Affordable Housing Threshold Viability Study

Mid Devon District Council

Mid Devon

District Council

Viability Update & CIL

May 2011

fordham RESEARCH

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List of abbreviations

£ k	thousand pounds
£ m	million pounds
CSH	Code for Sustainable Homes
dwgs	dwellings
ft	foot
ha	hectare
m	metre
sq	square
Q1	Quarter 1
LA	Local Authority

1. Introduction to study

Introduction

1.1 This report provides guidance to inform the setting of a Community Infrastructure Levy (CIL) charging schedule for residential development in Mid Devon.

1.2 The guidance is intended to assist the Council to determine appropriate charging levels, since the Council is required to take account of the impact upon development viability. To provide the required guidance, the report builds upon the work of an earlier affordable housing viability assessment (AHVA) for Mid Devon. This assessment considered the viability of a range of housing sites under affordable housing requirements at various different levels and terms.

Basis for study

1.3 The final report from the earlier study by Fordham Research for Mid Devon District Council, *Affordable Housing Viability Assessment* was published in April 2009. The bulk of the work was carried out somewhat earlier, and in fact the base date for prices and costs was November 2007.

1.4 In order to provide guidance on affordable housing targets and viability, the study produced financial appraisals for seven notional sites, in each of the four towns within the Council area. Appraisals were prepared for affordable housing requirements of 25%, 32.5% and 40%, in each case for options of 'free land' and 'zero grant'.

1.5 The appraisals took the conventional approach for studies of this kind. They calculated the residual value (RV), that is, the maximum amount a developer could afford to pay for the site under the particular development assumptions applying, and still achieve a target profit level. The RV was then compared to an alternative use value for that site, i.e. what it would be worth in some other use. Only if the RV exceeded the alternative use value, and by an appropriate margin or 'cushion' (to incentivise the landowner), was the site held to be viable.

1.6 The study concluded by assessing the results for the various sites and affordable options, and providing guidance on the levels of affordable target that were felt to be viable under both 'free land' and 'zero grant' terms. The viability analysis was also used to provide suggested figures for commuted sum contributions.

General approach

1.7 The present report is designed to inform the emerging CIL charging schedule, by establishing what level of financial contribution is viable for residential development. To do this the appraisals in the original AHVA study will be updated to an April 2011 base date. They will then be reworked to show what levels of CIL contribution could be afforded by each site at the due level of affordable provision, whilst still allowing the scheme to make a target level of profit.

1.8 This report is written as an Annex to the Affordable Housing Viability Assessment dated April 2009, and is designed to be read in conjunction with that report. Much of the work carried out is an extension to the earlier study, and based on the same methodology and assumptions. It should be noted that the bulk of the study work was carried out during late autumn of 2007.

1.9 We take this opportunity to make the important and fundamental observation that the ability of a site to contribute to CIL will depend, in part on a wide range of factors – including the range of planning policies adopted by the Council. The more affordable housing, or the higher eco standards, or the higher design standards required all add to the cost of a development and thus reduce the ability to contribute. This study does not look at how these factors interact and how changes in one element may alter another.

2. The CIL Guidance

National guidance

2.1 Guidance on affordable housing policy issues is now provided by PPS3. This was commented on in the AHVA and will not be repeated here (although PPS3 was subject to very minor wording changes in June 2010).

2.2 Section 206 of the Planning Act 2008 gives to Local Authorities the power to charge CIL subject to certain conditions.

2.3 The general point about CIL is that it much resembles affordable housing. It is an evidence based tax which is also means tested: it is not intended to prevent development.

CIL Guidance

2.4 In March 2010 CLG published Community Infrastructure Levy Guidance, Charge setting and charging schedule procedures. This guidance requires the Council to publish a 'Charging Schedule'. The present study will inform the preparation of the Charging Schedule.

2.5 The Charging Schedule will sit within the Local Development Framework; however, it will not form part of the statutory development plan nor will it require inclusion within a Local Development Scheme. The guidance says:

> *Charging authorities must express CIL rates as pounds per square metre, as CIL will be levied on the gross internal floorspace of the net additional liable development. The published rate(s) within an authority's charging schedule will enable liable parties to anticipate their expected CIL liability.*

2.6 The Guidance goes on [paragraph 24] to say when preparing the rates of CIL:

> *The initial stage of preparing a charging schedule focuses on determining the CIL rate(s). When a charging authority submits its draft charging schedule to the CIL examination, it must provide evidence on economic viability and infrastructure planning*

…complied with the requirements under Part 11 of the Act, including the requirements governing the setting of CIL rates. Regulation 14 requires that a charging authority, in setting CIL rates, 'must aim to strike what appears to the charging authority to be an appropriate balance between' the desirability of funding infrastructure from CIL and 'the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area'

2.7 On preparing the evidence base on economic viability the Guidance says:

Charging authorities should use an area-based approach, which involves a broad test of viability across their area as the evidence base to underpin their charge. Charging authorities should take a strategic view across their area and should not focus on the potential implications of setting a CIL for individual development sites within a charging authority's area. Regulation 14 recognises that the introduction of CIL may put some potential development sites at risk. It is for charging authorities to decide what CIL rate, in their view, sets an appropriate balance between the need to fund infrastructure, and the potential implications for the economic viability of development across their area.

Economic valuation

There are a number of valuation models and methodologies available to charging authorities to help them in preparing evidence on the potential effects of CIL on the economic viability of development across their area. There is no requirement to use one of these models, but charging authorities may find it helpful in defending their CIL rates to use one of them.

Appropriate available evidence

The legislation (section 212 (4)(b)) requires a charging authority to use 'appropriate available evidence' to inform their draft charging schedule. It is recognised that the available data is unlikely to be fully comprehensive or exhaustive. Charging authorities need to demonstrate that their proposed CIL rate or rates are informed by 'appropriate available' evidence and consistent with that evidence across their area as a whole.

