

**“STUDY INTO THE ECONOMIC
VIABILITY OF PROVIDING
AFFORDABLE HOUSING”**

**Undertaken in connection with the emerging
Blaenau Gwent Local Development Plan**

**Completed on behalf of Blaenau Gwent County
Borough Council**

by

District Valuer Services (DVS)

August 2010

EXECUTIVE SUMMARY

1. Blaenau Gwent County Borough Council appointed District Valuer Services (DVS) as consultants to undertake an Affordable Housing Viability Study to develop a Local Development Plan (LDP) evidence base to support the delivery of affordable housing in Blaenau Gwent and to inform policy decisions on where to set targets and thresholds. The overall objectives of the study were to demonstrate, on the basis of a robust evaluation of the financial viability of both notional and identified residential developments:
 - The targets for the percentage of affordable housing sought on mixed tenure sites that would be viable in the study area/s
 - The appropriate site threshold above which affordable housing should be sought
 - An understanding of the different housing markets in the County, with the possibility of different targets being set for different market areas.
2. Affordable Housing Viability Studies (AHVS) form part of the Welsh Assembly Government's required evidence base in support of each Welsh Planning Authority's LDP. Local Planning Authorities are required to ensure that in setting site-capacity thresholds and area specific targets for affordable housing, they have balanced the need for affordable housing against site viability.
3. At the opening start up meeting it was agreed that 12 representative development sites within the Authority would be tested for viability. These 12 sites all enjoy latent development value of an imminent or imminently foreseeable nature and were chosen as a representative mix of the type of development sites that will deliver the Authority's new housing over the life of the LDP.
4. As part of the study process, a Consultation Workshop was held at the VITCC in Tredegar on Friday 19th February 2010. A range of issues were discussed at the Consultation Workshop, with follow up discussions and investigations being completed by DVS with some of the workshop attendees.
5. Having completed the Consultation and investigation processes the most significant challenges that have been raised and reviewed during the Study have been assessment of the appropriate land value, development costs (including the impact of the Code for Sustainable Homes) the valuation of affordable housing and development profit expectations.
6. We view viability as an interrelated triangular relationship between the public sector, development industry and the landowner. Tensions can arise within this triangular relationship model; however these can be harnessed to drive even greater efficiencies. The important point is that the bigger picture is recognised by all and reflected in flexibility of their position, which will allow challenges like the ongoing market realignment to be addressed and overcome.
7. Our viability testing results across the 12 sites can be reviewed as three distinct groups; small sites, mid-range sites and large sites.

8. Sites A to C fall within what we define as large sites (100+ dwellings). The results for these sites are, unsurprisingly, better than the rest of the test sites. This is a reflection of their ability to spread and phase costs over a longer period and absorb any fixed abnormal costs over their higher overall Gross Development Values.
9. The results for these large sites show an ability to easily support 10% affordable housing in the current market (100% Sales) and a very good ability to support 15% given some flexibility on density or developer profit, the latter of which will be a case by case "risk & return" judgement call by the developer. Even an affordable housing target of 20 - 25% is within reach of these sites, but this is more marginal.
10. Sites D to H fall within what we define as the Mid-range sites (20 to 99 dwellings). The viability results for these sites are actually the worst of the three groupings, whereas we would usually expect these results to have been middle order. There are a number of reasons for this, firstly two of the mid-range sites are in the South of Blaenau Gwent where our statistical analysis has identified housing sale prices to be generally lower (particularly in some parts of the south) than northern housing around the heads of the valley road. Secondly, the mid-range sites are all Brownfield with abnormal remediation/site clearance costs and in some cases identified continuing existing uses that naturally uplift their landowner's sale price expectations.
11. The results for these mid-range sites show an ability to support between 0% and 15% of affordable housing provision in the current market (100% Sales), but in truth the results are mixed and very site specific. We do believe that the particular characteristics and challenges of sites G and H make them real candidates for affordable housing provision, but this is more marginal.

- 1.9 The Study brief provided by the Authority asked us to take into account a number of variables including:
- density;
 - sub-markets;
 - the level, mix and tenure of affordable housing;
 - other planning obligations;
 - the availability of grant funding;
 - the impact of the Code for Sustainable Homes requirements; DQR requirements; and
 - economic conditions.
- 1.10 The brief directed DVS to address and complete the following objectives:
- Assess the housing markets in the County to establish whether different scenarios need to be run for different areas or whether the County, for the purposes of establishing site thresholds and site percentages, should be considered as a whole;
 - Establish the site threshold, for notional sites, at which sites will be viable for the delivery of affordable housing;
 - Establish the percentage of affordable housing which it is viable to deliver on notional sites;
 - Provide an appropriate evidence base for the affordable housing policy to be included in the Deposit LDP that meets the requirements of the national planning policy set out above; and
 - Examine the case for amending the draft Deposit Plan policy for affordable housing to one that is more locally appropriate and is based on rigorous viability principles and make recommendations for such amended wording.
- 1.11 The Authority wished to test viability for a range of sites in a variety of development circumstances and an appraisal approach was undertaken which would permit this and that could reflect a prescribed level of affordable housing and mix of house types and sizes. A list of identified sites was carefully selected, with the aim of testing sites in a variety of geographical locations. This would enable more general conclusions to be drawn about the local viability implications of differing scenarios.
- 1.12 At the opening start up meeting it was agreed that 12 representative development sites within the Authority would be tested for viability. These 12 sites all enjoy latent development value of an imminent or imminently foreseeable nature and were chosen as a representative mix of the type of development sites that will deliver the Authority's new housing over the life of the LDP. Particular care was taken to ensure these 12 sites included an appropriate representative mixture of development sizes, Greenfield or Brownfield characteristics, geographical locations within the Authority and other relevant and significant variables.
- 1.13 The valuations and appraisals reflect an agreed valuation date of 1 March 2010. The valuation date falls a few months behind this report because of the time lag in the receipt of completed market intelligence in respect of both sales (land and housing) and construction cost data. A valuation date concurrent with the report was achievable but would have required a level of forecasting and extrapolation and this was not deemed appropriate given the longevity of the LDP.
- 1.14 The appraisals have been tested by sensitivity analyses to allow for changes in market prices ranging from 10% below, and up to 20% above those at the base date. This approach reflects the long-term nature of the proposed Policy and the potential for changes in viability based on improvements in the general market for housing.

