Wokingham Borough Council

UPDATE TO AFFORDABLE HOUSING VIABILITY STUDY

Levvel Ltd

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1.0 Introduction

1.1 Levvel Ltd undertook an Affordable Housing Viability Study on behalf of Wokingham Borough Council during the Spring of 2008 and finalised the report for the Council in June 2008. The study was used to inform the Core Strategy affordable housing targets including the schedule of targets to be found in Policy CP5 of the submission Core Strategy and supporting paragraphs.

1.2 The significant changes to the economy were generally unknown at the time that the survey was undertaken and although generally the pressure on property values was beginning to be felt, many commentators were still unsure about the extent to the continued downturn.

1.3 Since then, and in particular since September 2008, it has been clear that the effect of both the general downturn in the economy and the knock-on effect that this has had on the development industry (particular the residential market) means that achieving affordable housing through the planning system presents a major challenge. It is now more vital than ever that development is encouraged and the viability of development is a major issue that has to be addressed.

1.4 It is with these exceptional circumstances in the background that Levvel has been asked to revisit the original viability study to undertake further sensitivity analysis. In particular, we need to consider the prospects of reductions in property values of the magnitude of, perhaps, 50% from the height of the market at some time late in 2007 to a potential bottom of the market.

1.5 We have made sure that our analysis takes into account the market failures that have occurred and attempts to use a basic analysis that makes a forecast about the extent and length of a possible downturn. We have tried to take a pessimistic view of how deep the market failure will be and have looked at economic forecasts (including our own assessment of the residential market) to give an indication of what parameters to use in this assessment.

1.6 The detailed analysis has therefore looked at several key factors to be considered as an update to the June 2008 report. Our methodology has not changed since that time and it has been a matter of extending and updating both the inputs and the assumptions made last year. In some cases – the assessment of different tenure mixes, for example - the information was available during our initial study to make more detailed sensitivity analyses. We felt at the time that it was, perhaps, unnecessary to report on every detailed change in tenure for which we had the information as this would have made the analysis unnecessarily long and unwieldy and the reporting over complicated. We have now used much of that original information to inform this update and this may help to give a clearer picture about the effect of tenure changes to scheme viability.

1.7 The particular tests that we have reported on here assess the following:

- Sales Values – sensitivity of reduction in sales values of between 10% and 40%;

- The implications of a 35% affordable housing target on large-scale (2,000 homes) developments in strategic development locations;

- Changes to development finance costs including changes to interest rates (and availability of finance) and prolonged sales periods;

- Reduced existing and alternative use values;

- A more flexible affordable housing tenure split, in particular considering the impact of varying the 70:30 social rent : intermediate split. We are mindful here, however, that low cost home ownership and other intermediate products are presenting particular difficulties for affordable housing providers;

- The availability of grant – we have assessed the potential amount of public subsidy that might be necessary in different scenarios although it must be considered that the pressure on the public purse in the next few years is going to be strong.

1.8 All of these additional analyses have been assessed in the context of changes to costs (in particular construction costs), Section 106 requirements as well as the changes to finance costs and reduced alternative and existing use values referred to in the paragraph above.

2.0 Economic Background and Changed Assumptions

House Prices

2.1 At the date of the Wokingham Affordable Housing Viability Study (June 2008) the housing market was entering into a state of decline. Since that time the general economy has fallen into recession while the property market has declined sharply. A number of house price indices (see paragraph 2.2) have shown this phenomenon.

2.2 Levvel's work involves continually monitoring the general property and land markets in areas where we work as well as nationally. The main indices, nationally, that assess changing house price movements are the Halifax, Nationwide, Right Move, Financial Times and Land Registry. There are problems with the accuracy of any of these individually and getting a true picture of the precise nature of the housing market at any one time can be difficult. However, making an assessment using more than one of these indices can give a strong indication of the trends in the housing market and can help us make an informed assessment of possible future trends.

2.3 Levvel has been closely monitoring the trends in the housing market. Whilst we have had regard to as many different indices as possible, we have treated with caution information taken from these sources in isolation as we have found that taking decisions based on monthly snapshots can be very misleading. For example, the Right Move index is released very quickly following the month end. It gives a very basic snapshot based only on asking prices and therefore may be skewed towards an upper price range. Land Registry data is more accurate but is based upon historic data and therefore is useful for a retrospective analysis. Both the Halifax and Nationwide data series use values based on mortgage offers. The data here is more accurate than pure asking prices but, again, may be skewed as property transactions do not necessarily proceed following a mortgage offer. In addition, Nationwide and Halifax indices do not include cash sales for obvious reasons.

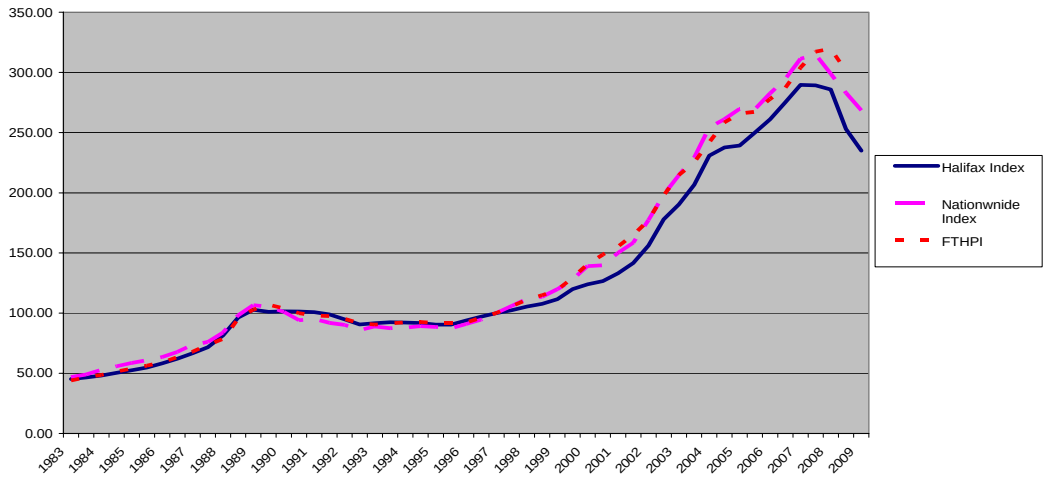
2.4 The problems with the various indices are set out by Academtrics who are responsible for the Financial Times House Price Index (FTHPI)[1]. The FTHPI attempts to resolve the problems by using an "index of indices" for an initial forecast issued following the publication of the other indices. This is then checked over time against actual transactions as reported by the Land Registry. This can be considered to be the most accurate reflection of house price inflation over time if not the most immediate.

2.5 Levvel has used Halifax and Nationwide indices to plot house price activity between 1983 (the most reliable date to commence accessing house price data) and 2008.

[1] See Appendix 1 "Why an HTPI?"

The Nationwide and Halifax indices have been blended to form an average house price curve over the period and this has enabled us to look at the behaviour of house prices against average incomes over that time. Both the Halifax and nationwide indices follow a similar curve over this 25 period and these have been checked against the FTHPI over that same period.

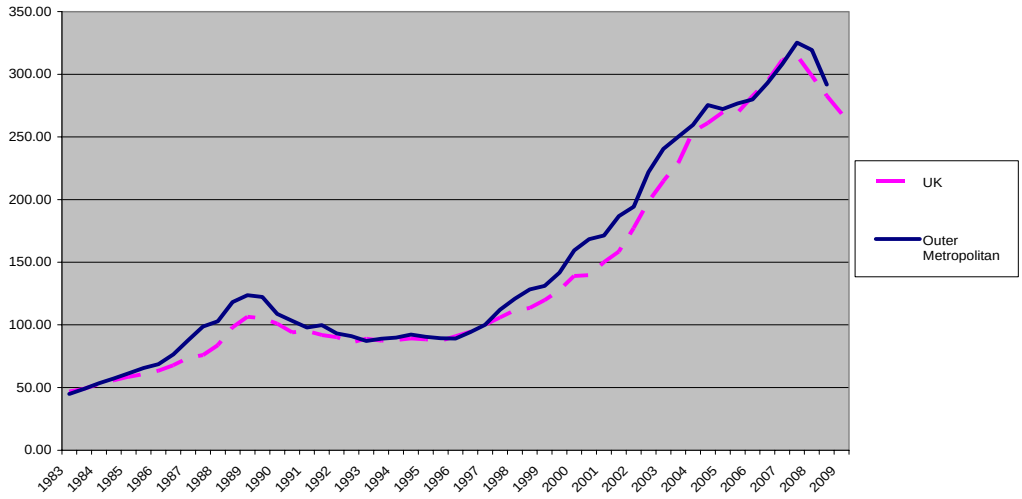
Figure 1
Nationwide, Halifax & FT Indices 1983-2008
Q1 2007 = 100



2.6 Figure 1 shows the three indices over that period follow a very close path. The graph uses indexed house prices using 1997 as 100. The actual average values are different and therefore, to get the picture about relative house prices over time, the indexing of prices to 1997 shows how house prices have increased and decreased over the period shown. For these reasons, a blended average of the Nationwide and Halifax indices can be seen to be reasonable.

2.7 The implications of this analysis cannot be taken in isolation and this only gives an indication of past house price behaviour over the whole of the market. Figure 2 shows the house price profile of the Nationwide index for the UK and for the Outer Metropolitan area. The profiles are remarkably similar.

Figure 2
Nationwide Index 1983-2008 (UK & Outer Metropolitan)
Q1 2007 = 100



2.8 A number of commentators and analysts have made assessments of the property market. Many of these predictions have suggested that house prices may not have much further to fall while others are suggesting a continued decline. Our purpose in this report is not to make predictions about precisely what the market is going to do, but to make risk assessments based on likely outcomes. Therefore, we need to know what possible scenarios might arise that will affect viability in the short term.

2.9 To do this, we have looked at the property market trends based on the analysis of past prices and have extended these to 2020. However, to look at the market in isolation may be unhelpful and it is necessary to look at the underlying reasons to understand why the market may act in a particular way.

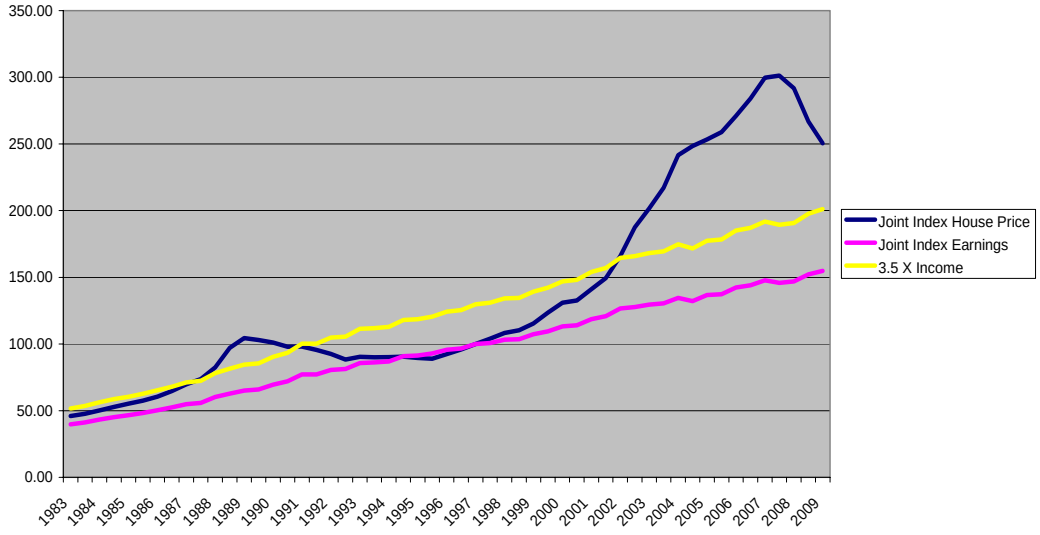
2.10 A major influence on the way the property market works is affordability. We can see from the house price indices that they follow a long term average increase of around 3.6% per annum. However, we can also see wide variation during the 25 year period of peaks and troughs (or booms and busts). It is clear that there are periods where the housing market gets 'out of hand' to some extent and where there is clearly a need for some sort of re-correction. These booms and busts have been identified and noted by some as being an inevitable process and in particular, Fred Harrison[2] pointed, in 2005, to the inevitable bust that was to follow the latest boom. Again, we do not want to pursue the tricky question of precisely why the house market operates as it does, but it is sufficient to suggest that while a number of factors can be seen to be influencing these swings in the market, one major contributory factor to the propensity of the market to re-correct is affordability.

