



Viability Impact Study

(Final Draft – 31.3.09)

Assessing the Impact of Affordable Housing and Local Occupancy
on Land Values and Economic Viability of Housing Schemes



Estates Surveying Team:
Estates Surveyor:
Date:
Tel:

Kendal
Matt Messenger BSocSc (Hons) DipVal MRICS
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01539 797433

Providing Design and Surveying Services in partnership with South Lakeland District Council

Contents

	Page
Executive Summary	3-4
Section 1: Purpose	5
Section 2: Background	6
Section 3: Scope and Requirements	7-10
Section 4: Common Assumptions	11-4
Section 5: Analysis and monitoring of the local housing market	15-8
Section 6: Conclusions	
6.1 Overview	19-20
6.9 The effect of affordable and occupancy restrictions on land values	20-1
6.16 The effect of affordable and occupancy restrictions on market sale prices	21-3
6.22 The viability of 'affordable-only' developments	23-5
6.29 The relationship between the value of competing uses on brownfield sites	25
6.31 The point at which a development scenario becomes 'unviable'	25-6
6.35 The effect on the viability of housing schemes of changes in house prices and costs	26-8
Section 7: Tools for manipulating the viability of residential development sites	
7.1 Overview	29
7.3 Amending the proportion of affordable housing to be provided within a development	29
7.5 Amending affordable housing sale price thresholds	29-30
7.9 Introducing further affordable price bands	30-1
7.13 Encouraging RSL partnering with Private Developers	31
7.15 Reducing the percentage of units to have a local occupancy condition	31
7.17 Amending the definition of 'local' in relation to local occupancy conditions	31-2
7.20 Varying the density of development sites	32-3
Section 8: Final observations	34-5
List of Appendices	
1 - Matrix of assumed accommodation type splits for each valuation scenario	
2 - Matrix of key assumptions and average anticipated sale prices for each property type and market area	

- 3 - **Matrix of value** per hectare for each valuation scenario - using current assumed average anticipated sale prices
- 4 - **Housing market overview** - 2007 compared to 2008
- 5 - **Plot value** and **Land Value as a percentage of Gross Development Value** for 10 unit valuation scenarios - using current assumed average anticipated sale prices
- 6 - **Matrix of value** for rural sites outside development boundaries
- 7 - **Sensitivity Analysis 1 to 3** – Matrix of value per hectare for each valuation scenario

List of **Tables** used within this study

Table 1:	Housing Component Split for each Option considered within this Study	10
Table 2:	The extent by which unrestricted greenfield land values are reduced by the imposition of occupancy restrictions	20
Table 3a:	Affordable dwelling prices as a percentage of market housing prices (for dwellings of same floor area) - Using Lower Affordable prices ('minimum new prices')	22
Table 3b:	Affordable dwelling prices as a percentage of market housing prices (for dwellings of same floor area) - Using Higher Affordable prices ('maximum new prices')	22
Table 4:	Assumed housing component options for viability assessment of potential small-scale rural housing schemes	23
Table 5:	Perceived 'break-even' point of accommodation types	24
Table 6:	Perceived 'break-even' point prices as a percentage of market housing prices (for dwellings of same floor area)	24
Table 7:	Parameters of Sensitivity Analysis	27



Executive Summary

The purpose of this study is to procure evidence for South Lakeland District Council of the likely impact of planning policy requirements for affordable housing and local occupancy on land values and the viability of housing schemes. SLDC will use this evidence to inform the development of policy on affordable and local occupancy housing in the Core Strategy of the South Lakeland Local Development Framework.

A summary of the key conclusions of this study are set out below:

- The requirement to provide affordable housing has a much greater effect on land values than the imposition of District Wide and beyond local occupancy restrictions.
- Large development sites (in excess of 15 units) do not seem to produce a significantly greater element of profit per housing unit than that produced by smaller sites
- Affordable-only developments are clearly unviable without public subsidy or the involvement of Registered Social Landlords
- In some areas of the District serviced industrial land would be able to command a higher value than residential land if a policy that 50% of housing must be 'affordable' was adopted
- In areas of the District with the greatest unrestricted land values there may in theory be some scope for newly allocated greenfield sites to support greater proportions of affordable housing than the current Interim Planning Approach to Housing Development (Revised July 2008) requirement of 50%
- Reducing the percentage of units to have a local occupancy condition within a scheme in favour of market housing can have a moderate positive effect on the value of building land
- Reducing the definition of 'local' to a parish-wide restriction in the context of local occupancy conditions is likely to have a significant negative effect on the value of building land
- Our Sensitivity Analysis work demonstrates that even moderate changes to house prices or the costs of development are likely to have a disproportionate effect on land values. It is clear that such changes do not have to be significant to make a once viable development scenario become unviable

This study goes on to provide comments on how a range of policy 'tools' can be used to manipulate the viability of residential development sites. A summary of these comments is set out below:

- Amending the proportion of affordable housing to be provided within a development can have a significant effect on the value of building land
- By increasing affordable housing price thresholds there is scope to provide a greater volume of housing at 'below market' prices. If price thresholds are increased by too great an extent such units will cease to remain 'affordable' to those identified as being in 'housing need'
- The introduction of further affordable price bands could be used as a policy

tool in relation to larger development sites. This could potentially increase the viability of such sites and could also bring housing opportunities to further sections of the community with 'housing need'

- The forming of partnerships between Registered Social Landlords and private developers has the potential to introduce public subsidy to a scheme from the recently formed Homes and Communities Agency (HCA) – potentially making the difference between a viable and non-viable development opportunity
- By varying the density of development sites there is scope to increase the value of building land and at the same time increase the volume of affordable housing that can be viably provided. For each site there will be an optimum balance between the efficient use of land, the volume of affordable housing provision and the risk of 'compromising the quality of the local environment'

Note

All **bolded** terms (with the exception of headings) are defined in the *Glossary and Index of Key Terms used within this Study* (page 37 to 41.). Such terms are only shown in **bold** upon first appearance within the text of this study. The same terms are shown in **red font** upon each further appearance within the text of this study.

1 Purpose

- 1.1 The purpose of the study is to procure evidence for South Lakeland District Council ('SLDC') the likely impact of planning policy requirements for affordable housing and local occupancy on land values and the viability of housing schemes in South Lakeland outside the **National Parks**.
- 1.2 This study will take account of experience in implementing the **Interim Planning Approach to Housing Development** (Revised July 2008) ('IPATH'). Evidence from the study will be used to formulate policy requirements for affordable housing and local occupancy in the Core Strategy document of the South Lakeland Local Development Framework ('LDF').
- 1.3 In this context SLDC's ultimate goal is to create a policy which continues to allow viable market-led housing development opportunities in the District whilst at the same time producing as much affordable and local occupancy housing as possible through the planning system. Such a policy must strike a balance between these objectives.
- 1.4 SLDC has commissioned NPS Property Consultancy ('NPS') to undertake this study on their behalf. NPS is a multi-disciplinary property consultancy with offices across the UK. NPS's Kendal office, which has produced this study, employs four Chartered Surveyors with cumulative experience of the South Lakeland property market in excess of sixty years.
- 1.5 Through our experience of the area we are aware that the need to provide increased levels of affordable and local occupancy housing within South Lakeland is becoming ever more acute. As market house prices have rapidly risen in recent years local income levels have been left behind. It is now becoming increasingly difficult for a growing proportion of the local population to obtain housing at unrestricted market prices.

2 Background

- 2.1 Planning Policy Statement 3 *Housing* (PPS3) requires planning authorities to indicate in their LDF's the level of need for market housing and affordable housing in their area and set out the circumstances in which affordable housing will be required.
- 2.2 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 can include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area.
- 2.3 PPS3 goes on to note that *'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. In particular, as the new definition of affordable housing excludes low cost market housing, in deciding proportions of affordable housing to be sought in different circumstances, Local Planning Authorities should take account of the need to deliver low cost market housing as part of the overall housing mix.'* (from PPS3, paragraph 29).
- 2.4 The relative importance of the need for such an 'informed assessment' was recently highlighted by the Court of Appeal decision in *Blyth Valley Borough Council v Persimmon Homes North East and others (2008) EWCA Civ 861*

This judgement saw the Court concluding that the process leading to the adoption of Blyth Valley's target that 30% of all new housing should be 'affordable' was legally flawed. This was because the Council had failed to consider the viability of affordable housing when setting their target, but instead had merely specified an affordable housing requirement based primarily on data from a housing needs study which itself had been carried out using the now superseded definition of 'affordable housing'.

3 Scope and Requirements

3.1 This study takes the form of a financial assessment of the impact of a range of potential affordable housing and local occupancy policy requirements on land values and the economic viability of housing schemes across a range of typical **site-type scenarios**.

3.2 The requirement for affordable housing, and to an extent local occupancy housing, to be provided by market-led developments has a direct impact on the viability of such developments. This is because pre-determined sale figures for affordable housing are set at a lower level than for unrestricted market housing. As a consequence as the proportion of affordable housing is increased the level of financial receipt available to the developer will be reduced. From the perspective of the developer the requirement to provide affordable or local occupancy housing is regarded in much the same way as other planning obligations – i.e. effectively a cost to the scheme, to be passed on to the landowner by way of a reduced sum available for land purchase (reduced land value when compared with a scheme which provides solely market housing).

