

Bath and North East Somerset District Council

Viability Study Update

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December 2012

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Executive Summary

- S1 The Council undertook an Affordable Housing Viability Study in 2010, which looked at the question of viability, affordable housing targets and thresholds. The AHVS provided a number of options for target setting ranging from a single target to a five way target, reflecting local market circumstances to a greater extent.
- S2 The study looked at thresholds as a trigger to affordable housing delivery and concluded that the Council could implement a single dwelling threshold without prejudice to viability.
- S3 The Council subsequently undertook (2012) a Community Infrastructure Levy (CIL) Viability Study to establish CIL rates for various development types.
- S4 The purpose of this Viability Study is to update the 2010 analysis taking into account in particular, the state of the housing market, and any changes to costs and rents. Also, to reflect any policy changes that have taken place; in particular with respect to the affordable housing sector. Finally, to try to take account of the findings of the CIL study when framing any new affordable housing policies, or in supporting the current position.
- S5 The study is a response to the need for the Council to have policies which take into account the provisions of the National Planning Policy Framework (NPPF).
- S6 The approach adopted to analysis follows very closely the approach used in the 2010 study, with particular emphasis on the High Level Testing. The Study also looks at the implications for CIL on affordable housing and housing delivery. As with the 2010 study, there is considerable focus on sub markets
- S7 The key variable changes since the 2010 study are: house price increases of 2% and build cost increases of 5%. Given that house prices are based on a significantly larger number than build costs, the effect is fairly neutral. Viability remains strong across the Council area, and very strong in certain locations.
- S8 It is recommended that, given the great variance in residual values across the B&NES area, a split target approach is adopted to affordable housing delivery. The third option in the report (a five way split) would work, and, do so without impacting on the Council's draft CIL policy approach.
- S9 Alongside the affordable housing target policy is the policy on thresholds. Given the need to deliver as much affordable housing as possible, it is recommended that the Council reduce the threshold to as low a level as possible, taking into account the resource implications in the management of the development of many small sites.
- S10 The report suggests that overall the Council may take a robust stance in setting policies for affordable housing.

1 Introduction

Policy background and evidence base

1.1 The B&NES Council commissioned Three Dragons in 2010 to carry out an Affordable Housing Viability Study.

1.2 The conclusions of this report provided the Council with three policy options. As follows:

- a. Maintain the current policy target of 35% set out in Policy HG.8 of the B&NES Local Plan. We believe that this target is deliverable in the mid range sub markets of the District and is therefore appropriate as a District wide figure.
- b. Introduce a two way split target between generally higher and generally lower value areas. We would suggest a 40% target for Prime Bath, Bath Rural Hinterland, Bath North and East and Chew Valley Higher; and a 30% target for Bath North and West, Bath South, Chew Valley Lower, Keynsham and Saltford and Midsomer Norton, Westfield and Radstock.
- c. Introduce a five way target reflecting much more the specifics of local sub markets. If this approach were adopted in principle we would suggest: a 50% target for Bath Rural Hinterland (including Bathavon); a 40% target for Prime Bath and Bath North and East; a 35% target for Chew Valley Higher, Bath North and West, Bath South and Chew Valley lower; a 30% target in Keynsham and Saltford and a 25% affordable housing target for Midsomer Norton et al.

1.3 When the Council's Core Strategy was submitted, Policy CP9 of the submission Core Strategy document stated that on large sites:

'Affordable housing will be required as on-site provision in developments of 10 dwellings or 0.5 hectare (whichever is the lower) and above. An average affordable housing percentage of 35% will be sought on these large development sites. This is on a grant free basis with the presumption that on site provision is expected. Higher affordable housing proportions (up to a maximum of 45%) may be sought in individual cases, taking account of:

- a) whether the site benefits from above average market values for the district;
- b) whether grant or other public investment may be available to help achieve additional affordable housing.

1.4 And on small sites:

'Residential developments on small sites from 5 to 9 dwellings or from 0.25 up to 0.49 hectare (whichever is the lower) should provide either on site provision or an appropriate financial contribution towards the provision of affordable housing with commuted sum calculations. The target level of affordable

housing for these small sites will be 17.5%, half that of large sites, in order to encourage delivery’.

Updating: October 2012

- 1.5 The Council now wish to provide further updated evidence to support an updated Core Strategy taking into account:
 - Any changes in the housing market since 2010;
 - Changes in the policy position at a national and local level, with particular reference to tenure mix within the affordable housing element of schemes;
 - Changes in development cost variables; i.e. Code for Sustainable Homes;
 - Without prejudicing, but taking account of the findings of the CIL study completed by BNP Paribas;
- 1.6 It was agreed that the updating of the AHVS should test a similar, but updated set of assumptions for the key viability variables – house prices, build costs and affordable housing revenues. It was further agreed that the updating analysis may, or may not lead to a change in the policy stance.
- 1.7 The relationship between the AHVS and the CIL Study was discussed in some detail at the meeting. Some key issues relate to density assumptions and the level of Section 106 and CIL contributions.

2 Approach to Viability

2.1 It is important to link the analysis carried out in recommending a commuted sum calculation with the previous approach adopted in the previous Affordable Housing Viability Study (AHVS) published on behalf of the Council in November 2009 and updated in May 2011. The section makes the link and demonstrates that the approach has been consistently supported through precedent.

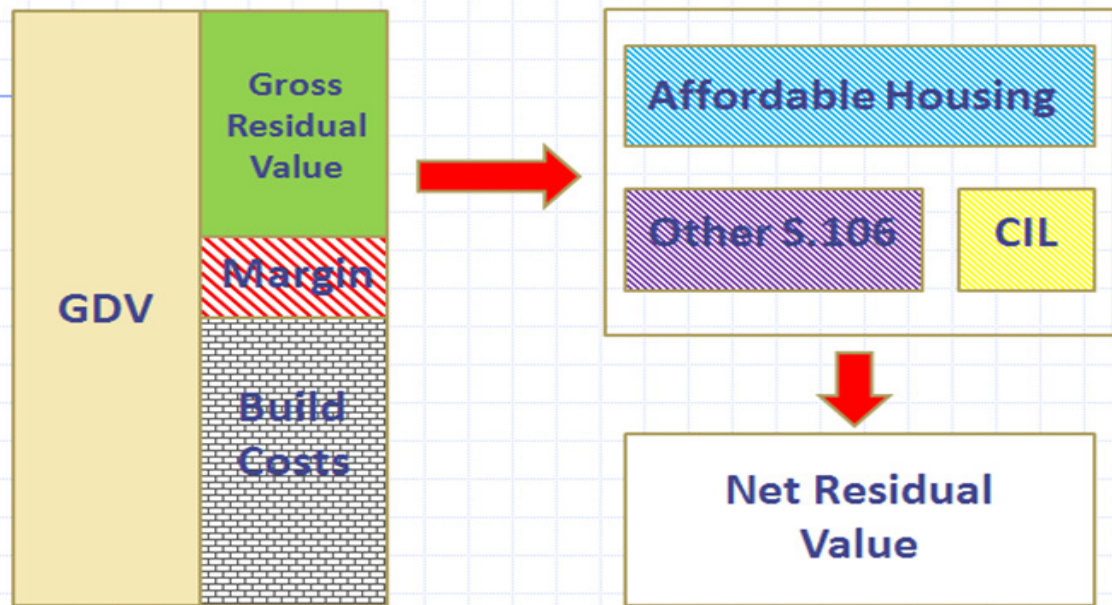
Overview

2.2 The appraisal model adopted by the Council in its negotiations for affordable housing and other Section 106 contributions is the Bath and North East Somerset Viability Toolkit. This model underpins the analysis in the AHVS and its Update Study. The model operates in around 150 local authorities across England and Wales. It is regarded as the industry standard.

2.3 The Toolkit compares the potential revenue from a site with the potential costs of development before a payment for land is made. In estimating the potential revenue, the income from selling dwellings in the market and the income from producing specific forms of affordable housing are considered. The estimates involve (1) assumptions about how the development process and the subsidy system operate and (2) assumptions about the values for specific inputs such as house prices and building costs.