2.11 Tracking incomes over the same period as our house price analysis, we have been able to establish that incomes (or at least incomes sufficient to access mortgages at the prevailing house price) have shown a steady rate of increase over the last 25

[2] Boom Bust: House Prices, Banking and the Depression of 2010; Shepheard-Walwyn 2005

years. Using information from the house price:earnings ratios published by both Nationwide and Halifax we can see a steady increase year on year of approximately 2.56%. Figure 3 shows that in graphic form set against the index of house prices from Figure 2 above. In addition, we have included the curve which shows the 3.5 times income position which relates to the general affordability criteria practised by mortgage lenders over the last 25 years. We have used this as the general affordability criterion. Indeed, the evidence suggests that this is a reasonable factor against which house prices can be gauged.

Figure 3
Nationwide/Halifax Joint Index (x=2.69) and Income
1983-2008
Q1 2007 = 100



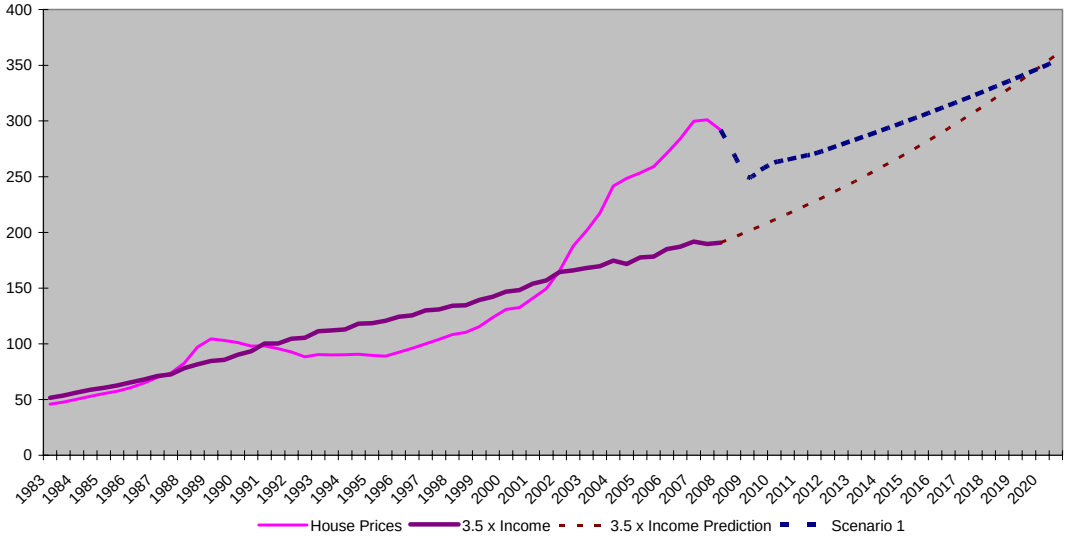
2.12 If we use the 3.5 times income proxy as a general indication of the likely level of house price re-correction over the coming period then it is clear that there may be further general falls in house prices. This can lead us to suggest possible house price scenarios based around the 3.5 times affordability base.

2.13 The Affordable Housing Viability Study published in June 2008 incorporated property prices pertaining at the time of the study, with research being undertaken during the first quarter of 2008. Since that time, the Nationwide and Halifax indices would suggest a reduction in values of between 14% and 16% for the Outer Metropolitan or South East. While these are crude assumptions for the purposes of this re-assessment, we have assumed a 15% reduction in values up to February 2009.

2.14 We have then used this base reduction and then assumed four further scenarios as possible housing market conditions until 2020.

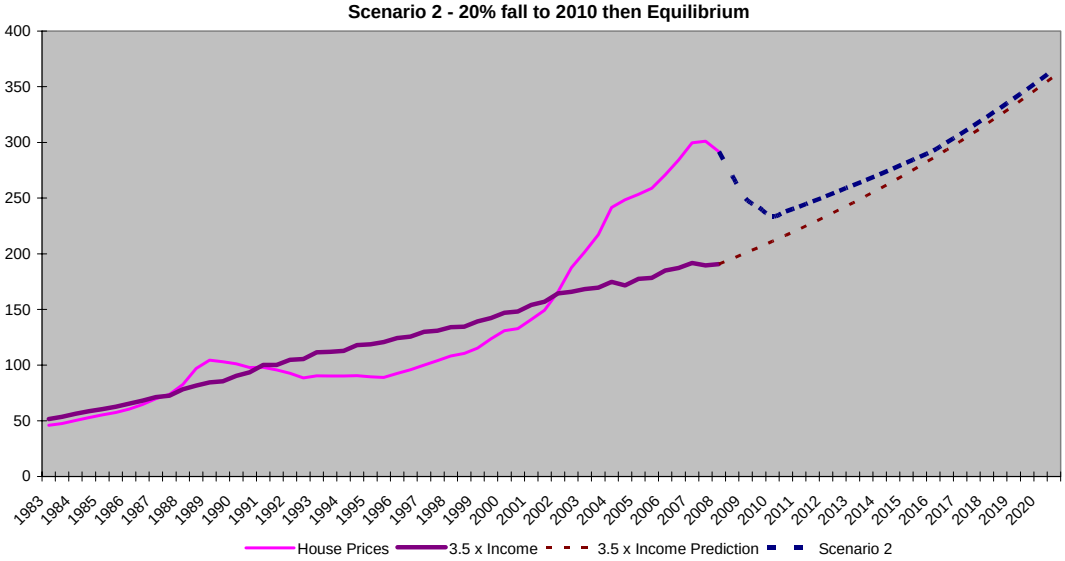
2.15 Figure 4 shows what is likely to be the "best" scenario taking into account the current economic position. This incorporates the 15% reduction to quarter 1 2009 and then assumes a recovery in the first quarter of 2010 back to an equivalent reduction of 10% from the quarter 1 2008 position. We have then assumed that prices will rise at a rate to bring them back to the 2020 'equilibrium position' of 3.5 times salary.

Figure 4
HOUSE PRICE INDEX TO 2008 AND PREDICTION TO 2020
Scenario 1 - 10% fall to 2010 then Equilibrium



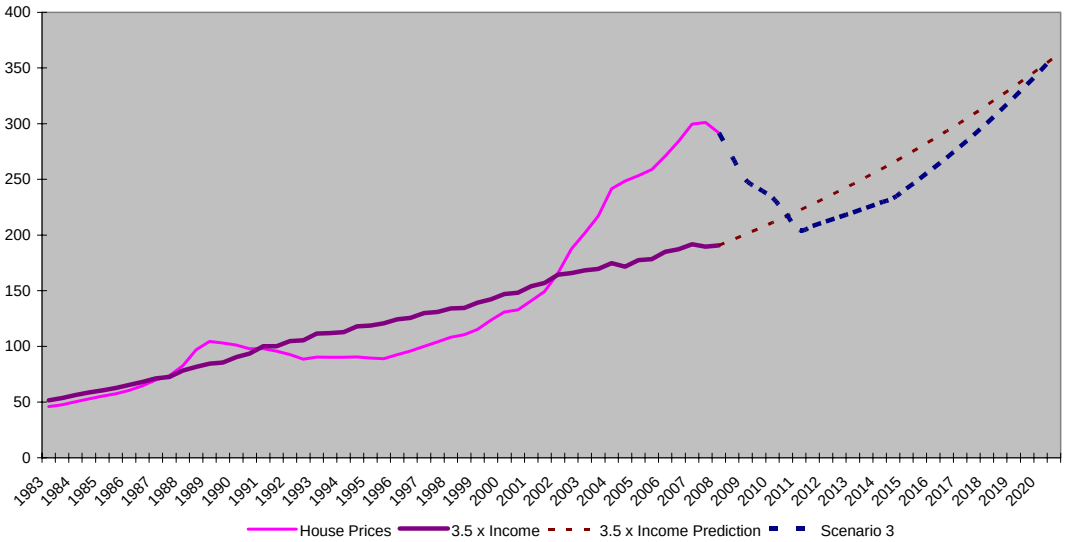
2.16 Scenario 2 (Figure 5) is a position with a further 5% fall from the 2008 position making a 20% fall in prices by 2010. Again, we have assumed a recovery to the "equilibrium position by 2020. It can be seen that in this scenario, as in scenario 1, house prices continue to exceed the 3.5 times salary position.

Figure 5
HOUSE PRICE INDEX TO 2008 AND PREDICTION TO 2020
Scenario 2 - 20% fall to 2010 then Equilibrium



2.17 In figure 6 (Scenario 3) we can see a position where house prices fall below the "equilibrium position" representing a fall of 20% to quarter 1 2010 and then a further 10% fall to quarter 1 2011 equating to a fall of 30% from the quarter 1 2008 position. Again, we have assumed that the equilibrium position is achieved by 2020. The bottom of the market position here equates to property prices at about 3.2 times income.

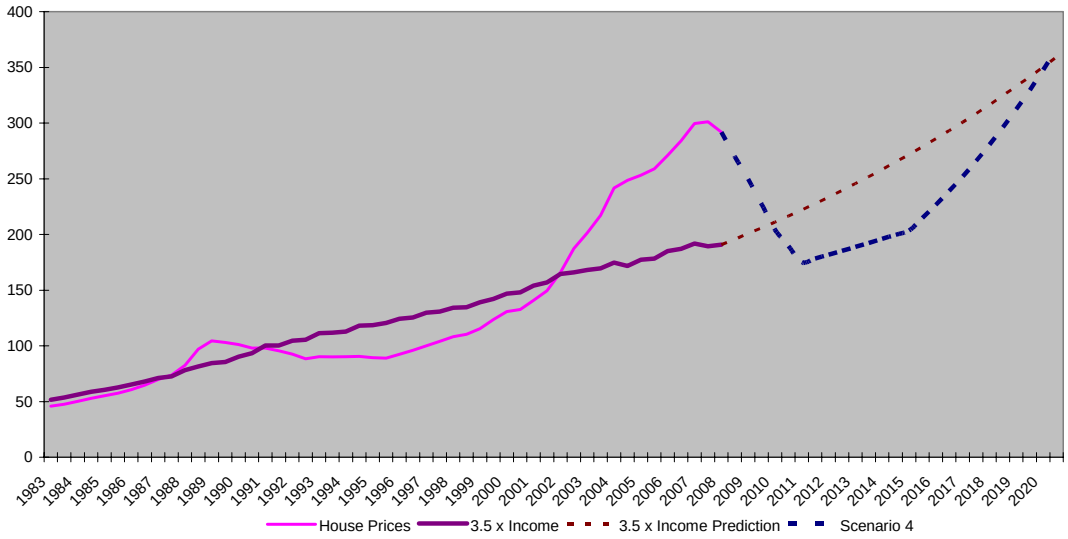
Figure 6
HOUSE PRICE INDEX TO 2008 AND PREDICTION TO 2020
Scenario 3 - 20% fall (2010), 30% fall (2011) then Equilibrium



2.18 Finally, our final basic scenario for house prices is the position in Scenario 4 (Figure 7) which shows a possible worst case scenario. This assumes that property values fall from the 2008 position by as much as 40% by the year 2011. The bottom of the market here equates to approximately 2.8 times income; at the depth of the

last property price recession in the 1990s the ratio varied between 2.6 and 3.0 times income.

Figure 7
HOUSE PRICE INDEX TO 2008 AND PREDICTION TO 2020
Scenario 4 - 30% fall (2010), 40% fall (2011) then Equilibrium



Construction Costs

2.19 The current economic climate is putting pressure on construction work. Activity is markedly down since the time of the Affordable Housing Viability Study in June 2008 and certain materials are now more expensive. At the same time labour costs have decreased. The picture is therefore not clear cut and Levvel has sought further advice from a cost consultant (Altus Andrews) who has an office in Bracknell close to Wokingham.

2.20 Appendix 1 shows an update to the build cost information that was used for the 2008 study confirming or updating the assumptions that were made in 2008.

