a constraint to viability.
- 3.52 Thus residual values could be expected to hold up well under these circumstances.

### Benchmarking results

- 3.53 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.
- 3.54 One approach is to take “current” land values for different development uses as a kind of ‘going rate’ and consider residual values achieved for the various scenarios tested against these. Table 3.6 shows residential land values for selected locations within the East of England.

**Table 3.6 Residential land values regionally**

EAST OF ENGLAND			
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
Cambridge	2,855,000	3,615,000	4,055,000
South Cambridge	2,110,000	2,110,000	2,110,000
Peterborough	1,650,000	1,400,000	1,900,000
Ipswich	1,950,000	1,800,000	1,500,000
Norwich	2,400,000	2,535,000	2,600,000
Luton*	1,580,000	1,580,000	2,160,000
Stevenage	2,000,000	1,800,000	1,700,000
St Albans	4,300,000	4,200,000	5,200,000
Chelmsford	3,700,000	3,700,000	4,200,000
Colchester	2,470,000	2,350,000	2,200,000

Source: Valuation Office; Property Market Report, July 2009

- 3.55 There are no direct comparables for Rochford. Site values range (Table 3.6) from £1.4 million per hectare for small sites to £4.2 million per hectare for bulk land although this covers a very broad range of locations. The workshop findings indicate that Rochford (values at £1.85 million per hectare) are at the lower end of the regional scale.

- 3.56 Another benchmark which can be referred to is that of industrial land. Table 3.7 shows values ranging across the region.

**Table 3.7 South West industrial land values**

<b>EASTERN</b>			
	<b>From £s per ha</b>	<b>To £s per ha</b>	<b>Typical £s per ha</b>
Cambridge	550,000	1,200,000	750,000
Peterborough	500,000	600,000	550,000
Ipswich	350,000	575,000	475,000
Norwich	320,000	460,000	360,000
Stevenage	600,000	1,900,000	1,100,000
Luton	600,000	725,000	675,000
Hemel Hempstead	1,300,000	2,300,000	2,000,000
Basildon	900,000	2,100,000	1,850,000
Colchester	400,000	775,000	625,000

**Source: Valuation Office; Property Market Report, July 2009**

- 3.57 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.

### **Commentary on results**

- 3.58 This Study has assessed the residual value for a notional 1 hectare site for a series of scenarios across seven market value areas identified in the District.
- 3.59 The market value areas perform very differently and, for the same set of assumptions about density/development mix and proportion of affordable housing, different residual values have been found.
- 3.60 The District area produces buoyant residual values in the main, although it should be acknowledged that weaker sub markets and hence viability will restrain affordable housing supply in some cases. Higher density does not necessarily increase residual value; in lower value areas higher density actually impacts negatively on scheme viability.
- 3.61 The baseline testing was on the assumption of nil grant with an affordable housing tenure split of 80% social rent and 20% intermediate affordable housing. The introduction of grant enhances residual values, having a greater proportionate impact in the lower value market value areas.

## **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 the Rochford District area is 25 dwellings (1.0 Ha) in line with the Local Plan. The Council's LDF Core Strategy Submission is in line with PPS3; setting a threshold of 15 units and a site size of 0.5Ha.
- 4.2 The chapter provides an assessment of the profile of recent planning permissions 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**

- 4.3 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)*
- 4.4 Rochford District Council currently has a threshold of 25 (Local Plan) for its affordable housing policy, but a threshold of 15 is applied in accordance with PPS3. The threshold of 15 dwellings is proposed to be carried forward in the LDF. By reducing site size thresholds and 'capturing' more sites from which affordable housing can be sought, the authority can potentially increase the amount of affordable housing delivered through the planning system.
- 4.5 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.

### Site size analysis

We have analysed data on recent permissions (2007-8; 2008-9) to consider how important sites of different sizes may be to future land supply. The table below (Table 4.1) shows the results of this exercise.

**Table 4.1 Site supply by scheme size for the whole District**

<b>Site Size</b>	<b>No of Dwellings</b>	<b>% of Total</b>
<b>1 to 4</b>	<b>290</b>	<b>31.52</b>
<b>5 to 9</b>	<b>142</b>	<b>12.72</b>
<b>10 to 14</b>	<b>105</b>	<b>11.41</b>
<b>15 to 24</b>	<b>163</b>	<b>17.72</b>
<b>25 to 49</b>	<b>73</b>	<b>7.93</b>
<b>50 to 100</b>	<b>172</b>	<b>18.70</b>
<b>&gt; 100</b>		
	<b>945</b>	<b>100.00</b>

Source: Rochford DC (planning permissions data for 2007/08 and 2008/09).

- 4.6 Table 4.1 shows that overall across the District, small sites make a very important contribution to supply. The table suggests that 56% of all new dwellings granted permission during the period analysed will be developed on sites of less than 15 dwellings. Moreover, that 44% of all dwellings granted permission over the period will be developed on sites of less than 10 dwellings and that 31% of dwellings will be developed on sites of less than five dwellings. This is a very significant number particularly in an area where housing need is high and justifies in principle a reduction in the current threshold.
- 4.7 Table 4.2 shows equivalent analysis but focusing on first, the main settlements (Rayleigh, Hockley: Hawkwell and Rochford: Ashingdon), then on the remaining settlements within the District.
- 4.8 Table 4.2 shows that the main settlements rely to a very significant extent on small sites. 77% of all dwellings will be built on sites of less than 15 dwellings. This makes a very strong case we feel that the current threshold should in principle be reduced to capture an increased volume of affordable housing.



**Table 4.2 Site supply by scheme by settlements**

Site Size	Main settlements		Other settlements	
	No of Dwellings	% of Total	No of Dwellings	% of Total
1 to 4	130	40.12	160	25.76
5 to 9	63	19.44	79	12.72
10 to 14	58	17.90	47	7.57
15 to 24		0.00	163	26.25
25 to 49	73	22.53	0	0.00
50 to 100		0.00	172	27.70
> 100		0		0.00
	324	100.00	621	100.00

Source: Rochford DC (planning permissions data for 2007/08 and 2008/09).

- 4.9 In the other, smaller settlements, 46% of all dwellings will be developed on sites of less than 15 dwellings. This is significant, but suggests less reliance on small sites than for the larger settlements.

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

- 4.13 We discussed the suitability of small sites for affordable housing at the workshop with the development industry. The workshop considered the situation where there could be as few as one or two units on each site.
- 4.14 There was no particular objection in principle to taking on small numbers of affordable homes. The key issue for RSLs is always location. However, there are circumstances in which on-site provision is not suitable e.g. if the occupier service charges are high.

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

- 4.15 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.



4.16 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. For example:

RV at 100% market housing	£800,000
RV at say 30% affordable housing	£350,000
Commuted sum therefore:	£450,000

4.17 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. In other words, the local authority should not take viability into account when deciding whether to deliver on or off site contributions.

4.18 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.

4.19 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).