3.3 Our work commenced in Spring 2008 with a detailed review of local residential property values, in particular focusing on new build and modern (as built within the last twenty-five years) housing. We looked particularly at new build housing as this is the market driver for the proposed supply stream of affordable housing provided through market housing developments. Our local knowledge allied with market research, and the emerging approach in the Strategic Housing Market Assessment demonstrated that in very general terms housing values within South Lakeland outside the **National Parks** can be categorised into five distinct **housing market areas** ('HMA's') (these areas are set out at 3.11 below; see also Section 5 for further discussion on our **analysis of the local housing market**).

3.4 This assessment has been carried out by undertaking a series of **residual valuations** (see 4.5) in accordance with a series of agreed **variables** and **common assumptions**. The **variables** and **common assumptions** used in this study were agreed at the outset, between SLDC Officers and NPS, as being representative of typical residential developments seen recently within South Lakeland District outside the **National Parks**. Additional assumptions, including **average anticipated sale prices** calculated from our **analysis of the local housing market**, have also been made.

3.5 This study incorporates two extensions to the initial project brief. In the first of these we considered the valuation effect of localised occupancy restrictions in the context of small scale rural housing schemes (6.20 and 6.21). In the latter we produced a **sensitivity analysis** which tests how potential fluctuations in house prices and development costs can impact upon the **viability** of housing schemes (6.35 to 6.41).

- 3.6 For the purposes of this study ‘**viability**’ has been taken to refer to a situation where:
the value of the site with assumed planning consent for the proposed scheme is sufficiently in excess of existing and alternative non-residential use values (if any) that a landowner, when acting reasonably, would be willing to proceed with the proposed residential development
- 3.7 It is acknowledged that the meaning of ‘*sufficiently*’ in this context is subjective, as different genres of site will raise different issues. There can be no definite ‘cut-off’ point as the aspirations of landowners and developers will vary in different situations. Just because a development appears to produce some land value cannot be taken to automatically mean that the land will change hands and the development proceed. This must be viewed alongside the owner’s enjoyment and use of the land, existing use value and potential alternative uses. For example when considering the redevelopment of sites with an existing use the cost of relocation and disturbance to any existing business will typically need to be considered. In some cases an alternative non-residential use may have the potential to produce a greater capital receipt (for further discussion see 6.29 and 8.3).
- 3.8 As discussed appropriate **variables** were agreed prior to the commencement of this study with SLDC Officers. A range of **site-type scenarios**, aiming to reflect typical mixes of accommodation on **greenfield** and **brownfield** sites considered within this study, were produced as follows:
- 1 Greenfield A
 - 90% houses/10% flats
 - 2 Greenfield B
 - 70% houses/30% flats
 - 3 Brownfield sites with low constraints (with existing business / commercial / employment use)
 - 50% houses/50% flats
 - 4 Brownfield site with high constraints (such as contamination) (site assumed to be vacant)
 - 50% houses/50% flats
- 3.9 It was agreed that a broad spread of **site sizes** would be considered within this study. It was decided to consider the **viability** of development sites of 4, 10, 15 and 50 dwellings. These particular figures were chosen in an attempt to test whether **viability** is markedly different for small, medium and large-scale residential developments.
- 3.10 A uniform **development density** of 30 units per hectare (the national indicative minimum as stipulated within PPS3) was assumed throughout this study. We opted for the lowest conceivable density in order to calculate the theoretical ‘worst case’ **viability** for each development

scenario considered.

- 3.11 As discussed (in 3.3 above) we resolved that housing values within South Lakeland outside the **National Parks** can be categorised into five distinct **HMA's**. These are:
- Kendal
 - Ulverston & Furness
 - Grange & Cartmel Peninsula
 - Milnthorpe town (parish)
 - Rural Kendal (remainder of the District outside the above areas and the **National Parks**)
- 3.12 It was agreed at the outset that this study should attempt to compare the apparent **viability** of a number of **housing component options** ('**Options**'), made up of a range of combinations of:
- Affordable housing requirements – 30%, 40%, 50%, 60% [and 100% to test the economic viability of greenfield exceptions sites, only]
 - Local occupancy requirements – 30%, 50% and 70%
 - Permitted percentages of Market housing – 0%, 10%, 20%, 30%, 40% [and 100% to illustrate the unrestricted site value of greenfield sites, only]

A list of the **Options** considered within this study with the respective housing component make-up for each is set out in **Table 1** overleaf:

Table 1 – Housing Component Split for each Option considered within this study			
Options	% Affordable	% Local occupancy	% Market
1	60	30	10
2	50	50	0
3	50	30	20
4	40	30	30
5	30	70	0
6	30	50	20
7	30	30	40
8 (Re Greenfield 'exception' sites)	100*	0	0
8a (Re Greenfield exception sites)	100**	0	0
9 (Re Greenfield sites)	0	0	100
<p>* = Assumptions relating to Lower and Higher 'Affordable bands' are as per the IPATH Companion Guide (revised November 2008)</p> <p>** = all dwellings are taken to be at 'maximum new prices' within the Higher Affordable band as set out within the IPATH Companion Guide (revised November 2008)</p>			

4 Common Assumptions

- 4.1 Dwelling build costs assumed in relation to hypothetical sites analysed within this study are based on data from Royal Institution of Chartered Surveyor's Building Cost Information Service ('BCIS'), as advocated within the IPATH Companion Guide (revised November 2008). Analysis of costs incurred in recent affordable housing projects for which NPS hold data has also been undertaken for comparison purposes. Building costs are assessed as at September 2008.
- 4.2 Increases to building costs may arise from future changes in Government policy, such as the proposed universal application of the **Code for Sustainable Homes** (Code Level 3) to all new development. Likewise, building costs may increase in future from the Government's proposed **Community Infrastructure Levy**, although the proposals are not yet finalised
- 4.3 To seek to address these and other potential future costs, as mentioned above (3.5) we have produced a **sensitivity analysis** (see 6.35 to 6.37) which tests the effect of rising development costs upon **viability** of housing schemes. This may help to give at least an idea of how even moderate changes in the costs of development can have a disproportionate effect on land values.
- 4.4 The study does not allow for additional costs that may arise from other planning obligations, such as the provision of public open space. Such costs are typically specific to each site. Where viability is an issue it is expected that such costs would be taken into account when assessing the viability of individual schemes and the required affordable housing contribution could be amended accordingly.
- 4.5 As referred to above (3.4) in order to test the potential viability of the different development scenarios described above we have undertaken a series of **residual valuations**. The **residual valuation** of property is:
'a method of determining the value of a property which has the potential for development, redevelopment or refurbishment. The estimated total cost of the work, including fees and other associated expenditure, plus an allowance for interest, developer's risk and profit, is deducted from the gross value of the completed project....to give the residual (site) value' (from the glossary of property terms, EG Books, 2003)
- 4.6 In simple terms therefore the residual value of land, as considered within our study, is the product of a series of calculations based on both the specific form of development a site can accommodate and its

development costs. The residual value of land is in effect the difference between the ultimate sale receipts and total costs of development.

- 4.7 The **gross development value** (ultimate sale receipts) of the completed project will be reduced by an increasing number of restrictions being placed upon the form of development a site is permitted to accommodate – for example a stipulation to provide an increased percentage of affordable housing. At the same time cost increases, such as rising building costs, will increase the overall cost of development. When interpreting the findings of this study it is therefore important to appreciate that changes to either of these variables will affect the residual value of land.
- 4.8 In order to carry out valuations using the residual method of valuation a whole series of assumptions must therefore first be formulated. It is appreciated that in practice each site will raise its own specific issues and respective developers may also differ slightly in their approach. However for the purposes of this study comparison has to be made between sites on a 'like for like' basis so that the impact of changing affordable and local occupancy housing policy can be highlighted.
- 4.9 In this study all valuations have been carried out using the following consistent assumptions:
- Legal fees (disposal) = £750 per unit sold
 - Sale fees (estate agent, including marketing budget) = 1.5% of gross sale (development) value
 - Professional fees (to include all necessary consultants for a typical scheme – for example architect, quantity surveyor, project manager, clerk of works etc) = 11% of building costs
 - Cost of Finance = 6% per annum (in view of current unfavourable lending conditions taken to be Bank of England Base Rate plus 5.5%)
 - Contingency = Using a typical figure of 5% of building costs plus interest
 - Insurances = Using a typical figure of 2.5% of building costs plus interest
 - Developers gross margin / profit = Using a typical figure of 15% of gross sale (development) value. It should be noted that this figure has been used in respect of market, local occupancy and affordable housing components of the hypothetical development scenarios considered within this study.
 - Site acquisition costs (to typically include planning application costs, acquisition agents, land survey, legal fees on land purchase and stamp duty land tax costs) = 7% of site value
- 4.10 Further specific assumptions have been made in term of sites of different sizes:

- A development period of 12 months has been adopted for sites of 4, 10 and 15 units
- A development period of 24 months has been adopted for sites of 50 units
- For sites of 50 units a nominal reduction of 2% has applied to assumed building costs to take into account any savings due to economies of scale.
- Additional figures of £5,000; £4,000; £3,500 and £2,500 per unit have been applied in relation to sites of 4, 10, 15 and 50 units respectively to reflect indicative site work costs, such as landscaping and contribution to estate roads.

