

LEIGH HOUSE 147 LEIGH ROAD
WIMBORNE DORSET BH21 2AD
T: 01202 639444 F: 01202 881868 W: www.levvel.co.uk



Draft Final Report

**AFFORDABLE HOUSING VIABILITY STUDY
FOR
WOKINGHAM BOROUGH COUNCIL**

By

Levvel Ltd

June 2008



Contents

1.0	Introduction	3
2.0	Outline of Methodology	7
3.0	Residual Land Values – sites above 15 unit threshold	20
4.0	Residual Land Value – Sites below 15 unit threshold	28
5.0	Residual Land Value – Rural Scheme	30
6.0	Existing or Alternative Use Value	32
7.0	Affordable Housing Provision in Relation to Gross Development Value – Urban Sites	36
8.0	Affordable Housing Provision in Relation to Gross Development Value – Rural Sites	42
9.0	Strategic Development Locations	43
10.0	Sensitivity Testing	47
11.0	Social Housing Grant	52
12.0	Affordable Housing Products	53
13.0	Commuted Sums	57
14.0	Conclusions	64
15.0	Recommendations	70



1.0 Introduction

Background

- 1.1 Levvel has been appointed by Wokingham Borough Council to undertake an Affordable Housing Viability Study to inform the development of affordable housing policy through the LDF.
- 1.2 Levvel is an innovative and multidisciplinary housing consultancy established in 1998, providing bespoke advice on affordable housing policy, pre planning negotiations, S106 drafting, RSL negotiations and Planning Appeal and Plan Inquiries.
- 1.3 We have experience of negotiating and delivering both affordable and market housing in a variety of locations throughout the UK on behalf of the public and private sectors. We have wide experience of the development of both large scale strategic housing and mixed use developments and smaller scale individual housing schemes. We have developed a distinctive residual methodology for assessing site viability which enables decisions to be made about the likely costs and implications of affordable housing provision.

The Brief

- 1.4 The Council issued a brief for a proposed Affordable Housing Viability Study in January 2008. The Study objectives are:
 - a. To assess the impact on economic viability of options for affordable housing policy with combinations of thresholds, % quotas, tenure mixes and grant assumptions;
 - b. To provide a robust evidence base in order to support preparation of the Core Strategy, other LDF documents and any other planning policy documents relating to affordable housing.
- 1.5 The Brief requires an assessment of the relevant costs and financial implications relating to house building in the Borough, including consideration of the Borough Council's requirements for s106 contributions.



- 1.6 The Brief specifically requires advice on:
- a. affordable housing thresholds, assessing the impact on viability of a range of potential thresholds and the identification of a feasible threshold for local policy;
 - b. affordable housing percentage targets;
 - c. potential tenure mixes and the impact on viability;
 - d. the impact of Social Housing Grant on viability;
 - e. commuted sum provision in lieu of on site provision, including a standard formula for calculation of commuted sums;
 - f. potential sub-market housing products which could be offered to residents in affordable housing need.

Policy Framework

- 1.7 The requirement to undertake viability assessments is derived from national policy guidance set out in PPS3 Housing¹ and the Government's housing policy statement "Delivering Affordable Housing"².
- 1.8 Paragraph 29 of PPS3 sets out the requirements for the development of affordable housing policy, including affordable housing targets. In setting an overall plan-wide target which 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, including developer subsidy, and the level of developer contributions that can reasonably be secured.

¹ Planning Policy Statement 3: Housing, DCLG, November 2006

² Delivering Affordable Housing, DCLG, November 2006



- 1.9 PPS3 indicates that the presumption is for the affordable housing to be provided on-site, but that where this can be robustly justified, off-site provision (of broadly equivalent value) may be accepted as long as the agreed approach contributes towards the creation of mixed communities in the local authority area.
- 1.10 Delivering Affordable Housing, paragraph 19, requires local authorities to consider the availability of both public and private investment in the delivery of affordable housing and its impact on the viability of sites and the level of affordable housing targets and thresholds. Targets should reflect an assessment of the likely economic viability.
- 1.11 At a local level, planning policy for the delivery of affordable housing is currently contained in Policies WH12 and WH14 of the Wokingham District Local Plan, March 2004. These policies have subsequently been 'saved' pending adoption of the Local Development Framework following a Direction from the Secretary of State under Section 8 of the 2004 Planning & Compulsory Purchase Act.
- 1.12 The Local Plan defines affordable housing as:
- "Affordable housing is taken to mean accommodation that is accessible to people whose incomes or resources are insufficient to enable them to buy or rent on the open market."
- 1.13 Policy WH12 sets an affordable housing target of 26% of dwellings on sites of 15 or more dwellings or 0.5 hectares in size. Within rural settlements of less than 3,000 population, the relevant thresholds are 5 dwellings and 0.25 hectares. The presumption is that the affordable housing should be provided on site, but where it can be robustly justified, off site provision in the form of a commuted sum may be acceptable. The tenure of affordable housing required will be determined through agreement with the Council.
- 1.14 Policy WH14 deals specifically with rural affordable housing and allows the provision of small scale affordable housing developments to meet identified local need as an exception to normal planning policy.
- 1.15 Supplementary Planning Advice (SPA) was adopted by the Council in 2004 to provide further advice to developers on the Council's approach to the delivery of affordable housing. This confirms the 26% target, but indicates that this level of



affordable housing is expected to be delivered without recourse to Social Housing Grant. New affordable housing is expected to meet the Housing Corporation's Scheme Design Standards and to incorporate Lifetime Homes standards where feasible. The presumption is that the affordable housing will be provided on site, but where an off site contribution is agreed, the SPA sets out the Council's approach to the calculation of commuted sum payments. Such payments should be based on a greater contribution of affordable housing rather than on the facilitating site, taking account of the fact that the facilitating site will now provide 100% market housing (rather than 74% if on site provision were made). The commuted sum payment should relate to the cost of delivery of affordable housing elsewhere and will be calculated on the basis of the difference between capitalised rents and market values.

- 1.16 Monitoring of affordable housing provision against the Local Plan targets through the Council's Annual Monitoring Report indicates the following levels of provision:

	Number of Affordable Homes	% of Total Housing Completions
2004/5	47	13%
2005/6	139	21%
2006/7	165	16%

- 1.17 The Council is currently preparing its Local Development Framework to replace the adopted Local Plan. The Core Strategy Submission Draft is scheduled for approval by the Council on 26 June 2008, with submission to the Secretary of State in August 2008, an Examination in Public in March 2009 and Adoption in June 2009.
- 1.18 The Council is also preparing a Housing Site Allocations DPD, which will provide further guidance on housing sites and housing requirements. This is currently scheduled for Submission in June 2009, with Adoption due in March 2010.



2.0 Outline of Methodology

Residual Valuation Appraisal

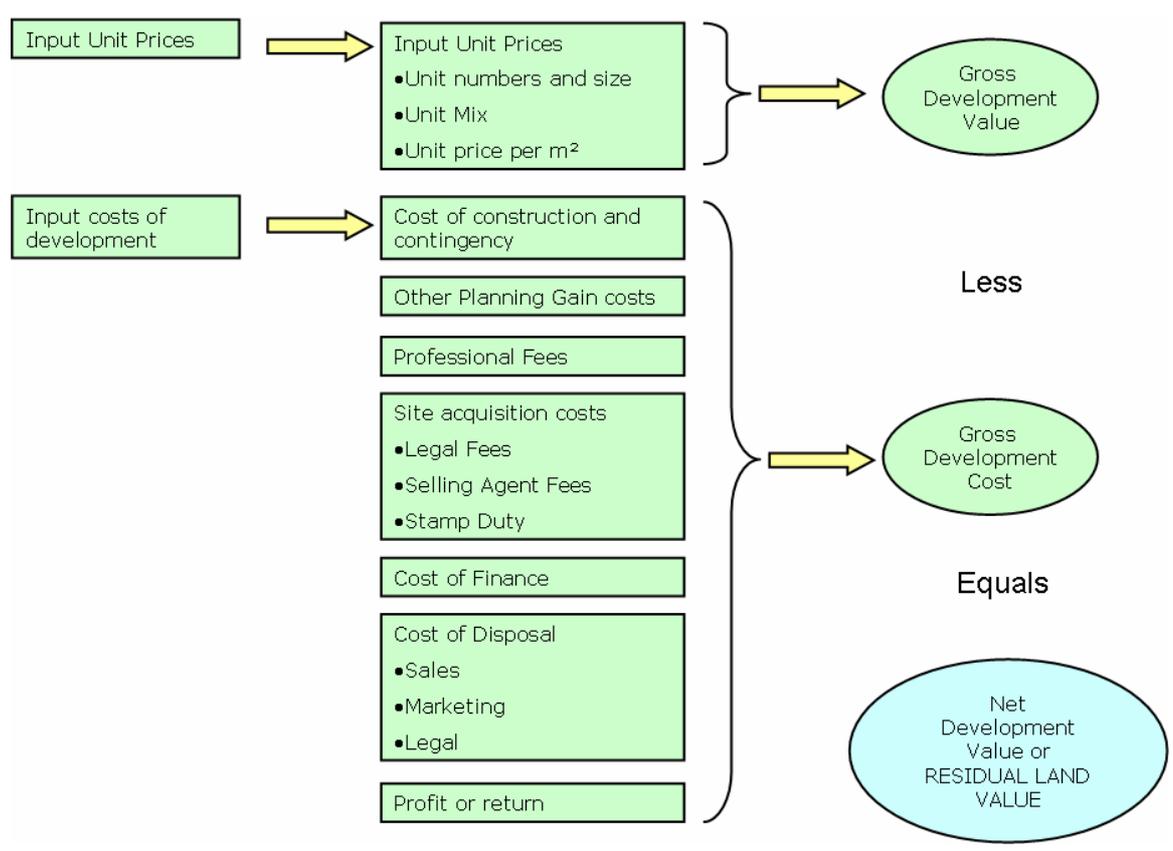
- 2.1 In undertaking this affordable housing viability assessment, we have sought to provide advice to the Council on the proportion of affordable housing that can be delivered in Wokingham without the input of additional grant funding. To do this, we have assessed the viability of a range of housing developments across the Borough using a residual valuation appraisal tool of the kind recommended in the Government's Delivering Affordable Housing Statement.
- 2.2 Residual land value assessment is a recognised practice within the 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 rent and compare this with the costs associated with developing that scheme. The residual amount contained within the appraisal is assessed using the formula $\text{Gross Development Value LESS Gross Development Cost} = \text{Residual Value}$. This process is represented graphically in Figure 2.1.

Process – Stakeholder Consultation

- 2.3 Residual valuation appraisal methodologies utilise a range of assumptions about development costs and values. Many of these are 'standard' across the development industry, but we also need to reflect the specific circumstances within Wokingham. We therefore agreed with the Council that stakeholder consultation on key inputs to the modelling process was essential to enable our assessment to reflect local circumstances, but also to achieve a degree of 'buy-in' to the process, something that we consider essential if the eventual policy directions are to be acceptable and deliverable by the house building industry (both private and registered social landlords) in the Borough.



Figure 2.1: Residual Valuation Appraisal



2.4 The stakeholder consultation took several forms:

- a. Workshop Discussion – we attended the Council’s Housing Strategy Conference on 19 March 2008, and ran a workshop on affordable housing viability which sought views on the role of viability appraisal, the methodology adopted and the key inputs



to the modelling process. A note of the outcomes of this workshop is attached as Appendix 1.

- b. Questionnaire – a detailed questionnaire seeking views on methodology and inputs was circulated to all participants at the Housing Strategy Conference and to other house builder and RSL contacts working in the Wokingham area. Individual responses to the questionnaire are confidential, but the key issues raised have been incorporated into our methodology. A copy of the questionnaire and a summary of responses is attached as Appendix 2.
 - c. Valuation advice – we sought separate valuation advice via telephone calls, emails and letter, from a range of agents working in the residential property sector in Wokingham to confirm our assumptions about residential sale values and land values.
- 2.5 Outputs from the consultation exercises have been assessed and the key inputs used in our modelling.

Key Inputs to the Residual Valuation Model Approach in Wokingham

Typical Settlements

- 2.6 The identification of typical settlements for analysis was undertaken jointly with officers from Wokingham Borough Council and confirmed through the consultation exercise outlined above. Three urban settlements were identified, Wokingham town, Woodley and Earley. The Borough also contains a large rural area with a number of villages. Planning policy has limited the amount of new development in these villages and Hurst was identified partly on the basis that it had seen recent housing development and would therefore provide a robust basis for assessment of rural viability.

Notional Sites

- 2.7 Within each settlement area identified, we sought to identify a range of potential or 'notional' development sites that would be characteristic of development trends in the Borough and therefore provide a basis for the assessment of future affordable housing delivery. The identification of notional sites for analysis was undertaken jointly with the Borough Council.



- 2.8 The development types modelled within the 3 towns were:
- a. 50 unit flatted scheme
 - b. 30 unit, mixed flats and terraced houses
 - c. 20 unit suburban houses
 - d. 10 unit suburban houses
 - e. 5 unit infill scheme
- 2.9 Within Hurst, and the other villages where policy limits the extent of new development, opportunities for larger scale development are likely to be very limited, so the analysis looked primarily at smaller scale infill development, i.e.
- a. 2 unit houses
 - b. 5 unit houses
 - c. 10 unit mixed flats and houses.
- 2.10 The Borough Council's Preferred Options Draft Core Strategy also identifies the potential need for additional development to meet regional housing requirements in the form of up to 4 large strategic development locations, each with a minimum of 2,000 dwellings, principally in greenfield locations. We have therefore examined the potential to deliver affordable housing on a large greenfield site.
- Affordable Housing Percentage Quotas**
- 2.11 The Brief required us to consider a range of potential affordable housing quotas, or targets, to inform future policy development. The consultation exercise, and discussion with Council officers, led us to identify 5 potential targets for testing:
- a. 20% - to help determine whether a lower level of affordable housing would be required particularly on sites currently under the PPS3 5 unit threshold;
 - b. 26% - in line with current Local Plan requirements;



- c. 35% - in line with draft South East Plan Policy H4 requirements
- d. 40% - recognising that this level has been adopted in other high value areas in the region and found to be viable and was suggested by a number of respondents through the stakeholder consultation; and
- e. 50% - to test an upper limit.

