

The Viability of Affordable Housing

ADAMS
INTEGRA



Cambridge Sub-Region's
Seminar on Assessing the
Viability of Affordable Housing

Adams Integra

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Introduction

This morning – a very quick overview:

- Study background
- Brief insight into strategic viability studies for Local Authorities
- Our approach
- Outcomes
- Developing affordable housing policy

Background

- Planning led affordable housing – market processes.
- Affordable Housing Economic Viability Assessment on behalf of:
 - St Edmundsbury Borough Council
 - Forest Heath District Council
 - East Cambridgeshire District Council
 - Fenland District Council
- Testing and making recommendations on policy scope, given likely viability in the context of the local market, wider costs, funding and planning obligations.

Background

- Balance:
 - Between affordable housing and wider planning objectives delivery – overall housing supply, climate change...
 - Between opposing tensions of affordable housing need and viability.
- To progress (be viable), development must create sufficient:
 - Land Value – to drive site release.
 - Profit scope – developer's risk reward (and funder's requirements).

Background

- So development viability is key to affordable housing delivery.
- Affordable housing affects viability because generally it produces much lower revenue for the developer. Cost is passed on to land owner (reduced land value).
- Policy development - clear, evidence based, locally relevant, market conditions – but not only now.

Background

- In the context of PPS3 / other precedent including Blythe, Wakefield and our own extensive LDF / EiP involvement.
- 2 layers to consider:
 - 1. Strategic (clear, evidence based (LDF) policy targets);
 - 2. Site specifics – optimal delivery dependent on more specific circumstances – layer 1 does not supersede this.
- Also informs / reinforces detailed approach – e.g. >> SPD, negotiations...

Development Viability

- Residual Land Value Approach

- Study methodology based on residual land value (RLV) modelling.
- Residual land valuation so called because it looks at what remains after all cost allowances are deducted from the value created by a scheme. Simply.....
Development Value minus Costs and Profit = RLV.

Development Viability

- Residual Land Value Approach

- Carry out developer type appraisals.
- Understanding completed scheme value & cost expended to get there. Most models do this. e.g. HCA's EAT, GLA, ours, etc.
- Key ingredients drive the process:
 - Market – demand
 - Sufficient profit (risk) reward.
 - Sufficient land value to see sites released. (“Residual Land Value” / “RLV”)

Development Viability

Simplified RLV Appraisal Structure

Starting point is total sales value ("Gross Development Value")	
Number of Units =	10
Sales Value =	£120,000
Gross Development Value = A	£1,200,000
Development Costs (build costs, fees, etc.) = B	£575,000
Development Profit (@15% of Sales Value) = C	£180,000
Land Purchase Costs and Planning Infrastructure (not including affordable housing element) = D	£75,000
"Residual Land Value" (Gross Development Value - Development Costs - Profit - Land Purchase and Planning Obligations) = E	
A - (B + C + D) = E	£370,000

Gross
Development
Value

Minus
development
costs and
profit

Residual
Land Value

Strategic Development Viability

Our approach



- Collect data:
 - Values
 - Development costs
 - Stakeholder consultation
- Strategic study based on running large numbers of appraisals – base appraisals and sensitivity analysis
- Review results trends.
- Compare with other data.

Strategic Development Viability

Our approach

- RLV is key indicator. We need to look at:
 - how it varies with appraisal inputs, and;
 - how it relates to existing / alternative use value – i.e. at what point is the RLV likely to be sufficient to secure the release of the site, bearing in mind all costs and requirements that have to be met. Owner's expectations play a part.
- Inevitably involves making judgements, and there is never a single right answer. Unfortunately it's not an exact science.

Development Viability Appraisal Inputs - Values

- Property market research locally:
 - On the ground research – estate agents, developer’s sales offices, stakeholder consultation
 - Backed up by desktop research (Land Registry, RICS, RightMove, wider industry reporting, etc)
- Covers range of values typically seen across the study area - “Value Points” methodology.
- Provides a range of results – values as may be seen through varying market circumstances and / or by location.