District Valuer Services

1.15 District Valuer Services (DVS), part of The Valuation Office Agency (VOA), provides

2. CONSULTATION

Introduction

- 2.1 As part of the study process, a Consultation Workshop was held at the VITCC in Tredegar on Friday 19th February. A copy of the finalised Agenda is reproduced at Appendix 1 to the back of this report.
- 2.2 The Agenda outlined the main processes undertaken, together with assumptions and basic methodology, and the final aims of the study. Comments were invited on these points and any other issues that the parties deemed important. Minutes from the Workshop can be found at Appendix 2 and DVS presentation notes are found at Appendix 3.

Results

- 2.3 A range of issues were discussed at the Consultation Workshop, with follow up discussions and investigations being completed by DVS with some of the workshop attendees. Comments focused (in no particular order) on the following particularly significant matters:
- Developer profit expectations, including the treatment of developer internal overheads and contractor returns on affordable housing provision.
 - Landowner sale price expectations and the need to consider current existing and alternative use values in conjunction with but ahead of any historic acquisition price.
 - The issues that can arise when landowners and developers make development assumptions outside of the stated local authority planning policies and without prior consultation and agreement with the local authority and its development partners.
 - The use of the RICS Build Cost Information Service (BCIS) within the appraisals and its weighting towards public sector construction schemes.
 - The reliance of developers upon Quantity Surveyor cost estimates and/or construction industry opinions and market sentiment in the absence of independently published out-turning private home building development costs.
 - The use of planning and housing policy guidelines concerning the valuation of affordable housing.
 - The use by RSLs of discounted cashflows with reference to Welsh Assembly Government (WAG) Acceptable Cost Guidance (ACG) in their assessment of affordable housing worth and affordability to the RSL.
 - The use of investment and loan affordability appraisals by Surveyors, with reference to Welsh Assembly Government (WAG) Acceptable Cost Guidance (ACG) and equivalent market value.
 - The build cost implications of compliance with the Code for Sustainable Homes and the WAG's future objectives for increasing the sustainability of new housing. Also, the extent to which the BCIS index already reflects some allowance for the requirements of Code for Sustainable Homes.
 - The level of past and projected s106 financial contributions within Blaenau Gwent and the appropriate level to test within the Study.
 - The sometimes negative impact on deliverability of affordable homes needing to be 100% tenure neutral and compliant with the WAG Development Quality Requirements (DQR) for Social Housing Grant support.
 - The need for development scheme housing mixes to be generally informed by the local Housing Market Assessment but finalised on a sustainable site by site basis.
 - The problems arising out of too many affordable housing targets over differing housing market sectors.
 - The use of offsite s106 contributions for all sites and not just those of between 10 and 19 dwellings.

- The case for a lower affordable housing provision threshold.
- The trends and the relationship between the housing and construction markets and the need to review the LDP evidence base on a regular basis, possibly activated by pre-determined trigger movements within the housing market.

2.4 Whilst we recognise that many of these issues could be the subject of lengthy discussion, we have provided our own conclusions in this Report (a number of which answer comments received).

3. INDIVIDUAL DEVELOPMENT TEST SITES

Introduction

- 3.1 The Authority identified a total of twelve real and representative sites for assessment in this study. This section considers the key characteristics of the individual sites, together with the assumptions made about each proposed development for the purposes of producing appraisals.
- 3.2 The sites are of varying sizes and generally are “Brownfield”, whether having now been cleared of buildings and other structures or retaining existing buildings in active use or redundant. Some of the sites are being progressed through the planning process but none are yet developed.
- 3.3 It is important to stress that the prescribed “test” developments were designed to meet the Authority’s planning policies and do not necessarily match any future actual development. Accordingly, no dialogue has been entered into with landowners or developers (in respect of the specific sites) in carrying out this study.
- 3.4 The individual sites were inspected, during January 2010. Brief descriptions of each site are provided at Appendix 4. The sites are all ‘real’ and their individual characteristics, any anticipated abnormal costs, etc. are taken into account in the appraisals. However, the sites are not specifically named or identified in order to avoid prejudicing any potential planning application which, by its nature, will involve more detailed data and will be viewed on its individual merits.
- 3.5 We were asked as part of the Sensitivity Analysis undertaken in the Study to highlight and discuss the relationship between development viability and s106 contributions beyond the provision affordable housing. The discussions are noted later within this report.

Existing Data

- 3.6 We have been made aware of “live” planning applications submitted in respect of a minority of the sites.

The individual sites

3.8 Details of the sites identified by the Authority are set out in the table below:

Table 1- Basic Site Details

Site Ref.	Location	Land area (Ha)
A	Urban fringe cleared Brownfield site to North of Authority	5.80
B	Suburban Greenfield site to North of Authority	6.10
C	Urban cleared Brownfield site to North of Authority	2.43
D	Suburban cleared Brownfield site to South of Authority	1.47
E	Suburban Brownfield site (In use) to North of Authority	1.80
F	Suburban cleared Brownfield site to North of Authority	0.93
G	Suburban Brownfield site (In use) to North of Authority	0.71
H	Suburban part cleared Brownfield site to South of Authority	0.40
I	Suburban cleared Brownfield site to North of Authority	0.25
J	Suburban cleared Brownfield site to North of Authority	0.16
K	Urban cleared Brownfield site to North of Authority	0.16
L	Suburban Brownfield site (In use) to North of Authority	0.07

3.9 The selected sites provide a good mix of development scheme variables and both typical and strategic locations across the Authority. Two of the sites were from the Ebbw Vale area, four from the Tredegar area four from Upper Ebbw Fach and two from Lower Ebbw Fach.

Development Assumptions

3.10 In order to test schemes that meet all aspects of present planning policy, the Authority have been prescriptive in terms of the unit numbers, mix and degree of affordable housing to be met by each site.

3.11 The prescribed development for each site is set out below:

Table 2- Basic Site Development mix

	Apartments	Bungalow	Housing
Site Ref.			

supplemented by density checks both in terms of dwellings per hectare and built floor space per hectare. This benchmarking has helped ensure that appropriate development mixes are tested that account for policy requirements and market drivers.

