



Affordable Housing Viability Assessment
For South Kesteven District Council

By Levvel

December 2009



Executive Summary

The Brief

Levvel has been appointed by South Kesteven District Council to undertake an Affordable Housing Viability Study to inform the development of affordable housing policy through the Local Development Framework. The Council's brief, issued in October 2009, was thus to:

- undertake research to establish whether the thresholds and proportions of affordable housing contained in Policy H3 of the Submission Core Strategy DPD are economically viable. If this is not the case the research should establish the minimum viable and deliverable affordable housing thresholds and proportions.

The Brief requires an assessment of the relevant costs and financial implications relating to house building in the District, including consideration of the Council's requirements for infrastructure and S106 contributions.

Policy Background

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.

Paragraph 29 of PPS3 sets out the requirements for the development of affordable housing policy. It requires that affordable housing targets should reflect an assessment of the likely economic viability of land within an area, taking account of risks to delivery and drawing upon informed assessments of the likely levels of finance available for affordable housing and the level of developer contributions that can reasonably be secured.

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

² Delivering Affordable Housing, DCLG, November 2006



Regionally, the East Midlands Regional Plan (Regional Spatial Strategy 2006-2026) sets an annual net dwelling requirement of 680 units per annum for South Kesteven which amounts to 13,600 dwellings for the Plan period³.

Policy 14, Regional Priorities for Affordable Housing, sets out indicative affordable housing targets for each Housing Market Area (HMA) for the period 2006-2026. 8,400 affordable dwellings is the target for the Partial Peterborough HMA, of which South Kesteven forms part.

Policy H14⁴ identifies Grantham as a Growth Point and requires the overall numbers of dwellings and phasing identified within the Growth Point Programme of Delivery to be achieved.

South Kesteven emerging policy is contained within the Submission Core Strategy issued for consultation in January 2009. Policy H1 provides the framework for the amount and distribution of new homes across the District, whilst policy H3 relates to the provision of affordable housing.

Methodology

In undertaking this affordable housing viability assessment, we have assessed the viability of a range of housing developments across the District using a residual valuation appraisal tool of the kind recommended in the Government's Delivering Affordable Housing statement. This is then used as the base for testing future cost and value scenarios using upside, middle and downside housing market growth scenarios during the Local Development Framework period. These future assessments take account of changes to property values, inflation, construction, rent and land values over the same timescale.

Our assessment is based on the viability of delivering affordable housing across a range of notional sites. These notional sites were selected in consultation with the Council and with reference to the Strategic Housing Land Availability Assessment (SHLAA) 2008, and work undertaken to inform the 2009 update.

³ East Midlands Regional Plan March 2009 page 42

⁴ East Midlands Regional Plan March 2009 page 27



An assessment of the nature and extent of Value Areas within the District was undertaken. This involved desk top research using Land Registry and other data on achieved sales values in South Kesteven for Q4 2008 and Quarters 1,2 and 3 2009. This was then indexed according to the Land Registry index for Lincolnshire. In addition, numerous interviews, discussions and meetings with local estate agents were undertaken to thoroughly check and confirm the values between areas and dwelling type. Four Value Areas were identified, these are as follows:

- Grantham;
- Stamford;
- Bourne and The Deepings, and;
- Local Service Centres.

The following notional sites were assessed in all Value Areas:

- 80 unit 40 dph scheme;
- 20 unit 30 dph scheme;
- 10 unit 30 dph scheme.

The following notional sites were assumed to be within the specific areas as shown:

Grantham

- 4000 unit 40 dph scheme;
- 1500 unit 40 dph scheme;
- 400 unit 40 dph and 50 dph scheme;
- 20 unit 50 dph and 70 dph scheme.



Stamford

- 1500 unit 40 dph scheme;
- 400 unit 40 dph and 50 dph scheme;
- 20 unit 50 dph scheme.

Bourne and The Deepings

- 400 unit 40 dph and 50 dph scheme;
- 20 unit 50 dph scheme.

Local Service Centres

- 5 unit 30 dph scheme.

The Brief required us to undertake viability assessments to test the ability of these notional sites to deliver 40% affordable housing, and where this was not achievable, to test affordable housing policy percentages below this. The affordable housing policy percentage tested was in the majority of tests, 65:35 social rented: shared ownership, although in some instances shared equity housing was assessed as the sole affordable housing tenure.

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

Average build costs have been derived from the Build Cost Information Service for South Kesteven at November 2009. Section 106 costs have been assumed to range between £2,207 to £6,290 per unit dependent upon the number of bed spaces. Testing of S106 contributions at 50% and 200% of these levels was also undertaken.

For the 4000 unit development, infrastructure costs have been assumed to be significantly higher than those for development elsewhere and per unit contributions of £10,000, £14,000 and £23,000 have been tested.

Actual S106 and infrastructure costs will obviously vary from site to site depending upon location, proximity to existing services and the capacity of existing provision. Without



modelling specific schemes, our policy based approach can therefore only provide guidance on the impact of higher levels of infrastructure costs should these prove to be necessary.

The impact upon viability of all new housing achieving the relevant Code for Sustainable Homes at the target date has been assessed at the costs detailed in Section 3 of this report. A further cost per unit of £1,200 has also been assumed in addition to these figures to meet the Council's on site renewable energy requirements as outlined in Submission Core Strategy policy EN4.

Schemes have been assessed using nil Social Housing Grant (SHG) as the default. We have then made further assessments assuming SHG is available at 'lower', 'normal' and 'higher' levels in some circumstances. The grant per unit that these assumptions relate to is set out in section 3 of the main report.

Land Value Assumptions

It is essential to establish a baseline to determine at which point land will come forward for development. In order for this to happen residual land values must exceed existing or alternative uses of the site.

All schemes have been tested against two key assessments of viability. The first is Valuation Office Agency (VOA) data regarding land values in the areas as at July 2009, and takes into account an uplift of 20%. We are aware however that VOA data does have a number of limitations. Therefore, in order to 'future proof' this assessment, and to reflect land owners differing expectations we have instead looked at the relationship between existing or alternative use values and gross development value. This is our second assessment of viability.

Dependent on location within the District, on sites of 20 units and over an existing or alternative use amounting to 16%-19% of GDV has been used.

Dependent on location within the District, on smaller sites an existing or alternative use amounting to 25%-26% of GDV has been used.

Full details on land value assumptions can be found in section 3 of the main report.



Key Findings

Comprehensive analysis of the results of all notional schemes assessed can be found in section 5 of the main report.

Sustainable Urban Extensions

Two notional Sustainable Urban Extension (SUE) schemes have been assessed in two value areas. We have assumed appropriate phasing for each scheme.

In respect of the 4000 unit notional SUE in Grantham, the requirement for infrastructure contributions in excess of £10,000 per unit reduces the overall viability of development (infrastructure contributions of £10,000, £14,000 and £23,000 were assessed), and the greater the contribution per unit, the more adverse the viability position.

Furthermore, should middle market conditions only be achieved, it is likely that public subsidy would be required to achieve circa 20% affordable housing assuming infrastructure requirements are not in excess of those tested. Should upside market conditions prevail, the viability position is improved and affordable housing percentages in excess of this are likely to be achievable.

A 1500 unit notional SUE site was assessed in Grantham and Stamford, with reduced levels of infrastructure requirements to the 4000 unit SUE. In respect of Stamford, up to 35% affordable housing was likely to be achievable without grant assuming the market achieved middle conditions. In the lower value area of Grantham, achieving a viable position assuming an affordable housing contribution at this level was more challenging, and delivery of up to 30% affordable housing in the early years would likely require grant funding. Viability pressures do however ease in the later years of the Plan and, given the scale and phased nature of developments of this type, the Council may wish to negotiate affordable housing on a phased basis to take advantage of improvements to the viability position which may occur over time.

General development sites in excess of 15 units

A variety of notional development sites were assessed. The ability to deliver affordable housing varies dependent upon a number of factors including value area, level of S106



contribution, existing or alternative land values of the site, scheme density and the availability of public subsidy.

In the value areas of Stamford and Local Service Centres it is less challenging to achieve higher levels of affordable housing and 30% to 40% affordable housing is likely to be achievable over the life of the Plan without recourse to public subsidy in most market conditions with the exception of the downside.

In Grantham, the viability position of higher density schemes (70 dph) is particularly challenging and even at 50dph, 10% affordable housing may only be achievable with grant even if the market achieves the middle scenario. In the later years of the Plan this position improves.

On lower density schemes in Grantham, the viability of schemes is improved and should the market achieve the upside, 21% to 30% affordable housing is likely to be deliverable without grant. Should middle market conditions prevail, public subsidy may be required (albeit in some cases at 'lower' levels) to achieve circa 21% affordable housing until around 2021 when the viability position improves and from then on higher levels (30%) of affordable housing are more likely to be viable.

In Bourne and the Deepings, despite the location, development economics reflect more the situation in Grantham than in Stamford and the Local Service Centres. That is that development viability is challenging to achieve higher levels of affordable housing albeit the viability pressures are relatively less acute than in Grantham. As with Grantham, density issues apply and lower density schemes can generally achieve greater levels of affordable housing than higher density schemes.

We do however recognise that within this value area there are likely to be particular 'pockets' where residential sales values are in excess of those assumed within this study and development coming forward in these locations are likely to be able to make a greater contribution to affordable housing provision than the levels assumed within section 5 of this study.

Sites below 15 dwellings

We considered the ability of schemes of 5-14 dwellings to deliver a commuted sum in lieu of on site affordable housing. Our analysis found that it was possible to deliver affordable housing below the current PPS3 threshold, but that the proportion of affordable housing that



could be viable differed dependent upon the location of development, it's current or existing use and the gross development value of the scheme.

The higher value areas of Stamford and the Local Service Centres could generate a commuted sum equivalent to a maximum of 20% affordable housing on sites of between 5 and 14 dwellings.

The lower value areas of Grantham and Bourne and The Deepings could generate a commuted sum equivalent to a maximum of 10% affordable housing on sites of between 5 and 14 dwellings.

It should be considered that schemes of this size are much more sensitive to assumptions about overall values and tenure mixes, thus relatively small scale increases/decreases from the S106 assumptions used (and other cost and value assumptions) will have an impact upon sites of this size delivering affordable housing by commutation.

Finally, it should be noted that if the market does not perform to at least the middle scenario, it is unlikely schemes of this nature will be able to provide affordable housing contributions.

Commuted sum Methodology

Any methodology for assessing commuted sum payments should be based on the equivalence principle supported by Circular 05/05, PPS3 and Delivering Affordable Housing. The commuted sum should be equivalent to the contribution that would have been 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 use value.



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1.0 Introduction

1.1 Levvel Ltd has been appointed to complete an Affordable Housing Viability Assessment (AHVA) on behalf of South Kesteven District Council. The aim of this study is to test the target requirements for affordable housing delivered through the planning system against a measure of viability. That is to say, to ensure that the Council's policy approach to affordable housing is deliverable in the context of economic viability and thus in accordance with PPS3⁵.

1.2 South Kesteven District Council submitted its Core Strategy Development Plan Document (DPD) to the Secretary of State on 21 August 2009. Policy H3 of the Submission Core Strategy DPD sets out the Council's approach to the provision of affordable housing and is outlined below:

'...All new development comprising:

- 15 or more dwellings or sites of 0.5ha or larger in the towns and identified local Service Centres and/or
- 2 or more dwellings in all other parts of the district should provide an appropriate number of affordable housing units within the development site...

Where affordable housing units are provided, a target of 40% affordable and 60% market housing will be required. Of the affordable housing provided on each site it is expected that at least 65% will be socially rented housing and 35% will be intermediate housing...In negotiating the level of affordable housing on sites, the Council will have regard to the overall viability of the development.'⁶

1.3 The Inspector appointed to examine the Submission Core Strategy DPD raised concern that 'a viability assessment of the targets and thresholds in Policy H3 does

⁵ Planning Policy Statement 3 (PPS3): Housing, Communities and Local Government November 2006

⁶ Policy H3, Submission Core Strategy Development Plan Document, Regulation 28 amendments 2009, South Kesteven District Council



not appear to have been provided to inform the examination into the soundness of this aspect of the Core Strategy⁷. In response to this, the Council commissioned work to undertake an assessment of the economic viability of the thresholds and proportions of affordable housing as set out in Policy H3.

- 1.4 The Council invited qualified companies to submit tenders in October 2009. The invitation to tender and tender brief is included as Appendix 1 of this study. A key extract of the tender brief can be found in Section 2 and is outlined below;

Specification

The Council wishes to appoint consultants to undertake research to establish whether the thresholds and proportions of affordable housing contained in Policy H3 of the Submission Core Strategy DPD are economically viable. If this is not the case the research should establish the minimum viable and deliverable affordable housing thresholds and proportions.

South Kesteven District Council – AHVA tender brief 2009

- 1.5 This study will form part of the evidence base for the affordable housing planning policy covering the South Kesteven District Council area. In this regard, Levvel has approached the project in accordance with the requirements in PPS12⁸.
- 1.6 Given the scope of the tender brief and the variations across the District in respect of land values and property values, it has been essential to develop a methodology that measures viability on a consistent basis, but that is flexible enough to allow for these variables.

⁷ REFERENCE

⁸ Planning Policy Statement 12: creating strong safe and prosperous communities through Local Spatial Planning, Communities and Local Government 2008



- 1.7 Furthermore, given that the South Kesteven Core Strategy when adopted will prevail until 2026, we have also ensured that our methodology includes an element of “future proofing” to give the Council the confidence that the policy can be applied now and in years to come.
- 1.8 The study has been carried out against a backdrop of a global recession and generally unfavourable and uncertain conditions in the housing market. In a rising land and property market where values are increasing and where costs do not rise to the same extent, it can be assumed that if a development scheme is appraised and a viable position achieved, then viability will be achieved in the future, (all other variables remaining the same). Recently, the property market has not behaved in this manner and therefore the future is uncertain. Given this uncertainty in the market, it has been necessary to provide a “future proofed” methodology that makes a range of predictions about where the housing market may go in the future, ranging from pessimistic to optimistic scenarios, but based on past market trends. With this range set, the results of the development appraisals can be properly contextualised and the Council can set their policy accordingly.
- 1.9 This paper sets out the policy background of the study to place it in its proper context. A commentary on the past and present national, regional and local housing market experience and wider economic factors is given to inform the future proofing scenarios. Our methodology and assumptions are then explained, and a description of the nature and extent of local stakeholder engagement is undertaken. This includes detail on how the stakeholder engagement has shaped the assumptions used within this study. This is followed by an analysis of the results. A policy compliant commuted sum methodology and the principles behind it are then set out. Finally, conclusions and recommendations for policy are outlined.



2.0 Wider Context of the Study

National Policy and Guidance

- 2.1 Affordable housing policy is set out at national level in **PPS3**. The PPS identifies a number of specific requirements, but emphasises that policy should be applied flexibly⁹.
- 2.2 Paragraph 29 of **PPS3** also refers to viability being important for the setting of overall affordable housing targets. This involves looking at the risks to delivery and the likely level of finance available including public funding and developer subsidy.
- 2.3 A companion document to **PPS3**, *Delivering Affordable Housing*, expands upon these principles of flexibility and details the arrangements necessary in policy to enable this¹⁰, whilst also requiring that the viability of development is assessed.
- 2.4 The approach is therefore to identify the level of need and its nature, to consider the types of affordable housing that might best meet this need and then to consider the economics of delivery and how sources of uncertainty (such as the availability of public funds and economic changes over the lifetime of the development) can best be managed.
- 2.5 The Blyth Valley appeal decision outlines the need for affordable housing policy to be supported by an up to date affordable housing viability study, in line with the requirements of PPS3. The ruling indicates that such a study, "is not peripheral, optional or cosmetic. It is patently a crucial requirement of the policy¹¹".
- 2.6 **PPS12** considers deliverability and flexibility of core strategies in paragraphs 4-44 to 4-46. This is within the context of overall infrastructure requirements but it is clear that if the infrastructure is to be delivered then the viability of policies,

⁹ Planning Policy Statement 3 (PPS3): Housing, Communities and Local Government November 2006 paragraph 29

¹⁰ Ibid

¹¹ Case number C1/2008/1319 Blyth Valley Borough Council and Persimmon Homes (North East) Limited/Barratt Homes Limited/Millhouse Developments Limited July 2008



including affordable housing policies, should be tested and maintained. **PPS12** goes on (paragraph 4-46) to suggest a minimum 15 year consideration of the impact of policy and to consider how contingencies should be dealt with so that constraints and challenges to policy can be considered over the longer time frame.

- 2.7 A recent (July 2009) Good Practice Note has been produced by the Homes and Communities Agency entitled, "Investment and Planning Obligations, Responding to the Downturn"¹². Regard has also been had to the guidance contained therein as it relates to the preparation of affordable housing evidence base documents to inform the Local Development Framework.

Regional Policy and Guidance

- 2.8 The East Midlands Regional Plan (Regional Spatial Strategy 2006-2026 - RSS8) was adopted in March 2009. South Kesteven forms part of the Peterborough Partial HMA. Policy 13 sets out housing provision for each Local Authority in the region. Total provision for South Kesteven is set at 13,600 or 680 units per annum for 2006-2026¹³.
- 2.9 Policy 14, Regional Priorities for Affordable Housing, sets out for monitoring purposes indicative affordable housing targets, representing the total amount of affordable housing for each HMA for the period 2006-26. 8,400 affordable housing dwellings are required for the Partial Peterborough HMA¹⁴ of which South Kesteven forms part.
- 2.10 Policy H4¹⁵ identifies Grantham as a Growth Point and requires the overall numbers of dwellings and phasing identified within the Growth Point Programme of Delivery to be achieved. Grantham has a sub-regional role within the Eastern Sub-Region.

¹² Investment and Planning Obligations, Responding to the Downturn, Homes and Community Agency, July 2009

¹³ East Midlands Regional Plan, March 2009, P.42

¹⁴ Ibid, p.45

¹⁵ Ibid, p.27



- 2.11 The East Midlands Regional Housing Strategy 2004-2010 puts forward policies to deliver balance and inclusion to the housing market. The objective for housing, outlined in section 3.2 is to “ensure that the existing and future housing stock is appropriate to meet the housing needs of the entire community”¹⁶. The Regional Housing board also recognises the role of intermediate housing in improving affordability in the region.
- 2.12 The need for affordable housing stands at 6,400 homes per year and the region is failing to deliver its target of 3,400 affordable houses per annum. The amount of grant funded social housing delivered between 1998-2003 was 11,799 dwellings. The Strategy recognises that a wider range of housing to meet people’s needs is required.
- 2.13 Regional Policy 1 seeks to increase the quantity and improve the delivery of affordable housing. Where developments are the subject of a Section 106 planning obligation land should be provided at nil cost, fully serviced and free of contamination. The Housing Corporation will assist in ensuring early clarity of grant availability.
- 2.14 Regional Policy 12 requires that in rural areas and market towns there is both an appropriate provision of quality housing to meet a range of housing needs, and access to related services for vulnerable people of all ages. Resources will be targeted to meet the identified needs of people living in villages and market towns. Local Development Documents should promote the adoption of positive planning policies that improve the supply and quality of affordable housing in villages and market towns, in response to identified housing need.

Local Policy

- 2.15 South Kesteven emerging policy is contained within the Submission Core Strategy, published for consultation in January 2009. Policy H1 provides the framework for the amount and distribution of new homes across the District. As a minimum the Council will seek to ensure that the requirements of the Regional Plan are met. As a

¹⁶ East Midlands Regional Housing Strategy 2004 - 2010, p.4



result of Grantham's designation as a New Growth Point, at least 50% of the District housing total has been allocated in the town in order to address growth aspirations.

- 2.16 Monitoring at the time of publication of the Core Strategy DPD indicated that 4,986 dwellings had already been built in South Kesteven in the period 1st April 2001 to 31st March 2008, and a further 4,335 dwellings have been approved. The Core Strategy indicates that there is considerable potential capacity for growth in the four towns and Local Service Centres. It is also accepted that Grantham will need urban extension sites in order to meet the strategic housing requirement for the town.
- 2.17 Policy H1 sets development targets for each town, the Local Service Centres and the rural areas as six sub- areas. It recognises that new development should be focused on Grantham. A gradual increase in development rates is required in Stamford and the Deepings to meet the needs of these market towns and there is a need to restrict development in Bourne. There are also plans for a modest level of development within the more sustainable villages identified as Local Service Centres.
- 2.18 It is important to note that District requirements (16,800 dwellings) were based on the Regional Spatial Strategy which at the time was not adopted. The adopted RSS makes provision for 13,600 dwellings. In September 2009 the Council published amended changes to the Core Strategy which included these updated figures.
- 2.19 Policy H3 of the Submission Core Strategy relates to the provision of affordable housing. This is discussed in Section 1 of this report.
- 2.20 The South Kesteven Annual Monitoring Report 2008 indicates that
- 886 dwellings were built during the monitoring period exceeding the requirement set out in the Structure Plan and (then) Draft Regional Spatial Strategy;
 - 155 affordable dwellings were delivered during the year, an increase of 16%, 77 social rented and 78 intermediate dwellings were delivered;



- 62% of dwellings were built on previously developed land and 74% were built at densities of more than 30 dwellings per hectare;
- 6.3 and 8.92 hectares of employment land were lost to residential use in 2006/07 and 2007/08 respectively.

Housing Need

- 2.21 The Peterborough Sub-Regional Strategic Housing Market Assessment was published by Fordham Research in March 2008. The HMA has been largely defined in previous work by DTZ Pidea on behalf of the East Midlands Regional Assembly and contains the local authorities of Peterborough, South Kesteven, Rutland and South Holland but also parts of East Northamptonshire, Huntingdonshire and Fenland.
- 2.22 Updated Housing Needs Assessments (HNA) were carried out for Peterborough, Rutland and South Holland. For the other whole district (South Kesteven) and the three partial districts in the Southern Fringe, existing HNAs were sufficiently up to date to be used.
- 2.23 According to the 2001 census 42.5% of dwellings in South Kesteven are detached, 31.9% are semi-detached, 17.8% are terraced and 7.8% are flats/ maisonettes. Entry level prices within South Kesteven were established as £125,500 for a two bed, 150,000 for a three bed and £199,500 for a four bed (based on 2007 data). There was no data available for one beds. Private rents for a one bed home typically start at £87 per week.
- 2.24 28 % of all households in the Strategic Housing Market Assessment are in South Kesteven. At the time of the assessment average house prices in South Kesteven (£185,000) were above the regional average of £165,000¹⁷. The SHMA calculated a net annual affordable housing need of 646 units within the District.

¹⁷ South Kesteven Housing Needs Study, 2006, P.13



- 2.25 The SHMA recommended a policy target of 40% affordable housing (this target covers the entire SHMA area), subject to deliverability. Of the total amount of affordable housing, a 35% intermediate target was recommended based on the needs of each local authority.

The Wider Economic Picture – Informing the Scenarios

- 2.26 For our analysis of viability to be dynamic it is important to understand past trends in order to assess how the housing market may perform in the future. While recent history shows specific characteristics which may be peculiar to the period in question, there are still fundamental principles that suggest medium and long term cyclical trends. This will not inform a single assessment of how the market will perform but will give us the main parameters within which we can test possible scenarios.
- 2.27 Included at Appendix 2 is a consideration of the housing market over the past 25 years, including the wider economic context. This report outlines the evidence which has informed our dynamic assessment of the three potential future market scenarios against which all viability assessments have been undertaken.
- 2.28 Our analysis would suggest that there is a strong causal link between affordability and housing market prices. Other market conditions and particularly the cost and availability of finance are also an important factor in driving house price inflation. This range of factors have affected the housing market and the affordability of housing. These have included macro-economic influences and the worldwide recession. However, this analysis is useful in setting the context for our housing market scenarios. It is important to realise that we are assuming a structurally recurring cycle, intrinsic to the UK housing market. Responses to this structural cycle were aimed at controlling it. However, our housing market scenarios are founded on the basis that the patterns of the past will likely be repeated in the future. Our various scenarios attempt to ensure we cover all possible magnitudes of this cycle.
- 2.29 In our analysis of market trends we have highlighted some of the general characteristics of the housing market in the East Midlands with regard to affordability especially of first-time buyers. Additionally, we have undertaken analysis of incomes, house prices and affordability in respect of South Kesteven.



3.0 Methodology and Assumptions

Levvel Development Viability Model

- 3.1 Delivering Affordable Housing supports the use of a viability tool such as that advocated by the Greater London Authority (GLA), or that used by the Homes and Communities Agency for the assessment of whether schemes should be supported by Social Housing Grant. This tool is a residual land value assessment model which suggests that a site will only come forward with an affordable housing contribution where the resulting overall site value exceeds the existing or alternative use of that site. Residual land value assessment is a recognised practice within the development 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 rental returns and compare this with the costs associated with developing that scheme. The amount left over, or residual, is what is left for land acquisition, i.e. the residual land value.
- 3.2 This residual value is then compared to a number of baseline values to gauge the likelihood that the imposition of affordable housing might prevent the scheme from coming forward on a given parcel of land.
- 3.3 Levvel has developed a dynamic model to determine the residual land value that has been used in negotiation with over 100 local authorities and used at appeal on numerous occasions. From this, a toolkit to assess viability on a district wide level has been developed, this is known as the Levvel Development Viability Model (DVM).
- 3.4 Robust assumptions are then required to be inputted into this model. Costs to development such as build costs, planning gain requirements, profit and development finance are arrived at through our experience and through consultation with the development industry and Council Officers. Sensitivity testing of variables such as affordable housing percentage, tenure requirements, increased/decreased levels of planning obligations and the availability of public subsidy will ensure the validity of the study outputs and demonstrate the impact upon viability across the range of study scenarios.



- 3.5 For a policy to be robust and reliable throughout the plan period, we believe it is necessary to assess with a methodology that is “future proofed” as far as possible. As viability is reliant on the interaction between changing costs and revenues of housing over time, it follows that this relationship must be accounted for by future proof testing. It is simply not good enough to assess current costs against a range of property values as this provides only a “snapshot” view. The relationship between values and costs over time is not taken into account.
- 3.6 Levvel has therefore addressed this issue by applying inflation rates for cost inputs throughout the study period. For values, it is difficult to predict where the housing market may be in even 1 year’s time, so long range predictions based on popular commentary are of little use. However, we have assessed value changes based on the historic performance of the housing market as described previously. This gives us a view of where values may be in the future if the past housing market cycle was typical. However, this does not give us the necessary comfort or margin for error should the cycle vary. We have therefore reasoned that by choosing scenarios, based on an upside, middle and downside view of the housing market, we will have covered the range of positions to which the housing market may go. A detailed analysis of these scenarios is included at Appendix 2, to this document.
- 3.7 By then reporting on the viability of schemes were they delivered at different points within this range, we have come to a view of how this will affect the deliverability and effectiveness of proposed policy. For instance, should the housing market perform below past trends for the next five years before picking up again, we can assess whether the proposed policy might adversely affect the viability of schemes and therefore their delivery. Similar principles apply to a more optimistic view of where values may end up.
- 3.8 Levvel’s methodology enables the effect of a range of delivery timescales, thus all development scenarios selected are tested assuming development start dates of the date of modelling, date of modelling plus 1 year, plus 2 years, plus 3 years, and so on until 2026.
- 3.9 The use of the Levvel methodology allows for variations in land value over time to be accounted for, again ensuring ‘future proofing’ of the viability study. Any affordable housing policy seeks to capture an element of the land value for the community benefit. We know that there is a minimum land value which schemes



need to achieve in order to be brought forward, otherwise it becomes more economic for the site to continue in its existing (or alternative) use.

- 3.10 Within the district of South Kesteven circa 60% of development has in recent years, been on previously developed land with the remainder on greenfield sites. Looking forward however, the South Kesteven Strategic Housing Land Availability Assessment (SHLAA) 2008 identified a total of 112 sites within South Kesteven on which approximately 1500 dwellings could be accommodated on previously developed land, and approximately 15,000 dwellings on greenfield sites¹⁸. Thus in the future circa 90% of future development is likely to occur on greenfield sites.
- 3.11 Given the previous and future profile of the existing land use of sites within the district it is not sufficient to assess the existing or alternative use of a site against one indicator.
- 3.12 The Valuation Office Agency (VOA) provide data on agricultural land and property values. It is unrealistic however to assume that Greenfield development land would be traded for residential use at these rates. For example the average value of unequipped arable land with vacant possession in the East Midlands as at July 2009 was £12,506. Stakeholder engagement (see Appendix 5) has confirmed this view.
- 3.13 Thus in respect of development occurring on Greenfield or industrial sites, VOA data on industrial land values in the district, inflated by 20% to account for some further element of 'hope' value will be used as a check.
- 3.14 In respect of development occurring on previously developed residential land, (VOA) data on residential land prices in the district will be used as a check.
- 3.15 Both of these values will be linked to the future growth assessments as outlined in Appendix 2 to this report to reflect the relationship between land and property values and ensure effective 'future proofing' of the assessment.

¹⁸ Rutland County Council, South Holland District Council, South Kesteven District Council, Strategic Housing Land Availability Assessment November 2008, paragraph 5.12



- 3.16 Whilst we will use VOA data as outlined above as one test of viability, we recognise that VOA data can be as much as six months out of date and not available at a sufficiently local level to enable local variations in land values to be assessed. Furthermore, the imposition of affordable housing planning policy will necessarily reduce land values in certain schemes. Therefore it is not enough to assess the viability of a particular scheme purely against VOA data. We have therefore developed a methodology that assesses how much landowners have been willing to accept for their land in the past, and expressed it in terms of the ratio between Gross Development Value and Residual Land Value (GDV:RLV). That is to say how much of the revenue from a scheme can be used to pay for the land. This allows for variations due to locality to be accounted for. It is our belief that this more readily accounts for local variations in land values and represents a more robust and credible evidence base.
- 3.17 The ratio between RLV and GDV has thus been assessed over the period 2001 to 2009 using VOA data for Lincolnshire and Peterborough. The effect can be seen that in a rising and somewhat overheated market, landowner expectations rise and the price that developers are willing to pay also increases (often based on future expectations of property values). However, in a falling and “normal” market landowner expectations fall to more “reasonable” levels. Thus the relationship between GDV and RLV as a check provides a further degree of future proofing as if housing market values increase, the land value will also increase. Conversely, if values fall, then land value can also be expected to fall.
- 3.18 Based on our assessments, we have taken a figure of between 16% and 19% of Gross Development Value for sites of 20 units and over as a test for the level at which the Residual Land Value may need to reach in order to incentivise the landowner sufficiently to bring forward his parcel of land.
- 3.19 In respect of sites of 10 units and less, a figure of 25-26% of Gross Development Value has been used as a test for the level at which the Residual Land Value may need to reach in order to incentivise the landowner sufficiently to bring forward his parcel of land. This reflects our assessment of the relative value of small sites.
- 3.20 Using these two tests of viability, it is possible to inform a policy position that has flexibility and is relevant the life of the plan to ensure deliverability.



Site Identification Methodology

- 3.21 Using the Strategic Housing Land Availability Assessment 2008 (and information collated to inform the 2009 update) as a basis, and in conjunction with the Council, a range of notional development sites likely to represent development over the life of the Plan (in respect of site size, unit numbers and location) were identified. Site typologies (greenfield or previously developed land) were also assessed in respect of each notional site.
- 3.22 Stakeholder consultation was also undertaken on the initial range of site typologies and densities and the feedback from stakeholders informed the selection of the notional sites.
- 3.23 Table 1 below outlines the final notional sites and site typologies identified, a detailed breakdown of unit composition for each notional development site can be found in Appendix 3.