2.21 We have used this information to update our construction costs inputs and have used the revised construction costs per square metre advised by Altus Andrews rather than the forecast figures suggested by the Building Cost Index Service. This is because the BCIS assumptions on the possible reductions in tender prices are likely to be very worst case scenarios. Of course predicting precisely what these prices may be in two years time must carry a health warning as there will be a number of external factors (including the state of the world economy and the number of construction starts) that will affect these forecasts.

2.22 Essentially the base construction cost per square metre reported in 2008 has been reduced by 3.6% from 2008 (this equates to a revised net build cost for housing mixed developments of £920 per m2) and then by a further 6.5% for our 2010 forecasts and a further 2% reduction in 2011. Code for Sustainable Homes level 4 has been included in addition in line with our assumptions for 2008.

Finance Costs

2.23 Since the time of the Affordable Housing Viability Study in 2008 base interest rates set by the Bank of England have reduced at unprecedented rates. At the time of writing this update (March 2009) the base rate is at 1.5% with the prospect of further reductions (possibly to a nominal amount; effectively zero). These reductions have generally not been passed on in the market and construction and development finance is currently extremely difficult to access.

2.24 The assumptions made in 2008 already reflected the increasing pressure in the money markets (the so-called "credit crunch") and an interest rate of 2 percentage points above LIBOR was assumed to be a reasonable assumption. That equated to a charge of 8% per annum on development period finance.

2.25 While base rates and LIBOR rates are low based on our experience of working with a number of private sector housebuilders and developers, we have decided not to change our assumptions about the cost of finance. We believe that this approach is the most sensible based on the uncertain economic climate despite the possibility of government intervention in the money markets through "quantitative easing" and further reductions in the base rate.

Alternative Land Values

2.26 The following table, based on January 2008 Valuation Office Agency information for Wokingham, was used to inform the alternative and existing use information in the Affordable Housing Viability Study undertaken in 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

2.27 Since that time land values have taken a dramatic hit. The latest Valuation Office Agency figures are for July 2008 and these represent land transactions that were taking place in a more benign market than now. Even so, there was a reported reduction in land values at that time and the table above can be updated as follows for July 2008:

Residential Building Land - Wokingham	£ per hectare
Small Sites (< 5 units)	£3,300,000
Bulk Land (> 2ha)	£3,000,000
Flats & Maisonettes	£4,000,000
Agricultural Land - South East	
Equipped with Vacant Possession	£19,197

2.28 These represent a substantial fall in values of between 13% and 28% in just 6 months. There is every indication that land values will have fallen much further since that time and assuming, say, a further fall of 25% in values then land values in the South East will be at similar levels to those at the beginning of the century. Anecdotal evidence would suggest that land values have fallen much further, possibly to 1997 levels when the value of residential land in the South East was £2,071,000 per hectare[3].

2.29 Taking into account these revised figures and considering the potential land values that could be achieved, the assessment of viability based on a proportion of GDV is still a valid one. The methodology used to arrive at the proportion of GDV to be applied in order to test economic viability can be found in Section 4 of the original Affordable Housing Viability Study.

2.30 The viability test as a proportion of GDV has thus been vindicated by what has happened to the market since 2008 and has meant that we can test with ease the revised assumptions. It must be borne in mind, however, that ultimately there will be a threshold below which landowners will not sell their land. In these circumstances, the land will not be made available for development. On the other hand, a review of land value figures suggest that they lag behind the property market as it comes out of recession. These factors mean that despite the assessment of values against GDV being reasonable, this does not necessarily mean that land will be made available for residential development.

[3] Valuation Office Agency, Property Market Report January 2007

3.0 Revised Assessments

3.1 Wokingham's submission Core Strategy Policy CP5 refers to variable percentage affordable housing requirements according to the type and location of sites. We would endorse this approach as it sensibly takes into account the realistic chances of sites coming forward taking into account constraints on the land. The affordable housing requirements give developer, landowners and housebuilders the certainty to commence their assessments of site potential.

3.2 The market changes that have precipitated the effects described in Section 2 of this update mean that it is necessary to revisit a selected number of the original models. We have decided to look forward over a realistic three year period.

3.3 We have tested three different tenure mixes;

a. 70:30 social rent shared ownership in line with the current preferred mix;

b. 50:50 social rent: shared ownership

c. 50:50 social rent:intermediate rent

3.4 We have then used the forecast reduction in construction costs (see paragraphs 2.19 to 2.22) over the three years 2009, 2010 and 2011 against the following scenarios:

Scenario 1

A 15% fall in sales values to 2009 and a 5% recovery in values to 2010 (equating to a 10% fall in values by 2010). 2011 shows a further recovery.

Scenario 2

A 15% fall in sales values to 2009 and a further 5% fall to 2010 (equating to a 20% fall in values by 2010) and then recovery to a 10% fall in 2011.

Scenario 3

A 15% fall in sales values to 2009 and a further 5% fall to 2010 (equating to a 20% fall in values by 2010) and then a further 10% fall in 2011 (equating to a 30% fall in prices overall).

Scenario 4

A 15% fall in sales values to 2009 and a further 15% fall to 2010 (equating to a 30% fall in values by 2010) and then a further 10% fall in 2011 (equating to a 40% fall in prices overall).

Large Strategic Site (over 2,000 units)

Proposed CP5 minimum percentage affordable housing	35%
Target proportion of GDV	15%
All scenarios for year 2009	Achievement of 35% affordable housing is marginal but most achievable on the 50/50 social:intermediate rent split. (the maximum achievable affordable housing without grant is 35%).
Scenario 1	2010 - 35% requirement is achievable on all scheme mixes (the maximum achievable affordable housing without grant is 45%).
Scenario 2	2010 – 35% requirement is only achievable without grant on both 50:50 splits (the maximum achievable affordable housing without grant is 35%). 2011 – 35% requirement is achievable on all tenure mixes with a 50% maximum.
Scenario 3	2010 - 35% requirement is only achievable without grant on the 50:50 splits (the maximum achievable affordable housing without grant is 35%). 2011 – No affordable housing achievable at 35% (maximum without grant 20%). £117,000 per unit subsidy required to meet the target percentage.
Scenario 4	2010 - 35% requirement is only achievable without grant on the 50:50 splits (the maximum achievable affordable housing without grant is 35%). 2011 – Nil affordable housing achievable without grant. £133,000 per unit subsidy required to meet the required percentage.

This information is represented graphically in Appendix 2 of this report.

Small Greenfield Site

Proposed CP5 minimum percentage affordable housing	40%
Target proportion against GDV	25%
All scenarios for year 2009	40% requirement is achievable (maximum achievable affordable housing without grant is 45%).
Scenario 1	2010 - 40% requirement achievable on all scheme mixes (the maximum achievable affordable housing without grant is 50%).
Scenario 2	2010 – 40% requirement achievable on all tenure mixes (the maximum achievable affordable housing without grant is 40%). 2011 – 40% requirement achievable with a 50% maximum.
Scenario 3	2010 – 40% requirement achievable on all tenure mixes (the maximum achievable affordable housing without grant is 40%). 2011 – Affordable housing marginally viable and not at all using 70:30 split. £50,000 per unit subsidy required to meet the target percentage on 70:30 split.
Scenario 4	2010 - 40% target only achievable without grant using 50.50 shared ownership split. 2011 – Nil affordable housing achievable without grant. £54,000 per unit subsidy required to meet the required percentage.

This information is represented graphically in Appendix 3 of this report.

Previously Developed Land (5 to 14 units)

Proposed CP5 minimum percentage affordable housing	20%
Target proportion against GDV	25%
All scenarios for year 2009	Target requirement only achievable on shared ownership split (50:50). Additional grant required for other tenure splits
Scenario 1	2010 - 20% requirement achievable on all scheme mixes (the maximum achievable affordable housing without grant is 35%).
Scenario 2	2010 – 20% requirement achievable on all scheme mixes (the maximum achievable affordable housing without grant is 35%). 2011 – 20% requirement only achievable on the shared ownership (50:50) split. Additional grant required of £52,000 per unit.
Scenario 3	2010 – 20% requirement achievable on all scheme mixes (the maximum achievable affordable housing without grant is 35%). 2011 – Affordable housing not viable 20%. Additional £95,000 per unit grant required.
Scenario 4	2010 - 20% target not viable for any scheme mix (£105,000 per unit subsidy required). 2011 – Nil affordable housing achievable without grant. £152,000 per unit subsidy required to meet the required percentage.

This information is represented graphically in Appendix 4 of this report.

Previously Developed Land in Major Development Area (15+ units)

Proposed CP5 minimum percentage affordable housing	30%
Target proportion against GDV	15%
All scenarios for year 2009	Target requirement not achievable on any tenure mix. Additional grant required of £102,000 per unit.
Scenario 1	2010 - 30% requirement is achievable on all splits (but marginally and therefore 30% is the maximum viable without grant).
Scenario 2	2010 – 30% requirement achievable only for shared ownership 50:50 split (but marginally and therefore 30% is the maximum viable without grant). 2011 – 30% requirement only achievable on the shared ownership 50:50 split. Additional grant required of £52,000 per unit.
Scenario 3	2010 – 30% requirement achievable only for shared ownership 50:50 split (but marginally and therefore 30% is the maximum viable without grant). 2011 – Affordable housing not viable at 30% requirement. Additional £97,000 per unit grant required.
Scenario 4	2010 - 30% requirement not viable for any scheme mix (£101,000 per unit subsidy required). 2011 – Nil affordable housing achievable without grant. £117,000 per unit subsidy required to meet the required percentage.

This information is represented graphically in Appendix 5 of this report.

Previously Developed Land in Modest Location (15+ units)

Proposed CP5 minimum percentage affordable housing	40%
Target proportion against GDV	25%
All scenarios for year 2009	Target requirement viable on all tenure mixes (the maximum achievable affordable housing without grant is 45%).
Scenario 1	2010 - 40% requirement is viable on all tenure mixes (the maximum achievable affordable housing without grant is 50%).
Scenario 2	2010 – 40% requirement is viable on all tenure mixes (the maximum achievable affordable housing without grant is 50%). 2011 – 40% requirement is viable on all tenure mixes (the maximum achievable affordable housing without grant is 50%).
Scenario 3	2010 – 40% requirement is viable for all mixes (the maximum achievable affordable housing without grant is 50%). 2011 – Affordable housing not viable at 40% (maximum 25%). Additional £52,000 per unit grant required.
Scenario 4	2010 - 40% requirement is not viable for any scheme mix (£56,000 per unit subsidy required). 2011 – Nil affordable housing achievable without grant. £71,000 per unit subsidy required to meet the required percentage.

This information is represented graphically in Appendix 6 of this report.

4.0 Conclusions

4.1 The current economic conditions, including the residential property market, have had an impact on the economic viability of achieving affordable housing on new developments in Wokingham. Four different scenarios have been tested using the notional sites identified for the original Affordable Housing Viability Study undertaken in spring 2008. These four scenarios take into account a range of falls in the housing market, changes to construction costs as advised by a professional cost consultant, and changed interest rates over the coming three years.

4.2 We have not undertaking any further scenario testing beyond this initial three year period for a number of reasons including;

a. The number of scenarios in terms of values and costs is too many to be able to undertake a detailed analysis;

b. The policy responses set out in CP5 are assumed to be satisfactory for the period of the Core strategy (up to 2026) assuming that economic conditions return to being less volatile.

4.3 All scenarios tested assumed identical levels of S106 costs, Code for Sustainable Homes costs and Lifetime Homes standards as the Affordable Housing Viability Study completed in June 2008.

4.4 The impact of each of the four scenarios tested on the viability of affordable housing provision varies considerably dependent upon the site location (as outlined in CP9) and tenure mix. It is therefore necessary to consider the impact upon viability of each land type and location separately. This is set out clearly in section 3 of this report.

4.5 The maximum target of 50% affordable housing as outlined in CP5 is not viable without additional subsidy in the majority of development locations using the scenarios tested within this report. However, in scenarios 1 and 2 the minimum percentages set out in CP5 are viable although on previously developed land in scenario 2 (a 20% fall in values in 2010) the tenure mix will have to be considered carefully.

4.6 If falls in values in line with scenarios 3 or 4 (the worst case scenarios that we tested) are experienced then the Council will need to exercise flexibility around tenure mix and support for additional (public) subsidy in order to consider achieving the minimum levels in CP5. Caution must also be taken in the current climate when considering the tenure options that may provide 'viability'. In particular, low cost home ownership options have experienced a great difficulties because of the lack of suitable finance and Registered Social Landlords may find it very difficult to provide these options in the current climate.

