AFFORDABLE HOUSING VIABILITY STUDY

CONSULTATION DOCUMENT:

RESPONSE TO COMMENTS FROM DEVELOPERS

The accompanying schedules address points raised in consultations on the Viability Study Report, and identify where changes have subsequently been made to the Report.

Individual issues are summarised against a series of topic headings, and the Fordham response given. In some cases we will undertake further action/work to address the issues raised; where this is the case <u>the response is underlined</u>.

Some of the comments that have been provided to this and other recent similar reports, suggest that there may be some confusion about the purpose of the study, and more particularly the arrangements proposed for updating/reviewing the appraisal results. The study is designed to inform decisions about planning policies for affordable housing, by considering a representative range of sites in the study area and assessing their ability to provide various levels of affordable housing. Since the work was commissioned house prices have been falling and viability has therefore deteriorated. This pattern is expected to continue for a time, and at some point, viability will begin to improve again. In response to the emerging situation a mechanism has been suggested in which Councils would periodically review the appraisals, and affordable housing polices if necessary. The proposals in the Viability Study report are not intended either to inform or to anticipate the development control process for any of the selected sites - or indeed for any other site. When sites come forward the nature and amount of affordable housing to be provided will be determined through negotiation, taking account of both affordable housing policies and scheme viability at that time. Councils may wish in due course to consider arrangements for assessing and updating financial viability for individual sites coming forward for determination. However, that is an issue which is entirely unconnected with the purpose of the report, or with what it proposes, and the updating process in particular.

Topic	Issue	Response	Changes
Methodological approach	The Residual Value (RV) approach is acceptable, but should use real conditions not averages	The residual valuation method is a standard approach in work of this kind and requires real values to be input wherever they are available. This is the approach followed here.	
	Developers use internal rate of return (IRR) not just profit %	From experience, profit alone is widely used in discussions of viability and we feel is a suitable measure for a strategic study such as this one. The particular cashflow issues which might arise in a flatted block scheme (ie Waterfront) will be addressed under that heading	
	Following Godalming s78 outcome, the assessment must use <u>current</u> values	The study does use current values (i.e. current at the time of the study) and suggests a mechanism for periodic review. Sensitivity is included as an illustration, and has no direct bearing on any proposed policy target	
	Doesn’t allow for infrastructure provision issues – sites being dependent on s106 contributions on other sites	It is necessary for the study to consider each site in isolation, and to assume that any prior infrastructure would have been provided by a prior site. The issue of infrastructure interdependency is felt to be a matter primarily for the Councils to consider. Other solutions, where infrastructure contributions are pooled and/or works commissioned by a pump priming agency, are increasingly coming forward to address the issue.	
Sites overall	Study did not include a Greenfield site/true Greenfield extension	Sites were selected by the Councils to cover the range of development situations in the Housing Market Area (HMA). Cedar Park Stowmarket was a greenfield site (though as immediately above, not a free standing site). In practice a large Greenfield extension would require a separate bespoke viability exercise, and is not really suitable for a study of this type and approach. We believe <u>Councils are considering this issue</u>	Further work has been carried out to provide appraisals for two greenfield sites.
	Insufficient number of sites to give guidance bearing in mind price variations shown	The Viability Study was primarily designed as a Strategic exercise alongside the Strategic Housing Market Assessment (SHMA). Whilst it supports affordable housing policies of the District authorities, negotiations about individual sites will also take account of site viability and market changes.	
	Notional sites are not explained - should not extrapolate, but use more actual sites	The approach uses a methodology agreed with the Councils, which we feel is clearly explained in the Report. The notional sites were based upon actual sites not included in the final list of actuals. We are aware that other similar studies often use an approach based entirely on notionals, and feel the Study approach, anchored in a range of actual sites, is to be preferred.	

