

**East Dorset District Council  
Affordable Housing Provision and Developer  
Contributions in Dorset**

**Final 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 relates to the specific circumstances of East Dorset District Council. The report analyses the impact of affordable housing and other planning obligations on scheme viability.

## Progress in Delivering Affordable Housing

- 1.4 The level of completions of affordable housing in East Dorset has varied on a year by year basis, but the trend in recent years has been for a reduction in delivery of affordable housing with no completions in 2006/07 and 2007/08 and very limited provision in the preceding two years. However, it is apparent that historically, higher levels of provision have been achieved with, for example, over 50 affordable dwellings completed in 1994/95, 2000/01 and 2003/04. The reduction in completion of affordable dwellings from 2004/05 mirrors a relatively low level of house building generally – with only 173 and 189 total completions in 2006/07 and 2007/08 respectively. Table 1.1 below sets out the information on completions in detail.

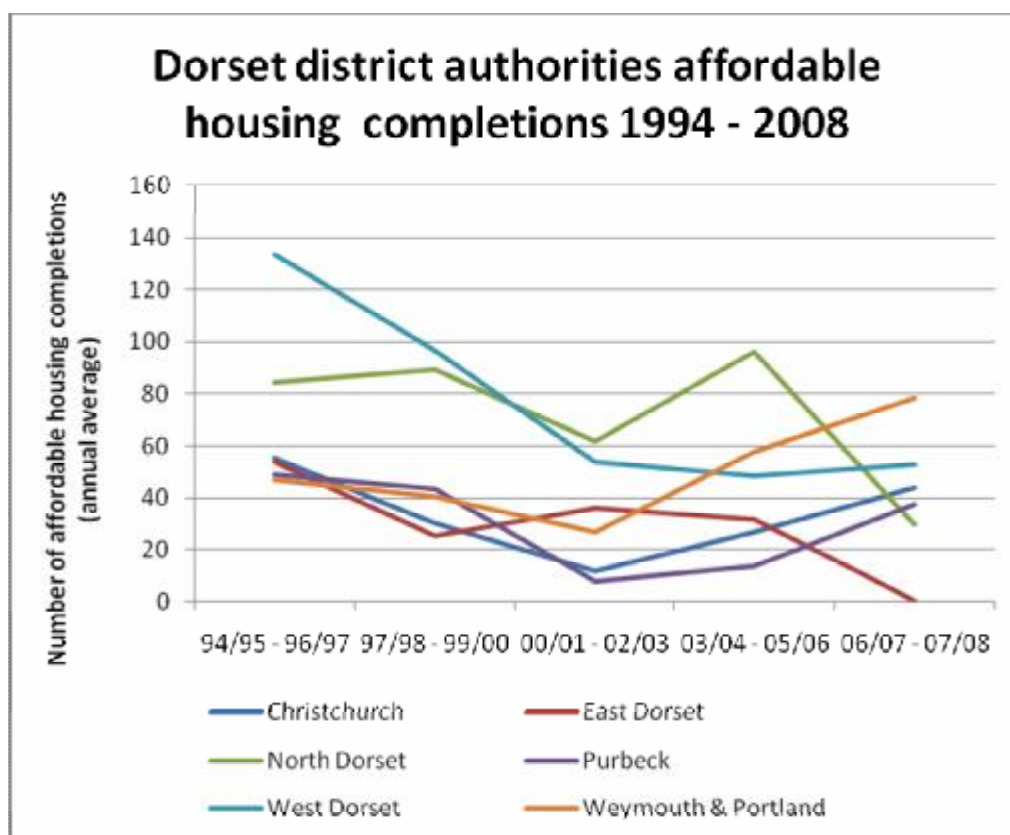
**Figure 1.1: Housing completions 1994 – 2008**

Year	Total private dwellings	Total affordable dwellings	Total dwellings	Percentage affordable dwellings
1994/1995	304	74	378	20%
1995/1996	272	39	311	13%
1996/1997	362	48	410	12%
1997/1998	330	29	359	8%
1998/1999	331	36	367	10%
1999/2000	329	10	339	3%
2000/2001	351	62	413	15%
2001/2002	480	40	520	8%
2002/2003	296	6	302	2%
2003/2004	301	66	367	18%
2004/2005	254	17	271	6%
2005/2006	203	12	215	6%
2006/2007	173	0	173	0%
2007/2008	189	0	189	0%
<b>1994/2008(dpa)</b>	<b>298</b>	<b>31</b>	<b>330</b>	<b>10%</b>
<b>1998/2008(dpa)</b>	<b>291</b>	<b>25</b>	<b>316</b>	<b>8%</b>
<b>2003/2008(dpa)</b>	<b>224</b>	<b>19</b>	<b>243</b>	<b>8%</b>

Source: Dorset County Council

- 1.5 In comparison with the other Dorset district authorities, affordable housing completions in East Dorset have been ‘mid-rank’ until the last few years when the very limited or zero provision of affordable housing is in contrast to other of the Dorset authorities, some of which have shown a recent up-turn in affordable housing provision. The chart below shows this – using a 3 year rolling average of historic completions to show trends in affordable housing completions across the Dorset district authorities (and including Purbeck to provide a complete picture across the County).

**Figure 1.2: Dorset district authorities annual affordable housing completions 1994 – 2008**



Source: Dorset County Council

### Need for Affordable Housing

- 1.6 The Council, with other Dorset authorities, jointly commissioned Fordham Research to produce the Dorset Survey of Housing Need and Demand (part of the Strategic Housing Market Assessment). This was published in March 2008.
- 1.7 The report provides two methods of calculating affordable housing need, namely the CLG method and Fordham Research's Balanced Housing Market (BHM) method of assessment. The methods produce significantly different estimates of affordable housing need:
- CLG method results in annual need of 440 affordable homes
  - BHM method results in annual demand of 243 affordable homes
- 1.8 At 440 homes per annum, the need for affordable housing exceeds the total annual housing requirement for the district of 320 dwellings per annum, set out in the draft Regional Spatial Strategy (2006 to 2026) for the South West<sup>1</sup>.

<sup>1</sup> Draft Revised RSS for SW incorporating Secretary of State's Proposed Changes June 2008.

The BHM figure is below the total requirement in the draft RSS but still represents about three quarters of total provision.

- 1.9 The Dorset Survey of Housing Need and Demand report recommends that the local planning authorities assess the economic viability of providing affordable housing in their areas and that policy should seek the highest possible proportions that are assessed as being viable.
- 1.10 In addition to the headline rates of affordable housing need the report also found, that in East Dorset there is a fairly even split for demand for 2, 3 and 4 bed social rented properties but a surplus of one bed properties. The split between intermediate and social rented (a 35%/65% split) should be taken with caution as more detailed analysis shown the actual number of households that can afford intermediate housing is well below the numbers seeking intermediate housing. On this basis, a recommended tenure split that is more heavily weighted towards social rented housing appears justified.
- 1.11 Our report is not intended to deal with the issue of affordable housing need in any detail. Given the level of need reported in Survey of Housing Need and Demand (whichever method is followed), it seems reasonable for us to assume that the Council will continue to need to maximise delivery of affordable housing, consistent with financial viability considerations (and other mixed community objectives).

#### **Policy context - national**

- 1.12 This 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)*

- 1.13 The companion guide to PPS3<sup>2</sup> provides a further indication of the approach which Government believes local planning authorities should take in planning for affordable housing. Paragraph 10 of the document states:

*“Effective use of planning obligations to deliver affordable housing requires good negotiation skills, **ambitious but realistic affordable housing targets and thresholds** given site viability, funding ‘cascade’ agreements in case grant is not provided, and use of an agreement that secures standards.”* (our emphasis)

#### **Policy context – South West Region**

- 1.14 The draft revised Regional Spatial Strategy (RSS) for the South West, incorporating the Secretary of States Proposed Changes (June 2008), has identified 6,400 dwellings or 320 per annum to be provided in East Dorset, 2006 to 2026.
- 1.15 The Proposed Changes identify the main urban towns in East Dorset (mainly around the A31) within the South East Dorset SSCT<sup>3</sup> (with Bournemouth, Poole and Christchurch) where 3,800 dwellings are to be provided within the towns and 2400 dwellings within areas of search to the northeast of Poole, the east of Wimborne and the east of Ferndown. The remaining 200 dwellings are to be identified in areas outside the SSCT.
- 1.16 Policy H1 of the Proposed Changes 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.
- 1.17 The consultation period for the Proposed Changes has now closed. It is anticipated that the RSS will be adopted later this summer. When published it will form part of the development plan for the Council.

#### **Policy context – East Dorset**

- 1.18 The East Dorset Local Plan (2002) contains two saved policies for affordable housing. Policy HODEV5 states that the Council will seek to negotiate with developers to secure affordable housing, in urban areas, on sites of 0.5 hectares or more or where 15 dwellings or more are proposed. Affordable housing is also sought in rural settlements, where the population is less than 3,000 and sites are 0.25 hectares or more, or where 5 or more dwellings are proposed.
- 1.19 Policy HODEV6 permits, exceptionally, affordable housing to be developed within or immediately adjoining 13 identified rural settlements provided that there is a demonstrable need.
- 1.20 An SPG on affordable and special needs housing and the provision of small dwellings has also been published (2005). The SPG seeks provision of 40% affordable housing on qualifying sites identified by Local Plan policy HODEV5. Tenure should match local needs, which are predominantly social rented.

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<sup>2</sup> CLG, Delivering Affordable Housing, November 2006

<sup>3</sup> Strategically Significant Cities and Towns

Accordingly for every one shared equity or low cost home, there should be nine social rented.

- 1.21 The Council is currently preparing two Development Plan Documents (DPD) jointly with Christchurch Borough Council. These are a Core Strategy and an Affordable Housing DPD.
- 1.22 The Affordable Housing DPD issues and options consultation set out a number of key questions about the provision of affordable housing and which included questions about the minimum target (at 35% or higher) and site size thresholds as well as seeking views on the tenure split between social rented and intermediate affordable housing and the size of affordable housing properties.

### **Research undertaken**

- 1.23 There were four main strands to the research undertaken to complete this study:
  - Discussions with a project group of officers from the five commissioning authorities 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, adapted for the Dorset authorities, to analyse scheme viability (and described in detail in subsequent chapters of this report);
  - A workshop held with developers, land owners, their agents and representatives from a selection of Registered Social Landlords active in the borough.