Notional site type	Density (dwellings per hectare dph)	Typology (greenfield & industrial / previously developed residential land PDL)
4000 unit Sustainable Urban Extension	40 dph	Greenfield/industrial
1500 unit Sustainable Urban Extension	40 dph	Greenfield/industrial
400 unit development	40 dph	Greenfield/industrial
400 unit development	50 dph	Greenfield/industrial
80 unit development	40 dph	Greenfield/industrial
20 unit development	70 dph	PDL residential
20 unit development	70 dph	Greenfield/industrial
20 unit development	50 dph	PDL residential
20 unit development	50 dph	Greenfield/industrial
20 unit development	30 dph	PDL residential
20 unit development	30 dph	Greenfield/industrial
10 unit development	30 dph	PDL residential
10 unit development	30 dph	Greenfield/industrial
5 unit development	30 dph	Greenfield/industrial
5 unit development	30 dph	PDL residential

Table 1



Value Areas

- 3.24 Anecdotal evidence suggested a wide discrepancy in residential sales values across the District dependent upon location. In order to accurately reflect and understand the range and nature of these value areas, Land Registry data was obtained for quarter 4 2008, and quarters 1, 2 and 3 2009 showing achieved property values and the number of sales, for each property type (detached, semi detached, terraced and flats and maisonettes) at a Postcode District level in South Kesteven.
- 3.25 This data was then analysed against a Postcode District map of South Kesteven in order to fully understand the value areas that existed within the District. The Postcode District map and full details of the Value Area Methodology can be found in Appendix 4 this report.
- 3.26 Analysis of this data, revealed four discrete Value Areas, these are;
- Grantham;
 - Stamford;
 - Bourne and The Deepings;
 - Local Service Centres/Rural areas.
- 3.27 In order to establish current values on a per metre square basis for each of these value areas the following was undertaken:
- The Land Registry data on achieved sales, and number of sales for the periods as outlined above was analysed and then rebased to September 2009 using the Land Registry index for Lincolnshire, this ensured that higher values that may have been achieved in the previous 12 months did not inflate the values used for the purpose of this study;
 - Numerous telephone conversations with local estate agents were undertaken to establish the typology of dwellings within each value area and establish current average achieved sales prices for new build dwellings;



- Face to face discussions with local estate agents on achieved new build sales values across the value areas were undertaken, along with visits to new housing developments to establish the size and type of units currently being brought to market;
- Rightmove and Find a Property websites were interrogated to establish current asking prices in the four Value Areas.

3.28 Full details of the sales value methodology, the boundaries of each Value Area and the values per metre assumed for each can be found in Appendix 4.

Notional Sites Tested In Each Value Area

3.29 It is clear, through reference to the SHLAA 2008 and following discussion with the Council, that the notional development sites established (as outlined previously) would not come forward within the Plan period in every Value Area. Therefore a matrix was developed to ensure that all notional development sites were tested in the relevant Value Areas to ensure robustness and relevance of the testing to the profile of sites coming forward within the Plan period. This matrix is shown below.



Notional site type	Value Area			
	1 Grantham	2 Stamford	3 Bourne & Deepings	4 Local Service Centres
4000 unit Sustainable Urban Extension	X			
1500 unit Sustainable Urban Extension	X	X		
400 unit developments (40 & 50 dph)	X	X	X	
80 unit development (40 dph)	X	X	X	X
20 unit development (70 dph)	X			
20 unit development (50 dph)	X	X	X	
20 unit development (30 dph)	X	X	X	X
10 unit development (30 dph)	X	X	X	X
5 unit development (30 dph)				X

Table 2

Study Variables

3.30 The affordable housing policy requirements as outlined within the Submission Core Strategy were tested initially. These are summarised below:

- 40% affordable housing;



- 15 unit threshold;
- 65:35 social rented:intermediate tenure split.

3.31 Following consultation with the Council, intermediate housing was assumed to be shared ownership accommodation. However on some notional sites 100% intermediate housing was assessed based upon an 80% equity purchase model.

3.32 In cases where it was found that the policy requirements as outlined above adversely affected the viability of the development to a position where the scheme was unviable and would not come forward for development, the following iterations of the affordable housing policy percentages were tested where appropriate:

- 30% affordable housing;
- 21% affordable housing;
- 20% affordable housing;
- 10% affordable housing.

3.33 It was agreed with the Council to test notional 10 unit developments in order to assess if a site threshold below 15 units was 'viable and practicable'¹⁹, as required by PPS3.

Section 106 / Strategic Infrastructure Contributions

3.34 Through discussion with the Council, a well reasoned per unit contribution in respect of Section 106 and Strategic Infrastructure has been established. These differ dependent upon the type of notional development site and the per unit contributions that have been assumed for the purposes of this study are outlined below.

¹⁹ Planning Policy Statement 3 (PPS3): Housing, Communities and Local Government November 2006 paragraph 29



4000 unit Sustainable Urban Extension

- 3.35 Given the large infrastructure requirements associated with developments of this nature, and based on previous experience within the District, a contribution of £14,000 per unit was assumed. Given the range and scale of infrastructure requirements schemes of this nature are required to deliver, testing was also undertaken assuming a per unit contribution of £23,000 and a per unit contribution of £10,000.

All other notional development sites

- 3.36 The Council provided details on the per unit S106 contributions that could be assumed for all notional development sites with the exception of those listed above. These are summarised as follows:
- Primary Care Trust contribution of £995 per unit;
 - Transport contribution of £1000 per unit;
 - Education contribution of £0 for a 1 bed unit, £1,458 for a 2 bed unit, £3,499 for a 3 bed unit and £4,083 for a 4 bed unit;
 - Open Space Contributions totalling a cash contribution of £212 per unit plus on notional sites in excess of 100 units, the land value of 38m² per unit informal open space was added to the existing or alternative land value.
- 3.37 In order to reflect the potential for the level of S106 contributions to alter over the life of the Plan, testing was also undertaken assuming contributions at 50% and 200% of the figures outlined above.

Specific Costs of Development – Model Inputs

Build Costs

- 3.38 These were derived from the Build Cost Information Service figures for South Kesteven as at 21 November 2009 and are as follows (£ per sq metre);



Estate Housing	672
Estate Housing Detached	717
Estate Housing Semi-detached	671
Estate Housing Terraced	700
Flats (apartments)	842
Housing Mixed Developments	714
Sheltered Housing	792
One off housing	1188

- 3.39 To these figures a further uplift was applied to account for the relevant Code for Sustainable Homes Standards (£ per sq metre)²⁰;

Code for Sustainable Homes Level	Date of introduction²¹	Flats £/m2	Houses £/m2
3	2010	50	43
4	2013	103	101
5	-	208	191
6	2016	360	335

- 3.40 Build costs were then further uplifted by 15% to account for external works. Finally build cost contingency of 5% of total build costs was added.
- 3.41 Policy EN4 of the South Kesteven Core Strategy Submission DPD relates to Sustainable Construction and Design and requires 'development proposals... for more than 10 dwellings ...will be required to provide at least 10% of the

²⁰ Figures based upon findings of 'Cost Analysis of the Code for Sustainable Homes: Final Report' July 2008 Communities and Local Government

²¹ Greener Homes for the Future 2008, Communities and Local Government



development's total predicted energy requirements on site, from renewable energy sources and energy efficient design measures²². Although the policy notes these requirements may be relaxed if it can be clearly demonstrated full compliance would not be economically viable we have assumed in all cases an additional build cost of £1,200 per unit towards meeting the requirements of Policy EN4. This figure of £1,200 per unit is based upon circa 1.5m² of photovoltaic panels per unit and whilst we recognise the cost per unit of achieving the requirements of Policy EN4 is likely to differ on a site by site basis we feel it prudent to allow some additional development cost in respect of this policy.

Other costs of development

- Charged Interest Rate - 6.50%

This is the long term cost of development finance. Whilst the Bank of England Base Rate is currently at 0.5%, developers are not able to access finance at this level. Therefore a 6.5% figure has been used.

- Earned Interest Rate – 3.5%

Again, whilst the Bank of England Base Rate is currently at 0.5% a long term view of the earned interest rate has been taken.

- Professional Fees – 8% of Build Costs

Covering architects, consultants engineers fees etc. This is assessed as being 8% of the total build costs. This has been used for all development scenarios with the exception of 10 unit notional developments where professional fees have been assumed at 12% of build costs to reflect the baseline fee level which professional consultants attract.

- Site Investigation - £5000 per hectare

²² Policy EN4, Submission Core Strategy Development Plan Document, 2009, South Kesteven District Council



- Agents Acquisition Fees – 1.0% of Residual Land Value
- Marketing and Sales Fees – 3.0% of Gross Development Value
- Legal Fees on sales - £350 per unit
- Finance Arrangement Fee – 1.0% of build cost
- Internal Overheads – 1.0% of build plus on-costs
- Planning Fees – as South Kesteven District Council defined rates
- Developer Profit – 17% of Gross Development Value

In line with other appraisals of this nature we have taken a long term assumption as to the necessary profit to encourage development. We have however, also assessed developer profit at 20% of Gross Development Value on a wide range of the notional sites and all 10 unit notional development sites assume developer profit at this rate.

For affordable housing, developer profit is 6% to reflect the contractor's return.

- Stamp Duty Land Tax – ranges between 0% and 4.0% depending on residual land value

Affordable housing assumptions

3.42 Social rents used assumed are as follows, based upon target rents for South Kesteven:

- 1 bed - £61.72;
- 2 bed - £69.84;
- 3 bed - £72.99;
- 4 bed - £74.42.



- 3.43 A yield of 6% is assumed on social rents. A management cost of £300 per annum, a maintenance cost of £475 per annum, a void allowance of 4% and a major repairs allowance of 0.08% is also assumed.
- 3.44 Shared ownership is assumed as a 50% initial equity purchase with rent of 2% charged on unsold equity. A management cost of £100 per annum was also assumed.
- 3.45 Grant/public subsidy assumptions
- 3.46 Baseline assessments assumed nil public subsidy however in a number of circumstances sensitivity testing assuming grant availability was undertaken. With reference to the East Midlands Investment Statements available from the Homes and Communities Agency, and following detailed discussion with the relevant Council Officers three sensitivities in respect of grant availability have been assumed. These are as follows:
- Grant at £25,000 per unit for social rented units, nil grant per unit in respect of shared ownership units. Public subsidy at this level is referred to as 'Lower Grant' within this report;
 - Grant at £50,000 per unit for social rented units and grant at £23,000 per unit in respect of shared ownership units. Public subsidy at this level is referred to as 'Normal Grant' within this report and reflects the most recent levels of public subsidy within South Kesteven;
 - Grant at £60,000 per unit for social rented units and grant at £30,000 per unit in respect of shared ownership units. Public subsidy at this level is referred to as 'Higher Grant' within this report.

Development timetable assumptions

- 3.47 Due to the scale and range of developments the timetable of development is different for each notional development type. Our development experience enables us to allow relevant and realistic timescales within the development period in respect of:
- enabling phases (for large scale developments);



- planning application;
- site acquisition;
- construction period;
- sales period.

3.48 In all instances the receipt from the affordable housing is timetabled to occur at the end of the construction period.



4.0 Stakeholder Engagement

- 4.1 Prior to commencement of the Study, we sought confirmation of the proposed methodology and key inputs from stakeholders, through a questionnaire circulated to a comprehensive contact list of over 60 stakeholders provided by the Council. These included, not exclusively, Registered Social Landlords (RSLs), private developers, house builders, planning and other development consultants and land owners.
- 4.2 Stakeholder feedback helped to identify data used to inform the study. For example, land values, construction costs, profit levels, and other elements.
- 4.3 A copy of the questionnaire along with a covering letter or email was sent to all stakeholders in the week commencing 9 November 2009, with a requested response date of 25th November 2009. As at 1 December 2009, nine completed questionnaires had been received, two of these were from land owners, three from RSLs, one from a house builder, one from a planning consultant, one from an architectural practice and one from the East Midlands Regional Assembly. As would be expected a range of responses were received. All of these responses have been considered and our report has attempted to test variables taking the views of respondents into account.
- 4.4 Appendix 5 to this report includes a copy of the questionnaire sent to stakeholder and summarises responses received.



5.0 Results Analysis

- 5.1 This section sets out the results from each notional development scheme assessed in accordance with the testing matrix shown as Table 2 and the assumptions outlined within this report. Full details of the unit composition for each notional development type can be found in Appendix 3. Results and conclusions drawn in respect of each notional scheme are reported.
- 5.2 The results tables set out the three market scenarios, downside, middle and upside and then record whether the notional schemes assessed are likely to be viable, marginal or not viable. The dates in the left hand column refer to the start dates for development.
- 5.3 As a further test of viability we have undertaken an assessment of the impact of affordable housing on overall value. That is to say the difference between the residual value without any affordable housing (the “unencumbered value”) and the residual value with affordable housing (the “encumbered value”). The results can be seen in the three right hand columns relating to each assessment in figures 1 to 66. It can be seen that in most cases the reduction in value due to affordable housing is more significant in the downside situation than in the middle or upside scenarios. It can also be noted that the reduction due to affordable housing affects value by a larger proportion than the actual amount of affordable housing being sought. However, this is mitigated on the schemes with grant where the opposite is the case. In other words, the more grant that is input into schemes, the less effect this has in reducing overall residual value.
- 5.4 Where the reduction in affordable housing is more than 50% of the value this is shown to be not viable (in red) on the results page. Caution must be taken when assessing the reduction due to affordable housing where viability using our other tests is particularly challenging. Where overall unencumbered values are very low, then the report on the reduction may not produce a meaningful result, for instance where the reduction is either more than 100% or where the “reduction” is actually positive (shown “n/a” on the results page).
- 5.5 It is for this reason that this test is not used as the primary assessment of viability. It is, however, a useful secondary “check” to see if the effect of affordable housing is likely to be too onerous. The results especially support our concern about the higher percentage targets in the low value areas of the District.



5.6 Following commentary on the results, the next section then sets out the principles of a commuted sum methodology. This is followed by conclusions that can be drawn from the assessments, including recommendations for policy.

Notional site – 4000 unit Sustainable Urban Extension (SUE)
40 dph – Grantham

5.7 It has been assumed that this development will progress in four main phases, thus 1000 units will be developed per phase. The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 16% was used and an alternative use value of £420,000 per hectare. The latter based upon VOA average industrial land values for Lincoln and Nottingham as at July 2009, taking into account an uplift of 20%.

5.8 40% affordable housing was found not to be viable against any scenario for the duration of the Plan period. 30% affordable housing was tested and assuming nil grant and nil S106/infrastructure contributions, as Figure 1 highlights below, a viable position on the middle scenario is not reached until 2024. Should upside market conditions prevail the position improves and viability is marginal to around 2018, whereupon viability improves.

30% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
NIL S106 allowance						
NO GRANT sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010	NOT VIABLE	NOT VIABLE	MARGINALLY VIABLE	> 100%	52%	39%
2011	NOT VIABLE	NOT VIABLE	MARGINALLY VIABLE	> 100%	53%	40%
2012	NOT VIABLE	NOT VIABLE	MARGINALLY VIABLE	> 100%	55%	41%
2013	NOT VIABLE	NOT VIABLE	MARGINALLY VIABLE	> 100%	57%	42%
2014	NOT VIABLE	NOT VIABLE	MARGINALLY VIABLE	> 100%	61%	44%
2015	NOT VIABLE	NOT VIABLE	MARGINALLY VIABLE	> 100%	63%	44%
2016	NOT VIABLE	NOT VIABLE	MARGINALLY VIABLE	> 100%	65%	45%
2017	NOT VIABLE	NOT VIABLE	MARGINALLY VIABLE	> 100%	64%	45%
2018	NOT VIABLE	NOT VIABLE	MARGINALLY VIABLE	> 100%	59%	43%
2019	NOT VIABLE	NOT VIABLE	MARGINALLY VIABLE	> 100%	52%	40%
2020	NOT VIABLE	NOT VIABLE	VIABLE	96%	50%	39%
2021	NOT VIABLE	MARGINALLY VIABLE	VIABLE	82%	48%	38%
2022	NOT VIABLE	MARGINALLY VIABLE	VIABLE	70%	45%	37%
2023	NOT VIABLE	MARGINALLY VIABLE	VIABLE	58%	40%	34%
2024	MARGINALLY VIABLE	VIABLE	VIABLE	51%	38%	33%
2025	MARGINALLY VIABLE	VIABLE	VIABLE	47%	37%	32%
2026	MARGINALLY VIABLE	VIABLE	VIABLE	47%	37%	33%
2027	MARGINALLY VIABLE	VIABLE	VIABLE	44%	35%	32%
2028	MARGINALLY VIABLE	VIABLE	VIABLE	45%	36%	32%
2029	MARGINALLY VIABLE	VIABLE	VIABLE	45%	36%	32%
2030	MARGINALLY VIABLE	VIABLE	VIABLE	46%	37%	33%
2031	MARGINALLY VIABLE	VIABLE	VIABLE	44%	35%	32%

= NOT VIABLE
 = MARGINALLY VIABLE
 = VIABLE



5.9 The viability position that can be achieved at 30% affordable housing assuming a per unit infrastructure contribution of £14,000 and 'normal' grant is less favourable than the position shown in Figure 1, with a viable position only being reached in 2025 on the middle scenario.

5.10 21% affordable housing was then tested. Figure 2 shows the viability position based upon a per unit infrastructure contribution of £10,000, 'higher' grant and the removal of the £1,200 sum per unit allowed to achieve 10% on site renewable energy.

21% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
£10,000 S106/no renewables						
Higher Grant sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010	NOT VIABLE	MARGINALLY VIABLE	VIABLE	> 100%	n/a	4%
2011	NOT VIABLE	MARGINALLY VIABLE	VIABLE	> 100%	n/a	5%
2012	NOT VIABLE	MARGINALLY VIABLE	VIABLE	> 100%	n/a	8%
2013	NOT VIABLE	MARGINALLY VIABLE	VIABLE	> 100%	5%	10%
2014	NOT VIABLE	MARGINALLY VIABLE	VIABLE	67%	10%	13%
2015	NOT VIABLE	MARGINALLY VIABLE	VIABLE	50%	5%	10%
2016	NOT VIABLE	MARGINALLY VIABLE	VIABLE	35%	9%	12%
2017	NOT VIABLE	MARGINALLY VIABLE	VIABLE	32%	11%	13%
2018	NOT VIABLE	MARGINALLY VIABLE	VIABLE	49%	14%	15%
2019	NOT VIABLE	MARGINALLY VIABLE	VIABLE	n/a	10%	12%
2020	NOT VIABLE	MARGINALLY VIABLE	VIABLE	9%	14%	14%
2021	NOT VIABLE	MARGINALLY VIABLE	VIABLE	16%	15%	15%
2022	NOT VIABLE	MARGINALLY VIABLE	VIABLE	19%	17%	16%
2023	NOT VIABLE	MARGINALLY VIABLE	VIABLE	13%	14%	14%
2024	MARGINALLY VIABLE	VIABLE	VIABLE	16%	15%	15%
2025	MARGINALLY VIABLE	VIABLE	VIABLE	17%	16%	16%
2026	MARGINALLY VIABLE	VIABLE	VIABLE	19%	18%	17%
2027	MARGINALLY VIABLE	VIABLE	VIABLE	17%	16%	15%
2028	MARGINALLY VIABLE	VIABLE	VIABLE	18%	17%	16%
2029	MARGINALLY VIABLE	VIABLE	VIABLE	19%	17%	17%
2030	MARGINALLY VIABLE	VIABLE	VIABLE	21%	19%	18%
2031	MARGINALLY VIABLE	VIABLE	VIABLE	18%	17%	16%
	NOT VIABLE					
	MARGINALLY VIABLE					
	VIABLE					

5.11 As Figure 2 demonstrates, on the middle scenario assuming a £10,000 per unit infrastructure contribution and 'higher' levels of grant, 21% affordable housing is currently marginal although the viability position deteriorates from 2012 to 2018. This is due largely to the introduction of higher Code for Sustainable Homes requirements that come into force during this period (Code Level 4 in 2013, and Code Level 6 in 2016) and the potentially significant increase in build costs



associated with achieving these standards. On the upside scenario, a viable position will be achieved throughout the Plan period, and should an upside scenario prevail, lower levels of grant than assumed within Figure 2 would be required to achieve a viable position for much of the life of the Plan.

21% Affordable Housing						
AH Mix:	65% Social Rent 35% Intermediate					
	nil S106 allowance					
	Normal Grant					
	GRANTHAM sensitivity.					
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				n/a	n/a	5%
2011				n/a	n/a	6%
2012				n/a	3%	8%
2013				n/a	6%	10%
2014				n/a	10%	12%
2015				n/a	7%	11%
2016				n/a	9%	12%
2017				n/a	11%	13%
2018				5%	13%	14%
2019				1%	10%	12%
2020				9%	13%	14%
2021				13%	14%	15%
2022				16%	16%	16%
2023				12%	13%	14%
2024				15%	15%	15%
2025				16%	16%	15%
2026				18%	17%	17%
2027				16%	16%	15%
2028				17%	17%	16%
2029				18%	17%	17%
2030				20%	18%	17%
2031				17%	16%	16%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.12 Figure 3 above shows the position assuming 'normal grant' levels and a nil infrastructure contribution per unit. It can be seen that a marginal position until 2020 and thereon a viable outcome is achieved in the middle scenario and when comparing this to Figure 2, the negative impact upon viability that levels of infrastructure contributions required for developments of this nature have can be clearly seen.

Conclusions

5.13 The requirement for infrastructure contributions in excess of £10,000 per unit on schemes of this nature reduces the overall viability of development. Contributions up to £23,000 per unit were assessed and it was found that the greater the contribution per unit, the more adverse the viability position.



- 5.14 In order to achieve circa 20% affordable housing and assuming housing markets perform to the middle scenario, schemes of this nature would require public subsidy at least at 'normal' grant levels. If grant were available at higher levels viability of greater than circa 20% affordable housing would continue to be dependent upon the level of infrastructure contribution required per unit.
- 5.15 Should upside market conditions prevail the viability position is improved and circa 20% affordable housing may be achievable even with infrastructure contributions of circa £10,000 - £14,000 although it is likely some level of public subsidy would still be required to achieve this.
- 5.16 The viability position improves on all scenarios over time. Due to the scale of this type of scheme, it is likely development will occur on a phased basis over a long timescale and it may be that increased levels of affordable housing can be achieved on the later phases when the viability position improves. Furthermore, consideration should be given to the phasing of infrastructure works and financial contributions, and where possible, these could be required later in the development process as this will improve the viability of this type of scheme in most cases.

Notional site – 1500 unit Sustainable Urban Extension (SUE)
40 dph – Grantham

- 5.17 It has been assumed that this development will progress in two main phases, thus 750 units will be developed per phase. The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 16% was used and an alternative use value of £420,000 per hectare. The latter based upon VOA average industrial land values for Lincoln and Nottingham as at July 2009, taking into account an uplift of 20%.
- 5.18 40% affordable housing was tested assuming nil grant and 100% of the S106 contributions as outlined in Section 4 of this report. The results can be seen in Figure 4 below and show an unviable result for the majority of the Plan period against all scenarios.



40% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				> 100%	80%	57%
2011				> 100%	81%	58%
2012				> 100%	84%	59%
2013				> 100%	86%	61%
2014				> 100%	91%	63%
2015				> 100%	96%	64%
2016				> 100%	100%	65%
2017				> 100%	96%	64%
2018				> 100%	87%	61%
2019				> 100%	78%	57%
2020				> 100%	73%	56%
2021				> 100%	69%	54%
2022				> 100%	64%	52%
2023				87%	57%	48%
2024				75%	54%	46%
2025				68%	51%	45%
2026				66%	51%	45%
2027				64%	50%	44%
2028				64%	50%	44%
2029				64%	50%	45%
2030				65%	51%	45%
2031				63%	49%	44%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.19 This was then tested with the assumption that 'normal' grant levels could be applied to the affordable housing units. The results can be seen in Figure 5 below, which shows, should upside market conditions prevail, 40% affordable housing would be viable for the majority of the Plan period. Against the middle market scenario however, viability is compromised from the period 2013 to 2020 due again to the potentially significant build cost increases associated with increased sustainability requirements.

40% Affordable Housing						
AH Mix:						
65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
Normal Grant sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				n/a	15%	21%
2011				n/a	18%	23%
2012				1%	23%	26%
2013				27%	29%	29%
2014				56%	34%	32%
2015				91%	35%	32%
2016				> 100%	38%	34%
2017				> 100%	39%	34%
2018				76%	39%	35%
2019				56%	36%	33%
2020				54%	38%	34%
2021				52%	38%	35%
2022				49%	38%	35%
2023				42%	35%	33%
2024				41%	35%	33%
2025				41%	36%	34%
2026				42%	37%	35%
2027				41%	36%	34%
2028				42%	37%	35%
2029				43%	38%	35%
2030				45%	39%	36%
2031				43%	38%	35%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					



5.20 30% affordable housing was then assessed on this notional development, initially assuming nil grant and 100% S106 contributions. The results can be seen in Figure 6 below that shows, should the market perform to an upside position, a 30% affordable housing requirement may be achievable without grant. If however, middle market conditions endure, 30% affordable housing could not be achieved until circa 2022-2024 onwards.

30% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				> 100%	58%	42%
2011				> 100%	59%	42%
2012				> 100%	61%	44%
2013				> 100%	63%	45%
2014				> 100%	67%	47%
2015				> 100%	70%	47%
2016				> 100%	73%	48%
2017				> 100%	70%	47%
2018				> 100%	65%	45%
2019				> 100%	57%	42%
2020				> 100%	54%	41%
2021				95%	51%	40%
2022				78%	47%	39%
2023				63%	42%	35%
2024				55%	40%	34%
2025				50%	38%	33%
2026				49%	38%	34%
2027				47%	37%	33%
2028				47%	37%	33%
2029				47%	37%	33%
2030				48%	38%	34%
2031				46%	36%	32%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.21 If grant at 'normal' levels were applied to this scenario, viability improves markedly on the upside scenario and 30% affordable housing with a 65:35 social rented:intermediate tenure split is viable throughout. Should middle market conditions prevail, viability remains compromised for the period 2014-2018. This is shown in Figure 7.



21% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
Normal Grant sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				n/a	4%	9%
2011				n/a	6%	10%
2012				n/a	9%	12%
2013				3%	13%	14%
2014				18%	16%	16%
2015				n/a	14%	14%
2016				30%	16%	16%
2017				35%	18%	16%
2018				31%	19%	17%
2019				17%	16%	15%
2020				21%	17%	17%
2021				23%	18%	17%
2022				23%	19%	18%
2023				18%	16%	16%
2024				19%	17%	17%
2025				20%	18%	17%
2026				21%	19%	18%
2027				19%	17%	17%
2028				20%	18%	18%
2029				21%	19%	18%
2030				23%	20%	19%
2031				20%	18%	17%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

Conclusions

- 5.23 In order to achieve 21% affordable housing on this type of scheme in Grantham it is likely that grant would be required until circa 2020 should middle market conditions prevail and S106 contributions required are not in excess of those tested. In some instances 30% affordable housing may be achievable with 'normal' grant. Nevertheless, viability is compromised at this level of affordable housing for the period 2015-2019 due to the imposition of increased build costs associated with achieving increased sustainability requirements.
- 5.24 Should the market perform to the upside scenario, up to 40% affordable housing may be viable with grant at 'normal' levels for the life of the Plan and at least 21% should be achievable without grant. This again assumes S106 contributions are not in excess of those tested.
- 5.25 The viability position for all scenarios improves over time. From circa 2023, the modelling results indicate that 40% affordable housing may be viable without grant. Given the scale and phased nature of developments of this type, the Council may wish to negotiate affordable housing on a phased basis in order to take advantage of improvements to the viability position which may occur over time.

Notional site – 1500 unit Sustainable Urban Extension (SUE)
40 dph – Stamford

- 5.26 It has been assumed that this development will progress in two main phases, thus 750 units will be developed per phase. The assessment was undertaken against the



two tests of viability. A GDV:RLV ratio of 18% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.

- 5.27 40% affordable housing was assessed with nil grant and S106 contributions at 100%. Against an upside scenario this was viable throughout the life of the Plan, whilst on the middle scenario it is likely to be viable from circa 2019 onwards. Should the market perform to downside conditions, 40% affordable housing would be unlikely to be viable without grant until at least circa 2024.
- 5.28 The same assessment was then undertaken assuming grant at 'normal' levels' and S106 contributions at 200% of the outlined requirements. The results are shown in Figure 10. Should the market perform to at least the middle scenario, 40% affordable housing is likely to be viable over the life of the Core Strategy.

40% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
200% Contribution S106 allowance						
NORMAL GRANT sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010	Red	Green	Green	21%	25%	26%
2011	Red	Green	Green	23%	26%	27%
2012	Red	Green	Green	28%	28%	29%
2013	Red	Green	Green	32%	31%	30%
2014	Red	Green	Green	36%	33%	32%
2015	Red	Yellow	Green	37%	33%	32%
2016	Red	Yellow	Green	39%	35%	33%
2017	Red	Yellow	Green	40%	35%	33%
2018	Red	Green	Green	39%	35%	33%
2019	Red	Green	Green	37%	34%	32%
2020	Red	Green	Green	38%	35%	33%
2021	Yellow	Green	Green	39%	35%	33%
2022	Yellow	Green	Green	38%	35%	34%
2023	Green	Green	Green	36%	33%	32%
2024	Green	Green	Green	36%	34%	32%
2025	Green	Green	Green	36%	34%	33%
2026	Green	Green	Green	37%	35%	34%
2027	Green	Green	Green	36%	34%	33%
2028	Green	Green	Green	37%	35%	34%
2029	Green	Green	Green	38%	35%	34%
2030	Green	Green	Green	39%	36%	35%
2031	Green	Green	Green	38%	35%	34%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

- 5.29 In order to ascertain the viability position without public subsidy, 35% affordable housing was assessed with S106 at 100% of the outlined requirements. As Figure



11 demonstrates, 35% may be viable based on middle market conditions without grant.

35% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010	Red	Yellow	Green	55%	43%	38%
2011	Red	Yellow	Green	56%	43%	38%
2012	Red	Yellow	Green	58%	44%	39%
2013	Red	Yellow	Green	60%	46%	40%
2014	Red	Yellow	Green	63%	47%	41%
2015	Red	Yellow	Green	65%	47%	41%
2016	Red	Yellow	Green	67%	48%	41%
2017	Red	Yellow	Green	65%	48%	41%
2018	Red	Yellow	Green	61%	46%	40%
2019	Red	Green	Green	56%	43%	38%
2020	Red	Green	Green	54%	43%	38%
2021	Red	Green	Green	52%	42%	38%
2022	Yellow	Green	Green	49%	41%	37%
2023	Yellow	Green	Green	45%	38%	35%
2024	Green	Green	Green	43%	37%	34%
2025	Green	Green	Green	42%	37%	34%
2026	Green	Green	Green	42%	37%	35%
2027	Green	Green	Green	41%	36%	33%
2028	Green	Green	Green	41%	36%	34%
2029	Green	Green	Green	41%	36%	34%
2030	Green	Green	Green	42%	37%	34%
2031	Green	Green	Green	40%	36%	33%
	Red	=NOT VIABLE				
	Yellow	=MARGINALLY VIABLE				
	Green	=VIABLE				

5.30 Finally, 30% affordable housing was assessed with nil grant and 100% S106 requirements and found to be viable over the life of the Plan should the market perform to at least the middle scenario.