2.4 It is important to understand how viability is assessed in the planning and development process. The assessment of viability is usually referred to a residual development appraisal approach. Our understanding is illustrated in the diagram below. This shows that the starting point for negotiations is the gross residual site value which is the difference between the scheme revenue and scheme costs, including a reasonable allowance for developer return.

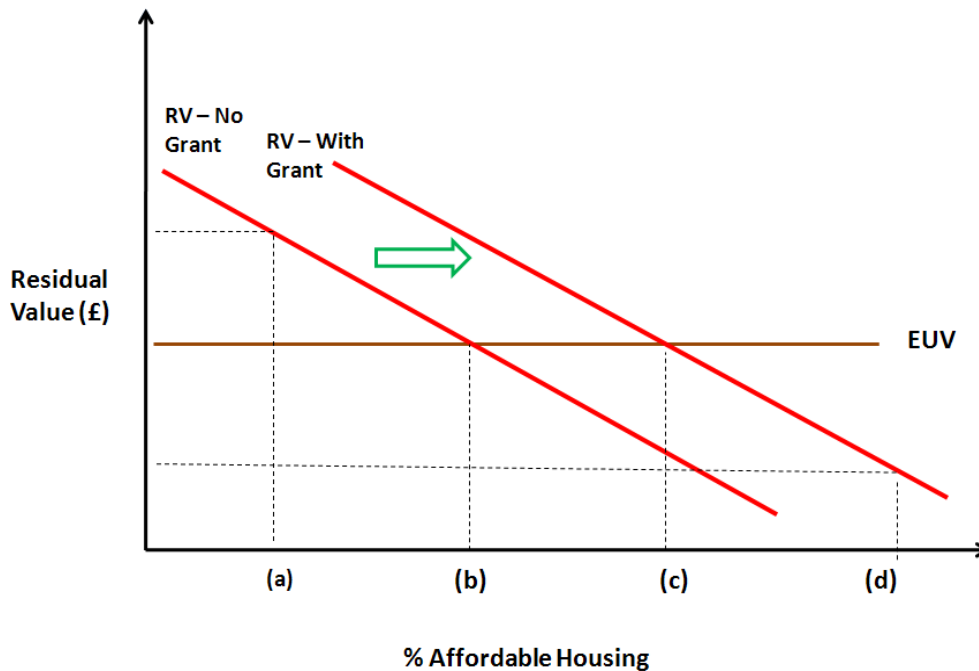
2.5 Once CIL or Section 106 contributions have been deducted from the gross residual value, a 'net' residual value results. The question is then whether this net residual value is sufficient in terms of development value relative to the site in its current use.



- 2.6 Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.

Assessing viability

- 2.7 A site is extremely unlikely to proceed where the costs of a proposed scheme exceed the revenue. But simply having a positive residual value will not guarantee that development happens. The existing use value of the site, or indeed a realistic alternative use value for a site (e.g. commercial) will also play a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing.



- 2.8 The diagram shows how this operates in theory. Residual value (RV) falls as the proportion of affordable housing increases. At point (a), RV is greater than Existing Use Value (EUV) and provided that this margin is sufficient for the land owner to bring the site forward, then it will be viable.
- 2.9 At point (b) the RV is equal to the EUV and there is relatively little incentive in theory to bring the site forward.
- 2.10 Beyond points (a) and (b), the scheme will not come forward as the developer will not be able to pay the land owner enough relative to the land owner's EUV.
- 2.11 Where grant is available (points (c) and (d)), viability for affordable housing is enhanced. Up to point (c) RV is greater than EUV and there is a land owner incentive. At point (c) RV is equal to EUV and so, whilst a higher affordable housing contribution is likely than say at point (b), in principle the land owner is in exactly the same position as at (b).
- 2.12 At point (d), the scheme will not be viable even with grant.
- 2.13 Under all circumstances, the Council will need to consider whether a realistic and justifiable AUV (Alternative Use Value) applies. Where the AUV is higher than the EUV, and can be justified, then the AUV becomes the appropriate threshold value against which RV is judged.

Cases and precedent supporting the approach outlined above:

- 2.14 In 2009, the Homes and Communities Agency published a good practice guidance manual 'Investment and Planning Obligations: Responding to the Downturn'. This defines viability as follows: "a viable development will support a residual land value at level sufficiently above the site's existing use value

(EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner”.

- 2.15 A number of planning appeal decisions provide guidance on the extent to which the residual land value should exceed existing use value to be considered viable:

Barnet & Chase Farm: APP/Q5300/A/07/2043798/NWF

- 2.16 Here it is stated that: ‘the appropriate test is that the value generated by the scheme should exceed the value of the site in its current use. The logic is that, if the converse were the case, then sites would not come forward for development’.

Bath Road, Bristol: APP/P0119/A/08/2069226

- 2.17 The key quotation from this case is that: ‘the difference between the RLV and the existing site value provides a basis for ascertaining the viability of contributing towards affordable housing’.

Beckenham: APP/G5180/A/08/2084559

- 2.18 The statement on the definition of viability is here less clear cut, although the approach to defining viability is nevertheless implicit in the statement: ‘without an affordable housing contribution, the scheme will only yield less than 12% above the existing use value, 8% below the generally accepted margin necessary to induce such development to proceed’.

Oxford Street, Woodstock: APP/D3125/A/09/2104658.

- 2.19 This case, consistent with the previous one outlined here, focuses on the margin required over and above the Existing Use Value in order to achieve to a change of use of the land:

- 2.20 ‘The main parties’ valuations of the current existing value of the land are not dissimilar but the Appellant has sought to add a 10% premium. Though the site is owned by the Appellants it must be assumed, for valuation purposes, that the land is being acquired now. It is unreasonable to assume that an existing owner and user of the land would not require a premium over the actual value of the land to offset inconvenience and assist with relocation. The Appellants addition of the 10% premium is not unreasonable in these circumstances.’

- 2.21 The approach has been very much bolstered in the report by Mr Keith Holland, the Examiner appointed by the Mayor of London to evaluate the London Community Infrastructure Levy. The planning Inspector stated in response to an alternative (and ‘market value’) approach being promoted by the Royal Institution of Chartered Surveyors

2.22 'The market value approach is not formalised as RICS policy and I understand that there is considerable debate within the RICS about this matter. The EUV plus a margin approach was used not only by the GLA team but also by several chartered surveyors in viability evidence presented to the examination. Furthermore the SG at paragraph 22 refers to a number of valuation models and methodologies and states that there is no requirement for a charging authority to use one of these models. Accordingly I don't believe that the EUV approach can be accurately described as fundamentally flawed or that this examination should be adjourned to allow work based on the market approach to be done'.