### **Structure of the report**

- 1.24 The remainder of the report uses the following structure:
  - Chapter 2 explains the methodology we have followed in, first, identifying sub markets and, second, undertaking the analysis of development economics. We explain that this is based on residual value principles;
  - Chapter 3 provides analysis of residual values generated across a range of different development scenarios (including alternative percentages and mixes of affordable housing) for a notional 1 hectare site.
  - Chapter 4 considers options for site size thresholds. It reviews national policy and the potential future land supply and the relative importance of small sites. The chapter considers practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed);
  - Chapter 5 identifies a number of case study sites (and which focuses on issues around small site provision), that represent examples of site types found in the authority. For each site type, there is an analysis of the residual value of the sites and compares this with their existing use value.

- Chapter 6 summarises the evidence collected through the research and provides a set of policy options.



## **2 METHODOLOGY**

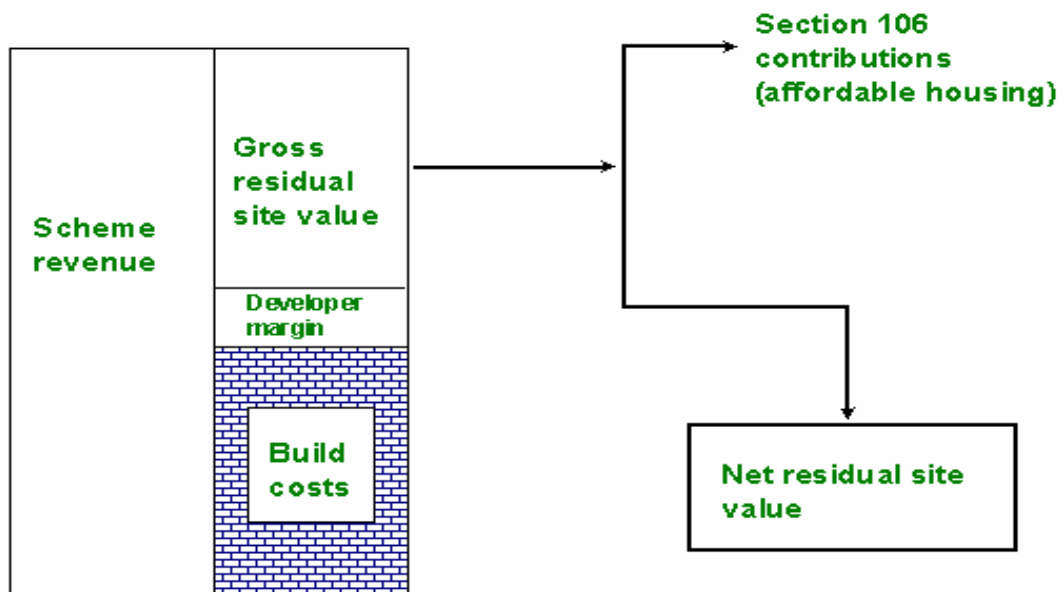
### **Introduction**

- 2.1 In this chapter we explain the methodology we have followed in, first, identifying sub markets (which are based on areas with strong similarities in terms of house prices) and, second, 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.

### **Viability – starting points**

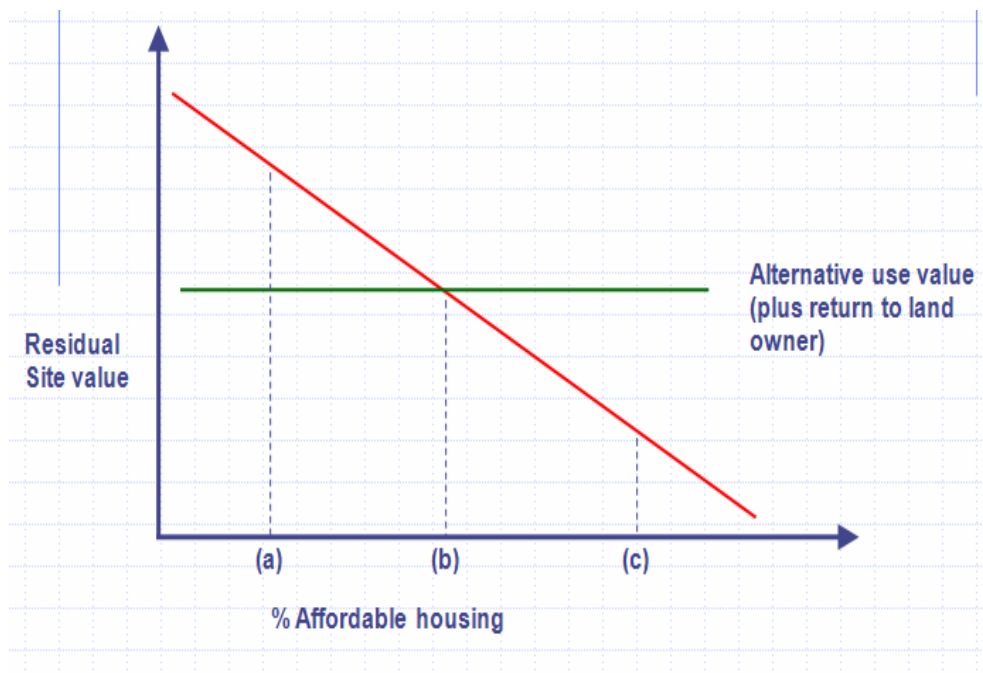
- 2.2 We use a residual development appraisal model to assess development viability. This mimics the approach of virtually all developers when purchasing land. This model assumes that the value of the site will be the difference between what the scheme generates and what it costs to develop. The model can take into account the impact on scheme residual value of affordable housing and other s106 contributions.
- 2.3 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 a profit margin to the developer and the 'build costs' as shown in the diagram include such items as professional fees, finance costs, marketing fees and any overheads borne by the development company.
- 2.4 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**



- 2.5 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.
- 2.6 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.
- 2.7 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**



2.8 The analysis we have undertaken uses a Three Dragons Viability model. The model is explained in more detail in Appendix 2, which includes a description of the key assumptions used.

### 3 HIGH LEVEL TESTING

#### Introduction

- 3.1 This chapter of the report considers viability for mixed tenure residential development for a number of different proportions and types of affordable housing. The analysis is based on a notional 1 hectare site and has been undertaken for a series of market value areas that have been identified. The residual value shown will be the same whether the site is green field or on previously used land. The chapter explains this and explores the relationship between the residual value for the scenarios tested and existing/alternative use values.
- 3.2 Variation in house prices will have a significant impact on development economics and the impact of affordable housing on scheme viability.
- 3.3 We undertook a broad analysis of development across the housing market, using HM Land Registry data to identify market value areas in the borough. The areas are defined by reference to postcode sectors and their house prices and provide the basis for a set of indicative new build values as at December 2008. The purpose of this analysis is to help establish a broad starting point for target setting in the light of the general relationships between development revenues and development costs. Table 3.1 below sets out the market value areas for the District.

**Table 3.1 Market value areas in the East Dorset area**

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

Source: Market value areas as agreed between Three Dragons and East Dorset DC

The full list of market values can be found in Appendix 2. The indicative prices for each market value area are an average for that market area based on a post code sector analysis. There can be parts of value areas which have prices in excess or below the indicative prices which will have implications for the residual values of new build schemes in those locations.

### Testing assumptions (notional one hectare site)

3.4 For the viability testing, we defined a number of development mix scenarios, using a range of assumptions agreed with the Council. The scenarios were based on an analysis of typical development mixes and were discussed at the stakeholder workshop.

3.5 The development mixes were as follows:

		30 dph	40 dph	50 dph	80 dph
Flats	1 bed			5%	20%
	2 bed		10%	10%	60%
Terraces / Town Houses	2 bed			10%	
	3 bed	10%	10%	15%	20%
Semi - Detached Houses	2 bed			35%	
	3 bed	15%	30%		
Detached Houses	3 bed	30%	20%	15%	
	4 bed	25%	15%	10%	

3.6 We calculated residual site values for each of these (base mix) scenarios in line with a further set of tenure assumptions. These were 25%; 30%; 35%; 40%; 50% and 60% affordable housing. We assumed a mix within the affordable housing element of 70% Social Rent and 30% New Build HomeBuy. For the New Build HomeBuy, the share purchase was assumed to be 40%. All the assumptions were agreed with the authority.

3.7 We are aware that the current difficulties in obtaining mortgages for households on lower incomes is affecting the intermediate affordable housing sale market. In the short term, this may mean that the mix of affordable tenures which is provided will be different from that which we have modelled. However, the figures we have used are intended to provide information for the local authority to use in planning for the longer term and hence the balance of tenures we have modelled. In the short term, the authority will be able to consider the economics of individual schemes with a different affordable housing mix, using the Toolkit which will be available to them.

### Other s106 contributions

3.8 For the majority of the modelling we have undertaken (and unless shown otherwise) we have assumed that other planning obligations have a total cost of £5,000 per unit. We also consider separately the impact on viability of the introduction of Lifetime Homes Standards and Code for Sustainable Homes at code level 4.