Tenure Mix

2.12 The Brief also required an assessment of the impact of tenure on the delivery of affordable housing. We have therefore considered a range of different tenure mixes, i.e. the mix of social rented to intermediate housing to determine the impact of tenure on overall scheme viability and whether higher levels of affordable housing could be delivered adopting a different mix of housing tenures.

- a. 80:20 - social rented:shared ownership
- b. 70:30 - in line with the requirements in Policy H4 of the emerging South East Plan
- c. 60:40
- d. 60:10:15:15 - social rented:intermediate rent:shared ownership:shared equity
- e. 50:50

2.13 For shared ownership housing, we have assumed a minimum level of equity of 50% with rent on the retained equity at 2%. The Council currently uses a shared ownership model under which equity shares as low as 35% can be purchased, with rent on the unsold equity fixed at 1.5%. We were asked specifically to look at the impact of this shared ownership model on viability. We have done this and the results of this assessment are analysed in Section 10.

Sales Values

2.14 Sales values input into the model have been derived from Land Registry data for achieved sales in each of the 4 identified settlement areas of Wokingham. The data have been sourced from the *FindaProperty.com* website. To ensure a robust



sample, we have considered achieved sales over a 14 month period prior to commencement of the study, i.e. covering the calendar year 2007 and the first 2 months of 2008.

- 2.15 Having sourced values for achieved sales, we checked these against those available on the *Rightmove.co.uk* website and have sought further confirmation through letter and telephone contact with local estate agents operating in each of the identified areas.
- 2.16 We collected house price information for 4 dwelling types, detached, semi-detached, terraced and flats and maisonettes.
- 2.17 Although this area has seen significant pressure for new development in recent years, the number of new build properties recorded did not, on its own provide a sufficient sample size to generate robust sales values for this study. The data therefore represent achieved sales for second hand properties. These values have then been uplifted by 10% to give an approximation of new build values in the area.
- 2.18 Sales values were averaged across each area and then converted to a value per sq metre, which have then been applied to the approximate size units assumed for each type of dwelling. A detailed technical methodology is attached at Appendix 3.

Build Costs

- 2.19 Average build costs have been derived from the latest information for mixed housing developments from the Building Cost Information Service at February 2008. This is generally recognised as providing acceptable generic build costs and is in viability modelling undertaken by the GLA and the Housing Corporation.
- 2.20 This gives an average build cost for the Borough of approximately £955 per sq m for mixed housing developments. For the larger 2,000 unit scheme, we consider that there are likely to be economies of scale in terms of build costs and we have therefore assumed a cost of £902 per sq m equating to the cost for 'estate housing'.



Lifetime Homes

- 2.21 The concept of Lifetime Homes was developed by the Joseph Rowntree Foundation in 1991. It involves the incorporation of 16 design features within new homes which can provide a flexible and adaptable environment, ensuring that the home can meet the needs of most households.
- 2.22 The Council's adopted Affordable Housing Supplementary Planning Advice document advises that Lifetime Homes standards should be incorporated into new affordable housing where feasible. In February 2008, the Government published a Strategy for Housing in an Ageing Society³, which indicated an expectation that all new public housing should be built to Lifetime Homes standards by 2011, and an aspiration that all new housing should meet these standards by 2013. As the emerging Core Strategy will provide policy guidance for housing in the period to 2026, it is likely that the vast majority of new housing built over the plan period will have to comply with the Government's new requirement for Lifetime Homes.
- 2.23 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.
- 2.24 Although this figure has been widely reported evidence from Scotland, where Lifetime Homes requirements have already been incorporated into Building Regulations, suggests that the actual cost of building to Lifetime Homes standards may be significantly higher, in the range of £1,500 to £2,000 per unit. Also, the standards effectively set minimum size requirements for new dwellings to ensure sufficient space for wheelchair access. The average size of new 1 bed properties on the open market is currently below the indicative size indicated by Lifetime Homes and it has been suggested that increases in size, and hence build cost, of up to

³ Lifetime Homes, Lifetime Neighbourhoods: A National Strategy for Housing in an Ageing Society, DCLG, Dept of Health, Dept for Work & Pensions, February 2008



25% may be required to ensure compliance. We have not built these additional costs into our modelling, but they should be borne in mind since, 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.

Code for Sustainable Homes

2.25 The Code for Sustainable Homes was launched by the Government in December 2006⁴. It was introduced to provide a single national standard for evaluating the sustainability performance of new houses in England and Wales, building on the earlier EcoHomes standard developed by the Building Research Establishment.

2.26 The Code represents a set of sustainable design principles covering performance in 9 key areas:

- Energy and carbon dioxide emissions
- Water
- Materials
- Surface water run-off
- Waste
- Pollution
- Health and wellbeing
- Management, and
- Ecology

⁴ Code for Sustainable Homes: A step-change in sustainable home building practice, DCLG 2006



- 2.27 In each category, performance targets are set in excess of current Building regulations and a star rating system is used, ranging from 1 to 6. The provision of a rating against the Code became mandatory for all new homes on 1 May 2008.
- 2.28 The Government had previously announced that all new public housing should meet a minimum of Code Level 3 (representing a 25% improvement in energy use and carbon emission performance over Building regulations) from 1 April 2008. The Government has also set a timetable for the incorporation of various levels of the Code for all new houses:
- a. Level 3 for all new houses by 2010
 - b. Level 4 (44% improvement) by 2013, and
 - c. Level 6 (zero carbon) by 2016.
- 2.29 For the purposes of this affordable housing viability study, we have assumed that all new dwellings should meet Code Level 4. This is above current requirements, but below what is likely to be required in latter stages of the Core Strategy period. It therefore represents an average which provides a base for assessing the impact on the viability of housing development.
- 2.30 Given that the Government has indicated its intention to require all new homes to be zero carbon by 2016, there is surprisingly little published information about the costs of meeting the various levels of the Code. Partly, this is because meeting higher levels will require the incorporation of new technologies into house building which are still being developed and can currently only be costed on an exceptional basis. However, research undertaken by Cyril Sweet on behalf of English Partnerships and the Housing Corporation⁵, has attempted to cost the implications of various levels of the Code. This research suggests the following cost increases (above the costs of meeting current regulations):

⁵ A cost review of the Code for Sustainable Homes, Cyril Sweet for English Partnerships and the Housing Corporation, February 2007



- a. Code 3 - £3,000 to £6,000 per dwelling, equivalent to 4-7% additional construction cost
 - b. Code 4 - £8,000 to £17,000 per dwelling, equivalent to 12-20% additional construction cost
 - c. Code 5 - £26,000 to £36,000 per dwelling
- 2.31 The report makes clear that these costs depend upon the technologies employed to achieve renewable energy generation, with the upper costs dependent on high levels of photovoltaics. The report notes that other technologies, particularly the scope for wind turbines would reduce cost increases. For Code 4, for example, the cost increases utilising a significant proportion of wind energy would fall to 7-9% above current build costs.
- 2.32 These findings have been used to determine potential build cost increases required to deliver Code level 4 in Wokingham. As the cost increase will vary depending on the technology used, and as costs will undoubtedly fall as the technology becomes more mainstream, we have assumed that meeting Code Level 4 will require an average 10% increase over current build costs in Wokingham.

Infrastructure Requirements

- 2.33 Infrastructure costs applied to new development have been calculated on the basis of information supplied by the Borough Council in terms of likely requirements per unit, constrained by the need to ensure that the maximum contribution per unit did not exceed £18,000. Figures have been derived from the Council's emerging SPD on developer contributions, which provides a uniform basis for assessing contributions across the Borough.
- 2.34 Parts of the Borough lie within 5km of the Thames Basin Heaths Special Protection Area (SPA), designated in accordance with the European Habitats Directive. To meet this European legislation, Natural England has prepared a Delivery Plan which requires residential development to provide mitigation measures to offset the potential impact of additional recreational activity on the SPA. The zone of influence of the SPA covers most of the area of Wokingham town and we have assumed that all development in this area should make a contribution towards mitigation of the impact of development on the SPA. The level of mitigation has been advised by the



Council at £3,800 per dwelling for the purposes of this study. This cost may change following further work on addressing the SPA issue.

- 2.35 For the Strategic Development Locations, it is recognised that infrastructure costs may well be higher than those assumed for urban development. The actual costs required will vary for each site in the emerging LDF, depending on its location, its proximity to existing services, the actual size of the development and the capacity of existing provision. Without modelling specific schemes, a policy based approach can, therefore, only give a general indication, plus provide guidance on the impact of higher levels of infrastructure costs if these prove to be necessary.

Developer's Profit

- 2.36 For a developer to bring a site forward, a reasonable assumption must be made of the return to the developer on its investment in the scheme, i.e. profit. The model treats profit as a legitimate cost on the development, in the same way as build costs or s106 requirements.
- 2.37 For the purposes of this study, we have assumed a developers profit on the market element of the scheme of 17% of Gross Development Value. This accords with the profit assumption made by the GLA in London, and is considered to be appropriate for Wokingham. Responses to our questionnaire from developers has suggested that profit levels should be assumed at a higher level, over 20% and that for smaller developer's profit levels should be higher than for the larger volume builders (see Appendix 2). There is also an argument that, in the current uncertain climate of the housing market, higher levels of profit should be assumed to reflect the level of increased risk faced by the building industry. Nevertheless, for the purposes of our study, and given that it is looking forward potentially for a 15 year period, we believe that an assumption of 17% remains valid.
- 2.38 For the affordable housing element, a lower profit level of 6% has been assumed. Responses from Stakeholders at the Housing Strategy Conference confirmed that it is legitimate to allow for an element of profit in the delivery of affordable housing to encourage private house builders to bring schemes with affordable housing forward. The level of 6% is again in line with the assumptions made by the GLA (see Appendix 2).



Interest Rate

- 2.39 In bringing forward a development, a house builder will typically borrow funding to cover development costs over the period of the build and sale programme, incurring an interest payment charge. Similarly, a house builder will receive income from the sale of units and accrue interest on these sales. For our modelling we have assumed interest earned would be at 6% (reflecting longer term average interest rates and approximating to the current 3 month inter-bank lending rate) and interest charged at 2% above this level, i.e. 8%.

Professional Fees

- 2.40 These cover the fees incurred in, for example, surveyors' fees, architects' fees and planning and transportation consultants' fees, necessary to bring a development forward. Within residual valuation modelling, these are normally assumed to be in the range of 8% to 12% depending upon the complexity of the scheme. For the purposes of our modelling, we have assumed a level of 8%.

Other Development Costs

- a. Contingencies – 10% of build costs
- b. Stamp Duty – varies between 0% and 4% depending on residual land value
- c. Legal fees on acquisition – standard assumptions at 0.75% of acquisition costs.
- d. Acquisition agents fees – 1% of acquisition costs
- e. Legal fees on sales –£100 per intermediate unit for affordable housing and £300 per unit for market housing
- f. Marketing of sales –3% of intermediate sale value or 3% of private sale value
- g. Finance arrangement costs – 1% of build cost
- h. Planning application fee –1% of build cost



- 2.41 These have been derived from our experience in undertaking viability appraisals for private sector developers across the UK. They are also generally in line with values assumed in other generic viability and residual valuation models.

Unit Sizes

- 2.42 Appendix 4 sets out the average size of units assumed in the modelling in square metres. This size mix has been compiled on the basis of Housing Corporation scheme development standards and our experience in working with private sector housebuilders across the country.



3.0 Residual Land Values – sites above 15 unit threshold

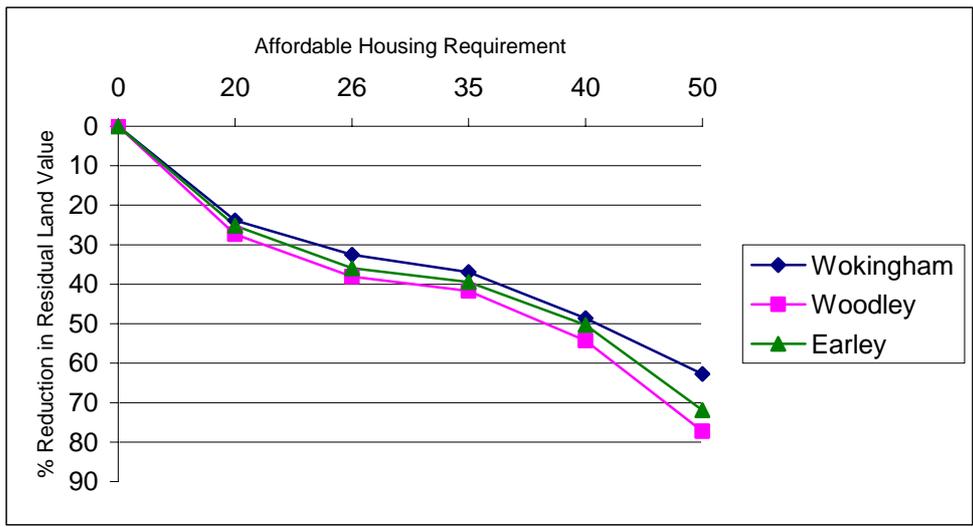
- 3.1 As set out in Section 2, we have considered the issue of development viability through the use of a residual valuation appraisal. In simple terms, a development may only come forward where the (residual) land value, having taken account of all likely revenue and costs (including provision for affordable housing) exceeds current or alternative values for the site. Section 6 addresses the issue of existing or alternative land use in more detail, but in determining what level of affordable housing may be viable in Wokingham, a critical consideration will be the impact of development proposals and policy requirements on the overall residual value of a scheme.
- 3.2 Through our detailed modelling, we have made a number of assumptions about likely revenues or costs and undertaken residual value appraisals for a range of potential developments. By looking at the percentage reductions in residual land values (RLV) for each scheme, it is possible to derive conclusions about the likely impact on varying levels of affordable housing over the period of the Core Strategy. RLV cannot, however, determine precisely what level of affordable housing is or is not viable on a particular site. Site specific viability needs to be assessed through a bespoke appraisal taking into account any abnormal site specific costs and infrastructure requirements.
- 3.3 The following figures, therefore, set out the percentage reductions in residual land value at varying levels of affordable housing requirement. For the purposes of these results, we have assumed a 70:30 social rented:shared ownership housing tenure split in line with Policy H4 of the draft South East Plan, and considered the implications on sites in Wokingham, Woodley and Earley.