4.7 The impact of reducing property values is not mitigated by the likely fall in construction costs in the period to 2011. Although a fall in the property market of 10% by the year 2010 has a modest effect on viability, falls in the market from between 20% and 40% mostly severely restrict the Council's ability to achieve affordable housing through the planning system unless there is a significant input of subsidy which is likely to come only from the public sector or from Registered Social Landlords' reserves.

4.8 In particular, Scenario 4 (representing a 40% reduction in sales values by the year 2011) renders the provision of affordable housing at the required percentages as set out in CP5 unviable without the provision of substantial levels of grant for the vast majority of residential development locations outlined in CP9.

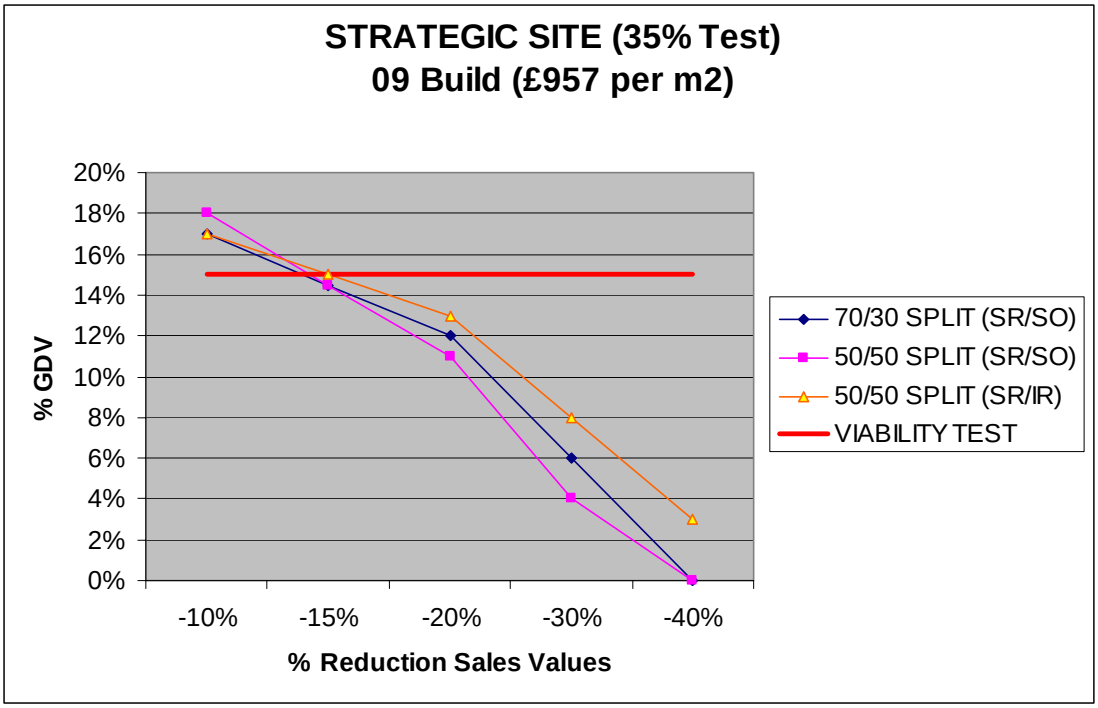
4.9 In conclusion, Policy CP5 is still considered reasonable in terms of viability. However, we recommend that the Council applies as much flexibility as possible , particularly around public subsidy levels and tenure mix, in the early years of the plan period in order to ensure that affordable housing is deliverable in an economic downturn while still maintaining and maximising overall residential development levels. Therefore, we recommend that the Council monitors the economic situation both nationally and locally in order to assess the realistic amount of affordable housing that may be achievable over the life span of the Core Strategy.

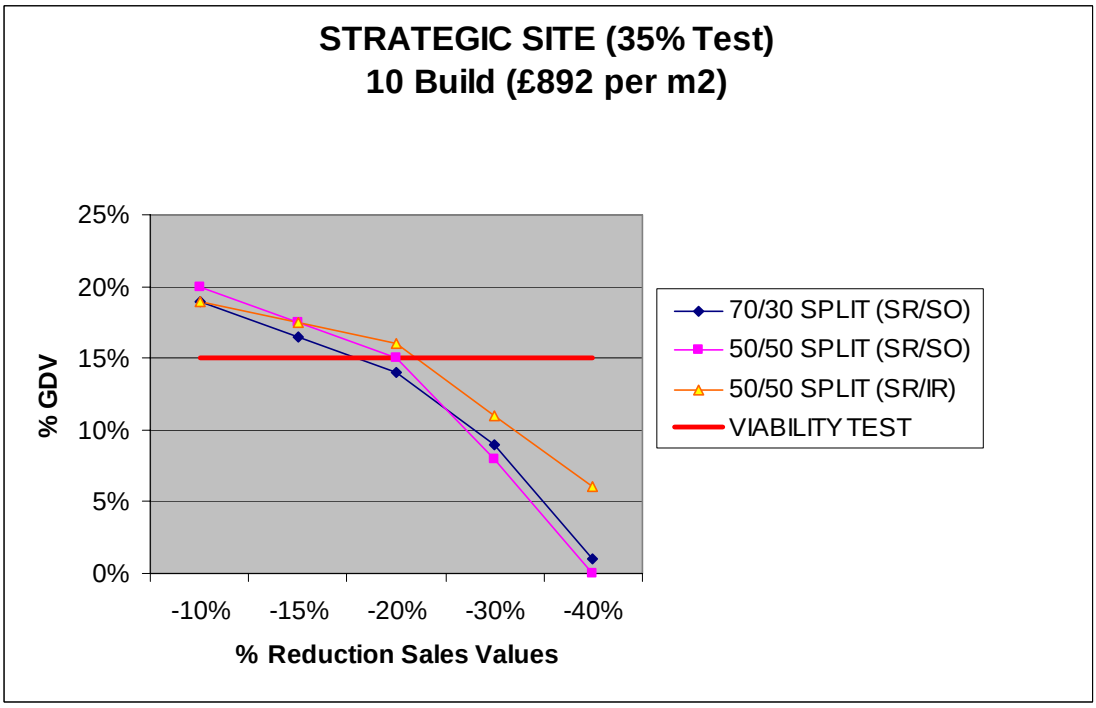
APPENDIX ONE

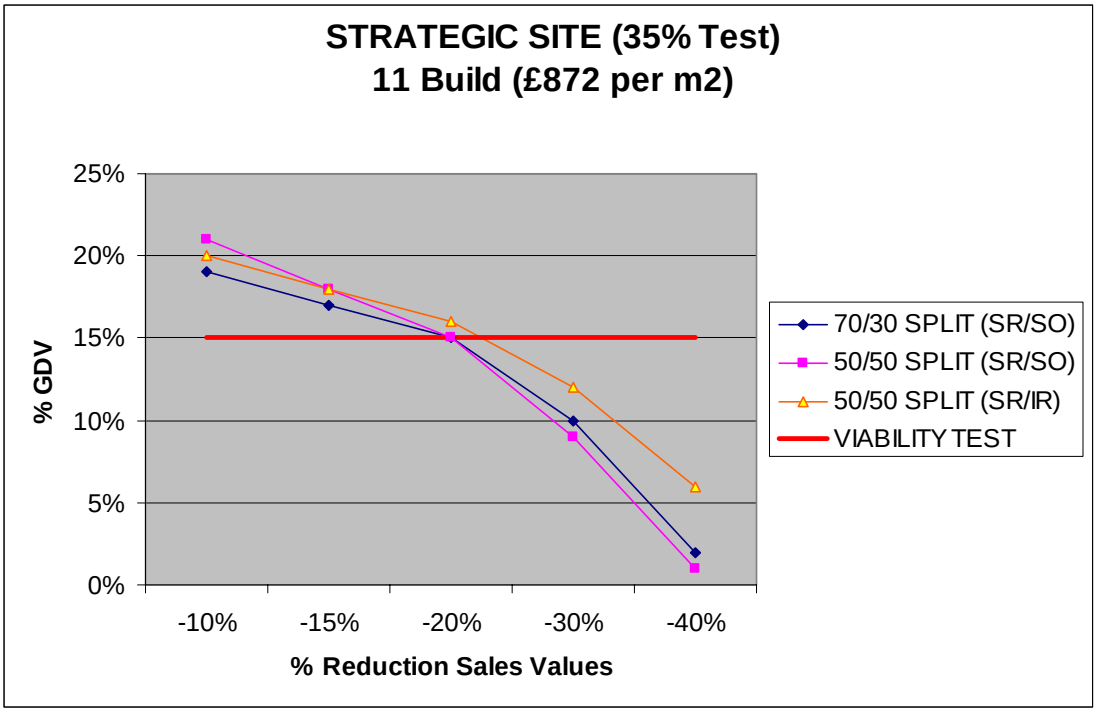
REVIEW OF WOKINGHAM VIABILITY APPRAISAL ASSUMPTIONS
REVIEW OF CONSTRUCTION COSTS ONLY

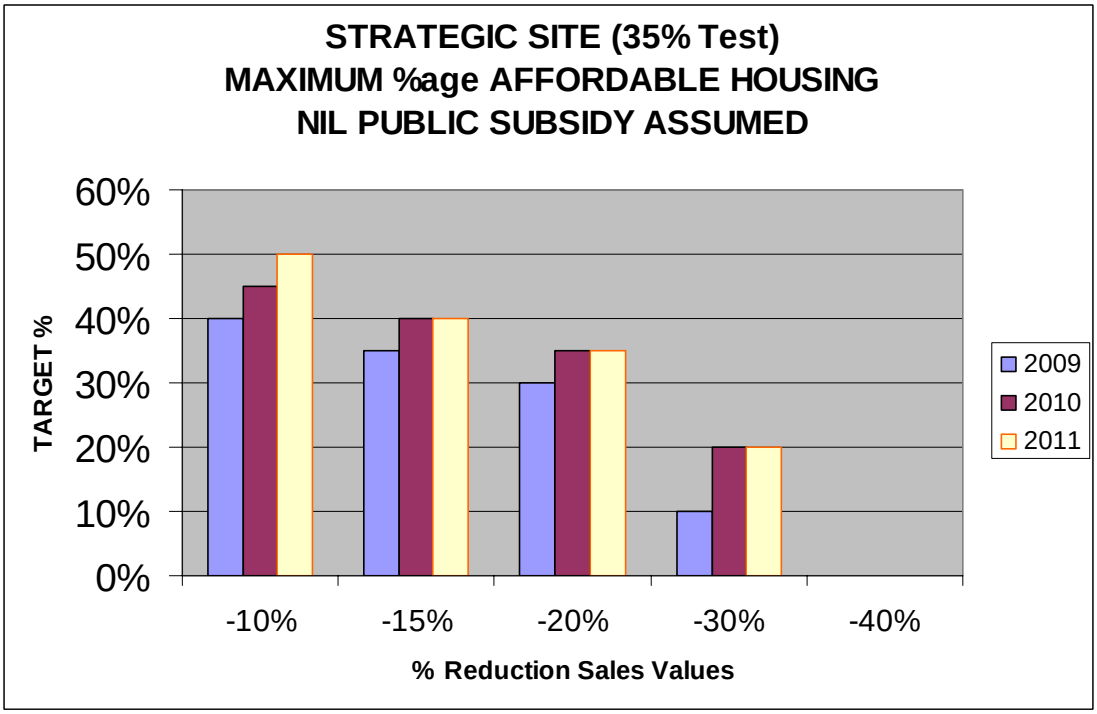
ITEM	LEVVEL APPRAISAL (JUNE 2008)	AA REVIEW (FEBRUARY 2009)	COMMENTS
LIFETIME HOMES COSTS	£600 / unit	£500 - 600 per unit ***Rates exclude land purchase costs, external works, furnishings, fees and contingency (unless stated)***	Dependant on extent of works undertaken
CODE FOR SUSTAINABLE HOUSING (CODE 4)	£96/m^2	Terrace House £95/m^2 / Flat £105/m^2	
GENERAL SALES RATES			
General House Builders (approximate figures)			
- Yearly Sales	-	250 nr - 350 nr	
- Weekly Sales	-	4 - 6 nr	
- Cancellation Rates	-	25%	
- Net Sales Per Week	-	4 nr	
Mid Size House Builders (approximate figures)			
- Yearly Sales	-	150 nr	
- Weekly Sales	-	2 - 3 nr	
- Cancellation Rates	-	25%	
- Net Sales Per Week	-	1 - 3 nr	
Larger House Builders (approximate figures)			
- Yearly Sales	-	600 nr - 650 nr	
- Weekly Sales	-	12 - 15 nr	
- Cancellation Rates	-	25%	
- Net Sales Per Week	-	10 nr	
			Sales are generally 50% down on the same period last year
			No housing stock is currently being held
CONSTRUCTION COSTS	**£955/m^2** including contingency @ 10%		No indication whether houses or flats.
- All In Tender Price Index (June 2008)	-	248	
- All In Tender Price Index (February 2009)	-	239	
- Percentage Reduction	-	-3.60%	
- Revised Construction Costs (February 2009)	-	**£920/m^2** including contingency @ 10%	Based on LEVVEL starting cost (June 2008)
Spons Dedicated Affordable / Social Housing Scheme			
- Terrace House	-	£640 - £900/m^2	Includes prelims @ 16% and OH&P
- Flat (medium rise)	-	£980 - £1,250/m^2	Includes prelims @ 16% and OH&P
Spons Mixed Use Development	-	£2,100/m^2 including prelims	Includes prelims @ 16% and OH&P
Altus Andrews In-House Projects			
Mixed Use Schemes			
- Project A, Reading	-	£1,500/m^2 excl prelims; £1,680/m^2 inc prelims	Estimate Date: August 2007. Adjusted to 1Q 2009 - £1,620/m² inc prelims
- Project B, Oxford	-	£1,250/m^2 excl prelims; £1,400/m^2 inc prelims	Estimate Date: December 2008. Adjusted to 1Q 2009 - £1,375/m² inc prelims
- Project C, Bournemouth	-	£1,400/m^2 excl prelims; £1,570/m^2 inc prelims	Estimate Date: December 2008. Adjusted to 1Q 2009 - £1,545/m² inc prelims
- Project D, London	-	£1,090/m^2 excl prelims; £1,290/m^2 inc prelims	Estimate Date: January 2006. Adjusted to 1Q 2009 - £1,350/m² inc prelims
Affordable Housing Schemes			
- Project E, Southampton	-	£830/m^2 excl prelims; £960/m^2 inc prelims	Estimate Date: November 2007. Adjusted to 1Q 2009 - £920/m² inc prelims
ANTICIPATED CHANGES IN FIRM PRICE TENDER LEVELS			
1st Quarter 2009 to 1st Quarter 2010	-	-6.45 to -6.95%	BCIS Forecast TPI -9.30%.
- Anticipated Revised Cost	-	**£860/m^2** including contingency @ 10%	Forecast revised cost for LEVVEL June 2008 rate- **£835/m²**
1st Quarter 2010 to 1st Quarter 2011	-	-2.00 to -2.50%	BCIS Forecast TPI -9.70%.
- Anticipated Revised Cost	-	**£840/m^2** including contingency @ 10%	Forecast revised cost for LEVVEL June 2008 rate- **£755/m²**