	Flats market is now over extended – developers need to focus on sites of max 35 dwgs per ha, where the demand is.	This is not an issue for the Study – more for Strategic Housing Market Assessment (SHMA)	
Individual sites general: Ipswich Waterfront – costs	Flat blocks are much more expensive - £160+ per sq ft, not £124. £200k is not adequate to allow for waterside/flood issues Higher s106 costs to allow for flood measures on Ipswich waterside sites i.e. flood barrier	The appraisal is intended as indicative, dealing with an entirely notional design on 5-8 storeys. The notional nature of the built form makes it difficult to deal with specific responses. It was foreseen that the appraisal of such a site would be problematic, and that a more detailed assessment was desirable; that was not really appropriate in a strategic HMA wide study. <u>Nevertheless we will reconsider our Waterfront appraisal and endeavour to address the issues raised, within this context</u>. Phase 1 of the Flood Defence Strategy got under way in December 2008 through DEFRA and Growth Point funding. The Council does not currently request developer contributions to strategic flood defences and calculations will be based on practice at the time.	Site 4 appraisals have been reviewed. Built form is now described as 5-6 storeys. Build costs and abnormal allowance have been increased
Ipswich Waterfront – revenue	Hotel has high values but budget costs – inconsistent Net to gross office should be 85%. Office rental values would reflect a scarcity and/or prelet but should have a more modest yield figure; occupiers would not be high quality tenants in practice Maximum rent should be £15, yield 7%. Even if high quality occupier, there would be 3 yrs rent free Office rents now £12 not £16.50. Yields have moved out dramatically so now overvalued	<u>These points will be addressed via revised appraisals</u> Appraisals were as at April 2008 – we must now move forward via update appraisals	Net:gross is taken as 85%. Rent and yield are left unchanged but receipts significantly discounted to allow a rent-free period. Hotel receipt is reduced in line with offices, & build costs of both increased.
Ipswich Waterfront – other assumptions	Voids allowance for flatted schemes is inadequate and phasing doesn't reflect flat blocks. Car parking not the appropriate comparator for Waterside site, other options such as retail leisure etc available.	<u>Revised appraisals will use an alternative version of appraisal software which allows for a longer period from build to disposal. Many flatted schemes consist of multiple blocks which allows phasing.</u> <u>The fact remains that it is a car park at present. Current policy focuses upon retail, except small scale retail, into the central shopping area.</u>	Appraisals were re-run with a 15 month build period.
Built form/mix	Net to gross site areas for notionals confused - see Tables 2.2 & 2.6. Similarly actuals Table 2.1 – Co op site makes insufficient allowance for OS & infrastructure, & pushes towards flats	We would confirm that the net values in Table 2.6 are correct and were used in the appraisals. Table 2.3 does not reflect the final figures decided upon, and <u>will be amended</u>. Table 2.1 <u>will be amended to show net figures of 9.37 ha (Rugby Club) & 4.64 ha (Co-op)</u>, as used in appraisals. Built form assumptions for Co-op site reflect 15,500 sq ft per acre the base benchmark applied to 4.64 ha net area.	Amendments have been made to Tables; appraisals are not affected.