## 5 CASE STUDY VIABILITY ANALYSIS – SMALLER SITES

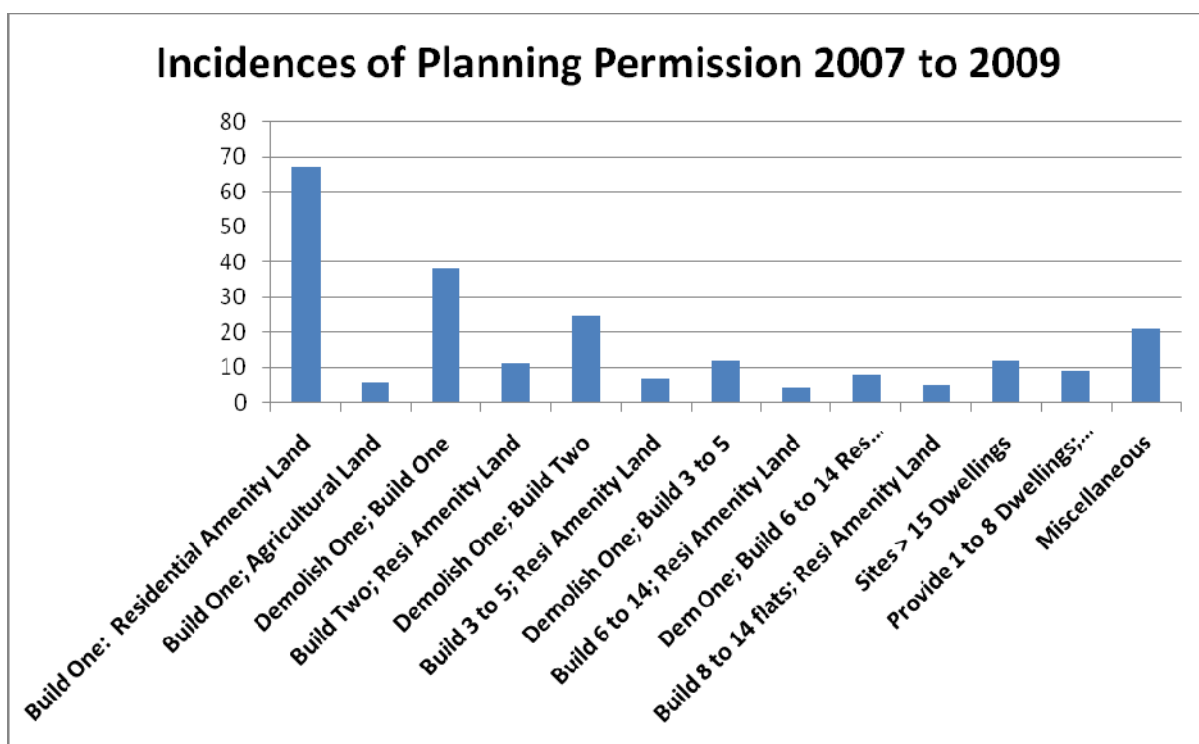
### Introduction

- 5.1 The analysis in Chapter 3 provides a good indication of the likely viability of sites in the District. The residual values can be compared with existing use values to establish whether land owners are likely to make a return over and above existing use value, taking into account a developer margin.
- 5.2 The analysis in Chapter 3 will apply for large as well as small sites (on a pro rata hectare 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 development industry workshop as has been the case elsewhere where we have run similar workshops. It will be noted (Table 3.6) 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 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 of smaller sites.

### 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 sets out the various sources of supply which provide residential development in the Rochford DC area. The chart shows incidences of planning permission for different types of scheme.

**Figure 5.1 Incidences of planning permission 2007 to 2009**



- 5.5 The data on recent planning permissions suggests that a significant number (45% of all incidences of planning permission) of the small sites involve the development of land which might be termed residential amenity. These will include garden and back land. Of these sites, 30% of all incidences of planning consent are developments of one dwelling on garden sites.
- 5.6 Rochford has a very high incidence of schemes involving the demolition of a dwelling. 37% of all incidences of planning permission involve the demolition of an existing dwelling. Of these, 17% of all incidences are 'one for one' schemes involving the demolition of one dwelling and its replacement with a new one. 5% of all incidences are 'two for one' schemes.
- 5.7 There is a relatively low proportion of incidences (4% of all) which involve commercial use or land providing housing.
- 5.8 Developments on agricultural land make up 3% of all incidences.
- 5.9 There are a range of schemes which are not easily categorised. We have termed these 'Miscellaneous'. They make up around 9% of all incidences of planning permission.
- 5.10 On the basis of the data, we have selected four case studies for further investigation. These are shown in Table 5.1 and test a sample of sub market circumstances.

**Table 5.1 Case study sites**

Case Study	No of dwellings	Type of new development	Site Size (Ha)	Dph	Comment
A	1	1 x 4 bed detached house	0.03	32	Significant source of supply. Garden land a key source. Covers 'one for one' schemes.
B	2	1 x 3 bed detached house; 1 x 4 bed detached house	0.05	40	Covers new build and schemes and where 2 new homes replace an existing dwelling.
C	4	2 x 3 bed semis; 3 x 4 bed detached	0.1	50	Covers new build and schemes where 4 new build replace one existing dwelling.
D	8	4 x 1 bed flats 4 x 2 bed flats	0.1	80	Higher density scheme.

For each case study we have undertaken an analysis of residual values for a selection of sub markets. We test at 20%, 30% and 40% affordable housing. All the other assumptions used are the same as for the main analysis described in Chapter 3. Outputs are by scheme and the equivalent per hectare.

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

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

**Table 5.2 Develop one detached house**

	% Affordable Housing			
	0%	20%	30%	40%
<b>Rayleigh South</b>				
(RV for scheme)	£135,000	£95,000	£76,000	£56,000
(RV per ha)	£4.50	£3.17	£2.53	£1.87
<b>Hawkwell &amp; Hockley</b>				
(RV for scheme)	£199,000	£83,000	£64,000	£46,000
(RV per ha)	£3.97	£2.77	£2.13	£1.53
<b>Rayleigh</b>				
(RV for scheme)	£103,000	£69,000	£52,000	£38,000
(RV per ha)	£3.43	£2.30	£1.73	£1.27
<b>Rochford &amp; Ashingdon</b>				
(RV for scheme)	£91,000	£59,000	£43,000	£30,000
(RV per ha)	£3.03	£1.97	£1.43	£1.00

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).

- 5.12 Table 5.2 shows that the development of one new detached house will generate a substantial residual value even with 40% affordable housing equivalent contribution and across all market value areas. For example, a building plot for this type of dwelling in Rayleigh South would be expected to generate around £75,000 at 30% affordable housing. In Rochford and Ashingdon the plot value (30% affordable) will be around £45,000.
- 5.13 Where one dwelling of this type is built on, for instance, infill or back-land, we would expect the uplift in site value to 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. We would expect the economics of development on small sites agricultural land to be similar here.
- 5.14 Where a single new house replaces an existing dwelling, as is the case in a very significant number (17% of all incidences of planning permissions) of schemes, we would normally expect the economics to prevent an affordable housing contribution. Even at the top of the market such a scheme will only generate around £135,000 for a building plot – on the basis of a market unit. In most cases, we do not think this will be sufficient to cover the property acquisition costs for an existing dwelling, unless these are exceptionally favourable.
- 5.15 This type of scheme (demolition and replacement) may work best for self build projects where a profit margin is keener.

**Case study B – Develop two detached houses (one 3 bed and one four bed) on a 0.05 ha site.**

- 5.16 The viability of developing two detached houses rather than one will depend on a number of factors including the development mix and the intensity to which the site is developed as well on the location. There will also 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**

	% Affordable Housing			
	0%	20%	30%	40%
<b>Rayleigh South</b>				
(RV for scheme)	£253,000	£180,000	£145,000	£116,000
(RV per ha)	£5.06	£3.60	£2.90	£2.32
<b>Hawkwell &amp; Hockley</b>				
(RV for scheme)	£225,000	£158,000	£124,000	£89,000
(RV per ha)	£4.50	£3.16	£2.48	£1.78
<b>Rayleigh</b>				
(RV for scheme)	£197,000	£135,000	£103,000	£70,000
(RV per ha)	£3.94	£2.70	£2.06	£1.40
<b>Rochford &amp; Ashingdon</b>				
(RV for scheme)	£173,000	£114,000	£85,000	£55,000
(RV per ha)	£3.46	£2.28	£1.70	£1.10

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).

- 5.17 Similar arguments apply to Case Study 1 and 2. For infill, backland and garden plots, we believe that a significant uplift in residual value will occur and that a contribution to affordable housing would not make development unviable.
- 5.18 At the top end of the market – Rayleigh South - schemes are achieving close to £2 million per hectare at 40% affordable housing equivalent contribution and at the bottom end, around £1 million per hectare.
- 5.19 5% of all incidences of permission involve ‘two for one’ schemes. We believe that, as with ‘one for one’ schemes, this type of scheme will not normally deliver an affordable housing contribution, since existing use value will be too high.