Development Viability Appraisal Inputs - Costs

- **Fix Assumptions** with the benefit of industry soundings where possible (for example):
 - Build costs, finance, fees, contingencies, purchase & sale costs.
 - Other planning obligation costs – with LA
 - Methodology for affordable housing transfer and revenue to developer – LA & RSLs.
- **Then vary the affordable housing content & study how that impacts RLVs.** Allows comparison, before and while considering sensitivity.

Development Viability

Example Spreadsheet Tool – Assumptions Input

Details of Development		Select Value Point	1
Location:			
Local Authority: LB Bromley			
Approximate Density (DPH)	50	Marketing & Sales (as % of Gross Sales Value)	15%
Build Cost per m² (Houses)	£1,100	Legal Fees on Unit Sale (£ per unit)	£400
Build Cost per m² (Flats)	£1,250	Existing Use Value	£500,000
Finance (%APR)	7.0%	Assumed Development Profit (Affordable) (%)	6%
Build Time (Months)	12	Assumed Development Profit (Private) (%)	15.0%
Approx. Lead-In (Months)	6	Legal Fees on Land Purchase (as % of Land Value)	0.50%
Architect Fees (as % of Build Costs)	3.5%	Approx. Land Survey Costs	£10,000
Consultants Fees (as % of Build Costs) e.g. engineer, planning supervisor, project manager etc.	3.0%	Approx. Planning Application Costs (£ per unit)	£6,700
Contingencies (as % of Build Costs)	3.0%	Planning Infrastructure (Average £ per unit)	£5,000
Insurances (as % of Build Costs)	2.5%	Site Preparation (Total £)	£80,000
		Select With or Without Grant	Without Grant
		Select Code for Sustainable Homes Level	3
		Select Renewable Requirement	10%

Development Viability

Example Spreadsheet Tool – Unit Mix & Values

Local Authority: LB Bromley						
Private Housing						
Unit Type	1 Bed Flat	2 Bed Flat	2 Bed House	3 Bed House	4 Bed House	
No. of Units for Private Sale	5	5	5	5		
Value per Unit	£125,000	£167,500	£187,500	£212,500	£250,000	
Total	£625,000	£837,500	£937,500	£1,062,500	N/A	
Average Floor Area (m²)	50	67	75	85	100	
Affordable Housing (GN Rent)						
No. of Affordable Units						
Payment to Developer Per Unit (Taken from Proval or Similar)	£52,000	£63,000	£66,000	£75,000	£85,000	
Total	N/A	N/A	N/A	N/A	N/A	
Average Floor Area (m²)	50	67	75	85	100	
Affordable Housing (Intermediate)						
No. of Intermediate Units						
Payment to Developer Per Unit (Taken from Proval or Similar)	£72,500	£97,150	£108,750	£123,250	£145,000	
Total	N/A	N/A	N/A	N/A	N/A	
Average Floor Area (m²)	50	67	75	85	100	
Total Number of Units	5	5	5	5	0	
Total Floor Area (m²)	250	335	375	425	0	
Total Build Cost Per Unit Type	£312,500	£418,750	£412,500	£467,500	£0	
Total Sales Revenue (Private & Affordable)	£625,000.00	£837,500.00	£937,500.00	£1,062,500.00	£0.00	
Total Number of Units	20					
Total Floor Area (m²)	1385					
Total Build Cost	£1,611,250					
Total Sales Revenue (Private & Affordable)	£3,462,500.00					
Percentage Private	100%					
Percentage Affordable	0%					
Percentage GN Rent (of total affordable)	0%					
Percentage Intermediate (of total affordable)	#DIV/0!					
Total	100%					
	20					
Values						
Value Point	1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	4-Bed Houses	£ / sq m Equivalent
1	£125,000	£167,500	£187,500	£212,500	£250,000	£2,500
2	£150,000	£201,000	£225,000	£255,000	£300,000	£3,000
3	£175,000	£234,500	£262,500	£297,500	£350,000	£3,500
4	£200,000	£268,000	£300,000	£340,000	£400,000	£4,000
5	£225,000	£301,500	£337,500	£382,500	£450,000	£4,500
6	£250,000	£335,000	£375,000	£425,000	£500,000	£5,000
7	£275,000	£368,500	£412,500	£467,500	£550,000	£5,500

