WYRE AFFORDABLE HOUSING VIABILITY STUDY

REPORT ADDENDUM – OCTOBER 2011

Introduction

Lambert Smith Hampton has been asked by Wyre Borough Council to provide some additional evidence as an addendum to the Affordable Housing Viability Study produced by LSH in October 2010. The addendum will deal with the following 3 questions:

1. The viability of providing affordable housing on schemes of 5, 10 and 15 units in the 4 market areas of Fleetwood, Thornton Cleveleys, Poulton-le-Fylde and Garstang as defined in the original report.

2. On smaller schemes it may not be viable to provide on-site provision and rather than lose out on contributions the Council would like an indication of the threshold where a commuted sum may be appropriate as an alternative to onsite provision.

3. The methodology that should be adopted by the Council to calculate the level of commuted sum that would be appropriate in the Wyre area.

Viability Assessment

To ensure the consistency with the original report we have based the new development appraisals at the same date as that adopted in the original assessment. As such we have not updated the market report although it is our opinion that there has been little change in market conditions since the original work was produced.

We have undertaken new development appraisals to assess the viability of providing 0 to 50% affordable housing on schemes of 5, 10 and 15 units in each of the market areas. We have attached to this addendum a table showing the split of unit types (an amendment to the Appendix 2 in the original report).

The table below is taken from the original report and shows the minimum land values required to deliver a viable development in each of the market areas.

Minimum and Maximum Gross Land Value

Area	**Minimum Land Value per hectare (per acre)**	**Maximum Land Value per hectare (per acre)**
Fleetwood	£741,300 (£300,000)	£988,400 (£400,000)
Thornton & Cleveleys	£1,235,500 (£600,000)	£1,482,600 (£700,000)
Poulton	£1,482,600 (£500,000)	£1,729,700 (£600,000)
Garstang & Catterall	£1,729,700 (£700,000)	£1,976,800 (£800,000)
Rural	£1,967,800 (£800,000)	£2,471,000 (£1,000,000)

Source: LSH

As with the original report the output from all the appraisals is land value. A site would only be viable if the land value shown in the tables below was equal or higher than the minimum land value shown in relevant row of the table above. The Viable land values have been shaded in blue so that they are easily identified.

Fleetwood

In Fleetwood we have appraised an additional 3 scenarios; they are all based on medium density family type housing and include appraisals of 15, 10 and 5 units:

Fleetwood Viability Appraisal Results

Affordable Housing Percentage	Residual Land Value (per hectare)		
	15 Units	10 Units	5 Units
0%	£760,000	£730,000	£690,000
10%	£576,000	£543,000	£316,000
20%	£479,000	£451,000	£316,000
30%	£199,000	£238,000	£88,000
40%	£124,000	£124,000	£88,000
50%	£45,000	Negative Land Value	£88,000

The table above shows that in Fleetwood the viability of smaller schemes is questionable even without affordable housing provision. The appraisals show that a 5 unit scheme with no affordable housing would not be viable based on our assumptions and mix of units, however it is only marginally not viable and as such a different mix of units is likely to achieve viability without affordable housing.

Poulton

In Poulton we have appraised an additional 3 scenarios; they are all based on medium density family type housing and include appraisals of 15, 10 and 5 units:

Poulton Viability Appraisal Results

Affordable Housing Percentage	Residual Land Value (per hectare)		
	15 Units	10 Units	5 Units
0%	£2,054,000	£1,973,000	£1,938,000
10%	£1,804,000	£1,723,000	£1,438,000
20%	£1,606,000	£1,598,000	£1,438,000
30%	£1,262,000	£1,301,000	£1,047,000
40%	£1,148,000	£1,130,000	£1,047,000
50%	£919,000	£786,000	£1,047,000

The table above shows that in Poulton schemes of 15 and 10 units can provide 20% affordable housing on site. A scheme of 5 units could not provide any affordable units based on this assessment.

Thornton and Cleveleys

In Thornton and Cleveleys we have appraised an additional 3 scenarios; they are all based on medium density family type housing and include appraisals of 15, 10 and 5 units:

Thornton and Cleveleys Viability Appraisal Results

Affordable Housing Percentage	Residual Land Value (per hectare)		
	15 Units	10 Units	5 Units
0%	£1,594,000	£1,538,000	£1,503,000
10%	£1,359,000	£1,304,000	£1,034,000
20%	£1,188,000	£1,187,000	£1,034,000
30%	£906,000	£929,000	£753,000
40%	£813,000	£789,000	£753,000
50%	£625,000	£507,000	£753,000

The table above shows that in Thornton and Cleveleys schemes of 15 and 10 units can provide 10% affordable housing on site. A scheme of 5 units could not provide any affordable units based on our assessment.

