



Viability Testing of Affordable Housing Stakeholder Seminar

**7th July 2010
County Hall, Haverfordwest**

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1 Introduction

1.1 As part of the preparation of the Pembrokeshire County Council Local Development Plan (LDP), stakeholders were invited to attend a meeting on Viability Testing of Affordable Housing. The meeting was held on the 7th July 2010 in County Hall, Haverfordwest and a total of 28 people attended.

1.2 The aim of the meeting was to engage local, regional and national stakeholders in the approach being taken by the Authority in preparing an Affordable Housing Viability Study, as one component of the background evidence to be taken into account in framing affordable housing policies for the LDP and supporting SPG. Key objectives for the session included:

- Establishing an understanding by stakeholders of the approach,
- To secure the views of the development industry on key data sources, viability benchmarks, the range of tests being carried out and the assumptions underpinning these tests.

1.3 The involvement of the development industry in the development of affordable housing policy is critical to ensuring the soundness of the Plan.

1.4 The LDP will contain specific policies and a strategy for delivering affordable housing in Pembrokeshire over the Plan period from adoption to 2021. SPG on affordable housing to support the LDP will be consulted upon alongside the Deposit Plan and will come forward following adoption of the LDP.

1.5 Attendees were drawn from a range of industry and professional backgrounds including small and large scale developers, architects, surveyors, housing providers, estate agents and relevant Council staff. The mix of specialism's provided the basis for informed discussion of the authority's proposed approach to affordable housing and the detailed analytical work on viability to draw out suggestions for improvement and fine tuning.

1.6 The meeting included an update on LDP preparation, the proposed approach to affordable housing policy and details of the Three Dragons Development Appraisal Toolkit (DAT), the tool chosen by Pembrokeshire County Council for the viability assessment for the LDP.

1.7 The DAT is a software package designed to assess the impact of various costs, including affordable housing provision, on the viability of residential development sites. It allows for the input of different types of funding, market values, different mixes of housing types and tenures, varying levels of profit and build costs, and any exceptional costs attached to a particular site. One of the main focuses of the day was to try and establish if the data entered into the DAT for the LDP viability analysis was reasonable and typical.

1.8 The programme for the day was as follows:-

- An introductory presentation on the LDP, the need for affordable homes in Pembrokeshire and current policies
- An interactive presentation on the authority's approach to testing the viability of delivering affordable housing through the planning system, where the DAT was explained in detail and continual feedback and comment invited from all attending.
- A feedback session where those present split into three groups to ensure all had the opportunity to make their views known on 9 key questions:-

1. What is a reasonable price for residential development land under current economic circumstances?
2. What is a reasonable level of developers' profit?
3. Which types of new build property are selling?
4. What are typical costs of construction and contractors' profit?
5. Should the percentage of affordable housing vary by site and locality?
6. Is the present Supplementary Planning Guidance (SPG) on affordable housing and S.106 contributions fair to all parties?
7. Is there a better way of determining how much affordable housing should be provided on development sites?
8. Which other matters should be considered in developing an affordable housing policy?
9. Are there other ways to provide affordable housing?

1.9 All attendees were provided with an agenda, a briefing paper outlining the topics to be covered during the day, a printout of the presentation slides showing each stage of the DAT process and the list of questions. They were also asked to fill in a feedback form querying if the meeting had met its objectives, how clear the presentation was and how they felt the meeting had been organised.

1.10 The following section gives a brief overview of general comments made and a summary of responses to each question by group. All supporting documents provided at the meeting are included in the appendices.

2 General comments

2.1 Questions were raised about whether the costs of the Code for Sustainable Homes (Code 3) were included in the Build costs of the DAT Appraisal. Although DAT analysis is based on the costs being included it was confirmed later in the meeting that this figure could be specified separately in the Exceptional items section. When considering the Code for Sustainable Homes, scale needs to be considered, as the cost of compliance is greater per property on smallscale developments.

2.2 Questions were raised over what costs are used to reflect the impact of Code 3 for Sustainable Homes. These are based on market information although the figures will be refined as more houses are built to the Level 3 standard. There were conflicting views over build costs with some considering the RSL's tender prices are likely to be lower than market housing costs. Others felt that they were not likely to be lower than for market housing, as they are often based in small rural communities and have to be built to higher standards.

