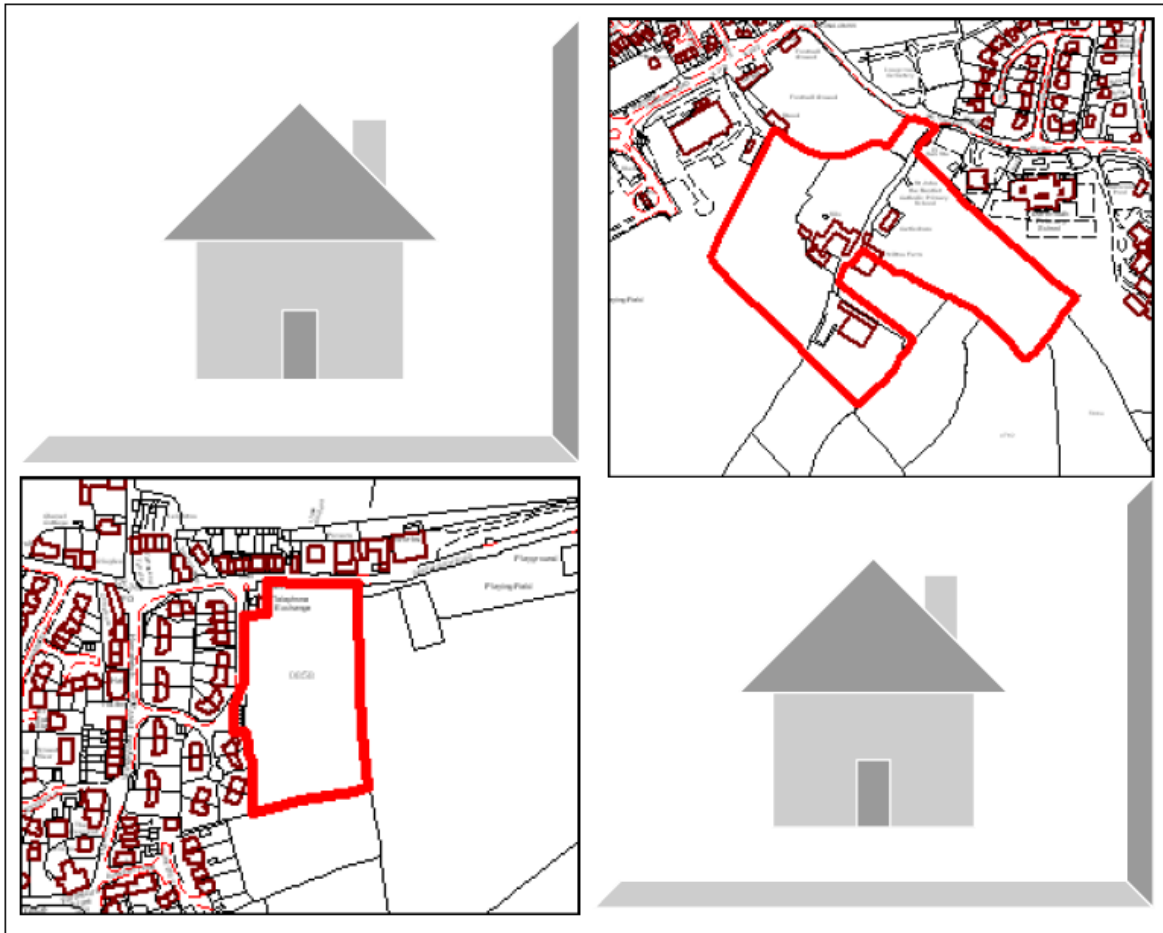


South Hams District Council

Viability of housing proposals in the First Deposit Local Plan



Final Report April 2004

BAKER
ASSOCIATES

South Hams District Council: viability of housing proposals Baker Associates - April 2004 - Final Report - Executive Summary

- Baker Associates were commissioned by South Hams District Council in April 2003 to prepare a study into the viability of housing and mixed-use development proposals in the First Deposit South Hams Local Plan. The sites ranged from just 6 dwellings to 3500 for the New Community.
- The main purpose of the study was to test the commercial viability of each proposal, taking account of the community gain package sought, including affordable housing, and infrastructure requirements. For each site, a valuation is provided, set in the context of the site characteristics, the local housing market, and development constraints.
- Emphasis was particularly placed upon deliverability, requiring detailed discussion with landowners and developers. In the event of uncertainty over deliverability, or marginal viability, the study recommends options for the Council to consider in order to achieve viability.
- South Hams is a beautiful area and popular holiday destination, which makes the area popular with second homes purchasers, as well as for commuters to Exeter, Torbay and Plymouth. The effects of high demand upon local house prices is predictable, and reflecting these circumstances, the Housing Needs Survey for the South Hams and Plymouth indicates a significant shortfall in the provision of affordable housing.
- With this in mind, the Council maintained strict confidentiality about the location of possible development sites up to Local Plan publication in January 2002. This had the effect of preventing unrealistic hope values being established, therefore maximising 'betterment value' and enabling the maximum provision of affordable housing.
- The District Council commissioned this study to help inform the debate about the viability of the Local Plan's development proposals. A large number of objections were received to the Local Plan in January 2002. Many developers and landowners objected to elements of the community gain packages envisaged for each of the allocated sites. In particular, the housebuilding industry objected in relation to their economic viability. The overriding objection was to the requirement that at least two thirds of all housing on the allocated sites should be affordable, and that some sites should be 100% affordable.
- As a starting point, the study has considered what the concept of 'viability' means in practice. This is defined as *the attainment of a site value sufficiently in excess of the current site value that a landowner, acting reasonably, would accept, thus securing delivery of the proposed development.*
- A Steering Group comprising the District Council's officers, and the consultants, Baker Associates, held discussions on a regular basis throughout the study period to agree the approach, methodology and the draft report. The first task for this group was to establish the factors to be taken into account when carrying out viability studies, particularly relating to the variables which can lead to wide differences in valuation.
- The second step of the study was to carry out an objective assessment of each site in terms of its physical and planning characteristics. The information provided for each site includes details of the area, its policy context, ownership, current use, constraints, access, proposed uses, sustainable development principles, community gain sought, a concept statement critique, and a Local Plan consultation summary.
- The third step considered a detailed valuation for each allocation. This included the establishment of a land budget in order to conclude the amount of land in uses which produce value, the calculation of an interim land value, the addition of the value attributed to land for affordable housing, and the arrival at a residual land value by the deduction of abnormal and development costs. The final task was to provide a viability statement for each allocation. In the event of marginal viability, options which would achieve viability have been suggested to the Council.
- The study has demonstrated that the Local Plan target of 66% affordable housing is achievable in almost every case. Of the 19 allocations, 12 are demonstrably viable, and with minor adjustments, 17 out of the 19 would be economically viable, and therefore should be deliverable through the normal mechanisms and operation of the housing market.