Garstang and Catterall

In Garstang and Catterall we have appraised an additional 3 scenarios; they are all based on medium density family type housing and include appraisals of 15, 10 and 5 units:

Garstang and Catterall Viability Appraisal Results

Affordable Housing Percentage	Residual Land Value (per hectare)		
	15 Units	10 Units	5 Units
0%	£2,217,000	£2,073,000	£2,038,000
10%	£1,967,000	£1,840,000	£1,507,000
20%	£1,769,000	£1,701,000	£1,507,000
30%	£1,432,000	£1,381,000	£1,147,000
40%	£1,326,000	£1,202,000	£1,147,000
50%	£1,094,000	£843,000	£1,147,000

The table above shows that in Garstang and Catterall schemes of 15 units can provide 20% affordable housing on site whilst schemes of 10 units can provide 10% although in reality the provision of 20% affordable housing on 10 units is almost viable. A scheme of 5 units could not provide any affordable units based on our assessment.

Summary and Threshold

The above tables show that across the borough the level of viability varies depending on the number of units being promoted. It is our opinion that schemes of 15 units in most locations could provide 20% on site affordable housing provision. We would therefore suggest that the Council

set the threshold for providing on site affordable housing at 15 units. Schemes under 15 units will in some circumstances still be able to provide affordable housing as is shown by the appraisals in Poulton and Garstang & Catterall. However, the delivery is marginal on the smaller schemes under 15 units and the council would be more likely to achieve positive contributions if they were to adopt a flexible approach that allowed developers of schemes under 15 units to provide a payment in lieu of on site provision in the form of a commuted sum. Below we set out our appraisal of various methods and make a recommendation on how it should be calculated.

Calculation of Commuted Sums for the provision of affordable housing

Through this study, our appraisals have shown that the provision of affordable housing on small sites is often unviable, producing a negative land value. This would usually result in the raising of the start level for the provision of on site affordable housing.

Within Wyre Borough a large proportion of new housing developments are on smaller sites of 10 units or less. Taking the above into account, this means that a number of new developments are coming forward without contributing to the ongoing supply of affordable housing.

Whilst the council's preference will always be for the provision of on site affordable housing, it is acknowledged that where this might not be viable, it would be preferable to levy a commuted sum from developers to provide for an off site contribution.

As part of this study, we have reviewed a number of examples from across England assessing the different calculations and models for calculating a commuted sum in lieu of on site provision. This research has been undertaken bearing in mind that the level of commuted sum should be broadly equivalent to the cost of providing affordable housing on site.

The reason that an off site contribution allows for a viable contribution to affordable housing is that the developer is providing for a level of affordable housing which would usually result in a lower number of units for open market sale. For example, an on site affordable housing requirement of 20% for a scheme of 5 units would result in the loss of 1 OMV unit. With a commuted sum, the developer would have the benefit of disposing of all 5 units at an open

market value, thus generating a higher development value to offset against affordable housing costs.

Historically, a number of authorities have used the Housing Corporation's Total Cost Indicator (TCI) in order to calculate commuted sums. This method effectively provides an estimate of the total cost of providing affordable housing, based on local variances. The issue with this method is that it is generally considered to be out of date and is not responsive to changes in the market, particularly in terms of costs.

An alternative method is to utilise a complicated method of assessing the financial capability of an RSL to purchase affordable housing units from a developer, without the aid of a grant. This often includes complex calculations surrounding management costs, rental charges and mortgage finance, all of which could potentially differ between RSL's. This creates a convoluted process which lacks transparency.

A more popular and current method of calculating commuted sums is to calculate the difference in the residual land value between the site unencumbered with affordable housing and the residual land value of the site with the full on site provision of affordable housing.

The benefit of this method is that it should in effect provide the local authority or RSL with the ability to bridge the gap between the value of land for affordable housing and the value of land for open market housing. This is the area where RSL's often struggle to compete with private developers. The difficulty with this method is that it would require negotiation between the two parties over what the exact value of the two types of notional land would be, thus increasing the potential for disagreement, increased costs and an extension to planning timescales.

In our opinion, the best method of calculating a commuted sum in lieu of on site affordable housing provision is to provide a method to simply calculate the value of the land required to develop an equivalent number of affordable units. The value of this land would be based on a serviced plot, with the benefit of planning permission. This is a method which has been adopted by a number of local authorities across England.

The principle of this method is to calculate the cost of purchasing and servicing a site to provide off site affordable housing. In order to do this, we have adopted an approach that assesses the

relationship between land value and the Gross Development Value of a site within each of the market areas we have identified within our report.

We have done this by reviewing the appraisals that we have already undertaken, establishing the relationship between land value and GDV, providing a multiplier which can then be applied to the individual open market value of each affordable unit which is to be provided off site.

