

Dorset Authorities' Affordable Housing Provision and Developer Contributions in Dorset

Overview Report

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1 INTRODUCTION

Review of project aims

- 1.1 East Dorset, North Dorset and West Dorset District Councils together with Christchurch and Weymouth and Portland Borough Councils appointed Three Dragons to undertake an affordable housing and residential economic viability study covering the five authorities. The work was commissioned by Dorset Affordable Housing Task Group on behalf of the councils and was overseen by a Project Team comprising representatives of the councils.
- 1.2 The broad aims of the study, as set out in the study brief were to:
“.....measure the application and effectiveness of the Councils’ current affordable housing policies; to provide a robust evidence base that will examine the viability of different types / tenures of development in different areas; and on the basis of this evidence, to indicate ways in which policy can be developed to increase the delivery of affordable housing in Dorset. The outputs should include a model that can be used to measure the viability of different levels / types of affordable housing provision on individual sites that come forward for development in the future.”
- 1.3 This report is an overview report pulling together the key findings of the individual studies. The report analyses the impact of affordable housing and other planning obligations on scheme viability.

Policy context - national

- 1.4 The study focuses on the percentage of affordable housing sought on mixed tenure sites and the size of site from above which affordable housing is sought (the site size threshold). National planning policy, set out in PPS3 makes clear that local authorities, in setting policies for site size thresholds and the percentage of affordable housing sought, must consider development economics and should not promote policies which would make development unviable.

PPS3: Housing (November 2006) states that:

“In Local Development Documents, Local Planning Authorities should:

Set out the range of circumstances in which affordable housing will be required. The national indicative minimum site size threshold is 15 dwellings. However, Local Planning Authorities can set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area. Local Planning Authorities will need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed, including their likely impact upon overall levels of housing delivery and creating mixed communities”. (Para 29)

- 1.5 The companion guide to PPS3¹ provides a further indication of the approach which Government believes local planning authorities should take in planning for affordable housing.

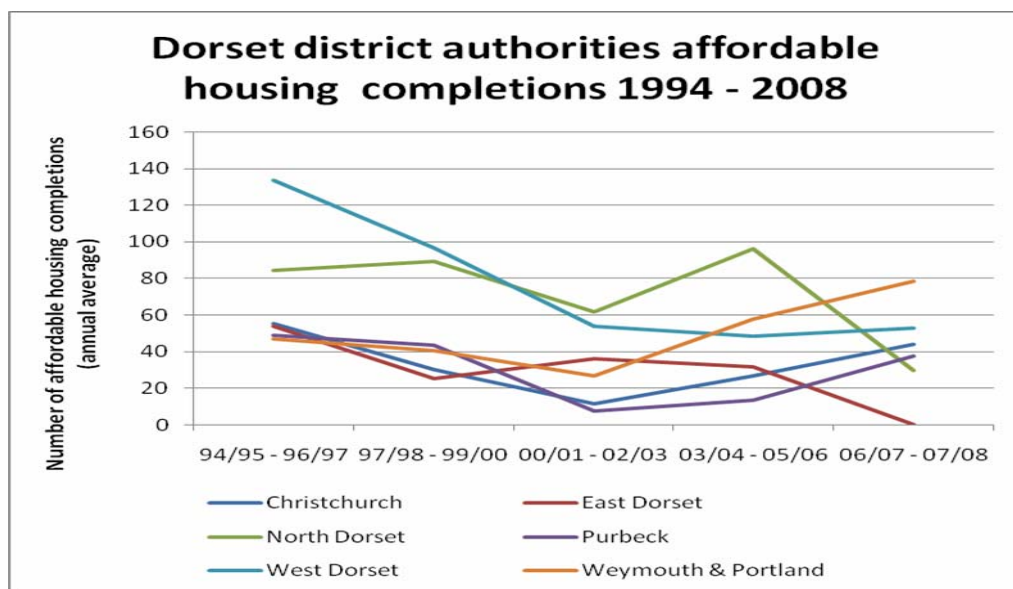
Policy context – South West Region

- 1.6 Policy H1 of the Secretary of State's Proposed Changes to the Draft Regional Spatial Strategy for the South West deals with housing affordability. It requires provision to be made for at least 35% of all housing development annually across each local authority area and housing market area to be affordable housing.
- 1.7 The consultation period for the Proposed Changes has now closed. The Government Office for the South West is currently undertaking further Sustainability Appraisal work on the Proposed Changes, the outcome of which is expected in 2010. When published it will form part of the development plan for the Dorset councils.

Current position: Progress in Delivering Affordable Housing

- 1.8 The study reviewed recent affordable housing delivery. This is shown in Figure 1.1 below. The data is provided by the County Council and shows the actual number of completions.

Figure 1.1 Dorset district authorities annual affordable housing completions 1994 – 2008



Source: Dorset County Council

Note: Figures used in above table may differ slightly from WDDC data but have been used to provide comparable base with other reports for the Dorset authorities.

¹ CLG, Delivering Affordable Housing, November 2006

Experience from elsewhere in Dorset

- 1.9 Three Dragons has also carried out Viability Studies for the remainder of the Dorset authorities including Bournemouth Borough Council, the Borough of Poole and Purbeck District Council.
- 1.10 Both Bournemouth and Poole have had their viability reports scrutinised through public inquiries into their affordable housing policy documents. In the case of Bournemouth the inspectors upheld the Council's requirements for 40% affordable housing on all sites; i.e. a threshold of zero.
- 1.11 In the case of the Borough of Poole, the inspector there upheld a 40% target alongside a threshold of six dwellings.
- 1.12 Three Dragons advised Purbeck to adopt a target range of between 40% and 50% affordable housing with a threshold of between zero and five units. We understand that the targets are being pursued through consultation but that a three dwelling threshold is being promoted.

2 METHODOLOGY

Introduction

- 2.1 In this chapter we first summarise the main methodology we have followed and, second, in undertaking the analysis of development economics. The chapter explains the concept of a residual value approach and the relationship between residual values and existing/alternative use values.

Research undertaken

- 2.2 There were four main strands to the research undertaken to complete the studies:

Discussions with a project group of officers from the five commissioning authorities and the County which informed the structure of the research approach;

Analysis of information held by the authority, including that which described the profile of land supply;

Use of the Three Dragons Toolkit to analyse scheme viability (and described in detail in subsequent chapters of this report);

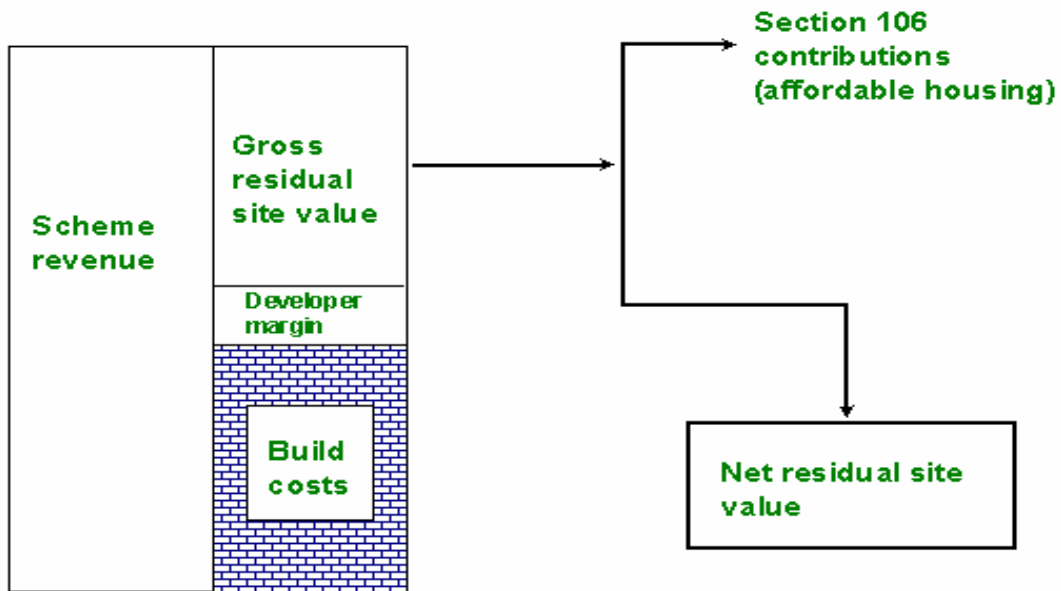
Workshops held with developers, land owners, their agents and representatives from a selection of Registered Social Landlords active in the local authority areas. These are shown in Appendix 1.

Viability – starting points

- 2.3 We use a residual development appraisal model to assess development viability. This mimics the approach of virtually all developers when purchasing land. This model assumes that the value of the site will be the difference between what the scheme generates and what it costs to develop. The model can take into account the impact on scheme residual value of affordable housing and other s106 contributions.
- 2.4 Figure 2.1 below shows diagrammatically the underlying principles of the approach. Scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme costs assume base build costs, profit margin to the developer and the additional costs as shown in the diagram include such items as professional fees, finance costs, marketing fees and any overheads borne by the development company.
- 2.5 The gross residual value is the starting point for negotiations about the level and scope of s106 contribution. The contribution will normally be

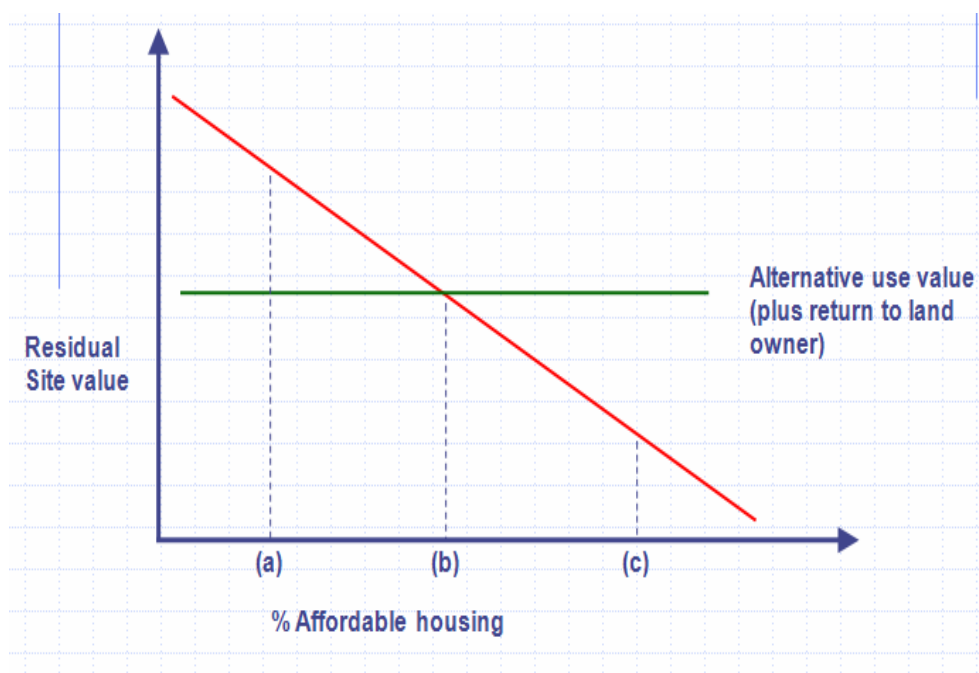
greatest in the form of affordable housing but other s106 items will also reduce the gross residual value of the site. Once the s106 contributions have been deducted, this leaves a net residual value.

