

Economic Viability of Housing Land in Stafford
Borough

For Stafford Borough Council

By Levvel

July 2011



Executive Summary

The Brief

Levvel has been appointed by Stafford Borough Council to complete a study involving the Economic Viability of Housing Land in Stafford Borough to inform the development of affordable housing policy through the Local Development Framework. The aim of the study is to research economic conditions in the Borough and to carry out financial appraisals of a range of sites representative of the types of development likely to come forward across the area over the plan period, in order to assess their ability to deliver affordable housing.

The aim is to identify scope for typical development sites in Stafford Borough to contribute towards the delivery of new affordable housing to meet the needs of the Borough's population. Its role is not to determine in advance the precise package of affordable housing that will be achieved on specific sites – that is the role of the development control process. Instead, this study seeks to provide the Council with data which may be used to inform later discussions at the development control stage. The specific circumstances of the site will be considered alongside the general estimates upon which this study is based and it will be necessary in all site specific discussions, either to justify the use of benchmarks or to provide robust cost and value information. Such data may be sought from the District Valuer or another independent body.

In view of the high level of need identified through the Strategic Housing Market Assessment, this study must aim to identify a target which strikes a balance. On the one hand, it must be sufficiently ambitious to ensure that as much need as possible is met through planning policy – the main source of affordable housing provision in recent years. On the other, it should be realistic and achievable.

It should be noted that it is not part of the brief to examine the financial viability of strategic scale sites. Another study – the Stafford Borough Infrastructure Strategy is currently underway and will assess the competing need for infrastructure and affordable housing on these large sites which will deliver a substantial proportion of the Borough's overall housing supply. For this reason, the scale of the sites assessed by this study ranges between 5 new homes and 150 new homes. Although further work will be required in order to assess the different economic circumstances of large scale developments, much of the data we have collected will be the same and it is important that these two studies are compatible. They will, in this sense, be companion pieces to one another.

Policy Background

The requirement to undertake viability assessments is derived from national policy guidance set out in Planning Policy Statement 3 (PPS3): Housing¹ and the Government's housing policy statement 'Delivering Affordable Housing'².

Paragraph 29 of PPS3 sets out the requirements for the development of affordable housing policy. It stipulates that affordable housing targets should reflect an assessment of the likely economic viability of land within an area, taking account of risks to delivery and drawing

¹ Planning Policy Statement 3: Housing, DCLG, June 2010

² Delivering Affordable Housing, DCLG, November 2006



upon informed assessments of the likely levels of finance available for affordable housing and the level of developer contributions that can reasonably be secured.

Saved Policies HOU17, HOU18 and HOU19 of the Stafford Borough Local Plan 2001 seek to ensure that housing is available to meet those housing needs which are not addressed by the market. Specifically, HOU17 seeks the provision of an element of affordable housing where there is a demonstrable need, on housing developments of 25 or more dwellings or sites of 1 hectare in settlements with a population of 3,000 or less and elsewhere on schemes of 40 or more dwellings or sites over 1.5 hectare.

In the light of more recent evidence of need, this policy is being updated through Stafford Borough's Core Policies which sets a minimum target of 30% affordable housing. The Council expects that the financial viability of individual schemes will be demonstrated by means of an independent assessment, the cost of which will be borne by the applicant. The purpose of this study is to test the deliverability of the proposed policy in respect of the non-strategic sites likely to come forward for development in Stafford Borough.

Methodology

In undertaking this affordable housing viability assessment, we have assessed the viability of a range of housing developments across the Borough using a residual valuation appraisal tool of the kind recommended in the Government's 'Delivering Affordable Housing' statement. This is then used as the base for testing future cost and value scenarios using upside, middle and downside housing market growth scenarios during the Local Development Framework period. These future assessments take account of changes to property values, inflation, construction, rent and land values over the same timescale.

Our assessment is based on the viability of delivering affordable housing across a range of notional sites. These notional sites were selected in consultation with the Council and its stakeholders and with reference to the Strategic Housing Land Availability Assessment (SHLAA).

	Net Density (dph)				
5 units	20	25	30	N/A	N/A
10 units	20	25	30	N/A	N/A
15 units	20	25	30	50	70
50 units	N/A	25	30	50	70
150 units	N/A	25	30	50	70

However, not all sites were tested at all densities in all areas. The lowest densities were tested only in the less built up areas and, conversely, higher densities were tested only in the urban centres.



Value Area	20dph	25dph	30dph	50dph	70dph
ST15	No	Yes	Yes	Yes	Yes
ST16	No	Yes	Yes	Yes	Yes
ST17	Yes	Yes	Yes	No	No
ST18 9	Yes	Yes	Yes	No	No
ST18 0	Yes	Yes	Yes	No	No
ST20	Yes	Yes	Yes	No	No
ST21	Yes	Yes	Yes	No	No

Sites larger than 150 units were not included in this study. The financial viability of such sites will be considered in detail in another paper, the Stafford Borough Infrastructure Strategy, which will consider the circumstances of very large sites and the impact upon them of making contributions not only to Stafford Borough's affordable housing requirement but also to the need for new infrastructure.

The study considered affordable housing thresholds of 15, 10 and 5 units.

An assessment of the nature and extent of Value Areas within the Borough was undertaken. This involved desk top research using Land Registry and other data on achieved sales values in Stafford Borough for Quarters 1, 2, 3 and 4 of 2009 and January - March of 2010. In addition, this information was compared to other data sources (Rightmove, Find a Property and Mouseprice) to thoroughly check and confirm the values between areas and dwelling type. Seven Value Areas were identified, based on the distinctions in values that are achieved between Postcode Areas that exist within the Borough.

In most cases, notional sites were assessed as coming forward in each of the seven value areas identified. Where a notional site has been assessed as coming forward only within certain value areas in the Borough the reasons for this have been outlined. In general, the feeling among stakeholders was that development was likely to take place at lower densities – probably between 25 and 30 dwellings per hectare (dph). Nonetheless, assessments were also made at an even lower density – 20dph in rural areas and at higher densities (50dph and 70dph) in the larger settlements of Stafford and Stone.

The Brief required us to undertake viability assessments to test the ability of these notional sites to deliver 15%, 30% or 40% affordable housing. However, when development was rendered unviable under all foreseeable circumstances, further testing was not carried out at higher levels.

The breakdown between social rent and intermediate housing was assumed to be in line with Council requirements, 80:20 social rented: shared equity but we have also carried out sensitivity testing based upon a 50:50 breakdown.

Average base build costs have been derived from the Build Cost Information Service for Stafford Borough and were correct as at Q2 2010.

	£/m ²
Estate Housing	£731
Flatted Development	£913



Planning gain contributions for items other than affordable housing have been assessed based on recent S106 contributions. The total is comprised of an open space contribution, which varies with unit size, plus contributions towards education (primary, secondary and sixth form), which do the same and, in Stafford Borough, a £700/unit contribution towards transport. The table below outlines the baseline position assumed. In respect of houses only the 'all homes' figure should be added to the relevant figure for houses dependent upon if they are affordable or market.

Bedspaces	All homes (flats and houses)	Affordable Houses Only	Market Houses Only
1	£700	£2,317	£5,688
2	£990	£2,317	£5,688
3	£1600	£2,317	£5,688
4	£2000	£2,317	£5,688
5	£2000	£2,317	£5,688

Nevertheless, we are aware that both the size and role of such payments is likely to be subject to change. The level of contributions and the items towards whose cost those payments will be sought are to be considered in far greater detail through the Infrastructure Strategy. For the purposes of the present study, we are only interested in the effect that payments at defined levels would have on overall viability. We have therefore used the current level of S106 contributions as a baseline but, we have also carried out sensitivity testing which assumed higher and lower levels of contribution in order to assess the impact. The lower level test was carried out at 50% of the above level of contributions and the higher level at 200%.

If the cost of planning obligations were to rise very significantly then there would be an effect on overall viability and it may be more challenging to achieve the same level of affordable housing. It should be recognised that land prices are not, themselves, absolute, and the impact of rising build costs should fall on land values before it affects the delivery of affordable housing. Developers wishing to deliver less than 30% affordable housing will have to provide financial appraisals which specify why they are unable to do so and, at that time the Council will have the opportunity to examine whether the assumed land value is justifiable or whether the cost increase might not more reasonably be set against land value.

The impact upon viability of all new housing achieving the relevant Code for Sustainable Homes at the relevant date of introduction has been assessed with the costs detailed in Section 3 of this report. Further additional costs have also been assumed in relation to the delivery of developments to Lifetime Homes Standards as well as the additional on-site renewable energy requirements set out by the Council in Revised Core Policy CS1: Climate Change. These costs are set out in detail in Section 3 of this report.

Schemes have been assessed using nil Social Housing Grant (SHG) as the default. When sensitivity testing, in certain circumstances, we have assumed SHG is available at 'lower', 'normal' and 'higher' levels. The grant per unit that these assumptions relate to is set out in section 3 of the main report.



Land Value Assumptions

It is essential to establish a baseline to determine at which point land will come forward for development. In order for this to happen residual land values must exceed existing or alternative uses of the site.

All schemes have been tested against two key assessments of viability. The first test starts by considering local land values. In order to get a proper understanding of these values, Levvel has:

- Had regard to Valuation Office Agency Data regarding land values;
- Sought feedback from stakeholders through the stakeholder engagement process;
- Engaged Thornes Chartered Surveyors and Estate Agents to provide information on land values and recent land transactions undertaken in the Borough.

On the basis of the information received, we have assessed the value of land coming forward for residential development at four different levels depending upon its current use. It will be noted that the value of greenfield land includes an uplift – recognising the fact that it is not usually possible to acquire agricultural land for residential development at anything like its agricultural use value. The other values contain far smaller uplifts but still reflect the need to pay a small premium over existing use value in order to bring land forward for development. The final category may also require further clarity. Previously developed land refers to land, which is already in residential use. Sites which fall into this category are typically those where a small number of bungalows with large gardens might be acquired by a developer in order to redevelop at higher density. Given the low densities in Stafford Borough, this is considered to represent a minority of development.

Greenfield	£250,000/ha
Industrial 1	£325,000/ha
Industrial 2	£500,000/ha
Previously Developed Land	£1,500,000/ha

The different measures of industrial land value are intended to reflect the range of different values extant in the market in Stafford Borough.

Our second test of viability examines the relationship between residual land value and gross development value. This assists in 'future proofing' this assessment because it takes into account changes in residential values over time.

Based on our research, we have taken a figure of 22% Gross Development Value (GDV)³ as an indication of the level which Residual Land Value (RLV)⁴ may need to reach in order to incentivise the landowner sufficiently to bring forward their parcel of land.

³ The Gross Development Value (GDV) is the value of a scheme based upon prices of individual units giving the gross income from sales. For our purposes GDV may include the income received from *affordable housing providers* to give the total gross value of a scheme.



Using these two tests of viability simultaneously (benchmark land values and the RLV:GDV ratio), it is possible to consider the probability that sites will come forward over the lifetime of the plan given any particular combination of values, costs and planning burdens. This is the appropriate basis for the formation of a policy that has flexibility and is relevant throughout the Core Strategy. It is, however, vitally important to note that the consideration of whether a certain package of affordable housing and planning gain is deliverable on any particular site will depend on the circumstances of that specific site. Development control negotiations will not be based on typical or historic land values; they will be based on the current planning policies.

Full details on land value assumptions can be found in section [3] of the main report.

Key Findings

Comprehensive analysis of the results of all notional schemes assessed can be found in sections 5-8 of the main report.

General development sites in excess of 15 units

A variety of notional development sites were assessed. The ability to deliver affordable housing varies dependent upon a number of factors including value area, level of S106 contribution, existing or alternative land values of the site, market conditions, the Code for Sustainable Homes level, scheme density and the availability of public subsidy.

The table below summarises the likely amount of affordable housing that could be achieved over the life of the Core Strategy based upon the baseline position tested. It should be recognised that these affordable housing percentages will not apply to every site that is likely to come forward within each Value Area. In some cases, sites will come forward at a lower cost and it is likely that development will be concentrated in those areas where developers can achieve the best values. Particular costs cannot be taken into account in a study of this type but it should be noted that these should, in first instance be deducted from the land value rather than constituting an obstacle to the delivery of affordable housing.

