Worthing Borough Council
Local Development Framework

Study of Economic Viability of Affordable Housing Options

July 2007

Report to be considered by the Council – this does not constitute Council Policy

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Executive Summary

- Worthing Borough Council currently operates planning policy adopted under the Worthing Local Plan 2003 which requires all residential developments at or above a threshold 25 or more dwellings (or sites of 1 hectare or more) to provide 30% affordable housing.

- There are high levels of affordable housing need in the Borough, expressed in the most recent needs survey as an annual shortfall of over 700 dwellings. Whilst not unusual in this area, this makes Worthing no different to other Local Authorities which need to consider this issue a high priority.

- Given the way in which the Government's planning policy position, the Regional planning framework and local level policy within the Region has moved on, and continues to do so, the Council is examining its established approach in preparing its Local Development Framework.

- In many areas within the region, and beyond, Councils are looking to reduce threshold levels to seek contributions to affordable housing need from smaller sites and/or increase the proportions sought.

- The Council's preferred Option Consultation approach was to apply the existing 30% proportion of affordable housing to smaller sites of 15 or more dwellings, and also to seek a 10% contribution from sites of 6 to 10 and 20% on sites of 11 to 14 dwellings. Thus a tapered approach to requirements is envisaged. Under the Council's preferred option approach, the sites of 6 to 14 units would make their contribution by way of payments in lieu rather than on site provision.

- Adams Integra was instructed by the Council to assess the viability of these policy options as well as consider any alternatives. The consideration of development viability is in the context of seeking to optimise affordable housing delivery whilst aiming to ensure that housing delivery in the wider sense is not unduly affected by the impact on land values and thus the supply of sites. The Government's Planning Policy Statement 3 (PPS3), released in November 2006, adds to this context by giving Councils more scope to consider lower thresholds than the "national indicative minimum" of 15 "where viable and practicable". It makes requirements of Councils to consider development viability.

- Having built on the Council's information on the property market in the Borough through desktop and locally based research, Adams Integra ran a wide range of appraisals using established residual land valuation techniques.

- The essence of this process was to fix development value and cost assumptions, based on a range of notional residential scheme types agreed with the Council as being representative, and then vary the affordable housing content of those schemes to see what happened to indicative land values.

- There is a wide range of property, and, therefore, development, values within Worthing. We based the appraisal modelling for the study on a range of new build property values we considered relevant to the Worthing context. Within this range we arrived at a series of value points, which we call "Points", in this study 1 being the lowest and 4 the highest typical values within the general range.

- Whilst our results gave us some concerns about development viability in lower value situations in the Borough, particularly as impacted by affordable housing requirements, in our view more typically new build schemes are likely to be at the mid-range or mid to upper value levels we have looked at.

- The property values data and research is appended to the study. At the time of the initial research, excluding retirement apartments and one off developments of individual properties, there was only one significant new build scheme under way with marketing commencing. As at June 2007, whilst finalising the study, we revisited the research to see if additional new build schemes could provide further value indicators for such property. At that time, the same scheme plus one additional scheme were being marketed. Information is provided in Appendix III. Within those schemes, the pricing seen is at levels we have assumed with our Point 3 to 4 values, and beyond. Even after assuming discounts from advertised to sales prices, values at the lower end of the range seen for the various property types in these schemes would be at our Point 2 to 3 levels.

- Our view of the incidence of mid to upper range value points from within the overall range we have considered has given us much greater confidence in our findings and the viability picture in the context of setting clear policy targets applicable Borough wide. In our view it is not readily possible to accurately define the lower value areas with any certainty, nor is it in the interests of affordable housing delivery to attempt to label areas as such. In reality, value patterns are quite blurred on closer examination.

- We have formed the view that in viability terms the existing 30% requirement could certainly be supported on sites of 15 or more dwellings.

- The study also indicates that given the anticipated incidence of higher value schemes there may be circumstances in Worthing which the Council could consider relating to an increased target of 40%; perhaps on sites of 25 or more if an extension of a graduated approach were considered, and/or on certain types of sites such as particular/strategic allocations/Greenfield releases. In any event, this is an opportunity to enhance the policy approach, and it could be revisited in the future depending on its success. The Council will wish to consider this further. This further consideration, if applicable, would be in the context of the wider picture. This includes the level of affordable housing need, the Worthing viability results at the mid to higher value levels, as well as the draft South East Plan position and positions of other nearby Authorities – which are generally pointing to targets of up to 40% being sought, at least as a component of policy applying to certain site sizes.

- Notwithstanding this, and again after acknowledging that there could be viability issues in low value scheme instances, the study is also able to lend support to the idea of sites in the size range 6 to 14 units contributing to affordable housing need too. As there can be practical, design and affordability issues with incorporating affordable housing on some smaller sites, we think the proposal to collect financial contributions in lieu on these makes sense in the Worthing context at this stage of policy development.

- The Council would need to pitch the indicative payment levels appropriately and also need to have in place a clear strategy for collection and use of these sums towards Sustainable Communities objectives through added affordable housing delivery. The appropriate pitching of payment levels could, in our view, be achieved through a relatively simple process of applying those to reduced, graduated requirements for affordable housing on the smaller, newly captured sites.

- Adams Integra has used its own methodology for calculating indicative payment in lieu sum levels, based on land values, which is reported. During the course of the study we were advised by the Council that it is also considering the use of current County-wide work being undertaken by the Valuation Office Agency (VOA) on a payment in lieu route and levels.

- The underlying methodology and the indicative figures produced by the VOA in the Worthing context are very similar to those resulting from Adams Integra's work as explained in this study. This means that if the Council is minded to follow either the VOA approach, or Adams Integra's, then the viability outcomes from the collection of the proposed indicative payment levels would be very similar, in our view presenting a deliverable and acceptable scenario from a viability point of view. This is subject to the wider provisos as in the following bullet points and explained in this study, but those inevitable factors need not detract from the approach as an overall part of the Council's vital stepping up of affordable housing requirements.

- In all cases, and whatever the policy selections made, the positions adopted will need to be regarded as targets and a base for negotiation whereby land owners and developers would enter into open discussion with the Council should they need to raise viability concerns.

- A range of factors may come into the consideration of specific sites, including existing or alternative use values, owners' particular requirements – whether driven by business or personal needs, abnormal development costs and overall planning obligations requirements. Indeed a range of these could impact. Development is a dynamic process. For these reasons there is no guaranteed outcome or particular cut off point where all schemes work or fail. A study of this type is not a substitute for that level of review of particular proposals; it supports a clear set of policy targets. Landowners and developers will be expected to review and pursue proposals and sites in light of the policy requirements.

1. Introduction

1.1 Background

1.1.1 Worthing Borough Council is currently developing its Local Development Framework (LDF) in line with the requirements of the Planning and Compulsory Purchase Act 2004. Through a number of key policies, the LDF will guide and control the future use and development of land. This includes the provision of affordable housing through the planning system by the established route of requiring suitable private developments to provide a proportion of affordable homes.

1.1.2 David Couttie Associates undertook a Housing Needs Study for Worthing Borough in 2004, the results of which show that annually 705 affordable housing units are needed, 414 more than existing re-lets. As such the Council is aiming to increase planning-led affordable housing provision, to make progress with gradually addressing the imbalance in the local housing market. Through the LDF process it is considering increasing the proportion of affordable housing sought on qualifying sites, and reviewing the size of sites which will need to contribute (the threshold).

1.1.3 Existing Policy H3 of the Worthing Borough Council Local Plan (adopted 2003) requires within allocated and unidentified housing developments of 25 or more dwellings and residential sites of 1 hectare or more to secure the provision of an element of affordable housing. A target of 30% social housing with an element of low cost housing is generally sought.

1.1.4 The Council's consultation at the Issues and Options stage of the LDF process identified a preference for increasing the affordable housing requirements, including smaller sites. Preferred option H6 of the Council's Core Strategy Preferred Options Consultation Document (September 2006) recommends affordable housing on all but the smallest sites as follows:

- *On all sites of 6 to 10 dwellings net, 10% affordable housing will be required via a commuted sum.*
- *On all sites of 11 to 14 dwellings net or more, 20% affordable housing will be required via a commuted sum.*
- *On sites of 15 dwellings net or more, or 0.5 ha or more in size, 30% affordable housing will be required.*

1.1.5 Planning Policy Statement 3 – Housing (PPS3) states that:

"Local Planning Authorities should set an overall (i.e. plan-wide) **target** for the amount of affordable housing to be provided... *It should also reflect an assessment of the likely economic viability of land for housing within the area, taking account of risks to delivery and drawing on informed assessments of* *the likely levels of finance available for affordable housing, including public subsidy and the level of developer contribution that can reasonably be secured*."

1.1.6 To this end, the Council employed Adams Integra to provide a study that primarily considered the implications of the potential affordable housing policy options listed above on site viability. In addition, the Council wanted the study to investigate the possibility of increasing the affordable housing proportion and reducing the threshold for on-site provision further than shown above to determine what impact this would have on development economics and site viability. The outcomes will be used along with other information to form an evidence base for the Council's planning policies for affordable housing as identified in its Preferred Options Core Strategy.

1.1.7 This study investigates and assesses the impact on land values and viability of potentially lowering affordable housing thresholds and increasing the proportions of affordable housing sought on private (market sale) residential sites across Worthing Borough. It also provides recommendations to Worthing Borough on robust but workable policy that will ensure successful delivery of affordable housing in Worthing while making sure that housing supply in the wider sense is not unduly affected.

1.1.8 The study examines the variations in approximate development and, therefore, land values within the Borough and the implications of these are included in the assessment of site viability and delivery.

1.1.9 We use the impact of varying affordable housing requirements on RLV as our measure in putting forward our judgements and guidelines. This, therefore, means comparing the impact of the proposed policy change (increasing the percentage of affordable housing sought and/or or reducing the site sizes on which it is sought) with the current policy position. At all points of the study, the current policy position with which we seek to make comparisons is as at 1.1.3 above.

1.1.10 In a wider sense Adams Integra were also asked to consider how private residential development more generally might contribute to affordable housing delivery through a commuted payments scheme, with smaller schemes below these threshold levels in mind.

1.1.11 This sets out the requirements of the study. The methodology and assumptions used are described in Section 2, the results are discussed in Section 3 and the conclusions set out in Section 4. The tables, graphs and associated information referred to throughout the report are appended to the rear of the document.

2. Methodology and Background

2.1 Introduction

2.1.1 This study investigates the impact of potentially increasing the proportion of affordable housing and reducing the affordable housing threshold on the economic viability of a range of residential development site types across Worthing Borough.

2.1.2 In considering the factors that need to be taken into account in bringing forward sites including affordable housing it has first been necessary to determine what effect increased affordable housing proportions and reduced thresholds may have on the value of a potential development site.

2.1.3 This report investigates a range of development scenarios including affordable housing at 20%, 30% and 40%. Sites of 6, 11, 15, 25, 50 and 80 units have been considered across all areas of the Borough (see Appendix I for the range of appraisals carried out). These equate to potential threshold and proportion points to be tested within this study. In all cases on site provision of affordable housing has been assumed.

2.1.4 Given the Council's Preferred Options Consultation position, the report also considers a payment in lieu (or "commuted sum") approach to affordable housing requirements on sites of 14 or less dwellings. In particular, appraisals have been carried out on sites of 6, 8, 11 and 14 dwellings on this basis. The payment (sum) levels contributed by the sites were based on a 10% and 20% provision; plus 0% provision for comparison with the current policy provision on such smaller sites.

2.1.5 Currently the Council seeks, as a starting point, 30% affordable housing on qualifying sites of 25 or more dwellings (or 1 ha or more in area irrespective of the number of units). The development scenarios summarised above and set out at Appendix I, therefore, test development viability at current and potential lowered thresholds, both with potential increased proportions of affordable housing. The outcomes of the appraisals based on this range of scenarios provides us with a scale of results (discussed in Section 3) from which conclusions can be drawn as to the key factors and trends in the Worthing locality, how these might be considered in reviewing policy options, and recommendations made for the direction of those.

2.1.6 The schemes modelled are not actual developments but notional schemes chosen to reflect scenarios that best match the various policy options to be tested. These were arrived at through discussion with the Council's Officers, and should reasonably reflect a range of scheme types coming forward now and anticipated.

2.1.7 Research into property prices across the Borough, on a detailed localised basis, was undertaken to determine realistic development (property sales) values for each appraisal model. Encouragingly, the Borough Council also monitors house prices quarterly, on a Borough-wide basis, so that information also helped in the background to building up our picture.

2.1.8 Rather than divide the Borough into settlement areas, it was decided to consider the range of new build property values typically occurring in the Borough according to the results of our property values research and information provided by Worthing Borough Council. The exercise groups similar values together – resulting in our range of value points. This allows the results of this study to be used independently of location and, more usefully, by approximate development value. It is our preference to adopt this methodology relating to the points we make about the range of values which exist, particularly in an urban-based Borough like Worthing, and how values tend to vary within even very small geographical areas. For details of the value points please see 2.6 - Model Areas, below.

2.1.9 The requirement to place an increased proportion of affordable housing on a site will inevitably reduce the sales revenue that a developer can reasonably expect to receive. As this reduction will not be accompanied by lower construction costs, the offset must be taken up in either a reduced development profit, lower land price or a combination of the two.

2.1.10 Developer's profit and landowner's sale price are key considerations that must be taken into account if residential development is to be undertaken.

2.1.11 If profit levels fall below a certain point then developers will not take the risk of developing a site nor, in many cases, will funding organisations lend them the finance to develop. Equally, if the price offered by a developer to a landowner for a site is too low, the landowner may not sell and instead continue with, or pursue, an existing or higher value use. There are also intangibles, for instance some of the smaller sites we are considering here may start out as homes, gardens or small business premises which will not be sold unless certain aspirations are met. Business and tax considerations, investment values and costs; and availability and cost of replacement facilities can all influence decisions to retain or sell sites. A mix of these factors may be relevant in some cases.

2.1.12 Assuming that a developer will require a minimum fixed profit margin on any given site to balance risk and obtain funding, beyond a certain point it is therefore the land value that will be affected by the introduction of affordable housing or other infrastructure requirements, provided the developer's profit expectations are not excessive. In this sense, and while there can be positive cash flow issues, affordable housing is viewed as a cost element to the developer's appraisals, in much the same way as other planning infrastructure requirements (planning obligations) are.

2.1.13 To establish the potential effect of affordable housing on the supply and development of residential sites, it is necessary to compare a site at existing applied policy (30% affordable housing on sites of 25 or more) with the range of possible options investigated in this report – i.e. 20%, 30% or 40% affordable housing requirement on thresholds of 5, 15 or 25 units in the case of the potential on site provision policy positions, and 10% and 20% on sites of 6 to 14 dwellings for a potential payment in lieu approach to affordable housing contributions sought from such smaller sites.

2.1.14 Some commentary is also included on the current West Sussex-wide Valuation Office Agency (VOA) work on commuted sum payments. These payments are also referred to as "payments in lieu" in this study and elsewhere – because the theme refers to the collection of monies instead of the on-site provision of affordable housing by the market housing development which triggers the planning policy requirement for it. The VOA work is entitled "Report for West Sussex Planning and Housing Group – Recommendations on Implementation of Commuted sum Payments". This is dated March 2007.

2.3 Approximate Residual Land Value (RLV)

2.3.1 In order to determine the impact of proposed affordable housing policy on a range of site types in various value areas it is necessary to determine a common indicator.

2.3.2 As above, in normal circumstances the developer is aiming to secure a predetermined level of profit (sometimes described as margin). From a developer's point of view and assuming a conclusion is reached in principle that a site is likely to be viable for development, an appraisal is carried out to fine-tune the feasibility and discover what sum they can afford to pay for the site. Some sites coming forward will have been owned and/or have planning consent based on previous criteria, and those will have to be dealt with case by case. However, in this study, we have to assume that a negotiation has occurred or is under way based on knowledge of the current development climate and planning policy requirements as they will apply to the scheme.

2.3.3 The simplest, most effective and widely understood way of checking site viability in most instances is via a developer-type Residual Land Value (RLV) model. We have developed our own spreadsheet model for this purpose. In doing so we have made what we feel are reasonable assumptions but it must be noted that individual developers will have their own variety of approaches, and a developer might also apply a different approach from one site to another.

2.3.4 A highly simplified example which groups various cost elements together and showing only the basic structure of the calculation in outline, is shown below in Figure 1. This is an illustrative example only and is not to be relied upon for calculation purposes. It demonstrates in outline only the key relationship between development values and costs. That is a dynamic relationship and determines the amount left over (hence residual) for land purchase. It can be seen that, broadly, as values increase but costs remain similar, then there is more scope to sustain adequate developer's profit levels together with, crucially, land values which will promote development.

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

Starting point is total sales value ("Gross Development Value")	
Number of Units =	10
Sales Value =	£120,000
Gross Development Value = A	£1,200,000
Development Costs (build costs, fees, etc.) = B	£575,000
Min Development Profit (@15% of Sales Value) = C	£180,000
Land Purchase Costs and Planning Infrastructure (not including affordable housing element) = D	£75,000
"Residual Land Value" (Gross Development Value - Development Costs - Profit - Land Purchase and Planning Obligations) = E	
A – (B + C + D) = E	**£370,000**

2.3.5 This general method reflects one of the main ways of how development viability tends to be assessed and land value checked relative to sales values and development costs. Through discussion with developers we have been able to verify our experience and thoughts on components of the model and indicative output land values, as well as the general approach.

2.3.6 The model used for analysis in this instance uses a calculation that provides an approximate RLV, after taking into account assumed normal costs for site development and does not allow for abnormal costs.

2.3.7 Added to this is the inclusion of an affordable housing element, whereby the developer receives a payment for a number of completed units based on predetermined calculation (discussed later), but that is not at a level comparable with open market values.

2.3.8 In addition, an allowance for other planning infrastructure costs has been made. The figures used for infrastructure payments vary on a site by site basis but for the purposes of this study, a figure of £4,000 per unit was agreed with the Council to fairly reflect normal infrastructure costs. Should the Council move towards an extended set of planning obligations in future, meaning more extracted from the development value, then viability would need to be considered in light of that.

2.3.9 The result then shows the change in approximate land value or change as a percentage of approximate GDV. It should be noted that this is based on notional sites and is a relative exercise only - to determine the probable effect of revised affordable housing policy. As such it is the *changes* in results as the affordable housing criteria alter that are the key outcomes.

2.3.10 This study is about making judgements based on the development values and changes seen in land values as a result of the range of potential policy positions. This is all in the context of seeking to guide policy development and arrive at clear policy targets. It cannot be a definitive guide to how specific sites will be appraised or how outcomes on a site specific basis will look. The aim was to set out reasonable parameters for taking the policy overview. As such, the report is not intended for other purposes. However, in doing so it is hoped that the approach and assumptions used here will, in a general rather than rigid sense, guide and inform the Council as to a reasonable starting point for site-specific consideration and negotiations it will need to have.

2.4 Gross Development Value (GDV)

2.4.1 Gross development value ("GDV") has been taken as the amount the developer ultimately receives on completion or sale of the scheme whether through open market sales alone or a combination of those and the receipt from a RSL for completed affordable housing units. Thus the developer's profit in each case relates to that scheme-specific sum rather than to a base level of GDV that assumes no affordable housing. It, therefore, assumes that the developer has appraised the site and secured land in the knowledge of and reflecting policy that will apply; i.e. is aware that receipts will be at a lower level than prior to affordable housing policy taking effect. This can be regarded as a reasonable approach given established national policy guidance on the provision of affordable housing.

2.4.2 Currently we allow for a development profit on the affordable housing component. This is because in this study we assume a relatively modest return to the developer for build costs on those units. This profit allowance does boost the figures from the developer's perspective, but conversely it reduces further the RLV. However, this might be an element which needs to be reviewed in the future, in terms of site-specific appraisals, as the need for seeking to control the input costs of affordable housing is likely to increase while the land price element will continue to come under pressure with likely further increases in collective planning obligations.

2.4.3 As policy alters, there will tend to be a delay to some extent in affordable housing supply increasing, while previous land deals and planning consents come forward (some of the former may not be able to support latest policy), but we have to envisage a period of adjustment leading to sites being appraised differently. The approach we suggest of adopting clear targets, but then being prepared to negotiate in light of site specifics should cater for the range of scenarios that Worthing Borough Council will need to deal with.

2.4.4 Ultimately, land value is a product of a series of calculations that provides a residual valuation based on both the specific form of development a site can accommodate and its development costs. While the market uses a variety of approaches to appraise sites and schemes (including comparisons between sites) in early stages of feasibility, a more detailed approach is necessary to understand how the value/cost relationship appears.

2.4.5 Models which study cashflow over the development lead in, build and sales periods are also used in this context – perhaps particularly for larger, phased developments. Such methods, because they take account of income being received from sales during the build period, tend to produce slightly higher RLVs than the traditional residual approach, if used on comparable schemes.

2.5 Developer's Profit

2.5.1 Adams Integra's experience of working with a range of developers leads us to suggest that they would need to seek a fixed profit (margin) of at least 15% (gross) of GDV. Only if the projections reveal this fixed profit margin (as a minimum) would they pursue a site.

2.5.2 This model, therefore, uses a developer's profit fixed at 15% of GDV, which is at the lower end of the acceptable profit range in normal circumstances. Some developers will look at alternative profit criteria, for example a higher percentage (perhaps up to 30%) of capital employed. We felt it appropriate to appraise the scenarios at the margins from the developer's perspective. Higher profit levels than those we have assumed may well be appropriate, depending on the nature of the project and risk/reward scenario. Different profit aspirations will also be held by different types of house building and development companies.

2.5.3 Given our acknowledgement that a 15% profit level might not be sufficient in some instances, we have also carried out some sample modelling on schemes of 80 units to check the impact of a developer's profit level of 20% on example results. Those outcomes are set out in Section 3 of this report (Results Analysis). This is on the basis that that level of profit might be properly justified to the Council by the developer in terms of risk reward and therefore form part of a scheme specific appraisal discussion. It is not to say that we expect that level of profit to be universally required or accepted – our experience shows that particularly for smaller and lower risk schemes, and those carried out by smaller more local developers (or contractor developers), the lower level may well be sufficient. Therefore, we do not believe it appropriate to consider that generally development or developers' requirements will mean that more than 15% profit should be universally assumed. We have to consider that there will be a wide range of scheme types brought forward by an equally wide range of parties. Once again, there are no firm rules when it comes to scheme specifics.

2.6 Model Areas and Unit Values

2.6.1 In determining the areas to be modelled, it was decided that it would be more useful to Worthing Borough Council to define a range of value points rather than concentrate on the specifics of settlement areas or centres, within which values can vary greatly in any event. By taking the value points approach we are saying that the value levels considered at each point, or the range of them, could in fact be found anywhere within the Borough. This also fits well with the clear target approach as the foundation for negotiations and practical application. In some of our previous work (including the PAHG study) we used “value bands” or “value banding” terminology rather than referring to “value points” as we now do. The thinking behind this and methodology has not altered, it is simply that some Local Authority clients have considered the “points” terminology to be a more accurate reflection of the judgements made on value points within the overall range seen.

2.6.2 To this end, Adams Integra has reviewed the asking and subject to contract sale prices of all available new build 1 and 2 - bed flats and 2, 3 and 4 - bed houses across the Borough to enable us to provide reasonable average values for the entire Borough by unit type. The data was collected through a mixture of “on the ground” and desktop/internet research and information provided to Adams Integra by the Council.

2.6.3 The results of the new build property value research led to the formation of 4 value points giving an overall range within which most areas of the Borough fall. Appendix III – House Price Report – contains the background to this. As stated above, as most areas have a variety of property values (even within the same postcode); the results of this research can be used independently of location where approximate sales values can be estimated.

Figure 2: Summary of value points and property types adopted:

Unit / Point	Point 1	Point 2	Point 3	Point 4
1-Bed Flat	£100,000	£120,000	£140,000	£160,000
2-Bed Flat	£130,000	£155,000	£181,000	£207,000
2-Bed House	£149,000	£179,000	£209,000	£238,000
3-Bed House	£169,000	£202,000	£236,000	£270,000
4-Bed House	£198,000	£238,000	£277,000	£317,000

2.6.4 This is intended to indicate general tones of value/value patterns only, so that we can understand how varying policy and the resultant range of viability outcomes might affect housing and affordable housing delivery on sites which produces a range of values as found within the Borough. In practice, very specific local factors influence value.

2.6.5 As part of the research, we also spoke to a number of estate agents in Worthing. Where little data was available at the time of the search, the data has been verified or supplemented by using Land Registry average figures and information provided by the Council. The values research has been further verified through visits to and enquiries of house builders' sales offices where possible, and in a more general sense through our ongoing discussions with land agents and others as to the way developers price their new schemes and consider sites.

2.6.6 The results of our previous West Sussex Planning and Affordable Housing Group research "Study Relating to the Financial Viability Impacts of Affordable Housing Policy Options in West Sussex - August 2005" have also been taken into account. Broadly, the value patterns identified in that report remain relevant now. The methodologies used here are the same.

2.6.7 This report does not attempt to provide comprehensive property valuation data but rather identifies the typical range of new build values of various unit types. The values research was carried out to enable us to make judgements about the range of values of new build properties typically available in the Borough. The values used in the appraisals are averaged across properties of varying size and type and it must be remembered that any settlement will contain a range of property values covering a single property type. We believe, however, that the information used is reasonably representative.

2.6.8 Also relevant in this context is the fact that the values used here can only be on a snapshot/current time basis and do not reflect future property value increases or decreases. The Borough Council will need to continue its monitoring of property prices, and consider updates of the viability picture periodically, and in response to the outcomes from any new policy positions.

2.7 Model Scenarios, Unit Types, Mix and Size

2.7.1 Worthing Borough Council required a range of scenarios to be tested across each of the model areas reflecting the impact of policy options on site viability. These are outlined in Appendix I – Development Scenarios. They were supplemented by additional appraisals as set out within Appendix IIB – regarding payments in lieu.

2.7.2 The scheme types modelled range in size from 6 units to 80 units to allow the study to investigate the full range of potential policy options and proportions of affordable housing on qualifying sites.

2.7.3 The site sizes chosen for modelling represent the various potential threshold policy options to be investigated. Sites of 6 and 11 units represent the Council's option for a lower threshold combined with lower proportions of affordable housing. Note that in the Council's Preferred Options Consultation paper this suggests contributions via a commuted sum. However, to allow a more complete picture to be built up, this study has also investigated the impact of these potential policy options as though affordable housing were to be provided on-site. This fits with the premise as set out in PPS3 that the assumption should be for on-site affordable housing as a starting point. A discussion on the impact of asking for commuted payments in lieu of on-site provision at 6 and 11 unit thresholds is discussed later in this report.

2.7.4 Sites of 15 units were modelled as these represent the Council's preferred option for on-site affordable housing provision at an increased proportion to that which might take effect at the potential 6 and 11 unit thresholds. Again, this study investigates increased proportions of affordable housing (40%) at this 15 threshold in addition to the preferred option of 30% to ensure a full range of options has been tested.

2.7.5 Sites of 25 and 80 units were also tested. 25 unit schemes represent the threshold of the adopted policy (at proportion of 30%) and again a higher proportion of 40% was investigated. The larger 80 unit scheme ensures that the impact of any potential policy is investigated on much larger sites.

2.7.6 The flat sizes used in the modelling are 51sq m for 1-bed and 66 sq m for 2 - bed flats. We have assumed a bias towards 2 bed flats which would be a typical market-led approach. In practice (on a smaller site in particular) a developer might seek a totally uniform scheme. In terms of design and cost – the floor plates, service positions, etc, need to marry up reasonably. Therefore, a practical approach to policy application will again be necessary.

2.7.7 For 2, 3 and 4 - bed houses we have used 76sq m, 86sq m and 101sq m respectively as representative sizes. These areas, as with the flats, are gross internal. They are thought to be reasonably representative especially of smaller and average family accommodation of the type coming forward, within the type of schemes likely to be suitable for on-site integrated affordable housing. These unit sizes are also representative of affordable housing requirements. We acknowledge that these 3 and 4 bed (especially) house sizes may be small compared with some coming forward, but our research suggests that the values for larger house types would often exceed those we have used.

For details of the unit mix for each on site scenario modelled see Appendix I – Development Scenarios.

2.7.8 In practice there would be a tendency towards developers needing to maintain the higher value units within a scheme for private sales whilst also thinking about the relationship of the private units to the affordable units in terms of location. These are all factors which in practice (and dependent on the site location and characteristics) will affect the unit and tenure mix as part of the negotiated approach.

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

2.8.1 Discussions with Worthing Borough Council indicate that the payments developers receive from RSLs (Registered Social Landlords) for the provision of completed affordable units on-site effectively reflect a nil cost land scenario. We understand that this approach will be continued as it is a very valuable tool in helping to secure affordability by controlling its input costs whilst giving clarity of approach. It is an approach which is becoming established in wider West Sussex and many areas beyond. The consequence of not promoting such an approach is often a reliance on an unachievable level of grant funding, or the compromising of affordability (access) levels to the housing produced. This was the driver behind the former "Total Cost Indicators" published by the Housing Corporation. Those are now defunct and in the absence of any similar mechanism Local Authorities now need to use alternative mechanisms to secure delivery and affordability. This will also be driven by the Housing Corporation's "additionality thinking", whereby in order to secure grant it will be necessary to demonstrate what benefits it brings, for example by way of improved affordable housing units numbers, types, tenure mix or perhaps sustainability benefits – or a combination of these. In our view, Local Authorities are increasingly going to need to secure a good base level of subsidy.

2.8.2 With recent developments in Government thinking, developers are in some cases going to be providing affordable housing without involving RSLs in the development process. It is a scenario more likely to be relevant to larger schemes, but looks likely to develop. The free serviced land level of subsidy could be aligned to this approach, as there is still a land input cost even though there may be no land transfer in the same way. In this sense, the scenario involving a developer with grant is equivalent to the use of a development agreement between a developer and RSL, currently one of the most common routes of affordable housing procurement.

2.8.3 The amount a developer can expect to receive for the completed affordable homes is equivalent to the reasonable build costs for the dwelling type and site conditions. With the Government's drive through the Housing Corporation for best value, and making sure that grant money achieves the "additionality" rather than supporting land value or similar, we may see downward pressure on costs for affordable homes working against increasing tender prices in some way.

2.8.4 We have taken what we feel is a fairly cautious view of the payment likely to be received by the developer from the RSL given the uncertain affordable housing funding climate.

2.8.5 In practice, a developer may be able to recoup a larger sum, improving site viability marginally. However, there will be costs associated with servicing the affordable housing land to its boundaries and the RSL will also need to fund its own development management cost, hence we have not allowed for the developer receiving back the equivalent of the full design and build package cost. As at 2.4.1 currently we do also allow for a developer's profit on the affordable housing element, although as we state there this approach will need to be kept under review.

2.8.6 We have assumed a rate of approx £1,000/sq m (gross internal floor area of development) will be received in the case of standard house schemes, and £1,150 in the case of flatted schemes. As above, in practice this might be enhanced but again we consider it appropriate to take a fairly cautious view of factors affecting viability. Viability would then be boosted, albeit perhaps only marginally, by increased receipts for the affordable housing units. The table below (Figure 3) shows the indicative payments a developer would receive for each unit type.

Figure 3: Indicative Payments to Developers for Completed Affordable Units Transferred to RSL Based on Nil Cost Land Subsidy

	1-Bed Flat	2-Bed Flat	2-Bed House	3-Bed House	4-Bed House
Unit Size (GIA)	51 sq m	66 sq m	76 sq m	86 sq m	101 sq m
Indicative Developer's Receipt (£)	£58,650	£75,900	£76,000	£86,000	£101,000

2.8.7 If incorporated into any Supplementary or Development Plan Documents (SPD or DPD) in our view such an approach would need to set as a baseline or guide, rather than be fixed or prescriptive. All schemes vary.