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1 Introduction - Purpose of the study

- 1.1 Baker Associates is instructed by South Hams District Council to undertake an assessment of the viability of the housing and mixed use allocations contained in the first deposit Local Plan of January 2002. This report sets out the findings of this appraisal.
- 1.2 Viability, or a lack of viability, is a concept frequently referred to by developers and landowners in seeking lower contributions towards the provision of community facilities. The argument put forward is that the overall burden of community gain items, such as affordable housing and education provision, reduce the actual value to the owner below that of its existing or alternative value, or to such a level as to render it 'unviable', or simply not profitable enough to make a sale worthwhile to the owner.
- 1.3 The approach we have taken to this concept is that it is rational to assume that if a valuation is arrived at in reasonable excess of the current site value, the landowner will be targeted by developers, and the site will be delivered through the operation of the market. The study has determined in each case what a 'reasonable excess' is in practice. It must be a level sufficiently acceptable, given all the planning circumstances, to persuade the landowner to dispose to a developer. The definition of 'viability' for the purposes of this study is the attainment of a site value sufficiently in excess of the current site value that a landowner, acting reasonably would accept, thus securing delivery of the proposed development.
- 1.4 The South Hams area is required to accommodate substantial development, including a new community at Sherford, to contribute towards the development requirements of the Plymouth sub-region. The majority of the development requirement within the sub-region is locally-generated, and a housing needs survey has shown that development proposals within this area should include a significant proportion of affordable housing, together with a full range of transport, community and other infrastructure.
- 1.5 The rest of the South Hams is made up of a number of market towns and their rural hinterlands. In these areas, a Housing Needs Survey has demonstrated strong evidence of a substantial need for affordable housing for local people. The Local Plan includes a variety of development proposals in each of the towns and in a series of smaller settlements to address this need. In each case, a range of infrastructure and community benefit is proposed to be brought forward alongside the housing and other uses. For most allocations, there is the requirement that two thirds of all dwellings are affordable, with half of these being for rent. A small number of sites in villages are proposed for 100% affordable housing.
- 1.6 Most of the housing allocations were completely new, although a few had been inherited from the adopted plan of 1996. The Council had deliberately avoided pre-deposit consultation on any of the new allocations, which are mainly on greenfield agricultural land, to avoid any speculation by developers leading to escalations of development land values, and the acquisition of 'hope value'. In this way, landowners and potential developers could begin to negotiate from the clear position set out in the Local Plan, with its ambitious community gain

package set out. This position of confidentiality was maintained up until the date of first deposit of the Local Plan in January 2002.

- 1.7 Whilst the Local Plan was on first deposit, a vast number of objections were received by the Council. Many developers and landowners have objected to various elements of the community gain packages envisaged for each of the allocated sites, in particular by the housebuilding industry in relation to their economic viability.
- 1.8 The position is summed up by the House Builders' Federation, which stated in its objection to policies HO5 and HO6, which are described as "excessive, onerous, and run completely counter to the requirements of Circular 6/98".

" The approach fundamentally affects the viability of all housing sites within the plan period and is completely unsubstantiated by local needs."

The HBF goes on to state, in relation to the requirement for two thirds of dwellings to be affordable :

"The HBF hopes that such a ludicrous and unviable approach has been developed through a lack of understanding of development economics rather than the more cynical interpretation of the underlying reason for the imposition of such thresholds".

- 1.9 In the light of these representations, the Council wished to test the viability of each proposal, and has sought guidance from Baker Associates concerning the value of each allocated site in its proposed use, taking account of the wider community gain package sought, including affordable housing, infrastructure requirements, and a comparison between current, and proposed use value. Taking account of the specific housing market and site characteristics, recommendations are sought on site viability, and any changes which might be required to achieve or enhance viability, together with a consideration of opportunities for cross-subsidy, if appropriate or possible.
- 1.10 The specific requirements of the brief for the work are to investigate and advise the Council regarding the commercial viability of the development proposals, with the overall objective of testing the viability and deliverability of each proposal including the community gain and infrastructure targets. For each development site, the following was required:
- consideration of the value of the allocated site in its current use
 - value of the allocated site with the use as proposed in the Local Plan, setting aside any requirement to contribute to the Council's objectives set out in the plan other than for basic infrastructure (eg, roads and drainage), thereby arriving at an **'interim'** land value as set out in para. 2.21
 - the costs of the requirements, objectives and obligations set out in relation to each allocated site in the Local Plan.
 - consideration in each case of the specific market and site characteristics of the locality

- recommendations for each site regarding its viability, any changes which might be required to the development proposal and associated requirements in order to achieve viability or scope to enhance or increase the requirements related to each site proposal
- consideration of the opportunity for cross-subsidy between higher and lower value sites in order to deliver the Local Plan objectives.