4.11 Assumptions for different housing mix options have been made:

- For affordable housing building costs are taken to be 4% lower than market housing to reflect the assumed lower specification adopted, details of which are set out within the IPATH Companion Guide (revised November 2008).
- For local occupancy housing assumed building costs are taken to be 1% lower than market housing to reflect the possible adoption of nominal reductions in specification

4.12 Our assumptions for different site-type scenarios are:

- **Greenfield** sites by their very nature are assumed not to have been exposed to previous development and therefore no allowance has been applied to reflect 'abnormal' costs, such as demolition or land remediation expenditure.
- For **brownfield** sites with existing use and with low constraints an allowance of £2,500 per unit has been applied to reflect 'abnormal' costs, such as assumed demolition and land remediation expenditure.
- For **brownfield** sites with high constraints, such as the remediation of contamination or the need for special foundation solutions to overcome unstable ground conditions, an allowance of £25,000 per unit has been applied to reflect assumed significant 'abnormal' costs. This figure is based on evaluated costs in relation to a particularly badly affected **brownfield** site within the District of which we have experience.

4.13 With reference to the **site-type scenarios** and **variables** set out above assumptions have been made in relation to the number of units and nature of houses and flats used in each valuation scenario. These assumptions are set out within **Appendix 1 (Matrix of assumed accommodation type splits for each valuation scenario)**.

4.14 All scenarios involving affordable housing within this study assume affordable housing delivered by the private sector through the planning system. All such affordable housing is assumed to be 'for freehold sale',

as opposed to any form of 'shared equity' or 'shared ownership' transfer or 'for rent'. **Affordable housing sale price thresholds** are assumed to accord with the IPATH Companion Guide (revised November 2008) (i.e. **66.6%** of dwellings in the Lower **affordable price band** and **33.3%** in the Higher '**affordable price band**'). In order to produce a 'worst case scenario' all affordable house prices are assumed to be 'minimum new prices' (as defined within the IPATH Companion Guide). The exception to this assumption is the additional Option 8a (see 6.22) where all dwellings are taken to be at 'maximum new prices' within the Higher '**affordable price band**'.

- 4.15 We have formulated a view on assumed floor areas for each type of accommodation considered within this study (i.e. 1 and 2 bedroomed flats and 2, 3 and 4 bedroomed houses) through the analysis of properties sold and currently on the market in conjunction with data from Royal Institution of Chartered Surveyor's BCIS. Our assumptions are set out within **Appendix 2 (Matrix of key assumptions and average anticipated sale prices for each property type and market area)**.
- 4.16 It should be noted that in relation to affordable housing units recommended minimum floor areas, as stated within the IPATH Companion Guide (revised November 2008), have been adopted.
- 4.17 Using the assumptions made in relation to build costs and the assumed floor areas referred to above we have been able to calculate assumed build costs for each type of accommodation considered within this study. These figures are also set out within **Appendix 2**.
- 4.18 Our experience suggests that in very general terms there is not a significant difference in cost between constructing new build residential accommodation and converting existing space of the same floor area to a residential use. Naturally the conversion of listed buildings and buildings with unusual types of construction will on occasions deviate from this general observation and in such instances each case should be assessed on their own merits. However for the purposes of this study we have made no distinction between the costs of these two forms of construction.

5 Analysis and monitoring of the local housing market

- 5.1 In order to ensure that this study reflects current property market conditions in South Lakeland a comprehensive **analysis of the local housing market** was undertaken between February and May 2008.
- 5.2 Through the analysis of the asking prices of a significant number of new and recently built properties on the market at that time allied with subsequent sale prices achieved we were able to formulate an **average anticipated sale price** for specified property types within the five **HMA's**. We are satisfied that by analysing a large volume of properties our findings are an acceptable reflection, for the purposes of this study, of prices within the local residential market during the first half of 2008. It should be noted, however that these are very general figures and it should be appreciated that within each **HMA** there will sometimes be significant disparities between locations. The figures we have used should not be seen as a substitute for site-specific valuations and appraisals. Again the figures we have used within this study are set out within **Appendix 2**.
- 5.3 As part of our analysis of the local housing market we also considered the effect of **local occupancy conditions** on sale values. There is very little meaningful evidence of the valuation effect of **local occupancy conditions** applied to new build residential properties within South Lakeland District since the commencement of the **IPATH** policy in November 2005. It is anticipated that such evidence will emerge with the passage of time.
- 5.4 At the present time there is some evidence of the effect of local occupancy restrictions imposed by the Lake District National Park Authority in recent years. We are aware that such restrictions appear to have had a more marked effect on properties in rural areas than in the towns of the National Park. In rural areas where 'parish-only' restrictions have been imposed there is evidence to show reductions of value in the range of 25 to 50%. Valuation reductions of this degree can often mean that development in such areas becomes economically unviable.
- 5.5 We appreciate, however, that the local occupancy restriction in current **IPATH** policy is considerably less restrictive than the 'parish-only' restriction used by Lake District National Park Authority in recent years. (The definition of 'local occupancy' in IPATH extends to the Districts of South Lakeland; Barrow; Lancaster - excluding the parishes of Overton, Thurnham, Cockerham, Ellel and Over Wyresdale; the parishes of Tebay, Orton, Shap Rural and Shap within Eden District and the parishes of Thornton-in-Lonsdale, Burton-in-Lonsdale and Ingleton within Craven

District.)

- 5.6 As part of our study we have consulted a selection of local chartered valuation surveyors, house builders and lenders on the **perceived valuation and mortgage availability effect of existing and potential local occupancy policies** (a list of respondents is set out on page 36). We found that respondents generally agreed with our initial view that the **IPATH** local occupancy restriction would be likely to have a greater value effect on properties in the most rural areas of South Lakeland close to the boundaries with the **National Parks**, where it is anticipated that residents from outside the area are most likely to attempt to purchase properties, be this for use as a second home or for retirement purposes. Whilst most respondents agreed such a value effect was difficult to quantify all agreed there would be an effect of some kind. Estimates of the degree of this effect in rural areas ranged between a reduction in market value of 10% and 30%.
- 5.7 In our opinion the effect in towns such as Kendal and Ulverston, where the majority of market transactions involve local residents moving up and down the property ladder or those with a job opportunity moving into the area, is likely to be less severe. Again this view was endorsed by respondents. Estimates of the degree of effect in urban areas ranged from a view that there would be a negligible effect to a reduction in market value of around 10%.
- 5.8 Taking on board our own views and those kindly put forward by respondents we have decided for the purposes of this study to use a standard reduction of 15% of market value in relation to local occupancy units within the two most rural **HMA's**:
- Grange & Cartmel Peninsula
 - Rural Kendal
- 5.9 We have opted for a lesser reduction of 7.5% of market value in relation to local occupancy units in the two urban **HMA's** considered within this study:
- Kendal
 - Milnthorpe town (parish)
- We have also used a reduction of 7.5% of market value in relation to local occupancy units in Ulverston & Furness, as the vast majority of new development in this area is likely to be within the town of Ulverston. We also anticipate that this area is likely to experience a lower level of demand than Grange & Cartmel Peninsula and Rural Kendal from those wishing to purchase a second home or for retirement property.
- 5.10 We should point out that there was a consensus from local lenders that the **IPATH** occupancy restriction 'appears to be fairly wide ranging...is not too onerous and in principle (lenders) would be willing to lend'.

- 5.11 As part of consultation of local property professionals we also sought comments on the perceived effect of more limited 'local occupancy' restrictions. We sought views on the effect of such a possible future policy limiting occupancy to a 'parish and adjoining parishes' featuring an '**occupancy cascade**' which would come into effect where a suitable occupant is not forthcoming after marketing for say 6 months. After this period the cascade would either allow prospective purchasers from the whole of South Lakeland District, or perhaps the wider 'District and surrounding area' (i.e. the **IPATH** local occupancy restriction discussed above in 5.6 to 5.10), to become eligible.
- 5.12 We found that respondents were in agreement that limiting occupancy to this extent would be likely to reduce market values by anything from about 20% to 50%. It was also a commonly held view that obtaining lending on such properties would be difficult, if not impossible. A typical comment received from one lender is set out below:
'The evidence would appear to suggest that...restricting occupancy to parish and adjoining parishes' would lead to values being 'reduced in the range of 25 to 50%...this is felt to be too restrictive and not something that the Group would find acceptable'
- 5.13 As part of our study we have also considered the **value of industrial land**. As discussed above (in 3.7) there is a need to consider the *existing and alternative non-residential use values* of a prospective development site when attempting to assess '**viability**'. Typically existing or alternative uses, particularly in respect of **brownfield** sites, will be 'industrial' in nature. We have provided indicative valuation figures for serviced land with an assumed light industrial use (assumed to be uses within Planning Use Classes B1 and B8). These indicative figures represent the existing and alternative non-residential use value of **brownfield** sites with the potential to receive planning consent for residential development.
- 5.14 The value of general industrial land (within Planning Use Classes B2) has not been analysed. An existing Class B2 use will typically command a lower value than an alternative Class B1 use.
- 5.15 The figures we have used are based on evidence provided by the Valuation Office Agency (VOA) and also information held by NPS North West in relation to recent sales of such land within the District.
- 5.16 It should be noted that these are very general figures and it should be appreciated that within each market area there will sometimes be significant disparities between locations and even between sites within the same town. As such sites are by their very nature '**brownfield**' differing costs of remediation can also sometimes result in significant

differences in value. A further point to note is that smaller sites are likely to have a greater value per m² than larger sites, due to the use of a quantum reduction when valuing large sites.