Residual Land Value – 15 Unit Scheme

- 3.4 Figure 3.1 indicates that the application of current Local Plan levels of affordable housing provision (26%) reduces the residual land value of schemes by 33% in Wokingham, 36% in Earley and 38% in Woodley. As the affordable housing requirement increases, residual value decreases further, but the figure does suggest that an increase to approximately 35% does not have a significant additional impact on residual land value (decreasing by approximately 40%) but that beyond a level of 35% RLV falls at a much greater rate.



Figure 3.1: Impact of Affordable Housing on Residual Land Value -15 Unit Scheme

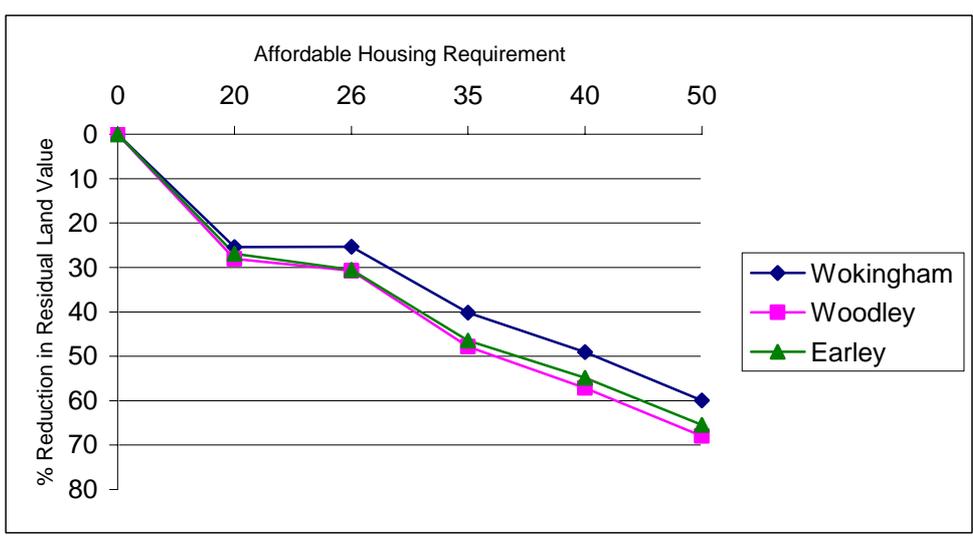


Residual Land Value – 20 Unit Scheme

- 3.5 Figure 3.2 demonstrates the reduction in RLV for larger, 20 unit, suburban schemes.
- 3.6 As with the 15 unit scheme, the modelling suggests that an affordable housing requirement at 26% reduces residual land value by approximately 30%, although it does demonstrate that, in the higher value area around Wokingham town, the impact on RLV is lower.



Figure 3.2: Impact of Affordable Housing on Residual Land Value – 20 unit scheme



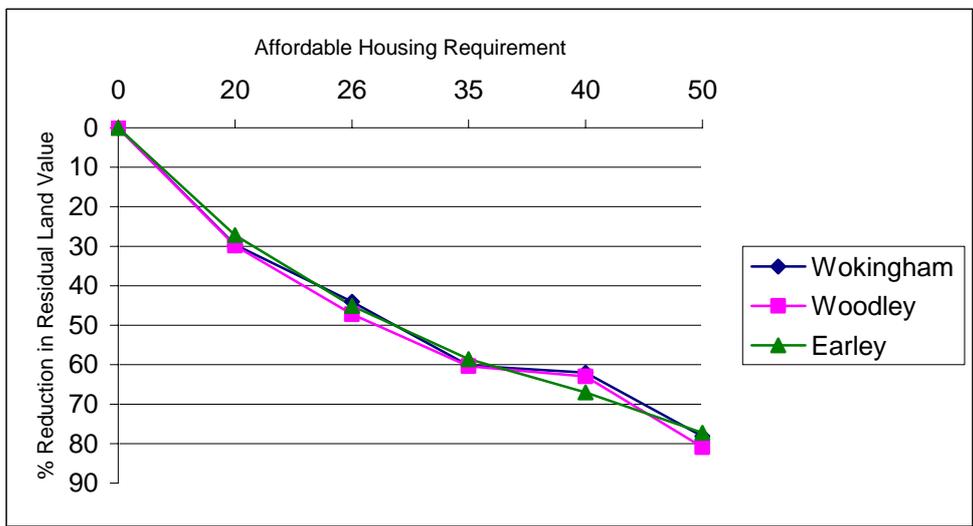
- 3.7 As affordable housing requirements increase beyond 26%, however, in the larger scheme, the impact on RLV becomes more pronounced, particularly in Woodley and Earley where, for example, 35% affordable housing reduces RLV by 48% and 46% respectively, compared with 40% in Wokingham. Beyond a 35% requirement, the RLV in all areas falls below 50%.
- 3.8 Figure 3.2 indicates that, between 20% and 26% affordable housing provision, there is only a small reduction in RLV. This is due to the fact that the 6 percentage point increase results in only 1 additional affordable unit within the shared ownership tenure. The cost of this to the developer is considerably less than for social rented provision and hence it has less impact on the eventual RLV.



Residual Land Value – 30 Unit Scheme

3.9 Figure 3.3 shows the impact on residual value for a 30 unit scheme, with a mix of smaller houses and flats. In our experience, this is more typical of an edge of town centre scheme.

Figure 3.3: Impact of Affordable Housing on Residual Land Value – 30 unit scheme



3.10 For a scheme of 30 units, there is a much steeper reduction in residual land value as the proportion of affordable housing increases than in either of the previous two schemes. It would seem to suggest that the residual value of schemes with lower value units (albeit that there maybe a greater number of units) is much more responsive to affordable housing policy than schemes with larger, higher value units. In this example, current affordable housing policy requirements would result in a reduction in RLV across all 3 areas considered of approximately 45%. To deliver an affordable housing requirement of 35%, a reduction in residual land value of 60% would be required. Beyond 35% there is an apparent plateau in terms



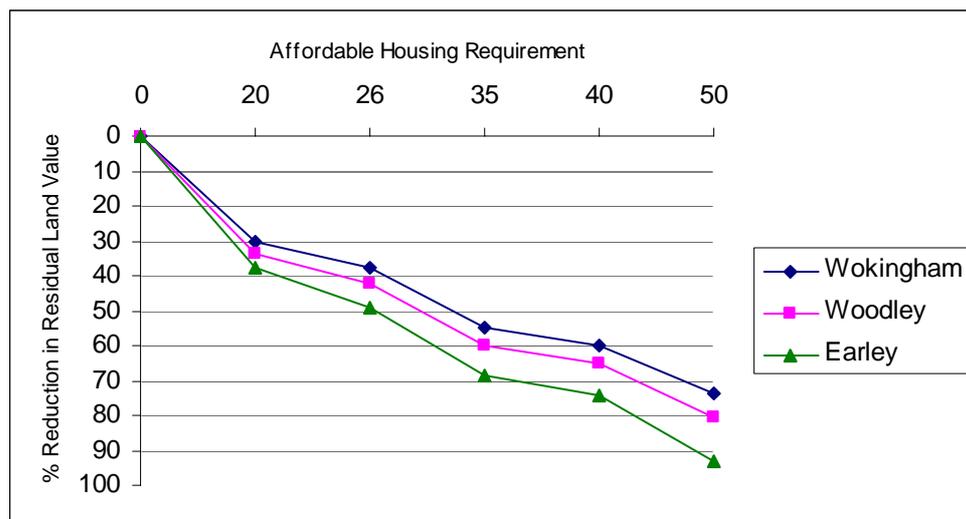
of the reduction in RLV in both Wokingham and Woodley, suggesting that 40% provision has little further impact than a 35% figure. In Earley, however, the reduction continues steeply, and in all three areas, affordable housing requirements beyond 40% result in reductions in residual value of up to 80% compared with an unencumbered scheme.

Residual Land Value – 50 Unit Scheme

- 3.11 Figure 3.4 shows the impact on RLV of varying affordable housing requirements for high density flatted development (of 50 units), a type of development more characteristic of town centre redevelopment. However, our analysis of housing delivery in Wokingham in the past 3 years would suggest that this type of development is relatively uncommon and that the high density schemes seen in neighbouring areas of Reading and Bracknell have not been repeated in Wokingham.
- 3.12 Figure 3.4 demonstrates that the impact of current affordable housing policy has a similar impact on residual land value as the smaller, 30 unit scheme, with RLV reducing by between 40% and 50%. As the affordable housing requirement increases, there is a greater reduction in RLV than for other development types, such that, at 35% provision, RLV reduces by between 55% and 70%.
- 3.13 Notably, there is a greater divergence in impact between the three areas than for any other type of development, possibly suggesting that the opportunity to deliver higher levels of affordable housing from flatted schemes is more closely linked to property values, with the higher value area of Wokingham showing less impact on RLV than in either Woodley or Earley. A particular feature seems to be the very sharp reduction in RLV in Earley as affordable housing requirements increase, such that at a level of 50% affordable provision, RLV could potentially fall by over 90%.



Figure 3.4: Impact of Affordable Housing on Residual Land Value – 50 unit scheme

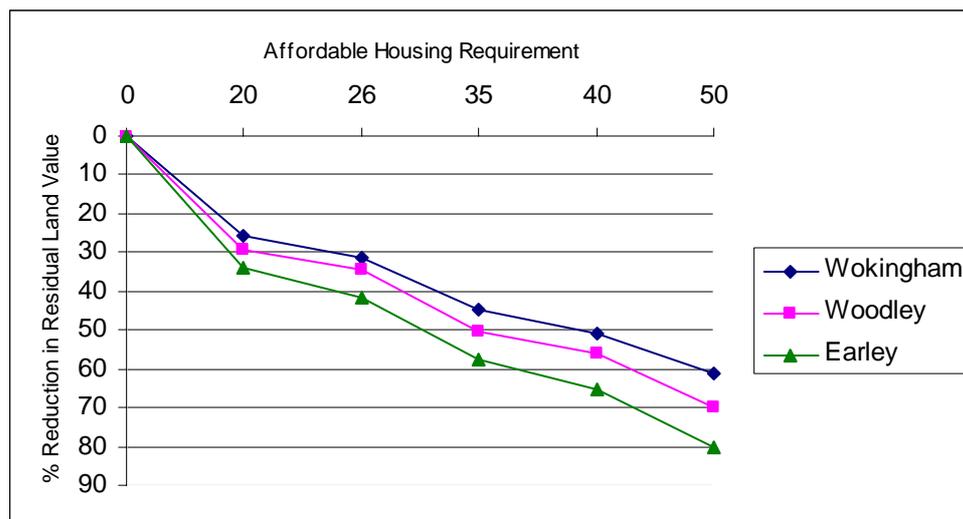


Impact of Tenure Mix on Residual Land Value

- 3.14 In the above examples, we have assumed a tenure mix of 70:30, social rented:shared ownership provision. As part of the sensitivity testing carried out on the modelling, we have looked at the impact of changing the tenure mix on the overall impact of affordable housing provision. We would expect that greater proportions of intermediate housing, since they involve less developer subsidy, would have less impact on RLV, than social rented provision.
- 3.15 We have, therefore, looked at varying the tenure mix and considered the impact on RLV of a scheme with a 50:50 tenure mix. We have applied this analysis to the higher density flatted scheme, since this scheme demonstrated the greatest reduction in RLV as affordable requirements increased. Figure 3.5 demonstrates the impact of this change.



Figure 3.5: Sensitivity testing, impact of tenure variation on affordable housing delivery - 50 Unit Scheme – 50:50 Tenure Mix



3.16 Whilst Figure 3.5 demonstrates that same divergence between the three areas considered in terms of reduction in RLV, it shows that at higher proportions of intermediate provision, the overall impact of affordable housing on RLV is markedly less than for higher levels of social rented provision. Thus, at 26% provision, the percentage reduction in RLV ranges from 31% to 41%. At 35% provision, in both Wokingham and Woodley, RLV decreases by 50% or less. In Earley, whilst the reduction in RLV is above 50%, it is actually 10 percentage points better than in the model assuming a 70:30 split. In all areas considered, a level of affordable housing of 30% would result in reductions in RLV of 50% or less.

Conclusions

3.17 On its own, the impact on residual land value from the imposition of affordable housing, does not indicate what level of provision would be viable or not, but it does provide a good indication of the impact of schemes in different cost areas and



different types of development. It also demonstrates that the reduction in RLV is closely linked to the assumed tenure of the affordable housing.

3.18 Key conclusions arising from this analysis are:

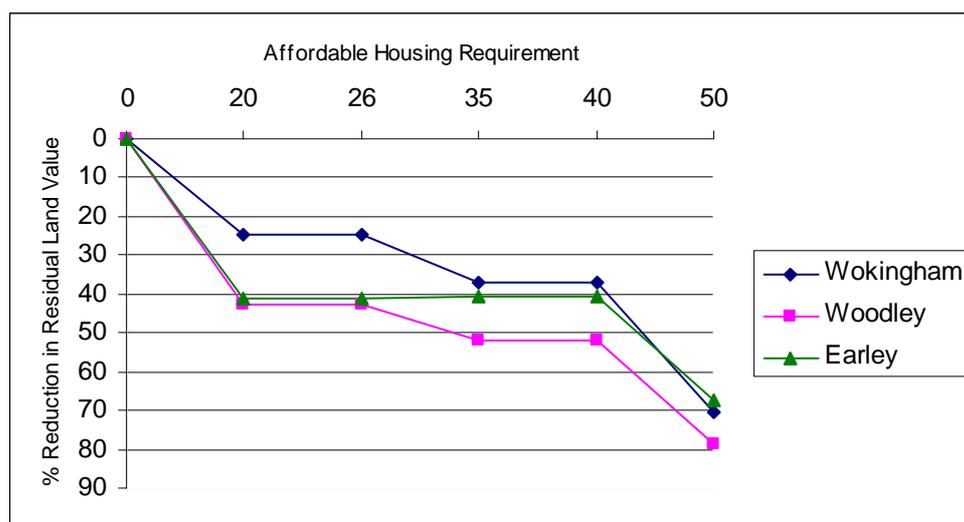
- a. The imposition of an affordable housing requirement has less impact on residual land value on lower density, higher value developments, than higher density, lower value per unit schemes. As density increases and value per unit falls, so the impact of affordable housing on land value increases.
- b. The rate of reduction in residual land value arising from the imposition of an affordable housing requirement is closely related to the tenure of the affordable housing provided. The higher the level of social rented provision, the greater the reduction in residual land value. This might suggest that schemes with a higher proportion of intermediate provision could bear greater levels of overall affordable housing requirements.
- c. If an assumption is made that a 40% reduction in residual land value is acceptable to both developers and landowners and will enable schemes to remain viable, then the current policy requirement of 26% should be deliverable without additional subsidy in all three areas considered. At 30% affordable housing, there is a 50% or less reduction in residual land value in all areas, though this level of provision might appear to be marginal in lower cost areas such as Earley. Beyond 30% provision, residual land value appears to fall by 50% or more and may only be achievable with additional subsidy, possibly public subsidy.