2.8.8 Within the models used for each of the scenarios listed above (and shown in Appendix I) we have assumed that the affordable housing element of each scheme is tenure neutral. This is because by applying the assumption that the developer's receipt from the affordable housing will be build cost based, there is little difference between the costs of providing for different tenures. With improved payments to the developer for some forms of low cost market housing for example (where that has a role in produced genuinely affordable housing), this may increase slightly the financial viability of some sites.

2.8.9 In arriving at the indicative payment levels in Figure 3 above, we assume that the developer receives base build costs back for the completed affordable homes. We acknowledge that this is a fairly cautious viability assumption, particularly as those cost levels will need to be tested and monitored. However, in our view, in a climate of uncertain funding availability for affordable housing such as we have, and a basis for that being dependent on significant private subsidy being secured (e.g. through land value), then the Council needs to set some relatively challenging markers and expectations, which it will then monitor. These should not be prescriptive in our view; they should be benchmarks. Nevertheless, we think Local Authorities will increasingly need to take this type of approach. Otherwise public funding (social housing grant) expectations are likely to be too high or affordability compromised.

2.8.10 The reason we assume the developer received only base build costs back is that on the nil cost serviced land model he will also be expected to prepare the site for the affordable housing development. That model assumes a site already acquired and serviced (usually to its boundaries) ready for the affordable housing construction. That is a cost to the developer which, although usually passed on to the landowner, means that some allowance has to be made to reflect that cost in our viability calculations. In other words, if the developer were fully reimbursed for all construction and land related expenses, and that meant he could pay a little more for the land, we would not be reflecting the nil cost serviced land assumption. Alternatively, the developer might be paid more for the construction but then have to make some level of payment or allowance in another way for the land acquisition and servicing costs. Those costs need to be reflected and although again there is no one right answer or genuine "one size fits all" approach ours is a reasonable assumption in the circumstances from a viability perspective.

2.8.11 In the VOA work mentioned at 2.1.14, an allowance of 15% on the land value is made to reflect these land acquisition and servicing costs. Again in practice, they will vary, but this indicates and tallies with our thinking that the cost of acquiring and servicing the land is not insignificant – it impacts on viability through ultimately reducing the developers receipt levels (or increasing his costs – same outcome) and needs to be allowed for.

2.8.12 In reality each scheme will differ as it could be argued that for low cost ownership forms of tenure provided on site, the market value of the remaining private units might not be affected as much as by affordable rented tenure adjacent. Whilst difficult to acknowledge these types of factors given the level of housing need and sustainable communities themes, there are nonetheless market perceptions and realities around such issues. As above, we have not reflected such subtleties as it is not possible to do so with notional sites where the positioning of units and accesses, etc, is not known. These are, however, real factors in the market which, again, it is suggested should be assessed as part of a practical approach to producing successful development schemes as a whole. Again, site specifics will need to be considered.

2.8.13 A sample of appraisals have also been carried out looking at developer receipt for affordable housing based on the “mortgage funded by rental stream” approach to developer subsidy.

2.8.14 On this basis, the payments developers receive from RSLs (Registered Social Landlords) for the provision of completed affordable units are based on a negotiation between the parties, driven by scheme costs and what the RSL can afford to pay given its business planning and financial assumptions – the finance which the cash flows will support, and assumptions on payback periods, return rates etc.

2.8.15 The likely payment that an RSL would make for an affordable rented or shared ownership unit within this additional modelling was determined through carrying out a series of appraisals using industry standard software (known as Proval). Effectively, the value that could be paid to a developer for completed affordable units is related to the mortgage finance the RSL could raise based on the rental income stream (affordable rent) or capital and rental income stream (shared ownership).

2.8.16 The values used in the appraisals are shown below for each unit type on each scheme and reflect the value of the affordable unit (of either tenure):

Figure 4: Summary of Proval Appraisals –
Indicative RSL Payment to Developer based on Unit Type, Value and Tenure – Mortgage Funded comparison assumption

Rent (With Grant)				
House Type	Point 1	Point 2	Point 3	Point 4
2-Bed	£94,393	£98,763	£103,570	£107,940
3-Bed	£99,396	£104,835	£109,780	£114,725
Rent (Without Grant)				
House Type	Point 1	Point 2	Point 3	Point 4
2-Bed	£50,693	£55,063	£59,433	£63,803
3-Bed	£55,385	£60,330	£65,770	£70,220
Shared Ownership				
House Type	Point 1	Point 2	Point 3	Point 4
2-Bed	£107,503	£129,790	£152,077	£173,053
3-Bed	£122,637	£146,373	£172,087	£197,307

2.8.17 In this instance we have looked at a 15 unit housing scheme across all four value points in order to determine the impact on viability of this form of developer subsidy both with and without grant and assuming a 50%/50% split between general needs rented and shared ownership accommodation within the affordable housing element of the scheme.

2.8.18 The modelling has been based on transferring units for affordable housing in proportion to the number of each type within the overall scheme as far as possible. For example in a scheme of ten 3-bed units and five 2-bed units with a requirement for 40% affordable housing, the affordable housing element would be four 3-bed units and two 2-bed units. As far as is practical, the same approach has been taken for the mixed tenure appraisals where applicable. This approach reflects the likely range of affordable housing need in most locations, but again in practice site-specific discussions would prevail.

2.8.19 We understand that the Council applies a conventional approach to the rounding of the number of affordable homes required, i.e. calculations based on the relevant proportions will be rounded to the nearest whole unit number (up to 0.5 resulting units – rounded down; 0.5 and above – rounded up).

2.8.20 The Council's clear priority housing need borne out by the Housing Register and Needs Survey is for affordable (social) rented accommodation. Depending on location and local need, the Council will always seek to maximise the scope for affordable rented housing in the first place. In doing so, the Council will need to continue considering site viability resulting from reviewing overall development and infrastructure costs and available funding.

2.8.21 A flexible approach may be adopted to secure the priority needs affordable rented housing in lower numbers if that becomes necessary and is appropriate on a particular site. This ability to react for example to uncertain or changing funding positions might be embodied in a Cascade type approach to affordable housing numbers and/or tenure mix. Our methodology does not preclude this approach.

2.8.22 An assumption of £50,000 grant per affordable rented property, and nil grant for shared ownership, has been used in the mortgage funded route appraisals. This is thought to be reasonably reflective of the last known grant allocation information regionally, although it remains to be seen whether this level of funding will be sustained in the forthcoming (2008-11) funding programme.

2.9 Other Assumptions

2.9.1 The appraisal model includes other variables such as fees, land buying costs, finance, agency costs and planning infrastructure provision that are all taken into account when calculating an approximate land residual value.

2.9.2 These figures, in some instances, are factors of other elements of the appraisal and, therefore, vary by site size and type. In practice each site and developer approach would vary and it is appreciated that the figures used here will not always be appropriate; site specifics will prevail. However, crucially for this exercise, this enables a comparison to be drawn across sites on a 'like for like' basis so that it is the impact of changing affordable housing policy which is highlighted.

2.9.3 The percentages and values assumed for the purposes of this exercise are listed below and are the result of Adams Integra's experience, work with and discussions with developers, valuers and agents:

- **Base Build Costs (House Schemes)** – *£1,000/sq m*

- **Base Build Costs (Flatted Schemes)** - *£1,150/sq m*

The above are applied to the Gross Internal Area (GIA) of the accommodation. Base costs for flats are likely to be higher than for a scheme of houses particularly for small flatted schemes where sites are small and often difficult to work on (storage, craning etc). Common areas have to be allowed for, as does the degree of repetition of costly elements. Cashflows can also be less favourable as rolling sales are more difficult to deliver. We are envisaging standard low rise flats here (typically no more than 3/4 storeys).

Build cost figures have been taken as an indicative base level, supported by our discussions with developers and others, whilst also taking account a range of information from BCIS (Building Cost Information Service) data.

There will always be a range of opinions on, and methods of, describing build costs. In our view we have taken a reasonable view which lies within the range of figures generally discussed for typical new build schemes rather than high spec or complex schemes which might require particular construction techniques. As with many aspects there is no single appropriate figure in reality, so a judgement on some form of benchmark is necessary.

We are aware that the developer's base build costs can be lower than our above base cost figures, and also that the BCIS tends to indicate lower figures – as in fact used by the VOA in its West Sussex-wide commuted payments report (as mentioned at 2.1.14). In contrast however, there is much said about costs being higher than this, often in the context of RSLs procuring new housing through contractors and developers. So a view needs to be taken, and then monitored, tested and updated as informed by the experience of site specifics, negotiations and (from the affordable housing perspective) in light of funding availability and affordability for occupants.

This area was also mentioned at 2.8.1 to 2.8.8, where it is relevant to the level of payment by the RSL (i.e. receipt by the developer) for the completed affordable homes on the basis of a nil cost serviced land model.

Typical scheme specific additions to these are:

- **Architect Fees** *3.5% of build costs*
- **Consultants Fees** (e.g. engineer, planning supervisor, project manager) *3.0% of build costs*
- **Contingencies** *3.0% of build costs*
- **Insurances** *2.5% of build costs*
- **Marketing and Sales Fees** *1.5% of Estimated Gross Sales Value. There will be instances, dependent on the location and scheme type, where some of this expense, or an additional sum will be directed to the setting up of a show home. This will, however, not be appropriate on all schemes hence we have not included for it as a standard assumption item. We would not expect it to alter the outcomes fundamentally.*
- **Legal Fees on Sale** *£400 per unit*

- **Finance (build)** *6.5% APR on above costs over build period.*

- **Build Period** *9 months for 6 to 11 unit schemes; 12 months for 15 to 25 unit schemes, 24 months for all other schemes.*

- **Land Survey Costs** *£3,000 per site for a 6 unit scheme; £4,000 for 11 unit schemes; £10,000 per site for the 15 unit scheme; £15,000 per site for a 25 units scheme; £50,000 for an 80 unit scheme including basic ground conditions research (on larger schemes especially there will usually also be additional cost associated with transport, Environmental/landscape, ecology, etc, dependent on the scheme and not covered here).*

- **Legal Fees on Land Purchase** *0.5% of land value (this will often produce a low figure (when looking at very small or low value sites) but only make a minimal difference to outcome.*

- **Planning Application costs** *£265 per dwelling where the number of dwellings is 50 or fewer; £13,250 (in total) where the number of dwelling houses exceeds 50 and an additional £80 for each dwelling house in excess of 50 dwelling houses, subject to a maximum total of £50,000.*

- **Stamp Duty Land Tax** *Between 0% and 4% depending on RLV.*

- **Infrastructure Payments** £*4,000* (applied in all cases, regardless of site specifics).

  Please note that these are the figures used in the appraisals but are not necessarily representative across all new residential developments as each site will be calculated separately. The same key points apply here as to those mentioned in the context of abnormal costs above.

- **Finance related to land purchase** *6.5% APR* on land survey, planning costs, legal fees on land purchase and RLV over build time plus 26 weeks. No finance arrangement or related fees have been included for the purposes of this exercise. They might in practice be applicable, but we would not expect them to alter the viability equation fundamentally. Scheme funding arrangements will vary greatly, dependent again in the type of developer and scheme. As with much of this exercise, this is a snapshot and there are varying views as to what future trends will hold. Over time we would need to see how added costs balanced with what sales values were doing. At the time of writing, base rates have moved up gradually in recent months. However, overall indications are that the property market is also continuing to move on steadily. We consider that no factors have moved considerably enough to materially alter the viability outcomes from the assumptions we necessarily had to set in the early study stages.

2.9.4 As this is a relative exercise aimed at determining the likely effect of the Council's proposed policy position, the most important factor is consistency between assumptions used for modelling scenarios. As we point out, specific assumptions and values for our notional schemes may not be appropriate for any particular actual development. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and thus in the context of the Council considering clear policy targets to underpin a negotiated approach.

3. Results Analysis

3.1 Introduction

3.1.1 The results of our modelling are shown in Appendix II, IIA and IIB. Appendix II shows the results of the modelling carried out on the basis of free land developer subsidy. Appendix IIA shows the sample results from modelling carried out with the developer receipt for affordable housing based on the "mortgage funded by rental stream" approach to developer subsidy. Results forming Appendix IIA will be discussed briefly later in this section. Appendix IIB covers the payment in lieu appraisals carried out in respect of smaller sites.

3.1.2 Tables 1, 1a and 1b are a summary of Tables 2 -5 and show a summary of the Land Residual Value appraisals for Points 1-4 in value, % of GDV, and reduction in RLV (%) respectively. This is also shown on Graphs 1, 1a and 1b. Tables 2-5 show the reduction in RLV as a consequence of increasing the proportion of affordable housing and reducing the potential threshold across a range of scheme types and policy options for value points 1 through to 4. Tables 2-5 are modelled on the basis of transferring completed affordable units to an RSL in return for reasonable build costs.

3.1.3 The results shown in Tables 2-5 have also been represented in a series of graphs (2 to 13). Graphs 2-4 relate to Table 2; Graphs 5-7 relate to Table 3; Graphs 8-10 relate to Table 4 and Graphs 11-13 relate to Table 5.

3.1.4 For Table 2 (Point 1), Graph 2 highlights the RLV in monetary terms (approximate). Graph 3 shows the RLV as a percentage of GDV. Graph 4 indicates the percentage reduction in RLV as a result of the increase in affordable housing required from 0% to 20% in the case of schemes of 6 units; 0% to 20% and 30% in the case of 11 units; 0% to 20%, 30% and 40% in the case of 15 units and; from 30% to 40% in the case of schemes of 25 units or more. These reflect the changes from current adopted policy to potential future policy options. Graphs 5-7, 8 to 10 and 11 to 13 repeat the information but for Tables 3 to 5 (Points 2 to 4) respectively.

3.1.5 Please note that although the Council have indicated that they are unlikely to request on-site provision of affordable housing on sites below 15 units, the following results have been included for completeness as discussed earlier. This then provides the Council with the full suite of potential options for consideration.

3.1.6 Figures 5 and 6 below provide a quick summary of the information to be found in Appendix II and II A.

Figure 5: Summary of Tables and Graphs Relationship from Appendix II

Table No.	Title	Graph No.	Title
1	Summary of Land Residual Value (£) Appraisals for All Points - 15% Developer Profit	1	Summary of Land Residual Values at 0%, 20%, 30% & 40% Affordable Housing Across All Value Points - 15% Developer Profit
1a	Summary of Land Residual Value (as % of GDV) Appraisals for All Points - 15% Developer Profit	1a	Summary of Land Residual Values (as % of GDV) at 0%, 20%, 30% & 40% Affordable Housing Across All Value Points - 15% Developer Profit
1b	Summary of Reduction in Land Residual Value (%) Appraisals for All Points - 15% Developer Profit	1b	Summary of Reduction in Land Residual Values (%) at 0% to 20%, 0% to 30%, 0% to 40% and 30% to 40% Affordable Housing Across All Value Points - 15% Developer Profit
2	Summary Table Showing Reduction in Land Residual Based - Point 1 - 15% Developer Profit	2	Residual Land Value (£) - **Point 1**
		3	Residual Land Value (% of GDV) - **Point 1**
		4	Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing **- Point 1**
3	Summary Table Showing Reduction in Land Residual Based - Point 2 - 15% Developer Profit	5	Residual Land Value (£) - **Point 2**
		6	Residual Land Value (% of GDV) - **Point 2**
		7	Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing **- Point 2**
4	Summary Table Showing Reduction in Land Residual Based - Point 3 - 15% Developer Profit	8	Residual Land Value (£) - **Point 3**
		9	Residual Land Value (% of GDV) - **Point 3**
		10	Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing **- Point 3**
5	Summary Table Showing Reduction in Land Residual Based - Point 4 - 15% Developer Profit	11	Residual Land Value (£) - **Point 4**
		12	Residual Land Value (% of GDV) - **Point 4**
		13	Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing **- Point 4**

Figure 6: Summary of Tables and Graphs Relationship from Appendix II A

Table No.	Title	Graph No.	Title
6	Mortgage Funded by Rental Stream: Residual Land Value, RLV as % of GDV and Percentage Reduction in Residual Land Value from Adopted Policy Position - 15 Unit Housing Scheme Only	14	15 Unit Housing Scheme - Residual Land Values at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - **Point 1**
		15	15 Unit Housing Scheme - RLV as % of GDV at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - **Point 1**
		16	15 Unit Housing Scheme - Reduction in RLV from 0% to 20%, 30% and 40% Affordable Housing (Mortgage Funded By Rental Stream Payment to Developer) - **Point 1**
		17	15 Unit Housing Scheme - Residual Land Values at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - **Point 2**
		18	15 Unit Housing Scheme - RLV as % of GDV at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - **Point 2**
		19	15 Unit Housing Scheme - Reduction in RLV from 0% to 20%, 30% and 40% Affordable Housing (Mortgage Funded By Rental Stream Payment to Developer) - **Point 2**
		20	15 Unit Housing Scheme - Residual Land Values at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - **Point 3**
		21	15 Unit Housing Scheme - RLV as % of GDV at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - **Point 3**
		22	15 Unit Housing Scheme - Reduction in RLV from 0% to 20%, 30% and 40% Affordable Housing (Mortgage Funded By Rental Stream Payment to Developer) - **Point 3**
		23	15 Unit Housing Scheme - Residual Land Values at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - **Point 4**
		24	15 Unit Housing Scheme - RLV as % of GDV at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - **Point 4**
		25	15 Unit Housing Scheme - Reduction in RLV from 0% to 20%, 30% and 40% Affordable Housing (Mortgage Funded By Rental Stream Payment to Developer) - **Point 4**

3.2 Reduction in Land Residual in Schemes Below Current 25 unit Threshold - Points 1 to 4 (Tables 2 - 5, Column 9)

3.2.1 For schemes below the current Worthing Borough Local Plan adopted affordable housing policy threshold of 25 units, the modelling carried out for this study applies a proportion of affordable housing for the first time. So on these sites previously there would have been a zero affordable housing requirement.

3.2.2 Analysis of the results indicates that, as expected, requiring an affordable housing element on any of the scenarios modelled leads to a reduction in RLV across the entire range of value points and scheme types.

3.2.3 It is worth reiterating here that as the approach to modelling has involved the use of a range of Value Points rather than reference to specific geographic areas, these results will apply to all areas that fit the value points, or range of those. So, if we talk about Point 3 for example, this means all schemes that are either in areas which fit that point, or schemes that have a value that fit into the Point 3 profile, no matter where they are located. This comes back to the discussion earlier where we emphasise that land value will vary down to street level (this is especially true, just for example, where a settlement has high value waterfront areas adjacent to lower value non-waterfront areas).

3.2.4 A comparison of the reduction in RLVs for a 15 unit housing scheme across Points 1 to 4 resulting from a proposed policy of increasing the affordable housing requirement on qualifying sites from 0% to 20% affordable housing indicates a reduction of between approximately 41.2% at Point 1 to 26.0% at Point 4.

3.2.5 From 0% to 30% this reduction increases from between 67.5% at Point 1 to 43.0% at Point 4. From 0% to 40% the reduction in RLV increases from between 80.1% at Point 1 to 51.0% at Point 4.

3.2.6 The results show slight differences for a reduction in RLV from 0 to 20% and 0% to 30% across all four value points. These results show across all scheme types that the RLV is significantly reduced across all value points. However, the impact of those reductions is greater at the lower end of the value scale due to the initial low land values and the reduced ability to bear cost (or put alternatively, the reduced scope for what value there is to be eroded and still facilitate the scheme proceeding).

3.2.7 This pattern is also repeated across the range of scheme types – 6 unit and 11 unit flatted, mixed and housing schemes.

3.2.8 Please note that reductions in RLVs showing 100% are due to the land values in effect being negative due to the requirement for affordable housing. As such a maximum of 100% reduction has been applied.

3.3 Land Residual as Percentage of GDV in Schemes Below Current Threshold – Points 1 to 4 (Tables 2 to 5, Column 8)

3.3.1 Whilst the above highlights the impact of affordable housing on site viability by looking at the overall reduction in land residual value, it is also relevant to review the approximate land residual figures produced (in monetary terms) and compare these across the range of proportion and threshold levels considered.

3.3.2 These are notional/illustrative only and not too much weight should be attached to them, but what we attempt to do is get a general feel for the amounts of money likely to be available to landowners, to help assess to what extent they might be incentivised to sell.

3.3.3 There can be no definite cut off point owing to each landowner's position. It is not appropriate to assume that because a development appears to produce some land value, the land will change hands and the development proceed. This must be viewed alongside the owner's enjoyment/use of the land, existing use value and alternative uses that the site may be put to in order for a greater receipt to be achieved.

3.3.4 In reality, scheme-specific land values would have to be considered alongside existing or alternative use values and the latter, being very location and planning use or business dependent, will vary significantly too. To attempt make comparisons with existing or alternative uses in this type of policy context study would, in our view, be meaningless owing to these site specific factors.

3.3.5 In terms of the notional land residual remaining for the 15 unit housing scheme at Point 1 (columns 7 and 8 of Table 2), the notional land residual lowers from £421,522 to £247,786 (or from 17.3% of GDV to 11.3% of GDV) as a result of applying a 20% affordable housing policy from an original starting position where zero affordable housing was required.

3.3.6 The notional land residual decreases further when a 30% or 40% policy is applied from £137,156 to £83,834 (or 6.7% of GDV to 4.3% of GDV).

3.3.7 For a Point 1, 6 unit housing scheme the notional land residual reduces from £187,232 for zero affordable housing to £124,537 if 20% affordable housing was required. As a percentage of GDV this is a reduction from 18.5% to 13.4%.

3.3.8 The same investigation of an 11 unit housing scheme at Point 1 shows notional RLVs of £320,668, £209,445 and £146,751 at zero, 20% and 30% policy positions or 18.0%, 12.9% and 9.5% of GDV.

3.3.9 The trend of results shows increases in RLV in each of the policy positions as we move through points 2 to 4. For example, a 15 unit housing scheme at 40% affordable housing produces notional RLVs of £421,522, £762,506, £1,115,030 and £1,463,956 or 17.3%, 26.2%, 32.7% and 37.6% of GDV in points 1 to 4 respectively. These trends again are seen across all scheme types and all policy positions.

3.3.10 The overall trend shows an increase in development viability from a scheme at Point 1 with 40% affordable housing to a scheme at Point 4 with zero affordable housing – the extremes in the range studied.

3.4 Reduction in Land Residual in Schemes at or Above Current Threshold - Points 1 to 4 (Tables 2- 6, Column 9)

3.4.1 For schemes at or above the current Worthing Borough Local Plan adopted affordable housing policy threshold of 25 units, the modelling carried out for this study applies a proportion equal to and greater than existing policy, i.e. on these sites previously, there would have been a requirement for 30% affordable housing requirement; the study compares this to a potential policy requirement for 40% affordable housing.

3.4.2 A comparison of the reduction in RLVs for a 25 unit housing scheme across Points 1 to 4 resulting from a proposed policy of increasing the affordable housing requirement on qualifying sites from 30% to 40% affordable housing indicates a reduction of between approximately 44.4% at Point 1 to 18.1% at Point 4. We can immediately see here that the reduction in land residual is less when we compare a larger scheme (where the affordable housing element is being increased from 30% to 40%) with a smaller scheme (where, for example, there is an increase in affordable housing provision from 0% to 30% or 0% to 40% as shown above). This confirms the general indication that the sharpest policy impacts are on sites which provide affordable housing for the first time, as opposed to sites where an increased proportion is sought.

3.4.3 Similar patterns emerge for other larger schemes above the current policy position threshold.

3.4.4 Please note that the results from the 25 unit *flatted* scheme at Point 1 show a reduction of “No change”. This figure, as mentioned above, reflects the very low starting land value (i.e. with 30% provision of affordable housing) and as such only a small increase in costs (or reduction in sales receipt) will result in a large *relative* percentage drop in RLV. In this instance the RLV with a requirement for 30% affordable housing is negative (or zero). This suggests that there may be difficulty applying current policy to certain areas where there are low RLVs and as such it is also likely that the Council will need to continue negotiating on these schemes. This would apply also to schemes that have high abnormal costs for example.

3.5 Land Residual as Percentage of GDV in Schemes at or Above Current Threshold – Points 1 to 4 (Tables 2 to 6, Column 8)

3.5.1 In terms of the notional land residual remaining for a 25 unit housing scheme at Point 1 (columns 7 and 8 of Table 2), the notional land residual lowers from £271,523 to £150,995 (or from 7.6% of GDV to 4.5% of GDV) as a result of applying a 40% affordable housing policy from an original starting position of 30%.

3.5.2 At Point 4, the RLV has increased to £1,503,995 under current policy and drops to £1,232,048 with the effect of a 40% affordable housing policy introduced (or 28.5% to 25.2% of GDV).

3.5.3 Again, similar trends are seen for the larger schemes across all Value Points.

3.6 Land Residual (as a percentage of GDV)

20% Developer Profit

3.6.1 As mentioned at 2.5.3 of this report, viability has also been investigated using 20% developers profit in place of 15% on a sample basis on larger schemes (80 dwellings). This comparison allows us to investigate the additional impact of increased profit requirements that may be more likely on larger schemes as a result, for example, of increased risk in bringing larger sites forward for development. As is expected, the same trends as above are seen, whereby the lower the development values, the greater the additional impact becomes.

3.6.2 For example, comparing an 80 unit mixed scheme at 30% affordable housing and 20% developers profit with 30% affordable housing and 15% developer's profit applied we see the approximate land residual value being reduced from 4.0% to 0% of GDV at Point 1; from 12.7% to 8.7% at Point 2; from 19.3% to 15.3% at Point 3 and from 24.5% to 20.5% in the highest value Point 4. At 40% affordable housing these changes are: 0.1% to 0%; 8.6% to 4.6%; 15.2% to 11.2% and 20.5% to 16.5% from Points 1 to 4 respectively.

3.6.3 The increase in developer's profit from 15% to 20% results in further reductions in the RLVs across the range of between 10% and 50%. This is significant within the lower value points range and serves to further highlight the need for careful consideration and negotiation of schemes but bearing in mind that as stated at 2.5.3 this additional squeezing of land values ought to be by no means universal.

3.6.4 Again as above, the higher value schemes/value point areas are more likely to be able to support an increased affordable housing content more often than not. The sums which remain available for land purchase on this basis are still significant. Again, however, the lower value point developments will struggle to provide the highest levels of affordable housing without significant negotiation and assessment of overall priorities on the Local Authority's part. Developers can assist Local Authorities with this process, through collaborative open book working and explanation of figures. This process needs to be encouraged, and will be relied upon to home in on key areas to discuss in the event of differences of opinion.

3.6.5 As stated above, not too much weight should be attached to the approximate land residuals (the actual values) shown. The main trend we are looking at is the scale of reduction in those flowing from the proposed policy impact. Whether a specific site comes forward for residential development will hinge on the wide range of factors discussed in this report, not least any competing land use value.

3.7 Viability Study Trends

3.7.1 As mentioned previously, due to potential existing and alternative use values of schemes, it is impossible to provide the Council with definitive "cut-off" points where viability will be compromised to the degree that development may not take place. However, it is possible to provide likely outcomes at varying levels.

3.7.2 By way of an example, a residual calculation that provides an output of zero value (or 0% of GDV) after the application of the policy means, obviously, that development on this site would be compromised. Conversely, on a site where the RLV approaches 40% of GDV after the application of affordable housing policy it is likely (although not definitive) that land values are high enough to absorb the costs of the new policies.

3.7.3 Table 1(a) provides a rough guide to likely outcomes by showing overall trends.

3.7.4 When a 20% developer profit is applied to the appraisals on the larger scheme of 80 units we see the same trends but there is an additional impact on viability leading to reduced land values as a percentage of GDV. This means that there is a general "step down" in outcomes across many of the scheme types and value points.

3.8 Review of potential payment in lieu (also known as "commuted sums"/"financial contributions") approach to seeking affording housing contributions from smaller sites.

3.8.1 As requested in the Council's Brief, we carried out some modelling relating the financial viability of requesting affordable housing contribution payments from smaller sites. The notional sites appraised in this way were of 6 to 14 dwellings in size. This approach, if implemented, would effectively mean a lowering of thresholds but with financial payments being made on sites within that size range in lieu of the on site provision requirement, which would commence at 15 dwellings. The thinking behind this being that there is no particular reason why smaller sites should not make some contribution – why they should effectively receive special treatment by carrying no burden in this respect. It might be argued that such an approach could also fit with the Planning Gain Supplement type approach which we understand the Treasury are still considering for implementation in around 2009. The purpose of this study is not to comment on the planning policy scope or merits of such an approach, but to inform purely on the development viability aspects.

3.8.2 In this section we also make a link between our work and that of the Valuation Office Agency (VOA) March 2007 – as explained earlier at 2.1.14 and 2.8.

3.8.3 During the course of this study, the Council advised that it was also considering the VOA's work as a route to establishing a position on commuted payments, particularly as that is a County-wide study and it makes clear sense to develop an approach which is common in essence with that of other nearby Authorities. We understand that the VOA work is currently being considered across West Sussex. A detailed review of that work is beyond the scope of this study, but we are aware that the VOA uses the same residual land valuation based techniques that we do – and also that much of the VOA thinking on those techniques as applied to affordable housing and development viability was rooted in our earlier West Sussex wide study for the West Sussex Planning and Affordable Housing Group (PAHG) – as referred to at 2.6.6.

3.8.4 This section blurs methodologies and results because it has been necessary to inform our appraisal assumptions and modelling on this area dependent on emerging results from the wider study. We felt it best for clarity to keep the points together here. The key points will then be emphasised in conclusions.

3.8.5 We discuss elsewhere the potential issues with affordability, integration, management and the like in relation to providing affordable housing within such small sites, those need to be considered very carefully. This policy approach could have practical merits with those issues in mind. If those concerns are removed through the use of a payment in lieu, then dependent on the scale of the payment being appropriately judged there is unlikely to be a pure financial viability issue – subject as normal to any existing/alternative use barriers and the normal negotiation process where necessary.

3.8.6 The results from the appraisals carried out on this basis, at value Point 1 and 3 levels so that we could a range of outcomes, are set out within Appendix IIB. We will not describe them in detail here. This approach could be expanded to provide a full range of results, ie including for value Points 2 and 4.

3.8.7 At a glance, all of our payment in lieu route RLV percentages (of GDV) are lower than produced by the on site affordable housing route. At Point 1 level values the approximate RLV sums fall either side of those produced by the on site appraisals. However at Point 3 values, although the RLV percentages remain lower, the approximate RLV sums are higher than those from the equivalent on site appraisals. This is because as values rise the benefit of retaining units for market sale increases and flows out into increased sums for land purchase. So it appears that on this basis the payment in lieu route is a potential aid to viability on higher value sites. All of the RLV sums are less than 10% higher than their on-site equivalent results, however, so the difference is not great.

3.8.8 For the purpose of our modelling on this aspect, we assumed a contribution equivalent to the nil cost land assumption within the core appraisals looking at on site provision. This means securing a broadly equivalent level of subsidy to that which would be secured with an on-site approach which aims to secure nil cost serviced land. The broadly equivalent criterion is as set in PPS3 (paragraph 29). In summary, we added the relevant plot values and acquisition expenses to the costs side of the equation (as payments by the developer are being assumed). So effectively the methodology assumes an additional planning obligations payment being made by the developer, albeit from the increased Gross Development Value which results from having no affordable housing on-site.

3.8.9 We recognise that other Local Authorities including within West Sussex, and more widely, are exploring the scope for and issues with lower thresholds and/or financial contributions from smaller sites.

3.8.10 Compared with previous national advice under Circular 6/98 (now rescinded), PPS3 gives more scope for the consideration of thresholds lower than the “national indicative minimum” of 15 it sets out, related to local circumstances “where viable and practicable”.

3.8.11 Policy development should include this payments in lieu aspect if it is to be pursued, so as to make clear to land owners and developers how the Council would apply its approach, and on what basis calculations would be made.

3.8.12 It should be noted however, again in accordance with established guidance and working practice, but confirmed by PPS3, that this is a secondary approach to sites where there is a very good case for off-site provision and normally where more appropriate provision would result through that route. There may also be a route which involves the provision of an alternative site.

3.8.13 These sub-sections will cover this topic in outline. It is an area of the Council's approach that would need to developed in detail through an affordable housing Supplementary Planning Document, or possibly a Development Plan Document.