A charging authority should thus draw on existing data wherever it is available. Charging authorities may consider a range of data, including:

- *values of land in both existing and planned uses (see, for example, VOA Property Market Reports); and*

- *property prices (e.g. house price indices and rateable values for commercial property).*

In addition, a charging authority may want to sample directly a few sites across its area in order to supplement existing data. The focus should only be on a limited number of sites, particularly those sites where the impact of CIL on economic viability is likely to be more significant. Where a charging authority is proposing to set differential rates, they may want to undertake more fine-grained sampling (of a higher percentage of total sites), to identify a few data points to use in estimating the boundaries of particular zones, or different categories of intended use. The focus in regulation 14(1)(b) on an area based approach to viability means that charging authorities need rely only on a limited approach to sampling, whether they are setting a uniform or a differential rate.

In considering the effect of CIL on residential development, charging authorities in England may want to draw on the work done to inform their Strategic Housing Land Availability Assessments (SHLAAs) on maintaining a deliverable supply of land for housing, as required by PPS3. The methodology undertaken for the SHLAA and the knowledge it has given of viability in the local area should inform an authority's approach, but a charging authority may need to revisit their SHLAA to update it to reflect more recent changes that have an impact on viability across their area, (usually without changing the methodology). Charging authorities will also need to supplement their SHLAA with information about non-housing sectors, such as the retail and commercial sectors (for example, information on rental yields and property values), depending on the balance of development within their area.

2.8 In relation to evidence, this report draws heavily on the Mid Devon Affordable Housing Viability Assessment (AHVA) published April 2009, and other sources of secondary evidence.

Key elements of CIL

2.9 Para 29 of the CLG's publication, "*Community Infrastructure Levy: An Overview*" sets out that

charging schedules may include differential rates of CIL, where they can be justified on the basis of the economic viability of development in different parts of the authority's area or by reference to the economic viability of different types of development within the area'

2.10 This would be important in an area where there were major differences in viability.

2.11 Para 53 contains perhaps the most important statements about CIL, under the heading 'Exceptional Circumstances':

> *Given the importance of ensuring that CIL does not prevent otherwise desirable development, the draft regulations provide that charging authorities have the option to offer a process for giving CIL relief in exceptional circumstances where a specific scheme cannot afford to pay CIL. A charging authority wishing to offer exceptional circumstances relief in its area must first give notice publicly of its intention to do so. A charging authority can then consider claims for relief on chargeable development from landowners on a case by case basis, provide the following conditions are met. Firstly, a section 106 agreement must exist on the planning permission permitting the chargeable development. Secondly, the charging authority must consider that the cost of complying with the section 106 agreement is greater than the CIL charge and that paying the charge would have an unacceptable impact on the development's economic viability. Finally relief must not constitute a notifiable State aid.*

Summary

2.12 CIL, unlike planning gain, is designed to generate funding to pay for infrastructure that is generally required across an area. It is not addressed to the site specific impacts of a given development, as planning gain is.

2.13 Once set, it takes the form of a schedule which applies to given types of planning application, or given sub-areas within the Council area.

2.14 It is not designed to impede viability. In other words it is means tested like affordable housing. Like an affordable housing target for a district, which is set on a 'broad-brush' principle that it will work on a majority of sites, the CIL schedule is capable of being operated selectively, to allow for variations in viability.

3. Site appraisals update

Introduction

3.1 In this chapter we consider how the AHVA study's site appraisals were updated to show viability for a current base date of April 2011.

AHVA study sites

3.2 The AHVA study considered a total of seven sites, identified by the Council to typify development in the area. These were all notional sites.

3.3 There were three greenfield and four previously developed sites. Two of the greenfield, and three of the 'brownfield' sites were below the national guidance threshold of 15 dwellings. The sites are listed in the Table below.

Table 3.1 AHVA site options

Status	*No of dwgs*	*Site area*		*Density dw/ha*
		ha	*acres*	
Greenfield	100	2.86	7.07	35.0
Greenfield	10	0.29	0.72	34.5
Greenfield	5	0.15	0.37	33.3
Previously developed	50	1.0	2.47	50.0
Previously developed	10	0.2	0.49	50.0
Previously developed	5	0.1	0.25	50.0
Previously developed	1	0.02	0.05	50.0

Source Fordham Research Viability Study

3.4 Appraisals were prepared for the above sites, in each of the four principal settlements of Mid Devon – Tiverton, Crediton, Cullompton and Bampton.

3.5 The study considered the appropriate development types, to be applied to each site. It examined a sample of typical recent local developments to determine the built form characteristics, and dawing on this and experience elsewhere, a total of five development types were identified. This comprised a base type for greenfield sites, and one for brownfield sites, together with variant built forms - one variant for greenfield sites, and two variants for previously developed sites – in order to explore the viability impact of a more intensive built form than the slightly conservative base option.

3.6 The development types are summarised in the Table below. In practice, for arithmetical reasons the floorspace figures varied slightly between the different site sizes; the detailed figures are shown in Table 2.4 of the AHVA report.

Table 3.2 Development types

Type	Base /variant	Status	Density	Floorspace density	Floorspace net ave		
			Dw/ha	Net sq ft per acre	Net sq m per ha	sq ft	sq m
A	Base	Greenfield	35	12,500	2,870	890	83
B	variant	Greenfield	35	15,500	3,560	1,080	100
C	Base	Brownfield	50	15,500	3,560	760	71
D	variant	Brownfield	50	19,000	4,360	930	86
E	variant	Brownfield	67	26,000	5,970	950	88

Source Fordham Research Viability Study

Updating appraisals for CIL: approach

3.7 The choice of seven sites, four locations and five development types produced quite a considerable number of site options in the AHVA. This multiplicity was further compounded by the need to consider three affordable target levels, and two sets of terms ('free land' and 'zero grant').