4.0 Residual Land Value – Sites below 15 unit threshold

4.1 We were asked by the Council to consider the impact on affordable housing provision and development viability of reducing the threshold for affordable housing provision to below the 15 dwelling threshold indicated in PPS3. We understand that the Council is considering the potential to reduce thresholds to 5 units across the Borough and, therefore, we have modelled the impact on development viability of an affordable housing requirement on schemes of 5 units. Figure 4.1 sets out the impact of affordable housing on schemes of this size, assuming an average tenure mix of 70:30, social rented:intermediate.

Figure 4.1: Impact of Affordable Housing on Residual Land Value - 5 Unit Scheme



4.2 Figure 4.1 indicates that the impact of an affordable housing requirement on schemes of 5 units varies significantly across the Borough, with a significantly lower reduction in Wokingham than either Woodley or Earley, at levels of up to 30% affordable housing.



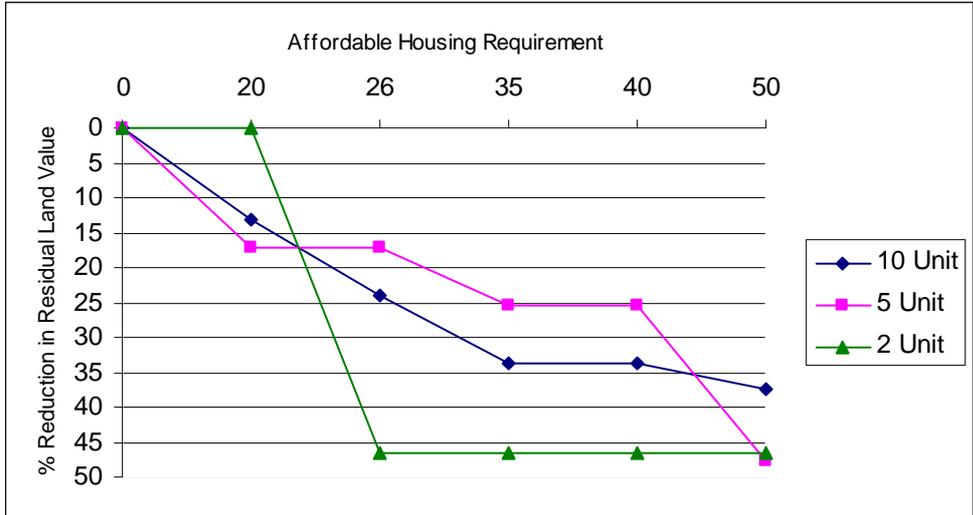
- 4.3 It is difficult to come to firm conclusions about schemes of this size, as relatively small changes in either the cost or values profile is likely to have a significant impact on overall residual land value. Further, at this scale, a small change in tenure mix, even to the extent to changing a single unit from social rented to intermediate tenure is likely to impact significantly on the overall RLV. Nevertheless, it would appear from this analysis that an affordable housing requirement could be imposed upon smaller schemes. The susceptibility of such schemes to small changes in costs or values leads us to believe that a deliverable affordable housing requirement must err on the side of caution and, that on smaller sites, a target provision of affordable housing of less than 25% should be considered.



5.0 Residual Land Value – Rural Scheme

- 5.1 In addition to examining the impact of affordable housing on schemes in urban areas, we also looked at the potential to deliver affordable housing in the rural parts of the Borough. In consultation with the Council officers, it was agreed that the village of Hurst would be a reasonable representative area for an assessment of the impact of affordable housing.
- 5.2 Although values for Hurst were derived in the same way as for the other parts of the Borough under examination, the village has seen a relatively small number of new build developments and second hand sales and, therefore, the values assumed may have been skewed by the nature of sales within the sample considered. It is not possible to say whether this has resulted in an assumption of values that are too high, or too low, but some degree of caution must be used in interpreting the detailed results from this area, and their applicability across the other rural parts of the Borough.
- 5.3 Figure 5.1 shows the potential reduction in residual land value for a range of scheme types in Hurst.

Figure 5.1: Impact of Affordable Housing on Residual Land Value in Rural Areas - Hurst





- 5.4 Figure 5.1 shows significantly greater variation in terms of the impact of affordable housing on residual land value in this rural area, than in any of the urban areas considered in this study. In part this is a function of the small scheme size assumed in the modelling. For example, for a 2 unit scheme, below 25% affordable housing the model assumes zero affordable provision on-site, above 25% the model rounds up the affordable requirement to a single unit, which then remains the on-site requirement at all levels of provision up to 75%.
- 5.5 Our modelling suggests that in rural areas, a level of affordable housing provision up to 50% could be achieved within the scope of a reduction in residual land value of 50% or less. Whilst there are some concerns about the robustness of the data due to the small sample size presented in Hurst, our analysis does suggest that the rural parts of Wokingham may be able to sustain higher affordable housing requirements than in the urban areas, due largely to higher values for market units.
- 5.6 We have not modelled the impact of flatted development in Hurst, although we would expect to see the same pattern as in the urban areas, i.e. a higher density development, producing a greater number of units, but with a lower value per unit, would be expected to have a greater impact on residual land value and, consequently, lower proportions of affordable housing might be deliverable.



6.0 Existing or Alternative Use Value

- 6.1 The above analysis can give an indication of the impact of affordable housing on the residual land value of a housing development. But, on its own, the impact on land value does not demonstrate that a certain percentage of provision is, or is not, viable for a developer and would therefore be sufficient to bring sites forward. This would need to be tested on a scheme by scheme basis through a bespoke appraisal. Generally, a developer will only bring a site forward for development when the residual value of the scheme, having taken account of all costs, is equal to or greater than the existing or alternative use value.
- 6.2 In making assumptions about this alternative value, it is not sufficient to merely take account of the 'book value' of a piece of land or alternative development. Account has to be taken of landowners' expectations and what can realistically be achieved to bring land forward, i.e. an allowance should be made for a degree of uplift in land value to incentivise a landowner to bring a site to the market for development purposes. It is difficult to determine what level of uplift should be assumed for policy purposes, although the responses to our questionnaire do suggest a level of 20% would be realistic⁶.

Assessing Existing Use Values in Wokingham

- 6.3 To enable a more robust assessment of the impact of affordable housing on development viability, we have sought to consider the impact of existing or alternative use values on the results emerging from our residual land value modelling work. To determine appropriate values, we have looked to published sources of information, notably information from the Valuation Office Agency, which publishes land value data, derived from actual land sales, on a regular basis. Table 6.1 below sets out current assumed land values for the Wokingham area:

⁶ Appendix 2



Table 6.1: Achieved Land Values, Wokingham, January 2008

Residential Building Land - Wokingham	£ per hectare
Small Sites (< 5 units)	£3,700,000
Bulk Land (> 2ha)	£3,450,000
Flats & Maisonettes	£5,500,000
Agricultural Land - South East	
Equipped with Vacant Possession	£18,100

Source: VOA, Property Market Report, January 2008

- 6.4 However, determining viability is not simply a matter of applying these figures to the residual land valuations and assuming that in all schemes where the residual value is above these figures, it is viable with affordable housing. VOA data represent average values for achieved sales in the previous 6 months up to January 2008. Using this data for assessment of viability for policy purposes cannot take account of future changes in land values, be they up or down. For example, if property values were to fall, but land values were held constant, this would suggest that it would become less viable to deliver affordable housing, whereas if land values fell by an equal or larger amount than property values, then affordable housing viability would either remain constant or improve.
- 6.5 We also have to take account of the fact that achieved land values to some extent reflect existing land use policy in Wokingham, i.e. the expectation of delivery of affordable housing at a level of 26% has already been factored into the land values. Thus, it could be argued that a higher level of affordable housing provision in the future would, assuming all other requirements on a scheme being equal, result in a fall in land values. In other words, if higher levels of affordable housing are to be delivered in Wokingham without additional public sector funding support, then the value of land for residential purposes on the open market will need to fall and landowner expectations reduce.
- 6.6 To take account of the difficulties of using precise land value data in testing viability for the purposes of developing planning policy, we have therefore sought to relate land value to the value of a particular type of development, by expressing it as a percentage of the Gross Development Value (GDV) of a scheme. This means that an assumption is made that the value a landowner can expect from a particular



piece of land will be related to the overall value of the proposed development. This has the advantage of effectively 'future proofing' the land value element of the appraisal. Thus, if housing market values increase, the land value will also increase. Conversely, if values fall, then land value can also be expected to fall.

- 6.7 The critical element in this appraisal is therefore at what proportion of GDV should land value be set. We have compared the residual land value of schemes unencumbered by affordable housing across Wokingham with the VOA notified residential land values. Whilst there is clearly variation between areas and between types of schemes, for sites providing lower density housing developments the unencumbered residual value approximates to 25% of the GDV for these schemes. We have therefore concluded that an appropriate base position for existing use value for residential purposes in urban areas, is that land value should be set at approximately 25% of GDV.
- 6.8 For flatted schemes in town centre locations, again 25% of GDV generally equates to the VOA valuation of £5,500,000 per hectare. However, we have concerns that that this does not provide a robust basis for assessing viability as, at 25%, very few flatted schemes would appear to be viable with even lower levels of affordable housing, despite the fact that the Council is achieving such provision currently. We have therefore undertaken further analysis of land supply and affordable housing delivery. This suggests that in the past 3 year period, the number of larger, higher density flatted developments delivering more than 50 units in the Borough has been very small, generally only 1 or 2 schemes per year. If these sites have brought forward high value flats, with a significant GDV, this could have inflated the estimated land value to such a degree as to suggest that lower value schemes are no longer viable. We have, therefore, come to the conclusion that for flatted schemes a lower land value assumption should be made and that this probably lies in the 15-25% of GDV range.
- 6.9 Irrespective of what level of GDV is assumed to represent land value, it must be remembered that any analysis can only be a snapshot and an estimate of what might be deliverable and that many landowners will look to achieve an uplift in land value to bring a site to the market. The results of the analysis therefore have to be treated with a degree of caution and overly optimistic policy conclusions should not be drawn from these results.



Greenfield Land Value

- 6.10 The analysis so far has related primarily to urban sites with an existing use. A large proportion of the future housing supply in Wokingham may well come forward on greenfield sites. We are aware that, through the Core Strategy, the Council is identifying 4 strategic development locations that will provide at least 2,000 dwellings each. Further, we understand that a proportion of the remaining housing requirement may be brought forward through the release of smaller areas of greenfield land on the edge of existing towns and villages. For most of these schemes, the achievable sales values and development costs will be comparable to those within the urban area (the specific requirements for the strategic development locations are considered separately below), the difference will potentially be the existing use value that is assumed and thus the benchmark against which policy should be determined.
- 6.11 The VOA data suggests that agricultural land value in the South East, for vacant possession of equipped mix agricultural land, might be £18,100 per hectare. This could be assumed to be the base land value for any assessment and, indeed, we are aware that such assumptions have been made in other viability appraisals. However, this assumption takes no account of any uplift above agricultural land value that a land owner would look to achieve in order for his/her land to be brought forward. For the purposes of our assessment, therefore, we have assumed that on a greenfield site existing use value could be around 15% of gross development value, a figure which also provides a degree of flexibility to reflect the key issues of landowner expectations and additional infrastructure and servicing costs.



7.0 Affordable Housing Provision in Relation to Gross Development Value – Urban Sites

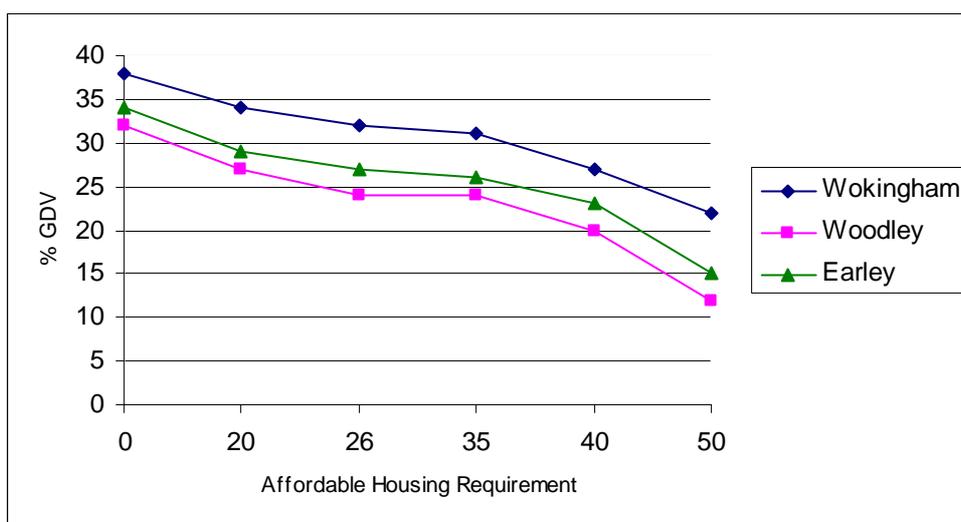
- 7.1 Taking the above analysis into consideration, we have sought to assess the viability of affordable housing provision in the context of land values set at 25% of gross development value for housing schemes, 15-20% of GDV for town centre flatted schemes and 15% of GDV for schemes in greenfield areas.