3.8.14 As far as establishing or indicating payment levels is concerned, Local Authorities adopt a number of calculation methods. The most appropriate in Worthing's case, in our view, would be one which revolves around land value. This is the basis we have assumed.

3.8.15 Having settled up a basic methodology, in our view, there are two potentially simple routes to clarifying the Authority's approach.

3.8.16 Firstly, a calculation route might not be prescriptive but instead might set out the principles and underlying methodology, but still allow for some degree of site specific influence and negotiation in cases where scheme viability dictates (and is fully justified). Thus it would be formulaic and, with negotiation, a parallel process to the on-site one. Example calculations could be set out and thus give a guide to the level of payments expected for a range of unit and possibly tenure types.

3.8.17 Alternatively, the same formulaic approach could drive the build up of a payments table. This would be best still viewed as indicative, because all schemes are different. It could set out, Borough-wide (or alternatively in terms of sub areas if more detail was thought advantageous and helpful) levels of payments required for the range of property types. This might be viewed as more prescriptive. It might mean an averaging out of payment levels across the Borough. It might however give more clarity.

3.8.18 In our experience the best methods of calculating payments in lieu are those which are easily understood by land owners and the development industry. The methodology we propose, being land value based, fits this in our experience.

3.8.19 Whilst some Local Authorities still use mechanisms which relate back to the former Housing Corporation Total Cost Indicator regime in some way, or to RSL finance driven models, we feel those are now outmoded and should be set aside in favour of methodologies which relate more closely to the market-led provision that flows from the planning obligations.

3.8.20 This means considering a methodology which either:

- Relates to the build cost of the affordable homes in some way, or
- Relates to the land cost element – allied to a nil cost land approach to on site affordable housing, or
- Considers the difference between the open market sale revenue and the affordable housing revenue for the relevant homes which would have formed the on-site quota.

3.8.21 Where a Local Authority has developed a more prescriptive approach to the sums a developer will receive for completed affordable homes on site (i.e. a formal 'Payment Table' incorporating the sort of figures we set out at Figure 3 (2.8.6 of the report text)) it may be possible to base a formula on the difference between market value and the payment table figure.

3.8.22 However, in our view the most appropriate route may be to look at land value. This means working out how much it would cost to go elsewhere and replace the land on which the affordable housing would have been sited.

3.8.23 We would start by taking a pre-affordable housing land value, calculated as a percentage of the market sale value of a property. This percentage would reflect the pre-affordable housing (0%) residual land value results, as taken from this study. An allowance might well be added bearing in mind that as well as land value there would be acquisition plus potentially servicing costs to bear in the case of replacing the land elsewhere, in the market.

3.8.24 The following table sets out the per unit indicative payments in lieu which we have arrived at on this basis, using or property size and wider assumptions. These figures are as applied in Appendix IIB appraisals of notional sites of 6, 8, 10, 11 and 14 units assuming 10% and 20% proportions of affordable housing contributed.

Value Point	1 bed flat		2 bed flat			
	OMV	Indicative £ payment	OMV	Indicative £ payment		
1	100,000	35,995	130,000	46,794		
3	140,000	50,393	181,000	65,151		
Value Point	2 bed house		3 bed house		4 bed house	
	OMV	Indicative £ payment	OMV	Indicative £ payment	OMV	Indicative £ payment
1	149,000	53,633	169,000	60,832	198,000	71,270
3	209,000	75,230	236,000	84,948	277,000	99,706

3.8.25 In our experience these figures are likely to be of the right order in the Worthing context. Seeking to collect sums such as these should not unduly impact on financial viability either in the context of the values seen in Worthing, if applied with the modest affordable housing proportions mooted for smaller sites; or in comparison with the policy proposals for on site provision. Allowing for the relative value levels, they are broadly equivalent to sums we are involved in negotiating in other Local Authority areas in the South East and central South in particular.

3.8.26 As applied on the basis of a lower 10% and 20% proportion of affordable housing on smaller sites in the site size range 6 to 14 dwellings, then again they should not be prohibitive.

3.8.27 The Council could decide to further simplify the above type of approach with a Borough-wide single figure per property type. If this route were preferred then an average or mid range figure from the above could be selected for each unit type.

3.8.28 Conversely, the approach could be further worked up to reflect on more local value specific basis the land value percentage to be applied to the property open market value (OMV) starting point. We applied a figure of 31.3% of OMV being the average outcome (% of GDV remaining for residual land value) from all relevant 0% affordable housing appraisals – sites in range 6 to 14 units, as within Appendix IIB.

3.8.29 This approach is felt to be sound. While something more complex and reflective of particular local area values and land residuals could be used, this fits with our overall feel for Worthing values. In reality a replacement site, or scheme to be funded with the monies collected, could be anywhere within the Borough boundaries given Borough wide affordable housing need and the Borough's compact nature.

3.8.30 The indicative payment figures at 3.8.24 are arrived at by the following steps:

a. Open market value (OMV) of relevant or comparative property (depending on to what degree the formulaic approach is to be site specific, Borough-wide, etc.
b. Multiply by the residual land value percentage. We have used 31.3%, derived as at 3.8.28 above (it would be possible to look at this in a variety of ways, including on a more specific RLV basis).
c. Add 15% of the result of a x b to reflect site acquisition and servicing costs. This gives the per unit sum. We are aware that the Valuation Office Agency is recommending a similar approach as a part of a County-wide exercise in West Sussex. We have advocated a similar approach in advice in West Sussex which follows up our Planning and Affordable Housing Group Study. All sites will be different but this addition in our view is a reasonable one in the context of aiming to get to a simple, formulaic approach which reflects the relevant costs.
d. Apply to the relevant site number and proportion (in this case 10% or 20% depending on site size in accordance with the various policy options).

3.8.31 At 3.8.2 and 3.8.3 we mentioned that Worthing Borough Council is also considering the current VOA work on such payment methodologies and levels. Whilst some assumptions within that work vary, perhaps most notably the VOA's assumption of lower build cost levels than ours, the underlying thinking and methodology is very similar to that used by Adams Integra. The result is that the payment levels indicated in the Worthing context by the VOA are very similar to those we have put forward at 3.8.24 above. Consequently the viability outcomes (approximate reductions in land values) will not be materially different if the VOA figures were substituted for ours as payments to be borne by the schemes modelled. Our recommendations would remain the same.

3.8.32 We will not reproduce any detail from the VOA work here, but Table 9 of that March 2007 report indicates sums for Worthing (Band B) of:

- 1 bed flat £45,000
- 2 bed flat £50,000
- 2 bed house £69,000
- 3 bed house £79,000
- 4 bed house £104,000

3.8.33 It can be seen that this tone of figures is very similar to the one we arrived at, with all figures except for that in respect of the 4 bed house falling in between our current study figures (based on a more detailed review of values than for our PAHG work) for Point 1 and 3 value scenarios in Worthing. The 4 bed house figure does not represent any significant stepping out of line with this context. Without analysing this in detail by revisiting calculations, on review of the VOA work we think the main reason that produces a slightly higher figure for the 4 bed house type is that VOA assumes a larger floor area than we do (of 111 sq m) for that unit type. Thus, overall there is a very good correlation between the two sets of suggested figures.

3.8.34 As with the on-site route, flexibility needs to be considered, with viability-related negotiations taking place in the context of the valuation and site specific issues as raised in this study.

4. Key Findings and Recommendations

4.1.1 A wide variety of property values, and therefore land values, exists in Worthing.

4.1.2 We consider, however, that most new build schemes seen in the Borough will be at value levels represented at least by our value Points 2 to 3; and most likely 3. This means new build schemes, which will be the supply source of this planning led affordable housing, will most typically be priced at the mid to upper values within the range we have envisaged. This is not to say that there is a universal marked differentiation between new build values and the prevailing market levels in Worthing (as we have seen elsewhere) but is more about the point at which new build schemes tend to be pitched.

4.1.3 At the time of the initial research, excluding retirement apartments and one off developments of individual properties, there was only one significant new build scheme under way with marketing commencing. As at June 2007, whilst finalising the study, we revisited the research to see if additional new build schemes could provide further value indicators for such property values. At that time, the same scheme plus one additional scheme were being marketed. Within those schemes, the pricing seen is at levels we have assumed with our Point 3 to 4 values, and beyond. Information is provided in Appendix III.

4.1.4 This point dampens our concerns about viability relating to lower value scenarios within the Borough, of which there will be some, and strengthens our view that applied as targets the policy positions being considered by the Council should be sustainable.

4.1.5 As a base point we are able to support a continued 30% requirement for affordable housing, applied to a lowered threshold of 15 dwellings or more.

4.1.6 The Council might consider alternatives, however.

4.1.7 Given the level of housing need, targets set out in the Draft South East Plan and policy positions being considered or established in nearby Council areas, the Council may not wish to rule out a target of 40% provision applied in certain circumstances. This might be considered in relation to larger sites, for example of 25 dwellings or more as per our policy recommendations to neighbouring Arun District Council, or particular/strategic sites or Greenfield releases.

4.1.8 The potential policy approach to seek affordable housing contributions from smaller sites in the size range 6 to 14 dwellings is also likely to be workable in viability terms provided that the type of approach envisaged, i.e. one of tapering requirements, is pursued and the payment levels are carefully judged. We provide indications of those payment levels in the Worthing context, which are backed up by the fact that the Valuation Office Agency has produced very similar figures in the Worthing context – a useful two way validation of the outcomes of these exercises, as they were carried out independently. The figures are lower than we have proposed in some higher value Local Authority areas, as befits an approach led by land values. They are related to a nil cost serviced land approach to on site affordable housing provision. When the reduced percentages of affordable housing (10% and 20%) are applied to these figures they are relatively modest in the context of the values created and should be achievable without compromising schemes unduly.

4.1.9 So we are also able to lend support for a sliding scale approach which might see affordable housing introduced at 10% on sites of 6 dwellings, and stepped up to 20% at 11 dwellings before reaching the baseline 30% at 15 dwellings. There are viability merits in dampening the effects on these smaller sites and reducing the size of the steps between requirements on certain scheme sizes.

4.1.10 We feel that there are also merits in linking these tapering requirements on sites of 6 to 14 dwellings with a payment in lieu approach. We mention the practical issues which can affect on-site provision, as well as the achievement of wider planning objectives, on some such sites.

4.1.11 Providing the Council develops a clear strategy, based on meeting sustainable, mixed communities aims as indicated by PPS3, and manages the collection and use of such payments in a transparent way, then in our view this general approach is a logical one.

4.1.12 Were the Council to consider a 40% upper level requirement, as a target applied to larger sites perhaps of certain types, then it might also consider as an option a 20% requirement extending through to slightly larger sites for example in the range 15 to 25 dwellings. This could mean continuing to require 30% on sites of 25 or more. If considered, this might result in scale through from a 10% to a 40% requirement. These points are put forward simply for consideration. A key point is that in looking at these various positions the Council will need to consider the likely impacts on affordable housing delivery from the combinations of thresholds and proportions. The view may be taken that more than an emphasis on changing policy in respect of the very smallest sites is needed to contribute to meeting the affordable housing shortfall.

4.1.13 While we have not carried out any modelling on sites of less than 6 dwellings, it might in future be possible for the Council to devise another tier of policy, again most likely with a carefully judged payment in lieu approach in mind. The Council would need to be satisfied as to the planning climate scope for such an approach given that we have a system which assumes on site provision as the starting point. On-site provision usually becomes more difficult to achieve on sites of just a few units or less.

4.1.14 In all cases, the policy positions ultimately adopted will need to be targets. The Council will need to adopt a practical approach to implementing them; including through the operation of cascade type mechanisms by which affordable housing provision can be optimised and fine tuned according to the level of grant funding available. Grant will increasingly need to add to the scheme by way of affordable housing numbers, tenure mix, potentially sustainability benefits or a mix of these. Landowners and developers will need to be aware of requirements early, and willing to share information on viability where overall circumstances dictate that there are delivery issues which need discussing.

5. Overall Conclusions and Discussion

5.1.1 The Council wished to understand the development viability impacts from a range of potential planning led affordable housing policy options. The Council is in the process of developing Core Strategy Policy proposals, and needs to judge the soundness of a range of potential policies, from a viability point of view, before committing to any particular route. Currently the Council seeks as a starting point 30% affordable housing on qualifying sites of 25 or more dwellings (or 1 Ha or more in area irrespective of the number of units). Potential policy options include no change. However, in the context of severe affordability issues and local levels of need, securing more affordable housing is a Strategic aim of the Council.

5.1.2 We agreed a methodology with the Council to review the likely viability impacts of and lowering the trigger threshold to 15 on-site and 6 and/or 11 units off-site, and examining the impacts of varying the proportion sought – up to 40% depending on site size. This study investigated the viability of both on-site provision for these smaller sites and commuted payments in-lieu of on-site provision. So a range of policy options have been explored.

5.1.3 The context of this study is seeking to maintain the supply of housing sites in recognition of the need for sustained provision of the full range of housing types (market and affordable) in the Borough. It is also work which is needed in the context of the LDF Core Strategy evidence base and requirements of Local Authorities as set out in paragraph 29 of PPS3.

5.1.4 We appraised a range of notional residential development schemes based on the typical range of sales values encountered within the Borough. The notional schemes varied in size from 6 to 80 units, being comprised of flats, houses and a mix of those. We fixed development values and costs assumptions while varying the affordable housing content of schemes so as to review the impact of the changing affordable housing policy on development viability.

5.1.5 Property market research was carried out to establish the range of sales values which we used in the appraisal modelling. Owing to the variety of value levels encountered in the Borough, and the sometimes unpredictable distribution of those value levels we settled on approach which groups the values into a stepped range, which we have called a range of value points.

5.1.6 At each value point we give a typical price point to each property type contained in the appraisals which is representative of the relevant part of the overall values range, from 1 bed flats through to 4 bed houses.

5.1.7 In our previous West Sussex-wide development viability overview study for the West Sussex Planning and Affordable Housing Group (PAHG - August

2005), we used a similar value banding approach. As stated, in that and some of our subsequent studies we used “value bands” terminology, rather than points, based on the same methodology. That earlier study was necessarily a less detailed approach at Borough level, but broadly speaking we have recognised similar general value patterns to those picked up in that work. At that time we expressed viability concerns in respect of seeking more than 30% affordable housing in respect of some areas of the County, and areas within Worthing fell into that.

5.1.8 We have subsequently undertaken work for Crawley Borough Council. This is mentioned here because we were at the time of the PAHG study also obliged to flag up potential site viability concerns over increased affordable housing requirements for Crawley. While we were able to be more positive on closer examination in the case of the Crawley market, we have not found similar overall trends – i.e. a distinctly different new build market - in Worthing on looking in more detail.

5.1.9 In Crawley, on closer examination we picked up a very strong differentiation between the older housing stock values and the new build market. That is because of the predomination of Public Sector/New Towns Commission built housing there. In Worthing there is generally speaking a much wider variety of older stock with values ranging accordingly. We have not seen a similar distinction here, so have not been able to uplift our thinking on values, and therefore viability, relating to the new build market in general in Worthing Borough, as was appropriate in the case of Crawley.

5.1.10 We did not feel it appropriate to label specific locations, areas or settlements as higher/lower value, or similar. This is because in practice values can vary from street to street and within very small areas. The value banding / points approach means that viability outcomes can effectively be transported around the Borough and a feel for viability gained in relation to relevant value levels, rather than based on what could be an arbitary property sales figure for any given location.

5.1.11 We describe the value points in terms of 1 to 4. Just for example, at the lowest value point studied (Point 1 scenarios), a 2 bed house is valued at £149,000; moving through a range of value points to £238,000 at Point 4.

5.1.12 Therefore, we have studied what financial viability looks like in the lowest value (worst case values) scenarios likely to exist in the Borough, through to the upper value level scenarios where as above financial viability issues are usually of much less concern.

5.1.13 There are provisos to this, which the report sets out. These include the fact that on this notional sites basis, site-specific issues and abnormal costs cannot be accounted for. The fact that individual sites and schemes vary is a key characteristic of the development process. As this study explains, there will be occasions where particular site characteristics and costs mean that a negotiated approach and potential compromise on affordable housing provision and/or other infrastructure requirements may be necessary.

5.1.14 In our opinion the use of notional sites does, however, most effectively enable like for like comparisons to be made, i.e. the testing of impacts of the varying requirements on the same typical scheme in a range of value locations. The fact that individual schemes vary makes like for like comparison very difficult when studying those for this purpose of trying to measure policy impacts. Fully reliable and readily comparable information on actual sites would be needed were policy positions to be compared using actual sites.

5.1.15 The appraisals used a residual valuation approach which, in summary, deducts development costs from total sales values to ascertain what sum of money remains for site purchase. As the affordable housing policy and, therefore, content changes, we see significant changes in the RLVs and we use the size of those changes as our key indicator for judging the likely impacts of a variety of possible affordable housing policy positions.

5.1.16 The results highlighted in the report above and shown in the tables and graphs which make up Appendix II and II A indicate, as expected, that the proposed increased proportions of affordable housing sought on qualifying sites has an impact across the model scenarios that is directly correlated to the value point. In all cases, the proposed policy has the effect of reducing the RLV.

5.1.17 There is a notable impact from policy which sees affordable housing required on sites for the first time. This gives rise to the biggest dip in land values, and is relevant in the case of lowering trigger thresholds for the affordable housing policy. The impact can be very large.

5.1.18 Once affordable housing is required on a site then typically there is a less steep decline in land values resulting from a stepping up of affordable housing policy requirements (i.e. increased proportions). Nevertheless, the impacts can still be very significant, particularly in the lower value areas.

5.1.19 There is a range of values in the Borough and consequently viability varies across it.

5.1.20 To give a little more detail here before summarising outcomes and therefore providing the background to our recommendations, for the on-site affordable housing scenarios we studied sites of 6, 11 and 15 units (all reflecting a potential lowered threshold from the present policy level of 25). These were tested at 20% (for 6 unit schemes), 20% and 30% on 11 unit schemes, 20%, 30% and 40% on 15 unit schemes. These were all tested to ensure a full range of options were reviewed from a viability viewpoint. Notional schemes of 25 and 80 units (i.e. those caught by the current policy threshold) were tested at the existing 30% and a higher 40% content. All schemes tested below the current 25 threshold were also modelled with zero affordable housing content so that we could compare approximate starting point (pre-policy) land values with those resulting from the changes tested. This is important because it is necessary to consider the before and after potential policy positions.

5.1.21 To review the effects on RLV of the potential payment in lieu approach to smaller sites we ran appraisals on notional sites of 6, 8, 10, 11 and 14 units; each contributing to affordable housing at levels of 10% and 20%. Comparisons between our suggested indicative commuted payment figures and those produced by the VOA (March 2007) are also made, which helps to validate the outcomes we have suggested.

5.1.22 Note that pure comparison of land value resulting from flatted as opposed to housing schemes can be misleading because the land take per unit is much reduced. Nonetheless, viability of flatted schemes in the lower value areas is considered to be a potential issue because of the often relatively low values generated in comparison to development costs. Negotiation may well be necessary, but the practical application of policy needs to general as this report reiterates. This finding in itself need not detract from an overall policy target approach.

5.1.23 Viability of housing and mixed unit schemes in value Point 1 situations again looks relatively poor, with in our view little prospect of improving affordable housing provision from the 30% existing level.

5.1.24 So the lower value point viability results in particular do not look strong, and the PAHG work findings are still broadly verifiable in that respect.

5.1.25 There is quite a dramatic improvement from Point 1 to Point 2 results, although many in Point 2 situations still give some cause for concern as the affordable housing content increases.

5.1.26 It appears that values on sites may need to hit Point 3 and 4 levels for up to 40% affordable housing to be sustained more regularly, or without too much negotiation.

5.1.27 This is a key point because from our research and the limited number of new build scheme examples we found information on, it is apparent that many new build schemes in Worthing are going to be at around Point 3, or at least Point 2 to 3, value levels.

5.1.28 At the time of the initial research, excluding retirement apartments and one off developments of individual properties, there was only one significant new build scheme underway with marketing commencing. As at June 2007, whilst finalising the study, we revisited the research to see if additional new build schemes could provide further value indicators for such property. At that time, the same scheme plus one additional scheme was being marketed. Information is provided in Appendix III.

5.1.29 Within those schemes, the pricing seen is at levels we have assumed with our Point 3 to 4 values, and beyond. Summarised quickly here for an overview (see Appendix III), the pricing for the 1 bed flats in these schemes ranged from £139,950 to £155,000; for 2 bed flats from £184,950 to £245,000; for 3 bed houses from £299,950 to £325,000 and for 4 bed terraced houses from £299,950 to £310,000. Whilst clearly there could be some adjustment in these prices to final sale prices, even a 10% reduction would put the value of these properties at our point 2 to 3 levels as a minimum after such a discount; and at that level in respect of the lower end of these prices in most cases.

5.1.30 The Council has put forward a continuation of the 30% headline policy target, but proposed to take effect at 15 units rather than 25 under new policy. We are able to support that – as a target.

5.1.31 In a recent development viability study for neighbouring Arun District Council we recommended that a proportion of 20% affordable housing be considered for such sites. Allied to that in Arun we proposed an increase to a 40% provision, as a target, on site of 25 or more dwellings.

5.1.32 With a confirmed negotiated approach acknowledged in policy, thought may be given to a potential 40% affordable housing target on sites of 25 or more dwellings in Worthing; increased from the current 30%. This would be in line with the approach supported in Arun, and overall the value levels and range of values is relatively similar.

5.1.33 This possibility could be supported based on the occurrence of higher level values, which we think are likely to be relevant to many new build schemes, as above, and the fact that sites of 25 plus units are already providing 30% affordable housing. The second point here means that although moving to 40% impacts viability results further, there is no very sharp impact as on the sites which have not provided affordable housing previously.

5.1.34 The results are similar to those seen in Arun, so that should be giving us a cue to some extent. Going to 40% on smaller sites would mean some sites going straight from contributing 0% to the 40% target; this is unlikely to be sustainable. We consider that some tapering at least ought to be considered on the newly captured sites here. The approach as suggested by the

Council's preferred options for commuted sums at proportions of 10% and 20% on sites of 6-10 and 11-14 respectively would achieve this tapering.

5.1.35 If the Council were able to justify with its wider evidence base the much lower threshold of 6 units and were to operate that at 10% or 20%, we would not rule those ideas out in pure viability terms. We are mindful of the preferred options approach to start at 10% on sites of 6-10 and 20% on sites of 11-14 (in both cases by way of payment in lieu).

5.1.36 While (principally because GDV rises with more market sales) the RLV results as a percentage of GDV are marginally lower for the payment in lieu route than for the on-site affordable housing route, with those results the approximate RLV sums (£s) need to be considered in those cases. The RLV sums resulting from the payment in lieu route are broadly in line with those produced by the on-site route for Point 1 values (they vary up and down marginally in that case). At Point 3 values the payment in lieu route starts to add to the RLV figure. The RLV percentages are still below those from the on site route based on those value levels, but the RLV sums are higher. This is because the GDV is increasing with higher value properties all retained for market sale.

5.1.37 We would not rule out on-site provision on smaller sites, certainly on sites of say 10 plus. On site provision has been modelled on sites of 6 or more, also to reflect the starting premise that there should be an assumption for on site provision.

5.1.38 All of these revised, lower threshold possibilities would be subject to wider evidence base justification in terms of the type of sites coming forward and the increased delivery of affordable housing contributions which should result. These points are beyond the scope of this study, but as we have mentioned, PPS3 (at para 29) does allow more flexibility for locally considered thresholds "where viable and practicable".

5.1.39 In general the preferred options tiered approach is logical, potentially even extended to align the 25+ unit site requirements with those being pursued in Arun and the growing wider West Sussex context (40%) but as a target for a negotiation base.

5.1.40 There are alternatives which the Council could consider.

5.1.41 One of these would be running with the preferred option 30% headline and testing that in practice with a view to reviewing in future dependent on outcomes.

5.1.42 Another might be retaining the 30% as the generally required level of provision, but considering the scope to establish a higher target of 40% for example for certain larger site types, and perhaps particularly for strategic or Greenfield land releases or particular regeneration initiatives where a bespoke, potentially development brief led approach may be relevant.

5.1.43 Overall, in viability terms we would not rule out a 40% target on sites of 25 or more dwellings, or in respect of certain scheme types, subject to the provisos we cover.

5.1.44 There is an improvement in the Viability of housing and mixed unit schemes at value Point 2 scenarios in Worthing, indicating that affordable housing is likely to be supported, but there may still be viability issues at a level of 40%, dependent on site specifics and the collective infrastructure burden on sites. The transitional point for these scheme types might be regarded as Point 2 rather than Point 3. In the context of a target, practically applied, 40% may be reasonable

5.1.45 Above Point 2 it appears that viability is improved sufficiently to underpin a 40% target with a much greater level of confidence, in pure financial viability terms again regardless of threshold. The points made at 5.1.27 to 5.1.29 are relevant here. This will always be subject to the provisos repeated in this report on the areas of abnormal and infrastructure costs, and existing/alternative use values.

5.1.46 The final judgement on exactly where policy proposals will settle should, in our view, be based on all the factors viewed together, i.e. wider issues alongside the viability outcomes. Included in these will be the key elements of:

- Forecasting of increased affordable housing units delivery based on the size and number of sites coming forward (site capture).

- Local housing needs and practical thinking on the outcome of having small numbers of affordable homes distributed widely (between one and probably a maximum of 5 units) spread across a higher number of schemes.

- Design and integration – sustainable communities - meeting of wider planning objectives.

- Affordability of the homes produced on some smaller schemes in particular.

5.1.47 Given our recognition that on some scheme types, and for some developers and their funders, a 15% profit on GDV (total sales) may not provide a sufficient risk reward return, we have carried out some sample modelling applying a 20% developer's profit. This results mainly in reinforcing our view that there may be viability issues in the lower value areas, where it appears that there may well be insufficient value scope to bear further added cost.

The increased profit element reduces each of the viability results on the larger schemes tested in this way (80 units). However, with increasing values throughout the points range this effective extra cost addition has reducing impact on all results. At point 4 values for example, the results indicate that affordable housing, including at increased proportions, should be achievable allowing for this extra profit provided there are not too many abnormal cost issues.

5.1.48 It is vitally important that a flexible and negotiated approach to policy application is adopted to ensure the continued supply of residential development land. The new policy proposals should be viewed as targets and in the context of raising the bar on expectations to secure significantly improved delivery from current levels. The wording of policy and supporting text needs to be considered carefully.

5.1.49 It needs to be remembered that values for residential development must be sufficient relative to existing or alternative use values (e.g. commercial/domestic) for residential schemes to be pursued and promoted. We strongly recommend that the Council views and expresses its percentage requirement as a clear target, or words to this effect; not a minimum which could in fact be interpreted as any proportion and potentially lead to uncertainty.

5.1.50 As in the case of other viability overview studies we have carried out, we attempted to gather some purely comparative indications of commercial development land values in the locality. In the case of Worthing, we were unable to find any rough guide information of this type (for example, land values for industrial or office development). This is not unusual. Commercially oriented agents told us that values are too site specific to provide even such guides on a reliable basis. Alternative use values will be highly influenced by location – access, trading potential, specific planning scope, and the like. This reinforces our view that normally it is not possible to make meaningful comparisons between residential and alternative use values unless on a site specific basis with full and reliable information to use.

5.1.51 There may be instances where location, design, servicing cost, marketing or other practical issues relating to a residential scheme will mean that a reduced proportion of less than the headline percentage affordable housing, and/or revised tenure mix will need to be negotiated following open discussions with developers. In appropriate circumstances only, alternative approaches to affordable housing provision may also be required to ensure a satisfactory level of contribution to affordable housing need (e.g. off-site contributions where an on-site approach would have been the required starting point under Government Guidance and Council policy).

5.1.52 The onus will be on developers to clearly and fully demonstrate why they are unable to meet affordable housing or other planning infrastructure requirements in instances where that is the case. It is expected that a methodology similar to one we have used will be appropriate for this process, to explore the relationship between development costs and values. Again, however, we reiterate that whilst this methodology is generally accepted, and the assumptions we have used might guide the Council on starting/indicative parameters, there will be no substitute for site specific appraisal work of this type.

5.1.53 While the general methodology used for the modelling behind this report might be as applied to site-specific discussions, each site will be different and assumptions would be varied accordingly.

5.1.54 There will be cases where abnormal conditions or localised circumstances determine that viability of a site is jeopardised by the additional impact of infrastructure demands. It is the collective burden of such things that will need to be considered.

5.1.55 There will even be cases even in the higher value areas where the development value/cost relationship will not be strong enough to support an increased proportion of affordable housing and we are unable to state categorically that any particular proposed policy will be achievable across the board. There is no one “cut-off” point where sites become unviable; each needs to be considered given its specific characteristics.

5.1.56 In the lower value areas our support for the policy as a target has to be more firmly qualified by reference to a negotiated approach that we advocate throughout this report. If it is framed as a target and backed up by the other aspects of the evidence base – on housing market and need together with site types/numbers delivery, then this should result in a workable scenario for the Council and its Partners.

5.1.57 Clear policy, targets and Supplementary Planning Documents (SPD) will ultimately help with clarity as to the relevant local cost and affordability issues, the type and mix of affordable housing sought and site delivery generally. SPD needs to be capable of being updated readily. An outline of the type of content we recommend for SPD is included at Appendix IV.

5.1.57.1 Issues may arise on those sites which have already changed hands or are committed through option or similar arrangements, where figures may simply not work when set against the proposed policy requirements. In the same way, there will be some previous planning consents capable of implementation.

5.1.58 A degree of difficulty with increasing planning-led affordable housing supply may be experienced during the adjustment process where there will be problems whilst developers/landowners get accustomed to the new policies and expectations are modified. The modelling in this study has been carried out on the assumption that knowledge of policies exists and that the landowner/developer education process has been undertaken.

5.1.59 The Council should continue to monitor houses prices and affordability, and whatever policy positions it adopts, should keep under review the success of those.

5.1.60 We recommend that the issue of viability be reviewed every one or two years (or at the point of any policy reviews affecting it) in overview terms. Such updates would need to look at then current values and costs, draw in the Council's delivery experiences to date, and also consider any changes to overall planning obligations or wider requirements.

