

London Borough of Enfield Council



Local Development Framework: Affordable Housing Economic Viability Study

*Report for the consideration of
London Borough of Enfield:*

This document does not constitute Council Policy

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Prepared by



**55 West Street
Chichester
West Sussex
PO19 1RU
01243 771304**

www.adamsintegra.co.uk

CONTENTS

	Executive Summary	iv
1.	Introduction	1
2.	Methodology and Assumptions	4
	Background	4
	Property Values	5
	Approximate Residual Land Value (RLV)	10
	Gross Development Value (GDV)	14
	Developer's Profit	14
	Model Scenarios, Property Types, Size and Mix	15
	Indicative Scheme Density	16
	Affordable Housing Transfer (to RSL) – Method of Payment	
	Calculation and Type of Property Transferred	17
	Other Assumptions	21
	Further notes and Limitations to this Study	26
3.	Results and related commentary	29
	Background	29
	Property Values	32
	Results Trends	35
	Base Appraisals	36
	Further review of Affordable Housing Proportions	38
	Wider Consideration of Affordable Housing Threshold and	
	Potential Sliding Scale	41
	Potential Approach to Seeking Affordable Housing Contributions	45
	Impact of Increased Developer's Profit	54
	Impact of Social Housing Grant and Tenure Mix	55
	Reduction in CO ₂ /Renewable Energy and Code for Sustainable Homes	61
	Indicative value comparisons	62
	Impact of Increased Planning Infrastructure (or other) Costs	64
	Potential Cumulative Impact of Potential Additional Cost Areas on	
	Development Viability	66
4.	Conclusions	67
5.	Key recommendations	81
6.	Wider Discussion	84

Figures

Figure 1: Summary of Value Points Adopted for Each Property Type (based on Assumed floor areas)	7
Figure 2: Simplified Example of Residual Land Value (RLV) Calculation	12
Figure 3: Summary of Indicative Sums Payable by RSL to Developer for Completed Affordable Units	19
Figure 4: Example showing impact on RLV of increasing affordable housing proportion – Value Point 3	39
Figure 5: Residual Land Value (£ per Ha) – 10 Unit flatted Scheme	40
Figure 6: Example Results 5 Unit Housing Scheme – Value Point 3 Only	43
Figure 7: Example Results 10 Unit Housing Scheme – Value Point 3 Only	44
Figure 8: Indicative Financial Contributions in lieu of Affordable Housing Figures used as a Basis for Appraisals	50
Figure 9: Comparison of Appraisal Results at 15% and 20% Developer's Profit - Value Point 3 only	54
Figure 10: Comparison of Appraisal Results - With and without Grant - Value Point 3 only	55
Figure 11: Comparison of Appraisal Results – With and without grant – with Variations to Tenure Mix	58
Figure 12: Comparison of Appraisal Results – With and without grant - Switching tenure mix	60
Figure 13: Comparison of Appraisal Results – additional allowance for CO ₂ reduction through on site renewable energy generation - Value Point 4 only	61
Figure 14: Comparison of Appraisal Results from varying Infrastructure Cost/ Planning obligations/other costs - Value Point 4 only	65

Appendices

- **Appendix I** sets out the Development Scenarios (scheme types and key assumptions)
- **Appendices II, IIa and IIb** show the results from appraisals carried out assuming infrastructure costs of £5,000, £10,000 and £20,000 per unit respectively.
- **Appendix IIc** shows the results of the sample appraisals carried out assuming changes to tenure mix (60% affordable rented and 40% intermediate).
- **Appendix IId** shows the results of the sample appraisals carried out assuming changes to tenure mix (50% affordable rented and 50% shared ownership).
- **Appendix IIe** shows the results of the sample appraisals carried out assuming increased developer profit.
- **Appendix IIf** shows the results of the appraisals that assume an element of grant (70% affordable rented and 30% intermediate).
- **Appendix IIg** shows the results of the sample appraisals carried out testing the requirement for 20% reduction in CO₂ through on site renewable energy generation.
- **Appendix IIh** shows the results of the sample appraisals carried out testing the requirement for Levels 4 and 6 of the Code for Sustainable Homes.
- **Appendix Ili** sets out an approach, a summary of the RLV maths behind and the appraisal results relating to the potential collection of financial contributions from sites in the size range 1 to 9 dwellings – should this type of approach be included within the Council's policy scope.
- **Appendix IIj** sets out the appraisal results relating to the additional sample modelling carried out with affordable housing content skewed towards intermediate tenure (30% affordable rent/70% intermediate, and 40% affordable rent/60% intermediate).
- **Appendix IIk** provides results from appraisal variations at Value Point 4, looking at the potential cumulative impact of increasing cost obligations.
- **Appendix III** contains a summary of our property values and market research.
- **Appendix IV** provides a glossary of terms

EXECUTIVE SUMMARY

This summary first seeks to outline very briefly the main study findings. It then goes on to introduce and explain the study, along with the outcomes, in a little more detail.

For detailed information on the study methodology, results and conclusions it will be necessary to refer to the full text and appendices which follow this summary.

Quick overview

- 1 The Study found a mixed tone of viability results; with local value levels typically strong and showing good viability outcomes assuming a more normal level of housing market and development activity to support the supply of housing, but with current poor market conditions exacerbating issues that flow from lower end value levels which could be seen more often if recent weak market conditions continue or worsen. Affordable housing requirements are not the single cause of the mixed results – the market is arguably a bigger factor at the current time. The range of other planning obligations and costs assumptions (and the potential growth of those areas) also needs to be considered, alongside the lower values especially, but also as part of the general context for policy setting judgements. This is not simply a case of numbers of affordable homes – it is also about their type, mix, quality and affordability to those on relevant local income levels.
- 2 The lack of activity in the market is currently causing a virtual stalling of new housing supply. However, underlying value levels across large parts of Enfield Borough are still generally high – similar to those we have seen elsewhere in M25 corridor/London fringe areas, including in Surrey and Kent where we have completed and are working on similar studies. Land prices are primarily driven by these property value levels, and this does also mean that land price expectations locally tend to be high.
- 3 From the study findings Adams Integra is able to present recommendations on the positioning of policies. Alternatives around those are also discussed.
- 4 **We consider there to be scope for the Council to set a Borough-wide target of 40% for sites that are already within the policy scope (of 10 or more dwellings).** For such a Borough-wide approach, we would not recommend a target proportion in excess of 40%. Bearing in mind the type of policies adopted and being pursued in other areas with similar value levels to underpin those, and the likely direction of other obligations and costs, we consider this would be an appropriate position for a clear, simple blanket policy approach. We consider that this would strike an appropriate balance which acknowledges the significant level of need but which also has sufficient regard of viability. The incidence of lower values, mainly within the south and

east of the Borough, together with current and probable near future market conditions, point further to the likelihood that a higher blanket target could be over ambitious. This is especially the case in the current market, but also in the event of market conditions improving, given the likely direction of other costs and obligations and the need to secure quality housing of all types.

- 5 Other options could be around varying the target approach for higher and lower value areas of the Borough – potentially either side of 40%. Whilst these alternative policy possibilities are raised in the report Conclusions and Recommendations sections, they are not considered likely to be as appropriate as a single target of 40%. Overall, this is because such positions would assume that the variety of values (and thus viability outcomes) could be clearly defined by geography (for alignment to varying policies), whereas in practice a more blurred picture is likely to be seen. They would result in a more complex position - arguably creating less clarity for landowners, developers and other stakeholders as well as the Council. They would also need more resourcing and testing for suitability with other evidence on existing tenure mix and housing needs patterns across the Borough, and the like.

- 6 As part of an equitable approach to bringing more sites within the policy scope, from viability perspective **we consider the Council could lower the affordable housing threshold**. If smaller sites - of fewer than 10 dwellings – were to be brought within the policy scope, we consider that there would be merit in looking at a sliding scale type approach, i.e. introducing lower % targets for such sites at the initial stage of policy development. Any approach relevant to these smaller sites could be based initially at least around the collection of financial contributions. This is because there could be a range of practical issues in relation to introducing on-site affordable housing within the smallest schemes – and certainly, in our view, on sites of fewer than 5 dwellings. There are various options around the potential to include sites of fewer than 10 dwellings within policy scope, as the report discusses. After considering those, **our recommendation is for the Council to consider an equivalent proportion of 20% affordable housing applicable to schemes of 1 to 9 dwellings, sought by way of financial contribution rather than on-site provision**.

- 7 The potential policy headline position (40% target in respect of sites of 10 or more dwellings) is suggested not in isolation of other scheme costs and planning obligations, but has been arrived at after consideration of a range of other matters as set out in the study detail – the key ones being:
 - a. Planning infrastructure obligations.
 - b. Code for Sustainable Homes Level 3 attainment – all dwellings (with future direction of Code requirements also appraised).

- c. Renewable energy requirements (cost allowances added to above Code assumptions, bearing in mind the overlaps that exist between the two).
- 8 We feel that some flexibility will be needed on the application of affordable housing targets particularly in the short-term (noting the market difficulties), and especially if the collective costs burden on schemes is to rise significantly. The cumulative effect of increasing cost areas will need to be viewed alongside affordable housing needs and aspirations. Some consideration of priorities may be necessary.
- 9 Where viability issues arise and are justified, a flexible approach to policy application may be needed. This could include discussing the areas of affordable housing dwelling mix, proportion and tenure mix, as well as numbers rounding and likely grant availability. The affect of these factors will need to be considered together, to arrive at solutions based on the combination of what works best for delivery in the particular circumstances. In exceptional circumstances (on sites of 10 or more dwellings i.e. over the current threshold) where on-site affordable housing would not support the delivery of sustainable communities as well as an off-site route, the use of financial contributions in-lieu (calculated to exact proportions) could be considered amongst the options. As part of the overall negotiated approach, the Council could consider part financial contributions where the needs, funding and viability factors pointed to such a route providing the best solution in the circumstances.
- 10 The 40% headline target in our view represents a suitably challenging position particularly when viewed in current market circumstances, and just as importantly, given the longer-term strategy necessary to seek to make more progress towards meeting affordable housing needs in the context of the Local Development Framework (LDF).
- 11 We are conscious that a 40% headline represents a reduced target position from the existing strategic one (50%) that flows from the existing London Plan. However, this study set out to test and assess local viability. This was with a view to ensuring that any affordable housing policies/targets set do not unduly affect development activity which overall housing supply, and this planning led affordable housing supply, relies on. In our view, the options also need to be viewed in the context of developing policies in the wider regions.
- 12 The overall scale of modelling needs to be controlled within the bounds of the reasonable economic scope of this type of project. It is simply not practical or economic to appraise and consider every conceivable policy option (combination of threshold and proportion). The appraisal selections, including the proportions of affordable housing, were carefully considered and interpolation between the results is possible. Looking at these results, it is

considered that a headline target proportion of less than 40% is not likely to go far enough in terms of the local affordable housing need levels - it would move away from the balance that needs to be struck with the affordable housing needs factors. Looking at that balance, we consider that a blanket target of 50% for the Borough would be too ambitious and would lean too far towards the needs rather than sufficiently acknowledging the opposing tension of viability.

- 13 In all cases, policy positions should be framed as clearly worded targets, to provide clarity for stakeholders and a basis for a continued practical, negotiated approach which has regard to viability matters. It should be noted that current market conditions, in particular, will mean an increased emphasis on this type of approach. There will need to be a particular focus on a flexible approach to the application of policy to smaller sites up to and around the current threshold, bearing in mind that other factors alongside the headline target proportion (such as dwelling types and mix, tenure, numbers rounding – and how such aspects come together) can be equally if not more influential on viability depending on the circumstances.
- 14 In arriving at its final policy selections, the Council should also have regard to its wider information and evidence base – for example on affordable housing needs and type of site supply.
- 15 Finally policies, accompanying text and any Supplementary Planning Document (SPD) should acknowledge the relevance of viability and the adaptable approach that will need to be applied to policy application.
- 16 Monitoring and contingency planning will need to form part of the Council's approach.

<i>A more detailed summary</i>

Background and Introduction

- 17 In the process of developing its planning-led affordable housing policies Enfield Council commissioned Adams Integra to study the affect of changes to affordable housing policy on residential development viability, alongside other planning obligations. This evidence is necessary to ensure that policy positions are explored and tested, so that they will not deter development through unduly reducing the supply of land brought forward for residential development more widely. Policies must balance increasing the delivery of affordable housing, supporting wider planning obligations and maintaining sufficient incentive (reasonable land value levels) for landowners to release land – allowing developers to promote and bring forward schemes.

- 18 The Government's key statement on planning for housing, Planning Policy Statement 3 (PPS3) requires local authorities to enable the bringing forward of a suitable, balanced housing mix including affordable housing. It confirms the well established principle of seeking integrated affordable housing within private market housing developments. It encourages local authorities to make best use of this approach bearing in mind their local markets and circumstances. As a part of this, PPS3 also requires local authorities to consider development viability when setting policy targets for affordable housing.
- 19 This commission was, therefore, made against the backdrop of PPS3, in the context of building the evidence base for and considering the affordable housing policies for the Core Strategy and other LDF documents.
- 20 The study is to be considered as part of and alongside the Council's developing wider evidence base, including on the local housing market and housing needs, and information on the range of site types which are likely to come forward.
- 21 In outline, the Council's existing approach relates to seeking affordable housing on sites of 10 or more dwellings related to a target of 50%. This position is led by the existing London Plan.
- 22 This study is required to review and recommend suitable policy positions from a viability point of view, taking account of other planning obligations.
- 23 Viability in this sense means whether a development scheme works financially. Maintaining the viability of residential development schemes is crucial to ensuring release of sites and continued activity by developers; and thus a continued supply of housing of all types.
- 24 The study addresses only affordable housing which is required to be provided within market housing schemes under the existing established approach of setting site size thresholds (point(s) at which the affordable housing policy is triggered) and proportions of affordable housing to be sought at those points. There are wider sources of supply of affordable housing (for example Registered Social Landlord (RSL – i.e. generally Housing Association) led schemes, Council/other publicly owned land and, in future, potentially developments led by the Borough). Those should be kept in mind and promoted as complimentary parts of the overall drive for affordable housing within a mixed housing supply.
- 25 The study tests a range of development scenarios that cover the thresholds and proportions of affordable housing that are considered to be broadly viable and therefore suitable as targets, taking into account property type, tenure

mix, market value levels, grant funding, wider planning obligations and associated characteristics of residential development.

- 26 The study is based on carrying out a large number of developer type appraisals. These use well established “residual land valuation” techniques to approximate the sum of money which will be left for land purchase once all the development costs, including profit requirements, are met (hence “land residual”). The study methodology is settled and tested through Examination in Public, having been used in a wide range of local authority locations for this purpose (e.g. including South Hams District Council Affordable Housing Development Plan Document which we understand has been held up as a good practice example, for the Stoke on Trent/Newcastle Under Lyme Core Strategy and most recently at Mole Valley).
- 27 We vary the affordable housing assumptions across the range of appraisals and the outcomes inform our judgments on the likely workability of various policy positions from a viability viewpoint. Having fixed development costs and profit requirements, we can see the impact on development viability caused by variations to the amount and type of affordable housing. Two of the key ingredients to ensuring viable development are sufficient land value created by a development (relative to existing or alternative use values; or perhaps to an owner’s particular circumstances) and adequate developer’s profit in terms of risk reward.
- 28 Affordable housing impacts development viability because it provides a significantly reduced level of revenue to the developer compared with market level sales values.

Property Market and Overall Viability Findings

- 29 Before commencing modelling Adams Integra researched the local residential property market to inform the range of appraisal assumptions which were adopted, and to help set the context for considering the outcomes. This research is included within our Property Value Report, which is to be found at Appendix III to the full study document.
- 30 We have seen wide ranging property prices locally on reviewing both the overall (resale property dominated) market and available new build properties. This is not unusual as a general feature – in many locations we study, we see wide variation. However, the Borough of Enfield does contain values towards the top of the range seen elsewhere, as well as values lower than those seen in many London and South East locations.
- 31 So, in terms of values and the level of viability those support, there is the potential to select a single appropriately pitched policy target to be applied

Borough-wide, or to develop a more complex, area specific set of targets based on how values vary and the likely viability of schemes.

- 32 However, while there are very different characteristics within the Borough (comparing say the south and east with the north and west), in practice those do blur and overlap with each other. So the development of area based policies and targets would to some extent rely on geographical definitions that created firmer boundaries than exist in reality. The Council would also need to weigh up the potential benefits alongside any extra resourcing requirements in terms of preparing and updating guidance, explanations and negotiations.
- 33 Given these disadvantages, this option is not considered likely to be as appropriate as a single target. Furthermore, it may well be that any distinction between areas would be best approached by looking at on site specifics such as existing tenure mix in the locality, housing needs, funding and viability – and how those aspects come together. As part of the Council’s Place Shaping Agenda and Strategies, variation in affordable housing tenure mix according to local specifics in order to create mixed, balanced communities, could play an important role in these areas.
- 34 At the time of the study, the local market broadly reflects the type of conditions which are being experienced throughout the UK and beyond. The market is severely lacking in confidence, funds for property finance are much less readily available than in relatively recent times (as per the well reported “credit crunch”). Property sales volumes are very markedly down. Over the autumn and Winter 2008/9 period this lack of activity was seen to flow through more significantly to sales values. Those have been falling month on month over that period and into early spring 2009, more sharply than previously.
- 35 It is simply not possible to predict the future direction of the market. However, since around March 2009, we have started to pick up on a greater variety of messages about the market, with more positive sentiment being reported by The Royal Institution of Chartered Surveyors (RICS), Nationwide Building Society and others. The latest Land Registry House Price Index information reports slowing price declines as its overview, with some regions seeing small house price increases again. Overall, we regard these as mixed messages still, but certainly with some small signs of market improvement coming from slightly increased confidence levels.
- 36 Given the long-term nature of the LDF, however, any study such as this also has to envisage a more stable, active market stimulated by functioning financial markets and lending climates, which will again begin to feed a more normal level of market and therefore development activity.

- 37 The results of our study show that viability of development in the Borough is varied. This is because we have considered a wide range of values, including (at the low end) values currently that are quite low in the London and South East context where achieving viable outcomes may be more difficult. Alongside this, the values at the middle to upper parts of the range we have studied suggest scope for sites to deliver significant proportions of affordable housing. The Council will need to monitor the local market as, if there is further decline, values will be seen at lower levels more frequently.
- 38 In our view, the current economic downturn should not be the only factor that determines policy positions. Housing need is worsening and, although the picture is developing, the economic conditions are most likely to be adding to this trend. A more strategic view needs to be taken, but applied practically – especially in the short-term.
- 39 Whilst we have to consider the particular market conditions now in coming to our recommendations, those are very likely to change in some way over a short period of time in relation to the development plan periods being considered. We do not consider that it is appropriate or realistic to set strategic policies and targets based on a snapshot of current market features alone. Such an approach could mean regularly varying policy. That could lead to potential inequities and requirements that are uncertain.
- 40 This Study recommends suitably ambitious and challenging targets, particularly in the short-term as policy expectations change and we have very difficult market conditions. It is, therefore, vital that the Council continues to apply policy with flexibility where needed. As a part of this, the current financial conditions mean that the Council may need to prioritise planning obligations or other requirements within overall objectives and targets.

Summary of key recommendation points

- 41 **This Study recommends a headline affordable housing target - with 40% in our view representing a suitably challenging and appropriate target if applied Borough-wide**, applicable on sites of 10 or more dwellings in accordance with the existing London Plan led approach to thresholds.
- 42 Around this, there are other options which were considered. These are not set out in this summary, but are considered in the Chapter 5, Key Recommendations, where the pros and cons relating to these other options are outlined.
- 43 In response to the recommendations, the Council should consider which option(s) has the potential to provide maximum certainty while seeking to optimise affordable housing provision in the range of circumstances discussed; and which also fit best with the anticipated land supply pattern.

44 In any event, a blanket target of 50% is in our view likely to be over ambitious, in the set of circumstances which include:

- Low value areas and instances, which could potentially become more frequent if market conditions worsen again.
- 40% being more realistic and appropriately challenging taking the longer-term strategic view, with uncertain market conditions making this particularly so in the short-term.
- The need to create the right quality, type and mix of affordable housing, especially given the uncertainty over grant availability levels; not just numbers. A tenure mix in favour of affordable rented homes over intermediate affordable tenure is proposed. A 70/30 mix has been appraised and the Council will generally seek to provide the maximum possible proportion of affordable rented in the given circumstances, but this is likely to be considered based on site specifics.
- The need to stimulate and maintain all housing supply.
- The likelihood that planning obligations, building specifications and other costs will increase.

45 This (as always) is on the basis that it is simply not possible to provide definitive cut-offs or guarantees of deliverability at any particular point.

46 This study relates to a strategic approach, as fits longer-term policy development and strategies. It does not replace site by site consideration (particularly in the current economic climate) of working with developers and other partners to optimise affordable housing delivery alongside wider planning criteria as far as possible from individual opportunities. It is inevitable that a second layer of more detailed consideration will be needed, related to site specifics. That applies universally – not just in Enfield.

47 The study included wider work on the consideration of potential lowered thresholds. This was carried out due to the proven levels of need and the local site supply pattern (where small sites are common). **We consider that an equitable approach would include the principle of seeking contributions from a wider range of sites than existing policy achieves. The recommended approach is to seek financial contributions (rather than on-site affordable homes) based on an equivalent proportion of 20% affordable housing from sites of 1 to 9 dwellings, again based on targets and negotiation rather than a rigid approach.**

- 48 The further development of policy positions in all cases **should be subject to continued evidence of needs and site supply patterns**. These viability findings should be **considered alongside the Council's wider evidence base as well as its local delivery experiences and knowledge**.
- 49 **Unambiguous policy wording should be developed which sets clear targets as a basis for the practical, negotiated approach, acknowledging the relevance of site viability**. The report discusses policy wording, which in Adams Integra's experience is critical in providing clarity for landowners, developers and others, as well as being a key part of sound policy for the purposes of the Public Examination.
- 50 There is the potential to build on the approach through the development of a Supplementary Planning Document (SPD) and/or Development Plan Document (DPD) to set out the detail. This would explain the working practices and help to guide expectations.
- 51 Acknowledging current market conditions in particular, the Council will need to approach **site by site delivery in an adaptable way, reacting to viability issues which may arise**. This key point about the flexible, practical application of policy always applies, as the study emphasises, but particularly in the type of market conditions we have seen both locally and nationally during the study period.
- 52 This approach should extend to **considering the collective burden placed on development schemes in terms of planning obligations and potentially other costs**. It might be necessary to consider **some degree of prioritisation of planning obligations**.
- 53 The Council will need to **monitor** affordable housing delivery progress and experiences alongside its site supply monitoring work. **Review** periods and potential delivery **contingency measures** will need to be considered, linked to those monitoring processes.