3.8 In practice, of course, the notional nature of the sites, the fixed development types, and four locations (two with identical price levels) meant that in practice the degree of diversity represented by the appraisals was somewhat less than the numbers of options might suggest. This was borne out in the appraisal results, which on careful examination could be seen to vary in a systematic way between the various options.

3.9 For the present study it was felt after consideration that appraisals for a more limited range of site options could be used to inform CIL charging, without appreciably reducing the robustness of the results. Seven of the 18 site size/type combinations were selected. The range of site/type options selected is shown in the Table below.

3.10 Alongside this, the view was taken that three of the four locations, west and highest priced, would reasonably cover the range. The appraisals for Bampton and Cullompton, highest and lowest priced, were selected for CIL analysis, together with Tiverton – which the AHVA had in found to be similarly priced to Crediton.

Table 3.3 Site options selected for CIL study					
	Development type				
No of dwgs	*Greenfield*		*Brownfield*		
	A	*B*	*C*	*D*	*E*
100	✓	×	O	O	O
50	O	O	×	×	✓
10	×	✓	×	✓	×
5	✓	×	✓	×	×
1	O	O	×	✓	×

KEY ✓ = in AHVA and selected for CIL

× = in AHVA but NOT selected for CIL

O = not in AHVA

Source Fordham Research Viability Study

Updating appraisals: costs and values

3.11 In order to provide current guidance, appraisals will need to be updated so that they reflect current costs and values.

3.12 For context, general price inflation from November 2007 to March 2011 (latest data available) was +11.8% (CPI) and +10.9% (RPI). Since November 2007, build costs are therefore likely to have risen significantly. On the other hand, in retrospect it is clear that this date broadly coincided with the beginning of a major housing market downturn. This was sparked initially by a so called 'Credit Crunch', which in time turned into a more general economic recession and came close at one stage to a calamitous global collapse. House prices initially fell quite dramatically, and subsequently began to recover, although by early 2011 this recovery seemed to have stalled in most areas outside London. The general economic gloom also affected values of commercial land.

3.13 Below we consider the main cost and value data in turn in order to arrive at appropriate assumptions for updating appraisals from November 2007 to a current (April 2011) base date.

Development costs

(i) Construction costs

3.14 A detailed explanation of the build-up of build cost assumptions for the individual sites was provided in the AHVA. Report (5.2 onwards). They were built up from the Fordham database for houses and flats, indexed using BCIS, and adjusted to Code for Sustainable Homes Level 3.

3.15 A cost premium was added for the sites of 10 dwellings and fewer.

3.16 For the present exercise the AHVA build costs were updated, on the basis of BCIS index figures. The general cost level was adjusted from the November 2007 base date to April 2011 by 12.1% (304.2 compared to AHVA 271.4). The resulting figures appear in the Table below.

Table 3.4 Construction costs

Built form	*Build cost £ per sq ft(sq m)*			
	Base	*10 dwgs (+6%)*	*5 dwgs (+12%)*	*1 dw (+20%)*
Type A	87.00 (935)	92.00 (991)	97.50 (1,047)	104.00 (1,122)
Type B	88.50 (953)	94.00 (1,010)	99.00 (1,067)	106.50 1,143))
Type C	91.50 (983)	97.00 (1,042)	102.50 (1,101)	109.50 (1,180)
Type D	93.00 (1,001)	98.50 (1,061)	104.00 (1,121)	111.50 (1,201)
Type E	96.00 (1,031)	101.50 (1,093)	107.50 (1,155)	115.00 (1,237)

Source: Fordham Research derived from analysis of BCIS cost data

(ii) Other development costs

3.17 Allowances are required to cover the range of infrastructure costs – roads, drainage and services within the site; parking, footpaths, landscaping, off site costs for drainage and other services, and so on. The basis for our assumptions was explained in the AHVA (from 5.10). The allowances were calculated as a percentage mark-up from the total build cost, and so are automatically updated in appraisal as the build cost is updated.

(iii) Abnormal development costs

3.18 In view of their notional nature, abnormal costs were not assumed to arise in respect of any of the sites.

(iv) Fees & contingency

3.19 As with development costs, fees and contingency were calculated as a scale allowance and so are automatically updated with build costs.