End of Main Report
Appendices follow
July 2007

Appendices

Appendix I

Table Showing Range of Appraisals and Development assumptions for on site affordable housing provision scenarios

Development Scenarios Required for Worthing Borough Council Viability Study

Development Scenario / Threshold	Unit Mix	Value Point	Number: 1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	4-Bed Houses	Total	Total Affordable at each %: 0%	20%	30%	40%	Survey Costs (per site)	Build Period (Months)	Abnormals
6 Units - Houses	6x3-bed houses	1	0	0	0	6	0	6	0	1			£3,000	9	£15,000
		2	0	0	0	6	0								
		3	0	0	0	6	0								
		4	0	0	0	6	0								
11 Units - Flats	11 x 2-bed flats	1	0	11	0	0	0	11	0	2	3		£4,000	9	£20,000
		2	0	11	0	0	0								
		3	0	11	0	0	0								
		4	0	11	0	0	0								
11 Units - Houses	7 x 3-bed & 4 x 2-bed houses	1	0	0	4	7	0	11	0	2	3		£5,000	9	£25,000
		2	0	0	4	7	0								
		3	0	0	4	7	0								
		4	0	0	4	7	0								
15 Units - Flats	10 x 2-bed flats & 5 x 1-bed flats	1	5	10	0	0	0	15	0	3	5	6	£10,000	12	£30,000
		2	5	10	0	0	0								
		3	5	10	0	0	0								
		4	5	10	0	0	0								
15 Units - Houses	5 x 2-bed houses; 10 x 3-bed houses	1	0	0	5	10	0	15	0	3	5	6	£10,000	12	£30,000
		2	0	0	5	10	0								
		3	0	0	5	10	0								
		4	0	0	5	10	0								
25 Units - Flats	15 x 2-bed flats & 10 x 1-bed flats	1	10	15	0	0	0	25			8	10	£15,000	12	£35,000
		2	10	15	0	0	0								
		3	10	15	0	0	0								
		4	10	15	0	0	0								
25 Units - Houses	8 x 2-bed houses; 12 x 3-bed houses & 5 x 4-bed houses	1	0	0	8	12	5	25			8	10	£15,000	12	£35,000
		2	0	0	8	12	5								
		3	0	0	8	12	5								
		4	0	0	8	12	5								
25 Units - Houses & Flats	10 x 2-bed flats; 5 x 1-bed flats; 7 x 3-bed houses, 3 x 2-bed houses	1	5	10	3	7	0	25			8	10	£15,000	12	£35,000
		2	5	10	3	7	0								
		3	5	10	3	7	0								
		4	5	10	3	7	0								
80 Units - Houses & Flats	15 x 2-bed flats, 9 x 1-bed flats, 32 x 3-bed houses, 13 x 2-bed houses & 11 x 4-bed houses	1	9	15	13	32	11	80			24	32	£50,000	24	£100,000
		2	9	15	13	32	11								
		3	9	15	13	32	11								
		4	9	15	13	32	11								

	Values					
Value Point	1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	4-Bed Houses	£ / sq m Equivalent
1	£100,000	£130,000	£149,000	£169,000	£198,000	£1,960
2	£120,000	£155,000	£179,000	£202,000	£238,000	£2,353
3	£140,000	£181,000	£209,000	£236,000	£277,000	£2,745
4	£160,000	£207,000	£238,000	£270,000	£317,000	£3,137

Sizes (sq m)				
1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	4-Bed Houses
51	66	76	86	101

Infrastructure Costs per unit: £4,000 per unit
Finance (%) 6.50%
Build Costs (Flats) £1,150 per sq m
Build Costs (Houses) £1,000 per sq m
Build Period Lead In 6 months
Affordable Unit Mix: Numbers of each unit type proportioned according to overall affordable mix. E.g. 15 unit flatted scheme at 40% affordable - 10 x 2-bed; 5 x 1-bed total (6 affordable - 4 x 2-bed flats and 2 x 1-bed flats)
General Notes: Appraisals carried out on the basis of free land. Therefore, tenure neutral approach to affordable units whereby the developer receives build cost back in return for completed affordable units.

Development Scenarios 0% Affordable (applies to Value Points 1 to 4)

Development Scenario / Threshold	Unit Mix	% Affordable				Private					0% Affordable				
						1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	4-Bed Houses	1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	4-Bed Houses
6 Units - Houses	6 x 3-bed houses	0%	20%	30%	40%	0	0	0	6	0	0	0	0	0	0
11 Units - Flats	11 x 2-bed flats	0%	20%	30%	40%	0	11	0	0	0	0	0	0	0	0
11 Units - Houses	7 x 3-bed & 3 x 4-bed houses	0%	20%	30%	40%	0	0	4	7	0	0	0	0	0	0
15 Units - Flats	10 x 2-bed flats; 5 x 1-bed flats	0%	20%	30%	40%	5	10	0	0	0	0	0	0	0	0
15 Units - Houses	5 x 2-bed houses; 10 x 3-bed houses	0%	20%	30%	40%	0	0	5	10	0	0	0	0	0	0

Development Scenarios 20% Affordable (applies to Value Points 1 to 4)

Development Scenario / Threshold	Unit Mix	% Affordable				Private					20% Affordable				
						1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	4-Bed Houses	1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	4-Bed Houses
6 Units - Houses	6 x 3-bed houses		20%	30%	40%	0	0	0	5	0	0	0	0	1	0
11 Units - Flats	11 x 2-bed flats		20%	30%	40%	0	9	0	0	0	0	2	0	0	0
11 Units - Houses	7 x 3-bed & 3 x 4-bed houses		20%	30%	40%	0	0	3	6	0	0	0	1	1	0
15 Units - Flats	10 x 2-bed flats; 5 x 1-bed flats		20%	30%	40%	4	8	0	0	0	1	2	0	0	0
15 Units - Houses	5 x 2-bed houses; 10 x 3-bed houses		20%	30%	40%	0	0	4	8	0	0	0	1	2	0

Development Scenarios 30% Affordable (applies to Value Points 1 to 4)

Development Scenario / Threshold	Unit Mix	% Affordable			Private					30% Affordable					
					1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	4-Bed Houses	1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	4-Bed Houses	Total
6 Units - Houses	6 x 3-bed houses	0%	20%	30%	0	0	0	4	0	0	0	0	2	0	6
11 Units - Flats	11 x 2-bed flats	0%	20%	30%	0	8	0	0	0	0	3	0	0	0	11
11 Units - Houses	7 x 3-bed & 3 x 4-bed houses	0%	20%	30%	0	0	3	5	0	0	0	1	2	0	11
15 Units - Flats	10 x 2-bed flats; 5 x 1-bed flats	0%	20%	30%	4	8	0	0	0	1	2	0	0	0	15
15 Units - Houses	5 x 2-bed houses; 10 x 3-bed houses	0%	20%	30%	0	0	3	7	0	0	0	2	3	0	15
25 Units - Flats	15 x 2-bed flats & 10 x 1-bed flats	N/A	20%	30%	7	10	0	0	0	3	5	0	0	0	25
25 Units - Houses	8 x 2-bed houses; 12 x 3-bed houses & 5 x 4-bed houses	N/A	20%	30%	0	0	6	8	3	0	0	2	4	2	25
25 Units - Houses & Flats	10 x 2-bed flats; 5 x 1-bed flats; 7 x 3-bed houses, 3 x 2-bed houses	N/A	20%	30%	3	7	2	5	0	2	3	1	2	0	25
80 Units - Houses & Flats	15 x 2-bed flats, 9 x 1-bed flats, 32 x 3-bed houses, 13 x 2-bed houses & 11 x 4-bed houses	N/A	20%	30%	6	10	9	23	8	3	5	4	9	3	80

Development Scenarios 40% Affordable (applies to Value Points 1 to 4)

Development Scenario / Threshold	Unit Mix	% Affordable				Private					40% Affordable					
						1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	4-Bed Houses	1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	4-Bed Houses	Total
6 Units - Houses	6 x 3-bed houses	0%	20%	30%	40%	0	0	0	4	0	0	0	0	2	0	6
11 Units - Flats	11 x 2-bed flats	0%	20%	30%	40%	0	7	0	0	0	0	4	0	0	0	11
11 Units - Houses	7 x 3-bed & 3 x 4-bed houses	0%	20%	30%	40%	0	0	3	4	0	0	0	1	3	0	11
15 Units - Flats	10 x 2-bed flats; 5 x 1-bed flats	0%	20%	30%	40%	3	6	0	0	0	2	4	0	0	0	15
15 Units - Houses	5 x 2-bed houses; 10 x 3-bed houses	0%	20%	30%	40%	0	0	3	6	0	0	0	2	4	0	15
25 Units - Flats	15 x 2-bed flats & 10 x 1-bed flats	N/A	20%	30%	40%	6	9	0	0	0	4	6	0	0	0	25
25 Units - Houses	8 x 2-bed houses; 12 x 3-bed houses & 5 x 4-bed houses	N/A	20%	30%	40%	0	0	5	7	3	0	0	3	5	2	25
25 Units - Houses & Flats	10 x 2-bed flats; 5 x 1-bed flats; 7 x 3-bed houses, 3 x 2-bed houses	N/A	20%	30%	40%	3	6	2	4	0	2	4	1	3	0	25
80 Units - Houses & Flats	15 x 2-bed flats, 9 x 1-bed flats, 32 x 3-bed houses, 13 x 2-bed houses & 11 x 4-bed houses	N/A	20%	30%	40%	5	9	8	19	7	4	6	5	13	4	80

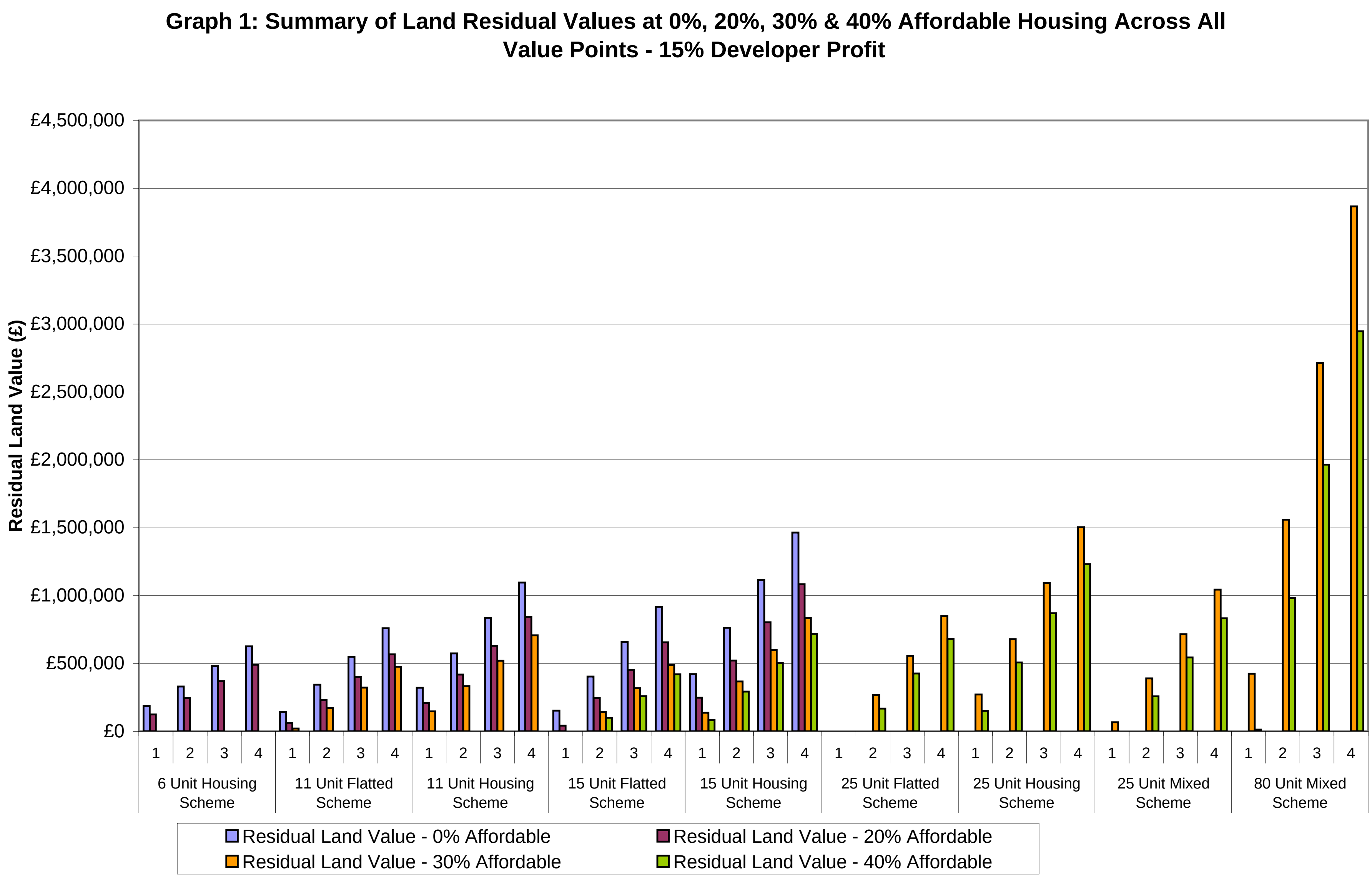
Appendix II

Results of Land Residual Calculations on free serviced land basis, and on mortgage funded basis for affordable housing revenue (II A), and in respect of payments in lieu approach to smaller sites (II B)

Table 1: Summary of Land Residual Value (£) Appraisals for All Value Points - 15% Developer Profit

Value Point

Development Scenario / Threshold	Value Point	Residual Land Value - 0% Affordable	Residual Land Value - 20% Affordable	Residual Land Value - 30% Affordable	Residual Land Value - 40% Affordable
6 Unit Housing Scheme	1	£187,232	£124,537		
	2	£329,987	£244,137		
	3	£480,966	£369,952		
	4	£625,430	£490,657		
11 Unit Flatted Scheme	1	£143,321	£62,214	£20,937	
	2	£343,951	£231,546	£171,798	
	3	£549,889	£400,050	£322,266	
	4	£759,373	£567,322	£476,205	
11 Unit Housing Scheme	1	£320,668	£209,445	£146,751	
	2	£574,456	£418,360	£332,509	
	3	£836,677	£629,391	£519,521	
	4	£1,095,969	£842,537	£707,764	
15 Unit Flatted Scheme	1	£152,088	£41,550	£0	£0
	2	£403,441	£243,844	£144,669	£100,154
	3	£658,279	£453,199	£317,663	£258,528
	4	£917,276	£655,725	£488,492	£419,906
15 Unit Housing Scheme	1	£421,522	£247,786	£137,156	£83,834
	2	£762,506	£521,495	£367,730	£292,856
	3	£1,115,030	£803,514	£599,914	£504,229
	4	£1,463,956	£1,082,655	£833,730	£717,182
25 Unit Flatted Scheme	1			£0	£0
	2			£266,512	£167,805
	3			£555,856	£426,110
	4			£847,947	£680,714
25 Unit Housing Scheme	1			£271,523	£150,995
	2			£679,522	£506,857
	3			£1,092,478	£870,172
	4			£1,503,995	£1,232,048
25 Unit Mixed Scheme	1			£67,379	£0
	2			£390,295	£257,921
	3			£715,773	£544,475
	4			£1,043,836	£832,969
80 Unit Mixed Scheme	1			£424,814	£12,911
	2			£1,558,903	£981,361
	3			£2,713,388	£1,965,008
	4			£3,867,205	£2,947,321


Graph 1: Summary of Land Residual Values at 0%, 20%, 30% & 40% Affordable Housing Across All Value Points - 15% Developer Profit
Residual Land Value (£)
£4,500,000
£4,000,000
£3,500,000
£3,000,000
£2,500,000
£2,000,000
£1,500,000
£1,000,000
£500,000
£0
1 2 3 4
6 Unit Housing Scheme
11 Unit Flatted Scheme
11 Unit Housing Scheme
15 Unit Flatted Scheme
15 Unit Housing Scheme
25 Unit Flatted Scheme
25 Unit Housing Scheme
25 Unit Mixed Scheme
80 Unit Mixed Scheme
Residual Land Value - 0% Affordable
Residual Land Value - 20% Affordable
Residual Land Value - 30% Affordable
Residual Land Value - 40% Affordable

Appendix II

Table 1a: Summary of Land Residual Value (as % of GDV) Appraisals for All Value Points - 15% Developer Profit

Value Point

Development Scenario / Threshold	Value Point	Residual Land Value - 0% Affordable	Residual Land Value - 20% Affordable	Residual Land Value - 30% Affordable	Residual Land Value - 40% Affordable
6 Unit Housing Scheme	1	18.5%	13.4%		
	2	27.2%	22.3%		
	3	34.0%	29.2%		
	4	38.6%	34.2%		
11 Unit Flatted Scheme	1	10.0%	4.7%	1.7%	
	2	20.2%	15.0%	11.7%	
	3	27.6%	22.5%	19.2%	
	4	33.3%	28.2%	25.3%	
11 Unit Housing Scheme	1	18.0%	12.9%	9.5%	
	2	27.0%	21.9%	18.5%	
	3	33.6%	28.5%	25.3%	
	4	38.6%	33.8%	30.6%	
15 Unit Flatted Scheme	1	8.4%	2.5%	0.0%	0.0%
	2	18.8%	12.6%	8.1%	5.8%
	3	26.2%	20.4%	15.6%	13.3%
	4	32.0%	26.2%	21.5%	19.3%
15 Unit Housing Scheme	1	17.3%	11.3%	6.7%	4.3%
	2	26.2%	20.2%	15.6%	13.0%
	3	32.7%	27.0%	22.3%	19.7%
	4	37.6%	32.2%	27.7%	25.1%
25 Unit Flatted Scheme	1			0.0%	0.0%
	2			9.0%	5.9%
	3			16.5%	13.4%
	4			22.5%	19.2%
25 Unit Housing Scheme	1			7.6%	4.5%
	2			16.5%	13.1%
	3			23.3%	19.8%
	4			28.5%	25.2%
25 Unit Mixed Scheme	1			2.3%	0.0%
	2			11.6%	8.1%
	3			18.8%	15.2%
	4			24.5%	21.0%
80 Unit Mixed Scheme	1			4.0%	0.1%
	2			12.7%	8.6%
	3			19.3%	15.2%
	4			24.5%	20.5%

Graph 1a: Summary of Land Residual Values (as % of GDV) at 0%, 20%, 30% & 40% Affordable Housing Across All Value Points - 15% Developer Profit

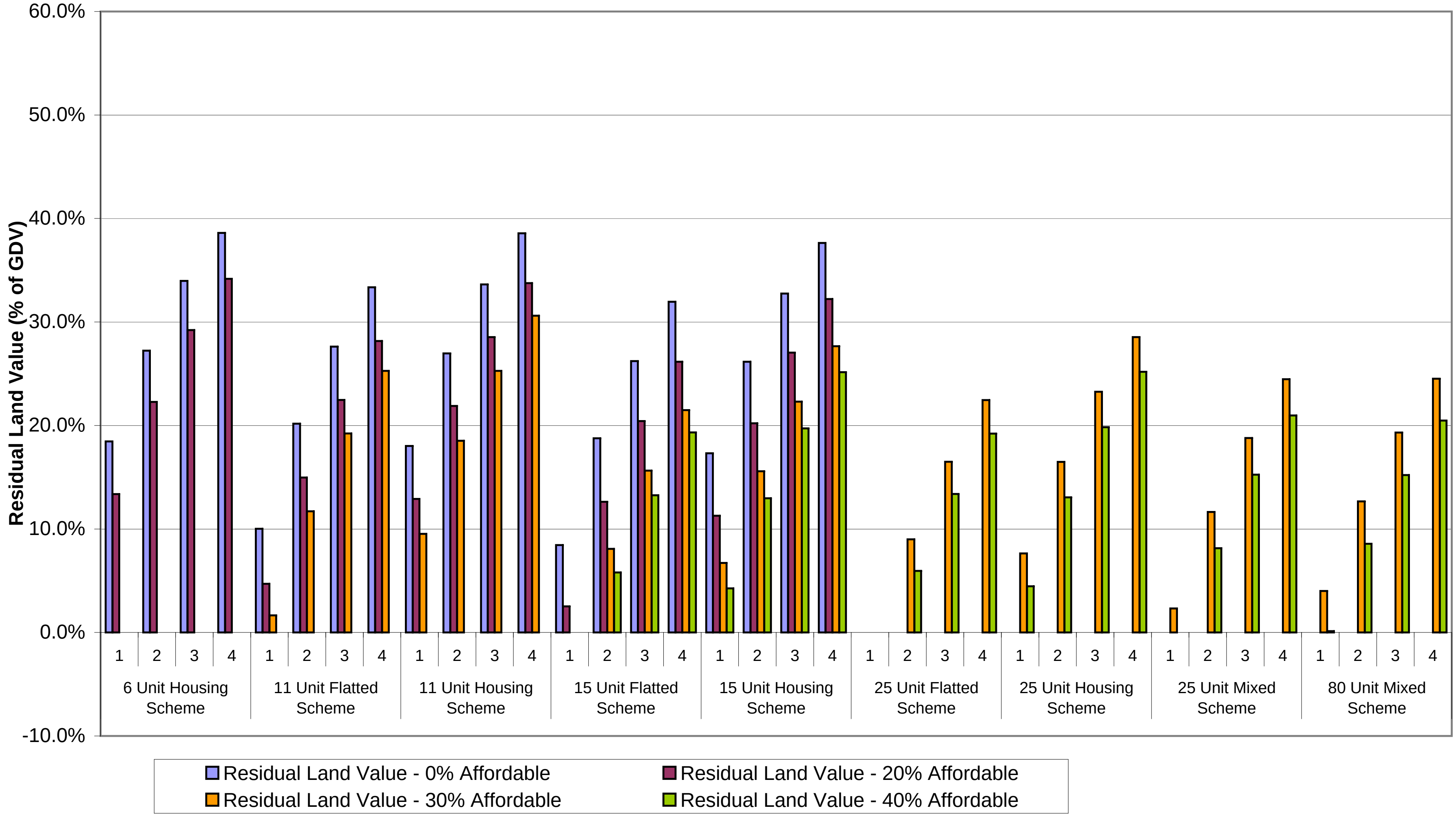
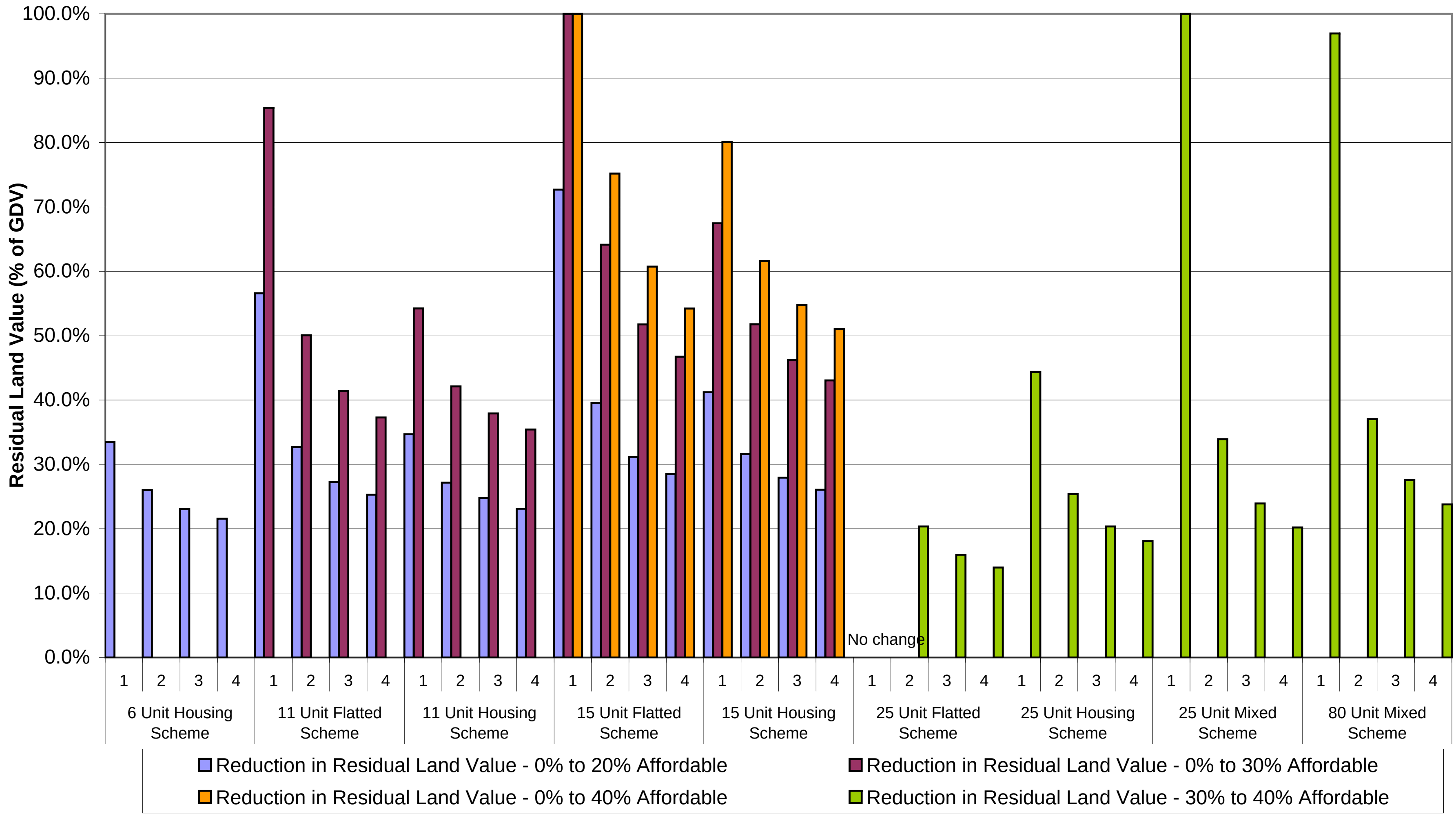


Table 1b: Summary of Reduction in Land Residual Value (%) Appraisals for All Value Points - 15% Developer Profit

Value Point

Development Scenario / Threshold	Value Point	Reduction in Residual Land Value - 0% to 20% Affordable	Reduction in Residual Land Value - 0% to 30% Affordable	Reduction in Residual Land Value - 0% to 40% Affordable	Reduction in Residual Land Value - 30% to 40% Affordable
6 Unit Housing Scheme	1	33.5%			
	2	26.0%			
	3	23.1%			
	4	21.5%			
11 Unit Flatted Scheme	1	56.6%	85.4%		
	2	32.7%	50.1%		
	3	27.2%	41.4%		
	4	25.3%	37.3%		
11 Unit Housing Scheme	1	34.7%	54.2%		
	2	27.2%	42.1%		
	3	24.8%	37.9%		
	4	23.1%	35.4%		
15 Unit Flatted Scheme	1	72.7%	100.0%	100.0%	
	2	39.6%	64.1%	75.2%	
	3	31.2%	51.7%	60.7%	
	4	28.5%	46.7%	54.2%	
15 Unit Housing Scheme	1	41.2%	67.5%	80.1%	
	2	31.6%	51.8%	61.6%	
	3	27.9%	46.2%	54.8%	
	4	26.0%	43.0%	51.0%	
25 Unit Flatted Scheme	1				No Change
	2				20.4%
	3				15.9%
	4				14.0%
25 Unit Housing Scheme	1				44.4%
	2				25.4%
	3				20.3%
	4				18.1%
25 Unit Mixed Scheme	1				100.0%
	2				33.9%
	3				23.9%
	4				20.2%
80 Unit Mixed Scheme	1				97.0%
	2				37.0%
	3				27.6%
	4				23.8%

Graph 1b: Summary of Reduction in Land Residual Values (%) at 0% to 20%, 0% to 30%, 0% to 40% and 30% to 40% Affordable Housing Across All Value Points - 15% Developer Profit

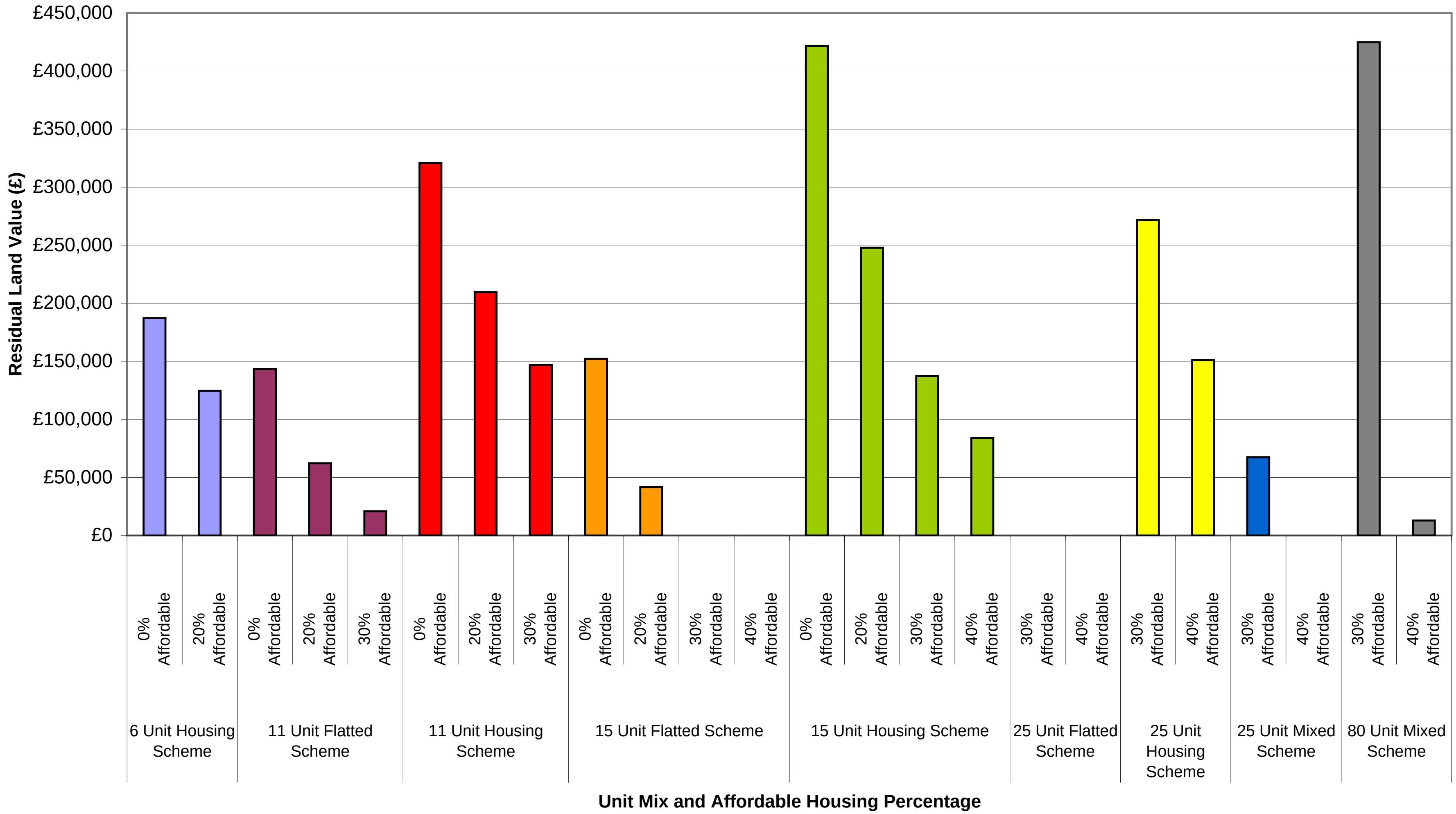


Appendix II

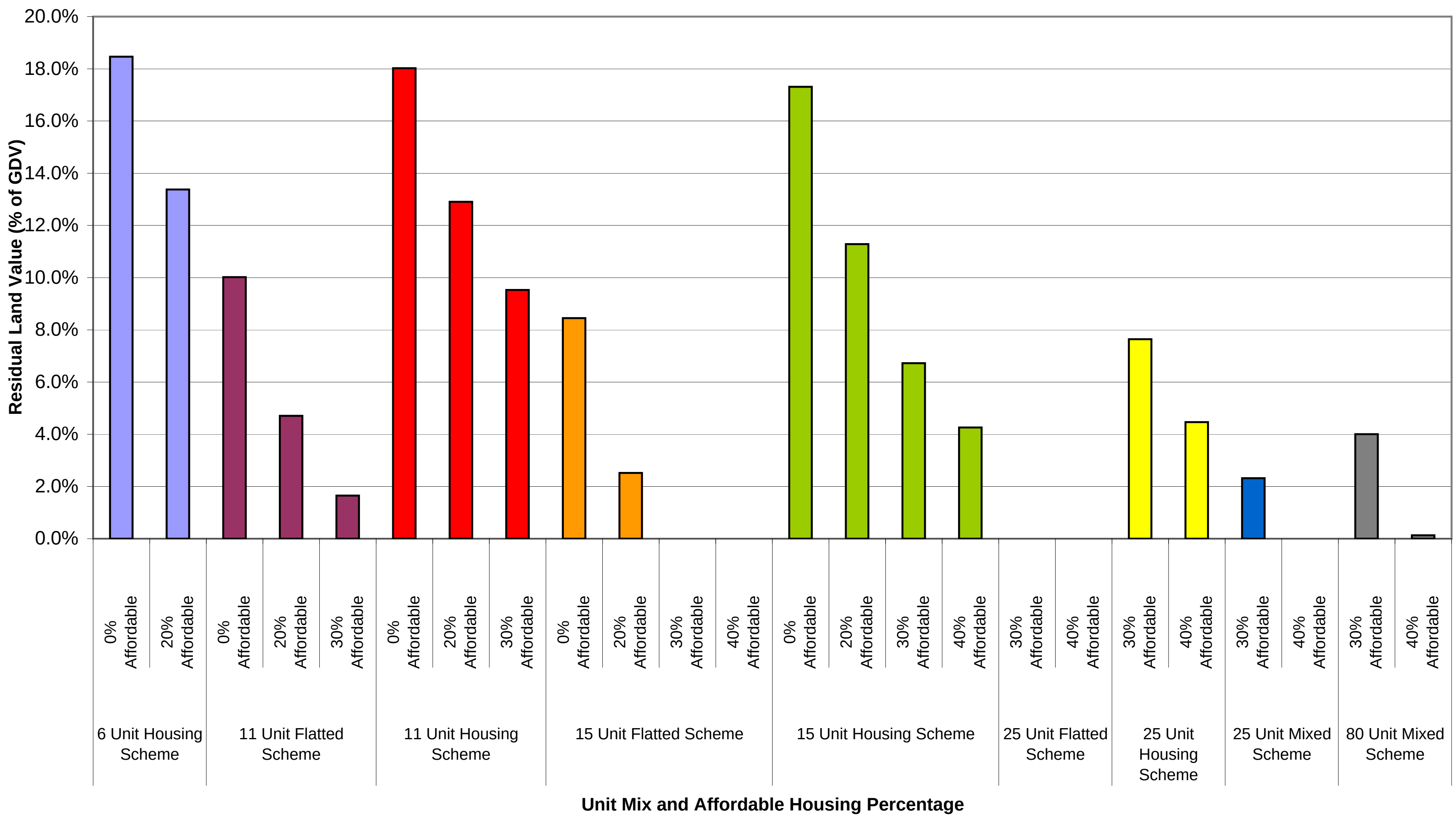
Table 2: Summary Table Showing RLV, RLV as % of GDV & Reduction in Land Residual - Value Point 1 - 15% Developer Profit