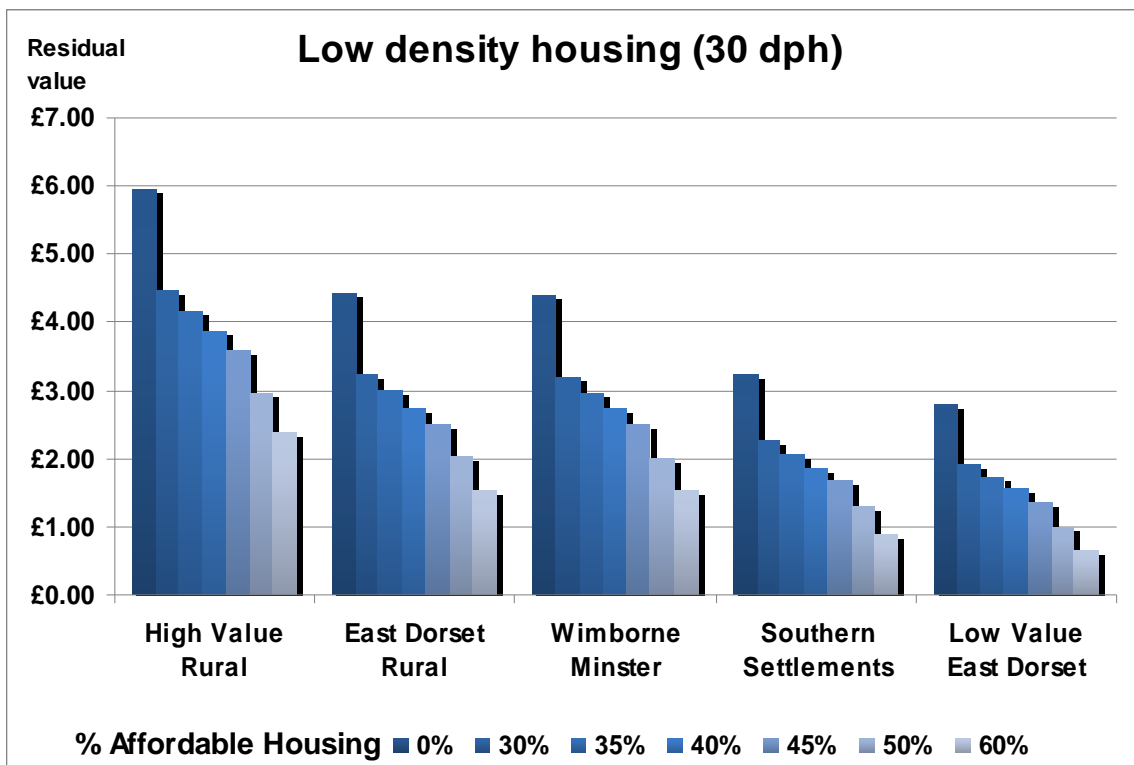
## Results: residual values for a notional one hectare site

3.9 This section looks at a range of development mixes and densities. It shows the impacts of increasing the percentage of affordable housing on residual site values. Unless otherwise indicated, all the results are **without grant**. The full set of these results is shown in Appendix 3.

### Low density housing (30 dph)

3.10 Figure 3.1 shows low density housing (30dph) and the residual values for each of the market value areas outlined in Section 3.

**Figure 3.1 Low density housing (30 dph) – Residual value in £s million**

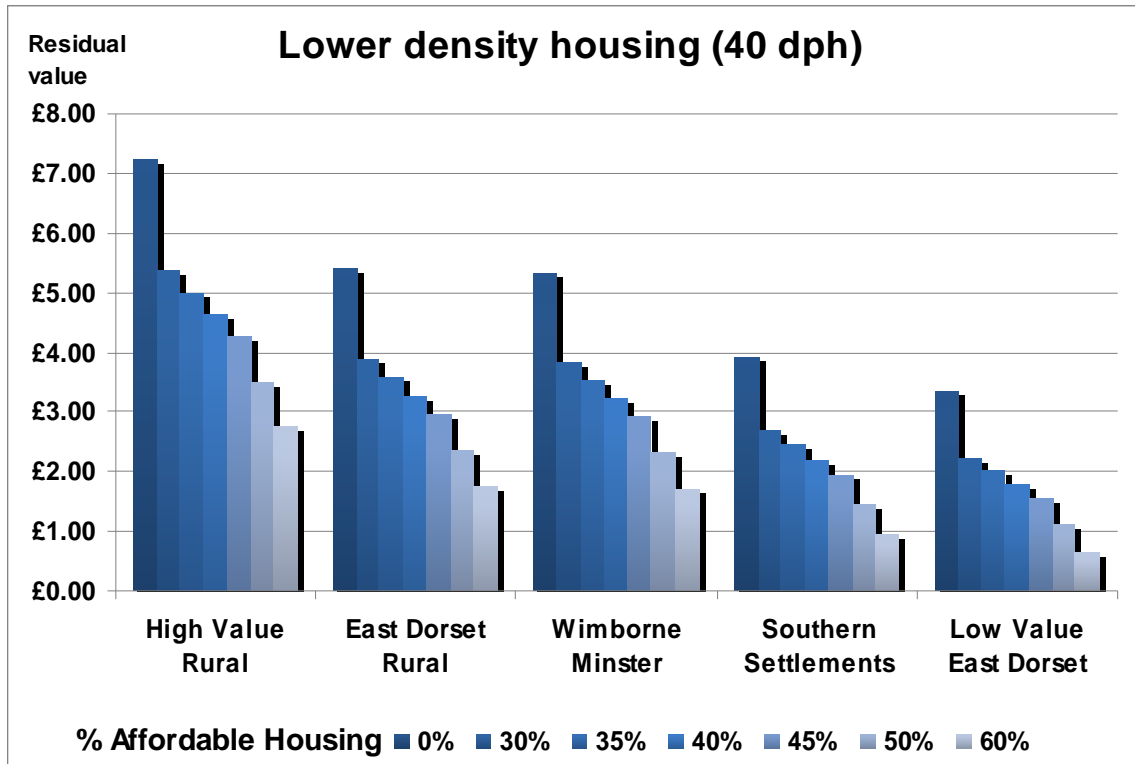


- Figure 3.1 shows that for all the scenarios tested, there is a positive residual value;
- The chart also shows a significant variance in residual values by market value area, reflecting the different house prices found in each of them. At, for example, 40% affordable housing, residual values range from £3.8m per hectare in the High Value Rural areas to £1.54m per hectare in the Low Value East Dorset areas;
- The range in values has potentially important implications for policy making. With the scenarios tested, a 50% affordable housing allocation (at 30 dph) generates a higher residual value per hectare (£2.96m) in the High Value Rural areas than a 30% affordable housing allocation in the Low Value East Dorset areas (£1.90m).

### Lower density housing (40 dph)

3.11 Figure 3.2 shows lower density housing (40 dph) and the residual values for each of the market value areas.

**Figure 3.2 Lower density housing (40 dph) – Residual value in £s million**

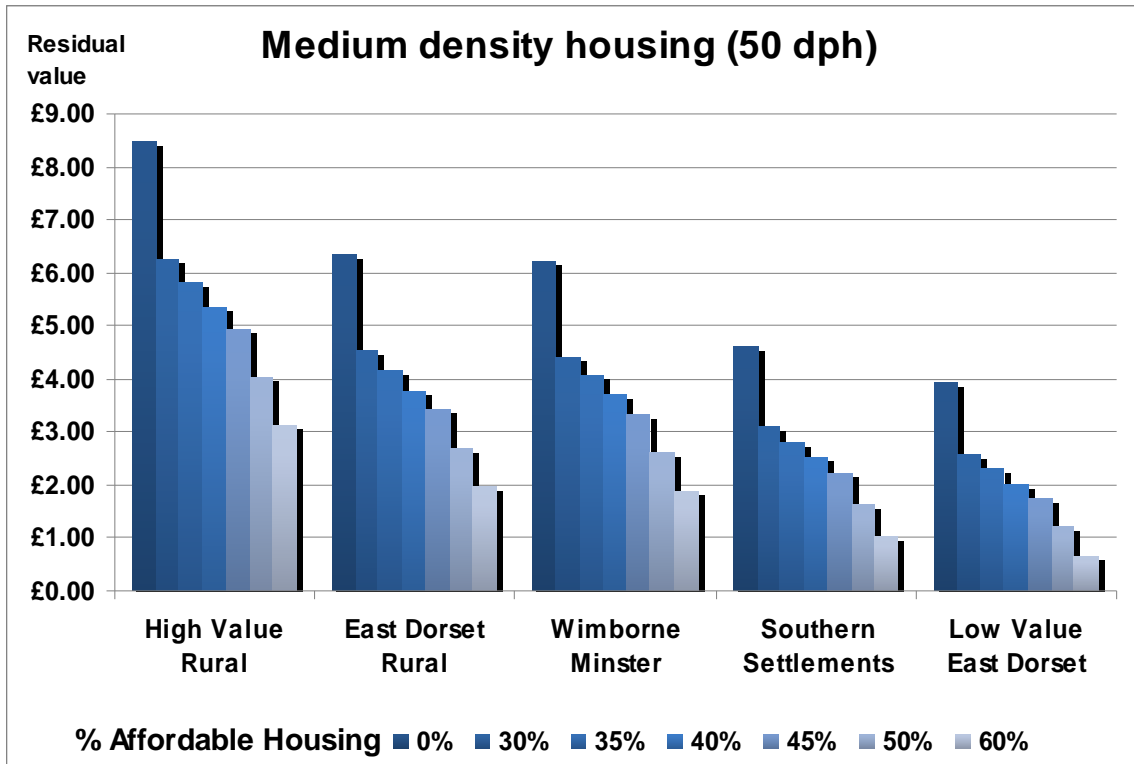


- All the scenarios tested across all three sub market areas, deliver a positive residual value;
- The impact of increased density has been to generally increase residual values but the effect varies between market areas and at different levels of affordable housing. The most substantial increases occur with increased density (30 dph to 40 dph) in higher values market areas and at lower proportions of affordable housing. In the High Value Rural areas, at 35% affordable housing, the residual value per hectare is £4.16m at 30 dph and £5m at 40dph. This compares with an equivalent increase in residual value in Low Value East Dorset of £1.72m to £2.00m.
- At 60% affordable housing the lowest market value area (Low Value East Dorset) does not benefit from increased density. The impact of affordable housing reduces residual from £0.65m at 30dph to £0.64m at 40dph)

### 50 dph scheme

3.12 Figure 3.3 shows residual values for a (50 dph) scheme and the residual values for each of the market value areas outlined earlier.