Conclusions

5.31 Up to 35% affordable housing is likely to be achievable without grant on this type of scheme in the Stamford area should the market perform to at least the middle scenario and S106 contributions are not in excess of those assumed.

5.32 Should public subsidy be available at 'normal' levels, 40% affordable housing may be achievable throughout the life of the Plan, even if S106 contributions are twice the amount of the baseline level. Again this assumes middle market conditions prevail.



5.37 21% affordable housing was then tested to ascertain the viability position assuming nil grant and S106 contributions at 100% of the baseline level against the middle market scenario. The results are shown in Figure 13 below. It can be seen that without grant the viability of an affordable housing contribution at this level remains compromised until circa 2021 onwards.

21% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				> 100%	41%	29%
2011				> 100%	45%	30%
2012				> 100%	44%	31%
2013				> 100%	46%	32%
2014				> 100%	49%	34%
2015				> 100%	47%	32%
2016				> 100%	52%	34%
2017				n/a	57%	36%
2018				n/a	57%	36%
2019				> 100%	46%	31%
2020				> 100%	41%	30%
2021				87%	39%	30%
2022				77%	38%	30%
2023				61%	34%	27%
2024				47%	31%	26%
2025				40%	29%	25%
2026				37%	28%	24%
2027				34%	26%	23%
2028				34%	27%	23%
2029				35%	27%	24%
2030				35%	27%	24%
2031				33%	26%	23%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.38 If grant were available at 'normal' levels, then should middle market conditions prevail, viability would be compromised for at least the period 2016 to 2018 based on a 21% affordable housing requirement. This is shown in Figure 14 below. If however, the market performs to an upside scenario viability at this percentage may be achievable over the life of the Plan.



21% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
Normal Grant sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				n/a	3%	9%
2011				n/a	4%	10%
2012				n/a	8%	12%
2013				n/a	12%	14%
2014				17%	16%	16%
2015				1%	14%	15%
2016				52%	17%	17%
2017				n/a	20%	18%
2018				n/a	21%	19%
2019				30%	17%	16%
2020				27%	19%	17%
2021				28%	20%	18%
2022				30%	21%	19%
2023				23%	18%	17%
2024				22%	19%	18%
2025				22%	19%	18%
2026				22%	20%	19%
2027				20%	18%	17%
2028				22%	19%	18%
2029				22%	20%	18%
2030				24%	21%	19%
2031				22%	19%	18%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

Conclusions

- 5.39 Should the market perform to the middle scenario, and S106 contributions be required at the levels assumed, it is unlikely that an affordable housing contribution of circa 21% will be achievable without recourse to public subsidy at 'normal' levels. Even then, 'higher' levels of grant are likely to be required for the period 2016 – 2018 to achieve a viable position. Thus, the viability of schemes of this type at circa 21% affordable housing is marginal even with public subsidy.
- 5.40 If the market performs to an upside scenario, then 21% affordable housing may be viable without grant for the duration of the Plan period should S106 contributions not exceed those assumed.

Notional site – 400 unit development, 50 dph – Grantham

- 5.41 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 16% was used and an alternative use value of £420,000 per hectare. The latter based upon VOA average industrial land values for Lincoln and Nottingham as at July 2009, taking into account an uplift of 20%.
- 5.42 The viability position at 30% affordable housing is similar, albeit slightly less favourable, than for the previous assessment of a 40 dph scheme in the same area. Figure 15 below, shows the position assuming grant is available at 'normal' levels and S106 requirements are at 100% of the baseline level.



- 5.44 The impact of public subsidy at 'higher' levels was then assessed, again against a 21% affordable housing requirement and assuming 100% S106 contributions. This had a very marginal impact upon the viability position as outlined in Figure 16, with the period 2017-2018 remaining unviable should middle market conditions prevail.

Conclusions

- 5.45 The viability position of this notional development type assessed at 50 dph is very similar, albeit slightly less favourable than the viability position of the 40 dph notional development. Scheme density in this instance thus has a marginal impact upon development viability.
- 5.46 Should the market perform to the upside position, public subsidy of at least 'normal' levels will be required to achieve 30% affordable housing assuming S106 requirements do not exceed those assumed. If however the market performs to the middle scenario, public subsidy at 'normal' or 'higher' levels would be required to achieve 21% affordable housing, and even if this subsidy were available, viability at this percentage would be marginal with developments commencing in 2017-2018 remaining compromised.

Notional site – 400 unit development, 40 dph – Stamford

- 5.47 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 18% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.
- 5.48 40% affordable housing has been tested assuming 100% S106 contributions and nil grant. The results are shown in Figure 17 below. If the market performs to the upside scenario an affordable housing requirement of 40% should be viable assuming S106 contributions in excess of those assumed are not required. On the other hand, should however, the market perform to the middle scenario, viability with this affordable housing requirement would not be viable until at least 2019.



35% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
Reduced Grant (£25k per unit SR) sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				40%	34%	31%
2011				41%	34%	32%
2012				44%	36%	33%
2013				47%	38%	34%
2014				50%	40%	35%
2015				51%	39%	35%
2016				53%	41%	36%
2017				52%	40%	36%
2018				50%	40%	35%
2019				46%	37%	34%
2020				45%	37%	34%
2021				44%	37%	34%
2022				43%	36%	34%
2023				39%	34%	32%
2024				38%	34%	32%
2025				37%	33%	32%
2026				38%	34%	32%
2027				37%	33%	31%
2028				37%	34%	32%
2029				37%	34%	32%
2030				38%	34%	33%
2031				37%	33%	31%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.51 Finally, 30% affordable housing was tested assuming nil grant and S106 contributions at 100% of the baseline level. Figure 20 shows that 30% affordable housing is likely to be deliverable without recourse to public subsidy for the duration of the Plan assuming market conditions achieve at least the middle scenario and S106 requirements do not exceed those assumed.

30% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				48%	37%	32%
2011				49%	37%	33%
2012				51%	38%	33%
2013				53%	39%	34%
2014				56%	41%	36%
2015				57%	41%	35%
2016				59%	42%	36%
2017				57%	41%	35%
2018				54%	40%	35%
2019				49%	37%	33%
2020				47%	37%	33%
2021				45%	36%	32%
2022				43%	35%	32%
2023				39%	32%	30%
2024				37%	32%	29%
2025				36%	31%	29%
2026				36%	32%	30%
2027				35%	31%	29%
2028				35%	31%	29%
2029				35%	31%	29%
2030				36%	32%	30%
2031				35%	31%	29%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					



Conclusions

- 5.52 The higher values that development in Stamford attracts, (as compared to Grantham), improves the viability of affordable housing on this type of development with 30% affordable housing likely to be viable without grant should middle market conditions prevail. Relatively low levels of grant are required to achieve 35% affordable housing, whilst grant at 'normal' levels may mean that 40% affordable housing is achievable as long as the market does not perform to the downside scenario. Viability at these levels is likely to be compromised however, should S106 requirements be in excess of those assumed within this study.

Notional site – 400 unit development, 50 dph – Stamford

- 5.53 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 18% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.
- 5.54 The viability position in respect of this development is very similar to that of the 40dph notional scheme, albeit slightly less favourable. This is demonstrated by Figure 21 below which shows the viability position of 30% affordable housing, nil grant and 100% S106 requirement. This should be compared to Figure 20 above which is assuming the same assumptions on the 40 dph scheme. As this comparison shows, the viability of the 50 dph is marginally less favourable.



30% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				49%	37%	32%
2011				50%	37%	32%
2012				51%	38%	33%
2013				53%	39%	34%
2014				57%	41%	35%
2015				58%	41%	35%
2016				60%	42%	35%
2017				59%	41%	35%
2018				55%	40%	35%
2019				49%	37%	33%
2020				47%	37%	33%
2021				45%	36%	32%
2022				43%	35%	32%
2023				39%	32%	29%
2024				37%	32%	29%
2025				36%	31%	29%
2026				36%	32%	30%
2027				35%	31%	29%
2028				35%	31%	29%
2029				35%	31%	29%
2030				36%	32%	30%
2031				35%	30%	28%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.55 Nonetheless, 40% affordable housing with grant at normal levels is very likely to be viable over the life of the Plan should the market perform to at least the middle scenario.

Conclusions

5.56 The results demonstrate the impact of density upon the viability of this scheme, with the 50 dph development resulting in a slightly less favourable viability position in comparison with the 40dph scheme across all tests.

5.57 30% affordable housing without grant may be viable should the market perform to the middle scenario however scheme viability will remain marginal until circa 2019 unless the market performs to the upside assumptions. Notwithstanding this, relatively low levels of grant are likely to be required to achieve 30% affordable housing based on the middle scenario until this point. Furthermore, grant at 'normal' levels is very likely to achieve 40% affordable housing throughout the Plan period.

Notional site – 400 unit development, 40 dph – Bourne and The Deepings

5.58 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 16% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.

5.59 A 40% affordable housing requirements was assessed and found not to be viable against any future market scenario. Therefore 30% affordable housing was tested,



assuming nil grant and grant availability at 'normal' levels. Figure 22 below shows the results of 30% affordable housing with grant at normal levels and S106 requirements at 100% of the baseline level. Against the upside market scenario 30% affordable housing is likely to be viable however the viability position remains compromised until circa 2020 should middle market conditions prevail.

30% Affordable Housing						
AH Mix:	65% Social Rent 35% Intermediate					
	100% Contribution S106 allowance					
	Normal Grant sensitivity.					
	BOURNE & THE DEEPINGS sensitivity.					
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				n/a	11%	17%
2011				n/a	13%	17%
2012				7%	17%	19%
2013				16%	20%	21%
2014				26%	24%	23%
2015				24%	23%	22%
2016				32%	25%	24%
2017				34%	26%	24%
2018				34%	26%	25%
2019				28%	24%	23%
2020				30%	26%	24%
2021				31%	26%	25%
2022				31%	27%	25%
2023				27%	24%	23%
2024				28%	25%	24%
2025				28%	26%	25%
2026				30%	27%	26%
2027				28%	26%	25%
2028				29%	27%	25%
2029				30%	27%	26%
2030				31%	28%	27%
2031				29%	27%	25%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.60 21% affordable housing was then tested, again both with and without public subsidy. Figure 23 demonstrates the viability position assuming grant and normal levels. As can be seen viability remains compromised for the period 2012-2018 against middle market conditions, due in part to the potential large increase in construction costs within this period associated with increased sustainability requirements.



21% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
Normal Grant sensitivity.						
BOURNE & THE DEEPINGS sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010	Red	Yellow	Green	n/a	6%	10%
2011	Red	Yellow	Green	n/a	7%	11%
2012	Red	Yellow	Green	1%	10%	13%
2013	Red	Yellow	Green	8%	13%	14%
2014	Red	Yellow	Green	16%	16%	16%
2015	Red	Yellow	Green	10%	14%	15%
2016	Red	Yellow	Green	17%	16%	16%
2017	Red	Yellow	Green	20%	17%	16%
2018	Red	Yellow	Green	22%	18%	17%
2019	Red	Yellow	Green	16%	15%	15%
2020	Red	Yellow	Green	19%	17%	16%
2021	Red	Yellow	Green	20%	18%	17%
2022	Red	Yellow	Green	21%	19%	18%
2023	Red	Yellow	Green	17%	16%	16%
2024	Green	Green	Green	18%	17%	17%
2025	Green	Green	Green	19%	18%	17%
2026	Green	Green	Green	21%	19%	18%
2027	Green	Green	Green	19%	17%	17%
2028	Green	Green	Green	20%	18%	17%
2029	Green	Green	Green	20%	19%	18%
2030	Green	Green	Green	22%	20%	19%
2031	Green	Green	Green	20%	18%	17%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.61 Assuming nil grant, a 100% S106 contribution, and 21% affordable housing, a viable position should be achievable on the upside scenario for the duration of the Plan. Viability remains compromised until circa 2019 assuming middle market conditions and it is likely some level of public subsidy would be required until circa 2020 to achieve this level of affordable housing. From circa 2022 onwards however, 30% affordable housing without public subsidy may be viable.

Conclusions

5.62 Should the Council seek to achieve levels of affordable housing of circa 10-20% on developments of this nature in this area, without recourse to public subsidy they may wish to consider in the early years, flexibility of affordable housing tenure as a tool to achieve this. An approach such as this may need to be adopted should the market perform to the middle scenario. Increasing proportions of shared ownership property from the levels assumed, (65:35 social rented:shared ownership) would improve scheme viability as would a reasonable proportion of shared equity units should this be delivered instead of social rented units. It is unlikely however that this approach would be required if the market achieves an upside position and should this be the case, 21% affordable housing, increasing to 30% affordable housing over time may be achievable without grant.

Notional site – 400 unit development, 50 dph – Bourne and The Deepings

5.63 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 16% was used and an alternative use value of £660,000 per hectare. The latter



based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.

- 5.64 40% affordable housing was assessed and found not to be viable against any market scenario, whilst 30% affordable housing was marginal against upside market conditions only. 21% affordable housing was thus assessed and found to be viable should the market perform to the upside for the duration of the life of the Plan. Viability however, remains compromised should middle market conditions endure until circa 2019.
- 5.65 Figure 24 shows the impact upon viability of grant at 'normal' levels should the market achieve middle market conditions.

21% Affordable Housing						
AH Mix:		65% Social Rent 35% Intermediate				
		100% Contribution S106 allowance				
		Normal Grant sensitivity.				
		BOURNE & THE DEEPINGS sensitivity.				
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010	NOT VIABLE	MARGINALLY VIABLE	VIABLE	n/a	6%	10%
2011	NOT VIABLE	MARGINALLY VIABLE	VIABLE	n/a	7%	11%
2012	NOT VIABLE	MARGINALLY VIABLE	VIABLE	1%	10%	13%
2013	NOT VIABLE	MARGINALLY VIABLE	VIABLE	8%	13%	14%
2014	NOT VIABLE	MARGINALLY VIABLE	VIABLE	16%	16%	16%
2015	NOT VIABLE	MARGINALLY VIABLE	VIABLE	10%	14%	15%
2016	NOT VIABLE	MARGINALLY VIABLE	VIABLE	17%	16%	16%
2017	NOT VIABLE	MARGINALLY VIABLE	VIABLE	20%	17%	16%
2018	NOT VIABLE	MARGINALLY VIABLE	VIABLE	22%	18%	17%
2019	NOT VIABLE	MARGINALLY VIABLE	VIABLE	16%	15%	15%
2020	NOT VIABLE	MARGINALLY VIABLE	VIABLE	19%	17%	16%
2021	NOT VIABLE	MARGINALLY VIABLE	VIABLE	20%	18%	17%
2022	MARGINALLY VIABLE	VIABLE	VIABLE	21%	19%	18%
2023	VIABLE	VIABLE	VIABLE	17%	16%	16%
2024	VIABLE	VIABLE	VIABLE	18%	17%	17%
2025	VIABLE	VIABLE	VIABLE	19%	18%	17%
2026	VIABLE	VIABLE	VIABLE	21%	19%	18%
2027	VIABLE	VIABLE	VIABLE	19%	17%	17%
2028	VIABLE	VIABLE	VIABLE	20%	18%	17%
2029	VIABLE	VIABLE	VIABLE	20%	19%	18%
2030	VIABLE	VIABLE	VIABLE	22%	20%	19%
2031	VIABLE	VIABLE	VIABLE	20%	18%	17%
		=NOT VIABLE				
		=MARGINALLY VIABLE				
		=VIABLE				

- 5.66 Finally, 10% affordable housing was assessed to ascertain the viability position should nil grant be available. Then results reveal that 10% affordable housing is likely to be viable without grant should middle market conditions endure.



Conclusions

- 5.67 If the market achieves upside conditions, 21%-30% affordable housing is likely to be viable without recourse to public subsidy. If middle market conditions are realised, public subsidy at 'normal' levels will be required to achieve 21% affordable housing, and it is likely that 10% affordable housing would be around the maximum that could be delivered without grant up to circa 2020. From 2020 onwards, viability eases and increased proportions of affordable housing may be viable thereon.
- 5.68 The results again demonstrate the impact of density upon the viability of this scheme, with the 50 dph development resulting in a slightly less favourable viability position in comparison with the 40dph scheme across all tests.

Notional site – 80 unit development, 40 dph – Grantham

- 5.69 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 16% was used and an alternative use value of £420,000 per hectare. The latter based upon VOA average industrial land values for Lincoln and Nottingham as at July 2009, taking into account an uplift of 20%.
- 5.70 40% affordable housing was assessed and assuming nil grant this requirement was not achievable against any scenario over the life of the Plan. Should public subsidy be available at 'normal' levels, and market conditions achieve the upside scenario, however then 40% affordable housing may be viable.
- 5.71 Viability at 30% affordable housing has been assessed. Without recourse to public subsidy affordable housing against the middle scenario remains compromised however should the market achieve an upside position, affordable housing at this level may be achievable for the majority of the life of the Plan without grant. This assumes S106 contributions are not in excess of those assumed.
- 5.72 Figure 25 below shows the position with 30% affordable housing and assumes public subsidy at 'normal' levels is available. Viability remains compromised for the middle scenario for the period 2015-2020.



30% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
Normal Grant sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010	Red	Yellow	Green	n/a	9%	16%
2011	Red	Yellow	Green	n/a	10%	16%
2012	Red	Yellow	Green	n/a	15%	18%
2013	Red	Yellow	Green	n/a	18%	20%
2014	Red	Yellow	Green	27%	24%	23%
2015	Red	Yellow	Green	55%	24%	23%
2016	Red	Yellow	Green	74%	27%	25%
2017	Red	Yellow	Green	> 100%	30%	26%
2018	Red	Yellow	Green	> 100%	34%	28%
2019	Red	Yellow	Green	n/a	32%	27%
2020	Red	Yellow	Green	> 100%	33%	28%
2021	Red	Yellow	Green	61%	32%	28%
2022	Red	Yellow	Green	53%	33%	29%
2023	Red	Yellow	Green	47%	30%	27%
2024	Red	Green	Green	46%	31%	28%
2025	Red	Green	Green	41%	31%	28%
2026	Yellow	Green	Green	37%	30%	28%
2027	Yellow	Green	Green	33%	28%	26%
2028	Green	Green	Green	33%	28%	26%
2029	Green	Green	Green	34%	29%	27%
2030	Green	Green	Green	35%	30%	28%
2031	Green	Green	Green	33%	28%	27%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.73 Further testing at 21% affordable housing against the middle market scenario reveals that should public subsidy be available at 'normal' levels the period where viability remains compromised reduces to a two year period, 2018-2020. If nil public subsidy is assumed however affordable housing at 21% remains compromised until 2022.

5.74 Finally 10% affordable housing was tested with the assumption that no grant was available. Against the middle market scenario delivery of affordable housing at this level remains marginal until 2023, with the period 2017-2020 requiring public subsidy of least a 'lower' level. The results are shown in Figure 26.



10% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				43%	15%	12%
2011				61%	17%	12%
2012				> 100%	20%	14%
2013				82%	20%	14%
2014				99%	22%	16%
2015				> 100%	20%	14%
2016				> 100%	21%	15%
2017				> 100%	22%	15%
2018				> 100%	26%	17%
2019				n/a	23%	14%
2020				> 100%	22%	15%
2021				55%	19%	14%
2022				42%	19%	14%
2023				32%	15%	12%
2024				29%	16%	13%
2025				24%	15%	12%
2026				20%	14%	12%
2027				15%	11%	10%
2028				15%	12%	10%
2029				16%	12%	11%
2030				17%	13%	11%
2031				14%	11%	10%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

Conclusions

- 5.75 It is likely that should the market perform to the middle scenario, public subsidy of at least 'normal' levels would be required to achieve 21% affordable housing in the early years, with the period 2018-2020 remaining difficult. From 2021 onwards 30% affordable housing may be achievable with similar levels of subsidy.
- 5.76 Should the market achieve the upside position, 21% affordable housing is likely to be achievable without grant over the life of the Plan, and 30% affordable housing may be achievable in some instances.
- 5.77 If grant funding were not available or available at only 'lower' levels, and middle market conditions endured, circa 10% affordable housing is likely to be the maximum that can be achieved until around 2022.

Notional site – 80 unit development, 40 dph – Stamford

- 5.78 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 18% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.
- 5.79 35% affordable housing was assessed assuming S106 contributions at 100% of the baseline value and nil public subsidy. The results are shown in Figure 27.



35% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
No Grant sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				57%	43%	38%
2011				58%	44%	38%
2012				60%	45%	39%
2013				63%	46%	40%
2014				66%	48%	41%
2015				68%	48%	41%
2016				71%	49%	41%
2017				69%	48%	41%
2018				64%	47%	40%
2019				58%	44%	38%
2020				55%	43%	38%
2021				53%	42%	38%
2022				50%	41%	37%
2023				45%	38%	34%
2024				43%	37%	34%
2025				42%	36%	34%
2026				42%	37%	34%
2027				41%	36%	33%
2028				41%	36%	34%
2029				41%	36%	34%
2030				42%	37%	34%
2031				40%	36%	33%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.80 40% affordable housing was also assessed and if public subsidy were available at 'normal' levels affordable housing is very likely to be achievable against a middle market scenario, even when S106 contributions were assumed to be 200% of the baseline figure.

Conclusions

5.81 Affordable housing at 35% may be deliverable over the life of the Plan assuming that the market performs to at least the middle scenario. The input of public subsidy at 'normal' levels is likely to secure 40% affordable housing even should S106 contributions be at 200% of the baseline levels.

Notional site – 80 unit development, 40 dph – Bourne and The Deepings

5.82 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 16% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.

5.83 40% affordable housing was tested and found not to be viable against any market scenario. 30% affordable housing, assessed with S106 contributions at 100% of baseline levels, was tested both with nil grant and grant at 'normal' levels. The results are shown in Figures 28 and 29.



30% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
BOURNE & THE DEEPINGS sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				93%	48%	37%
2011				97%	49%	38%
2012				> 100%	50%	39%
2013				> 100%	52%	40%
2014				> 100%	55%	42%
2015				> 100%	56%	41%
2016				> 100%	58%	42%
2017				> 100%	56%	42%
2018				> 100%	53%	41%
2019				88%	48%	38%
2020				76%	46%	37%
2021				69%	44%	37%
2022				61%	42%	36%
2023				51%	37%	32%
2024				47%	36%	32%
2025				44%	35%	31%
2026				44%	35%	32%
2027				41%	34%	31%
2028				42%	34%	31%
2029				42%	35%	31%
2030				43%	35%	32%
2031				41%	34%	30%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

30% Affordable Housing						
AH Mix:						
65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
Normal Grant sensitivity.						
BOURNE & THE DEEPINGS sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				n/a	11%	16%
2011				n/a	12%	16%
2012				6%	16%	18%
2013				15%	19%	20%
2014				24%	23%	23%
2015				21%	22%	22%
2016				28%	24%	23%
2017				31%	25%	23%
2018				32%	25%	24%
2019				26%	23%	22%
2020				29%	25%	24%
2021				30%	25%	24%
2022				30%	26%	25%
2023				26%	24%	23%
2024				27%	24%	24%
2025				27%	25%	24%
2026				29%	26%	25%
2027				27%	25%	24%
2028				28%	26%	25%
2029				29%	26%	25%
2030				30%	27%	26%
2031				29%	26%	25%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.84 Public subsidy significantly improves the viability at 30% against the upside scenario, should the market perform to the middle scenario however, a viable position is unlikely to be achievable until circa 2020.

5.85 Further testing was undertaken at 21% affordable housing. Against the middle scenario, and assuming public subsidy at 'normal' levels, viability remains compromised from circa 2012 to 2018 however for all other years 21% affordable housing may be achievable. This is shown in Figure 30.



21% Affordable Housing						
AH Mix:	65% Social Rent 35% Intermediate					
	100% Contribution S106 allowance					
	Normal Grant sensitivity.					
	BOURNE & THE DEEPINGS sensitivity.					
	VIABILITY			REDUCTION DUE TO AFFORDABLE		
YEAR	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				n/a	6%	10%
2011				n/a	7%	10%
2012				0%	10%	12%
2013				7%	13%	14%
2014				15%	16%	16%
2015				7%	13%	14%
2016				14%	15%	15%
2017				17%	16%	16%
2018				20%	17%	17%
2019				14%	15%	15%
2020				18%	17%	16%
2021				19%	17%	17%
2022				20%	18%	17%
2023				16%	16%	15%
2024				18%	17%	16%
2025				19%	17%	17%
2026				20%	18%	18%
2027				18%	17%	16%
2028				19%	18%	17%
2029				20%	18%	17%
2030				21%	19%	18%
2031				19%	18%	17%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

Conclusions

- 5.86 It is likely that, should the market perform to the middle scenario, public subsidy of at least 'normal' levels would be required to achieve up to 21% affordable housing until circa 2020, where viability pressures ease and up to 30% may be achievable. For the period 2012-2018 it is likely that 'higher' grant may be required to achieve 21% affordable housing and if grant at these levels is not available, then 21% affordable housing is unlikely to be achievable.
- 5.87 Should market conditions achieve the upside, affordable housing at 30% is likely to be achievable assuming grant is available at 'normal' levels, throughout the life of the Plan. If grant is not available, then 21% affordable housing may be deliverable throughout the period assessed.
- 5.88 If the market performs to the middle scenario, viability of affordable housing on this development type is challenging, and the proportion that can be delivered relies upon the availability of public subsidy. If subsidy is not available then the proportion of affordable housing that can be delivered is likely not to exceed circa 10% until approximately 2020.

Notional site – 80 unit development, 40 dph – Local Service Centres

- 5.89 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 18% was used and an alternative use value of £660,000 per hectare. The latter



based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.

- 5.90 40% affordable housing without grant was not viable on any market scenario. Grant at 'normal' levels eases viability and 40% affordable housing may be deliverable against an upside market scenario.
- 5.91 30% affordable housing is viable against the upside scenario without grant input, yet viability remains compromised against middle market conditions until circa 2020. Figure 3 below shows the impact that the provision of 'lower' levels of grant has on the viability of 30% affordable housing provision assuming middle market conditions.

30% Affordable Housing						
AH Mix:	65% Social Rent 35% Intermediate					
	100% Contribution \$106 allowance					
	Lower Grant sensitivity.					
	LOCAL SERVICE CENTRE sensitivity.					
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				39%	30%	28%
2011				42%	32%	28%
2012				44%	33%	29%
2013				47%	34%	30%
2014				52%	37%	32%
2015				51%	36%	31%
2016				56%	38%	32%
2017				62%	40%	33%
2018				62%	40%	33%
2019				51%	36%	31%
2020				47%	35%	31%
2021				45%	35%	31%
2022				45%	35%	31%
2023				41%	32%	29%
2024				38%	31%	29%
2025				36%	31%	28%
2026				35%	30%	28%
2027				33%	29%	27%
2028				34%	30%	28%
2029				34%	30%	28%
2030				35%	31%	29%
2031				34%	30%	28%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

- 5.92 Finally, 21% affordable housing was assessed both with grant at lower levels and nil grant, to ascertain the likely level of affordable housing that could be delivered should middle market conditions prevail. The results are shown in Figures 32 and 33 below.



assumed. Finally, if public subsidy were not available, up to 21% affordable may be achievable until 2020, and from then on, potentially amounts in excess of this.

Notional site – 20 unit development, 70 dph – Grantham

- 5.95 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 17% was used and an alternative use value of £420,000 per hectare. The latter based upon VOA average industrial land values for Lincoln and Nottingham as at July 2009, taking into account an uplift of 20%.
- 5.96 Affordable housing at 40% and 30% was found to be unviable on this scheme. 21% affordable housing, with public subsidy at 'normal' levels is not viable on the middle market scenario and viability remains marginal assuming upside market conditions.
- 5.97 10% affordable housing was tested, with and without the availability of public subsidy and the results are shown in Figures 34 and 35. As can be seen, viability remains marginal against the upside scenario, whilst should middle market conditions prevail an affordable housing requirement of 10% is unlikely to be achievable.

10% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				n/a	28%	10%
2011				n/a	34%	10%
2012				n/a	n/a	15%
2013				n/a	n/a	17%
2014				n/a	n/a	17%
2015				n/a	n/a	17%
2016				n/a	n/a	16%
2017				n/a	n/a	17%
2018				n/a	n/a	20%
2019				n/a	n/a	18%
2020				n/a	n/a	21%
2021				n/a	n/a	20%
2022				n/a	62%	17%
2023				n/a	28%	11%
2024				n/a	29%	13%
2025				n/a	23%	13%
2026				n/a	20%	13%
2027				43%	12%	9%
2028				25%	12%	9%
2029				21%	11%	9%
2030				24%	13%	10%
2031				17%	10%	8%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					



10% Affordable Housing						
AH Mix:	65% Social Rent 35% Intermediate					
	100% Contribution S106 allowance					
	Normal Grant sensitivity.					
	GRANTHAM sensitivity.					
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				36%	n/a	n/a
2011				34%	n/a	n/a
2012				25%	n/a	n/a
2013				22%	n/a	n/a
2014				21%	n/a	n/a
2015				19%	82%	n/a
2016				18%	n/a	n/a
2017				16%	n/a	n/a
2018				14%	n/a	n/a
2019				16%	56%	n/a
2020				14%	40%	n/a
2021				13%	86%	n/a
2022				13%	n/a	2%
2023				20%	n/a	n/a
2024				18%	n/a	1%
2025				18%	n/a	3%
2026				27%	4%	5%
2027				n/a	0%	3%
2028				n/a	3%	4%
2029				2%	4%	5%
2030				5%	6%	6%
2031				n/a	3%	4%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

Conclusions

5.98 It is unlikely that schemes of this nature could deliver affordable housing at any level should middle conditions endure. Affordable housing of up to 10% may be deliverable with public subsidy at normal levels if the market was to achieve the upside scenario.

Notional site – 20 unit development, 50 dph – Grantham

5.99 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 17% was used and an alternative use value of £420,000 per hectare. The latter based upon VOA average industrial land values for Lincoln and Nottingham as at July 2009, taking into account an uplift of 20%.

5.100 10% affordable housing with S106 contributions 100% of the baseline level may be achievable without grant should the market perform to the upside. This is shown in Figure 36.



5.102 Further testing was undertaken at 10% affordable housing and assumed that all affordable units delivered would be 80% shared equity housing. The results are shown in Figure 38 below.

10% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				7%	n/a	n/a
2011				5%	n/a	n/a
2012				n/a	2%	1%
2013				n/a	5%	2%
2014				n/a	8%	3%
2015				3%	n/a	n/a
2016				n/a	2%	0%
2017				n/a	5%	2%
2018				n/a	9%	4%
2019				3%	n/a	0%
2020				0%	3%	0%
2021				n/a	5%	2%
2022				n/a	6%	4%
2023				12%	n/a	n/a
2024				n/a	1%	1%
2025				17%	3%	2%
2026				10%	4%	3%
2027				n/a	n/a	0%
2028				1%	1%	1%
2029				2%	2%	1%
2030				4%	3%	2%
2031				n/a	0%	0%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

Conclusions

5.103 Unless the market performs to the upside, it will be challenging to achieve even 10% affordable housing until around 2022, even if grant is available at 'normal' levels. If grant is not available, then the delivery of the affordable units as shared equity housing achieves at least the same viability position as could be achieved if grant were available.