	Mix profile may be correct for 24 sites but not for the overall target	Study is designed to test a representative range of sites coming forward.	
Developer contributions	Model is not logical	As a strategic exercise, it was important to take an approach which treated all of the sites in a consistent way, regardless of Council area.	
	Suggestion that the range is inadequate (examples given in support of this suggestion not directly relevant however). Not allowed for in-kind provision	Whilst considerably less than the Milton Keynes 'roof tax' total we feel the figures are reasonable. They are intended to cover both financial contributions and in kind - wording will be amended to emphasise this	Wording is amended to show both financial and in kind covered
	Appraisals do not allow generally for part funding of transport infrastructure	See comment above	
	Study has not allowed for cost of Community Infrastructure Levy (CIL) if introduced	We acknowledge that it is possible that contributions total would increase with CIL but since only an option it was not appropriate to include it – in any case the amount was unknown	
	'Strong push for new development to pay more' e.g. Flood barrier will add £10k per dwg, not allowed for – need to allow for with revised figures	We believe the figures are reasonable. See Waterfront site heading re barrier issue	
Land	Not allowed for VAT on land purchase Stamp Duty Land Tax (SDLT)	Liability for VAT depends on nature of vendor so is unknown	
Build costs	Build costs are too low – should be £100 per sq ft generally, and much higher for flat blocks	Flatted blocks dealt with above. We are happy that other build costs are broadly correct, and regularly see figures, in developers' submissions, which are in line with them. Note that a separate allowance is made for infrastructure costs.	
	BCIS base - build costs are at the lower end of estimated range although it is acknowledged abnormal costs are allowed for	We feel our figures are reasonable and in line with BCIS.	
	Build costs for RSLs are higher by £5k per dwg	We would expect that where an RSL separately commissioned a scheme of affordable units on land provided by a developer, build costs would be higher than where similarly sized units were provided directly by the developer. That reflects logistical and efficiency savings available with the developer provision route, which is the proposition tested here.	
Build costs – sustainable housing	Code 3 is 14% up from Eco 3; and will cost an extra £5k per dwg Appraisals have not allowed for Code Level 3 Some suggestion Level 3 will allow enhanced prices	Our 4.2% allowance would work out typically at £3k per dwelling. The 14% seems excessive and out of line with other suggestions Report states Level 3 is allowed for. It specifically states that no uplift is assumed for Level 3, although we believe some enhancement is possible with Level 4 & beyond	

	Code 4 will be 2-3 times as much extra - £15k per dwg, or more	Noted, no specific response but <u>will amend report conclusions to emphasise the larger potential cost increase</u>	Cost increase given more emphasis
Development costs	Greenfield development cost is £500k per acre. 20% on build costs is satisfactory on large but 9% on small site does not allow for possible issues	20% is felt to be a satisfactory maximum for any of the sites under consideration. Possible site specific issues should really be covered in the abnormals allowance. The particular case of the Waterfront site is dealt with separately	
Abnormals	Abnormals for Ipswich flats too low £45k/£450k for Rugby Club relocation inadequate £100k for Co op footbridge is insufficient - doesn't allow for other costs/fees	Waterfront site is addressed separately £450k is the stated figure not £45k. We believe this is a reasonable allowance for replacement facilities. It is possible that improved facilities could be achieved by way of land payment. This seems a fair point and we agree it is possible we may have underestimated overall total cost. However the footbridge is assumed to be borne within a 'normal' level of allowance for transport contributions in order to be consistent with treatment for other sites. If the bridge cost was more, we would expect contributions under other heads to be less. However the scheme would not be expected to fund the entire footbridge.	
Present market conditions	Sales values have fallen away since Apr 08, landowners reluctant to sell, overhang of flats	It is accepted that values have fallen since Apr 08. The report was primarily drafted shortly thereafter – if written afresh today it would look slightly different. The market situation remains volatile and it is felt that it would be better to get on with an update mechanism rather than delay the report further arguing about the situation as it was at that time.	
	Sensitivity didn't go low enough – it needs to allow further 20-25% price reduction	Sensitivity is intended to be illustrative not predictive	
	Brownfield site can't come forward now whether any affordable or not	This is a broad assertion and therefore does not require any specific response.	
	Sales values need to fall by at least 25% since late 2007 level	Figures are for April 2008	
Sales values	Sales values would be harmed by presence of affordable housing at/above 40%	We might accept some adjustment at 50%, but values do reflect sites with affordable housing – some presumably at significant levels	
	RSL response is acknowledged to be disappointing – in fact RSL prices have moved back so likely now too optimistic	We are sympathetic to the principle of including updated RSL prices in the periodic update.	
Finance	Interest rate on credit balance is too high	With the RV approach maximising land payment, this is only an issue arising for a very short period at the end of development;	