**Figure 3.3 Medium density housing (50 dph) – Residual value in £s million**



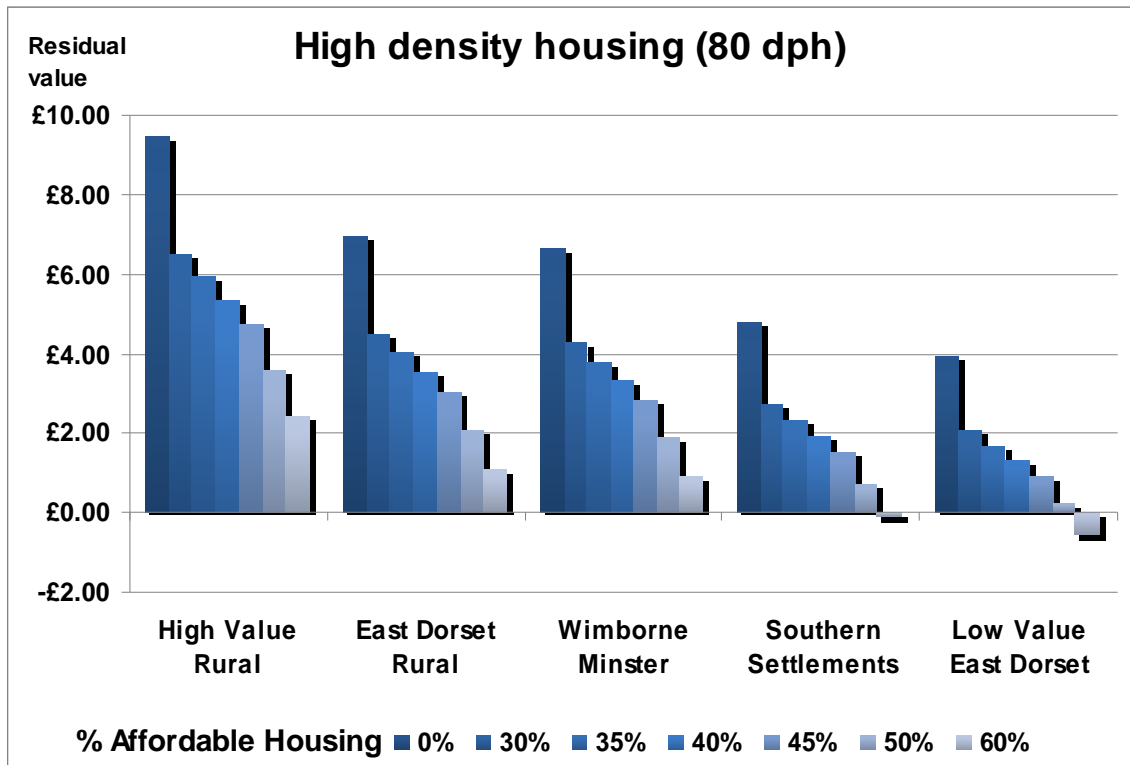
- Residual values generally increase at 50 dph, by comparison with the 40 dph scenario. The 50 dph scenario will, across most of the scenarios we tested provide the highest residual values;
- At 35% affordable housing, residual values for the scheme of 50 dph tested, range from £5.81m per hectare in High Value Rural Areas to £2.28m in Low Value East Dorset.



### High density (80 dph) scheme

- 3.13 As density is increased (to the 80 dph scenario), residuals tends to rise at lower percentages of affordable housing and for stronger sub markets. But higher density tends to reduce residual values in the weaker value areas at higher percentages of affordable housing.

**Figure 3.5 Higher density housing (80 dph) – Residual value in £s million**



- The general pattern of increased density leading to increased residuals starts to break down at high density levels particularly in the middle and low value market areas where the level of affordable housing negates any increase in revenue.
- At 35% affordable housing an increase in density still leads to an increase in residual but only for the High Value Rural areas.
- As the density increases all middle and lower value market areas experience a drop in residual at all levels of affordable housing. This is most pronounced in the low value market areas such as Low Value East Dorset and the Southern Settlements. For example, at 30% affordable housing residual values in the Southern Settlements drop from £3.10m (50dph) to £2.73m (80dph) and at 60% affordable housing the residual drops from £1.02m (50dph) to -£0.11m (80dph).

### Summary of findings from the 'high level' testing

- 3.14 Overall, schemes of somewhere around 40/50 dwellings per hectare produce the highest residual values with mixed tenure schemes. The High Value Rural market areas produce consistently higher residual values than the other four market value areas across all development density and levels of affordable

housing which we tested (except at 35%+ affordable housing in high density developments). The East Dorset Rural and Wimborne Minster market areas are very similar to each other in terms of residual value generated. They also generate significant residual values, even with quite high levels of affordable housing (45%-50%), but at lower levels than the East Dorset Rural market value area.

### Impacts of potential grant funding

- 3.15 The availability of public subsidy (in the form of grant) can have a significant impact on scheme viability. Grant given to the affordable housing providers enables them to pay more for affordable housing units, thus increasing overall scheme revenue and therefore the residual value of a mixed tenure scheme. There are two main sources of grant which may be available: from the Homes and Communities Agency and/or the local authority (for example using money collected from development in the form of a commuted sum, through a s106 agreement).
- 3.16 We have assumed grant of £50,000 per Social Rented unit and £15,000 per New Build HomeBuy unit. This level of grant was agreed with the local authority as being a reasonable figure to use for viability testing purposes.
- 3.17 We have tested the impact of grant on residual values for a 1 Ha site at 40 dph.

**Table 3.2 Comparison of impact of grant versus ‘no grant’ on residual values (at 40 dph): Residual Value (£s million per hectare)**

40 Dph	High Value Rural		East Dorset Rural		Wimborne Minster		Southern Settlements		Low Value East Dorset	
	No grant	Grant	No grant	Grant	No grant	Grant	No grant	Grant	No grant	Grant
0% AH	£7.25	£7.25	£5.39	£5.39	£5.31	£5.31	£3.92	£3.92	£3.36	£3.36
25% AH	£5.37	£5.73	£3.87	£4.23	£3.81	£4.16	£2.68	£3.03	£2.22	£2.58
30% AH	£5.00	£5.42	£3.57	£3.99	£3.50	£3.93	£2.43	£2.86	£2.00	£2.42
35% AH	£4.62	£5.12	£3.26	£3.76	£3.20	£3.70	£2.18	£2.68	£1.77	£2.27
40% AH	£4.24	£4.81	£2.96	£3.53	£2.90	£3.47	£1.93	£2.50	£1.54	£2.11
50% AH	£3.49	£4.20	£2.35	£3.06	£2.30	£3.01	£1.44	£2.15	£1.09	£1.80
60% AH	£2.74	£3.60	£1.74	£2.59	£1.70	£2.55	£0.94	£1.79	£0.64	£1.49

- 3.18 Table 3.2 shows that the availability of grant will enhance site viability. This will be particularly important in the weaker sub markets (Southern Settlements and Low Value East Dorset). In the Southern Settlements, for example, at 50% affordable housing, the introduction of grant increases the residual value from £1.44m to £2.15m (an increase of almost 50%). But in the High Value Rural sub market the increase is around 20% (i.e. from £3.49m to £4.20m).
- 3.19 The density scenario tested here generates relatively high residual values without grant in the stronger sub markets. The introduction of grant has a greater proportionate impact in the lower value sub market and we suggest that this is where the Council focus any such resources.

### Impacts of increasing the proportion of Intermediate housing within the affordable element

3.20 In the previous section we considered the impact of grant on scheme viability. Where grant is not available to support schemes (or is not sufficient on its own), scheme viability may be (further) enhanced by increasing the percentage of intermediate affordable housing. We have tested all scenarios thus far assuming the relevant affordable element is split 70% Social Rent and 30% Shared Ownership. Here we test a 50%:50% split in the affordable element.

**Table 3.3 Site values (£ million per hectare) for a 40 dph scheme assuming 50% Social Rent and 50% Shared Ownership), without grant**

40 Dph	High Value Rural		East Dorset Rural		Wimborne Minster		Southern Settlements		Low Value East Dorset	
	50%/50%	Grant	50%/50%	Grant	50%/50%	Grant	50%/50%	Grant	50%/50%	Grant
0% AH	£7.25	£7.25	£5.39	£5.39	£5.31	£5.31	£3.92	£3.92	£3.36	£3.36
25% AH	£5.75	£5.73	£4.17	£4.23	£4.10	£4.16	£2.92	£3.03	£2.45	£2.58
30% AH	£5.45	£5.42	£3.93	£3.99	£3.86	£3.93	£2.72	£2.86	£2.26	£2.42
35% AH	£5.14	£5.12	£3.69	£3.76	£3.62	£3.70	£2.52	£2.68	£2.08	£2.27
40% AH	£4.84	£4.81	£3.44	£3.53	£3.38	£3.47	£2.32	£2.50	£1.90	£2.11
50% AH	£4.24	£4.20	£2.95	£3.06	£2.90	£3.01	£1.93	£2.15	£1.53	£1.80
60% AH	£3.64	£3.60	£2.46	£2.59	£2.41	£2.55	£1.53	£1.79	£1.17	£1.49

3.21 In the higher value areas, a higher percentage of intermediate affordable housing will generate very high residual value. For example, in the High Value Rural sub market, residuals based on a 50%:50% split in the affordable housing element, are marginally higher

3.22 In the medium value market areas (East Dorset Rural and Wimborne Minster) the residuals generated are marginally smaller than those generated by a 'with grant' assumption.

3.23 In the weaker value area markets, the difference between residual values with grant and with a 50:50 affordable housing tenure split are greater and increase as the overall percentage of affordable housing increases. For example, in the Low Value East Dorset sub market, at 35% affordable housing, the residual value per hectare with grant is 9% higher than with the affordable housing split 50:50 between social rent and NewBuild Homebuy. The equivalent percentage at 50% affordable housing is 27%.

### Impacts of achieving Lifetime Homes standards

3.24 A consideration going forward is the additional cost of achieving Lifetime Homes Standards. DCLG's report, Lifetime Homes, Lifetime Neighbourhoods report<sup>4</sup> indicates that the additional cost of achieving Lifetime Homes Standards will be around £550 per dwelling (although additional costs can be avoided if they are "designed-out early enough."<sup>5</sup>). However, we are aware that Lifetime Homes Standards may not be compatible with current developer standard house types, particularly for smaller units and that there may be

<sup>4</sup> Communities and Local Government, Lifetime Homes and Lifetime Neighbourhoods: A National Strategy for Housing in an Ageing Society, DCLG, February 2008

<sup>5</sup> Lifetime Homes and Lifetime Neighbourhoods, page 90

additional cost implications of meeting Lifetime Homes Standards. These costs would need to be taken into account on a scheme by scheme basis.

- 3.25 Using the example of the 40 dph scenario, this would add £22,000 per hectare to costs and therefore reduces residuals by this amount. In the context of the residuals which are likely to be achieved within East Dorset we do not think this sum will impact significantly on the policy direction we are setting out in the report.