1 INTRODUCTION

1.1 Background

- 1.1.1 London Borough of Enfield is in the process of preparing its Core Strategy Development Plan Document (DPD) as part of the Local Development Framework (LDF).
- 1.1.2 The Council consulted on its preferred options for the LDF Core Strategy in February 2008 and is now preparing for submission to the Secretary of State. Within the Core Strategy the Council will set out its core policy for the provision of affordable housing, stating an overall target for affordable housing provision, the threshold in terms of housing unit numbers above which affordable housing will be required, and the proportion of social to intermediate housing tenure required in such schemes.
- 1.1.3 As a north London Borough, Enfield is an area with generally high house prices, particularly in relation to median incomes locally – and, therefore, affordability of housing is a major issue. The Local Housing Market Assessment suggests an annual shortfall of approximately 2,100 affordable homes
- 1.1.4 Our understanding is that Housing Strategy for the Greater London area is developing, with more emphasis on local characteristics, needs and solutions likely to emerge. The Greater London Authority's (GLA) developing approach will clearly be a consideration for the Council, but in the meantime it is placing emphasis on local relevance as will be borne out through the Core Strategy. The Council currently applies the London Plan affordable housing threshold and target for the purposes of negotiations – i.e. a target of 50% on sites of 10 or more dwellings.
- 1.1.5 The purpose of this study is to contribute to a robust evidence base to support the London Borough of Enfield Core Strategy and other Local Development Documents. This study assesses the (financial) capacity of residential development schemes in the Borough to deliver affordable housing without unduly affecting viability, and will help inform affordable housing policies. Specifically the study is carried out in accordance with Planning Policy Statement 3 (PPS3) - Housing¹ and its accompanying document "Delivering Affordable Housing"²; and; the London Plan policies on affordable housing (in terms of comparison of options with existing positions).
- 1.1.6 Paragraphs 27-30, in particular, of PPS3 deal with the Government's approach to, and key guidance to local authorities on, seeking affordable housing through Local Development Documents. Local authorities are

¹ Communities and Local Government - Planning Policy Statement 3: Housing (November 2006)

² Communities and Local Government – Delivering Affordable Housing (November 2006)

required to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed.

- 1.1.7 The London Plan's current policy is to normally require affordable housing provision on a site which has a capacity to provide 10 or more homes, applying the density guidance set out in the London Plan. Boroughs are encouraged to seek a lower threshold.
- 1.1.8 It is important however that the Council's policies do not deter development through reducing the supply of land brought forward for residential development more widely. Any policy must balance increasing the delivery of affordable housing and planning obligations with maintaining sufficient incentive (reasonable land value levels) for landowners to release land, and for developers to make appropriate returns (profits, in return for bearing development risks) – allowing developers to promote and bring forward schemes
- 1.1.9 This study explores the viability impacts of a range of policy options relating to seeking various levels of affordable housing obligations from new development, taking into account property type, market value levels, tenure mix, wider planning obligations and associated characteristics of residential development.
- 1.1.10 Specifically, it investigates and assesses the impact on land values, and therefore on development viability, of potentially lowering the affordable housing thresholds and increasing the proportion of affordable housing sought on private (market sale) residential sites across the Borough. This is considered alongside wider planning obligations and costs. The range of testing carried out for this study is shown at Appendix I – Development Scenarios.
- 1.1.11 In addition to looking at on-site affordable housing (i.e. provision integrated within market housing sites), this study included wider work to investigate the viability of collecting financial contributions in lieu of on-site affordable housing provision on smaller sites (those below any potential on-site threshold of 10 dwellings). If implemented by the Council this would be hinged around a strategy to use contributions towards funding the provision of affordable housing on other sites, or perhaps for wider investment in affordable housing locally. A strategy would need to be developed.
- 1.1.12 The study tests the impact of a range of affordable housing proportions, in order to generate a feel for viability based on current requirements, and how that varies with potential changes to those. It provides advice on the thresholds and proportions of affordable housing that are considered to be broadly viable and, therefore, suitable as targets.

- 1.1.13 We use the impact of varying affordable housing requirements on Residual Land Value (RLV) as our measure in putting forward our judgments and guidelines. This process involves comparing the likely impact of (changes to RLVs as a result of) a range of potential policy options. So the study examines the variations in the approximate RLVs our appraisals indicated for residential development schemes around Enfield Borough on this basis - as we envisage policy changing - and the implications of these RLV variations are central to the assessment of likely scheme viability.
- 1.1.14 Where possible, the study provides parameters and options for the Council to consider for affordable housing policy and delivery, from a viability perspective. The Council will need to consider these findings alongside wider policy considerations and overall priorities.
- 1.1.15 It must be recognised that this planning-based tool for securing affordable housing relies on market-led processes. Throughout the study, an emphasis is placed on the need for a practical approach to be taken by Council, bearing in mind development viability – with an emphasis on that particularly in the current and likely short-term market conditions. In carrying out this assessment from the necessary strategic viewpoint, it is assumed that there will be a return to more stable financial and property market conditions. By this we mean where improved access to mortgage and development finance, on appropriate terms, will promote demand and re-stimulate more normal levels of development activity than we have seen while working in Enfield at the present time. This supply of affordable housing relies on market-led processes. The same applies to all such studies which look at affordable housing supplied through market-led schemes.
- 1.1.16 The report has the following structure: the methodology and assumptions used are described in Chapter 2, the results are discussed in Chapter 3, the conclusions and recommendations set out in Chapter 4 and Chapter 5. Chapter 6 sets out wider points in relation to affordable housing delivery. The tables, graphs and associated information referred to throughout this study are appended to the rear of the document.

2 METHODOLOGY AND ASSUMPTIONS

2.1 Background

- 2.1.1 In considering the factors that need to be taken into account in bringing sites forward that include affordable housing, it is necessary to determine what effect increased affordable housing proportions, reduced thresholds, variations to tenure mix and other development costs may have on the value of a potential development site.
- 2.1.2 This study investigates residential development scenarios across a range of site sizes. Site sizes of 5, 7, 10, 15, 25, 50, and 100 dwellings have been considered for on-site affordable housing scenarios (see Appendix I – Development Scenarios, for the range of appraisals carried out). Site sizes of 1, 2, 3, 4, 5 and 9 dwellings have been considered at varying equivalent proportions of affordable housing – for a potential approach to seeking financial contributions towards meeting affordable housing needs from those sites which fall beneath the current policy threshold (Appendix Iii sets out that range of scenarios). So the financial impact and, therefore, viability of collecting carefully judged financial contributions in lieu of on-site provision has also been tested on schemes of fewer than 10 dwellings.
- 2.1.3 The schemes modelled are notional sites but informed by the Greater London Authority (GLA) London Development Database (LDD) and chosen to reflect scenarios that best match the various policy options to be tested. It was agreed that these reasonably reflect the range of scheme types coming forward now, and as are likely to in the future, for the purposes of this strategic overview study.
- 2.1.4 Although the scheme types are informed by real examples, those are not quoted – the sites have been made anonymous and Adams Integra’s assumptions applied to them to ensure comparison of results on a ‘like for like’ basis. They have been chosen to enable development viability to be tested at a range of points with reference to scale of development (as will relate to affordable housing policy thresholds) and dwelling mix, as part of this strategic overview work. The smallest schemes enable us to test viability at potential lowered thresholds. The larger schemes enable us to test the impact of varied affordable housing proportions on sites that already trigger the requirement for affordable housing (i.e. sites of 10 or more dwellings).
- 2.1.5 It is acknowledged that an alternative approach to testing development viability on a strategic basis could be to investigate the development viability of actual sites. We have chosen the notional approach for a number of reasons including:

- There is no published good practice guidance on a methodology to follow for carrying out development viability studies.
- Our established approach to this viability work, including the use of notional sites, has been tested successfully through the former Local Plan Inquiry and current Development Plan Examination processes.
- There can be difficulties in obtaining sensitive information from developers and landowners in relation to actual sites. This leads to appraisals of actual sites becoming heavily assumption based in any event.
- The use of actual sites affects our ability to compare outcomes ‘like with like’ to assess the impact of varying affordable housing requirements – the key viability factor being studied. Affordable housing impacts can become blurred with, or by, other issues which vary from one site to another.
- Sensitivities with reporting, information and potential effect on future negotiations.
- Site sizes may not align to studying potential threshold points.
- An actual site approach can be very resource hungry and thus costly for this stage of the process.
- Ultimately, unless extensively applied (noting the former point) an actual sites approach does not fit well with taking a strategic overview of the impact of potential affordable housing policies, when in fact sites vary so much.

2.1.6 The outcomes of the appraisals based on the range of scenarios tested provides us with a scale of results (discussed in Chapter 3) from which conclusions can be drawn as to the key factors and trends affecting viability across the Borough of Enfield. This leads to discussion on how these might be considered in reviewing policy options, and then to policy recommendations (Chapters 4 and 5).

2.2 Property Values

2.2.1 Local property market research was undertaken examining the range of property values found in Enfield. Given the widely varying values found throughout the Borough, often even within the same localities, a range of “Value Points” was considered rather than the specifics of particular areas or centres (within which values can vary greatly in any event). By taking a Value Points approach we mean that the value levels considered at each Value

Point could, in fact, be found anywhere within the Borough. This approach provides a scale of outcomes which relate to values as those might vary by scheme specifics and location, or as influenced by a range of market conditions. The range also includes value points not currently seen locally. This is intentional, as it allows this study to consider sensitivities to the wider potential for changing market conditions to further influence values over time. Reviewing the sensitivity of viability outcomes to values - as those vary - is a key aspect of this study.

- 2.2.2 To this end research into property prices across Enfield, on a detailed localised basis, was undertaken to determine realistic development values (property sales) for each of our appraisals. A summary map showing the geography of the Borough – with main locations and corresponding postcode sector boundaries – is shown within Appendix III, the property values report. Postcode sectors were used as a means of gathering and describing property prices information – again, see Appendix III.
- 2.2.3 We reviewed the ‘asking’ and ‘subject to contract’ sale prices of all available new build 1 and 2-bed flats and 2, 3 and 4-bed houses across the area to enable us to provide reasonable average values for Enfield by dwelling type. The data was collected through a mixture of “on the ground” and desktop/internet research in March to April 2009. Adams Integra acknowledges that there is usually a gap between marketing and sale price. In recent difficult market circumstances this gap has typically grown, although it is not possible to make a statement about the usual gap between the two, as a particular owners’ aspiration and the saleability of particular properties clearly varies significantly in any event. The research has been reviewed in the context of this, and the range of value levels assumptions set accordingly. This process informs our judgments on the range of values that we apply as we conduct a large number of appraisals. The review of various sources of information on values ranges is preferred to any single desktop resource, which would be limited to historic data.
- 2.2.4 The results of the property value research (see Appendix III for the detail), and in particular the new build values research, led to the formation of 7 Value Points. Points 2 to 6 cover the range within which new build housing values in most areas of Enfield Borough fall. Two additional value points (1 and 7) were also used in the modelling for this study (above and below the typical range seen) to enable us to consider the sensitivity of results to market conditions and price levels outside the typical range seen at the time of the study. Most areas have a variety of property values (even within the same postcode) therefore the results of this research can be used independently of location where approximate sales values can be estimated.

Figure 1: Summary of Value Points Adopted for Each Property Type (based on assumed floor areas):

Value Point / Property Type	1-Bed Flat (50m²)	2-Bed Flat (67m²)	2-Bed House (75m²)	3-Bed House (85m²)	4-Bed House (100m²)	Guide £ per m²
Value Point 1	£100,000	£134,000	£150,000	£170,000	£200,000	£2,000
Value Point 2	£137,500	£184,250	£206,250	£233,750	£275,000	£2,750
Value Point 3	£175,000	£234,500	£262,500	£297,500	£350,000	£3,500
Value Point 4	£212,500	£284,750	£318,750	£361,250	£425,000	£4,250
Value Point 5	£250,000	£335,000	£375,000	£425,000	£500,000	£5,000
Value Point 6	£287,500	£385,250	£431,250	£488,750	£575,000	£5,750
Value Point 7	£325,000	£435,500	£487,500	£552,500	£650,000	£6,500

- 2.2.5 This is only intended to indicate general tones of values/value patterns – the range within which values are typically seen. It helps us understand how varying policy (and the resultant range of viability outcomes) might affect housing and affordable housing delivery on sites which produce differing values across the Borough (due to site specifics/location and/or with time as market conditions vary). In practice, very specific local factors influence value.
- 2.2.6 As part of the research, we spoke to estate agents in March and April 2009 at various locations across the Borough. The judgments on the range of values considered were verified and supplemented by using Land Registry average sales figures and resale data, and, where possible, through visits to, and enquiries made of, house builders' sales offices. In a more general sense, we were also able to compare our information and judgments with our ongoing wider work experience and through discussions with others such as land agents.
- 2.2.7 The comprehensive review of asking and subject to contract sale prices of all re-sale properties was undertaken using internet property search engines. This process helps us to understand and consider, very broadly, how values vary with location across the Borough in the context of the value points. We are able to compare the information with that found on new build schemes. The study results consider how values generally tend to vary by area within the Borough, but it must be reiterated that any attempt to define values patterns can only be highly indicative as values can change over very short distances (even down to street level) dependent on a site's location and its surroundings, local amenities, etc.
- 2.2.8 This study does not attempt to provide comprehensive property valuation data, but rather identifies the typical range of new build values for various dwelling types based on the assumed sizes set out (see Figure 1 above). The values research is carried out to enable us to make an assessment of the

range of values of new build properties typically seen – and likely to be seen. Inevitably judgments have to be made. It is not a statistical exercise. The values used in the appraisals are averaged across properties of varying size and type, and it must be remembered that any settlement could contain a range of property values covering a single property type. We believe, however, that the information used is reasonably representative. The key point is to consider the likely range of typical new build values which will underpin this planning-led delivery of affordable homes, rather than consider overall resale market Land Registry type data alone, which can often dilute the new build market picture or not reflect it clearly.

- 2.2.9 While any specific value level from within the range applied here cannot reflect definitive future property value increases or decreases owing the level of unknowns looking ahead, when viewed overall this approach enables us to consider how value trends might impact viability. Elsewhere within this report we acknowledge the changing wider market conditions which are being reported as the study progresses. Indeed the Government's Valuation Office Agency (VOA) has commented that it cannot carry out its normal six monthly residential land forecast and stated that:

“Due to the effects of the global financial crisis it has been decided not to include a residential land forecast in this edition of the report (July 2008). The unprecedented volatility in national and international world financial markets will not have been reflected in the previous data series used to compile the forecasts. Until these exceptional events are more fully reflected in these data series, any forecast using this method would be subject to unacceptable levels of uncertainty”

Source: VOA property market report July 2008

- 2.2.10 Clearly, future values cannot be predicted, but this methodology does allow for potential future review of results in response to more established market trends or revised price levels - as well as sale price variations through site characteristics or location. It enables us to look more widely at the sensitivity of results to value levels.
- 2.2.11 Prior to and during the study period, there has been continued reporting at all levels of a weak and uncertain property market. As at June 2009 these conditions could not be described as over by any means. However, after continued fairly bleak market reporting from a range of sources into January and February, from around March 2009 there has been some more positive reporting and market sentiment to balance this picture. This has reported reduced rates of price decline and even news of very recent slight increases in average property values in some areas. This is also discussed later in the report and our market review information is included at Appendix III – Property Prices Report. There are still wide-ranging views on how much further the downturn has to go or whether/to what extent the market is stabilising. During the closing stages of the study, some prominent

commentators are of the view that the outlook for 2010 remains very uncertain and that we could see a further weakening of property market conditions. This view relates to the recent support to property prices from lack of supply, rather than from any significant level of increased market confidence or from improved availability of finance. Examples of characteristic features of the downturn seen in the period prior to our work with the Council and to be noted in the context of this study include:

- A marked slow-down in the rate of construction of new homes – a virtual stalling of new build progress.
- Increased reports of developers pulling out of schemes, and delaying starts or slowing scheme progress/“mothballing” sites.
- Incentives being offered fairly typically on new build sites - such as stamp duty/5% deposit paid/deferred purchase/shared equity/mortgage payments assistance, and perhaps others – dependent on a prospective purchaser’s position together with the developer’s marketing experience and sale potential of particular plots, etc.
- Some use of guide pricing alone, or even no advertised pricing.
- Some schemes still selling relatively well but usually with slower sales where this is so.
- Some developers considering offers from RSLs for expanded affordable housing quotas on sites, or even entire schemes for affordable.
- Extended development periods in some cases, with a knock-on effect of impacted sales progress because there is less for purchasers to see. Purchasers are far less likely to purchase off plan given uncertainty over values movements. This creates a circular effect with regard to build progress on some schemes – i.e. some developers taking a view that build progress needs to be underpinned by firmer sales interest. Others are, however, proceeding based on prospective purchasers typically now wanting “to see what they will get”.
- Examples of estate agents combining, closing or mothballing offices, or operating restricted hours. Developers’ sales operations operating reduced hours/being rationalised.
- Fewer investment buyers active.
- Mortgage lending well down and difficulties in obtaining funding more widely experienced by prospective purchasers.

- Some house builders and others involved in the development industry reducing staff numbers significantly, with some ceasing to trade. Many house builders have been reporting reduced returns and trading results.

2.2.12 Despite the small signs of the makings of a more positive market picture being noted as the study progressed, it would be premature to say that the above affects are now a thing of the past. In terms of study methodology, the current uncertainties are very difficult to reflect. In our view, it would be impractical for a local authority to move affordable housing and perhaps other viability related planning obligations targets in response to what could be relatively short-term market conditions and adjustments. As discussed, the use of a range of Value Points enables us to see how residual land values (and thus likely scheme viability) change as the market values of properties varies. This could be with time and/or by scheme/location.

2.2.13 One of the principal concerns with the market currently is the volume of sales being achieved rather than simply the value levels. Sales volume is difficult to reflect in financial viability terms. It may affect developers' views on risk levels, and it may affect development and sales periods, and thus finance periods. These will in any event be site-specific factors. To what extent the very depressed levels of market activity will ultimately affect value levels remains to be seen. However, it should also be noted (related to the point here about value levels not being the critical issue in isolation) that value levels are still high when long-term trends are reviewed. In the past, schemes have been brought forward and have therefore been viable at similar or lower value levels.

2.2.14 In our view, the key message for local authorities in this situation is the need to monitor the market, housing delivery outcomes and trends locally, and respond to those through contingency measures and possible policy review in the longer-term. It is also about adopting a practical and flexible approach to secure delivery of all housing types in the short-term. This will be picked up again in Chapters 4 and 5.

2.3 Approximate Residual Land Value (RLV)

2.3.1 In order to determine the impact of potential affordable housing policy requirements on the range of site sizes appraised across the range of Value Points, it is necessary to determine a common indicator to ensure comparisons are made on a like-for-like basis.

2.3.2 The key viability outcome and indicator for this study is the land value that can be generated where there is a predetermined and fixed level of developer profit (alongside allowing for all other assumptions and variations discussed in this report). It is not based on the notion of fixed land values with developer's profit varying as affordable housing or other requirements change. Land value

expectations (and how those need to be adjusted over time with changing markets in addition to changing planning and environmental requirements) are central to this work and to the ongoing negotiation and delivery processes. Local authorities and others involved in the process must recognise that developers need to make reasonable profits, and this work is not based on a premise that those should be eroded below reasonable levels. This area is discussed further below, including at paragraph 2.5 – Developer's Profit.

- 2.3.3 Assuming a developer reaches the conclusion in principle that a site is likely to be viable for development, an appraisal is carried out to fine tune the feasibility and discover what sum they can afford to pay for the site.
- 2.3.4 In this study we have to assume that a negotiation has occurred or is under way based on knowledge of the current development climate and planning policy requirements as they will apply to the scheme. Therefore, this study compares the viability outcomes from the variety of potential policy requirements tested (e.g. increased affordable housing proportions and lower site thresholds).
- 2.3.5 The simplest, most effective and widely understood way of checking site viability in most instances is via a developer-type Residual Land Value (RLV) appraisal (see Appendix IV – Glossary). We have developed our own spreadsheet tool for this purpose. In doing so we have made what we feel are reasonable assumptions but it must be noted that individual developers will have their own varying approaches, and a developer might also apply a different approach from one site to another.
- 2.3.6 Ultimately, land value is a product of a series of calculations that provides a residual valuation based on both the specific form of development a site can accommodate, and its development costs. While the market uses a variety of approaches to appraise sites and schemes (including comparisons between sites) in early stages of feasibility testing, a more detailed approach is necessary to understand how the value/cost relationship appears - as used in this study
- 2.3.7 A highly simplified example which groups various cost elements together and showing only the basic structure of the RLV calculation, is shown in Figure 2. This is an illustrative example only and is not to be relied upon for calculation purposes. It demonstrates, in outline only, the key relationship between development values and costs. This is a dynamic relationship and determines the amount left over (hence 'residual') for land purchase from the total sales value (the 'gross development value') of the site. It can be seen that as values increase but costs remain similar, there is more scope to sustain adequate developer's profit levels together with, crucially, land values which will be sufficient to promote the release of land for residential development.

Figure 2: Simplified Example of Residual Land Value (RLV) Calculation (for illustration purposes only)

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

2.3.8 This method reflects one of the main ways of how development viability tends to be assessed. We have been able to verify our experience and thoughts on the structure of, and components within, the model and indicative output land values through our contact with developers and their advisers.

2.3.9 The tool used for analysis in this instance uses a calculation that provides an approximate RLV, after taking into account assumed normal costs for site development. As applied to this study, it does not allow for abnormal costs. Abnormal costs can only be properly reflected with detailed site-specific knowledge. If such varying costs were to be considered within this study, it would affect our ability to accurately compare like with like, when assessing the impacts of affordable housing requirements.

2.3.10 Accounted for within this RLV calculation is the inclusion of an affordable housing element, whereby the developer receives a payment from a Registered Social Landlord (‘RSL’) (or other affordable homes provider) for a number of completed affordable homes provided within a market housing development. This level of receipt is based on a predetermined calculation,

and it is not at a level comparable with open market values. This is how the viability impact of affordable housing principally arises.