Value Area	Locality	Baseline Position
		(Nil grant, S106 contributions at current level, Code for Sustainable Homes Requirements as mandatory timescale, 80:20 social rent:intermediate affordable housing mix, Lifetime Homes allowance £600
ST15	Stone	Viability in Stone is good. On greenfield/industrial sites, 30% affordable housing and more is likely to be achievable in many cases with up to 40% under certain circumstances. On Previously Developed Residential Land, delivery below these percentages is more likely

⁴ The residual is the general term for the amount left over after taking into account the costs of production but used specifically to refer to a Residual Land Value (RLV). The Residual Land Value is the amount contained within an appraisal using the formula:

$$\text{Gross Development Value} \text{ LESS } \text{Gross Development Cost} = \text{Residual Land Value}$$



		although such sites are likely to be fewer in number.
ST16	Stafford Town, (North)	Viability is more challenging on all sites in the North of Stafford town. Development within this area is however more likely to be concentrated in areas which achieve better values than the overall average and it will therefore be necessary for officers to have particular regard to the specifics of the site under consideration.
ST17	Stafford Town (South) and land to the South of Stafford	Viability is relatively good. On greenfield/industrial sites which will make up the majority of development, up to 30% affordable housing is likely to be achievable.
ST18 9	West of Stafford	Viability is relatively good. On greenfield/industrial sites, it may be possible to achieve 30% affordable housing and up to 40% under some circumstances but, on previously developed residential land, delivery is likely to be lower. It is important to note that this area includes some of the outlying areas of Stafford Town.
ST18 0	East of Stafford	Viability is more challenging. On greenfield/industrial sites, delivery is likely to be up to 30%. Developments on Previously Developed Residential Land are unlikely to deliver significant quantities of affordable housing.
ST20	Woodseaves	Viability is relatively good. On greenfield/industrial sites, 30% affordable housing is likely to be achievable. On Previously Developed Residential Land, it is possible to achieve up to 30% affordable housing.
ST21	Eccleshall	Viability is good. On greenfield/industrial sites, 30% affordable housing is achievable, with up to 40% under certain circumstances. On Previously Developed Residential Land, it is possible to achieve up to 30% affordable housing.

Sites below 15 dwellings

Since this study focuses upon non-strategic sites, it is appropriate to have regard to the fact that a large number of such sites will be below the old threshold of 15 units established by national guidance.

Size has several potential effects on the viability of development – smaller sites often find up-front costs to be a proportionately larger problem than developers of larger sites – one off costs such as fees and marketing must be spread over fewer units. Cashflow effects vary significantly with size, not only because individual unit sales are a larger proportion of total revenue but also because larger schemes can phase development whereas small sites normally have to be built out in one go. But the largest effect is the fact that smaller developments are far more likely to be built on small, higher value plots. Our testing suggested that, even without this last effect, development on 5 unit sites was less viable than development on developments of 10 units. We recommend that on sites of 3-9 units the



Council adopts a target of 20%. In the first instance the Council should seek delivery of on-site affordable housing. In exceptional circumstances it may be appropriate to consider an off-site contribution. Despite this, the policy preference at the national level remains the delivery of affordable housing on-site and in kind.

Commuted sum Methodology

Any methodology for assessing commuted sum payments should be based on the equivalence principle supported by Circular 05/05, PPS3 and Delivering Affordable Housing. The commuted sum should be equivalent to the contribution that would have been provided if the affordable housing had been provided on site and the scale of the developer subsidy should equate to the difference in residual value between a scheme unencumbered by affordable housing and a scheme with affordable housing, having regard to the established existing or alternative use value. This is set out in detail in section 9 of the main report.



Recommendations

It is essential that any Borough wide affordable housing policy is not unduly rigid and can be applied flexibly and pragmatically allowing development to come forward whilst meeting the needs of the community. It will be necessary to consider sites on an individual basis having due regard to the planning benefits of granting permission. The framework for making such decisions (including consideration of viability) is set out in a separate Supplementary Planning Document.

Furthermore, the Council may update the assumptions used within this study in respect of property price growth, land value growth, build cost growth, inflation and Retail Prices Index (RPI) to assess whether market conditions experienced at any given point represent best the downside, middle or upside market assumptions used within this study. This will enable the Council, at any given time over the life of the Core Strategy, to refine their expectations in terms of the nature and extent of affordable housing that is likely to be achievable.

As currently expressed the Council's preferred Core policies anticipate that a minimum of 30% affordable housing on qualifying sites in all areas of the Borough will be affordable. In some areas, such as Stone, up to 40% affordable housing may be achieved in some circumstances. If less than 30% affordable housing is being proposed an independent assessment to justify a lesser figure will be required by the Council through the financial viability of specific developments at the development control stage.

A site size threshold of 10 units can produce developable, deliverable sites with affordable housing. However the exact level will have to be determined at the point of application, having due regard to the Value Area and alternative/existing uses of the site. On sites in rural areas with the capacity for between 3 and 9 units, we recommend that the Council adopts a target of 20% . Nevertheless, such sites are particularly varied and it may be appropriate for the Council to take a flexible view as to whether provision is on-site, in kind or, in exceptional circumstances, off-site.

The Council's preferred tenure mix of 80:20 social rent:intermediate may be chosen as the starting point for all affordable housing negotiations. In the context of small sites it may be necessary to apply a high level of flexibility to ensure delivery and satisfy the needs of the local community.

Detailed conclusions and recommendations are set out in section 9 of this report.



Contents

Executive Summary	2
Land Value Assumptions	6
1.0 Introduction	12
2.0 Wider Context of the Study	14
3.0 Methodology and Assumptions	17
4.0 Stakeholder Engagement	29
5.0 Commuted Sums	30
6.0 Findings	36
7.0 Conclusions and Recommendations	44



1.0 Introduction

- 1.1 Levvel Ltd has been appointed to complete a study involving the Economic Viability of Housing Land in Stafford Borough on behalf of Stafford Borough Council. The aim of this study is to test the target requirements for affordable housing delivered through the planning system on sites of up to 150 units against a measure of viability. That is to say, to ensure that the Council's policy approach to affordable housing is deliverable in the context of economic viability and thus in accordance with PPS3⁵.
- 1.2 Saved Policies HOU17, HOU18 and HOU19 of the Stafford Borough Local Plan 2001 seeks to ensure that housing is available to meet those housing needs which are not addressed by the market. Specifically, Policy HOU17 seeks the provision of an element of affordable housing where there is a demonstrable need, on housing developments of 25 or more dwellings or sites of 1 hectare (ha) in settlements with a population of 3,000 or less and elsewhere on schemes of 40 or more dwellings or sites over 1.5 ha. Since the publication of PPS3, the Council's practice has been to apply the thresholds contained within it and seeks affordable housing from all sites with a capacity of 15 or more dwellings.
- 1.3 Moreover, in the light of more recent evidence of need, the Council's policy is being updated through Stafford Borough's Core Policies. The new policy sets a minimum target of 30% affordable housing subject to consideration of financial viability on a scheme specific basis. The Council's intention is that the actual level of affordable housing on any given site will be determined in light of an independent financial appraisal commissioned by the Council but funded by the applicant. The purpose of this study is to test the deliverability of this policy in respect of the non-strategic sites likely to come forward for development in Stafford Borough.
- 1.4 The Council invited qualified companies to submit tenders in March 2010. The invitation to tender and tender brief is included at Appendix 1. This study will form part of the evidence base for the affordable housing planning policy covering the Stafford Borough area. In this regard, Levvel has approached the project in accordance with the requirements in PPS12⁶.
- 1.5 Given the scope of the tender brief and the variations across the Borough in respect of land values and property values, it has been essential to develop a methodology that measures viability on a consistent basis, but that is flexible enough to allow for these variables.
- 1.6 Furthermore, Stafford Borough's Core Strategy will need to be sufficiently robust to remain the basis of planning for 15 years from the date of adoption, we have also ensured that our methodology includes an element of "future proofing" to give the Council the confidence that the policy can be applied now and in years to come.

⁵ Planning Policy Statement 3 (PPS3): Housing, Communities and Local Government June 2010

⁶ Planning Policy Statement 12: creating strong safe and prosperous communities through Local Spatial Planning, Communities and Local Government 2008



- 1.7 The study has been carried out against a backdrop of a global recession and generally unfavourable and uncertain conditions in the housing market. In a rising land and property market where values are increasing and where costs do not rise to the same extent, it can be assumed that if a development scheme is appraised and a viable position achieved, then viability will be achieved in the future (all other variables remaining the same). Recently the property market has not behaved in this manner and therefore the future is uncertain. Given this uncertainty in the market, it has been necessary to provide a “future proofed” methodology that makes a range of predictions about where the housing market may go in the future, ranging from pessimistic to optimistic scenarios, but based on past market trends. With this range set, the results of the development appraisals can be properly contextualised and the Council can set their policy accordingly.
- 1.8 This paper sets out the policy background of the study to place it in its proper context. A commentary on the past and present national, regional and local housing market experience and wider economic factors is given to inform the future proofing scenarios. Our methodology and assumptions are then explained, and a description of the nature and extent of local stakeholder engagement is undertaken. This is followed by an analysis of the results. A policy compliant commuted sum methodology and the principles behind it are then set out. Finally, conclusions and recommendations for policy are outlined.



2.0 Wider Context of the Study

- 2.1 Key national, regional and local policy information is contained in this section. Appendix 2 contains greater detail on policy and housing need information relevant to Stafford Borough and this study.

National Policy and Guidance

- 2.2 Affordable housing policy is set out at national level in **PPS3**. The PPS identifies a number of specific requirements, but emphasises that policy should be applied flexibly⁷. PPS3 was published in November 2006 and since this study has been undertaken a number of amendments have been made and the document was reissued on 9th June 2010. Further amendments to PPS3 regarding the definition of affordable housing were issued in June 2011. The changes set out the definition of affordable rent, which is included as part of the definition of affordable housing. Nonetheless this study has not taken into account the new definition of affordable rent and its implications on affordable housing viability. Paragraph 29 of **PPS3** also refers to viability being important for the setting of overall affordable housing targets. This involves looking at the risks to delivery and the likely level of finance available including public funding and developer subsidy.
- 2.3 A companion document to **PPS3**, *Delivering Affordable Housing*, expands upon these principles of flexibility and outlines the necessity for 'ambitious but realistic affordable housing targets'⁸.
- 2.4 The approach is therefore to identify the level of need and its nature, to consider the types of affordable housing that might best meet this need and then to consider the economics of delivery and how sources of uncertainty (such as the availability of public funds and economic changes over the lifetime of the development) can best be managed.
- 2.5 The Blyth Valley appeal decision outlines the need for affordable housing policy to be supported by an up to date affordable housing viability study, in line with the requirements of PPS3. The ruling indicates that such a study, "is not peripheral, optional or cosmetic. It is patently a crucial requirement of the policy"⁹.
- 2.6 **PPS12** considers deliverability and flexibility of core strategies in paragraphs 4-44 to 4-46. This is within the context of overall infrastructure requirements but it is clear that if the infrastructure is to be delivered then the viability of policies, including affordable housing policies, should be tested and maintained. **PPS12** goes on (paragraph 4-46) to suggest a minimum 15 year consideration of the impact of policy and to consider how contingencies should be dealt with so that constraints and challenges to policy can be considered over the longer time frame.
- 2.7 A Good Practice Note (July 2009) has been produced by the Homes and Communities Agency entitled, "Investment and Planning Obligations, Responding to

⁷ Planning Policy Statement 3 (PPS3): Housing, Communities and Local Government June 2010 paragraph 29

⁸ *Delivering Affordable Housing*, Communities and Local Government 2006, paragraph 10,

⁹ Case number C1/2008/1319 Blyth Valley Borough Council and Persimmon Homes (North East) Limited/Barratt Homes Limited/Millhouse Developments Limited July 2008



the Downturn"¹⁰. Regard has also been had to the guidance contained therein as it relates to the preparation of affordable housing evidence base documents to inform the Local Development Framework.