Phasing	Sales rates are too ambitious	Rates reflect the situation at April 2008 rather than more recently. The larger sites are assumed to be have several phases proceeding simultaneously.	
	Phasing doesn't allow for flats – developers can only sell when the block is completed	See comments on Waterfront site	
Profit	Profit rate will need to go up as market goes down. 20% OK historically but profit rate needs to be higher in present market conditions – 23-25%	We would accept this may be true currently. The issue of current profit allowance is a matter for future update procedure	
	Higher affordable proportion increases risk so profit should rise not fall. Logical to reduce profit as affordable % rises, but shareholders will see resources tied up in affordable production. Accept there is lower risk on affordable - but developer's focus is on return on capital and in practice they would not accept a reduction.	Higher affordable provision for a given land value is of course more 'risky'. However that is not the approach taken here – RV is calculated and requires a view about the appropriate target profit level. The principle appears to be conceded but not accepted. Affordable housing provides a guaranteed output and timetable. This may be a matter for presentation by developers to shareholders and financiers.	
Land values	Valuation Office Agency figures are now way out of date, too high; they reflect land being purchased on blind belief prices still rising	VOA data only being used for very broad corroboration	
Alternative use values	Insufficient margin is allowed over alternative use value to deliver a site in a reasonable time frame. Landowner will wish to see a share of the uplift, and agricultural land owned by family or Trust who would need to recover planning costs; farmers would not sell at £10k	The study methodology requires a margin over the alternative use value to deliver a fully viable site. In a study of this kind (particularly one including a large number of notional sites) an indicative value for this margin has been used, rather than seeking to determine what the appropriate allowance should be for each and every site. The value use here is £35-40k per acre. This figure gives a 15% markup on industrial land value in the area of highest land value, Ipswich, or around 20% outside Ipswich. If the RV exceeds alternative use value by less than this amount, the site is described as 'marginal'. <u>We are happy to amend the report to make this principle more explicit.</u> The margin is always going to be an indicative figure in studies of this kind.	A new section spells out the principle of a 'cushion' over the alternative use value
	Take account of ALL alternative uses, e.g. garden land inside a settlement may have commercial potential	Typically a garden located wholly within a residential area will not be suitable for a non-residential use and it is reasonable to assume this as the norm. We believe we are correct with site 8 and feel this is a reasonable approach for Option B (SC)	

Use of SHG to improve viability	Social Housing Grant (SHG) would improve viability but study should not assume unless availability is certain Depends on how much grant - would make a marginal site, viable Grant is now essential because of high s106 costs	We have not assumed any SHG See response on s106	
	Grant should be equivalent to nil land value – recent experience suggests about £20k per dwg	We can see the advantage of a 'standard' grant but grant is normally going to be making up particular deficiency on the site in question.	
	RSLs don't want to purchase flats anyway	No comment	
Suggested update approach	Figures already out of date Costs alone not sufficient basis for update – must include market; Would support if robust mechanism to allow for market costs	Agreed Consultation document's wording was perhaps not precise enough. Several elements will need to be allowed for, market values the most important. <u>We will review wording to ensure this is clear.</u>	Wording changed to clarify that costs will need updating as well as values
	Any approach must address total supply issue in longer term, and react or allow for market conditions in shorter term Percentage target must be low enough to provide incentive Don't want to send developers elsewhere: need to encourage innovation	It is not clear what longer term supply issue referred to, in practice. Needs to be addressed above Refer to profit heading	
	Approach must be transparent	Agreed	
	Some difficulties are foreseen – Councils not having enough resources for regular updates; it's an innovative approach but may be better to set a target and require departures to be justified Updates won't address site specific issues S29 requires a target to be set District wide	Resource problem is perhaps a matter for the Councils to address; however it is envisaged that the update would be written into policy wordings and so be an inescapable obligation. If relevant to study they need to be dealt with at present stage not later It is agreed that some target is required. This is a matter for the Local Development Framework	
	Principle is sound but Level 3 will make matters worse Long time before we regain 2007 values - estimate 2013. Level 4 will further add to costs so Fordham commentary is unduly optimistic – at least 5 yrs of limited viability	Level 3 is allowed for. The purpose of the approach is to make such speculation unnecessary The commentary was written some time ago – we accept it is a changing situation but now need to move on to the update stage	

	Treat each site on its merits A standard valuation methodology would help the process, and provide greater certainty	The reasons why, are not completely clear – this may reflect confusion about the study purpose Agreed but see above	