**Case study C – Develop four dwellings (Two semi-detached and two detached houses) on a 0.1 ha site**

5.20 A number of schemes in the District involve the development of three to five dwellings (we take here four dwellings as the average). We have modelled here the development of two, three bed semi-detached houses and two, four bed detached houses

**Table 5.4 Develop two semis and two detached houses**

	% Affordable Housing			
	0%	20%	30%	40%
<b>Rayleigh South</b>				
(RV for scheme)	£411,000	£281,000	£218,000	£153,000
(RV per ha)	£4.11	£2.81	£2.18	£1.53
<b>Hawkwell &amp; Hockley</b>				
(RV for scheme)	£363,000	£242,000	£182,000	£121,000
(RV per ha)	£3.63	£2.42	£1.82	£1.21
<b>Rayleigh</b>				
(RV for scheme)	£315,000	£202,000	£146,000	£89,000
(RV per ha)	£3.15	£2.02	£1.46	£0.89
<b>Rochford &amp; Ashingdon</b>				
(RV for scheme)	£275,000	£169,000	£116,000	£62,000
(RV per ha)	£2.75	£1.69	£1.16	£0.06

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 Case Study C generates strong residual values, reflected in most scenarios tested. In Rayleigh South, residual value at 30% affordable housing is £2.18 million per hectare and in Rayleigh £1.46 million per hectare.
- 5.22 In Rochford and Ashingdon it is £1.16 million per hectare at the same level of contribution.
- 5.23 We would expect these residuals to encourage sites to come forward from the majority of existing uses.
- 5.24 Where a scheme for four new build units replaces a demolished dwelling, we still believe that in most cases the Council will only exceptionally be able to take an affordable housing contribution.

### Case study D – Develop 8 apartment units on a 0.1 Ha site

- 5.25 There will be a number of smaller schemes coming forward, involving apartment development. We model here 8 flats – four, one bed and four, two bed.

**Table 5.5 Develop 8 apartment units**

	% Affordable Housing			
	0%	20%	30%	40%
<b>Rayleigh South</b>				
(RV for scheme)	£295,000	£143,000	£66,000	£-9,000
(RV per ha)	£2.95	£1.43	£0.07	£-0.09
<b>Hawkwell &amp; Hockley</b>				
(RV for scheme)	£263,000	£116,000	£42,000	£-20,000
(RV per ha)	£2.63	£1.16	£0.04	£-0.02
<b>Rayleigh</b>				
(RV for scheme)	£199,000	£63,000	£-5,000	£-64,000
(RV per ha)	£1.99	£0.06	£-0.05	£-0.06
<b>Rochford &amp; Ashingdon</b>				
(RV for scheme)	£151,000	£32,000	£-42,000	£-106,000
(RV per ha)	£1.51	£0.32	£-0.04	£-1.06

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).

- 5.26 This type of scheme which includes 100% flats will be challenging in delivering affordable housing. With the exception of Rayleigh South, residual values are negligible or negative at 30% affordable housing and above.
- 5.27 These results do not mean that all schemes of this nature will be challenging from a viability viewpoint. A lower number of larger units may provide a higher residual value. All will depend on the relationship between location, density and development mix and the Council will need to use the Viability Toolkit to determine the optimal balance between viability, density and meeting housing needs.

### Rural Exception schemes

- 5.28 From time to time the Council will may want to consider Rural Exception schemes (RESs), raising issues about the viability of delivery. We have not tested here a RES on the basis that these schemes are normally not viable without grant input. RESs require sub market land plots to be provided, and require an operator (to be able to meet the full costs of building less what the

scheme is worth to an RSL). Where this is Social Rent, there will in all cases be a shortfall to build costs. Where the affordable product is intermediate, then the subsidy requirement is likely be less. In all instances where a fair proportion of the scheme is Social Rent, then some significant subsidy is likely to be needed.

### **Commentary on the results**

- 5.29 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.
- 5.30 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 could pursue a robust approach to obtaining affordable housing and other s106 contributions.
- 5.31 The analysis of planning permissions suggests that a high proportion of sites in the District will come from residential land. We believe this means gardens, back or amenity land. It should be stated however that central government policy would now (June 2010) appear to limit housing development on these types of sites.
- 5.32 Nevertheless, a very significant number of schemes involve the demolition of a single dwelling, or more dwellings. Where a dwelling is to be replaced by one or two new dwellings, we believe the economics are not favourable to the provision of affordable housing. In a location such as Rochford, we believe that schemes of above five units will be needed to viability deliver affordable housing where the scheme involves the demolition of an existing dwelling.



## **6 MAIN FINDINGS AND CONCLUSIONS**

### **Sub market areas**

- 6.1 Our analysis of the housing market in the District indicated that there are six sub markets: Rayleigh South, Hawkwell and Hockley, Rural East, Rayleigh, Hullbridge (with Rawreth and Battlebridge) and Rochford and Ashingdon.
- 6.2 There is a significant difference in house prices across the sub market areas and these are reflected in the residual values for the different scenarios we tested. However, the range of values is not as great as we might normally expect to find across a local authority area and hence we could describe the District as having a fairly evenly priced housing market.
- 6.3 We found that residual value is dependent not only on location but also on the density adopted.

### **Residual values and scenario testing**

- 6.4 Residual values were generally highest in the 40 dph to 50 dph density range. At high percentages of affordable housing weaker sub markets increasing density tend to reduce residual values, not increase them.
- 6.5 If the 40 dph scenario is taken as a likely benchmark for many schemes in the District, residual values at 30% affordable housing vary from £1.78 million per hectare in Rayleigh South, to £0.95 million per hectare in Rochford and Ashingdon. In a mid market location such as Rayleigh, residual value is £1.2 million per hectare at 30% affordable housing. This is a substantial residual which should in our view, compete well with existing and alternative use values.
- 6.6 The housing market across the District is relatively evenly priced. Although prices are higher in locations such as Rayleigh South and Hawkwell and Hockley, they are might be argued to not be significantly above prices in say Rochford and Ashingdon.
- 6.7 That being stated, it is important to emphasise that small differences in house prices lead to disproportionate differences in residual and land values. Therefore there is a case for differential targets based on differences in residual value across the District. There is no obvious split here. For example, there is no broad 'urban-rural' split as there are high and low value urban areas and high and low value rural areas.
- 6.8 All the results described above are based on nil grant and assume that the intermediate affordable element of the affordable housing is Newbuild Homebuy or Shared Ownership.
- 6.9 The introduction of grant significantly improves residual values across the District. It matters more proportionately in lower value areas. It is unclear yet how government policy will direct grant and investment in affordable housing and the District will need to focus resources where they are most needed.
- 6.10 The consultation process for this study suggested that we should test viability where Social Rented housing is assumed to constitute 100% of the affordable element. The effects of this will be regressive and significant in the lower value areas. In Rochford and Ashingdon, a shift from 80%:20% in favour of Social Rent to a 100% Social Rent scenario will reduce residual value from £0.46 million per hectare to £0.16. This means the residual with 100% Social

Rent is around one third of the value it would be were the affordable element to be split 80%:20%.

- 6.11 The Authority will need to monitor the local requirements for Social Rented and Intermediate affordable housing and balance these requirements with the viability findings of this report.
- 6.12 The impact of planning contributions on viability has been tested at a baseline position of £5,000 per dwelling. This level of contribution will not, we feel, significantly impact on viability in the higher and middle range sub markets, although it could be significant at the lower end in some instances. A £10,000 (rather than £5,000) contribution will reduce residual value by around 11% at the top of the market but will reduce residuals by 21% at the bottom of the market. These figures relate to a 40 dph scheme at 30% affordable housing. The same conclusion is reached by assuming Code for Sustainable Homes Level 4 is reached (versus Level 3).
- 6.13 We believe that affordable housing requirements will not hold back development on sites currently in industrial use. Residual values at 30% affordable housing even in the lowest value areas are likely to be higher than existing use values.

#### **Site supply and smaller sites**

- 6.14 The analysis of recent planning permissions in the Rochford District area indicates that smaller sites make a highly significant contribution to housing supply. 56% of all new dwellings are being built on sites of less than 15 dwellings. 44% of all dwellings moreover are to be built on sites of less than 10 dwellings. As our analysis shows that as small sites do not present a particular viability challenge, these figures provide a good case, we would argue, for reducing the threshold below 15 dwellings.
- 6.15 In the main settlements of Rayleigh, Hockley: Hawkwell and Rochford and Ashingdon, the need to reduce the threshold is more acute than at District level. In these settlements, 77% of all dwellings will be built on sites of less than 15 dwellings according to recent planning permissions.