- 5.17 It should be also stated that no allowance has been made for disturbance or the potential relocation costs of existing businesses. It is felt that such costs must be assessed in relation to each individual case, rather than on a general basis. Such costs will typically vary significantly depending on the location and nature of business involved. We would however expect these items to be taken into account when considering the 'viability' of brownfield sites, with an existing use, for development (see definition of 'viability' above – 3.6).
- 5.18 The figures we have used are set out under 'Option X' within **Appendix 3 (Matrix of value per hectare for each valuation scenario - using current assumed average anticipated sale prices)**.
- 5.19 Following our **analysis of the local housing market** in the first half of 2008 we continue to closely **monitor the local housing market**. As part of this process we have used sales data from *Rightmove* and *HM Land Registry* to create a spreadsheet, which is set out at **Appendix 4 (Housing market overview - 2007 compared to 2008)**, to compare average house prices recorded during 2008 with those recorded during 2007. Our spreadsheet also shows the average number of sales per month and the number of 'new homes' being sold. It can be seen that sales per month in 2008 were just below 50% of the corresponding 2007 figure. However whilst the volume of sales have clearly fallen over the past 12 months the average price of properties sold has not yet shown any notable change – at least in terms of *HM Land Registry* data.
- 5.20 Where our ongoing monitoring of the local housing market reveals significant fluctuations in the average price of properties sold there may be a case for carrying out a further comprehensive **analysis of the local housing market** and updating the findings of this study. However in our view this is not the case at this time.

6 Conclusions

Overview

- 6.1 Once we had agreed the **common assumptions** and **average anticipated sale prices** to be used within our study (see details set out in Sections 4 and 5 above) we were able to produce **residual valuations** covering the numerous different combinations of **variables** (as detailed in 3.8 to 3.12). We decided to show the results of these **residual valuations** within a 'matrix' of indicative site values – as set out within **Appendix 3**. In an attempt to allow comparison between residential and commercial use as well as between sites of differing size, site values have been shown as 'value per hectare' (or multiply figures by 0.4047 to calculate 'value per acre').
- 6.2 Every possible combination of **variables** have not been considered (those not considered are filled in grey) as it became apparent when undertaking this exercise that distinct patterns had been established within the 'matrix of values' and there was little point in considering further scenarios. We decided to particularly focus on sites of 10 units, due to an absence of rounding errors when attempting to share the respective housing-type splits for each of the **Options** (see **Table 1** above in 3.10) between 10, as opposed to for example 4 or 15 units. It is clear that the pattern of valuation results that duly emerged would be essentially replicated for sites featuring different numbers of units. We are satisfied that we have looked at a large enough volume of scenarios to allow definitive conclusions to be drawn from this study.
- 6.3 We appreciate that some may dispute aspects of the **common assumptions** that we have made. As discussed these **common assumptions** have been made in consultation with the SLDC made in our professional opinion and in line with commonly accepted industry thresholds. We would, however, be happy to consider any strong evidence that makes a case for the review of any of the **common assumptions** used within this study.
- 6.4 We are aware that **site-type scenarios** with the greatest proportions of flats may look worse in **viability** terms, on a 'value per hectare' basis, due to resulting lower land values. This is largely because of the land take requirements. A greatly increased number of flats will normally be accommodated on a similar land area, with densities tending to be approximately twice, or perhaps significantly more, than for housing.
- 6.5 As an alternative to presenting our findings on a 'value per hectare' basis we have produced a spreadsheet showing the indicative value of single plots. As an extra means of comparison we have also shown the land

values as a percentage of gross development value. This information is set out as **Appendix 5 (Plot value and Land Value as a percentage of Gross Development Value for 10 unit valuation scenarios - using current assumed average anticipated sale prices)**

- 6.6 We anticipate that the findings of this study will be used to inform future planning policy on affordable housing provision within the District. We feel it is important to reiterate (see also 5.2) that the valuation figures used within this study should be treated as being ‘very general’, due to the significant disparities present within each **HMA**.
- 6.7 It is also acknowledged that some sites coming forward will have been owned or have planning consent based on previous policy criteria, and may well have to be dealt with on a case by case basis. However this study assumes, in terms of each hypothetical scenario considered, that a negotiation has occurred or is under way based on knowledge of the current development climate and planning policy requirements.
- 6.8 We understand **IPATH** and its subsequent LDF successor policy will continue to give planning applicants the opportunity to provide evidence to justify any proposed departure from policy in terms of affordable housing provision.

The effect of affordable and occupancy restrictions on land values

- 6.9 The ‘matrix of values’ (as set out within **Appendix 3**) clearly demonstrates the degree by which land values are suppressed by the imposition of affordable and occupancy restrictions upon sites.
- 6.10 **Table 2** below relating to 10 unit sites within site-type scenario 1 (Greenfield A) demonstrates the extent to which the unrestricted land values of Option 9 (see **Table 1** in 3.10 above) are reduced by the occupancy restrictions imposed under Options 1 to 7. The percentages below represent the values produced under each of **Options**, shown as a percentage of the unrestricted values produced under Option 9:

Table 2 – The extent by which unrestricted greenfield land values are restricted

Options	Rural Kendal	Grange & Cartmel	Kendal	M’horpe	Ulv’rston & Furness
1 (60% A / 30% L / 10% M)	17.4%	15.4%	17.7%	11.2%	7.9%
2 (50% A / 50% L / 0% M)	23.0%	21.0%	27.7%	21.7%	18.5%
3 (50% A / 30% L / 20% M)	30.8%	29.2%	32.0%	26.8%	24.0%
4 (40% A / 30% L / 30% M)	39.1%	37.5%	40.3%	35.3%	32.6%
5 (30% A / 70% L / 0% M)	42.4%	40.5%	52.0%	47.3%	44.9%
6 (30% A / 50% L / 20% M)	50.2%	48.7%	56.3%	52.4%	50.4%
7 (30% A / 30% L / 40% M)	57.3%	56.2%	60.3%	57.0%	55.4%

(A = affordable units / L = local occupancy Units / M = market units)

- 6.11 In other words, therefore, the Option 9 figure for Ulverston and Furness, for example, has been pushed down by 92.9% (i.e. 100% - 7.1%) by the restrictions imposed under Option 1.
- 6.12 It can be seen that the requirement to provide affordable housing has a much greater effect on land value than the imposition of **local occupancy conditions** on units within a development. The impact of these value reductions is greater for sites in the **HMA's** with the lowest unrestricted land values. Such sites have less ability to bear cost (or to put it another way, a reduced scope for what value there is to be eroded prior to reaching the realms of 'unviability').
- 6.13 The valuation effect of manipulating the amount of affordable housing within a development is demonstrated by a comparison of the figures produced under Options 2 and 6. In Option 2 the two market units of Option 6 have been replaced by two affordable units, with the allocation of local occupancy units remaining unchanged. Under these two **Options** mean valuation reductions of 22.3% and 51.5% of Option 9 values respectively are produced.
- 6.14 The effect of manipulating the number of local occupancy units within a development is demonstrated by a comparison of the figures produced under Options 6 and 7. In Option 7 two of the local occupancy units of Option 6 have been replaced by market units, with the number of affordable units remaining unchanged. Under these **Options** mean valuation figures of 57.1% and 51.5% of Option 9 values respectively are produced. Therefore even though two of the Option 7 market units are changed to local occupancy units under Option 6 the effect on value is much less than the change of two Option 6 market units into affordable units under Option 2.
- 6.15 Whilst the above calculations are made in terms of 10 unit sites it can be seen from **Appendix 3** that similar differentials between site values for each **Option** are also produced in the context of smaller four unit sites and larger sites of 15 and 50 units. For the avoidance of doubt this conclusion in relation to larger sites means that such sites do not significantly produce any more profit per housing unit created than that produced by smaller sites. Unless evidence to the contrary can be produced by the development industry it could be argued that this finding weakens the case that the affordable housing requirement should apply only to larger development sites (e.g. 10 or even 15 units or more), as opposed to the current minimum site threshold of four units.

The effect of affordable and occupancy restrictions on market sale prices

- 6.16 The above findings (6.9 to 6.15) in relation to site values can be explained by examining the relationship between affordable dwelling

prices, occupancy restrictions and market sale prices.

6.17 Affordable dwelling prices are prescribed by mean income levels for each accommodation type irrespective of location within the District. Therefore the relationship between fluctuating market sale prices and constant affordable sale prices is different for each of the five market areas.