#### **Impacts of achieving Code for Sustainable Homes Level 4**

- 3.26 A further consideration in relation to viability is the achievement of a higher standard of build as envisaged in the Code for Sustainable Homes.
- 3.27 There are a number of problems in analysing the impacts of a higher code (we consider here Code 4) not least that there is a large range of costs which can impact on a scheme which operate within the same code.
- 3.28 The estimated costs of achieving Code Level 4 range from £2,000 to £12,000 per dwelling (Cyril Sweet, 2007 – Cost Review of the Code for Sustainable Homes). On the basis of a 50 dph scheme, at a mid point cost (£7,000 per unit) this could reduce residual values by up to £350,000 per hectare.
- 3.29 Whether this is a relevant additional cost in the context of viability in the current market, depends on the timing of the introduction of the particular Code Level and the relevant house prices at the time.

#### **Impact of an increased S106 requirement (£15,000 per unit)**

- 3.30 In the earlier analysis, we have assumed a planning obligation package of £5,000 per dwelling. Table 3.6 shows residual values for a notional one hectare site at varying affordable housing percentages for a 50 dph scheme assuming a s106 contribution package of £15,000 per unit.
- 3.31 We have tested this level of planning obligations (i.e. £15,000) to assess the possible economic impact of such an approach. This should not be taken to indicate that the Council might wish to adopt this level of planning obligations package.

**Table 3.6 Residual value (£s million per hectare) with s106 of £15,000 per unit, (compared with £5,000), at 40 dph (no grant)**

40 Dph	High Value Rural		East Dorset Rural		Wimborne Minster		Southern Settlements		Low Value East Dorset	
	£5k	£15k	£5k	£15k	£5k	£15k	£5k	£15k	£5k	£15k
0% AH	£7.25	£6.89	£5.39	£5.03	£5.31	£4.95	£3.92	£3.56	£3.36	£3.00
25% AH	£5.37	£5.01	£3.87	£3.51	£3.81	£3.45	£2.68	£2.32	£2.22	£1.86
30% AH	£5.00	£4.64	£3.57	£3.21	£3.50	£3.14	£2.43	£2.07	£2.00	£1.64
35% AH	£4.62	£4.26	£3.26	£2.90	£3.20	£2.84	£2.18	£1.82	£1.77	£1.41
40% AH	£4.24	£3.88	£2.96	£2.60	£2.90	£2.54	£1.93	£1.57	£1.54	£1.18
50% AH	£3.49	£3.13	£2.35	£1.99	£2.30	£1.94	£1.44	£1.08	£1.09	£0.73
60% AH	£2.74	£2.38	£1.74	£1.38	£1.70	£1.34	£0.94	£0.58	£0.64	£0.28

- 3.32 The introduction of a larger planning obligations package reduces residual values across all sub markets. We have illustrated this with the example of the 40 dph development but the pattern will be the same for all the development density scenarios. The impact of the planning obligations package is proportionately greater in the lower value areas. Even so, at 40% affordable housing, residual values per hectare with a £15,000 planning obligations package are £1.18m in the weakest of the five market value areas (Low Value East Dorset).

### Benchmarking results

- 3.33 There is no specific guidance on the assessment of viability which is published by national government. In Section 2, we set out that we think viability should be judged against return to developer and return to land owner.
- 3.34 One approach is to take “current” land values for different development uses as a kind of ‘going rate’ and consider residual values achieved for the various scenarios tested against these. Table 3.7 shows residential land values for selected locations within the South West.

**Table 3.7 Residential land values regionally**

<b>SOUTH WEST</b>			
<b>REGION</b>	<b>Small Sites (sites for less than five houses)</b>	<b>Bulk Land (sites in excess of two hectares)</b>	<b>Sites for flats or maisonettes</b>
	<b>£s per hectare</b>	<b>£s per hectare</b>	<b>£s per hectare</b>
Bournemouth	2,700,000	2,500,000	3,200,000
Weymouth	2,000,000	1,900,000	2,400,000
Exeter	2,800,000	2,000,000	2,800,000
Barnstaple	1,700,000	1,350,000	1,600,000
Plymouth	1,800,000	1,700,000	1,500,000
Truro	2,500,000	2,100,000	2,900,000
Taunton	2,250,000	2,000,000	2,250,000
Bath	3,000,000	2,100,000	2,800,000
Bristol	2,600,000	1,900,000	2,300,000
Gloucester	2,600,000	2,250,000	2,800,000
Swindon	2,000,000	2,000,000	2,400,000

Source: Valuation Office; Property Market Report, January 2009

- 3.35 The Valuation Office does not provide information specifically for East Dorset. Bournemouth is the closest geographically although not necessarily truly comparable. Values in Bournemouth are between £2.5m and £3.2m per hectare.
- 3.36 Another benchmark which can be referred to is that of industrial land. Table 3.8 shows values of between £0.85 and £1.35m per hectare for Bournemouth/Poole. These values are considerably in excess of the other Dorset values shown (Weymouth) and may not represent a realistic guide to values found in the East Dorset employment land market.

**Table 3.8 South West industrial land values**

<b>SOUTH WEST</b>			
	<b>From £s per ha</b>	<b>To £s per ha</b>	<b>Typical £s per ha</b>
Poole/Bournemouth	850,000	1,350,000	1,100,000
Weymouth	475,000	750,000	625,000
Exeter	725,000	975,000	850,000
Barnstaple	325,000	525,000	375,000
Plymouth	375,000	500,000	400,000
Bodmin	350,000	450,000	400,000
Yeovil	525,000	900,000	725,000
Bristol	750,000	980,000	850,000
Gloucester	750,000	1,000,000	850,000
Swindon	750,000	1,000,000	850,000

Source: Valuation Office; Property Market Report, January 2009

- 3.37 The 'benchmark' of industrial land value can be important where land, currently in use as industrial land, is being brought forward for residential development or where sites may be developed either for residential or employment use.

## **4 LAND SUPPLY, SMALL SITES AND USE OF COMMUTED SUMS**

### **Introduction**

- 4.1 This chapter reviews the policy context and options for identifying the size of sites above which affordable housing contributions would be sought, in the national policy context. The current threshold operating in East Dorset is the PPS3 national indicative figure of 15 dwellings (or 0.5 hectares or more). The chapter provides an assessment of the profile of land supply and the likely relative importance of small sites. It then considers practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed).

### **Purpose of the Analysis**

- 4.2 PPS3 Housing sets out national policy on thresholds and affordable housing and states:

*"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." (Para 29)*

- 4.3 By reducing site size thresholds and 'capturing' more sites from which affordable housing can be sought, an authority can potentially increase the amount of affordable housing delivered through the planning system.
- 4.4 In this section we examine the impact that varying site size thresholds would have on affordable housing supply. In order to do this we need to examine the likely future site supply profile.

### **Small sites analysis**

- 4.5 We have analysed data on past permissions to consider how important sites of different sizes are likely to be to the future land supply. The tables below show the results of this exercise.



**Table 4.1: Percentage of dwellings in different sizes of sites (annual average for last 3 years of permissions – 2005/06 to 2007/08)**

Size of site in dwellings	% of dwellings
1	21.7%
2	14.4%
3	4.4%
4	7.8%
5 - 9	17.3%
10 - 14	21.4%
15 - 24	0.0%
25 - 49	13.1%
	100.0%
1 - 4	48.3%
Under 15	86.9%

Note: The above figures include all permissions, whether of mixed tenure schemes or those of one tenure. The figures include sites solely for affordable housing.

- 4.6 Using the information on past permissions, it is very apparent that small sites are a very important component of the supply of sites in East Dorset. Nearly 90% of the supply is on sites below the national indicative minimum threshold (and local policy threshold) of 15 dwellings. Nearly half of all the supply is on very small sites of below 5 dwellings.
- 4.7 This pattern of site supply would (at least in part) help explain why the district has been struggling to deliver affordable housing. It has had very few sites which would qualify for a contribution to affordable housing.
- 4.8 With the high level of need for affordable housing in the district, and the importance of small sites to the land supply, there would seem to be a strong argument for seeking a threshold below the national indicative minimum of 15 dwellings. Given the significant contribution made by very small sites (i.e. of 1 to 4 dwellings), there may be an argument for operating without a threshold and seeking affordable housing contributions from all sizes of sites.
- 4.9 In chapter 5 we focus on the impact of seeking affordable housing on the viability of sites of below 15 dwellings. It is worth commenting here on the importance of residential **redevelopment** in the supply of small sites:
- Of the 230 permissions in the three years for which we have information, 58% involved the loss of one or more dwellings. The same sum but using the total number of dwellings shows that 63% of dwellings given permission were on schemes which involved the loss of one or more dwelling;
  - Redevelopment of an existing dwelling(s) was equally important on very small sites – for sites of 1 to 4 dwellings, 57% of total dwellings were on schemes which involved the loss of one or more dwellings.

### **Small sites and management of affordable housing**

- 4.10 We discussed the suitability of small sites for affordable housing at the workshop with the development industry and which included representatives



from Registered Social Landlords (RSLs). The workshops considered the situation where there could be as few as one or two units on each site.

- 4.11 RSLs indicated that they would be prepared to take on small numbers of affordable units (down to 1 and 2 dwellings) in mixed tenure development provided the units were within their established management areas. There may be particular management issues in taking on small numbers of affordable housing units in mixed tenure flats.

#### **Use of commuted sums**

- 4.12 As a general principle, we recognise that seeking on-site provision of affordable housing will be the first priority and that provision of affordable housing on an alternative site or by way of a financial payment in lieu (or commuted sum) should only be used in exceptional circumstances. This position is consistent with national guidance in Paragraph 29 of PPS3 which states:

*“In seeking developer contributions, the presumption is that affordable housing will be provided on the application site so that it contributes towards creating a mix of housing. However, where it can be robustly justified, off-site provision or a financial contribution in lieu of on-site provision (of broadly equivalent value) may be accepted as long as the agreed approach contributes to the creation of mixed communities in the local authority area” Para 29.*

- 4.13 Where commuted sums are sought as an alternative to direct on or off-site provision, PPS3 sets out the appropriate principle for assessing financial contributions - that they should be of “broadly equivalent value” (see para set out 29 above). Our approach is that the commuted sum should be equivalent to the ‘developer/landowner contribution’ if the affordable housing was provided on site. One way of calculating this is to take the difference between the residual value of 100% market housing and the residual value of the scheme with the relevant percentage and mix of affordable housing.
- 4.14 If the ‘equivalence’ principle is adopted, then the decision of the local authority to take a commuted sum will be based on the acceptability or otherwise of on-site provision as a housing and spatial planning solution.
- 4.15 Any concerns about scheme viability (whatever size of site) should be reflected by providing grant or altering tenure mix, or by a ‘reduced’ affordable housing contribution whether provided on-site, off-site or as a financial contribution. Other planning obligations may also need to be reduced under some circumstances.
- 4.16 However, if affordable housing is sought from very small sites, in certain circumstances it becomes impractical to achieve on site provision e.g. seeking less than 33% on a scheme of 3 dwellings or less than 50% with a scheme of 2 dwellings. There will also be occasions where on-site provision can only deliver a partial contribution towards the proportion of affordable housing sought e.g. 40% affordable housing in a scheme of 3 dwellings would deliver one affordable unit on site (representing 33% of provision). In the latter case, it is possible to devise a formula which mixes on-site provision with a commuted sum to ‘make up the balance’.