#### **Smaller sites and viability**

- 6.16 If the planning authority wished to consider a threshold below the current national indicative minimum of 15 dwellings in any of the areas identified here, the information provided in this report about viability of small sites would become important as part of the evidence for a reduced threshold. It is important to highlight that the development industry workshop did not conclude that small sites are systematically more or less viable to develop than larger sites.
- 6.17 Viability is sensitive to the relationship between existing (or, where relevant, alternative) use value. Many smaller schemes involve the development of residential ancillary land – gardens, back land or infill. We do not believe, based on the likely very significant uplift in value, there is a viability problem here and therefore the Council could, if it chooses, take affordable housing contributions from these types of site.
- 6.18 However, it does need to be recognised that in the Rochford District, a very significant number of sites (37% of all incidences of planning permission

2007-9), involve the demolition of an existing dwelling. Here, the economics of development are much less favourable than say on a garden site.

- 6.19 Overall, 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.

### **Small sites and management issues**

- 6.20 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.

### **Use of payments in lieu**

- 6.21 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.
- 6.22 If this ‘equivalence’ principle is adopted, then the decision of the local authority to take a commuted sum will be based on the acceptability or otherwise of on-site provision as a housing and spatial planning solution, not in response to viability issues.

### **Conclusions and policy options**

- 6.23 There is no detailed government guidance setting out how targets should be assessed, based on an assessment of viability. An assessment of viability for policy setting purposes might have reference to a range of factors including: past and recent delivery of affordable housing, residual values, the relationship between residual values and existing use values, what has been found to be robust targets in similar authorities through the Core Strategy process, the land supply equation and its relationship to be policy weight given to affordable housing delivery in the wider context of housing supply generally. To some extent land owner expectations are also significant. The experience of the consultant, working in conjunction with the local authority and through developer workshops helps to arrive at a robust policy stance.
- 6.24 Our analysis of residual values has led us to suggest three 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 that the local authority will need to take into account in deciding on its policies and that it will need to consider the priority given to achieving affordable housing delivery to help address the very high level of need for affordable housing in the District.
- 6.25 We consider that the three options are:
- a. An overall target of 30% which would be applied across the District. Our analysis suggests that, all considered the LDF target of 35% is likely to be generally too ambitious for the District in current

circumstances although if the historic relationship between house prices and build costs prevails, then 35% might not be unreasonable.

- b. Introduce a two way split target between generally higher and generally lower value areas. We would suggest a 30% target which applies to Rayleigh (including Rayleigh South), Hawkwell and Hockley and Rural East; and a target of 25% for Hullbridge (Rawreth and Battlebridge) and to Rochford and Ashingdon.
  - c. Introduce a three way target reflecting much more the specifics of local sub markets. If this approach were adopted in we would suggest: a 35% target for Rayleigh South, a 30% target which applies in Rayleigh, Hawkwell and Hockley and Rural East; and a target of 25% for Hullbridge (Rawreth and Battlebridge) and to Rochford and Ashingdon. That is to say, as for the second option although with a target of 35% in Rayleigh South.
- 6.26 A single target provides a simple, arguably more practical approach. It can be justified in the case of Rochford, where, by comparison with other local authorities, house prices are reasonably even across the District. A single target approach inevitably has the downsides of making make the target challenging in the weaker sub markets and arguably stifling land supply for housing; and also failing to capture the value in land that is present in the higher value locations of the District.
- 6.27 For these reasons, we would encourage the District to adopt a split policy target, reflecting more specifically local market circumstances. The three way target is in our view the optimal approach to ensuring that land supply is brought forward in line with realistic policy stances.

#### **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 The policy position set out in the Council's LDF is that sites with a capacity for 15 dwellings (0.5 Hectare) should qualify for an affordable housing contribution. This is in line with national policy guidance in PPS3.

- 6.31 Given the level of need for affordable housing in the District and the lack of any systematic evidence to indicate that viability of smaller sites is a particular problem, combined with the heavy reliance on small sites in the District, we believe there is a strong argument for seeking affordable housing contributions from sites of less than the existing policy threshold of 15.
- 6.32 On the basis of site supply, and the reliance on smaller sites, the case for a threshold below 15 is strong. The case is also strong on viability grounds since a large number of smaller sites, e.g. garden and back land are viable.
- 6.33 There does not seem to be a particularly strong case in favour of a split threshold. The larger settlements appear to have a greater reliance on smaller sites than the smaller ones. This outcome is however potentially skewed by two large sites which do not fall within the larger settlements. Our conclusion is therefore to recommend a single threshold across the District.
- 6.34 Given the apparent proliferation of sites involving demolition, we would not recommend the District having a threshold below five dwellings as in our experience affordable housing will not normally be viable at this level.
- 6.35 The Council will need to consider the implications for resources if it is to reduce thresholds below the current level of 15.
- 6.36 It will also need to consider that a number of significant extension areas are planned, as outlined in policies H2 and H3 of the Core Strategy Submission. The delivery of these sites would re-balance the profile of site supply towards larger sites to a significant extent.

#### **Commuted sums**

- 6.37 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 35%)  
 Equivalent commuted sum = RV 100% MV minus RV AH

- 6.38 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**

- 6.39 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 May 2010.
- 6.40 Our analysis of long term house price trends suggests that the housing market is now marginally below the long term trajectory. This means that our analysis is 'conservative' in nature.

- 6.41 We think it likely however that developers will increasingly run an argument during 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.
- 6.42 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 affordable housing policy.



## **Appendix 1**

### **ROCHFORD DC AFFORDABLE HOUSING VIABILITY STUDY – WORKSHOP**

#### **Workshop Notes**

A workshop was held on the morning of 30<sup>th</sup> April 2010 in the Rayleigh Civic Centre. Representatives of the development industry, landowners and RSLs were in attendance. A full attendance list is given below.

#### **Attendees**

Sarah Brind (Sanctuary Housing)  
Victoria Oakley (Strutt and Parker)  
Spencer Welsh (The Hanover Land Trust)  
Susan Rydings (Swan Housing Association)  
Robert Pomeroy (Andrew Martin Associates)  
David Churchill (Iceni Projects)  
Steve Price (Countryside Properties plc)  
Andrew Golland (Three Dragons)  
Jody Owens-Hughes (Rochford District Council)

Three Dragons and Rochford DC would like to thank all those in attendance for their inputs to the study.

At the workshop Three Dragons gave a presentation summarising the methodology and outlining the process of higher level and detailed testing which would be carried out to determine viability targets.

It was agreed that the PowerPoint presentation (attached) would be made available to all Workshop participants in conjunction with these feedback notes.

#### **Introduction**

Three Dragons has been commissioned to carry out an Affordable Housing Viability Appraisal in accordance with the requirements of PPS3 in order to establish a robust evidence base to support emerging policy requirements as set out in the LDF. There are two parts to the commission:

- 1 An Affordable Housing Viability Study to guide the setting of new affordable housing targets and thresholds for the Local Development Framework;
- 2 A Financial Appraisal Toolkit to assist negotiations on specific sites.

The Affordable Housing Viability Study is to be used to justify and demonstrate the viability of the Council's new affordable housing policies. The Financial Appraisal Toolkit will be used to assess the circumstances of individual sites where viability, and therefore the ability to provide the required level of affordable housing, is in question.

#### **Key issues**

## **1 Basis for interpreting viability**

There was no objection in principle to the over-riding method for assessing viability proposed by Three Dragons. This measures viability by reference to residual scheme value less the existing or alternative use value of a site.

The report by Three Dragons will enable the local authority to set broad policies. Where necessary, individual schemes will be appraised on a scheme specific basis by the local authority using the Financial Appraisal Toolkit, taking account of site conditions and market viability. This is of particular importance in the present volatile market.

It is important that the Affordability Housing Viability Study enables policy to be set for the longer and short term.

There was concern about the future trend in the housing market. Three Dragons stated their belief that the correct way to deal with this is via site specific negotiations rather than by adjustment of the policy.

## **2 Overall methodology**

Three Dragons explained that the approach to the study will be two stage with the first stage focusing on testing a notional one hectare site, assuming different development mixes and different percentages of affordable housing, with the second stage looking at a range of generic site types, ranging from large green field through to small and large brown field sites.

Participants at the workshops generally supported the approach set out (see also PowerPoint which explains the approach diagrammatically). Three Dragons stated that this was an approach which has been accepted elsewhere at Core Strategy Exam and is also adopted in Good Practice for local authorities.