2.3 It was stated that consideration needs to be given to the costs of Code Assessments for SAP Tests in Pembrokeshire associated with typical smaller scale developments (assessments can be by type for groups of over 10 units – otherwise all properties have to be individually assessed).

2.4 There was general discussion on the problems of determining build costs to use as a baseline for DAT. It was noted that there are a lot of variables but this is just a hypothetical benchmark to allow the model to test viability for the LDP.

2.5 Some stakeholders expressed the view that the land value figures, used to determine whether the DAT shows a site to be viable, need to be evidenced – although it was recognised that in practice it can be very difficult to obtain accurate reliable evidence due to the unknown factors affecting land price for each individual site. In that context, several stakeholders expressed a view that the cost of land figure of £200,000 per acre might be reasonable as an average for 2010. However, individual sites might vary significantly from this and market conditions could result in it becoming quickly out-of-date. An alternative method might be to use DV values from 2009 as a benchmark, but there are problems with doing this, as it is based on a different market, different policy approaches and without the requirement for all homes to be built to Code for Sustainable Homes level 3. Some stakeholders felt there is a danger of the LDP being used to dictate the market value of land, even if this was an inadvertent consequence of trying to achieve a satisfactory planning outcome.

2.6 Other comments surrounded potential variations in the type of land that was being bought and potential constraints (e.g. contamination) that might affect the price and therefore give a false picture of what a straightforward, serviced, greenfield site might sell for.

2.7 Some stakeholders were concerned that market house prices would be depressed by including affordable housing and this would affect viability and this was not being taken into account in the viability analysis for the LDP.

2.8 Some stakeholders pointed out that there is a variation in price between market housing sites and sites with mixed tenure, very much dependent on the tenure mix and the proportion of affordable housing. This was questioned by other stakeholders who commented that there was no empirical evidence to support this and cited research carried out by the Joseph Rowntree Foundation that demonstrated no variation in prices for the areas studied. It was proposed that in Pembrokeshire there are so few mixed sites that there is no local evidence. The question was raised as to whether there was any empirical evidence to support the opinion that market prices are depressed by the affordable housing. No-one present was able to provide such evidence.

2.9 Questions were raised about how up to date the information going into the DAT is. Officers confirmed that the model is being run on the basis of figures from March 2010 so as a baseline / benchmark it is fairly up-to-date and reflects 2010 costs. These figures will be reviewed as the LDP preparation process proceeds and individual planning applications will be reassessed against the then current market conditions throughout the plan period.

2.10 It was generally agreed that the DAT is a useful tool for assessing viability given the complexity of affordable housing finance but that it is based on assumptions that need to be derived from current data and that the results are only ever a guide to viability rather than an absolute.

2.11 Some stakeholders considered that professional fees within the DAT should be set higher. The Royal Institute of British Architects (RIBA) publishes a list of fees which could be considered although market evidence was probably the most accurate way to determine a reasonable level. It was commented that the DAT needs to reflect additional professional fees incurred as part of meeting Sustainable Code for Homes Level 3 (e.g. ecologist, lighting engineer). Professional fees will in many instances amount to over the 6% figure used in the DAT runs for the LDP to date.

2.12 The DAT suggests £7,098 per plot for planning obligations, but several stakeholders suggested it was closer to £9,000 and might be higher still. It was noted that for the LDP typical figures were required, not the highest that has been known.

2.13 The DAT runs to date have assumed 30 houses being developed per hectare over a 12 month period. There were two issues raised about this:

- Developers' finance costs were considered to be too low, as they are possibly closer to 4.5% than the 3% used to date; and
- That in the present very slow market, development only taking 12 months from inception to completion was an unrealistic assumption for the model.

2.14 It was noted that:

- costs to developers from utility companies may be higher than estimated. There are also difficulties in getting exact costs from these companies until planning permission is actually granted. It was felt that a reasonable average figure should be included.
- It was incorrectly stated that the model assumes that private and affordable housing are built to the same size, which cannot be assumed. For the LDP accurate figures on floor areas are required
- On mixed tenure sites, the sale of private housing may subsidise the cost of affordable housing even when Social Housing Grant is not available. 100% affordable housing sites can only be brought forward using an intermediate rental model, donated land or other low cost mechanism where Social Housing Grant is unavailable.