1		2	3	4	5	6	7	8	9
Value Point	Number of Units	Scenario	GDV	Development Cost	Developer Profit (@15%)	Finance & Land Costs	Residual Land Price	% Land Residual (of GDV)	% Reduction in Land Residual From 0% Affordable Housing (from 30% for Larger 25, 50 & 100 Unit Schemes
Value Point 1	6 Unit Housing Scheme	0% Affordable Housing	£1,014,000	£577,440	£152,100	£95,337	£187,232	18.5%	N/A
		20% Affordable Housing	£931,000	£577,440	£139,650	£88,115	£124,537	13.4%	33.5%
	11 Unit Flatted Scheme	0% Affordable Housing	£1,430,000	£930,041	£214,500	£140,690	£143,321	10.0%	N/A
		20% Affordable Housing	£1,321,800	£930,041	£198,270	£131,275	£62,214	4.7%	56.6%
		30% Affordable Housing	£1,267,700	£930,041	£190,155	£126,567	£20,937	1.7%	85.4%
	11 Unit Housing Scheme	0% Affordable Housing	£1,779,000	£1,012,540	£266,850	£169,025	£320,668	18.0%	N/A
		20% Affordable Housing	£1,623,000	£1,012,540	£243,450	£155,450	£209,445	12.9%	34.7%
		30% Affordable Housing	£1,540,000	£1,012,540	£231,000	£148,227	£146,751	9.5%	54.2%
	15 Unit Flatted Scheme	0% Affordable Housing	£1,800,000	£1,176,953	£270,000	£199,423	£152,088	8.4%	N/A
		20% Affordable Housing	£1,650,450	£1,176,953	£247,568	£184,380	£41,550	2.5%	72.7%
		30% Affordable Housing	£1,555,000	£1,176,953	£233,250	£162,632	£0	0.0%	100.0%
		40% Affordable Housing	£1,513,650	£1,176,953	£227,048	£162,012	£0	0.0%	100.0%
	15 Unit Housing Scheme	0% Affordable Housing	£2,435,000	£1,381,600	£365,250	£253,591	£421,522	17.3%	N/A
		20% Affordable Housing	£2,196,000	£1,381,600	£329,400	£229,550	£247,786	11.3%	41.2%
		30% Affordable Housing	£2,040,000	£1,381,600	£306,000	£213,859	£137,156	6.7%	67.5%
		40% Affordable Housing	£1,967,000	£1,381,600	£295,050	£206,516	£83,834	4.3%	80.1%
	25 Unit Flatted Scheme	30% Affordable Housing	£2,568,200	£1,915,250	£385,230	£288,983	£0	0.0%	N/A
		40% Affordable Housing	£2,472,750	£1,915,250	£370,913	£265,885	£0	0.0%	No Change
	25 Unit Housing Scheme	30% Affordable Housing	£3,552,000	£2,373,050	£532,800	£366,230	£271,523	7.6%	N/A
		40% Affordable Housing	£3,382,000	£2,373,050	£507,300	£363,680	£150,995	4.5%	44.4%
	25 Unit Mixed Scheme	30% Affordable Housing	£2,904,350	£2,086,653	£435,653	£314,666	£67,379	2.3%	N/A
		40% Affordable Housing	£2,777,250	£2,086,653	£416,588	£280,970	£0	0.0%	100.0%
	80 Unit Mixed Scheme	30% Affordable Housing	£10,606,800	£7,203,912	£1,591,020	£1,373,916	£424,814	4.0%	N/A
		40% Affordable Housing	£9,995,350	£7,203,912	£1,499,303	£1,279,225	£12,911	0.1%	97.0%

Graph 2 - Residual Land Value (£) - Value Point 1 - 15% Developer Profit



Graph 3 - Residual Land Value (% of GDV) - Value Point 1- 15% Developer Profit



Graph 4 - Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing - Value Point 1 - 15% Developer Profit

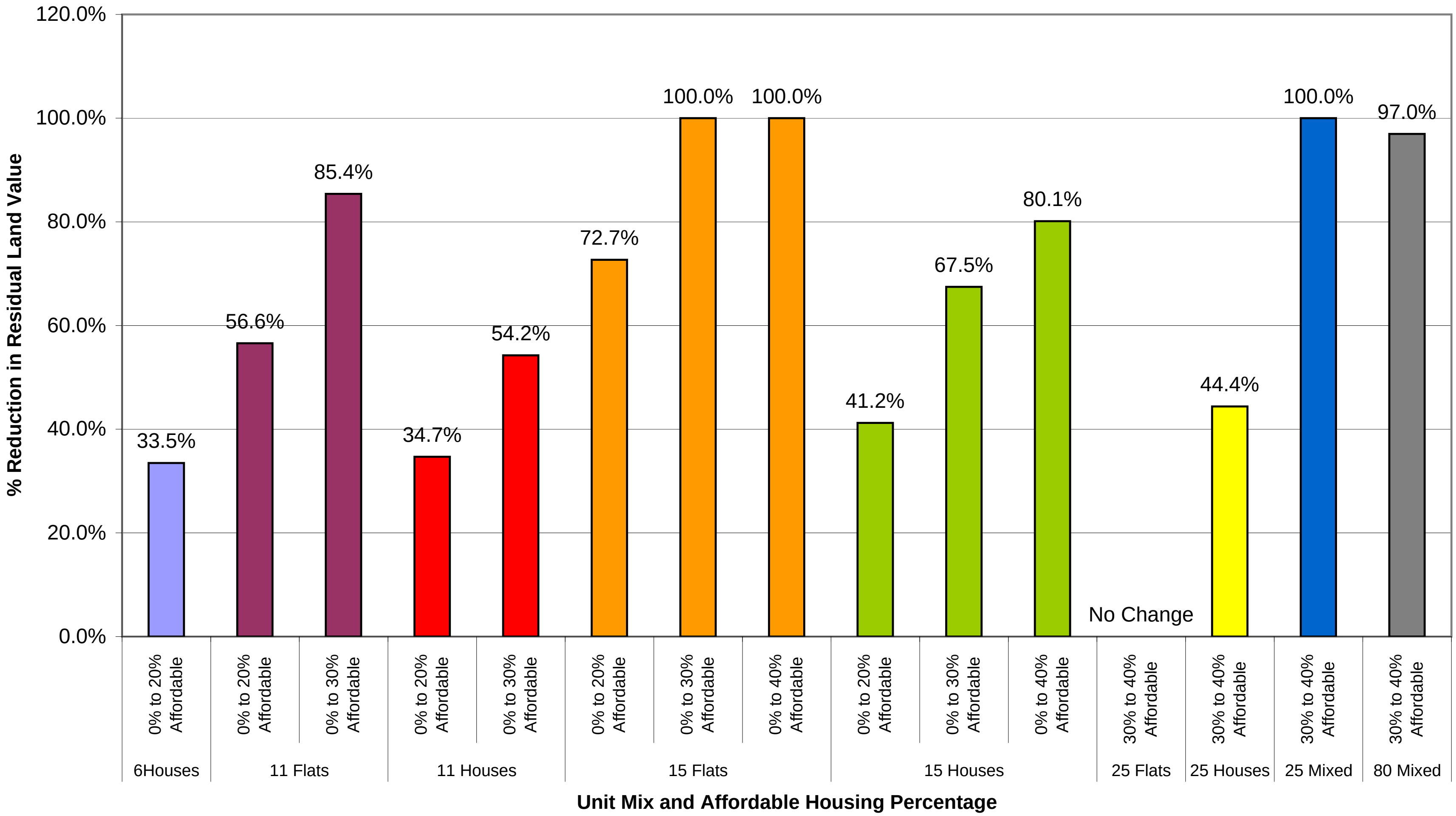
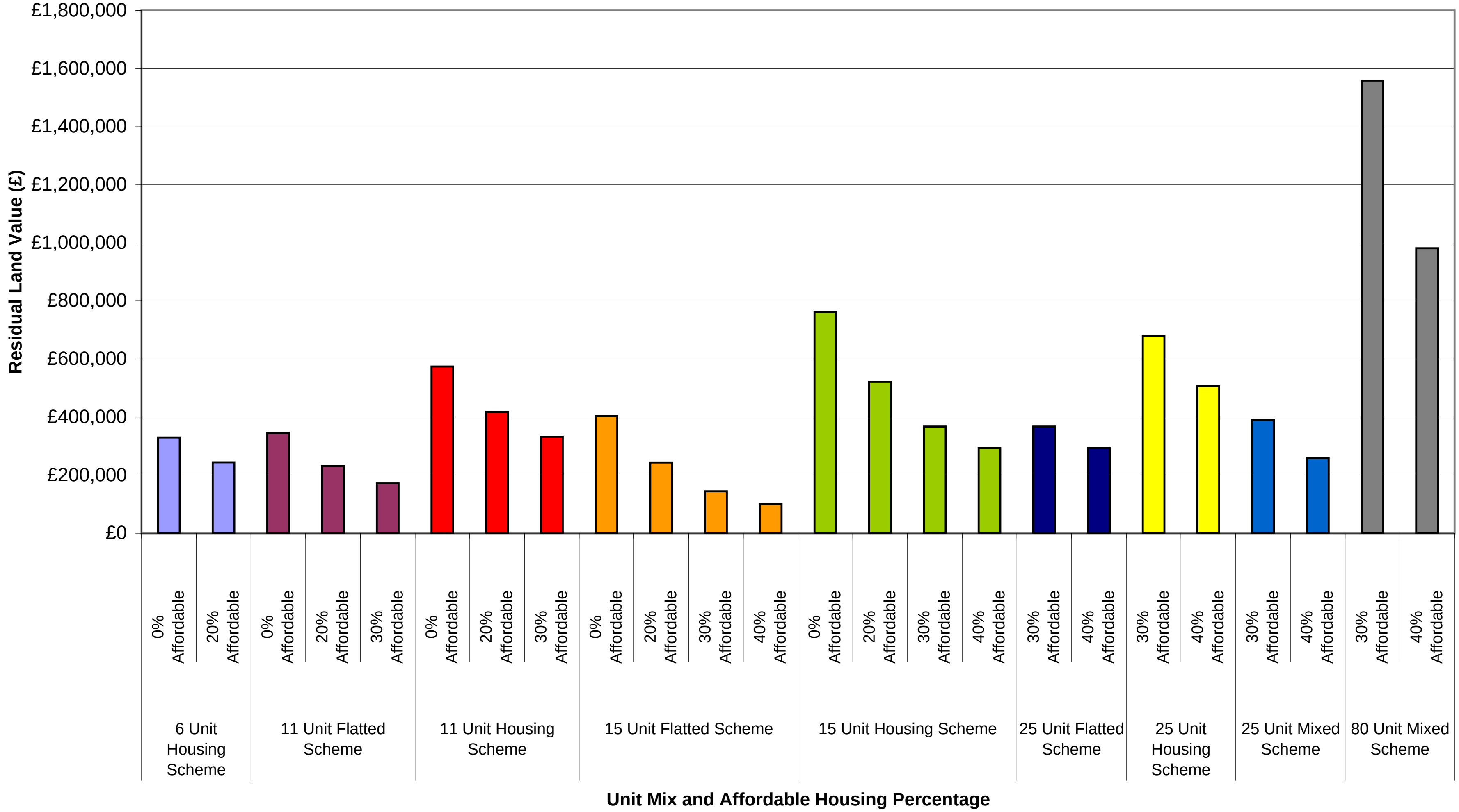


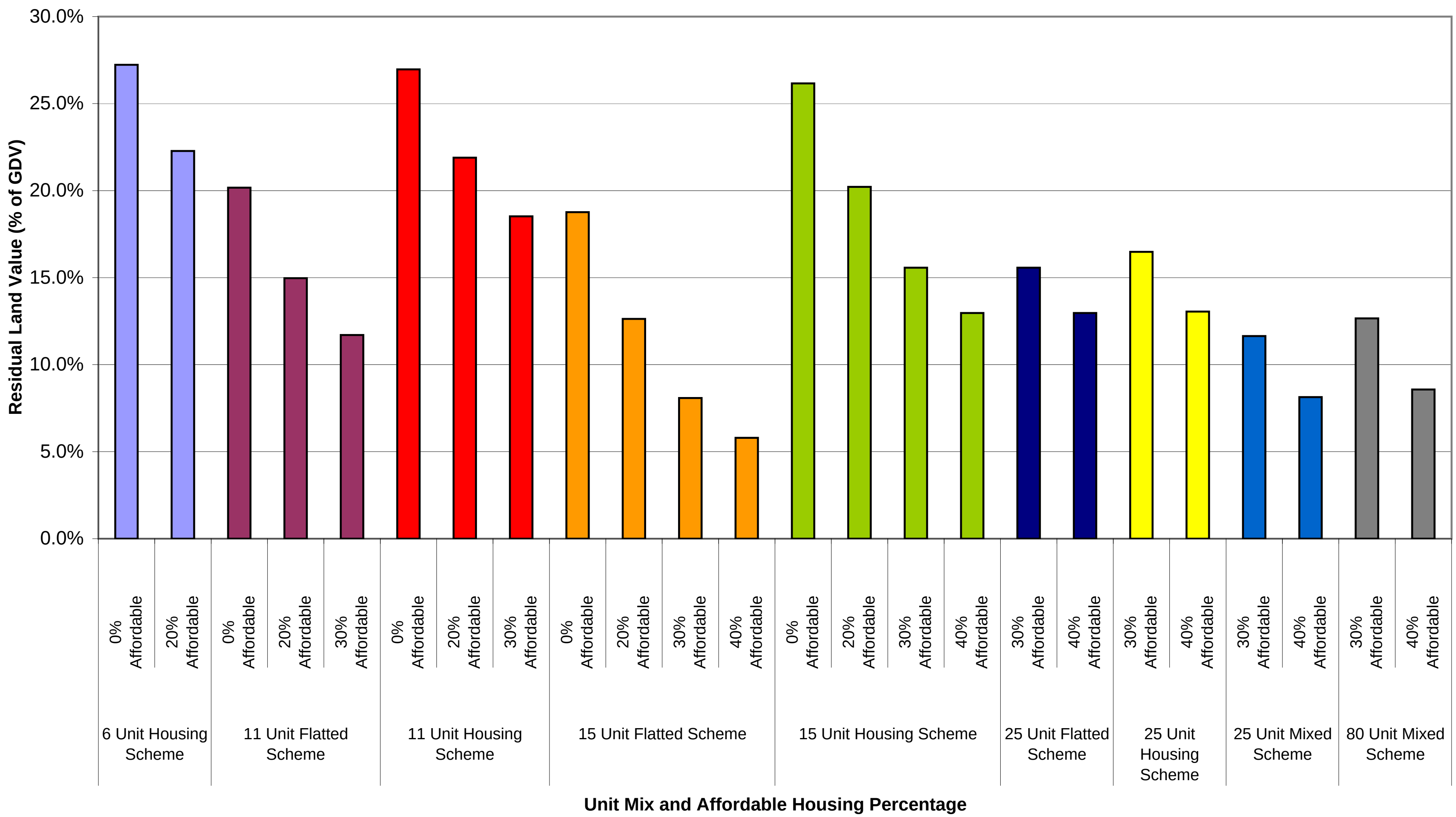
Table 3: Summary Table Showing RLV, RLV as % of GDV & Reduction in Land Residual - Value Point 2 - 15% Developer Profit

1		2	3	4	5	6	7	8	9
Value Point	Number of Units	Scenario	GDV	Development Cost	Developer Profit (@15%)	Finance & Land Costs	Residual Land Price	% Land Residual (of GDV)	% Reduction in Land Residual From 0% Affordable Housing
Value Point 2	6 Unit Housing Scheme	0% Affordable Housing	£1,212,000	£577,440	£181,800	£112,567	£329,987	27.2%	N/A
		20% Affordable Housing	£1,096,000	£577,440	£164,400	£102,473	£244,137	22.3%	26.0%
	11 Unit Flatted Scheme	0% Affordable Housing	£1,705,000	£930,041	£255,750	£164,620	£343,951	20.2%	N/A
		20% Affordable Housing	£1,546,800	£930,041	£232,020	£150,854	£231,546	15.0%	32.7%
		30% Affordable Housing	£1,467,700	£930,041	£220,155	£143,971	£171,798	11.7%	50.1%
	11 Unit Housing Scheme	0% Affordable Housing	£2,130,000	£1,012,540	£319,500	£199,568	£574,456	27.0%	N/A
		20% Affordable Housing	£1,911,000	£1,012,540	£286,650	£180,511	£418,360	21.9%	27.2%
		30% Affordable Housing	£1,795,000	£1,012,540	£269,250	£170,417	£332,509	18.5%	42.1%
	15 Unit Flatted Scheme	0% Affordable Housing	£2,150,000	£1,176,953	£322,500	£234,629	£403,441	18.8%	N/A
		20% Affordable Housing	£1,930,450	£1,176,953	£289,568	£212,545	£243,844	12.6%	39.6%
		30% Affordable Housing	£1,790,000	£1,176,953	£268,500	£198,417	£144,669	8.1%	64.1%
		40% Affordable Housing	£1,728,650	£1,176,953	£259,298	£192,246	£100,154	5.8%	75.2%
	15 Unit Housing Scheme	0% Affordable Housing	£2,915,000	£1,381,600	£437,250	£301,873	£762,506	26.2%	N/A
		20% Affordable Housing	£2,580,000	£1,381,600	£387,000	£268,176	£521,495	20.2%	31.6%
		30% Affordable Housing	£2,361,000	£1,381,600	£354,150	£246,147	£367,730	15.6%	51.8%
		40% Affordable Housing	£2,258,000	£1,381,600	£338,700	£235,787	£292,856	13.0%	61.6%
	25 Unit Flatted Scheme	30% Affordable Housing	£2,361,000	£1,381,600	£354,150	£246,147	£367,730	15.6%	N/A
		40% Affordable Housing	£2,258,000	£1,381,600	£338,700	£235,787	£292,856	13.0%	20.4%
	25 Unit Housing Scheme	30% Affordable Housing	£4,123,000	£2,373,050	£618,450	£423,665	£679,522	16.5%	N/A
		40% Affordable Housing	£3,883,000	£2,373,050	£582,450	£420,065	£506,857	13.1%	25.4%
	25 Unit Mixed Scheme	30% Affordable Housing	£3,351,350	£2,086,653	£502,703	£359,629	£390,295	11.6%	N/A
		40% Affordable Housing	£3,169,250	£2,086,653	£475,388	£341,312	£257,921	8.1%	33.9%
	80 Unit Mixed Scheme	30% Affordable Housing	£12,312,800	£7,203,912	£1,846,920	£1,638,111	£1,558,903	12.7%	N/A
		40% Affordable Housing	£11,447,350	£7,203,912	£1,717,103	£1,504,085	£981,361	8.6%	37.0%

Graph 5 - Residual Land Value (£) - Value Point 2 - 15% Developer Profit



Graph 6 - Residual Land Value (% of GDV) - Value Point 2- 15% Developer Profit



Graph 7 - Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing - Value Point 2 - 15% Developer Profit

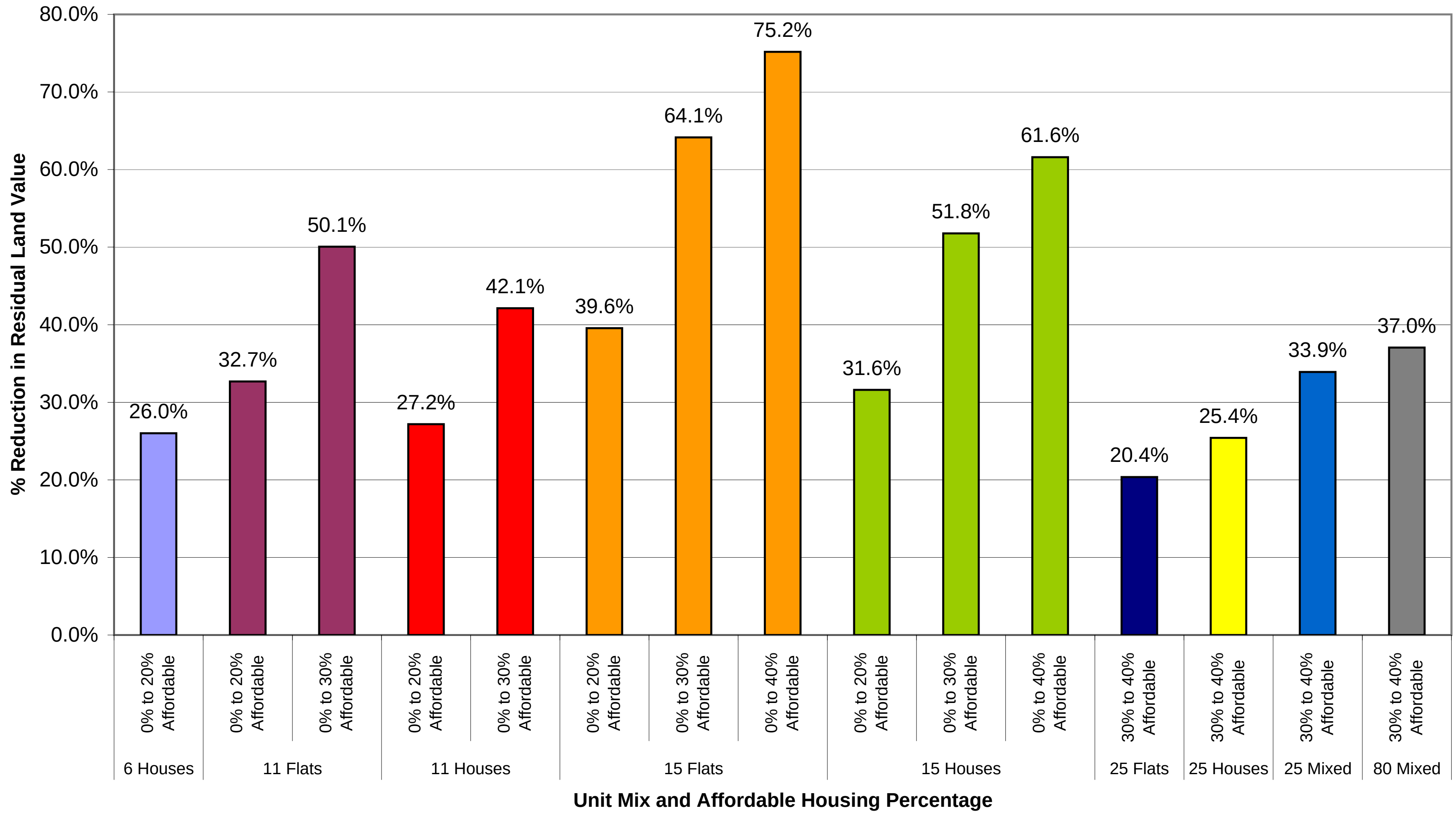
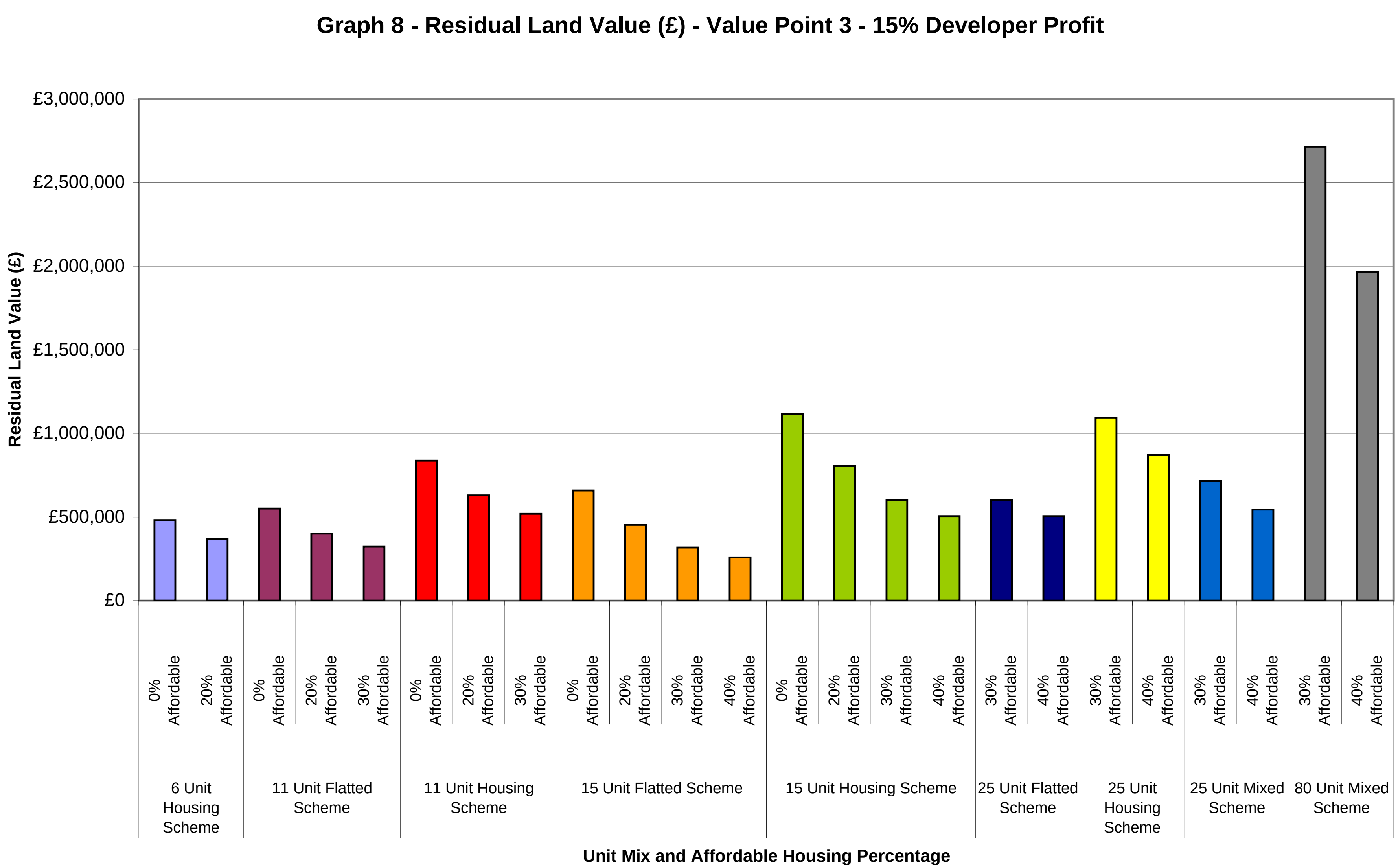
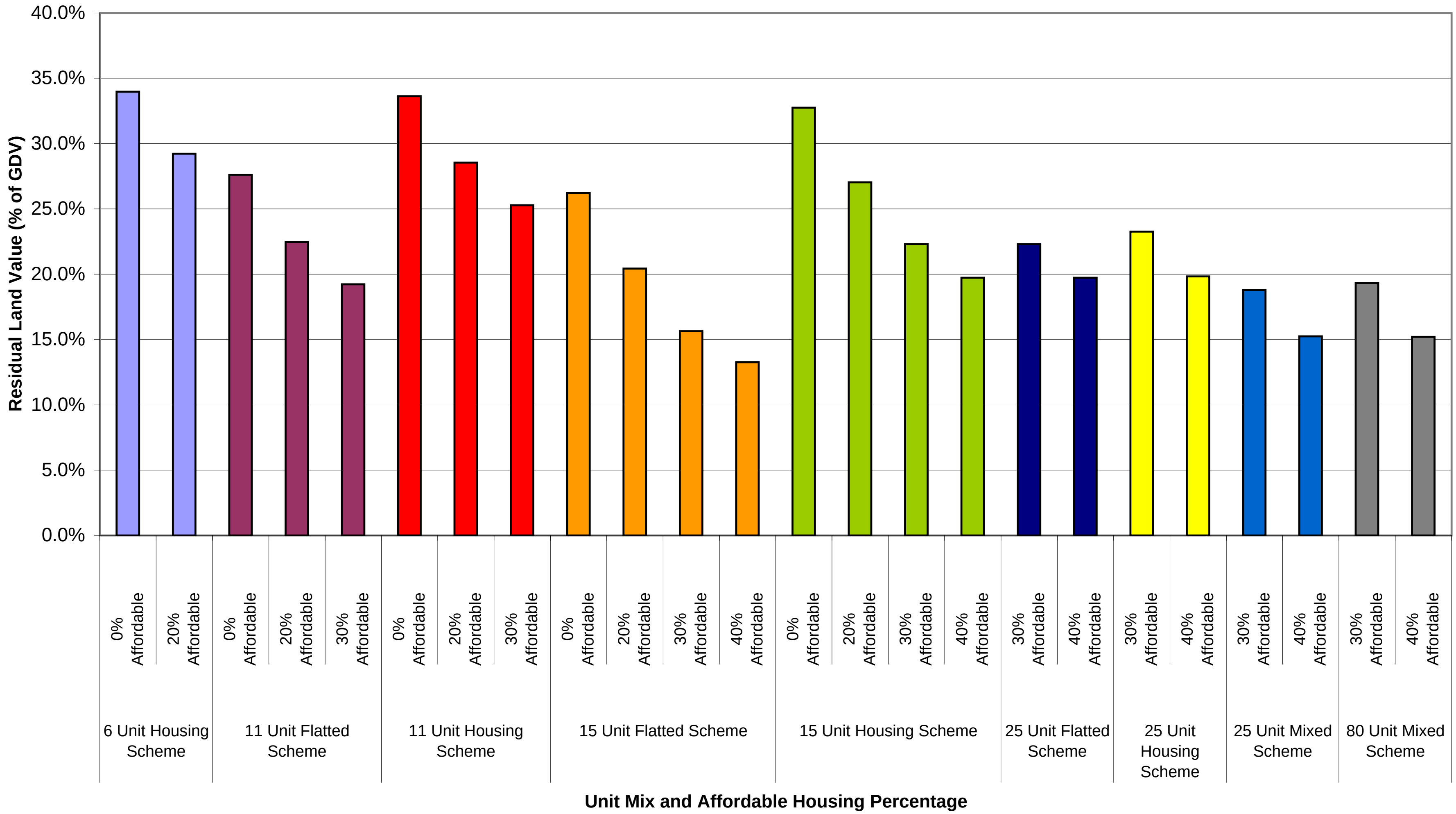