Data sources (e.g. HMLR for house prices and BCIS for build costs) were explained to participants. The need for best primary data sources based on a large sample was understood and agreed.

## **3 Sub markets and market values**

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 shows a table draft areas. Participants were invited to submit comments on submarkets by email to the Council.

It was explained by Three Dragons that prices were derived from three years worth of HM Land Registry data and then adjusted to today's values.

It was stated that putting Hawkwell and Hockley together might bring together two settlements of a different nature although prices were not seen to be significantly different.



The idea of banding viability was seen to be a good idea.

Delegates were invited to comment on the sub markets and prices in the Workshop and are asked to comment further as owing to feedback and further analysis, prices have been adjusted from those shown at the workshop event.

Consideration was given to whether the use of differential affordable housing targets, responsive to house price differentials in different parts of a local authority, might be a proper policy response for some or all authorities. The Three Dragons viability study would demonstrate the effect of different AH targets in different locations but this was ultimately a policy decision for the local authority.

#### **4 Land values and the land market**

In the present market it is difficult to establish a realistic land value. This would be determined in part by the timescale of local landowners.

In terms of going rates for land, £750,000 per acre (£1.85 million per hectare) is appropriate for the current climate. A figure of £1.1 million per acre (£2.7 million per hectare) was suggested as a going rate during the recent boom – 2007 market conditions.

Delivery of affordable housing is seen to be low and one delegate stated that it is important to encourage development. Lack of local sites is seen to be a big constraint to delivery although a threshold of 15 units does not help the delivery of affordable units.

It was stated that there is not much previously developed land in the District that can 'logically be developed'.

#### **5 Density and development mix**

A template of development mixes was demonstrated showing proposed mixes of house types at different densities. 80 dph was suggested as being too high. One delegate suggested that testing above 45 dph was unnecessary.

There were no comments on the proposed unit sizes for testing.

#### **6 Thresholds and the viability of smaller sites**

The logic of a threshold related to site size was questioned: location and the urban/rural distinction is more important than site size. It was agreed by the workshop that viability is not influenced by site size. Therefore if the District choose to adopt a lower threshold than that currently in PPS3 (i.e. 15 and a half hectare site), this would not present a viability challenge to smaller sites.

One delegate suggested however that to make small sites qualify for an affordable housing contribution might be difficult politically.

It was commented by an RSL delegate that 'one unit here, one unit there' is not ideal from a management viewpoint.

## **7 Calculation of commuted sums**

Any commuted sum should be the difference between the residual value of a scheme with 100% market housing and one with a mix of market and affordable housing.

It was stated by one delegate that commuted sums might be a practical way of ensuring that small sites make Section 106 contributions.

## **8 Development costs**

Three Dragons presented the proposed page that will be used for the testing framework. This is included in the PowerPoint presentation. It was explained that the base build costs per square metre will be calculated from the BCIS data source. The other development costs (professional fees, internal overheads, profit margins, etc) are however those which Three Dragons intend to use for base viability testing.

It was stated that Three Dragons will test the analysis at a 15% return rate on gross development value for the market element of a scheme and at 6% for the affordable element of a scheme – unless developers can provide evidence to the contrary.

It was stated by one delegate that the base build costs are perhaps a bit low.

It was suggested by Three Dragons that a 15% profit margin is appropriate for the purposes of policy setting, although in the short term it will be the case that lenders in some instances will require a higher margin from developers

## **9 Affordable housing issues**

It was agreed that Three Dragons would test from 15% to 50% affordable housing at 5% intervals.

One delegate commented that 35% affordable housing is 'about right' for Rochford.

A housing association stated that it would prefer to develop schemes for 100% Social Rent as there is considerable uncertainty about the demand for Intermediate housing at the moment.

Three Dragons should assume around £50,000 grant per unit for Social Rented units.

Three Dragons stated that they would also test a 50% Social Rent: 50% Intermediate housing as part of the study.

Three Dragons will test at a 40% Equity Share on Shared Ownership although it was accepted that this percentage will vary according to local affordability on a scheme by scheme basis.

## **10 Other Section 106 costs**

A discussion took place on the appropriate amount to assume (per unit) for Section 106 costs over and above affordable housing. A figure of £9,000 per unit was suggested as being appropriate (based on a recent report).

## **11 Protocols for negotiations on Section 106**

Three Dragons explained that the project will provide the local authorities with an Affordable Housing Toolkit to assist the process of negotiations on viability and Section 106 contributions. Experience has shown that this is used most effectively when this tool is also available to local developers and landowners.

Comments please to

Andrew Golland     [drajg@btopenworld.com](mailto:drajg@btopenworld.com)

## **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:

Sub Markets	Detached				Semis			Terraces		Flats		
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	4 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed
Rayleigh South	£415,000	£380,000	£320,000	£265,000	£230,000	£210,000	£260,000	£225,000	£195,000	£205,000	£185,000	£130,000
Hawkwell and Hockley	£395,000	£360,000	£305,000	£250,000	£220,000	£200,000	£245,000	£215,000	£185,000	£195,000	£180,000	£125,000
Rural East	£390,000	£355,000	£300,000	£245,000	£215,000	£195,000	£240,000	£210,000	£180,000	£190,000	£175,000	£120,000
Rayleigh	£375,000	£340,000	£290,000	£240,000	£210,000	£190,000	£235,000	£205,000	£175,000	£185,000	£165,000	£120,000
Hullbridge, Rawreth and Battlebridge	£365,000	£330,000	£280,000	£235,000	£205,000	£185,000	£230,000	£200,000	£170,000	£180,000	£165,000	£115,000
Rochford and Ashington	£360,000	£325,000	£275,000	£230,000	£200,000	£180,000	£225,000	£195,000	£170,000	£175,000	£160,000	£110,000

### Development mixes and densities:

	Density (Dph)			
	30	45	60	80
<b>1 Bed Flat</b>			10	20
<b>2 Bed Flat</b>		5	15	50
<b>2 Bed Terrace</b>	10	15	20	20
<b>3 Bed Terrace</b>	10	25	20	10
<b>3 Bed Semi</b>	35	25	20	
<b>3 Bed Detached</b>	25	20	10	
<b>4 Bed Detached</b>	15	10	5	
<b>5 Bed Detached</b>	5			
	100	100	100	100

Affordable housing targets:

The following affordable housing targets were tested:

15%; 20%; 25%; 30%; 35%; 40% based on 80% SR and 20% Intermediate split;

Run at 40% Equity Share.

## Build Costs:

### 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	£1,138
Flats (6+ storeys)	£1,545	£1,763
Flats (5 & less storeys)	£1,115	£1,293
Houses <= 75m2	£999	£1,013
Houses > 75m2	£901	£977

#### Other Development Costs

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

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

#### Exceptional Development Costs

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

Sustainable Homes Standard	
Market Housing	Affordable Housing
None	None

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

Scheme Total	
per dwelling	
per hectare	

Previous Page   Next Page

## Unit sizes:

	Affordable	Market
<b>1 Bed Flat</b>	46	45
<b>2 Bed Flat</b>	67	60
<b>2 Bed Terrace</b>	76	65
<b>3 Bed Terrace</b>	84	80
<b>3 Bed Semi</b>	86	90
<b>3 Bed Detached</b>	90	110
<b>4 Bed Detached</b>	110	135
<b>5 Bed Detached</b>	125	150