Relationship of Affordable Housing Requirement on Gross Development Value – 15 unit scheme.

- 7.2 For a 15 unit scheme, Figure 7.1 suggests that there may be a substantial variation in what proportion of affordable housing may be deliverable when compared to existing use value set at 25% of GDV. In both Wokingham and Earley, affordable housing levels of 35% or more would appear to generate a land value equivalent to 25% of GDV, whereas in Woodley, schemes potentially become unviable at 25% affordable housing. There does, however, seem to be very little decrease in values relative to GDV in Woodley between 25% and 35% affordable. Overall, the indicative viability implied by this data seems to support our earlier analysis which considered changes in residual land value and that, beyond 35% provision, land value would need to drop significantly for sites to come forward.
- 7.3 Assuming lower land values greenfield sites, at approximately 15% of GDV, then it would appear that schemes of this size and value could support a higher level of affordable housing, up to 40%, although it must also be recognised that greenfield sites are likely to incur higher infrastructure costs to bring them forward.



Figure 7.1: Relationship Between Affordable Housing and Gross Development Value – 15 unit scheme



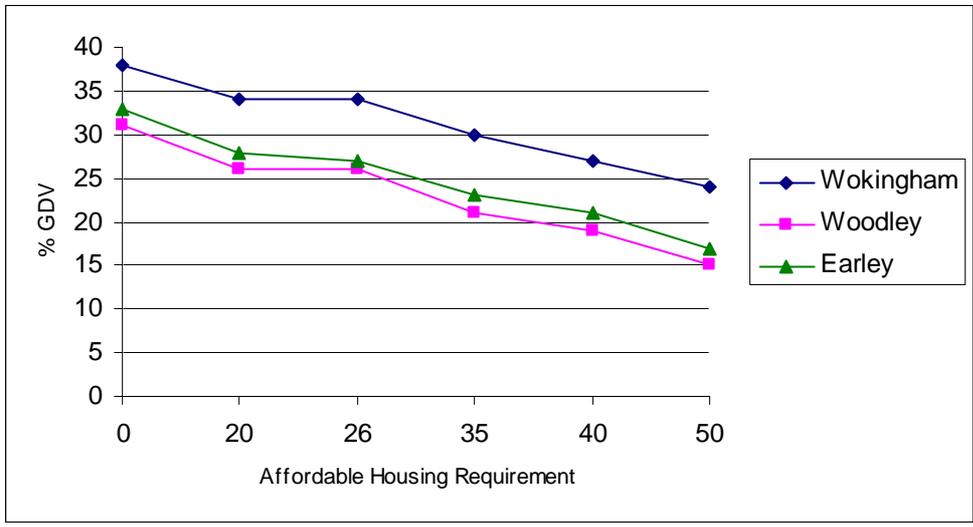
Relationship of Affordable Housing Requirement on Gross Development Value – 20 unit scheme.

- 7.4 Figure 7.2 again shows a significant difference in the relationship between affordable housing requirements and GDV between Woodley and Earley on one hand and Wokingham on the other. This appears to be due to the significantly higher values for the types of units suggested for this scheme in Wokingham relative to other parts of the Borough.
- 7.5 In terms of output, the modelling suggests that current Local Plan levels of affordable housing, at 26% are deliverable and that in Woodley and Earley slightly higher provision at 30% may be viable. Beyond this level, grant funding would be required. In Wokingham, by contrast, the modelling suggests that it may be possible to achieve over 40% provision without additional subsidy and still deliver a land value equivalent to the current VOA figure.



7.6 In greenfield locations, the output from our modelling supports the assertion that a higher proportion of affordable housing should be deliverable, provided that land value is assumed to be at a lower percentage of overall project GDV, and subject to other infrastructure and s106 costs.

Figure 7.2: Relationship Between Affordable Housing and Gross Development Value – 20 unit scheme



Relationship of Affordable Housing Requirement on Gross Development Value – 30 unit scheme.

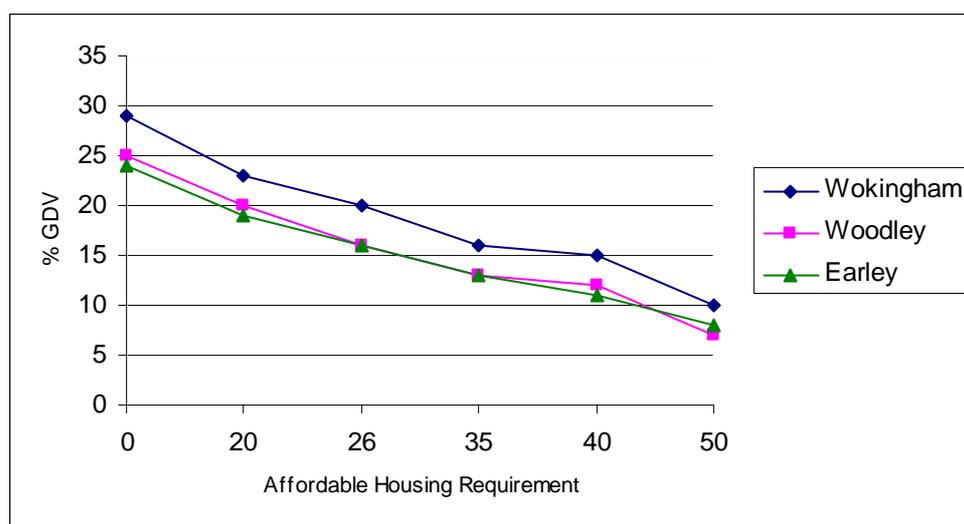
7.7 As illustrated in the analysis of residual land values, an assumption of higher density, lower value per unit development, has a significant impact on perceived viability of affordable housing delivery. Assuming a land value equivalent to 25% of GDV is required for sites to come forward, the analysis would suggest that only in Wokingham would it be viable to provide for affordable housing. However, as we have already pointed out, the assumptions in relation to the relationship between



land value and GDV may be incorrect for schemes involving flatted development and that a lower percentage of GDV may need to be assumed.

7.8 Thus, an assumed 15-20% GDV as a realistic land value, might suggest that approaching 30% affordable housing could be deliverable in Woodley and Earley and approximately 35% in Wokingham. Delivery at these levels will, however, depend upon the landowner being willing to accept a lower value for his/her land than implied by VOA figures and/or the flats themselves being available at higher sales values to support land value at a higher percentage of GDV.

Figure 7.3: Relationship Between Affordable Housing and Gross Development Value – 30 unit scheme



Relationship of Affordable Housing Requirement on Gross Development Value – 50 unit scheme.

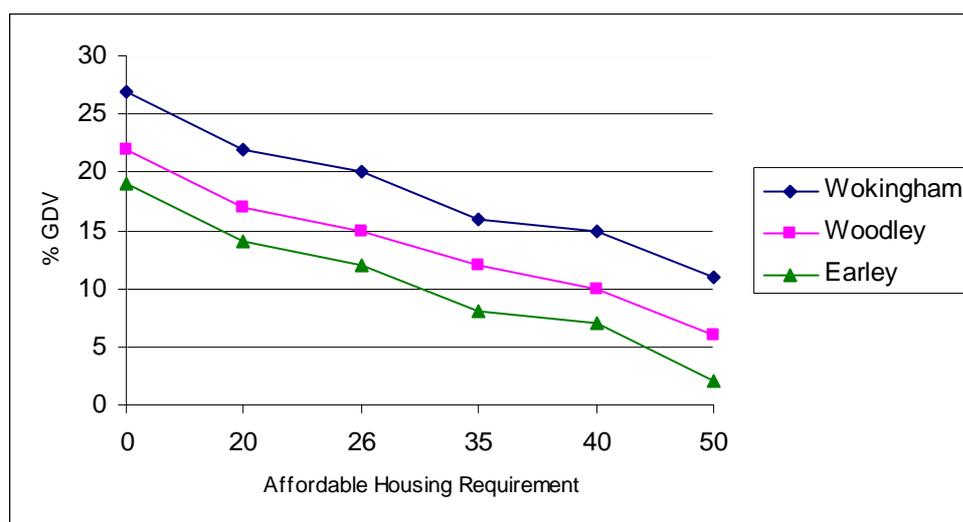
7.9 Assuming that land value should equate to 15-20% of GDV, rather than 25% GDV, the modelling suggests that current levels of affordable housing would be viable on flatted schemes in Wokingham and Woodley, but potentially not in Earley. In Wokingham, where higher values are seen, up to 30% affordable housing provision



may be deliverable. These figures seem to correlate with the levels of provision which would result in a 40% reduction in Residual Land Value.

7.10 As set out earlier, however, it must be emphasised that the assumptions on flatted development require either a lower land value than is currently indicated by VOA for this type of development, or alternatively individual units would need to achieve a significantly higher value – effectively executive style developments. The fact that high density flatted developments have been developed in Wokingham and delivered an affordable housing contribution suggests that there is currently a market for flats at the upper end of the market.

Figure 7.4: Relationship Between Affordable Housing and Gross Development Value – 50 unit scheme



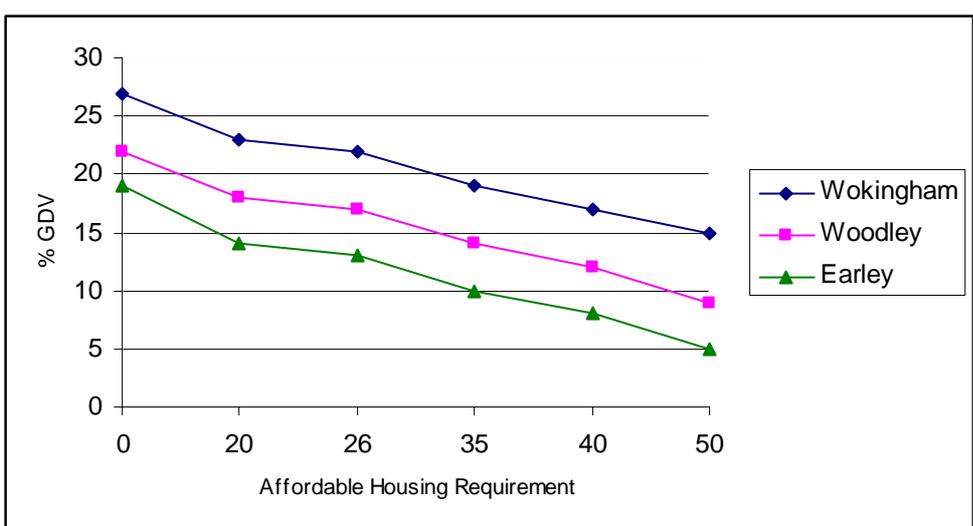
Impact of Changing Tenure Mix

7.11 As with the earlier RLV analysis, we have considered the impact of different tenure mixes on the deliverability of affordable housing of a larger flatted scheme in the Borough. Figure 7.5 considers the relationship between the level of affordable housing provided and gross development value for a 50 unit scheme, but this time



assuming a 50:50 social rented:intermediate housing tenure mix. Increasing the proportion of intermediate housing will increase the overall amount of affordable housing that could be provided on a site. Thus, assuming land value is equivalent to 15-20% of GDV, changing the tenure mix potentially makes current Local Plan levels of affordable housing viable for flatted schemes in Earley, whilst in Woodley approximately 30% would be viable and, on higher value schemes in Wokingham, potentially 35%. Overall, changing the tenure mix appears to suggest that the amount of affordable housing which could be viable on a site is up to 4 percentage points greater than at a mix of 70:30 social rented:intermediate.

Figure 7.5: Relationship between Affordable Housing Provision and Gross Development Value – 50 Unit Scheme – 50/50 Tenure Mix

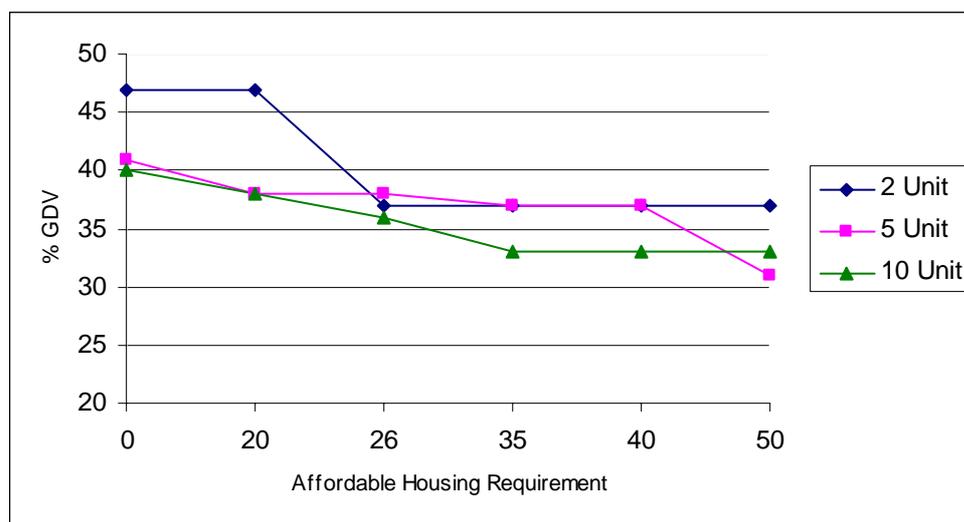




8.0 Affordable Housing Provision in Relation to Gross Development Value – Rural Sites

- 8.1 Applying the same analysis to sites within Hurst, i.e. the rural area of Wokingham, produces a range of different results.
- 8.2 The GDV analysis for Hurst mirrors the earlier RLV analysis for urban schemes in Wokingham, i.e. that higher levels of affordable housing are potentially deliverable in rural areas than in urban areas.
- 8.3 However, it must be remembered that, as sales values are higher in rural areas than urban, land value expectations are similarly likely to be higher than in the urban areas. Thus, we believe it is reasonable to assume that the minimum land value likely to be acceptable in the rural parts of Wokingham for residential development is likely to be higher than in the urban area and it could constitute a greater proportion of Gross Development Value – possibly in the range of 25% to 35%. For this reason, we believe that, whilst a greater level of affordable housing should be deliverable on smaller rural sites than in the higher density urban sites, this is likely to be in the range of 35% to 50%.