- 2.3.11 In addition, an allowance for other planning infrastructure costs is also included. Although in practice these payments will be calculated on a site-by-site basis (depending on dwelling mix), this study looks at fixed overall costs (per unit) to determine the additional impact a range of planning infrastructure costs may have on development viability in tandem with other potential cost areas (e.g. – but not exclusively - renewable energy, Code for Sustainable Homes etc). See paragraphs below (from 2.9) on Other Assumptions.
- 2.3.12 Assuming that a developer will require a minimum fixed profit margin on any given site to balance risk and obtain funding, beyond a certain point it is, therefore, the land value that will be affected by the introduction of affordable housing or other infrastructure requirements. In this sense (and although there can be positive cash flow affects similar to those from “off-plan” sales) affordable housing is viewed as a significant cost element to the developer’s appraisals, in much the same way as other planning infrastructure requirements (planning obligations).
- 2.3.13 The results of the appraisal calculations (set out in the Appendices) show the indicative residual land value (RLV) generated – in monetary terms – and the RLV as a percentage of the gross development value (GDV). Where possible, the results are then also compared against potential alternative use values for the site types. Those comparisons build on our acknowledgements that existing or alternative use values are often a key factor in determining viability outcomes. So the comparisons help to inform our judgments – they are a measure which can help in determining the viability of a site. This can only be highly indicative at this strategic overview study level, however. In practice every site will have specific characteristics and its value will be determined by its type, location, use, lifespan, marketability and development potential, and the cost of creating/realising that potential use or maintaining an existing/alternative use.
- 2.3.14 Regarding existing/alternative use values, the Commercial Property Market has been suffering and seen a greater degree of downturn, even, than the residential market as a consequence of the financial markets crisis. Although a generalised statement, demand for commercial property has fallen very dramatically with severe consequences for values. This factor needs to be borne in mind. The comparisons that are relevant are likely to change over time. The relative positions, in viability terms, of alternative proposals for sites could alter.

2.4 Gross Development Value (GDV)

2.4.1 Gross Development Value (“GDV”) is the amount the developer ultimately receives on completion or sale of the scheme, whether through open market sales alone or a combination of open market sales and the receipt from a RSL for completed affordable homes. Thus the developer’s profit in each case relates to that scheme-specific sum rather than to a base level of GDV that assumes no affordable housing. It assumes that the developer has appraised the site and secured land in the knowledge of, and reflecting, policy that will apply; i.e. the developer is aware that receipts will be at a lower level than prior to any affordable housing policy taking effect. This can be regarded as a reasonable approach given established local and national policy guidance on the provision of affordable housing.

2.5 Developer’s Profit

2.5.1 The requirement to place an increased proportion of affordable housing on a site will inevitably reduce the sales income that a developer can reasonably expect to receive. As this reduction will not be accompanied by lower construction costs, the offset must be taken up in a reduced development profit, a lower land price or a combination of the two.

2.5.2 Developer’s profit and landowner’s sale price are key considerations that must be taken into account if residential development is to be undertaken.

2.5.3 If profit levels fall below a certain point then developers will not take the risk of developing a site, nor in many cases will funding organisations lend them development finance. Equally, if the price offered by a developer to a landowner for a site is too low, the landowner may not sell and instead continue with, or pursue, an existing or higher value use. There are also intangibles, for instance some smaller sites may start out as homes, gardens or small business premises which will not be sold unless certain aspirations are met. Business and tax considerations, investment values and costs, and availability and cost of replacement facilities can all influence decisions to retain or sell sites. A mix of these factors may be relevant in some cases.

2.5.4 Continued ready access to development finance is likely to be a particular issue in the current market conditions which have flowed from the “credit crunch”.

2.5.5 At the time of considering the study assumptions, Adams Integra’s experience of working with a range of developers and of reviewing appraisals, leads us to suggest that they would need to seek a fixed profit (margin) of at least 15% (gross) of GDV. In general, only if the projections reveal this fixed profit margin (as a minimum) would a developer pursue a site.

- 2.5.6 This study, therefore, uses a developer's profit fixed at 15% of GDV, which is at the lower end of the acceptable profit range in normal circumstances. We felt it appropriate to appraise the scenarios at the margins from the developer's perspective. Higher profit levels than those we have assumed may well be appropriate, depending on the nature of the project and risk/reward scenario – and in this sense the market conditions. Different profit aspirations will also be held by different types of house building and development companies.
- 2.5.7 Until recently, the former Housing Corporation Economic Appraisal Toolkit (re-launched in summer 2009 by the Homes and Communities Agency (HCA)) developer's profit guide figure was 15% (at the point of fixing assumptions for this study). This was raised to 17.5% at that point.
- 2.5.8 Our experience shows that particularly for smaller and lower risk schemes, and those often carried out by smaller more local developers (or contractor developers), a 15% level of developer profit may well be an appropriate assumption. However, given our acknowledgement of varying profit levels, as above, we have also carried out appraisals on the basis of 20% developer profit (based on GDV). In this context, development profit can be regarded as a development cost. In reality, again there will be no substitute for site specific consideration of the details – as with other assumptions that will be reviewed where viability is discussed on sites coming forward. The assumptions used here are suitable guides and starting points, but should not be regarded as fixed figures which will always suit.

2.6 Model Scenarios, Property Types, Size and Mix

- 2.6.1 A range of scenarios were appraised to assess the viability of the potential approach to thresholds and proportions of affordable housing alongside other planning obligations.
- 2.6.2 In considering on-site provision of affordable homes, the scheme types modelled range in size from 5 to 100 units to allow the study to investigate a full range of potential policy options. As part of the wider brief, appraisals were also carried out on notional sites of 1, 2, 3, 4, 5 and 9 units but based on the collection of a financial contribution in lieu of on-site affordable housing provision. Those small sites were appraised assuming 10%, 20% and 25% affordable housing equivalent proportions – linked to a potential sliding scale type approach, with a view to a wider range of sites potentially coming within policy scope.
- 2.6.3 The notional schemes with on-site affordable housing were tested using 0% (current policy only applicable to sites below 10 units across Enfield), 25%, 40% and 50% affordable housing content. These investigate a range of policy options for the proportion of affordable housing to be sought above the

current threshold of 10 dwellings. It is simply not practical or economic to appraise and consider every conceivable policy option (combination of threshold and proportion). The volume of results can grow very rapidly without usefully adding to how the study can assist policy development.

- 2.6.4 The dwelling sizes applied in the modelling are 50sq m for 1-bed and 67 sq m for 2-bed flats. For 2, 3 and 4-bed houses we have used 75sq m, 85sq m and 100sq m respectively. These are all gross internal areas. They are thought to be reasonably representative of the type of units coming forward for smaller and average family accommodation; within the scheme types likely to be most suitable for on-site integrated affordable housing. We acknowledge that these 3 and 4-bed house sizes may be small compared with some coming forward, but our research suggests that the values for larger house types would also often exceed those we have used and would, therefore, be similar on a “£ per sq m” basis. Conversely, many new build flats for the private market may be below the unit sizes assumed – all will vary, and from scheme to scheme. It is always necessary to consider the size of new build accommodation while looking at its price – hence the range of prices expressed per square metre is the key measure used in working up the range of Value Points.
- 2.6.5 This study assumes that the affordable housing mix will broadly reflect that of the private housing and would be transferred to an RSL on a proportional basis. Clearly, in practice, the exact private and affordable housing mixes will vary from site to site, as may the consistency between them. The intention of this study assumption was to follow the principle that a mix of affordable housing dwelling types will be expected wherever that is achievable.
- 2.6.6 For details of the dwelling mix for each on site scenario modelled see Appendix I – Development Scenarios. It is acknowledged that dwelling mix will vary from site to site in practice but these mixes are representative of the development types being delivered, and in our experience this has proved a suitable way of considering viability for this strategic purpose.
- 2.6.7 In practice, there would be a tendency towards developers needing to maintain the higher value units within a scheme for private sales whilst also thinking about the relationship of the private units to the affordable units in terms of location. These are all factors which in reality (and dependent on the site location and characteristics) will affect the unit and tenure mix as part of the negotiated approach.

2.7 Indicative Scheme Density

- 2.7.1 To provide broad comparisons with published land value data, the approximate site area (land take) required for each development scenario (site type and size) has been indicated. These are the sizes and densities as

set out in the information provided in the LDD for the sites chosen. The details are set out in Appendix I.

2.7.2 Based on the unit sizes assumed in this study, this provides us with indicative densities of between 28 and 204 dwellings per hectare (dph) depending on the scheme. This part of the exercise is purely for the purposes of an additional review of results. In practice, densities will be highly variable. Site sizes are also shown in the appropriate tables of the Appendices.

2.8 Affordable Housing Transfer (to RSL) – Method of Payment Calculation and Type of Property Transferred

2.8.1 Discussions with the Borough Council suggested that for the purposes of this study the payments developers receive from RSLs (Registered Social Landlords) for the provision of completed affordable homes are currently based on a negotiated approach between those parties. These are in turn driven by scheme costs and what the RSL can afford to pay based on its business planning and financial assumptions when it considers the cashflow that will be produced by a scheme.

2.8.2 As PPS3 asks us to consider the availability of funding in looking at viability, the Council also wanted to test the impact of public subsidy (in the form of Social Housing Grant (SHG)). All appraisals were carried out without grant and a small sample was tested “with grant”. The “with grant” appraisals assumed an approximate level of £25,000 per person housed for affordable rented units and £9,000 per person for intermediate units.³ In practice, on specific sites this might vary considerably, dependent on property type. It is simply not possible to predict the amount of SHG that will actually be available. Recent grant rates have often been significantly higher than these assumptions. However, rather than assume high figures based on what seems to have been quite an opportunity led approach to funding by the Homes and Communities Agency (HCA) in very recent months, we have preferred what we consider to be more realistic, sustainable assumptions longer-term – where social housing grant is made available. The Government’s continued drive through the HCA (formerly the Housing Corporation) is for best value, and making sure that grant money achieves “additionality” rather than supporting land value or similar.

2.8.3 The likely payment that an RSL would make for an affordable rented or unit of intermediate tenure within this modelling was determined through carrying out a series of appraisals using industry standard software (in this case - “ProVal”) whilst making judgments on the range of input assumptions following liaison with a number of locally active RSLs. Effectively, the value that could be paid to a developer for completed affordable homes is usually related to the mortgage finance the RSL could raise based on the rental

³Source - Housing Corporation Regional Investment Statement 2008-11

income stream (affordable rent) or capital and rental income stream (in the case of shared ownership or similar) with management and other costs deducted.

2.8.4 In practice, the values generated could be dependent on property size and other factors including the RSLs own development strategies and thus would vary from case to case when looking at site specifics. The RSL may have access to other sources of funding, such as its own resources or recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm – it is highly scheme dependent and variable and thus has not been factored in here.

2.8.5 The figures used in the appraisals are shown in Figure 3 below for each property type, and reflect the sums received per completed affordable home (of either tenure) by the developer in return for constructing them (usually for an RSL to which they are transferred):

Figure 3: Summary of Indicative Sums Assumed Payable by RSL to Developer for Completed Affordable Units

Rent (no Grant)					
Value Point	1 Bed Flat	2 Bed Flat	2 Bed House	3 Bed House	4 Bed House
1	£52,000	£63,000	£66,000	£75,000	£85,000
2	£55,000	£68,000	£71,000	£81,000	£91,000
3	£59,000	£73,000	£77,000	£86,000	£98,000
4	£62,000	£77,000	£82,000	£92,000	£105,000
5	£66,000	£82,000	£87,000	£98,000	£105,000
6	£70,000	£87,000	£92,000	£100,000	£105,000
7	£73,000	£91,000	£94,000	£100,000	£105,000
Rent (with Grant)					
Value Point	1 Bed Flat	2 Bed Flat	2 Bed House	3 Bed House	4 Bed House
1	£78,000	£102,000	£118,000	£140,000	£163,000
2	£81,000	£107,000	£123,000	£146,000	£170,000
3	£85,000	£112,000	£129,000	£151,000	£177,000
4	£88,000	£116,000	£134,000	£157,000	£184,000
5	£92,000	£121,000	£139,000	£164,000	£184,000
6	£95,000	£125,000	£144,000	£165,000	£184,000
7	£98,000	£130,000	£146,000	£165,000	£184,000
Intermediate (no Grant)					
Value Point	1 Bed Flat	2 Bed Flat	2 Bed House	(n/a) 3 Bed House	(n/a) 4 Bed House
1	£72,500	£97,150	£108,750	N/A	N/A
2	£86,250	£115,575	£129,375	N/A	N/A
3	£102,308	£137,092	£153,462	N/A	N/A
4	£118,750	£159,125	£178,125	N/A	N/A
5	£135,000	£180,900	£202,500	N/A	N/A
6	£150,568	£201,761	£225,852	N/A	N/A
7	£165,000	£221,100	£247,500	N/A	N/A
Intermediate (with Grant)					
Value Point	1 Bed Flat	2 Bed Flat	2 Bed House	(n/a) 3 Bed House	(n/a) 4 Bed House
1	£83,750	£112,225	£125,625	N/A	N/A
2	£99,750	£133,665	£149,625	N/A	N/A
3	£114,423	£153,327	£171,635	N/A	N/A
4	£130,000	£174,200	£195,000	N/A	N/A
5	£145,658	£195,182	£218,487	N/A	N/A
6	£161,364	£216,227	£242,045	N/A	N/A
7	£178,750	£239,525	£268,125	N/A	N/A

Note that the 'N/A' entries within Figure 3 above were where 3 and 4 bed dwelling types were not considered for intermediate tenure within the base appraisal dwelling mixes, owing to likely lack of affordability to households in need. In practice this does mean that intermediate tenure of 3 and 4 bed homes would be ruled out – each case would be considered by the Council on site specifics.

- 2.8.6 The exact nature and mix of tenure models within an affordable housing scheme will often need to be bespoke to a particular location and site. Particular flexibility is required in the type of uncertain market and funding conditions we have. In terms of Intermediate affordable tenure what is suitable is likely to be dependent on demand as influenced by a wide range of factors. These might include mortgage product availability, changing price levels and affordability, the Government's constantly evolving range of initiatives, and developers' reactions and own practical marketing initiatives. The general direction of Enfield's housing requirements, as identified through ongoing Housing Market Assessment work, is likely to be for mixed housing provision, including more emphasis on meeting the acute need for larger family homes.
- 2.8.7 Although tenure mix is a site-specific consideration and dependent on local housing needs evidence plus the type of factors mentioned at 2.8.6, this study tests the impact of varying the tenure mix on development viability – based on certain assumptions that have to be fixed in order to run the appraisals. Experience with scheme specifics shows that in the current climate, RSL type financial appraisals for shared ownership and intermediate rent produce broadly similar outcomes in respect of what RSLs can afford to pay for dwellings. Various tenure mixes were tested, to explore how this potentially affects residual land value and, therefore, viability. These were as follows and as agreed with the Council:
- 70% affordable rent/30% intermediate
 - 60% affordable rent/40% intermediate
 - 50% affordable rent/50% intermediate
 - 40% affordable rent/60% intermediate (sample – for comparison)
 - 30% affordable rent/70% intermediate (sample – for comparison)
- 2.8.8 In looking at our assumptions for intermediate tenure more generically in this way, for shared ownership accommodation our calculations were based on a 35% initial capital sale with 2.5% rent paid by the purchaser on the retained equity. Intermediate rents would normally be at up to 80% of market rent levels. For the base appraisals we assumed that only houses and flats of 2 bedrooms or less would be transferred to an RSL for intermediate tenure - with larger units remaining as private and/or being transferred for affordable rented tenure. This is due to the potential lack of affordability, particularly of shared ownership properties - where larger units may be unaffordable to the end user.
- 2.8.9 Although generally it is expected that housing needs will dictate a bias towards affordable rent as a strategic starting point, it is acknowledged here that there may well be local circumstances where the Council will look to work with its partners on a different approach to tenure mix in some areas in order to create mixed and balanced communities. The sample appraisals which

skewed mix in the favour of intermediate tenure consider these circumstances and the implications on the viability of schemes. For those sample appraisals, as the intermediate affordable housing content of notional schemes expanded, we had to include the larger (3 and 4 bed) units in the mixes as far as the maths dictated (to make the mixes work).

2.8.10 It should be noted that where we refer to shared ownership in this study - and that may still be a part of specific site discussions between the Council on intermediate tenure content, developers and RSLs - other tenure options or models may well now be relevant. The focus will increasingly be on “intermediate tenure” in an adaptable mix alongside the priority needed affordable rented accommodation. Other models, including renting at rates discounted from market rental costs (“intermediate rent”), may well be relevant. Those could come into play depending on local specifics such as need, demand, funding, market factors (especially in the current climate) and affordability. In most cases, they will produce improved cash-flows and provide a better viability outcome, compared with affordable rent without grant; and be considered as more market friendly by developers as part of their overall view.

2.9 Other Assumptions

2.9.1 The appraisal model includes other variables such as fees, land buying costs, finance, agency costs and planning infrastructure provision that are all taken into account when calculating an approximate land residual value.

2.9.2 These figures, in some instances, are factors of other elements of the appraisal and, therefore, vary by site size and type.

2.9.3 The percentages and values assumed for the purposes of this exercise are listed below and are the result of Adams Integra’s experience of appraisals, work and discussions with developers, valuers and agents:

- **Base Build Costs (House Schemes) – £1,100/sq m**
- **Base Build Costs (Flatted Schemes – low rise) - £1,250/sq m**
- **Base Build Costs (Flatted Schemes to 6 Storey) - £1,600/sq m**

2.9.4 The above are applied to the Gross Internal Area (GIA) of the accommodation. Base costs for flats are likely to be higher than for a scheme of houses particularly where sites are constrained and often difficult to work on (involving materials storage difficulties, craning, etc). Common areas have to be allowed for, as does the degree of repetition of costly elements. Cash-flows for flatted development can also be less favourable as rolling sales are more difficult to deliver. In this study the £1,250 per sq m figure assumes

standard low-rise flats (typically no more than 3/4 storeys and allowing standard construction techniques). The £1,600 per sq m figure assumes 6-storey construction representative of larger, usually apartment based, schemes. In practice, again all schemes will be different. We considered that we needed to assume a significant increase in build costs for this higher density type of scheme, where framed constructions and elements such as lifts become more the norm.

- 2.9.5 Build cost figures have been taken as an indicative level, supported by our ongoing experience of scheme specifics, whilst also taking into account a range of information from BCIS data (the Building Cost Information Service of the Royal Institution of Chartered Surveyors (RICS)).
- 2.9.6 There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so a judgment on some form of benchmark is necessary. There will be instances where other costs are relevant, including in overcoming abnormal site issues or characteristics.
- 2.9.7 We are aware that the developer's base build costs can be lower than our base cost figures, and also that the BCIS tends to indicate lower figures. In contrast, however, there is also much said about costs being higher than this, often in the context of RSLs procuring new housing through contractors and developers. Build costs are set out in a range of guises, including in BCIS, whereby items such as external works costs and fees, etc are sometimes included, sometimes excluded. It can be difficult to carry out reliable analysis. So a view needs to be taken, and then monitored, tested and updated as informed by the experience of site specifics, negotiations and (from the affordable housing perspective) in light of funding availability and affordability for occupants.
- 2.9.8 Typical scheme-specific additions to these are:
- **Architect Fees:** *3.5% of build costs.*
 - **Consultants Fees:** (e.g. engineer, planning supervisor, project manager) *3.0% of build costs.*
 - **Contingencies and insurances:** *5.5% of build costs.*
 - **Marketing and Sales Fees:** *1.5% of Estimated Gross Sales Value. There will be instances, dependent on the location and scheme type,*

where some of this expense, or an additional sum will be directed to the setting up of a show home. This will, however, not be appropriate on all schemes hence we have not included for it as a standard assumption item. We would not expect it to alter the outcomes fundamentally.

- **Legal Fees on Sale:** £400 per unit.
- **Finance (build):** 7.0% APR on above build costs over build period.
- **Build Period:** 6 months for 5 unit schemes, 9 months for 7 to 15 unit schemes, 12 months for 25 unit schemes, 18 months for 50 unit schemes, 24 months for 100 unit schemes.
- **Land Survey Costs:** Approximate cost of £500 per unit including basic ground conditions research (on larger schemes especially there will usually be additional cost associated with transport, environmental/landscape, ecology etc dependent on the scheme detail and not covered here).
- **Legal Fees on Land Purchase:** 0.5% of land value (this will often produce a low figure when looking at very small or low value sites but only make a minimal difference to outcome).
- **Planning Application costs:** £335 per dwelling where the number of dwellings is 50 or fewer; where the number of dwelling houses exceeds 50 - £16,565 plus £100 per dwelling in excess of 50, subject to a maximum total of £250,000.
- **Stamp Duty Land Tax:** Between 0% and 4% depending on RLV.
- **Infrastructure Payments (wider planning obligations):** Appraisals carried out assuming £5,000 per unit, £10,000 per unit and £20,000 per unit. This covers a range of potential infrastructure costs but equally could apply to other future costs. They are notional levels. We varied this assumption so that we, and the Council, could review the sensitivity of results to this factor – using similar thinking to the Value Points methodology rather than looking only at a relatively narrow set of assumptions. This was done with the potential nationwide Community Infrastructure Levy (CIL) policy developments in mind, but also in the context of a range of other areas which could effectively add costs to schemes from a developer's and, therefore, landowner's perspective.

The figures used are not intended to be a guide to CIL levels. We have used the range of values to test the additional impact of those costs on development viability of the schemes types appraised.

As stated elsewhere in the study text, this group of appraisals can also serve a wider purpose in that the outcomes give a guide as to how RLVs vary when costs at these levels are added to appraisals. In fact those costs could be related to a range or group of different factors – including on sustainability measures or abnormal site costs. The results can be interpreted in a wider way.