Figure 2.1 Theory of the Section 106 Process



- 2.6 Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.
- 2.7 A site is extremely unlikely to proceed where the costs of a proposed scheme exceed the revenue. But simply having a positive residual value will not guarantee that development happens. The existing use value of the site, or indeed a realistic alternative use value for a site (e.g. commercial) will also play a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing.
- 2.8 Figure 2.2 shows how this operates in theory. Residual value falls as the proportion of affordable housing increases. At some point (here 'b'), alternative use value (or existing use value whichever is higher) will be equal to scheme value. If there is a reasonable return to the land owner at point 'b' (i.e 'b' reflects best possible current use value (alternative or existing) and there is a sufficient return, then the scheme will come forward. At point 'c', affordable housing will make the site unviable. At 'a' the scheme should be viable with affordable housing. The diagram does not assume grant. Grant should be used to 'lever out' sites from their existing or best alternative uses.

Figure 2.2 Affordable housing and alternative use value



Key results and evidence base

2.9 The study included both quantitative and qualitative analysis. Key evidence and findings are included in the appendices to this overview report. They include:

Appendix 1 Reports from the three developer workshops

Appendix 2 Housing Market Viability Areas

Appendix 3 Residual value summary tables

Appendix 4 Report from seminar held showing reports' findings

Appendix 5 Analysis of the impact of varying profit margins.

3 RESULTS AND CONCLUSIONS OF THE INDIVIDUAL (LOCAL AUTHORITY) REPORTS

Testing framework

- 3.1 For the viability testing, we defined a number of development mix scenarios, using a range of assumptions agreed with the councils. Some typical development mixes were:

30 dph: including 10% 2 bed terraces; 20% 3 bed terraces; 15% 3 bed semis; 30% 3 bed detached; 25% 4 bed detached;

40 dph: including 10% 2 bed flats; 10% 2 bed terraces; 15% 3 bed terraces; 30% 3 bed semis; 20% 3 bed detached; 15% 4 bed detached;

50 dph: including 5% 1 bed flats; 10% 2 bed flats; 10% 2 bed terraces; 15% 3 bed terraces; 35% 3 bed semis; 15% 3 bed detached; 10% 4 bed detached;

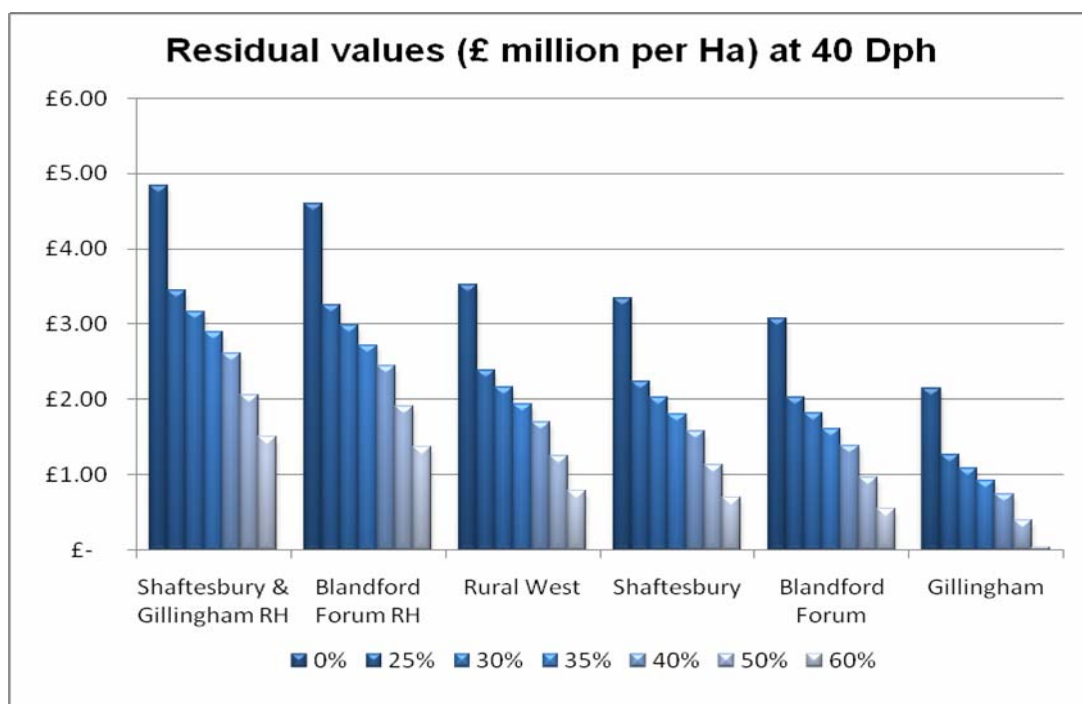
80 dph: including 20% 1 bed flats; 60% 2 bed flats; 20% 2 bed terraces

- 3.2 We calculated residual site values for each of these (base mix) scenarios in line with a further set of tenure assumptions. These were (typically) 25%; 30%; 35%; 40% and 50% affordable housing.
- 3.3 Variation in house prices have a significant impact on development economics and the impact of affordable housing on scheme viability. We therefore developed a set of housing viability sub markets for each of the local authority areas. These are set out in Appendix 2.
- 3.4 The results are set out graphically in the local authority reports as shown in the example below – Figure 3.1. All results assume no grant.

Residual Values at 40 dwellings per hectare

- 3.5 The chart shows the range of residual values achieved for, in this case, North Dorset at 40 dph. It shows for example at 40 dph and 35% affordable housing, that residual values in Shaftesbury and Gillingham Rural Hinterland are £2.9 million per hectare, whilst in Gillingham they are £0.9 million per hectare for the same scenario.

Figure 3.1 Example of graphs shown in main reports



3.6 The example shown above in Figure 3.1 is fairly typical in terms of what it demonstrates about variation in residual value across a local authority area. The conclusions of the individual local authority reports suggest in all instances that councils have justification for setting split affordable housing targets; in some cases, this is best adopted through a two way split; in others, a three way approach.

3.7 Table 3.1 is a key table. It shows the range of residual values for each of the local authorities along with the recommended affordable housing target range. The example given is of a scheme for 35% affordable housing at 40 dph.

Table 3.1 Range of residual values and target range for affordable housing

	At 40 Dph and 35% AH		
	Lowest residual	Top residual	AH Target range
Christchurch	£2.47	£4.28	40% to 50%
East Dorset	£2.00	£5.00	40% to 50%
North Dorset	£0.91	£2.89	30% to 40%
West Dorset	£2.06	£3.83	40% to 50%
W & P	£1.45	£2.95	25% to 40%

Source: Three Dragons analysis

- 3.8 The table shows that East Dorset and Christchurch have the highest residual values. These are both found in rural sub markets. In North Dorset, the highest value sub market is also rural – Shaftesbury and Gillingham Rural hinterlands. In West Dorset, Sherborne is the highest value location in terms of residual values. In Weymouth and Portland, Weymouth South is the highest value sub market.
- 3.9 At the lower ends of the market, mainly urban locations are found – Christchurch North in Christchurch, Gillingham in North Dorset, and the Isle of Portland in Weymouth and Portland for example.
- 3.10 The target ranges recommended are shown in the right hand column of Table 3.1. These reflect in large measure residual values, although a range of further factors was used to finalise conclusions of targets. These include prevailing existing use values, delivery and our understanding of what the Dorset authorities may achieve relative to other similar local authorities.

Thresholds

- 3.11 The reports also looked in some detail at the issue of thresholds. Clearly if authorities can reduce their thresholds from current levels then they are in a stronger position to increase affordable housing through increasing the scope for qualifying sites.
- 3.12 Table 3.2 sets out, for each of the local authorities, the percentage of dwellings (planning permissions) to be developed by site size. For example, in Christchurch, 29.4% of all dwellings will be developed on sites of less than 5 dwellings and 62.5% of dwellings will be developed on sites of less than 15 dwellings.

Table 3.2 Percentage of dwellings falling within different site sizes

	% Dwellings in sites of:	
	< 5 Dwellings	< 15 Dwellings
Christchurch	29.4	62.5
East Dorset	48	86.7
North Dorset	18	34
West Dorset	14	27.9
W & P	33.6	60