3 High Level Testing: Update Analysis

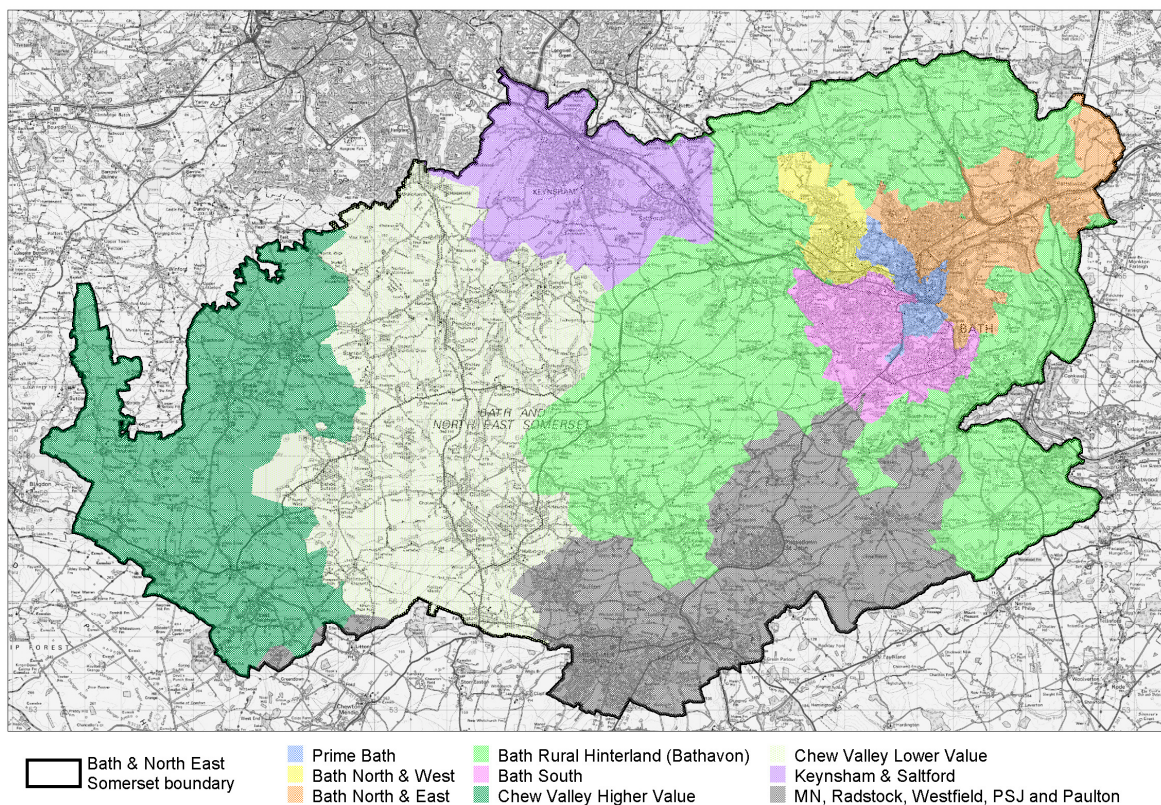
Introduction

- 3.1 As previously (2010 Baseline Report) there is a section (3) which considers viability for mixed tenure residential development for a number of different proportions and types of affordable housing. The analysis is based on a notional 1 hectare site and has been undertaken for a series of house price sub markets that have been identified.

Market value areas

- 3.2 In the Baseline Study, a broad analysis of house prices in the District was undertaken using HM Land Registry data to identify the sub markets. These sub markets were based on post code sectors. The house prices which relate to the sub markets provide the basis for a set of indicative new build values.

Map 3.1 Viability sub markets in the B&NES area



3.1 Sub market areas

Sub Markets	PCS	Larger settlements	Smaller settlements
Prime Bath	BA12	Royal Victoria Park; The Circus	
	BA11	City Centre; Station; Green Park Road; Manvers Street	
	BA2 4	Beechen Cliff; Chaucer Road	
Bath Rural Hinterland (Bathavon) (Includes parts of BA15 2 and BS30 6)	BA19		Kelston; Lansdown
	BA18		Upper Swainswick; Langridge; Charicombe
	BA2 7		Southstoke; Monkton Combe; Claverton
	BA2 9		Corston; Newton St Lo; Priston; Englishcombe
	BA2 0		Timsbury; Farnborough; Camerton
Bath North and East (includes parts of SN14 8 and SN13 8)	BA15	Lansdown Road; Beacon Hill	
	BA16	London Road; Summerfield Road; Seymour Road;	
	BA2 6	Bathwick & Bathampton	
	BA17	Batheaston	
Chew Valley - Higher Value (includes parts of BS40 5; BS40 7; BS41 8; BS40 9)	BS40 6		East Harptree; Vest Harptree; Compton Martin; Ubley
	BS40 8		Chew Magna; Chew Stoke; Nempnett Thrubwell
Bath North and West	BA14	Weston	
	BA13	Newbridge Hill	
Bath South	BA2 3	Oldfield Park	
	BA2 2	The Oval; Kingsway; Frome Road; Upper Bloomfield Road	
	BA2 1	Twerton; Whiteway; Southdown	
	BA2 5	Combe Down; Entry Hill GC; Government Offices	
Chew Valley - Lower Value	BS39 4		Vollard; Pensford; Compton Dnado; Whitley Batts
	BS39 5		Clutton; Temple Cloud; Bishop Sutton
	BS39 6		High Littleton; Hallatrow; Farrington
	BS14 0		Whitchurch
Keynsham & Salford (includes part of BS15 3; BS4 4 and BS14 8)	BS31 1	Keynsham East	
	BS31 2	Keynsham West	
	BS31 3	Salford	
Midsomer Norton, Westfield & Radstock *Includes areas of BA3 4 and 5 running into B&NES	BS39 7	Paulton	
	BA3 2	Midsomer Norton	
	BA3 3	Radstock	
	BA2 8	Peasedown St John	Wellow; Shoscombe

Assumptions (notional one hectare site)

3.3 In the 2010 Study, we defined a number of development mix scenarios, using a range of assumptions agreed with the Council. The scenarios were based on an analysis of typical development mixes and were discussed at the stakeholder workshop.

3.4 By way of a reminder, the densities and mixes tested were as shown in Table 3.2:

	Density (Dwellings per Hectare)					
	30	40	50	80	120	200
1 Bed Flat				15	40	50
2 Bed Flat		5	10	30	60	50
2 Bed Terrace	10	15	20	35		
3 Bed Terrace	15	20	25	20		
3 Bed Semi	25	25	25			
3 Bed Detached	25	20	15			
4 Bed Detached	15	15	5			
5 Bed Detached	10					
Percentage	100	100	100	100	100	100

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

3.6 The (2010) Study was required to review the viability of existing and emerging potential policy targets. In order to consider a full range of possible targets, testing took place assuming delivery of 15%; 20%; 25%; 30%; 35%, 40%; 45% and 50% affordable targets. These were tested at 75% Social Rent and 25% New Build HomeBuy (previously known as Shared Ownership) in each case.

Updated study

3.7 For this update, the analysis is focused on a sample of the densities. Specifically, the analysis has been run at 30 dph, 50 dph and 120 dph. The analysis considers affordable housing percentages between 20% and 50%.

3.8 The key variable changes since the 2010 study are: house price increases of 2%; build cost increases of 5% and rental increases of 6%. These changes have been fed into the updated analysis and the other Toolkit assumptions applied.

3.9 As previously, other (than affordable housing) costs of £15,000 per unit have been assumed. This figure is commented on in the light of the CIL viability work prepared by the Council.

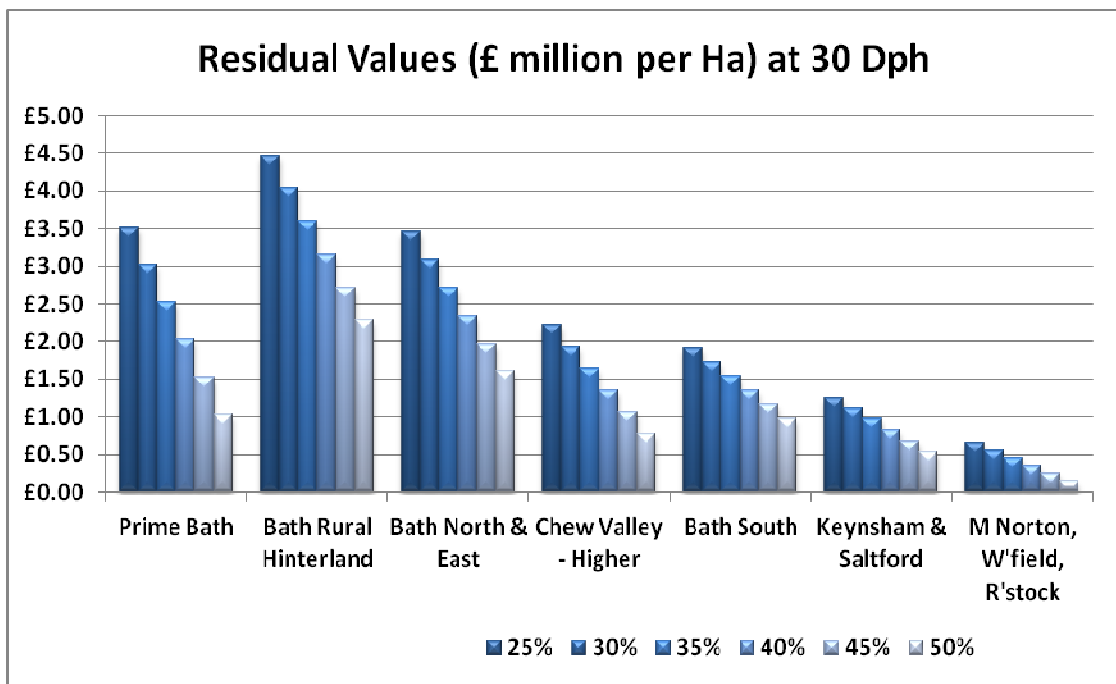
Results: residual values for a notional one hectare site

3.10 This section looks at a range of development mixes and densities. It shows the impacts of increasing the percentage of affordable housing on residual site values. The full set of results is shown in Appendix 1.