- **Additional requirement for reduction in CO₂ through on site renewable energy generation:** All appraisals carried out on basis of cost allowances added for achieving 10% reduction in CO₂ emissions (carbon reduction) through on-site renewable energy generation on top of Code for Sustainable Homes cost allowances; sample appraisals on sites of 10, 15 and 25 units with added allowance for 20% CO₂ reduction through on site renewable energy measures again over and above Code attainment. Added costs of approximately £3,500 per unit for the 10% generation allowance (estimated cost from EST CE190⁴), added costs estimate of £7,000 per unit representing 20% generation on same basis – as a guide. The London Plan target approach has, therefore, been considered fully amongst the range of appraisals. However, it should be noted that there is potential here for overlaps between Code for Sustainable Homes and wider carbon reduction requirements, particularly by the time Code Level 4 is assumed. Additional sums for renewable energy generation have been shown explicitly with the aim of not under-allowing for potential relevant costs overall. In addition, within the wide range of appraisals undertaken, other results may be referred to in the event that the impact of cost allowances for these or other areas beyond these specific additions needs to be considered. For example, the appraisals and results relating to increasing planning obligations infrastructure would also give a guide to how outcomes vary as further cost is added. Overall, we would not want to make assumptions which added more specific costs for renewable energy and related items than those applied, given that we are making a strategic overview and considering a wide range of scheme types.
- **Code for Sustainable Homes:** Addition of £50/m² to build costs for achieving Code Level 3. Sample appraisals on 50 unit scheme carried out assuming increase to Code Level 4 (additional £100/m² over base costs) and Code Level 6 (additional £350/m² over base costs). Additional build costs based on CLG - July 2008⁵ report and assumes medium case scenario for flats and terraced houses. These costs, as stated above are in addition to requirement for on site renewable energy generation. Once again, the wide scope of appraisals and

⁴ Energy Saving Trust - "Meeting the 10 per cent target for renewable energy in housing - a guide for developers and planners" (September 2006)

⁵ DCLG – Cost Analysis of the Code for Sustainable Homes (July 2008)

outcomes allows other results to be considered as also representing the impact of particular added costs beyond those allowances specifically mentioned in these sections.

- **Lifetime Homes** - is currently an area under review and debate but increasingly in the Government's thinking. While it can affect scheme viability in a wider sense - from the point of view of potentially increasing building footprints and, therefore, cost and site capacity - it does not necessarily add significant cost but has design implications. Interpretations and opinions vary widely. Early design input minimises its impacts, and costs depend on to what degree standards are applied and what other standards are already to be met. There are overlaps, and even areas where it can compromise or not fit well with other requirements. It is an area that needs to be kept under review in terms of practicalities, costs and impacts – as part of the overall expectations from schemes. For the purposes of this exercise and to build on our acknowledgment of the relevance of this area, rather than make our own judgement we have preferred to rely on the published work by Habinteg Housing Association (www.lifetimehomes.org.uk) which suggests that the cost of meeting lifetime homes standards is up to £545 per dwelling (included) depending on size, layout and specification of the property. It is an area that needs to be kept under review in terms of practicalities, costs and impacts – as part of the overall expectations from schemes. The same applies to the need for Wheelchair adapted housing being incorporated wherever possible within schemes – specific needs, design implications and impacts will need to be considered as sites come forward and planning applicants will need to build this in to their thinking.
- **Finance related to land purchase:** 7.0% interest cost on land survey, planning costs, legal fees on land purchase and RLV over build time plus 26 weeks. No finance arrangement or related fees have been included for the purposes of this exercise. They might in practice be applicable, but we would not expect them to alter the viability equation fundamentally. Scheme funding arrangements will vary greatly, dependent again on the type of developer and scheme. As with much of this exercise, this is a snapshot and there are varying views as to what future trends will hold, and so over time we would need to see how added costs balanced with changes in sales values.
- During the course of the study, the Bank of England Base Rate has been maintained at 0.5%. On fixing our assumptions in the early study stages we decided to leave our finance rate assumptions unchanged. In light of the daily “credit crunch” reporting (on the reduced availability and associated likely terms of finance), we considered this approach to be further validated and therefore to remain appropriate. On closing

the study, the impacts of the low Base Rate have not been seen in any notable way, but with further time our interest rate assumption will, we suspect, begin to look high. Nevertheless, this again fits with looking at viability cautiously rather than stripping out too many cost allowances from appraisals. Our understanding is that house-buying and development finance remains relatively difficult to access – at least on favourable terms, related to the risks perceived by the markets and to the fact that lending between institutions is still not working on terms or to the extent that had underpinned the active market in preceding years. We have had a climate recently whereby rate reductions have tended not to be passed on, certainly not to a significant degree, to borrowers, and where other charges (arrangement fees, etc) have weighed against any cuts. So far as we can see, similar applies in a commercial sense, so these trends have affected developers and investors abilities to raise suitable funds, as well as householders. In summary, at the time of writing, we have no reason to believe that the commercial lending climate has eased significantly.

2.9.9 The general study requirements and processes were discussed at a meeting with stakeholders in April 2009. This involved invited members of the Enfield Housing Forum Group, joining Council Officers and Adams Integra consultants at the Council's offices for a discussion on the topic of the market, viability and related factors. The group was mainly comprised of RSL representatives, plus a house-building company representative – based on those who responded and those who subsequently attended. This meeting aimed to invite comment and it proved to be a useful general discussion about local dynamics. However, whilst it was followed up with specific invitations to submit information or comments which could be used to help inform study assumptions and judgments, it resulted in no additional information to that usually gathered from RSLs as part of Adams Integra's normal consultation process – done through emails sent to developer and RSL partners and contacts, usually supplied by the Council.

2.10 Further notes and Limitations to this Study

2.10.1 This study requires judgments based on the development values and changes seen in land values as a result of varying potential policy positions. This is in the context of seeking to guide policy development and arrive at clear policy targets. The results cannot be a definitive guide to how specific sites will be appraised or how outcomes on a site-specific basis will look. As this is a relative exercise aimed at determining the likely effect of a range of policy options, the most important factor is consistency between assumptions used for modelling scenarios. Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments. The same could be said of any set of study assumptions. We are confident, however, that our

assumptions are reasonable in terms of making this viability overview and informing policy development.

- 2.10.2 This study is set in the context of setting clear and realistic targets as a basis for long-term policy but bearing in mind short-term flexibility required to deal with the current housing market. Development viability will vary from site to site, and there will be no substitute for the negotiated approach to provision where necessary (e.g. sites with abnormal costs, low sales values, etc).
- 2.10.3 There can be no definite viability cut off point owing to individual landowner's circumstances. It is not appropriate to assume that because a development appears to produce some land value, the land will change hands and the development proceed. This principle will, in some cases, extend to landowners expecting or requiring the land price to reach a higher level, perhaps significantly above that related to an existing or alternative land use. This might be referred to as a premium or sufficient level of incentive to sell. In some specific cases, whilst weighing up overall planning objectives to be achieved, therefore, the proposals may need to be viewed alongside the owner's enjoyment/use of the land, and a potential "overbid" relative to existing use value or perhaps to an alternative use that the site may be put to.
- 2.10.4 These factors will not always come in to play or always have very significant influences on outcomes. For instance, the market for an existing or alternative use proposal, and, therefore, the value it produces, will vary with time, location and economic conditions. They are likely to be highly variable as to relevance for, and impact on, particular schemes. In reality, scheme-specific land values have to be considered alongside existing or alternative use values and the latter, being very location and planning use or business dependent, will vary significantly too.
- 2.10.5 To attempt to make detailed comparisons with existing or alternative uses in this type of overview work for policy context would, in our view, have limited meaning. We have, however, attempted to provide examples of, and comparisons with, alternative use values. Commercial use values in particular are highly site-specific. Nonetheless this study acknowledges that the level of value created by a residential scheme after making allowance for affordable housing and other planning obligations requirements will need to be weighed up against any existing or alternative use relevant to a particular site.
- 2.10.6 The use of notional sites most effectively enables like-for-like comparisons to be made, i.e. the testing of impacts of the varying requirements on the same typical scheme in a range of value locations. The fact that individual schemes vary makes like-for-like comparison very difficult when studying those for this purpose of trying to measure policy impacts, with full reliable and readily comparable information being critical.

2.10.7 We have not definitively labelled specific locations or areas as higher/lower value, or similar. This is because, while a general values hierarchy might be noted (see Appendix III) based on typical values, in practice we found that values can vary from street to street and within very small areas. The Value Points approach used in this study means that viability outcomes can effectively be transported around the Borough and a feel for viability gained in relation to relevant value levels as those might vary by location as well as by scheme). As noted, this approach of reviewing outcomes from a range of values also enables the consideration of viability impacts and trends as values change with regard to market adjustments over time.

3 RESULTS and related commentary

3.1 Background

3.1.1 The residual land value (RLV) modelling carried out for this study looks at a range of scenarios investigating the impact on development viability in accordance with the methodology as set out.

3.1.2 The number of appraisals required rises exponentially with the number of variables investigated. This is the case with all such studies. It is important to keep this exercise within practical limits. Although the number of scenarios modelled was contained to appropriate limits, the modelling created a very extensive range of results once all the variables are considered through additional layers of appraisals. These are presented by means of a large number of tables and graphs. The tables and graphs are all appended to the rear of this report should the reader wish to view them. They are set out in different ways depending on the particular impact we are seeking to investigate and visualise. The following results chapter aims to lift from that large volume of information a few example results to explain the characteristics, impacts and trends of various potential policies on development viability. The purpose here is to help guide the reader in interpreting the results and to illustrate key points and trends which have led to our conclusions.

3.1.3 The data is shown in tabular and graphical form and shows the indicative residual land value produced by each appraisal; those residual land values shown as a percentage of gross development value (GDV), and the reduction in residual land values as the proportion of affordable housing proportions increase.

3.1.4 The Appendices are set out as follows:

- Representing the base appraisals - Appendices II, IIa and IIb show the results from the base appraisals carried out across a range of scenarios, with in all cases assumptions including tenure mix of 70% affordable rented and 30% intermediate, Code for Sustainable Homes Level 3 attainment plus an additional build cost allowance for 10% on site renewable energy generation measures, on the basis of nil grant and 15% developer's profit. These appraisals were carried out assuming varying infrastructure (wider planning obligations) costs of £5,000, £10,000 and £20,000 per unit respectively. The results are shown as a summary for all Value Points and then in more detail by individual Value Point. This allows us to see the impact on residual land values of increases in property values, increases in affordable housing proportions and increases in infrastructure costs. The higher levels of infrastructure cost are intended primarily to reflect potential future increases to the planning infrastructure

burden through increases to existing calculations and requirements; but equally they could represent potential growth in any other cost area e.g. associated with potential flood risk mitigation, other sites works, increased allowances for Lifetime Homes or mobility standards, other building specification enhancements, etc).

- Appendix IIc shows the results of the sample appraisals carried out assuming changes to tenure mix (60% affordable rented and 40% intermediate).
- Appendix II d shows the results of the sample appraisals carried out assuming changes to tenure mix (50% affordable rented and 50% intermediate).
- Appendix II e shows the results of the sample appraisals carried out assuming increased developer profit (at 20% of GDV).
- Appendix II f shows the results of the appraisals that assume an element of grant (based on a tenure mix of 70% affordable rented and 30% intermediate).
- Appendix II g shows the results of the sample appraisals carried out testing the additional cost allowance for 20% on site renewable energy generation.
- Appendix II h shows the results of the sample appraisals carried out testing the requirement for Levels 4 and 6 of the Code for Sustainable Homes.
- Appendix II i sets out a summary of the RLV maths behind and the appraisal results relating to the potential collection of financial contributions from sites in the size range 1 to 9 dwellings.
- Appendix II j sets out the appraisal results relating to the additional sample modelling carried out with the affordable housing content skewed towards intermediate tenure (30% affordable rent/70% intermediate, and 40% affordable rent/60% intermediate).
- Appendix II k outlines results from Value Point 4 appraisal variations – looking at the potential cumulative impact of costs and obligations.
- Appendix III contains a summary of our property values and market research.

3.1.5 Appendices II, IIa and IIb also summarise (Tables and Graphs 1b, and Table 9b and Graph 16b, Table 17b and Graph 31b respectively) the RLV results across all scenarios and site sizes showing the corresponding monetary value

in pounds per hectare (£ per Ha) based on assumed site areas (land take) for each scenario. These graphs also show Valuation Office Agency (VOA) reported land values⁶ for example alternative land uses in Enfield (agricultural and industrial, but with our acknowledgement that the former is likely to be of limited relevance in the Enfield context). The purpose of adding that data is purely for indicative comparison with the value levels produced by our various appraisals. It builds on our acknowledgement of the role that existing/alternative land use values tend to play in viability discussions. In practice, as the study notes elsewhere, the values likely to be attributed to various existing or potential uses of a particular site will be highly site specific.

- 3.1.6 Adams Integra sought additional, more Enfield specific, information on land values such as was available at the time of research. The information search was also kept open during the study period. This was done through enquiries of local agents who may be dealing with land sales – sites for commercial and residential developments. Desktop (web-based) searching for any information was also carried out. Our study process involves asking agents if they have dealt with or are aware of any specific land sale (or marketing) information – or, if not, whether through their experience they can offer any general pointers or views on local land values. These are typically, but not always, different agents from those we talk to about residential property sales. Particularly in the current market, this extra research has typically resulted in little additional information, however, any that was gathered as the study progressed is included at Appendix III.
- 3.1.7 Our results are compared against VOA sourced range of average industrial land values (the range being shown by the vertical bars extending above and beneath the black line on the relevant graphs) and maximum agricultural land values. We have looked at similar in other studies. Again, it should be noted that both the assumed development scenario site (land take) areas and the VOA data are highly indicative. This type of data can become outdated quickly – especially in times of fast-changing markets as we have currently. Such comparisons are used within this study only to help highlight how land value varies as assumptions change, and to show very generally the type or range of other information that the indicative RLV results might be compared with when it comes to considering how likely a scheme is to proceed given other valuation factors. The inclusion of this information here seeks to help with illustrating how the value (RLV) created by residential development proposals may look and vary relative to other example uses only. The key point through these indications is to build on the emphasis that considering alternative/competing or existing use values will often be important in viability and thus delivery discussions.
- 3.1.8 At this strategic level overview for policy development, we are able only to make broad comparisons. Unfortunately it is simply not possible to provide

⁶ VOA Property Market Report January 2009

the Council with definitive “cut-off” points where a scheme definitely would proceed, or conversely where viability would be compromised to the degree that development would not take place. Site specifics will influence viability on individual sites.

3.1.9 There will need to be a second stage to this overall viability process whereby site-specific discussions prevail in situations where it is necessary to have those – for example in the event of landowners or developers needing to demonstrate that affordable housing targets, or perhaps other planning obligations, cannot be met. The same might apply where a developer or landowner wished to explore enhanced (in excess of target levels) or alternative provision of affordable housing with the Council, possibly reliant to a varied extent on Social Housing Grant (SHG) or other subsidy. There are a range of viability appraisal assessments (usually computer based spreadsheet calculation tools reliant on a similar residual land valuation process to ours) which could be used to assist in considering viability further in such cases. Examples of tools frequently used, and usually based on the same residual valuation structure, are the (former) Housing Corporation Economic Appraisal Tool (re-issued by HCA August 2009) and in the London context the GLA (“Three Dragons”) toolkit.

3.1.10 As we have commented about existing and alternative use values (for example commercial), and how those vary greatly with site specifics, much the same will apply if the Council consider the viability of a mixed use scheme in dialogue with a landowner or developer. Our suggested starting point would be to consider the residential element of such a scheme in a similar way to a solely residential scheme, and then consider any positive or negative impact, on overall viability, from the other scheme elements. Inevitably this consideration will be highly site and scheme specific, but there is no reason why the general target approach - the level at which that is pitched, and the overall process - would not follow that which is related to entirely residential sites.

3.2 Property Values

3.2.1 In terms of the property market generally there is a wide range of property values seen. Typical values are hard to pin down by area given the highly variable nature of housing product and local influences on price. However, on an indicative overview basis from our research, the following hierarchy of values was noted (by Postcode):

- EN4 (Hadley Wood, Cockfosters) - Highest
- N21 (Winchmore Hill)
- N14 (Southgate)
- N11 (New Southgate)
- N13 (Palmers Green)

- EN2 (Enfield – west)
- EN1 (Enfield – central/east)
- N9 (Edmonton – north)
- EN3 (Enfield – east/Enfield Highway/Enfield Lock/Ponders End)
- N18 (Edmonton – south) - Lowest

3.2.2 Within that hierarchy average overall pricing (all property types) more than doubles from bottom to top, with EN1/EN2 typical property prices representing the approximate middle area of the range.

3.2.3 The values are averages. Across the Borough these general observations and trends are affected by prices in particular locations or areas within settlements and/or by volumes of particular housing types for sale at any one time (which in turn is influenced by the local stock make up). Values can be driven by specific location and scheme desirability as much as by particular area or settlement. The property values report (Appendix III) summarising our research goes into more detail.

3.2.4 With regard to new build values which needed to be the focus of our attention for the appraisal assumptions, again there is a wide range of values. We have to be careful in analysing new build pricing, since often when higher values are seen, the property floor areas are larger too. That relationship needs to be borne in mind and, therefore, the Value Points are aligned to indicative £ per square metre levels as a guide to aid comparisons and the consistency of the approach.

3.2.5 Based on this research, the general range of values, in terms of per square metre sales prices, seen and assumed for carrying out appraisals is as follows:

- Value Point 1: £2,000/m²
- Value Point 2: £2,750/m²
- Value Point 3: £3,500/m²
- Value Point 4: £4,250/m²
- Value Point 5: £5,000/m²
- Value Point 6: £5,750/m²
- Value Point 7: £6,500/m²

3.2.6 Some further analysis of the pricing information we have gathered indicated that the average new build marketing price point for Enfield Borough as a whole area was about £3,565/sq m. Of course sales prices are lower (on a variable basis) compared to asking prices too. Nevertheless, it provides evidence of relatively high local values levels when viewed overall, and thus of the affordability issues in the Borough. The full range of new build values seen (in £ per sq m) goes from approximately £2,535 per sq m to almost £9,000 per sq m. For the purposes of this study we have, however, capped

the highest Value Point in the range at £6,500 per sq m, representing the very top of the range usually seen at present. Typical value levels locally are not expected to reach those levels in the foreseeable future. Whilst we saw few instances of values below £2,500 to £3,000/sq m, the level of those low end values (and how those might further fall in continuing weak market conditions) will need to be considered in terms of viability and the setting of realistic policy targets. The range of Value Points, as at 3.2.5, covers the typically occurring new build values seen in the Borough – and likely to be seen with additional foreseeable market movements, up or down. Within Appendix III we give examples of currently seen new build market pricing in relation to these Value Points – and of how those might vary by Value Point with both downward and upward market movements.

- 3.2.7 It appears that, generally, values in the range of our Value Points 2 to 5 were most commonly seen, with the most typical values seen within a narrowed band of say Points 2/3 to 4. Infrequent examples of values falling below Value Point 2 were noted. As mentioned above, Value Point 7 levels are at the top of the range that is regularly seen, although there are also new build values that get to levels in excess of that. We also have to acknowledge that this looks like being a moving scenario in current market conditions, and not on any sort of predictable basis. As we have already observed, the market, and pricing within it, is very difficult to assess.
- 3.2.8 Recent RICS research suggests that asking to sale price gaps are reducing. However, sales prices will usually vary from asking prices (to a variable and sometimes significant degree, especially in a weak market). Bearing this in mind, there may be occasions in certain areas of the Borough where new build values achieve only very low levels in the London context (but not as low as our Value Point 1 at present, so far as we can see). Such low values (in the Borough and wider context) occur infrequently to date. If market conditions continue to deteriorate, however, we could see a general move downwards within our overall scale of value levels meaning lower value occurrences could increase, at least over the short-term. However, even in depressed conditions, there will also be cases where values are much higher (our Value Point 4-5 or above). The overall tone of values seen in the Borough, and considered to be most relevant to this exercise, centres around our Value Points 2/3 up to 4. This fits with the average new builds pricing point of £3,565/sq m as noted at 3.2.6 above. Values are higher in favoured areas of the Borough and also for premium housing products.
- 3.2.9 Adams Integra's recent research for viability studies suggests in general that there no longer appears to be a significant premium value attached to new build properties compared to re-sales of a comparable type (although data is not always on a like-for like basis). This is due to the current lack of confidence in the housing market triggered by the "credit crunch". We are picking up more anecdotal reports of mortgage valuation surveyors down-

valuing new builds. Many agents have indicated that new build property now has to compete directly with resale in pricing terms. This is not always been the case, however - for example where a scheme creates what is considered to be a unique offer.

3.2.10 It should be noted that given the downturn, the property market and its likely next direction is particularly difficult to assess at the moment - both in a wider sense and more locally. By looking at a range of values to drive our large number of appraisals, however, this study process is able to be used in a way which enables the review of viability outcomes in response to value levels as those vary.

3.2.11 A strong feature of the housing market which has developed over the past few months (and appears to be universal) is the dramatic slow-down in the rate of sales (number of sales being agreed and proceeding). The impact of the vastly reduced level of market activity (volume of house sales) appears to be affecting the level of development activity by increasing perceptions of uncertainty and risk. It remains to be seen how this will play out fully in terms of the financial appraisal of schemes and sites and, as mentioned in Chapter 2, we see a range of reactions to it in terms of profit levels sought, and other assumptions applied.

3.2.12 We feel there is no doubt that recent and current economic and market conditions contribute to significant negative financial viability impacts - when compared with how schemes are viewed and pursued in a more stable, confident market. Developments in general will be taking longer to sell (with build progress possibly slowed and costs outstanding for longer as a result) and varying packages of incentives are typically being offered. These factors were identified at 2.2 and are also recognised in Appendix III.

3.3 Results Trends

3.3.1 This study has looked at the likely impact of a range of affordable housing proportions and thresholds on development viability within the Borough.

3.3.2 The wider work also looked at the possibility of seeking affordable housing on sites below the currently adopted threshold (of 10 dwellings), and at potentially removing the affordable housing threshold altogether (i.e. requiring a contribution towards affordable housing from all residential development sites). So the potential introduction of a “sliding scale” of policy requirements has also been reviewed, purely in viability terms, enabling the Council to consider reducing or effectively removing the threshold. This could lead to a policy position where the affordable housing proportion sought increased with site capacity at set “steps”. It would reduce the size of the step in expectations that occurs with a single threshold position, but would mean more complex policy.

3.3.3 The overall trend of results shows a decrease in residual land value (RLV) for all site sizes/types in all areas as:

- Market property values decrease.
- The proportion of affordable housing increases.
- Affordable rented tenure is increased (unless with sufficient grant levels assumed).
- Availability of grant is reduced/removed.
- Developer's profit is increased.
- Planning obligations/infrastructure requirements are increased, and
- other costs are added (e.g. increased Code for Sustainable Homes requirements, renewable energy generation, etc).

3.3.4 A reduction in RLV would be seen if any of the costs within the appraisals are increased or the affordable housing revenue to the developer reduced whilst maintaining the same private sales values. These are all normal trends encountered in any such study (or indeed site-specific appraisal). They demonstrate the dynamic nature of the development process and the fluid nature of any appraisal modelling that endeavours to understand or demonstrate the process.