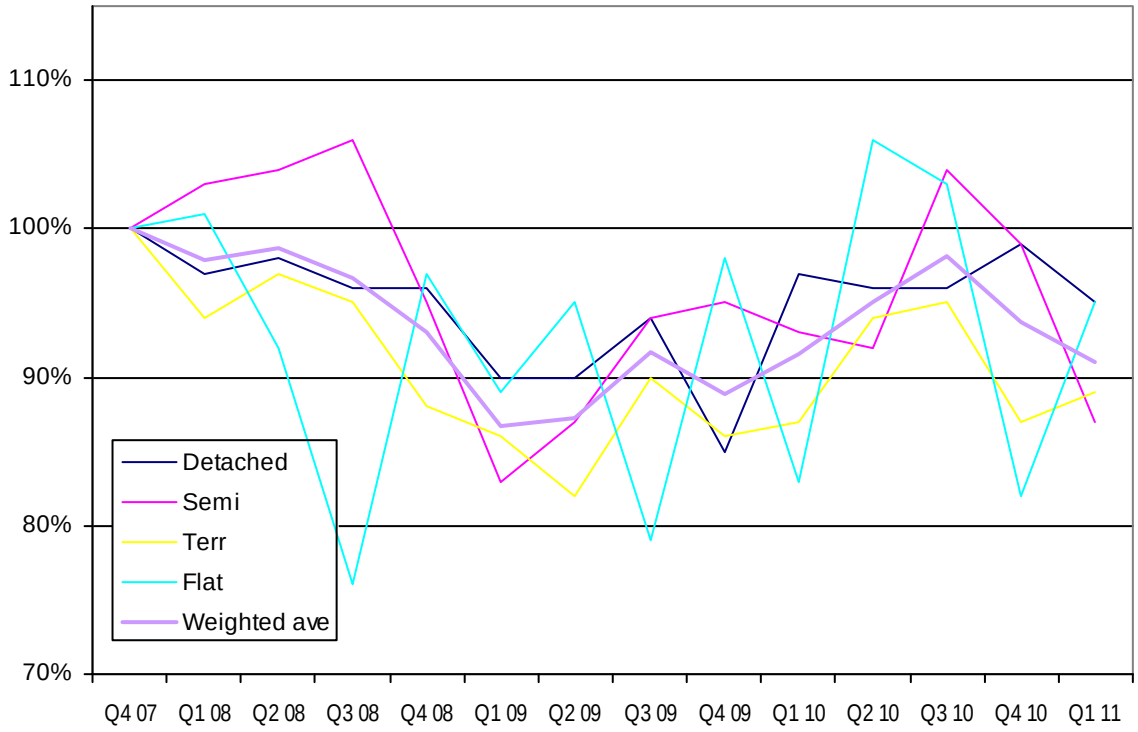
Price assumptions for financial appraisals

3.20 In order to form a view about the appropriate prices to assume as at April/May 2010 we considered published data on house prices, but also collected information on current market prices for new build homes in Mid Devon.

3.21 A downwards movement in prices from the beginning of 2008 was universally experienced across the country. Prices fell generally by around 20% from peak levels, and possibly by more for new build properties which developers needed to shift. Prices began to recover in early to mid 2009, although by early 2010 the recovery had halted. In most parts of the country prices are currently at about the same level as then. However in London prices in the more desirable locations have continued to creep upwards, and among prime residential property the peak levels of late 2007 have been regained or surpassed.

3.22 Land Registry data provides evidence of price movements specific to Mid Devon. However the data are in respect of completed sales and are felt to lag somewhat behind market trends. The quarterly data by house type have been expressed as indices from a Q4 2007 start date, together with a weighted average for all four house types. The results are shown in Figure 3.1.

Figure 3.1 Land Registry price movements



Source Land Registry

3.23 The relatively small numbers of flats mean that their price is somewhat volatile. However, overall, and looking more specifically at the weighted average index, which eliminates the effect of variations in type mix, the chart appears to echo the national experience fairly well. The lag might mean that the extent of the downturn is understated (because Q4 2007 prices would have contained some sales at prices agreed before the peak was reached). It suggests a fall to Q1 2010 of some 9.0%.

3.24 Looking at regional house price index figures, though, one would expect that the scale of the reduction at regional level was somewhat larger: 13.1% (Halifax Price Index Seasonally Adjusted South West Region Q4 2007 = 640.3, Q4 2010 = 556.6).

3.25 The Academetrics index produces regional and County level price data series. It uses mix corrected data for all transactions (from Land Registry), augmented with provisional data to give the most up to date picture. The Devon series suggests that prices have fallen by a relatively modest 4.6% over the period since the AHVA base date (November 2007 £254,984: March 2011 £243,204).

3.26 We sought evidence of current prices of new build dwellings locally available, and details of currently available properties on some comparable sites as at May 2010 are set out in Appendix 1. Some discounts are available and need to be taken into account. The evidence is relatively limited, being mainly confined to Tiverton and Crediton. It tends to suggest that prices have not fallen as far as the HPI index and Land Registry figures would suggest, but more inline with the Acadametrics data for Devon.

3.27 The original prices were compiled in November 2007 just as the market had turned. An element of the downturn may already have been reflected in the new build prices collected then - even though it might not yet show up in index figures for that date.

3.28 Accordingly we concluded that the November 2007 prices should be reduced by no more than 5% to represent the current market situation in Mid Devon.

3.29 This would give prices for the CIL appraisal site types as shown in the table below.

Table 3.5 Price bands

Location	*Price £ per sq ft (sq m)*				
	Greenfield		*Brownfield*		
	A	*B*	*C*	*D*	*E*
Bampton	223	222	226	226	229
	(2,400)	(2,390)	(2,430)	(2,430)	(2,460)
Tiverton	209	208	212	212	215
	(2,250)	(2,240)	(2,280)	(2,280)	(2,310)
Cullompton	200	199	202	202	205
	(2,150)	(2,140)	(2,170)	(2,170)	(2,210)

Source Fordham Research Viability Study

Current and Alternative Use Values

3.30 It is necessary to consider how alternative use values have changed since late 2007. In the AHVA greenfield sites were assumed to have agricultural value, and brownfield sites industrial value.

3.31 In late 2007 agricultural land was believed to have a value of around £5,000 per acre/£12,500 per ha, but for the purpose of appraisals was given a value of £10k per acre/£25k per ha. After considering the available evidence we concluded that brownfield land should be assumed to have a value of £150k per acre/£370k per ha. Unfortunately the format and coverage of the Property Market Report changed considerably in 2010, when it became annual rather than biennial and the number of locations covered was significantly reduced.