2.15 A few stakeholders expressed concern about the affordable housing policies set out in the JUDP, anticipating that their concerns might also have implications for the emerging LDP. They suggested that some landowners are unwilling to bring forward JUDP housing allocation sites because of concerns about affordable housing aspects, specifically because the local authority rather than the landowner chooses who occupies the affordable homes. Some landowners had apparently expressed concern over the personal implications for them if problems subsequently arose and had withheld development sites as a consequence. Other stakeholders pointed out that problems with tenants were comparatively few and far between and that schemes involving a mix of market and affordable units had worked successfully in the County and elsewhere throughout the UK.

3 Comments by Group in response to the prepared questions

Question 1 What is a reasonable price for residential development land under current economic circumstances?	
Group	Comments
1 Blue	<p>1) The group agreed that it was very difficult to establish land values as costs vary significantly. Comment that a reasonable price varies considerably as it depends on what the parties are prepared to buy and sell the land for. It may be possible to estimate gross value but it is more difficult to ascertain net residual value, which may be perceived as a more important figure. Some participants stated that £200,000 is reasonable estimate for residual development land but for land with alternative use value (e.g. retail) this may not be reasonable – need to consider what is robust in light of the general type of allocations made by the LDP.</p> <p>2) Very difficult to ascertain but it needs to be justified and evidenced</p> <p>3) Point made that whilst there are problems with it (identified above) using information from the District Valuer's office may be helpful in establishing a useful starting point against which to assess the current £200k per acre figure. Other comments that for smaller sites a higher price per acre is generally paid.</p> <p>4) Topics covered also included a discussion on affordable housing and whether allocation panels could be used to assess whether applicants had local connections etc.</p>
2 Green	<p>1) DV figures could be used, but there are some concerns about doing this – it is not the ideal method. There is a need for improved public relations on affordable housing policy. Individual sites (at Letterston and Hook) had sold at £100,000 and £185,000 per acre recently, but there was wide price variation dependent on individual site circumstances as well as market conditions. Fear of social housing is perceived to be more important than price.</p>
3 Red	<p>1) The group didn't set a figure considered to be an acceptable price, but discussed at length the factors that cause variances in landowners' expectations across Pembrokeshire, including</p> <ul style="list-style-type: none"> • Time land has been in their ownership • Whether the owner has financial issues • Cost of land historically in the locality • Who the prospective buyer is (local v national developer)

	2) The conclusion was that landowners generally in Pembrokeshire are rarely under financial compulsion to sell and that emotion is a big factor in their motives and decision making.
<i>PCC Comment</i>	<i>1) PCC will undertake further research into the cost of residential land looking at the Land Registry and prices of recently sold land. A final figure to be used with DAT will be published at a later date in the background paper.</i>

Question 2 What is a reasonable level of developers' profit?	
Group	Comments
1 Blue	<p>1) There was no specific answer but in general it was proposed that developers need better margins in today's difficult market.</p> <p>2) There was a general view that, as a standard percentage, 20% of the gross development value was likely to be acceptable. Banks would be interested in the pre-tax profit levels. Comments attributed to Barclays and RBS (made at another event) indicated that they would not consider financing a development scheme achieving less than 25% of gross development value (this is 20% once other elements such as marketing etc are taken out) – broadly in line with level PCC has used for viability testing.</p>
2 Green	1) There was uncertainty over whether the level set by the DAT was correct, but no firm suggestions regarding an alternative figure.
3 Red	1) The group were in general agreement that as the party taking most risk in the development process, a gross developer profit of 25% is not unreasonable. The issue of banks only lending where this level of profit is factored into plans was also recognised.
<i>PCC Comment</i>	<i>1) PCC will research the percentage of developers profit further, to evidence a reasonable level for the DAT.</i>