5.104 A maximum of 10% affordable housing is likely to be achievable if the market performs to the upside scenario, and viability at this level may be improved through the use of a shared equity affordable housing product, rather than the Council's preferred tenure mix of 65:35 social rented:shared ownership.

Notional site – 20 unit development, 30 dph – Grantham



- 5.105 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 17% was used and an alternative use value of £420,000 per hectare. The latter based upon VOA average industrial land values for Lincoln and Nottingham as at July 2009, taking into account an uplift of 20%.
- 5.106 Provision of 40% affordable housing was found to be unviable, whilst provision of 30% affordable housing was marginal against the upside market scenario.
- 5.107 21% affordable housing was tested and the results, assuming nil grant availability are displayed in Figure 39.

21% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				57%	31%	26%
2011				59%	32%	26%
2012				76%	36%	28%
2013				83%	38%	29%
2014				74%	38%	30%
2015				98%	40%	30%
2016				88%	39%	30%
2017				83%	39%	30%
2018				87%	40%	31%
2019				> 100%	41%	30%
2020				> 100%	43%	31%
2021				89%	41%	30%
2022				63%	37%	29%
2023				53%	33%	26%
2024				52%	33%	27%
2025				48%	32%	26%
2026				42%	30%	26%
2027				34%	26%	23%
2028				32%	25%	22%
2029				30%	25%	22%
2030				31%	25%	23%
2031				29%	24%	21%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

- 5.108 As stated previously in this report, we have assumed developer profit at 17% of GDV for all development scenarios unless explicitly expressed otherwise. In this scenario we undertook a further test of viability assuming developer profit at 20% and the results are shown in Figure 40. The effect upon viability in the years to 2022 on the middle scenario can be clearly seen.



21% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
Nil Grant/20% Profit sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				71%	33%	26%
2011				74%	34%	27%
2012				> 100%	39%	29%
2013				> 100%	42%	30%
2014				100%	42%	31%
2015				> 100%	44%	31%
2016				> 100%	43%	31%
2017				> 100%	42%	31%
2018				> 100%	44%	32%
2019				> 100%	45%	31%
2020				> 100%	48%	32%
2021				> 100%	44%	31%
2022				77%	39%	30%
2023				64%	35%	27%
2024				60%	34%	27%
2025				55%	33%	27%
2026				46%	31%	26%
2027				36%	26%	23%
2028				33%	26%	23%
2029				32%	25%	22%
2030				33%	26%	23%
2031				31%	24%	21%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.109 Two further tests of viability were undertaken at 21% affordable housing. These both assumed developer profit at 17% of GDV and S106 requirements at 100% of the baseline level. Figure 41 demonstrates the impact upon viability of grant at 'lower' levels, whilst Figure 42 shows the impact of grant at 'normal' levels. As the results show, lower levels of grant may be sufficient to deliver this level of affordable housing should middle market conditions prevail, whilst the addition of public subsidy at 'normal' levels improves the viability should ensure that delivery of 21% affordable housing is viable.

21% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
Lower Grant sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				37%	24%	21%
2011				38%	25%	21%
2012				52%	28%	23%
2013				57%	29%	24%
2014				54%	30%	25%
2015				70%	31%	25%
2016				64%	31%	25%
2017				63%	32%	25%
2018				67%	34%	26%
2019				82%	33%	25%
2020				94%	35%	26%
2021				69%	34%	26%
2022				51%	31%	25%
2023				43%	28%	23%
2024				43%	28%	24%
2025				40%	28%	23%
2026				37%	27%	23%
2027				29%	23%	21%
2028				28%	23%	21%
2029				27%	23%	20%
2030				28%	23%	21%
2031				26%	22%	20%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					



21% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
NORMAL GRANT sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				7%	12%	13%
2011				9%	12%	13%
2012				16%	15%	15%
2013				21%	17%	16%
2014				22%	19%	17%
2015				29%	19%	17%
2016				31%	21%	18%
2017				32%	21%	19%
2018				37%	23%	20%
2019				40%	22%	19%
2020				48%	24%	20%
2021				40%	24%	20%
2022				34%	24%	20%
2023				28%	21%	18%
2024				29%	22%	19%
2025				29%	22%	19%
2026				28%	22%	20%
2027				23%	19%	18%
2028				22%	19%	18%
2029				22%	19%	18%
2030				23%	20%	19%
2031				22%	19%	18%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

Conclusions

- 5.110 Should the market perform to the upside, 21%-30% affordable housing should be viable over the plan period on this type of development without recourse to public subsidy.
- 5.111 If the market achieves the middle scenario, public subsidy at 'lower' or 'normal' levels would be required to achieve 21% affordable housing until circa 2022.
- 5.112 The impact of increasing developer profit to 20% of GDV has a negative impact upon scheme viability. Profit can be seen as 'reward for risk' and it is likely that certain developments will be inherently riskier than others. Therefore there may be occasions where a 20% of GDV profit assumption is reasonable and the Council may wish to consider the impact this may have upon development viability, whilst balancing other objectives such as meeting overall housing need and balancing housing delivery targets.

Notional site – 20 unit development, 30 dph – Grantham (test against PDL – residential, land values)

- 5.113 An additional assessment was undertaken of this development scenario against two tests of viability. A GDV:RLV ratio of 17% was again used however an alternative use value of £1,000,000 per hectare was assumed based upon VOA average bulk residential land values for Lincoln as at July 2009. This was undertaken to assess the impact of this type of development coming forward on land with an existing residential use.



5.114 Figure 43 demonstrates the viability of 21% affordable housing assuming nil grant availability. The viability position is far less positive than the previous assessments where existing use values of the notional development site were assumed to be Greenfield or industrial use.

21% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				57%	31%	26%
2011				59%	32%	26%
2012				76%	36%	28%
2013				83%	38%	29%
2014				74%	38%	30%
2015				98%	40%	30%
2016				88%	39%	30%
2017				83%	39%	30%
2018				87%	40%	31%
2019				> 100%	41%	30%
2020				> 100%	43%	31%
2021				89%	41%	30%
2022				63%	37%	29%
2023				53%	33%	26%
2024				52%	33%	27%
2025				48%	32%	26%
2026				42%	30%	26%
2027				34%	26%	23%
2028				32%	25%	22%
2029				30%	25%	22%
2030				31%	25%	23%
2031				29%	24%	21%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.115 Further testing was therefore undertaken at 10% affordable housing assuming S106 requirements are at 100% of the baseline level. The results of a nil grant and 'higher' grant are shown in Figures 44 and 45 and demonstrate that should the market achieve the upside 10% affordable housing may be marginally viable to circa 2022 when viability pressures would ease. If the market realises middle conditions, then viability at this percentage would be challenging, even with grant at higher levels.



10% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				26%	15%	13%
2011				27%	16%	13%
2012				37%	18%	14%
2013				42%	20%	15%
2014				38%	21%	16%
2015				45%	19%	14%
2016				42%	20%	15%
2017				41%	20%	15%
2018				45%	21%	16%
2019				50%	20%	14%
2020				59%	22%	15%
2021				44%	21%	15%
2022				33%	19%	15%
2023				25%	16%	13%
2024				25%	16%	13%
2025				24%	16%	13%
2026				22%	16%	14%
2027				16%	13%	11%
2028				16%	13%	11%
2029				15%	13%	11%
2030				17%	13%	12%
2031				14%	12%	10%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

10% Affordable Housing						
100% Contribution S106 allowance						
Higher Grant sensitivity.						
GRANTHAM sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				n/a	3%	5%
2011				n/a	3%	5%
2012				1%	5%	6%
2013				4%	6%	7%
2014				8%	8%	8%
2015				4%	6%	7%
2016				7%	8%	8%
2017				12%	9%	8%
2018				14%	11%	10%
2019				9%	8%	8%
2020				15%	10%	9%
2021				14%	10%	9%
2022				15%	11%	10%
2023				9%	8%	8%
2024				12%	10%	9%
2025				13%	10%	9%
2026				13%	11%	10%
2027				9%	8%	8%
2028				10%	9%	9%
2029				10%	9%	9%
2030				12%	10%	10%
2031				9%	9%	8%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

Conclusions

- 5.116 The impact upon viability of this type of site (i.e. where the existing use is residential) coming forward is negative; it is likely that lower levels of affordable housing will be deliverable when compared to schemes coming forward on sites where the current land use is industrial or greenfield.



Notional site – 20 unit development, 50 dph – Stamford

- 5.117 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 19% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.
- 5.118 40% affordable housing was tested assuming 100% S106 contributions and no grant. The results, shown in Figure 46, show that viability is marginal, based upon upside market conditions, whilst viability is compromised until circa 2020 should the market achieve the middle scenario.

40% Affordable Housing						
100% Contribution S106 allowance						
NIL GRANT sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				81%	59%	50%
2011				83%	59%	50%
2012				85%	60%	51%
2013				89%	62%	52%
2014				94%	64%	54%
2015				99%	65%	54%
2016				> 100%	67%	55%
2017				99%	65%	54%
2018				90%	63%	53%
2019				81%	59%	51%
2020				77%	57%	50%
2021				73%	56%	49%
2022				68%	54%	48%
2023				62%	50%	45%
2024				58%	49%	44%
2025				56%	48%	44%
2026				56%	48%	44%
2027				54%	47%	43%
2028				55%	47%	44%
2029				55%	47%	44%
2030				55%	48%	44%
2031				54%	47%	43%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

- 5.119 The addition of public subsidy at 'normal' levels improves the viability position at 40% affordable housing as can be seen in Figure 47.



40% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
Normal Grant sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				22%	26%	28%
2011				25%	28%	29%
2012				31%	31%	31%
2013				36%	34%	33%
2014				40%	37%	35%
2015				41%	36%	35%
2016				44%	38%	36%
2017				44%	39%	36%
2018				45%	39%	37%
2019				42%	37%	35%
2020				43%	38%	36%
2021				43%	39%	37%
2022				42%	39%	37%
2023				40%	37%	35%
2024				40%	37%	35%
2025				40%	37%	36%
2026				41%	38%	37%
2027				41%	38%	36%
2028				41%	38%	37%
2029				42%	39%	37%
2030				43%	39%	38%
2031				42%	38%	37%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.120 The provisions of 30% affordable housing was then tested and the results both without and with public subsidy at 'normal' levels are shown in Figures 48 and 49. 30% affordable housing should be deliverable without grant if the market achieves the upside, and it may be deliverable against the middle market scenario although this is marginal. Public subsidy at normal levels improves the viability position on the middle scenario.

30% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				57%	41%	35%
2011				58%	41%	35%
2012				60%	42%	36%
2013				63%	43%	37%
2014				67%	46%	39%
2015				70%	45%	38%
2016				73%	47%	39%
2017				70%	46%	38%
2018				65%	44%	38%
2019				57%	42%	35%
2020				54%	41%	35%
2021				52%	40%	35%
2022				48%	39%	34%
2023				43%	35%	32%
2024				41%	34%	31%
2025				40%	34%	31%
2026				40%	34%	32%
2027				38%	33%	30%
2028				39%	33%	31%
2029				39%	34%	31%
2030				39%	34%	31%
2031				38%	33%	30%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					



30% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
Normal Grant sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				10%	16%	18%
2011				13%	17%	19%
2012				17%	20%	21%
2013				22%	22%	22%
2014				26%	25%	24%
2015				25%	24%	23%
2016				28%	25%	24%
2017				29%	26%	25%
2018				29%	26%	25%
2019				26%	24%	24%
2020				27%	26%	25%
2021				29%	26%	25%
2022				29%	27%	26%
2023				26%	25%	24%
2024				27%	25%	25%
2025				28%	26%	25%
2026				29%	27%	26%
2027				28%	26%	25%
2028				28%	27%	26%
2029				29%	27%	26%
2030				30%	28%	27%
2031				29%	27%	26%
	=NOT VIABLE					
	=Marginally Viable					
	=Viable					

Conclusions

5.121 Up to 30% affordable housing may be achievable without grant should middle market conditions endure. From about 2021 viability eases, and up to 40% affordable housing may be viable without grant. Public subsidy at 'normal' levels improves the viability of delivering affordable housing at 40% and 30% requirements.

Notional site – 20 unit development, 50 dph – Stamford (test against PDL – residential, land values)

5.122 Again, an additional assessment was undertaken of this development scenario against two tests of viability. A GDV:RLV ratio of 19% was again used however an alternative use value of £1,400,000 per hectare was assumed based upon VOA average bulk residential land values for Peterborough as at July 2009. This was undertaken to assess the impact of this type of development coming forward on land with an existing residential use.

5.123 Testing at 30% affordable housing found that grant at 'normal' levels was required to achieve marginal viability against the upside scenario, however viability assessed against the middle market scenario remained compromised.



Conclusions

- 5.124 Should this type of site come forward for development in Stamford with an existing residential use it is likely that circa 10% affordable housing may be achievable without grant, although in some circumstances grant at 'lower' or 'normal' levels may be required should the market achieve only middle scenario conditions. Affordable housing in excess of 10% is likely to be achievable from circa 2020 onwards.

Notional site – 20 unit development, 30 dph – Stamford

- 5.125 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 19% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.
- 5.126 Figure 50 shows the results of viability testing assuming 40% affordable housing provision, S106 contributions at 100% of the baseline level and nil grant.

40% Affordable Housing						
100% Contribution S106 allowance						
NIL GRANT sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				56%	47%	42%
2011				56%	47%	42%
2012				58%	48%	43%
2013				59%	48%	43%
2014				62%	50%	44%
2015				63%	50%	44%
2016				64%	51%	45%
2017				63%	50%	44%
2018				60%	49%	44%
2019				56%	47%	42%
2020				55%	46%	42%
2021				54%	45%	41%
2022				52%	44%	41%
2023				48%	41%	38%
2024				46%	41%	38%
2025				45%	40%	38%
2026				45%	41%	38%
2027				44%	40%	37%
2028				44%	40%	38%
2029				44%	40%	38%
2030				45%	41%	38%
2031				44%	40%	37%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					



5.127 Further sensitivity testing was undertaken with developer profit set at 20% of GDV. The results, shown in Figure 51, demonstrate the impact of profit at this level against the viability position should the market achieve only the middle scenario.

40% Affordable Housing						
100% Contribution S106 allowance						
NIL GRANT/20% PROFIT sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				58%	47%	42%
2011				59%	47%	42%
2012				60%	48%	43%
2013				62%	49%	44%
2014				65%	51%	45%
2015				65%	51%	45%
2016				67%	52%	45%
2017				66%	51%	45%
2018				63%	50%	44%
2019				58%	47%	42%
2020				56%	47%	42%
2021				55%	46%	41%
2022				53%	45%	41%
2023				48%	42%	38%
2024				47%	41%	38%
2025				45%	40%	38%
2026				46%	41%	38%
2027				44%	40%	37%
2028				45%	40%	38%
2029				45%	40%	38%
2030				45%	41%	38%
2031				44%	40%	37%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.128 Up to 40% affordable housing may be viable assuming market conditions achieve at least the middle scenario and S106 contributions are not in excess of those assumed. Developer profit at 20% of GDV compromises viability between circa 2015 and 2018 should the market achieve only the middle scenario. As stated previously, it is likely that developments will involve various levels of risk, and this level of risk, and thus the level of profit to be achieved as a 'reward' for this, may vary from development to development.

Notional site – 20 unit development, 30 dph – Stamford (test against PDL – residential, land values)

5.129 Again, an additional assessment was undertaken of this development scenario against two tests of viability. A GDV:RLV ratio of 19% was again used however an alternative use value of £1,400,000 per hectare was assumed based upon VOA



average bulk residential land values for Peterborough as at July 2009. This was undertaken to assess the impact of this type of development coming forward on land with an existing residential use.

- 5.130 Viability is again compromised due to the assumed existing residential use of the notional scheme. Various iterations of affordable housing percentages were tested and Figures 52 and 53 demonstrate the viability a 10% affordable housing requirement assessed without grant and with the addition of grant at 'normal' level.

10% Affordable Housing						
100% Contribution S106 allowance						
Nil Grant sensitivity.						
STAMFORD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				13%	11%	10%
2011				13%	11%	10%
2012				14%	11%	10%
2013				15%	12%	11%
2014				17%	13%	12%
2015				14%	11%	10%
2016				16%	12%	11%
2017				16%	12%	11%
2018				16%	13%	12%
2019				13%	11%	10%
2020				13%	11%	10%
2021				13%	11%	10%
2022				14%	12%	11%
2023				11%	10%	9%
2024				11%	10%	9%
2025				11%	10%	9%
2026				12%	11%	10%
2027				10%	9%	9%
2028				11%	10%	9%
2029				11%	10%	9%
2030				12%	11%	10%
2031				10%	9%	9%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					



10% Affordable Housing						
AH Mix:	65% Social Rent 35% Intermediate					
	100% Contribution S106 allowance					
	Normal Grant sensitivity.					
	STAMFORD sensitivity.					
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010	Red	Yellow	Green	4%	5%	6%
2011	Red	Yellow	Green	5%	6%	6%
2012	Red	Yellow	Green	6%	7%	7%
2013	Red	Yellow	Green	8%	8%	7%
2014	Red	Yellow	Green	9%	9%	9%
2015	Red	Yellow	Green	7%	7%	7%
2016	Red	Yellow	Green	8%	8%	8%
2017	Red	Yellow	Green	9%	8%	8%
2018	Red	Yellow	Green	10%	9%	9%
2019	Red	Yellow	Green	7%	7%	7%
2020	Red	Green	Green	8%	8%	8%
2021	Yellow	Green	Green	9%	8%	8%
2022	Yellow	Green	Green	10%	9%	9%
2023	Green	Green	Green	7%	7%	7%
2024	Green	Green	Green	8%	8%	8%
2025	Green	Green	Green	9%	8%	8%
2026	Green	Green	Green	10%	9%	9%
2027	Green	Green	Green	8%	8%	8%
2028	Green	Green	Green	9%	8%	8%
2029	Green	Green	Green	9%	8%	8%
2030	Green	Green	Green	10%	9%	9%
2031	Green	Green	Green	8%	8%	8%
	Red	=NOT VIABLE				
	Yellow	=MARGINALLY VIABLE				
	Green	=VIABLE				

Conclusions

5.131 10% affordable housing may be achievable should the market achieve at least the middle scenario although grant at 'normal' levels may be required to achieve a viable position in some years should market performance not achieve the upside scenario. From circa 2020, viability eases and higher levels of affordable housing may be achievable.

Notional site – 20 unit development, 50 dph – Bourne and The Deepings

5.132 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 16% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.

5.133 40% affordable housing was tested and found not to be viable. 30% affordable housing was then assessed and found to be very marginal against the upside scenario only, therefore further analysis was undertaken with a 20% affordable housing requirement.



20% Affordable Housing						
AH Mix:	65% Social Rent 35% Intermediate					
	100% Contribution S106 allowance					
	Normal Grant sensitivity.					
	BOURNE & THE DEEPINGS sensitivity.					
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				n/a	0%	7%
2011				n/a	2%	7%
2012				n/a	5%	9%
2013				n/a	8%	11%
2014				1%	11%	13%
2015				n/a	8%	11%
2016				n/a	11%	12%
2017				3%	12%	13%
2018				10%	14%	14%
2019				5%	10%	12%
2020				10%	13%	13%
2021				15%	14%	14%
2022				17%	15%	15%
2023				12%	13%	13%
2024				14%	14%	14%
2025				16%	15%	15%
2026				17%	16%	16%
2027				15%	15%	14%
2028				16%	15%	15%
2029				17%	16%	15%
2030				19%	17%	16%
2031				16%	15%	15%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

5.136 Affordable housing at 15% was then assessed with a nil grant assumption and was found to remain compromised against the middle market scenario until circa 2019.

Conclusions

5.137 Up to 20% affordable housing may be deliverable, however the exact proportion will depend upon market conditions and in some instances, the availability of public subsidy. Should the market realise upside conditions then the ability to achieve 20% affordable housing without grant would be likely. If only middle market conditions are achieved, delivery of 20% would require public subsidy and it is likely that for at least some of the life of the Plan, provision of 20% affordable and even 15% affordable housing may be a challenge.

Notional site – 20 unit development, 30 dph – Bourne and The Deepings

5.138 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 16% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.

5.139 Affordable housing at 20% was assessed assuming nil grant and assuming grant availability at 'normal' levels. The results are shown in Figures 56 and 57.



likely to be compromised from at least 2014 – 2019. During this period grant funding would be required to achieve a viable position.

Notional site – 20 unit development, 30 dph – Local Service Centres

- 5.141 The assessment was undertaken against the two tests of viability. A GDV:RLV ratio of 18% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.
- 5.142 40% affordable housing was assessed, without grant and assuming S106 contributions at 100% of the baseline value. The results are shown in Figure 59 and show 40% affordable housing is likely to be viable throughout the life of the Plan should the market perform to at least the middle scenario.

40% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
LOCAL SERVICE CENTRE sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				61%	49%	24%
2011				61%	49%	24%
2012				66%	52%	25%
2013				68%	53%	26%
2014				67%	53%	27%
2015				71%	55%	25%
2016				70%	54%	27%
2017				69%	54%	28%
2018				70%	55%	28%
2019				73%	55%	25%
2020				76%	57%	25%
2021				72%	55%	25%
2022				65%	52%	25%
2023				62%	50%	23%
2024				61%	50%	22%
2025				59%	49%	22%
2026				56%	48%	22%
2027				51%	44%	21%
2028				49%	43%	21%
2029				48%	42%	21%
2030				48%	43%	22%
2031				47%	42%	21%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					



5.146 Figure 60 shows the viability of 20% affordable housing is improved (should middle market conditions prevail) through the provision of 'lower' grant levels.

20% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
Lower Grant sensitivity.						
LOCAL SERVICE CENTRE (PDL) sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010	Red	Yellow	Green	22%	19%	18%
2011	Red	Yellow	Green	22%	19%	18%
2012	Red	Yellow	Green	23%	20%	19%
2013	Red	Yellow	Green	24%	21%	19%
2014	Red	Yellow	Green	26%	22%	20%
2015	Red	Yellow	Green	25%	21%	19%
2016	Red	Yellow	Green	27%	22%	20%
2017	Red	Yellow	Green	28%	23%	20%
2018	Red	Yellow	Green	28%	23%	21%
2019	Red	Yellow	Green	25%	21%	19%
2020	Red	Yellow	Green	24%	21%	19%
2021	Red	Yellow	Green	24%	21%	19%
2022	Red	Yellow	Green	25%	21%	20%
2023	Yellow	Green	Green	22%	20%	18%
2024	Yellow	Green	Green	22%	19%	18%
2025	Green	Green	Green	21%	19%	18%
2026	Green	Green	Green	21%	19%	18%
2027	Green	Green	Green	20%	18%	17%
2028	Green	Green	Green	21%	19%	18%
2029	Green	Green	Green	21%	19%	18%
2030	Yellow	Green	Green	21%	20%	19%
2031	Yellow	Green	Green	20%	18%	18%
	Red	=NOT VIABLE				
	Yellow	=MARGINALLY VIABLE				
	Green	=VIABLE				

5.147 Finally, 10% affordable housing was tested without grant, the results of which are displayed in Figure 61.



10% Affordable Housing						
100% Contribution S106 allowance						
Nil Grant sensitivity.						
LOCAL SERVICE CENTRE (PDL) sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010	Red	Yellow	Green	13%	11%	10%
2011	Red	Yellow	Green	14%	11%	10%
2012	Red	Yellow	Green	14%	12%	11%
2013	Red	Yellow	Green	15%	12%	11%
2014	Red	Yellow	Green	16%	13%	12%
2015	Red	Yellow	Green	14%	12%	10%
2016	Red	Yellow	Green	16%	13%	11%
2017	Red	Yellow	Green	17%	13%	12%
2018	Red	Yellow	Green	17%	14%	12%
2019	Red	Yellow	Green	14%	11%	10%
2020	Red	Yellow	Green	14%	12%	11%
2021	Yellow	Green	Green	14%	12%	11%
2022	Yellow	Green	Green	15%	12%	11%
2023	Yellow	Green	Green	12%	11%	10%
2024	Green	Green	Green	12%	11%	10%
2025	Green	Green	Green	12%	11%	10%
2026	Green	Green	Green	12%	11%	10%
2027	Green	Green	Green	11%	10%	9%
2028	Green	Green	Green	11%	10%	10%
2029	Green	Green	Green	11%	10%	10%
2030	Green	Green	Green	12%	11%	10%
2031	Green	Green	Green	11%	10%	9%
Red	=NOT VIABLE					
Yellow	=MARGINALLY VIABLE					
Green	=VIABLE					

Conclusions

- 5.148 10%-20% affordable housing is likely to be viable should the middle market conditions endure however 'lower' levels of grant may be required in order to achieve the top end of this range in certain periods. The period 2017-2018 may also require grant at 'normal' levels to achieve 20% affordable housing. From circa 2021 viability eases and affordable housing at higher percentages may be viable.
- 5.149 If the market achieves 'upside' conditions 20% affordable housing is likely to be deliverable without grant throughout the life of the Plan.

Sites below the current threshold of 15 units

- 5.150 In accordance the brief, and following consultation with the Council, it was agreed to assess the viability of sites below the current threshold of 15 units to ascertain their potential to deliver a commuted sum in lieu of on site delivery and to test whether a lower minimum threshold was 'viable and practicable'²³. In all scenarios of 10 units or less, developer profit was assumed to be 20% of GDV, professional fees to total 12% of build costs and S106 contributions to be required at 100% of

²³ Planning Policy Statement 3: Housing paragraph 29 Communities and Local Government 2006



the baseline level. Nil grant was assumed in all tests. A notional 10 unit, 30 dph scheme was then assessed in all value areas.

5.151 Conclusions for all sites of 10 units and less are outlined at the end of this section.

Grantham 10 unit scheme

5.152 This assessment was undertaken against two tests of viability. A GDV:RLV ratio of 26% was used and an alternative use value of £420,000 per hectare. The latter based upon VOA average industrial land values for Lincoln and Nottingham as at July 2009, taking into account an uplift of 20%.

5.153 40%, 30% and 20% affordable housing was tested and found not to be viable. 10% affordable housing was then assessed and the results displayed in Figure 62.

5.154 A further assessment on this same scheme within Grantham was undertaken against a test of viability which assumed an alternative use value of £1,100,000 per hectare. This is based upon VOA data for average residential land values for sites of less than 5 units in Lincoln as at July 2009. It was found that an affordable housing contribution was not viable.

10% Affordable Housing						
AH Mix:	65% Social Rent 35% Intermediate					
	100% Contribution \$106 allowance					
	NIL GRANT sensitivity.					
	GRANTHAM sensitivity.					
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				25%	12%	10%
2011				26%	12%	10%
2012				41%	13%	11%
2013				51%	15%	12%
2014				43%	15%	11%
2015				66%	14%	11%
2016				55%	17%	11%
2017				50%	17%	12%
2018				51%	17%	12%
2019				78%	16%	10%
2020				> 100%	17%	12%
2021				67%	18%	12%
2022				33%	16%	12%
2023				23%	12%	10%
2024				24%	12%	10%
2025				21%	13%	11%
2026				19%	13%	10%
2027				12%	10%	8%
2028				13%	10%	9%
2029				12%	10%	9%
2030				13%	10%	9%
2031				11%	9%	8%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					



Stamford 10 unit scheme

- 5.155 This assessment was undertaken against two tests of viability. A GDV:RLV ratio of 25% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.
- 5.156 30% affordable housing was viable against the upside scenario only and very marginal when assessed using middle market assumptions. 20% affordable housing was then assessed and the results are displayed in Figure 63.

20% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
STAMFORD GREENFIELD sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				33%	25%	23%
2011				34%	26%	23%
2012				37%	28%	25%
2013				39%	29%	25%
2014				38%	29%	25%
2015				41%	29%	25%
2016				41%	29%	26%
2017				41%	30%	26%
2018				42%	30%	26%
2019				42%	30%	25%
2020				45%	31%	26%
2021				42%	31%	26%
2022				37%	29%	25%
2023				34%	27%	23%
2024				34%	27%	24%
2025				33%	27%	24%
2026				32%	26%	23%
2027				28%	23%	21%
2028				27%	23%	21%
2029				26%	23%	21%
2030				26%	23%	21%
2031				25%	22%	20%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

- 5.157 A further assessment is carried out on this same scheme within Stamford which assumed residential land values of £1,650,000 per hectare. This is based upon VOA data for average residential land values for sites of less than 5 units in Peterborough as at July 2009. It was found that an affordable housing contribution was not viable.



Bourne and The Deepings 10 unit scheme

- 5.158 This assessment was undertaken against two tests of viability. A GDV:RLV ratio of 25% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.
- 5.159 40%, 30% and 20% affordable housing was tested and found not to be viable. 10% affordable housing was then assessed found to be very marginal.
- 5.160 5% affordable housing was thus assessed and the results are shown in Figure 64.

5% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
NO GRANT/COMMUTED SUM sensitivity.						
BOURNE & THE DEEPINGS sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010				12%	7%	6%
2011				13%	7%	6%
2012				19%	9%	6%
2013				25%	10%	6%
2014				21%	10%	8%
2015				25%	9%	6%
2016				24%	10%	7%
2017				23%	10%	7%
2018				24%	11%	8%
2019				28%	9%	6%
2020				42%	11%	7%
2021				29%	11%	8%
2022				19%	9%	7%
2023				12%	7%	6%
2024				11%	8%	6%
2025				13%	8%	7%
2026				12%	8%	7%
2027				7%	6%	5%
2028				8%	6%	5%
2029				8%	6%	5%
2030				8%	6%	6%
2031				6%	5%	5%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

- 5.161 A further assessment was undertaken on this same scheme within Bourne and The Deepings which assumed residential land values of £1,650,000 per hectare. This is based upon VOA data for average residential land values for sites of less than 5 units in Peterborough as at July 2009. It was found that an affordable housing contribution was not viable.



Local Service Centres 10 unit scheme

- 5.162 This assessment was undertaken against two tests of viability. A GDV:RLV ratio of 25% was used and an alternative use value of £660,000 per hectare. The latter based upon VOA average industrial land values for Peterborough as at July 2009, taking into account an uplift of 20%.
- 5.163 40% affordable housing was tested and found not to be viable. 30% affordable housing was viable against the upside market scenario and marginal against the middle market scenario. Thus 20% affordable housing was assessed and the results are shown in Figure 65.

20% Affordable Housing						
AH Mix: 65% Social Rent 35% Intermediate						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
LOCAL SERVICE CENTRE sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010	Yellow	Green	Green	34%	26%	23%
2011	Yellow	Green	Green	34%	26%	23%
2012	Red	Green	Green	38%	28%	25%
2013	Red	Yellow	Green	40%	29%	25%
2014	Red	Yellow	Green	39%	29%	25%
2015	Red	Yellow	Green	42%	30%	25%
2016	Red	Yellow	Green	41%	30%	26%
2017	Red	Yellow	Green	41%	30%	26%
2018	Red	Yellow	Green	41%	31%	26%
2019	Red	Yellow	Green	43%	30%	26%
2020	Red	Yellow	Green	46%	31%	26%
2021	Red	Yellow	Green	43%	31%	26%
2022	Red	Green	Green	38%	29%	25%
2023	Yellow	Green	Green	35%	27%	24%
2024	Yellow	Green	Green	34%	27%	24%
2025	Yellow	Green	Green	34%	27%	24%
2026	Yellow	Green	Green	32%	26%	23%
2027	Green	Green	Green	28%	23%	21%
2028	Green	Green	Green	27%	23%	21%
2029	Green	Green	Green	26%	23%	21%
2030	Green	Green	Green	27%	23%	21%
2031	Green	Green	Green	25%	22%	20%
Red	=NOT VIABLE					
Yellow	=MARGINALLY VIABLE					
Green	=VIABLE					

Local Service Centres 5 unit scheme

- 5.164 A further 5 unit development was assessed in this area to test the viability of schemes between 5 and 10 units to deliver a commuted sum in lieu of on site



delivery. This was undertaken due to the number of sites with the potential to deliver this amount of units identified in Local Service Centres in the Council's SHLAA 2008.