3.3.5 The above will all have an impact on development viability because the sums of money remaining to purchase land after all costs are met (i.e. the RLVs) reduce as development costs increase (including increasing affordable housing requirements, in the context of this study). The importance of strong sales values to viability, particularly as development costs (again including affordable housing) increase, can clearly be seen.

3.3.6 A combination that includes all of the factors which decrease RLV (as per the examples listed above) will have the greatest impact on the viability of a scenario.

3.3.7 The findings indicate a range of values across the Borough from relatively weak values in the London context (where development viability is compromised even with the most favourable cost assumptions considered) to very strong values (where development viability is improved and schemes will usually be able bear greater costs).

3.4 Base Appraisals

3.4.1 These assume a tenure mix of 70% affordable rent and 30% intermediate, nil grant, Code for Sustainable Homes Level 3 attainment plus an additional cost allowance for achieving 10% CO₂ on-site renewable energy generation over that Code assumption, with 15% developer's profit. Looking at the base appraisals at Value Point 1, with our appraisal assumptions applied there is little or no land value generated on most of the schemes appraised (see

Appendix II for full results). Essentially this means that there is insufficient value in such schemes to overcome their development costs whilst still creating sufficient development profit and a meaningful land value. As such, it would not be practical to expect such schemes to deliver affordable housing in any substantial proportions, unless they were promoted on sites where existing or alternative use values were relatively low – or where land did not have to be purchased. As mentioned in Chapter 2, Value Point 1 values are below the levels seen currently in the Borough, however, we could see more of Value Point 1 (or point 1 to 2) levels if market conditions worsen - where a sustained lack of buyer activity is likely to bring more downward pressure on prices.

3.4.2 At Value Point 2 (the lower end of the new build values range typically seen across the Borough in the current market), land value is generated across most scheme types, sizes, and proportions of affordable housing. The indicative land values (RLVs) generated by our appraisals are relatively low. With the higher proportions of affordable housing (40% and 50%) they are unlikely to match existing lower end commercial or industrial use values or sites in existing residential use (residential redevelopment). By comparison, even with 50% affordable housing, most land values generated by our results exceed agricultural use values. We are conscious that development on this type of land may only occur infrequently in the Enfield Borough context. Nevertheless, there could be scenarios on the edge of existing housing estates and built-up areas where wider considerations such as these may be relevant. This is for indicative purposes only bearing in mind the more typical nature of development locally. The tables and graphs within the Appendices which have a 'b' suffix to their number show the indicative RLVs produced by our appraisals in monetary value per hectare (£ per ha). Comparisons with VOA indicated alternative land values can also be made by reference to the horizontal lines on the relevant graphs showing the range of those VOA values which can be then be compared with the vertical bars relating to our RLV outcomes.

3.4.3 By Value Point 3, much stronger residual land values are generated more often where the affordable housing requirement reaches 40% affordable housing. At 40% the residual land value regularly exceeds likely alternative lower end commercial or industrial use values but again may struggle to compete with sites in existing residential use. At 50% affordable housing the land values deteriorate further to the point that they only occasionally meet the lower end of the commercial/industrial use values and again would be unlikely to compete with sites in existing residential use (i.e. sites with permission for residential redevelopment where the purchase of one or more existing properties is required). At this point it is worth re-iterating that the requirement for affordable housing or any other “cost” to a scheme will have a negative impact on residual land value. The frequent occurrence of sites for

residential redevelopment has a bearing on our judgements on potential policy positions and how ambitious those could be.

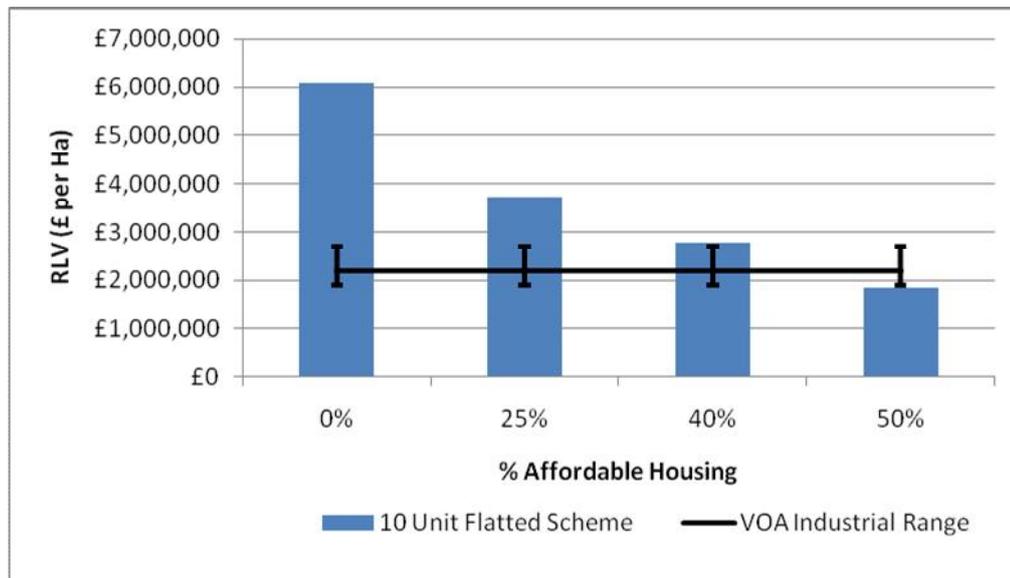
- 3.4.4 At Value Point 4, towards the upper end of the typical range of values seen locally, the indicative land values generated by our appraisals reach levels likely to be well in excess of most potential competing use values where there is a requirement for 40% affordable housing. Where that requirement increases to 50%, we see a continued drop in RLVs but on most scheme types the RLVs indicated are still likely to exceed the values relating to most potential competing land uses. Whilst within the typical values range, that value level (VP 4) represents the top end of this typical range and fits with values above the average pricing of new builds seen, overall (which was just over £3,500/sq m as reported at 3.2.8). So supporting this level of affordable housing with a degree of confidence would most likely be linked with a reliance on values levels that are perhaps too high to be considered typical for the Borough.
- 3.4.5 The frequency of occurrence of Value Point 5 levels and above reduces significantly. At these value levels, the indicative RLVs generated by our appraisals reach the point where they are likely to comfortably exceed any alternative/competing use value even with the highest proportions of affordable housing. What we have to bear in mind, though, is the likely frequency of such value levels.
- 3.4.6 As with all study locations, there will be variations within and exceptions to these types of trends.

3.5 Further Review of Affordable Housing Proportions

- 3.5.1 For schemes at or above a policy threshold of 10 units, the modelling carried out for this study tests 25%, 40% and 50% affordable housing. This is on the basis that the currently applied, London Plan-led, approach already requires an element of negotiated affordable housing on sites of 10 units or more in line with the current 50% strategic target. We have commented that those GLA requirements are under review, and it is incumbent on individual local authorities to consider their own locally relevant positions when developing policy, in line with PPS3.
- 3.5.2 A comparison of the reduction in RLVs for a 10 unit housing scheme across Value Points 1 to 7 resulting from an increase in the affordable housing requirement on qualifying sites from 25% to 50% indicates a reduction of 100% at Value Point 2 to 29% at Value Point 7 (no value is generated to compare at Value Point 1). The tables and graphs numbered 1 within Appendix II highlight this trend.
- 3.5.3 The pattern of reduction in RLV is repeated across all scheme types and sizes above the 10 unit affordable housing threshold. We see RLV reducing

as the affordable housing proportion increases, but this effect is mitigated by increased market value levels as schemes are able to generate significant land value whilst bearing more cost.

Figure 4: Example showing impact on RLV of increasing affordable housing proportion (Value Point 3) relative to VOA indicated industrial land values range



3.5.4 Where the increase in proportion required is from 25% to 40% (rather than to 50%) we see a smaller reduction in residual land value (as is to be expected). In our 10 unit flatted scheme the range of reduction in RLV is from 59% at Value Point 2 to 15% at Value Point 7 as we move from 25% to 40% affordable housing.

3.5.5 The results which show very large reductions in RLV are caused by relatively low starting value schemes. Only a small increase in costs (or reduction in sales receipt) results in a large relative percentage drop in RLV. This impact is principally going to have an effect on sites which are asked to provide affordable housing for the first time (i.e. go from providing 0% to potentially up to 40% or 50%, and see below at 3.6 and 3.7). However we are also seeing it here with lower end value schemes where even 25% affordable housing deteriorates results significantly and provides very low or negative land values (as at Value Point 1 and 2).

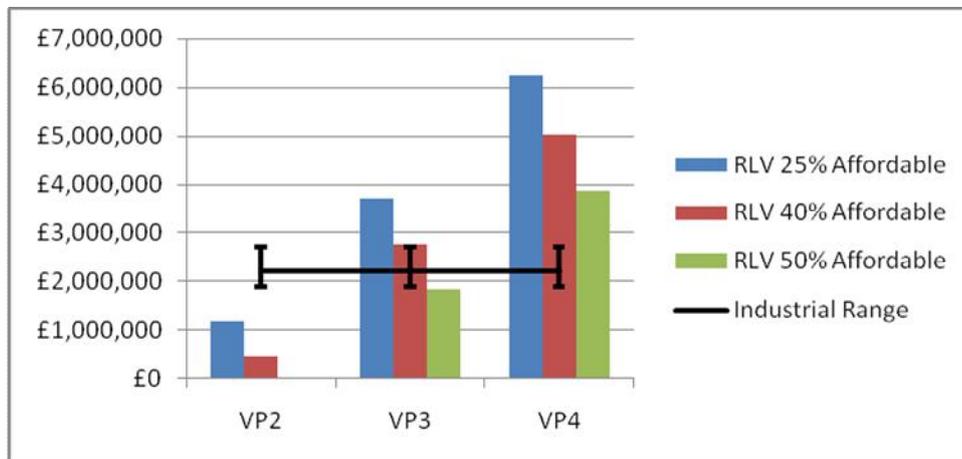
3.5.6 The results suggest that there will be difficulties experienced in applying 40% or 50% proportions of affordable housing in areas at Value Point 1 and to some degree, Value Point 2 levels. In those instances the RLVs produced by residential schemes may be marginal or even low compared to existing use values. Affordable housing requirements at the higher proportions (40% and 50%) are likely to mean that the Council will need to negotiate in such instances, particularly in current market conditions – with even more

emphasis on negotiation if the market weakens further. This would also apply to schemes with high abnormal costs, highlighting the importance of regarding the policy positions as targets, wherever they are set.

3.5.7 By Value Point 3 the RLV for our notional 10 unit flatted scheme achieves £431,428 (or £3,719,203 per Ha) at 25% affordable housing and has improved to the point where there is a reasonable prospect of achieving 40% (residual land values of £320,993 or £2,767,184 per Ha) affordable housing alongside the and base assumptions and (lower) level assumption on infrastructure cost requirements (but, depending on other site specifics, most likely without other potential higher cost burdens including higher infrastructure, increased renewable energy requirements, increased developer’s profit, etc).

3.5.8 By Value Point 4, the RLV of this same scheme has increased to £721,973 (£6,223,906 per Ha) at 25% affordable housing and drops to £582,794 (£5,024,087 per Ha), with the effect of a 40% affordable housing policy. At 50% affordable housing the residual land value drops further but is still relatively strong providing an RLV of £448,236 (equating to £3,864,104 per Ha) and could exceed a range of alternative use values in the Enfield Borough context. Figure 5 shows the detail of Value Points 2 to 4 on this 10 unit flatted scheme.

Figure 5: Residual Land Value (£ per Ha) - 10 Unit Flatted Scheme



(again including VOA indicated industrial land values range for comparison)

3.5.9 So, for schemes around Value Point 3 to 4, the approximate RLVs appear to be able to support affordable housing at a proportion of 40% to 50%, but in conjunction with the lower level base assumptions on other cost areas. This will obviously be dependent on the existing or alternative use value and owner expectation of any site value and as such there is no definitive cut off point where it is possible to say that land values can or cannot support affordable housing. However, it indicates that Value Point 3 residual values are more likely to support a 40% affordable housing requirement than Value

Point 2 or 1 linked to the discussion later on possible alternative use values. Again, it indicates that Value Point 4 levels are more likely to be needed to support 50% affordable housing alongside the base assumptions (i.e. value levels at the top of the current typical local range).

- 3.5.10 Value Point 2 values generally remain positive at the lower proportions of affordable housing but it is likely that negotiation is more frequently going to be required on the percentage of affordable housing to be sought, especially alongside other planning requirements. Value Point 1 residual values are in the main nominal or zero with reference to our calculations (although the occurrence of developments with this level of value were not seen at the time of conducting the research for this study). A different view of the cost (particularly build cost)/value relationships, departing from our assumptions, may kick-start certain schemes and mitigate lower value development (Value Point 1 and lower Value Point 2) barriers and issues. Again, this shows that site specifics will prevail and that this overview cannot fit every situation likely to occur.
- 3.5.11 A practical approach will need to apply in all cases especially while we have depressed conditions with such a low level of market activity. In lower value cases (as above) we think there will need to be a particular emphasis on the affordable housing requirements being looked at sensitively on a site-by-site basis. In our view, this does not suggest abandoning an ambitious target which clearly sets expectations for the long-term strategy; it is about how that is implemented, particularly in the short-term.

3.6 Wider consideration of Affordable Housing Threshold - Potential Sliding Scale

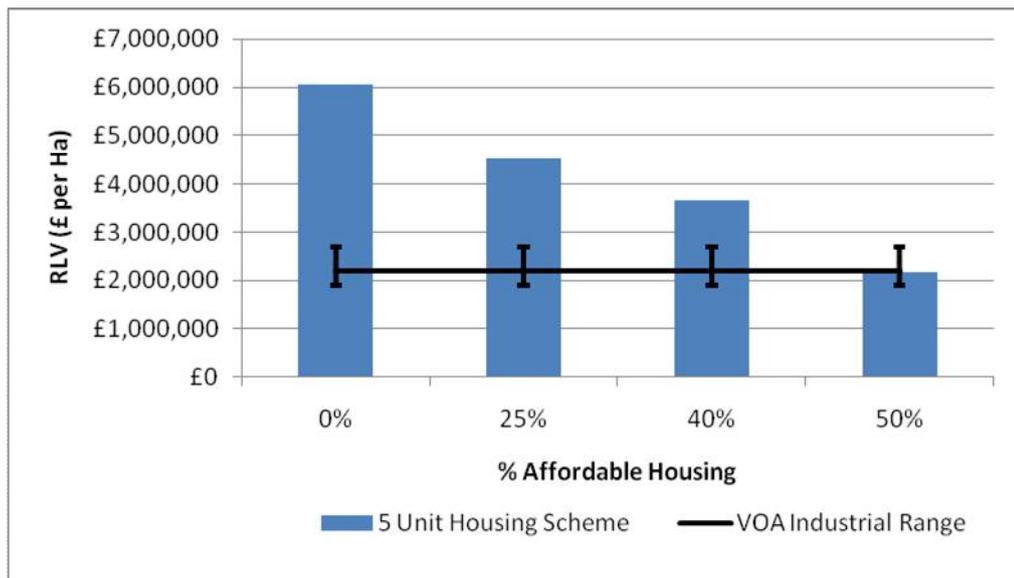
- 3.6.1 The overall impact of a range of potential affordable housing policies also needs to be judged with reference to the scheme size (principally number of dwellings) at which policy requirements could take effect. These scheme sizes, or trigger points for policy, are known as thresholds. The study brief extended to cover wider potential options including the review of a lowered or no threshold (i.e. where a wider range of smaller sites, or perhaps all sites, would contribute in some way towards meeting affordable housing needs).
- 3.6.2 The London Plan sets a requirement for the provision of affordable housing from sites with the capacity to provide 10 dwellings or more. To reflect schemes of fewer dwellings, i.e. falling outside the scope of the present or current policy review approaches being considered, the range of modelling carried out for this study also included a starting proportion of 0% affordable housing on those smaller sites – as a benchmark representing the fact that the London Plan policy does not require affordable housing from them.

- 3.6.3 Analysis of the results indicates that, as expected, a potential lowering of the on-site affordable housing threshold to 5 units (effectively increasing the proportion of affordable housing from the current 0% position to 25%, 40% or 50%) on any of the scenarios modelled leads to significant reductions in RLV across the entire range of Value Points and scheme types. As an example, a comparison on a 5 unit housing scheme across Value Points 1 to 7 resulting from an increase in the affordable housing requirement on qualifying sites from 0% to 25% affordable housing, indicates a reduction in RLV of between 32% at Value Point 2 to 20% at Value Point 7 (for example see tables and graphs numbered 1 within Appendix II).
- 3.6.4 Based on the lower planning infrastructure costs, at Value Points 3 and 4 (within the current typical range of new build values found), we see a reduction of 25% and 23% respectively for a 5 unit housing scheme (based on moving from 0% to 25% affordable housing requirement). At 40% affordable housing the reductions seen range from 52% at Value Point 2 to 29% at Value Point 7.
- 3.6.5 In terms of the notional RLV produced by the 5 unit housing scheme in the example referred to above, at Value Point 3, this lowers from £549,559 at 0% affordable housing to £412,244 at 25%, £335,191 at 40% (Appendix II, Table 1). Alternatively, this can be expressed in value per hectare (Appendix II, Table 1b). So, for this 5 unit housing scheme, we see a reduction in RLV (£ per Ha) from £6,039,115 per Ha at 0% affordable housing to £4,530,158 per Ha at 25% to £3,683,414 at 40% affordable housing.
- 3.6.6 If the proportion of affordable housing is increased further, to 50%, at Value Point 3 for a 5 unit housing scheme, the notional RLV lowers from £549,559 to £196,113. Expressed in value per hectare these equate to a reduction from £6,039,115 per Ha to £2,155,088 per Ha from 0% to 50% affordable housing requirements respectively.
- 3.6.7 Similar trends are seen on all other schemes below the existing 10 unit on-site affordable housing threshold with a similar reduction in land values.
- 3.6.8 The trend of results shows increases in RLV for each of the affordable housing proportions (keeping those constant) as we move through Value Points 1 to 7, i.e. as values increase. These trends again are seen across all scheme types and all potential affordable housing proportions. The results show that market property values are the main determinant of site viability.
- 3.6.9 They also show that scheme size is not a determinant of viability in itself. This is a consistent finding across all of our studies. There is nothing within the appraisal maths which suggests that smaller or larger sites tend to be any more or less viable. It really does come down to site specifics – the nature of sites and the proposals for them relative to existing use, specific costs, etc.

3.6.10 We see the same basic trend of RLV deteriorating with affordable housing proportion increasing, regardless of scheme size. This is essentially a proportional effect too.

3.6.11 To recap, sites of 10 or more dwellings are currently expected to provide affordable housing given the well established policy context. Smaller sites are not expected to contribute at present. Therefore, more of an adjustment in RLV is required for those sites of fewer than 10 dwellings sites as a result. As above, appraisals have also been carried out at 0% to 50% affordable housing on sites beneath the 10 dwellings threshold. By way of an example (Figure 6) a comparison of the RLV generated at 0% affordable housing with those generated at increasing affordable housing proportions shows the size of the step down in (deterioration of) land value increasing from the landowner’s current position (i.e. impact increasing) as we move from left to right. The same is seen on other similar graphs as scheme type varies.

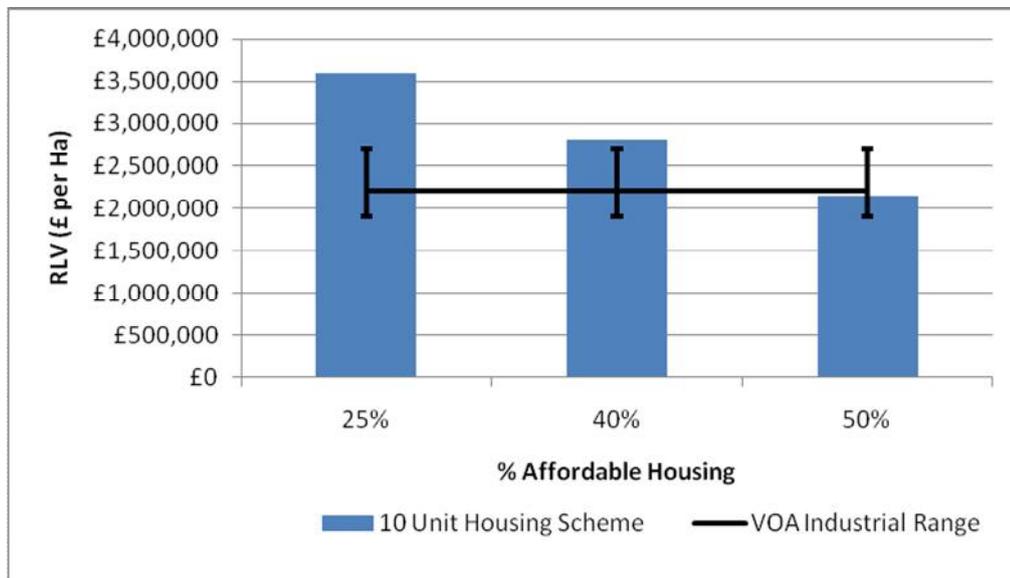
Figure 6: Example Results 5 Unit Housing Scheme – Value Point 3 Only



3.6.12 We could then go to a graph which shows a scheme size at or over the currently applied 10 unit threshold – e.g. showing a 10 unit housing scheme as affordable housing proportion increases (see Figure 7). That increases from a starting point of 25% (for example representing the landowner’s expectation under the lowest proportion tested) to 40% and 50% as we look from left to right. The reduction in RLV from 25% to 50% on a 10 unit scheme (Value Point 3) is approximately 40% but the reduction from 0% to 50% on a 5 unit scheme is approximately 64%. What this shows is the reduced size of the impact step, since we no longer have the stronger 0% affordable housing based indicative RLVs as a benchmark or starting point. Instead we see a flatter looking graph overall as we do not have the significant initial step away

from the 0% affordable housing position. The greatest impact from affordable housing is from its first introduction.

Figure 7: Example Results 10 Unit Housing Scheme – Value Point 3 Only



3.6.13 Consideration of the effect of the first time policy impact (i.e. moving from 0% rather than an existing proportion) helps to demonstrate why we consider a sliding scale of affordable housing requirements could have potential as a useful and effective tool for reducing viability impacts on these smaller sites which could trigger affordable housing requirements for the first time should the affordable housing thresholds be lowered from 10.

3.6.14 In the event of wider evidence also supporting the inclusion of smaller sites within this policy scope and such an approach being worked up, then, in our view, the sliding scale route would be preferable to a straight requirement for say 40% (or more) on significantly smaller sites than those captured currently.