6.18 **Tables 3a** and **3b** below show affordable dwelling prices as a percentage of market housing prices. For the purposes of this comparison both property types are assumed to be of the recommended affordable dwelling minimum floor areas, as stated within the IPATH Companion Guide (revised November 2008) (i.e. the assumed floor area of market units is smaller than that used elsewhere in this study):

Table 3a – Affordable dwelling prices as a percentage of market housing prices (for dwellings of same floor area) - Using Lower Affordable prices ('minimum new prices')*

Type of Accommodation	Rural Kendal	Grange & Cartmel	Kendal	M'horpe	Ulv'rston & Furness
1 Bedroomed Flats	53.1%	55.1%	59.2%	63.8%	66.2%
2 Bedroomed Flats	54.1%	56.2%	60.0%	65.2%	67.4%
2 Bedroomed Houses	47.9%	49.7%	53.0%	57.8%	59.5%
3 Bedroomed Houses	46.1%	47.8%	51.0%	55.4%	57.3%

* = as used in relation to 66.6% of affordable housing on sites valued within this study

Table 3b – Affordable dwelling prices as a percentage of market housing prices (for dwellings of same floor area) - Using Higher Affordable prices ('maximum new prices')**

Type of Accommodation	Rural Kendal	Grange & Cartmel	Kendal	M'horpe	Ulv'rston & Furness
1 Bedroomed Flats	72.8%	75.5%	81.1%	87.5%	90.6%
2 Bedroomed Flats	70.1%	72.9%	77.8%	84.5%	87.4%
2 Bedroomed Houses	64.9%	67.3%	71.8%	78.2%	80.7%
3 Bedroomed Houses	64.1%	66.4%	70.8%	76.9%	79.6%

** = note that all Options, other than Option 8a, considered within this study assume 'minimum new prices' for affordable housing

6.19 Our comments relating to the effect of **local occupancy conditions** on sale prices are set out above (5.6 to 5.10). As discussed we have decided to use a standard reduction of **15%** of market value in relation to local occupancy units within the Rural Kendal and Grange & Cartmel **HMA's**. A lesser reduction of **7.5%** of market value has been used in relation to local occupancy units within the remaining three **HMA's** considered within this study.

6.20 In an attempt to look more closely at the possible effect of more limited ‘local occupancy’ restrictions (see also 5.11 and 5.12) SLDC has commissioned NPS Property Consultancy to assess the potential **viability** of small scale rural housing schemes of one to three units featuring a hypothetical mix of affordable and restricted local occupancy units. In this context occupancy was restricted to a ‘parish and adjoining parishes’ (but excluding adjoining towns) with an ‘**occupancy cascade**’ as described above (5.11). For the purposes of our assessment we have assumed that such a restriction would reduce market values by **35%**. We the assessed the following scenarios, as set out below in **Table 4**, for the three **HMA’s** which contain a rural element (Rural Kendal; Grange & Cartmel Peninsula and Ulverston & Furness):

<i>Table 4 – Assumed housing component options for viability asse</i>	
Units	Nature of assumed accommodation to be assessed
1	<u>1 x restricted local occupancy unit</u> (looking at 2 bedroomed; 3 bedroomed and 4 bedroomed accommodation)
2	<u>1 x affordable unit</u> (100% Higher Affordable prices and ‘maximum new prices’) and <u>1 x restricted local occupancy unit</u> (looking at a range of combinations of accommodation)
3	<u>2 x affordable units</u> (100% Higher Affordable prices and ‘maximum new prices’) and <u>1 x restricted local occupancy unit</u> (looking at a range of combinations of accommodation)

6.21 The value outputs from the application of these scenarios are set out within **Appendix 6 (Matrix of value for rural sites outside development boundaries)**. It can be seen that our calculations suggest that all of the housing scenarios considered appear to be unviable within Rural Furness. Our one unit limited local occupancy scenario is marginally viable in the other two **HMA’s** considered. A few of the two unit scenarios are also viable in these two **HMA’s**, but to an even lesser degree than for the one unit scenarios. Our assessment shows that all three unit scenarios are unviable for each of the three **HMA’s**.

6.22 **The viability of ‘affordable-only’ developments**

The site values produced under Option 8, as set out in **Appendix 3**, show that affordable-only developments are clearly unviable. We have produced an additional Option 8a - using 100% Higher Affordable prices and ‘maximum new prices’, (as opposed to ‘minimum new prices’ with 66.6% of dwellings in the Lower Affordable band and 33.3% in the Higher Affordable band – as used in the rest of this study). It can be seen that

even by increasing affordable sale prices to this extent (an increase of approximately 1.35 times) is still not enough to make such schemes reach the realms of **viability**.

- 6.23 Using the assumptions set out within this study **Table 5** overleaf shows the price at which we have calculated the differing accommodation types would have to be sold to reach a **perceived ‘break-even’ point**:

Type of Accommodation	Perceived ‘break-even’ price	Higher Affordable prices (‘maximum new prices’)
1 Bedroomed Flats	£85,938	£83,083
2 Bedroomed Flats	£99,955	£93,804
2 Bedroomed Houses	£118,644	£112,564
3 Bedroomed Houses	£139,670	£134,005

- 6.24 **Table 6** below shows this **perceived ‘break-even’ point price as a percentage of market housing prices**. To allow comparison with **Tables 3a** and **3b** (6.18 above) both property types are again assumed to be of the same floor area (recommended affordable dwelling minimum floor areas, as stated within the IPATH Companion Guide (revised November 2008)):

Type of Accommodation	Rural Kendal	Grange & Cartmel	Kendal	M’horpe	Ulv’rston & Furness
1 Bedroomed Flats	75.3%	78.1%	83.8%	90.5%	93.8%
2 Bedroomed Flats	74.7%	77.7%	82.9%	90.0%	93.1%
2 Bedroomed Houses	68.4%	70.9%	75.6%	82.5%	85.0 %
3 Bedroomed Houses	66.8%	69.3%	73.8%	80.2%	83.0%

- 6.25 In order to calculate the **perceived ‘break-even’ point** a site value of zero is applied to the residual valuation calculation. We should point out, however, that **residual valuations** featuring a site value of zero are mathematically flawed to a degree due to the fact that acquisition costs are typically calculated as a percentage of ‘gross acquisition price’ – which will be zero where site value is zero. This problem could however be overcome by adding an estimated time-based sum to cover the cost of acquisition consultants, including planners. The figures in **Table 5** and **6** above do not include the addition of such a sum.

- 6.26 As referred to in 4.9 above the affordable housing component within each of the hypothetical site scenarios considered within our study allows for

an element of developer's profit. It should be recognised that in certain situations, such as where a landowner constructs housing for themselves their family or friends, the requirement for profit may not be present. In such cases the overall 'cost' of the development and therefore the **perceived 'break-even' point** could in theory be reduced to a degree. We suggest that this might be an element which could be reviewed in the future, particularly in terms of site specific appraisals, as pressure to control the input costs of affordable housing is likely to increase.

- 6.27 It should also be noted that unless a landowner is particularly publicly spirited or is looking to construct housing for themselves or their family or friends they are extremely unlikely to sell land or build housing on land with a site value of zero. The landowner is likely to at least want a nominal figure (such as twice agricultural value) to cover the value of the site.
- 6.28 Consequently if affordable-only developments are to be realistically provided in any instance by the private sector, without public subsidy or the involvement of **Registered Social Landlords** (RSL's), we would anticipate that the above figures would have to be increased to take account of such issues.

The relationship between the value of competing uses on brownfield sites

- 6.29 The comparison of Option 1 to Option X (see **Appendix 3**) illustrates that serviced industrial land is seemingly able to command a higher value than Option 1 residential land for all five **HMA's**. This phenomenon will affect **brownfield** sites with an existing use, as opposed to **greenfield** sites. Clearly where a site can command more in a use other than residential then housing development is extremely unlikely to occur. This issue is compounded when further figures for disturbance and potential relocation costs, where existing businesses are currently occupying a site, are taken into account in the context of the site values shown under Option X (see also 5.17 above).
- 6.30 In an, admittedly slightly crude, attempt to show which of the site valuation outputs produced by this study exceed potential competing non-residential use values, allowing also for possible costs for disturbance and relocation, **Appendix 3** shows site values in excess of 125% of **brownfield** (Option X) existing use values coloured in green.
- 6.31 **The point at which a development scenario becomes 'unviable'**
As defined above (in 3.6) '**viability**', for the purposes of this study, has been taken to refer be a situation where:
the value of the site with assumed planning consent for the proposed scheme is sufficiently in excess of existing and alternative non-residential use values (if any) that a landowner, when acting

reasonably, would be willing to proceed with the proposed residential development

We have discussed that the meaning of ‘sufficiently’ in this context is subjective as different genres of site will raise different issues and the aspirations of landowners and developers will vary in different situations.

- 6.32 Whilst we cannot provide definitive “cut-off” points where **viability** will be compromised to the degree that development may not take place we can offer some suggestions which may be of use to those formulating policy. From our experience of carrying out valuations of development sites in the South Lakeland area, particularly in respect of **exception sites** for affordable housing development – which will be invariably subsidised by public sector funding and will typically involve a minimum of five units – we are aware that where plot values fall below £12,000 and land value drops to less than 10% of gross development value then the release of the site for residential development becomes highly unlikely. **Appendix 5** highlights those scenarios that we calculate will fall into this category coloured in **deep orange**.
- 6.33 In making the above comment we should stress that we are not suggesting that a development of this kind in respect of **exception sites** would be guaranteed to take place as soon as plot values rise above £12,000, we are simply stating that below this figure the release of land for development becomes highly improbable. As discussed in further detail below (in Section 8) the art of predicting the value of land necessary to result in development is a complex issue as each site will have its own specific issues and the aspirations of landowners and developers can vary markedly.
- 6.34 To complicate matters still further the current economic climate is a further factor that is likely to result in many potential development opportunities being put ‘on hold’ for the foreseeable future, irrespective of **viability**.