APPENDIX TWO

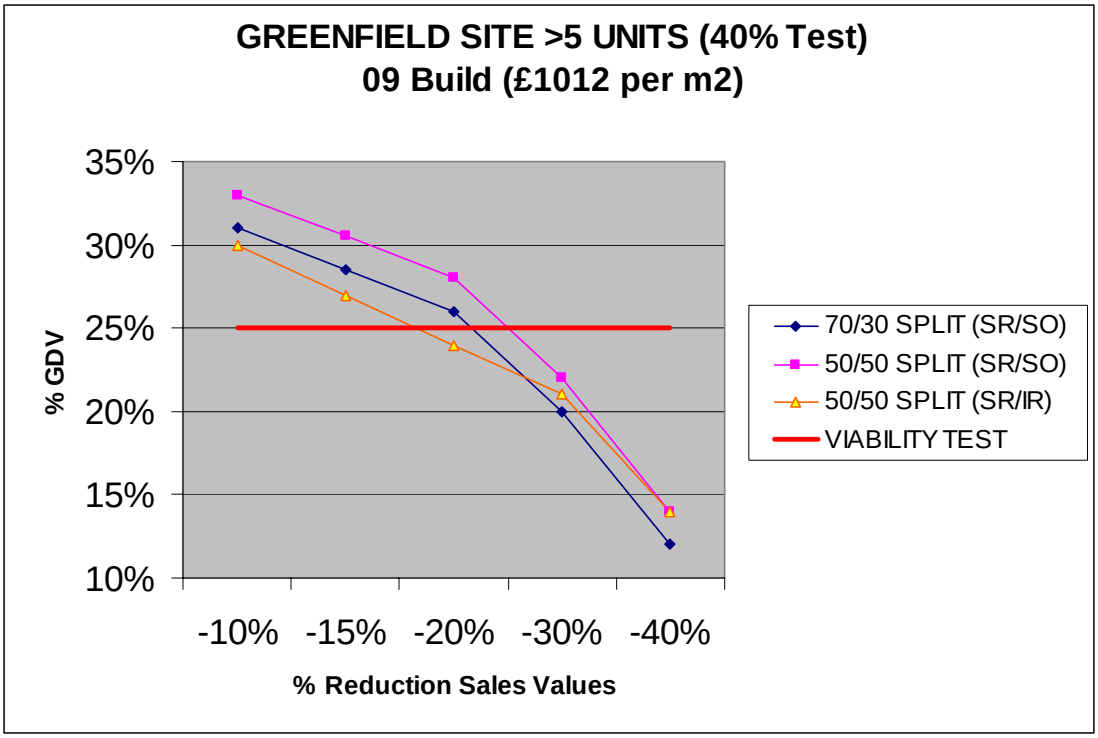

STRATEGIC SITE (35% Test)
09 Build (£957 per m2)
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST

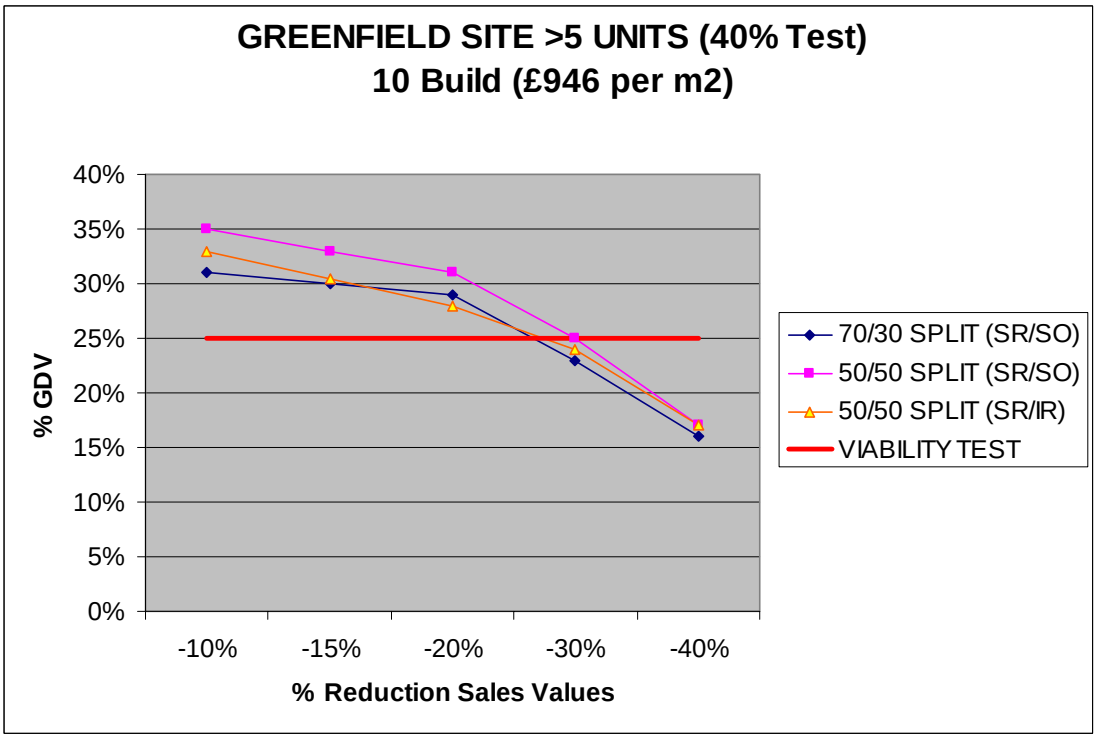

STRATEGIC SITE (35% Test)
10 Build (£892 per m2)
25%
20%
15%
10%
5%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST

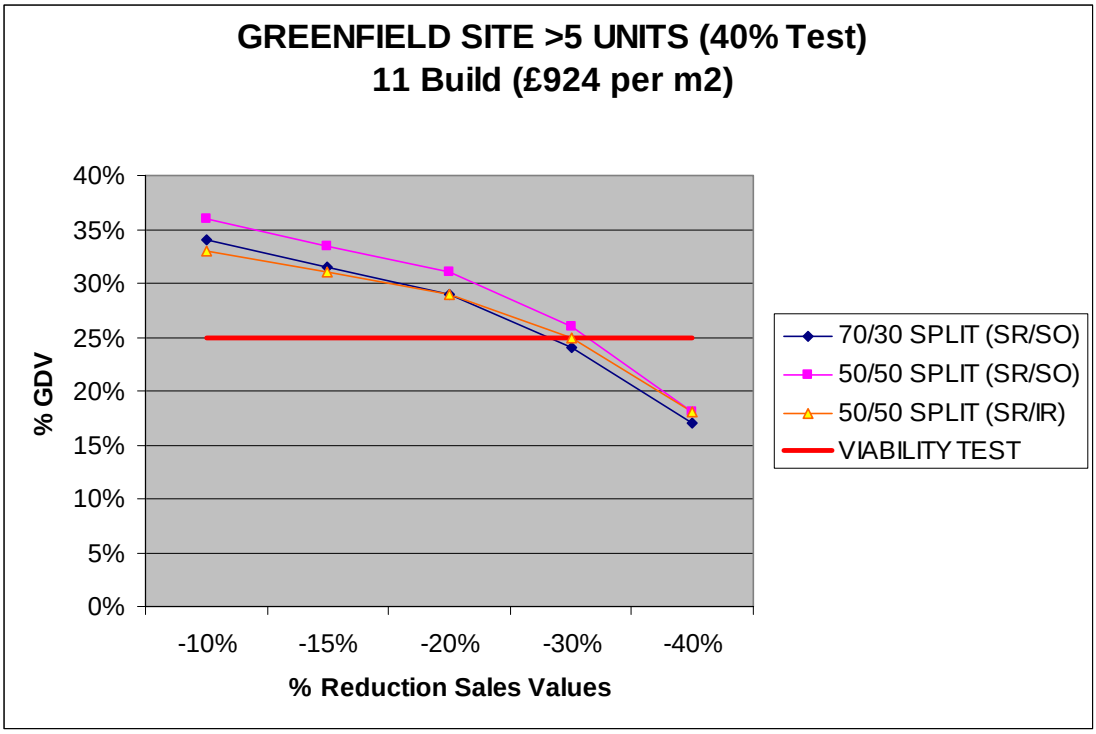

STRATEGIC SITE (35% Test)
11 Build (£872 per m2)
25%
20%
15%
10%
5%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST

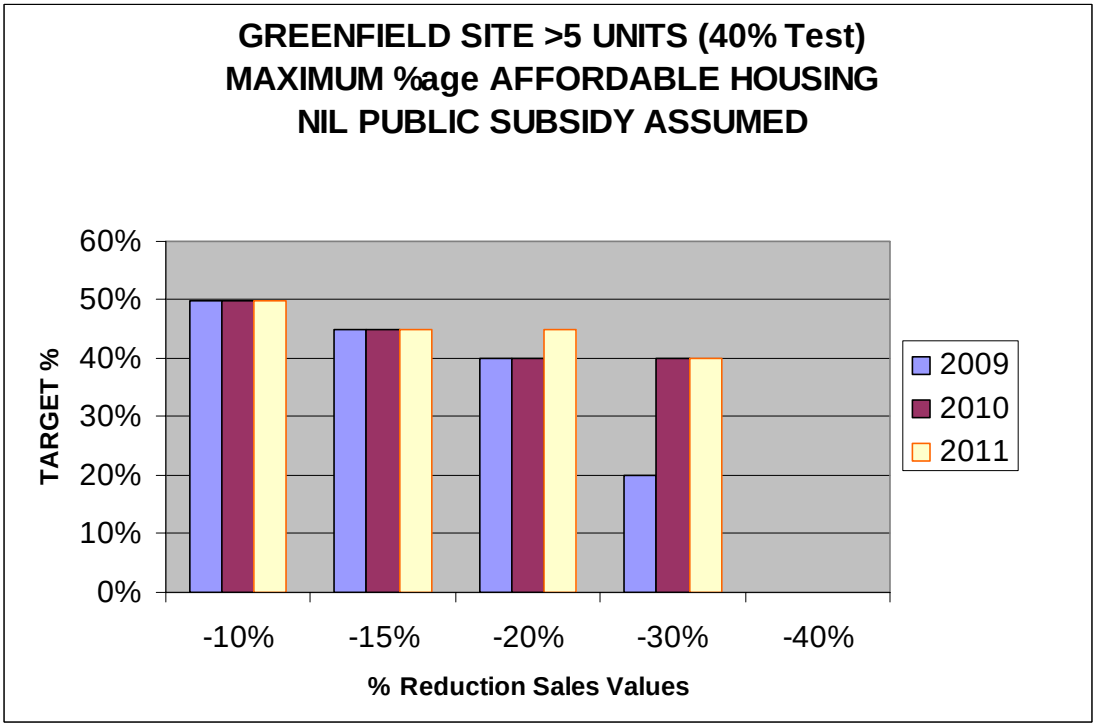

STRATEGIC SITE (35% Test)
MAXIMUM %age AFFORDABLE HOUSING
NIL PUBLIC SUBSIDY ASSUMED
60%
50%
40%
30%
20%
10%
0%
TARGET %
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
2009
2010
2011

APPENDIX THREE

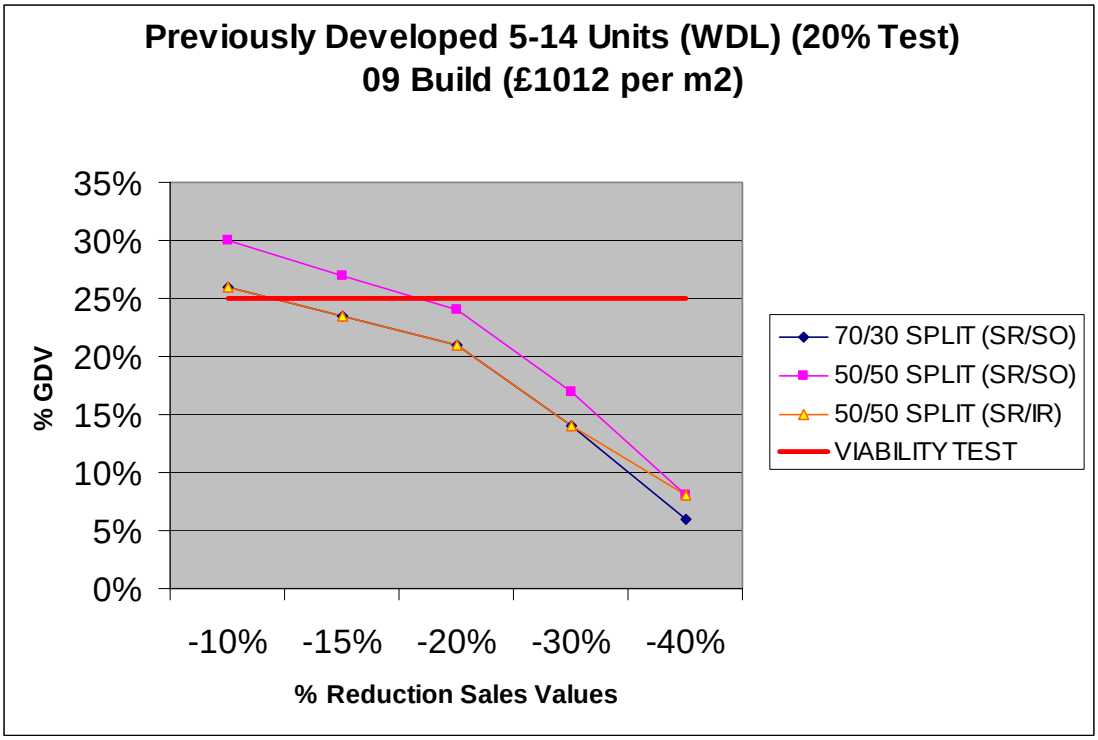

GREENFIELD SITE >5 UNITS (40% Test)
09 Build (£1012 per m2)
35%
30%
25%
20%
15%
10%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST

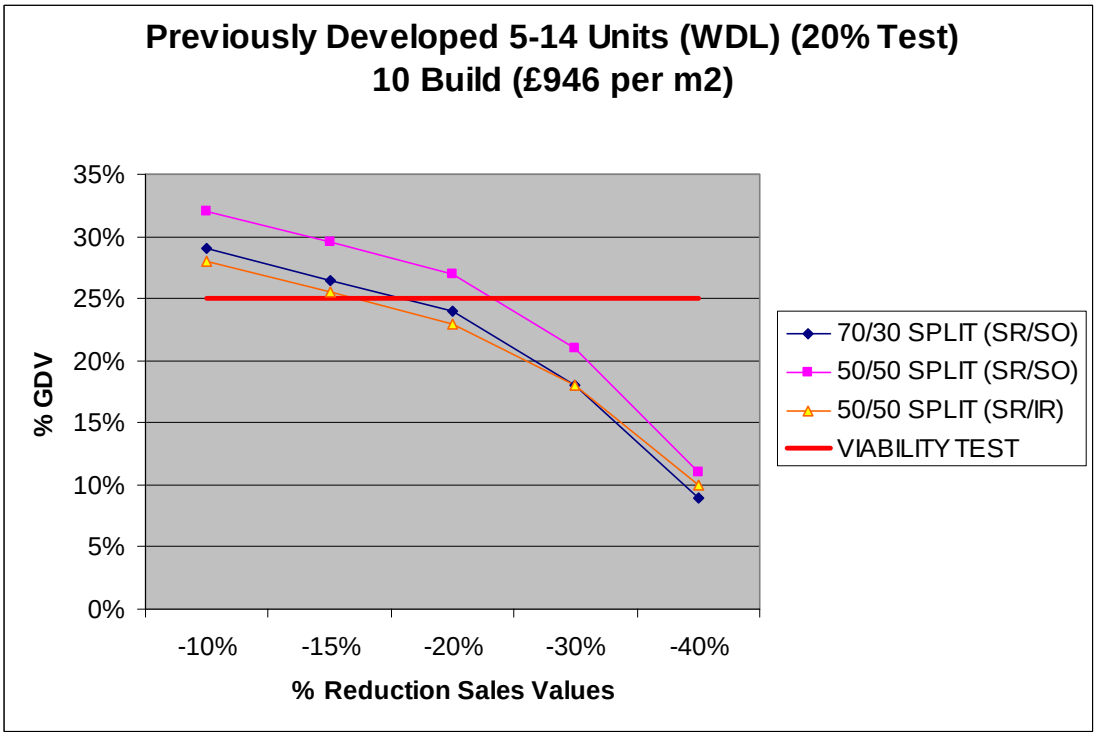

GREENFIELD SITE >5 UNITS (40% Test)
10 Build (£946 per m2)
40%
35%
30%
25%
20%
15%
10%
5%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST

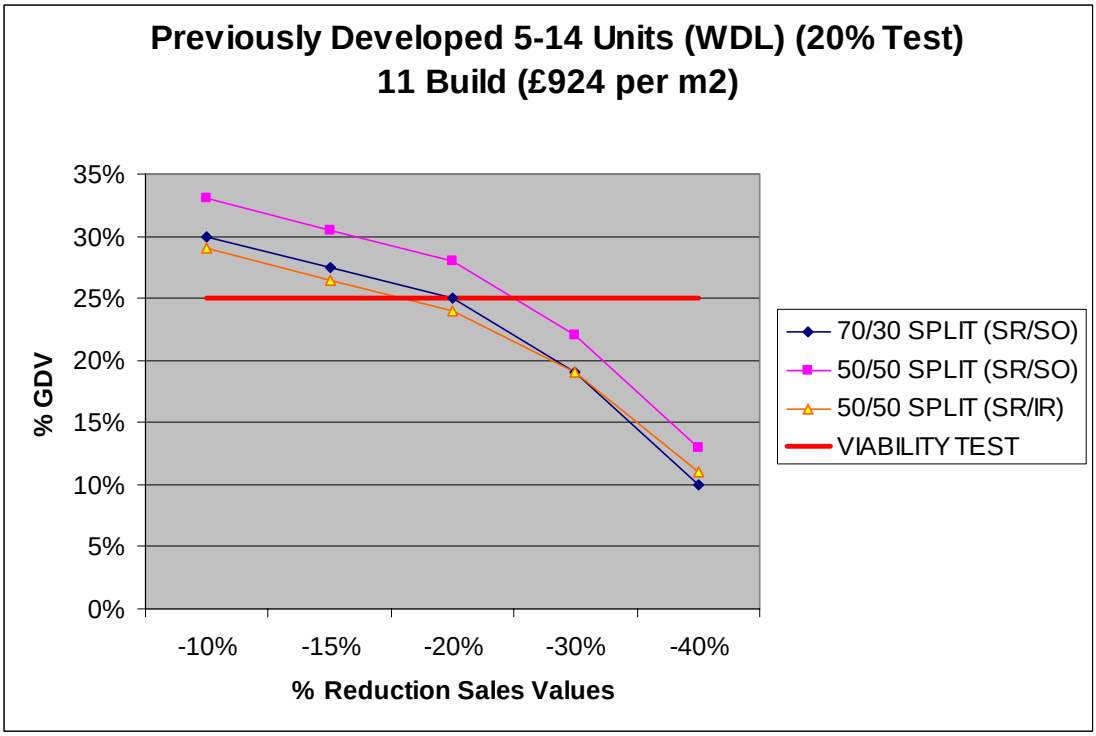

GREENFIELD SITE >5 UNITS (40% Test)
11 Build (£924 per m2)
40%
35%
30%
25%
20%
15%
10%
5%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST

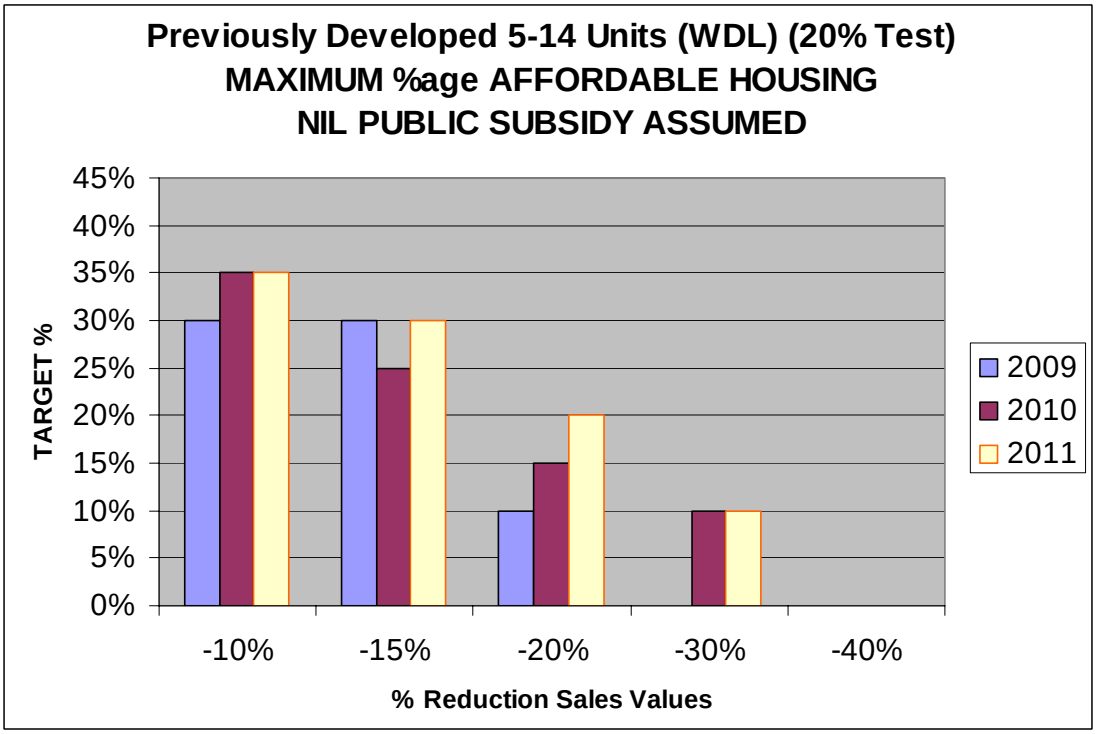

GREENFIELD SITE >5 UNITS (40% Test)
MAXIMUM %age AFFORDABLE HOUSING
NIL PUBLIC SUBSIDY ASSUMED
60%
50%
40%
30%
20%
10%
0%
TARGET %
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
2009
2010
2011