Table 4: Summary Table Showing RLV, RLV as % of GDV & Reduction in Land Residual - Value Point 3 - 15% Developer Profit

1		2	3	4	5	6	7	8	9
Value Point	**Number of Units**	**Scenario**	**GDV**	**Development Cost**	**Developer Profit (@15%)**	**Finance & Land Costs**	**Residual Land Price**	**% Land Residual (of GDV)**	**% Reduction in Land Residual From 0% Affordable Housing**
Value Point 3	6 Unit Housing Scheme	0% Affordable Housing	£1,416,000	£577,440	£212,400	£130,319	£480,966	34.0%	N/A
		20% Affordable Housing	£1,266,000	£577,440	£189,900	£117,266	£369,952	29.2%	23.1%
	11 Unit Flatted Scheme	0% Affordable Housing	£1,991,000	£930,041	£298,650	£189,508	£549,889	27.6%	N/A
		20% Affordable Housing	£1,780,800	£930,041	£267,120	£171,216	£400,050	22.5%	27.2%
		30% Affordable Housing	£1,675,700	£930,041	£251,355	£162,071	£322,266	19.2%	41.4%
	11 Unit Housing Scheme	0% Affordable Housing	£2,488,000	£1,012,540	£373,200	£230,721	£836,677	33.6%	N/A
		20% Affordable Housing	£2,205,000	£1,012,540	£330,750	£206,095	£629,391	28.5%	24.8%
		30% Affordable Housing	£2,055,000	£1,012,540	£308,250	£193,042	£519,521	25.3%	37.9%
	15 Unit Flatted Scheme	0% Affordable Housing	£2,510,000	£1,176,953	£376,500	£270,840	£658,279	26.2%	N/A
		20% Affordable Housing	£2,218,450	£1,176,953	£332,768	£241,514	£453,199	20.4%	31.2%
		30% Affordable Housing	£2,032,000	£1,176,953	£304,800	£222,760	£317,663	15.6%	51.7%
		40% Affordable Housing	£1,950,650	£1,176,953	£292,598	£214,577	£258,528	13.3%	60.7%
	15 Unit Housing Scheme	0% Affordable Housing	£3,405,000	£1,381,600	£510,750	£351,161	£1,115,030	32.7%	N/A
		20% Affordable Housing	£2,972,000	£1,381,600	£445,800	£307,606	£803,514	27.0%	27.9%
		30% Affordable Housing	£2,689,000	£1,381,600	£403,350	£279,140	£599,914	22.3%	46.2%
		40% Affordable Housing	£2,556,000	£1,381,600	£383,400	£265,762	£504,229	19.7%	54.8%
	25 Unit Flatted Scheme	30% Affordable Housing	£2,689,000	£1,381,600	£403,350	£279,140	£599,914	22.3%	N/A
		40% Affordable Housing	£2,556,000	£1,381,600	£383,400	£265,762	£504,229	19.7%	15.9%
	25 Unit Housing Scheme	30% Affordable Housing	£4,697,000	£2,373,050	£704,550	£481,402	£1,092,478	23.3%	N/A
		40% Affordable Housing	£4,388,000	£2,373,050	£658,200	£476,767	£870,172	19.8%	20.3%
	25 Unit Mixed Scheme	30% Affordable Housing	£3,809,350	£2,086,653	£571,403	£405,698	£715,773	18.8%	N/A
		40% Affordable Housing	£3,571,250	£2,086,653	£535,688	£381,748	£544,475	15.2%	23.9%
	80 Unit Mixed Scheme	30% Affordable Housing	£14,042,800	£7,203,912	£2,106,420	£1,906,023	£2,713,388	19.3%	N/A
		40% Affordable Housing	£12,921,350	£7,203,912	£1,938,203	£1,732,353	£1,965,008	15.2%	27.6%


Graph 8 - Residual Land Value (£) - Value Point 3 - 15% Developer Profit
£3,000,000
£2,500,000
£2,000,000
£1,500,000
£1,000,000
£500,000
£0
Residual Land Value (£)
0% Affordable
20% Affordable
30% Affordable
40% Affordable
6 Unit Housing Scheme
11 Unit Flatted Scheme
11 Unit Housing Scheme
15 Unit Flatted Scheme
15 Unit Housing Scheme
25 Unit Flatted Scheme
25 Unit Housing Scheme
25 Unit Mixed Scheme
80 Unit Mixed Scheme
Unit Mix and Affordable Housing Percentage

Graph 9 - Residual Land Value (% of GDV) - Value Point 3 - 15% Developer Profit



Graph 10 - Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing - Value Point 3 - 15% Developer Profit

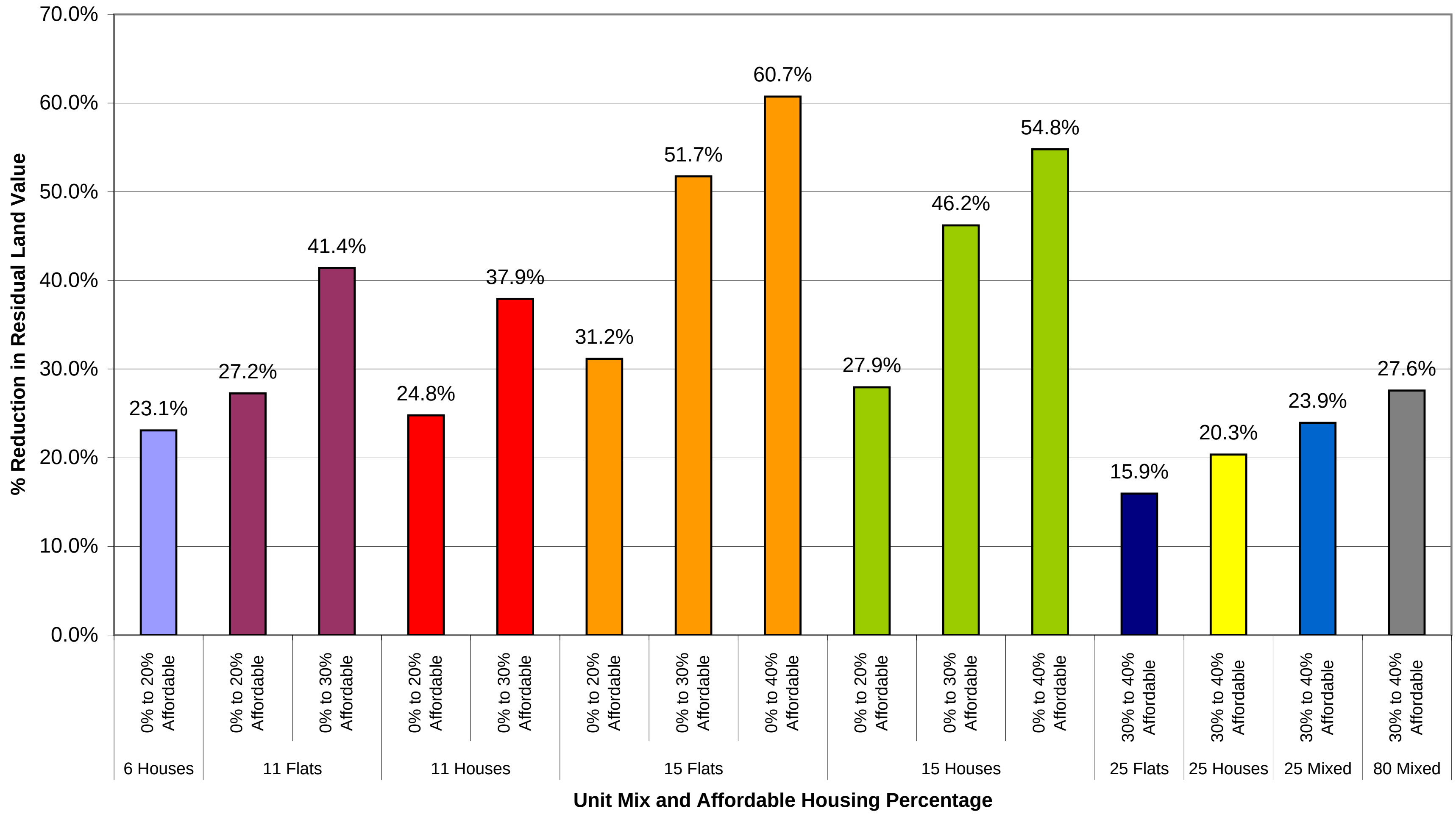
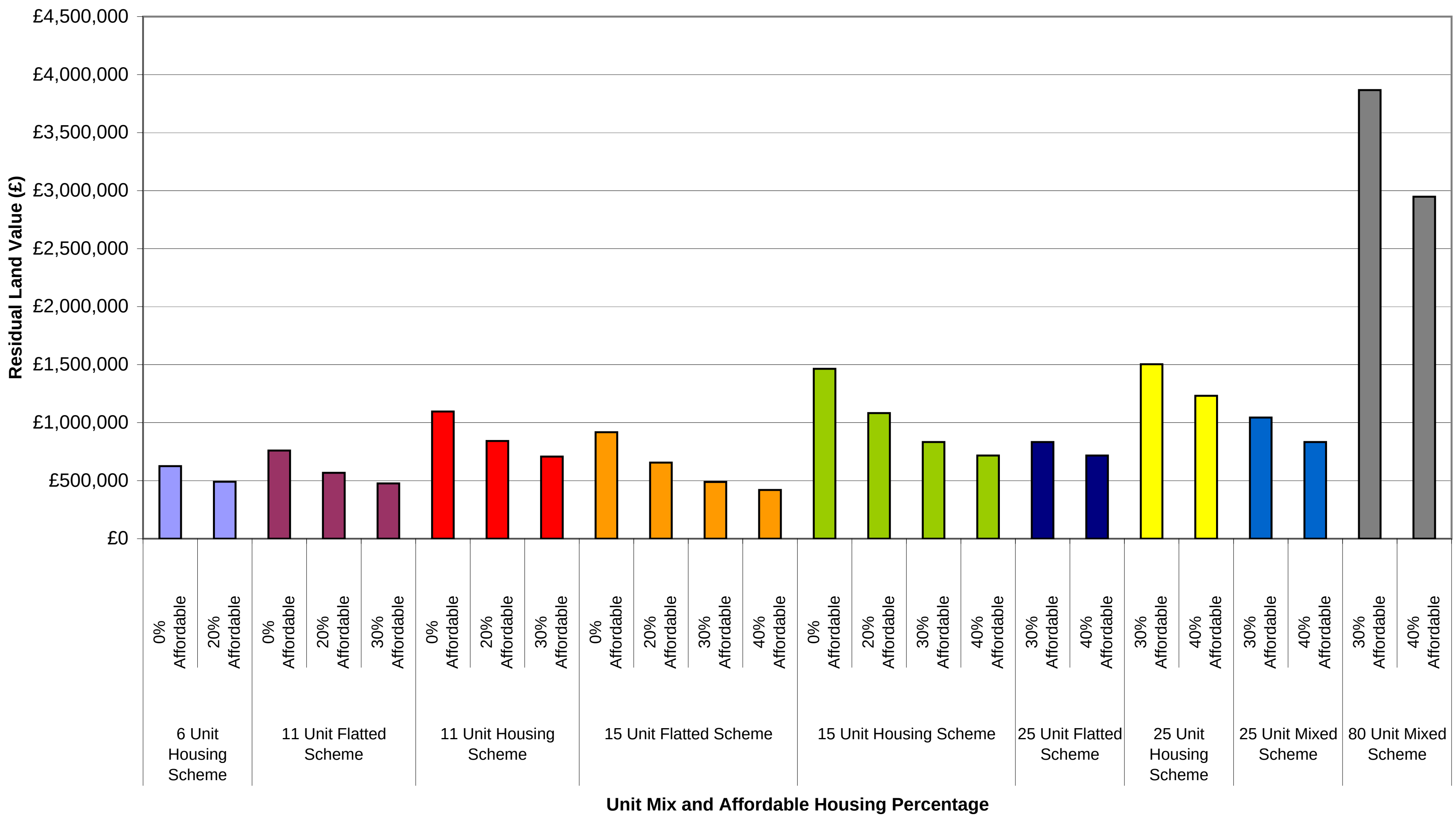


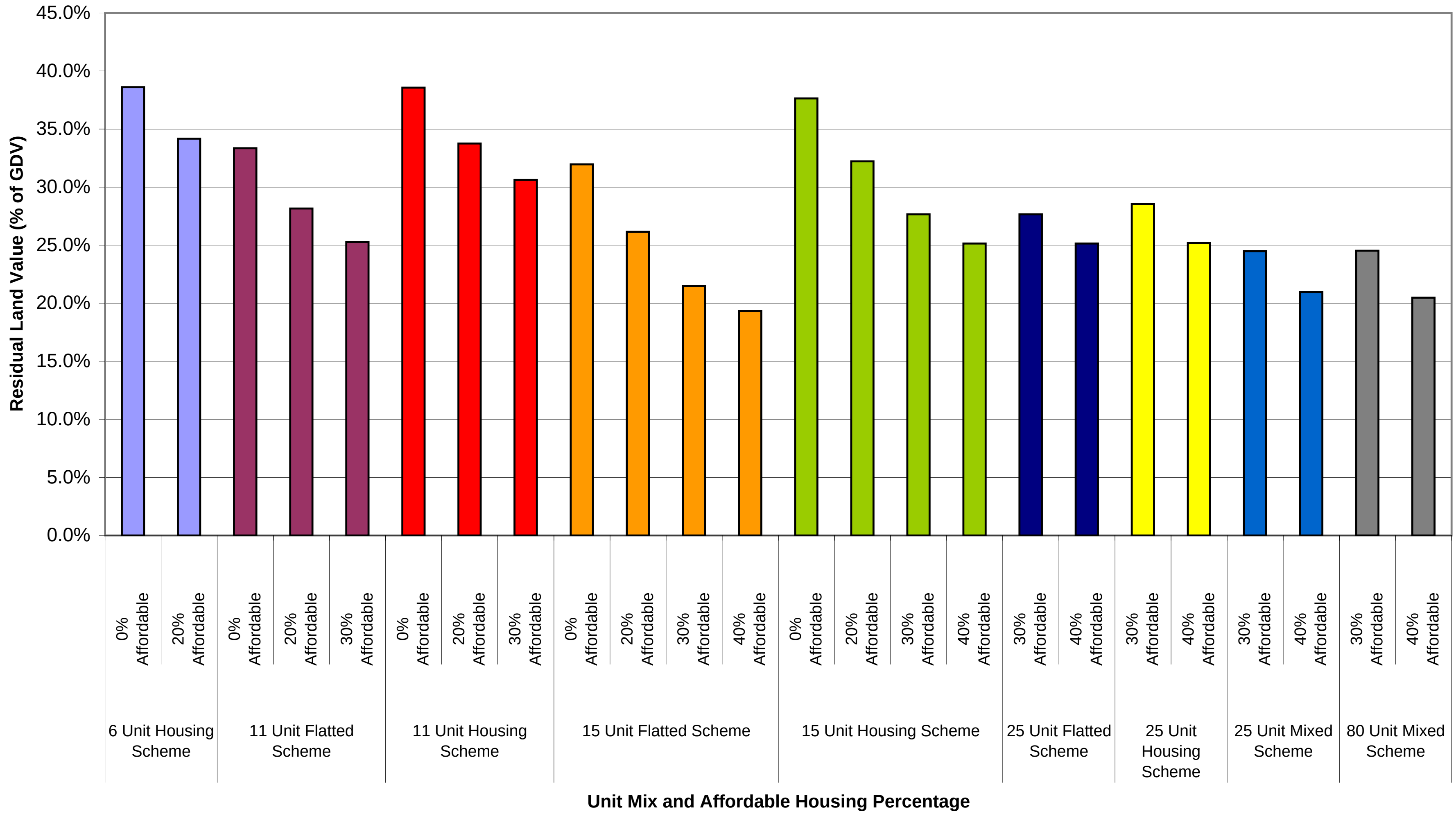
Table 5: Summary Table Showing RLV, RLV as % of GDV & Reduction in Land Residual - Value Point 4 - 15% Developer Profit

1		2	3	4	5	6	7	8	9
Value Point	Number of Units	Scenario	GDV	Development Cost	Developer Profit (@15%)	Finance & Land Costs	Residual Land Price	% Land Residual (of GDV)	% Reduction in Land Residual From 0% Affordable Housing
Value Point 4	6 Unit Housing Scheme	0% Affordable Housing	£1,620,000	£577,440	£243,000	£148,070	£625,430	38.6%	N/A
		20% Affordable Housing	£1,436,000	£577,440	£215,400	£132,059	£490,657	34.2%	21.5%
	11 Unit Flatted Scheme	0% Affordable Housing	£2,277,000	£930,041	£341,550	£214,395	£759,373	33.3%	N/A
		20% Affordable Housing	£2,014,800	£930,041	£302,220	£191,579	£567,322	28.2%	25.3%
		30% Affordable Housing	£1,883,700	£930,041	£282,555	£180,171	£476,205	25.3%	37.3%
	11 Unit Housing Scheme	0% Affordable Housing	£2,842,000	£1,012,540	£426,300	£261,526	£1,095,969	38.6%	N/A
		20% Affordable Housing	£2,496,000	£1,012,540	£374,400	£231,417	£842,537	33.8%	23.1%
		30% Affordable Housing	£2,312,000	£1,012,540	£346,800	£215,406	£707,764	30.6%	35.4%
	15 Unit Flatted Scheme	0% Affordable Housing	£2,870,000	£1,176,953	£430,500	£307,052	£917,276	32.0%	N/A
		20% Affordable Housing	£2,506,450	£1,176,953	£375,968	£270,483	£655,725	26.2%	28.5%
		30% Affordable Housing	£2,274,000	£1,176,953	£341,100	£247,102	£488,492	21.5%	46.7%
		40% Affordable Housing	£2,172,650	£1,176,953	£325,898	£236,907	£419,906	19.3%	54.2%
	15 Unit Housing Scheme	0% Affordable Housing	£3,890,000	£1,381,600	£583,500	£399,946	£1,463,956	37.6%	N/A
		20% Affordable Housing	£3,360,000	£1,381,600	£504,000	£346,634	£1,082,655	32.2%	26.0%
		30% Affordable Housing	£3,014,000	£1,381,600	£452,100	£311,831	£833,730	27.7%	43.0%
		40% Affordable Housing	£2,852,000	£1,381,600	£427,800	£295,536	£717,182	25.1%	51.0%
	25 Unit Flatted Scheme	30% Affordable Housing	£3,014,000	£1,381,600	£452,100	£311,831	£833,730	27.7%	N/A
		40% Affordable Housing	£2,852,000	£1,381,600	£427,800	£295,536	£717,182	25.1%	14.0%
	25 Unit Housing Scheme	30% Affordable Housing	£5,269,000	£2,373,050	£790,350	£538,938	£1,503,995	28.5%	N/A
		40% Affordable Housing	£4,891,000	£2,373,050	£733,650	£533,268	£1,232,048	25.2%	18.1%
	25 Unit Mixed Scheme	30% Affordable Housing	£4,265,350	£2,086,653	£639,803	£451,566	£1,043,836	24.5%	N/A
		40% Affordable Housing	£3,972,250	£2,086,653	£595,838	£422,084	£832,969	21.0%	20.2%
	80 Unit Mixed Scheme	30% Affordable Housing	£15,771,800	£7,203,912	£2,365,770	£2,173,780	£3,867,205	24.5%	N/A
		40% Affordable Housing	£14,393,350	£7,203,912	£2,159,003	£1,960,310	£2,947,321	20.5%	23.8%

Graph 11 - Residual Land Value (£) - Value Point 4 - 15% Developer Profit



Graph 12 - Residual Land Value (% of GDV) - Value Point 4- 15% Developer Profit



Appendix II

Graph 13 - Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing - Value Point 4 - 15% Developer Profit

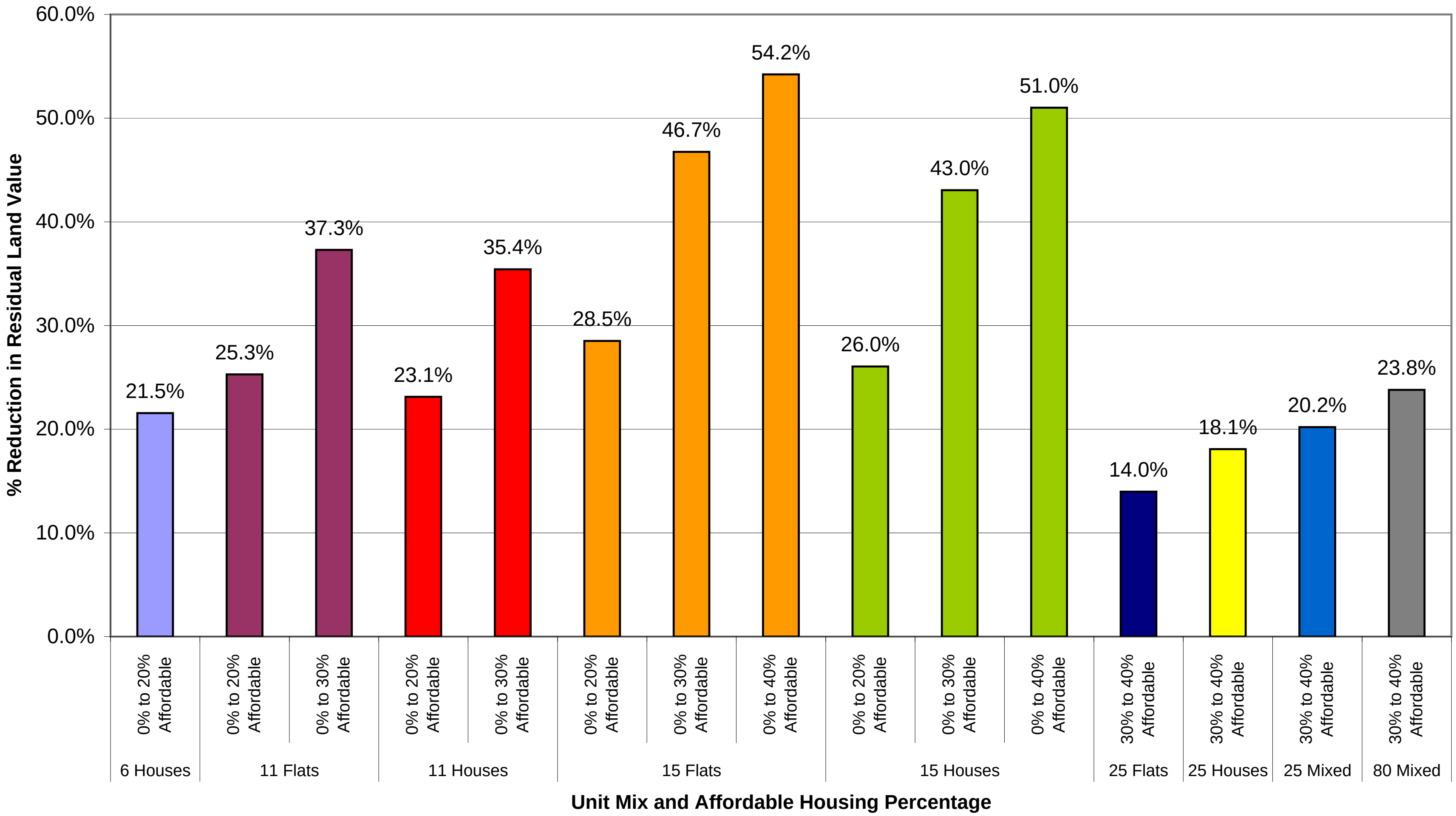
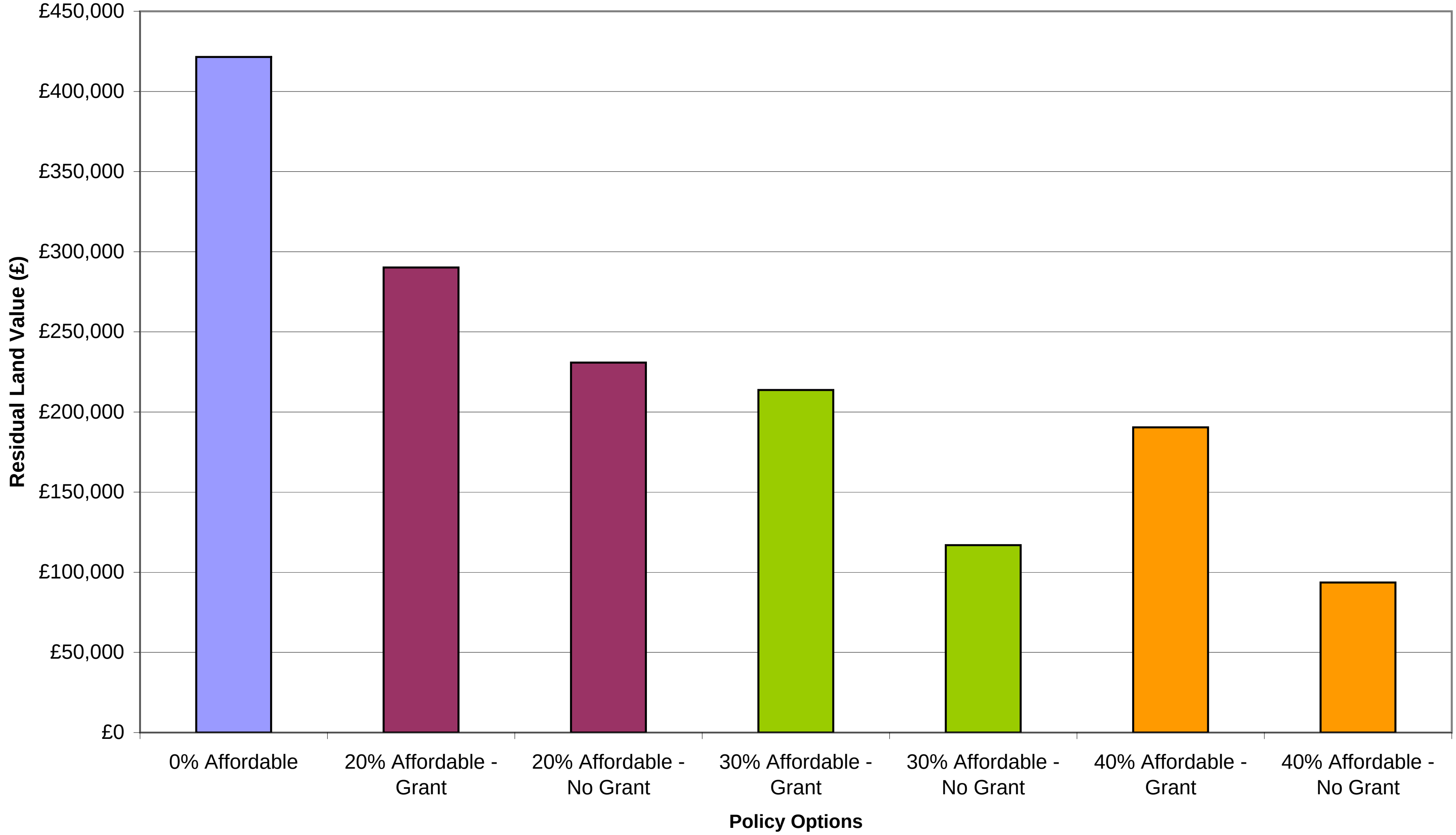


Table 6: All Bands Scheme Appraisal Types, Residual Land Value, RLV as % of GDV and Percentage Reduction in Residual Land Value from Adopted Policy Position - 15 Unit Housing Scheme Only

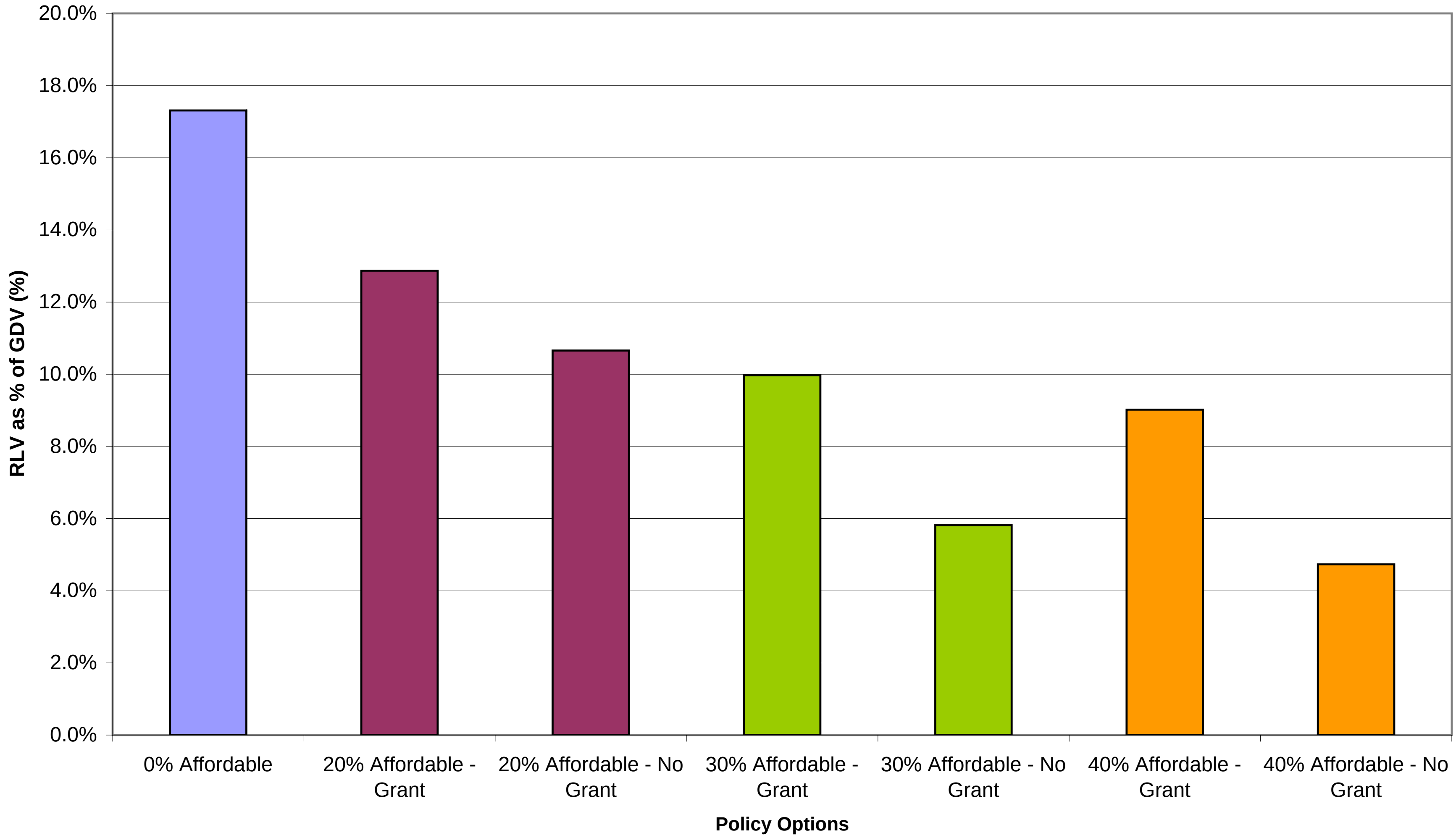
Appraisal Type	15 Unit - Housing Scheme - Value Point 1			15 Unit - Housing Scheme - Value Point 2			15 Unit - Housing Scheme - Value Point 3			15 Unit - Housing Scheme - Value Point 4		
	RLV	RLV as % of GDV	Reduction in RLV from Current Policy Position	RLV	RLV as % of GDV	Reduction in RLV from Current Policy Position	RLV	RLV as % of GDV	Reduction in RLV from Current Policy Position	RLV	RLV as % of GDV	Reduction in RLV from Current Policy Position
0% Affordable	£421,522	17.3%	N/A	£762,506	26.2%	N/A	£1,115,030	32.7%	N/A	£1,463,956	37.6%	N/A
20% Affordable, 50% S.O. / 50% Rent - With Grant	£290,162	12.9%	31.2%	£587,295	22.0%	23.0%	£892,463	28.8%	20.0%	£1,193,810	34.0%	18.5%
20% Affordable, 50% S.O. / 50% Rent - Without Grant	£230,840	10.7%	45.2%	£523,258	20.3%	31.4%	£829,138	27.6%	25.6%	£1,129,773	33.0%	22.8%
30% Affordable, 50% S.O. / 50% Rent - With Grant	£213,717	10.0%	49.3%	£481,987	19.1%	36.8%	£760,703	26.1%	31.8%	£1,035,374	31.4%	29.3%
30% Affordable, 50% S.O. / 50% Rent - Without Grant	£116,929	5.8%	72.3%	£389,952	16.3%	48.9%	£665,716	23.9%	40.3%	£939,319	29.7%	35.8%
40% Affordable, 50% S.O. / 50% Rent - With Grant	£190,446	9.0%	54.8%	£458,876	18.5%	39.8%	£729,679	25.4%	34.6%	£1,001,217	30.8%	31.6%
40% Affordable, 50% S.O. / 50% Rent - Without Grant	£93,656	4.7%	77.8%	£362,406	15.4%	52.5%	£634,600	23.2%	43.1%	£905,426	29.1%	38.2%