Residual values at 30 dph

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

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



3.12 As previously (2010), Figure 3.1 shows a range of strong positive residual values. Residual values at 40% affordable housing for example range from £3.2 million per hectare in Bath Rural Hinterland to almost £0.3 million per hectare at the bottom end of the market.

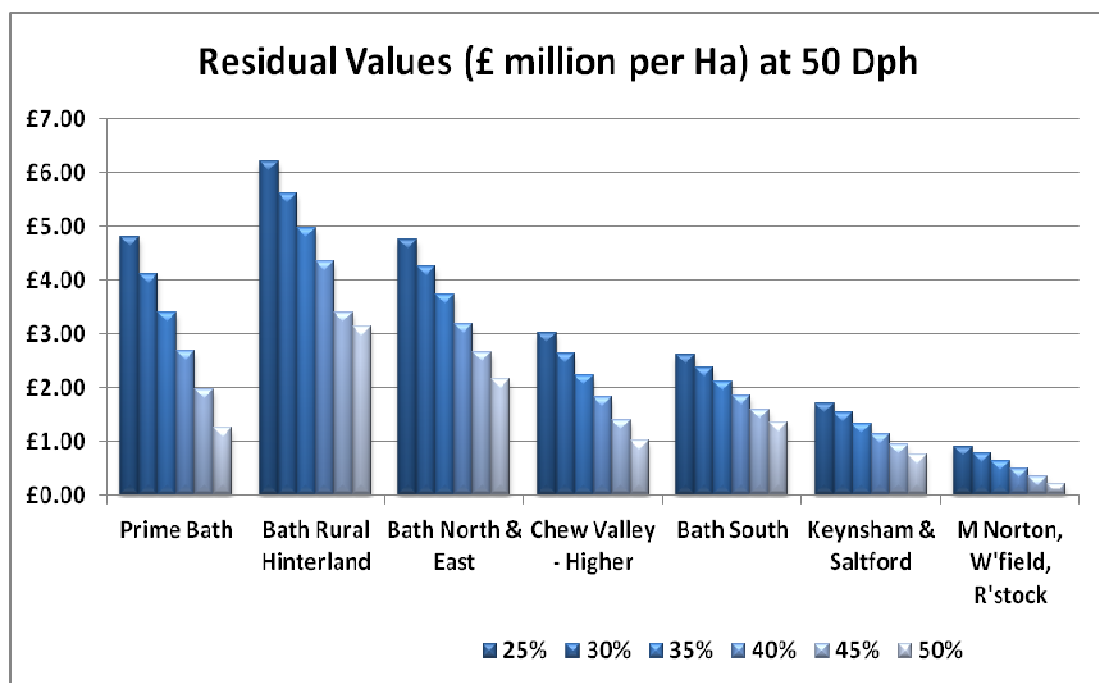
3.13 The pattern in the distribution of values remains very much the same as for the 2010 study. There is no particular urban rural 'split around which policy might be formed. High residuals are found in urban areas (e.g. Bath North and East and Prime Bath) as well as rural ones (e.g. Bath Rural Hinterland); similarly, lower residuals are found in both urban (eg Keynsham and Saltford) as well as rural locations (e.g. Chew Valley Lower Value).

- 3.14 The range of residual values shown in Figure 3.1 is large. The range has very important implications for how policy might be set. The range variation is maintained at higher densities as can be seen in the following charts.
- 3.15 At 30 dph residual value at the top end of the market at 50% affordable housing (Bath Rural Hinterland) is nearly 3.5 times that at the bottom end (Midsomer Norton et al) at nil affordable housing.

Residual values at 50 dph

- 3.16 Figure 3.2 shows the residual values for a 50 dph scheme and for each of the market value areas.

Figure 3.2 Housing development (at a density of 50 dph) – Residual value in £s million



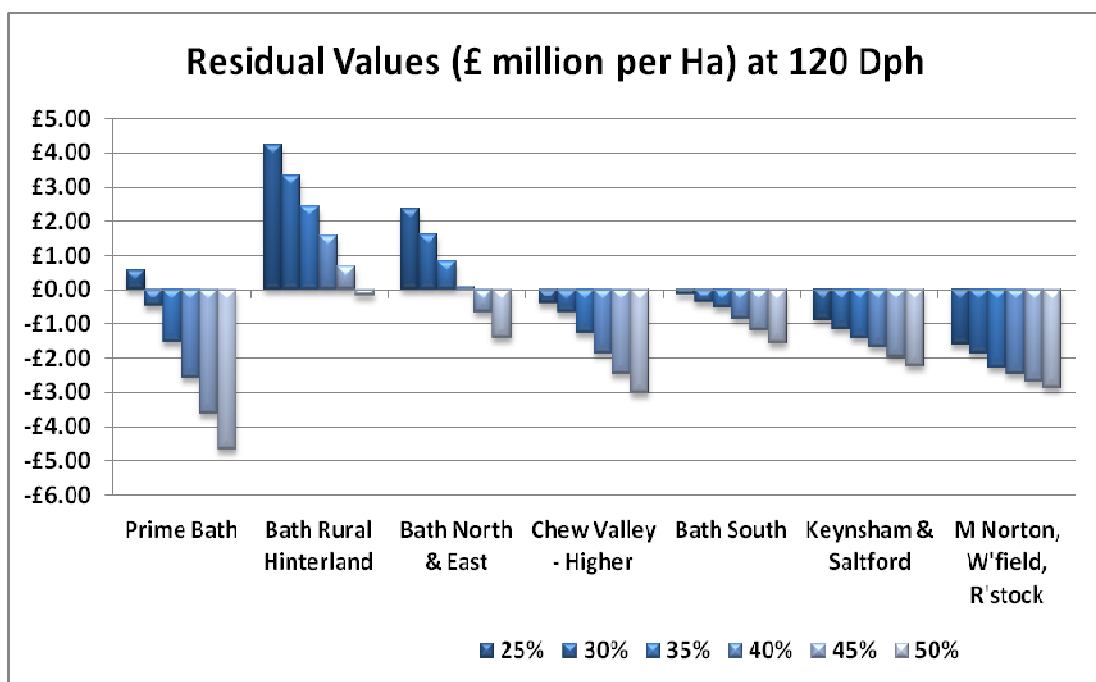
- 3.17 As with the 2010 study, a higher density (50dph rather than 30dph) generates a higher residual value, and hence a greater scope (all other things equal) for Section 106 contributions.
- 3.18 Five groups of sub markets are evident. First, Bath Rural Hinterland, which has significantly higher residual values than the other sub markets. Then (second), Prime Bath and Bath North and East; third, Chew Valley Higher Value and Bath South (implicitly including Chew Valley Lower Value and Bath North and West), fourth, Keynsham and Saltford and finally Midsomer Norton, Westfield, Radstock, Peasedown St John and Paulton.

3.19 Residual values at the middle and higher ends of the market are strong, even at higher percentages of affordable housing. At the lower end of the market residual values range from around £900,000 per hectare at 25% affordable housing to around £200,000 at 50% affordable housing. At the higher affordable housing percentages, residual are more marginal, although positive in every instance.

Residual values at 120 dph

3.20 Figure 3.3 shows residual values for a 120 dph scheme and the residual values for each of the market value areas.

Figure 3.3 Housing development (at a density of 120 dph) – Residual value in £s million



3.21 The higher density schemes are not so favourable to Section 106 delivery. This is a consistent finding with the 2010 report.

3.22 The analysis suggests that the costs of developing flats, relative to the revenue realised, generates residual value only in the higher value areas. In the case of Prime Bath, the additional costs associated with the construction mean that this type of development (apartments) looks only viable at low proportions of affordable housing.