The effect on the viability of housing schemes of changes in house prices and costs

- 6.35 It is accepted that prices in the housing market within the South Lakeland area will fluctuate over time. In 1.1 above we explained that the purpose of this study is to provide evidence for SLDC of the potential impact of planning policies for affordable housing and local occupancy on land values and the viability of housing schemes. The findings of this study will inform policy requirements within the South Lakeland **LDF**, which has an end date of 2025.
- 6.36 As discussed in 5.19 we continue to monitor the local housing market and advise that where significant fluctuations in house prices occur there may be a case for updating the findings of this study. In the meantime in an attempt to provide evidence on how the viability of housing schemes

may differ as house prices and costs fluctuate (factors which may lead to cost increases are discussed in 4.1 to 4.4) SLDC has commissioned NPS to expand the scope of this study with the inclusion of a **sensitivity analysis**. This Analysis uses the same seven combinations of Affordable, local occupancy and market housing options (i.e. Options 1 to 7 – see 3.12) as used in the remainder of this study and tests the effect of specified reductions in house prices and increases in the cost of development on residual land values. The parameters of these reductions in house prices and increases in the costs of development are shown in **Table 7** overleaf:

<i>Table 7 – Parameters of Sensitivity Analysis</i>	
Sensitivity Analysis	Changes to Key assumptions and Additional assumptions used in remainder of this study
1	Value of Local Occupancy & Market Housing reduced by 15%
2	Development (Building) Costs increased by 15%
3	Value of Local Occupancy & Market Housing reduced by 15% and Development (Building) Costs increased by 15%

The value outputs from the application of these three scenarios are set out within **Appendix 7 (Sensitivity Analysis 1 to 3 – Matrix of value per hectare for each valuation scenario)**

- 6.37 A comparison of the initial ‘matrix of values’ set out in **Appendix 3** with the **sensitivity analysis** ‘matrix of values’ set out in **Appendix 7** demonstrates that seemingly small changes in house prices and development costs can have a major and disproportionate effect on land values and therefore the viability of housing development opportunities. The degree of this effect on land values is detailed in the right-hand column on each of the three pages of **Appendix 7**.
- 6.38 By way of example our calculations suggest that a 15% reduction in market values (*Sensitivity Analysis 1*) will reduce the unrestricted land values of Greenfield ‘A’ Option 9 sites of 10 units by between 35.5% and 52.5% in the respective **HMA’s** (i.e. producing sites values of between 64.5% and 47.5% of the current market values (‘**average anticipated sale price**’) for the same sites shown in **Appendix 3**).
- 6.39 In comparison our calculations suggest that a 15% increase in development costs (*Sensitivity Analysis 2*) will reduce the unrestricted land values of Greenfield ‘A’ Option 9 sites of 10 units by between 19.5% and 35.8% in the respective **HMA’s** (i.e. producing sites values of between 80.5% and 64.2% of the same sites featuring current assumed development costs shown in **Appendix 3**).

- 6.40 It is worth drawing attention to the apparent severe valuation reduction effect of a situation where falling market values occur at the same time as rising development costs. This situation is illustrated in *Sensitivity Analysis 3*. It is obviously impossible for us predict when and to what degree such a situation may or may not occur within the anticipated timeframe of the LDF.
- 6.41 It may be that such a scenario would lead to the need to revise previously agreed policy targets, possibly in conjunction with the updating of aspects of this study. Until or unless evidence of such extreme circumstances emerges we would advocate the retention of targets, once established, with policy targets governing a framework for negotiation based on site-specific evidence of **viability**.

7 Tools for manipulating the viability of residential development sites

Overview

- 7.1 It is apparent from the findings of this study (as commented upon above – Section 6 – and shown in **Appendix 3** and **7**) that variations in planning policy on affordable housing provision will have a direct impact on the value of residential development sites. It is clear that some of the ‘tools’ that together comprise planning policy will have a greater effect on site values than others. It is not for us to comment on how these ‘tools’ should be ultimately applied within the emerging LDF core strategy.
- 7.2 We have, however, attempted to provide comments below on how these ‘tools’ could be manipulated in practice and how this is likely to affect the value of sites.

Amending the proportion of affordable housing to be provided within a development

- 7.3 In this study we have considered the valuation effect on sites with a requirement for 30%, 40% 50% and 60% of units respectively to be allocated as affordable housing. We have observed that there is a marked difference in site value between sites with differing proportions of affordable housing. We have seen that all areas the 60% requirement has pushed down the value of residential building land below the value of industrial development land. In some areas the 50% requirement has also pushed residential land values below the value of industrial development land. In such areas it may be that, in relation to **brownfield** land, the required proportion of affordable housing has to be reduced in order to push residential site values above such alternative use values.
- 7.4 It is clear that in respect of **greenfield** sites there is potential for the two **HMA's** with the highest unrestricted land values to in theory support greater proportions of affordable housing than the current policy requirement of 50%. It may be that policy is ultimately formulated in such a way as to specify differing affordable housing percentages for each **HMA**.

Amending affordable housing sale price thresholds

- 7.5 We are aware that **affordable housing sale price thresholds** are currently linked to mean levels of income. This is a reflection of the use of ‘income multipliers’ by mortgage lenders, when assessing applications for new mortgages. **Affordable housing sale price thresholds** are therefore intended to represent a realistic price that the average first-time buyer can afford to pay, with the assistance of a mortgage. This link to mean

levels of income has been seen to work in recent years when affordable housing contributions from the private sector have been at a lesser proportion of total units than that required under IPATH. In this historic context developers accepted that proceeds from the sale of market housing would subsidise the provision of an element of affordable housing.

- 7.6 There is no relationship between **affordable housing sale price thresholds** and build costs or a **perceived 'break-even' point**.
- 7.7 It is clear from this study that as the affordable housing contribution expected from developments is increased to 50% of total units and beyond then schemes, in some **HMA's**, are in danger of becoming unviable if **affordable housing sale price thresholds** are retained at the IPATH Companion Guide (revised November 2008) levels used in this study. It seems in this regard a policy decision may have to be made on the appropriate balance between the necessary proportion of affordable housing and **affordable housing sale price thresholds**.
- 7.8 In theory as **affordable housing sale price thresholds** are reduced the volume of affordable units a site can accommodate whilst remaining viable for development is similarly reduced. Conversely if price thresholds are increased by too great an extent such units will cease to remain 'affordable' at all but will instead become 'low cost market housing' (see extract from PPS3, paragraph 29 set out in 2.3).

Introducing further affordable price bands

- 7.9 Within **IPATH** there are currently two **affordable price bands**. The creation of further such bands could be used as another 'tool' to help increase the **viability** of residential development sites. If such bands were set above the **perceived 'break-even' point** they could be used to help bring sites back into the realm of **viability**, particularly in relation to affordable-only sites and brownfield sites with high constraints.
- 7.10 Further **affordable price bands** could be introduced on larger sites (e.g. of 10 units or more) where a greater range of affordable housing provision may be desirable. The creation of such further bands could potentially be used to bring housing opportunities to sections of the community with housing need, where their means are too great to qualify for affordable housing at present, but at the same time they are unable to afford market housing at current prices. It is assumed that the proportion of the community falling into this bracket has steadily increased in recent years as market house prices have grown at a much greater rate than income levels.
- 7.11 As per our comments above (7.5 to 7.8) the introduction of further **affordable price bands** has the potential to mean greater proportions of 'affordable units' could be provided from each development. However a

point would presumably be passed where the prices within such further bands would have exceeded the level where they could be realistically viewed as being 'affordable housing' (as per 7.8 above). Some may also feel that the introduction of additional price bands merely overcomplicates policy in this area.

- 7.12 Another variation on this idea would be to amend the current policy (as set out in the IPATH Companion Guide (revised November 2008)) that 66.6% of dwellings should be within the Lower 'Affordable band' and 33.3% should be within the Higher 'Affordable band'. There is obviously scope in the appropriate context to increase the viability of development opportunities by permitting a greater proportion of affordable dwellings to be sold at 'maximum new prices' within the Higher 'Affordable band'.

Encouraging RSL partnering with Private Developers

- 7.13 We are aware that RSL's have formed partnerships with private developers on a handful of developments within the District in recent years. Such partnerships have the potential to introduce public subsidy to a scheme – potentially making the difference between a viable and non-viable development opportunity. The fact that an RSL will usually have a long-term commitment to a site is an additional benefit of this approach. We understand that SLDC intends to work with stakeholders to explore the scope for further such partnerships.

- 7.14 We are also aware that private developers can potentially bid directly for funds from the Housing Corporation (now incorporated into the newly formed Homes and Community Agency) – an initiative first introduced in 2005 through the New Partnerships in Affordable Housing (NPiAH) programme. Again such an initiative has the potential to unlock public subsidy.