Regional Policy

West Midlands Regional Spatial Strategy (WMRSS)

- 2.8 The Government has signalled its intention to abolish the Regional Spatial Strategy for the West Midlands through the Localism Bill published in December 2010. The WMRSS Phase Two Revision was formally submitted to the Secretary of State on 21st December 2007. The Regional Spatial Strategy (RSS) anticipated that Stafford Borough should plan for a net increase of 505 homes per annum over the period 2006 -2026, of which some 350 should be in Stafford town. In November 2010 Stafford Borough Council published a Local Choices consultation document, proposing 500 new homes per year for the Plan period to 2031.

Local Policy

West Midlands North Housing Market Area Strategic Housing Market Assessment 2007 Final Report April 2008

- 2.9 The 2008 Strategic Housing Market Assessment (SHMA) identified a net need for an additional 295 affordable homes per annum – a figure that represents some 58% of total supply. The SHMA also found that some 45% of this need was for smaller sized properties with lower levels of need for larger properties. This contrasts with the experience of officers and stakeholders, which was that the greatest need was for homes with two and three bedrooms.

Stafford Borough Core Strategy – Preferred Core Policies

- 2.10 The Council formally consulted on the Draft Core Policies document from February until the 9th April 2010 with the Preferred Core Policies confirmed in July 2010.
- 2.11 The Preferred Core Policy on Affordable Housing sets a minimum target of 30%. Any development wishing to provide a lower percentage will need to provide an independent economic viability assessment in order to demonstrate why it is unable to comply with the target. The provision of affordable housing will be based on the following site size thresholds
- In larger settlements with population over 3,000 all sites over 0.4 hectares or capable of accommodating 15 dwellings or more;
 - In settlements under 3,000 in population and in rural areas outside settlements, all sites of greater than 0.1 hectares or capable of accommodating 3 or more dwellings;

¹⁰ Investment and Planning Obligations, Responding to the Downturn, Homes and Community Agency, July 2009



- 2.12 The emerging policy identifies that there will be a presumption that affordable housing will be provided on the development site, but that in exceptional circumstances the Council may accept an off-site contribution on another site.

Annual Monitoring Report 2009/2010

- 2.13 The most recent edition of the Stafford Borough Annual Monitoring Report reveals that Stafford Borough has exceeded its RSS housing delivery targets in every year between 2005/6 and 2009/2010 inclusive. During that time, affordable housing delivery has been below target although it did make a dramatic jump in 2008/9 to a total of 100 units (19% of overall provision). This compares with just 40 affordable completions the previous year and 46 affordable completions in the current year.
- 2.14 Included at Appendix 2 is a more detailed consideration of national, regional and local policy regarding affordable housing.

The Wider Economic Picture – Informing the Scenarios

- 2.15 For our analysis of viability to be dynamic it is important to understand past trends in order to assess how the housing market may perform in the future. While recent history shows specific characteristics which may be peculiar to the period in question, there are still fundamental principles that suggest medium and long term cyclical trends. This will not inform a single assessment of how the market will perform but will give us the main parameters within which we can test possible scenarios.
- 2.16 Appendix 3 contains a consideration of the housing market over the past 25 years, including the wider economic context. This Appendix also outlines the evidence, which has informed our dynamic assessment of the three potential future market scenarios against which all viability assessments have been undertaken.
- 2.17 There is a strong causal link between affordability and housing market prices. Other market conditions and particularly the cost and availability of finance are also an important factor in driving house price inflation. This range of factors has affected the housing market and the affordability of housing. These have included macro-economic influences and the worldwide recession. However, this analysis is useful in setting the context for our housing market scenarios. It is important to realise that we are assuming a structurally recurring cycle, intrinsic to the UK housing market. Responses to this structural cycle were aimed at controlling it. However, our housing market scenarios are founded on the basis that the patterns of the past will likely be repeated in the future. Our various scenarios attempt to ensure we cover all possible magnitudes of this cycle.



3.0 Methodology and Assumptions

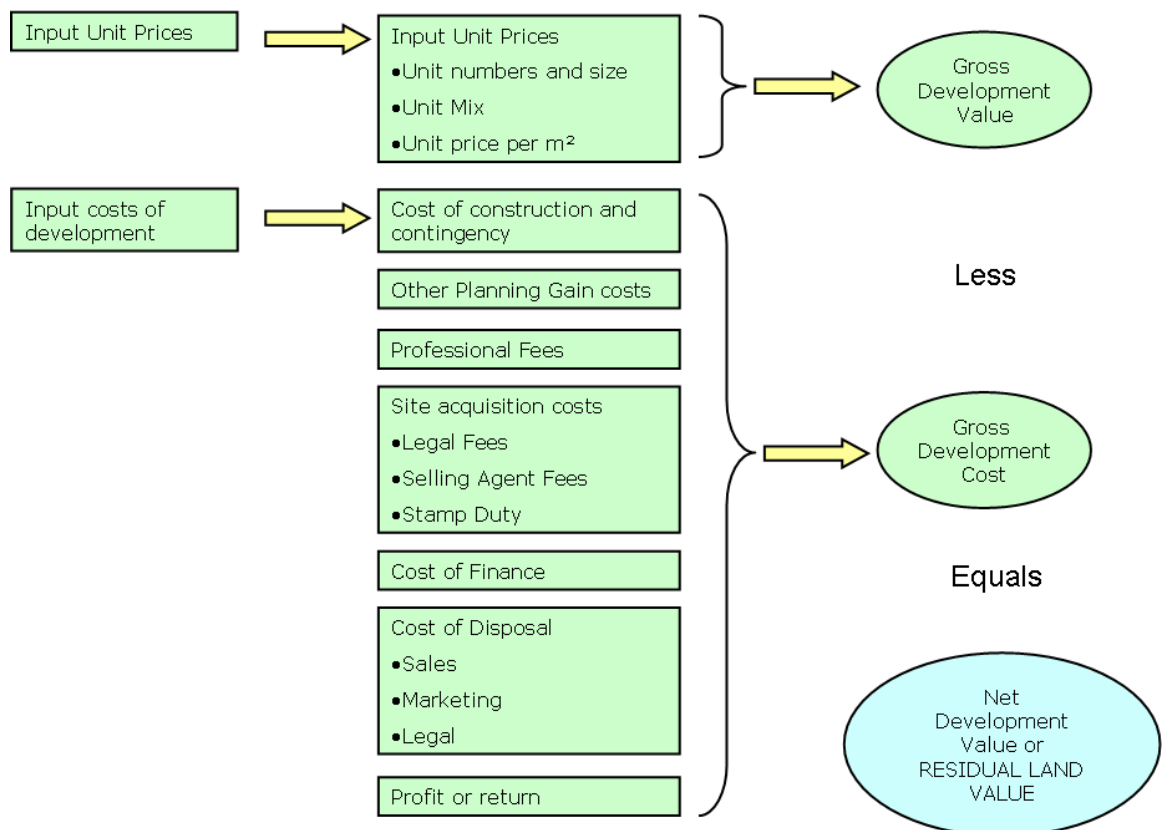
Levvel Development Viability Model

3.1 Residual land value assessment is a recognised practice within the development industry for evaluating costs and incomes associated with the development. In essence, such appraisals consider the income from a development in terms of sales or rental returns and compare this with the costs associated with developing that scheme. The amount left over, or residual, is what is left for land acquisition, i.e. the residual land value.

3.2 The residual amount contained within the appraisal is assessed using the formula:

$$\text{Gross Development Value LESS Gross Development Cost} = \text{Residual Land Value.}$$

This is represented by the following figure:



3.3 Delivering Affordable Housing (DCLG, 2006) supports the use of a viability tool such as that advocated by the Greater London Authority (GLA), or that used by the Homes and Communities Agency for the assessment of whether schemes should be supported by Social Housing Grant. This tool is a residual land value assessment model as described above, which suggests that a site will only come forward with an affordable housing contribution where the resulting overall residual site value exceeds the existing or alternative use of that site.



- 3.4 Levvel has developed a dynamic model to determine the residual land value which has been used in negotiation with over 200 local authorities and used at appeal on numerous occasions. From this, a toolkit to assess viability on a district wide level has been developed. This is known as the Levvel Development Viability Model (DVM).
- 3.5 Robust assumptions are then required to be inputted into this model. Costs to development such as build costs, planning gain requirements, profit and development finance are arrived at through our experience and through consultation with the development industry and Council Officers. Sensitivity testing of variables such as affordable housing percentage, tenure requirements, increased/decreased levels of planning obligations and the availability of public subsidy will ensure the validity of the study outputs and demonstrate the impact upon viability across the range of study scenarios.
- 3.6 For a policy to be robust and reliable throughout the plan period, we believe it is necessary to assess with a methodology that is “future proofed” as far as possible. As viability is reliant on the interaction between changing costs and revenues of housing over time, it follows that this relationship must be accounted for by future proof testing. It is simply not good enough to assess current costs against a range of property values as this provides only a “snapshot” view. The relationship between values and costs over time is not taken into account.
- 3.7 Levvel has therefore addressed this issue by applying inflation rates for cost inputs throughout the study period. For values, it is difficult to predict where the housing market may be in even one years’ time, so long range predictions based on popular commentary are of little use. However, we have assessed value changes based on the historic performance of the housing market as described previously. This gives us a view of where values may be in the future if the past housing market cycle was typical. However, this does not give us the necessary comfort or margin for error should the cycle vary. We have therefore reasoned that by choosing scenarios, based on an upside, middle and downside view of the housing market, we will have covered the range of positions to which the housing market may go. A detailed analysis of these scenarios is included at Appendix 3, to this document.
- 3.8 By then reporting on the viability of schemes where they delivered at different points within this range, we have come to a view of how this will affect the deliverability and effectiveness of proposed policy. For instance, should the housing market perform below past trends for the next five years before picking up again, we can assess whether the proposed policy might adversely affect the viability of schemes and therefore their delivery. Similar principles apply to a more optimistic view of where values may end up.
- 3.9 Levvel’s methodology enables the effect of a range of delivery timescales to be examined, thus all development scenarios selected are tested assuming development start dates of the date of modelling, date of modelling plus 1 year, plus 2 years, plus 3 years, and so on until 2026.
- 3.10 The use of the Levvel methodology allows for variations in land value over time to be accounted for, again ensuring ‘future proofing’ of the viability study. Any affordable housing policy seeks to capture an element of the land value for the community benefit. We know that there is a minimum land value which schemes need to achieve in order to be brought forward, otherwise it becomes more economic for the site to continue in its existing (or alternative) use.



3.11 Given the previous and future profile of the existing land use of housing development sites within the Borough it is not sufficient to assess the existing or alternative use value of a site against a single indicator.

3.12 In order to inform the land values that will be used as our first assessment of viability Levvel has:

- Had regard to Valuation Office Agency Data regarding land values;
- Sought feedback from stakeholders through the stakeholder engagement process (see Appendix 4);
- Engaged Thornes Chartered Surveyors and Estate Agents to provide information on land values and recent land transactions undertaken in the Borough (see Appendix 5).

3.13 The Valuation Office Agency (VOA) provides data on agricultural land and property values. It is unrealistic however to assume that Greenfield development land would be traded for residential use at these rates. The four value points we have assumed are, therefore, as follows:

Greenfield	£250,000/ha
Industrial 1	£325,000/ha
Industrial 2	£500,000/ha
Previously Developed Land	£1,500,000/ha

3.14 Thus in respect of development occurring on Greenfield sites, we have had regard to feedback from stakeholders as well as VOA information. A figure of £250,000 per hectare has been used and this includes some element of hope value.

3.15 In respect of development occurring on brownfield land, again we have had regard to the advice received from Thornes Chartered Surveyors and Estate Agents, feedback from stakeholders as well as VOA information. A figure of £325,000 per hectare has been used for Industrial land 1 and for Industrial land 2, a figure of £500,000 has been used. The use of two figures is intended to reflect the range of values at which land in industrial or commercial use might be expected to come forward. These rates include an element of uplift value in order to incentivise landowners into bringing sites forward. This is in line with recent appeal decisions.

3.16 Finally, we have tested against the value of land previously in residential use. This is the highest alternative land value we consider and a figure of £1,500,000 has been used.