N.B. S.O. =Shared Ownership

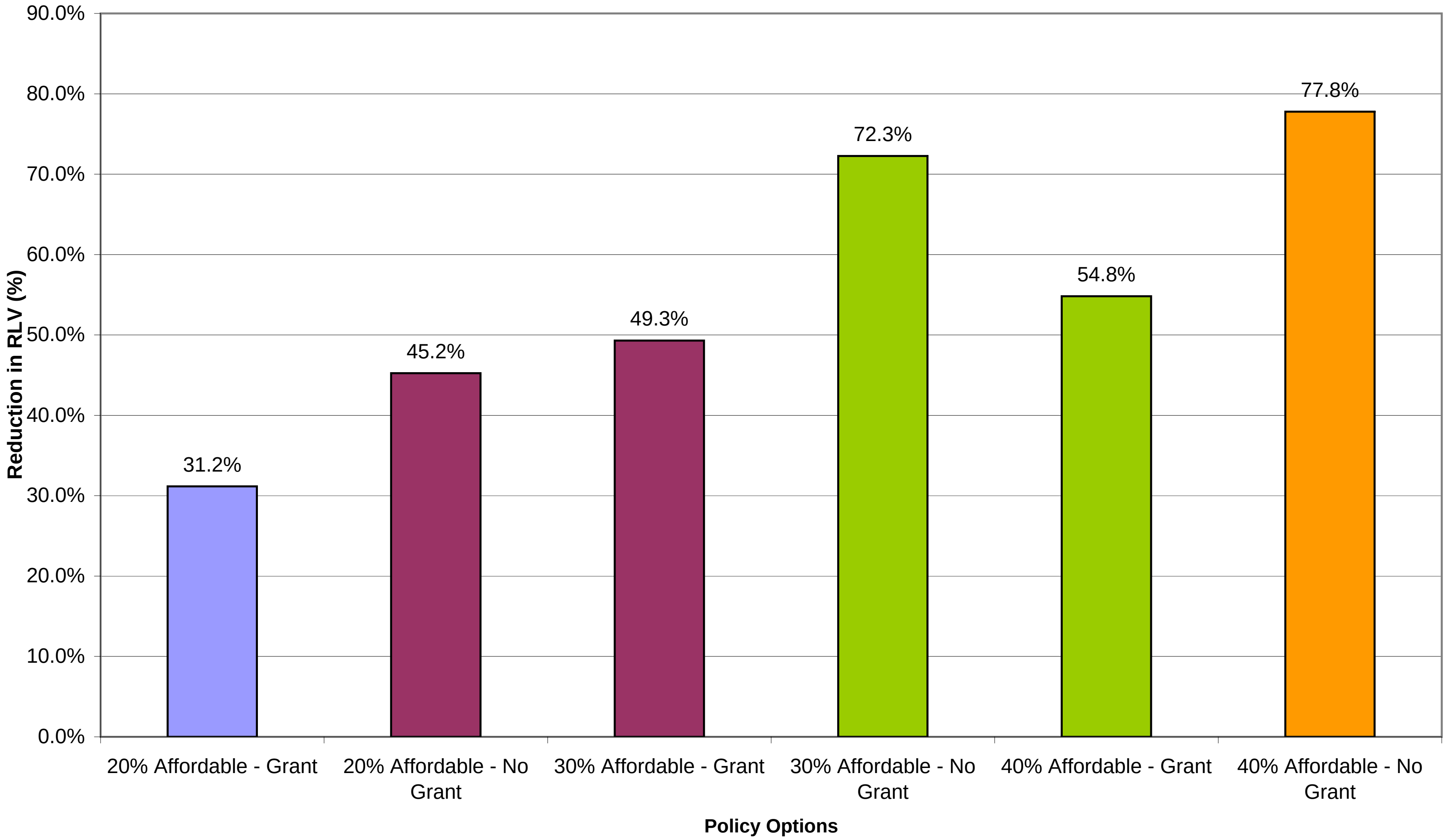
Graph 14: 15 Unit Housing Scheme - Residual Land Values at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - Value Point 1



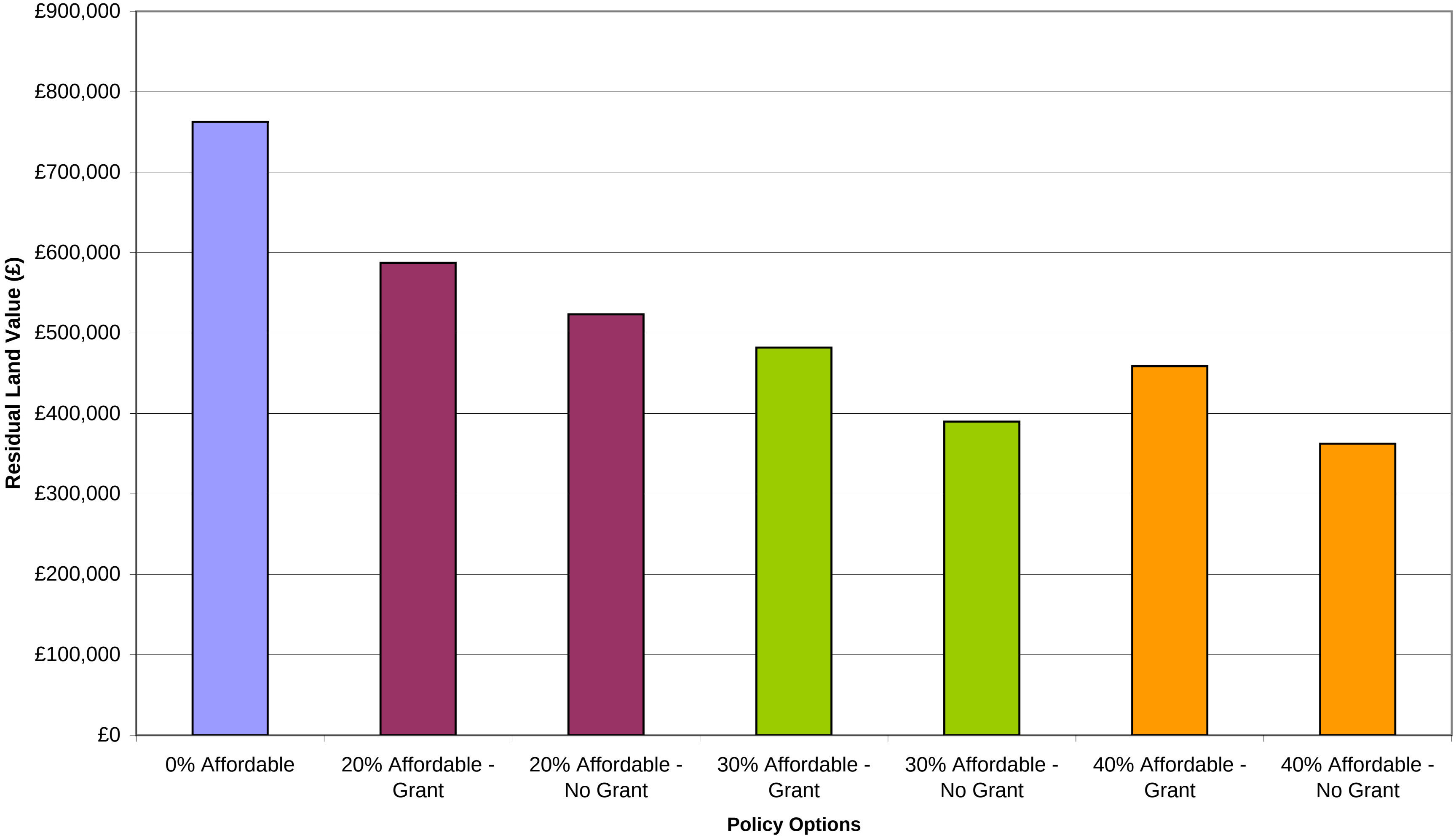
Graph 15: 15 Unit Housing Scheme - RLV as % of GDV at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - Value Point 1



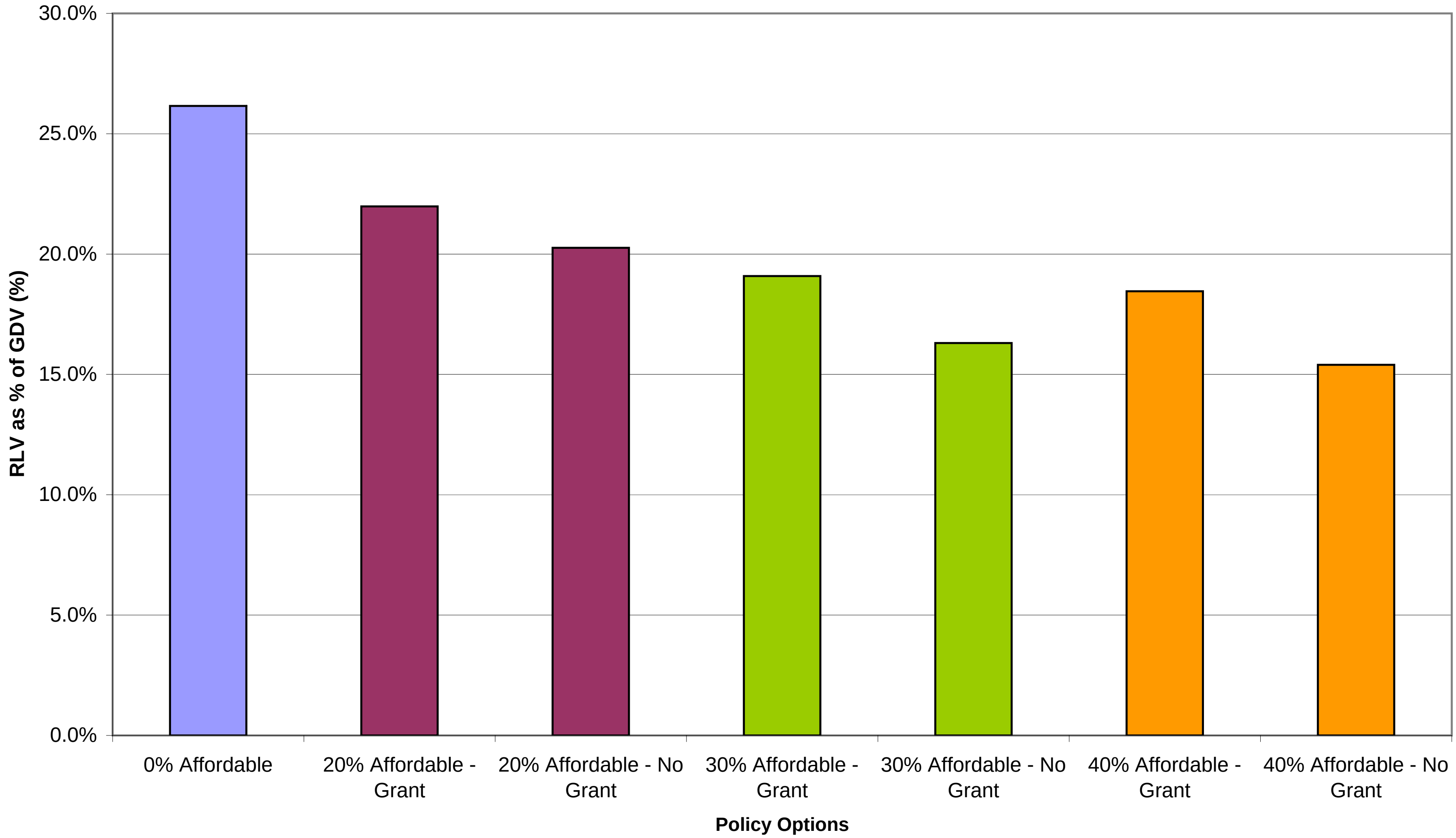
Graph 16: 15 Unit Housing Scheme - Reduction in RLV from 0% to 20%, 30% and 40% Affordable Housing (Mortgage Funded By Rental Stream Payment to Developer) - Value Point 1



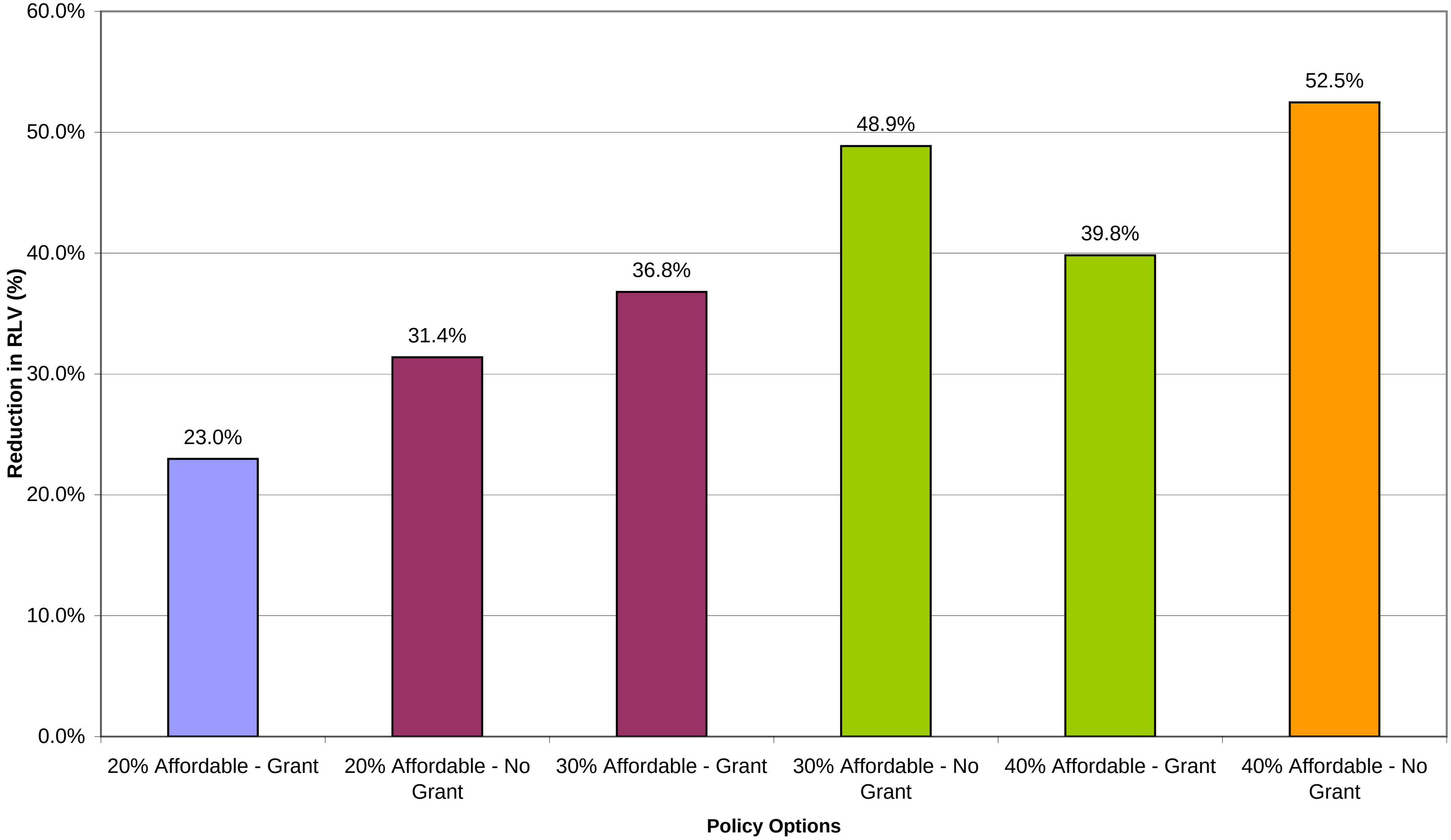
Graph 17: 15 Unit Housing Scheme - Residual Land Values at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - Value Point 2

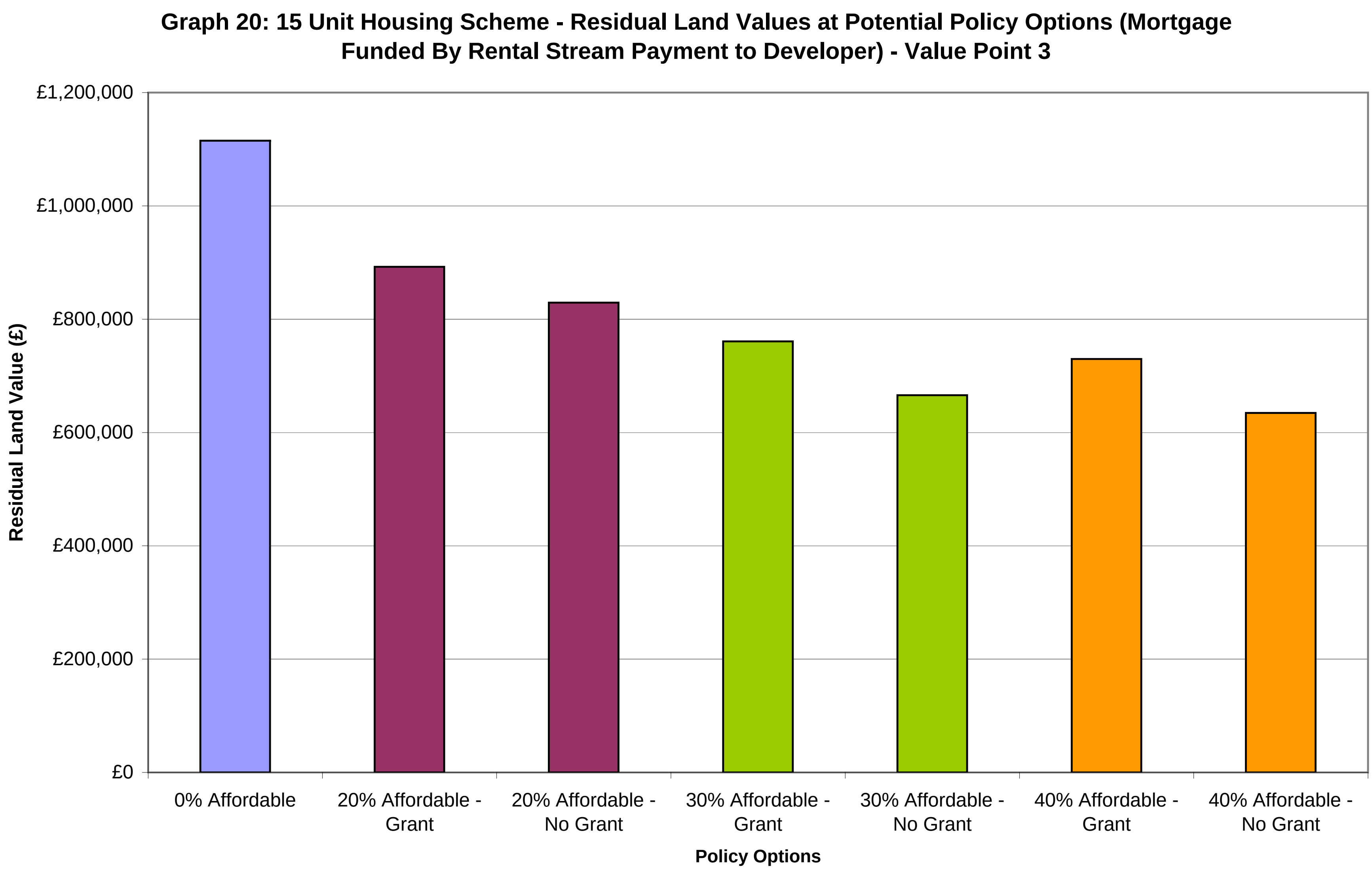


Graph 18: 15 Unit Housing Scheme - RLV as % of GDV at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - Value Point 2

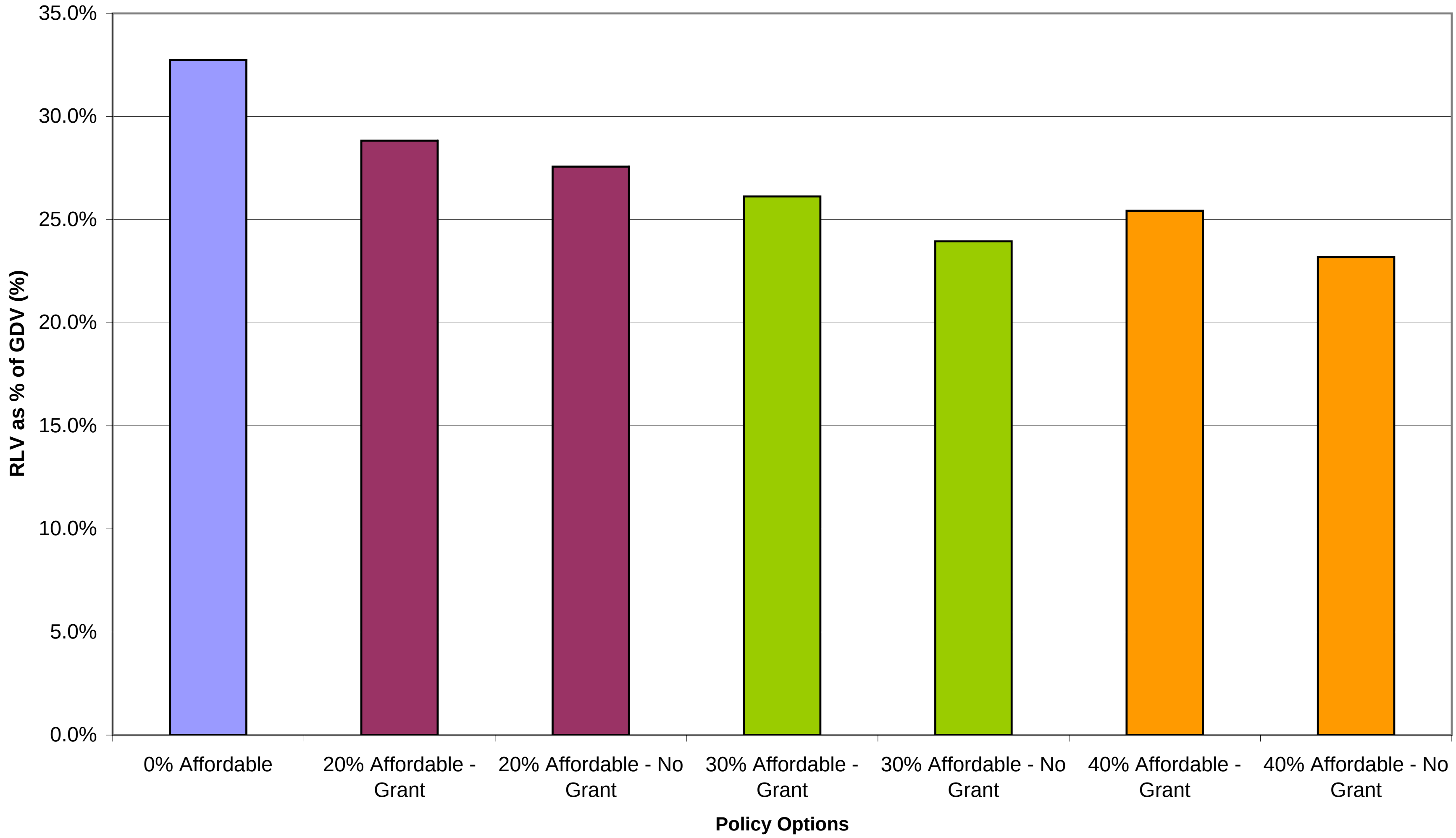


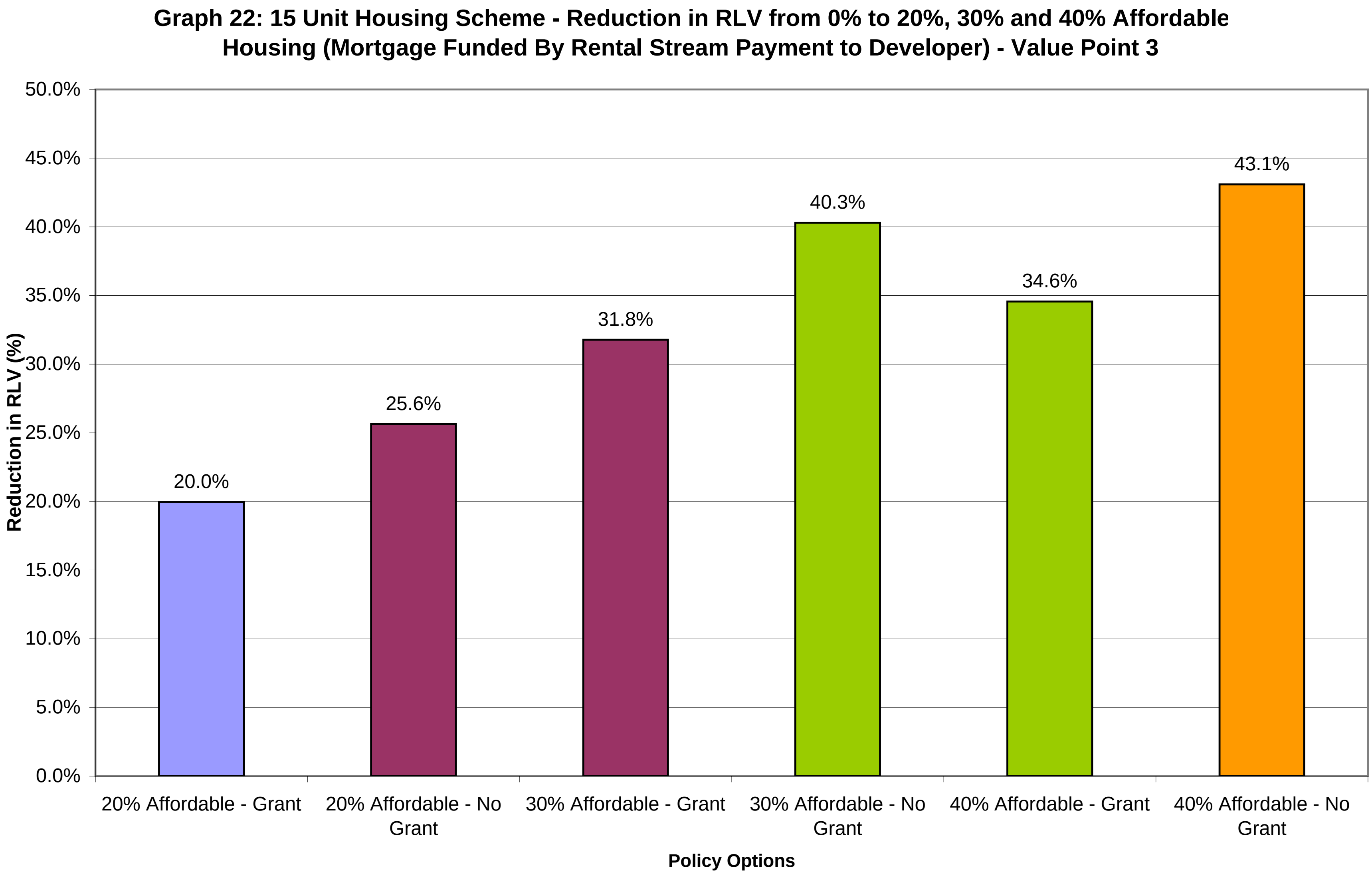
Graph 19: 15 Unit Housing Scheme - Reduction in RLV from 0% to 20%, 30% and 40% Affordable Housing (Mortgage Funded By Rental Stream Payment to Developer) - Value Point 2




Graph 20: 15 Unit Housing Scheme - Residual Land Values at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - Value Point 3
Residual Land Value (£)
£1,200,000
£1,000,000
£800,000
£600,000
£400,000
£200,000
£0
0% Affordable
20% Affordable - Grant
20% Affordable - No Grant
30% Affordable - Grant
30% Affordable - No Grant
40% Affordable - Grant
40% Affordable - No Grant
Policy Options

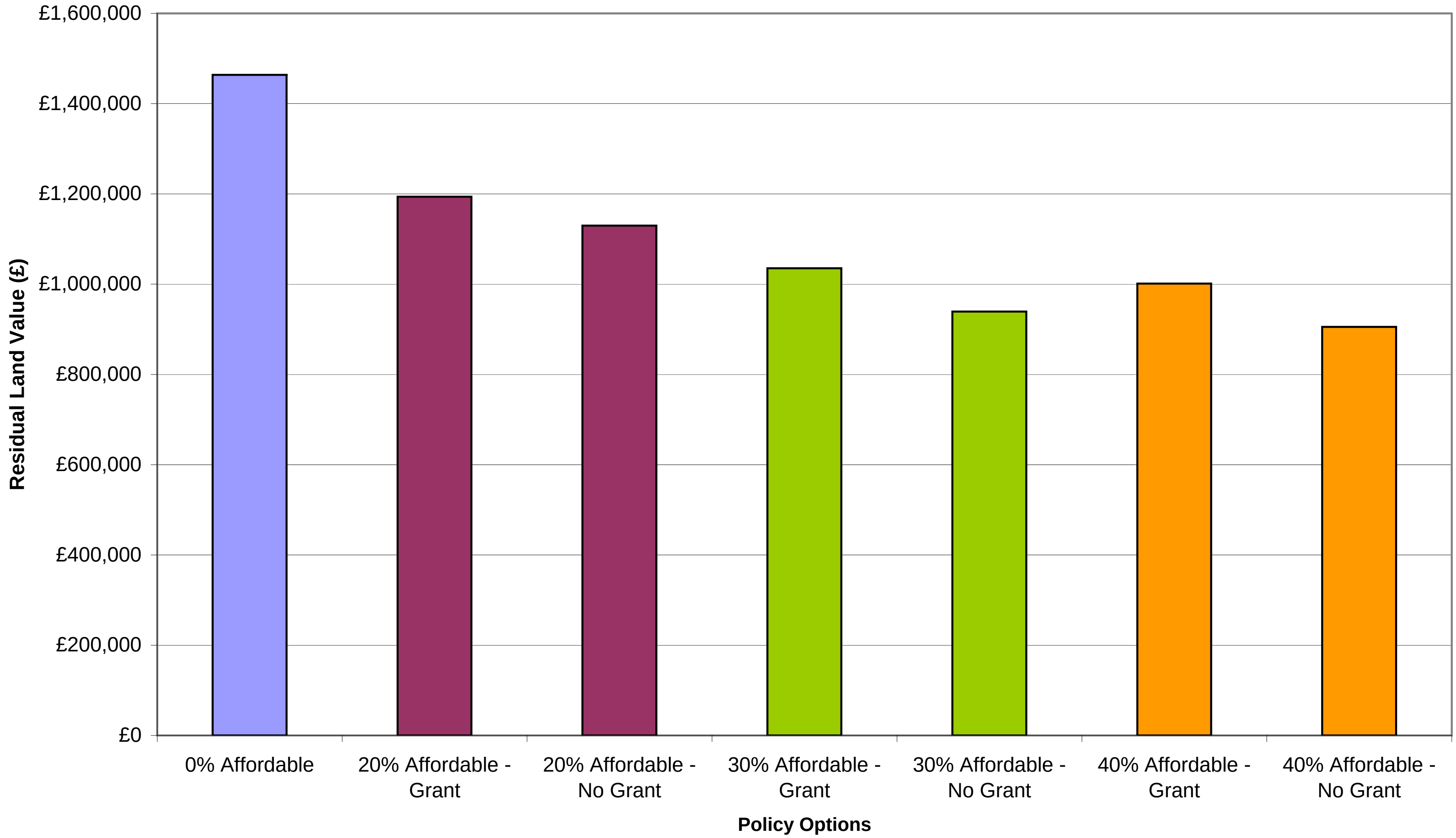
Graph 21: 15 Unit Housing Scheme - RLV as % of GDV at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - Value Point 3