Source: Dorset local authorities in-house data

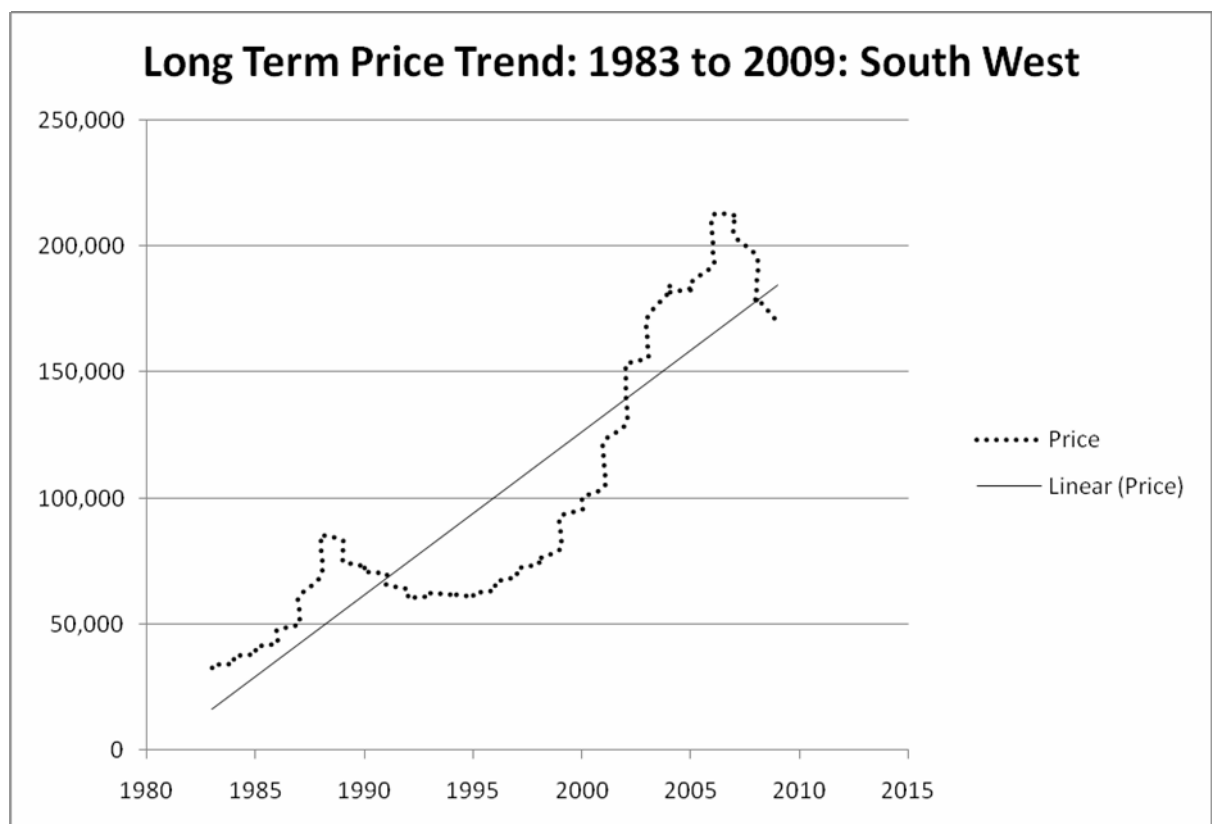
- 3.13 The table shows that local authorities such as East Dorset and, to a lesser extent, Christchurch, are highly reliant on small sites to bring forward housing. In the case of East Dorset a very low threshold is required if the Council are to deliver affordable housing in any quantity. West Dorset has the least relative reliance on small sites, with under 30% of its supply being on sites of less than 15 dwellings.

3.14 The local authority reports made a strong case for a reduced threshold, in several cases to zero on the grounds of the significant reliance on small sites. The studies found no case solely on viability grounds against a zero across all five local authority areas. However, the reports recognised that some of the smaller sites face particular challenges. The most important example is re-development schemes where a house is acquired for demolition and then a new development built. These schemes generally are difficult to 'stack up' financially unless at least two new homes, and in some cases three or four, are built in the stead of an existing dwelling.

The Current Housing Market

3.15 It is important to put into context the timing of the studies in relation to wider fluctuations in the housing market. Figure 3.2 shows both the short and longer term trends in the housing market of the South West since 1983. Importantly it shows that at the time at which the five Dorset studies were carried out, house prices were marginally below the long term trend. This suggests that the findings of the studies should prove safe in the sense that the analysis has not been carried out at a point in time where the housing market was in any way overheated or above the long term trend.

Figure 3.2 Long term house price trends



Data source: Halifax House Price data

- 3.16 As previously stated, the analysis was carried out assuming no grant being available. This is, we believe, a 'conservative' position to adopt, given that some authorities will obtain grant for some schemes.
- 3.17 We would recommend that the authorities themselves liaise with the Homes and Communities Agency to discuss how grant might, in the light of the findings of the reports, be better directed towards the more difficult sub markets from a viability perspective.

4 CONCLUSIONS

- 4.1 The project revealed a number of key conclusions. There were a number of consistent points found when considering the five individual local authority reports. We summarise these below:

Viability is highly sensitive to location. House prices are a key driver in determining where a local authority decides to pitch its affordable housing and other Section 106 related policies.

Dorset is a strong location in which to develop affordable housing. Residual values range from £1 million to £5 million per hectare and £2.5 million per hectare at 35% affordable housing is probably a reasonable average indicator. This provides, we estimate, a 250 fold increase in land value above agricultural land and as such should provide a very strong negotiating position for the councils.

It makes sense for most local authorities to adopt a split affordable housing target. This is because small variations in house prices lead to very significant variations in residual site value. Where split targets can be practically adopted, we suggest that councils take this policy forward.

Viability is highly sensitive to the relationship between existing (or, where relevant, alternative) use value. A proportion of smaller sites being brought forward, involve the redevelopment of existing residential properties – either as a one for one replacement or at a higher density of development. Whilst such schemes can deliver affordable housing in some circumstances and especially in the higher value markets, it must be acknowledged that residual values, with even relatively low levels of affordable housing, will not be sufficiently above current use values to encourage land owners to bring the land forward. The use of grant could help in achieving higher levels of affordable housing on such sites. Our analysis indicates that around half of the schemes of one and two dwellings involve the demolition of an existing dwelling.

Local authorities in these respects face very different challenges in terms of the extent to which they rely on large or small sites. There is no case on pure viability grounds against the development of small sites (versus large sites). What matters for viability is location, density and development mix. Large sites, developed very

densely may not produce as viable an outcome as small sites developed at low density. It depends on where the site is.

There is no detailed government guidance setting out how targets should be assessed, based on an assessment of viability. In coming to our conclusions, we have reviewed the residual values generated for the different sub markets in the local authority areas and considered how these measure up against a range of factors including current land values, existing use values, past delivery and policy in similar neighbouring authorities.

Authorities, in setting affordable housing targets may wish to consider the extent to which they prioritise affordable housing in the context of housing delivery generally.

Most authorities can rely on a fall back position of increased intermediate affordable housing provision where grant is not available. The efficacy of this policy depends however on location. In high value areas increasing the proportion of intermediate affordable housing will usually provide an more effective way of increasing residual value than in a low value area.

Enhanced Section 106 contributions will remain an insignificant hit on sites in the context of affordable housing without grant. However, there will be instances where additional costs of Section 106 (e.g. from £5,000 to £10,000 per unit) are the straw which breaks the 'camel's back'.

Further testing carried out reveals that the adopted profit margin of 15% on GDV (Gross Development Value) yields very substantial returns on cost. In a middle market location such as West Dorset, return on cost ranges from 50% to 98% at 40% affordable housing. Residual value impacts will be more significant at the lower end (eg locations such as North Dorset) where a higher profit margin (eg 20%) is sought.

In all eventualities, it will be important that the five local authorities fully utilise the potential of the affordable housing Toolkit for site specific negotiations.

Appendix 1 Workshop reports

AFFORDABLE HOUSING PROVISION AND DEVELOPER CONTRIBUTIONS IN DORSET

Notes of workshop held on Wednesday 19th November 2008 at Brownsword Hall , Poundbury, Dorchester.

Attendance:

Gill Smith	Dorset County Council
Lin Cousins	Three Dragons
Andrew Golland	Three Dragons
John Stobbart	Natural England
Philip Fry	C G Fry and sons Ltd
Nigel Jones	Humberts Commercial
Phil Easton	Western Design
Anna Puzey	Wyatt Homes
Jonathon Thornton	Knightstone Housing Association
John Loosemore	Betterment Properties Ltd
Simon Conibear	Duchy of Cornwall
Karyn Punchard	Weymouth and Portland Borough Council
Tim Davis	West Dorset District Council
Paul Harrington	Morgan Carey Architects
Paul Bedford	Persimmon Homes
Nathan Cronk	Raglan Housing Association
Ron Peak	Bournemouth Churches Housing Association.

Introduction

GS welcomed attendees and explained the purpose of the study and the workshop. Participants explained who they represented. The range of interests covered:

Small – large sized builders
RSLs with an interest in the area
Planning agents / architects
Natural England
Local Authority Housing and Planning officers

It was explained that the study covered the five districts of North Dorset, West Dorset, East Dorset, Christchurch and Weymouth and Portland (Three Dragons having already completed studies for Poole, Bournemouth and Purbeck councils). But the emphasis for this workshop was on West Dorset and Weymouth and Portland and those invited to the workshop reflected this.

Issues in delivering affordable housing

Requirement for affordable housing in a mixed tenure scheme is now recognised as a 'given' in new (residential) development. But the affordable housing is part of a wider planning obligations bundle and the current viability study needs to recognise this.

The impact of planning obligations falls on the land owner; it is their willingness to accept a lower land value than they would otherwise receive which is important in maintaining land supply. Comment was made that this process amounts to a 'tax on land value'. Another comment from a landowner indicated that the current level of affordable housing for West Dorset (around 35%) was broadly acceptable – still providing a better return than B1 offices.

In the current market, developers may be looking to bring forward the affordable housing element of a scheme in advance of the original programme – to maintain momentum and cash flow. Local authorities are being asked to be flexible and allow for some re-packaging of affordable housing within a scheme to allow for this.

There was then a debate at the workshop about the meaning of viability. It was recognised that a negative residual value was not viable but judgement about the level of return required is critical and there are no specific ground-rules for this (other than comparison with alternative/existing use value).

Whilst it is important that there is a clear policy framework for negotiating affordable housing (and other obligations) there must also be flexibility for scheme negotiations around viability to take into account site circumstances and requirements. Gill Smith explained that the 5 authorities which had commissioned this study would be receiving a bespoke version of the 3 Dragons Toolkit but had yet to decide whether (and then how) to make this available to the development industry.

Other detailed points raised included:

CIL will be more transparent than the current system and this is to be welcomed;

The availability of grant can make a big difference to viability. But you often don't know whether grant will be available at Day 1 – this makes it very difficult for developer negotiating with a land owner;

How does any viability assessment take into account past development costs e.g. consultant costs for promotion of a scheme through an LDF process (noting that fees were said to be *much higher now than in recent years*).

Study methodology

Three Dragons explained the testing approach they will adopt. The testing will 'measure' viability by reference to residual scheme value (i.e. total scheme revenue less scheme costs) and then compare the residual value with the existing or alternative use value of a site. Viability testing is carried out using the Three Dragons toolkit – an Excel based model. The attached PowerPoint presentation illustrates the study approach, along with other key information provided at the workshop.

Workshop participants accepted this approach in principle but were particularly concerned to establish how out-turn residual values would be assessed. Specific comments from the workshop included:

Very important that the assumptions used by 3 Dragons are set out; 'The City' is looking for higher levels of developer return than they did before the credit crunch – 25% said to be current 'going rate' but could come back down as credit eases;

Housing associations have different viability benchmarks – they need to be able to clear the loan on affordable housing within 30 years;

Especially for brownfield sites, it is important to understand that landowners will expect to achieve significantly in excess of the existing use value. 3 Dragons acknowledged the point and notes that this was taken into account in their approach to viability testing;

A workshop participant offered their own view on the way to benchmark 'viability'. He argued that the difference between the headline value (or residual value) and the existing use value should be 'shared' equally between the local authority in the form of planning gain and the land owner (as uplift over the existing use value). This formula was put forward as a transparent approach which could be applied consistently. 3 Dragons agreed to consider its applicability as part of the viability testing exercise. The uplift should be at least 20% above the (Capital Gains) tax rate on the basis that previous attempts by government to tax planning gain had failed to bring forward land at that rate.