Reducing the percentage of units to have a local occupancy condition

- 7.15 It can be seen from the findings of this study that allowing an element of market housing within a development has the potential to increase the viability of the site. However as we believe the current IPATH definition of 'local occupancy' is only likely to reduce the unrestricted market value of units by less than 20% the potential to increase the viability of sites by using this 'tool' is relatively limited. We should however reiterate the comments we expressed above (5.6) that the IPATH definition of 'local occupancy' is likely to have a greater effect on the value of properties in the most rural areas of South Lakeland.

- 7.16 Obviously this aspect has the potential for further consideration if subsequent evidence emerges that the IPATH definition of 'local' is having a greater effect than anticipated on value.

Amending the definition of 'local' in relation to local occupancy

conditions

- 7.17 As discussed above (5.4) the Lake District National Park Authority have in recent years begun to introduce parish-only restrictions. There is evidence to show reductions of value in the range of 25 to 50%. This is obviously significantly greater than the effect we anticipate from the current **IPATH** definition of 'local'.
- 7.18 In rural areas of the District, for example on sites outside current development boundaries, it may that more limited 'local occupancy' restrictions could be introduced if this is desirable in policy terms. We suggest, however, that any policies of this kind should be formulated in the context of the findings of our testing of the likely **viability** of small-scale restricted occupancy rural housing schemes (described above in 6.20 and 6.21 and detailed in **Appendix 6**).
- 7.19 Despite our findings (in 6.20 and 6.21) it may still be possible, in theory at least, to produce viable development scenarios in relation to *rural sites* beyond current development boundaries. It is clear that the level of reduction to market value is directly linked to the degree of restriction to local occupancy. This is because the potential market (i.e. demand) for a property upon resale is reduced by an increasing level of restriction. Policy makers could in theory use this knowledge to manipulate the '**occupancy cascade**' and degree of restriction to be used (i.e. coming up with a compromise between a single parish versus the whole of a **HMA**, allied with an appropriate form of '**occupancy cascade**') to produce a workable solution. Further liaison with local lenders to seek their views on any restrictions to be adopted is likely to be beneficial.

Varying the density of development sites

- 7.20 As discussed above (3.10) for the purposes of this study we agreed with SLDC that an assumed **development density** of 30 units per hectare should be adopted. This figure, the national indicative minimum, has been used in an attempt to effectively calculate the worst case scenario in terms of the value of land considered within the study.
- 7.21 We are aware that in line with PPS3's emphasis on the 'efficient use of land' many sites within the District, particularly those with a high proportion of flats and those within urban settings, are likely to be developed with significantly greater densities than the 30 units per hectare used within this study. In such situations land is likely to yield a greater value per hectare. This in turn will potentially mean that a greater percentage of affordable housing can be accommodated without the site becoming 'unviable' (see particularly our comments above in 6.29 on the relationship between the value of residential and competing land uses).
- 7.22 In terms of the figures used in this study a **development density** of 40 units per hectare would, in simple terms, result in each of the valuation figures shown within the 'matrix of values' set out within **Appendix 3**

being increased by a ratio of 1.33. A **development density** of 50 units per hectare would require an increase ratio of 1.67. These ratios, of course, fail to take into account the valuation effect of the likely reduction in the average size of each of the constituent units of accommodation (i.e. sites developed at higher densities are likely to have less 4 bedroomed houses than those developed at lower densities). The analysis of this specific valuation effect is beyond the scope of this study.

- 7.23 It should be noted, however, that manipulating the density of development would not affect the relationship between the value of sites within Options 1 to 7 and the unrestricted values produced under Option 9 (as discussed above in 6.9 to 6.21).
- 7.24 It seems the potential effect of **development density** upon the viability of sites in respect of their ability to provide affordable housing is another factor that will have to be taken into account, if it is not already, by SLDC when formulating future policy regarding **development density**. There will obviously be an optimum balance for each genre of site between the efficient use of land, the volume of affordable housing provision, and the risk of 'compromising the quality of the local environment' (see PPS3, paragraph 50). If the density of the site is increased by too great an extent the value of each of the units proposed is conversely likely to be reduced – with a resultant effect of site value.

8 Final observations

8.1 As discussed above (see 1.3) SLDC's ultimate goal in terms of affordable and local occupancy housing provision is to create a policy which can provide for viable housing development opportunities whilst producing as much affordable housing as possible through the planning system. Such a policy must strike an optimum balance between these objectives.

8.2 It is our view that the ideal approach is for any such policy to be operated in a flexible manner. Policy positions should be regarded as targets which can set the framework for an ensuing negotiation based on site-specific evidence of viability. Many sites will have specific issues that cannot be catered for in general policy terms.

8.3 Different genres of site will obviously raise different issues in terms of existing use values and also the aspirations of landowners and developers. Our comments in relation to the issues that may be encountered in respect of different genres of site are set out below:

- Brownfield sites (see also 5.13 to 5.18 above) may have an alternative commercial use. The landowner is unlikely to release land for residential development at a figure below the value of the alternative use. Any existing employment use may have no wish to move or may require relocation before such a site can be made available for residential development. Disturbance costs and remediation costs can also on occasions become significant factors when considering the 'viability' of brownfield sites.
- The owners of greenfield sites – currently or previously allocated for a residential use – are likely to have seen the relative value of their sites fall significantly in recent years as affordable housing requirements have increased and are likely to wish to retain ownership in the hope that policy will ultimately change in their favour. In a high value area such as South Lakeland, regardless of policy positions or site-specific factors, starting land value expectations will generally be higher than they perhaps are in reality. Whilst there may appear to be scope to reduce value by increasing affordable housing provision this may be severely limited in terms of such sites by the views and perceptions of landowners. The current unfavourable economic climate is another reason why such owners may be reluctant to release their sites in the short and medium term. It is our view that in general such sites are not likely to be released until the Local Development Framework provides a permanent policy position. It may be that the Council will ultimately have to consider taking such drastic action as the utilisation of its powers of compulsory purchase in appropriate cases, for example in a settlement where

housing need is acute, alternative sites are not available and the landowner of the suitable site is unwilling to make it available.

- Conversely the owners of unallocated greenfield sites which go on to become allocated for residential development through the LDF are likely to be happy with any increase in value above their current (typically agricultural) use. Such owners are the most likely group to release their sites for development, although the current economic downturn will not help matters.

In light of the above comments it may be appropriate for policy to differentiate between **brownfield** and **greenfield** sites.

- 8.4 In our view any potential policy can only work if policy requirements allow residential site values to remain at a level whereby the landowners will generally still be willing to sell their land for development. The key to the success of policy in this area therefore depends on gauging this theoretical land value “cut-off” point below which land is unlikely to be sold.
- 8.5 In 6.31 to 6.35 (above) and **Appendix 5** we discussed a theoretical land value “cut-off” point (£12,000 per plot) in the context of **exception sites**. This study of course focuses on sites within South Lakeland that are assumed to have been allocated for residential development, rather than **exception sites** – where the expectations of landowners in terms of the anticipated sale receipt from their land will generally be lower. As discussed throughout the course of this study, the theoretical land value “cut-off” point, in terms of land zoned for development, is highly subjective. Ultimately policy makers will have to come to a view on the proportion of affordable and local occupancy housing they believe that landowners will generally accept on development sites. In theory a point will be reached beyond which the majority of landowners will become unwilling to sell.
- 8.6 It is clear that landowners and developers will be most likely to support the provision of affordable housing on their sites if policy is formulated in such a way as to ensure that residential site values remain above existing or alternative use values to an appropriate degree. Landowners and developers will, however, need to be convinced that the adopted policy is permanent. . It may also be difficult to secure the support of developers if adjoining districts do not introduce similar planning policies and therefore more money might be made by developing sites outside the District.
- 8.7 The findings of this study will remain suitable for use in the formulation of housing policy until key data elements, such as house prices and build costs, become inaccurate due to the passage of time. We suggest that these elements should be kept under review, with data being updated as necessary.

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Respondents to consultation on the **perceived valuation and mortgage availability effect of existing and potential local occupancy policies** (Local chartered valuation surveyors, house builders and lenders)

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- Cumberland Building Society
- Furness Building Society
- Hackney & Leigh
- Poole Townsend
- Russell Armer
- Skipton Building Society
- Yorkshire Building Society

List of Abbreviations used in this study

BCIS =	Royal Institution of Chartered Surveyor's Building Cost Information Service
HMA's =	Housing Market Areas
IPATH =	Interim Planning Approach to Housing Development (Revised July 2008)
LDF =	Local Development Framework
NPS =	NPS Property Consultancy
RSL's =	Registered Social Landlords
SLDC =	South Lakeland District Council

Glossary and Index of Key Terms used within this Study

Affordable housing sale price thresholds

The maximum permitted sale price of new affordable housing units in South Lakeland District. These figures are set by the District Council using data on local income levels. In theory these figures are set at a level at which eligible purchasers will be able to afford to purchase. Typically such prices are controlled by an agreement made pursuant to section 106 of the Town and Country Planning Act 1990 which will include the provision for the home to remain at an affordable price for future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision. Current affordable housing sale price thresholds are set out within the IPATH Companion Guide (revised November 2008).