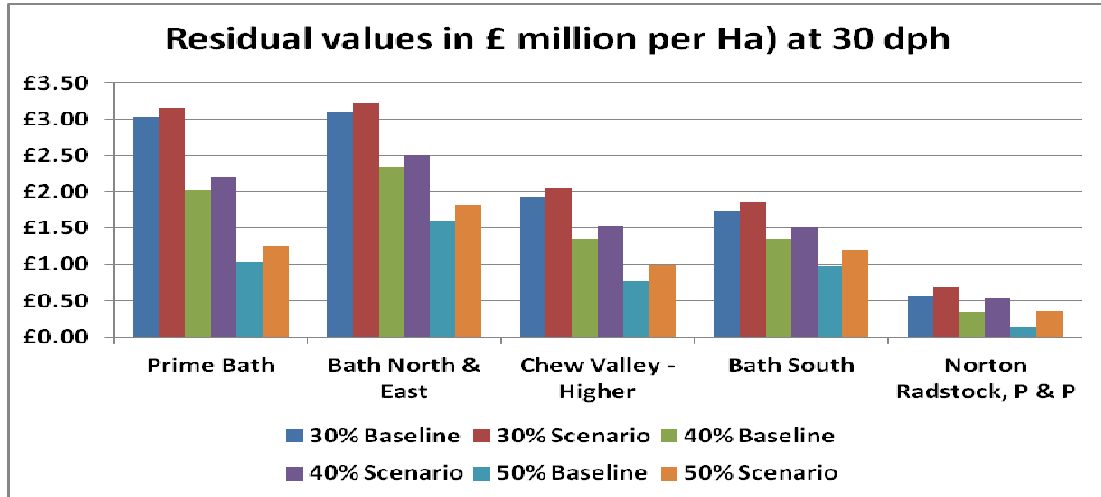
3.23 It is important to recognise that although results in some instances here are not strong, policy should not be set on the least cautious position.

4 Additional viability tests

Policy, viability and Affordable Rent

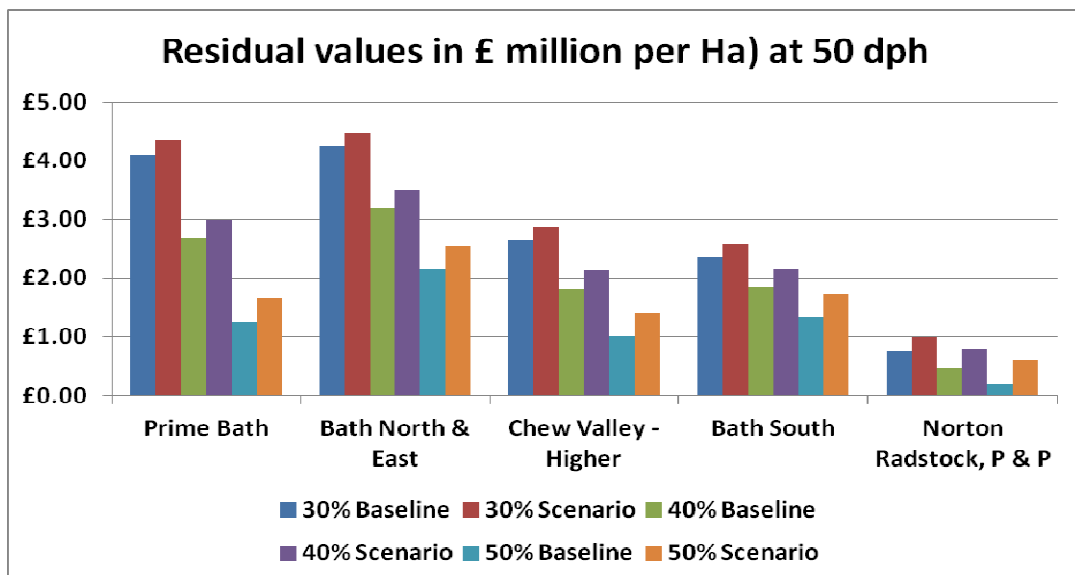
- 4.1 The most significant change on the housing policy front recently is the introduction of Affordable Rent housing. This is an affordable housing tenure which allows a Registered Provider to let units at up to 80% of the open market rent. Government's intention here seems to be allow housing associations to develop housing more viably and thereby boost the supply of housing overall.
- 4.2 In large parts of the Midlands and the North, the new tenure will make only a marginal difference. In the South and London, it will generate greater revenue, although recent research has shown (GVA) that the new tenure will only begin to cover build costs in a number of Central London locations.
- 4.3 In the 2010 report we looked at the role of Intermediate Affordable Housing in enhancing viability. In this report we revisit and update the analysis, focusing on a notional 30 dph and 50 dph scheme.
- 4.4 Figure 4.1 shows residual values for two scenarios across a range of housing sub markets: the baseline (tested as in Section 3 above), and a further scenario assuming that the affordable housing element is not split 75% Social Rent: 25% HomeBuy, but 50% Homebuy: 50% Affordable Rent. The results are as shown overleaf.
- 4.5 The figure shows that, as might be expected, higher residual values being generated as the percentage of Intermediate Affordable housing is included in a scheme. In a lower-middle market locations such as Bath South, residual value increases from a baseline figure of £1.35 million per hectare to £1.51 million per hectare. This is a not a significant increase but it may make the difference between a viable and a non viable scheme where existing use value is relatively high.
- 4.6 The impact of including Intermediate Affordable housing is greater in the lower value sub markets and at higher percentages of affordable housing. For example, if a scheme includes 75% Social Rent and 25% Homebuy (within the affordable element then the residual is £140,000 per hectare (50% affordable housing). If the affordable element is constituted from 100% Intermediate Affordable (50% Affordable Rent and 50% Homebuy), then the residual rises to £360,000. This is a very significant increase in residual value which may in many instances mean the difference between viability and non viability.

Figure 4.1 Residual values – a comparison assuming baseline (75% SR: 25% HB) versus affordable housing element at 100% Intermediate at 30 dph



4.7 Figure 4.2 shows the same analysis but for a 50 dph scheme. Very similar conclusions apply at both densities. The relatively greater advantages are seen at higher percentages of affordable housing in lower value areas.

Figure 4.2 Residual values – a comparison assuming baseline (75% SR: 25% HB) versus affordable housing element at 100% Intermediate at 50 dph



4.8 For example, in Midsomer Norton et al, residual value is three times as much where Intermediate Affordable makes up the affordable element than with the baseline scenario. At the other end of the scale (for example at 30%

affordable housing in Prime Bath) the increase in residual value is only 6% between the corresponding scenarios.

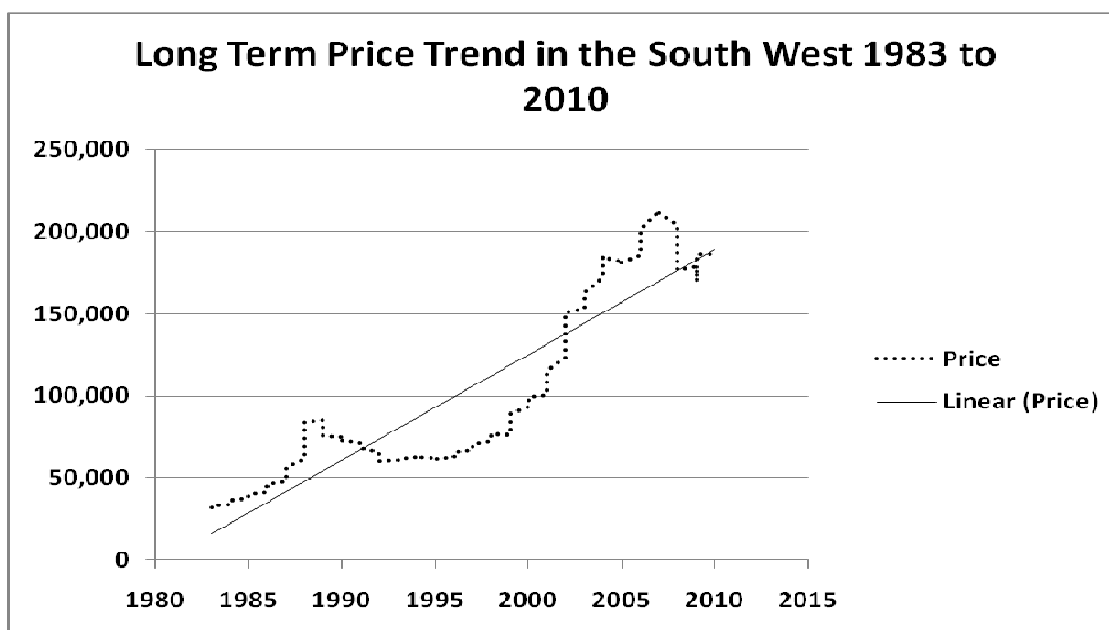
Impact of the Code for Sustainable Homes