- 5.165 This assessment was undertaken against the same two tests of viability as the Local Services Centre 10 unit notional development. The results of a test of viability of 20% affordable housing are shown in Figure 66.

20% Affordable Housing						
100% Contribution S106 allowance						
NO GRANT sensitivity.						
LOCAL SERVICE CENTRE sensitivity.						
YEAR	VIABILITY			REDUCTION DUE TO AFFORDABLE		
	DOWNSIDE	MIDDLE	UPSIDE	DOWNSIDE	MIDDLE	UPSIDE
2010	Yellow	Green	Green	30%	22%	20%
2011	Red	Green	Green	31%	22%	21%
2012	Red	Green	Green	34%	24%	22%
2013	Red	Yellow	Green	36%	25%	23%
2014	Red	Yellow	Green	36%	25%	23%
2015	Red	Yellow	Green	37%	25%	23%
2016	Red	Yellow	Green	38%	26%	23%
2017	Red	Yellow	Green	38%	26%	23%
2018	Red	Yellow	Green	38%	28%	22%
2019	Red	Yellow	Green	40%	26%	23%
2020	Red	Yellow	Green	42%	27%	24%
2021	Red	Yellow	Green	40%	28%	23%
2022	Red	Green	Green	34%	26%	22%
2023	Yellow	Green	Green	30%	24%	21%
2024	Yellow	Green	Green	30%	24%	21%
2025	Yellow	Green	Green	30%	23%	21%
2026	Yellow	Green	Green	29%	23%	21%
2027	Green	Green	Green	25%	21%	19%
2028	Green	Green	Green	23%	21%	19%
2029	Green	Green	Green	23%	20%	19%
2030	Green	Green	Green	24%	21%	19%
2031	Green	Green	Green	23%	20%	18%
	=NOT VIABLE					
	=MARGINALLY VIABLE					
	=VIABLE					

Conclusions – schemes of 10 units and below

- 5.166 The ability of all value areas to deliver affordable housing as a commuted sum in lieu of on site provision of affordable housing on sites of 10-14 units varies according to the current or existing use value that can be ascribed to the development site. Current greenfield and/or previously developed land with industrial use is more likely to be able to generate a viable position than previously



developed residential land which is more likely to attract a higher alternative use value.

- 5.167 The ability of two value areas, Grantham, and Bourne and The Deepings to generate any affordable housing contribution from any site type below 10 units is marginal.
- 5.168 The value areas of Stamford and the Local Service Centres are likely to be able to generate an affordable housing contribution that would equate to 20% affordable housing on sites of 10-14 units, assuming at least middle market conditions are achieved and S106 requirements are not in excess of those assumed.
- 5.169 Local Services Centres are also likely to be able to provide an affordable housing contribution equivalent to 20% affordable housing on sites of 5-9 units, again assuming at least middle market conditions are achieved and S106 requirements are not in excess of those assumed.
- 5.170 It is likely that the affordable housing contribution proportions outlined above may only be viable where the development was being brought forward on Greenfield or previously developed industrial land.



6.0 Commuted Sums

Commuted Sum Principles

- 6.1 The principles outlined in ODPM Circular 05/2005 confirm that planning “obligations created run with the land”²⁴ 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.”²⁵ The Circular considers that the use of planning obligations may include securing “the inclusion of an element of affordable housing in a residential or mixed use development where there is a residential component.”²⁶ 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.”²⁷
- 6.2 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”.
- 6.3 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.

²⁴ Paragraph A3 Circular 05/05

²⁵ Paragraph B7 Circular 05/05

²⁶ Paragraph B12 Circular 05/05

²⁷ Paragraph B5 Circular 05/05



- 6.4 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'²⁸) 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"²⁹

- 6.5 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

- 6.6 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.

²⁸ PPS3 paragraph 29 Department of Communities and Local Government November 2006

²⁹ Delivering Affordable Housing paragraph 95 Department of Communities and Local Government November 2006



- 6.7 Bearing in mind the complexities of assessing the economic implications of affordable housing, a simple formula for developer subsidy can be derived. 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. In line with PPS3, the presumption should be that the affordable housing is provided on site, but where an off site contribution is proposed, the developer should be neither advantaged nor disadvantaged by agreeing to or proposing an off site contribution.
- 6.8 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.
- 6.9 If a scheme is viable 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" which is involved to meet the Council's objectives.
- 6.10 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:



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

6.11 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 input³⁰

³⁰ Please note that these figures are for illustrative purposes only



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	

6.12 In this example we have assumed the following:

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

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 percentage³¹.

Alternative and Existing Use Values

- 6.13 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.
- 6.14 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 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.
- 6.15 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

³¹ 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".



should be undertaken in order to establish residual values. This will use comparable assumptions as in the main assessment.

6.16 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

- 6.17 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.
- 6.18 Using generic methods to generate the other inputs into the assessment will ensure that two important principles are maintained;



- 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
- the planning permission does not rely upon commercially sensitive information that would benefit a developer's competitors.

Recommendation

- 6.19 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 need to take into account any established alternative or existing use value supported by evidence if necessary. This methodology can be used without recourse 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.



7.0 Conclusions and Recommendations

Small sites (less than 15 units)

- 7.1 We appreciate that development on small sites in the current economic climate may be more challenging than on larger sites. This is a function of a number of factors including the baseline levels of professional fees, increased risk resulting in higher return, potential higher overheads, potential increased per unit construction costs and land owners expectations. With regard to this latter point, landowners have not previously had the encumbrance of affordable housing negatively affecting land value on smaller sites. Furthermore, on sites of this size absolute values are as important as relative or proportionate values in bringing those sites forward.
- 7.2 There is a small potential to achieve affordable housing on these sites although it is important to be aware of the above issues when requiring an affordable housing contribution. We would recommend that on sites of 15 units or less a commuted sum, based upon our recommendations in the previous section of this report, be adopted as follows:
- Grantham and Bourne and the Deepings – on sites of 5-14 units, a commuted sum equivalent to up to 10% (depending on viability) affordable housing on site in accordance with our recommended commuted sum formula
 - Stamford and Local Service Centres - on sites of 5-14 units, a commuted sum equivalent to up to 20% (depending on viability) affordable housing on site in accordance with our recommended commuted sum formula

General development sites (of at least 15 units)

Grantham

- 7.3 Grantham is a challenging area to achieve higher levels of affordable housing due to the lower values this area achieves.
- 7.4 Density has an impact upon scheme viability and this is particularly significant in Grantham. Schemes with higher densities will incorporate a higher proportion of flats and smaller terraces. As these are generally lower value unit types the income



versus cost ratio is less favourable than on developments with detached and semi detached housing which can command a much higher value.

- 7.5 At 70 dph the viability of any level of affordable housing is very marginal throughout the Plan period, even on upside economic conditions. Even at 50 dph, development viability remains challenging and around 10% is the likely maximum that could be expected to be delivered until towards the end of the Plan period.
- 7.6 On lower density development, viability improves and 21% affordable housing is likely to be achievable without grant for much of the Plan period. The addition of grant at lower or normal levels will improve the viability position and up to 30% affordable housing is likely to be achievable.

Stamford

- 7.7 It should be less challenging to achieve higher levels of affordable housing in Stamford than in Grantham due to the higher values this area attracts and the type of units developed. In general development types are more favourable in respect of their cost to value ratio because of the higher proportion of larger units.
- 7.8 40% affordable housing is likely to be achievable with grant at 'normal' levels throughout the period of the Plan. If grant is not available, 30%-35% affordable housing can still be achieved, in most economic conditions with the exception of the downside.

Bourne and The Deepings

- 7.9 Despite its geographical location, development economics in Bourne and The Deepings reflect more the situation in Grantham than in Stamford. That is that development viability is challenging to achieve higher levels of affordable housing although probably less grant will be required than in Grantham.
- 7.10 Within this value area, we recognise that there are likely to be particular 'pockets' where residential sales values may be in excess of those assumed for this study. Development coming forward in such locations may therefore be able to make a greater contribution to affordable housing provision than shown in this study.



- 7.11 Again the density issue applies in this area with lower density schemes generally achieving higher proportions of affordable housing than higher density ones. At 30 dph 20% affordable housing is certainly achievable with grant throughout the life of the Plan, increasing in the later years to 30%. At 40 dph and above these percentages are less achievable.

Local Service Centres

- 7.12 The nature of this value area is such that development is more likely to be lower density and the type of units developed more likely to be higher value. These factors impact positively upon development viability.
- 7.13 40% affordable housing is likely to be achievable without grant throughout the Plan period should middle market conditions be achieved.

Sustainable Urban Extensions

4000 Unit development – Grantham

- 7.14 40% affordable housing was found to be non viable against any market scenario over the life of the Plan. To achieve any meaningful level of affordable housing until towards the end of the Plan period, grant funding at a minimum of 'normal' levels assumed within this report will be required. In some cases, grant funding in excess of these levels may be necessary.
- 7.15 The high per unit level of infrastructure associated with this development scenario has a negative impact upon viability. In order to optimise the likelihood of the maximum affordable housing that can be achieved over the Plan period, careful consideration should be given to reassess phasing of both infrastructure requirements and affordable housing requirements.
- 7.16 It is for these reasons that our tests of viability have concluded that circa 21% affordable housing is the likely maximum amount that will be deliverable for the early life of the Plan increasing to 30% affordable housing in later years.
- 7.17 The Council may seek to lessen the impact of the high levels of infrastructure requirements associated with this development by seeking funding from alternative sources to deliver some elements.



1500 Unit development – Grantham

- 7.18 The scale of infrastructure/S106 requirements reported by the Council in respect of this development scenario is much reduced in comparison to the 4000 unit development.
- 7.19 The viability position of this development changes over time. In the early years, grant at 'normal' levels is required to achieve 21% affordable housing and potentially up to 30%. In the later life of the Plan delivery of up to 40% affordable housing without grant may be achievable assuming very favourable economic conditions.
- 7.20 Again, as this development is likely to occur over a significant period, consideration of phasing the affordable housing and S106 requirements over time will maximise the delivery potential.

1500 Unit development – Stamford

- 7.21 Large site development in Stamford presents far less of a challenge to achieve high proportions of affordable housing than in Grantham. Our results show that up to 35% affordable housing without grant, and up to 40% affordable housing with grant, is likely to be deliverable in the early years. If the market conditions achieve the upside scenario at any period in the life of the Plan, 40% affordable housing should be deliverable.

Further considerations

- 7.22 The imposition of the higher levels of Code for Sustainable Homes requirements and the potential large increases in construction costs associated with achieving these, impact negatively upon development viability for all scheme types, value areas and market scenarios. Whilst these affect particularly the period 2013-2018, the years following this are also affected due to the higher base build cost position. Whilst we recognise that values may recover by that period, these will not fully compensate for these increases until circa 2018 – 2020 and thereafter.
- 7.23 A further negative aspect of the Code for Sustainable Homes requirements on the ability to achieve higher levels of affordable housing is that smaller sites are less



able to cope with the impact of construction cost spikes. In other words the relationship between costs and values is more marked.

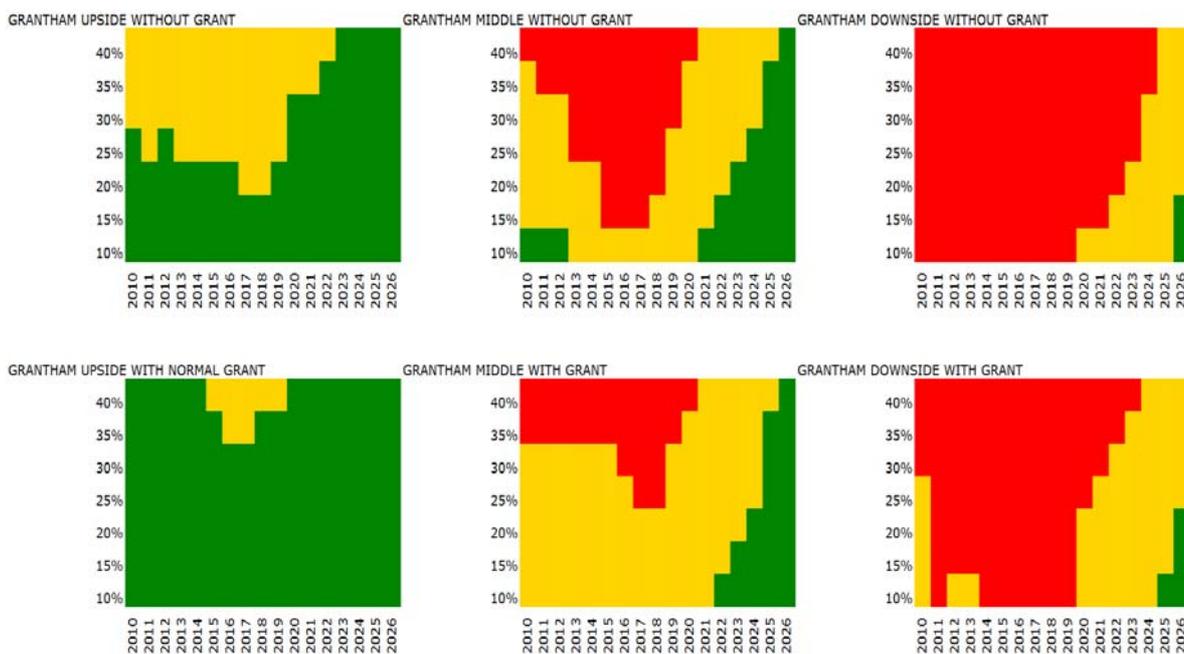
- 7.24 In circumstances where pressures upon development viability are particularly acute, it may be beneficial to relax the additional requirements for on site renewables (as discussed earlier in this report) in order to achieve higher levels of affordable housing.
- 7.25 Where we have tested 80% shared equity housing, it has achieved a more viable results than the 65:35 social rented:shared ownership tenure split. This may be a tool which the Council may choose to use to improve viability in certain conditions however we would not necessarily recommend this approach across the board as it may not meet the identified housing need in the District.
- 7.26 Given the status of Grantham as a Growth Point, the extent of housing identified for delivery within the Plan period, and the pressures upon development viability, it is probably beneficial to direct grant funding for affordable housing toward development in this area.
- 7.27 In line with the rest of our study we have used Greenfield/industrial existing use values as one of the tests of development viability. Testing viability against previously developed residential land values will have an adverse affect upon viability.

Viability position over time for each value area

- 7.28 An indicative picture of the percentage of affordable housing that may be achievable over time (assuming nil grant and with grant at 'normal' levels) for development coming forward in each value area is shown in the graphs below. Each graph is based upon the three future market scenarios. These are not meant to be definitive but give a general indication of the likely future achievable targets.

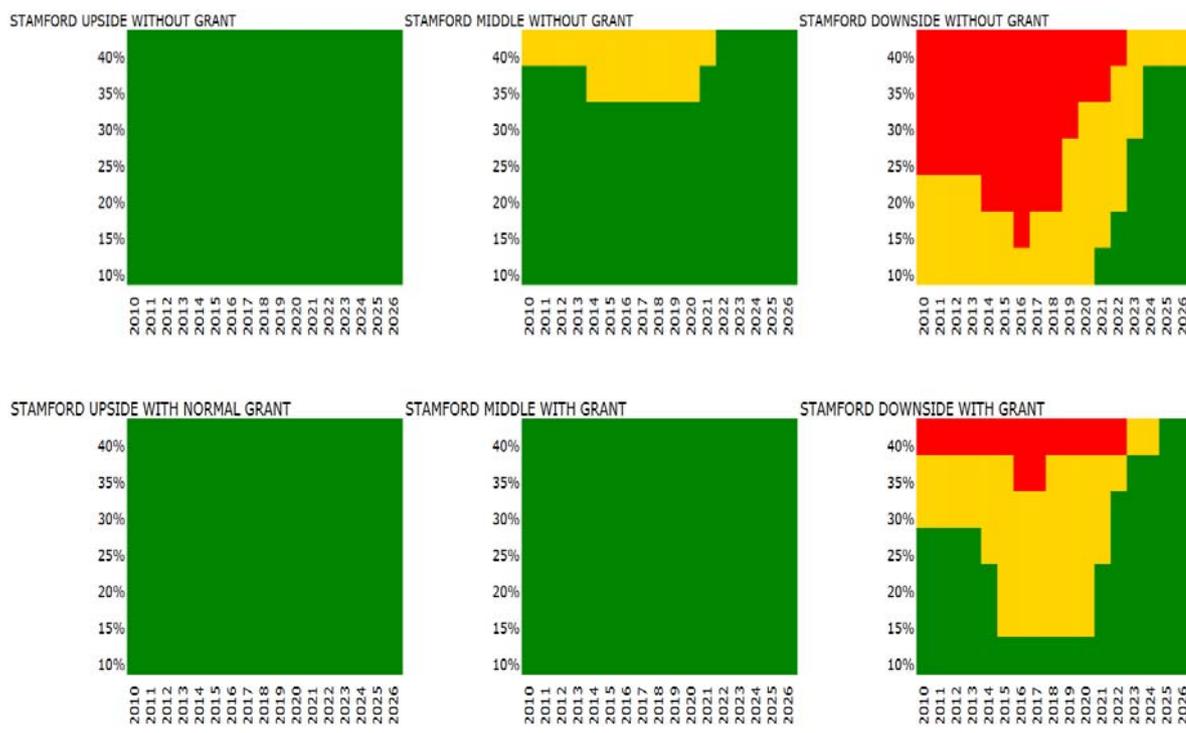


Grantham





Stamford





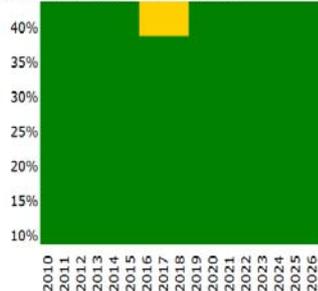
Bourne and The Deepings



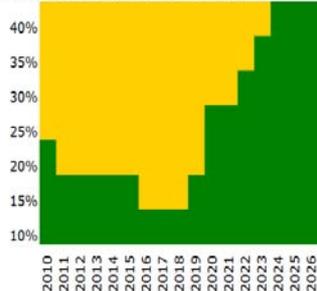


Local Service Centres

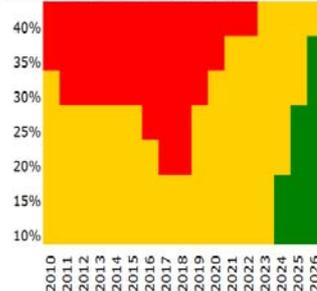
LOCAL SERVICE CENTRES UPSIDE WITHOUT GRANT



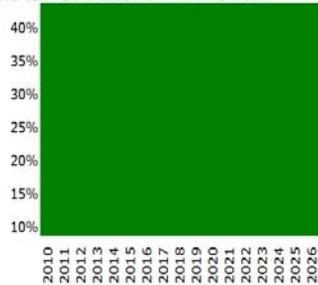
LOCAL SERVICE CENTRES MIDDLE WITHOUT GRANT



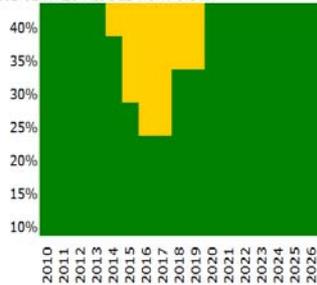
LOCAL SERVICE CENTRES DOWNSIDE WITHOUT GRANT



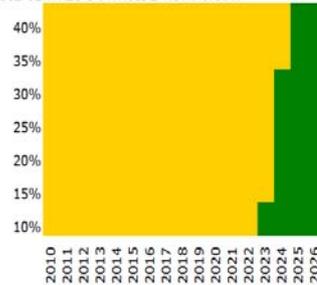
LOCAL SERVICE CENTRES UPSIDE WITH NORMAL GRANT



LOCAL SERVICE CENTRES MIDDLE WITH GRANT



LOCAL SERVICE CENTRES DOWNSIDE WITH GRANT





Affordable Housing Viability Assessment

For South Kesteven District Council

APPENDICES

By Level

December 2009

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1.0 Appendix One – Invitation to Tender

Quotation for the provision of
Affordable Housing Viability Assessment Report
Ref AHVR004
Affordable Housing Viability Assessment Report

Issue Date: 23rd October 2009

Return Date: 30th October 2009 (noon)

South Kesteven District Council

Council Offices

St Peters Hill

Grantham

Lincolnshire

NG31 6PZ

01476 406438

1 - PREAMBLE

1 GENERAL REQUIREMENTS

Quotations are invited for the provision of an Affordable Housing Viability Assessment Report.

The Council's detailed requirements are defined in Section 2 - Specification.

2 BACKGROUND

South Kesteven District Council submitted its Core Strategy Development Plan Document (DPD) to the Secretary of State on the 21st August 2009 for examination. The hearing sessions are timetabled to commence on the 19th January 2010, with the hearing session on housing needs due to be heard on the 26th January 2010.

Policy H3 of the Submission Core Strategy DPD sets out the Council's approach to the provision of affordable housing.

H3: AFFORDABLE HOUSING

Using evidence from the most up-to-date strategic housing market assessment (SHMA) the council will ensure that:

All new urban developments comprising 15 + dwellings or sites of 0.5 ha or larger in size and / or rural developments of 2 + dwellings should provide an appropriate number of affordable housing units within the development site.

Where affordable housing units are provided, a target of 40% affordable and 60% market housing will be required.

Of the affordable housing provided on each site it is expected that at least 65% will be socially rented housing and 35% will be intermediate housing. All units should be of an appropriate size and type to meet the need identified by the current evidence of housing need for that ward. To achieve this, targets for affordable housing will be set on every allocated site. In addition, the council will seek to identify suitable opportunities to deliver about 10 rural affordable housing units each year through the allocation of rural exception sites.

Rural exception sites should be in or adjacent to a village where there is a proven need for local affordable housing. Such houses should be available in perpetuity for local need. Sites should be suitable for development in all other respects and meet all other policy requirements for development.

Together with Registered Housing Providers (RHPs) and land owners the council aims to deliver additional affordable housing in the rural area to meet identified local need. To achieve this the Council will investigate and identify specific sites or areas of search to allocate specifically for local affordable housing development (exception sites).

The Policy was informed by the evidence provided by both the South Kesteven Housing Needs Study (2006)¹ and Peterborough Partial Strategic Housing Market Assessment (SHMA, 2008)².

The SHMA suggested that there is a substantial housing need within the HMA which would warrant an affordable housing target of 40% subject to the deliverability of sites. This is particularly the case in South Kesteven where the 2006 Housing Needs Report demonstrated an even higher level of need (at 50%). In addition, the SHMA suggested that the level of intermediate housing should be 35% for the HMA.

The annual level of affordable housing need, of 646 dwellings, is only a little below the total District annualised housing figure of 680 dwellings, as set out in the adopted East Midlands Regional Plan (March, 2009).

¹ <http://www.southkesteven.gov.uk/Planning/PlanningPolicy/BackgroundAndSubmissionDocs.aspx>

² <http://www.southkesteven.gov.uk/Planning/PlanningPolicy/BackgroundAndSubmissionDocs.aspx>

In response to representations made at Regulation 28 stage the Council has proposed the following changes to clarify aspects of Policy H3:

Amend second paragraph to read:

All new development comprising:

- *15 or more dwellings or sites of 0.5ha or larger in size in the towns and identified Local Service Centres and/ or*
- *2 or more dwellings in all other parts of the district should provide an appropriate number of affordable housing units within the development site.*

At the end of the Policy add:

In negotiating the level of affordable housing on sites, the Council will have regard to the overall viability of the development.

The Inspector appointed to examine the Submission Core Strategy DPD has recently raised the following in regard to Policy H3:

'Policy H3 contains a target for affordable housing provision; for the proportion of social rented and intermediate housing; and the site size thresholds to be applied. Planning Policy Statement 3: Housing paragraph 29 expects the plan wide target for the amount of affordable housing to be provided to reflect an assessment of the likely economic viability of land for housing in the area (taking various factors into account). It further expects an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed, including their likely impact upon overall levels of housing delivery and creating mixed communities.

In the light of PPS3, and the recent (July 2008) High Court judgement regarding affordable housing policy in the Blyth Valley Core Strategy, I am concerned that a viability assessment of the targets and thresholds in Policy H3 does not appear to have been provided to inform the examination into the soundness of this aspect of the Core Strategy.'

In response to this, the Council has decided to commission work on an assessment of the economic viability of the proposed thresholds and proportions of affordable housing set out in Policy H3.

3 SUBMISSION OF QUOTATION

Quotations, which should be received no later than noon on the 30th October 2009, and any queries relating to this brief, should be addressed to

Karen Sinclair

Planning Policy Manager

South Kesteven District Council

Council Offices

St Peters Hill

Grantham NG31 6PZ

Tel: 01476 406438

Fax: 01476 406009

Email: k.sinclair@southkesteven.gov.uk

In addition to one paper copy of the quotation you should include an electronic version, based in Microsoft, within your quotation return envelope.

Quotes must be submitted on the Form of Quotation, which must be duly completed (Sections 3 to 6 of this brief).

Quotations must be submitted in an envelope marked only with the words '**Quotation for Affordable Housing Viability Assessment Report**' and not identify the sender in any way.

For the purpose of this quotation, the Council will accept electronic submissions by the stated deadline. However, it is the responsibility of each consultancy to ensure that their proposal is received by the stated deadline.

2 - SPECIFICATION

The Council wishes to appoint consultants to undertake research to establish whether the thresholds and proportions of affordable housing contained in Policy H3 of the Submission Core Strategy DPD are economically viable. If this is not the case the research should establish the minimum viable and deliverable affordable housing thresholds and proportions.

In addition to supporting the Core Strategy DPD affordable housing policy at examination, including any necessary proposed changes to the policy, the report will also be used to inform the preparation of the Site Allocations and Specific Policies DPD and the inclusion of specific targets for the proportion of affordable housing on allocated or mixed use housing sites.

Any methodology devised or model used must take into account the requirements set out in Paragraph 29 of PPS3, published in November 2006, and also the relevant policies of the adopted RSS (East Midlands Regional Plan, EMRP).

The study must test via the application of a methodology, rigorous enough to withstand scrutiny at examination, the viability of affordable housing delivery across South Kesteven. This must

take into account a range of different sites that are likely to come forward within the District including large greenfield urban extensions, rural sites, small and larger urban windfall sites and mixed use sites. The methodology must also cater for a range of variables including variations in tenure mix, availability of public subsidy, any infrastructure or other requirements that may be required by emerging Core Strategy policies and build costs all of which influence the financial viability of a development. The approach must also be applicable to:

- Grantham, Bourne, Stamford and the Deepings
- 16 Local Service Centres
- Rural Area

The methodology should also take account of the current housing market in South Kesteven and potential future changes to it.

A Strategic Housing Land Availability Assessment (SHLAA)³ was published in November 2008. This identified 112 sites within the District, comprising 56 greenfield sites, 55 previously developed sites and 1 mixed site. Approximately 1500 dwellings could be accommodated on previously developed land and 15,000 on greenfield sites. The SHLAA is currently being updated with a proposed publication date of November 2009.

Provision of Information

All the information provided as part of this assessment by South Kesteven District Council is provided in confidence, except that which is public record. All information must only be used for the purpose of the study, except with the written consent of the Council. All information provided will remain the property of the Council.

The Council will provide copies of the following, and any other relevant documents, required for the study:

- South Kesteven Submission Core Strategy DPD
- Peterborough Partial Strategic Housing Market Assessment
- South Kesteven Housing Needs Study (2006)
- Strategic Housing Land Availability Assessment (Rutland, South Holland and South Kesteven – November 2008)

The Council will provide details of any relevant sites which are to be included within the study. The final list of sites must be agreed with the Council prior to the commencement of the study.

Report Format

The report should be concise and written in a style that is accessible and easy to understand.

Three copies of the draft report should be provided and 4 copies of the final report, which will include an executive summary. Electronic copies of the report should also be provided in both Word and PDF formats on CD-Rom.

³ <http://www.southkesteven.gov.uk/Planning/PlanningPolicy/BackgroundAndSubmissionDocs.aspx>

Any maps should be provided in MapInfo format. Ordnance Survey (OS) base mapping for the purposes of the study can be provided, if required, by the Council as part of its Mapping Services Agreement with the OS. A contractor's licence agreement must be signed in order to receive and use OS mapping. Any such OS mapping must be used only for the purposes of the study and be destroyed or returned to the Council on completion of the work.

All data used in the study will be expected to be made available as well as that presented in the final report. Any datasets not spatially referenced (not on GIS) should be made available in Excel format.

The final report will be the property of South Kesteven District Council. All copyright will be vested in the Council upon payment of the sums under the contract.

Project Management

The project will be overseen by a small steering group consisting of South Kesteven officers to monitor progress and provide advice. Normal day to day management of the project will be between the Council's Planning Policy Service Manager and the consultant.

At least 2 meetings will be held between the appointed consultant and the steering group. These will comprise an inception meeting following appointment and to review the findings following completion of the draft report.

Timetable

The quotation and all supporting documents should be submitted by noon on the 30th October 2009.

Any tenders received after the stated deadline will not be considered except in exceptional circumstances by agreement with the Council prior to the submission date.

A decision as to the successful bidder is expected to be made within 2 weeks of the closing date. Bids should remain open for acceptance during this period.

The hearing sessions for the Core Strategy DPD examination are due to commence in mid-January 2010. The Inspector appointed to hold the examination has made clear that the report should be made available as soon as possible to participants in order not to unduly delay the examination process. With this in mind, a detailed project plan for the study will need to be agreed between the Council and selected consultant following appointment. A preliminary project plan should, therefore, be submitted with the quotation.

2.0 Appendix Two – Current and Projected Economic Conditions

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Market Trends

Introduction

- 2.1 In order for our analysis of viability to be dynamic it is important to understand past trends in order to assess how future markets might perform. While past history has its own specific characteristics which may be peculiar to the period in question, there are still fundamental principles that can be seen that will suggest how markets might perform in the future. This will not inform a single assessment of how the market will perform but will give us the main parameters within which we can test possible scenarios.
- 2.2 It is important to note that our analysis is limited to the housing market. Where we discuss the general economy this is in the context of its action upon the housing market both nationally and locally. It is not our purpose, here, to predict general economic conditions either locally or nationally. However, we do look at the effects of the economy on the housing market both in terms of price trends and affordability.
- 2.3 Although local housing markets are contingent upon local conditions, they are also subject to both the economic conditions internationally and nationally. More specifically, they are subject to national regulation and constraints. In particular, the availability and cost, generally, of finance dictates the price that home owners are able to afford. The costs of finance for individuals will be influenced by national lending practices and interest rates. These, in turn, are influenced by the national economy and, increasingly, the role of international markets is important.
- 2.4 Looking at past market performance can only give trends and the interpretation of how markets act must be considered carefully. For instance, the housing market recession of the late 1980s and early 1990s has been considered to be due to the dramatic increase in base interest rates and the cost of finance. While this admittedly caused a number of home owners into financial difficulties, some commentators⁴ have pointed to the possibility that the housing market had already been in decline and that the decline in values had already started to take place. In these terms the housing market recession of the 1990s would have happened in any case notwithstanding the effect of Black Wednesday in 1992. The housing market was beginning to recover just before that stage and the dramatic increases in the cost of borrowing immediately following Black Wednesday heralded a further period of house price stagnation. However it is still not clear whether this was part of the general cycle in house price inflation/deflation and, in particular, Fred Harrison points to an approximate 18 year boom and bust land and property cycle that has been evident over the long-term⁵. In other words, it may be possible that these property price fluctuations occur despite general economic trends and, indeed, may be their very cause.