3.6.15 On the smallest sites, on-site provision of affordable housing may not be suitable. This has less to do with development viability alone than the practicalities of delivery on small sites including integration of affordable units, scheme design, marketing issues, perceptions, management sustainability and potentially a feeling of isolation from tenants. In addition, in Enfield such smaller schemes can be very high value and comprise very large dwellings, with consequential affordability issues around suitability and affordability for affordable housing tenure.

3.6.16 Discussion and example calculations and results on the topic of collecting financial contributions in lieu of on-site affordable housing (potentially relevant to sites having a capacity in the range 1 to 9 dwellings) follows below at section 3.7 and a summary of the RLV maths behind the approach together with the relevant RLV results is included at Appendix Iii.

3.7 Potential Approach to Seeking Affordable Housing Contributions

- 3.7.1 To inform policy development, the study includes consideration of the smallest development sites, below the existing affordable housing threshold. The thinking behind this is the need to optimise overall contributions towards meeting affordable housing needs by seeking some level of provision from the numerous smaller sites which typically make up a very significant proportion of the authority's housing delivery pattern.
- 3.7.2 In all of our calculations for such studies we find no reason for stating that smaller sites are more or less financially viable than larger ones. Hence there is no viability reason why smaller sites should not make an appropriate, carefully judged, level of contribution towards meeting affordable housing needs as an expanded policy approach. If implemented, it might be viewed as an extension of the sliding scale principle, (as discussed above at 3.6). It would reduce the inevitable abrupt step in requirements once the on-site affordable housing threshold takes effect.
- 3.7.3 This approach, if implemented, would effectively mean a lowering of thresholds but with financial payments being made (in lieu of on-site requirements) from schemes within the relevant size range.
- 3.7.4 Although for this study some of these smaller sites (of 5 and 7 dwellings) have been modelled also assuming on-site affordable housing provision, the likely practicalities of provision (as referred to at 3.6.15 above) suggest that a more suitable solution would usually be to collect a financial contribution in lieu of on-site provision from sites of fewer than say 5 dwellings.
- 3.7.5 Therefore, Adams Integra carried out some modelling relating to the potential viability of requesting financial contribution payments for affordable housing from schemes of fewer than 10 dwellings. The notional sites appraised in this way were of 1, 2, 3, 4, 5 and 9 dwellings in size. These were all appraised at affordable housing equivalent proportions of 10%, 20% and 25%. We can see how results vary over this scale, and can consider the potential to align this thinking to a sliding scale approach. As a benchmark (relating to comparison with current adopted policy) we also appraised these sites assuming 0% equivalent (i.e. no affordable housing contribution). This set of results, as shown at Appendix Iii, overlaps with those generated for the on-site affordable housing scenarios – in terms of some site sizes considered. We will not describe these results in detail here.
- 3.7.6 Adams Integra's approach to financial contributions (commuted sums) for affordable housing (regardless of scheme size) is set out in detail at 3.7.21 and subsequent paragraphs to that. In applying the formulaic approach to schemes below the on-site provision threshold, we suggest that the same basis would be applied as for larger sites (in exceptional cases where an

alternative route to on site provision is agreed to better meet sustainable communities objectives) - for consistency and to get to an equitable position. The relevant per unit (dwelling) sums would be apportioned depending on the scheme details and relevant affordable housing equivalent proportion.

- 3.7.7 Distorting anomalies that result from numbers rounding and how that affects on-site provision could be set aside through this route; sums could be calculated exactly, to include part dwellings equivalents where those arise. This detail may be important for specific viability outcomes on the smallest sites where on-site provision involving rounding can significantly affect the actual proportion sought or provided.
- 3.7.8 The results for this set of appraisals show that, as in all other instances of increasing affordable housing proportion, the indicative RLV decreases as the calculation assumes a financial contribution based on an increasing proportion representing various potential policy positions - from 0% to 10%, then to 20%, and again to 25%.
- 3.7.9 As identified throughout the results and discussed above, stronger RLVs after affordable policy impacts are maintained in higher value development scenarios. There is a significant improvement to results as the scenarios move from Value Point 1 upwards.
- 3.7.10 Bearing in mind the deterioration of results with increasing affordable housing proportion on these first time impacted sites, it is likely to be appropriate for the Council to consider a lower proportion to be applied to the calculation in these instances. This would respect the viability trends and fit in with the sliding scale principle which we consider to be appropriate.
- 3.7.11 At the time of writing, Adams Integra is aware that many authorities are looking at, or pursuing, the idea of all sites making some form of contribution. Other local authorities, particularly in the South, are exploring the scope for, and issues with, lower thresholds and/or financial contributions linked to smaller sites in a similar way. We are asked to review these areas, in terms of viability, in many of our studies. Adams Integra produced the viability study for South Hams District Council to support its Affordable Housing DPD at examination in public. We understand that approach and study, with which this and our other studies share principles and methodology, was received as good practice. Since then we have been closely involved with a wide range of other authorities on policy development and viability. As examples, reduced thresholds have been supported recently at Mole Valley in Surrey and in Southampton. Sliding scale principles and/or financial contributions routes have been successfully followed through to confirmed sound and adopted policy positions.

- 3.7.12 Compared with previous national advice under Circular 6/98 and PPG3 (now rescinded), PPS3 gives more scope for the consideration of thresholds related to local circumstances “where viable and practicable”.
- 3.7.13 Policy development should include this financial contributions aspect if it is to be pursued, so as to make clear to landowners and developers how the Council would apply its approach, and on what basis calculations would be made.
- 3.7.14 The following sub-sections will cover the topic in outline. It is an area of the Council’s potential approach that may need to be developed in more detail through a SPD, or other guidance allied to the LDF.
- 3.7.15 From paragraph 3.7.20 below we set out the type of calculations which might accompany such an approach, and type of guidance which could be set out as part of clarifying the approach in general. The approach could be applied to any sized scheme (i.e. including to a larger scheme in exceptional circumstances where an alternative route to on-site provision is agreed to better meet sustainable communities objectives). However, we look in particular at the potential for equitable collection of financial contributions from those developments that would provide very small numbers of units if the on-site route was followed (and often very large, high value properties unsuitable for affordable housing tenure).
- 3.7.16 Before setting out our thinking in more detail, however, it is worth considering other approaches briefly.
- 3.7.17 As far as establishing or indicating payment levels is concerned, local authorities adopt a number of calculation methods. In most cases this area of an authority’s approach means considering a methodology which either:
- Relates to the build cost of the affordable homes, or
 - Relates to the land cost element – allied to a nil-cost land approach to on-site affordable housing, or
 - Considers the difference between the open market sale revenue and the affordable housing revenue for the relevant homes which would have formed the on-site quota. This latter route may be more complex, need more updating and be viewed as less market related.
- 3.7.18 Some local authorities have continued using mechanisms which relate back to the former Housing Corporation Total Cost Indicator (“TCI”) regime in some way, or to RSL finance-driven models which link to how much finance RSLs are able raise or grant/other subsidy they need based on dwelling type and tenure assumptions.

- 3.7.19 Reference to TCIs is now outmoded. Furthermore, methodologies such as those relate less well to the market in our view. Methodologies which relate more closely to the market-led provision that flows from the planning obligations are preferable and more widely understood in our experience.
- 3.7.20 In our view, the most appropriate route more generally may be to look at land value. In essence the thinking involves calculating how much it would cost, approximately, to go off-site and replace the land on which the affordable housing would have been provided on-site. This is the basis we have assumed.
- 3.7.21 In summary, in carrying out viability appraisals on this principle we added the relevant (estimated) land values and acquisition expenses associated with acquiring an equivalent plot in the market elsewhere to the costs section of the model. This is because we are assuming here a straightforward payment being made by the landowner (who may be the developer) under the terms of a Section 106 agreement in much the same way as occurs with planning obligations for aspects such as highways/transport, open space, education etc.
- 3.7.22 So the methodology assumes an additional planning obligations payment being made by the developer, albeit from the increased Gross Development Value which results from having no affordable housing on-site. So far as we can see, the calculation should not (and this way it does not) look at the benefit to the developer of moving the affordable housing contribution off-site. PPS3 requires the contribution secured to be “of broadly equivalent value” to that which would have been secured through on-site provision.
- 3.7.23 We have advised other authorities similarly. In our experience it tends to be understood by landowners and developers better than potentially more complex affordable housing finance related mechanisms. A commuted sums methodology based on land value links better to market reality and processes, and should be simpler to take account of in the early stages of site feasibility.
- 3.7.24 We will now work through our calculation methodology, which as above is based on a formulaic approach to approximating the land value that needs to be replaced elsewhere, and then allowing also for the cost of acquiring and servicing that land. In practice, the Council might not look to buy another site, but should have a strategy for monitoring, managing and spending these contributions. That strategy could include providing a variety of more creative affordable housing funding assistance to other local schemes, addressing priority needs and contributing to sustainable communities aims - again as required by PPS3.
- 3.7.25 We would start by taking a pre-affordable housing land value, calculated as a percentage of the market sale value of a property. This percentage would reflect the pre-affordable housing (0%) residual land value results, as taken

from this study. An allowance might well be added bearing in mind that as well as land value there would be acquisition plus (potentially) servicing costs to bear in the case of replacing the land elsewhere, in the market.

3.7.26 In summary, the indicative payment figures in the table at Figure 8 below are arrived at by the following steps:

- Step a: Open market value (OMV) of relevant or comparative property (depending on to what degree the formulaic approach is to be site-specific and linked to actual values or Borough-wide guide figure, etc).
- Step b: Multiply by the residual land value percentage. We have used 38.2%, derived as above (it would be possible to look at this in a variety of ways, including on a more specific RLV basis).
- Step c: Add 15% of the result of [a x b] to reflect site acquisition and servicing costs. This gives the per unit sum.
- Step d: Apply to the relevant site number and equivalent affordable housing policy proportion (in this case 10%, 20%, or 25%).

3.7.27 Figure 8 sets out the per unit indicative financial contributions which we have arrived at on this basis, using our property size and wider assumptions. These figures are as applied in our additional Appendix Ili appraisal results from notional sites of 1 to 9 units assuming 10%, 20%, and 25% proportions of affordable housing.

Figure 8: Indicative Financial Contributions In Lieu of Affordable Housing Figures Used as Basis for Appraisals (source: extracted from Appendix Iii; Adams Integra unit size assumptions applied)

Value Point	1 Bed Flat		2 Bed Flat			
	OMV £	Indicative £ payment	OMV £	Indicative £ payment		
1	100,000	43,930	134,000	58,866		
2	137,500	60,404	184,250	80,941		
3	175,000	76,878	234,500	103,016		
4	212,500	93,351	284,750	125,091		
5	250,000	109,825	335,000	147,166		
6	287,500	126,299	385,250	169,240		
7	325,000	142,773	435,500	191,315		
Value Point	2 Bed House		3 Bed House		4 Bed House	
	OMV £	Indicative £ payment	OMV £	Indicative £ payment	OMV £	Indicative £ payment
1	150,000	65,895	170,000	74,681	200,000	87,860
2	206,250	90,606	233,750	102,686	275,000	120,808
3	262,500	115,316	297,500	130,992	350,000	153,755
4	318,750	140,027	361,250	158,697	425,000	186,703
5	375,000	164,738	425,000	186,703	500,000	219,650
6	431,250	189,448	488,750	214,708	575,000	252,598
7	487,500	214,159	552,500	242,713	650,000	285,545

3.7.28 In our experience figures at around these levels are likely to be appropriate in the context of Enfield Borough which sees high values when viewed overall.

3.7.29 Seeking to collect sums such as these in areas that fall within Value Point 1 is likely to have a significant impact on viability, even if the equivalent proportion is set at the lower 10% level appraised. At Value Point 2-3 value levels and above, residual land values improve to the point where, with the normal caveats applying (with regard to site specifics, being allied to a target approach as with on-site provision, etc), viability should be workable assuming up to the 25% equivalent proportion appraised. The range of results highlighted in the following two paragraphs - 3.7.30 and 3.7.31 – is shown at Appendix Iii.

3.7.30 RLVs ranging between 0% and 54.5% of GDV (between Value Points 1 and 7) can be seen on sites of between 1 and 9 units. Approximate RLVs in the range 0% to 4.4% of GDV (the low end of these results) were seen from all schemes of 1 to 9 units at Value Point 1 with 25% to 10% affordable housing equivalent respectively. Indicative RLV results all in excess of 42% of GDV

were generated by all schemes of 1 to 9 units at Value Point 7 even with the maximum 25% affordable equivalent appraised – the two extremes of the range of outcomes seen here, in terms of scheme value.

3.7.31 Looking at mid range values, by Value Point 3, the RLV outcomes all exceeded 25% of GDV assuming 25% affordable housing equivalent contribution, and moved nearer to 30% of GDV assuming 20% affordable equivalent. At Value Point 4 with 25% equivalent the indicative RLV outcomes were in the range 31.6% to 34.3% of GDV.

3.7.32 Whilst, as with other areas of the outcomes relating to potential policy positions, there can be no single right answer in reality, we consider that the results indicate potential viability difficulties at the lower end of the values range. However, Value Point 1 levels are below those seen currently in our experience, so what happens at Value Point 2 may be of more concern. At that point, the results from a 10% equivalent proportion are all in excess of 20% of GDV and at around £2.3m to £2.7m/Ha are likely to represent competitive land values (although per hectare indications cannot be relied upon alone). At 20% and 25% proportions (with relatively little difference between results when viewed overall) the RLVs fall to less than 20% of GDV and are in the range approximately £1.7m to £2.2m/Ha. Those figures again suggest these scenarios could start to be workable at Value Point 2 levels.

3.7.33 As with on-site provision, this area also has to be viewed in the context of site specifics. What one landowner finds acceptable as a payment for their land will be different from another – this is especially true on small sites where we could be considering garden plots, etc. In real monetary terms, the residual value of land may reduce to the point whereby landowners of small plots do not feel there is sufficient recompense. Equally, where existing residential units are bought up and demolished to make way for a larger number of units, viability issues may occur. This is due to the high value of the existing residential properties that usually needs to be overcome before the new development can become viable.

3.7.34 The Council could further simplify the above type of approach to financial contributions with a Borough-wide single figure per property type. If this route were preferred then a mid-range figure from the above could be selected for each unit type. This would mean taking an average approach, with the outcome more favourable from some sites than others (from both the Council's and developer/landowner's points of view). In the case of this Borough, local property price levels, as discussed, the point selected could be the Figure 8 indicative contribution figures relating to Value Point 3 or possibly 4 (with the latter being less market friendly and probably meaning more negotiations).

3.7.35 Moving in the other direction, to add more sophistication the approach could be worked up further to reflect a more local RLV percentage (rather than a

Borough-wide approach). This could then be applied to the property value in our formula. With reference to that range of RLV outcomes (as a % of GDV) set out in Appendix Ili, figures of 7.6% to 54.5% of GDV were indicated principally depending on the strength of values applied within any given example. The Council could select RLV percentages to apply, depending on the site specific values and other circumstances (dwelling numbers, etc) – by reading off from our results an RLV % outcome from a scheme most comparable to the one being considered. It is anticipated, however, that this could involve more Officer time and it may be difficult to prepare clear guidance (as to the Council's expectations) on such a basis.

3.7.36 In arriving at the outline and figures above, however, we applied a figure of 38.2% of OMV being the average outcome (% of GDV remaining for residual land value) from all relevant 0% affordable housing appraisals – sites in range 1 to 9 units, (see Appendix Ili).

3.7.37 The Council would need to decide how to apply such a formulaic approach within the options we discuss here (including single guide figure per unit type, range of guide figures - by indicative value - per unit type, or the general formulaic approach then related to site specifics). Whether a Borough-wide or more location-specific route is taken would depend largely on resource availability (in terms of the availability and knowledge of staff available to carry out negotiations on the collection of financial contributions and the monitoring of those).

3.7.38 Overall, the Council may feel that a “one size fits all” simple guide to contribution figures by dwelling size (single guide figure per dwelling type – e.g. taken from Value Point 3 figures above) would be the best compromise in terms of clarity, resourcing and operation. We feel that would serve well in terms of informing landowners' expectations and supporting the necessary negotiated approach. Too much detail or sophistication can sometimes mean less clarity.

3.7.39 We feel that this formulaic approach based on land value, applied by selecting one value point to base it on as a guide, would provide a sound, and relatively simple, clear basis. In reality a replacement site, or scheme to be funded with the monies collected, could be anywhere within the Authority's boundaries given the Borough-wide need for affordable housing, which perhaps again fits with a “one size fits all” approach to this aspect. However, if the Council's approach to seeking on-site affordable housing is to be areas specific, then consideration could be given to whether it would also be appropriate to vary any financial contributions aspect, if that is pursued.

3.7.40 As the scenarios investigated for this element overlap with the on-site approach studied, this provides the Council with a range of options from which to formulate affordable housing policy (presented for discussion in Chapter 4).

- 3.7.41 The formulaic approach suggested could also be applied to a larger scheme (i.e. above the potential threshold for on-site affordable homes provision) in exceptional circumstances where the collection of monies for use off-site is felt to offer a more appropriate route to meeting overall sustainable, balanced communities objectives. The relevant higher proportion of affordable homes would be reflected in the calculation in such a case.
- 3.7.42 If the financial contributions route is pursued, the Council may also wish to consider developing an approach which could fairly and effectively derive developer/landowner financial contributions towards meeting affordable housing needs, on an equivalent basis, from the type of very large, luxury housing types which also occur in the Borough (mostly in the north/north western localities). This could be looked at whilst developing the detail in due course.
- 3.7.43 Such schemes may involve the development of a single additional, or a very small number of, large high value homes. Thus, in developing its detailed approach, the Council could consider a parallel mechanism (allied to property/development size) to drive the formulaic type of approach to land value equivalent that we have suggested. The starting point could be to consider the property size to be developed so as to establish the equivalent number of more typical home (in terms of values). That equivalent number could then be applied within the suggested formula (as per 3.7.25 and 3.7.26 above). Alternatively, there could be a straight calculation applying the relevant affordable housing proportion to the dwelling (s) size (sq m) and value (£/sq m – as per our range of indicative sales value points). If considering such a route, the Council should make clear its expectation and any distinct methodology points which would be applied in calculations for these types of schemes.
- 3.7.44 A financial contributions approach could potentially be applied equitably to these development types through the same type of thinking and formulaic approach – within which the increased development size or value would be reflected. We consider that it would be a case of comparing it to a more modest scheme in this way. The Council might view this as a suitable and more equitable approach than considering site area as a trigger and driver for affordable housing discussions on such schemes. Site area in itself is not directly related to the accommodation or therefore to the value created.
- 3.7.45 As with the on-site route, in all cases flexibility needs to be considered when reviewing and negotiating financial contributions for affordable housing - with viability related discussions taking place where necessary in the context of valuation and site-specific issues. As with all other aspects, the positions wherever pitched need to be regarded as targets.

3.8 Impact of increased Developer's Profit

- 3.8.1 As mentioned in section 2.5 of this report, viability has also been investigated on a sample of scenarios using 20% developers profit in place of 15%. This has been carried out on schemes of 25 and 50 units at all Value Points and infrastructure cost levels, and at 25%, 40% and 50% affordable housing. A summary of the 25 unit mixed scheme results at Value Point 3 is provided here with a comparison to the results using a 15% developer's profit. The full results can be found in Appendix IIe.
- 3.8.2 This comparison allows us to investigate the additional impact of increased profit requirements that may be more likely on schemes as a result, for example, of increased risk in bringing more complex sites forward for development. As expected, the same trends discussed previously are seen, whereby the lower the development values, the greater the additional impact on scheme viability.
- 3.8.3 Figure 9 below shows the additional impact of increasing this assumption to 20% on the 25 unit mixed scheme examples appraised.

Figure 9: Comparison of Appraisal Results at 15% and 20% Developer's Profit (Value Point 3 only)

Appraisal Type	25 Unit Mixed Scheme – Without Grant, £5,000 infrastructure costs			
	RLV – 15% Profit	RLV – 20% Profit	RLV (£/Ha) – 15% Profit	RLV (£/Ha) – 20% Profit
25% Affordable	£1,498,545	£1,279,947	£3,593,633	£3,069,416
40% Affordable	£1,029,516	£858,614	£2,468,862	£2,059,027
50% Affordable	£724,541	£586,385	£1,737,509	£1,406,199

- 3.8.4 In all cases an increased developer's profit leads to further reductions in the financial sums available for land purchase and, therefore, impacts further on site viability. The impact is also more marked with lower starting values. Taking the 40% affordable housing scenario in Figure 9 above, we can see that this increase in developer's profit reduced the indicative RLV by about 17%. The additional impact of the higher developer's profit does not materially affect our recommendations or conclusions from this study. There may be the need for site-specific consideration and awareness of the risk/reward balance requirement, leading ultimately to a negotiated approach between the Council and developers – particularly in lower value situations where viability outcomes will be more sensitive to increasing costs.
- 3.8.5 We have to consider that there will be a wide range of scheme types brought forward by an equally wide range of parties. Once again, there are no firm rules when it comes to scheme-specifics as might be reviewed (though not

exclusively) through the use of the HCA's Economic Appraisal Tool or the GLA (Three Dragons Toolkit).

3.8.6 As the study has progressed we have seen some reporting on developers having to accept reduced profit levels in some instances in what have been weakening market conditions. However, there is also an argument to be made about increased risk in such circumstances. In this context we noted at 2.5.7 that on its summer 2009 Appraisal Tool re-launch the HCA moved its developer's profit guide assumption up to 17.5% of GDV from 15%. In the current uncertain market conditions we are seeing a range of indicators on developer's profit levels, and these are becoming increasingly difficult to judge with respect to perception of risk levels. So, on balance, our range of assumptions is considered to be appropriate with regard to market conditions. These will need to be kept under review as part of the Council's monitoring processes, negotiations and delivery experiences. What is appropriate for one scheme may well not be for another, and the collective costs burden on schemes will always need to be borne in mind.

3.9 The Impact of Social Housing Grant and Tenure Mix

3.9.1 Sample appraisals have also been carried out to show what happens to our notional sites as we further improve the viability picture through the addition of grant to the scheme (see also Appendix II f). The appraisals were run on sites of 10, 15 and 25 dwellings. Figure 10 below compares the results of appraisals run with and without grant on a 25 unit mixed scheme. In this instance grant was added to the base appraisals.