- 3.13 Current 'market' housing can be provided by developers in both larger (particularly where 3 storey construction is adopted in some more urban locations) and smaller

4. LOCAL MARKET TEST CONDITIONS

Introduction

- 4.1 This section provides an assessment of local market conditions in the Authority of Blaenau Gwent. The assessment provided the basis for the assumptions on house prices adopted in the financial appraisals for the twelve sites. Where appropriate, the values enable a calculation of the alternative use values of the sites, against which a threshold land value sufficient to allow the proposed development to proceed can be tested.

General Comments

- 4.2 In support of this exercise, we have considered values specific to the test sites identified. It is important to stress that a series of factors will influence values and that, although development schemes do have similarities, every site is unique. Consequently, whilst market conditions in general will broadly reflect national economic circumstances and local supply/demand factors, within the Authority, there will be particular localities and site-specific factors that generate different values and costs. The range of sites tested in this study seeks to assess viability across varying localities for this very reason.
- 4.3 The comments below relate to prevailing market conditions at the valuation date (1 March 2010). It should be stressed that values fluctuate and that assessments of viability will alter over relatively short periods of time.

The viability appraisal model

- 4.4 Development appraisals are in essence relatively straightforward and can be

4.7 In most cases seen within the Authority the underlying existing use value of sites is limited (save for those sites where there is an established and ongoing existing use) but even where the existing value is low the landowners will require a premium or incentive of some kind in order to induce them to release the land for development. In some cases (i.e. self-build) the incentive may simply be the provision of an affordable home for themselves or their children but outside of this premiums are

4.13 As a result, the following typical rounded sale prices that have been achieved for comparable market housing are reflected within the appraisals.

Table 3- Averaged Sale Values adopted

Site ref.	Locality	Private Housing £/Sqm
A	Urban fringe cleared Brownfield site to North of Authority	£1,600
B	Suburban Greenfield site to North of Authority	£1,650
C	Urban cleared Brownfield site to North of Authority	£1,700
D	Suburban cleared Brownfield site to South of Authority	£1,500
E	Suburban Brownfield site (In use) to North of Authority	£1,500
F	Suburban cleared Brownfield site to North of Authority	£1,650
G	Suburban Brownfield site (In use) to North of Authority	£1,600
H	Suburban part cleared Brownfield site to South of Authority	£1,500
I	Suburban cleared Brownfield site to North of Authority	£1,600
J	Suburban cleared Brownfield site to North of Authority	£1,600
K	Urban cleared Brownfield site to North of Authority	£1,650
L	Suburban Brownfield site (In use) to North of Authority	£1,650

5. ASSUMPTIONS FOR VIABILITY ANALYSIS

Introduction

- 5.8 The BCIS average build costs is supported by a significant amount of data from public sector build projects where Code Level 3 build requirements (and sometimes above) are being achieved. There is therefore some ongoing debate concerning whether BCIS build costs should be adjusted to allow for the additional requirements of the Code for Sustainable Homes.
- 5.9 There are various studies into the potential cost of the Code and the most recent Study completed for the department for Communities and Local Government in March of this year (Which supersedes the work of Cyril Sweet in 2007/8) assesses the typical extra-over cost of achieving Code Level 3 from the 2006 Building Regulation requirements to be within a range of between £2,050 to £3,020 per dwelling, depending on dwelling type, ground conditions (Greenfield/Brownfield), development density (20, 40 & 80 dwellings per hectare were assessed) and development location type. The same Study puts the typical extra-over cost of achieving Code Level 4 from the 2006 Building Regulation requirements to be within a range of between £5,280 to £8,140 per dwelling.
- 5.10 Having regard to the latest cost reviews of the Code for Sustainable Homes, the already partly weighted basis of the BCIS and known market allowances made by the development industry, we have for 5497 Tw 0 -1.147 C theane by althindO a rh4uAT0011
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Abnormal development costs

5.15 The information provided to us together with site inspections indicated that exceptional or abnormal costs would arise on some sites. Whilst not having detailed information in respect of these elements we have made a broad estimate of the likely scale of abnormal costs for each site and reflected this in a specific allowance or contingency adjustment for each site. It should be noted that whilst some of the sites involve a degree of demolition, this might not in itself be a significant cost unless it involves contaminated materials, or takes place on a particularly constrained site.

5.16 Our Environmental Surveyor has completed a desktop review of each of the sites to provide an overview on potential remediation costs. The work involved:

1. Brief overview of contamination from supplied information and other available information (including data provided by the Council)
2. Consideration of a range of costs (£000's per hectare) from the Contamination and Dereliction Remediation Costs (Best Practice Note 27) published by English Partnerships.
3. An estimated/assumed cost per hectare for remediation works using a cost from within the range provided in the Best Practice note (sic) for each site, based on the currently available information.

Whilst the information is very limited and these costs are very speculative, at this stage, we consider that, in the circumstances, this approach is a reasonable one. If more information becomes available a refined view can be made that should closer reflect the likely actual costs.

4. Provision of total cost for contamination only (excludes demolition, and foundation costs) calculated for each site based on the supplied size using the above estimated/assumed cost per hectare. The total abnormal costs are listed in the table below.

Table 4- Abnormal development costs:

Site ref.	Contamination/remediation/other works (rounded)
A	£435,000
B	NA
C	NA
D	£185,000

Land Values

- 5.17 In undertaking this study we have had regard to historic land sale prices. We recognise the fact that the current economic conditions are inducing a market realignment and we have taken account of this when considering the likely value at which a landowner may release their land for housing development.
- 5.18 The land values adopted reflect an opinion of the level required for the land to be released onto the market for residential development. This may well be lower than transactions in the recent past, but our appraisals are based on current market conditions, with the affordable housing requirements, assuming the land is acquired at the date of valuation.
- 5.19 Evidence of land values at the present time is limited but anecdotal evidence of

5.23 In this Study we consider that one alternative use, to the often prevailing commercial/agricultural/amenity existing use, is residential and therefore we have assumed that planning consent (subject to the required developer contributions, both

Site acquisition and disposal costs

- 5.29 The development is assumed to proceed immediately and so other than interest on the site cost during construction, no allowance has been made for holding costs, or

6 RESULTS OF VIABILITY ANALYSIS

6.1 The results of the test appraisals, based on the assumptions set out above are set out in Appendix 4

In summary:

The table overleaf indicates whether the target developer profit (20%) can be achieved based on an Affordable housing provision of 10%, 15%, 20% and 25% and adopting the density on each site as originally set out.