The first stage is to establish the correlation between land value and GDC of the sites we have already tested within our report. Using the appraisals undertaken on each type of site, within each market area, where there is no affordable housing, we have established the following average percentage correlation.

Market Area	Average Land Value as a % of GDV
Fleetwood	13.6%
Poulton-le-Fylde	26.2%
Thornton & Cleveleys	24.3%
Garstang & Catterall	25.6%
Rural	26.5%

The percentages shown above are a multiplier, which can be applied to the open market value of a unit in order to give an indication of the cost of purchasing the land for that single unit, in essence a plot value.

In addition to this % multiplier, we also need to make an allowance for the professional and legal fees associated with purchasing a plot of land and then servicing it and achieving planning permission. Based on our experience, we feel that an allowance of 15% (calculated on the land value) is appropriate. In order to provide one single multiplier which takes both of these costs into account, the % multiplier is adjusted as follows:

Market Area	Average Land Value as a % of GDV (including allowance for purchase and servicing)
Fleetwood	15.6%
Poulton-le-Fylde	30.1%
Thornton & Cleveleys	27.9%
Garstang & Catterall	29.4%
Rural	30.5%

The multiplier identified in the table above is applied to the Open Market Value of each individual unit which will make up the off site contribution for affordable housing. Adding the result of using this multiplier provides the commuted sum to be paid. A worked example is shown below.

Worked Example of Commuted Sum Calculation:

A scheme of 7, four bed detached dwellings is proposed within a rural area of Wyre Borough. Using the council's standard affordable housing requirement, this scheme would have to contribute 20% on site affordable housing, equivalent to 1.4 units.

The appraisals we have undertaken show that by providing this level of affordable housing on site, the development is unviable. However, the development would be able to provide a commuted sum.

Our market research undertaken to support the development appraisals for this report, show that the average open market value of a 4 bed unit within the rural areas is £400,000. (See Appendix A to this addendum for LSH value assumptions, taken from the 2010 Affordable Housing Viability Study).

Using the multiplier shown in the table above, £400,000 x 30.5%, gives a figure of £122,000. This figure is equivalent to the cost of purchasing and servicing a site to provide one unit. As the site is required to provide 1.4 units, the commuted sum would be £170,800 (£122,000 x 1.4).

The formula for this sum is as follows:

OMV = Open Market Value of Individual Unit

A = Land Value Multiplier

B = Commuted Sum per unit

OMV x A = B

When this calculation is applied in practice, the Open Market Value of each unit can be calculated at the point of application. We would suggest that this is submitted by the developer, supported by relevant market evidence.

The principle behind why a commuted sum is viable rather than on site provision is fairly straight forward. Using our worked example above, a developer would have to provide two units on site. This would mean that he would only sell 5 units at OMV and 2 at a discount level which would potentially mean that the cost of development would be more than the value received on transfer to a Registered Provider.

With a commuted sum, the developer would be able to sell all 7 units on site at OMV and provide a figure which would equate to the land value of the two sites, thus generating a smaller impact on the site's viability. This money can then be used by the local authority to purchase a site for an Registered Provider to construct their own dwellings.

There will be occasions when even a commuted sum will not be viable, in the current market conditions the provision of affordable housing on schemes of 5 units or less is marginal even with a commuted sum. However, as with our previous advice, each site should be treated individually and developers should be asked to prove that providing affordable housing on site or as a commuted sum is not viable.

APPENDIX A – LSH VALUE ASSUMPTIONS

Location	Unit Values	Gross Land Value per ha (per acre)
Fleetwood	1 Bed - £70,000 (apt) 2 Bed - £120,000 3 Bed - £140,000-150,000 4 Bed - £165,000-175,000 5 Bed - £200,000 - £250,000	£741,300 - £988,400 (£300,000 - £400,000)
Poulton	1 Bed - £100,000 (apt) 2 Bed - £160,000 3 Bed - £200,000-220,000 4 Bed - £240,000-260,000 5 Bed - £300,000-350,000	£1,482,600 - £1,729,700 (£600,000 - £700,000)
Thornton & Cleveleys	1 Bed - £80,000 (apt) 2 Bed - £140,000-150,000 3 Bed - £180,000-200,000 4 Bed - £220,000-240,000 5 Bed - £250,000-300,000	£1,235,500 - £1,482,600 (£500,000 - £600,000)
Garstang and Catterall	1 Bed - £110,000 (apt) 2 Bed - £160,000-180,000 3 Bed - £220,000-250,000 4 Bed - £300,000-350,000 5 Bed - £400,000-500,000	£1,729,700 - £1,976,800 (£700,000 - £800,000)
Rural	1 Bed - £110,000 (apt) 2 Bed - £170,000-190,000 3 Bed - £240,000-280,000 4 Bed - £350,000-450,000 5 Bed - £500,000 +	£1,967,800 - £2,471,000 (£800,000 - £1million)