Figure 10: Comparison of Appraisal Results With and Without Grant (in this case for illustration only - Value Point 3 only; £5,000 infrastructure cost, 70/30 tenure mix)

Appraisal Type	25 Unit Mixed Scheme			
	Without Grant (£)	With Grant (£)	Without Grant (£/Ha)	With Grant (£/Ha)
25% Affordable (RLV)	£1,498,545	£1,710,387	£3,593,633	£4,101,648
40% Affordable (RLV)	£1,029,516	£1,400,474	£2,468,862	£3,358,450
50% Affordable (RLV)	£724,541	£1,201,420	£1,737,509	£2,881,104

3.9.2 Figure 10, with data taken from Appendix II and II f, indicates that adding grant to the scheme improves the residual land value by as much as about 14%, 36%, and 66% in each case above (at 25%, 40% and 50% affordable housing respectively). Grant ultimately improves the viability of a scheme, but the availability of grant is an element that must be considered on a site-specific basis. It is not possible to predict grant availability.

3.9.3 Whilst (in line with the HCA’s “additionality” approach), the Council’s starting point may well be to consider what affordable housing can be achieved without grant, as discussed above, our view is that grant may have an important role to play in balanced housing delivery locally, and in particular in supporting varied and appropriate tenure provision, perhaps especially on lower value schemes particularly where a bias towards affordable rent is needed, or in instances of competing alternative land use values where viability may be more marginal. We understand that the strategic approach will be to seek 70% affordable rented tenure and 30% intermediate tenure, although site specifics will prevail. Whether or not grant is available, and if so at what level, will be one of the key determinants of whether this tone of tenure mix can be supported on a regular basis over the longer-term. Unfortunately, it is not possible to rely on, or predict, grant availability. Our very recent experience is that HCA social housing grant funding has been quite opportunity-led and many schemes have provided increased proportions of affordable rent compared with previous experience. This is because of a mixture of factors including:

- The HCA’s current relatively reactive funding approach (based on deliverable schemes – ready, and often in progress).
- Wider housing market trends (crucially the limited availability, still, of suitable mortgage finance) mean that low cost home ownership tenure such as shared ownership may be either unattractive or unworkable in many instances.
- Linked to this, affordable rent with grant can now look equally, or more attractive to RSLs in terms of their financial appraisals – and thus also to developers in terms of viability.

3.9.4 Overall, this can only be regarded as a fluid set of circumstances, which together with the levels of local need and London Plan Policy, point towards a bias to affordable rented tenure as a target position.

3.9.5 In our experience and especially in better market conditions for low cost home ownership tenure models, approximately balanced affordable housing tenure (i.e. 50/50 mix or thereabouts) can be achieved with little or no grant, providing the affordable housing proportions sought are not too high. However, as above, we consider that there is likely to be a role for grant to support a bias towards the priority needed affordable rented tenure in particular, especially where the proportion of that tenure rises. As an example of the possible positive impact of grant, with regard to the current mortgage access issues that can be experienced with home ownership products, it may be that through increased grant input more affordable rent could produce more viable schemes which are also more acceptable financially to RSLs in

the current conditions. Although there is much uncertainty surrounding grant funding availability, the Council and its development partners will need to consider such factors in relation to site specifics.

- 3.9.6 Following the same theme, it may well be that tenure selection for particular sites becomes a key factor – dependent on local needs and existing housing mix, as well as on funding and viability. Varying tenure mix towards intermediate tenure could be a central tool for getting schemes (perhaps especially lower value ones) to work in funding and viability terms whilst also meeting mixed community objectives – providing more aspirational housing and ownership opportunities in certain areas. Later in this section, sample results which consider a skewing of affordable tenure towards intermediate (rather than towards affordable rent) will also be considered.
- 3.9.7 In the current uncertain funding climate, we must stress the importance of guiding and considering tenure, of seeking to influence the affordable housing procurement costs locally, (including through landowner/developer subsidy mechanisms as discussed in this study) and of continuing to consider cascade type mechanisms to adapt the make up of scheme, depending on funding availability.
- 3.9.8 A cascade principle or mechanism allows the affordable housing element of a scheme to adapt to funding circumstances at the point of the delivery details being fixed (i.e. most likely post planning, but prior to contracts being entered in to by the developer and RSL for the affordable housing construction and purchase).
- 3.9.9 The arrangement would normally be built in to the Section 106 agreement. It has the potential to help delivery when the availability of funding is uncertain, or perhaps when other planning or site issues mean that the exact details of the affordable housing delivery need to be agreed. This can help avoid or reduce delays where Section 106 agreements would otherwise be renegotiated instead. An agreement including a cascade principle provides scope for the affordable housing content of a scheme to be reshaped and usually optimised given the available funding and perhaps other financial circumstances.
- 3.9.10 Usually, a local authority would expect to lead the process which redefines the affordable housing, working closely with the other parties such as the developer, HCA and any involved RSL. As an example of a potential cascade outcome, the Council may take a view that it is best to consider fewer affordable homes, but of the priority needs tenure type (i.e. usually affordable rent). Alternatively it may decide to maintain affordable homes numbers delivery by allowing the tenure mix to skew towards more financially viable home ownership or intermediate housing tenure, or to commute the affordable housing delivery into fewer family homes. Ultimately, discussions and outcomes would be very site-specific.

- 3.9.11 The same principle as outlined above (the need to inform judgments on the affordable housing target proportions in conjunction with wider criteria including likely funding availability) is also relevant in the context of any wider consideration the Council may be giving to overall planning obligations requirements and other burdens on schemes. Those wider costs and obligations also affecting viability always need to be taken account of.
- 3.9.12 Grant may well have an important role to play on many sites - where affordable housing numbers or deliverability of a favourable tenure mix can be improved compared with a nil grant route.
- 3.9.13 Given the viability constraints discussed so far at Value Point 1 and 2 with 40% or higher affordable housing, plus the possibility of higher infrastructure costs or other cost burdens (see later) it is likely that social housing grant or other public subsidy would need to be levered in to support such percentages. At the higher value points (Value Points 3, 4 and 5), there is scope for the Council to adopt a relatively robust position on the use of grant, and in negotiations with landowners and developers on what any grant input will be adding to a scheme.
- 3.9.14 Figure 11 shows a comparison between the use of grant on a scheme with a 70/30 tenure mix and no grant on the same scheme with a range of tenure mixes.

Figure 11: Comparison of Appraisal Results With and Without Grant with variations to tenure mix – Value Point 3

Appraisal Type	25 Unit Mixed Scheme			
	70/30 Mix With Grant (£)	70/30 Mix Without Grant (£)	60/40 Mix Without Grant (£)	50/50 Mix Without Grant (£)
25% Affordable (RLV)	£1,710,387	£1,498,545	£1,498,545	£1,546,782
40% Affordable (RLV)	£1,400,474	£1,029,516	£1,077,752	£1,125,989
50% Affordable (RLV)	£1,201,420	£724,541	£772,778	£821,015

- 3.9.15 From the Figure 11 examples and the wider results, it is possible to see comparable outcomes (in RLV terms) with different combinations of affordable housing proportion, tenure mix and grant assumptions applied. Additional text on this area is also set out further on in report section 3.10. The 70/30 and 60/40 mix results at 25% affordable housing proportion are the same as the numbers rounding within those 2 calculations means the

affordable housing content is in fact the same. However, looking elsewhere in the above table (and wider results) we can see broadly comparable RLV outcomes indicated. The following is an example from within the above assumption combinations:

- 40% at 70/30 mix, with grant
- 25% at 70/30 (or 60/40), without grant

3.9.16 These results also indicate:

- The significant impact (viability boost) that grant can have, though this should really be seen through improved affordable housing provision (additionality) not by way of increased land value.
- How much RLVs can deteriorate by the time we allow for 50% affordable housing, particularly with no grant and even with a more balanced tenure mix.
- That only on schemes with large numbers of units will a 70/30 tenure mix impact on viability very much more significantly than a 60/40 mix (due to the limited scope to vary the mix combined numbers rounding on smaller sites).

3.9.17 There is also scope for the Council to consider mechanisms for securing local level subsidy in working up its more detailed approach – for example, through a nil-cost land for affordable housing basis or through guiding affordable housing payment levels to developers in some way. In due course consideration might be given to reviewing the current negotiated approach, with such alternatives borne in mind. We are working from a base point here, again assuming workable site conditions, wider planning requirements and appropriate values relationships with existing/alternative uses.

3.9.18 Appraisals were undertaken where the only change to the assumptions was the mix of affordable housing tenure. For these notional schemes (of 10, 15 and 25 units across all value points) the tenure mix was changed from 70%/30% affordable rent to intermediate - to both 60% affordable rent/40% intermediate and 50% affordable rent/50% intermediate. The results of the 25 unit scheme are summarised in Figure 11 above.

3.9.19 Figure 11 shows the impact on scheme viability of altering the tenure mix. For example with an overall proportion of 40% affordable housing the indicative RLV reduces by £96,473 (or by 9%) when the affordable tenure mix is changed from 50% affordable rented to 70% (remainder in each case intermediate). Again, the reduction in RLV is made worse (percentage reduction grows) with lower starting values. The impacts of changes to tenure are lessened by higher market values.

3.9.20 Again, it may be useful to the Council to make some comparisons between these various results – in terms of the RLVs that the various combinations of assumptions produce. Although we see a reduction in RLV as the proportion of affordable rent increases, this has much less of an impact than increasing the overall affordable housing percentage.

3.9.21 Figure 12 below shows, just for illustration, an example result extracted from Appendix IIj (30/70 affordable tenure mix - i.e. switching in favour of intermediate tenure) of a without grant scenario compared with the result from the opposing tenure mix with grant – in the event it becomes relevant for the Council to consider such widely varying tenure mixes through consideration of funding/viability, local housing mix, and to meet mixed community objectives. They both assume £5,000 per dwelling planning infrastructure level and other base assumptions.

Figure 12: Comparison of Appraisal Results With and Without Grant showing how switching the tenure mix can provide comparable outcomes.

Appraisal Type	25 Unit Mixed Scheme (Value Point 4)	
	70/30 tenure mix (70% affordable rent) - With Grant (£)	30/70 tenure mix (70% intermediate) - Without Grant (£)
40% Affordable (RLV)	£2,139,210	£2,156,340

It can be seen that comparable RLV and, therefore, viability outcomes result from these two scenarios, which illustrates the point made in paragraph 3.9.6 and how adaptable thinking on tenure mix could fit a variety of circumstances.

3.9.22 All of these figures are based purely on the appraisals carried out and assume that the intermediate product is feasible for RSLs and their customers. Aside from the well-established difficulties that can arise with the overall affordability (total costs) of shared ownership for its purchasers, there are increased experiences of difficulties with shared ownership saleability in the current market. This is largely due to mortgage availability. As we understand it, experiences are mixed, and tend to echo the open market in that the most popular, well located and attractively priced schemes can still sell relatively well while others are attracting little or no interest.

3.9.23 We have looked generically at the intermediate tenure, since what counts for financial viability is the level of revenue it produces for the developer. This reflects the increased likelihood that it will be seen in varied forms and combinations within schemes from now on. This is purely for the purposes of financial viability and fixing assumptions, where we are looking at increased payments to the developer compared with affordable rented tenure (particularly with no grant). It does not prevent the Council and its range of partners from considering and perhaps trialling a range of tenure models, or

from varying the assumptions we have applied. Indeed such an approach is to be encouraged – we expect that there will be a role for a wider menu of tenure options.

3.10 Reduction in CO₂/Renewable Energy and Code for Sustainable Homes

3.10.1 All results (for all notional schemes and dwellings) apart from those shown at Appendix IIg, are generated assuming an additional cost allowance for an additional 10% reduction in CO₂ achieved through on site renewable energy generation – over and above Code for Sustainable Homes (CfSH) allowances made. The Appendix IIg results include a 20% CO₂ reduction through on site renewable energy assumption instead (and again in addition to CfSH cost allowances), so that we can see how that might impact viability when combined with the other base assumptions applied. The range of results helps to give a feel for the London Plan (Policy 4A.7) approach and target implications on this aspect – although in practice costs and outcomes will vary significantly between sites. We have looked at a range of scenarios, including what we consider to be the likely worst case for viability, bearing in mind the breadth of assumptions made.

Figure 13: Comparison of Appraisal Results – additional allowances for CO₂ reduction through on site renewable energy generation in addition to CfSH allowances (Value Point 4 Only)

Appraisal Type	15 Unit Mixed Scheme	
	RLV (£) – 10% CO ₂ Reduction e.g. through renewables	RLV (£) – 20% CO ₂ Reduction e.g. through renewables
25% Affordable	£1,299,331	£1,246,742
40% Affordable	£1,049,126	£996,537
50% Affordable	£768,211	£715,622

3.10.2 Figure 13 shows the additional impact on residual land value caused by this increased renewable energy requirement. The results here are taken from Appendix II (Table 1) and Appendix IIg (Table 37) – based on 70/30 tenure mix without grant and £5,000 planning infrastructure per unit. This is to illustrate potential effects, rather than because local policy is known to be developing on this at present. The assumptions are based on an estimate of costs (see Chapter 2) and of course these costs may increase or decrease dependent on the renewable technology employed and potentially the size of a site (there may potentially be cost savings through economies of scale on larger sites). Potentially the views taken on added costs, as we have done, could alter over time – costs could reduce with increased up-take of technologies and construction techniques. At the present time, however, we are aware of no evidence which points to such a trend.

3.10.3 Again the reduction in RLV is relatively small but as with other potential added cost areas, we can see a limited degree of trade off between a scheme with a higher proportion or enhanced tenure mix of affordable housing versus a lower renewable energy requirement. It could have an important affect when viewed along with other assumptions. Other comparisons could be made by the Council in analysing impacts in more detail, and assessing the collective burdens overall. Again, however, increasing the overall affordable housing proportion has the biggest impact.

3.11 Indicative value comparisons

3.11.1 As mentioned previously, due to highly variable potential existing and alternative use values of sites, it is simply not possible to provide the Council with definitive “cut-off” points where viability will be compromised to the degree that development may not take place. However, it is possible to provide a feel for the general type of comparisons that might be made and thus outcomes that could be seen at varying levels.

3.11.2 By way of a basic example, a residual calculation that provides an output of zero value (i.e. RLV of 0% of GDV) after testing the policy proposal means that development on this site would not go ahead unless there was a special business case for pursuing it. Conversely, as an appraisal outcome produces increasing land value after the application of affordable housing policy (so as the property values driving it rise and/or the development costs reduce), it becomes more likely that the land value is going to be high enough to absorb the impacts of the new policies.

3.11.3 In addition, the indicative RLVs resulting from the application of various policy positions across the different site types can be compared very generally to land values provided by organisations such as the VOA (the Government’s Valuation Office Agency) through estimating the site area (“land take”) relevant to the notional schemes.

3.11.4 Again bearing in mind the notional nature of it, Adams Integra’s 15 unit mixed dwellings scheme (as discussed above) could occupy approximately 0.307 hectares (equivalent to a density of 49 dwellings per hectare). At this site size, and with base appraisals assumptions the value of the land at Value Point 4 with 25% and 40% affordable housing is indicated to be £4,232,348 and £3,417,348 per hectare respectively (Appendix II, Table 1b). With a requirement for 50% affordable housing this falls to £2,502,317 per hectare.

3.11.5 VOA statistics (as far as are available to date) for industrial land in Enfield⁷ provide values between £1,900,000 and £2,700,000 and a typical value of £2,200,000 per hectare. VOA data also suggests that agricultural land value

⁷ VOA Property Market Report January 2009

is little more than £20,000 per hectare (dependent on type) although it is acknowledged that this has limited relevance in Enfield.

- 3.11.6 What this indicates on a comparison basis with average data from the VOA, is that the value of our 15 unit mixed scheme at Value Point 4 with 40% affordable housing, as well as producing RLVs significantly higher than agricultural values, also exceeds values produced by upper end industrial schemes and potentially higher end commercial values as well. At 50% affordable housing the indicative RLV falls to a level that is beyond the typical VOA industrial land figures but within their range (i.e. lower than the top end of the VOA industrial land values range). Bearing in mind that Value Point 4 values (at £4,250/sq m) are towards the upper part of the mid range/typical values in Enfield, this is a notable finding. It can be seen that with any growth in other costs or obligations, the 50% affordable housing target could be difficult to deliver with even these value levels.
- 3.11.7 Comparing those results with those from Value Point 3 (value levels, which at £3,500/sq m, are very close to the average of the new build asking price point we saw) we can see how the scope to bear affordable housing, alongside other assumptions, reduces. The 25%, 40% and 50% affordable housing results, compared with those at paragraph 3.11.4, fall to £2,665,803, £2,008,880 and £1,301,986 per hectare respectively. These figures represent significant reductions from the Value Point 4 figures, and show what happens as values fall – but only to typical levels rather than the lower levels also seen in the Borough. At these value levels it can be seen that the 25% affordable housing result should compete with upper end industrial land values, 40% should compete with lower to typical industrial land values but 50% affordable housing produces results that might not compete with such alternatives. It follows further that Value Point 2 levels give less favourable results. This is a general trend within the results.
- 3.11.8 For general information, the VOA also provides average data for residential land within Outer London. Although data is not available for Enfield specifically, as an example, Outer London figures of between £4,920,000 and £5,940,000 per hectare are indicated. These levels of RLV align more to our results as seen from higher end values and/or lower proportions of affordable housing. This information can only be regarded in very general terms, however, since we stress again that development values and appraisals are very site-specific once actual schemes are being looked at. Given the latest VOA reporting date of January 2009 at the point of our viewing that information, it is also likely that values will have fallen back significantly since then (at that time preceding information would have contributed to it). It also needs to be borne in mind that the basis of that values data may well not be consistent with particular planning obligations expectations, including on affordable housing, as well as with other current locally applicable assumptions.

3.11.9 The commercial property market is currently very depressed, has lost confidence and is seeing demand levels reduced more severely even than in the residential market – with very low occupier demand levels affecting values very significantly. It needs to be borne in mind that land value comparisons between residential and other existing/potential alternative (commercial) uses will vary quite significantly over time, particularly in such turbulent economic conditions.

3.11.10 We have noted that comparisons with other information such as provided by the VOA on land values for various uses, is purely indicative. The purpose is to reinforce the relevance of considering the issue of other land use values, and that those might impact on what becomes of a site - or on what a site is able to provide. The values relating to sites (whether for existing or alternative/ potential uses) will be highly specific. Appendix III includes any additional local land values information which has been sourced during the study period.

3.11.12 The site densities assumed above are for example purposes only as site specifics will influence viability on individual sites. The example values for alternative uses cannot be considered definitive. This section is provided as a guide only, and to emphasise that considering alternative use values will often be important in delivery discussions.

3.12 Impact of Increased Planning Infrastructure (or other) Costs

3.12.1 Appraisals were carried out assuming varying infrastructure (planning obligations) contribution levels of £5,000, £10,000 and £20,000 per dwelling (applied to all dwellings). This part of the work also has a wider potential relevance in that it enables the Council to see how viability results deteriorate when costs are added. An increase in costs could come from a wide variety of sources – related to planning requirements, site conditions, scheme specification or a combination of those.

3.12.2 Increased planning infrastructure burdens, as with any costs, have a negative impact on development viability. We have discussed the effect of additional costs, profit, affordable housing, etc above. Figure 14 below shows a brief example of the additional impact that higher planning infrastructure costs may have on schemes when combined with the “cost” of affordable housing provision.

Figure 14: Comparison of Appraisal Results from varying Infrastructure Cost/(Planning obligations/other costs) - (Value Point 4 only)

Appraisal Type	15 Unit Mixed Scheme – 70/30 tenure mix – Without Grant		
	RLV (£) – £5,000 / unit Planning Infrastructure	RLV (£) - £10,000 / unit Planning Infrastructure	RLV (£) – £20,000 / unit Planning Infrastructure
25% Affordable	£1,299,331	£1,233,991	£1,103,311
40% Affordable	£1,049,126	£983,786	£853,106
50% Affordable	£768,211	£702,871	£572,191

- 3.12.3 These results (taken from Appendices II, IIa and IIb – Tables 1, 9 and 17) show the reduction in RLV that occurs as the planning infrastructure (or other equivalent) cost assumptions are increased. As an example, if we take the 40% affordable housing scenario above, the indicative RLV reduces by approximately 6% as we increase planning obligations (or other equivalent costs) from £5,000 to £10,000 per dwelling. Increasing this cost further to £20,000 per dwelling reduces that level of RLV by a further 13%. So as the RLV (effectively the size of the remaining pot) reduces, the proportional impact increases. Viewed as a single step from £5,000 to £20,000 per dwelling, this means approximately a 19% reduction in RLV. We refer to ‘other costs’ as an alternative here, because any equivalent increase in the appraisal cost assumptions would have the same effect. In practice, scheme costs could increase over time for a variety of reasons, not only planning obligations. Effectively, therefore, these appraisals reviews added collective cost (whether related to planning obligations in full, a mix of those and other items, or other items in full).
- 3.12.4 The trends shown in the example results above are again repeated for all scheme types. This further emphasises the potential viability issues that could flow from seeking the highest levels of affordable housing whilst at the same time increasing the infrastructure burden on sites coming forward, especially in the event of nil or limited social housing grant.
- 3.12.5 Bearing in mind that all results vary, we can see some broadly comparable outcomes. This means that, again, the Council could consider which combinations of assumptions and requirements are likely to be workable or give similar outcomes/represent potential trade-offs. Just as an example, at £5,000 per unit with 40% affordable housing on this basis, gives a similar indicative result to 25% affordable housing with £20,000 per unit infrastructure burden. In practice all such comparisons would vary and be site specific.

3.13 Potential Cumulative Impact of Potential Additional Cost Areas on Development Viability

3.13.1 Appendix IIk sets out a summary of RLV outcomes indicated from appraisal variations which look at a Value Point 4 scheme example of 50 units and increase step by step the various viability impacts we have discussed – so that by the end of that sample exercise they are assumed to be all impacting together. The relevant tables are numbered 45 (which gives the RLV indications in monetary terms (£) and 45a which shows the same RLV results in terms of % of GDV. In practice there could be many different combinations of costs and other factors influencing outcomes.

3.13.2 With an assumed land area of 0.569 hectares, it can be seen that we can get well down the table whilst generating an indicative RLV in excess of £3m per hectare or otherwise expressed as approaching or around 20% of GDV. This is potentially the case even with the higher level £20,000 per unit planning infrastructure (or other costs) whilst the affordable housing proportion is at 40% rather than 50% (at 50% the RLV drops nearer to £2m per hectare which could be an issue relative to some commercial uses according to the VOA indications). This also shows the further very significant fall off in RLV from that point once the trialled CfSH Level 6 costs are included at currently assumed levels alongside other obligations.