1.11 The work for this report has been carried out in three steps:

- firstly, a discussion of the factors to be taken into account when carrying out viability studies, particularly relating to the variables which can lead to wide differences in valuation.
- secondly, an objective assessment of each site in terms of its planning characteristics; the following information is provided for each site:
 - area
 - policy context
 - ownership
 - current use
 - constraints
 - access
 - proposed uses
 - development principles, taken from concept plans
 - sustainable development principles
 - community gain sought
 - concept plan statement critique
 - additional information
 - Local Plan consultation summary
- thirdly, a critical valuation statement, carried out in five steps:
 - Step 1 likely land budget
 - Step 2 arrival at indicative 'interim' land value
 - Step 3 estimates of abnormal and development costs

- Step 4 valuation statement - residual value
- Step 5 interim conclusions - viability statement

1.12 This report was submitted in draft form in September 2003. Following guidance from and discussions with the Council's officers, a draft final report was submitted in January 2004, with recommendations on how to ensure that the study's findings will best inform the local development framework, and be accepted at Independent Examination, if appropriate, as a robust assessment of viability and deliverability. After final consideration and inputs from the Council, this final report is submitted in April 2004.

1.13 It must be appreciated that the valuations were carried out at a specific point in time, and the sales and land values are at a base date. This analysis of the housing market was carried out during June and July 2003, and subsequent use of the valuation conclusions should be updated if required, and as appropriate.

2 Approach

- 2.1 Our approach to the study into the viability of development proposals for South Hams District has specifically addressed the Council's overriding need to test, in the face of formal objections to the First Deposit Local Plan, the viability and deliverability of each of the housing allocations.
- 2.2 We have looked carefully at a number of elements of the Local Plan, and background documents, including the Annual Monitoring Report, and draft Supplementary Planning Guidance notes on sustainable development for development sites, affordable housing, and providing infrastructure to support new development. South Hams is required to provide for 11,500 dwellings in the period 2000-2011. After allowing for completions, commitments, 'windfall' sites calculated in the urban housing capacity study, and an allowance for 2,500 additional dwellings to be completed on sites in Plymouth which Plymouth City Council identified in its urban housing capacity study, there remained 4,450 dwellings to be identified on new sites in January 2002 when the Local Plan was placed on first deposit.
- 2.3 This was achieved in the Local Plan through the allocation of a new mixed use community including 3500 dwellings at Sherford on the edge of Plymouth, together with the allocation of 21 sites on the edges of towns and villages across the District with an estimated capacity of 950 dwellings.
- 2.4 The Local Plan not only aims to meet the Structure Plan housing provision, but also addresses a number of critical community issues, partly arising from the District's role as a popular holiday destination for the whole of the UK. Its beautiful coastline and attractive interior including the southern parts of the Dartmoor National Park make this area a target for second homes purchasers and for commuters to Exeter, Torbay and Plymouth.
- 2.5 The effects of high demand upon local house prices is predictable, as is the financial situation of local people in ordinary jobs commanding rural Devon wages. Reflecting these circumstances, the Housing Needs Survey for the South Hams and Plymouth indicated a significant shortfall in the provision of affordable housing to 2011. In its site specific policies, the Local Plan seeks to ensure that two thirds of the dwellings provided are affordable, half of which should be for rent managed by an RSL. Some sites in smaller settlements are exclusively for affordable housing.
- 2.6 Affordable housing and other community benefits will be sought through agreements with developers and landowners, and include essential physical infrastructure to enable the development to take place, environmental protection, provision of open space, and contributions to facilities such as sports centres, community centres, education, and park and ride sites.
- 2.7 The way that the Council maintained a strict pre-deposit confidentiality up to the date of first deposit in January 2002 about the location of possible development sites, apart from those inherited from the previous Local Plan, should in principle have prevented the development industry from taking investment decisions based on 'hope value'. It would be a reasonable conclusion that the difference

between current agricultural site value, and the value conferred on a site with planning permission for housing will enable the whole range of community planning gain items to be delivered through the mechanisms of conditions and planning agreements. Most of the allocations are undeveloped fields on the edges of settlements, and alternative land values are based upon the existing use, agricultural.

- 2.8 The scope for sharing development value achieved by the grant of planning permission between landowner and community is great. Across the District the value of an acre of purely private housing land ranges from £700,000 - £1,200,000, with a few locations being 20% higher and lower than this range. The price of an acre of agricultural land is around £2,000.
- 2.9 This report is not based upon the production of fully detailed valuations of each individual site, although considerable detail has been achieved. A full valuation is neither possible nor desirable at this stage.
- 2.10 For example, for each allocation a detailed ground investigation report would be needed to determine any abnormal foundation requirements, leading to additional development cost, affecting land values and the formal valuation. The cost of this kind of valuation exercise would be prohibitive, in the region of £5 - £10,000 for each allocated site, and possibly £50,000 for the new community. This cost is out of proportion to the purpose of this exercise, and would be practically impossible, given that much of the information required will not be available until a much later and detailed stage.
- 2.11 Having carefully examined the objections of the House Builders' Federation to the first deposit Local Plan, it is evident that its main concern is the obligation to provide two thirds of all housing on the allocated sites as affordable units. If the proportional requirement had been a more usual 30% or one third, the HBF may have still objected, but probably not to the extent that it is challenging site viability. The critical question to concentrate on is: 'does the requirement of an additional third of all dwellings to be affordable render a site unviable and hence undeliverable?'
- 2.12 Our approach has been firstly to identify and contact all the allocated sites' owners or their agents. If sites are being promoted through the Local Plan, or through pre-application discussions, by the owners, this should mean that they have reached a position which takes account of the development obligations contained in the Local Plan, including the provision of affordable housing.
- 2.13 Whilst owners may still object to the detail of the Local Plan, it would be difficult for them to maintain an economic non-viability argument. Our aim has been to obtain a statement of confidence in the viability of as many sites as possible, which provides additional weight to the viability statements.
- 2.14 All sites are fully analysed, and overall viability assessments of each development proposals are provided. The way in which these have been carried out have followed a series of steps, described below. The chart following shows how the steps of the viability appraisal link together.