N – Not achieved (less than 15%); M – marginal (15-19.99%); Y– achieved (20%+)

Table 7- Cumulative Viability results by sale price and affordable housing content
Blaenau Gwent County Borough Council Affordable Housing Viability Study

		Sale Price															
		90%				100%				110%							
		Affordable Housing Content															
		10%	15%	20%	25%	10%	15%	20%	25%	10%	15%	20%	25%	10%	15%	20%	25%
Viable		0	0	0	0	17	9	1	0	30	30	27	24	33	32	31	30
Marginal		3	0	0	0	13	16	18	13	2	1	3	6	0	1	2	2
Unviable		33	36	36	36	6	11	17	23	4	5	6	6	3	3	3	4

7. STUDY RESULTS

7.1 It is appropriate to reiterate here that the Council appointed DVS as consultants to undertake a Study to develop a LDP evidence base to support the delivery of affordable housing in Blaenau Gwent and to inform policy decisions on where to set targets and thresholds. The overall objectives of the study were to demonstrate, on the basis of a robust evaluation of the financial viability of both notional and identified residential developments:

- The targets for the percentage of affordable housing sought on mixed tenure sites that would be viable in the study area/s
- The appropriate site threshold above which affordable housing should be sought
- An understanding of the different housing markets in the County, with the possibility of different targets being set for different market areas.

Consultation matters warranting further discussion

7.2 Having completed the Consultation and investigation processes the most significant challenges that have been raised and reviewed during the Study have been assessment of the appropriate land value, development costs (including the impact of the Code for Sustainable Homes) the valuation of affordable housing and development profit expectations.

7.3 In respect of what constitutes an appropriate development site land value there is some concern that reference only to a development sites' existing use value with the addition of a percentage premium uplift is too simplistic of a view. It is felt that this approach does provide a benchmark, but that a complete valuation should consider the views of both the developer and landowner and the myriad of factors that can affect these views; wherever comparable land transactions, competition within the market, perceived risk and return by developers and their financiers, abnormal costs, the availability of public subsidy, market forecasts, personal circumstances etc.

7.4 The discussion over build costs is a perpetual one, but much of the debate can be resolved through the use of like for like cost comparison. Many valuers and surveyors within the UK development industry use the BCIS construction data and build up their cost estimates from this source. Indeed, national homebuilders base construction costs start significantly lower than the BCIS averages applied here. Part of the problem is that build costs are very scheme and site specific and so quoting overall out-turning build cost rates can sometimes be misleading, especially where abnormal costs exist (as is common within parts of Blaenau Gwent).

7.5 Intertwined with the construction cost debate is the current and future effect of the Code for Sustainable Homes and the WAG's sustainability agenda. There has been a range of cost reviews undertaken for the UK Government and various Development Industry interest groups over the past years. We believe that most recent review completed on behalf of the UK Government (published in March) and our investigations supports our average allowance of £2,500 per dwelling in the

approaches do not always make for the smoothest or most transparent discussions on transfer terms but good planning and housing policy guidance notes, and the endeavour of all parties mostly finds a way to make these transactions happen. Going forward, it would be helpful for more wide ranging valuation and transfer guidance and procedural endorsement by the Welsh Assembly Government could help develop further consistency across Wales.

- 7.7 Developer profits can be an emotive subject. Clearly, a Capitalist Society's need for more homes requires the endeavour of private developers who quite understandably require a profit for their work. Perhaps the most significant live issue in the globally realigning markets is what level of profit benchmarking is reasonable. The house building industry has to expect that its profits will be reduced like any other business in the current realignment, but the paradox to this is that development financiers (Whether Banks or Investors) see greater risk and so seek greater profit from home builders. Currently developers and their financiers need to assess development risk and return not just against past industry standards but risk and return in opportunities elsewhere within the economy. This is a wider challenge but one that will normalise with time.
- 7.8 We view viability as an interrelated triangular relationship between the public sector, development industry and the landowner. Tensions can arise within this triangular relationship model; however these can be harnessed to drive even greater efficiencies. The important point is that the bigger picture is recognised by all and reflected in flexibility of their position, which will allow challenges like the ongoing market realignment to be addressed and over come. In practical terms this means flexibility on the public sector requirements, flexibility on developer profit expectations and flexibility of landowner price expectations.
- 7.9 Moving onto the testing results our findings can be reviewed as three distinct groups; small sites, mid-range sites and large sites.

Viability results for the large sites

- 7.10 Sites A to C fall within what we define as large sites (100+dwelling). The results for these sites are, unsurprisingly, better than the rest of the test sites. This is a reflection of their ability to spread and phase costs over a longer period and absorb any fixed abnormal costs over their higher overall Gross Development Values.
- 7.11 The results for these sites show an ability to easily support 10% affordable housing in the current market (100% Sales) and a very good ability to support 15% given some flexibility on density or developer profit, the latter of which will be a case by case "risk & return" judgement call by the developer. Even an affordable housing target of 20 - 25% is within reach of these sites, but this is more marginal.
- 7.12 Once the property market variable is changed, viability becomes much clearer. So if the property market sees a 10% relative reduction (90% Sale Price testing column) then no affordable housing contributions are achievable, but conversely if the market sees a 10% relative price increase (110% Sale Price testing column) then 25% affordable housing contributions become comfortably achievable.