Figure 8.1: Relationship Between Affordable Housing Provision and Gross Development Area in Rural Areas





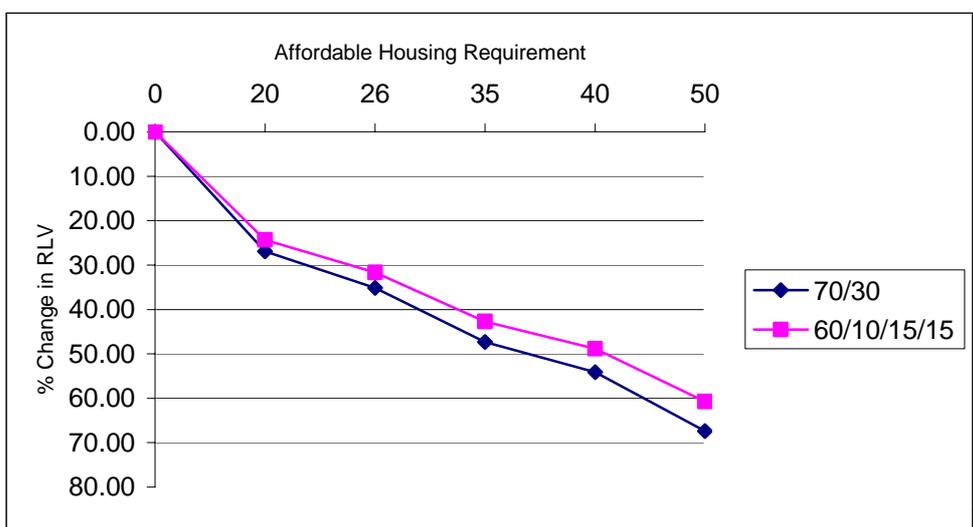
9.0 Strategic Development Locations

- 9.1 One of the requirements of the study was to look at the potential to deliver affordable housing on large greenfield sites, to reflect the fact that a significant proportion of new housing provision in the Borough over the next 20 years is likely to come forward through development of 4 Strategic Development Locations.
- 9.2 We have therefore undertaken modelling of the impact of affordable housing provision on a scheme of 2,000 dwellings – a figure at the lower end of the scale being considered in the SDLs. Looking at the impact of affordable housing on such schemes, we were anxious to ensure that our modelling provided a generic indication of the effect on affordable housing policy on large schemes and not to undertake a site specific modelling exercise on one or more of the proposed locations. Such site specific appraisals are the responsibility of the various consortia considering strategic site development and these will emerge as proposals are brought forward.
- 9.3 In the absence of detailed information on specific schemes, we have made the following assumptions about greenfield development:
- a. 2,000 dwelling scheme
 - b. Dwelling mix in line with current Local Plan guidance, i.e. 47% 1 & 2 bed (assumed 20% 1 bed, 27% 2 bed), 21% 3 bed, 32% 4 bed.
 - c. 15 year build programme
 - d. Build costs set at current BCIS figures, but uplifted to reflect Code for Sustainable Homes level 4 and Lifetime Homes
 - e. S106 costs in line with guidance set out in the Council's emerging SPD on s106 contributions, but with transportation costs doubled to reflect the fact that sites will incur additional costs to connect to the existing transport network. This produces an average cost per dwelling of £23,000.



- 9.4 We are aware that these cost assumptions are likely to be underestimates of the actual costs of provision, and have sought to address this in two ways:
- a. By assuming that the existing use value of any site is set at 15% of the GDV of the scheme – a figure in excess of current agricultural land value in the South East.
 - b. By undertaking some sensitivity analysis, demonstrating the impact of increases in costs above the base level assumed. S106 cost increases of 10%, 20% and 30% have been assumed. This results in average s106 costs per dwelling of £25,000, £28,000 and £30,000 respectively.
- 9.5 Figure 9.1 demonstrates the impact of affordable housing on potential residual value for the large greenfield scheme, and compares the impact of differing tenure mixes, looking at a 70:30 social rented:shared ownership mix and a 60:10:15:15 social rented:intermediate rent:shared ownership:shared equity mix. What the modelling suggests is that the impact on residual value of affordable housing is less pronounced for greenfield sites than for urban sites, but also that higher levels of social rented provision have a greater impact on residual value.

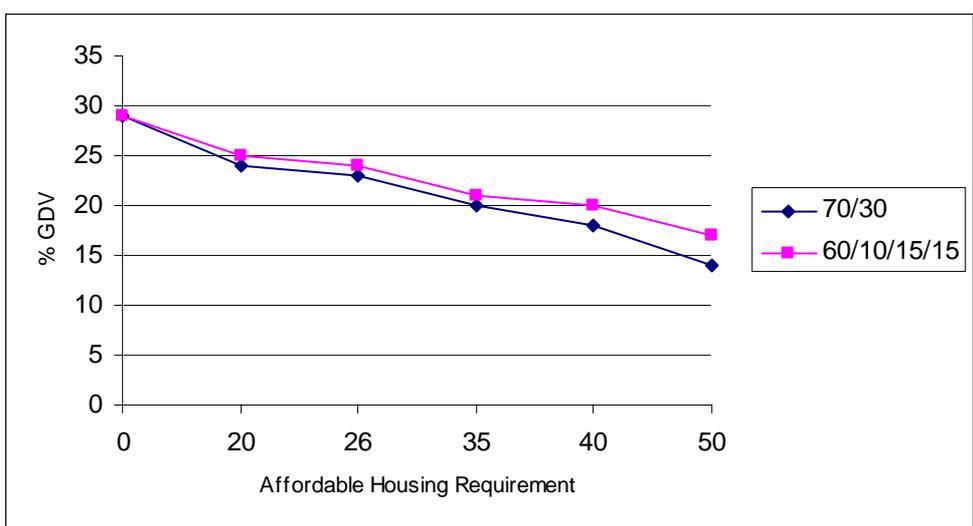
Figure 9.1: Impact of affordable housing requirement on residual value – 2,000 unit strategic development





9.6 In terms of the potential deliverability, Figure 9.2 compares land value, expressed as a percentage of GDV against various levels of affordable housing provision. If it is assumed that an acceptable land value is equivalent to 15% of the GDV of a scheme, then the modelling suggests that, assuming a 70:30 social rented:shared ownership tenure mix, approximately 40-45% affordable housing may be deliverable. As the proportion of social rented provision assumed falls, then potentially greater overall levels of affordable housing may be deliverable. Thus, at a 60:10:15:15 mix, 50% affordable housing appears to generate a residual value equivalent to just over 15% of GDV.

Figure 9.2: Relationship of Affordable Housing and Gross Development Value – 2,000 unit strategic development



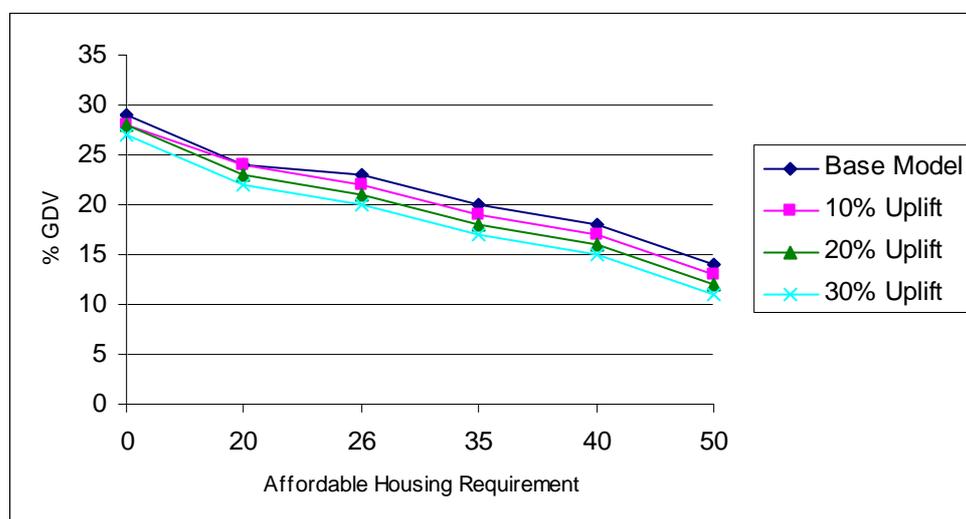
Cost Sensitivity Testing

9.7 As indicated above, we have some concerns that the assumptions on costs, particularly the costs of infrastructure requirements on large greenfield sites, are not reflected in the requirements set out in the Council's emerging SPD. We have therefore undertaken some sensitivity testing to assess the implications of higher s106 costs on the ability of large schemes to deliver affordable housing. For this



analysis, our base assumption is a 70:30 tenure mix, delivering Lifetime Homes and Code 4 of the Code for Sustainable Homes. Figure 9.3 sets out the results, and illustrates that, as costs increase, the proportion of affordable housing that could be delivered falls. Significantly, even allowing for cost increases, it would appear that higher proportions of affordable housing may be deliverable than on urban sites, and that an increase in s106 costs of 30%, to £30,000 per unit, may still allow up to 40% affordable housing to be provided.

Figure 9.3: Sensitivity Analysis – Impact of s106 Cost Increases on Affordable Housing Delivery



9.8 In interpreting these results for policy purposes, we would caution that deliverability will rely upon actual scheme costs and revenues. Our analysis has used generic costs and has not sought to assess the impact of rising build costs over the lifetime of the project, the impact of higher sustainability standards (particularly the potential need to meet Code Level 6), or the impact that phasing of development will have. Consequently, the conclusions can only be a general guide and not a specific policy requirement.

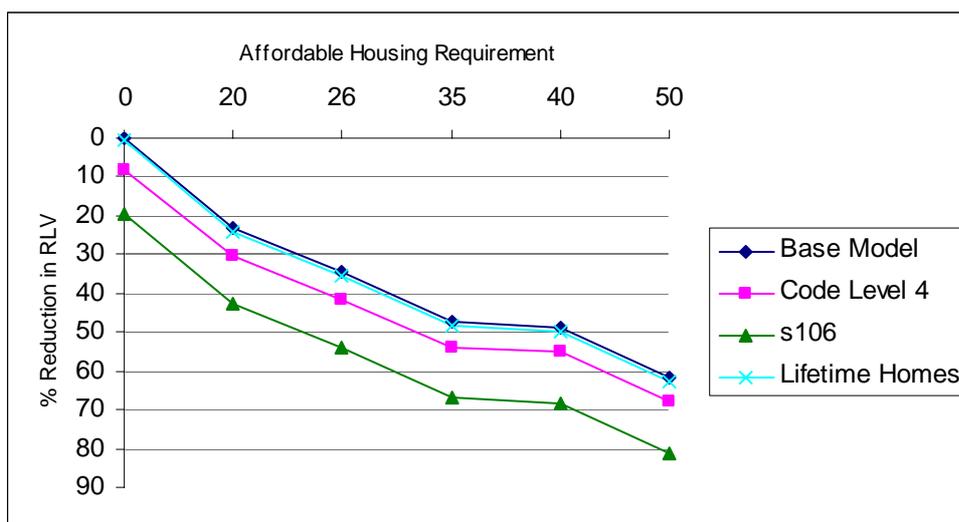


10.0 Sensitivity Testing

- 10.1 We have noted above in respect of the various typical sites being considered that the amount of affordable housing that can be provided will be affected by assumptions about both values and costs of particular developments. Whilst it is not possible in an analysis for policy setting to take account of site specific costs, the outcome of our modelling has been affected by varying degrees by the assumptions we have made about costs imposed on developers across Wokingham. Specifically, after consultation with the Council we have made the following assumptions:
- a. S106 costs will be set in the context provided by the Council's emerging SPD on infrastructure provision, but within a maximum contribution per unit of £18,000.
 - b. Code for Sustainable Homes – we have assumed that development will be required to meet Code Level 4 of the Code for Sustainable Homes, which represents an uplift on build costs of approximately 10%. This should be seen in the context that, whilst all housing is now required to have a Code rating, there is no minimum Code level set for market housing and publicly funded affordable housing should only meet Code Level 3.
 - c. Lifetime Homes – whilst the Council has a policy requirement that a proportion of housing should be built to Lifetime Homes standards, there is currently no requirement that all dwellings should be built to this standard. In light of the emerging National Strategy for an Ageing Society, for the purposes of the modelling, we have assumed all homes will be required to meet the Lifetime Homes standard and that this will impose a cost of £600 per dwelling.
- 10.2 To assess the potential implications of these assumptions on the overall viability of affordable housing provision, we have modelled their impact on a mixed housing/flat scheme of 30 units, comparing the imposition of these additional costs to a base model in which no s106 requirements or Lifetime Homes costs are assumed, market homes are built to current building regulations and affordable homes to Code Level 3. The results are set out in Figure 17.



Figure 10.1: Impact of Cost Impositions on Residual Value in Wokingham



- 10.3 Compared with the base scheme, Figure 10.1 demonstrates that the requirement for Lifetime Homes (at £600 per unit) only has a minimal impact on overall costs and the residual value of a scheme with affordable housing. Our modelling suggests that Lifetime Homes applied to this scheme reduces residual value by less than 1% compared with a scheme built to current Building Regulations. However, we would caution that our estimate of £600 per unit may well be a potential underestimate of actual costs.
- 10.4 If we look at the Code for Sustainable Homes, it is apparent that this will have a much more significant potential impact on the residual value, reducing it by 8% on a scheme unencumbered by affordable housing. Clearly if higher code levels are required, then there would be a greater impact on costs.
- 10.5 The most significant impact on residual value comes with the imposition of s106 costs, at a level of £18,000 per unit. This has the effect of reducing the residual value by nearly 20% compared with the base scheme. In reality, many housing schemes will require lower levels of s106 contributions, but the modelling does

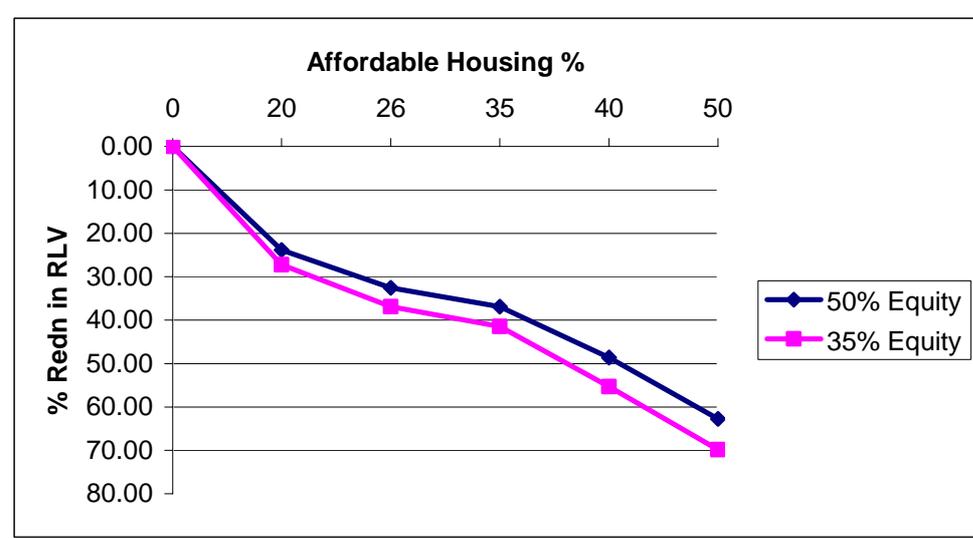


suggest that s106 costs may be a more significant influence on the ability of a scheme to deliver affordable housing than other costs.