3.17 All of these values will be linked to the future growth assessments as outlined in Appendix 3 to this report to reflect the relationship between land and property values and ensure effective 'future proofing' of the assessment.

3.18 Whilst we will use these values outlined above as one test of viability, we recognise that VOA data can be as much as six months out of date and not available at a sufficiently local level to enable local variations in land values to be assessed. Furthermore, the imposition of affordable housing planning policy will reduce land values in certain schemes. We have therefore developed a methodology that assesses how much landowners have been willing to accept for their land in the



past, and expressed it in terms of the ratio between Gross Development Value and Residual Land Value (GDV:RLV). That is to say how much of the revenue from a scheme can be used to pay for the land. This allows for variations due to locality to be accounted for. It is our belief that this more readily accounts for local variations in land values and represents a more robust and credible evidence base. The relationship between Gross Development Value and Residual Land Value will thus be used as our second test of viability.

- 3.19 The ratio between RLV and GDV has thus been assessed over the period 2001 to 2009 across the Borough. It is to be observed that, in a rising and somewhat overheated market, landowner expectations rise quickly and the price that developers are willing to pay also increases (often based on future expectations of property values). However, in a falling and "normal" market landowner expectations may fall to more "reasonable" levels. The supply of land may also be a factor that impacts upon land values. Thus the relationship between GDV and RLV as a check provides a further degree of future proofing as if housing market values increase, the land value will also increase. Conversely, if values fall, then land value can also be expected to fall.
- 3.20 Based on our assessments of the ratio of RLV to GDV, we have taken a figure of 22% of Gross Development Value as a test for the level at which the Residual Land Value may need to reach in order to incentivise the landowner to bring forward his parcel of land. This figure is based on our experience in negotiating the affordable housing delivery on development sites as well as advice provided by Thornes, the valuers.
- 3.21 Using these two tests of viability simultaneously (benchmark land values and the RLV:GDV ratio), it is possible to inform a policy position that has flexibility and is relevant throughout the life of the plan.
- 3.22 By applying these tests and looking at the viability of development upon land currently in different uses, we can identify not only where sites are viable or less viable but also reflect the important fact that the margin between these states is not sharply defined. Because of the sheer number of variables which can affect viability and the fact that some of these variables will be unknown until a planning application is made, it may be best to describe the viability of some sites as marginal. For this reason, our methodology scores sites as:
- Development found to be viable
 - Majority of sites found to be viable, some may need to submit a financial appraisal
 - Majority of sites may need to submit a financial appraisal
 - Potentially, all sites may need to submit a financial appraisal

Site Identification Methodology

- 3.23 Using the Strategic Housing Land Availability Assessment March 2009 (and Autumn 2009 update) as a basis, and in conjunction with the Council, a range of notional development sites likely to represent development over the life of the Plan (in



respect of site size, unit numbers and location) were identified. Site typologies (greenfield or previously developed land) were also assessed in respect of each notional site.

- 3.24 Stakeholder consultation was also undertaken on the initial range of site typologies and densities and the feedback from stakeholders informed the selection of the notional sites.
- 3.25 Outlined below is the range of notional sites identified. A detailed breakdown of unit composition for each notional development site can be found in Appendix 6.

	Net Density (dph)				
5 units	20	25	30	N/A	N/A
10 units	20	25	30	N/A	N/A
15 units	20	25	30	50	70
50 units	N/A	25	30	50	70
150 units	N/A	25	30	50	70

Table 1 – Notional sites and net densities tested

- 3.26 We recognise that the 20 and 25 dwellings per hectare (dph) densities are far below what was recommended in guidance until recently. Nevertheless, it was a clear finding from the stakeholder events that high densities were not appropriate in Stafford Borough. We therefore agreed to test densities below the 30dph that represents the normal lower limit. Conversely, the view of stakeholders was that higher densities should only be tested, in urban areas, if at all. This led to the following pattern of densities across the different postcode areas:

	20dph	25dph	30dph	50dph	70dph
ST15	No	Yes	Yes	Yes	Yes
ST16	No	Yes	Yes	Yes	Yes
ST17	Yes	Yes	Yes	No	No
ST18 9	Yes	Yes	Yes	No	No
ST18 0	Yes	Yes	Yes	No	No
ST20	Yes	Yes	Yes	No	No
ST21	Yes	Yes	Yes	No	No

- 3.27 In order to reflect the relationship between gross and net site density the following ratios have been assumed.

Site gross to net ratio	
Less than 0.4 ha	100%
0.4 - 2 ha	95%
> 2 ha	75%

Value Areas

- 3.28 When assessing the range of development typologies currently observed in the Borough, it is reasonable to assume that there will be a range of 'value areas' within a Local Authority boundary. That is, locations where property values are likely to be lower or higher than the average for the Borough as a whole. In order



to reflect these ranges in value Land Registry data on achieved sales values from 1 January 2009 to 31 December 2009 for each type of dwelling (detached, semi-detached, terraced and flats and maisonettes) at a Postcode Sector level (e.g. ST17) was assessed.

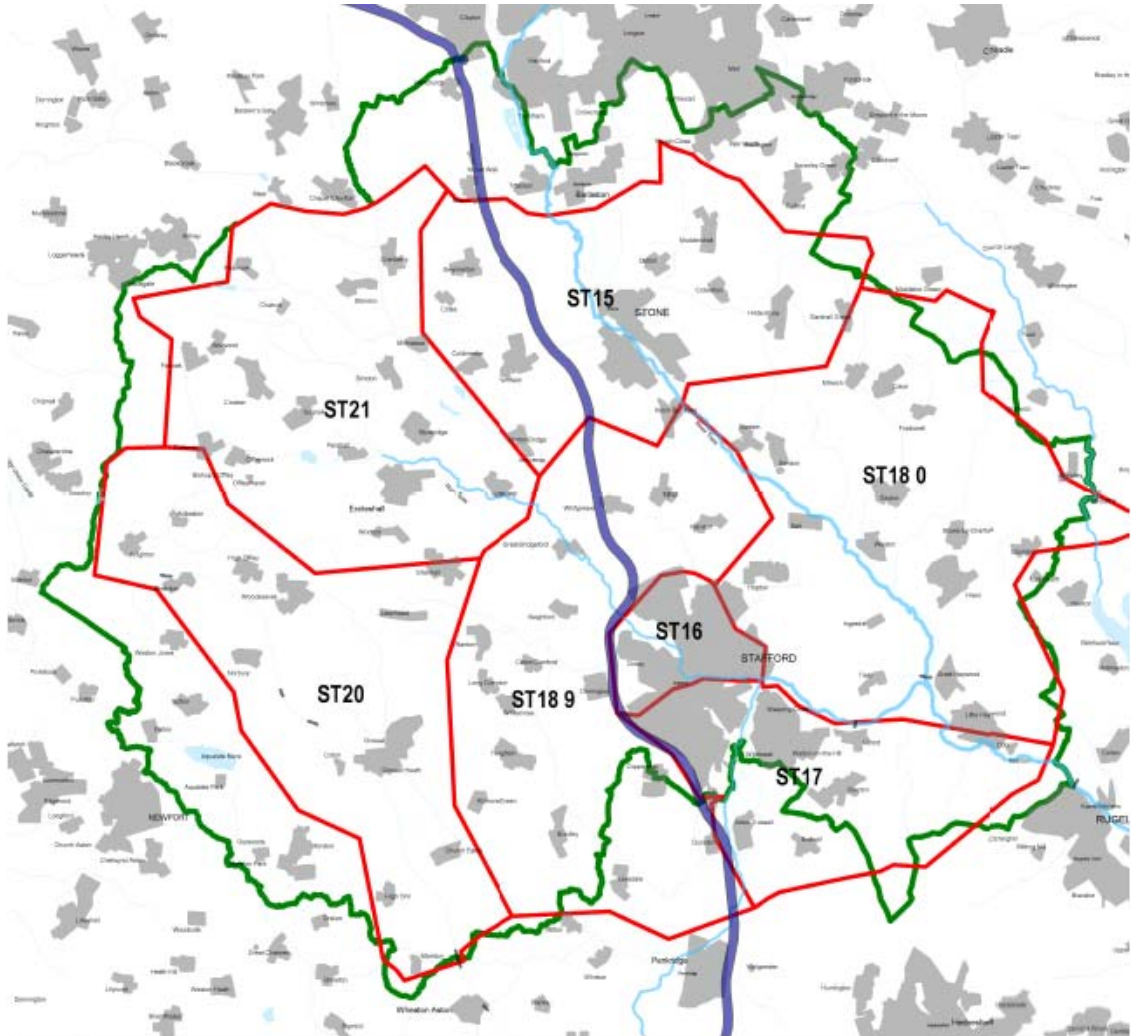
- 3.29 We recognise that postcode areas, like local authority or ward boundaries do not necessarily delineate the boundaries and extend of true housing market areas. Moreover, values will vary at least as much within a Value area as between different areas. However, the process of delineating such areas on the basis of values achieved would need to be done at an almost street by street level and could be rendered obsolete in a very short time by just a few transactions – especially in rural areas. The advantages of using postcode areas are
- a. First that they do reflect settlement patterns and the total range of values to be found across the Borough (albeit imperfectly);
 - b. Second that they are widely understood. It is easy for developers and the public to establish into which postcode area a given site falls;
 - c. Finally, it is possible to gather value information on this basis – allowing it to be simply updated if necessary.
- 3.30 Work on the values in these areas was undertaken by Thornes Chartered Surveyors and Estate Agents on achieved sales values in each Postcode Sector for the period January to March 2010 in addition to the assessment of Land Registry data for the period January to December 2009.
- 3.31 Average values per unit type at a Postcode Sector level were then assessed against information regarding asking prices and achieved sales values on a number of property websites including Rightmove, Find a Property and Mouseprice.
- 3.32 Whilst a degree of price variation in value areas is inevitable, we considered that the geographic area and range of values covered by the ST18 postcode area was too great to make for a meaningful value area. It has therefore been subdivided into two: ST18 0 and ST18 9.
- 3.33 This resulted in the formation of 7 value areas. It should be noted that the results of this exercise found that there were in some cases marked differences in likely sales values that could be achieved dependent upon Value Area. The table below outlines the Value Areas and the relevant Postcode Sectors they represent.

Value Area 1	ST15	Stone
Value Area 2	ST16	Stafford (north)
Value Area 3	ST17	Stafford (south)
Value Area 4	ST 18 9--	Stafford (west)
Value Area 5	ST 18 0--	Stafford (east)
Value Area 6	ST20	Woodseaves
Value Area 7	ST21	Eccleshall

Table 2 – Value areas and Postcode Sectors



3.34 For ease of reference these Postcode Sectors are shown in Map 2 below.



- 3.35 Appendix 7 to this report provides detail on the value per square metre for each unit type (detached, semi-detached, terraced and flat) that have been used for the purposes of this study.
- 3.36 Although this report recognises that flatted development is rare in Stafford Borough, we have included an element of flatted accommodation in the assumed mixes for higher density development in the larger settlements of Stafford and Stone. On all such flatted development it has been assumed that ground rent would be charged at the figure of £200.00 per annum. This income stream has been capitalised assuming a yield of 6%.
- 3.37 We also recognise that even within the same Value Area there is likely to be pockets where sales values may be higher or lower than the average values assessed for the purposes of this study. The Council may find it beneficial in some



circumstances to look more closely at the range of sales values used rather than focus specifically upon the Value Areas they represent.

- 3.38 All notional sites have been assessed in each Value Area outlined in this section unless explicitly stated within the results section.

Section 106 / Infrastructure Contributions

- 3.39 The level of contributions towards infrastructure and planning gain, other than affordable housing, is a matter of considerable uncertainty at the time of writing. The Council is currently in the middle of a study – whose purpose is to quantify the infrastructure requirements for the entire Borough. This study's findings are not yet known. Moreover, there is no guarantee that when known, the level of financial contributions necessary to fund infrastructure provision will prove economically compatible with the delivery of meaningful quantities of affordable housing.
- 3.40 At the same time, the mechanism by which such contributions can be sought is currently undergoing change. The previous government was well advanced in its attempts to secure for the community, a greater share in the profits of development by the use of a Community Infrastructure Levy (CIL) – this allowed local planning authorities to seek a wider range of items through planning obligations than was the case under Circular 05/05. Regulations on the use of the CIL came into force in April 2010.
- 3.41 For the purposes of this study, we have therefore assessed a notional “baseline” payment which reflects the level of S106 payments achieved through negotiations under the current system. We have therefore used the current level of S106 contributions as a baseline but, we have also carried out sensitivity testing which assumed higher and lower levels of contribution in order to assess the impact. The lower level test was carried out at 50% of the above level of contributions and the higher level at 200%. The table below outlines the baseline position assumed. In respect of houses only the ‘all homes’ figure should be added to the relevant figure for houses dependent upon if they are affordable or market.