Viability results for the Mid-range sites

- 7.13 Sites D to H fall within what we define as the Mid-range sites (20 to 99 dwellings). The viability results for these sites are actually the worst of the three groupings, whereas we would usually expect these results to have been middle order. There are a number of reasons for this, firstly two of the mid-range sites are in the South of Blaenau Gwent where our statistical analysis has identified housing sale prices to be generally lower (particularly in some parts of the south) than northern housing around the heads of the valley road. Secondly, the mid-range sites are all Brownfield with abnormal remediation/site clearance costs and in some cases identified continuing existing uses that naturally uplift their landowner's sale price expectations.
- 7.14 The results for these sites show an ability to support between 0% and 15% of affordable housing provision in the current market (100% Sales), but in truth the results are mixed and very site specific. We do believe that the particular characteristics and challenges of sites G and H make them real candidates for Social Housing Grant Funding and therefore focusing on the other three sites (D-F) its clear that these could be made to work without grant at 10-15% affordable housing but at these more marginal profit returns this would require some careful investigation by the developer and the Local Authority.
- 7.15 If the property market sees a 10% relative reduction (90% Sale Price testing column) then no affordable housing contributions are achievable, but if the market sees a 10% relative price increase (110% Sale Price testing column) then 25% affordable housing contributions become achievable for all sites except G (and marginally E and H).

Viability results for the small sites

- 7.16 Sites I to L fall within the group we define as small sites (up to 19 dwellings). The viability results for these sites are better than the mid-range sites but worse than the large sites. This is due to the small sites' difficulty absorbing significant fixed costs i.e. abnormal development costs, s106 contributions etc. The latter item is more significant at this scale of development because the Authority's draft Affordable Housing Policy only requires s106 contributions on sites of 10 or more units. For consistency our appraisal model tests the viability of affordable housing on all sites but, by agreement, we have excluded the s106 contributions of £2,500 per dwelling from sites K and L as they fall below the draft threshold.
- 7.17 As can be seen the results for these sites show an ability to support between 0% and (in more exceptional conditions) 25% of affordable housing provision in the current market (100% Sales), but again the results are very mixed and very site specific. Sites I and J have no abnormal costs and even meeting the £2,500 per dwelling s106 contributions they are clearly able to deliver 10%-15% affordable housing with some careful review by the developer and Authority. Despite the presence of abnormal costs, site K shows marginal viability around the 10-15% affordable housing provision, but the site is not making any s106 contributions under the threshold application. Site L is by a long way the least viable due to abnormal costs and an existing underlying use value.
- 7.18 If the property market experiences a 10% relative reduction (90% Sale Price testing column) then no affordable housing contributions are achievable, but if the market sees a 10% relative price increase (110% Sale Price testing column) then 25% affordable housing contributions become achievable for all sites except L (marginally for Site K).

Conclusion

- 7.19 Having considered the viability testing results in detail we believe that the final adopted affordable housing targets need to also reflect the strategic vision of Blaenau Gwent County Borough Council. Much will depend upon your Authority's inclination towards an optimistic or pessimistic view of the economic cycle over the life of the LDP (until 2021) and how you seek to plan your policy for market changes over that period.
- 7.20 Many of the test sites are affected by abnormal development costs, so if this is seen as indicative of the majority of future development sites then this may lead to a more pessimistic outlook of the viability results. On the other hand, we view the current market realignment as a low point within the economic cycle and so the testing results in our view will show understated viability over the cycle. We acknowledge that public subsidy will become increasingly finite over time but we have assumed no public subsidy within our testing, which again we believe somewhat understates the true (and more diverse) viability picture.
- 7.21 The viability testing results demonstrate that sites below 10 dwellings can in some circumstances support affordable housing, although we have not tested their ability to support additional s106 financial contributions. Our results here demonstrate that viability and ability to support planning obligations is more site specific (as seen in the results of sites K & L) and so we would only recommend that you consider lowering the threshold if you are comfortable with considering viability cases presented by developers on a site by site basis.
- 7.22 The use of off site payments in place of affordable homes on developments of 10-19 dwellings is a matter that your Authority needs to carefully consider. Such mechanisms can certainly aid delivery of more development, but those in need of affordable homes require those homes as soon as possible and you should be confident that any receipts for off-site affordable housing provision can be expeditiously converted into new homes. Similar comments apply to any such requirement for developments below 10 dwellings but viability is much more varied at this level and even the pursuit of fractional financial contributions could restrict some sites coming forward for development.
- 7.23 Viability is generally better further north within Blaenau Gwent. However, again this is very site specific and viability can be equally as strong within parts of the south so any geographically split affordable housing policy requirements would need strategic drivers to make them worthwhile and justified.
- 7.24 Viability typically increases on larger sites, as this is a function of increased development efficiencies and the spreading of fixed costs over higher development values. Despite the mid-range test results bucking this trend (largely due to abnormal costs and higher existing use values), it is clear that viability is strongest on the larger sites (100 dwelling+). In these circumstances it is appropriate that these sites be expected to deliver greater contributions to planning obligations. Logically, this should be through a higher level of % affordable housing since our results demonstrate ability to deliver 15% (and upwards). However, we are aware of your Authority's other development priorities (i.e. education) and so on these larger sites, if appropriate, you could decide instead to seek greater contributions to planning obligations other than affordable housing.

7.25 We believe that we have undertaken a reasoned and substantiated Study within generally depressed economic conditions, which we believe allows for an inclination towards a more optimistic view over the life of the LDP. We are also aware from our experience of viability issues in both strong and weakened stages of the economic cycle that it is far easier for Planning Authorities to set out and manage evidentially justified planning obligations that challenge the development industry to deliver the best outcomes for the public realm whilst building in safeguards and flexibility to

List of Appendices

- Appendix 1 Consultation workshop Agenda
- Appendix 2 Consultation workshop Minutes
- Appendix 3 DVS workshop presentation notes
- Appendix 4 Individual Site overview & viability results

AGENDA
Affordable Housing Viability Study for Blaenau Gwent CBC
Consultation Workshop
VITCC, Tredegar on Friday 19th February 2010

- 9.00 Registration & refreshments
9.30 Introduction, Study Context and Explanation of Study methodology

10.00 Session One:-

Review of Testing Criteria

- § Housing market conditions, density basis and test intervals, affordable housing % test intervals, Social Housing Grant assumptions

Review of Test Inputs

- § Affordable tenure and dwelling mix/sizes, value indicators for affordable housing, market housing dwelling mix/sizes, market housing values
- § Build costs, effect of the code for sustainable homes, infrastructure and planning obligations
- § Section 106 financial contributions, abnormal costs – remediation, professional fees, finance costs, marketing costs, allowance for profit, overheads and contractor's return, land values

11.00 Break

11.15 Session Two:-

Wider study matters

- § What are the key factors constraining the delivery of affordable housing?
- § Is there an appropriate level of affordable housing that can be delivered?
- § Is there a case for setting different targets for affordable housing throughout Blaenau Gwent, reflecting the differences in house prices?
- § Is there a minimum size of development needed to make affordable housing viable?
- § What housing mix should be built to meet needs and demands?
- § Are off-site financial contributions appropriate in the local housing market?
- § Any other study matters for discussion?