APPENDIX FOUR

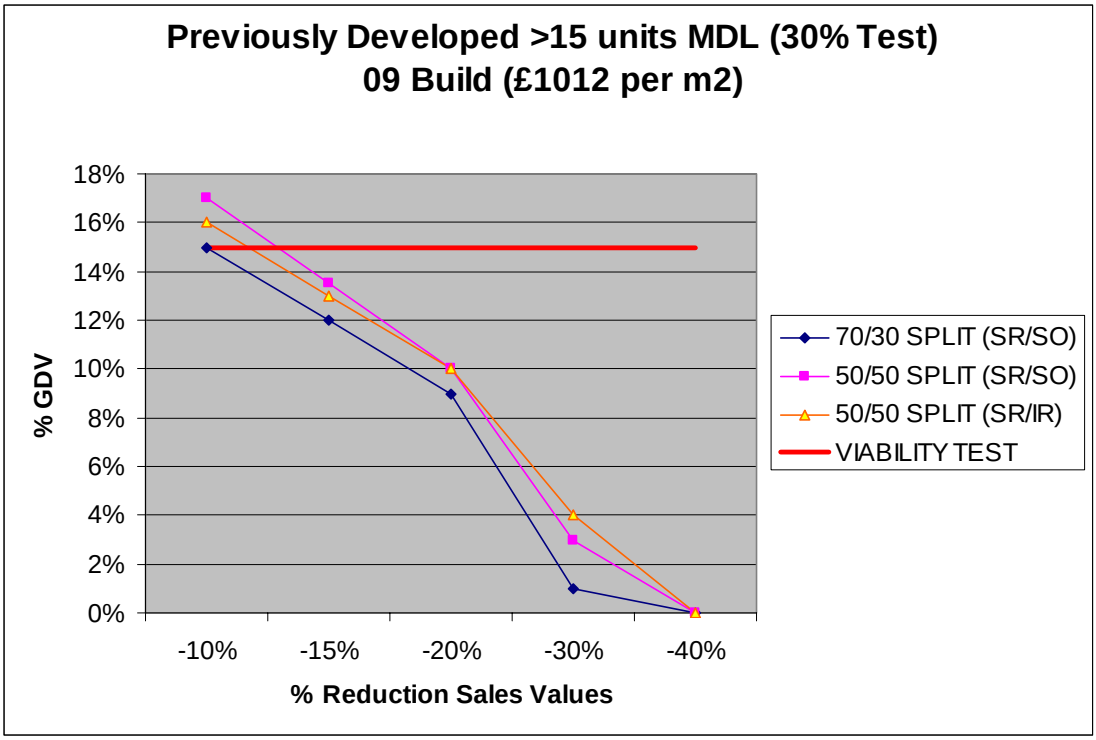

Previously Developed 5-14 Units (WDL) (20% Test)
09 Build (£1012 per m2)
35%
30%
25%
20%
15%
10%
5%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST

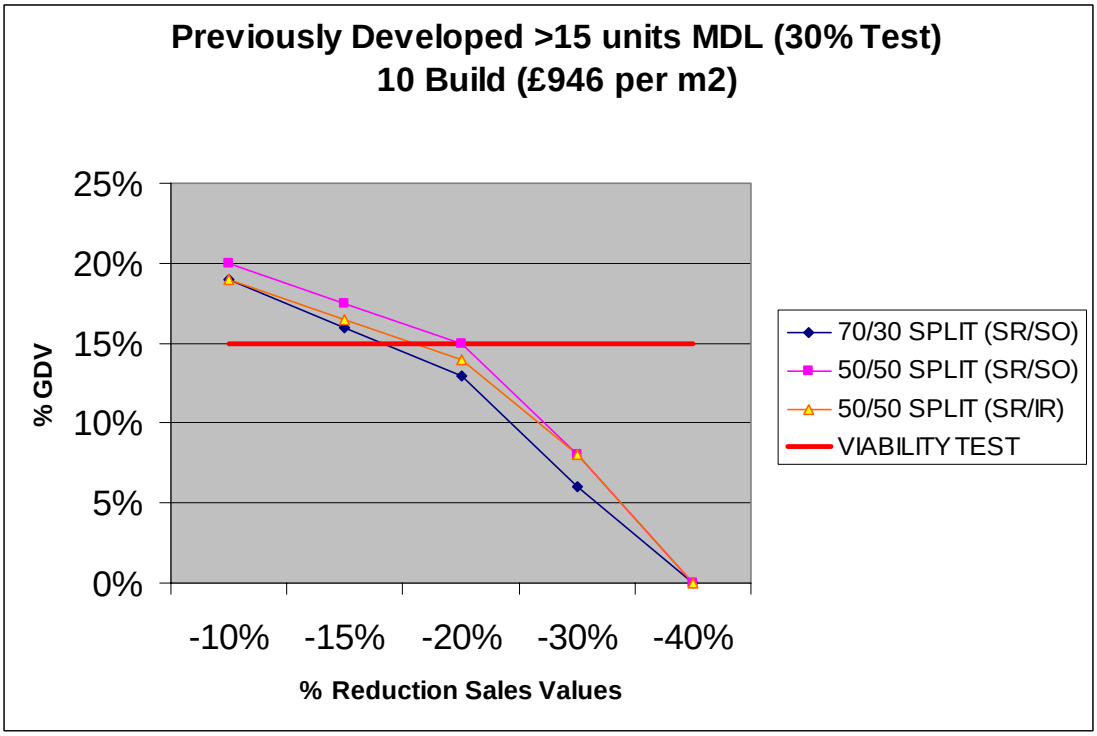

Previously Developed 5-14 Units (WDL) (20% Test)
10 Build (£946 per m2)
35%
30%
25%
20%
15%
10%
5%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST

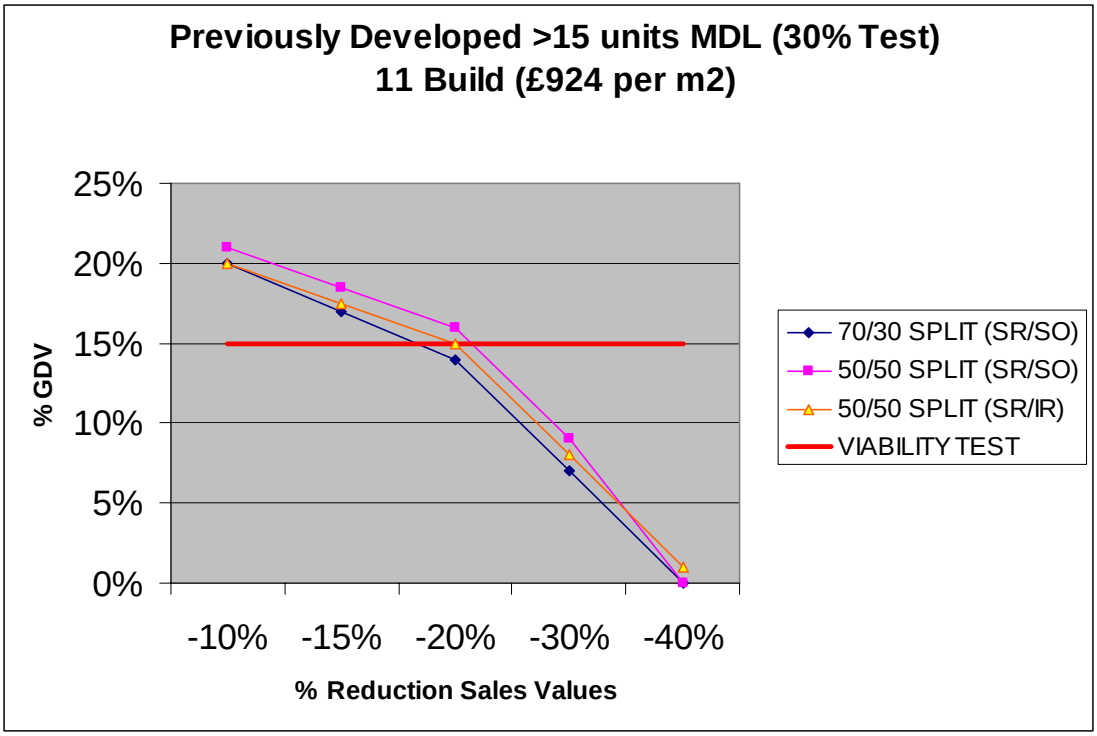

Previously Developed 5-14 Units (WDL) (20% Test)
11 Build (£924 per m2)
35%
30%
25%
20%
15%
10%
5%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST

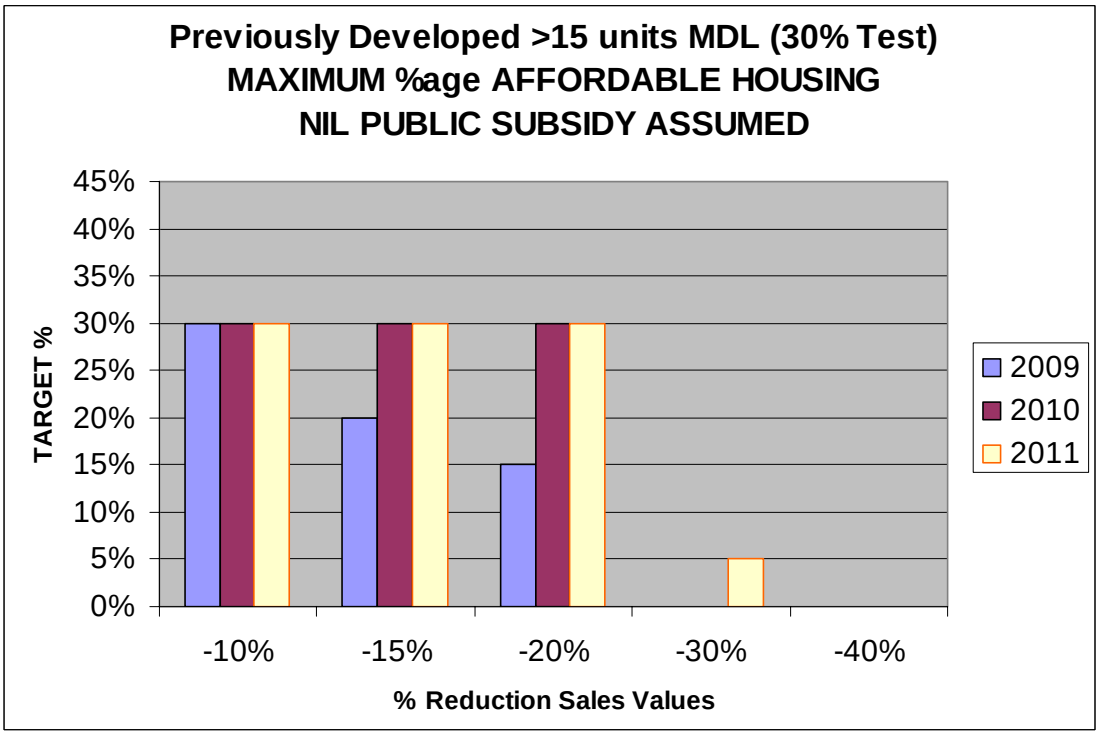

Previously Developed 5-14 Units (WDL) (20% Test)
MAXIMUM %age AFFORDABLE HOUSING
NIL PUBLIC SUBSIDY ASSUMED
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
TARGET %
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
2009
2010
2011