Bedspaces	All homes (flats and houses)	Affordable Houses Only	Market Houses Only
1	£700	£2,317	£5,688
2	£990	£2,317	£5,688
3	£1,600	£2,317	£5,688
4	£2,000	£2,317	£5,688
5	£2,000	£2,317	£5,688

Lifetime Homes Requirements

- 3.42 It is understood that the Council have considered a number of policy options in respect of achieving housing that will meet the needs of older people and those with disabilities. In order to reflect this within the parameters of this study it was agreed that it would be appropriate to include an additional allowance.
- 3.43 A dedicated website providing information on Lifetime Homes standards and costs has been created by Habinteg Housing Association (lifetimehomes.org.uk), which reports that the costs of meeting Lifetime Homes standards is currently estimated to be up to £545 per dwelling, subject to the size, layout and specification of the



property. For the purposes of our study we have assumed that Lifetime Homes costs will be at approximately this level and we have included a figure of £600 per unit in our modelling. It should be noted that a cost significantly in excess of £600 per unit will impact on the overall viability of a scheme and its ability to deliver affordable housing.

- 3.44 In addition to this financial allowance the unit sizes of smaller units (one and two bedroom flats and 2 bedroom houses) have been increased slightly to reflect the additional space requirements that may be required to meet the needs of older people or those with certain disabilities. Appendix 6 contains detail on the unit sizes assumed for the purposes of this study.

Specific Costs of Development – Model Inputs

Build Costs

- 3.45 Base build costs have been assessed with reference to the Build Cost Information Service at the levels set out below. These are per metre square costs for gross internal floor area.

	£/m ²	Date
Estate Housing	£884	Q2 2010
Flatted Development	£942	Q2 2010

- 3.46 In respect of flats a gross to net ratio of 85% to account for communal and circulatory space has been applied.
- 3.47 To these figures a further uplift was applied to account for the relevant Code for Sustainable Homes Standards in the relevant year of implementation. The source used to provide information on the relevant cost uplifts to be used was Code for Sustainable Homes: A Cost Review March 2010. An average percentage increase (based upon an average of the extra over costs shown in this table) has been assessed for each different Code Level (3, 4, and 6) and we have applied this percentage increase to all units in each notional development in the year that this Code Level is planned to become a mandatory requirement.

Code Level	Flats	Houses
3	£50/m ²	£43/m ²
4	£103/m ²	£101/m ²
5	£208/m ²	£191/m ²
6	£360/m ²	£335/m ²

- 3.48 We have noted and taken account of, the different timetables of introduction of the Code for Sustainable Homes in respect of market and affordable dwellings.
- 3.49 Build costs were then further uplifted by 15% to account for external works.



3.50 Finally build cost contingency of 5% of total build costs was added.

Other costs of development

- Charged Interest Rate - 6.50% on outstanding debts.

This is the long term cost of development finance. Whilst the Bank of England Base Rate is currently at 0.5%, developers are not able to access finance at this level. Therefore a 6.5% figure has been used.

- Earned Interest Rate – 0.5% on positive balances

Again, a long term view of the earned interest rate has been taken in estimating the level of interest paid on development surpluses.

- Professional Fees – 10% of Build Costs

Covering architects, consultants engineers fees etc. This is assessed as being 10% of the total build costs. This has been used for all development scenarios with the exception of 10 and 5 unit notional developments where professional fees have been assumed at 12% of build costs to reflect the baseline fee level which professional consultants attract. On larger schemes than those appraised here, where larger economies of scale are possible, the level of professional fees might be lower at 8%. Such a range of professional fees, varying between 8 and 12% of build costs is a widely used, standard assumption.

- Site Investigation - £10,000 per hectare
- Agents Acquisition Fees – 1.0% of Residual Land Value
- Site Acquisition Legal Fees – 0.75 of Residual Land Value
- Marketing and Sales Fees – 4.0% of Gross Development Value
- Legal Fees on sales - £350 per unit
- Finance Arrangement Fee – 1.0% of build cost
- Planning Fees – as Communities and Local Government defined rates as set out at www.communities.gov.uk
- Developer Profit – 20% of Gross Development Value (comprising 15% profit plus 5% allowance for internal overheads).

In line with other appraisals of this nature we have taken a long term assumption as to the necessary profit to encourage development. We have however, also assessed developer profit at 25% of Gross Development Value. The results section clearly shows the level of profit that has been assumed for each assessment.



For affordable housing, developer profit is 6% of construction costs to reflect the contractor's return.

- Stamp Duty Land Tax – ranges between 0% and 4.0% depending on residual land value

Affordable housing assumptions

3.51 Social rents used assumed are as follows, based upon target rents for Stafford Borough:

1 bed	£54.76
2 bed	£62.49
3 bed	£69.60
4 bed	£77.78
5 bed	£90.99

3.52 A yield of 6.5% is assumed on social rents. A management cost of £500 per annum, a maintenance cost of £600 per annum, a void allowance of 2.5% and a major repairs allowance of 0.8% is also assumed.

3.53 Shared ownership housing is a product whereby a portion of the equity in a home is sold to the occupant. The remainder is held by a Registered Provider or other appropriate body which charges a rent. This rent is set at a level which reflects a fixed proportion of the unsold equity at the time of initial sale. The Homes and Communities Agency (HCA) stipulates that, in order to qualify as affordable housing, the annual rent should not exceed 2.75% of the unsold equity and this is widely used. In our modelling, we have assumed that all shared ownership homes are provided on the basis that 50% of the equity is sold at initial occupation. Other equity shares are possible but the impact of varying the portion of equity sold on the capital value of the home is not as large as might be expected because the change in rent has an off-setting effect.

3.54 Shared equity is assumed as a 50% initial equity purchase with nil rent charged on the unsold equity. A management cost of £100 per annum is also assumed. No Shared Equity housing has been assumed in any baseline appraisals although it can have a useful role to play in ensuring the affordability of intermediate housing in areas where values are high.

Grant/public subsidy assumptions

3.55 Baseline assessments assumed nil public subsidy. This is in accordance with the approach to viability set out in PPS3. We are aware that a very limited quantity of subsidy is likely to be available. However, in a number of circumstances sensitivity testing assuming grant availability was undertaken. With reference to the West Midlands Investment Statements available from the HCA, feedback from the stakeholder engagement process three sensitivities in respect of grant availability have been assumed. These are as follows:

	Social Rent	Intermediate
Baseline (Option 1)	£0	£0
Option 2	£40,000	£20,000
Option 3	£56,000	£23,000



Option 4	£25,000	£10,000
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3.56 The results figures clearly identify the public subsidy assumptions that have been made and the majority of schemes presented in the main report have been tested on a nil-grant basis.

Development timetable assumptions

3.57 Due to the scale and range of developments the timetable of development is different for each notional development type. Our development experience enables us to allow relevant and realistic timescales within the development period in respect of:

- enabling phases (for large scale developments);
- planning application;
- site acquisition;
- construction period;
- sales period.

3.58 The receipt from the affordable housing is timetabled to occur at the end of the construction period although it can occur in a phased approach and there is often a “golden brick” payment at the beginning of the construction period.

3.59 Appendix 8 contains more detailed information regarding development timetable assumptions.



4.0 Stakeholder Engagement

- 4.1 A stakeholder questionnaire (see Appendix 4) was forwarded to a circulation list of over 80 key stakeholders forwarded to Levvel by the Council. This also included an invitation to a stakeholder workshop held on 29 June 2010. Stakeholders included house builders, land owners, Registered Social Landlords (RSLs), agents, developers, the Homes and Communities Agency and representatives from relevant Regional bodies.
- 4.2 13 responses to the stakeholder questionnaire were received and a breakdown of the responses is outlined in Appendix 4. In addition there were 12 attendees at the stakeholder event, held on 29th June, which outlined the key parameters of the study.
- 4.3 As would be expected a range of responses were received from stakeholders. All of these responses have been considered and our report has attempted to test variables taking the views of respondents into account. Appendix 4 outlines how the views and local knowledge of stakeholders have helped to shape the viability study. It is an integral part of our business to ensure that we are up to date on market conditions in the project area. Planning for affordable housing on the basis of viability requires a credible and robust evidence base. Stakeholder's engagement helped to establish a number of benchmark values and costs across the Borough. The engagement methodology allowed Levvel to consider local data (e.g. land values, construction costs, profit levels).



5.0 Commuted Sums

Commuted Sum Principles

- 5.1 The principles outlined in the Government's Circular 05/2005 confirm that "planning obligations created run with the land"¹¹ and that "planning obligations should never be used as a means of securing for the local community a share in the profits of development i.e. as a means of securing a betterment levy."¹² The Circular considers that the use of planning obligations may include securing "the inclusion of an element of affordable housing in a residential or mixed use development where there is a residential component."¹³ In addition, the Circular confirms that the obligations should be "fairly and reasonably related in scale and kind to the proposed development, as well as being reasonable in other respects."¹⁴
- 5.2 Paragraph B14 of Circular 05/2005 states that affordable housing is provided through a presumption of being "in kind and on site", however "there may be certain circumstances ... where provision on another site or a financial contribution may represent a more appropriate option".
- 5.3 PPS3 was published in November 2006 together with the guidance document Delivering Affordable Housing. It sets out the Government's strategic housing policy objectives, which include achieving a wide choice of high quality homes, widening opportunities for home ownership, improving affordability across the market by increasing supply, and the creation of sustainable, inclusive and mixed communities in all areas. PPS3 confirms the Government's commitment to the provision of high quality housing for those unable to access or afford market housing and also helping people make the step from social-rented housing to home-ownership.
- 5.4 PPS3 states that where it can be robustly justified, off site provision or a financial contribution in lieu of on-site provision (of a 'broadly equivalent value'¹⁵) may be accepted as long as the agreed approach contributes to the creation of mixed communities in the local authority area.
- "Decisions on alternative options should be made with regard to what is economically viable and realistic on that site and local housing needs as well as taking into account the mix of tenures on the site (...) the level of developer contribution should be at least maintained, but it should not be assumed the developer can meet the whole cost of the shortfall"¹⁶
- 5.5 Thus, although national policy suggests that on site provision of affordable housing is the preferred approach, there may be some instances where an off-site contribution is acceptable. National policy is predicated on the basis that some forms of affordable housing in some locations require public subsidy and planning

¹¹ Paragraph A3 Circular 05/05

¹² Paragraph B7 Circular 05/05

¹³ Paragraph B12 Circular 05/05

¹⁴ Paragraph B5 Circular 05/05

¹⁵ PPS3 paragraph 29 Department of Communities and Local Government June 2010

¹⁶ Delivering Affordable Housing paragraph 95 Department of Communities and Local Government November 2006



agreements therefore need to maintain flexibility to deal with the eventuality that the subsidy may not be available at the time of delivery. These principles should apply whether the affordable housing is achieved on site or whether it is achieved through a contribution.