**Appendix 3 Results – Residual values – no grant scenarios (£s million per hectare)**

30 dph							
	0%	15%	20%	25%	30%	35%	40%
Rayleigh South	£2.60	£1.99	£1.78	£1.58	£1.38	£1.18	£0.97
Hawkwell and Hockley	£2.31	£1.74	£1.55	£1.36	£1.16	£0.97	£0.78
Rural East	£2.21	£1.65	£1.46	£1.27	£1.08	£0.90	£0.71
Rayleigh	£2.03	£1.49	£1.31	£1.13	£0.95	£0.77	£0.59
Hullbridge, Rawreth and Battlebridge	£1.87	£1.35	£1.18	£1.01	£0.84	£0.66	£0.49
Rochford and Ashington	£1.77	£1.27	£1.10	£0.93	£0.76	£0.59	£0.42
45 dph	0%	15%	20%	25%	30%	35%	40%
Rayleigh South	£3.52	£2.65	£2.36	£2.07	£1.78	£1.49	£1.21
Hawkwell and Hockley	£3.14	£2.31	£2.04	£1.77	£1.49	£1.22	£0.95
Rural East	£2.98	£2.18	£1.91	£1.64	£1.38	£1.11	£0.85
Rayleigh	£2.74	£1.97	£1.71	£1.46	£1.20	£0.95	£0.68
Hullbridge, Rawreth and Battlebridge	£2.54	£1.79	£1.55	£1.30	£1.04	£0.80	£0.55
Rochford and Ashington	£2.40	£1.67	£1.43	£1.19	£0.95	£0.70	£0.46
60 dph	0%	15%	20%	25%	30%	35%	40%
Rayleigh South	£3.87	£2.84	£2.48	£2.14	£1.79	£1.44	£1.10
Hawkwell and Hockley	£3.46	£2.47	£2.13	£1.81	£1.48	£1.14	£0.82
Rural East	£3.24	£2.28	£1.95	£1.64	£1.31	£0.99	£0.68
Rayleigh	£2.97	£2.04	£1.73	£1.42	£1.12	£0.80	£0.50
Hullbridge, Rawreth and Battlebridge	£2.75	£1.85	£1.55	£1.25	£0.95	£0.65	£0.35
Rochford and Ashington	£2.57	£1.70	£1.40	£1.12	£0.82	£0.53	£0.23
80 dph	0%	15%	20%	25%	30%	35%	40%
Rayleigh South	£3.64	£2.38	£1.95	£1.54	£1.12	£0.69	£0.28
Hawkwell and Hockley	£3.26	£2.05	£1.65	£1.24	£0.84	£0.43	£0.03
Rural East	£2.97	£1.80	£1.40	£1.02	£0.62	£0.23	-£0.16
Rayleigh	£2.59	£1.47	£1.09	£0.72	£0.34	-£0.04	-£0.41
Hullbridge, Rawreth and Battlebridge	£2.45	£1.34	£0.97	£0.60	£0.23	-£0.14	-£0.50
Rochford and Ashington	£2.22	£1.14	£0.78	£0.42	£0.06	-£0.30	-£0.66

## Appendix 4

Worked example; one hectare site at 30 dph at 35% affordable housing in Rayleigh

### 1 - SITE IDENTIFICATION

Site Details

Site Address

Site Reference

Application Number

Scheme Description

I have read, and accepted, the terms and conditions set out in the [license agreement](#)

### 3 - BASIC SITE INFORMATION

Site Area

Total Size of Site In Hectares  (You must enter a value in here)

Density / Number of Dwellings

Enter a number of dwellings  (You must enter a value in here)

Percentage Increase/Decrease in Density:  
You may test the effect of a percentage increase/decrease in the site density by using the cell below

%

Resulting Number of Dwellings	<input type="text" value="30"/>	<input type="checkbox"/> Tick if this a rural development
Resulting Density	<input type="text" value="30"/> dph	



#### 4 - CHARACTERISTICS OF DEVELOPMENT

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

You then have 2 options for entering information about the scheme

EITHER, enter information for up to 20 dwelling types – each row must be either fully complete or left blank (enter 1 if information not relevant e.g. size of affordable unit but is a market unit)

OR select the Toolkit default mix by depressing the button called Use Default Unit Types

Ref.	Description of Dwelling	No of Bed-Rooms	Dwelling Type	No of Units	Size in sq.m Affordable	Size in sq.m Market	Parking (flats only)	No. of Storeys (1-99)
1								
2	2 Bed Terraces	2	House	3.0	76	65	n/a	n/a
3	3 Bed Terraces	3	House	3.0	84	80	n/a	n/a
4	3 Bed Semis	3	House	10.5	86	90	n/a	n/a
5	3 Bed Detached	3	House	7.5	90	110	n/a	n/a
6	4 Bed Detached	4	House	4.5	110	135	n/a	n/a
7	5 Bed Detached	5	House	1.5	125	150	n/a	n/a
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
Total Number of units				30				

#### 5 - MARKET VALUES

This is a custom scheme, default values are not available.

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

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

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

100 %

Reset button to return to base market value

Ref.	Unit Type	No of Bed-Rooms	Market Value	Adjusted Market Value
1				
2	2 Bed Terraces	2	£175,000	£175,000
3	3 Bed Terraces	3	£205,000	£205,000
4	3 Bed Semis	3	£210,000	£210,000
5	3 Bed Detached	3	£290,000	£290,000
6	4 Bed Detached	4	£340,000	£340,000
7	5 Bed Detached	5	£375,000	£375,000
8				
9				
10				
11				
12				
13				
14				

## 6 - TENURE MIX

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

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

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

Input by Percentages  Input by Quantity

Clear Table

Ref	Description	SALE	AFFORDABLE				Required No. of Units
			Social rent	New Build HomeBuy	Intermediate rent	Discount Market	
1		70%	24%	6%			
2	2 Bed Terraces	2.1	0.7	0.2			3.0
3	3 Bed Terraces	2.1	0.7	0.2			3.0
4	3 Bed Semis	7.4	2.5	0.6			10.5
5	3 Bed Detached	5.3	1.8	0.5			7.5
6	4 Bed Detached	3.2	1.1	0.3			4.5
7	5 Bed Detached	1.1	0.4	0.1			1.5
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20	Total	21.0	7.2	1.8			30.0

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

Previous Page

Next Page

## 8 - SOCIAL AND INTERMEDIATE RENT

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST

Clear Tables

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

View Default Rents ->

Ref.	Description	Social Rent Values (per week)			Intermediate Rent Values (per week)			
		No. of units	Default Rents	User Rents	No. of units	Market Rent	Adjust 75%	User Rents
1			£ -		£ -	£ -		
2	2 Bed Terraces	0.72	£ -	£ 76.00		£ -	£ -	
3	3 Bed Terraces	0.72	£ -	£ 82.00		£ -	£ -	
4	3 Bed Semis	2.52	£ -	£ 84.00		£ -	£ -	
5	3 Bed Detached	1.80	£ -	£ 86.00		£ -	£ -	
6	4 Bed Detached	1.08	£ -	£ 90.00		£ -	£ -	
7	5 Bed Detached	0.36	£ -	£ 96.00		£ -	£ -	
8			£ -			£ -	£ -	
9			£ -			£ -	£ -	
10			£ -			£ -	£ -	
11			£ -			£ -	£ -	
12			£ -			£ -	£ -	
13			£ -			£ -	£ -	
14			£ -			£ -	£ -	
15			£ -			£ -	£ -	
16			£ -			£ -	£ -	
17			£ -			£ -	£ -	
18			£ -			£ -	£ -	
19			£ -			£ -	£ -	
20			£ -			£ -	£ -	

Previous Page

Next Page

## 9 - AFFORDABLE HOUSING 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%	6.75%	of net rent

New Build HomeBuy		ToolKit Values	User Values	
Costs per annum	Rental Factor	2.75%		of share
Capitalisation		6.00%	6.75%	of net rent

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

Previous Page

Next Page

## 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	User Values
Bungalows	£1,049	£1,138
Flats (6+ storeys)	£1,545	£1,763
Flats (5 & less storeys)	£1,115	£1,293
Houses <= 75m2	£999	£1,013
Houses > 75m2	£901	£977

### 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%	17.00%	of market value (Market and Discount Market units)
Contractors Return	6.00%		of development costs (SR, HB, IR and LCS units)
Land financing costs	£ -		Please see the Guidance Notes for use of this value

### Exceptional Development Costs

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

Sustainable Homes Standard	
Market Housing	Affordable Housing
None	None

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

Scheme Total	
per dwelling	
per hectare	

Previous Page

Next Page

## 11 - PLANNING OBLIGATIONS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

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

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

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

Obligations package per unit

Contribution from Commercial

Total for Scheme	£150,000
Total for Scheme per hectare	£150,000
Total for Scheme divided by total number of units	£5,000
Total for Scheme divided by number of sale units	£7,143