Impact of varying affordable housing product on residual land value

10.6 In our assumptions for intermediate housing products, we have assumed a shared ownership product with a 50% equity share and 2% rent on the unsold equity. Wokingham Borough Council currently operate a shared ownership model which the Council considers to be more affordable and is based on a 35% equity share with 1.5% rent on the unsold equity. We have considered the impact of this product on overall scheme viability in respect of a 15 unit development scheme in Wokingham town, to provide a comparison with our base assumption and demonstrate the impact the current shared ownership model might have on viability, expressed in terms of residual land value and proportion of gross development value.

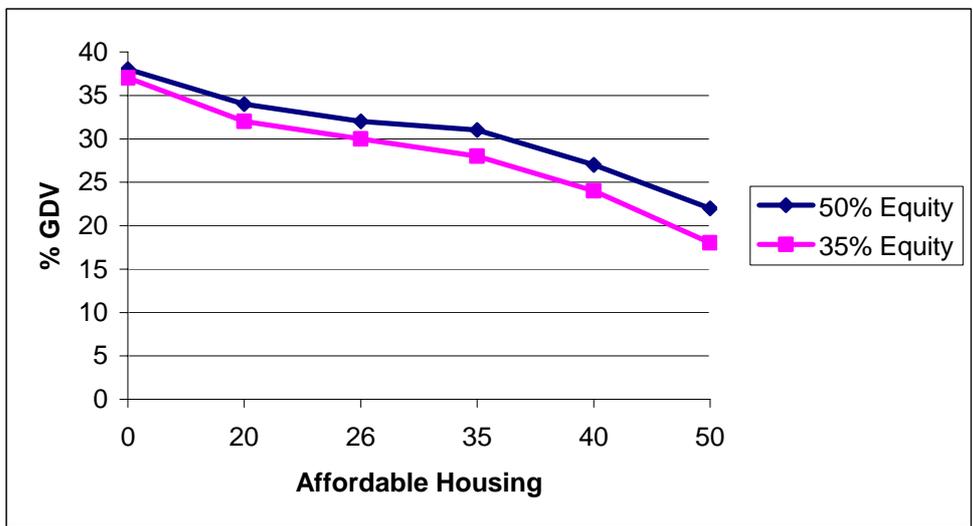
Figure 10.2: Impact of Current Shared Ownership Model on Residual Land Value – 15 unit scheme, Wokingham town





10.7 Figure 10.2 indicates that the Council's current shared ownership model has a greater impact on residual land value than a model assumption of 50% equity shares. Whilst it may be seen as being more affordable to households in need, imposes additional costs on a developer at a level of 35% affordable provision, the Council's current model would result in an approximately 5 percentage point greater reduction in residual land value than our base assumption.

Figure 10.3: Relationship Between Current Shared Ownership Model and Gross Development Value – 15 unit scheme, Wokingham town



10.8 Figure 10.3 considers the impact of the Council's current shared ownership model on potential affordable housing delivery. Assuming that existing use value is equivalent to 25% of the gross development value of a scheme and that this value is the minimum level a landowner will accept to bring a site forward, Figure 10.3 demonstrates that application of the Council's current shared ownership model will enable a lower overall proportion of affordable housing to come forward than if a model based on 50% equity shares were adopted. Thus, at a 50% share, it would



potentially be viable to deliver over 40% affordable housing, but with a 35% share, this reduces to just over 35% affordable housing.



11.0 Social Housing Grant

- 11.1 Our modelling has assumed throughout that no additional public subsidy in the form of Social Housing Grant is available. Our modelling therefore demonstrates what level of affordable housing could be delivered without additional public subsidy.
- 11.2 Whilst the majority of the affordable housing delivered in recent years in the Borough has been without grant funding, we are aware that some subsidy has been made available in Wokingham through the Housing Corporation's National Affordable Housing Programme. In the 2006 to 2008 programme, the average amount of funding received to deliver a unit of social rented housing was £37,000, whilst for intermediate housing the average per unit was £3,750.
- 11.3 Our modelling has indicated that, in the towns of Wokingham, a level of 30% affordable housing could be delivered without additional grant funding. Although for some schemes the modelling suggests that a level in excess of 35% may be deliverable, depending on the overall value of the scheme and the existing land use value, generally across the urban parts of the Borough our modelling would indicate that to meet the current draft South East Plan 35% affordable housing requirement and 70:30 tenure split, an element of Social Housing Grant would be required.
- 11.4 Our modelling suggests that to achieve an average of 35% affordable housing across the urban areas, and at a tenure split of 70:30 (assuming a 50% equity share for shared ownership products) that grant of £22,000 per unit would be required for social rented provision and grant of £5-6,000 would be required for shared ownership.



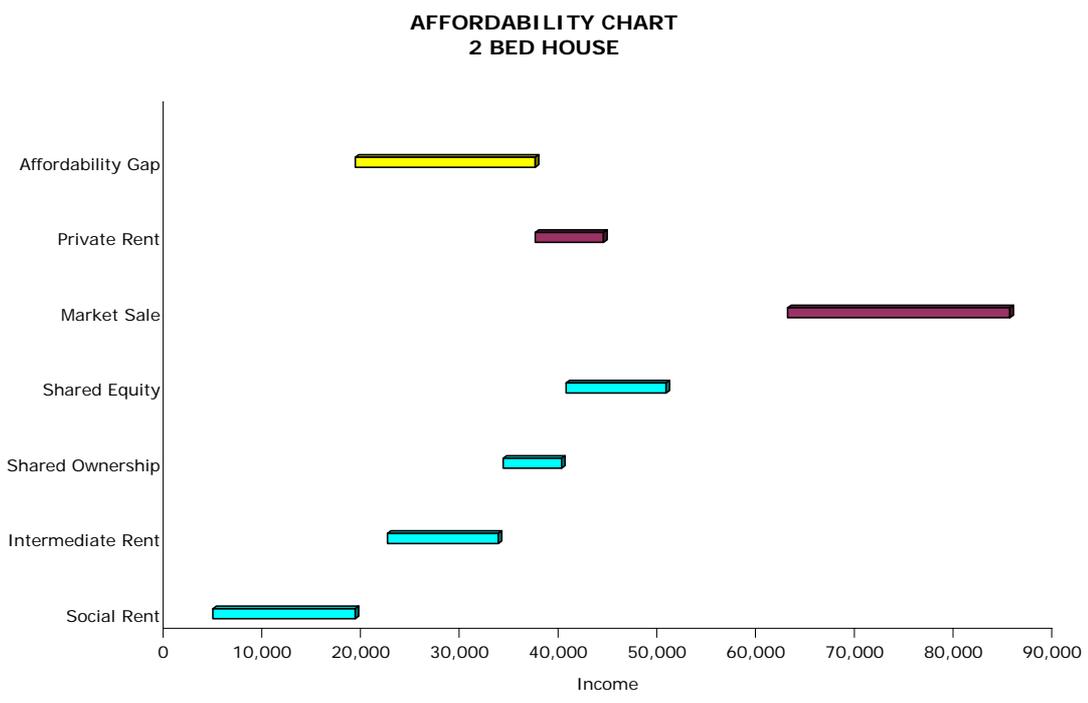
12.0 Affordable Housing Products

- 12.1 The Council's brief asked us to provide additional advice on the range of affordable housing products that might be considered in developing a strategy to meet housing need in Wokingham. Using our modelling, we have been able to consider the minimum household incomes required to access social rented, shared ownership, shared equity, market rent and market owner occupied housing in the Borough and, thereby identify 'gaps' in current provision. For the purposes of our analysis, we have looked at the average household income required to access housing, rather than individual earnings or incomes. No distinction is made in the analysis between incomes of single or multiple person households.
- 12.2 The average income required to access the various tenures vary across the Borough, such that, for example, in the more expensive areas of Wokingham town and Hurst a higher income will be required to access the home ownership market than in the lower cost areas of Woodley or Earley. Despite the price differences, our affordability gap analysis for the different parts of the Borough reveal the same basic patterns in terms of the 'gaps' in provision between social rented, shared ownership and market housing. Rather than provide a detailed analysis for each settlement and each dwelling size and type, we have presented information below in relation to 2 bed houses in Wokingham.
- 12.3 Figure 12.1 demonstrates that there is a significant 'affordability gap' between the average household income required for eligibility for social rented provision and the minimum household income required to access a 2 bedroom house on the open market. The affordability gap represents the difference between the upper income limit for social housing and the minimum income necessary to access private rented accommodation, which is generally considered to be the entry level for the private housing market.
- 12.4 A number of assumptions underpin our assessment:
- a. Housing costs will not exceed 40% of gross household income;
 - b. Mortgage multiplier of 3.5
 - c. Interest rate of 6%



- d. Average deposit in the range of 5% to 30%
- e. 25 year mortgage term
- f. Shared ownership equity rate of 35% with 1.5% rent on retained equity (i.e. the Council's current shared ownership model)

Figure 12.1: Affordability Gap Analysis – 2 Bed House, Wokingham





- 12.5 As we point out above, the general pattern of the affordability of the various housing products in Wokingham is similar to that in other towns and villages considered in our study. Whilst we have included information on specific income ranges in Wokingham below, we would point out that these are snapshots taken at the time of this study and will not represent actual incomes required over the life of the Core Strategy. The figures should, therefore, be seen as illustrative of the size of the gaps in provision rather than actual income ranges.
- 12.6 Using our analysis, the minimum household income required to access a 2 bedroom house in the private housing market (i.e. private renting) is £37,400, compared with the upper household income level for social rented provision of £19,200. Those households with incomes between these 2 levels would therefore not be eligible for social rented provision and would not have an income sufficient to enter the open market. This represents the Affordability Gap and to fill this 'gap' some form of intermediate tenure would be required.
- 12.7 Although private renting represents the bottom end of the private housing market, there may be issues of quality of the stock and location relative to services and facilities. In reality therefore, for some households the minimum entry level to the market is likely to be further up the income scale in terms of private rented eligibility. For other households, private renting will not be seen as an option and the entry level to the private market will be represented by the bottom end of the owner occupied sector, which would require a household income of £63,000.
- 12.8 There are a range of intermediate housing products that could be made available to close the gap in provision between social rented housing and the private market. The Council currently operates a shared ownership model which allows for the purchase of a minimum share of 35% of the equity in a house, with rent paid at 1.5% on the retained equity. Our model suggests that for a 2 bed house in Wokingham, the minimum household income required to access this product would be £34,000. This does narrow the gap between the open market and social renting and allow some households to enter the market on a lower income than is required for private rented accommodation. However, there is clearly still a significant affordability gap which will impact on a large number of households.
- 12.9 It may be possible to further reduce the size of the affordability gap between social rented and shared ownership provision through by offering a shared ownership product available at lower levels of initial equity, say 30% or 25%, or reducing the



rate at which rent is charged on the retained equity. We have concerns, however on 2 fronts with this approach. Firstly, we have doubts about the ability of households to sustain home ownership in the longer term at very low levels of equity and would suggest that equity shares below 30% should be avoided. Secondly, as we have already demonstrated in Section 10, reducing the equity stake increases the cost of provision of the affordable housing and is likely to mean that overall fewer affordable houses will be provided unless additional subsidy is provided.

- 12.10 We would suggest that to close the affordability gap between social rented and shared ownership, an intermediate rental product is required. This can be offered at a discount from open market rents, but at levels above social rents. Assuming that rents are offered within a range of 60%-90% of open market rents, Figure 12.1 demonstrates that an intermediate rental product could effectively provide a means of meeting the housing needs of those households just above the upper income level necessary for shared ownership, but whose incomes are insufficient for shared ownership.
- 12.11 Whilst the chart suggests that shared ownership may provide a means of enabling households on higher incomes (i.e. over £34,000) to enter the home ownership market, we believe that the Council should also consider the potential offered by shared equity products in meeting need. Assuming a minimum equity share of 60%, our modelling suggests that a shared equity product would be accessible to households with an income of just over £40,000. Although the needs of such households could be met through shared ownership, there is a perception issue around shared ownership, particularly the connotations associated with payment of rent on the retained equity. Our experience elsewhere in the UK suggests that households with higher incomes are likely to be more receptive to a shared equity product where there is no rent on the retained equity, or where there is a defined rent free period (as in the First Time Buyers Initiative).



13.0 Commuted Sums

Commuted Sum Principles

- 13.1 The principles outlined in ODPM Circular 05/2005 confirm that planning “obligations created run with the land”⁷ 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.”⁸ The circular considers that the use of planning obligations may include, amongst other examples, “to secure the inclusion of an element of affordable housing in a residential or mixed use development where there is a residential component.”⁹ 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.”¹⁰
- 13.2 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”.
- 13.3 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.

⁷ Paragraph A3 Circular 05/05

⁸ Paragraph B7 Circular 05/05

⁹ Paragraph B12 Circular 05/05

¹⁰ Paragraph B5 Circular 05/05



- 13.4 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') 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"¹¹

- 13.5 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 require public subsidy and planning 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.