- 5.6 The Community Infrastructure Levy (CIL) regulations came into force on 6th April 2010. CIL is calculated at granting of permission and is paid on implementation. The level of payment is determined by the local charging schedule. Local Planning Authorities prepare a charging schedule, adopted through a forward plan and charges are made against net increases in floor area. CIL affects all development sites and care is needed in assessing the level of infrastructure necessary to enable development, but this should not be so great a burden as to prevent sites coming forward.
- 5.7 The regulations make it clear that there will be no duplication of the demands made under CIL and Section 106 agreements. Part 11 sets out a number of limitations on the use of planning obligations. It is now unlawful for a planning obligation to be taken into account when determining a planning application for a development, or any part of a development, that is capable of being charged CIL, whether there is a local CIL in operation or not, if the obligation does not meet all of the following tests:
- (a) Necessary to make the development acceptable in planning terms;
 - (b) Directly related to the development; and
 - (c) Fairly and reasonably related in scale and kind to the development.
- 5.8 Regulation 123 of the CIL regulations also sets out further limitations on the use of planning obligations and states that, 'this regulation applies where a relevant determination is made which results in planning permission being granted for development'.
- 5.9 Care is needed over timing of permission and interaction of CIL Regulation 123, especially in relation to trigger dates and pooling of section 106 contributions. Regulation 123 also needs to be considered by local authorities when deciding what infrastructure to include in their charging schedules. Once a charging schedule is in place this regulation prevents double charging by CIL and a section 106 agreement.
- 5.10 It is important to note that a 'relevant determination' in relation to Regulation 123 (3) refers to a determination made on or after 6th April 2014 or the date when the charging authority's first charging schedule takes effect and will apply to whichever is earlier. Therefore, there are limitations on the level of infrastructure which can be provided utilising s106. These include limitations on the number of separate planning obligations that relate to planning permissions granted for development within the area of the charging authority. This means that the cumulative impacts of development must be assessed to determine whether any other types of infrastructure should be included within the CIL.

Principle of Equivalence – Practical Methodology

- 5.11 This report on the viability of affordable housing has shown that it is important to understand the economics of development when seeking to achieve affordable housing. This involves looking at all costs and values and assessing whether the



residual is sufficient, generally, to bring sites forward. There may be instances where it is not possible or desirable to achieve the affordable housing on site and these same principles of applying the economics of development must apply. Therefore, when considering a particular site the principle of “broad equivalence” must apply.

- 5.12 Bearing in mind the complexities of assessing the economic implications of affordable housing, a simple formula for developer subsidy can be derived. However, this simple formula has a number of complex inputs that are used to assess individual sites and which maintain a contribution to affordable housing that is broadly equivalent in amount of affordable housing that is achieved and which has a broadly equivalent contribution from the developer thereby ensuring a neutral effect on the economics of provision. In line with PPS3, the presumption should be that the affordable housing is provided on site, but where an off-site contribution is proposed, the developer should be neither advantaged nor disadvantaged by agreeing to or proposing an off-site contribution.
- 5.13 Our view is that the economic assessment of a development should be site and scheme specific (it should include all costs and values related to the particular use) but that these costs should be generic (they should be able to be applied to any developer and not be specific to an individual). This will maintain the planning principle that permission runs with the land and not with an individual.
- 5.14 If a scheme is viable the practical methodology of assessing how much a development can afford involves establishing the developer subsidy. When this is an on-site contribution this will be an exercise to establish how much and what type of affordable housing can be achieved on site. When an off-site contribution is to be applied it is establishing the amount of developer “subsidy” which is involved to meet the Council’s objectives.
- 5.15 We have pointed out that the developer subsidy relates to the implications for the land use of a particular site. The developer subsidy is established by looking at the difference in residual land value between the development without an encumbrance (in this case the encumbrance is the imposition of affordable housing) and the residual land value with the encumbrance. The simple formula for developer subsidy is thus:

$$\begin{aligned}
 & \text{DEVELOPER SUBSIDY FOR AFFORDABLE HOUSING} \\
 & = \\
 & \text{RESIDUAL VALUE OF DEVELOPMENT UNENCUMBERED BY AFFORDABLE} \\
 & \text{HOUSING} \\
 & \text{LESS} \\
 & \text{RESIDUAL VALUE OF DEVELOPMENT ENCUMBERED BY AFFORDABLE} \\
 & \text{HOUSING}
 \end{aligned}$$



5.16 Thus the formula involves two discrete calculations and we would suggest a simple matrix that enables these two calculations to be assessed. This is as follows with example figures input¹⁷

Scheme	A 100% Market	B Mixed Scheme (Affordable & Market)
Gross Development Value (GDV)	£10,000,000	£6,500,000
Values / Receipts		£2,000,000
Grant Provided		NIL
Total Build Costs	£4,750,000	£4,750,000
Total On Costs	£475,000	£475,000
Total other s106 Costs	£100,000	£100,000
Total Sales Costs	£650,000	£450,000
Total Finance Costs	£1,000,000	£700,000
Total Acquisition Costs	£100,000	£70,000
Developer Profit @17% GDV	£1,700,000	£1,225,000
Residual (Values/ Receipts Less costs)	£1,225,000	£730,000
Developer Subsidy Required (A-B)	£495,000	

5.17 In this example we have assumed the following:

Gross Development Value = Current market value of units proposed on site;

Values / Receipts = receipts from affordable housing provider and/or for any intermediate dwellings;

Grant provided = if policy assumes a certain level of public subsidy;

Total Build Costs = generic assessment of construction costs (BCIS or QS assessed);

On costs = usually at a set percentage;

Other S106 costs = where known;

Sales costs = marketing and legals on market sales and LCHO;

Finance costs = net interest charged/earned during the development period;

¹⁷ Please note that these figures are for illustrative purposes only



Acquisition costs = costs associated with acquisition of the site (Stamp Duty, legal fees etc.);

Developer Profit = at an agreed percentage¹⁸.

Alternative and Existing Use Values

- 5.18 In the example above it can be seen that the residual site value of the scheme unencumbered by affordable housing would be £495,000 higher than the site value with affordable housing assuming that the Council's target percentage and tenure split is being met. Different tenure splits and target percentages will have different effects on site residuals and, therefore, on developer subsidy.
- 5.19 The next stage in the assessment is to ensure that this level of developer subsidy would be sufficient to ensure that this site comes forward. We would need to assess both the alternative or existing uses of the site. If, for example, an existing use on the site generates a value of £900,000 then the residual value of the site with affordable housing is insufficient to bring this site forward and the developer subsidy would have to decrease in order to ensure that the residual site value is greater than the alternative use value. In this case the developer subsidy would have to decrease by at least £170,000 in order to bring this site forward.
- 5.20 The same principle applies to alternative uses of the site. In this example, it may be possible to provide a different mix of residential use that establishes an alternative use perhaps without having to provide affordable housing (the number of units would be below the threshold for affordable housing, for example). A similar exercise should be undertaken in order to establish residual values. This will use comparable assumptions as in the main assessment.
- 5.21 Therefore the simple formula can be further modified thus:

$$\begin{aligned}
 & \text{DEVELOPER SUBSIDY} \\
 & = \\
 & \text{RESIDUAL VALUE OF DEVELOPMENT UNENCUMBERED BY AFFORDABLE HOUSING} \\
 & \text{LESS} \\
 & \text{RESIDUAL VALUE OF DEVELOPMENT ENCUMBERED BY AFFORDABLE HOUSING (TAKING INTO ACCOUNT ANY REALISTICALLY ACHIEVABLE ESTABLISHED ALTERNATIVE OR EXISTING USE)}
 \end{aligned}$$

Practical Assessment

- 5.22 It is important that individual site and scheme assessments are undertaken using a set of agreed principles between developer and planning authority. It is for this reason that we propose using generic values and percentages wherever possible

¹⁸ It must be remembered that developer profit should be considered as a fixed cost of development and not as a variable to be increased or decreased in order to ensure a scheme "works".



and for these to be agreed and audited by one or more third parties to ensure impartiality and legitimacy. Our experience has shown that agreeing these parameters should not be a difficult process and the Local Authority should make it clear and consult upon the parameters to be used. It is also incumbent upon the developer to provide the necessary information to undertake the assessment outlined above but this is not the same as proposing an “open book” approach. If an agreement can be arrived at using generic figures (and we have experience of agreeing developer subsidy where this has been achieved) then it is incumbent on the developer to ensure that the necessary information is provided as soon as possible. However, it may be that the principal input from the developer is for exceptional and abnormal costs associated with the development to be provided.

- 5.23 Using generic methods to generate the other inputs into the assessment will ensure that two important principles are maintained
- a. the planning permission does not become personal to a particular developer (it can be transferred to another developer without having to undergo a complete re-assessment of the site); and
 - b. the planning permission does not rely upon commercially sensitive information that would benefit a developer’s competitors.

Recommendation

- 5.24 We therefore recommend that any commutation for affordable housing should be based on the equivalence principle supported through Circular 05/05, PPS3 and associated documents. The developer subsidy for this off site contribution should equate to the developer subsidy that would have been provided had the affordable housing been achieved on site. The developer subsidy equates to the difference in residual values between an unencumbered scheme and the scheme encumbered by affordable housing to meet the Council’s target percentage and tenure mix. This will need to take into account any established alternative or existing use value supported by evidence if necessary. This methodology can be used without recourse to cost and value tables and is able to be used for the lifetime of the affordable housing policy without further amendment to take into account revised tables or cost yardsticks of any sort.



6.0 Findings

General Remarks

- 6.1 The purpose of this study is not to determine in advance the amount of affordable housing that will be provided on any specific site. That will remain the role of development control and, where appropriate, a site specific assessment of viability submitted in conjunction with the planning application process. The role of the study is to frame all parties' expectations about the amount of affordable housing that can be delivered from sites in the Borough in general.
- 6.2 This information is intended to assist in the formulation of policy – what percentage of affordable housing the Council will seek on sites coming forward in the Borough, under what circumstances it may consider a lower level of provision and on what basis. It has been argued that, since the precise quantum of affordable housing will be determined at the development control stage, such general viability assessments are of little value. This is not our view and not only because a general assessment is a necessary component of a robust evidence base.
- 6.3 It is perfectly sensible for policy to be expressed in the form of a challenging target that is unlikely to be achieved in every circumstance under current market conditions but which may be deliverable under conditions which might reasonably be anticipated in future. What is not sensible is to adopt a target which is unlikely to be delivered under any reasonably foreseeable circumstances. For example, if financial modelling demonstrates that some sites will never deliver more than 20% affordable housing, it makes little sense to adopt a target of 50% for those sites.
- 6.4 Such unrealistic targets render policy misleading, create false expectations and are likely to result in an increased workload for development control officers. For example, projections of future affordable housing delivery are generally based upon the terms of the adopted policy – if the policy is itself known to be wildly optimistic, such projections will, at best, be harder to make and, at worst, profoundly misleading.
- 6.5 The importance of making a realistic assessment of the amount of affordable housing yielded by policy was further increased with the adoptions of the CIL regulations in April 2010 and the exemption of affordable housing from CIL contributions. In setting the CIL, it is therefore important to have an accurate idea of the proportion of dwellings in both the market and affordable sectors. Setting unrealistic expectations about the proportion of affordable units will mean that the CIL charge is levied against a smaller number of units and will thus need to be set at a proportionately higher level.

Defining Viability

- 6.6 The definition of viability on any given site is relatively straightforward. When the revenue generated by the sale of the development exceeds the cost of development (including a reasonable profit for the developer, and a land value sufficient to bring the site forward for development), development is worthwhile and may be considered viable. However, in considering viability on the range of sites that may come forward across the Borough under a wide range of circumstances, matters are less clear cut. On the one hand, it is difficult to draw a clear distinction between what is viable and not viable, since this creates an arbitrary distinction and masks



the question of whether sites are unviable or whether, with a slight adjustment of expectations or assumptions, they might be rendered viable.

- 6.7 On the other hand, setting out the precise residual land value that would arise from each different set of circumstances and the deficit or surplus that would result would entail readers of this report having to come to terms with an immense volume of data from which it would be extremely difficult to draw general conclusions.
- 6.8 For this reason, we have applied more than one test of viability (as detailed above). We ask whether the value of the development is sufficient to meet its costs and still allow the developer to buy land. In doing so, we test viability on land at four different values - this accounts for the difference in viability occasioned by building on different types of site but we also make a “rule of thumb” test about the relationship between Gross Development Value and Residual Land Value. In both tests, we allow a small margin of error.
- 6.9 This allows us to identify four different categories of viability, depending on whether a given development’s viability meets all tests, fails all tests, meets one test and is within the margin of error on the other or meets one test and fails the other completely.
- 6.10 To these four different degrees of viability we ascribe colour coding as follows.