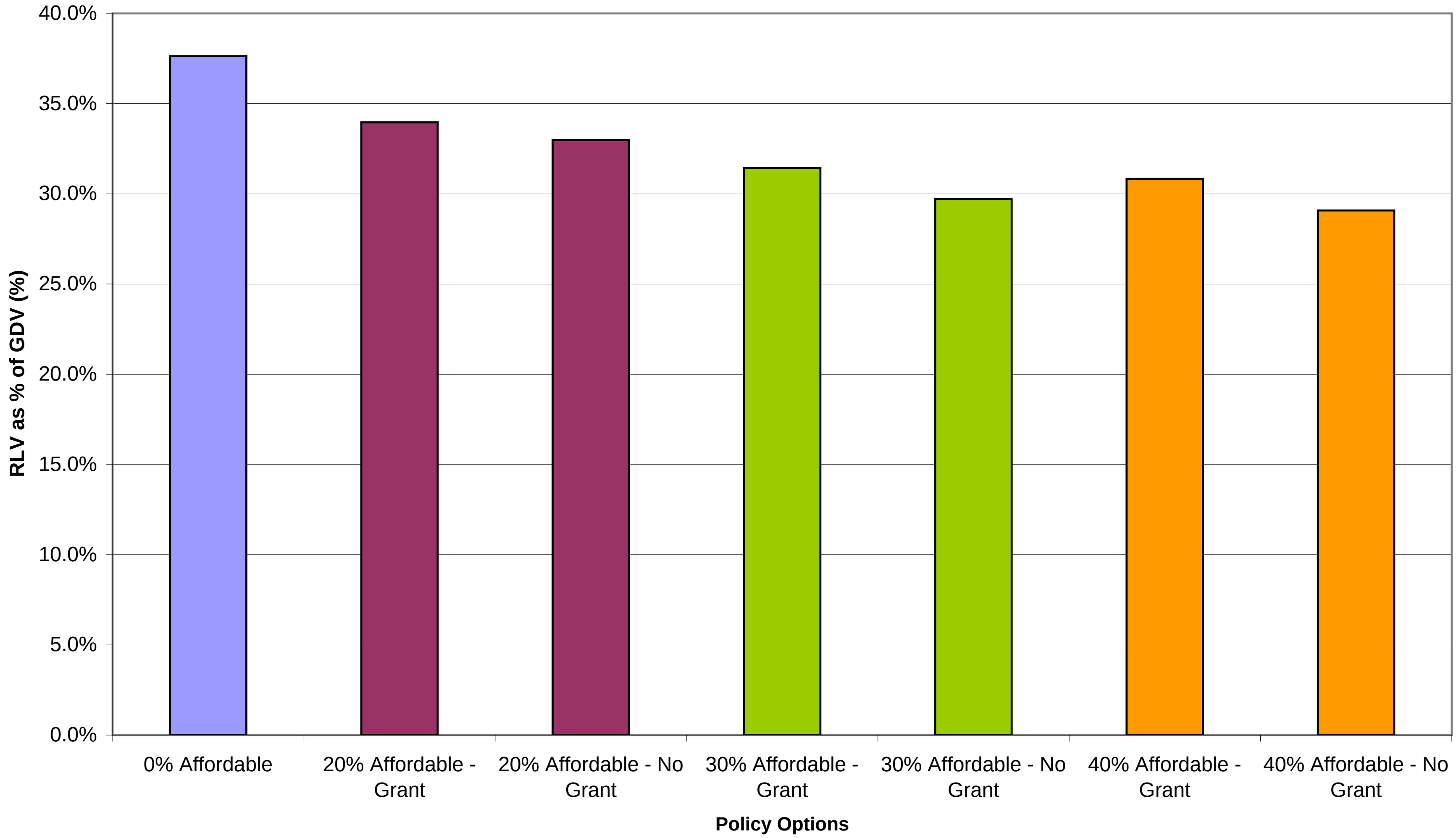


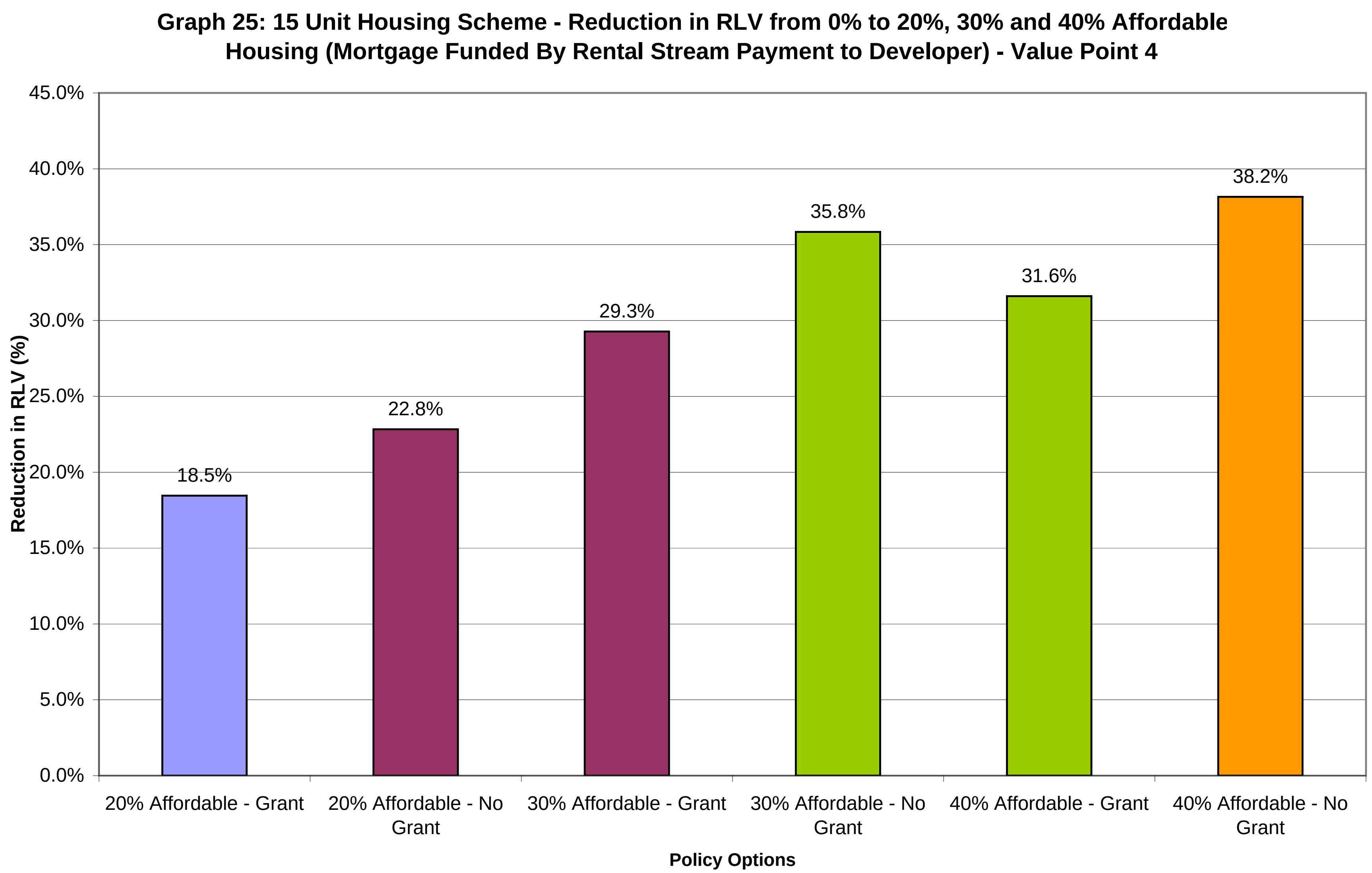
Appendix II A

Graph 23: 15 Unit Housing Scheme - Residual Land Values at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - Value Point 4



Graph 24: 15 Unit Housing Scheme - RLV as % of GDV at Potential Policy Options (Mortgage Funded By Rental Stream Payment to Developer) - Value Point 4




Graph 25: 15 Unit Housing Scheme - Reduction in RLV from 0% to 20%, 30% and 40% Affordable Housing (Mortgage Funded By Rental Stream Payment to Developer) - Value Point 4
Reduction in RLV (%)
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
18.5%
22.8%
29.3%
35.8%
31.6%
38.2%
20% Affordable - Grant
20% Affordable - No Grant
30% Affordable - Grant
30% Affordable - No Grant
40% Affordable - Grant
40% Affordable - No Grant
Policy Options

Worthing Borough Council Payments in lieu of on-site provision - Value Points 1 and 3: 0%, 10% and 20% Equivalent Affordable Housing Provision

Value Point 1

Scheme Size	Mix	0% Affordable Equivalent		10% Affordable Equivalent			20% Affordable Equivalent		
		RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)
6 Houses	6 x 3-bed houses	£187,232	18.5%	£36,499	£154,214	15.2%	£72,998	£122,421	12.1%
8 Houses	8 x 3-bed houses	£250,325	18.5%	£48,665	£211,463	15.6%	£97,330	£167,440	12.4%
10 Houses	10 x 3-bed houses	£317,200	18.8%	£60,832	£263,283	15.6%	£121,663	£213,682	12.6%
11 Flats	11 x 2-bed flats	£143,321	10.0%	£51,473	£97,736	6.8%	£102,946	£50,702	3.5%
11 Houses	4 x 2-bed houses; 7 x 3-bed houses	£320,668	18.0%	£64,035	£263,911	14.8%	£128,070	£211,426	11.9%
14 Flats	4 x 1-bed flats; 10 x 2-bed flats	£142,356	8.4%	£61,192	£88,874	5.2%	£122,383	£33,955	2.0%
14 Houses	4 x 2-bed houses; 10 x 3-bed houses	£393,841	17.2%	£82,285	£322,206	14.1%	£164,569	£250,572	11.0%

Value Point 3

Scheme Size	Mix	0% Affordable Equivalent		10% Affordable Equivalent			20% Affordable Equivalent		
		RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)
6 Houses	6 x 3-bed houses	£480,966	34.0%	£50,969	£435,790	30.8%	£101,938	£390,615	27.6%
8 Houses	8 x 3-bed houses	£640,344	33.9%	£67,959	£580,730	30.8%	£135,917	£521,117	27.6%
10 Houses	10 x 3-bed houses	£804,680	34.1%	£84,948	£730,163	30.9%	£169,896	£655,646	27.8%
11 Flats	11 x 2-bed flats	£549,889	27.6%	£71,666	£487,024	24.5%	£143,332	£428,577	21.5%
11 Houses	4 x 2-bed houses; 7 x 3-bed houses	£836,677	33.6%	£89,556	£758,119	30.5%	£179,111	£679,561	27.3%
14 Flats	4 x 1-bed flats; 10 x 2-bed flats	£620,064	26.2%	£85,308	£546,563	23.1%	£170,616	£477,989	20.2%
14 Houses	4 x 2-bed houses; 10 x 3-bed houses	£1,044,468	32.7%	£115,040	£945,349	29.6%	£230,080	£846,231	26.5%

Payment Per Unit

Value Point	1-Bed Flats	Commuted Payment (Per Unit)	2-Bed Flats	Commuted Payment (Per Unit)	2-Bed Houses	Commuted Payment (Per Unit)	3-Bed Houses	Commuted Payment (Per Unit)	4-Bed Houses	Commuted Payment (Per Unit)
1	£100,000	£35,995	£130,000	£46,794	£149,000	£53,633	£169,000	£60,832	£198,000	£71,270
2	£120,000	£43,194	£155,000	£55,792	£179,000	£64,431	£202,000	£72,710	£238,000	£85,668
3	£140,000	£50,393	£181,000	£65,151	£209,000	£75,230	£236,000	£84,948	£277,000	£99,706
4	£160,000	£57,592	£207,000	£74,510	£238,000	£85,668	£270,000	£97,187	£317,000	£114,104

Commuted payment calculated by:
1. Taking average residual land value as percentage of GDV from all appraisals with zero affordable housing = 31.3%
2. Multiplying this figure by the open market unit value
3. Adding 15% on-costs
4. Multiplying this figure by the equivalent affordable housing percentage.

Example: 14 Unit Housing Scheme of 4 x 2-bed houses & 10 x 3-bed houses
2-bed houses at £149,000 x 0.313 = £46,637
£46,637 + 15% = £53,633
4 x 2-bed houses x 20% = 0.8 houses x £53,633 = £42,906
3-bed houses at £169,000 x 0.313 = £52,897
£52,897 + 15% = £60,832
10 x 3-bed houses x 20% = 2 houses x £60,832 = £121,663
£121,663 + £42,906 = £164,569

Comparison of on-site Provision of Affordable Housing with Payment in-lieu of on-site provision - 20% Affordable

Value Point 1					
Scheme Size	Mix	RLV (£) - On Site	RLV (£) - Commuted	RLV (% of GDV) - On-site	RLV (% of GDV) - Commuted
6 Houses	6 x 3-bed houses	£124,537	£122,421	13.4%	12.1%
11 Flats	11 x 2-bed flats	£62,214	£50,702	4.7%	3.5%
11 Houses	4 x 2-bed houses; 7 x 3-bed houses	£209,445	£211,426	12.9%	11.9%

Value Point 3					
Scheme Size	Mix	RLV (£) - On-Site	RLV (£) - Commuted	RLV (% of GDV) - On-site	RLV (% of GDV) - Commuted
6 Houses	6 x 3-bed houses	£369,952	£390,615	29.2%	27.6%
11 Flats	11 x 2-bed flats	£400,050	£428,577	22.5%	21.5%
11 Houses	4 x 2-bed houses; 7 x 3-bed houses	£629,391	£679,561	28.5%	27.3%

Appendix III

Worthing Borough Property Prices Report

APPENDIX III

Property Prices Report for Worthing Borough Council

Viability Study Background

Introduction

The purpose of this report appendix is to summarise the information gathered by Adams Integra as a part of making judgements on property values assumptions for use in the appraisal modelling for the study.

The gathering of residential property values information comprised two main activities. Firstly, we took information on sales prices of new build property logged quarterly by Worthing Borough Council, and updated that information to January 2007 – the time at which we were fixing assumptions to inform the study (Step 1 below). The Council also obtains more general house prices information (the Worthing sale/resale market in general) on a quarterly basis from the Land Registry. The monitoring of such information is to be encouraged in the context of maintaining an understanding of the local market. Secondly, we researched the new build homes market in Worthing to see what schemes were under construction and being marketed at the time of considering our assumptions. We regard this as a key part of our study process as it gives a good insight into the current new build market locally. At the time (January 2007), excepting retirement housing schemes, there were only two schemes being marketed (see Step 2 below).

It is the new build values that are of key relevance to the viability study, given that such schemes are the supply source of the planning-led affordable housing being considered.

A market overview has also been included from monthly market reports provided by the RICS and Land Registry.

Step 1 - New Build Property Sales Values – Worthing Borough

The following table gives a summary only of the updated Worthing Borough Council information on new build property sales in the Borough – to January 2007.

	Overall Average	Minimum	1st Quartile	Median	3rd Quartile	Maximum
1-bed Flats	£125,453	£77,633	£93,543	£118,664	£130,236	£233,928
2-Bed Flats	£203,195	£102,949	No data	No data	No data	£300,000
2-Bed Houses	£185,582	£179,950	No data	No data	No data	£191,215
3-Bed Houses	£316,370	£249,950	£252,924	£272,387	£345,000	£534,425
4-Bed Houses	£479,812	£267,500	£475,000	£540,000	£557,411	£557,411

There are some figures within the above, particularly at the lower end of the figures for smaller flats, which we feel should be treated with some caution. We cannot be sure to what extent those base figures may have picked up shared ownership sales (where a proportion of the equity is purchased) for example. In our view it is important to consider such data alongside a practical look at the new build market (Step 2 below refers).

However, the fuller data, as supplied by the Borough Council and adjusted by Adams Integra for price increases over the relevant periods (particular date of sale price information to January 2007), is as set out in the following:

Quarter	Property Type	Property Type	Beds	Price	Price - Updated using Land Registry "Compare Property Prices"	Percentage Increase/ Decrease from base WBC data
2005/06						
3	FLAT		2	£237,950	£286,730	20.50%
3	HOUSE	TERRACED	3	£286,950	£296,132	3.20%
4	FLAT		1	£107,000	£122,087	14.10%
4	FLAT		1	£104,000	£118,664	14.10%
4	FLAT		1	£111,500	£127,222	14.10%
4	FLAT		1	£110,500	£126,081	14.10%
4	FLAT		1	£102,000	£116,382	14.10%
4	HOUSE	SEMI DETACHED	3	£345,000	£345,000	0.00%
4	HOUSE	SEMI DETACHED	3	£345,000	£345,000	0.00%
4	HOUSE	TERRACED	4	£286,950	£323,249	12.65%
4	FLAT		1	£129,950	£130,236	0.22%
4	HOUSE	DETACHED	3	£282,500	£272,387	-3.58%
4	HOUSE	DETACHED	4	£485,000	£557,411	14.93%
4	HOUSE	DETACHED	4	£485,000	£557,411	14.93%
4	HOUSE	DETACHED	4	£485,000	£557,411	14.93%
4	HOUSE	DETACHED	3	£465,000	£534,425	14.93%
4	HOUSE	DETACHED	3	£465,000	£534,425	14.93%
4	HOUSE	DETACHED	3	£465,000	£534,425	14.93%
4	HOUSE	DETACHED	3	£259,950	£284,203	9.33%
4	BUNGALOW	DETACHED	2-3	£325,000	£355,323	9.33%
4	FLAT		1-2	£250,000	£173,850	-30.46%
4	HOUSE	DETACHED	3	£309,950	£338,868	9.33%
4	HOUSE	DETACHED	3	£282,500	£272,387	-3.58%

2006/07						
1	HOUSE	DETACHED	3	£259,950	£263,043	1.19%
1	HOUSE	DETACHED	3	£384,950	£321,510	-16.48%
1	HOUSE	DETACHED	3	£249,995	£273,320	9.33%
1	FLAT		1	£82,950	£77,633	-6.41%
1	FLAT		1	£92,500	£86,571	-6.41%
1	FLAT		1	£99,500	£93,122	-6.41%
1	FLAT		1	£99,950	£93,543	-6.41%
1	FLAT		1	£99,950	£93,543	-6.41%
1	FLAT		2	£110,000	£102,949	-6.41%
1	FLAT		1	£110,000	£102,949	-6.41%
1	FLAT		2	£110,000	£102,949	-6.41%
1	HOUSE	SEMI DETACHED	2	£179,950	£191,215	6.26%
1	HOUSE	DETACHED	3	£250,000	£252,975	1.19%
1	FLAT		1	£234,950	£219,890	-6.41%
1	FLAT		1	£249,950	£233,928	-6.41%
1	HOUSE	DETACHED	3	£249,950	£252,924	1.19%
1	HOUSE	DETACHED	3	£249,995	£252,970	1.19%
1	HOUSE	DETACHED	3	£259,950	£263,043	1.19%
1	FLAT		2	£270,000	£252,693	-6.41%
1	HOUSE	DETACHED	3	£384,950	£389,531	1.19%
2	BUNGALOW	DETACHED	2	£275,000	£275,000	
2	HOUSE	DETACHED	3	£250,000	£250,000	
2	HOUSE	DETACHED	3	£250,000	£250,000	
2	HOUSE	DETACHED	3	£250,000	£250,000	
2	HOUSE	DETACHED	4	£475,000	£475,000	
2	HOUSE	DETACHED	4	£475,000	£475,000	
2	FLAT		2	£300,000	£300,000	
2	FLAT		1	£139,950	£139,950	
2	HOUSE	DETACHED	4	£485,000	£485,000	
2	HOUSE	DETACHED	4	£499,950	£499,950	
2	HOUSE	DETACHED	4	£540,000	£540,000	
2	BUNGALOW	DETACHED	3	£375,000	£375,000	
3	HOUSE	SEMI DETACHED	4	£267,500	£267,500	
3	BUNGALOW	DETACHED	3	£349,950	£349,950	
3	BUNGALOW	DETACHED	3	£499,950	£499,950	
3	HOUSE	DETACHED	3	£249,950	£249,950	
3	HOUSE	SEMI DETACHED	2	£179,950	£179,950	
3	HOUSE	DETACHED	3	£250,000	£250,000	
3	HOUSE	DETACHED	4	£540,000	£540,000	

New Build Schemes as at January 2007

The new developments being actively marketed which we noted on our visits to Worthing at the turn of the year were:

Address	Property type	Price	Developer
Offington Lane	2 bed flat	£210,000	Bryant Homes
	2 bed flat	£225,000	
	3 bed terrace	£299,950	
	3 bed terrace	£310,000	
	4 bed terrace	£310,000	
	4 bed terrace	£310,000	
	3 bed terrace	£310,000	
	3 bed terrace	£320,000	
	3 bed terrace	£320,000	
	3 bed terrace	£325,000	
25-27 Wordsworth Road	1 bed flat	£155,000	Chalkhouse Developments
	1 bed flat	£155,000	
	1 bed flat	£152,500	
	1 bed flat	£141,950	
	1 bed flat	£149,950	
	2 bed flat	£192,500	
	2 bed flat	£189,950	
	2 bed flat	£192,500	
	2 bed flat	£194,950	
	2 bed flat	£184,950	
	2 bed flat	£184,950	

We did not travel the Borough exhaustively owing to the project scope and the need to stand back and make judgements for our assumptions.

We picked up additional information as follows:

	Location	Price	Agent /other comments
	Steyne Gardens (Seafront)	From £300,000	Symonds & Reading
	Alexander Terrace	From £220,000	Michael Jones
	Warnes, BN11		72 apartments & penthouses Roffey Homes
	Red Admirals, Water Lane, Angmering, BN16 4EJ		7 apartments & 2 bungalows Roffey Homes
	Millfield Lodge, Downview Road		11 retirement apartments, Roffey Homes Symonds & Reading
	Glynde House, West Parade		Retirement apartments & penthouses. Roffey Homes. Symonds & Reading
	84-92 Heene Road		23 apartments for the over 50s. Starts 2008 Roffey Homes
	26-28 St Botolphs Road		14 apartments, Roffey Homes - to commence 2009
2-Bed Houses	Montague Street, BN11	From £225,000	Winkworth, Hove
	Portland Road, BN11	£179,950	Jacobs Steel
3-Bed Houses			
	Alinora Drive, Goring	From £485,000	Michael Jones
	South Goring	From £540,000	Michael Jones & Co
4-Bed Houses	Bramble Lane,North Worthing	From £267,500	Michael Jones & Co

On finalising the study in June/July 2007, we revisited this by way of a desktop search (in this case using the internet – www.smartnewhomes.com).

This revealed the scheme at Offington (first new build schemes table above) with marketing prices mostly reflecting those seen earlier in the year. Two of the 3 bed terraced property types were noted to have marketing prices of £320,000 at this later stage.

One other scheme, not previously noted, was also picked up – a Banner Homes forthcoming scheme for 14 apartments at Shelley Road, but with no prices released yet.

Housing Market Overview – Summer 2007

RICS

In May 2007 RICS (Royal Institution of Chartered Surveyors) published a Housing Market Survey. The report stated that 'House price inflation reverted back to its slowing trend in May after regaining some momentum over the past quarter, but it is still above the survey's long run average. This month's slowdown in price growth comes amid a surge in new property supply, though underlying demand conditions are holding up in light of a strong economy. Strongest price growth continues in Scotland, Northern Ireland and London.'

New buyer enquiries levels remained buoyant despite the latest interest rate hike, signifying that underlying demand conditions are still healthy. On the other side of the coin, new instructions to sell property increased at the fastest pace since the inception of this survey. According to a large number of surveyors, this surge is to avoid the Home Information Packs (HIPs) costs. Now that HIPs have been delayed, there should be a downward trend in new instructions.

Surveyor confidence of the price outlook has been further depressed on the back of four interest rate increases since last August as well as the Bank of England's continued combative attitude. However, surveyor confidence in the sales outlook rebounded slightly and is only slightly below the survey's long run average. Price growth was strongest in London, although the figures have slowed compared to the previous month. Elsewhere in the country, there was firm price growth in the South East, South West, East Anglia and North West, although these increases were notably slower than previous months. Wales, Yorkshire and Humberside saw price growth pick up slightly, although this growth is only moderate. In the West Midlands, prices increased slightly, whilst in the East Midlands and the North they eased.

In April 2007, 52% of surveyors (nationally) reported a rise in house prices over a three month period, 43% reported the prices to have levelled off and 5% reported falls. In May 2007, the figures had altered dramatically with 40% reporting a rise in house prices, 53% stating prices were constant and 7% stating losses.

"House price growth moderated to the slowest pace since April 2006, although it remains firm and well above the survey's long run average rate. New buyer enquiries fell for the ninth consecutive month, although the pace of decline slowed, falling below the survey's long run average rate. Growth in new vendor instructions increased sharply, rising at the fastest pace since July 2003. Surveyor confidence in the price outlook declined fractionally reaching the lowest level since April 2006. Confidence in the sales outlook rebounded sharply, rising back above the survey's long run average level."

The Halifax House Price Index states that House prices increased by 0.4%, the second successive monthly rise of less than 0.5%. House prices increased in most regions during 2007 Q2. The biggest price rises were in Northern Ireland (8.5%), Greater London (4.9%), the North (4.3%) and the South East (4.2%).

RICS Economics - May 2007 RICS housing market survey

<u>Land Registry</u>

The Land Registry House price Index May 2007, released 28 June 2007, states as its headlines:

"The data from residential property transactions that completed in May 2007 shows a continued growth in house prices. The 0.7 per cent rate of monthly increase is similar to the previous month. The change raises this month's average house price to £180,594. The annual change in house prices is 8.9 per cent. There is evidence of increased divergence between regions, however, across England and Wales as a whole, growth remains positive."

The detail of the Index reveals that the prices of flats/maisonettes have risen the fastest overall (10.4% over the last year) while detached houses showed the smallest annual increase, overall, of 7.2%.

Regionally, East Sussex saw an increase of 0.4% for the month; 8.3% over the last year to take their average price to £195,118. Hampshire gained 0.4% during May and 8.9% over the last year to average £219,494. South East prices stabilised with 0% growth in May, but an annual increase of 8.7%.

In the Worthing Borough context, the Index shows West Sussex prices rose by 0.1% during the month, 8.9% over the year since May 2006, a rise in line with that for England and Wales and above that of the South East Regional figure. The average house price in West Sussex according the Land Registry currently stands at £221,321.

Land Registry House Price Index May 2007

The Land Registry House Prices Index for June 2007, released 27 July 2007, confirms a continuation of much the same overall trend. West Sussex prices were indicated to have risen by 0.35 of the previous month, and 9.2% over the year (marginally ahead of the annual increase of 9.1% for England and Wales.

Appendix III ends

Worthing Borough Council Affordable Housing Viability Study Background.

Adams Integra - July 2007

Appendix IV

Supplementary Planning Document Outline

APPENDIX IV

Worthing Borough Council
Study of Economic Viability of Affordable Housing Options – Supporting/additional information - Outline of SPD Content (example)

Introduction/Context:

Document Purpose and background

- LDF background – formal intro/context – planning process
- Scope of document
- Wider planning for Housing context – PPS3 and "Delivering Affordable Housing", SE Plan (Draft)
- Local Planning context
- Housing Strategy - Regional Agenda and Local
- Housing Market and Needs

Affordable Housing Definition and Scope

- Link from PPS3 and expand re local context
- Occupier groups
- Tenure "menu"?
- Prioritise Affordable Rent
- Clarity that Low Cost Market specifically excluded
- Affordability requirements – define locally – incomes etc, for example:
    - Affordable Rent at Housing Corporation Target Rents
    - Shared Ownership initial shares from 25%; and rents eg 2.5 – 2.75% of unsold equity
    - Sub- market rents at no more than 75% of market level
    - Could give examples
    - State importance of early consideration of service charge levels – overall affordability
    - Ground rents – none/minimal
- Acknowledge elderly/sheltered, BME, hostel, foyer, special needs, extra care, etc – as appropriate locally

Application of affordable housing policy – amplification of plan policy

- Thresholds and proportions

- On site approach always the assumption
- Off-site as a fall back only, but on that set out
    - Calculation method, explanation and example – formula/guide/indicative payment levels. Potential role on smaller sites in Worthing Borough Council case?
    - Example circumstances?
    - How used – Strategy in place to meet PPS3 sustainable communities aims. Transparency over what sums collected, and where spent – time limits.

- Tenure mix
- Land owner/developer subsidy - for example nil cost (serviced) land -or other - and explain - could give example.
- Expectation that affordable housing types will be delivered pro-rata with the market housing - not skewed towards smaller units. Possible secondary method of commuting floor areas if the affordable provision sought in view of need and affordability mis-matches the market provision.

- Grant expectations and "Additionality" from grant - reinforce Housing Corporation messages.
- Tenure types and mix – targets needs and priorities driven, but acknowledging funding and viability links >>
- Cascade Mechanism – potential reconfiguring of mix if funding circumstances dictate – lead taken by the Council in this process.

Negotiation and Procurement:

- Preference to work with RSLs and expand.
- Viability link – acknowledgement of need to consider and negotiate – justification – what will be expected of developers – talk early again.
- Expectation that requirements factored in to land negotiations and deals.
- Delivery in parallel with market housing – trigger mechanisms within planning agreements.
- Build costs reimbursement to developers allied to above nil cost land approach – example/indicative payment levels – simple table.
- Contacting the Council and RSLs early on:

  - Possible link to RSL/others Partnering Strategy
  - and relevance of Housing Corporation role and input.

- Development Agreements.
- Management, including where RSL not involved.
- Nominations.
- Responsive approach – negotiation – Cascade again (on numbers and/or tenure mix).

Dwelling type and size guidance:

- Reinforce funding links.
- Housing Corporation and RSL standards.
  - Design and Quality Standards April 2007/HQIs/Building for Life.
  - Sustainable Homes Code (replacement fro EcoHomes) and level expectations.
  - Indicate floor area and person number parameters for range of property types – table (HQIs).
- Wheelchair accessibility requirements on a proportion of affordable homes.
- Potentially consider Lifetime Homes – but draw together/rationalise requirements.

Integration & Community Cohesion

- Expectation that design themes, use of materials and appearance will be consistent – no visible differentiation between market and affordable homes.
- Affordable Homes in clusters of (guide non prescriptive) approximately 10 -12.
- Equitable access to car parking, public amenity areas, accesses, etc.
- Mixed tenure provision – across a range of unit types subject to affordability.
- With existing/wider communities – liaison and consultation.
- Management support link.

"Map" the process:
Planning Implementation – Development Control and Housing Involvement

- Encouragement to early consultation and possible "Affordable Housing Statements" with planning applications.
- Use of approval to "affordable housing scheme" as a part of s106 process – outline of unit and tenure mix and sizes, generals locations within site – give some certainty to delivery.
- **Planning Agreements –** model clauses/mechanisms/base agreement. Clear links to other SPD/services re overall planning obligations requirements.
- **Summarise stages of process.**

Contact points, names, numbers etc.

- Council (encouragement to contact first for guidance and help), RSLs.
- Web links re background/context/standards etc.
- Good practice.

Outline only
July 2007
Adams Integra