APPENDIX FIVE

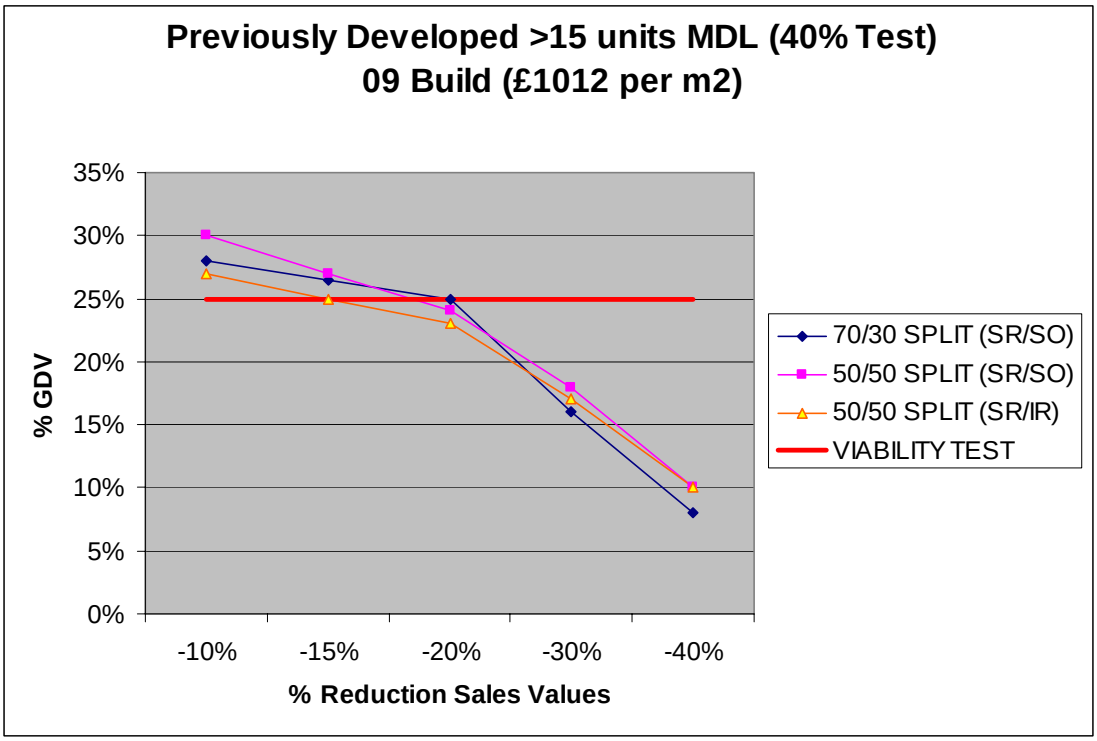

Previously Developed >15 units MDL (30% Test)
09 Build (£1012 per m2)
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST

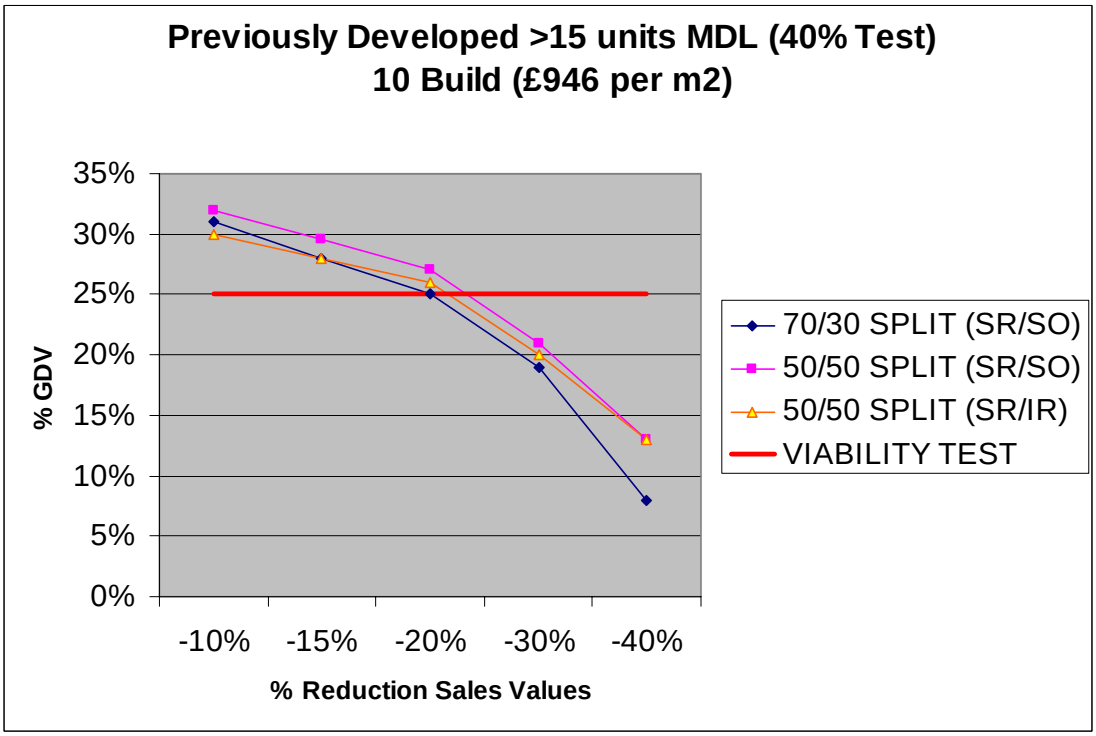

Previously Developed >15 units MDL (30% Test)
10 Build (£946 per m2)
25%
20%
15%
10%
5%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST

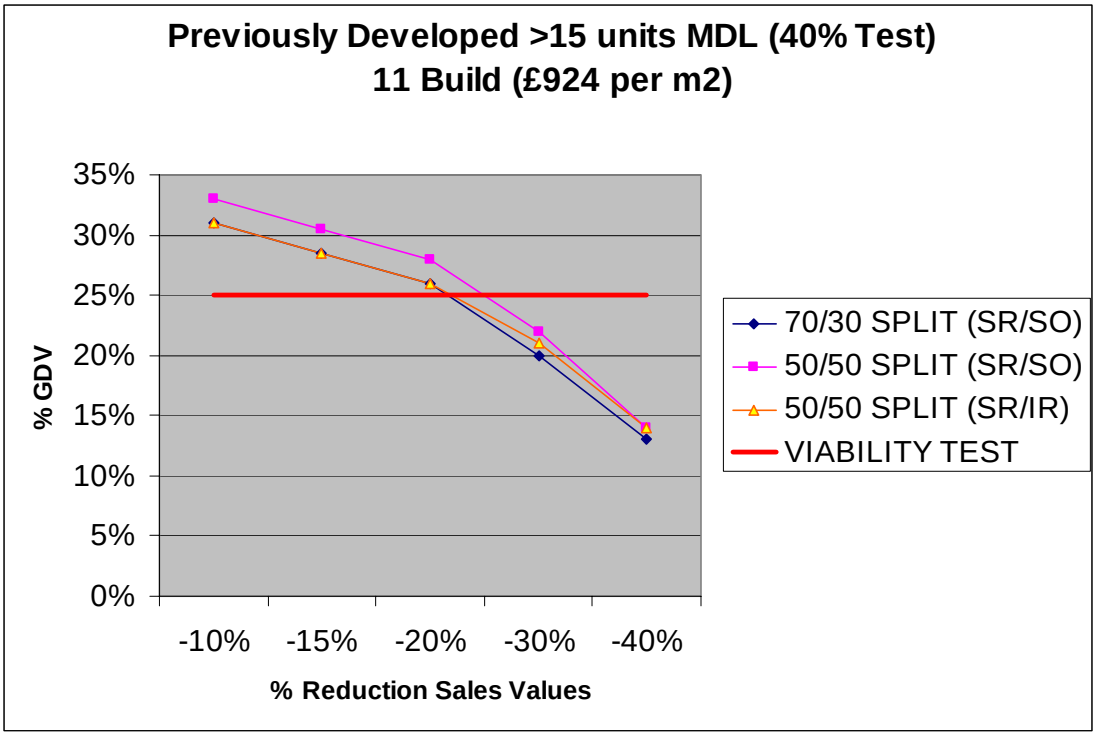

Previously Developed >15 units MDL (30% Test)
11 Build (£924 per m2)
25%
20%
15%
10%
5%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST

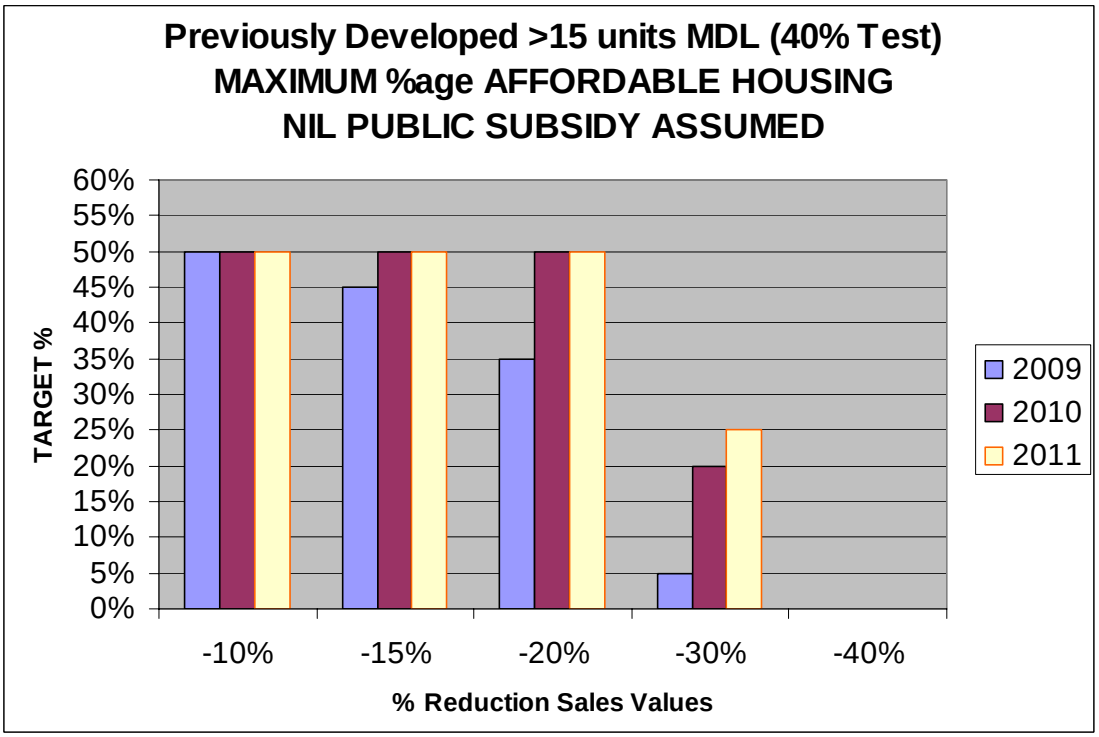

Previously Developed >15 units MDL (30% Test)
MAXIMUM %age AFFORDABLE HOUSING
NIL PUBLIC SUBSIDY ASSUMED
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
TARGET %
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
2009
2010
2011

APPENDIX SIX


Previously Developed >15 units MDL (40% Test)
09 Build (£1012 per m2)
35%
30%
25%
20%
15%
10%
5%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST


Previously Developed >15 units MDL (40% Test)
10 Build (£946 per m2)
35%
30%
25%
20%
15%
10%
5%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST


Previously Developed >15 units MDL (40% Test)
11 Build (£924 per m2)
35%
30%
25%
20%
15%
10%
5%
0%
% GDV
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
70/30 SPLIT (SR/SO)
50/50 SPLIT (SR/SO)
50/50 SPLIT (SR/IR)
VIABILITY TEST


Previously Developed >15 units MDL (40% Test)
MAXIMUM %age AFFORDABLE HOUSING
NIL PUBLIC SUBSIDY ASSUMED
60%
55%
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
TARGET %
-10%
-15%
-20%
-30%
-40%
% Reduction Sales Values
2009
2010
2011