Development found to be viable	▲ ▲
Majority of sites found to be viable, some may need to submit a financial appraisal	▲ ▶
Majority of sites may need to submit a financial appraisal	◀ ▼
Potentially, all sites may need to submit a financial appraisal	▼ ▼

- 6.11 These colours are used in both the tables and the maps that follow.

Factors affecting typical sites

- 6.12 The stated aim of examining the development economics of a range of typical sites in order to assess their ability to deliver affordable housing begs a fundamental question – what is a “typical site”? The economics of a site in one part of the Borough may be very different from those in another area. Similarly, the economics of a low density site will be different from those of a high density site. Moreover, since the variables that differentiate sites from one another are independent of one another (i.e. a low value area may contain both low and high density sites) the number of possible permutations soon becomes very large. Our methodology allows us to carry out large numbers of appraisals in order to assess the “carrying capacity” of sites with a wide range of characteristics. However, we do not propose to write up every possible permutation in detail. Instead, we will seek to draw conclusions about the general effect of certain site characteristics. The main variables considered are as follows:



- a. Value Area
- b. Number of dwellings
- c. Density
- d. Date of commencement

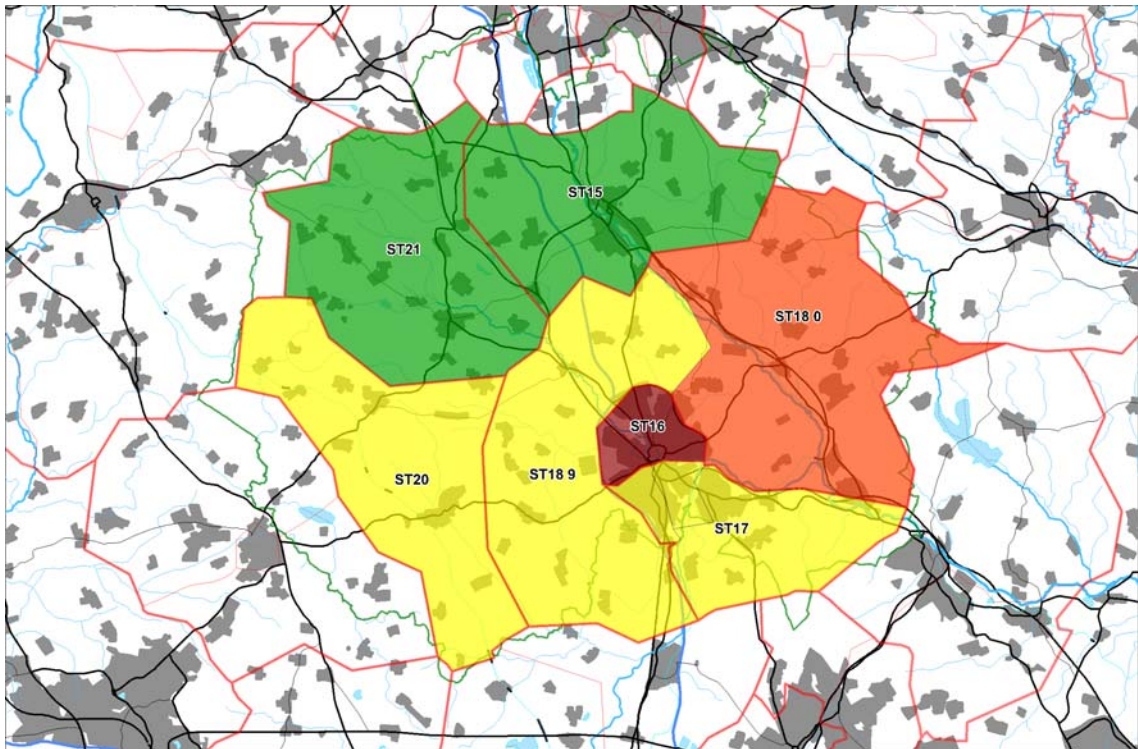
6.13 We will assess each of these in turn and make a few comments

Value Areas

6.14 For the purposes of mapping the results, the seven value areas used in the report have been defined in line with post code areas as shown in the map below. It will be immediately apparent that the postcode areas do not correspond exactly with the local authority boundaries and do not therefore cover all areas of the Borough seamlessly. However, the purpose of the value areas is to examine the range of circumstances which exist in Stafford Borough– it is not to set differential policies which would affect two sites on either side of an arbitrary boundary in different ways.

Value Area 1	ST15	Stone
Value Area 2	ST16	Stafford (North)
Value Area 3	ST17	Stafford (West)
Value Area 4	ST 18 9--	Stafford (South)
Value Area 5	ST 18 0--	Stafford (East)
Value Area 6	ST20	Woodseaves
Value Area 7	ST21	Eccleshall

6.15 The extent of Stafford Town is of significance because, as the following map shows, results for the ST16 area are the least viable of any of the value areas. The map shows the viability of a development of 50 homes at a density of 30 dwellings per hectare. Development is assumed to commence in 2010.



- 6.16 In the map, as in the tables, relative viability is shown as colour ranging from green, which denotes that all tests of viability return a positive result, to red, which denotes that the theoretical sites appraised may be less viable under the circumstances set out in the appraisal. This does not mean that such sites would automatically be excused from the obligation to deliver affordable housing – they will still need to present evidence of why it was not economically possible for them to do so on the basis of a financial appraisal. Here we see that, assuming 30% affordable housing, this notional development commencing in 2010 in Stone and the higher value rural areas would be viable whilst developments of this type in ST20 – the Woodseaves area – would be marginal. In the north of Stafford Town, we anticipate that all developments coming forward would need to submit evidence of viability in order to identify the level of affordable housing that they could deliver.

Number of dwellings

- 6.17 The scale of development can change the economics of development in a number of ways. In smaller developments, we would expect one off costs including build costs to loom larger but, because the development and sales periods would be shorter, we would expect cashflow effects to be less severe. However, we might also expect smaller developments to be built on different types of land. A development of five units, for example, might be built on the site of one or two existing houses, whereas a development of 150 homes would tend to be constructed on either greenfield land or perhaps land that had previously been in industrial use.



	Greenfield	Industrial 1	Industrial 2	Residential
5 units	▼▼	▼▼	▼▼	▼▼
10 units	▲▶	▲▶	◀▼	▼▼
15 units	▲▶	▲▶	▲▶	▼▼
50 units	▲▶	◀▼	▼▼	▼▼
150 units	▲▶	◀▼	▼▼	▼▼

6.18 Taking into account the fact that sites of five units are not only less viable but are also more likely to be built on higher value previously developed residential land, we tend towards the view that it is likely to be more challenging to deliver affordable housing from sites with a capacity for fewer than 10 units. In view of the limited scope for the delivery of affordable housing in rural areas if a threshold of 10 units were to be adopted, we recommend a target of 20% for sites of 3-9 units.

Density

6.19 We have taken into account the views of stakeholders, who were sceptical about the benefit of higher density development except in the urban areas and we have therefore limited our investigation into the viability of high density development incorporating an element of flats, to sites in the towns of Stafford and Stone. In Stafford, an increase in density from 30 dwellings per hectare (dph) to 50dph may bring slight improvements to the viability position but development at 70dph is unlikely to be worthwhile.

6.20 In Stone, overall viability is far better and, consequently, higher density development remains viable. However, we note that the ST15 postcode extends some distance around the town itself and higher density development may not be appropriate or attractive to buyers in many parts of the area.

6.21 In general, development in Stafford Borough is more viable at lower densities than at higher ones. It is therefore possible that, in some locations, allowing development to take place at densities below 30 dwellings per hectare may yield an increased percentage of affordable housing and that delivering a higher proportion of a smaller overall number of homes may be a better housing outcome or that lower density development might be able to deliver a better mix of affordable home types. Developers wishing to make such a case for developments at densities below 30dph should make contact with the Council's Planning Department at their earliest opportunity

The effect of differing levels of CIL/S106 payments

6.22 The purpose of this study is to assess the likely ability of sites in different parts of Stafford Borough to deliver affordable housing. In some senses, the level of contributions required towards other planning considerations is therefore an input rather than an output of this study. We are, nonetheless, conscious that the level of these contributions is likely to change as a result of the introduction of CIL. We have therefore modelled contributions based on 50% and 200% of current levels.



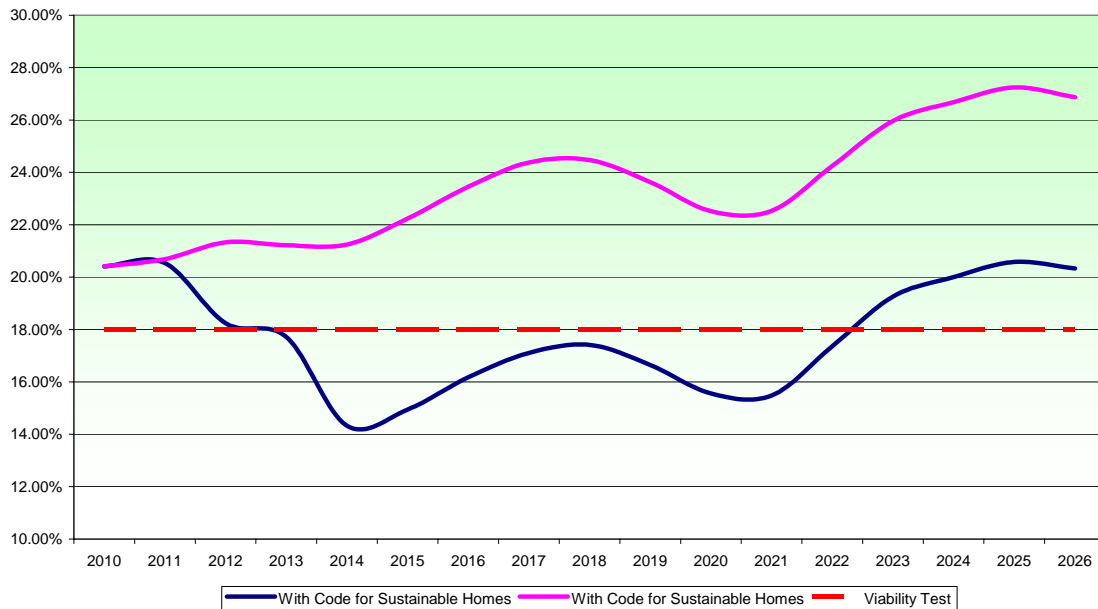
- 6.23 The results are as one would expect. A significant increase in the level of CIL contribution sought makes it less likely that it will be possible to achieve any given level of affordable housing. Were the results of the infrastructure study to reveal that the combination of CIL payments and S106 contributions sought from a typical site needed to rise very significantly, it would have an adverse impact on the potential to deliver 30% affordable housing through planning policy. Although the impact of any such costs should fall, in the first instance upon land value, the price at which an adequate supply of development land can be obtained is not infinitely flexible.

Effect of Code for Sustainable Homes Requirements

- 6.24 The timetable for the introduction of increased Code Levels for the Code for sustainable homes was incorporated into our future scenario testing. Effectively this took the form of additional uplifts to construction cost requirements based upon studies of the potential impact of these requirements. The base requirement set market housing requirements at Code Level 3 and affordable housing based on the need to achieve Code Level 4. Uplift in construction cost inflation were modelled to take effect in 2014 (uplift to Code Level 6 for affordable housing) and 2016 (uplift to Code Level 6 for market housing).
- 6.25 It is clear that the imposition of the forecast increase in construction costs has generally had an effect on the viability of schemes during the period 2012 to 2019 or thereabouts. This is especially clear where schemes are marginally viable in the first one or two years and then become less viable.
- 6.26 The cost assumptions we have used within this report are based on estimates current at the time of preparing our report. Technological advances in building techniques and general acquaintance with the requirements may bring these costs down and reduce the overall impact. It may also be that legislation governing the introduction of the various codes may change to delay their introduction or reduce their potential cost impact. At this stage, these are conjectures and it may be that the allowance we have made for code level costs is a "worst case" position. In that case it may ease the pressure at the time that the higher code levels come into force, especially if we are still in a challenging economic position.
- 6.27 If the cost of meeting the Code for Sustainable Homes and any other increases in building standards follows the assumed trajectory, it may be difficult to deliver the desired level of contribution to affordable housing over the period of the Code's introduction. In fact, in some value areas, cost increases associated with achieving the Code for Sustainable Homes requirements have a significant and detrimental impact upon achieving delivery of any affordable housing, and in some cases market housing. This can be seen in the following diagram which shows the impact on a marginal scheme with and without the additional requirement for Code for Sustainable Homes.