⁴ See especially Fred Harrison "Boom Bust: House Prices, Banking and the Depression of 2010" Shephard Walwyn 2005, Andrew Oswald "The Great 2003-2005 Crash in Britain's Housing Market" November 2002, Cameron Muellbauer and Murphy "Was there a British House Price Bubble? Evidence from a Regional Panel" March 2006

⁵ Even the current Prime Minister when he was Chancellor of the Exchequer, acknowledged the effect of a volatile housing market : "Most stop-go problems that Britain has suffered in the last 50 years have been led or influenced by

- 2.5 Another peculiar feature of the housing market is the positive price: transaction volume correlation⁶. When prices inflate, the number of transactions increase; trading is more frequent and volume is higher when prices go up and vice versa⁷. This means that we have to look at a more dynamic approach to the assessment of the performance of the housing market.
- 2.6 Rady and Ortalo-Magne⁸ suggest a model to explain the underlying reasons for “boom-bust” housing market cycles. It assumes households will generally prefer home-ownership and that the income of young households play a critical role in the fluctuations in the market. The market is sensitive to income “shocks” amplified by credit constraints which affect the timing of household moves that explains the positive price:transaction volume correlation.
- 2.7 The actions, generally, of first-time buyers is to access the market at a level that can be afforded but with the prospect that they will increase housing consumption as their means allow. Thus, as their income increases, they are able to increase their ability to pay and as income increases for first-time buyers in turn then this will increase the capital for those wishing to make purchases up the housing ladder. Liberalisation of the finance market has a similar effect to increasing income especially at the bottom of the market.
- 2.8 Credit liberalisation coincided with the high rate of property price inflation during the 1980s. Together with the increase in tax allowance in the 1983 budget for Mortgage Interest Tax Relief at Source (MIRAS) and the ability for couples to pool their resources, access to mortgages for young first time buyers helped many on to the housing ladder. Right to Buy social housing (following 1980) also encouraged many tenants to enter the housing market and thereby increased the potential market for subsequent homebuyers in the latter part of the 1980s. As Rady and Ortalo-Magne have pointed out, all of this “prompted a major adjustment of the distribution of debt and housing across households, hence a period of exceptionally many transactions”. They point to the rapid increase of transactions in the 1980s to “repeat buyers bringing forward their moves up the property ladder”.
- 2.9 House price growth, however, only remains sustainable while incomes are able to support values. As we have pointed out, the main driver of this is first time buyer (starter home) purchase, typically those households in the 24-35 age group. Pressure on these households is strong because, generally, these are the

the more highly cyclical and often more volatile nature of our housing market" - Gordon Brown, Chancellor of the Exchequer, House of Commons, June 2003

⁶ The effect of the ability to borrow and asset value is discussed by Lamont and Stein where “over some regions, a fall in asset prices can actually lead to reduced asset demands, because it impairs the ability of potential buyers to borrow against the assets”. Owen Lamont (University of Chicago) and Jeremy C Stein (MIT Sloan School of Management) “Leverage and House-price dynamics in US Cities”

⁷ See Wenlan Qian “Heterogeneous Agents, Time-varying Macro Fundamental and Asset Market Dynamics.” Haas School of Business University of Berkeley (2008)

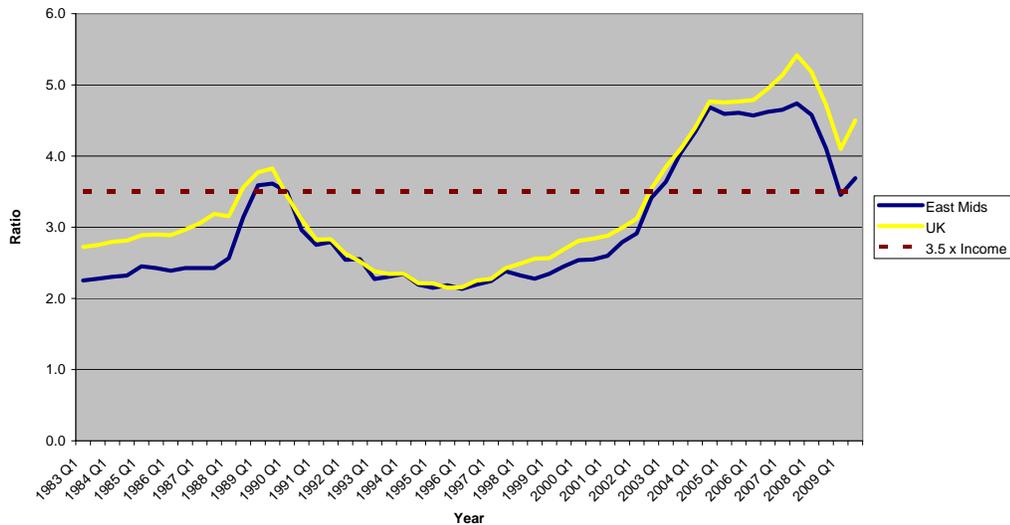
⁸ Rady and Ortalo-Magne “Housing Market Dynamics: On the Contribution of Income Shocks and Credit Constraints” Department of Economics, University of Munich (2001)

most highly geared. Subsequent movers in the late 1980s – those that had bought in the early 1980s – were dependent upon the generation of high levels of equity in order to realise their progression in the housing market.

- 2.10 An examination of information from Halifax shows that the relationship between incomes and house prices increased rapidly from 3.59 (average income to average house price) in 1983 to 4.43 in 2009⁹. In the East Midlands, the index has increased from 3.29 to 4.04 over the same period suggesting affordability is better in the region than nationally. While this is interesting and shows, generally, the relationship between incomes and prices the analysis tells us less about the affordability of housing for starter homes.
- 2.11 If we look at the 25 year period from 1983 to 2008 the analysis shows the relationship between starter home values and average incomes. Figure 1 shows the curve for the UK which shows that in the 1980s the ability of households on average incomes to access starter homes was mildly compromised. We have used a crude affordability test of 3.5 times average income as the threshold and clearly the phenomenon described above led to a rise of prices in the post credit liberalisation period. This was followed by a long period of apparent national housing affordability until well after the turn of the century. From 2001 the affordability ratio has increased dramatically until the collapse of prices at the end of 2007. At that time, using our average income to starter home value, the national average ratio was just over five times income nationally.

⁹ See appendix 1 Halifax Price Index Published by Lloyds Banking Group (House Price earnings Ratio)

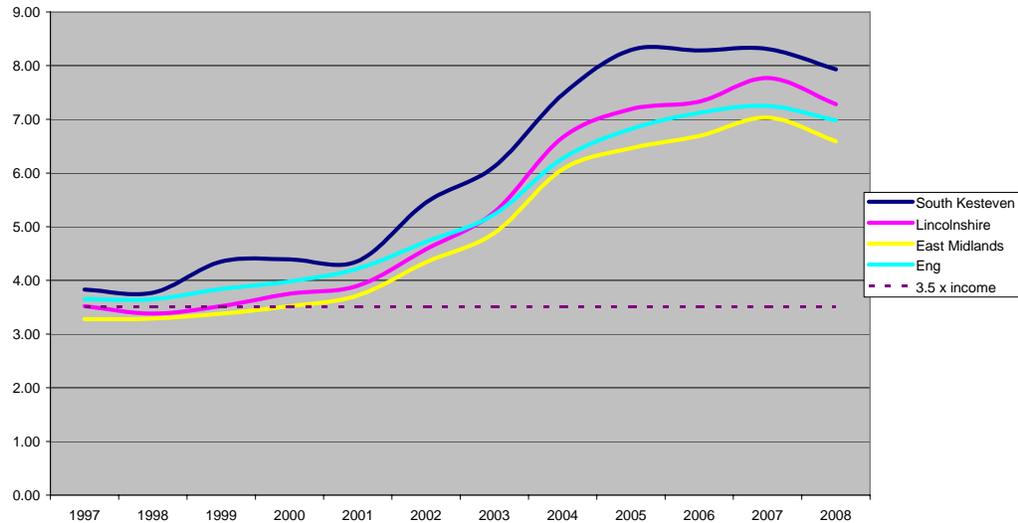
FIGURE 1: FIRST TIME BUYER LOAN TO VALUE RATIO 1983 TO 2009
(Source: Nationwide Building Society)



2.12 Figure 1 shows, the curve for the East Midlands region compared to the overall UK situation according to information from Nationwide Building Society. This shows that the price to income ratio in the East Midlands region has been similar to the national picture. Using this crude income to value test, we can see that there have been two distinct “boom” periods from 1983 to 1989 and 1997 to 2007. There has been one distinct “bust” period from 1989 to 1996. It would appear that we are currently one year into the next “bust” period.

2.13 Additionally, using the Nationwide index may be selective and so we have also looked at the Communities and Local Government Live tables on house price information using land registry information. Using lower quartile values against lower quartile earnings the ratio for the period 1997 to 2008 (the period for which data is available) would suggest that affordability for South Kesteven is worse than for the region. The affordability ratio using this information shows that for those on lower incomes the affordability ratio has been as much as 8.3 in South Kesteven. This information can be seen in Figure 2 below.

LOWER QUARTILE EARNINGS TO LOWER QUARTILE VALUES 1997-2008
(Source: CLG Live Tables)



2.14 However, looking solely at the relationship between prices and incomes in isolation does not explain the full picture. Many commentators¹⁰ have pointed to other features of both the economy and the housing market itself.

Unresponsive Supply

2.15 The Council for Mortgage lenders (CML)¹¹ has remarked on the supply of housing being unresponsive to prices being for two main reasons. Firstly, the durability of housing being such that new housing becomes only a small proportion of the total stock and, secondly, that bringing new housing to the market is both lengthy and has significant barriers.

2.16 Taking these factors into consideration, the inelastic supply of housing leads to the "demand driven" increases in price. Any increase in demand due, say, to demographic changes locally or increases in incomes, will lead directly to high housing market inflation.

2.17 While certainly it is undeniable that constraints on supply, including the constraints imposed through the planning system, have an effect on the housing market, this will have different effects regionally and demand side influences would appear to be more easily modelled.

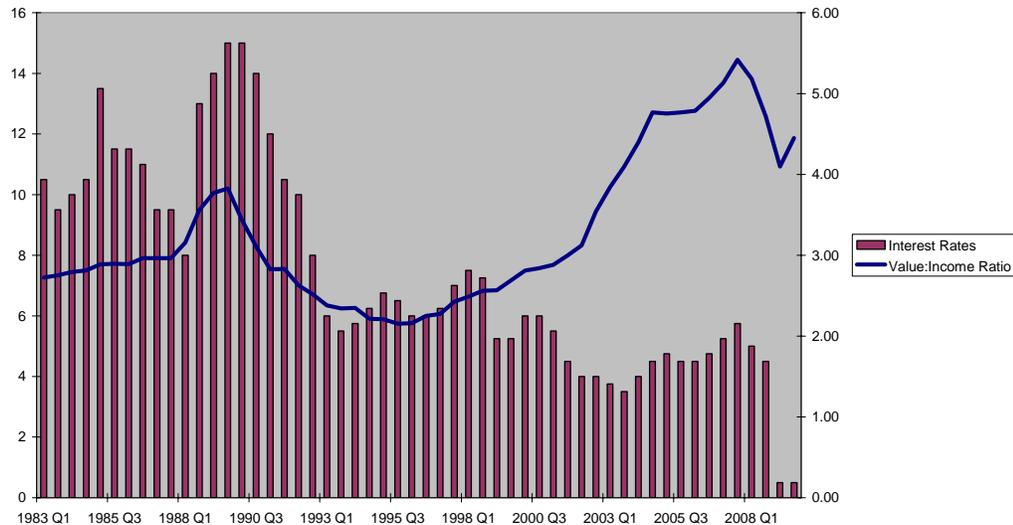
¹⁰ See especially Charles River Associates on behalf of the Council for Mortgage Lenders ("Managing the Housing Market", 2001)

¹¹ Ibid pp11 - 12

Macroeconomic Influences

- 2.18 We have already pointed to some of the features of the economy that have had an effect on the housing market including credit liberalisation. Interest rates directly affect the costs of housing. These rates have fluctuated widely during the last 25 years as the following graph shows¹².

Figure 3
Interest Rates to Values 1983 - 2009



- 2.19 While this analysis is only general it is difficult to suggest that interest rates **on their own**, have a direct effect on house prices. It is clear that the high interest rates of the late 1980s and early 1990s were a contributing factor in the unaffordability of housing but it becomes more difficult to prove a direct causal link to house price inflation or deflation. Interest rates and the cost of money has become less during the period since 1997 when the government gave control of monetary policy to the Bank of England. While this period coincided with the house price inflation of the mid 2000s, the control of interest rates has failed both to control the rapid increase in prices (2000 to 2007) and the subsequent crash in prices from that period to now.
- 2.20 Other economic factors, both internationally and nationally, have occurred which may or may not have directly affected the housing market to some extent or another. These include the economic recession of 1979-1980; the abolition of exchange rate controls in 1979; the high unemployment rates and miners strike during the mid 1980s; discontinuation of membership of the ERM in 1992 (Black Wednesday); the introduction of the minimum wage by the incoming Labour government; the Bank of England given the power to set interest rates; and the recent worldwide recession. All of these factors have affected both supply side and demand side factors in the housing market. Curiously, interest rates have

¹² See Appendix 4

been at the lowest point ever since March 2009 and house prices have increased in the latter half of the year. While there is a correlation the causal link is still difficult to establish as actual new mortgage rates are still high because of the general difficulties with obtaining mortgage finance.

The Housing Market and Economic Growth

- 2.21 The Budget 2009 Report 'Building Britain's Future' was published on 22 April 2009 by HM Treasury. The report recognises that the financial crisis has caused a steep and synchronised global downturn and that 'the world economy is set to contract by 1.25% in 2009, the first fall in the post-war period'¹³. It further states that 'the UK will experience a sharp recession in 2009, with GDP falling by -3.5% in 2009... with growth of 1.25% forecast in 2010'¹⁴. Further GDP growth of 3.5% is predicted for 2011¹⁵. Prior to this GDP growth in the UK slowed from 3% in 2007 to 0.75% in 2008¹⁶.
- 2.22 The package of measures to assist homeowners, homebuyers and the housing market introduced within the Budget 2009 are:
- a £600 million fund to stimulate housing development in the short-term and boost capacity in the house building industry with the objective to 'deliver up to an additional 10,000 homes'¹⁷;
 - an extension of the stamp duty holiday for all properties costing up to £175,000 for four months, until 31 December 2009.
- 2.23 This extension of an SDLT holiday is as a result of a recognition that, 'many prospective homebuyers are still finding it difficult to access the housing market due to restricted access to mortgage finance and increased deposit requirements'¹⁸. A further step to support the availability of mortgage finance is the guarantee scheme for asset-backed securities (announced 19 January 2009) available until October 2009 for lenders to use alongside the existing Credit Guarantee Scheme to support lending in the economy.
- 2.24 The report recognises that long term challenges for housing supply remain, as set out in the Barker Review¹⁹ and reiterates the Government target of providing an additional 240,000 homes per year by 2016. In order to achieve this target, the Budget seeks to prepare the housing market to respond post-recovery, stating the Government will set out a strategy to support an effective housing supply response through the recovery which will include measures to:

¹³ Budget 2009 'Building Britain's Future' HM Treasury April 2009 page 13

¹⁴ Budget 2009 'Building Britain's Future' HM Treasury April 2009 page 13

¹⁵ Budget 2009 'Building Britain's Future' HM Treasury April 2009 Table 2.1 page 18

¹⁶ Budget 2009 'Building Britain's Future' HM Treasury April 2009 paragraph 2.7 page 16

¹⁷ Budget 2009 'Building Britain's Future' HM Treasury April 2009 paragraph 5.76 page 104

¹⁸ Budget 2009 'Building Britain's Future' HM Treasury April 2009 paragraph 5.72 page 104

¹⁹ Review of Housing Supply – Delivering Stability: Securing our Future Housing Needs, Kate Barker, March 2004

- 'ensure sufficient land for development...;
 - deliver effective and coordinated infrastructure provision;
 - promote a strong and diverse house building sector;
 - continue to ensure the increased long term supply of social and affordable housing; and
 - ensure a proportionate approach to land-value capture and cumulative regulation²⁰.
- 2.25 As part of this process, the best regulatory and policy framework to support the Government's long term housing objectives will be identified in consultation with industry and other partners. As an initial step, 'the Government will assist industry by delaying the introduction of the community infrastructure levy until 6 April 2010'²¹.
- 2.26 At the time of writing a pre-budget report is due which is likely to further cut growth forecasts for the economy as well as reporting on the continuing deflationary pressures. In the short-term, the prospects for the property market therefore remain uncertain despite the recent increases in house prices in quarter 3 of 2009.

Further Announcements of Additional Money

- 2.27 On 29 June 2009, a further announcement was made by the Prime Minister²² confirming that, in addition to the package of measures highlighted in 4.21 above, there would be £1.5 billion made available as extra investment in housing making a total of £2.1 billion. The additional monies would be used to fund 20,000 additional new homes of which 13,450 would be social rented and 6,550 would be Low Cost Homeownership. Included would be 3,000 homes to be built by Local Authorities.
- 2.28 The additional money would also be used unlock the building of an additional 10,000 private homes for sale on mixed communities.
- 2.29 The package includes;
- Expanding the Local Authority budget for building new council homes;
 - Expanding the National Affordable Housing Programme (NAHP) (currently £8billion for 2008-11) so that RSLs can deliver an additional 12,500 new homes;

²⁰ Budget 2009 'Building Britain's Future' HM Treasury April 2009 paragraph 5.78 page 105

²¹ Budget 2009 'Building Britain's Future' HM Treasury April 2009 paragraph 5.80 page 105

²² Statement on Building Britain's Future – Transcript of Prime Minister's statement to the House of Commons 29 June 2009

- Expanding the Kickstart Housing Delivery programme that was announced in the budget in order to deliver an additional 13,000 new homes of which 4,000 will be affordable and 9,000 private for sale; and
- Investing in land owned by the Homes and Communities Agency (ex English Partnerships) to deliver around 1,250 units of which 500 affordable and the rest as private for sale.

2.30 Further details on the “additional” money suggest that there are winners and losers. Inside Housing reports on 24th July 2009 that there are winners and losers with additional money being made for the following²³:

- Benefits of freeing Councils from the Housing Revenue Account - £17.4 billion
- Private Finance Initiative Pot - £1.7 billion
- Housing Associations grant for affordable housing - £1.5 billion
- Market Renewal Pathfinders fund - £35 million

The Losers will be:

- Reduction in funding for growth areas - £128 million
- Cash deferred from ALMOs for decent homes - £150 million
- Efficiency savings for the Homes and Communities Agency - £183 million
- 2% rental reduction impact for Housing Associations - £525 million

Conclusion

2.31 While our analysis would suggest that there is a strong causal link between affordability and housing market prices. Other market conditions, and particularly the cost and availability of finance (including interest rates), are, together, important factors in driving house price inflation. Other macro economic factors are important but it would appear that the volatility of house prices may be somewhat independent of economic factors. Some commentators were suggesting in the early and mid 2000s that the house price increases were sustainable and that the volatility of the past had been “due to a combination of unstable demand and unresponsive supply”²⁴.

2.32 The Council for Mortgage Lenders in 2001, in line with many commentators at the time, were suggesting that the housing market booms and busts were a thing of the past for the following reasons:

²³ Inside Housing Page 1 24th July 2009

²⁴ CML 2001 page 18

- There are less likely to be large swings in interest rates;
- Large swings in financial liberalisation are less likely;
- There is likely to be more macroeconomic stability;
- Greater financial products increase the flexibility of loan conditions.

Finally, the CML believed at that time that :

“The risk to consumers is now lower than during the last house price boom, but it seems more likely that borrowers – rather than lenders – are misperceiving the risks”.

- 2.33 Other economic factors have been important recently. For example, it is clear that the sub-prime crisis in America which led to the worldwide recession has affected the UK economy generally and the affects affordability in the housing market. This may not have been foreseen but it is also clear that house prices generally and starter homes in particular, had reached an unsustainable level. This suggests that there may be some further falls in property prices in order to enable affordability to return to the market. If we are return to our suggested 3.5 times income analysis then prices in the UK will have to fall a further 14%.
- 2.34 This is especially a problem for a number of further reasons:
- Unemployment is increasing and the recession is likely to continue;
 - There is pressure on incomes generally;
 - Finance is increasingly difficult to obtain, high loan-to-value (LTV) mortgages (especially for first-time buyers) are difficult to obtain and, despite low base interest rates, finance is expensive (particularly for those wishing to enter the market for the first time);
 - Market confidence is low and households expect prices to fall further.
- 2.35 While these factors are influential on the market, the government has (in the 2009 budget and with additional subsequent announcements), attempted to support the house building industry through a number of measures. It is not yet clear how these measures will affect the property market either in the short or the long terms.
- 2.36 Therefore, a number of factors have affected the housing market and the affordability of housing. These have included macro-economic influences, the worldwide recession. However, there are also systemic pressures from within the workings of the housing market which affect the affordability of housing and, ultimately, how the market works. In the next section we look at the regional and local situation.

Regional and District Analysis

- 2.37 In our analysis of market trends in Section 1 of this section of the report, we highlighted some of the general characteristics of the housing market in the East with regard to affordability especially of first-time buyers. This is a general assessment based on average incomes and house prices. In order for us to assess the regional and local situation we need to have a more detailed picture of the economy and the housing market.
- 2.38 Reports from a number of sources suggest that the East Midlands economy has slowed in line with the national economy. However, the stronger manufacturing base in the region suggests that the region may be provided with a degree of resilience during the slowdown.

Employment and Income

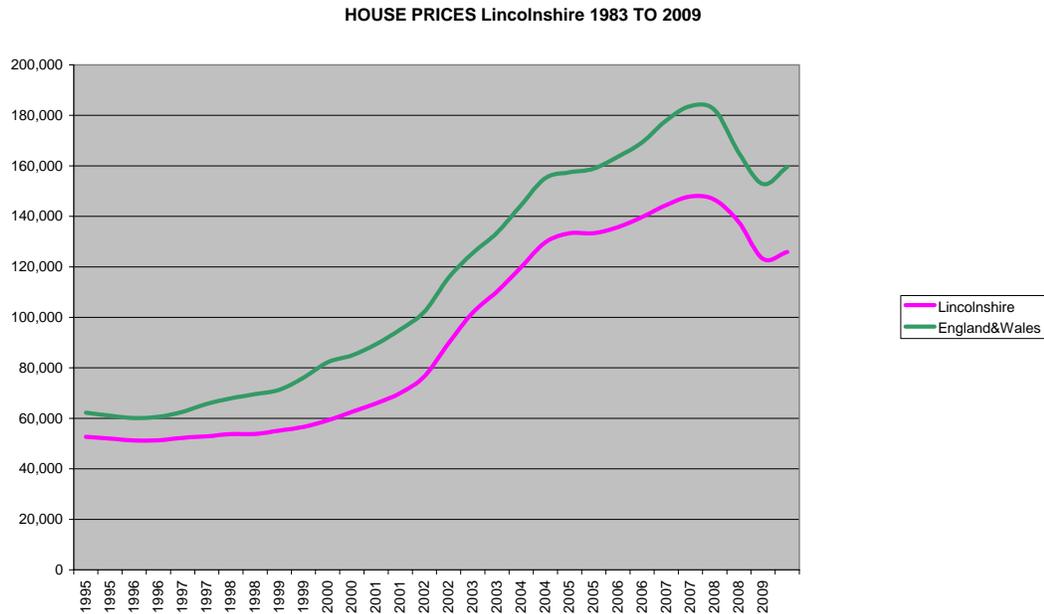
- 2.39 In the year from August 2008 to the following August there has been a 78.5% increase in the number of unemployment claimants in the region. While this is apparently a large increase, it is only just over the average for England which stands at 74.1%. However, more worrying for the region has been the level of youth unemployment which has leapt from 2,775 claimants in 2008 to 7,355 in 2009 (165%) compared to England which has increased by 140%. Also of concern is the long-term unemployed which has risen by over 75% in the East Midlands compared to only 56% in England.
- 2.40 The outlook in the economic mood in the East Midlands has been reported to have rebounded in Quarter 3 of 2009 according to ICAEW surveys in the region. While this is in line with the rest of the country, the confidence index of local senior business professionals is positive in the last quarter for the first time since Q3 2007. However, the ICAEW report in Quarter 3 2009 also confirms that East Midlands has suffered the deepest cut in the number of jobs of any region in the UK.
- 2.41 Turning now to specific income information we can obtain this from the Annual Survey of Hours and Earnings (ASHE). This gives various levels of information on a district, county and regional basis. Median gross annual earnings for South Kesteven in 2008 were £20,654. This level is for all earners resident in South Kesteven. In order to look at potential first time buyer incomes it may be more realistic to look at incomes for 22-29 years old²⁵. The mean for these is currently £20,714 per annum.

House Price Trends

- 2.42 We have seen in Section 2 of this report that a simple analysis of national house prices may be misleading when looking at local constraints. Therefore, we have looked at historic property prices that relate as close as possible to the local situation. Using Land Registry data to assess the recent past and then using Suffolk regional trends we have built up a picture of past performance in the housing market that is as reliably representative of the trend as possible.

²⁵ Table 6.7a ASHE data for South Kesteven (National Statistics 2009)

2.43 Information on local areas may be unreliable statistically as the sample sizes are small and annual fluctuations can depend upon a small number of transactions with one or two high value sales during the year skewing results. Therefore we have looked at the average for Lincolnshire since 1995 and this has shown that average prices for all properties have been consistently below the national average. This can be seen in Figure 3 which shows house price inflation over the period since 1995.



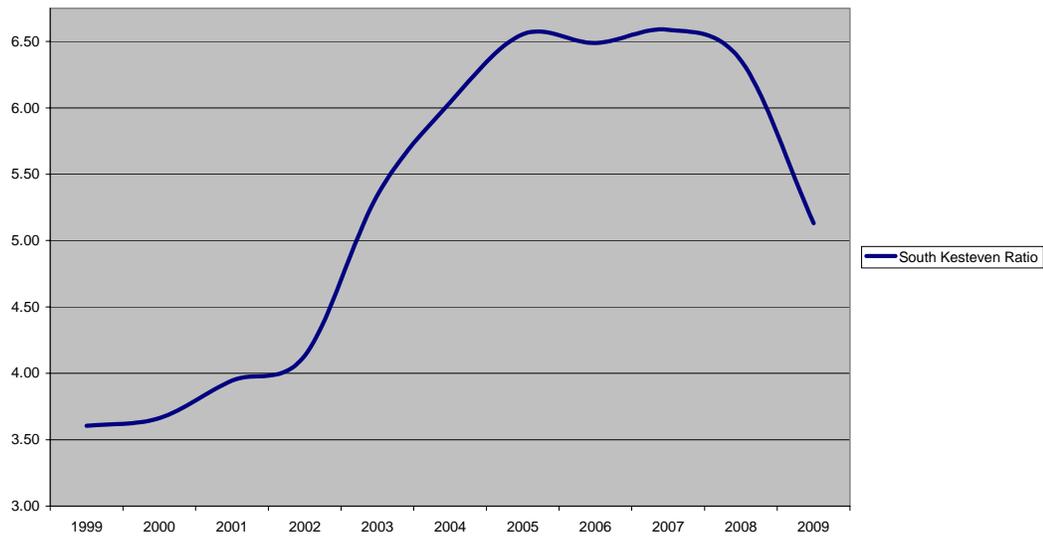
2.44 However, this also shows that the index of property prices has remained more or less constantly in line with the national index. In other words, the rate of annual increase (or decrease) is much the same in England & Wales as it is in Lincolnshire.

2.45 In order to assess the affordability of loan to value we have used ASHE information on local incomes since 1999. This shows that average house prices have exceeded incomes by an increasing margin suggesting that the national analysis that we undertook earlier in this report is even more marked locally.

2.46 Figure 4 shows the local loan to value since 1999 as follows²⁶:

²⁶ See Appendix 5

Income to Value Ratio South Kesteven 1999 to 2009



- 2.47 This shows that housing affordability generally in the District is under extreme pressure. Although the general affordability of average house prices is becoming more acceptable, the 2008 average values for all houses exceeded income by over six and a half times. A marked improvement in affordability has taken place in 2009 suggesting that houses are becoming more affordable again.
- 2.48 The implications of this are that house prices may have to fall by as much as a further 25% to 30% in order to achieve the long term average of 3.5 times income (90% mortgage). Indeed, past performance of house prices during previous "bust" periods would suggest that house price falls overshoot the long-term equilibrium position as the effects of unemployment and other adverse economic conditions make it more difficult, generally, for households to afford even the lower mortgage payments necessary to access the market. The unemployment pressures in the East Midlands suggest that this may be the case.

Conclusion

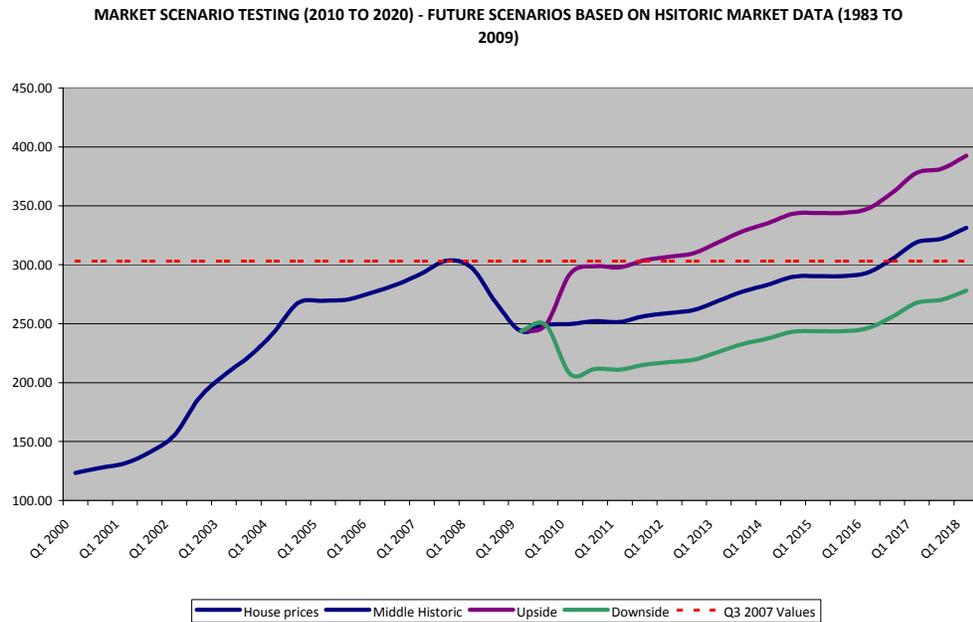
- 2.49 Generally, evidence shows that there is high pressure on employment and salaries in the East Midlands in the next two years due to the effects of the economic recession. Therefore, while the pressures on affordability will be alleviated, the evidence would suggest that prices will still have to fall by approximately 25% before they reach an affordable position. This is taken into account in the 4 scenario positions for future house prices that we consider in the final section of this report. Our assessment takes into account that South Kesteven price fluctuations are likely to follow national trends but in a less marked way.