## 5 CASE STUDY VIABILITY ANALYSIS

### Introduction

- 5.1 The analysis in Chapter 3 provides a good indication of the likely viability of sites in the District. The residual values can be compared with existing use values to establish whether land owners are likely to make a return over and above existing use value, taking into account a developer margin.
- 5.2 The analysis in Chapter 3 will apply for large as well as small sites (on a pro rata basis). We do not have any evidence to suggest that the economics change significantly between large and small sites. This assumption was accepted at the Dorset development industry workshops as has been the case elsewhere where we have run similar workshops. It will be noted (Table 3.7) that small sites can achieve higher land values than larger ones, suggesting that the economics of developing smaller sites could actually be more favourable than developing larger ones.
- 5.3 In theory therefore there is no real need to review in detail viability issues for small sites. However, for the sake of further illustration, and recognising that there may be special circumstances which impact on the viability of some types of smaller sites, it was felt helpful to review the development economics of some illustrative case studies.

### Case study sites

- 5.4 In the previous chapter, we described the importance of small sites to the land supply in East Dorset and that a high proportion of these sites involve the redevelopment of one or more existing dwellings.
- 5.5 In this section we review a number of case study developments which are examples of small sites for residential development. Figure 5.1 shows the types of schemes granted planning permission during the period 2006 to 2008, with the nature of the existing land use.

**Figure 5.1 Incidence of planning permissions 2006-8**



- 5.6 Figure 5.1 shows a high incidence of permissions for schemes involving the development of one dwelling, mainly from land which is categorised as residential. We take this to be back land or garden land in most cases. This constitutes 17% of all incidences of planning permission. Other types of schemes are the development of two, three and four dwellings on land classified as residential (6% of all incidences of planning permission).
- 5.7 A very significant number of permissions involve the demolition of one dwelling (typically a detached house) and the redevelopment of the site with one or dwellings. These total about 58% of permissions involving the loss of one or more dwellings. 'One for one' schemes make up 31% of the planning permissions. Schemes involving the demolition of one dwelling and replacement with two dwellings, make up 14% of the planning permissions.
- 5.8 Housing developments built on smaller commercial sites do not feature strongly.
- 5.9 There are a number of schemes which do not fit neatly into any of these categories. We have called these 'miscellaneous'. There are 12 such permissions encompassing a range of commercial and open space existing uses.

5.10 On the basis of the data, we have selected five case studies for further investigation. These are shown in Table 5.1

**Table 5.1 Case study sites**

Case Study	Number of dwellings	Type of new development	Site (Ha)	Size	Resulting density (dph)
<b>A</b>	<b>1</b>	1 x 5 bed detached house		0.1	10
<b>B</b>	<b>2</b>	1 x 4 bed detached house; 1 x 5 bed detached house		0.15	13
<b>C</b>	<b>5</b>	2 x 3 bed detached; 2 x 4 bed detached house; 1 x 5 bed detached		0.2	25
<b>D</b>	<b>12</b>	6 x 2 bed flats 6 x 3 bed terraces		0.25	50

5.11 The case studies are based on the data set of planning permissions data (2005/6 to 2007/8) provided by the local authority. This data provides a range of scheme sizes (in number of dwellings) and the sources of supply. Analysed together, this provides the analysis in Figure 5.1. On this basis we have taken a representative sample of schemes which can be applied irrespective of the source of supply. The sample takes into account further analysis we have carried out looking at the specific issue of the redevelopment of sites; i.e. where a dwelling is demolished and replaced by a new scheme. Table 5.2 sets out this analysis.

5.12 The table shows four scenarios, where one or two existing houses are demolished and replaced by one, two, five or twelve new homes. The table shows the 'average EUV' which is the average value for the plot acquired for the new development; it shows the range of prices at which the existing dwelling making way for the new development sold for; it shows the average plot size and finally, the EUV in £ pounds on a per hectare basis.

5.13 The selection of case studies therefore reflects both the analysis in Figure 5.1 and Table 5.2.

**Table 5.2 Existing use value on redevelopment sites**

Form of development	Average EUV	Range of EUVs	Average Plot size (Ha)	EUV (per Ha)
<b>Demolish one; build one</b>	£451,000	£290,000 to £550,000	0.12	£3,758,333
<b>Demolish one; build two</b>	£349,500	£205,000 to £500,000	0.11	£3,177,273
<b>Demolish one; build five</b>	£427,000	£330,000 to £525,000	0.21	£2,033,333
<b>Demolish two; build twelve</b>	£711,000	£707,000 to £715,000	0.24	£2,962,500

**Case study A – Develop one detached house on a 0.1 ha site**

5.14 The first scenario assumes the development of one five bed detached house. The results, with the affordable housing impacts are shown in Table 5.3:

**Table 5.3 Develop one detached house**

	0%	25%	30%	35%	40%	50%
High Value Rural	£326,000	£249,000	£234,000	£219,000	£204,000	£174,000
	£3.26	£2.49	£2.34	£2.19	£2.04	£1.74
Wimborne Minster & St Leonardsl	£252,000	£190,000	£178,000	£165,000	£153,000	£128,000
	£2.52	£1.90	£1.78	£1.65	£1.53	£1.28
Low Value ED	£158,000	£114,000	£105,000	£96,000	£87,000	£70,000
	£1.58	£1.14	£1.05	£0.96	£0.87	£0.70

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million)

5.15 Table 5.3 shows that the development of one new detached house will generate a substantial residual value even with 40% or 50% affordable housing and across all market value areas. Where one dwelling of this type is built on, for instance, infill or backland sites, we would expect the uplift in site value will be very substantial. For sites taken from garden land, this will also be the case although a devaluation to the existing dwelling may also occur.

5.16 As indicated in Figure 5.1, a significant number of cases involve the replacement of an existing property with a new one. Given the result in Table 5.2, which indicates an existing plot use value of around £450,000, we would anticipate it will be difficult for a land owner to make an affordable housing contribution. Residual values, for a new scheme, are between £158,000 and £326,000 depending on location.

5.17 It needs to be recognised however that in such cases a ‘one for one replacement’ will involve the development of a dwelling that is significantly higher than the average selling price within each of the sub markets outlined here.

**Case study B – Develop two detached houses (one 4 bed and one five) on a 0.15 ha site.**

5.18 The viability of developing two detached houses rather than one will depend on the site size and existing use value. There will be some instances where the relationship between existing use value and residual development value is favourable and some where this may not be the case. Table 5.4 shows residual values for the development of two detached houses.

**Table 5.4 Develop two detached houses**

	0%	25%	30%	35%	40%	50%
High Value Rural	£597,000	£455,000	£427,000	£399,000	£371,000	£314,000
	£3.98	£3.03	£2.85	£2.66	£2.47	£2.09
Wimborne Minster & St Leonardsl	£458,000	£343,000	£320,000	£298,000	£274,000	£228,000
	£3.05	£2.29	£2.13	£1.99	£1.83	£1.52
Low Value ED	£281,000	£199,000	£185,000	£168,000	£151,000	£119,000
	£1.87	£1.33	£1.23	£1.12	£1.01	£0.79

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million)

- 5.19 Similar arguments apply to Case Study 1 and 2. For infill, backland and garden plots, we believe that a significant uplift in residual value will occur and that a contribution to affordable housing would not make development unviable.
- 5.20 With schemes involving demolition, the existing use benchmark is £350,000, although looking at Table 5.2, where one and three dwellings replace an existing unit, £400,000 to £425,000 looks a more realistic marker. On this basis, affordable housing contributions could be reasonably sought in the higher value sub markets; the data suggests to us that 25% affordable might not be unreasonable in the High Value Rural area. In middle markets, a contribution looks reasonable, although not higher than 25%.

**Case study C – Develop five dwellings on a 0.2 ha site**

- 5.21 A number of schemes in the District involve the development of two three bed, two four bed and one five detached house.

**Table 5.5 Develop two (three bed detached); two (four bed detached) and one five detached house.**

	0%	25%	30%	35%	40%	50%
High Value Rural	£1,347,000	£1,024,000	£959,000	£895,000	£831,000	£700,000
	£6.74	£5.12	£4.79	£4.47	£4.16	£3.50
Wimborne Minster & St Leonardsl	£1,010,000	£752,000	£700,000	£649,000	£597,000	£493,000
	£5.05	£3.76	£3.50	£3.25	£2.98	£2.46
Low Value ED	£629,000	£444,000	£433,000	£392,000	£332,000	£258,000
	£3.15	£2.22	£2.16	£1.96	£1.66	£1.29

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million)

- 5.21 Case study C, with five detached houses, produces a higher equivalent residual value per hectare (versus for example Case Study B). This reflects a higher density solution with a similar development mix. This is not therefore unsurprising.
- 5.22 Where a dwelling is demolished and replaced with the type of scheme set out, scheme economics work much better than with case studies A and B. Residual values exceed the value of a single detached property (which is indicated at £427,000) in all instances except at above 30% affordable housing in Low Value East Dorset.

**Case study D – Development of 12 dwellings on a 0.25 ha site**

- 5.23 We look here at an example of a 12 dwelling development. The number of these schemes is limited (see Figure 5.1) although we feel it is important to test one of the ‘larger’ type of small site.