- 4.9 The 2010 report looked at the impact of higher levels of Code for Sustainable Homes. It is worth re-iterating here what that work found and updating the figures where necessary. It was found that increased building costs may have a negative impact on the viability of schemes. It was stressed however that it is uncertain whether higher levels of code will impact negatively since viability, as we define it, depends on the relationship between scheme revenue and scheme cost, not simply costs alone. Thus housing development could become more viable in the future despite the impacts of the Code.
- 4.10 The Update Study (Oct 2012) uses current BCIS build cost data. As RSLs must already build to Code Level 3 of the CFSH in order to qualify for grant funding, the average build costs are assumed to include Code Level 3 as a baseline position. The testing has assumed Code Level 3 for all units, not just affordable housing. The cost impact of moving from Level 3 to Level 4 of the CFSH is estimated, according to recent DCLG research (Cost Analysis of The Code for Sustainable Homes: Final Report, July 2008), at around £5000 per unit. Moving to Code Level 4 could therefore generate additional costs of around £200,000 per hectare (based on a 40 dph scheme) for example.
- 4.11 These costs are broadly consistent with the CAMCO report for the Council (June 2009) which estimated an additional cost of between £4,000 and £7,000 per unit to achieve Level 4 depending on the extent to which wind power is used. They are also consistent with updates DCLG figures from March 2010 (Code for Sustainable Homes; A Cost Review).
- 4.12 As the figures currently stand, the impact of a higher code (at Level 4) will have little significant effect in the middle and higher value sub markets. As an indication, reaching Code Level 4 (versus Code Level 3 now) will reduce residual value by around 6% at the top of the market (example Bath Rural Hinterland at 40% affordable housing) but will reduce residuals by 21% at the bottom of the market (example Midsomer Norton et al 30% affordable housing).
- 4.13 As previously, we have not considered it appropriate to test any additional impact of achieving higher Code Levels at this time. The DCLG recently consulted (December 2009 to March 2010) on The Code for Sustainable Homes and ZCH Energy efficiency. The objective is to seek agreement to changes to the Code for Sustainable Homes in 2010 to align it with changes to Part L of the Building Regulations and an approach to adopting a 2016 definition of zero carbon.

Long term house prices

- 4.14 In the 2010 analysis, the currency of the report in terms of its relation to longer term housing market trends was considered.

Figure 4.3 Long term house price trend



Source: Halifax House Price Index November 2009

- 4.15 Between the completion of the baseline report and now (October 2010), prices have risen by around 2%, bringing the short term trend line marginally above the long term trend.
- 4.16 This should not however lead to the conclusion that the findings are in any way optimistic or overly hopeful.

5 AHVS Update and the CIL Viability Analysis

- 5.1 The 2010 Affordable Housing Viability Study tested affordable housing targets and in addition a contribution per unit across the board (all tenures) of £15,000. This implicitly made provision for all other (than affordable housing) costs to cover for example, education, open space, highways and public realm.
- 5.2 This is a very substantial sum, and one which may well be too generous in terms of actual provision on the ground. The original (2010) report tested a lower level of Section 106 (£7,500 per unit) with clearly advantageous consequences for viability.
- 5.3 The conclusions reached in the foregoing sections do not, in my view, generate any different conclusions to those reached on affordable housing targets in the 2010 report. It would be surprising if they did, given that house prices have risen in B&NES since 2010.
- 5.4 The equivalent CIL 'test' which is implicit in the 2010 and 2012 Update studies is £25,000 per unit, assuming a 30 dph scheme at 40% affordable housing. This figure is taken as the CIL per market unit; i.e. £15,000 per unit across the scheme gives an equivalent figure of £25,000 per market unit.
- 5.5 The CIL figures calculated in the BNP CIL Viability Report are shown in the table below (Table 5.1):

Table 5.1 Maximum viable levels of CIL for residential development (BNP Viability Report, March 2012)

Table 1.5.1: Maximum viable levels of CIL – residential development

	Bath City Centre	Bath Rural/ Bathavon	Bath North & East	Chew Valley West	Bath North/ South/ West and Chew Valley East	Keynsham	Norton Radstock
Max (incl site 1)	350	350	350	350	350	350	300
Max (excl site 1)	350	350	350	260	220	300	300
Min	140	280	220	160	140	140	180
Potential CIL rate based on Min ¹	98	196	154	112	98	98	126

- 5.6 To put these figures into perspective, if a middle to lower value sub market is looked at, a CIL figure of around £100 per square metre is appropriate. Assuming an average dwelling size of around 80 square metres, this gives a viable (according to the BNP analysis) CIL range of around £8,000 per unit.

- 5.7 This is clearly well below what I have assumed in drawing my conclusions on the Update AHVS.
- 5.8 I therefore conclude that the equivalent £25,000 per (market) unit (30 dph, 40% affordable housing) is a reasonable assumption; indeed, it is at the maximum potential level of CIL suggested in the BNP report.
- 5.9 There was a question about the different assumptions made between the two studies in terms of development mix. I have cross checked this point. Having looked at the range of schemes adopted I do not think that differences in development mix are too significant in terms of their effect on the conclusions to this report.
- 5.10 The BNP report assumes certain 'benchmark land values' which presumably drive conclusions with respect to the way in which CIL has been set. For industrial land, this is £800,000 per hectare and for Greenfield land, this is £650,000 per hectare.
- 5.11 Assuming then a 'safe side' benchmark of say £1 million per hectare, this would mean that at 50 dph (see Appendix 1), affordable housing could be delivered according to the BNP assumptions on CIL, at 50% in all sub markets, at 45% in Keynesham and Saltford and at 30% in Midsomer Norton et al.

6 Conclusions and further commentary

Review of aims and approach

- 6.1 The main aim of this report was to update the Council with respect to viability issues with a particular view to helping inform and support the Core Strategy process. The study has looked at:
- Changes in the housing market since 2010;
 - Changes in the policy position at a national and local level, with particular reference to tenure mix within the affordable housing element of schemes;
 - Changes in development cost variables; i.e. Code for Sustainable Homes;
 - The findings of the CIL study completed by BN Paribas with a view to informing the Council of any potential changes needed in the Affordable Housing policy;
- 6.2 The approach adopted has built on the methodology of the 2010 study. It has re-stated the preferred approach to the definition of viability and has used a consistent approach in terms of viability testing; namely the Council's own bespoke Viability Toolkit.

Findings: Affordable housing targets, CIL and viability

- 6.3 The Core Strategy policy suggests an affordable housing target of 35% for average sites in the B&NES area. For some sites, the target can be as high as 45% depending on location (house prices) and availability of grant for affordable housing development.
- 6.4 The 2010 analysis set out three options. In a nutshell these were:
- The current Local Plan target of 35% applied across the District;
 - A two way split target: 40% target for Prime Bath, Bath Rural Hinterland, and Bath North and East; and a 30% target for Chew Valley Higher, Bath North and West, Bath South, Chew Valley Lower, Keynsham and Saltford and Midsomer Norton, Westfield, Radstock, Peasedown St John and Paulton;
 - A five way target: a 50% target for Bath Rural Hinterland (including Bathavon); a 40% target for Prime Bath and Bath North and East; a 35% target for Chew Valley Higher, Bath North and West, Bath South and Chew Valley lower; a 30% target in Keynsham and Saltford and a 25% affordable housing target for Midsomer Norton, Westfield, Radstock, Peasedown St John and Paulton.
- 6.5 The findings of this report support these findings in two senses. First in terms of absolute viability; i.e. the capacity of these locations to deliver affordable housing at these policy option targets, and second, by reference to the options themselves.