Principle of Equivalence – Practical Methodology

- 13.6 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.
- 13.7 Bearing in mind the complexities of assessing the economic implications of affordable housing, a simple formula for developer subsidy can be derived.

¹¹ Ibid, paragraph 95



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. The developer should be neither advantaged nor disadvantaged by agreeing to or proposing an off site contribution.

- 13.8 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.
- 13.9 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” is involved to meet the Council’s objectives.
- 13.10 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:

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



13.11 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 input¹²

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	

13.12 In this example we have assumed the following:

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

¹² Please note that these figures are for illustrative purposes only



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;

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

Developer Profit = at an agreed percentage¹³.

Alternative and Existing Use Values

- 13.13 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.
- 13.14 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

¹³ 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".



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.

13.15 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.

13.16 Therefore the simple formula can be further modified thus:

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

Practical Assessment

13.17 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 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.

- 13.18 Using generic methods to generate the other inputs into the assessment will ensure that two important principles are maintained;
1. 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
 2. The planning permission does not rely upon commercially sensitive information that would benefit a developer’s competitors.

Recommendation

- 13.19 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 be subject to taking into account any established alternative or existing use value supported by evidence if necessary. This methodology can be used without resource 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.



14.0 Conclusions

- 14.1 The analysis has considered the impact of the imposition of affordable housing requirements on the residual value of notional housing developments across Wokingham Borough, including developments on previously developed and greenfield sites in the towns of Wokingham, Woodley and Earley, development within rural villages (typified by Hurst) and the proposed Strategic Development Locations. On its own an analysis based around the residual value of a scheme does not provide any certainty that a site will come forward with a particular level of affordable housing. A critical element will be the expectations of landowners in the Borough and whether they are prepared to bring sites forward for development in light of the reduction in residual value. Such expectations have to be seen in the context of existing or alternative use values applied to the land.
- 14.2 As a high value area, expectations of land value also tend to be higher and this will be reflected in the level of return landowners will expect following development. This means that the capacity of a particular site to absorb additional development costs, including affordable housing, may be lower than would be the case in an area where land value expectations are lower.
- 14.3 Land value data for Wokingham has been derived from the Valuation Office Agency and represents the average of achieved land sales over the 6 month period to January 2008. From our analysis and modelling, it would appear that recorded VOA land value data is equivalent to 25% of the Gross Development Value of suburban development in the Borough. This 25% figure has provided the benchmark against which the viability of affordable housing proposals have been tested.
- 14.4 For higher density schemes involving flats, we have some concerns about the robustness of the VOA data and consider that land values should be assumed to be the same as for other, lower density development. For higher density schemes, therefore, we have adopted a benchmark of 15% - 20% of GDV.
- 14.5 The above assumptions apply to previously development land within existing towns and villages. It is likely that a significant proportion of development will come forward on greenfield sites outside of existing towns and we have therefore considered what land value would be appropriate for testing viability in these circumstances. We believe that landowners will seek a reasonable uplift on existing use value to bring sites forward and that the benchmark should be set considerably



above agricultural land value. How far above is a value judgement, but given the additional uncertainties over infrastructure costs, we consider that a value approximately to 15% of GDV would be a realistic baseline position.

- 14.6 In presenting the results of our analysis, we have separated out the implications of affordable housing requirements on sites within existing towns, sites in villages and the Strategic Development Locations and on sites below the PPS3 threshold of 15 dwellings. The key conclusions emerging from the analysis are:

Sites above 15 dwellings within existing towns

- 14.7 Our analysis indicates that the imposition of affordable housing has a lesser impact on residual value in the higher value area of Wokingham, than in the lower value areas of Woodley and Earley.
- 14.8 For suburban style development (i.e. lower density, but higher value houses), a requirement for 35% - 40% affordable housing would reduce the residual value of the developments considered by up to 50%. For higher density, lower value per unit schemes (typically including an element of flats), the affordable housing provision will have a greater impact on residual value. Thus, a requirement for 35% affordable housing would reduce residual value by over 50% and a requirement for 40% would reduce residual value by over 60% in all three towns considered.
- 14.9 Comparison of residual land values against Gross Development Value for the schemes modelled, indicate that the level of affordable housing that could reasonably be assumed to be deliverable varies according to the value of the dwellings being built and the density of the development. Thus, it would appear that higher proportions of affordable housing may be viable in Wokingham than in the lower value areas of Woodley or Earley, and that suburban type development could potentially deliver higher levels of affordable housing than town centre or edge of centre development.
- 14.10 Overall, looking at the potential to deliver affordable housing on previously developed sites within the towns in Wokingham Borough, our modelling suggests that it should be possible to achieve a level of affordable housing of 30% without additional public subsidy. This level of provision seems to equate to a reduction in residual land value as a result of the imposition of affordable housing of between 40% and 50%.



- 14.11 Looking at the potential on greenfield sites adjacent to existing towns, we have assumed that land value is likely to be lower than within the towns and that this is likely to be around 15% of GDV. Adopting this assumption, the modelling suggests that greater levels of affordable housing might be deliverable on greenfield sites. As with the analysis within towns, there is a significant difference in the viability of schemes with higher value dwellings compared to lower value, higher density development, and between the various parts of the Borough. Thus, for smaller, higher value schemes, the modelling suggests that 45% to 50% affordable housing may be possible, whilst for higher density, lower value development, the level of provision that may be viable could fall as low as 20%. However, across the Borough and looking at the range of possible schemes, it is clear that higher levels of affordable housing should be deliverable on greenfield sites than on previously developed land, and that a figure of 35% would seem to be a realistic assumption.

Sites below 15 unit threshold

- 14.12 We are aware that the Council is considering a reduction in the site threshold above which affordable housing will be sought, in order to address the scale of identified need. Our analysis has looked at viability on sites of 5 dwellings but has not considered the justification for lowering the threshold in relation to meeting need, merely the impact that this would have on the viability of providing affordable housing.
- 14.13 Our analysis shows a greater degree of variation in the impact of affordable housing on residual land value for smaller sites than for larger sites. Assuming that a 40% reduction in RLV is acceptable from a developer and landowner's point of view, our analysis suggests that it may be possible to deliver up to 25% affordable housing in Woodley and Earley and possibly 30% in the higher value area of Wokingham.
- 14.14 In relation to existing or alternative use value, assessing RLV as a proportion of overall GDV, suggests again that there would be greater potential to deliver affordable housing in Wokingham than in other towns. The size of the schemes modelled make the outcomes of this analysis much more sensitive to assumptions about overall values and tenure mixes. In addition to which smaller sites attract a higher existing use value. Taking these factors into consideration, we consider that it would be possible to deliver affordable housing on sites below the current PPS3 threshold, but that the proportion of affordable housing that could be viable will be lower than for larger sites. The sensitivity to costs and values also leads us to err



on the side of caution when considering an appropriate affordable housing quota or target for sites below 15 units. We believe that to enable delivery across all the towns in Wokingham, a figure of 20% would appear to be the maximum that could be delivered.

Rural Areas

- 14.15 Wokingham Borough contains large areas which are designated as rural, within which there are many smaller villages. Current adopted policy limits the scope for development in these areas, but we understand that the Council is considering the potential to deliver further affordable housing in rural areas to meet local need through the emerging LDF process. We therefore looked at the potential impact of affordable housing on a range of smaller schemes of site, 2 dwellings, 5 dwellings and 10 dwellings within the village of Hurst.
- 14.16 The modelling suggests that higher values in rural areas could deliver a greater level of affordable housing than in the towns. For example, within a reduction in residual value of 50%, it would appear possible to deliver up to 50% affordable housing, compared with a maximum of 35% for a similar scale of reduction in the towns.
- 14.17 Looking at potential existing or alternative land value in rural areas, we believe that values are likely to be significantly higher than in urban areas and may constitute up to 35% of GDV. On this basis, our modelling suggests that, subject to the existing or alternative land use value on individual sites, affordable housing on sites of 15 or fewer dwellings in the range 35% to 50% may be deliverable.
- 14.18 What is apparent from our modelling is that, on smaller sites, there is a greater level of variation in terms of the viability of a provision and much greater sensitivity to tenure mix. Thus, although it would be feasible to set a higher policy benchmark in rural areas, it is essential that development proposals are assessed on an individual basis through a bespoke viability appraisal to demonstrate that required levels of affordable housing are deliverable.

Strategic Site Development

- 14.19 Recognising that a significant element of the Borough's future housing supply might come forward through strategic site development, we considered the potential to



provide affordable housing on sites with a minimum of 2,000 dwellings. In undertaking this analysis, we have deliberately sought not to apply site specific requirements, in terms of the number of market units required, necessary infrastructure or overall development timings. The viability on individual sites is a matter for the various consortia concerned, using site specific information. Our aim has been to provide broad guidance to the Council on the impact of affordable housing on scheme development and the overall scale of affordable housing that might be viable.

- 14.20 Looking at the potential reduction in residual land value, it would appear that within a reduction of 40% in RLV, it would be feasible to provide up to 35% affordable housing. When we look at the impact of existing or alternative land use value, assuming that a realistic value could be set at approximately 15% of the overall value of the proposed development, then up to 40% affordable housing provision may be viable.
- 14.21 However, whilst these figures may provide a basis for policy formulation, there is a significant amount of uncertainty over actual development proposals, particularly the likely infrastructure costs that will need to be incurred for strategic sites to come forward in a sustainable fashion. We have considered the impact of higher costs per dwelling on the potential for affordable housing delivery and this supports our conclusions that somewhere between 35% and 40% affordable housing would be an appropriate benchmark.

Impact of Tenure

- 14.22 Tenure is an important consideration in determining the level of affordable housing that can be provided. Generally, higher proportions of intermediate provision will enable higher overall levels of affordable housing to be provided and/or a higher residual land value to be realised.
- 14.23 Our modelling suggests that a 50:50 tenure split (social rented:shared ownership) will have less impact on residual values than a 70:30 split. The scale of the difference being approximately 10 percentage points. The result is that it should be feasible to deliver a higher proportion of affordable housing if lower levels of social rented provision are required.



Affordable Housing Products

- 14.24 Our modelling has demonstrated that there is a significant gap between the income levels required for eligibility for social rented housing and the minimum income level required to gain access to open market housing (the private rented sector). Whilst shared ownership provision, offered at a range of equity shares, or rent on unsold equity, will close some of this gap and enable some households to access low cost home ownership, it will not on its own provide an effective means of addressing housing needs in the Borough. Our analysis and experience in the planning and delivery of affordable housing elsewhere, indicates that the Council should consider the potential for intermediate rental products at a discount of 60% to 90% from open market rents, as a means of providing sustainable housing options for those households earning above the level required for access to social rented provision, but insufficient to sustain home ownership in the longer term.
- 14.25 For higher income earners, whilst shared ownership products can provide a suitable low cost home ownership option, the Council should also consider the potential for a range of shared equity products. These can be offered at higher levels of equity with either no rent payable on the retained equity or a rent free period. Such products are likely to be more attractive to those households on middle incomes who are unable to purchase suitable properties on the open market.

Commuted Sum Methodology

- 14.26 We believe that 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 land use value.



15.0 Recommendations

- 15.1 Our intention in undertaking this study was to provide the Council with a robust evidence base from which to develop and implement effective planning policy for affordable housing. We have not sought to provide precise policy conclusions or to write policy for the Council, but rather to provide the tools necessary for the Council to make decisions about an appropriate policy base for Wokingham, reflecting the broad experience of the housing market, but also the aims and aspirations of the Council.
- 15.2 Bearing the above in mind, the key recommendations emerging from our study are as follows:
- 15.3 Although the ability to deliver affordable housing is closely related to overall values, the differences between the towns studied is not as significant as the difference between urban and rural areas. We recommend that the Council consider the use of different affordable housing percentage requirements between the urban (i.e. towns) and rural areas of the Borough.
- 15.4 Within the towns, we consider that a requirement for 30% affordable housing would be realistic, without the need for additional Social Housing Grant. To deliver a higher level of affordable housing (up to 35%) Social Housing Grant of the scale per unit of that received in the 2006-2008 National Affordable Housing Programme would be required.
- 15.5 In the rural areas where development is likely to take place on smaller sites, we consider that an affordable housing targets in the range 35% - 50% should be deliverable, subject to evaluation of the existing or alternative land use value on a site by site basis,
- 15.6 Our modelling demonstrated a significant difference between the potential to deliver affordable housing on previously developed sites and greenfield sites. We therefore recommend that the Council consider the potential for a different policy requirement for greenfield sites, where up to 35% affordable housing may be viable.
- 15.7 In line with our findings on greenfield sites, our analysis suggests that higher levels of provision may be viable within the Strategic Development Locations subject to



the level of investment required to deliver sustainable infrastructure. Our modelling supports a requirement of between 35% and 40% in these areas. We would recommend that site specific percentages be considered in the context of more detailed analysis of infrastructure requirements.

- 15.8 The modelling suggests that it would be possible to reduce the threshold at which sites will incur an affordable housing requirement. Thresholds could be reduced to 5 dwellings within the towns, but on sites between 5 dwellings and 14 dwellings our modelling suggests that a lower proportion of affordable housing should be sought, typically in the range of 20% - 25%. In rural areas, our modelling suggests that it would be possible to deliver affordable housing on smaller sites and thresholds could be reduced to 2 dwellings with affordable housing targets in the range 35% - 50%, depending on existing or alternative use value.
- 15.9 On smaller sites under the national 15 dwelling threshold, whilst it may be possible to achieve some affordable housing on-site, the Council should consider the potential for commuted sum payments to enable provision elsewhere in the Borough.
- 15.10 There is a significant gap in terms of the incomes required to access social rented housing and the minimum required to access home ownership on the open market. We recommend that the Council consider the use of a range of intermediate housing products to close this gap, including the provision of intermediate rental, shared ownership and shared equity products.
- 15.11 Commuted sums should be calculated on the basis of the equivalence principle supported through Circular 05/05, PPS3 and delivering Affordable Housing. The developer subsidy for off site provision should equate to the subsidy that would have been provided had the affordable housing been delivered on site. The calculation of the developer subsidy should reflect scheme development costs and values and equate to the difference in the residual value of a scheme unencumbered with affordable housing and one with affordable housing, taking account of realistic expectations of land value.