The potential impact of Greenfield infrastructure costs need to be taken into account. 3D suggested a range of £300,000 to £500,000 per hectare. One delegate suggested that these costs could be as high as £1 million per hectare.

Land owner and developer expectations

Greenfield land values were said to be around £1m per gross developable acre about 2 years ago – now looking at nearer £500k per acre.

Use of sub markets

Three Dragons explained that a key part of the study will involve the analysis of viability at a sub market level. Sub markets will be defined primarily by house prices. The PowerPoint presentation showed the proposed sub markets for use in the study and indicative new dwelling prices for different dwelling types in each sub market. House prices have been derived from Land Registry data over the past 3 years, indexed to today's prices with a premium built in for new build.

The principle of identifying sub markets for viability testing was initially questioned for West Dorset (there was no equivalent debate for Weymouth and Portland). It was argued that the West Dorset market is actually a single market with a number of hotspots. Other participants noted that if the study were to identify separate targets for different sub markets within a district, the logic for this would have to be set out and the evidence for the approach be very clear.

Other specific comments raised on this issue included:

There is currently no premium for new build over second hand prices;

The Poundbury values appear about right.

Three Dragons would ask for further feedback on the suggested sub markets and values set out in the attached PowerPoint presentation. Comments on the Weymouth and Portland sub markets will be particularly welcome.

Small sites

Workshop agreed that sites under 10 dwellings should be classified as small sites for this discussion.

The workshop did not raise any general issues about small sites which would suggest that, systematically, they generate either a lower or higher residual value than housing development on larger sites.

However, viability issues can become a problem with small sites where the previous use is residential e.g. demolish 1 detached property and provide a block of 4 flats. The existing use value can be quite high and residual value of the new scheme is not sufficient to encourage the land owner to bring forward the site.

Housing associations prefer to have affordable dwellings in larger groups (say 10 to 15 dwellings) but will take on affordable housing in small groups (say at 1 or 2 units). But factors e.g. location and layout need to be taken into account when associations consider taking on very small groups of affordable units.

Commuted sums

Commuted sums are not a preferred option in West Dorset. It is very much about obtaining land for affordable housing units.

Density and development mix.

Appropriate densities and development mixes were discussed for the purposes of policy testing. The main feedback was to take flats out of the 30 dph scenario and to reduce detached housing from the 45 dph scenario. The proposed framework is set out in the attached Powerpoint presentation and reflects feedback from all three workshops held..

Other Issues

Following is a list of other issues raised at the workshop – either through the general debate or in reply to request from Three Dragons for any final comments:

A developer view – ‘pepper potting’ of affordable units in mixed tenure schemes ‘has gone too far’ – and development practicalities are being ignored;

35% affordable housing (the current West Dorset policy) is the right sort of level. 50% would be too high a percentage;

Do housing associations want the smaller units in a scheme? There is a danger at higher percentages of affordable housing that all units of a particular type (e.g. all the smaller units) will get taken up by the affordable sector;

Local housing allowance is £105 which is higher than the capped rent of £90.

AFFORDABLE HOUSING PROVISION AND DEVELOPER CONTRIBUTIONS IN DORSET

Notes of workshop held on Tuesday 18th November 2008 at 2.00pm at Community Learning and Resource Centre, Wimborne.

Attendance:

Gill Smith	Dorset County Council
Lin Cousins	Three Dragons
Andrew Golland	Three Dragons
Nick Squirrell	Natural England
Ciaran Ryan	Level Ltd
David Corsellis	Stephen Scowns Solicitors
Peter Tanner	Tanner and Tilley Planning Ltd
Stephen Dunhill	Spectrum Housing Group
Lindsay Shearer	Twynham Housing Association
Gary Toomer	Knightstone Housing association
Anton Hows	Lewis Wyatt Construction
May Palmer	Harry J Palmer
Alan Hurdidge	Pennyfarthing Homes
Steve Molnat	Terence O'Rourke Ltd
Brian Nicholls	RWN Architects Ltd
Martin Hanham	Martin Hanham Planning Consultants
John Souter	Lionel Gregory Ltd
Brian Simpson	Lionel Gregory Ltd
A J Monro	Symonds and Sampson
Amy Hooper	Symonds and Sampson
Julia Mitchell	Christchurch Borough Council

Introduction

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RSLs with an interest in the area

Planning agents / architects / solicitors

Local Authority

Natural England.

It was explained that the study covered the five districts of North Dorset, West Dorset, East Dorset, Christchurch and Weymouth and Portland (Three

Dragons having already completed studies for Poole, Bournemouth and Purbeck Councils). But the emphasis for this workshop was on East Dorset and Christchurch and those invited to the workshop reflected this.

Issues in delivering affordable housing

Constraints to development highlighted at the workshop included:

Environmental restrictions on development which include green belt and heathland protection area;

Costs of providing affordable housing and other Section 106 requirements are not fully appreciated by local authorities (schemes were often designed to get under current site size threshold of 15 dwellings);

Difficulty of making schemes stack up in situations where there was a high existing use value (e.g. redevelopment of existing dwellings for a new residential scheme);

Costs of meeting the new Code for Sustainable Homes' requirements and other infrastructure costs. (One RSL mentioned that the cost of meeting the Code could add £7-8,000 per unit.)

Costs of meeting planning requirements – all the detail that needs to accompany an application.

Difficulty (stigma) of providing social housing within private flats schemes;

Developers do not find local authorities are always prepared to negotiate affordable housing and to be sensible of viability issues;

Meeting Councillors' expectations - they often want to lower densities but still expect a proportion of affordable housing;

Officers' reluctance to negotiate. (Although it was also conceded that developers like certainty about what they are going to be asked for.);

'Credit crunch' has affected development –

Development is very slow but developers are using the time to work up strategic sites;

An RSL mentioned the difficulty of getting schemes involving intermediate housing to stack up. May need to revisit the mix of housing as potential shared owners are finding it hard to access mortgages;

Banks are tightening lending conditions so it is difficult for developers to get the finance required;

But – it was also recognised that local authorities' plans and policies are for the long term and, as one participant put it, *'by the time your report is published, we will be through the problem!'*

Study methodology

Three Dragons explained the testing approach they will adopt. The testing will 'measure' viability by reference to residual scheme value (i.e. total scheme revenue less scheme costs) and then compare the residual value with the existing or alternative use value of a site. Viability testing is carried out using the Three Dragons toolkit – an excel based model. The attached PowerPoint presentation illustrates the study approach, along with other key information provided at the workshop.

Workshop participants accepted this approach in principle but with a number of comments, including:

Landowners differ in their expectations of the price they will accept for land. The study cannot take account of the individual expectations of land owners but should recognise that land owners may wait to bring sites forward in the current climate.

It is not enough simply to compare residual values generated by a scheme with current/alternative use values. Land owners will expect to secure a return in excess of this. Market value of greenfield land for development does not simply reflect their current (mainly agricultural) use.

The developer return assumed by the Toolkit needs to take into account current lender requirements and 25% would be more realistic although over the longer term a 15% return would seem to be more appropriate.

Does the toolkit take into account different forms of housing e.g. sheltered? LC explained that it was capable of doing so.

An alternative approach to viability testing, to that proposed by Three Dragons, is to link the % affordable housing contribution to out-turn market values of dwellings sold. It was however not entirely clear how this would work in a practical way.

Land owner and developer expectations

In current market circumstances it is very difficult to put a value on land but a range of £300k -£700k per acre was mentioned. This compares with values as high as £2million per acre in Poole.

On brownfield sites (with a previous residential use) it was considered that an uplift of 20%-30% was being sought by landowners.

Use of sub markets

Three Dragons explained that a key part of the study will involve the analysis of viability at a sub market level. Sub markets will be defined primarily by house prices. The Powerpoint presentation showed the proposed sub markets for use in the study and indicative new dwelling prices for different dwelling types in each sub market. House prices have been derived from Land Registry data over the past 3 years, indexed to today's prices with a premium built in for new build.

The principle of identifying sub markets for viability testing was broadly accepted by workshop participants but with a number of specific comments which included:

Some of the prices appeared on the high side – have they been tested against the current market? Three Dragons re-iterated that the prices had been updated to autumn 2008 levels but would undertake some checks against current selling prices, where available e.g. using Rightmove information;

Is there a premium for new build? Lenders are being instructed not to allow for this as they will only obtain second hand price if mortgage fails. Three Dragons explained that their methodology for deriving new prices does include an uplift for new build prices and that this had proved a robust approach in the recent past and that the prices used in the modelling exercise need to reflect likely longer term trends. However, the point on new build prices was noted and the spot checks highlighted above would also help address this issue;

Is the market too volatile to try and predict prices today?

The analysis will work with sub market average prices. This will be robust for policy testing purposes. Site specific analysis (following this project) will pick up on hot and cold spots within the sub markets.

To reflect differences in house prices between sub markets, one option Three Dragon will explore is the case for having different affordable housing percentage targets in different areas. Workshop participants had mixed views on whether this was an appropriate approach. Views expressed included:

There are local price variations even within the sub areas;

Having different targets in different sub areas can add to confusion and uncertainty;

But - it is better to base percentage requirement for affordable housing on land prices and with higher land value = higher % affordable housing);

If the above approach is taken would there be a mismatch between the type of area and the amount of affordable housing coming forward. (ie is more affordable housing wanted in Sandbanks?)

Small sites

Small sites (i.e. below the current threshold for seeking affordable housing of 15 dws) are seen as an important source of housing land in the two districts. Whilst they can work out a bit more expensive to develop, new homes on small sites can sell for more than on larger sites. Residual values achieved on small sites are not necessarily less than on larger sites. But there are other issues with small sites that the study needs to take into account. These include:

Smaller sites are becoming a more popular development type in the current market – seen to be less risky;

Sites involving residential to residential development were more difficult to deliver with affordable housing because of the relatively high existing use value. Owners were looking for 20-30% uplift on EUV before they would consider selling for redevelopment;

Capital gains tax may raise issues on smaller sites;

Some landowners wouldn't want to upset neighbours with affordable housing on a small development and such a requirement could put off development;

Some brownfield sites (e.g. petrol stations) would have heavy costs and were less likely to offer opportunities;

Mixed tenure schemes in small flatted blocks are particularly difficult to make work from viability perspective and in terms of management (and see below);

The housing associations at the workshop stated that they were happy to take on small numbers of affordable homes in a scheme (as few as one or two) provided they were in their established management area;

One problem HAs faced on small sites was the workload issue of getting planning and Housing Corporation approval;

LC summarised discussion about small sites – affordable housing provision on small sites was not a problem to HAs but from developer's point of view please be careful and bear in mind (potentially) higher costs.