**Table 5.6 Develop six (2 bed) flats and six (3 bed) terraces**

	0%	25%	30%	35%	40%	50%
High Value Rural	£2,099,000	£1,517,000	£1,411,000	£1,304,000	£1,199,000	£985,000
	£8.39	£6.07	£5.64	£5.22	£4.79	£3.94
Wimborne Minster & St Leonards	£1,508,000	£1,079,000	£993,000	£908,000	£823,000	£651,000
	£6.03	£4.32	£3.97	£3.63	£3.29	£2.60
Low Value ED	£992,000	£662,000	£596,000	£530,000	£464,000	£331,000
	£3.97	£2.65	£2.38	£2.12	£1.86	£1.32

Table shows residual values in a selection of market value areas: the upper figure is the residual value for the scheme and the lower figure is the equivalent residual value per hectare (in £s million)

- 5.24 For this case study, residual values are enhanced. As previously, where this type of development takes place on ancillary, back or garden land, site value will be considerably enhanced and we think that the values shown in Table 5.6 will support a high affordable housing contribution in all sub markets.
- 5.25 Where this types of site is re-development, our evidence suggests that site acquisition costs will be around £350,000. This is calculated by halving the £710,000 given for two existing dwellings. Where only one dwelling is needed to be acquired, we think a high affordable housing contribution will be viable.
- 5.26 In practice, with twelve dwellings, it will often be the case that two existing dwellings are needed to be acquired. Then the existing use value is around £700,000. Under these circumstances, a 40% affordable housing target would seem to be reasonable on viability grounds. In the lower value areas, 25% may however be difficult to achieve.

### **Commentary on the results**

- 5.27 This section on case studies is primarily illustrative, looking at the economics with particular reference to smaller sites and including consideration of achieved residual values for different sites and how they compare with existing use values.
- 5.28 Sites with a low number of dwellings (smaller sites) are no less viable than sites with a larger number. They can be shown to generate higher land values than larger sites. This means that where existing use value is relatively low, as we think will be the case for example, with back-land, infill or garden land, the Council should pursue a robust approach to obtaining affordable housing and other s106 contributions.
- 5.29 The analysis suggests that both high absolute as well as relative (per hectare) residual values can be achieved on smaller sites. Where sites emanate from garden, back or residential ancillary land, we think that, even allowing for



potential devaluation to the existing property, that a high affordable housing contribution will not make sites unviable.

- 5.30 Schemes which involve the redevelopment of one dwelling with either one or two new dwellings will be more difficult to deliver with an affordable housing contribution because of the higher existing use value. However, our analysis suggests, from looking at actual schemes in the District, that sites can be acquired at relatively advantageous prices, such that robust affordable housing contributions could be made by land owners.
- 5.31 Above two dwellings (we tested here an example of five dwellings) the economics improve considerably with schemes that involve the demolition of a house. Looking at the data we think that a 40% affordable housing contribution is a justifiable starting point in these circumstances.
- 5.32 It should be noted that respect to small sites that a significant proportion involve the development of back, garden or ancillary residential land. These sites will generally be more viable than those involve residential redevelopment and hence should attract affordable housing contributions.

## 6 MAIN FINDINGS AND CONCLUSIONS

### Key findings

- 6.1 We identified five market value areas in East Dorset. The market value areas are defined by prices by postcode sectors and are High Value Rural, East Dorset Rural, Wimborne Minster, Corfe Mullen, Parley and other southern settlements (Southern Settlements for short) and Low Value East Dorset. We noted that average indicative values used for testing residual values in the market value areas could include places where values might be higher or lower than the average for that market value area.
- 6.2 There is significant variation in market values between the market value areas. These differences were reflected in differences in residual values (for the different scenarios tested). We found that residual value is dependent not only on location but also on the density adopted.
- 6.3 With two exceptions, residual values are positive in all market value areas even at the higher percentages (up to 60%) of affordable housing tested: the exceptions were at 60% affordable housing and 80 dph in Southern Settlements and Low Value East Dorset.
- 6.4 We noted, for instance, that in the strongest market value area we modelled, High Value Rural, at 50 dph and 40% affordable housing (without grant) a residual value per hectare of £5.36m was found and at 60% affordable housing, the equivalent figure was £3.13m.
- 6.5 In the (relatively) weaker market value areas of Southern Settlements and Low Value East Dorset, residual values are lower. 50 dph is generally the optimum density for residual values and at this density, the residual value at 45% affordable housing was £2.21m per hectare in Southern Settlements and £1.74m in Low Value East Dorset.
- 6.6 In Wimborne Minster (the main settlement in East Dorset), at 45% affordable housing and again with the 50 dph scenario, the residual is £3.33m per hectare. At 50% the residual value reduces to £2.61m.
- 6.7 It is possible to identify 3 different broad bands of market value areas in East Dorset. High Value Rural delivers the highest residual values in the district. East Dorset Rural and Wimborne Minster are broadly similar but below that of the High Value Rural Area. The lower value areas of Southern Settlements and Low Value East Dorset are similar to each other and have the lowest values in East Dorset. But even in this lowest value band, significant residual values are generated at quite high levels of affordable housing.
- 6.8 The introduction of grant significantly improves residual values across the district. It matters most in the lower value areas. In higher value areas, grant is less effective in raising land values as a proportion of residual values without grant.
- 6.9 The analysis shows that increasing the proportion of intermediate affordable housing from 30% to 50% (of the total affordable element) will improve residual values. In the High Value Rural area, a 50%:50% split will achieve higher residuals than using a grant approach. In a middle market location such as Wimborne Minster, grant will produce a marginally higher residual, although the weaker sub markets, particularly at higher percentages of

affordable housing, grant will be a more effective way of supporting residual value.

- 6.10 At the higher level of s106 contributions we tested, the impact on residual values is greatest in the weaker sub markets. However, even with a 50% affordable housing contribution, no grant available and a notional £15,000 planning obligation package per dwelling, in the weakest sub market of Low Value East Dorset, a positive residual value of around £750,000 per hectare is still generated.
- 6.11 The analysis of the supply of sites in the district highlighted how reliant East Dorset is on small sites. Data on recent planning permissions indicates that nearly 90% of dwellings granted planning permission have been on sites of less than 15 dwellings – the national indicative minimum site size threshold. Very small sites (of 1 to 4 dwellings) are of themselves important to the supply (and represent nearly half the supply). The extent of permissions below the current site size threshold will go a long way to explain the very low levels of delivery of affordable housing in East Dorset and with no completions of affordable housing in the last two years.
- 6.12 Viability is highly sensitive to the relationship between existing (or, where relevant, alternative) use value. A very large number of residential schemes, involve the demolition of one or more existing dwellings – about 58% of residential permissions over the last three years involved the loss of one or more dwellings.
- 6.13 Again, it is important to highlight that it is not the size of the site per se that causes difficulties with viability, but the nature of the existing or alternative use.
- 6.14 Provided the costs for Lifetime Homes are those identified by CLG (i.e. about £500 per dwelling) the implications for scheme economics are marginal and should not affect decisions about the introduction of Lifetime Homes or target percentages for affordable housing policy.
- 6.15 From a housing management perspective, we did not find any in- principle objections from housing associations to the on-site provision of affordable housing on small sites. There may be particular schemes where on-site provision is not the preferred option, but as a general rule, on-site provision of (very) small numbers of affordable homes is acceptable to housing associations.
- 6.16 Where a financial payment in lieu of on-site provision of affordable housing (or commuted sum) is to be sought, it should be of “broadly equivalent value”. This approach is, on the evidence we have considered, a reasonable one to take in policy terms.
- 6.17 If this ‘equivalence’ principle is adopted, then the decision of the local authority to take a commuted sum will be based on the acceptability or otherwise of on-site provision as a housing and spatial planning solution, not in response to viability issues.
- 6.18 The current affordable housing target (set out in the 2005 SPG) is 40%. Between 2005 (when the 40% was established) and 2008, average house prices have increased by about 16% to 2008 (using Q4 values for 2008 and

Q2 values for 2005)<sup>6</sup>. These figures are for all house prices and so provide a reasonable indication of changes in value, although may not be exactly the same as those for new homes and we acknowledge that prices may have changed since Q4 of 2008. In theory, the significant increase in values between 2005 and 2008 should have helped (from the perspective of development economics) the delivery of affordable housing.

## Conclusions and policy options

- 6.19 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 borough at the alternative levels of affordable housing tested and considered how these values compare with historic land values generally in the area.
- 6.20 From this review, we note the relative strength of the market across East Dorset although with some variation from the highest value area of High Value Rural. Within the five market value areas of East Dorset, we identified three broad bands of market value areas i) High Value Rural ii) East Dorset Rural and Wimborne Minster and iii) Southern Settlements and Low Value East Dorset
- 6.21 Our analysis of residual values has led us to suggest three main options for setting affordable housing proportions for spatial planning policy purposes which would be a reasonable policy conclusion from the viability information presented. In coming to our conclusions we again note that viability is not the only consideration which the local authority will need to take into account in coming to a view on the policies it wishes to adopt and that it will need to consider the priority given to achieving affordable housing delivery to help address the very high level of need for affordable housing in the district. The three options are:
- A single percentage target across the whole district and which is realistic in the lower value market areas. We consider that a target of 40% would be a reasonable percentage and would be a continuation of current policy;
  - A split target which achieves 40% generally across the district and 50% in High Value Rural;
  - A more refined split target which achieves 50% in High Value Rural, 40% in East Dorset Rural and Wimborne Minster and 35% in Southern Settlements and Low Value East Dorset.

The third option implies that the 40% target for Southern Settlements and Low Value East Dorset in the first two options may be stretching. Our view is that it likely can be achieved but there may be schemes which require some form of grant support to make the 40% but many schemes in these market value areas will be able to do so without grant.

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<sup>6</sup> CLG Live Table 581 Housing market: mean house prices based on Land Registry data. Q2 2005 value of £244,627 and Q4 2008 (provisional) value of £284,104

- 6.22 A single percentage target across the district is simple and leaves no room for doubt about the authority's requirements but it would mean that affordable housing which could be secured in some areas and sites remain viable, would be lost.