- 6.6 Special attention has been given in the analysis to the linkages between the Affordable Housing Viability Update Study, and the CIL Viability Study. It is emphasized that any of the options set out above (for affordable housing) can be maintained without prejudice to the recommendations of the CIL Viability study.
- 6.7 The approach to viability assessment that is based on postcode sectors is generally robust. However, there will be instances where the approach is not 'fine grained' enough to deal with specific circumstances. It is recommended that where a postcode may include a potentially large greenfield housing development, the Council reserves itself in policy terms, the right to set a target for affordable housing as ambitiously as viability constraints will allow. The precise target will be based on further detailed testing relating to a masterplan or similar.

Thresholds

- 6.8 The 2010 report looked at the question of small sites and their viability. It concluded:

'All considered we believe the Council should take a more ambitious approach to thresholds with a view to significant reduction. On the basis of viability, we believe the Council could require affordable housing contributions on the very smallest of sites. If the Council chose to adopt a threshold of one dwelling for example, we would support this position from a viability aspect.

A threshold of 5 is not untypical for some local authorities. This recognises the demand on resources to some extent and leads a council not to become engaged in negotiations on all sites. However, should the Council decide to pursue a lower (than 5 unit) threshold, we would support that position on the basis of the evidence.

Indeed, the precise threshold should be considered by the Council taking into account a range of factors including, not least, resource implications. In considering what levels to reduce thresholds to, the planning authority would need to consider the additional workload that would arise for the authority in negotiating an increased volume of Section 106 agreements'.

Viability and individual sites

- 6.12 The delivery of affordable housing is highly dependent on the Council having a consistent and effective approach to negotiation. This in turn depends on the protocol and model used to negotiate schemes.
- 6.13 Following discussions with the Council on delivery matters, it is recommended that greater use of made of the Council's own Viability Toolkit that was created for the policy development work undertaken in 2010. This model is

widely accepted in the industry and has a range of benchmark data that can be used to assist in taking negotiations forward at a site specific level.

Appendix 1 Residual values in £ million per hectare

30 DPH						
	25%	30%	35%	40%	45%	50%
Prime Bath	£3.51	£3.02	£2.53	£2.03	£1.52	£1.04
Bath Rural Hinterland	£4.47	£4.04	£3.60	£3.16	£2.72	£2.29
Bath North & East	£3.46	£3.09	£2.72	£2.34	£1.97	£1.60
Chew Valley - Higher	£2.21	£1.94	£1.64	£1.35	£1.06	£0.77
Bath South	£1.91	£1.73	£1.54	£1.35	£1.16	£0.98
Keynsham & Saltford	£1.25	£1.12	£0.97	£0.83	£0.68	£0.54
Midsomer Norton et al	£0.66	£0.56	£0.45	£0.34	£0.24	£0.14
50 DPH						
	25%	30%	35%	40%	45%	50%
Prime Bath	£4.81	£4.10	£3.39	£2.67	£1.96	£1.26
Bath Rural Hinterland	£6.20	£5.60	£4.98	£4.36	£3.39	£3.13
Bath North & East	£4.74	£4.24	£3.72	£3.19	£2.66	£2.15
Chew Valley - Higher	£3.02	£2.64	£2.22	£1.82	£1.40	£1.01
Bath South	£2.60	£2.36	£2.10	£1.85	£1.58	£1.34
Keynsham & Saltford	£1.71	£1.53	£1.33	£1.13	£0.94	£0.76
Midsomer Norton et al	£0.89	£0.77	£0.62	£0.48	£0.33	£0.20
120 DPH						
	25%	30%	35%	40%	45%	50%
Prime Bath	£0.58	-£0.47	-£1.52	-£2.57	-£3.63	-£4.66
Bath Rural Hinterland	£4.22	£3.34	£2.46	£1.58	£0.68	-£0.19
Bath North & East	£2.36	£1.61	£0.85	£0.08	-£0.67	-£1.42
Chew Valley - Higher	-£0.63	-£0.66	-£1.25	-£1.85	-£2.45	-£3.04
Bath South	-£0.14	-£0.18	-£0.52	-£0.86	-£1.21	-£1.57
Keynsham & Saltford	-£0.89	-£1.16	-£1.42	-£1.69	-£1.97	-£2.22
Midsomer Norton et al	-£2.06	-£1.86	-£2.27	-£2.48	-£2.67	-£2.87

Appendix 2 Example

1 - SITE IDENTIFICATION

Site Details

Site Address

Site Reference

Application Number

Scheme Description

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

3 - BASIC SITE INFORMATION

Site Area

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

Density / Number of Dwellings

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

Percentage Increase/Decrease in Density:

You may test the effect of a percentage increase/decrease in the site density by using the cell below

%

Resulting Number of Dwellings

50

Tick if this a rural development

Resulting Density

50 dph

4 - CHARACTERISTICS OF DEVELOPMENT

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

You then have 2 options for entering information about the scheme

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

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

Ref.	Description of Dwelling	No of Bed-Rooms	Dwelling Type	No of Units	Size in sq.m Affordable	Size in sq.m Market	Parking (flats only)	No. of Storeys (1-99)
1	2 bed Flats	2	Flat	5.0	67	60	n/a	2
2	2 bed Terraces	2	House	10.0	76	65	n/a	n/a
3	3 Bed Terraces	3	House	12.5	84	80	n/a	n/a
4	3 Bed Semis	3	House	12.5	86	90	n/a	n/a
5	3 Bed Detached	3	House	7.5	90	110	n/a	n/a
6	4 Bed Detached	4	House	2.5	110	135	n/a	n/a
7								
8								
9								
10								
11								

5 - MARKET VALUES

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

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

Clear Table

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

View Default Values ->

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

102 %

Reset

Depress the Reset button to return to base market value

Ref.	Unit Type	No of Bed-Rooms	Market Value	Adjusted Market Value
1	2 bed Flats	2	£165,000	£168,000
2	2 bed Terraces	2	£210,000	£214,000
3	3 Bed Terraces	3	£245,000	£250,000
4	3 Bed Semis	3	£260,000	£265,000
5	3 Bed Detached	3	£320,000	£326,000
6	4 Bed Detached	4	£375,000	£383,000
7				

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

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

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

Input by Percentages

Input by Quantity

Clear Table

		AFFORDABLE					Required No. of Units
		SALE	Social rent	New Build HomeBuy	Intermediate rent	Discount Market	
Ref.	Description	60%	30%	10%			
1	2 bed Flats	3.0	1.5	0.5			5.0
2	2 bed Terraces	6.0	3.0	1.0			10.0
3	3 Bed Terraces	7.5	3.8	1.3			12.5
4	3 Bed Semis	7.5	3.8	1.3			12.5
5	3 Bed Detached	4.5	2.3	0.8			7.5
6	4 Bed Detached	1.5	0.8	0.3			2.5
7							
8							

10 - DEVELOPMENT COSTS

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST

Clear Tables

Build Costs per sq m

You can enter your own values in the white cells below. Where cells are left blank, the Toolkit value for that row will be used

	Toolkit Values	
Bungalows	£1,049	
Flats (6+ storeys)	£1,545	
Flats (5 & less storeys)	£1,115	£1,265
Houses <= 75m2	£999	£997
Houses > 75m2	£901	£945

Other Development Costs

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

	Toolkit Values	User Values	
Professional Fees %	12.00%	14.00%	of build costs
Internal Overheads	5.00%		of build costs (Market and Discount Market units)
Interest Rate (Market)	7.00%		of build Costs (Market, Discount Market and Low Cost Sale units)
Interest Rate (Affordable Housing)	7.00%		of build costs (SR, HB, IR units)
Marketing Fees	3.00%		of market value (Market and Discount Market units)
Developers Return	15.00%	17.00%	of market value (Market and Discount Market units)
Contractors Return	6.00%		of development costs (SR, HB, IR and LCS units)
Land financing costs	£	-	<i>Please see the Guidance Notes for use of this value</i>

Exceptional Development Costs

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

Sustainable Homes Standard	
Market Housing	Affordable Housing
None	None

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

Scheme Total	
per dwelling	
per hectare	

11 - PLANNING OBLIGATIONS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

[Clear Table](#)

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

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

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

Obligations package per unit

Contribution from Commercial

Total for Scheme	£750,000
Total for Scheme per hectare	£750,000
Total for Scheme divided by total number of units	£15,000
Total for Scheme divided by number of sale units	£25,000

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13 - SCHEME REVENUE FROM AFFORDABLE HOUSING

Please choose the method by which the payment is made by the affordable housing provider to the developer

- Payment by affordable housing provider to developer is calculated by the Toolkit
- Payment by affordable housing provider to developer is fixed and is a known amount

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15 - KNOWN PAYMENT FOR AFFORDABLE HOUSING

ALWAYS DEPRESS THE CLEAR PAGE BUTTON FIRST

Clear Page

Enter a known payment from the affordable housing provider either by unit, as a total sum for each tenure or as a total across the three affordable tenures shown on this page.