3.32 Agricultural values from the Report are set out in the table below.

Table 3.6 Agricultural values

Date	*area covered*	*average value of vacant equipped land (mixed dairy/arable)*	
		£k per acre	*£k per ha*
Jan 07	South West Region	5.2	12.8
Jul 07	South West Region	6.7	9.1
Jan 08	South West Region	6.4	15.9
Jul 08	South West Region	7.0	17.3
Jan 09	South West Region	7.1	17.4
Jul 09	South West Region	7.1	17.6
Jan 10	Ave of Devon & Wilts	7.25	17.9
Jan 11	Ave of Devon & Wilts	7.6	18.8

Source: VOA's Property Market Reports

3.33 The data suggests that values have risen. The rise is substantial in percentage terms though not very great in absolute terms. Whilst the average value at Jan 2011 is now £7.6k rather than £5k per acre, it is still less than the £10k per acre (£25k per ha) assumed in the original AHVA study. After consideration it was felt that for the present study the value should be increased to £12.5k per acre/£30k per ha.

3.34 Corresponding data for industrial values is shown in the next Table.

3.35 Coverage in the new Report has been drastically curtailed and, as with the agricultural value data, there is now no regional average figure. So data for the whole period is only available for Bristol and Plymouth, and not for Exeter.

3.36 It is clear that from after the SHLVA mid-2007 base date, industrial land values initially rose, but from the onset of the general economic recession in the second half of 2008, they then fell back. The more limited recent data confirm there has been a subsequent recovery. Plymouth's industrial value is now rather ahead of its mid 2007 level, whilst in Bristol the market presumably dropped back much more severely, and has not fully recovered.

3.37 So the benchmark value for land in Mid Devon may, based on Plymouth data, have moved ahead of the July 2007 starting point, or may not yet have recovered to that point (Bristol). As previously, there is limited availability of land to determine the going price for industrial land in the area. Access to the national motorway network will in practice be a consideration for individual locations. We did find a site in Crediton with outline consent, being offered for sale at around £200k per acre (£495k per ha). Bearing this in mind we concluded that it was appropriate to increase the industrial benchmark value by some 10%, to **£165k per acre/£410k per ha**.

Table 3.7 Industrial values to Jul 09

	Industrial land £k per acre(ha)					
	Bristol	*Plymouth*	*Barnstaple*	*Exeter*	*Yeovil*	*South West Region*
Jan 07	375 (925)	130 (325)	130 (325)	325 (800)	260 (640)	280 (694)
Jul 07	375 (930)	140 (350)	140 (350)	325 (800)	260 (640)	290 (717)
Jan 08	385 (955)	150 (375)	140 (350)	345 (850)	285 (700)	305 (756)
Jul 08	385 (955)	160 (400)	160 (400)	355 (875)	305 (750)	315 (781)
Jan 09	345 (850)	160 (400)	150 (375)	345 (850)	295 (725)	285 (703)
Jul 09	275 (680)	155 (380)	145 (360)	325 (800)	275 (675)	240 (595)
Jan 10	345 (850)	160 (400)	n/a	n/a	n/a	n/a
Jan 11	325 (800)	160 (400)	n/a	n/a	n/a	n/a

Source: VOA's Property Market Reports

The Cushion

3.38 In the AHVA study, a development site option was deemed unviable if the appraisal showed a residual value (RV) below the alternative use value (AUV). However if RV exceeded AUV it was not automatically regarded as viable. It needed to exceed the AUV by a margin which would provide some incentive to the landowner – what might be called a 'cushion.'

3.39 The AHVA suggested that we would require the cushion to be '£35-40k per acre' (£85-£100k per ha) to regard a site as viable (ref paragraph 6.13).

3.40 For the purpose of the present study, we will assume a margin of £40k per acre/£100k per ha. Taking into account the benchmark values discussed above, this means that to be viable a greenfield site must return a total residual value of £52.5k per acre (£130k per ha), and a brownfield site £205k per acre (£505k per ha).

Affordable housing assumptions

3.41 Whereas the previous AHVA study tested various options for the provision of affordable housing, the focus of the present study is on determining what level of CIL contribution could be sought alongside a given policy requirement for affordable housing. That requirement is that set out in the Allocations and Infrastructure DPD, i.e. a target proportion of 35% affordable dwellings applied to the number of dwellings above the relevant size threshold. The size threshold for the four towns in our appraisals is four dwellings. With a tenure split of 60/40, the Council has advised that the rounding policy gives rise to contributions on our appraisal sites as set out below.

Table 3.8 Affordable housing requirements

No of dwgs on site	*No of affordable dwellings*		
	Total	*Social rented*	*Intermediate*
100	33	20	13
50	16	10	6
10	2	1	1
5	1	1	0
1	0	0	0

Source Fordham Research Viability Study

3.42 The financial terms – the prices at which RSLs would purchase affordable housing provided by a developer – also required updating to current (May 2011) values from late 2007.

3.43 Whilst the previous study examined two options for the terms under which affordable housing would be provided – free land, and zero grant – we have been advised that in the present financial climate, reflecting the restricted national availability of grant, we should assume that zero grant support applies. This will lead to a more modest ability to contribute CIL payments than if the less stringent 'free land' terms applied.

3.44 To update the AHVA purchase prices we considered evidence from national indices. The Retail Price Index (RPI) showed a general rise of 10.9% over the period (Nov 2007 209.7, March 2011 232.5). The index of Average Weekly Earnings showed a similar scale of increase, 10.2% (Nov 2007 430, March 2011 474). In the light of this we assumed an increase of 10.0% for social rented dwellings.

3.45 The intermediate (shared ownership) prices would, it was felt, be partly affected by the drop in market values, and were therefore increased by a lesser amount, 6.25%.