Development Viability

Example Spreadsheet Tool - Results

Land Residual Appraisal

Location		0	
<u>Sales Value</u>		<u>Land Costs</u>	
Total Number of Units =	20	Survey Costs =	£10,000
Sales Value (Private) =	£3,462,500	Planning Application Costs =	£6,700
Affordable Housing Payment =	£0	Finance related to Land Purchase =	£69,792
Estimated Gross Sales Value =	£3,462,500		
<u>Development Costs</u>		Legal Fees Relating to Land Purchase =	£3,323
Build Costs (Incl CfSH)=	£1,680,500	Total Land Associated Costs =	£89,816
Build Costs (Incl Renewables) =	£1,750,500		
Site Abnormals =	£80,000	Residual Amount for Land =	£574,873
Architect Fees =	£61,268	Stamp Duty =	£22,995
Consultants Fees =	£52,515		
Insurances =	£43,763		
Total Development Costs =	£1,988,045		
Finance Related to Abnormals =	£8,400	APPROXIMATE LAND RESIDUAL =	£551,878
Finance Related to Build Costs =	£61,268	Approx. Land Value as % of GDV =	15.9%
Finance Related to Fees =	£8,271		
Selling Agents Fees =	£51,938	Approx. Land Value (£ / Hectare):	£1,379,695
Legal Fees on Sale =	£8,000	Based on a density of:	50
Planning Infrastructure Payments =	£100,000	and site size of:	0.40
Contingencies =	£52,515	Existing Use Value:	£500,000
Development Profit (% of GDV) =	£519,375	Variation from Existing Use Value:	£51,878
		Nb: Red Negative / Black Positive	
Sum Remaining For Land Purchase & Costs =	£664,689		

Results and Sensitivity

- Look at the sensitivity of results to varying assumptions, e.g.:
 - Values
 - Method / level of developer / landowner subsidy (>receipt for affordable homes)
 - Tenure assumptions – affordability levels & mix
 - Dwelling size & mix
 - Grant
 - Build costs, profits
 - Other planning obligation costs
 - Code for Sustainable Homes attainment, renewables/CO₂, etc
 - Other / Abnormal development costs?

Results and Sensitivity Analysis



- Results of appraisals provide a RLV for each set of parameters – results also shown as £ per Ha to compare to existing / alternative use value; and as % of GDV.
- Current market conditions aside, affordable housing has the greatest single viability impact (everywhere) but what really counts is the collective burden of all requirements on RLV.