Question 3**Which types of new build property are selling?**

Group	Comments
1 Blue	<p>1) There were no specific figures but general comments included:</p> <ul style="list-style-type: none">• market is quiet at the moment.• In terms of new builds it had been a good autumn, a quiet winter and was a slow summer.• Second hand homes are moving slowly.• No sales for first time buyers• Flats are not selling.• Most house buyers have houses to sell so there is a chain but other than this there is no obvious pattern to the market.• The houses that are mid-level in cost such as semi-detached or smaller detached properties are the most buoyant part of the market.• Some developers are offering to part-exchange properties to assist sales.• For purchases relying on mortgages with low deposits there are instances where banks are down valuing properties. <p>2) From a housing association perspective:</p> <ul style="list-style-type: none">• the greatest need in Pembrokeshire generally is for 2-3 bed properties.• the type of affordable housing provision needs to be appropriate for the locality and the type of demand (e.g. bedroom numbers).
2 Green	<p>1) Some stakeholders said that the upper end of the market was selling, but not the lower end, because first time buyers were finding it difficult to secure mortgages and couldn't find the necessary deposits. Others said that there were problems with selling middle value properties. There was some consensus that those who were buying were often trading-up from their present property rather than trying to buy for the first time.</p>
3 Red	<p>1) This question was not covered</p>
<i>PCC Comment</i>	<p><i>1) Discussion useful as background information but does not necessitate a change in the assumptions used on the DAT.</i></p>

Question 4**What are typical costs of construction and contractors profit?**

Group	Comments
1 Blue	<p>1) Depends on whether you are just focusing on standard costs with no add-ons and no unexpected costs (LA – yes). Useful to look at breaking down the costs so that developers can comment on the individual elements of this (ask Quantity Surveyor to do this). Need to establish whether the 3 Dragons DAT incorporates the Code for Sustainable Homes Level 3 into the costs of construction or not. (12% for professional fees is probably reasonable. Also worth looking at BCIS</p> <p>2) It was noted that build costs are higher for small developers in comparison to large volume building companies. They do not benefit from economies of scale and all costs including material, labour etc are much greater in comparison.</p>
2 Green	<p>1) It was suggested that the £945 build costs per sq m in the DAT for houses of less than 75m² was too low – a figure of £1,100 might be closer to reality.</p> <p>2) Abnormal costs also need further attention – because many of the straight-forward sites are now built-out, there are now more ‘difficult’ sites to consider, many of which will have abnormal costs attached to their development. In other words, ‘abnormal’ costs are becoming more common. This can cover items such as de-contamination and provision of upgraded sewerage.</p>
3 Red	<p>1) This question was not covered</p>
<i>PCC Comment</i>	<p><i>1) PCC will re-examine the % of professional fee's used.</i></p> <p><i>2) PCC will maintain build costs of £945 which has been evidenced at BCIS level.</i></p> <p><i>3) No further action will be taken on abnormal costs.</i></p> <p><i>4) Contractors profit will be examined in the light of any new evidence that comes forward.</i></p>

Question 5**Should the percentage of affordable housing vary by site and locality?**

Group	Comments
1 Blue	1) Yes if this is necessary to make a development viable (general consensus on this).
2 Green	1) It was strongly felt that it should. While it was understood that benchmarking was required to underpin LDP policies, there was strong support for leaving a window open for negotiation on a site-by-site basis at application stage.
3 Red	1) The main argument from this group was that it would be illogical and unreasonable to increase the percentage required from a developer just on the basis of a high residual land value. The reason is the effect any form of Affordable Housing has on the value / selling price of the market units on that development. Essentially the answer was no, it shouldn't because people want to be treated fairly, and not feel targeted
<i>PCC Comment</i>	<i>1) PCC will continue to examine viability in relation to what is a reasonable percentage of affordable housing on each site as it comes forward for development.</i>

Question 6

Is the present Supplementary Planning Guidance (SPG) on affordable housing and S106 contributions fair to all parties?