Scenario Testing

- 2.50 We have seen that South Kesteven has been affected by both the recent high house price inflation and the effects of recession that have been prevalent in the rest of the region and country. The rise in house prices has exceeded median incomes by a considerable amount and despite the recent falls in house prices affordability in the District remains a problem.
- 2.51 Our analysis of past trends, and taking into account the continuing pressures due to the recession, suggests that there may be a long period of stagnation in the property market despite the rises during the 3rd quarter of 2009.
- 2.52 However, we want to test scenarios that assume both a more optimistic position as well as the downside. Therefore, using past trends as a guide, we suggest that there are 3 potential directions or scenarios that should be tested representing a range of potential directions the market might take²⁷.
- 2.53 The first of these is an “upside” position where values show an increase in prices in the very short term. We have assumed an increase in values so that 2007 average values are achieved again fairly rapidly and the profile of increases follows the same pattern as in the previous period (1992 to 2003) from this high value base (20% above average).
- 2.54 This is an optimistic view of property prices with house prices assumed to be well above the long term average from the previous period. In this scenario, affordability is likely to be a significant and continuing issue.
- 2.55 The second scenario is our “middle historic” and assumes property values follow the trend seen between 1992 and 2003. The short term follows a continuing decrease in values with a slow recovery with affordability ratios remaining fairly benign until the later part of the period.
- 2.56 Finally, the “downside” scenario assumes a long term trend 15% below the historic (1992 to 2003) position. Affordability ratios are well below the 3.5 times threshold for much of the period to 2020.

²⁷ Appendix 6 sets out the percentage assumptions for the three scenarios including the assumptions for other cost and value indicators.

2.57 All three scenarios can be seen in the following diagram:



2.58 We propose a dynamic assessment of viability. To do this we will use the three scenarios to feed into our viability analysis by taking the house price indices that are generated. House price inflation is one component of our proposed future proofing methodology and we will combine projections for other elements of the inputs including Retail Prices Index, Construction Cost forecasts and land value forecasts. We will then use these forecast indices to inform the viability assessments over the length of the development periods as well as to assess variable development start dates. A matrix of costs will be used which uses the property price values described above together with some assumptions on RPI and cost construction indices.

2.59 It is anticipated that these projections will remain constant between the different property value scenarios so that the relative effect of the upside, downside and middle projections for values can be assessed. Appendix 7 includes how different cost and value elements are linked to the various indices. For example, professional fees will be linked to construction cost inflation while planning fees may be linked to RPI.

2.60 Sites will be coming forward through the planning process over different timescales. Therefore, our dynamic approach will allow us to consider developments with completions up to 2026. Clearly, projections at later dates must be treated with caution but this will give a general indication about possible long-term viability. This may allow the council to look at a flexible approach to policy setting over the time of the Core Strategy that will enable challenging but realistic targets for affordable housing to be set.

TECHNICAL APPENDICES

APPENDIX 1

HOUSE PRICE: INCOME RATIOS (East Midlands)

HALIFAX PRICE:EARNINGS			
DATE	PRICE	EARNINGS	RATIO
Q1 1983	25,247	8,710	2.90
Q1 1984	27,115	9,298	2.92
Q1 1985	29,848	10,005	2.98
Q1 1986	31,906	10,790	2.96
Q1 1987	36,154	11,648	3.10
Q1 1988	42,686	12,782	3.34
Q1 1989	62,588	14,014	4.47
Q1 1990	61,806	15,371	4.02
Q1 1991	60,515	16,583	3.65
Q1 1992	56,809	17,685	3.21
Q1 1993	53,801	18,382	2.93
Q1 1994	55,118	18,829	2.93
Q1 1995	53,934	19,479	2.77
Q1 1996	53,427	20,348	2.63
Q1 1997	56,967	21,606	2.64
Q1 1998	59,014	22,792	2.59
Q1 1999	61,515	23,997	2.56
Q1 2000	68,167	25,594	2.66
Q1 2001	70,920	26,841	2.64
Q1 2002	85,145	27,829	3.06
Q1 2003	114,052	28,811	3.96
Q1 2004	132,213	30,183	4.38
Q1 2005	148,126	31,441	4.71
Q1 2006	153,706	32,774	4.69
Q1 2007	162,567	33,736	4.82
Q1 2008	167,176	35,122	4.76
Q1 2009	135,649	36,289	3.74
Source: Lloyds Banking Group Nov 2009			

APPENDIX 2

HALIFAX plc			
HOUSE PRICE - EARNINGS RATIO (All Houses, All Buyers)			
(Seasonally Adjusted)			
	EMids	UK	
83Q3	3.29	3.59	
84Q1	3.23	3.53	
84Q3	3.15	3.54	
85Q1	3.32	3.57	
85Q3	3.26	3.54	
86Q1	3.28	3.62	
86Q3	3.32	3.71	
87Q1	3.46	3.85	
87Q3	3.52	3.92	
88Q1	3.77	4.13	
88Q3	4.65	4.66	
89Q1	5.06	4.98	
89Q3	4.92	4.85	
90Q1	4.52	4.60	
90Q3	4.25	4.39	
91Q1	4.06	4.23	
91Q3	3.83	4.02	
92Q1	3.61	3.78	
92Q3	3.49	3.58	
93Q1	3.29	3.39	
93Q3	3.28	3.38	
94Q1	3.28	3.38	
94Q3	3.19	3.30	
95Q1	3.10	3.23	
95Q3	2.96	3.10	
96Q1	2.94	3.10	
96Q3	2.95	3.12	
97Q1	3.00	3.14	
97Q3	2.98	3.14	
98Q1	2.96	3.14	
98Q3	2.97	3.14	
99Q1	2.99	3.11	
99Q3	3.14	3.24	
00Q1	3.24	3.35	
00Q3	3.22	3.29	
01Q1	3.13	3.28	
01Q3	3.18	3.45	
02Q1	3.45	3.67	
02Q3	4.13	4.03	
03Q1	4.61	4.37	
03Q3	4.78	4.61	
04Q1	4.99	4.97	
04Q3	5.32	5.30	
05Q1	5.25	5.23	
05Q3	5.07	5.23	
06Q1	5.25	5.34	
06Q3	5.19	5.44	
07Q1	5.29	5.75	
07Q3	5.41	5.86	
08Q1	5.27	5.60	
08Q3	4.53	4.90	
09Q1	4.23	4.53	
09Q3	4.04	4.43	
MAX	5.41	5.86	
MIN	2.94	3.09	
AVG	3.85	4.02	

APPENDIX 3 (Source Land Registry - Lincoln)

House Price Index report - Lincolnshire Council					
for October in every year					
Month	Index	Average Price (£)	Monthly Change (%)	Annual Change (%)	Sales Volume
Oct 95	93.1	51,987	-1.3	-	905
Oct 96	91.8	51,302	0.4	-1.3	1,341
Oct 97	94.6	52,856	-0.3	3	1,411
Oct 98	96.4	53,861	0	1.9	1,352
Oct 99	101.3	56,569	0.5	5	1,694
Oct 00	111.9	62,514	0.8	10.5	1,345
Oct 01	125.3	69,982	1.4	11.9	1,879
Oct 02	160.8	89,852	2.4	28.4	1,658
Oct 03	197.3	110,240	1.5	22.7	1,823
Oct 04	232.1	129,683	1.3	17.6	1,290
Oct 05	238.7	133,327	-0.2	2.8	1,344
Oct 06	250.1	139,706	0.7	4.8	1,712
Oct 07	264.7	147,886	0	5.9	1,441
Oct 08	246.5	137,686	-1.8	-6.9	722
Oct 09	225.4	125,890	0.8	-8.6	-

APPENDIX 4

Interest Rates Versus House Prices 1983 to 2009					
	1997Q1=100				
	Prices	Index	Int Rates	Index	LTV
1983 Q1	29,056	46	10.5	168	2.72
1983 Q3	30,122	48	9.5	152	2.75
1984 Q1	31,792	50	10	160	2.79
1984 Q3	33,417	53	10.5	168	2.81
1985 Q1	34,916	55	13.5	216	2.89
1985 Q3	36,348	57	11.5	184	2.90
1986 Q1	38,295	61	11.5	184	2.89
1986 Q3	40,928	65	11	176	2.96
1987 Q1	44,162	70	9.5	152	2.96
1987 Q3	46,590	74	9.5	152	2.96
1988 Q1	52,188	83	8	128	3.16
1988 Q3	61,344	97	13	208	3.56
1989 Q1	66,047	104	14	224	3.77
1989 Q3	65,125	103	15	240	3.83
1990 Q1	63,981	101	15	240	3.44
1990 Q3	61,907	98	14	224	3.11
1991 Q1	61,997	98	12	192	2.83
1991 Q3	60,443	96	10.5	168	2.83
1992 Q1	58,584	93	10	160	2.63
1992 Q3	55,906	88	8	128	2.52
1993 Q1	57,120	90	6	96	2.38
1993 Q3	56,958	90	5.5	88	2.34
1994 Q1	57,029	90	5.75	92	2.35
1994 Q3	57,248	91	6.25	100	2.21
1995 Q1	56,599	90	6.75	108	2.21
1995 Q3	56,237	89	6.5	104	2.15
1996 Q1	58,456	92	6	96	2.16
1996 Q3	60,632	96	6	96	2.25
1997 Q1	63,223	100	6.25	100	2.27
1997 Q3	65,744	104	7	112	2.42
1998 Q1	68,463	108	7.5	120	2.49
1998 Q3	69,799	110	7.25	116	2.56
1999 Q1	72,927	115	5.25	84	2.57
1999 Q3	78,116	124	5.25	84	2.69
2000 Q1	82,747	131	6	96	2.81
2000 Q3	83,862	133	6	96	2.84
2001 Q1	89,114	141	5.5	88	2.88
2001 Q3	94,435	149	4.5	72	3.00
2002 Q1	104,848	166	4	64	3.12
2002 Q3	118,539	187	4	64	3.54
2003 Q1	127,416	202	3.75	60	3.85
2003 Q3	137,295	217	3.5	56	4.10
2004 Q1	152,777	242	4	64	4.40
2004 Q3	157,103	248	4.5	72	4.77
2005 Q1	160,138	253	4.75	76	4.75
2005 Q3	163,715	259	4.5	72	4.77
2006 Q1	171,339	271	4.5	72	4.79
2006 Q3	179,657	284	4.75	76	4.95
2007 Q1	189,439	300	5.25	84	5.13
2007 Q3	190,375	301	5.75	92	5.42
2008 Q1	184,482	292	5	80	5.18
2008 Q3	168,648	267	4.5	72	4.71
2009 Q1	158,362	250	0.5	8	4.10
2009 Q3	161,846	256	0.5	8	4.45

APPENDIX 5

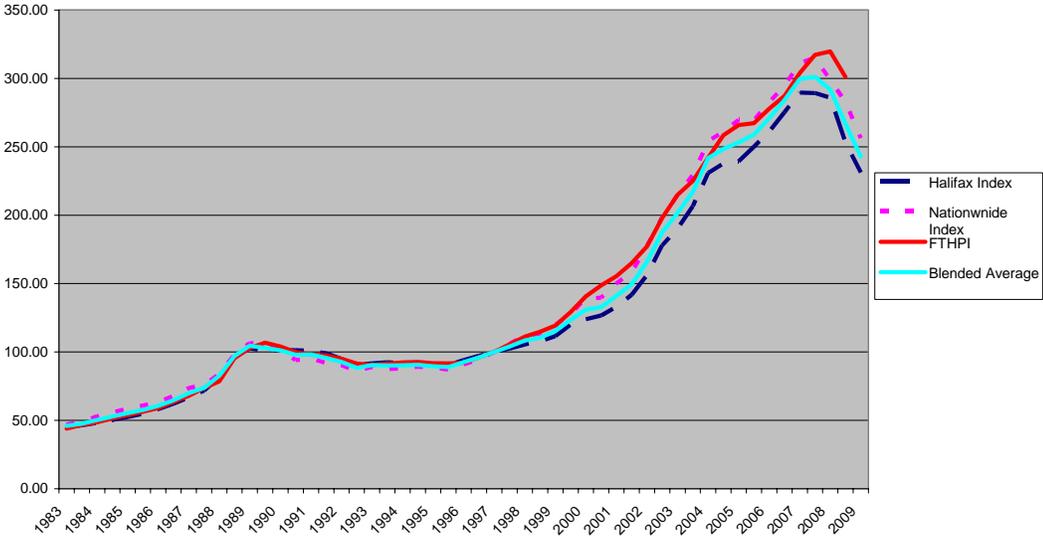
South Kesteven Loan to Value							
1999	15,299	55,142	3.60				
2000	16,166	59,211	3.66				
2001	16,711	65,915	3.94				
2002	18,550	76,670	4.13				
2003	19,082	101,944	5.34				
2004	19,849	119,903	6.04				
2005	20,340	133,308	6.55				
2006	20,923	135,751	6.49				
2007	21,932	144,508	6.59				
2008	23,058	146,587	6.36				
2009	24,007	123,159	5.13				
Assumes ASHE Median Full time earnings for South Kesteven							
(1999-2001 Place of Work, 2002-2009 Average POW/Place of Residence)							

APPENDIX 6

Housing Market Analysis Methodology

Past trends for the housing market have been based upon blended averages of both the Halifax and Nationwide House price indices checked for trends with the Financial Times House Price Index and Land Registry information. The information is available for national and regional averages. There is some differences between the actual average values in the indices. However, we have indexed the values against quarter 1 1997 values (Q1 1997 = 100) and the indices show similar trend patterns over our chosen 25 years as follows.

Appendix 6 (1)
Nationwide, Halifax & FT Indices 1983-2008
Q1 2007 = 100



Quarter 1 1997 has been chosen as this represented the height of the last house price boom period and can therefore be used as a useful benchmark. The data is as follows:

HALIFAX VERSUS NATIONWIDE

DATE	HALIFAX		NATIONWIDE		Halifax as proportion of	Nationwide as proportion of	Adjusted Price	
	INDEX	ACTUAL	INDEX	ACTUAL	Nationwide	Halifax	Actual	Index
Q1 1983	45.16	30,725	46.89	27,386	112.19	89.13	29,056	45.96
Q3 1983	46.47	31,621	49.01	28,623	110.47	90.52	30,122	47.64
Q1 1984	48.13	32,751	52.79	30,833	106.22	94.14	31,792	50.29
Q3 1984	50.40	34,292	55.72	32,543	105.37	94.90	33,417	52.86
Q1 1985	52.41	35,658	58.51	34,174	104.34	95.84	34,916	55.23
Q3 1985	54.76	37,259	60.68	35,436	105.14	95.11	36,348	57.49
Q1 1986	58.16	39,575	63.38	37,015	106.92	93.53	38,295	60.57
Q3 1986	62.11	42,262	67.79	39,593	106.74	93.69	40,928	64.74
Q1 1987	66.63	45,337	73.60	42,987	105.47	94.82	44,162	69.85
Q3 1987	71.76	48,825	75.95	44,355	110.08	90.84	46,590	73.69
Q1 1988	81.48	55,444	83.78	48,932	113.31	88.26	52,188	82.55
Q3 1988	96.18	65,442	98.02	57,245	114.32	87.47	61,344	97.03
Q1 1989	102.66	69,850	106.58	62,244	112.22	89.11	66,047	104.47
Q3 1989	101.05	68,754	105.29	61,495	111.80	89.44	65,125	103.01
Q1 1990	101.38	68,980	100.99	58,982	116.95	85.51	63,981	101.20
Q3 1990	101.25	68,895	94.03	54,919	125.45	79.71	61,907	97.92
Q1 1991	100.78	68,575	94.89	55,418	123.74	80.81	61,997	98.06
Q3 1991	98.84	67,250	91.84	53,635	125.38	79.75	60,443	95.60
Q1 1992	94.80	64,505	90.17	52,663	122.49	81.64	58,584	92.66
Q3 1992	90.60	61,643	85.90	50,168	122.87	81.38	55,906	88.43
Q1 1993	91.59	62,321	88.90	51,918	120.04	83.31	57,120	90.35
Q3 1993	92.39	62,867	87.41	51,050	123.15	81.20	56,958	90.09
Q1 1994	92.14	62,697	87.94	51,362	122.07	81.92	57,029	90.20
Q3 1994	91.68	62,383	89.23	52,114	119.71	83.54	57,248	90.55
Q1 1995	90.48	61,564	88.41	51,633	119.23	83.87	56,599	89.52
Q3 1995	90.45	61,544	87.20	50,930	120.84	82.75	56,237	88.95
Q1 1996	93.88	63,880	90.80	53,032	120.46	83.02	58,456	92.46
Q3 1996	97.14	66,094	94.46	55,169	119.80	83.47	60,632	95.90
Q1 1997	100.00	68,042	100.00	58,403	116.50	85.83	63,223	100.00
Q3 1997	102.37	69,657	105.87	61,830	112.66	88.76	65,744	103.99
Q1 1998	105.38	71,704	111.67	65,221	109.94	90.96	68,463	108.29
Q3 1998	107.71	73,286	113.54	66,313	110.52	90.49	69,799	110.40
Q1 1999	111.47	75,844	119.87	70,010	108.33	92.31	72,927	115.35
Q3 1999	119.92	81,595	127.80	74,638	109.32	91.47	78,116	123.56
Q1 2000	123.88	84,293	139.04	81,202	103.81	96.33	82,747	130.88
Q3 2000	126.53	86,095	139.77	81,628	105.47	94.81	83,862	132.65
Q1 2001	133.14	90,590	150.06	87,638	103.37	96.74	89,114	140.95
Q3 2001	141.58	96,337	158.44	92,533	104.11	96.05	94,435	149.37
Q1 2002	156.07	106,195	177.22	103,501	102.60	97.46	104,848	165.84
Q3 2002	178.03	121,137	198.52	115,940	104.48	95.71	118,539	187.49
Q1 2003	190.25	129,450	214.68	125,382	103.24	96.86	127,416	201.54

Q3 2003	206.76	140,687	229.27	133,903	105.07	95.18	137,295	217.16
Q1 2004	230.87	157,091	254.20	148,462	105.81	94.51	152,777	241.65
Q3 2004	237.71	161,742	261.06	152,464	106.09	94.26	157,103	248.49
Q1 2005	239.24	162,783	269.67	157,494	103.36	96.75	160,138	253.29
Q3 2005	249.91	170,043	269.48	157,387	108.04	92.56	163,715	258.95
Q1 2006	261.08	177,643	282.58	165,035	107.64	92.90	171,339	271.01
Q3 2006	275.20	187,250	294.62	172,065	108.83	91.89	179,657	284.17
Q1 2007	289.63	197,068	311.30	181,810	108.39	92.26	189,439	299.64
Q3 2007	289.22	196,792	314.98	183,959	106.98	93.48	190,375	301.12
Q1 2008	285.78	194,449	298.81	174,514	111.42	89.75	184,482	291.80
Q3 2008	252.94	172,108	282.84	165,188	104.19	95.98	168,648	266.75
Q1 2009	231.22	157,328	256.34	149,709	105.09	95.16	153,519	242.82

A similar process was undertaken using information on incomes in order to access the Loan to Value ratios over the same period. The incomes, based on the same assumption as the Halifax index, uses mean full time male earnings multiplied by 3.5 and then indexed to Q1 1997 house prices to arrive at the 3.5 x income index as follows:

	Mean Incomes	House Price	3.5 x Income*	Income Index
Q1 1983	8,568	29,056	29,987	47.43
Q3 1983	8,934	30,122	31,271	49.46
Q1 1984	9,297	31,792	32,541	51.47
Q3 1984	9,650	33,417	33,774	53.42
Q1 1985	10,005	34,916	35,018	55.39
Q3 1985	10,396	36,348	36,387	57.55
Q1 1986	10,789	38,295	37,760	59.73
Q3 1986	11,217	40,928	39,260	62.10
Q1 1987	11,650	44,162	40,777	64.50
Q3 1987	12,216	46,590	42,757	67.63
Q1 1988	12,785	52,188	44,746	70.78
Q3 1988	13,398	61,344	46,892	74.17
Q1 1989	14,012	66,047	49,042	77.57
Q3 1989	14,694	65,125	51,429	81.35
Q1 1990	15,368	63,981	53,787	85.08

Q3				
1990	15,975	61,907	55,913	88.44
Q1				
1991	16,586	61,997	58,050	91.82
Q3				
1991	17,130	60,443	59,956	94.83
Q1				
1992	17,682	58,584	61,889	97.89
Q3				
1992	18,034	55,906	63,119	99.84
Q1				
1993	18,382	57,120	64,337	101.76
Q3				
1993	18,603	56,958	65,109	102.98
Q1				
1994	18,831	57,029	65,907	104.25
Q3				
1994	19,154	57,248	67,040	106.04
Q1				
1995	19,474	56,599	68,160	107.81
Q3				
1995	19,912	56,237	69,691	110.23
Q1				
1996	20,352	58,456	71,232	112.67
Q3				
1996	20,801	60,632	72,804	115.15
Q1				
1997	21,254	63,223	74,388	117.66
Q3				
1997	21,735	65,744	76,072	120.32
Q1				
1998	22,206	68,463	77,721	122.93
Q3				
1998	22,606	69,799	79,120	125.15
Q1				
1999	23,002	72,927	80,506	127.34
Q3				
1999	23,578	78,116	82,523	130.53
Q1				
2000	24,156	82,747	84,546	133.73
Q3				
2000	24,702	83,862	86,458	136.75
Q1				
2001	25,241	89,114	88,344	139.74
Q3				
2001	25,809	94,435	90,332	142.88
Q1				
2002	26,378	104,848	92,321	146.03
Q3				
2002	27,218	118,539	95,264	150.68
Q1				
2003	28,062	127,416	98,218	155.35
Q3				
2003	28,448	137,295	99,568	157.49
Q1				
2004	29,260	152,777	102,410	161.98

Q3				
2004	29,725	157,103	104,037	164.56
Q1				
2005	30,650	160,138	107,275	169.68
Q3				
2005	31,066	163,715	108,732	171.98
Q1				
2006	32,029	171,339	112,100	177.31
Q3				
2006	32,463	179,657	113,622	179.72
Q1				
2007	33,468	189,439	117,138	185.28
Q3				
2007	33,923	190,375	118,732	187.80
Q1				
2008	34,791	184,482	121,768	192.60
Q3				
2008	35,384	168,648	123,842	195.88
Q1				
2009	36,340	153,519	127,190	201.18

*Full Time Male Earnings (Mean). See Halifax House Price Index assumptions)

The trend for future income levels used an assumption based on the average income inflation over the preceding period.

The implications of this for the three scenarios are discussed in Appendix 7.

APPENDIX 7

Scenario Testing Parameters

The analysis of past market trends gives us an indication of relative property market activity. We can therefore use this information to help set general scenarios over the following 25 years on the understanding that economic conditions have changed and past performance of the market is not necessarily an indicator of future activity. For this reason, we can use past performance as general guidance that will feed into possible housing market conditions. We have assumed two basic scenarios being, 1) the upside and, 2) the downside. The three scenarios are as follows:

1) Upside Scenario: This is an optimistic view of property market values. This assumes a rapid re-correction of values to 2007 levels and then a future performance trend similar to the previous period (1992 to 2003). Year on year house price inflation and indices will be as follows (Q1 1997 = 100):

Upside Scenario		
Date	Index	Y-o-Y Inflation
2009	248.91	
2010	298.70	20%
2011	304.67	2%
2012	310.76	2%
2013	320.09	3%
2014	326.49	2%
2015	339.55	4%
2016	359.92	6%
2017	377.92	5%
2018	393.03	4%
2019	404.83	3%
2020	404.83	0%
2021	408.87	1%
2022	429.32	5%
2023	467.96	9%
2024	496.03	6%
2025	515.87	4%
2026	541.67	5%

2) The Downside Scenario: This is a pessimistic view of property values and possibly a "worst-case" position. In this scenario it is assumed that initial values will continue to fall and that the market will continue to be at approximately 30% below the long term trend. The breakdown of the index for this scenario is as follows:

Downside Scenario		
Date	Index	Y-o-Y Inflation
2009	248.91	
2010	211.58	-15%
2011	215.81	2%
2012	220.12	2%
2013	226.73	3%
2014	231.26	2%
2015	240.51	4%
2016	254.94	6%
2017	267.69	5%
2018	278.40	4%
2019	286.75	3%
2020	286.75	0%
2021	289.62	1%
2022	304.10	5%
2023	331.47	9%
2024	351.36	6%
2025	365.41	4%
2026	383.68	5%

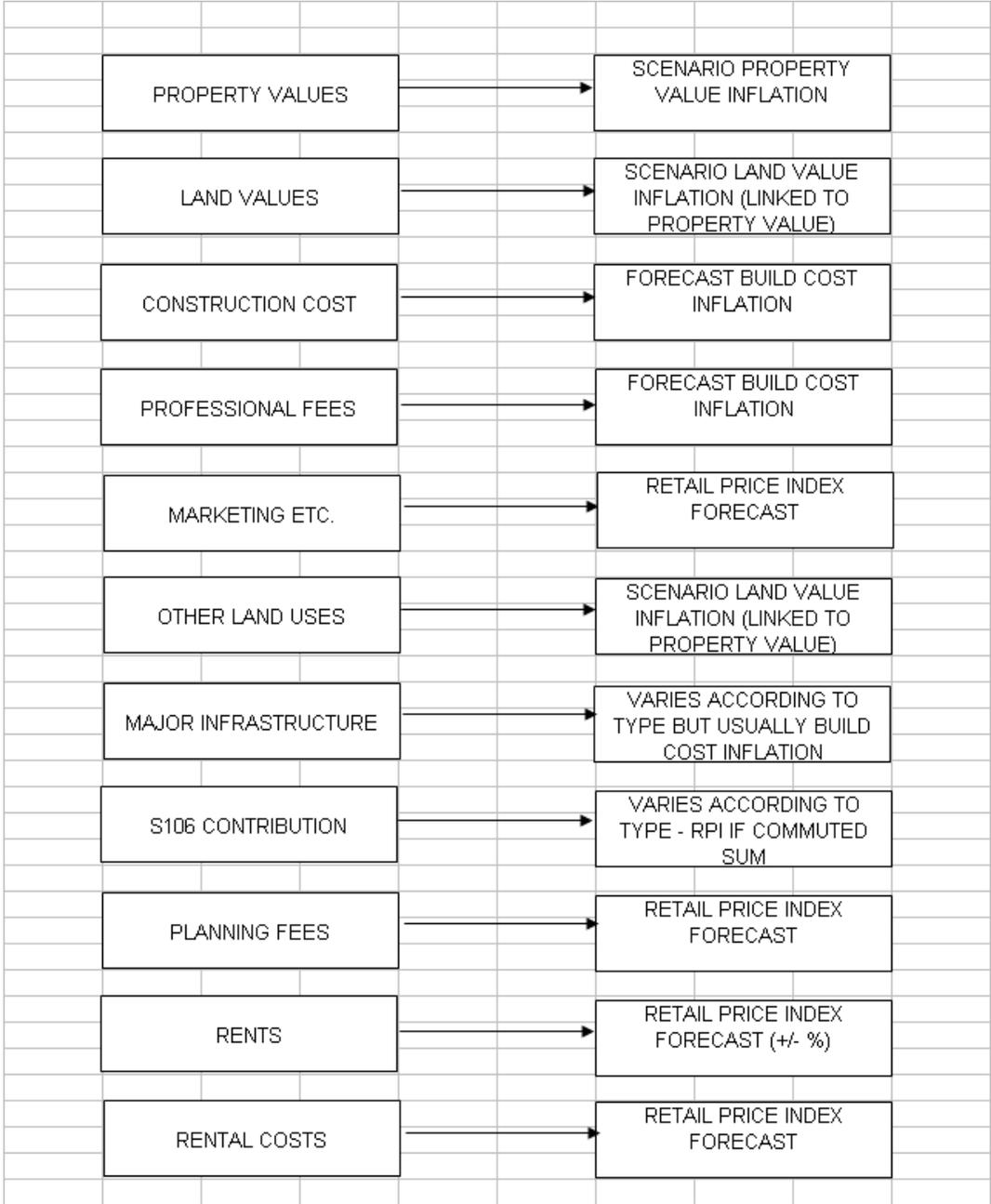
3) The Middle Historic Scenario: This profile assumes a steady but undramatic fall in values over the short term with a recovery to 2007 values by about 2017. House prices in this scenario will be affordable for average incomes (assuming incomes maintain their historic rate of increase) until 2020. The index will be as follows:

Middle Historic Scenario		
Date	Index	Y-o-Y Inflation
2009	248.91	
2010	248.91	0%
2011	253.89	2%
2012	258.97	2%
2013	266.74	3%
2014	272.07	2%
2015	282.96	4%
2016	299.93	6%
2017	314.93	5%
2018	327.53	4%
2019	337.35	3%
2020	337.35	0%
2021	340.73	1%
2022	357.76	5%
2023	389.96	9%
2024	413.36	6%
2025	429.90	4%
2026	451.39	5%

These indices will be used within our financial modelling. Our research will establish local values in Quarter 4 of 2009. Sales will be tested assuming the above inflation rates so that sales in a future quarter will be calculated back according to the following formula where x is the future value, y is the current value, z is the future quarter index and w is Q42009 (the base quarter) index:

$$x = (y / z) * w$$

For the purposes of the model 2009 values will be recalculated to index to 100 in order that the property prices can be assessed on the same basis as the indices for RPI, construction costs, land values and incomes. The modelling assumes that there will be variable rates of inflation for different elements of the development cashflow. Thus, certain elements will be linked to each of the four main cost/value inflation points in the following manner:



These forecast figures will feed into the financial modelling so that a complete 30 year projection of values and costs can be made. This will either be on a flat rate basis or on variable year on year rates according to the status of the information that is available at the time of the main assessments. The assumptions made will be clear in the final viability report to the Council. It is likely that early year on year assumptions on various inflation rates may be variable but medium to long term rates will be standard rates that do not vary year on year.

3.0 Appendix Three – Notional Site Composition

- 3.1 The unit type and size profile for each notional development type can be found in the tables below.