12.00 Lunch

Minutes of Viability Assessment Workshop Meeting
Friday 19th February 2009
VITECC Tredegar

Present

Adrian Wilcock (AW)	Torfaen CBC
Barry Leavy (BL)	United Welsh Housing Association
David James (DJ)	Monmouthshire & Powys CBC
Hayley Selway (HS)	Tai Calon
John Millard (JM)	Melin Homes
Kevin Fortey (KF)	Caerphilly CBC
Richard Price (RP)	Home Builders Federation
Anthony Rowson (AR)	BGCBC Housing Policy Manager
Catherine Ashby (CA)	BGCBC S106 Officer
Lynda Healy (LH)	Development Plans Manager
Rhian Mann (RM)	Assistant Strategy Officer
Tania Jones (TJ)	Planning Assistant
Thomas Braodhead (TB)	Affordable Housing Officer
Nick Tyldesley (NT)	District Valuers Office
Tiffany Spencer-Worthy (TSW)	District Valuers Office
Nicola Vowles (NV)	District Valuers Office

TB welcomed everybody to the meeting and briefly outlined the purpose of the morning.

NT introduced himself and asked everyone to introduce themselves.

NT explained the context for the study and the importance of evidencing the viability assessment work (slides 1-3).

NT explained two basic viability equations (slide 4).

NT explained the study methodology (slide 5 & 6).

A number of issues were raised by attendees all were related to issues that would be explained in more detail at a later stage.

RP stated that a minimum profit level of 23% was required to make sure that house builders can deliver sites.

AW noted that we needed to control what landowner would receive.

JM pointed out that developers agree terms before approaching LA.

NT explained that in such cases DVO use current market value and not what developer paid for the land.

RP & AW asked if the toolkit was going to be made available. NT stated that it would be made available to the Council.

Review of Testing Criteria (See slide 7)

Value base date 1st September 2009

No issue raised.

Density range 25-85 dwellings

Issue raised with 85 dwellings but this was explained as a small redevelopment of flats which was fairly typical.

Affordable Housing initial test intervals of 10%, 15% 20% and 25%

No issue raised.

Affordable Housing Tenure split – 50%/ 50%

Issues raised in terms of if it was reflective of Housing Market Assessment. It was noted that this was the case.

Issue raised in terms of the ability to sell such houses – need to consider delivering DQR compliant so that RSL's could take them on if the houses cannot be sold.

Assumption that no SHG available

No issue.

Review of Test Inputs (See slides 8 – 15)

Housing Market Areas as identified by ORS were agreed to be suitable areas for overview of housing market values.

JM questioned how many ACG areas there were in Blaenau Gwent. TB confirmed that there were only 2.

Typical New Build Values

RP to provide feedback from his members

Dwelling mix

No issue.

Gross Affordable rentals of 6%

JM questioned how this figure was derived as RSL's do not tend to calculate this. NT agreed but advised that this approach of capitalising income (rent) streams is a standard approach amongst valuers and indeed this is the approach taken in the both Homes and Communities Agency's and Three Dragons appraisal toolkits. NT also stated that DVS would check the affordable housing values here against known affordable sale values and also asked for further evidence.

Intermediate Housing at 70% of its open market value

The SPG sets a maximum value above which the property would not be considered affordable. JM advised that they do not reference value to market value but WAG ACGs. JM went on to say that in schemes with no grant funding they would be looking to pay 37%-42% of ACG (depending on other s106 requirements and costs) to make the scheme "viable" in their assessment. NT advised that he had dealt with grant funded schemes where 80-96% of ACG was paid and that the 58% grant in those cases tied in with JM's assessment. (NT and JM have discussed further since the workshop and confirmed the validity of this approach in cross-checking the affordable housing values within the Study).

Build Costs from RICS Build Cost

RP and BL considered that build cost to be too low.

RP stated that Three Dragons figures are much higher at approx. £836 and £915.

NT pointed out that other additions are made to this figure further on and the DVS and the Three Dragons use the same database therefore the Three

Dragons figure will have been an adjusted figure, not the base figure. Aware that base cost of RSLs is higher.
Adjustment for Code for Sustainable Homes
RP stated that evidence from UK hub states that

Minimum Threshold

Blaenau Gwent CBC Affordable Housing Viability Study

**Nick Tyldesley, DVS Newport
AHVS Consultation Workshop**

19th February 2010

1) Study Context

Technical Advice Note (TAN) 2:

1. Development Plans must include an authority wide target for affordable homes to be provided and this should take account of the anticipated level of funding through public subsidy and developer contribution.
2. When setting site-capacity thresholds and site specific targets local planning authorities should balance the need for affordability against site viability.
3. In preparing Development Plans, Local Authorities should work closely with their local communities, landowners and housing providers.
4. Local Planning Authorities must monitor the housing evidence base and the provision of affordable housing compared with the affordable housing target.

2) Study Context- Continued

The Blyth Valley Council Decision

In this case the Court of Appeal, in July 2008, emphasized the importance of robust viability evidence underpinning affordable housing policies in development plans when it stated:

“an informed assessment of the viability of any such percentage figure is a central feature of the PPS 3 policy on affordable housing. It is not peripheral, optional or cosmetic. It is patently a crucial requirement of the policy.”

3) Evidence base requirement

In accordance with the Council's brief the Study needs to establish an evidence base for the Deposit LDP and examine the LDP policy for affordable housing. In particular the Study should:

1. Establish the % of affordable housing which is viable to deliver on notional sites
2. Establish the threshold at which sites will be viable to deliver affordable housing on notional sites.
3. Assess whether different site threshold and percentages should be considered for different areas within the Authority.