3.46 The resulting figures are compared to the previous (AHVA) figures, below.

Table 3.9 Affordable housing purchase prices *£ per sq ft/sq m*

Category	Type	Nov 2007		Apr 2011	
		£ per sq ft	£ per sq m	£ per sq ft	£ per sq m
Social rented	Flat	78	839	86	923
	House	62	667	68	734
Intermediate	Flat	103	1,108	109	1,177
	House	101	1,087	107	1,155

Source: Strategic Housing Land Viability Assessment 2008

3.47 In principle, the emerging proposals for affordable rented homes to largely or wholly replace the social rented tenure would enable Registered Providers to pay higher prices - funded by the higher rent levels. However at this stage details of the product and its funding remain quite sketchy, and it would not be appropriate to base a higher CIL charge on what would inevitably be unreliable assumptions.

Other developer contributions

3.48 In the main AHLVA study, detailed developer contributions assumptions were provided by the Council, based upon District and County Council contributions requirements.

3.49 The purpose of the present study is to establish the scope for CIL. The due CIL charge will effectively replace individually determined contributions. However under the CIL regulations it remains possible to seek contributions, financial or in kind, where these address site specific issues – for example, site access improvements on a significant sized site. Accordingly we have assumed that contributions will still be required on the 100 dwelling greenfield site, at a rate of £2,500 per dwelling, and at £1,000 per dwelling on the 50 dwelling brownfield site.

4. CIL contributions – residential development

Introduction

4.1 In this chapter, we use the analysis of development viability to consider the scale of Community Infrastructure Levy that Residential Development could afford to contribute across Shropshire.

4.2 This work builds directly on the viability analysis previously carried out as part of the Affordable Housing Viability Assessment. That study of course assessed a range of notional sites in four towns across the District area. By incorporating information from the update index values outlined in the previous chapter, we can provide a view of current (May 2011) viability on those sites.

Methodology: AHVA appraisals

4.3 In the AHVS we undertook appraisals, for various development types, on a total of seven notional development sites in each of the towns. The appraisals were designed to establish the Residual Value for each site. We then compared this Residual Value with the Existing Use Value or Alternative Use Value to assess the viability of development coming forward.

4.4 The residual valuation analysis enabled an assessment to be made:

> *Given the likely land values, will a development including X% target for affordable housing be viable?*

4.5 The calculation involved gathering basic information about the site to complete the appraisal. The 'likely land value' is a difficult topic since clearly a landowner will never be entirely frank about the price that would be acceptable: always seeking a higher one. This is one of the areas where an informed assumption has to be made about the 'cushion': the margin above the 'existing use value' which would make the landowner sell.

4.6 Neither the present study, nor the April 2009 AHVA attempts to assess the specific price that could or should be paid for each site. The appraisal worked out what land on a site may be worth if a range of scenarios were to occur, and then compares that amount with its value in some other use to which it could be put. The study does not attempt to predict when a particular landowner may sell a given site, or even if they will sell, since that is a very site specific matter.

4.7 The residual value (RV) results for the eight larger AHVS sites, with base development type, under zero grant, are summarised in Table 4.1 (from Table 6.1 of the AHVA).

Table 4.1 Appraisal results for larger sites					
Zero grant					
No	*Location*	*Residual value £k per acre for affordable option:*			
		No aff	*25%*	*32.5%*	*40%*
Residual value £ per acre					
Greenfield sites					
100A	Bampton	716	419	354	239
	Tiverton	596	330	248	167
	Crediton	562	304	225	147
	Cullompton	499	257	183	109
Brownfield sites					
50C	Bampton	877	495	378	262
	Tiverton	726	380	276	172
	Crediton	675	343	242	143
	Cullompton	600	287	192	98
Residual value £ per ha					
Greenfield sites					
100A	Bampton	1,769	1,035	875	591
	Tiverton	1,473	815	613	413
	Crediton	1,389	751	556	363
	Cullompton	1,233	635	452	269
Brownfield sites					
50C	Bampton	2,167	1,233	934	647
	Tiverton	1,794	939	682	425
	Crediton	1,688	848	598	353
	Cullompton	1,483	709	474	242

Source: Fordham Research, AHVA 2009

Scope for CIL

4.8 In order to assess whether or not a contribution to CIL can be made a calculation needs to be undertaken to establish the 'additional profit''.

4.9 Additional Profit is the amount of profit over and above the normal profit made by the developers having purchased the land, developed the site and sold the units. Our approach to calculating this was to complete the appraisal using the same base cost and price figures, and other financial assumptions, as used in the AHVS - but instead of calculating the residual value as normal, incorporating the viability threshold value (alternative use value plus cushion) into the cost side of the appraisal to show the resulting profit (or loss).

4.10 The amount by which the resulting profit exceeds the target level of profit (previously established as part of the RV calculation), represents the 'additional profit' and provides a measure of the scope for contributing to CIL without impairing development viability. CIL contributions can viably be paid out of this additional profit.

4.11 The starting point of these calculations is to base them on the affordable housing target. The following formula was used:

Gross Development Value
(The combined value of the complete development
Including X% affordable housing)

LESS

Cost of creating the asset, including a profit margin
(land* + construction + fees + finance charges + developers profit*)

=

Additional Profit

**(Where 'land' is the Alternative Use Value, cushion and 'developers profit' is as per the April 2009 AHVA)*

Developer contributions

4.12 In preparing appraisals for the AHVA it was necessary to make assumptions about the level of developer contributions under s106, across the range of sites. The assumptions we made (see AHVS paragraph 3.14 onwards) were based upon the levels of contributions typically made under the then current, i.e. pre-CIL, regime.

4.13 As discussed above at 3.39-3.40, in moving forward to CIL there will remain scope for specific contributions, but the scope will be considerably limited, so as to minimise overlap and avoid the possibility that developers would have to pay twice over. Only site specific matters would therefore qualify.