4000 unit Sustainable Urban Extension 40dph		
	M2	No units
Flats		
1 bed 2 p flats	50	120
2 bed 3 p flats	55	120
2 bed 4 p flats	60	120
Terraced		
2 bed 3 p houses	70	500
2 bed 4 p houses	80	760
Semi		
3 bed 4 p houses	85	600
3 bed 5 p houses	90	1300
Detached		
4 bed 6 p houses	105	200
4 bed 7 p houses	110	200
4 bed 7 p house 3 storey	115	80
Total		4000

15000 unit Sustainable Urban Extension 40dph		
	M2	No units
Flats		
1 bed 2 p flats	50	40
2 bed 3 p flats	55	40
2 bed 4 p flats	60	40
Terraced		
2 bed 3 p houses	70	180
2 bed 4 p houses	80	330
Semi		
3 bed 4 p houses	85	190
3 bed 5 p houses	90	440
Detached		
4 bed 6 p houses	105	120
4 bed 7 p houses	110	80
4 bed 7 p house 3 storey	115	40
Total		1500

400 unit Sustainable Urban Extension		
40 dph		
	M2	No units
Flats		
1 bed 2 p flats		
	50	12
2 bed 3 p flats	55	12
2 bed 4 p flats	60	12
Terraced		
2 bed 3 p houses	70	50
2 bed 4 p houses	80	76
Semi		
3 bed 4 p houses	85	60
3 bed 5 p houses	90	130
Detached		
4 bed 6 p houses	105	20
4 bed 7 p houses	110	20
4 bed 7 p house 3 storey	115	8
Total		400

400 unit Sustainable Urban Extension		
50 dph		
	M2	No units
Flats		
1 bed 2 p flats		
	50	24
2 bed 3 p flats	55	24
2 bed 4 p flats	60	24
Terraced		
2 bed 3 p houses	70	74
2 bed 4 p houses	80	80
Semi		
3 bed 4 p houses	85	40
3 bed 5 p houses	90	90
Detached		
4 bed 6 p houses	105	20
4 bed 7 p houses	110	20
4 bed 7 p house 3 storey	115	4
Total		400

80 unit 40 dph	M2	Number
Flats		
1 bed 2 p flats	50	2
2 bed 3 p flats	55	2
2 bed 4 p flats	60	2
Terraced		
2 bed 3 p houses	70	10
2 bed 4 p houses	80	16
Semi		
3 bed 4 p houses	85	12
3 bed 5 p houses	90	26
Detached		
4 bed 6 p houses	105	4
4 bed 7 p houses	110	4
4 bed 7 p house 3 storey	115	2
Total		80

20 unit 70 dph	M2	Number
Flats		
1 bed 2 p flats	50	4
2 bed 3 p flats	55	4
2 bed 4 p flats	60	4
Terraced		
2 bed 3 p houses	70	2
2 bed 4 p houses	80	4
Semi		
3 bed 4 p houses	85	2
3 bed 5 p houses	90	
Detached		
4 bed 6 p houses	105	
4 bed 7 p houses	110	
4 bed 7 p house 3 storey	115	
Total		20

20 unit 50dph		
	M2	Number
Flats		
1 bed 2 p flats	50	4
2 bed 3 p flats	55	
2 bed 4 p flats	60	4
Terraced		
2 bed 3 p houses	70	2
2 bed 4 p houses	80	4
Semi		
3 bed 4 p houses	85	
3 bed 5 p houses	90	4
Detached		
4 bed 6 p houses	105	2
4 bed 7 p houses	110	
4 bed 7 p house 3 storey	115	
Total		20

20 unit scheme 30dph		
Flats	M2	Number
1 bed 2 p flats	50	
2 bed 3 p flats	55	
2 bed 4 p flats	60	
Terraced		
2 bed 3 p houses	70	
2 bed 4 p houses	80	4
Semi		
3 bed 4 p houses	85	
3 bed 5 p houses	90	6
Detached		
4 bed 6 p houses	105	4
4 bed 7 p houses	110	6
4 bed 7 p house 3 storey	115	
Total		20

10 unit 70dph		
	M2	Number
Flats		
1 bed 2 p flats	50	2
2 bed 3 p flats	55	2
2 bed 4 p flats	60	2
Terraced		
2 bed 3 p houses	70	1
2 bed 4 p houses	80	2
Semi		
3 bed 4 p houses	85	1
3 bed 5 p houses	90	
Detached		
4 bed 6 p houses	105	
4 bed 7 p houses	110	
4 bed 7 p house 3 storey	115	
Total		10

10 unit 50dph		
	M2	Number
Flats		
1 bed 2 p flats	50	2
2 bed 3 p flats	55	
2 bed 4 p flats	60	2
Terraced		
2 bed 3 p houses	70	1
2 bed 4 p houses	80	2
Semi		
3 bed 4 p houses	85	
3 bed 5 p houses	90	2
Detached		
4 bed 6 p houses	105	1
4 bed 7 p houses	110	
4 bed 7 p house 3 storey	115	
Total		10

10 unit scheme 30dph		
Flats	M2	Number
1 bed 2 p flats	50	
2 bed 3 p flats	55	
2 bed 4 p flats	60	
Terraced		
2 bed 3 p houses	70	
2 bed 4 p houses	80	2
Semi		
3 bed 4 p houses	85	
3 bed 5 p houses	90	3
Detached		
4 bed 6 p houses	105	2
4 bed 7 p houses	110	3
4 bed 7 p house 3 storey	115	
Total		10

5 unit scheme 30dph		
Flats	M2	Number
1 bed 2 p flats	50	
2 bed 3 p flats	55	
2 bed 4 p flats	60	
Terraced		
2 bed 3 p houses	70	
2 bed 4 p houses	80	
Semi		
3 bed 4 p houses	85	
3 bed 5 p houses	90	3
Detached		
4 bed 6 p houses	105	2
4 bed 7 p houses	110	
4 bed 7 p house 3 storey	115	
Total		5

4.0 Appendix Four – Value Area Methodology

- 4.1 Initial discussions were held with a number of estate agents across the District to establish the extent and nature of value areas within South Kesteven. Information received through discussions with agents suggested a wide range of residential sales values and as would be expected, areas of relative value, i.e. higher value areas and lower value areas.
- 4.2 Land Registry data was obtained for quarter 4 2008 and quarters 1, 2 and 3 2009. that showed average achieved property values and the number of sales for each property type (detached, semi detached, terraced and flats and maisonettes) at a Postcode District level in South Kesteven.
- 4.3 This data was analysed against a Postcode District map of South Kesteven in order to establish the relative areas of higher and lower values. This map can be seen at the end of this section. Based upon our initial discussions with agents, relevant Council Officers, and the analysis of the Land Registry data the District was split into four value areas. These are:
- Grantham;
 - Stamford;
 - Bourne and the Deepings, and;
 - Local Service Centres.
- 4.4 Postcode Districts were then assigned to each value area as follows:
- Grantham (NG31 6, NG31 7, NG31 8, NG31 9);
 - Stamford (PE9 1, PE9 2);
 - Bourne and the Deepings (PE10 9, PE10 0, PE6 8, PE6 0);
 - Local Service Centres (NG32 2, NG32 3, NG23 5, NG13 0, NG33 4, NG33 5, NG32 1, NG34 0, PE9 4, PE6 9).
- 4.5 The Land Registry data for each Value Area, for each quarter, was then rebased to September 2009 using the Land Registry index for Lincolnshire (as at September 2009 the index was 222.4). This ensured that higher values that may have been achieved in the previous 12 months did not inflate the values used for the purpose of this study.
- 4.6 This data was then used as the basis for a second round of discussions with agents in each particular value area to:
- understand that the data for detached, semi detached, terraced and flats reflected current achieved sales values in each area;
 - assess if the Value Areas identified were correct;
 - understand the difference (if any) in sales values between new build and second hand properties;

- establish the range of sales values for each unit type, i.e. 1 bed flats, 2 bed flats and so on.

4.7 In addition to this a number of face to face discussions with local agents were undertaken, as well as visits to new build developments in the District specifically to understand the range of premiums that these developments may attract. Finally, Rightmove and Find a Property websites were interrogated to understand current asking prices in each Value Area.

4.8 This analysis enabled us to finalise a value for each unit type, e.g. detached, for each Value Area, e.g. Grantham. In order to obtain a value per square metre it was necessary to assume a unit size for each property type. These were arrived at based upon discussions with local agents and our experience within the development industry. The unit sizes assumed were as follows:

- Detached – 105 metre square
- Semi detached – 90 metre square
- Terraced – 75 metre square
- Flat - 56 metre square

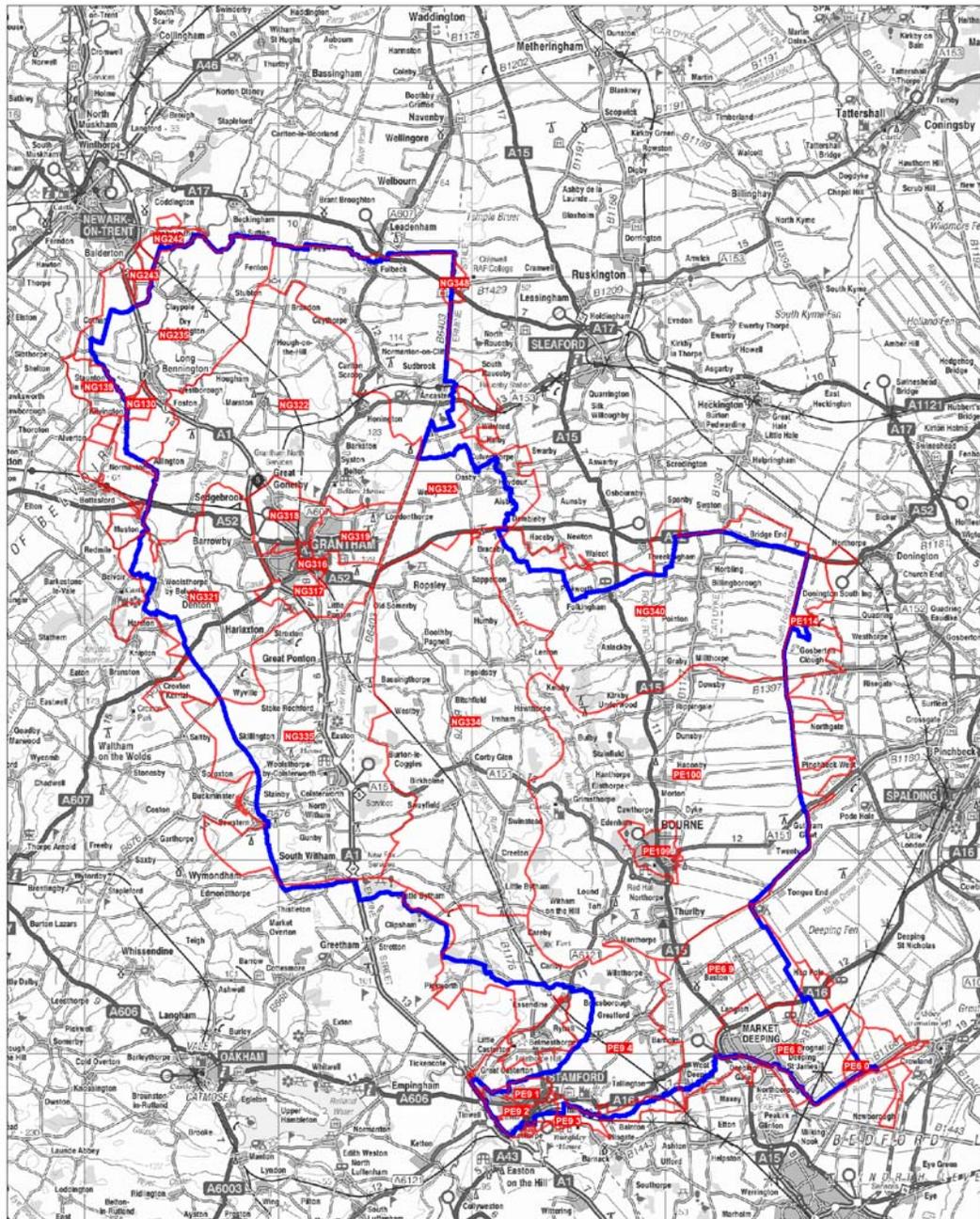
4.9 The average sales values for each area and unit type were then divided by these figures to provide a base value per square metre for each area and unit type. This can be seen in Table 1 below.

Property type	Area 1 Grantham	Area 2 Stamford	Area 3 Bourne & The Deepings	Area 4 Local Service Centres
Detached	£1,839	£2,409	£1,925	£2,658
Semi detached	£1,499	£1,900	£1,578	£1,655
Terraced	£1,421	£1,933	£1,633	£1,590
Flat	£1,619	£2,323	£2,074	No data

Table 1: Values per square metre by area and property type

4.10 The values shown in Table 1 are those used in the viability modelling. The values are determined as follows:

- Flatted units of all sizes – flatted values used relevant to development location;
- Two bedroom houses – terraced values used relevant to development location;
- Three bedroom houses – semi detached values used relevant to development location;



5.0 Appendix Five – Stakeholder Engagement

Stakeholder Methodology

- 5.1 In consultation with the Council it was agreed that the most appropriate method of stakeholder engagement for this study would be the use of an email/postal questionnaire. A copy of the questionnaire can be found at the end of this appendix.
- 5.2 The questionnaire sought to ascertain stakeholder's views on key assumptions that would be modelled to assess the impact upon development of a range of affordable housing policy options. Thus the questionnaire outlined a range of key assumptions in order that development conditions within the District could be fairly reflected within the parameters of the study.
- 5.3 The Council provided a comprehensive contact list of circa 60 active stakeholders within the District. These included, not exclusively, Registered Social Landlords (RSLs), private developers, house builders, planning and other development consultants and land owners.
- 5.4 A copy of the questionnaire and letter was sent to all stakeholders on the week beginning 9th November 2009 with a requested response date of November 25th 2009. In total, 9 responses have been received. The questionnaire responses were used to inform the modelling assumptions.

Response Rate

- 5.5 A total of 9 Questionnaires were returned and the number of responses by stakeholder type was as follows:

Agents/ Consultants – 2

Developers – 1

RSLs – 3

Architects - 1

Landowners - 2

Response to Specific Questions

5.6 Q.1 Scheme Types

Respondents were asked to select appropriate site types that reflect the land being brought forward for development. The questionnaire presented four scheme types labelled A to D. Respondents were also asked to include any other scheme types that have not been considered.

Most respondents believed that the scheme types presented adequately covered the range of schemes coming forward in the District. Of the respondents who included scheme types that we have not considered the following comments were received:

- One respondent suggested that a mixed use development site should be included along with a rural exception site, an urban regeneration scheme and a healthcare/ retirement/ specialist housing provision site.
- Another respondent noted that bungalows should also be tested within the scheme typology. It was also recommended that lower densities may need to be considered for scheme type A, mixed developments.
- The densities and types of development described in categories A and B may be inappropriate for towns such as Grantham and may be unrealistic in the current economic climate.
- Large scale SUEs may include areas of high or low density development and the average is likely to be about 40 dph.
- The proposed SUE's in Grantham includes not only housing but employment, educational, retail, community and other uses.

5.7 Q.2 Affordable Housing Percentages

Views were sought on the testing of percentage targets. Levvel proposed to test a 40% requirement on sites of 15 units/0.5 ha or more in towns and identified Local Service Centres. The majority of respondents believed that there were other affordable housing percentages that need to be considered and the following responses were received:

- The tests and thresholds should be proportionate. It was believed that a site of two dwellings could not sustain any affordable housing.
- The current policy level of 31% is not viable in the current climate, therefore a reduced policy amount is more sensible.
- The targets of the East Midlands Regional Plan target of 40% should provide the strategic planning context.
- A 40% target is too high and the limit should be set at a maximum of 25%.

- One RSL noted that although affordable housing was required across the District, a realistic view needed to be taken. The percentage targets used by adjacent authorities are somewhat lower than 40%.
- In the current economic climate the proposed 40% figure should be taken as the top of the testing range and the targets to be tested should also include 0%, 10%, 20% and 30%.
- In the current economic climate only the most straightforward fully serviced greenfield site with no other substantial planning gain requirements would come close to supporting a 40% target.

5.8 Q.3 Thresholds – Should small sites be required to provide affordable housing on the same basis as larger sites?

There was a mixed reaction to this question with some respondents believing that an overall percentage target should be applied across all sites of 2 or more dwellings and others who believe that all small sites would be unable to make an affordable housing contribution:

- Sites of two dwellings should not provide affordable housing. A higher threshold should be applied, otherwise smaller sites will not come forward.
- One developer suggested maintaining the threshold at 15 units and that in other parts of the district the threshold needed to be at least 3 units. The suggested rural range was 3-8 units. Thresholds could also vary in terms of the Local Service Centres towards the higher end of the scale and be lower (to a minimum of 3 dwellings) in smaller settlements.
- A threshold of 15/0.5 should apply in all areas.

5.9 Q.4 Values Required to Bring Land Forward for Development

Respondents were asked for their views concerning the values required to bring land forward for development on greenfield/ agricultural, brownfield and industrial land.

Greenfield/ Agricultural land:

- One respondent noted that this is a difficult assumption to make as different landowners and their individual financial circumstances will dictate different levels at which the individual landowner will be prepared to release each site.
- A wide range of potential values was received.

Brownfield land:

- It was noted that the decision of landowners to release brownfield land for residential development will be a function of the existing use value and the comparative residential residual value.
- A wide range of potential values was received.

Industrial land:

- One respondent noted that landowners will seek a premium on the existing use value of three to four times the current industrial use value to take on the risks of a change of use.
- A wide range of potential values was received.

General comments:

- One RSL noted that in respect of exception sites they are generally capped at £6,000 to £8,000 per plot. However, in the current climate it was noted that there would be a struggle to make schemes viable with plot prices in excess of £15,000 to £20,000 per plot.
- The latest VOA data reports that residential land values in the East Midlands equate to £1,150,000 per hectare and this may be a starting point for land value calculations.

5.10 Q.5 Land Value Expressed as a Percentage of the Development Value

For each land use type, the following range of percentages were suggested:

Greenfield/ Agricultural land: 5 to 25%

Brownfield land: 15 to 25%

Industrial land: 30%

Many respondents did not have any views on this issue. Some did propose alternative approaches and others made general comments:

- A percentage of the net development value which is acceptable to one landowner may not be acceptable to another.
- The proposed land value methodology may be a little crude as it would be based on average land values throughout a geographic area.

5.11 Q. 6 Developer Profit

Levvel proposed a number of profit levels (15%, 17.5% and 20% of Gross Development Value) which would be tested by the affordable housing study.

One respondent did not agree that we with the proposed range and noted that in the current market most banks will be asking non- experienced developers for a gross margin of 20-25%.

Another respondent noted that it is sensible to test viability at the varying profit levels suggested. However, each site must be tested on its merits. For example, a developer taking on a straightforward fully serviced greenfield site would be prepared to accept a lower profit margin than a developer taking on a complex brownfield site.

It was also suggested that a profit level of 15% GDV is too low in any market scenario and that a figure of 20% GDV should be accepted as the norm in "normal"/ good market conditions. A profit level of 25% should also be tested to take current market conditions into account.

5.12 Q.7 Profit on Costs/ Internal Rate of Return

Stakeholders were asked whether return should be assessed on a different basis.

Some respondents stated that different developers assess their returns on different basis such as profit on cost, internal rate of return and return on capital employed. It was suggested that profit on cost and internal rate of return are the most common methods used.

5.13 Q.8 Build Costs

Stakeholders were asked for their views on an appropriate build cost per m2 on the basis of Gross Internal Floor Area. A variety of responses were received:

1. Flatted Development: Suggested build costs of 800 to 1,211m2 for private and 935 to 1,300m2 for public.
2. Terraced Housing/ Town Housing: Respondents noted that private dwellings may have build costs in the range of 795 to 1,105 per m2 and public build costs may range from 1,050 to 1,275 per m2.
3. Semi- Detached: Suggested ranges included: private - 800 to 1,000m2 and public- 800 to 1,250m2
4. Detached: Suggested ranges included: private 800 to 1,065 per m2 and public: 855 to 1,250 per m2.

It was noted by one respondent that BCIS costs may be too low to assume when the market recovers. Another respondent believed that BCIS base build costs are a good starting point for the calculations. It was also stated that sustainability standards and the costs of reaching Code level 3 and above should also be included in the appraisal.

5.14 Q.9 Dwelling Sizes

Stakeholders were asked what dwellings size should be assumed for the following flat and house types. Respondents suggested the following ranges for private and public dwellings in each category:

1. 1 bed flat: Private 40 to 45m2 Public 30 to 40 m2
2. 2 bed flat: Private 55 to 57 m2 Public 50 to 60 m2
3. 2 bed house: Private 67 to 75 m2 Public: 72 to 75 m2
4. 3 Bed House (Semi Detached): Private 82 to 85m2 Public 80 to 85 m2
5. 3 bed house (Detached): Private 85 to 120m2 Public 85 to 110m2

6. 4 bed house (Detached): Private 95 to 140m2 Public 100 to 140m2

One respondent noted that it is difficult to assume a standard size of dwelling as there can be significant variations, especially for affordable housing. It was also noted that 5 bedroom dwellings should also be included.

5.15 Q.10 Rent

Respondents gave their views on gross rents, management, maintenance, voids and the cost of major repairs for a number of dwelling types ranging from a 1 bed flat to a 4 bed house. Only two respondents completed this section of the questionnaire and their suggested figures are included in the following table:

Type	Gross Rent	Management	Maintenance	Voids	Major Repairs
1 Bed Flat	300 pm 60.70 pw	15% £150 per annum	15% £550 per annum	15% 3.5% gross rent	0.8% of works. Value deferred until year 7
2 Bed Flat	350 pm 65.83 pw	15% £150 per annum	15% £550 per annum	15% 3.5% gross rent	0.8% of works. Value deferred until year 7
2 Bed House	450 pm 70.73 pw	15% £150 per annum	15% £550 per annum	15% 3.5% gross rent	0.8% of works. Value deferred until year 7
3 Bed House	500 pm 74.15 pw	20% £150 per annum	15% £550 per annum	20% 3.5% gross rent	0.8% of works. Value deferred until year 7
4 Bed House	600 pm 77.265pw	20% £150 per annum	15% £550 per annum	20% 3.5% gross rent	0.8% of works. Value deferred until year 7

5.16 Q. 11 Capitalisation of Rents

Views were sought on whether the proposed assumption of 6% for the capital receipt from social rented properties is correct.

Five respondents had no opinion on this subject and three agreed that a figure of 6% is a reasonable assumption. One RSL stated the proposed 6% figure is not correct as their financial viability model is based on a year pay back summary assuming a loan interest rate of 7%.

5.17 Public Subsidy

It was explained that the methodology would initially assume a nil public subsidy baseline before testing the effect of public subsidy. Stakeholders were asked for recommendations for an appropriate level of public subsidy. The following responses were received.

- A developer suggested that public subsidy depends on the size of the unit (bedspaces), location and site factors. It can be difficult to take regional average subsidy levels as historic levels may not always be accurate.
- One RSL suggested public subsidy levels of £45,000 to £50,000 for social rented and £10,000 to £18,000 for shared ownership units.
- Another respondent stated that £8,000 to £10,000 per social rented and £3,000 to £5,000 per shared ownership bedspace is a reasonable assumption to make.

5.18 Further Comments

Stakeholders were given the opportunity to comment on issues not covered by the questionnaire. Respondents raised the following points:

- South Kesteven has a wide range of land and property values.
- The study needs to take on board the affects of the sustainability agenda and the proposed Community Infrastructure Levy.
- The study should have regard to the Regional Housing Strategy.
- Whatever target for affordable housing is deemed to be viable as part of the assessment, it must be recognised that the figure will need to be treated as one around which specific development proposals can be negotiated, in the context of site specific evidence presented by applicants.
- The full affect of section 106 contributions need to be considered especially in light of fully affordable housing schemes and the impact this has on overall scheme viability.



**AFFORDABLE HOUSING VIABILITY ASSESSMENT
STAKEHOLDER QUESTIONNAIRE**



**IF YOU NEED THIS DOCUMENT IN ANOTHER LANGUAGE,
PRINT SIZE OR COLOUR, BRAILLE, BSL, AS AN E-MAIL
ATTACHMENT, ON AUDIO TAPE OR DISK PLEASE CONTACT
LEVEL**

South Kesteven Council has commissioned Levvel to undertake a study on affordable housing economic viability in the South Kesteven Local Planning Authority Area. This study will be undertaken in the context of Planning Policy Statement (PPS) 3: Housing (November 2006).

The overall aim is to produce a sound, robust technical evidence base that will inform Core Strategy affordable housing policies and contribute to other Local Development Documents under preparation. The study will test the impact of affordable housing on development viability on a strategic basis, relevant to the local circumstances of South Kesteven. It will look at a number of issues including (but not exclusively):

- The levels of affordable housing that could be sought by planning policy;
- Thresholds that could be justified;
- Optimum mix of affordable housing tenure type that can be justified;
- The level of affordable housing provision that could be viable with and without public subsidy.

The study will make recommendations as to the appropriate level, form and type of affordable housing that could be supported in new housing schemes in the plan area, including where provision is secured through Section 106 legal planning agreements.

Key Stakeholder Engagement

The advice and opinions of house builders, registered social landlords, land agents and other relevant key stakeholders are crucial to make sure the study's approach is appropriate and robust. Any assistance you can provide Levvel will be gratefully received. Should you have any questions or queries regarding this work, please do not hesitate to contact Levvel through the details provided at the end of the questionnaire.

The Council Officers with whom to liaise should you have any general queries regarding the Local Development Framework are Karen Sinclair - Planning Policy Manager and Rachel Armstrong – Senior Planning Policy Officer.

We would be very grateful if you could return this questionnaire by Wednesday November 25th

SCHEME TYPOLOGY

As part of the study, we will choose a number of notional schemes on which to carry out development appraisals. The effect of the imposition of affordable housing will then be assessed to ensure that future policy does not reduce land values to a level which will prevent land being brought forward for development.

Our aim is to assess a range of development types which are likely to come forward in the District. In this regard, your views are sought on the following; (please tick appropriate response in boxes provided)

Q1 Do the following development types adequately cover the range of schemes coming forward in the District?

- A – Mixed Development – flats and houses up to 70 dwellings per hectare
- B – Estate Housing – Town Houses, Semi-Detached and Detached dwellings of circa 50 dwellings per hectare
- C – Lower Density Estate Housing – Semi Detached and Detached dwellings of circa 40 dwellings per hectare
- D – Low Density Estate Housing - Semi Detached and Detached dwellings of circa 30 dwellings per hectare

Large and smaller scale Sustainable Urban Extensions (SUES) will be assessed as will smaller windfall and infill schemes.

YES

NO

If NO, please include details of scheme types we have not considered in terms of development mix and density;

These development types will each be assessed as if they were being developed on parcels of land throughout the District in order to account for geographical variations in the value of housing which have an effect on development viability.

Similarly, in order to ensure we are properly assessing the value required to bring forward development we will test each scheme type where it is brought forward on Greenfield, Brownfield and Mixed land use.

POLICY TESTS - PERCENTAGE AND THRESHOLD

Initially, we will test a range of percentage targets and thresholds for affordable housing to include the following as set out the Submission Core Strategy Development Plan Document of South Kesteven District Council;

On all new development on sites of 15 or more dwellings or sites of 0.5 ha in the towns and identified Local Service Centres we will test a 40% affordable housing requirement

On sites of 2 or more dwellings in all other parts of the district we will test a 40% affordable housing requirement

Q2 Are there any other affordable housing percentages we should consider?

YES

NO

Q3 Are there any other thresholds we should consider?

YES

NO

Please provide any comments you may have on the range of thresholds and percentages we will be testing.

LAND VALUES

Planning policy seeks to secure a proportion of land value for the community benefit. It is important to ensure that too much is not sought or it may threaten the prospects of the land coming forward.

We are therefore interested to know at what value land will be brought forward for development in the District.

Q4 What values can be assumed to be sufficient to bring land forward for development in South Kesteven? Please express this on a per hectare basis.

Greenfield/Agricultural land
Brownfield land
Industrial land

Land values may differ throughout the District. We therefore may use a measure that compares the value of the land to the value of the housing built on it.

Q5 Do you have a view as to the value of land expressed as a percentage of the development value?

Greenfield/Agricultural land

Brownfield land

Industrial land

DEVELOPER PROFIT

Profit levels can be affected by the level of risk attached to a particular development. Current housing market conditions mean development is risky and therefore may require a higher profit to make it worthwhile for a developer to build. However, the policy that this study is to inform will endure for the life of the Core Strategy (to 2026) which it is to be assumed will also cover less risky housing market conditions.

To ensure we are covering all eventualities, we will test viability at varying profit levels as follows;

15% of Gross Development Value

17.5% of Gross Development Value

20% of Gross Development Value

Q6 Are we assessing an acceptable range of profit levels?

YES

NO

If no, please provide justification and an alternative acceptable profit rate.

Q7: Should we be assessing profit/return on a different basis e.g. profit on cost, Internal rate of Return?

YES

NO

If Yes, please provide details below;

BUILD COSTS

We will assume basic build costs aligned to the appropriate measure from the Royal Institute of Chartered Surveyors Build Cost Information Service (BCIS) as a baseline build cost for the South Kesteven District plus 15% as an allowance for external areas.

Q8 In order to compare this to “on the ground” costs, we would appreciate your views on a per m2 build cost below (on the basis of Gross Internal Floor Area)

Development type	Build Cost per m2 GIFA (private housing)	Build cost per m ² GIFA (public housing)
Flatted Development		
Terraced Housing/Town Houses		
Semi-Detached		
Detached		

DWELLING SIZES

Q9 What dwelling sizes should we assume for the following flat and house types (ft2 or m2)?

TYPE	AFFORDABLE	MARKET
1 BED FLAT		
2 BED FLAT		
2 BED HOUSE		
3 BED (Semi) HOUSE		
3 BED (Detached) HOUSE		
4 BED (Detached) HOUSE		

RENT

In order to ensure we are properly assessing the value of the affordable housing to the developer it would be helpful if we had real values for assumed rents and costs of social rented housing.

Q10 This question is aimed mainly at RSLs – What rent levels should we allow for (we are currently using DATASPRING values but would like to ensure up-to-date information is used). Can you also give an indication on management, maintenance, void levels and major repairs allowances from gross rent (expressed as a percentage or as an amount).

TYPE	GROSS RENT	MANAGEMENT	MAINTENANCE	VOIDS	MAJOR REPAIRS
1 BED FLAT					
2 BED FLAT					
2 BED HOUSE					
3 BED HOUSE					
4 BED HOUSE					

CAPITALISATION OF RENTS

Q11 We are currently assuming a yield of 6% for the capital receipt from social rented properties. Is this correct?

YES

NO

If NO, please give some indication of an alternative;

PUBLIC SUBSIDY

Q12 Our methodology will assume a nil public subsidy baseline in the first instance and will then test the effect of applying public subsidy to the affordable housing units. In your experience what levels of public subsidy (on a per unit basis) should we be assessing;

Finally, if you have any further comments about our assumptions, including any that we have not mentioned above, please feel free to include them here. The above questions do not cover every assumption we are making and we want to make sure that the parameters and principles that we are taking into account are clear and open and acceptable to local stakeholders in the residential development process. We want the process to be as inclusive as possible.

A large, empty rectangular box with a thin black border, intended for providing comments or feedback. It occupies the central portion of the page below the introductory text.

You may choose to remain anonymous although, even if you give us your details, we will not attribute your name to the views expressed within this questionnaire or provide them to any other party (including South Kesteven District Council) without your express permission. We would like to follow up this questionnaire with telephone discussions where we feel further clarification is necessary. Your help is very much appreciated.

I wish to remain anonymous YES NO

Name _____

Position _____

Company _____

Address _____

_____ POST CODE _____

Contact telephone _____

Email address _____ @ _____

May we contact you further? YES NO

**PLEASE RETURN THIS QUESTIONNAIRE BY WEDNESDAY 25 NOVEMBER
TO:**

Levvel, 147 Leigh Road, Wimborne BH21 2AD

Telephone 01202 639444

www.levvel.co.uk

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