### **Viability on individual sites**

- 6.23 Our analysis has indicated that there will be site-specific circumstances where achievement of the affordable housing proportions set out above may not be possible. This should not detract from the robustness of the overall targets but the Council will need to take into account specific site viability concerns when these are justified.
- 6.24 If there is any doubt about viability on a particular site, it will be the responsibility of the developer to make a case that applying the Council's affordable housing requirement for their scheme makes the scheme **not viable**. Where the Council is satisfied this is the case, the Council has a number of options open to it (including changing the mix of the affordable housing and supporting a bid for grant funding from the Homes and Communities Agency and/or using their own funds) before needing to consider whether a lower level of affordable housing is appropriate. In individual scheme negotiations, the Council will also need to consider the balance between seeking affordable housing and its other planning obligation requirements.

### **Thresholds**

- 6.25 There is a very high need for affordable housing in East Dorset and it is appropriate for the Council to consider a lower thresholds than the indicative national minimum (15 dwellings) set out in PPS3 and Local Plan policy. The supply of sites which has been coming through in recent years indicates that small sites make the major contribution to site supply and that a low threshold would capture a significant increase in affordable housing. Our analysis also indicates that below 15 dwellings, sites of 1 to 4 dwellings make a very important contribution.
- 6.26 The nature of the current land use plays a particular role in the development economics of very small sites. A significant proportion of sites involve the development of residential land in the form of gardens, back land or ancillary land. With these sites, given the high house prices in East Dorset generally, we believe that a robust approach to affordable housing provision can be taken. A 40% target should not make most sites unviable.
- 6.27 With sites for re-development, the same conclusions apply certainly above five dwellings and we believe that many sites of two dwellings (replacing one house) will also deliver an affordable housing contribution. It will need to be recognised however that in the weaker sub markets, 'one for one' development will be more difficult and a more flexible approach will be needed there.
- 6.28 In our view, the Council could justifiably consider introducing a zero threshold and accept that some schemes (for example 'one for one' developments) would not be viable and a reduced affordable housing contribution will need to be accepted. The other option is to consider adopting a threshold of, say, 4 or

5 dwellings and accepting that some smaller sites which could contribute affordable housing viably would be excluded from a contribution to affordable housing. However, given the pattern of site supply and high level of need for affordable housing, the council may decide it is better to set out to seek affordable housing from all sites and recognise that there is a group of sites (very small redevelopment sites) where flexible application of the policy target will be needed and that schemes involving demolition of an existing dwelling will often not be able to meet the full target percentage.

6.29 There are practical issues about delivery of affordable housing which would need to be taken into account in determining policy. For example, at below 2 or 3 dwellings (depending on the target percentage adopted) on-site provision is not mathematically practical and an equivalent commuted sum will need to be sought. For example, if the target percentage is 40%, on-site provision would only be practical in schemes of 3 dwellings or more and, if the target was 50%, in schemes of 2 dwellings or more.

6.30 For some small schemes, a mix of on-site provision and a commuted sum might need to be sought. For example:

Site of 4 dwellings and target percentage of 40%

40% of 4 dwellings = 1.6 dwellings

So, on-site contribution = 1 dwelling

Financial contribution equivalent to 0.6 affordable dwellings

6.31 In preparing its policy on its site size threshold, the Council will be aware that the draft RSS proposes three sustainable urban extension for the area which will be capable of delivering a significant boost to the supply of affordable housing. If the Council considers that these dwellings will be available in a very short period of time, it may consider that a very low (zero) site size threshold would not be of any real long term help. However, if it will be some years before the urban extension delivers affordable housing, a zero threshold would provide much needed affordable housing in the interim. The Council might then review its policy when the urban extension began development. But, in any case, the extension may not necessarily serve the needs of all the district for affordable housing and so the Council could still opt for a very low threshold as well as getting affordable housing from the major new development.

### **Commuted sums**

6.32 Where **commuted sums** are collected a possible approach to calculating the appropriate sum sought is to base this on the equivalent amount which would be contributed by the developer/landowner were the affordable housing provided on site. This is expressed as follows:

RV 100% M = Residual value with 100% market housing

RV AH = Residual value with X% affordable housing (say 40%)

Equivalent commuted sum = RV 100% MV minus RV AH

6.33 Where commuted sums are collected, the Council will need to have in place a strategy to ensure the money is spent effectively and in a timely manner.



Options for spending will be a matter for the Council to consider but could include supporting schemes which would otherwise not be viable, increasing the amount of social rented housing in a scheme, increasing the proportion of family units in a scheme, seeking higher quality affordable housing (e.g. a higher level of the Code for Sustainable Homes).

### **The current housing market**

- 6.34 At the time of preparing this report, the housing market has suffered a downturn as a result of the 'credit crunch'. Our analysis of housing market values relates to January 2009.
- 6.35 We think it likely however that developers will increasingly run an argument during 2009 and 2010 that the affordable housing and wider s106 policy is holding back sites. We believe that whilst the Council should be flexible in its negotiations on specific sites, we do not think it should shift its position from the policy conclusions of this report since these will be more appropriate to the longer term trend in house prices which has been shown to be upwards. In other words, the policy position should be one which reflects the longer run and not simply the impacts of the credit crunch.
- 6.36 Currently it is difficult to see the direction of travel over the longer run. Historically, prices have risen by around 3% per annum above inflation. These sorts of rises, if emulated over the Plan period, should allow the authority to take a very robust view towards requiring affordable housing.

## Appendix 1

### AFFORDABLE HOUSING PROVISION AND DEVELOPER CONTRIBUTIONS IN DORSET

Notes of workshop held on Tuesday 18<sup>th</sup> 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

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

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.

LC thanked participants and noted that the notes of the meeting would be sent out to all.

## **Appendix 2 Three Dragons model: Method statement**

The Toolkit provides the user with an assessment of the economics of residential development. It allows the user to test the economic implications of different types and amounts of planning obligation and, in particular, the amount and mix of affordable housing. It uses a residual development appraisal approach which is the industry accepted approach in valuation practice.

The Toolkit compares the potential revenue from a site with the potential costs of development before a payment for land is made. In estimating the potential revenue, the income from selling dwellings in the market and the income from producing specific forms of affordable housing are considered. The estimates involve (1) assumptions about how the development process and the subsidy system operate and (2) assumptions about the values for specific inputs such as house prices and building costs. These assumptions are made explicit in the guidance notes. If the user has reason to believe that reality in specific cases differs from the assumptions used, the user may either take account of this in interpreting the results or may use different assumptions.

The main output of the Toolkit is the residual value. In practice, as shown in the diagram below, there is a 'gross' residual value and a 'net' residual value. The gross residual value is that value that a scheme generates before Section 106 is required. Once Section 106 contributions have been taken into account, the scheme then has a net residual value, which is effectively the land owner's interest.

## Key data assumptions

### Market areas and prices:

EAST DORSET Sub Market	Detached			Semi		Terrace		Flats			
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed
High Value Rural East Dorset	£595,000	£540,000	£460,000	£385,000	£350,000	£315,000	£340,000	£310,000	£335,000	£290,000	£185,000
East Dorset Rural	£500,000	£460,000	£385,000	£325,000	£295,000	£265,000	£285,000	£260,000	£280,000	£245,000	£160,000
Wimborne Minster & St Leonards	£490,000	£455,000	£380,000	£320,000	£290,000	£260,000	£280,000	£255,000	£275,000	£240,000	£155,000
Larger border settlements	£425,000	£385,000	£325,000	£275,000	£260,000	£225,000	£240,000	£220,000	£235,000	£205,000	£135,000
Low Value East Dorset	£395,000	£360,000	£305,000	£255,000	£230,000	£210,000	£225,000	£205,000	£220,000	£190,000	£125,000

### Development mixes

		30 dph	40 dph	50 dph	80 dph
Flats	1 bed			5.00%	20.00%
	2 bed		10.00%	10.00%	60.00%
Terraces / Town Houses	2 bed	10.00%	10.00%	10.00%	20.00%
	3 bed	20.00%	15.00%	15.00%	
Semi - Detached Houses	2 bed	15.00%	30.00%	35.00%	
Detached Houses	3 bed	30.00%	20.00%	15.00%	
	4 bed	25.00%	15.00%	10.00%	

### Affordable housing targets:

25%;  
30%;  
35%;  
40%;  
50%;  
60%

Affordable housing split: 70% to 30% Social Rent to Shared Ownership

## Development costs

Based on RICS BCIS database:

Costs as set out below:

Build Costs (£/sq m)	
Bungalows	£ 1,075
Flats (6-15 storeys)	£ 1,800
Flats (5 storeys)	£ 1,280
Houses <= 75m2	£ 1,025
Houses > 75m2	£ 895

Development Costs		
Professional Fees %	12%	of build costs
Internal Overheads	5%	of build costs
Finance (Market)	7%	of build costs
Finance (Affordable Housing)	7%	of build costs
Marketing Fees	3%	of market value
Developers Return	15%	of market value
Contractors Return	6%	of developments costs

No abnormal costs assumed

### Typical unit sizes adopted (m<sup>2</sup>):

		Size - Affordable	Size - Market
Flats	1 bed	46	45
	2 bed	67	60
Terraces / Town Houses	2 bed	76	65
	3 bed	84	80
Semi - Detached Houses	2 bed	86	90
Detached Houses	3 bed	90	120
	4 bed	110	150



## Other Affordable Housing Factors:

### Social rents

		Social Rent (£/week)
Flats	1 bed	£65
	2 bed	£75
Terraces / Town Houses	2 bed	£77
	3 bed	£85
Semi - Detached Houses	2 bed	£87
Detached Houses	3 bed	£90
	4 bed	£96

### Intermediate Rents

		Intermediate Rent (£/week)
Flats	1 bed	£97
	2 bed	£118
Terraces / Town Houses	2 bed	£122
	3 bed	£140
Semi - Detached Houses	2 bed	£143
Detached Houses	3 bed	£146
	4 bed	£192

### Gross to net factors (Affordable housing revenue)

Social Rent Costs	
Management & Maintenance	£1,000
Voids/bad debts	3.00%
Repairs reserve	£500
Capitalisation	6.75%

Intermediate Rent Costs	
Management Costs	6.00%
Maintenance Costs	£500
Voids/bad debts	5.00%
Letting fee	1.00%
Capitalisation	6.75%

Homebuy Costs	
Operating Cost	2.75%
Capitalisation	6.75%
Percentage Purchase	40.00%

### Appendix 3 Results – Residual values in £s million per hectare (no grant).

		% Affordable Housing					
<b>30 dph</b>	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					
<b>40 dph</b>	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					
<b>50 dph</b>	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					
<b>80 dph</b>	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