(http://www.southlakeland.gov.uk/downloads/page2168/FINAL_IPATH_Companion_Nov_08.pdf)

- See 4.14; and 7.5 to 7.8

Affordable price bands

These are brackets within which the sale price of new affordable housing units in South Lakeland District must fall. Policy currently allows for two price bands – ‘Lower’ and ‘Higher’ affordable price bands. Within each band there is a ‘minimum and ‘maximum’ price between which new affordable housing units must be sold. Current affordable price bands are set out within the IPATH Companion Guide (revised November 2008).

(http://www.southlakeland.gov.uk/downloads/page2168/FINAL_IPATH_Companion_Nov_08.pdf)

- See 4.14 and 7.9 to 7.12

Analysis of the local housing market

The process carried out as part of this study whereby we carried out a detailed review of local residential property values. As part of this process we categorised values into five distinct housing market areas and consulted local property professionals on the perceived valuation and mortgage availability effect of existing and potential local occupancy policies.

- See 3.3; 3.4; and Section 5

Average anticipated sale price

In effect this equates to the anticipated market value of specified property types within each of the five housing market areas. These figures, which are set out within **Appendix 2**, were produced through the analysis of the asking prices of a significant number of new and recently built properties on the market during the first half of 2008, allied with knowledge of the subsequent sale prices achieved.

Market Value is defined by RICS as:

‘The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted

knowledgeably, prudently and without compulsion' (from the RICS Valuation Standards (6th edition)).

- See 3.4; 5.2; 6.1 and 6.38

Brownfield

Land (or a defined site) that has been developed previously. Often such sites will have the remains of former buildings and may be affected by contamination arising from previous uses.

- See 3.8; 4.12; 5.13; 5.16; 6.29; 6.30; 7.3 and 8.3

Code for Sustainable Homes

A national standard for the sustainable design and construction of new homes introduced by the UK Government in 2006. The Code measures the sustainability of a new home against nine categories of sustainable design, rating the 'whole home' as a complete package. The Code uses a 1 to 6 star rating system to communicate the overall sustainability performance of a new home.

(<http://www.communities.gov.uk/planningandbuilding/buildingregulations/legislation/englandwales/codesustainable/>)

- See 4.2

Common assumptions

A series of general rules, for example concerning build costs and floor areas, applied to all residual valuations carried out in relation to this study. These rules, agreed between SLDC Officers and NPS, are taken as being representative of typical residential developments seen recently within South Lakeland District.

- See 3.4; Section 4; 6.1 and 6.3

Community Infrastructure Levy

The Community Infrastructure Levy (CIL), the provisions for which are currently going through Parliament, will be a new charge which local authorities in England and Wales will be empowered, but not required, to charge on most types of new development in their area. CIL charges will be based on simple formulae which relate the size of the charge to the size and character of the development paying it. The proceeds of the levy will be spent on local and sub-regional infrastructure to support the development of the area.

(<http://www.communities.gov.uk/publications/planningandbuilding/communityinfrastructurelevy/>)

- See 4.3

Development density

'a measure of the intensity of development on a site relative to its size, e.g. the number of habitable rooms or complete units permitted per acre (or hectare), usually in relation to residential accommodation' (from the *glossary of property terms*, EG Books, 2003).

- See 3.10 and 7.20 to 7.24

Exception sites

Sites, usually in small villages, which have not been allocated for development in the Local Development Plan (or LDF), which have some potential to accommodate small schemes of affordable housing for local people.

- See 6.32 to 6.33 and 8.5

Greenfield

Land (or a defined site) that has not been developed previously, e.g. agricultural land.

- See 3.8; 4.12; 6.29; 7.4 and 8.3

Gross development value

The ultimate anticipated sale receipts from a development prior to the deduction of any costs.

- See 4.7

Housing component options (Options)

Housing components are taken to be either affordable, local occupancy or market housing. This study assumes that sites will be developed with a range of consistent combinations of these housing components and compares their respective site values in the context of a range of changing variables.

- See 3.12; 6.2; 6.10; 6.13; 6.14; 6.15 and 6.18

Housing Market Areas (HMA's)

In the context of this study a definable geographical area where housing values can be categorised as being at generally similar levels. Such an area will also typically be relatively self-contained in terms of housing demand; i.e. the majority of people moving home or settling within the area will have sought a dwelling only in that area

- See 3.3; 3.11; 5.2; 5.8; 5.9; 6.6; 6.12; 6.20; 6.21; 6.29; 6.38; 6.39; 7.4 and 7.19

Interim Planning Approach to Housing Development (IPATH)

South Lakeland District Council's (non-statutory) planning policy on affordable housing and local occupancy. The Council first approved IPATH on 24 November 2005, then approved a revised IPATH and Companion Guide on 27th March 2007. Further clarifications were agreed in July 2008 and the accompanying Companion Guide was last modified in November 2008.

(<http://www.southlakeland.gov.uk/default.aspx?page=2168>)

- See 1.2; 4.1; 4.11; 4.14; 4.16; 5.3; 5.5; 5.6; 5.10; 5.11; 6.8; 6.15; 6.18; 6.24; 6.24; 7.4; 7.9; 7.12; 7.15; 7.16 and 7.17

Local occupancy conditions

A policy tool used to steer new housing provision towards meeting locally derived needs. Typically a planning consent will be granted subject to such conditions, (which be reinforced by an agreement made pursuant to section 106 of the Town and Country Planning Act 1990), whereby a property can only be occupied upon resale by persons complying with defined, typically geographic, occupancy criteria.

- See 5.3 to 5.12; 6.12; 6.19 to 6.21 and 7.15 to 7.19

Monitor the local housing market

Our ongoing assessment of property values within the local housing market. Where this process reveals significant fluctuations in the average price of properties sold there may be a case for carrying out a further more detailed analysis of the local housing market and updating the findings of this study.

- See 5.19

National Parks

Those parts of the Lake District National Park and Yorkshire Dales National Park falling within the administrative boundary of South Lakeland District.

- See 1.1; 3.3; 3.4; 3.11 and 5.6

Occupancy cascade

A mechanism sometimes used in relation to properties affected by restricted local occupancy conditions (e.g. where occupancy is typically restricted to residents of a single parish). Where a suitable occupant is not forthcoming after a period of marketing (e.g. say for 6 months) an occupancy cascade will then come into effect. This means that the restricted local occupancy condition can either be relaxed to permit prospective purchasers from a wider geographical area or in some cases the occupancy condition may be able to be removed completely.

- See 5.11; 6.20 and 7.19

Perceived 'break-even' point

The point at which the residual value of a site is equal to zero. This in effect means that the gross development value (income) is equal to the total cost of delivering the development (expenditure), including developer's risk and profit.

- See 6.23 to 6.27; 7.6 and 7.9

Perceived valuation and mortgage availability effect of existing and potential local occupancy policies

The influence of local occupancy policies on residential property values and the willingness of lenders to provide mortgages. As part of our analysis of the local housing market we sought the views of local property professionals on this issue.

- See 5.6 to 5.7; and 5.10 to 5.12

Registered Social Landlords (RSL's)

Independent housing organisations registered with the Housing Corporation under the Housing Act 1996. They may be Industrial and Provident Societies, registered charities or companies.

(<http://www.housingcorp.gov.uk/server/show/conWebDoc.1134>)

- See 6.28 and 7.13

Residual valuations

'a method of determining the value of a property which has the potential for development, redevelopment or refurbishment. The estimated total cost of the work, including fees and other associated expenditure, plus an allowance for

interest, developer's risk and profit, is deducted from the gross value of the completed project...to give the residual (site) value' (from the glossary of property terms, EG Books, 2003).

- See 3.4; 4.5; 6.1; 6.25 and 6.25

Sensitivity analysis

'a series of calculations in a financial appraisal or forecast involving one or more variables, e.g. future rates of inflation or deflation and cost estimates, which are modified in turn to show the differing results' (from the glossary of property terms, EG Books, 2003).

- See 3.5; 4.3; 6.36 to 6.41 and 8.8

Site size

The size of generic hypothetical sites site considered within this study (i.e. sites of four, 10, 15 or 50 units).

- See 3.9

Site-type scenarios

The nature (i.e. greenfield or brownfield) and accommodation mix (i.e. houses or flats) of generic hypothetical sites considered within this study.

- See 3.1; 3.8; 4.12; 4.13 and 6.4

Value of industrial land

Indicative valuation figures, gathered as part of this study for serviced land with an assumed light industrial use (assumed to be uses within Planning Use Classes B1 and B8). These indicative figures represent the existing and alternative non-residential use value of brownfield sites with the potential to receive planning consent for residential development.

- See 5.13 to 5.18

Variables

The parameters governing this study as agreed, between SLDC Officers and NPS. These specifically concern the defined nature (i.e. greenfield or brownfield); accommodation mix (i.e. houses or flats) and size (i.e. four, 10, 15 or 50 units) of sites, as well as development density and the identity of assumed housing market areas and housing component options to be evaluated.

- See 3.4; 3.8 to 3.12; 4.13; 6.1 and 6.2

Viability

The value of the site with assumed planning consent for the proposed scheme is *sufficiently* in excess of existing and alternative non-residential use values (if any) that a landowner, when acting reasonably, would be willing to proceed with the proposed residential development

See 3.5; 3.6; 3.8; 3.9; 3.10; 3.12; 4.3; 5.13; 6.4; 6.20; 6.22; 6.31 to 6.34; 6.41; 7.9 and 7.18