Step 1

- Gathering of relevant information
- schedule of development requirements for the site

Step 2

- Schedule of site owners or representatives
- Establish contact with owners to determine their attitude to proposals for the site

Step 3

- Detailed site investigations
- Appraisal of development opportunities and constraints

Step 4

- Establishment of a land budget and 'interim' base land values for sites and land uses
- Assessment of the local housing market

Step 5

- Assessment of all development costs, including the community gain package

Step 6

- Cost analysis to achieve residual site value
- Comparison with current site value to demonstrate value added by planning consent

Step 7

- Viability statement produced for each site
- Consideration of different ways of site delivery including cross-subsidy
- Action statement to demonstrate how site viability might be achieved in marginal cases

The Steps of the viability appraisal

Step 1

- 2.15 The consultants were provided with all the relevant information held by the Council about all the housing allocations, including plans (paper and in electronic format), concept statements, all relevant Local Plan objections and support, and any background information that the Council is in possession of relating to site details.
- 2.16 A schedule of all development requirements was drawn up for each of the site allocations, including:
- physical infrastructure requirements
 - affordable housing
 - community infrastructure and contributions
 - sustainable development requirements
 - all other planning obligations

Step 2

- 2.17 A schedule of landowners was produced, with developer interest if appropriate, for each site allocation. In the case of the new community, this involved the identification of representatives, such as a firm of chartered surveyors, and planning consultants, representing the land interests of a group of owners.
- 2.18 Each owner, developer or group representative as appropriate, has been contacted to determine the attitude to the proposal to develop the site, and to the Local Plan's intentions to seek community gain in line with community needs, albeit in excess of that simply required physically to develop the land.

Step 3

- 2.19 Each site allocation has been the subject of a detailed site investigation, including a site visit, followed by an appraisal of all development opportunities and constraints. All the physical characteristics of the site have been analysed, as well as a full market appraisal of the type of development that the market will be likely to bring to the site.
- 2.20 This process has been informed by discussions with those active in the market, and by the considerable experience we have of urban design solutions. Assumptions were made about the proportions and actual areas of the gross site likely be used for private housing, the two distinctly different types of affordable housing sought by the Plan, as well as information about all other land uses within the site such as open space, strategic landscaping, non-frontage spine

roads, and any other land uses. In this way, a land budget, or schedule of land uses, was built up for use in the valuation steps for each of the sites.

Step 4

- 2.21 This step involved the establishment of a set of 'interim' base land values for each site. This is the land value of an area of land without the requirement for any abnormal development costs or for any item in a community gain package. The 'interim' land value is calculated after the establishment of a land budget, which defines on the one hand, the area of land available for open market housing, and on the other, the amounts of land for affordable housing, and for uses that do not produce any land value, such as public open space. This is discussed further in para. 3.12. It is common for housebuilders and valuers to use the concept of a 'clean' land value as the base point from which to deduct all abnormal costs and planning obligation costs in order to arrive at the actual land value that might be expected to be paid in competition. We refer to this in the report as the 'interim' land value, since items are deducted from it to arrive at the final residual value.
- 2.22 The 'interim' base value was arrived at by reference to what might be allowed, or is possible, by the operation of step 3, taking account of site characteristics and what sort of housing is likely to be achieved, and which value is conferred by the operation of the planning system and by the grant of that consent.
- 2.23 This 'interim' site value will require assessment of the local housing market, including reference to achievable saleable floorspace, and sales values per unit area. The total site revenue has been used to reach conclusions about levels of overhead, whilst the total floorspace is used to arrive at build costs. The 'interim' land value is arrived at by deducting build costs and overhead from total sales turnover.

Step 5

- 2.24 In order to arrive at a site valuation, this step involved an assessment of all the costs of the development. All the development requirements set out in step 1, essentially the community gain package, have been estimated. In the context of this study, a reasonable cost estimate has sufficed, rather than a formal valuation, which is inappropriate to the level of detail needed for these purposes. In most cases, a 'contingency' allowance has been made to set against currently unknown costs, but which are likely to arise, such as foul and surface water drainage improvements.

Step 6

- 2.25 These costs, arising from step 5, have been set against the interim site base value to arrive at the net site value, which broadly equates to what the site should achieve on the open market, assuming the added value conferred by the planning consent.
- 2.26 This net site value will be set against the current site value in each case in order to clearly demonstrate the value added by the planning consent. The net site

value takes account of all development costs, including all development and abnormal costs, as well as the provision of all items of community gain.