4.14 Consequently, in running new appraisals we allowed only for nominal amounts of contribution on the two largest site sizes: smaller sites were assumed not to justify any site-specific contribution. A contribution of £2.5k per dwelling was applied on the 100 dwelling site, and £1.0k per dwelling for 50 dwellings. All of the remaining contributions were removed, effectively adding these sums to the CIL's additional profit 'pot'.

Results of CIL appraisals

4.15 Additional Profit was calculated for each site using the updated costs and values, for the assumed target of 35% affordable housing, with zero grant.

4.16 The additional profit figures are set out in the table below. They are expressed as totals, but with per dwelling and per sq ft figures to aid comparison.

Table 4.2 Capacity to carry affordable housing and CIL

Site No	Location	Floor area net sq ft	Additional profit			
			Total £k	£ per dwg	£ per sq ft	
					All dwgs	Mkt dwgs only
Greenfield sites						
100A	Bampton	883	1,537,694	15,377	17.41	25.99
100A	Tiverton	883	664,993	6,650	7.53	11.24
100A	Cullompton	883	103,588	1,036	1.17	1.75
10B	Bampton	1,093	385,874	38,587	35.30	44.13
10B	Tiverton	1,093	90,816	9,082	8.31	12.22
10B	Cullompton	1,093	23,159	2,316	2.12	2.65
5A	Bampton	890	113,908	22,782	25.60	32.00
5A	Tiverton	890	63,994	12,799	14.38	17.98
5A	Cullompton	890	31,906	6,381	7.17	8.96
	Ave greenfield			**12,779**	**13.22**	**17.44**
Brownfield sites						
50E	Bampton	964	93,007	1,860	1.93	2.84
50E	Tiverton	964	-380,382	-7,608	-7.89	-11.61
50E	Cullompton	964	-718,516	-14,370	-14.91	-21.92
10D	Bampton	939	112,130	11,213	11.94	14.93
10D	Tiverton	939	5,759	576	0.61	0.77
10D	Cullompton	939	-70,220	-7,022	-7.48	-9.35
5C	Bampton	729	-15,697	-3,139	-4.24	-5.30
5C	Tiverton	729	-57,255	-11,451	-15.45	-19.32
5C	Cullompton	729	-86,939	-17,388	-23.47	-29.33
1D	Bampton	939	14,548	14,548	15.49	15.49
1D	Tiverton	939	1,640	1,640	1.75	1.75
1D	Cullompton	939	-7,580	-7,580	-8.07	-8.07
	Ave brownfield			**-3,227**	**-4.15**	**-5.76**
	Ave ALL			**3,663**	**3.30**	**4.18**

Source: Fordham Research 2010

4.17 When looking at either total or per dwelling results, it is clear that there are large variations in viability, both within and between the two categories of site. On the whole, the variations are explicable: they follow what might have been expected.

4.18 Viability varies with price level, so that Bampton consistently does best, and Cullompton worst; Bampton sites could afford to contribute quite considerable sums per dwelling. It also worsens as the site becomes very small (the largest greenfield and brownfield sites actually do worse than the next size down because they carry an additional site specific developer contribution).

4.19 However, whilst all the greenfield sites produce additional profit, suggesting they could bear a CIL charge, the brownfield sites are much more varied. Just over half, those shaded red, are not fully viable with the due affordable contribution, and do not therefore generate additional profit. This means that whilst for greenfield sites the average figure for additional profit per dwelling is a respectable £12,799, the average figure on brownfield sites is in fact negative.

4.20 The 2009 AHVA study, based on market conditions as at November 2007, showed that with zero grant, a target of 32.5% affordable housing (broadly equivalent to the present target of 35% on the number of dwellings over the threshold), was generally viable down to at least 10 dwellings. Since that time build costs have risen, and prices fallen, so that is no longer the case.

4.21 The different impacts between greenfield and brownfield sites can be explained in terms of the alternative use value. The low value of agricultural land means that greenfield sites generate additional profit at a much lower land price (£52.5 per acre/£130k per ha) than brownfield land (£205k per acre/£505k per ha) which is based upon an industrial land 'benchmark' value.

4.22 As the figures stand, they indicate that in principle a significant CIL charge could be viably applied across greenfield sites in the District, but not across brownfield sites. Taking all sites together, the results indicate that a CIL charge at a relatively modest level could be set.

4.23 The figures in Table 4.2 as they stand, do not provide guidance as to the levels of CIL which could be applied in Mid Devon without undermining viability. They will need to be adjusted. The calculated additional profit figures have to cover both the cost of a potential CIL payment, and the element of developer's profit on that cost. The latter (20% on cost) needs to be netted out, reducing the potential CIL charge figures from those shown in Table 4.2.

4.24 It should also be noted that under the guidance CIL should only be levied on market dwellings, with affordable homes being exempt from contributing – as per the figures shown in the final column of Table 4.2. It is these latter figures which, after allowance for developer profit as discussed above, will form the basis of a CIL charge.

4.25 The adjusted figures are shown on the next table.

Table 4.10 Possible schedule levels of CIL			
Potential CIL charge	*Greenfield sites only*	*Brownfield sites only*	*All sites*
£ per sq ft	£14.53 per sq ft	£0 per sq ft	£4.18 per sq ft
£ per sq m	£156 per sq m	£0 per sq m	£37 per sq m

Source: Fordham Research 2010

Summary

4.26 Using the AHVA analysis updated to Spring 2011 costs/values, and reversing the normal calculation, we have shown what could be afforded in the way of CIL. Instead of the usual procedure to maximise the land value residual, we used our proprietary software to maximise the profit, subject to the land value exceeding the alternative use value (plus cushion), and therefore producing a viable scheme.

4.27 All of the sites which triggered an affordable requirement were viable without affordable housing. Whilst all of the greenfield sites were viable with their due affordable requirement, and could therefore make a CIL contribution, just over half of the brownfield sites were not.