4) Viability explained

As development is principally provided by commercially driven business (i.e. Housebuilding PLCs) and commercially accountable Charitable organisations (i.e. Housing Associations) development viability is a commercial assessment. In the case of the Housebuilder viability is an evaluation of a development's relative profitability through the principals of risk and return.

Viability as an equation, can be expressed as:

A) $\text{Gross Development Value less Development Costs (including land value)} = \text{Profit (Typical Housebuilder assessment)}$

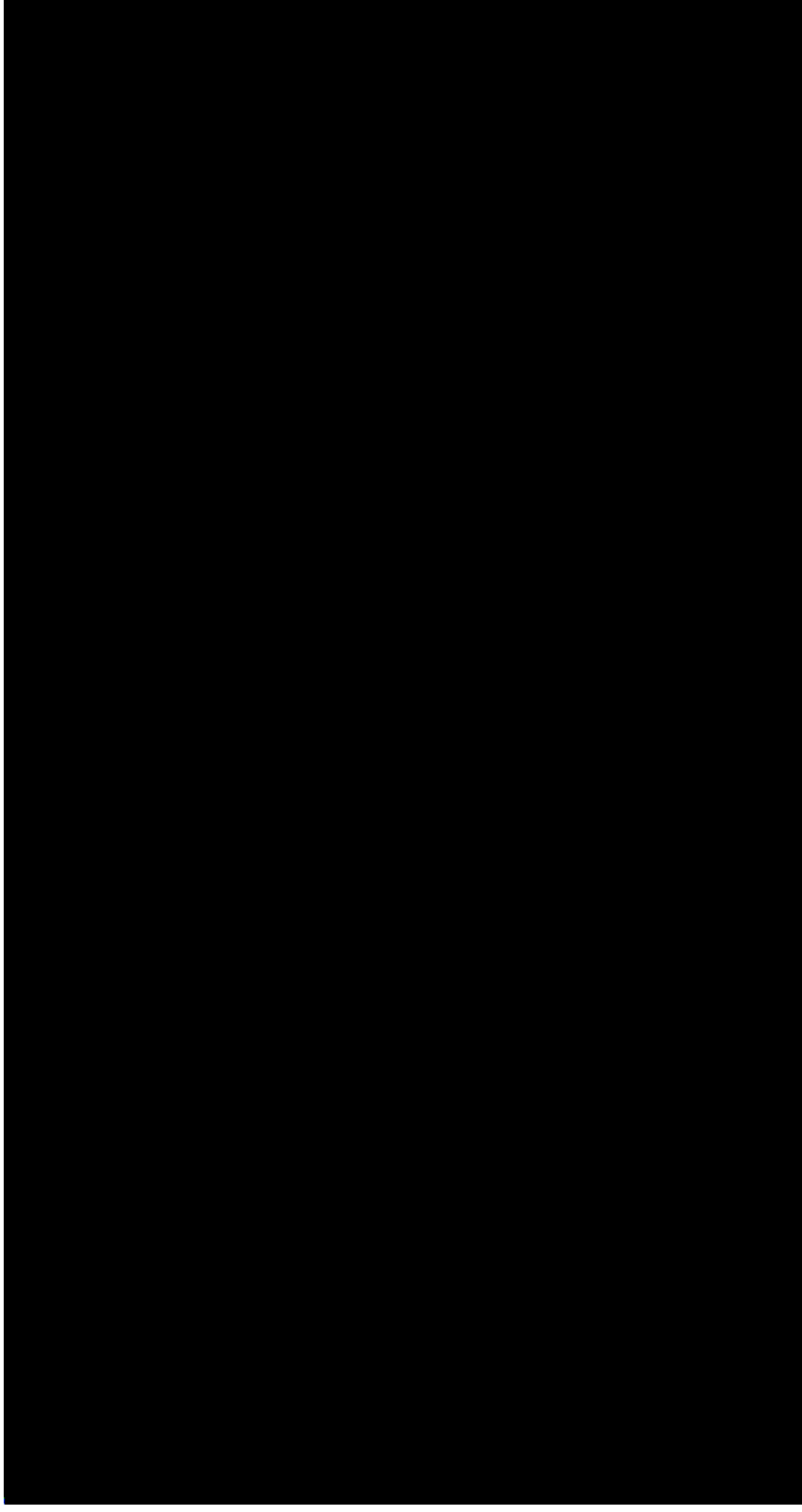
OR

B) $\text{Gross Development Value less Development Costs (including profit requirement)} = \text{Residual Land Value (HCA, Three Dragons etc.)}$

5) Study Methodology

1. In order to ground the Study in reality an indicative sample of 12 latent and upcoming development sites have been identified, inspected and their development information (i.e. development type and size, planning obligations etc.) assembled.
2. A range of sites have been selected to assess development viability & market interaction with affordable housing % and site thresholds.
3. Each of these sites will have 48 separate viability appraisals (an example of such results is reproduced in the next slide)

6) An example of viability results from DVS viability model



7) Prime test criteria

Our initial test criteria will be on the following basis:

1. Value base date is 1st September 2009 and this will represent the 100% baseline for value inputs. Each site will also be tested at 90%, 110% and 120% value intervals.
2. Density is as advised by the Council, having regard to any site planning history and comparable site information. The density range is 25 to 85 dwellings per hectare, with an average of 46 dwellings per hectare. This variable is further tested at +10% and +20%.
3. The Affordable housing initial test intervals are: 10% 15% 20% and 25% with an assumed tenure split of 50% social rented and 50% intermediate.
4. There is an assumption of NO Social Housing Grant on all sites.

8) Open Market Housing inputs

- The Council have provided development dwelling sizes, types and mixes for each site. These mixes are based on (in order of significance) actual site planning history (including developer submissions), planning history of comparable sites and, where appropriate, cross referenced with suggested dwelling mixes from the Three Dragons appraisal toolkit.
- The housing market areas identified by the ORS (see next slide, 9) have been used to provide an overview of typical housing market values. These market values are reproduced on slide 10.