Group	Comments
1 Blue	1) No 2) Some comments that the current nil contribution level from RSLs if there is no Social Housing Grant available is unfair and a better approach would be for them to provide 42% of ACG value from their reserves towards the development which would enable more homes to be built.
2 Green	1) It was felt that the situation was still very unclear to developers. This particularly concerned the 40% affordable housing provision on sites with Social Housing Grant / 20% affordable housing provision on sites without Social Housing Grant issue. Some stakeholders felt that 20% on non-SHG sites was too high. There were also concerns

	about SPG wording and a feeling that the SPG doesn't explain how the funding works.
3 Red	1) The group felt that generally current policies are not working. Very few affordable homes for social renting were being delivered through the S106 regime, and that there are two main reasons: <ul style="list-style-type: none"> • Unclear policy • The knowledge that a new plan is on its way, and that no plan ever lasts that long anyway
<i>PCC Comment</i>	<i>1) Comments have been noted and will be considered for review of the Affordable Housing SPG. It should also be noted that in a very slow market with depressed house prices the opportunity for cross-subsidy of affordable housing is severely limited.</i>

Question 7

Is there a better way of determining how much affordable housing should be provided on development sites?

Group	Comments
1 Blue	1) One suggestion was to have the District Valuer do it; however in previous cases where this has been done it has resulted in no affordable housing being provided. Comments that the District Valuer's assessment is an alternative to the 3 Dragons Model which works in the opposite way – in putting land value as a cost and then working back to the developer's profit as a way of assessing viability. 2) It was noted that DAT is too prescriptive and it would be better if the final policy allows other innovative methods (such as Persimmon Homes Carmarthen example). 3) Commuted sums from all developments also proposed. A discussion about whether affordable housing should always be required on sites.
2 Green	1) There is the Valuation Office Agency (VOA) method – where the residual is profit – this provides an alternative method, sometimes called the 'residual method'. 2) Another option is to allocate for 100% affordable housing – but this can only be done where Social Housing Grant is available – because in its absence there would be no market houses to cross-subsidise the affordable units.

	<p>3) There can also be a problem with ‘pepper-potting’ the affordable housing units within a site – this is desirable in social and planning terms, but can cause problems when the private market is depressed because there are insufficient private units / sales to fund the affordable units.</p>
<p>3 Red</p>	<p>1) The group were generally comfortable with the principle of modelling viability, as long as there is flexibility for a developer to negotiate at the application stage. Pragmatic targets, that recognise Pembrokeshire’s stagnant market, should be adopted rather than ambitious or aggressive ones. The Local Authority should be actively engaging with developers and landowners and offering them a range of alternatives.</p>
<p>PCC Comment</p>	<p><i>1) To clarify there would be no difference in the outcome when PCC use the ‘residual method’ whether we use a set land price or a set level of developers profit to determine viability. PCC still feel the DAT is the best method available for testing viability. Once a target has been identified it will still be possible for individual applicants to negotiate on the level of affordable housing , providing flexibility.</i></p>

Question 8

Which other matters should be considered in developing an affordable housing policy?

Group	Comments
<p>1 Blue</p>	<p>1) More flexible approach More interaction with private sector Use LA owned land Provide a range of options to developer Policy to encourage discussion Planning permissions need to be processed more quickly DAT not practical on 5-6 house sites</p> <p>2) General comments about a need for greater flexibility. One stakeholder raised an example of an exception site being delayed because the Authority’s stance was that affordable housing would be developed on an allocated site within the settlement. Comment that the need for affordable housing is so great that this should not be given weight.</p> <p>3) View expressed that County Council as landowner should be</p>

	providing more land for affordable housing.
2 Green	1) It was generally felt that the key matters had already been debated, although there were some ideas on alternative ways to provide affordable housing (see question below).
3 Red	1) The definition of 'local' needs clarification, with effort made to ensure affordable homes do really reach people with local connections. A system such as a 'local list' might be worth exploring, though it would need an organisation or trust to administer.
<i>PCC Comment</i>	<i>1) Comments have been noted and will be considered for review of the Affordable Housing SPG. 2) Specific comment in response to Group 1 comment that PCC as a landowner should be providing more land for affordable housing - there is a need for PCC to balance both of its duties, one as a housing authority and the other in its obligation to maximise the return from any sale of land so that the capital received can be used for other Council services (e.g. schools, social care, leisure facilities, libraries).</i>

Question 9

Are there other ways to provide affordable housing?