	Affordable Housing Tenures			Total
	Social rent	New Build HomeBuy	Intermediate rent	Affordable Units
Number of units	15.0	5.0		20
Payment By Unit	£ 83,000	£ 119,000		
Or Payment By Tenure				
Or Scheme Total	Enter a lump sum payment for Affordable Housing			
Tenure Total	£ 1,245,000	£ 595,000	£ -	
Method by which Affordable Housing Revenue is calculated	By Unit	By Unit	N/A	
Total Known Payment for Affordable Housing	£ 1,840,000			

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20 - Scheme Results

Site Reference Details		Site Details	
Site Reference Number		Site	Illustrative Scheme - Bath South - 40% Affordable
Application Number		Address	Housing
Site Location	Hertsmere	Site	
Scheme Description	50 Dph	Details	

TOTAL NUMBER OF UNITS		DENSITY (per hect.)		AFFORDABLE UNITS		
Dwellings	50	Dwellings	50.0		Quantity	% of All Units
% Wheelchair Unit				Total	20.0	40%
				Social rent	15.0	30%
				Intermediate	5.0	10%

REVENUE AND COSTS		RESIDUAL VALUE	
Total scheme revenue	£ 9,532,000	Whole scheme	£ 2,048,000
Total scheme costs	£ 7,484,000	Per hectare	£ 2,048,000
		Per dwelling	£ 41,000
		Per market dwelling	£ 68,000

Contribution to revenue from:		PUBLIC SUBSIDY (GRANT)	
Market housing	£ 7,692,000	Whole Scheme	£ -
Affordable Housing	£ 1,840,000	Per Social Rental dwelling	£ -
- Social rent	£ 1,245,000	Per New Build HomeBuy dwelling	£ -
- New Build HomeBuy	£ 595,000	Per Intermediate Rent dwelling	£ -
- Intermediate Rent	£ -		
- Discount Market	£ -		
- Local Sale	£ -		
Capital Contribution	£ -		
Commercial Elements	£ -		

Contribution to costs from:		Alternative Site Values		Against resi
Market housing	£ 4,664,000	Existing Use Value	£ -	£ -
Affordable Housing	£ 2,069,000	Acquisition Cost	£ -	£ -
- Social rent	£ 1,552,000	Alternative Use Value 1	£ -	£ -
- New Build HomeBuy	£ 517,000	Alternative Use Value 2	£ -	£ -
- Intermediate Rent	£ -	Alternative Use Value 3	£ -	£ -
- Discount Market	£ -			
- Local Sale	£ -			
Land Finance	£ -			
Planning Obligations	£ 750,000			
Total Exceptional Costs	£ -			
Commercial Elements	£ -			

[Save Results](#)

[View Results](#)

[Cost Components](#)

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GLOSSARY OF TERMS

A

Abnormal Development Costs: Costs associated with difficult ground conditions eg contamination.

Affordable Housing: As defined in PPS3 as housing that includes Social Rented and Intermediate Affordable housing.

Affordable Rented Housing: Housing let at above Social Rented levels and up to 80% of Open Market Rent

Appraisal: development calculation taking into account scheme revenue and scheme cost and accounting for key variables such as house prices, development costs and developer profit.

B

Base Build Costs: including costs of construction: preliminaries, sub and superstructure; plus an allowance for external works.

C

Commuted Sum: a sum of money paid by the applicant in lieu of providing affordable housing on site.

D

Developer's Profit or margin: a sum of money required by a developer to undertake the scheme in question. Profit or margin can be based on cost, development value; and be expressed in terms of net or gross level.

Developer Cost: all encompassing term including base build costs (see above) plus any additional costs incurred such as fees, finance and developer margin.

Development Economics: The assessment of key variables included within a development appraisal; principally items such as house prices, build costs and affordable housing revenue.

E

Existing Use Value (EUV): The value of a site in its current use; for example, farmland, industrial or commercial land.

F

Finance (developer): usually considered in two ways. Finance on the building process; and finance on the land. Relates to current market circumstances

G

Gross Development Value (GDV): the total revenue from the scheme. This may include housing as well as commercial revenue (in a mixed use scheme). It should

include revenue from the sale of open market housing as well as the value of affordable units reflected in any payment by a housing association(s) to the developer.

I

Intermediate Affordable Housing: PPS3 Housing defines intermediate affordable housing as housing at prices and rents above those of social rent, but below market price or rents, and which meet the criteria set out above. These can include shared equity products (e.g. HomeBuy), other low cost homes for sale and intermediate rent.

L

Land Value: the actual amount paid for land taking into account the competition for sites. It should be distinguished from Residual Value (RV) which is the figure that indicates how much should be paid for a site.

Local Development Framework (LDF): a folder of planning documents encompassing DPDs (Development Plan Documents) and SPDs (Supplementary Planning Documents)

M

Market Housing: residential units sold into the open market at full market price to owner occupiers, and in some instances, property investors. Usually financed through a mortgage or through cash purchase in less frequent cases.

P

Planning Obligation: a contribution, either in kind or in financial terms which is necessary to mitigate the impacts of the proposed development. Affordable housing is a planning obligation as are, for example, education and open space contributions. (See Section 106)

Proportion or percentage of Affordable Housing: the proportion of the scheme given over to affordable housing. This can be expressed in terms of units, habitable rooms or floorspace

R

Residual Valuation: a key valuation approach to assessing how much should be paid for a site. The process relies on the deduction of development costs from development value. The difference is the resulting 'residue'

Residual Value (RV): the difference between Gross Development Value (GDV) and total scheme costs. Residual value provides an indication to the developer and/or land owner of what should be paid for a site. Should not be confused with land value (see above)

Registered Provider (RP): a housing association or a not for profit company registered with the Homes and Communities Agency and which provides affordable housing

S

Scheme: development proposed to be built. Can include a range of uses – housing, commercial or community, etc

Section 106 (of the Town and Country Planning Act 1990): This is a legally binding agreement between the parties to a development; typically the developer, housing association, local authority and/or land owner. The agreement runs with the land and binds subsequent purchasers. (See Planning Obligation)

Shared Ownership (SO): Also known as a product as 'New Build HomeBuy'. From a developer or land owner's perspective SO provides two revenue streams: to the housing association as a fixed purchase sum on part of the value of the unit; and on the rental stream. Rent charged on the rental element is normally lower than the prevailing interest rate, making this product more affordable than home ownership.

Social Rented Housing (SR): Rented housing owned and managed by local authorities and registered social landlords, for which guideline target rents are SET through the national rent regime.

Sub Markets: Areas defined in the Viability Study by reference to house price differentials. Areas defined by reference to postcode sectors, or amalgams thereof.

Supplementary Planning Document (SPD): planning documents that provide specific policy guidance on e.g. affordable housing, open space, planning obligations generally. These documents expand policies typically set out in Local Plans and LDFs.

T

Target: Affordable housing target. Sets the requirement for the affordable housing contribution. If say 30% on a scheme of 100 units, 30 must be affordable (if viable).

Tenure Mix: development schemes usually comprise a range of housing tenures. These are described above including market and affordable housing.

Threshold: the trigger point which activates an affordable housing contribution. If a threshold is set at say 15 units, then no contribution is payable with a scheme of 14, but is payable with a scheme of 15. The appropriate affordable housing target is then applied at the 15 units, e.g. 20%, or 30%.

V

Viability: financial variable that determines whether a scheme progresses or not. For a scheme to be viable, there must be a reasonable developer and land owner return. Scale of land owner return depends on the planning process itself.