Outcomes - Property Market

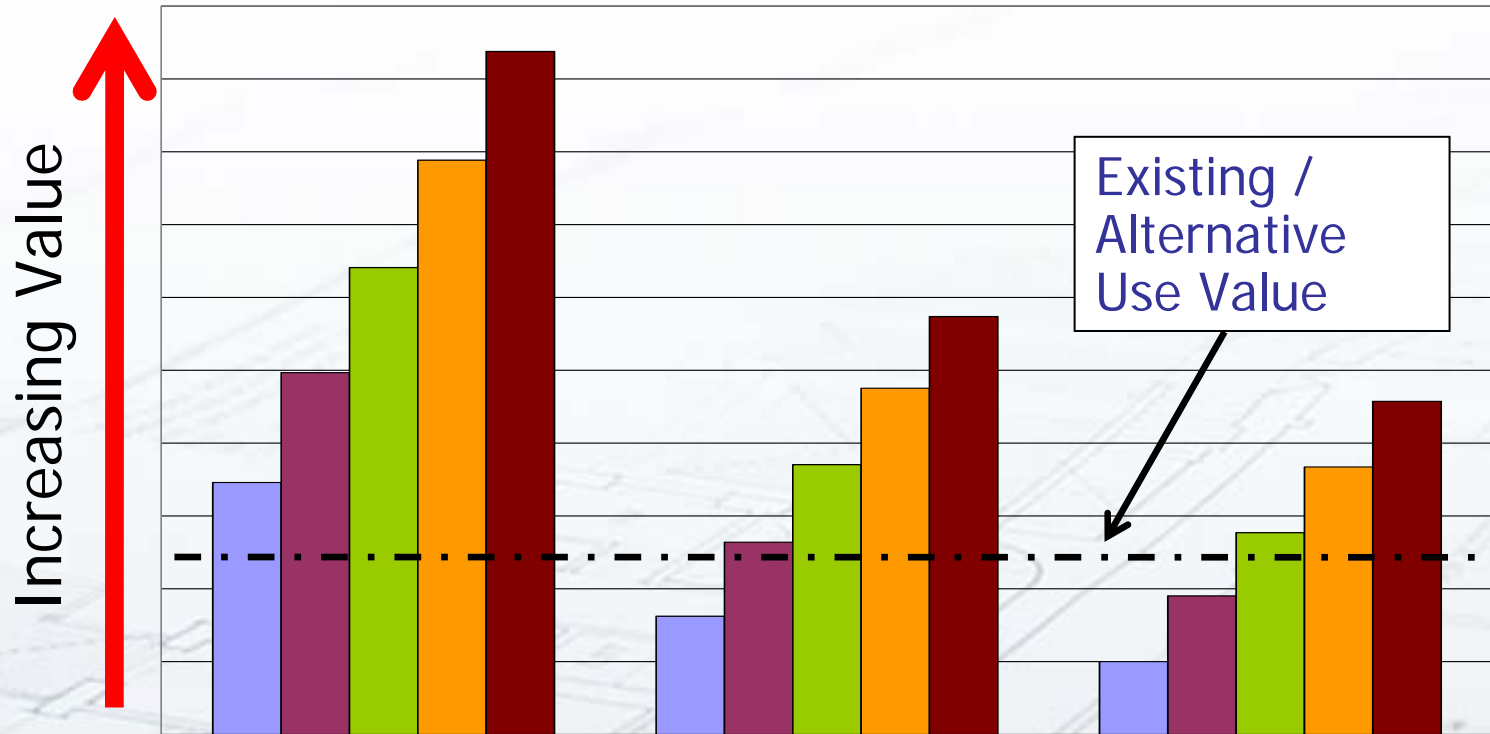
- Affordability issues prevalent across the study area of course, but some modest value levels compared to many other areas with similar affordable housing aspirations.
- Presents a **mixed picture of development viability** when all costs and requirements are taken into account.
- The values are unlikely to provide the scope to meet all the cost burdens. The study provides detail.

Outcomes – Trends



- Increasing affordable housing means significant viability impacts no matter where you are.
- Increased costs from other requirements also impacts development viability (but not necessarily at the same level as affordable housing).
- May lead to prioritisation of requirements (not just affordable housing).
- Cumulative impact of added cost.

Results Trends



Increasing affordable housing proportion and / or other cost areas

Outcomes - continued

- Site size alone not a determinant of viability. We can support the principle of lowered thresholds.
- But...care needed with % targets for sites captured for the first time - most significant impacts. Also, the smaller sites tend to produce smaller (more marginal) land values relative to existing / alternative use.
- Suggests a “Sliding Scale” type approach.

Headline Outcomes

- Appropriate affordable housing targets within the parameters 20% to 40% overall, depending on site size and potentially varying dependent on site types.
- Reduction of site size thresholds alongside a lower affordable housing proportion on those sites – “sliding scale”.
- As a target position, an affordable housing tenure mix of 70% affordable rent / 30% intermediate dependent on range of other factors.

Headline Outcomes

- Potential for collection of carefully judged financial contributions in-lieu of on-site affordable housing provision in some cases.
- A 30% proportion (as a headline) of affordable housing represents a challenging target across the study area regardless of location. Particularly so in lower values areas and in the current market, but even in better conditions, given the range of other cost burdens on schemes (and “direction of travel” on those).

Headline Outcomes

- Flexibility in policy application (especially over the short term) - Always as targets – not “minimums” or “at least”.
- Underpinned by continued needs evidence and links with wider evidence base (e.g. type of site supply).
- Need for clear policy wording and acknowledgement of viability / practical approach.
- Other detail – rounding, net/gross, strategy for £ sums, etc

Thank You

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