1 Blue	<p>1) Example of Carmarthenshire County Council's approach given – where Low Cost Home Ownership is based not on resale at 70% of ACG but at a price dictated by 3 times local income + 5%.</p> <p>2) Preference expressed by some developers to deliver Low Cost Home Ownership instead of Social Rented properties. However comment from Local Authority that a substantial element of the demand for affordable housing in Pembrokeshire is for Social Rented Properties.</p> <p>3) Commuted sums expressed as an option – however concern from some that this would require too much administration.</p> <p>4) Support expressed for ability of RSLs to deliver intermediate rented schemes to generate income which can be recycled to provide additional affordable housing.</p>
2 Green	1) Carmarthenshire County Council uses a different method, based on a median value and ties to income.

	<p>2) Incorporate an exceptions policy into the LDP (similar to JUDP approach) – don't just rely on allocations.</p> <p>3) Release appropriate local authority land assets to housing associations to provide affordable units.</p> <p>4) Use local authority Compulsory Purchase Order powers more frequently to buy sites and bring them forward for affordable housing development.</p> <p>5) Nationalise land (a matter for the Government to consider) – at present it is only the right to develop land that is under public control (through the planning system), not ownership.</p> <p>6) Identify 100% affordable housing allocations where Social Housing Grant is available.</p> <p>7) Over-programme for housing development through the LDP (this will happen to an extent, but there are problems associated with excessive over-provision).</p> <p>8) Be aware that no one solution will work in every case, so ensure that the LDP presents a balanced portfolio of choices and is sufficiently flexible to cope with site-by-site variations and changing market conditions. Ensure that it is possible for landowners, developers and agents to negotiate different terms at different times and in relation to different sites and economic circumstances.</p>
<p>3 Red</p>	<p>1) Developers would far prefer to pay a lump sum for their affordable housing obligations to be provided elsewhere, off-site. It was stated again that it is hard to quantify but that there is a reduction in selling prices / value of the market houses on any development where there are affordable homes, whether pepper-potted or placed in one corner. The group recognised the social and design negative impacts this approach would have, but suggested it as a means of ensuring at least some AH is delivered, because the outlook, in their opinion, is very bleak for housing development in Pembrokeshire in the next few years.</p> <p>2) Landowners and developers aren't under the same pressures to build as in other more urban / populous authorities because there isn't a consistently high demand for new homes (one reason proposed for this is that existing stock is in overall good condition and doesn't need as much renewal as some other places).</p>
<p><i>PCC Comments</i></p>	<p><i>1) Comments have been noted and will be considered during review of the Affordable Housing SPG.</i></p>

3 Outcomes & Actions

Outcomes

3.1 PCC to review inputs to the DAT based on a review of comments made and evidence base.

3.2 PCC does not accept that affordable housing decreases the value of market housing on the same site. No evidence was provided by the attendees to support this assertion.

Actions

3.3 PCC will produce a background paper as a result of this meeting detailing the results of the viability testing.

Appendix 1

List of Attendees

Internal

Name	Role
Phillip Williams	Property Review Manager
Rod Thomas	Capital Receipts Officer
Sara Hill	Principal Forward Planning Officer
Emma Evans	Senior Forward Planning Officer
Jonni Tomos	Graduate Planner
Cath Ranson	Development Plans & Conservation Manager
Bob Smith	Principal Forward Planning Officer
Lara Turpin	Development Plans Technician
Mike Simmons	Head of Major Developments
Nick Haggar	Legal Executive
Andrew Davies-Wrigley	Policy Planning and Change Manager (Housing)
Joanne Jones	Graduate Trainee – Social Care & Housing

External

Name	Organisation
Richard Price	Home Builders Federation
Andrew Crompton	Persimmon Homes
Pete Sedgwick	PCNPA
Dave Morgan	PCNPA
Jamie Edwards	Uzmaston projects
Peter Maggs	Pembrokeshire Housing
Nigel Sinnett	Pembrokeshire Housing
Gareth Thomas	Cartref
Guy Thomas	Estate Agents
Carys Vaughan	Hayston Developments & Planning
Ken Morgan	Design & Building Management
Joanne Owen	Owen & Owen
Wyn Harries	Design & Management
Tim Colquhoun	Architect
Linda Jones	Acanthus Holden
Matthew Owens	Rural Housing Enabler