Effect Of Code Sustainable Homes (Example Scheme)



6.28 In this example, based upon commencing the development of a 15 unit site at 25dph in the ST18 9 area, with 30% affordable housing, the effect of the Code for Sustainable Homes on the relationship between Gross Development Value (GDV) and Residual Land Value is quite substantial, being as much as 8% of GDV in some years.

6.29 Nonetheless, it should be recognised that land prices are not, themselves, absolute and the impact of rising build costs should fall on land values before it affects the delivery of affordable housing. Developers wishing to deliver less than 30% affordable housing will have to provide financial appraisals which specify why they are unable to do so and, at that time the Council will have the opportunity to examine whether the assumed land value is justifiable or whether the cost increase might not more reasonably be set against land value.

Effect of Different Profit Assumptions

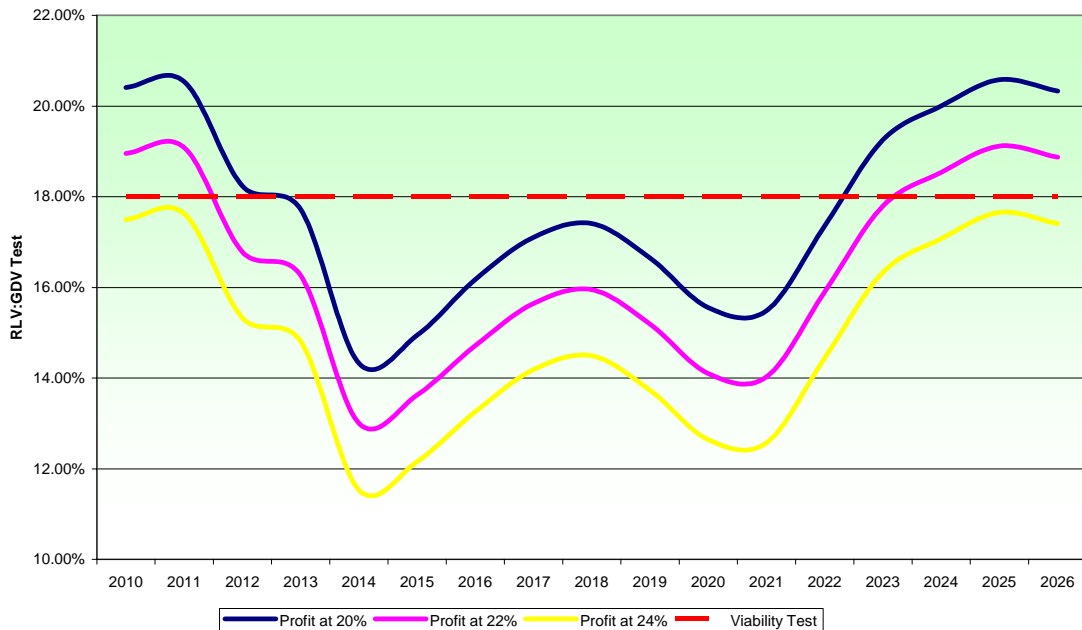
6.30 We have undertaken our testing mainly on the basis of 15% profit on GDV and 5% internal overheads. In some cases 21% profit on GDV plus 4% overheads has been used to reflect schemes where there is a justifiably higher level of developer risk.

6.31 Our reporting has mainly been on the basis of the lower level of profit. This is because of the level of profit that has been accepted by custom both in many affordable housing viability studies of this type and in negotiations on sites (and supported at appeal). Indeed, in many studies profit levels of between 15% and 17% of GDV have been used and therefore we have drawn our main conclusions based on the assumption that gross profit of 20% is acceptable. Furthermore, the Homes and Communities Agency (HCA) Economic Appraisal Toolkit suggests currently a developers return for open market housing could be typically 17.5% – 20%.



- 6.32 We should also be mindful that there is currently some pressure to increase the allowance for profit in response to the specific market conditions that we are currently experiencing. This is in response to the perceived risk of development in an uncertain market and reflects, also, the difficulties many developers are finding accessing finance at reasonable rates. Therefore, basing our assessment on higher levels of profit for a policy that must last the life of the Core Strategy might not be appropriate.
- 6.33 However, it should be noted that the results of our testing at 24% gross profit against GDV has a significant effect on the viability of schemes. In this case, where specific site constraints and market conditions allow, the Council may consider the case for higher profit levels to be taken into account. It is our view that, where development viability is a particular issue, the applicant must make a reasonable case for taking into account a higher than normal profit level.
- 6.34 As an example the consideration of higher profit levels can be seen in the following graph, which shows the effect on residual value of a higher profit level over the period to 2026. It can be seen that profit has an appreciable effect on residual value.

**Effect of Different profit levels on Viability
(15 Units Scheme at 30% Affordable Housing)**





7.0 Conclusions and Recommendations

7.1 In general, the analysis suggests that developments in most areas of the Borough will be able to support up to 30% affordable housing and that 30% would therefore represent an ambitious but realistic target for a Borough-wide policy. In some areas, up to 40% affordable housing may be viable on sites whose alternative uses are limited to agricultural use or perhaps surplus industrial land. However, in other areas, values will support less affordable housing. It should also be considered that the results outlined in this table reflect generally the viability position achieved in all housing developments. The viability position of developments comprised solely of flats, or developments which contain a significant proportion of flatted development, are far more likely to display a less favourable viability position.

Value Area	Locality	Baseline Position
		(Nil grant, S106 contributions at current level, Code for Sustainable Homes Requirements as mandatory timescale, 80:20 social rent:intermediate affordable housing mix, Lifetime Homes allowance £600
ST15	Stone	Viability in Stone is good. On greenfield/industrial sites, 30% affordable housing and more is likely to be achievable in many cases with up to 40% under certain circumstances. On Previously Developed Residential Land, delivery below these percentages is more likely although such sites are likely to be fewer in number.
ST16	Stafford Town, (North)	Viability is more challenging on all sites in the North of Stafford town. Development within this area is however more likely to be concentrated in areas which achieve better values than the overall average and it will therefore be necessary for officers to have particular regard to the specifics of the site under consideration.
ST17	Stafford Town (South) and land to the South of Stafford	Viability is relatively good. On greenfield/industrial sites which will make up the majority of development, up to 30% affordable housing is likely to be achievable.
ST18 9	West of Stafford	Viability is relatively good. On greenfield/industrial sites, it may be possible to achieve 30% affordable housing and up to 40% under some circumstances but, on previously developed residential land, delivery is likely to be lower. It is important to note that this area includes some of the outlying areas of Stafford Town.
ST18 0	East of Stafford	Viability is more challenging. On greenfield/industrial sites, delivery is likely to be up to 30%. Developments on Previously Developed Residential Land are unlikely to deliver significant quantities of affordable housing.
ST20	Woodseaves	Viability is relatively good. On greenfield/industrial sites, 30% affordable housing is likely to be achievable. On Previously Developed Residential Land, it is possible to



		achieve up to 30% affordable housing.
ST21	Eccleshall	Viability is good. On greenfield/industrial sites, 30% affordable housing is achievable, with up to 40% under certain circumstances. On Previously Developed Residential Land, it is possible to achieve up to 30% affordable housing.

- 7.2 On this evidence, sites in the North of Stafford town will find it more challenging to deliver 30% affordable housing unless a case can be made for the receipt of grant or other forms of public subsidy. It might therefore be argued that consideration should be given to the adoption of different targets for the north of Stafford town and for the rest of the Borough. However, we would stress that the values appraised as part of this study reflect the values that have historically been achieved in the areas under consideration. Not only is new housing likely to be concentrated in areas where it will achieve values higher than those experienced across the area as a whole, but the north of Stafford is scheduled to encompass a major urban extension - a series of developments which are likely to significantly alter the local housing market and thus the likelihood is new value areas will be created that do not reflect the current position.
- 7.3 In practice, the proposed urban extensions will be built largely in the ST18 9 and ST18 0 postcode areas which border Stafford town and are more likely to experience the higher values associated with the surrounding areas than a small development nearer to the centre of town, where the surrounding properties will have a greater impact on the achievable property values and thus viability in this part of ST16 may continue to be more challenging. Moreover, sites in the southern parts of Stafford town are considerably more viable.
- 7.4 If a differential target were to be adopted for Stafford town, it would be necessary to demarcate clearly the boundaries of the town where the lower policy target would apply. Such demarcation would, inevitably, lead to anomalies, for example, areas where one side of the street is treated differently from similar properties on the other side of the street. This would undoubtedly be the case if the policy areas were delineated by the postcode boundaries which we have used in order to differentiate areas for the purpose of the research. The process of drawing a boundary which better reflected market circumstances would be a major piece of work in its own right, would likely remain an approximation and is likely to prove inflexible in the event that the relative desirability of different neighbourhoods in Stafford were to change over the period of the Plan.
- 7.5 Instead, we would suggest that a single, comprehensive, target is used for non-strategic sites, covering the whole Borough but recognising that sites in the north of Stafford town and in, to a lesser extent, to the east of Stafford will find it more challenging to deliver the full quota of affordable housing. If values on new development were to mirror those of existing properties taken as a whole and assuming that only very limited quantities of Social Housing Grant are likely to be available, some sites in north Stafford, and to a lesser extent those sites to the east of the town, it may be more challenging to deliver up to 30% affordable housing. However, not all sites in those areas will indeed be delivered at these relatively low values.



- 7.6 The precise viability position will, of course, need to be determined on a case by case basis, in accordance with a financial appraisal carried out when the planning application is submitted. Such appraisals can be referenced against the very large number of sensitivity tests carried out as part of this study. However, it will always be necessary for such viability assessments to provide an estimate of the values anticipated on the specific development in question as well as of the amount that it is reasonable to pay for the land.
- 7.7 The question is therefore what percentage of affordable housing the Council should seek to adopt as an overall target across the Borough. If the target is set too low then the danger is that some sites which could have provided a higher level of affordable housing will escape an obligation which might otherwise have contributed towards meeting one of the Borough's most urgent needs. This, in combination with the "safety valve" provided by the development appraisals submitted alongside planning applications argues strongly in favour of an ambitious and stretching target. However, there are also dangers associated with the adoption of targets that are too ambitious.
- 7.8 As currently expressed, the Council's preferred Core Policies anticipate that a minimum of 30% housing on qualifying sites will be affordable. In some areas, such as Stone, up to 40% affordable housing could be achieved in some circumstances.
- 7.9 It is essential that any Borough wide affordable housing policy is not unduly rigid and can be applied flexibly and pragmatically allowing development to come forward whilst meeting the needs of the community. It will be necessary to consider sites on an individual basis having due regard to the planning benefits of granting permission. The framework for enabling such decisions to be made including those of viability could be set out in a separate Supplementary Planning Document. Furthermore, the Council may update the assumptions used within this study in respect of property price growth, land value growth, build cost growth, inflation and Retail Prices Index (RPI) to assess whether market conditions experienced at any given point represent best the downside, middle or upside market assumptions used within this study. This will enable the Council, at any given time over the life of the Core Strategy, to refine their expectations in terms of the nature and extent of affordable housing that is likely to be achievable.
- 7.10 A site size threshold of 10 units can produce developable, deliverable sites with affordable housing. However, the exact level will have to be determined at the point of application having due regard to the Value Area and the potential alternative / existing uses of the site. On sites in rural areas with the capacity for between 3 and 9 units, we recommend that the Council adopts a target of 20%. Nevertheless, such sites are particularly varied and it may be appropriate for the Council to take a flexible view as to whether provision is on-site, in kind or, in exceptional circumstances, off-site.
- 7.11 The Council's preferred tenure mix of 80:20 social rent:intermediate may be chosen as the starting point for all affordable housing negotiations. However in the context of small sites it may be necessary to apply a high level of flexibility to ensure delivery and satisfy the needs of the local community.