9) Housing market areas (source: ORS)

10) Test Criteria- Typical new build values within housing markets (September 2009)

	1 bed Flat (40sqm)	2 bed Terrace (78sqm)	3 bed Semi- detached (98sqm)	4 bed Detached (130sqm)	2 bed bungalow (80sqm)
Ebbw Vale	£70,000	£125,000	£160,000	£185,000	NA
Tredegar	£65,000	£115,000	£145,000	£165,000	£140,000
Brynmawr	£65,000	£115,000	£145,000	£165,000	NA
Abertillery*	£55,000	£95,000- £110,000	£120,000- £135,000	£150,000- £160,000	NA

11) Affordable Housing inputs

- We are assuming dwelling mix in line with the market housing mix. It may be that eventual developers might actually offer a lower proportion of the larger units. However, since this cannot be confirmed we are content to leave this uncertainty in favour of the developer.
- We are proposing to capitalise the gross affordable rentals (obtained from Dataunit Wales and validated with RSL data) at a yield of 6%.
- The intermediate housing is to be valued at 70% of its open market equivalent.

12) Build & associated costs

- Build costs will be taken from the RICS Build Cost Information Service (BCIS). Q3 results for new build housing is £701 per sqm (Median cost) and £798 per sqm (Median cost) for flats.
- An adjustment for the Code for Sustainable Homes will be made. At present we are suggesting an allowance of £5,000 per dwelling.
- Where known, additions to the base build cost (i.e. infrastructure, utilities, remediation etc.) are based on actual cost estimates (whether Council, Developer or DVS Quantity/Environmental Surveyors.). Where such an estimate is not available the cost estimate will be based on comparable cost evidence.

13) S106 & Planning obligations

- Where known, the cost of any such public realm requirements will be based on actual scheme estimates/known costs.
- Where public realm requirements are not estimated a s106 rate of £4,000 per dwelling (or £5,000 in the case of site 1) will be tested.

14) Further development costs

- Professional fees of 10% (of build cost) are proposed.
- Marketing costs of 4% are proposed
- A Finance rate of 5.5% is proposed
- Initial residual profit levels of 15-18% (on GDV) are considered marginally viable and 18%+ is viable. A contractors return of 8% is proposed for the affordable housing.

15) Land Value

In each case an assessment of value will be made having regard to comparable sales evidence, site existing use value and site alternative use value.

For reference below are some typical residential land value ranges (£/acre):

	Typical bulk land value range
Ebbw Vale	£300,000-£450,000
Tredegar	£300,000-£400,000
Brynmawr	£300,000-£400,000
Abertillery	£250,000-£400,000

Appendix 4

Brief site identification and summary results of viability analysis for each site

Site ref.	Locality
A	Urban fringe cleared Brownfield site to North of Authority
B	Suburban Greenfield site to North of Authority
C	Urban cleared Brownfield site to North of Authority
D	Suburban cleared Brownfield site to South of Authority
E	Suburban Brownfield site (In use) to North of Authority
F	Suburban cleared Brownfield site to North of Authority
G	Suburban Brownfield site (In use) to North of Authority
H	Suburban part cleared Brownfield site to South of Authority
I	Suburban cleared Brownfield site to North of Authority
J	Suburban cleared Brownfield site to North of Authority
K	Urban cleared Brownfield site to North of Authority
L	Suburban Brownfield site (In use) to North of Authority

Site A: Urban fringe cleared Brownfield site to North of Authority	This is a substantial development site of a regular shape and generally undulating topography. There are a variety of surrounding uses including retail, residential and community service.
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SITE A

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

[Redacted]	Greater than	19.99%
Marginal	Between	15.00% and 19.99%
Unviable	Less than	15.00%

Social Housing

Site C: Urban cleared Brownfield
site to North of Authority

This is a substantial development site of a regular shape and generally level topography. There are

Site D: OSuburban cleared Brownfield site to South of AuthorityÓ	This is a substantial development site of a regular shape with level and sloping topography. The predominant surrounding use is residential.
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SITE D

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DEN CITY AND SALE PRICE



Site E: OSuburban Brownfield site (In use) to North of Authority	This is a large development site of a regular shape with generally level topography but sloping access roads. The site has an established and continuing commercial use and the prevailing surrounding uses are commercial, residential and amenity.
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SITE E

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES I N DEVELOPMENT DENSITY AND SALE PRICE

<div style="background-color: black; width: 30px; height: 15px; display: inline-block;"></div>	Greater than	19.99%	and	19.99%
Marginal	Between	15.00%		
Unviable	Less than	15.00%		

Social Housing Grant: _____ 0% (of ACG- Social Rent only) Sale Price

Site F: ÓSuburban cleared Brownfield site to North of AuthorityÓ	This is a large development site of a regular shape with generally level topography but bisected by its principal access road. The site is now almost completely clear of buildings and the predominant surrounding use is residential.
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SITE F

Site G: OSuburban Brownfield site (In use) to North of Authority	This is a large development site of a regular shape with generally level topography. The site has an established and continuing commercial use but the prevailing surrounding use is residential.
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SITE G

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

[Redacted]	Greater than	19.99%	and	19.99%
Marginal	Between	15.00%	and	19.99%
Unviable	Less than	15.00%		

Site H: OSuburban part cleared Brownfield site to South of AuthorityO	This is a medium development site of a regular shape with stepped sloping topography. The predominant prevailing surrounding use is residential.
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SITE H

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

[REDACTED]	Greater than	19.99%	
Marginal	Between	15.00%	and 19.99%
Unviable	Less than	15.00%	

Social Housing Grant: 0% (of ACG)

Site 1: Suburban cleared Brownfield
site to North of Authority

Site J: ÓSuburban cleared Brownfield
site to North of AuthorityÓ

This is a smaller development site of a regular shs lohtteite

Site K: Urban cleared Brownfield site to North of Authority

This is a smaller development site of a regular shape with generally level topography. The predominant surrounding uses are residential and retail.

SITE K

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Site L: Suburban Brownfield site (In use) to North of Authority	This is a small development site of a regular shape with level topography. The site has an established and continuing commercial use but the prevailing surrounding use is residential.
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SITE L