Appendix 2

Invited Stakeholders



Frans Nicholas Architects
D Cochlin
RHL Architectural Design
Kimpton Durham John Associates
F B Fisher Associates
H B Tribe
Pembroke Design Ltd
Ian Bartlett
Argent Architects
Jason Evans Planning Ltd
K Morgan
J Bishop
Acanthus Holden Architects
Hayston Developments & Planning
Tim Colquhoun Architects Ltd
W A Spees RIBA Architects
Willis & Hole Architects
Harries Design & Management
Roger Anderson & Associates
Trevor Hopkins
G H Evans & Co
RK Lucas
Charlie Kidd
Westhaven Development
Celtic Homes & Builders
Persimmon Homes
Redrow Homes (South Wales) Ltd.
Oakdale Homes
Nick Heywood
Edward H Perkins
Owen & Owen
J.J.Morris
John Francis Property Services
Pembroke Design Limited Architects & Surveyors
Tara Builders
Tony Morris & Sons Developments Ltd

Appendix 3



**Local Development Plan:
Affordable Housing and Viability**

7 July 2010
County Hall, Haverfordwest



Welcome!

1. The LDP – general progress and approaches to affordable housing
2. Viability testing
3. Your comments, suggestions and ideas



Purpose of the day

LDP is a new plan:

- Debate and re-evaluate the approach to affordable housing
- Changes must be based on evidence
- Policies only carry weight once Plan adopted



LDP progress

- Policies nearly complete
- Cabinet – September
- Council – October
- Public Consultation – 10th November for 6 weeks



Key characteristics of the LDP

New homes to satisfy the projected household growth:

- net in-migration
- smaller household sizes
- working with PCNPA

Location of growth moving towards a more equal urban-rural split.



Affordable Housing in the LDP

2593 households in need throughout Pembrokeshire County Council plan area:

- Common Housing Register
- Rural Housing Enabler surveys
- Local Housing Market Assessment

Average house price / wage ratio of 5.98:1, compared to Wales' 5.26:1



Affordable Housing in the LDP

- A proportion on allocated and large housing and mixed-use sites
- Exception Sites
- Housing Association sites
- Local Villages



Viability Testing Using the Three Dragons Development Appraisal Toolkit

**Rod Thomas
&
Philip Williams**

Gross development Value

- Combined value of all proposed units
- Based on actual sales evidence where available
- Affordable housing price according to proceeds to be received as a percentage of Acceptable Cost Guidance (ACG)

ACG percentages paid by purchaser to Developer

- Social rented – Housing Association pays 96% of ACG if SHG available – 58% SHG and 38% from reserves / borrowing.
- Low Cost Home Ownership – Qualifying purchasers pay 70% of ACG (financed by a mortgage)



Costs of Development

- Construction costs
- Contractors profit
- Marketing, legal and finance
- Developers profit
- Exceptional costs
- S106 obligations



Questions for Discussion groups

- What is a reasonable price for residential development land under current economic circumstances?
- What is a reasonable level of developers' profit?
- Which types of new build property are selling?
- What are typical costs of construction and contractors profit?
- Should the percentage of affordable housing vary by site and locality?
- Is the present Supplementary Planning Guidance (SPG) on affordable housing and S106 contributions fair to all parties?
- Is there a better way of determining how much affordable housing should be provided on development sites?
- Which other matters should be considered in developing an affordable housing policy?
- Are there other ways to provide affordable housing?

See separate document (Appendix 3 DAT.pdf) for details of Three Dragons Development Appraisal Toolkit

Appendix 4



Affordable Housing Viability Testing.