Step 7

- 2.27 For each site allocation, a viability statement has been produced, with clear conclusions about what has been taken into account. The concept of 'viability' is discussed in para. 2.33.
- 2.28 In the event of marginal viability, an assessment of what might need to be done to achieve viability has been carried out. This has involved the reduction in the level of provision of different development requirements and obligations. Typically, this has involved a reduction in the proportion of affordable housing sought, and a consequential increase in the proportion of private housing, which would have the effect of increasing the overall land value until 'viability' has been reached.
- 2.29 Other factors could have been the reduction or elimination of items of community gain, such as contributions to education or sports facilities from the affordable housing element of the overall scheme. However, it is the proportion of affordable housing that consistently makes a significant difference to viability.
- 2.30 Consideration is also given to the possibility of cross-subsidy in this step, where by agreement a site which is 'very' viable could provide some of the community gain items unable to be provided on a marginal site in order to deliver the plan's objectives. The scope for this is limited to situations where a viable and an unviable site are in the same ownership, because it is difficult to persuade, for instance, a landowner to provide 75% affordable housing on his or her site because another site can only provide 50%.
- 2.31 Where necessary, a clear statement has also been made in the site assessment as to what action is required to make a site viable, and so to deliver it through the operation of the market.
- 2.32 In most cases, it is rational to assume that if a valuation is arrived at in reasonable excess of the current site value, the landowner will be targeted by the market and the site will be delivered through the market. The study has determined in each case what a 'reasonable excess' is in practice. It must be a level sufficiently acceptable, given all the planning circumstances, to persuade the landowner to dispose to a developer.
- 2.33 The definition of 'viability' for the purposes of this study is the attainment of a site value sufficiently in excess of the current site value that a landowner, acting reasonably, would accept, thus securing delivery of the proposed development. For each site, a firm conclusion on viability has been reached, each of which has sufficient weight to be put before an Inspector at the LDF Public Examination.

3 The valuation process and variables

- 3.1 Before embarking upon a consideration of how land is valued and the variables that affect it, it is first appropriate to define terms and value units. Whilst it would normally be preferable to use metric measurements for dwellings areas and values, the majority of the housebuilding industry still works in imperial, and rather than confuse the situation with a mixture of both, or use metric for the sake of convention, but to the detriment of ease of understanding by the industry, we have opted here to use imperial measurements. Thus land values are expressed as £s per acre, rather than £s per hectare, and sales values are given as £s per sq. ft, rather than as £s per sq.m.
- 3.2 In order to demonstrate the effects of different variable factors on how a land valuation is built up, a standard example is used throughout this section. It is not one of the sites in this study, but an invented site purely for illustrative purposes.
- 3.3 There are several ways to arrive at a land value for a housing site. The most appropriate one depends upon the purpose for which the valuation is sought. For instance, a developer seeking to value a housing site for the purposes of immediate purchase will need to explore the site in minute detail. The following would be required:
- a detailed layout likely to gain planning consent, showing all house types with floorspaces and quantities, wall and roofing materials, all details of road construction, surface detail, boundary treatment, landscaping, lighting, drainage, access
 - all detail of additional ancillary uses, such as public open space, adoption terms, off-site infrastructure works, contributions towards a community gain package (eg, education), terms of the provision of affordable housing, cost of consultants' reports, eg, highways, archaeological
 - a full market research appraisal to arrive at selling prices for all proposed dwellings
 - a full appraisal of construction costs for house types, development costs and ancillary costs
- 3.4 A residual valuation would be carried out to arrive at a land value, which in summary follows the following principles:
- $\text{total sales turnover} - \text{all construction costs} - \text{profit/overhead} = \text{land value}$
- 3.5 A developer bidding for land in competition will make its own assumptions about all these variable costs, in the knowledge that in order to purchase a site it needs to maximise sales prices, minimise all construction costs, and minimise profit and overhead, and balance all these factors in the interests of the long-term financial stability of the company.
- 3.6 Other methods of arriving at a land value can be used if only an estimate is required, for example to test viability, or if a developer is required to give a

landowner a 'ball-park' figure to conclude whether it is in both parties interests to continue with more detailed discussions. These may involve using a per acre land value of net developable land, based upon what has been achieved locally, or by taking a proportion of sales turnover which is accepted locally as the common experience. Land values in the South Hams are commonly accepted to achieve between £700,000 and £1,200,000 per net developable acre of open market housing.

- 3.7 For the purposes of this study, we have chosen to use the principles of the residual valuation method, since this is likely to lead to the most accurate results. In each individual valuation statement, a cross reference is made to land values per net and gross acre as a cross-checking mechanism, and land value as a proportion of sales turnover, which ranges from about 25% to 40%. The higher the sales value, the higher the proportion will be, since construction costs remain generally constant.
- 3.8 Clearly, sites can be developed in very different ways, determined by a wide variety of factors, and the way in which it is developed will have a major impact upon land value. Critically, the overall site sales revenue will depend entirely upon the amount of open market saleable floorspace achieved, so a high density scheme of flats and townhouses producing floorspace of about 18,000 sq.ft. per acre will lead to a higher land value than an inefficient scheme of detached dwellings at 11,000 sq. ft per acre. The higher the land value achieved, the greater is the ability to provide for planning gain whilst maintaining viability for the landowner or developer. For example, a 1 acre site designed at 11,000 sq.ft per acre with selling prices of £180 /sq. ft. should achieve a interim land value of about £600,000. The same site with 18,000 sq. ft will produce a value of nearly £1 million.
- 3.9 The Council together with the Countryside Agency commissioned a study by the Planning Cooperative published in November 2002 entitled 'Planning for Quality of Life in a Sensitive Landscape'. This Study produced a series of Concept Statements for the allocations in the Local Plan illustrating how development might fit into the local landscape settings.
- 3.10 The achievement of community benefit needs to be considered alongside the need to deliver quality. The Study states that community gain expectations "*enable landowners and developers to take proper account of these things in determining land value*". All the requirements for community planning gain, including the requirement for two thirds of all dwellings to be affordable, were also taken account of in producing the Concept Statements and plans. This has resulted in many cases in a relatively small residual area remaining for open market housing, as well as developments which appear to use land in a less efficient way as a result of the character approach to respecting local distinctiveness.
- 3.11 The Concept Statements are predicated upon best principles of design and respect for the setting of each site. However, they may have an impact on the level of viability of sites, and therefore limit the ability of the Council to achieve community planning gain, including the ability to provide for two thirds of all dwellings to be affordable. The approach taken in this report into viability has therefore had regard to the development principles of the Concept Statements but not necessarily followed the illustrative layouts shown where it is considered that

an alternative would better enable delivery of the Council's objectives, particularly affordable housing. This has been with the agreement of the instructing officers at the Council, in the context of the paramount objective of testing viability with two thirds affordable housing. Maximising development efficiency need not be incompatible with good design. The broad general assumption made for each site valuation has therefore been to maximise developable floorspace within the local context and site characteristics.