4.28 The suggested maximum possible rates of CIL are around £150 per square metre for greenfield sites only, reducing to about £35 per square metre for all sites.

4.29 In our experience of other locations, the greenfield sum is relatively comparable, and is felt to offer potential to cover significant infrastructure provision costs across the County. However the 'all sites' figure is much more modest.

5. Study findings

Introduction

5.1 The AHVA study, commissioned in late 2007, considered a range of notional sites across the District. It was carried out at what subsequently became clear, was the very beginning of a prolonged market downturn during which house prices fell quite significantly.

5.2 In order to provide a basis for a proposed CIL charging schedule, the Council commissioned additional work, firstly to update the November 2007 based analysis to Spring 2011 costs and values, and secondly to use this work to derive guidance about what levels of CIL charge would be viable currently, for residential developments in Mid Devon.

Present study

5.3 The update suggests that, whilst prices in Mid Devon may now be only a little lower, perhaps 5%, than the values collected in November 2007, build costs have risen by just over 12%. Alternative use values have also crept up slightly.

5.4 We chose a representative sample of sites from the full list appraised in the original study. The use of notional sites and development characteristics in the AHVA work meant that there were systematic variations in financial outcomes between the various combinations of site, development type and location. It was not necessary to include every site in the original list in order to gain a clear picture.

5.5 Using these sample sites, we have calculated the level of 'additional profit' that would arise on the various sites if they were valued at alternative use value, plus an appropriate 'cushion' to incentivise the landowner. The results suggest that whilst a substantial level of CIL contribution could be sought from greenfield sites without impairing development viability, any level of CIL contribution on brownfield sites could be argued to impact on deliverability. Averaging between greenfield and brownfield sites, only a modest level of contribution could be sought.

Conclusions

5.6 This study has drawn upon the work of the earlier AHVA study in order to produce updated assessments of viability for residential development in Mid Devon. These have provided a basis for calculating what scale of CIL contributions could be levied across the District at current (Spring 2011) costs and values, for sites meeting the approved target requirement for affordable housing.

5.7 Previously the AHVA study suggested that, overall, residential development in Mid Devon could viably provide 32.5% affordable housing, with zero grant, together with significant development contributions as required by Council policy. The 32.5% is broadly comparable to the target tested here, of 35% as applied to dwelling numbers above the threshold.

5.8 The results of the present study show nevertheless that, on average, sites could provide only a modest CIL contribution – around £35 per sq m. Greenfield sites taken on their own could on average provide a more significant contribution, brownfield none at all.

5.9 The difference between the earlier and later studies arises because the AHVA conclusions reflected market conditions as they stood at November 2007. Since that time, build costs have risen by around 12%, whilst prices of market dwellings have fallen back – though not so much, in our view, as regional or national index figures might suggest.

5.10 At this draft report stage, we would welcome the opportunity to discuss with the Council whether any of the assumptions underlining the above provisional conclusion could reasonably be revised. We do not believe that there is realistically any scope for increasing market prices. However some other assumptions would benefit from discussion. In particular, we have given equal weight to sites of different sizes and types, and the three locations; in practice they might not be equally important in terms of the composition of sites coming forward during the plan period for the Local Development Framework.

5.11 The original study assumed that all brownfield sites had an alternative use value based on industrial land, although the possibility had been mooted that the smaller brownfield sites would be on unused garden land, which we would have accorded a somewhat lower value.

5.12 We have also assumed that the Council is seeking to introduce a single charge covering the whole of the District. Its higher prices mean Bampton does much better than the other towns, and brownfield sites in Bampton could overall have borne a CIL charge of some size. We suspect that if rural sites had been included in the AHVA or the study, they would have done equally as well. It would be possible to consider a two tier system comprising Bampton and the villages; and then the other three towns.

5.13 At this stage, we have not taken account of the emerging 'affordable rent' housing tenure, which Government has proposed should largely replace social rent housing in new build affordable housing provision. Theoretically at least, the higher rent levels mean that providers could offer higher prices, and that consequently sites would be more viable if affordable rent replaced the more traditional product.

5.14 The details of how affordable rent would operate, at what level locally rents would be pitched, how the tenure would be viewed by funders, and indeed whether the potentially higher payments could be clawed back or retained for further affordable housing investment, are at this stage extremely sketchy.

Appendix 1. Newbuild schemes

A1.1 The schedule below provides details of a number of current newbuild developments and other comparable housing in the District.

Table A1.1 Newbuild schemes

Site	*Builder*	*No of dwellings*	*Range of dwellings*	*Prices currently available*
St Aubyn's Wood Tiverton	Heritage	14	3 & 4 bed houses	£275k-£450k
Mill St Crediton	n/a	12	2 bed flats	£122k-£129k
The Burrowe Market St Crediton	n/a	12	1 & 2 bed flats	£119k-??
Western Rd Crediton	n/a	2	4/5 bed houses	OIEO £399k
Merchants Walk ph 2 Higher St Cullompton EX15	Persimmon	n/a	2 bed flats 3 & 4 bed houses	£115k-£285k
Ashleigh Park Bampton EX16 9LF	n/a	1	4 bed bungalow	OIRO £450k
Old Mill Court/Millhayes Tiverton EX16 6FL	Devonshire Homes	23	1 & 2 bed flats 2 3 & 4 Bed houses	£124k-£235k
Moorhayes Park Tiverton EX16 6FH	Devonshire Homes	n/a	2 bed retirement flats	£175k-£215k
Witheridge Tiverton EX16 8EZ	Devonshire Homes	n/a	2 3 & 4 bed houses	£149k-220k

Source: Mid Devon Affordable Housing Threshold Viability Study, Fordham Research 2010