## 16 - HOUSING CORPORATION GRANT AVAILABILITY

- No - Grant is not available
- Yes - Grant is available and is a known value

## 17 - ONCOSTS FOR AFFORDABLE HOUSING

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST [Clear page](#)

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

Apply Oncosts

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

	Affordable Housing Tenures			Total No. Of Affordable Units
	Social rent	New Build HomeBuy	Intermediate rent	
<b>Number of units</b>	7.2	1.8		9
i) Default oncosts rate (%)	6%	6%	6%	
ii) User oncosts (%)				
iii) User oncosts By Unit (£)				
Oncosts per Unit	£ 6,372	£ 6,372	£ -	
Total oncosts for Affordable Housing	£ 45,881	£ 11,470	£ -	
<b>Total Oncosts for Affordable Housing</b>	£ 57,351			

[Previous Page](#)

[Next Page](#)

## 20 - Scheme Results

Site Reference Details	
Site Reference Number	
Application Number	
Site Location	Harlow
Scheme Description	1 Hectare Site - 30 Dph

Site Details	
Site	Illustrative Scheme - Rayleigh at 35% Affordable Housing
Address	
Site Details	

TOTAL NUMBER OF UNITS	
Dwellings	30
% Wheelchair Units	

DENSITY (per hectare)	
Dwellings	30.0

AFFORDABLE UNITS		
	Quantity	% of All Units
<b>Total</b>	9.0	30%
Social rent	7.2	24%
Intermediate	1.8	6%

REVENUE AND COSTS	
Total scheme revenue	£ 5,863,000
Total scheme costs	£ 4,808,000

RESIDUAL VALUE	
Whole scheme	£ 1,055,000
Per hectare	£ 1,055,000
Per dwelling	£ 35,000
Per market dwelling	£ 50,000

Contribution to revenue from:	
Market housing	£ 5,329,000
Affordable Housing	£ 534,000
- Social rent	£ 251,000
- New Build HomeBuy	£ 283,000
- Intermediate Rent	£ -
- Discount Market	£ -
- Local Sale	£ -
Capital Contribution	£ -
Commercial Elements	£ -

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

Contribution to costs from:	
Market housing	£ 3,648,000
Affordable Housing	£ 1,010,000
- Social rent	£ 808,000
- New Build HomeBuy	£ 202,000
- Intermediate Rent	£ -
- Discount Market	£ -
- Local Sale	£ -
Land Finance	£ -
Planning Obligations	£ 150,000
Total Exceptional Costs	£ -
Commercial Elements	£ -

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

[Save Results](#)

[View Results](#)

[Cost Components](#)

[View DCF Page](#)

[Previous Page](#)

**Comments Received On Draft Affordable  
Housing Viability Assessment During  
Consultation**

Received From	Comment received	Response	Suggested Change
Colonnade	<p>1. The use of the primary data sources listed on pg 10 of the presentation is accepted as a reasonable basis for the assessment. However, it is not reasonable to rely on BCIS build costs which do not reflect additional costs associated with Code for Sustainable Homes (CfSH) requirements. BCIS is a 'reactive dataset' rather than a 'forward facing dataset' and will need to be adjusted to take account of future requirements of the CfSH. As discussed in the workshop, it may be appropriate to base the adjustment on the advice from CLG on the costs of the Code, the link to which we can provide on request. It is important to note that the CS, which is the document to be informed by the 3D Model, should look to a period of 15 years from the date of adoption of the CS. Basing the 3D Model, which will form part of the evidence base for the CS, on data sources that are do not take account of the future requirements of the CfSH is not robust and will not provide the flexibility required.</p>	<p>BCIS costs reflect whatever level of costs are incurred locally. In so far that RSLs are developing to Code 3, then this will have been included in the testing. There are two main reports on Code Level 4 costs – versus Code 3) – Cyrill Sweet and DCLG. These shows consistent figures which we have reflected. Looking forward, development may be more viable at Code Level 6, if prices rise. The incidence of the relationship between higher costs and revenues cannot be predicted.</p>	No change required
	<p>1. The scenario testing of the affordable housing targets at pg 10 of the presentation proposes appropriate 'book-ends' to the assessment e.g. 15% to 40%, but the proposed increments of 5% are considered to be relatively blunt approach to the various scenarios. Recognising the need to strike a balance between the need for flexibility and clarity in the assessment process and a pragmatic approach to the appropriate range, we would suggest 2.5% increments should be tested.</p>	<p>Three Dragons (AG) have run over 50 of these studies with typically 5% increments. In their experience, because of the difficulty in defining viability, the increments should be wider, not narrower.</p>	No change required



<p>The feedback from the RSLs at the workshop regarding the proposed tenure split of affordable units should translate into the scenario testing. The feedback, which reflects the experience of Colonnade in a number of other locations, was that there is little appetite amongst RSLs for intermediate units and they are not looking to provide them. As such, and as confirmed at the workshop, the scenario testing should be based on 100% social rented provision, rather than an 80/20 tenure split as this reflects the reality of provision, both now and for the foreseeable future.</p>	<p>Whilst this may be the case at the current time and maybe for the foreseeable future, we do not believe, drawing on feedback from elsewhere, that Intermediate housing will not feature in some measure in most schemes over the period of the Plan.</p>	<p>No change required</p>
<p>1. The 'Other Development Costs' at pg 17 of the presentation need to be clearly justified. It is our view that the assumption regarding the Developer Return is not realistic. The proposed 15% Developer Return is considerably short of the current market standard of 22-25% returns, which reflects the risks of the current market and the costs of borrowing. It is relevant that the 3D model was originally developed in a very bullish market and whilst the 15% figure could be justified then, it needs to be adjusted take account of the current market position to retain realism."</p>	<p>A 15% is correct for the Plan period. There was also no feedback at the workshop suggesting this was incorrect. The 15% has recently been held up in a Core Strategy decision. A 15% return will normally provide a 20% on cost return. The Council can reflect a higher rate if they agree that in negotiations in more difficult market circumstances.</p>	<p>Point noted and flexibility required</p>
<p>Accordingly, Colonnade considers the recommendations of the document will have little effect on achieving a step change in the current delivery of affordable housing in Rochford, which must be the principal consideration of the Council, and the Inspector, in the interests of the community.</p>	<p>The purpose of the report is to provide a robust policy position which has now been done. The purpose of the report is in part to enable land owners to reflect the policy properly and bring sites forward.</p>	<p>No change required</p>

<p>Our comments regarding the use of primary data sources relating to the use of BCIS do not appear to have been addressed and we would reiterate the previous concerns. Indeed, there has been no response on the issues highlighted at the previous stage despite real and significant concerns with the information used. As an indication of the importance of the concerns, we again consider the use of BCIS as a data source.</p>	<p>See Below</p>	<p>No change required</p>
<p>BCIS assumes a level acre of land with no abnormal costs, or other ground condition issues, and as such is far too simplistic in its assumptions. There is no justification for the use of BCIS in the assessment of viability in Rochford, nor any commentary on the compatibility of the assumptions used in BCIS against the local conditions typical of land in Rochford. As such, the costings are predicated on narrow assumptions that do not relate well with the local conditions. As a minimum, the report should include commentary on the limitations of the data in the local context and undertake sensitivity testing to address potential issues.</p>	<p>BCIS is the primary source which is used extensively with these types of reports. BCIS costs have been adjusted locally. BCIS costs reflect a range of site. They are averages. In many cases (typically larger developers) in our experience the costs will be substantially lower than the averages.</p>	<p>No change required</p>
<p>Furthermore, given that the starting point for any viability assessment is to have sound income forecasts, we can find no house price sales data cited that is both current and specific in some way to the relevant locations across Rochford District. For it to be a fully robust assessment of viability assessment, it must recognise variations in values and therefore, the results relating to sub-areas must be considered in relative terms.</p>	<p>Market areas have been tested. This provides the Council with a possibility to vary targets in relation to sub markets.</p>	<p>No change required</p>
<p>It is not considered appropriate for the draft report to be published in its final form ahead of clarification of the final position regarding the proposed revocation of the RSS.</p>	<p>Guidance has stated that Local Authorities should continue with their LDF process.</p>	<p>Point noted.</p>