Commuted sums

Attitudes to the use of commuted sums in lieu of on-site provision were mixed. Whilst one developer put forward the view that commuted sums should always be used (rather than on-site provision), the majority view was that it

was important to assure on site provision to maintain the supply of affordable housing. Housing association reps were concerned that commuted sums would not be enough to match the cost of buying and developing a new site.

However, there was debate about whether, in high value areas, it would be better to get a good financial contribution to build more houses in a cheaper area. In this respect, it was noted that, in high value areas, it proving difficult to provide HomeBuy at affordable costs for the occupier. (It is proving particularly difficult for prospective HomeBuy purchasers to obtain a mortgage at the moment but, even when credit is more freely available, HomeBuy in very high value areas can be difficult to keep 'affordable'.)

Housing associations also raised a general point about development mix and individual schemes. They noted the importance of sensitivity in planning which takes into account the client group likely to occupy the affordable units.

Density and development mix.

LC showed a table of different mixes of development (sizes and types of dwelling) at different densities and sought views as to whether these were appropriate in Dorset. Comments included:

Too many terraced properties in the 30dph set;

More flats and fewer detached needed in the 60 dph;

Need to allow for a lower density (20dph) at the bottom end and higher (150dph) at the top;

The amended table in the Powerpoint presentation reflects these changes. Please can attendees feed back on these, thanks.

Other Issues

Following is a list of other issues raised at the workshop – either through the general debate or in reply to request from Three Dragons for any final comments:

There is a problem of definition on what forms C2 or C3 uses – where do care homes with individual suites but communal facilities fit in to policy approach (and viability testing) for affordable housing.

There is a need to get Local Authorities to release more of their land for affordable housing.

Will the toolkit which Three Dragons provide to the local authorities be available to developers? GS responded that this had not been discussed yet in Dorset. LC added that the London version of the Toolkit was available for purchase from the Greater London Authority.

It was re-emphasised that the costs such as meeting the Code for Sustainable Homes, renewable energy requirements and all other planning requirements sought by Councillors must be taken into account in the viability study.

AFFORDABLE HOUSING PROVISION AND DEVELOPER CONTRIBUTIONS IN DORSET

Notes of workshop held on Thursday 20th November 2008 at Sturminster Newton

Attendance:

Gill Smith	Dorset County Council
Andrew Golland	Three Dragons
Mark Felgate	Roger Tym and Partners
Amy Carter	Michelmores LLP
Richard Bagnall	R Bagnall Associates
David Lohfink	C G Fry and Sons Ltd
Simon Rutter	P Proctor Associates
Andrew Rowe	Midas Homes
Steve Briggs	Smiths Gore
Richard Miller	Symons and Sampson
John Dobson	Places for People
Amanda Ford	North Dorset District Council
Alison Eldergill	West Dorset District Council
Martin Pinkney	Spectrum Housing Group
William Beveridge	Sherborne Castle Estate
Mr Rolls	Local land owner
Hilary Cox	Dorset County Council

Introduction

GS welcomed attendees and explained the purpose of the study and the workshop. Participants explained who they represented. The range of interests covered:

- Small – medium sized builders
- Local land owners
- RSLs with an interest in the area
- Planning agents / architects / solicitors
- Local Authorities.

It was explained that the study covered the five districts of North Dorset, West Dorset, East Dorset, Christchurch and Weymouth and Portland (Three Dragons having already completed studies for Poole, Bournemouth and Purbeck Councils). The emphasis for this workshop was on rural North and West Dorset and those invited to the workshop reflected this.

Issues in delivering affordable housing

Current market – at the present time the market is distorted therefore it is difficult to identify current constraints as very little development is being progressed at the moment.

Section 106 agreements were quoted as a potential constraint:

Lack of certainty regarding these costs make negotiations with land owners on price difficult and less informed, often the developer is 'hit' with these late on in the planning application process – this ultimately impacts on the viability of the scheme and therefore any affordable housing;

No transparency as to where money will be spent;

Uncertainty regarding which authorities will adopt CIL and which will continue with 106 and the basis for either system. Preference expressed for standard roof tax style as this provides certainty;

Accept the need – most of the developers accept the need for affordable housing and provided it during the 'good times' however the market has now changed and LPA will have to think carefully as to what can be expected and whether public subsidy will be required to make schemes that benefit all parties viable;

RSLs – developers expected RSLs to step into the breach during the current market difficulties and are very happy for this to happen. However RSLs are sometimes reluctant to fulfil this role;

Three Dragons Methodology

Three Dragons explained their methodology and approach to assessing viability. This is set out with key data assumptions in the attached Powerpoint presentation.

There was a question raised about the certainty of the assumptions on other (than affordable housing) Section 106 costs, although it was agreed that a tariff approach is the correct one to adopt.

A point was made about the importance of land owner aspirations. Land owners need to be happy that there is enough return in the scheme to encourage them to bring sites forward.

Policy issues

Potentially splitting targets within Districts was discussed as an option. Three Dragons explained that this might be the consequence of a district having a varied housing market including high and low values. There was some support for this policy approach although one respondent suggested that housing needs should be driving force for targets, not viability – AH may be more viable in some areas but this may not be where the greatest need is.

Quality issues – some areas and LPAs have greater expectation for quality of development, higher quality can mean higher costs although this does not

necessarily mean that development is less viable, particularly where higher costs are offset by high selling prices.

A point was made about the potential impact of the Code for Sustainable Homes - as this study is going to be used in the longer term the 2016 zero carbon target comes into play, this is likely to add substantial costs to development and will therefore reduce viability of AH. Three Dragons responded that viability would only be adversely affected where costs rise faster than revenues. Neither the trend in house prices, nor the actual costs of the Codes are certain at a local level. The costs of implementation could also fall as economies of scale kick in. Three Dragons stated that the impacts of sustainable features will be tested as part of the study analysis.

Small sites

There is no evidence to suggest that small scale schemes are any less viable than large scale ones. It was emphasised that it is not the size of the site that determines viability, but the location and the type of development. However, small sites often co-incidentally have a standing value (e.g. a house already on the site), and these seem to have increased substantially over the past few years making redevelopment less viable.

There was some uncertainty as to whether RSL want to take on single dwellings within small schemes. Experiences of both taking on and not expressed by developers and HA present at workshop.

The aspirations of both landowners and LPA regarding delivery of smaller sites, issues and contentions are often magnified making such developments not worth the hassle and return. It was suggested that 5 dwellings and above are not necessarily problematic from a viability viewpoint, but that below 5, viability was not so strong. No particular reasons were given for this distinction.

Comments on density and development mix

It is possible to achieve 60 in towns but any higher is unlikely, especially in a predominantly rural county such as Dorset.

Other land uses such as SUDs, attenuation and biodiversity make sites, especially smaller ones, harder to develop at higher densities, unless these can be incorporated within the developable land.

House types not necessarily reflecting what is being built in Dorset. For example 3-5 bedroom town houses, often terraced and over 3 floors are fairly common. These are sometimes linked by 1-2 bedroom coach houses over a vehicular access into courtyard parking areas (Note Powerpoint attached).

Land owner viewpoints

It was stated that most landowners have an unrealistic expectation of the value of their land. Last year landowners in Dorset, with green field sites adjacent to development boundary, were expecting values of approximately £1.5 million per acre. Actual selling prices are now expected to be very significantly below this, with one delegate quoting 'one tenth is now appropriate'.

It was stated that brown field sites generally present a greater challenge to development viability (due to high existing use values) than green field.

The role of the planning process on land owner expectations should be recognised. LDF/SHLAAs can provide alternative options which mean that expectations amongst landowners could potentially be reduced if competition between sites is increased

Hope value for Rural Exception Sites are around £6,000 to £10,000 per plot.

CGT is a consideration for most land owners.

When considering reasonable uplifts to land owners (and whether sites would come forward), one delegate pointed out the Development Land Tax which he said did not bring land forward at a 60% tax rate (i.e at 40% uplift).

Further comments

Next couple of years could provide the greatest opportunity in recent times for public sector led housing development;

Public sector land could be used more for provision of AH;

Opportunity to develop rural exception sites should be taken.

Appendix 2 Housing Market Viability Areas

CHRISTCHURCH		
Sub Market	PCS	Key settlements/areas
Christchurch Rural North	BH23 6	Christchurch Rural North (Hurn Forest and Airport)
Christchurch Coastal	BH23 5	Christchurch East (Highcliffe East; Lymington Road; Walkford)
	BH23 4	Christchurch Central (Bure Lane; the Runway; Highcliffe (West))
	BH23 1	Christchurch West (Whitehall; Wick Lane; Sopers Lane)
	BH23 3	Mudford West (Mudford Lane; Sandown Road; Somerford Road; Stanpit)
Christchurch North	BH23 7	Winckton
	BH23 2	Christchurch North West (Fairmile Road; Barrack Road; the Grove)

EAST DORSET		
Sub Market	PCS	Key settlements/areas
High Value Rural East Dorset	BH21 5	Rural North (Cranborne; Witchampton; Edmondsham)
	BH21 8	Rural North (Whitmore)
East Dorset Rural	BH21 4	Rural West (Hillbutts; Stanbridge)
	BH21 7	East Dorset Rural Heart (Horton Heath; Stapehill)
	SP5 5	Rural North (Sixpenny Handley)
Wimborne Minster & St Leonards	BH21 2	Wimborne Minster
	BH21 1	Wimborne Minster (West)
	BH24 2	St Leonards
Larger border settlements	BH21 3	Corfe Mullen
	BH22 0	West Moors
	BH22 9	Ferndown
	SP6 3	Alderholt
	BH22 8	West Pertey
Low Value East Dorset	BH31 7	Verwood North
	BH31 6	Verwood
	BH21 6	Three Legged Cross

NORTH DORSET		
Sub Market	PCS	Key settlements/areas
Shaftesbury & Gillingham Rural Hinterland	SP8 5	Rural North (Milton on Stour; Kingston Magna; East Stour)
	SP7 9	Rural North (Motcombe)
	SP7 0	Shaftesbury Rural Hinterland
Blandford Forum Rural Hinterland	DT11 9	Rural South (Blandford St Mary; Winterhorne; Kingston; Spetisbury; Tarrant Keyneston)
	DT11 0	Rural South (Oxford; Fitzpaine; Milton Abbas; Woolland; Bryanston)
	DT11 8	Rural East (Iwerne Minster; Courtney Shroton; Pimperne; Blandford Camp; Tarrant Gunville)
Rural West	DT10 2	Rural West (Stalbridge; Hazlebury Bryan)
	DT10 1	Rural West (Marnhull; Hinton St Mary; Sturminster Newton)
Shaftesbury	SP7 8	Shaftesbury
Blandford Forum	DT11 7	Blandford Forum
Gillingham	SP8 4	Gillingham