The variables - land budget

3.12 In order to carry out residual valuations, the study has had first to arrive at a land budget. This defines the areas for different land uses within a site to enable each element to be valued separately, and in particular, to arrive at the net area of open market housing, which produces most of the land value. Assumptions are made in this stage about the likely type and density of development, informed by an understanding of the housing market in South Hams, reflecting the character of the area, and different densities for affordable and open market housing. It must be borne in mind that the primary purpose of this exercise is to seek to maximise land values so that the affordable housing target can be met, as discussed in para 3.11. We are not putting forward design studies to justify particular densities or dwelling totals, but the assumptions made about housing numbers are based upon an understanding of what developers will build in different locations, and achievable densities for both affordable and open market housing. An example of this process is set out below, using the standard example referred to in para. 3.2. **All the sales values and build costs are based at the survey study date of June/July 2003.**

Land budget - total number of dwellings accommodated on site will partly determine amount of public open space, and level of affordable housing. Gross site area is 6 acres, likely to accommodate about 80 units on its net developable area, reflecting the character of the area and likely market	
Gross area	6 acres
Less :	
land for affordable housing (53 dws (66% of 80) at a density suitable for affordable housing, and in character with the proposed development and planning guidance	3.1
public open space (at 6 acres/1000 population - 80 units x 2.25 average occupancy rate x 0.006)	1.1
net area for open market housing	1.8 acres

Coverage, or saleable floorspace

3.13 In order to value the land for open market housing by the residual method, assumptions need to be made about the likely saleable floorspace. As discussed above these assumptions have been predicated upon the need to maximise floorspace within the context of the local market and local site characteristics. 'Coverage', which measures the efficiency of land use, varies according to individual types of scheme, from around 13,000 sq.ft. per acre for a traditional 2 storey development often with detached larger houses, to 18,500 for predominantly 2 - 2.5 storey development, and 18,000 - 21,000 for 2.5 - 3 storey scheme. Coverage has a major effect on sales turnover, and in turn, land value,

which is a consequence of the relationship between sales turnover and development costs, profit, and overhead. Total turnover is dramatically increased by greater coverage, so for each site we are seeking, within the context of the site and its surroundings, to maximise saleable floorspace. The typical example is illustrated below:

coverage : edge of town site likely to be developed for a mix of cottages/terraced dwellings, with a small proportion of detached units. The slopes may reduce coverage, so a medium/high density development of 40 dph should produce a coverage of 15,000 sq.ft/acre. Assume a mix of 2, 3 and 4-bed dwellings on 2 - 2.5 storeys. Construction costs increased to £85/sq.ft. because of slopes.
Saleable floorspace should therefore be around 27,000 sq.ft. [1.8 acre x 15,000].

Sales value

- 3.14 To arrive at a total sales turnover, assumptions need to be made about sales values per sq. ft. These have been derived in each case from evidence of new house sales in the locality. A comparison has then been made between the allocated site and the new dwelling sites, and a conclusion reached about sales prices likely to be achieved. A cautious approach has usually been taken, and the range is from £170 to £220 per sq.ft. One development in Salcombe has average selling prices at about £400 per sq.ft. The standard example of how sales values are arrived at is shown below:

sales comparisons			
Development / house type	sales prices £	floor areas sq.ft	price/sq.ft. £
Frog Quality Homes Popplestone Park, Brixton	445,000	2232	199
Gadd Homes, Avonwick	315,000	1851	170
Gadd Homes, Newton Ferrers	364,000	1878	194
Persimmon, Manadon Park, Plymouth	187,000	1209	154
Persimmon, Derriford, Plymouth	500,000	2445	204
Barratt, Manadon Park, Plymouth	455,000	2192	175
Barratt, Fitzroy Court, Plymouth (flats)	141,500	565	250
Midas, Chapter One, Plymouth (flats)	117,500	623	188
conclusions on sales values: sales values estimated by local agents at £180 - 195 per sq. ft. This typical site is on the edge of an attractive urban area. Therefore a reasonable but cautious sales value in this location is likely to be around £185/sq.ft.			

Build costs

- 3.15 Further variables are the overall build costs including on-site infrastructure, which must be deducted, along with profit/overheads, from total turnover to give a interim land value. After wide consultation with the housebuilding industry operating locally, an average figure of £80 per sq. ft. has been arrived at, which would be applicable to national and regional builders, and to housing associations. The range was quoted from £60 to £100 per sq. ft, with exceptions as high as £130 per sq. ft for high specification in quality developments (Salcombe). If there is a variation from the average figure of £80 per sq. ft, this is justified in the section on coverage, and in the typical example the construction costs are increased to £85/sq.ft. because of slopes.