<p>It is in this context that the report helpfully clarifies the reliance of Rochford Council on the delivery of new residential development on backland areas. Therefore, the recent revisions to PPS3 that clarify that windfall sites cannot be used in the calculation of housing land supply and confirm that backland development is no longer classed as development of previously developed land will place a greater pressure on delivery from greenfield sites.</p>	<p>Paragraph 4.9 states that " In the other, smaller settlements, 46% of all dwellings will be developed on sites of less than 15 dwellings. This is significant, but suggests less reliance, on the basis of planning permissions (see also commentary in the Conclusions) on small sites than for the larger settlements".</p>	<p>No change required</p>
<p>Use of a 'notional 1.0 hectare site' as a means assessing viability as against smaller sites is flawed.</p>	<p>All sites will be ultimately subject to viability testing. This methodology is seen as best practice and is extensively accepted across England and Wales.</p>	<p>No change required</p>
<p>The preparation of the viability assessment report at this very late stage in the preparation of the Core Strategy means that it has not been subject to SEA as part of the evidence base to the submission Core Strategy. As such, it must be subject to SEA individually for its recommendations to be incorporated into the Core Strategy.</p>	<p>The viability assessment is part of the evidence base for the Local Development Framework. It helps inform policy, but it does not create policy.</p>	<p>No change required</p>
<p>In reaching its 'conclusions/recommendations' the draft report appears to rely only on the VOA's residential land value (July 2009) data for the East of England as a benchmark - this data is far too generic to be relied on for a tailored and specific local assessment of affordable housing viability. Moreover, it is also 9 months out of date by the time it is published. It is significant that the use of VOA's was recently criticised by a number of Housing Associations for similar reasons.</p>	<p>The policy recommendations reflect a range of considerations. These are set out In Para 6.23</p>	<p>No change required</p>
<p>However, for the principal reasons identified above, Colonnade considers the report:</p>	<p>We would re-iterate that future market conditions can be taken on board as and when sites are brought forward. Concomitant costs and values likewise.</p>	<p>No change required</p>
<ul style="list-style-type: none"> <li>· Contains insufficient scenario testing;</li> </ul>		
<ul style="list-style-type: none"> <li>· Is too narrowly defined;</li> </ul>		

	<ul style="list-style-type: none"> <li>· Lacks the capability of assessing flexibility of policy and future conditions that may prevail; and</li> <li>· Provides insufficient focus on the local market circumstances – the wide assumptions used are not appropriate to a local assessment where a robustly justified intra-analytical approach is required.</li> </ul>		
Swan Housing	This report provides a comprehensive assessment of the housing market in Rochford which has specific implications for the future delivery of new affordable housing. Section 6 provides a wide range of flexible options which will maximise the opportunities to deliver much needed affordable housing in the borough.	Comment noted	No change required
Hanover Land Trust	Appendix 1-4, paragraph 3 & 4 also 6, paragraph 3, we support the statements therein. In general the parameters set out by Three Dragons appears feasible and a fairly sound basis of calculation depending on the local circumstances affecting individual sites in the lead up to and at the time of development implementation. Broadly supportive of document	Comment noted	No change required
Planning Potential	Report does not match / support policy H4 of Core Strategy Submission therefore further justification of H4 and supporting evidence is required.	The purpose of the report is to provide a robust policy position which has now been done. The purpose of the report is in part to enable land owners to reflect the policy properly and bring sites forward. We would re-iterate that future market conditions can be taken on board as and when sites are brought forward. Concomitant costs and values likewise.	No change required

<p>My client is concerned that in the testing of the viability scenarios, base and average housing values for the district were used, and sub market values were established. Whilst it is not contested that this is likely to be an appropriate mechanism, what does not appear to have been considered is the impact on market values that a proportion of affordable housing will have on these sub market locations. The question arises that will sales values of a scheme without affordable housing be the same if an element of affordable housing was included? This position may be of greater concern in smaller schemes or marginal residual value locations.</p>	<p>The 'stigma' impact issue arises only in a fairly low percentage of studies we have carried out. We are not aware of any systematic body of evidence that suggests such an impact.</p>	<p>No change required</p>
<p>Paragraph 4.1 refers in the last sentence to a threshold of 15 units and site size of 15 dwellings - I believe the second part should refer to a site size of 0.5Ha?</p>	<p>Agreed.</p>	<p>Change to paragraph 4.1 required</p>
<p>The report mentions on a number of occasions that the majority of schemes that are recent applications that provide evidence are smaller schemes of less than 190 units and many on what would be termed garden land. Given the recent changes to PPS3, and the removal of garden land from the definition of PDL, my client does wonder what sites might replace this in the housing land supply and as to how residual value or land value may effect sites coming forward. If historically there has been a reliance on smaller sites coming forward, this may no longer happen and thus those larger sites that may be available will skew the viability as a shortage of land opportunities would drive prices up.</p>	<p>The Council's housing supply does not rely on windfall sites, such as those that may come forward from the development of garden land.</p>	<p>No change required</p>

<p>Although passing mention is made in paragraph 6.28 and 6.29 as to individual site viability testing through toolkit assessments little consideration appears to have been given to assessing viability and residual values in changing markets. The assessment has been undertaken in a poor but static market. For instance what would happen where a site was purchased in a better economic climate and now this has drastically changed - how will the viability testing accept the principle of seeking to deliver much needed housing rather than stall development.</p>	<p>The analysis suggests that at the current time, house prices are close to the long term trend, although it also shows that over time viability has improved as the gap between house prices and build costs has widened. The changing market circumstances can be monitored through the application of the Toolkit.</p>	<p>No change required</p>
<p>The comment smade at paragraph 6.20 in so far as 'housing associations do not object to small sites' seems at odds with my clients own experience and indeed the comments made at the workshop on the 30th April at paragraph 3 of section 6 - perhaps the Council should define what it interprets small as.</p>	<p>Housing Associations have been engaged in the preparation of this report and have not objected to this viewpoint.</p>	<p>No change required</p>
<p>My client is concerned that the equivalent value identified in paragraphs 6.21 and 6.37 is not equivalent. Rather this is too simplistic. Any uplift which is suggested should be payable as a contribution in lieu of all that over and above a residual value comprising a policy compliant affordable housing provision should be linked to the costs involved, profit margin and risk with a scheme. Surely a proportion of uplift should remain with the developer.</p>	<p>It is important to distinguish between the principle (of equivalence) which is perfectly equivalent and viability. Commuted sums whether equivalently calculated or otherwise cannot make unviable sites viable. All commuted sums will be subject to the viability test and possibly taking existing use value into account.</p>	<p>No change required</p>

<p>The discussion of thresholds in paragraphs 6.30 to 6.36 is very concerning to my client. Any threshold below 15 units that would 'catch the majority of sites' according to the historic nature of applications would mean that on a scheme of 10 units, this would mean that 2 units would be for rent and 1 unit for intermediate tenures. This will create management issues and complications. This situation will only get worse should 5 units be considered. My client strongly objects to any threshold below 15 units as there would be insufficient critical mass - this is not necessarily a pure viability point. Rather the Council should seek to release or ensure some 'larger opportunities' come forward, especially when this is married with recent changes to definitions of PDL in PPS3.</p>	<p>The study shows that small sites are no less viable than large ones. A very low threshold is justifiable on viability grounds. Whether there is on site or off site provision via a commuted sum is a matter for planning and in some instances management considerations on a site by site basis.</p>	<p>No change required</p>
<p>With regards to the concluding comments made in paragraphs 6.41 and 6.42 whilst many reports and projections suggest market values will come back the big questions remains, when. Certainly recent market analysis suggests there could be a 'double dip' on the horizon, and whilst the extent, depth or degree may be different in certain market sectors, what remains key is the policy must be flexible to respond and indeed should seek to encourage development.</p>	<p>Agreed. The Rochford Toolkit allows for this flexibility.</p>	<p>No change required</p>
<p>With regards to the three recommendations made at paragraph 6.25 my client would be pleased to understand how these translate into the proposed policy wording of H4.</p>	<p>The viability assessment is part of the evidence base for the Local Development Framework. One of the recommended options states that if the historic relationship between house prices and build costs prevails, then a 35% target would not be unreasonable. In addition, whilst the viability assessment will help inform an appropriate affordable housing policy, it is not the only consideration.</p>	<p>No change required - the document is a living document and therefore designed to be flexible.</p>