WEST DORSET		
Sub Market	PCS	Key settlements/areas
Sherborne	DT9 3	Sherborne
Dorchester Rural Hinterland	DT2 7	Rural (Buckland Newton; Cerne Abbas; Piddlehinton; Tolpuddle)
	DT2 9	Rural (Sydling St Nicholas; Frampton; Stratton; Litton Cheney; Martinstown; Charminster)
	DT2 8	Dorchester Eastern Hinterland (Puddletown; West Stafford; Crossways; Broadmayne; Owermoigne)
	DT1 3	Dorchester Rural Hinterland
The Coast	DT6 6	Coastal West (Lyme Regis; Charmouth; Morcambe Lake; Chideock; Wootton Fitzpaine)
	DT6 4	Coast Central (West Bay; Burton Bradstock; Bothenhampton; Uploders)
	DT3 4	Coastal East (Abbottsburys; Portesham; Chickerell; Langton Herring; Nottingham)
Dorchester	DT1 1	Dorchester North
	DT1 2	Dorchester South
Bridport & Northern Rural Hinterland	DT6 3	Bridport & Northern Rural Hinterland (West Milton; Powerstock)
	DT6 5	Bridport & Northern Rural Hinterland (Bettiscombe; Slawayash; Netherbury)
	DT2 0	Bridport & Northern Rural Hinterland (Melbury Sampford; Cattistock; Toller Percorum; Maiden Newton)
	DT8 3	Bridport & Northern Rural Hinterland (Beaminster; Broadwind; Stoke Abbott; South Perrott)
Sherborne Rural Hinterland	DT9 6	Rural North (Bradford Abbas; Thornford; Yetminster; Ghetnole; Leigh)
	DT9 4	Sherborne Northern Hinterland
	DT9 5	Rural North (Longburton; Alweston; Bishops Caundle)

WEYMOUTH & PORTLAND		
Sub Market	PCS	Key settlements/areas
Weymouth South	DT4 8	Weymouth South
Overcombe; Preston	DT3 6	Overcombe; Preston
West Coast	DT4 9	W & P West Coast (Charlestown; Wyke Regis; Southlands)
Weymouth North	DT4 0	Westham
	DT4 7	Weymouth North
	DT3 5	Upway and Broadway; Redipole
Isle of Portland	DT5 1	Isle of Portland North (Fortuneswell)
	DT5 2	Isle of Portland South (Portland; Southwell; Weston)

Appendix 3 Residual values in local authority areas (£ million per hectare)

Christchurch:

30 dph	0%	25%	30%	35%	40%	50%	60%
Rural North	£5.53	£4.14	£3.86	£3.58	£3.30	£2.74	£2.18
Coastal	£3.92	£2.83	£2.61	£2.39	£2.17	£1.74	£1.30
North	£3.51	£2.50	£2.29	£2.09	£1.89	£1.49	£1.08
40 dph	0%	25%	30%	35%	40%	50%	60%
Rural North	£6.73	£4.98	£4.63	£4.28	£3.93	£3.22	£2.52
Coastal	£4.75	£3.38	£3.10	£2.83	£2.55	£2.00	£1.45
North	£4.27	£2.98	£2.73	£2.47	£2.21	£1.70	£1.19
50 dph	0%	25%	30%	35%	40%	50%	60%
Rural North	£ 7.89	£ 5.80	£ 5.39	£ 4.97	£ 4.55	£ 3.72	£ 2.88
Coastal	£ 5.57	£ 3.92	£ 3.59	£ 3.27	£ 2.94	£ 2.28	£ 1.62
North	£ 4.99	£ 3.46	£ 3.15	£ 2.85	£ 2.54	£ 1.93	£ 1.31
60 dph	0%	25%	30%	35%	40%	50%	60%
Rural North	£ 7.77	£ 5.55	£ 5.11	£ 4.66	£ 4.22	£ 3.33	£ 2.45
Coastal	£ 5.42	£ 3.65	£ 3.30	£ 2.95	£ 2.59	£ 1.88	£ 1.18
North	£ 4.89	£ 3.22	£ 2.89	£ 2.56	£ 2.22	£ 1.56	£ 0.89
80 dph	0%	25%	30%	35%	40%	50%	60%
Rural North	£ 8.66	£ 5.94	£ 5.39	£ 4.85	£ 4.31	£ 3.22	£ 2.13
Coastal	£ 5.89	£ 3.70	£ 3.26	£ 2.82	£ 2.39	£ 1.50	£ 0.63
North	£ 5.29	£ 3.21	£ 2.80	£ 2.39	£ 1.97	£ 1.14	£ 0.31

East Dorset:

	% Affordable Housing						
30 dph	0%	30%	35%	40%	45%	50%	60%
High Value Rural	£5.95	£4.46	£4.16	£3.86	£3.56	£2.96	£2.36
East Dorset Rural	£4.42	£3.22	£2.98	£2.74	£2.49	£2.01	£1.53
Wimborne Minster	£4.39	£3.20	£2.95	£2.72	£2.48	£2.00	£1.52
Southern settlements	£3.23	£2.25	£2.05	£1.86	£1.67	£1.27	£0.88
Low Value East Dorset	£2.79	£1.90	£1.72	£1.54	£1.36	£1.00	£0.65
	% Affordable Housing						
40 dph	0%	30%	35%	40%	45%	50%	60%
High Value Rural	£7.25	£5.37	£5.00	£4.62	£4.24	£3.49	£2.74
East Dorset Rural	£5.39	£3.87	£3.57	£3.26	£2.96	£2.35	£1.74
Wimborne Minster	£5.31	£3.81	£3.50	£3.20	£2.90	£2.30	£1.70
Southern settlements	£3.92	£2.68	£2.43	£2.18	£1.93	£1.44	£0.94
Low Value East Dorset	£3.36	£2.22	£2.00	£1.77	£1.54	£1.09	£0.64
	% Affordable Housing						
50 dph	0%	30%	35%	40%	45%	50%	60%
High Value Rural	£8.49	£6.26	£5.81	£5.36	£4.92	£4.03	£3.13
East Dorset Rural	£6.33	£4.51	£4.15	£3.78	£3.42	£2.69	£1.96
Wimborne Minster	£6.20	£4.41	£4.05	£3.69	£3.33	£2.61	£1.89
Southern settlements	£4.59	£3.10	£2.80	£2.51	£2.21	£1.61	£1.02
Low Value East Dorset	£3.91	£2.56	£2.28	£2.01	£1.74	£1.20	£0.66
	% Affordable Housing						
80 dph	0%	30%	35%	40%	45%	50%	60%
High Value Rural	£9.43	£6.50	£5.92	£5.33	£4.75	£3.58	£2.41
East Dorset Rural	£6.95	£4.50	£4.01	£3.52	£3.03	£2.05	£1.07
Wimborne Minster	£6.65	£4.26	£3.78	£3.30	£2.82	£1.87	£0.91
Southern settlements	£4.76	£2.73	£2.32	£1.92	£1.51	£0.70	-£0.11
Low Value East Dorset	£3.93	£2.06	£1.69	£1.31	£0.94	£0.19	-£0.56

North Dorset:

	0%	25%	30%	35%	40%	50%	60%
20 DPH							
Shaftesbury & Gillingham	£2.80	£2.03	£1.88	£1.72	£1.57	£1.27	£0.96
Blandford Forum Rural Hinterland	£2.60	£1.88	£1.73	£1.58	£1.44	£1.15	£0.86
Rural West	£2.05	£1.43	£1.30	£1.18	£1.05	£0.81	£0.56
Shaftesbury	£1.92	£1.32	£1.20	£1.08	£0.96	£0.72	£0.48
Blandford Forum	£1.77	£1.20	£1.09	£0.97	£0.86	£0.63	£0.40
Gillingham	£1.22	£0.75	£0.66	£0.57	£0.48	£0.29	£0.10
30 DPH							
Shaftesbury & Gillingham	£3.98	£2.88	£2.66	£2.44	£2.22	£1.78	£1.34
Blandford Forum Rural Hinterland	£3.76	£2.70	£2.49	£2.28	£2.07	£1.65	£1.22
Rural West	£2.92	£2.02	£1.84	£1.66	£1.48	£1.12	£0.76
Shaftesbury	£2.76	£1.89	£1.72	£1.55	£1.37	£1.03	£0.68
Blandford Forum	£2.56	£1.73	£1.57	£1.40	£1.24	£0.90	£0.57
Gillingham	£1.78	£1.10	£0.96	£0.83	£0.69	£0.42	£0.15
40 DPH							
Shaftesbury & Gillingham	£4.83	£3.44	£3.17	£2.89	£2.61	£2.05	£1.50
Blandford Forum Rural Hinterland	£4.60	£3.25	£2.98	£2.72	£2.45	£1.91	£1.37
Rural West	£3.53	£2.39	£2.16	£1.93	£1.70	£1.25	£0.79
Shaftesbury	£3.35	£2.24	£2.02	£1.80	£1.58	£1.14	£0.69
Blandford Forum	£3.08	£2.02	£1.81	£1.60	£1.39	£0.97	£0.55
Gillingham	£2.14	£1.26	£1.09	£0.91	£0.74	£0.39	£0.04
50 DPH							
Shaftesbury & Gillingham	£5.66	£4.00	£3.67	£3.33	£3.00	£2.34	£1.67
Blandford Forum Rural Hinterland	£5.40	£3.79	£3.47	£3.14	£2.82	£2.18	£1.53
Rural West	£4.12	£2.75	£2.48	£2.21	£1.93	£1.39	£0.84
Shaftesbury	£3.91	£2.59	£2.32	£2.06	£1.79	£1.26	£0.73
Blandford Forum	£3.58	£2.32	£2.07	£1.81	£1.56	£1.05	£0.55
Gillingham	£2.49	£1.44	£1.23	£1.02	£0.80	£0.38	-£0.04
60 DPH							
Shaftesbury & Gillingham	£5.57	£3.77	£3.41	£3.05	£2.69	£1.97	£1.24
Blandford Forum Rural Hinterland	£5.35	£3.59	£3.24	£2.88	£2.53	£1.83	£1.12
Rural West	£4.02	£2.51	£2.21	£1.91	£1.61	£1.01	£0.40
Shaftesbury	£3.84	£2.37	£2.08	£1.78	£1.49	£0.90	£0.31
Blandford Forum	£3.45	£2.06	£1.78	£1.50	£1.22	£0.66	£0.10
Gillingham	£2.36	£1.17	£0.93	£0.69	£0.46	-£0.02	-£0.50