Profit and overhead

- 3.16 All developers have a slightly different approach to levels of profit and overhead, and an overall average of 25% of turnover is a good representation of the whole industry, although ‘admitted’ levels of profit and overhead varies from 20% to 30%. Armed with all this information, informed calculations can be made about **interim land values** for individual sites. An example, based on the site we refer to as the typical example, of which 3.1 acres is for affordable housing, and 1.1 reserved for public open space, leaving 1.8 acres for open market housing, is as follows:

saleable floorspace sq.ft.	sales value £/sq.ft	turnover
27,000	185	4,995,000
LESS		
build costs @ £85/sq.ft	2,295,000	
profit & overhead @ 25% of turnover	1,248,750	3,543,750
INTERIM LAND VALUE [ILV]		1,451,250

Land value from affordable housing

- 3.17 By far the most important element in this last process is valuing land for affordable housing. Circular 6/98 defines affordable housing as encompassing both low cost market and subsidised housing (irrespective of tenure, ownership – whether exclusive or shared – or financial arrangements) that will be available to people who cannot afford to rent or buy houses generally available on the open market. Both PPG3 and Circular 6/98 state that local plan policies for affordable housing should define what the authority considers to be affordable in the local plan area in terms of the relationship between local income levels and house prices or rent for different types of households.
- 3.18 The South Ham draft SPG on affordable housing states that for the purposes of Policy SHDC2 of the adopted Local Plan, ‘affordable housing’ should be defined as:
- ‘subsidised housing (irrespective of tenure or ownership – whether exclusive or shared – or financial arrangements) that will be available to people who cannot afford to rent or buy houses generally available on the open market because of the relationship between housing costs and incomes’*
- 3.19 There are numerous research documents commissioned by bodies such as ODPM, which deal with the complex issue of the provision of land for affordable housing and its valuation. Detailed discussions have been held with providers of affordable housing in Devon, from private national housebuilders, to housing associations, and the Council’s housing enabling officer. The number of bodies

and research documents consulted closely correlates with the number of views on this subject. Setting aside for a moment the difference between affordable housing for rent, and that for low cost or shared ownership, the attributable land value ranges from zero (popular with national housebuilders) to open residential market value.

- 3.20 Many national housebuilders attribute no land value to affordable housing because they have no certainty of financial return, or experience of how to make it work efficiently. They will often state that the infrastructure costs required to service the land for affordable housing just covers the value that can be recovered from a housing association. Some developers have developed a way to provide affordable housing in a profitable way by carrying out the development itself, before handing affordable units over to a housing association for management, thereby taking advantage of the profit inherent in building the units.
- 3.21 One approach could be to encourage RSLs to acquire the whole of a site with a view to undertaking the whole development including the homes for open market sale. In this way they take the profit from the open market developments and use it to cross-subsidise the affordable units, and successfully compete in acquiring land in the open market against private developers.
- 3.22 The achievement of a positive land value for affordable housing is generally very sensitive to the availability of grant funding from the Housing Corporation, especially for schemes of affordable housing for rent. The availability of grant funding is currently very uncertain, with the recent government announcements that the priority lies in the south east where needs are perceived to be greatest, and nationally, the number of affordable dwelling units is highest. Funding is anticipated to be targeted at the growth points at Ashford, Thames Gateway, Milton Keynes/South Midlands, and Stansted/Cambridge.
- 3.23 There is very recent evidence, however, of the sale of land in South Hams for affordable housing at a reasonable land value. Land in South Brent was sold to a housing association in June 2003 for £240,000, and consisted of 22 plots at £10,910 / plot. 13 plots were for rent, and 9 for shared ownership. This was dependent upon grant availability at the time. The general industry view is that in most large schemes of mixed private and affordable housing developments in urban areas, it is doubtful whether the land for affordable housing will attract sufficient grant funding, on the assumption that the private housing land will cross subsidise the affordable housing development.
- 3.24 There are numerous debates about the provision and funding of affordable housing continuing at all levels of government, and a significant level of lobbying of central government by local interests, and by housing associations, all aimed at increasing the level of subsidy, and eventually, at increasing the overall number of units completed.
- 3.25 This study cannot predict the outcome of this process, and at the present time there is less grant available than there has been in the recent past. Whilst no-one can accurately predict the level of future subsidy, the continuing political imperative will ensure that debate continues. Predictions can only be made taking account of the current situation, the current and longer term state of the economy, and the

likelihood of the affordable housing issue remaining high in the local and national agenda.

- 3.26 Housing Associations have a wide variety of interpretations on the subject, some attributing about £10 - £12,000 per plot for all units, and others only giving value to the shared/low cost ownership units. Some Housing Associations seek to acquire development land for open market as well as for affordable housing, and use the profit generated by the sale of the open market units to subsidise their operation. One quoted a recent land acquisition in which the Housing Association used the ability to offer 65% of open market value for shared ownership units, and 50% for units for rent. The overall land value, which was for one third open market, one third shared ownership, and one third affordable housing for rent, (as sought in South Hams), equated to £560,000 per acre.
- 3.27 There are very different experiences being encountered by various developers and providers of affordable housing. Much is dependent upon the availability of grant funding, and the future level of available funding is unknown, although unlikely to disappear. In view of all the above, we believe it is a reasonable approach to assume a middle course, and that a land value of £10 - 12,000 / plot will still be able to be achieved for the intermediate affordable housing, on the assumption that all infrastructure has been provided.
- 3.28 Accordingly, it is proposed that this cautious approach is adopted, assuming that the plots for shared/low cost ownership will each generate £11,000, with nil value for the units for rent. For schemes in small settlements which are for 100% affordable housing, similar in their aims to rural exception sites, local housing associations are confident that this plot value can be achieved across all the units whether for rent or some form of subsidised ownership. Accordingly, for these few schemes, a land value of £11,000 across the entire development has been assumed. This is almost what was achieved in a sale of land for affordable housing in South Brent as discussed in para. 3.23.
- 3.29 The withdrawal of Local Authority Social Housing Grant in 2003 has created considerable uncertainty for the future funding of new affordable housing. It is anticipated that authorities will continue to use capital resources to meet the public cost of new affordable homes. It will therefore be important that land for affordable housing is acquired at the lowest possible cost to ensure that the benefits of public funding are maximised.
- 3.30 The next stage is therefore to add back in the land value for the other land value producing uses, particularly for affordable housing. In order to complete the valuation, a final calculation needs to be made to add back in the land values of all the elements apart from open market housing. These will include usually only the land required for affordable housing, but in the case of the new community at Sherford allows for employment and retail land. In other cases there are instances of small workshop schemes, which are allowed for. The example of this step is illustrated below from the typical site we have used in this exercise:

INTERIM LAND VALUE [ILV]		1,451,250
ADD		

AFFORDABLE HOUSING LAND VALUE [AHLV] 27 units @ £11,000/plot	27	297,000
TOTAL LAND VALUE TLV [ILV + AHLV]		1,748,250

Development costs

- 3.31 The next stage in the consideration of land valuation and variables is an examination of development costs, beyond those accounted for in the overall build costs of £85 per sq. ft. (in this example). These will include items such as improvements to highway access, off-site highway improvements, additional drainage requirements, additional landscaping, setting out of public open space, play equipment, costs of the remediation of contamination, abnormal costs of foundations, and contributions to a community gain package, such as education contributions, or occasionally, an item such as a village hall. In most cases, a 'contingency' allowance has also been made to set against unknown costs, particularly for off site foul or surface water drainage improvements, but also allowing for a modest amount for abnormal foundations. This stage is shown below from the typical example:

TOTAL LAND VALUE TLV [ILV + AHLV]		1,748,250
LESS: ESTIMATES OF ABNORMAL AND DEVELOPMENT COSTS		
highway access - local access and junction improvements - estimate	150,000	
laying out of PoS, play equipment, commuted sum	50,000	
education contribution as specified by DCC	160,000	
strategic landscaping	40,000	
contingency	80,000	
TOTAL ABNORMAL AND DEVELOPMENT COSTS [TADC]	480,000	480,000
RESIDUAL LAND VALUE, ie, TOTAL LAND VALUE minus TADC	RESIDUAL LAND VALUE	1,268,250

- 3.32 In each site valuation, a conclusion is reached about viability, and the likelihood of the site being delivered through the operation of the market. In order to inform these conclusions, contact has been made with all but one of the landowners or their agents. Furthermore, a comparison is made with the current land value to give a 'value added' figure, to add weight to the conclusions. The typical example is illustrated below, with a concluding viability & deliverability statement

RESIDUAL LAND VALUE, ie, TOTAL LAND VALUE minus TADC	RESIDUAL LAND VALUE	1,268,250
current site value	6 acres @ £2k/acre	12,000
value added by consent & development		1,256,250
viability & deliverability statement		
<p>The land produces positive land value with 66% AH at £11,000/plot for the low cost/shared ownership units. A value added of £1,256,250 is sufficient to demonstrate economic viability, and to expect the landowner to bring the site to the market.</p>		

4 The site assessment schedules and valuation statements, and conclusions

- 4.1 For each site allocation, an objective assessment of each site has been provided in terms of its physical and planning characteristics. The information provided for each site includes details of the area, its policy context, ownership, current use, constraints, access, proposed uses, development principles, sustainable development principles, community gain sought, a concept statement critique, any relevant additional information, and a Local Plan consultation summary.
- 4.2 As discussed in section 3, a critical valuation statement is provided for each allocation, with a concluding statement about viability, and the likelihood of the site being delivered through the operation of the market.
- 4.3 A summary schedule follows, setting out the conclusions for the 19 allocated sites. Two sites are unviable, one in Modbury, because of the existing land value based upon an established housing allocation in the adopted local plan, and Sherford new community, which is unviable with 66% affordable housing, largely because of the very high costs in providing infrastructure and community benefits for a new community. A range of alternative options for Sherford should be considered.
- 4.4 Of the remaining 17 sites, 12 are demonstrably viable. The other 5 are marginally viable, either because they are 100% affordable housing sites, or because they are small village sites with a high community gain requirement. In each case, the study suggests ways in which the Council could consider an alternative approach, which would make the site viable.
- 4.5 Our conclusion is that despite landowners', and the housebuilding industry's understandable concerns about the approach taken in the local plan to the provision of affordable housing, we have been able to demonstrate that 66% affordable housing is viable in almost every case. With minor adjustments, 17 out of the 19 allocations would be economically viable, and therefore should be deliverable through the normal mechanisms and operation of the housing market.

summary schedule - allocated sites			
Site ref.	Site	Area ha	Viability statement with 66% affordable housing
DT 9	Lane End Plantation/Lane End Field, Dartington Lane, Totnes	1.18/ 2.43	Site viable
DT2	New Milton, Dartmouth	4.64	Site viable
DT9	Ashburton Rd and Swallowfields, Totnes	3.3	Site viable
DT 34	Memorial Green, Strete	1.04	Site viable
DT 31	Woolston Green	0.16	Site marginally viable
DT 22	Wheat Park, Diptford	0.32	Site marginally viable
KS1 (1)	Hurrell Road, Kingsbridge	3.58	Site viable
KS1 (2)	Treble Park, Kingsbridge	1.49	Site viable
KS1 (3)	SHDC Depot, Fore Street, Kingsbridge	0.36	Site viable
KS9	Bonfire Hill, Salcombe	1.49	Site viable
KS 20	Alston Gate, Malborough	0.39	Site viable
KS 24	Village Centre, Chillington	0.77	Site marginally viable
KS 18	Meadow View, Outer Hope, Hope Cove	0.15	Site marginally viable
KS 16	East Allington	0.59	Site viable
IM 9 (1)	Aylestone Park, Modbury	0.5	Site not viable , because of established hope value. Approved application includes 25% affordable housing
IM 9 (2)	Palm Cross, Modbury	0.28	Site marginally viable
IM2 3	Hillside, Lee Mill	2.2	Site viable
IM 21	Old School lane, Ermington	1.41	Site viable
IM 7 (1 – 10)	New Community, Sherford	105	Unviable at 66% AH. A range of alternative proportions of affordable housing need to be investigated