

# **Affordable Housing Economic Viability Study**

For Teignbridge District Council

## **Executive Summary**

by Levvel Ltd

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## Executive Summary

### The Brief

Level has been commissioned by Teignbridge District Council to undertake an affordable housing economic viability study.

The aim of the study is to enable the Local Planning Authority to produce sound, evidence-based spatial plans with policies on affordable housing in the Teignbridge plan area to 2031, by providing evidence that helps the Authority understand the impact of affordable housing policy options (scenarios) on the viability of market-led housing development.

Those policies should enable the area to contribute in a planned way to meeting objectives for increasing local affordable housing supply, without jeopardising strategic objectives for decent homes and increased overall supply of housing, or for creating mixed communities.

More particularly, the study aims to provide part of the Local Development Framework (LDF) evidence base, through a study which provides robust and credible evidence of testing the impact of affordable housing on development viability on a strategic basis.

The brief requires an assessment of the relevant costs and financial implications relating to house building across the District, including consideration of the Council's requirements for S106/infrastructure and other planning gain requirements.

### Policy Background

The requirement to undertake viability assessments is derived from national policy guidance set out in PPS3 Housing<sup>1</sup> and the Government's housing policy statement 'Delivering Affordable Housing'<sup>2</sup>.

Paragraph 29 of PPS3 sets out the requirements for the development of affordable housing policy. It requires 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 upon informed assessments of the likely levels of finance available for affordable housing and the level of developer contributions that can reasonably be secured.

Teignbridge District Council's current saved policy regarding affordable housing is contained within The Teignbridge Local Plan, adopted in 1996. The Plan relates to the district outside of the Dartmoor National Park. Local Plan policies H8 and H9 relate to the provision of affordable housing and by Direction of the Secretary of State have been saved beyond 27 September 2007.

### Methodology

In undertaking this affordable housing viability assessment, we have assessed the viability of a range of housing developments across the District 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

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<sup>1</sup> Planning Policy Statement 3: Housing, DCLG, November 2006

<sup>2</sup> Delivering Affordable Housing, DCLG, November 2006

upside, middle and downside housing market growth scenarios during the Local Development Framework period. These scenarios have been derived as a result of a dynamic analysis of the housing market and we have considered how this might affect future values as they feed in to the economic viability of providing affordable housing over the life of the Core Strategy to 2031.

In order for our analysis of viability to be dynamic it is important to understand past trends in order to assess how future markets might perform. While past history has its own specific characteristics which may be peculiar to the period in question, there are still fundamental principles that can suggest how markets might perform in the future. 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 future scenarios.

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 with reference to the Strategic Housing Land Availability Assessment 2009 and the Residential Land Monitor (RLM) which the Council uses to monitor current residential planning applications. For the purposes of this study we have looked at a range of planning applications from 2005 to 2009.

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

An assessment of the nature and extent of Value Areas within the District was undertaken. This involved desk top research using Land Registry data on achieved sales values in Teignbridge at a Postcode Area level for each type of property (detached, semi detached, terraced and flats and maisonettes) as well as extensive discussions with local estate agents. In addition, this information was compared to other data sources (Rightmove and Find a Property) to thoroughly check and confirm the values between areas and dwelling type. Five value areas were identified, based on the distinctions in values that are achieved between Postcode Areas and settlements that exist within the District.

A 40% affordable housing target was initially assessed in all value areas. In cases where a non viable or marginally viable outcome was achieved with 40% affordable housing, a further assessment was undertaken reducing the affordable housing target by 5%. This was carried out down to a level of 25% affordable housing. An affordable housing tenure split of 70:30 social rented:intermediate has been assessed and, following consultation with the Council, intermediate housing was assumed to be shared ownership. On some occasions a 50:50 social rent:intermediate affordable housing tenure mix and a tenure mix containing all intermediate or all social rented units has also been assessed.

Average build costs have been derived from the Royal Institution of Chartered Surveyors (RICS) Build Cost Information Service for Teignbridge at 17 July 2010. As a result of consultation with the Council, infrastructure/tariff costs ranging from £7,500 to £15,000 have been applied per market unit. The results clearly demonstrate which level of costs per unit has been assumed. Actual S106 and infrastructure costs will vary from site to site depending upon location, proximity to existing services and the capacity of existing provision. Without modelling specific schemes, our policy based approach can therefore only provide guidance on the impact of higher levels of costs should these prove to be necessary.