West Dorset:

30 dph	0%	25%	30%	35%	40%	50%	60%
Sherborne	£5.08	£3.74	£3.47	£3.20	£2.93	£2.40	£1.86
Dorchester Rural H'land	£4.32	£3.12	£2.89	£2.65	£2.41	£1.94	£1.45
The Coast	£3.69	£2.62	£2.40	£2.19	£1.97	£1.54	£1.11
Dorchester	£3.50	£2.47	£2.26	£2.04	£1.85	£1.42	£1.01
Bridport & Northern Rural	£3.22	£2.23	£2.04	£1.85	£1.65	£1.25	£0.86
Sherborne Rural	£3.13	£2.16	£1.97	£1.77	£1.58	£1.19	£0.80
40 dph	0%	25%	30%	35%	40%	50%	60%
Sherborne	£6.19	£4.51	£4.17	£3.83	£3.49	£2.82	£2.14
Dorchester Rural H'land	£5.27	£3.74	£3.44	£3.14	£2.84	£2.23	£1.63
The Coast	£4.66	£3.26	£2.98	£2.69	£2.41	£1.85	£1.30
Dorchester	£4.27	£2.93	£2.67	£2.41	£2.14	£1.61	£1.08
Bridport & Northern Rural	£3.92	£2.66	£2.40	£2.15	£1.90	£1.40	£0.89
Sherborne Rural	£3.79	£2.56	£2.30	£2.06	£1.81	£1.31	£0.82
50 dph	0%	25%	30%	35%	40%	50%	60%
Sherborne	£7.26	£5.29	£4.84	£4.45	£4.04	£3.23	£2.42
Dorchester Rural H'land	£6.19	£4.38	£4.01	£3.65	£3.29	£2.57	£1.84
The Coast	£5.45	£3.76	£3.43	£3.10	£2.76	£2.10	£1.42
Dorchester	£5.00	£3.40	£3.09	£2.76	£2.45	£1.81	£1.18
Bridport & Northern Rural	£4.58	£3.11	£2.77	£2.47	£2.16	£1.56	£0.95
Sherborne Rural	£4.44	£2.94	£2.65	£2.35	£2.05	£1.46	£0.86
80 dph	0%	25%	30%	35%	40%	50%	60%
Sherborne	£8.01	£5.31	£4.77	£4.23	£3.69	£2.61	£1.53
Dorchester Rural H'land	£6.65	£4.21	£3.72	£3.23	£2.74	£1.76	£0.79
The Coast	£5.82	£3.54	£3.08	£2.62	£2.16	£1.25	£0.33
Dorchester	£5.29	£3.11	£2.67	£2.23	£1.79	£0.92	£0.04
Bridport & Northern Rural	£4.76	£2.67	£2.26	£1.84	£1.42	£0.59	-£0.25
Sherborne Rural	£4.47	£2.43	£2.03	£1.62	£1.22	£0.40	-£0.41
100 dph	0%	25%	30%	35%	40%	50%	60%
Sherborne	£9.08	£5.84	£5.19	£4.55	£3.90	£2.60	£1.31
Dorchester Rural H'land	£7.45	£4.52	£3.94	£3.35	£2.76	£1.59	£0.42
The Coast	£6.46	£3.71	£3.16	£2.62	£2.07	£0.97	-£0.13
Dorchester	£5.83	£3.20	£2.68	£2.15	£1.63	£0.58	-£0.47
Bridport & Northern Rural	£5.20	£2.69	£2.19	£1.69	£1.19	£0.19	-£0.81
Sherborne Rural	£4.83	£2.39	£1.91	£1.42	£0.93	-£0.04	-£1.02

Weymouth and Portland:

	Percentage of Affordable Housing						
	0	25	30	35	40	50	60
30 Dph							
Weymouth South	£4.12	£3.01	£2.78	£2.56	£2.34	£1.89	£1.45
Overcombe	£3.31	£2.35	£2.15	£1.96	£1.77	£1.38	£1.00
West Coast	£3.00	£2.10	£1.91	£1.73	£1.55	£1.19	£0.83
Weymouth North	£2.65	£1.81	£1.64	£1.48	£1.31	£0.97	£0.64
Isle of Portland	£2.37	£1.58	£1.43	£1.27	£1.11	£0.80	£0.48
40 Dph							
Weymouth South	£5.00	£3.54	£3.24	£2.95	£2.66	£2.07	£1.49
Overcombe	£4.01	£2.78	£2.54	£2.30	£2.05	£1.57	£1.08
West Coast	£3.64	£2.48	£2.26	£2.03	£1.88	£1.34	£0.87
Weymouth North	£3.20	£2.13	£1.92	£1.70	£1.49	£1.18	£0.64
Isle of Portland	£2.85	£1.85	£1.65	£1.45	£1.25	£0.85	£0.45
50 Dph							
Weymouth South	£5.85	£4.17	£3.83	£3.50	£3.16	£2.49	£1.82
Overcombe	£4.68	£3.22	£2.93	£2.64	£2.34	£1.79	£1.17
West Coast	£4.26	£2.87	£2.59	£2.32	£2.04	£1.49	£0.94
Weymouth North	£3.73	£2.45	£2.19	£1.94	£1.68	£1.16	£0.65
Isle of Portland	£3.33	£2.12	£1.88	£1.64	£1.40	£0.92	£0.44
90 Dph							
Weymouth South	£7.15	£4.58	£4.07	£3.56	£3.04	£2.02	£0.99
Overcombe	£5.56	£3.29	£2.84	£2.39	£1.93	£1.03	£0.12
West Coast	£4.96	£2.80	£2.37	£1.51	£0.65	£0.47	-£0.23
Weymouth North	£4.29	£2.27	£1.86	£1.46	£1.05	£0.24	-£0.57
Isle of Portland	£3.76	£1.84	£1.45	£1.18	£0.68	-£0.09	-£0.86
100 Dph							
Weymouth South	£7.08	£4.36	£3.81	£3.29	£2.71	£1.62	£0.53
Overcombe	£5.46	£3.03	£2.55	£2.06	£1.58	£0.61	-£0.36
West Coast	£4.83	£2.53	£2.06	£1.59	£1.14	£0.22	-£0.70
Weymouth North	£4.09	£1.93	£1.49	£1.05	£0.62	-£0.24	-£1.11
Isle of Portland	£3.58	£1.50	£1.09	£0.65	£0.26	-£0.57	-£1.40
120 Dph							
Weymouth South	£8.00	£4.88	£4.26	£3.64	£3.01	£1.76	£0.51
Overcombe	£6.14	£3.37	£2.82	£2.27	£1.71	£0.60	-£0.50
West Coast	£5.44	£2.80	£2.27	£1.74	£1.22	£0.16	-£0.89
Weymouth North	£4.55	£2.08	£1.59	£1.09	£0.60	-£0.39	-£1.38
Isle of Portland	£4.47	£1.65	£1.18	£0.70	£0.23	-£0.72	-£1.67

Appendix 4 AFFORDABLE HOUSING PROVISION AND DEVELOPER CONTRIBUTIONS IN DORSET

Notes of seminar held on Friday 13th November 2009 from 9.30am to 2.00pm at The Hall and Woodhouse Conference Centre, The Brewery, Blandford St Mary, Dorset.

Purpose of the Seminar

The purpose of the seminar was to give feedback on the results of the study into the economic viability of providing affordable housing across five Districts in Dorset, undertaken by Three Dragons. The seminar was organised and hosted by the Bournemouth, Dorset and Poole Strategic Housing Group who had partially financed the study.

Attendees included representatives of the Local Authorities, regional agencies (such as the Homes and Communities Agency), Housing Associations, local developers, land owners and planning agents from across the County, many of whom had attended the workshops earlier in the process.

Content of the Seminar

Sarah Ward, Chair of the Bournemouth, Dorset and Poole Strategic Housing Group chaired the seminar. She welcomed the wide range of attendees to the meeting.

Gill Smith of Dorset County Council explained the background to the study and how the results would be used to feed into the emerging housing policy documents of the five Districts that had been covered (Christchurch, East Dorset, North Dorset, West Dorset and Weymouth and Portland). Purbeck District and Poole and Bournemouth Unitary Councils had already had studies completed by Three Dragons.

Lin Cousins of Three Dragons gave an overview of the work that had been undertaken, explaining the national and regional policy context. She touched on the variation in residual values and size of development site seen across the County and the implications this has for setting target proportions of affordable housing and site size thresholds. She also reviewed recent Inspectorate decisions on proposed affordable housing policy based on their work in other areas, mentioning Bournemouth and the New Forest in particular. Finally she discussed the difficulty of drawing up policy in a period of economic uncertainty, but noted that inspectors seem to be taking a long term view – based on the fact that plan periods tend to be for a 15 – 20 year period and that the trend in land/house prices over that length of time has been steadily upward.

Dr Andrew Golland of Three Dragons gave a more detailed explanation of the way the study had been undertaken and the results for different Districts. He

explained how each District had been divided into sub-markets based on different market values and how residual values had been calculated for different proportions of affordable housing on a notional 1 hectare site. He also explained how he had examined the size of sites developed in each District over the previous three years in order to gauge the size and type of development most likely to come forward in the future.

He had tested various scenarios with different development mixes, with and without grant and made allowance for other costs of development (such as Section 106 requirements and costs associated with meeting higher levels of the Code for Sustainable Homes).

He briefly explained the results for different Districts – in some a single percentage target for affordable housing might be appropriate while in others there was a case for two or more targets. On site size thresholds it was concluded that there was a need to reduce thresholds to meet high levels of need and that there is no bar in principle to small sites being developed for affordable housing, providing they do not have a high existing use value. In all Districts a threshold of zero could be considered.

Question and Answer Session

Both during and following the speakers main presentations, there was a lively question and answer session. Delegates were concerned about different detailed aspects of the study – in particular the indicative new build house prices generated and the level of developer profit allowed for in the calculations. On the latter issue it was explained that the level of developer profit used had been 15% (and 6% on affordable housing). This had been used on previous studies across the country and had been deemed appropriate in view of the long term nature of the policies being derived from the study. It would be open for developers to argue for a different level of profit to be used on sites that come forward in the short term, if they had evidence to support this.

Demonstration of Toolkit

The seminar concluded with a demonstration by Andrew Golland of the toolkit (software) that had been used in the study and that was being issued to each District to test the viability of development sites as they came forward.