7 July 2010, County Hall Haverfordwest.

Agenda

10.30am Registration and coffee

10.45 Apologies and introduction

- Format and purpose of the day
- Evidence of need for affordable homes in Pembrokeshire
- Affordable housing policies in the Local Development Plan
- Why the current policies and approaches are being reviewed

11.30 Testing the viability of delivering affordable housing through the planning system – an interactive presentation.

- The Three Dragons development appraisal toolkit
- The assumptions and components of the appraisal

12.30pm Lunch

1.15 Feedback and questions

Development of Affordable Housing Policy for the Local Development Plan

1. The Local Development Plan and affordable housing

The Local Development Plan will contain policies and a strategy for delivering affordable housing from 2012–2021, in the area of Pembrokeshire excluding the National Park. A review of the current Supplementary Planning Guidance is also underway and the day's discussions will be considered when drafting the new SPG. The Plan is likely to be 'on Deposit' in the autumn of 2010, but won't be adopted until late-2012.

2. The Three Dragons Development Appraisal Toolkit

The Three Dragons, Development Appraisal Toolkit (DAT) is a software package designed to assess the impact of affordable housing provision on the viability of residential development sites. It allows for input of different types of funding, changes in market values, different mixes of housing types and tenures, varying levels of profit and build costs, and any exceptional costs attached to a particular site.

3. Information Required to Run the Development Appraisal Toolkit

The basic information required to run the DAT is as follows

- Size of site in hectares
- Number of units proposed
- Number of units for private sale
- Number or percentage, of affordable units
- Number and type of each unit, e.g. 7 five bed detached, 3 two bed semis, 7 one bed flats
- Proposed sale price for each type of unit
- Floor area of each type of unit
- Build cost per square metre - preferably, recent, local, comparable, evidence derived from actual tenders. If that is not available then the default costs in the DAT are applied.
- For flats the number of storeys and the type of parking (surface, understorey or basement?)

- Whether Social Housing Grant is to be available for the site
- The Acceptable Cost Guidance* band applicable to the locality
- Exceptional costs attached to the development. *
- Total obligations package per unit for all other S106 obligations.
- The density of dwellings per hectare
- S106 contribution per dwelling for education, waste, libraries, transportation, etc.
- The percentage of developers and contractors profit
- The cost of finance

*Acceptable Cost Guidance ACG – This is the amount the Welsh Assembly Government has set as its acceptable total cost of providing each type of affordable dwelling in each locality across Wales. The Social Housing Grant paid to the Housing Association to build an affordable unit is set at 58% of the ACG, regardless of the actual cost. The Housing Association must then fund the rest of the cost from borrowings and reserves. The ACG theoretically provides for land purchase cost, construction and all other costs of completing the dwelling, to the point of occupation. For example the ACG for building a three bedroom semi in Narberth (which is in ACG band 2) is £126,900.

*Exceptional Costs - These are items such as off site sewerage works, raft foundations, flood prevention works, decontamination. To be relevant these must be works that are essential to enable the development to occur. The cost will be the extra cost that arises from these works. So for example, if raft foundations are required, the cost of ordinary strip foundations will need to be deducted from the cost of raft foundations, to arrive at the extra cost to be incurred.

4. Viability Testing Using the DAT

A series of test runs of the DAT will be undertaken to assess the viability of sites with different tenure mixes (private, social rented and low cost home ownership), variations in market values and different percentages of affordable housing. This will enable the LDP team to assess what percentage of affordable housing can reasonably be required on sites in the Pembrokeshire County Council planning area, without making sites unviable

The Council has considered that a development is viable where the DAT produces a land value in excess of approximately £500,000 per hectare or £200,000 per acre. This is thought to be a reasonable market value for land which gives the landowner sufficient incentive to sell and the developer sufficient incentive to develop. The DAT allows 17% developer's profit and 5% contractor's profit (although those figures can be altered) so that the

software calculates viability allowing for all parties involved in the development to receive a reasonable return.

5. The Council wishes to receive feedback on any aspect of the policy formation process including the following questions.

- i. What is a reasonable price for residential development land under current economic circumstances?
- ii. What is a reasonable level of developers' profit?
- iii. Which types of new build property are selling?
- iv. What are typical costs of construction and contractors profit?
- v. Should the percentage of affordable housing vary by site and locality?
- vi. Is the present Supplementary Planning Guidance (SPG) on affordable housing and S.106 contributions fair to all parties?
- vii. Is there a better way of determining how much affordable housing should be provided on development sites?
- viii. Which other matters should be considered in developing an affordable housing policy?