The impact upon viability of all new housing achieving the relevant Code for Sustainable Homes at the relevant date of introduction has been assessed as detailed in Section 4 of this report. Further additional costs have also been assumed in relation to the delivery of

developments to Lifetime Homes Standards, again these costs are set out in detail in Section 4 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 three potential amounts per unit based on the form of affordable tenure. The grant per unit amounts that have been applied for some of the sensitivity testing is set out in section 4 of the main report. In addition, Appendix 7 to the main report looks in detail at more precise levels of public subsidy that may be required in the short, medium and long term to achieve viability at 40% affordable housing.

## 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 is data regarding land values in the area. 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;
- engaged Thornes Chartered Surveyors and Estate Agents to provide information on land values and recent land transactions undertaken in the District.

Our second test of viability examines the relationship between residual land value and gross development value. This assists in 'future proofing' this assessment and reflecting land owners differing expectations.

Based on our assessments, we have taken a figure of between 18% and 25% Gross Development Value (dependent upon location and site size) as a test for the level at which Residual Land Value may need to reach in order to incentivise the landowner sufficiently to bring forward his parcel of land.

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 Core Strategy period to ensure deliverability.

Full details on the two tests of viability that have been used can be found in section 4 of the main report.

## Stakeholder engagement

Two stakeholder questionnaires were forwarded to a list of key stakeholders identified by the Council. This included housebuilders, land owners, RSLs, agents and developers. In addition all stakeholders were invited to a stakeholder event held in August 2009.

Section 5 of the main report outlines the stakeholder engagement process whilst Appendix 6 details how the views and local knowledge of stakeholders helped to inform and shape this study.

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.

## Key Findings and Recommendations

Comprehensive analysis of the results of all notional schemes assessed can be found in sections 6 and 7 of the main report. Conclusions and recommendations for policy are set out in section 9.

### **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/infrastructure/tariff contribution, existing or alternative land values of the sites, market conditions, the Code for Sustainable Homes Level, scheme density and the availability of public subsidy.

The study results indicate that in middle market conditions, 40% affordable housing becomes viable within the Core Strategy period in most areas on most sites within the District. This suggests that up to 40% affordable housing could be supported as a challenging target although our viability assessments also show that currently this target is unlikely to be achieved without a considerable amount of additional subsidy or relaxation of other requirements.

Therefore we would recommend that the Council apply short term affordable housing targets for sites of 15 units and above (for a period of say the next five years) and retain a longer term 40% affordable housing target for the remainder of the Core Strategy period. Based on the results of this study we would suggest that these short term targets are area based as follows:

- Newton Abbot – up to 25% affordable housing;
- Dawlish, Teignmouth and the South West of Exeter – up to 30% affordable housing;
- Rural Settlements – up to 40% affordable housing.

These targets could be introduced through a Supplementary Planning Document which would provide detailed guidance on the framework for reviewing and applying these interim targets and how the transition to a longer term 40% affordable housing target may apply.

### **Sites below 15 units**

We considered the ability of schemes of 5-14 units to deliver affordable housing. Our analysis found that it was possible to deliver affordable housing below the current PPS3 threshold, but that the proportion of affordable housing that could be viable differed dependent upon the location of development, its current or existing use, scheme type, the gross development value of the scheme and the form of affordable housing to be delivered (social rented or intermediate).

A site size threshold of 5 units on sites 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.

It should be considered that schemes of this size are also more sensitive than larger sites to assumptions about overall values and tenure mixes, thus relatively small scale increases/decreases in costs and values will have an impact upon sites of this size delivering affordable housing either on site or by commutation. For this and other reasons outlined within sections 7 and 9 of the main report we do not believe that it would be productive to impose an affordable housing target higher than 20% on any site below 15 dwellings within the District.

### **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 made 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 8 of the main report.

### **Recommendations**

It is essential that any district 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 within a Supplementary Planning Document.

It is important that regard is had to the prevailing economic conditions, the location of the site and the type of development being proposed whilst taking into account the level of infrastructure/S106 requirements sought, the availability of additional subsidy, and any other community objectives that may be required.

The limitations of assessing economic viability on large, strategic sites within the framework of a District wide viability assessment undertaken to inform policy have been outlined within this study. We would recommend that more detailed analysis is undertaken in order to clarify the Council's requirements on sites of this nature and identify the approach to viability. This is particularly pertinent as development on such sites may account for a very significant proportion of new development within Teignbridge over the life of the Core Strategy. Such work could be set out in a Supplementary Planning Document or Area Action Plan.

The Council's preferred tenure mix of 70:30 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.



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