Attendance List:

Name	Position	Organisation
Patrick Swift		APS Associates
Cally Antill	Head of Housing & Community Services	Borough of Poole
Helen Harris	Senior Planning Officer	Borough of Poole
Kerry Ruff	Senior Housing Resources Officer	Borough of Poole
Mike Darby	Housing Enabling Officer.	Bournemouth Borough Council
David Lohfink	Land and Planning Manager	C G Fry & Son Limited
Cllr Alan Griffiths	Leader of the Council	Christchurch Borough Council
Cllr Mrs SM Spittle	Housing Portfolio Holder	Christchurch Borough Council
Julia Mitchell	Senior Planning Policy Officer	Christchurch Borough Council
Kathryn Blatchford	Housing Services Manager	Christchurch Borough Council
Simon Thompson	Community Fieldworker & Team Manager	Dorset Community Action
Cllr Hilary Cox	Cabinet Member for the Environment	Dorset County Council
Gill Smith	Senior Affordable Housing Officer	Dorset County Council
Mike Garrity	Spatial Planning Team Leader	Dorset County Council
Mr Mike Hirsh	Head of Planning and Building Control	East Dorset District Council
Mrs Elizabeth Adams	Planning Officer	East Dorset District Council
Richard Henshaw	Forward Plans Team Leader	East Dorset District Council
Chris Avanti		Event Administration
Peter Atfield	Director	Goadsby Town Planning & Special Projects
May Palmer	Director	Harry J Palmer Ltd
Paul Bloomfield	Land Manager	Holton Homes Ltd
Paul Britton	Investment & Regeneration Manager	Homes & Communities Agency
Nigel Jones	Director	Humberts Commercial Yil Ltd.
Stuart Woodward	Managing Director	Kindle Homes
Gary Toomer	Project Manager (Developer)	Knightstone Housing Association
Richard Bailey	Director	Levvel Ltd
Simon Mitchell	Director	Levvel Ltd
Brian Simpson		Lionel Gregory Architects
Eddie Fitzsimmons		Lomand Homes
Simon Crow		Lomand Homes

Paul Damen	Development Manager	Magna Housing
Raymond Ardrey	Group Finance Director	Magna Housing
Andrew Rowe	Strategic Land & Planning Manager	Midas Homes
Amanda Ford	Senior Planning Policy Officer	North Dorset District Council
Derek Hardy	Policy Manager (Housing & Community Safety)	North Dorset District Council
John Hammond	Development Control Team Leader	North Dorset District Council
Nick Fagan	Development Control Manager	North Dorset District Council
Robert Firth	Senior Solicitor	North Dorset District Council
Trevor Warwick	Policy Manager	North Dorset District Council
Paul Bedford	Senior Land and Planning Manager	Persimmon Homes South Coast
Simon Rutter		Philip Proctor
Steve Dring	Planning Policy Manager	Purbeck District Council
Nathan Cronk	Regional Development Manager	Raglan Housing Association Ltd
Richard Bagnall	Director	Richard Bagnall Associates
Howard Baron	Director	Sherwood Estates Limited,
John Probert,	Director	Sherwood Estates Limited,
Steve Briggs	Partner	Smiths Gore
Lindsay Shearer	Somerford Development Manager	Sovereign Twynham
Matthew Shellum	Principal Planning Associate	The Planning Bureau Ltd
Dr Andrew Golland	Consultant	Three Dragons
Lin Cousins	Consultant	Three Dragons
Alison Clothier	Principal Planning Officer (Strategic Policy)	West Dorset District Council
Geoff Joy	Head of Housing	West Dorset District Council
Sarah Ward	Chair of Bournemouth, Dorset and Poole Strategic Housing	West Dorset District Council
Tim Davis	Lead Officer Housing Strategy and Development.	West Dorset District Council
Matt Witt	Architect (Director)	Western Design Architects
Phil Easton RIBA	Architect (Director)	Western Design Architects
Andrew Galpin	Strategic Planning Manager	Weymouth & Portland Borough Council
Chris Branch	Housing Enabling Services Manager	Weymouth and Portland Borough Council
Cllr Jean Woodward	Briefholder for Housing	Weymouth and Portland Borough Council

Appendix 5

Dorset Affordable Housing Viability Studies

Commentary on alternative profit level

The five local authority viability reports adopted a 15% profit margin. The profit margin is based on Gross Development Value, or GDV. This is a conventional method of measuring return to developer and a conventional level of return. Three Dragons appraisal Toolkits have been adopted by local authorities and developers since 2001. A 15% profit margin on GDV has recently been accepted at Core Strategy for the purposes of policy setting (Hinckley and Bosworth BC, 27th November 2009)

Following a Seminar with developers and others on 13th November 2009, the authorities agreed that further analysis should be carried out looking at the impacts on higher profit margins on viability.

We look here at the impacts across the County, by taking the examples of Christchurch, West Dorset and North Dorset. We look at three profit margin levels – 15%, 20% and 25% - all based on GDV. We look also at Return on Cost which is an alternative measure of viability and which is also considered relevant by inspectors at Core Strategy examination and appeal. We look at viability for three scenarios – at nil % affordable housing; at 30% affordable housing and at 40% affordable housing.

The results are set out in Table 1

In Table 1, figures set out residual values (in £ million per hectare) – as in the key reports.

ROC = Return on Cost. This is % return on build costs expressed as a percentage of margin on GDV.

The final two columns on the right hand side of the table show the reduction in residual value (RV) which result from higher levels of profit margin.

Table 1 Results

			15% ON GDV	ROC	20% ON GDV	ROC	25% ON GDV	ROC	Reduction in RV from 15% Margin	
									At 20% Margin	At 25% Margin
Christchurch (High Value Dorset)	Rural North	0% Affordable	£6.73	61%	£6.06	82%	£5.39	102%	11.06	24.86
		30% Affordable	£4.63	46%	£4.16	61%	£3.69	76%	11.30	25.47
		40% Affordable	£3.93	40%	£3.52	53%	£3.12	66%	11.65	25.96
	North	0% Affordable	£4.27	47%	£3.75	63%	£3.23	79%	13.87	32.20
		30% Affordable	£2.73	36%	£2.36	48%	£2.00	59%	15.68	36.50
		40% Affordable	£2.21	32%	£1.90	42%	£1.59	52%	16.32	38.99
			15% ON GDV	ROC	20% ON GDV	ROC	25% ON GDV	ROC	Reduction in RV from 15% Margin	
									At 20% Margin	At 25% Margin
West Dorset (Middle Market Dorset)	Sherborne	0% Affordable	£6.19	58%	£5.56	79%	£4.93	98%	11.33	25.56
		30% Affordable	£4.17	44%	£3.72	58%	£3.28	72%	12.10	27.13
		40% Affordable	£3.49	39%	£3.11	51%	£2.73	63%	12.22	27.84
	Sherborne Rural	0% Affordable	£3.79	45%	£3.30	60%	£2.81	75%	14.85	34.88
		30% Affordable	£2.30	35%	£1.96	45%	£1.62	56%	17.35	41.98
		40% Affordable	£1.81	31%	£1.52	40%	£1.22	50%	19.08	48.36
			15% ON GDV	ROC	20% ON GDV	ROC	25% ON GDV	ROC	Reduction in RV from 15% Margin	
									At 20% Margin	At 25% Margin
North Dorset Lower Value Dorset)	Shaftesbury & G'ham Rural Hinterland	0% Affordable	£4.83	51%	£4.28	68%	£3.73	85%	12.85	29.49
		30% Affordable	£3.17	44%	£2.78	51%	£2.39	64%	14.03	32.64
		40% Affordable	£2.61	34%	£2.28	45%	£1.95	56%	14.47	33.85
	Gillingham	0% Affordable	£2.14	36%	£1.75	47%	£1.36	59%	22.29	57.35
		30% Affordable	£1.09	35%	£0.82	36%	£0.54	45%	32.93	101.85
		40% Affordable	£0.74	25%	£0.51	32%	£0.27	39%	45.10	174.07

The results show that for a mid market authority such as West Dorset, very substantial returns on cost exist at a margin on GDV of 15%. In Sherborne, the ROC range is between 39% and 58% depending on the percentage of affordable housing. If a higher return of 20% on GDV is required in this sub market, ROC range rises to 51% to 79%. This is a very substantial return. A 20% return on GDV will make only a very insignificant impact on residual values here – between 11% and 12% depending on the percentage of affordable housing. Thus a 20% return is unlikely to make development unviable in this type of location.

At the lower end of the market in West Dorset a 20% return on GDV will impact on land values by between 15% and 19% depending on the percentage of affordable housing. This assumes that developers need to make 40% to 60% return on costs however. A 15% return on GDV in Sherborne Rural for example still provides a developer with a return on costs of between 31% and 45% depending on the percentage of affordable housing.

At 25% return on GDV, return on cost rises to between 50% and 98% in West Dorset, depending on the sub market and the percentage of affordable housing. At 25% profit on GDV, residual value falls to between 25% and 28% at the top end of the market, and between 35% and 48% at the bottom. There is no particular fall in RVs that would necessarily stop land values coming forward, although it could be noted that a near 50% fall in residual value (from £1.81 million per hectare to £1.22 million per hectare) is seen in the case of Sherborne Rural at 40% affordable housing, considering an increase on margin on GDV from 15% to 25%.

In Christchurch, as a higher value area within Dorset, a return on cost of between 32% and 61% is achieved at 15% on GDV depending on the sub market and the the percentage of affordable housing. If developers require a return of 20% on GDV, local authorities, will, in our estimation, be allowing developers a return on cost of between 42% and 82% depending on the sub market and the percentage of affordable housing. At 25% return on GDV, return on cost rises to between 52% to 102% the sub market and the percentage of affordable housing. Thus in Rural North, the amount of profit (ROC) is equal to build costs. At 25% return on GDV, residual value falls by around 25%.

In North Dorset, as a relatively lower value local authority area, return on cost ranges between 25% and 51% depending on the sub market and the percentage of affordable housing. Similarly (to the other authorities) large increases on ROC occur at higher margins

on GDV. At 20% return on GDV in Shaftesbury and Gillingham Rural Hinterland, RV falls between 12% and 14%. At 25% return on GDV, this increases to between 30% and 34% in the same market.

As may be anticipated, the impact on RV becomes more significant at the lower end, e.g. Gillingham, where at 30% affordable housing a 5% increase (above 15%) to 20% return lowers RV by around 30%. At 25% return on GDV, the residual values fall more significantly, although this of course assumes very significant returns on cost.

As stated previously a 15% return on GDV has proven the marker for the longer run housing market. Whilst local authorities may decide to accept a higher return in the current market circumstances to deal with lenders requirements, they will need to balance this against the impact on residual value and the returns on cost being achieved by developers.