3.13.3 The results indicate that the Council should be able to secure a range of obligations from sites, provided they are needed and justified on the usual tests and basis, and provided the affordable housing obligations are not pitched too ambitiously. Exactly what can be provided will vary depending on site specifics. The Council should be able to consider the various results in a way that enables comparisons to be made between outcomes from various combinations of assumptions. In this way, potential prioritisation of requirements might be considered where that approach becomes necessary.

4 CONCLUSIONS

Market and Values

- 4.1.1 Looking across the Borough, a wide range of property values is seen. This applies both to the overall (re-sales dominated) market and to the pricing of new build schemes. Viewed overall, property prices here could certainly be described as high. However that masks a situation where we have seen both extremely high values and, at the other end of the spectrum, property values amongst the lowest seen in the Greater London area as well as in the wider context of the South East. The high end values are high even in comparison with those we have generally seen throughout our study work in the South East/Central South. Whilst we have seen higher values, beyond the range seen here, that has not been regularly. In contrast, the low end of the values range in this Borough sees property prices below typical levels seen in many parts of the South East.
- 4.1.2 Our research suggested that the full spectrum of new build development pricing in the Borough falls in the range from approximately £2,500 to almost £9,000/ m² (the marketing price expressed in a per square metre rate). This equates to around £232 to £836 per square foot.
- 4.1.3 The pricing of new build schemes in the most expensive house price areas (as indicated by the overall resale market research) ranged from £4,191 to £8,978/m². The high end values are associated with premium housing products, often developed at lower densities and with high specifications. Typically mid range value areas indicated new builds (marketing) pricing at around £5,000/m², although we also found an example at significantly less than £3,000/m². By contrast low value new build marketing prices were typically not far either side of £3,000/m² but, did fall nearer to £2,500/m² in some instances. Some of these figures show the variations that are often seen within defined areas.
- 4.1.4 Looking at this information, and allowing for marketing to sales price adjustments and current market trends as best we could at the time of fixing assumptions, we concluded that the range £2,750 to £5,750/m² most appropriately reflected the typical range likely to be seen. This means we consider that new build values are generally in the range of our Value Points 2 to 6. From what we saw, in practice they do not dip to Value Point 1 (£2,000/m²) at present, but do exceed Value Point 6 in the higher value areas.
- 4.1.5 The lower values areas are best represented by our Value Points 2 to 3, with asking to sale price adjustments bringing many close to Point 2. In those areas, Values at levels between Points 1 and 2 are also seen, however.

- 4.1.6 Towards the upper end of the range, the new build value levels seen were within Value Points 3 to 5 overall; more typically at Points 4 to 5.
- 4.1.7 This is a dynamic picture. We acknowledge that values will sometimes fall outside this range. Given the current weak and uncertain state of the market, from a viability perspective the Council will need to monitor value levels particularly with regard to the frequency of lower end values occurring. All examples and indications here are necessarily based on the current relatively low level of new build activity. Nevertheless, wider research has also been carried out to support this. A strategic overview needs to be taken. For this, appropriate judgments on values variations have been made. The Value Points range takes account of varying values by geography and over time.
- 4.1.8 As per our Value Points approach, the most important theme to recognise is that, as in all areas, a range of values is seen, ultimately dependent on site-specific factors. They depend on the specific location and scheme type. As normal there are street by street variations. General value patterns do exist in the Borough, but they are blurred, meaning that there would be difficulties in reliably defining areas for policies which varied targets according to values levels.
- 4.1.9 Our research informed our judgements on the range of value levels used to drive our appraisals. It showed these to be reasonable at the time of fixing them, and a reflection of the tone of the information we gathered. Full details of Adams Integra's property values research are found at Appendix III.
- 4.1.10 These value levels feed in to a range of residual land values and, therefore, a wide range of results. Whilst an overview could describe values as being very high locally, that does not represent the full range of conditions. The results that flow from the lower values seen are not strong, and that factor has been significant in the shaping of our thoughts and recommendations around a suitably pitched affordable housing target.
- 4.1.11 The degree of impact from potential policy is then dependent on the market sales values for the private market housing element which drives the scheme (expressed as a range of value points in this study), the affordable housing revenue (receipt to developer from RSL), grant availability, planning obligations (infrastructure cost) levels and other assumptions. As values increase, broadly there is more scope to bear affordable housing and other costs.
- 4.1.12 The principal issue with the current market scenario is the lack of activity in the market, rather than with development value levels as such. It is fair to say that, historically speaking, values are still high, in many cases beyond levels which have supported viable schemes (including affordable housing) in the past.

General policy considerations and potential approaches

- 4.1.13 The outcomes suggest various policy options for consideration, presented later in this chapter (see 4.1.26 onwards).
- 4.1.14 Amongst these options, a carefully placed single overall (Borough-wide) policy position would be appropriate in viability terms. This approach would provide clarity and simplicity to inform landowners' and developers' expectations.
- 4.1.15 The possibility of designing more complex/area distinctive policies has also been considered through the study period. However, value patterns are blurred and, therefore, defining areas for varied targets on a reliable basis would be difficult. Additionally, this approach would usually require more resourcing, more involved monitoring and updating, and more complex additional guidance through SPD, leading to more explanation and negotiation input, etc. These aspects need to be considered. However, the study outcomes suggest that it could also be appropriate to consider such an approach in the Borough if sufficient clarity could be created. This could be based on the general property values patterns we have seen – on the basis that higher values usually have the potential to support a larger package of planning obligations.
- 4.1.16 Clearly this is quite a general statement. There will always be certain cases where abnormal site costs, planning obligations burdens, existing/alternative use values (or a combination of these) mean that affordable housing targets cannot be met. Those will more often be lower value schemes but may also include a wider range schemes where the combination of assumptions goes against viability and means compromises being considered. Those issues are relevant in any area and we advise all local authority clients accordingly.
- 4.1.17 Looking across the Borough, the varying existing tenure mixes in different areas, and the level and type of housing needs, should also influence this policy development. The considerations go wider than viability. If variable policy targets by area (in terms of percentages of affordable housing sought and/or its tenure) are considered, then in the positioning of those the Council's wider understanding of local markets and wider evidence base needs to be taken account of.
- 4.1.18 Land values are in many ways a function of property values – the high property values in essence feed in to high land values. Therefore, it should also be noted that where property values are high, land value expectations also high. So while land value results look strong, to a degree they need to measure up appropriately to owners' expectations to ensure the release of sites. Land value expectations will need to be adjusted over time, not just because of affordable housing requirements, but also through the growing

climate for higher specifications related to sustainability, wider scoped planning obligations, renewable energy and the like. It is possible that current property market trends could help with this adjustment process in the longer-term. As so much of this topic area is about land prices and expectations around those, we think the current climate presents a good opportunity to consider policy, as a part of adjusting and setting expectations for potentially more active development markets ahead.

- 4.1.19 At the time of preparing this study, Adams Integra has had to acknowledge the very weak and uncertain market conditions which were apparent through 2008 and moving in to spring 2009 as the study period commenced. From around March 2009, we picked up more mixed messages about market conditions. By that stage, slightly more optimism was being indicated through information such as RICS research, Nationwide Building Society figures and the Land Registry House Prices Index – which showed a reducing rate of decline in house prices in many places and small house price increases, overall, in some regions. Our Property Prices report at Appendix III includes a range of market information alongside a summary of our values research.
- 4.1.20 In sections 2.2 and 3.2 we discussed the type of market features that have been and still are being seen. However, there are difficulties in fully reflecting the potential range of market conditions, and certainly in looking at all potential site specific level reactions, in this type of study. It is simply not possible to predict market directions or forecast how the various values, cost and other assumptions would interact at some future point. However, the sensitivity of outcomes to values varying is a key element of the approach.
- 4.1.21 It is unlikely to be practical to seek to vary policy targets in response to uncertain market conditions that are evolving, and the longevity or degree of which cannot be predicted. This type of approach would also not serve to provide the crucial level of guidance and clarity which developers and landowners need. As stressed above, in the short-term the practical, negotiated approach (but still based on clear targets) will be vital.
- 4.1.22 We consider it much more realistic to seek to react to current and future short-term market features through this mode of flexibility (practical application of policy), than to expect to almost continually review such information and indeed the wider evidence base so as to regularly adjust policy targets. Periodic reviews of this type of viability related information are more likely to be realistic, economic and useful in our view; possibly in conjunction with other planning obligation reviews being considered or in response to delivery experiences over a sufficient period.
- 4.1.23 We also consider it important in these circumstances to monitor and review policies and develop contingency plans, together with operating a practical and flexible view in implementing policies, especially in the shorter-term, to

help secure affordable housing delivery alongside other planning obligations as far as possible.

4.1.24 In terms of considering on-site affordable housing provision, notional schemes of 5 to 100 dwellings were modelled at 0%, 25%, 40% and 50% proportions. This enabled sites beneath, at and above the existing threshold of 10 to be considered regarding on-site affordable housing. Affordable housing proportions of greater than the London Plan target of 50% were not considered. In our wide experience of these studies, highly exceptional circumstances would be needed to warrant consideration of a higher target still, and we have not seen those in Enfield.

4.1.25 Notional schemes of 1, 2, 3, 4, 5 and 9 dwellings were also considered on an alternative basis that they might contribute towards meeting affordable housing needs by way of financial payments rather than by providing on-site affordable homes (also acknowledging the range of practicalities that come in to play when seeking to integrate and successfully deliver very small mixed tenure developments). The potential financial contributions route was looked at allied to equivalent affordable housing proportions of 10%, 20% and 25%.

4.1.26 We will now summarise what the study points to in terms of policy options. Our recommendations in terms of options for the Council to consider further for both the sliding scale and position on larger sites will be confirmed in Chapter 5. The Council's consideration of these should be made alongside the review of its wider evidence base, own local knowledge and experiences.

Discussion of Policy Considerations and Options – Larger sites (over existing threshold)

4.1.27 Bearing in mind the mixed tone of our results and the Enfield characteristics - crucially meaning many strong but also varying values - we consider that an appropriate response at a site size of 10 dwellings would be a target of not more than 40% affordable housing, if a simple blanket policy approach is to be selected. In our view, this would strike an appropriate balance between needs and viability, as a target. We consider that it would represent a suitably challenging position in the longer-term strategic context, and would be particularly so given the current and foreseeable continued market uncertainty. This needs to be read in conjunction with the following paragraphs.

4.1.28 This could be interpreted and applied in a range of ways depending on the Council's preferred strategy and bearing in mind factors including:

- The need to create sufficient clarity of expectations.
- The need to resource and manage the selected approach.

- Consideration alongside and updating of housing market and needs evidence – existing tenure mix, and needs, in various localities.
- The need to provide the right types, mix and quality of affordable housing – not just numbers.
- Overall objectives – including on wider planning obligations/infrastructure/environmental objectives – as affects the overall viability picture and overall housing supply.
- The fact that incidence of abnormal costs such as site clean up or flood risk mitigation in certain areas of the Borough would further weigh against the viability of schemes. The incidence of those additional costs may coincide with lower values (seen on the eastern side of the Borough) more often than not – but such factors will always vary.

4.1.29 Options for the Council to consider (on sites of 10 or more) range from a simple, straight 40% target (looking particularly at current and likely foreseeable market features) through stating targets in the range 30 to 50% (depending on site circumstances), to a potentially over ambitious approach of 50% applied universally (but again depending on circumstances and viability).

4.1.30 As alternatives to a straight 40% target on sites of 10 or more dwellings, the other options could include:

- A lower target (e.g. 30%) pursued in lower value areas combined with a higher target of 40% in higher value areas. This could be criticised for moving too far away from the needs scenario in favour of a market friendly route – i.e. for not seeking to do enough given the needs levels. In our opinion this might be said of any target proportion of less than 40% (unless applied to sites of fewer than 10 dwellings). It would also need to be appropriately defined, resourced, monitored and reviewed so as to create and maintain its currency and sufficient clarity. It would arguably create a less clear position.
- A more ambitious dual target of 40% (lower value areas – as above) and 50% higher value areas (again as above). While this would be aiming for more affordable housing, in our view, particularly given foreseeable market circumstances, this could be over ambitious. It would also come with the same caveats above concerning clarity and resourcing.

- A toned down (and therefore not quite so ambitious) version of the preceding 40% and 50% targets option – with 50% potentially applying only to the highest value areas and 40% to all other areas. This could strike a better balance between needs and viability by reducing the area over which the 50% would be sought. However, it would again come with similar reservations regarding clarity and resourcing.
- If any element of 50% target is retained, then there could be potential to consider part of that being provided by way of financial contribution in-lieu. That would depend on whether such an approach better met sustainable communities objectives overall, with respect to a particular (site specific) outcome. If relevant, this could mean say 30 or 40% affordable housing provided on-site, with a top-up equivalent of say 10% financial contribution. Whilst this would be a creative and potentially useful route (for example, in a regeneration or tenure balancing context), the same concerns remain (and may even be increased) regarding clarity, guidance and resourcing. A strategy would be needed to underpin this approach, and that would again be subject to monitoring and updating, etc. Overall we feel that this type of approach could be operated within the bounds of a more simply expressed policy, and could be part of a negotiated approach where site specifics particularly suited it being used and the Council agreed this with the developing parties.

4.1.31 At this stage, from a viability point of view, we consider that there would be advantages to moving to a more locally relevant and more market sensitive approach (meaning not just short-term) rather than a straight 50% affordable housing requirement across the board in Enfield (as per the London Plan).

4.1.32 We think the theme of viability, and more flexibility where needed, should be acknowledged whilst re-framing policies to stimulate appropriate development. If a 50% target is continued, in our view that would come with a significant level of ambition and should only be applied as a target to a narrower group of sites or areas – most likely in the highest value locations only. This would still be dependent on the usual factors of evidencing needs and assessing overall development viability, bearing in mind planning infrastructure and any abnormal costs (overall costs burdens). It would also rely on the advantages of the policy position (e.g. related to needs levels) outweighing the reservations we have expressed.

4.1.33 On any first time captured sites (should the threshold be lowered from 10) the introduction of a modest (reduced) proportion of up to no more than say 30% would have a less negative viability impact when compared with that from

seeking higher proportions of 40% or more (again, with specific outcomes dependent on value point and other accompanying assumptions). The 25% affordable housing results represent the reduced on-site proportion outcomes tested in this case.

- 4.1.34 The Council might consider varying affordable housing tenure mix targets in recognition of the current bias towards social tenure and poorer quality private market renting (rather than home ownership) in some lower value southern/eastern localities in the Borough, and also to recognise the viability impacts of affordable rented tenure particularly on lower value schemes (unless supported with sufficient sums of grant).
- 4.1.35 So a more balanced tenure mix, including a greater proportion of intermediate tenures/home ownership based models (or even a mix skewed towards those in some instances) might be considered in those areas in order to create mixed, balanced communities, but the Council would have to consider and confirm or shape the application of this, or any designations).

Discussion of Policy Considerations and Options – Smaller sites (beneath existing threshold)

- 4.1.36 To supplement the approach to larger sites already within policy scope, purely from a viability viewpoint we are able to support the potential to secure carefully judged financial contributions from sites falling beneath the threshold for on-site provision, based on the general sliding scale principle which respects the sensitivities around the first time impact of policy.
- 4.1.37 There may be lower risks, reduced promotion costs and smaller planning obligations burdens on smaller sites, but conversely, there might not be the same opportunities for economies of scale. There are a range of factors which could well balance out or alter outcomes either way dependent on the circumstances. The outcomes relate to site specifics, crucially including value levels; it is simply not possible to say that a smaller site will be more or less viable than a larger one. Viability is principally value rather than site size driven.
- 4.1.38 However, whilst we consistently find in all such viability overview studies that it is not possible to say that smaller or larger sites are more or less viable than each other, we have pointed out two key features of smaller sites which again point towards a sliding scale approach if they are to be brought within the policy scope. Firstly, there is the first time impact issue we have discussed. Secondly, the values generated by the smallest schemes (sums available for land purchase) are likely to be increasingly marginal when compared with existing/alternative uses and with owners' aspirations.

- 4.1.39 The impact of increasing affordable housing proportions on small sites (of fewer than 10 dwellings) where to date no (0%) affordable housing has been sought is significant. This is always the case. The appraisal results (see Chapter 3 and study appendices) demonstrate that the greatest reductions in RLVs are seen where affordable housing is required for the first time. In the case of Enfield, in line with the London Plan led threshold approach, that would be on sites of fewer than 10 dwellings.
- 4.1.40 We consider that the first time policy impact (when looking at sites of fewer than 10 dwellings) and tone of results strongly suggests the potential value of a sliding scale approach should those sites be brought within the policy scope.
- 4.1.41 A sliding scale type approach could take various forms as far as the final target combinations of thresholds (site sizes) and proportions (affordable housing %s) are concerned.
- 4.1.42 As regards a financial contributions approach and relevant (equivalent proportion) targets for it, there are variations which we think can be considered in terms of the viability parameters:
- Sites of 1-9 units 10%
 - Sites of 1-4 units 10%; sites of 5-9 units 20%
 - Sites of 1-4 units 20%; sites of 5-9 units 25 or 30%
 - Sites of 1-9 units 20%
- 4.1.43 Clearly within the range of positions as outlined above, the higher equivalent proportions would mean optimising efforts to secure contributions. In terms of the pros of a higher target for this, it might also be said that at 25% or 30% the size of the step up to the policy headline at 10 dwellings would be reduced, compared with that from a lower starting proportion. However, the current step is from 0% to a 50% requirement under the established approach so a 10% or 20% requirement also reduces that step (and especially if the 50% is reduced under new policy). So, in our view, the potential advantages of going to 25/30% are outweighed by those of a more sensitive approach of a maximum 20% target for the newly “captured” schemes.
- 4.1.44 Also, with increasing equivalent proportion the balance between (relative scale of) the affordable housing financial contribution and the remaining RLV (after it has been paid) changes quite significantly. On lower value schemes especially we see more significant impacts at equivalent proportions in excess of 20% and the potential financial contribution becomes large in relation to the land value. Moving the other way, a 10% target might be viewed as not looking hard enough at the housing needs side of the balance, whilst also leaving a still very significant step up between the financial contributions and on-site routes. This is not an exact science but a case of

making judgments based on the various aspects and on the balance which needs to be struck.

- 4.1.45 In any event, compared with a flat introduction of a policy target of say 40% or more affecting sites beneath the existing 10 threshold, a sliding scale reduces the scale of adjustment needed to land price expectations. It provides a more sensitive outcome viability wise for those first time captured sites. We have consistently made these points in our study work. We consider that this type of approach would bring wider delivery advantages compared with the straight introduction of, say, a 40% target applied for the first time to small sites which are currently not expected to provide any affordable housing contribution. This stage of policy development, considering the first time capture of small sites, is a particularly sensitive one. This sliding scale approach would also fit with the current and likely short-term future market characteristics.
- 4.1.46 A financial contributions in-lieu approach could potentially form a useful and practical approach and tool for the Council, based on the sliding scale principle. We consider that it has the potential to offer certainty of expectations and a more manageable scenario than seeking to deliver on-site affordable homes within the smallest schemes. We think it particularly fits what would be a sensitive stage of policy development – it would represent a positive step in seeking to optimise efforts to address housing needs in the circumstances.
- 4.1.47 Threshold points are to some extent arbitrary. In considering thresholds and proportions combinations, and especially if on-site affordable housing is to be considered for smaller sites, the Council may wish to consider which are most logical in terms of the numbers rounding and other practical/negotiation issues we discuss.
- 4.1.48 Numbers rounding as well as dwelling mix, tenure type, grant input, etc, will all affect viability. They need to be viewed together in practice, and this is particularly relevant on smaller sites in general – whether below, at or above the current threshold of 10. While it does not directly provide affordable homes in the same way, an advantage of a financial contributions approach is that exact calculations can be made – numbers rounding that can significantly skew outcomes need not be a concern. With a suitable strategy in place and transparent records of monies collected and allocated, a financial contributions basis could prove to be a very positive part of the Council's affordable housing plans.
- 4.1.49 In addition, the practicalities of delivery on the very small sites may be more of an issue than viability alone. Issues can be experienced, for example, with scheme design/integration of affordable homes with the market housing, sustainable management, dealings with RSLs, marketing issues and

perceptions, isolation of tenants, affordability, etc. Furthermore, there is the need to provide the right types, mix and quality of affordable housing, and not just focus on numbers. It may be preferable to see those aspects maintained rather than compromised through viability issues related to integrated affordable housing requirements that could potentially reduce the scope to deliver the overall objectives successfully.

4.1.50 From the example options outlined at 4.1.35, overall we favour a target at this stage not in excess of 20% for this group of schemes beneath the existing on-site threshold. Bringing in simplicity and clarity, we consider a straight 20% equivalent proportion on the bracket of schemes of 1-9 dwellings has the best potential to represent an appropriate compromise between the various factors.

4.1.51 As part of providing clarity of expectations and to aid the smooth working of its approach to this policy area, the Council will need to be clear about whether any new policy positions will be applied to the gross (total, irrespective of any dwellings existing prior to the scheme) number or net (i.e. deducting for any such dwellings) number of dwellings being provided by a development scheme. This aspect of detail will be more sensitive in light of the general tone of policy direction proposals to include the smallest schemes within affordable housing policy scope. In our experience, a net application of policy to the smallest sites is appropriate, because gross application can significantly skew the calculations and alter the viability scenario.

4.1.52 That may be particularly relevant to clarify this in respect of replacement dwellings, conversions, etc.

Further Considerations

4.1.53 In all cases the proportions (or equivalent proportions in the case of financial contributions) would need to be regarded as targets, with the relevance of development viability to site specifics acknowledged. The Council would, in any event, need to monitor the outcomes and any issues arising from its selected policy positions. The proportions also need to be considered alongside the other key factors, such as dwelling and tenure mix, grant availability, numbers rounding, expectations on dwelling size and specification, etc. These all influence the extent to which the affordable housing impacts viability.

4.1.54 In all cases and results seen, we assume no major abnormal costs. These would need to be considered as part of the overall burden on sites and could affect viability outcomes.

4.1.55 The study modelling reviewed tenure mix targets of 70% affordable rent/30% intermediate tenure; plus 60%/40%, 50%/50%, 40%/60% and 30%/70%. The

potential market implications for shared ownership have been noted so that a wider view has been taken of the intermediate tenure element. Increasingly the intermediate provision will be reactive and flexible. The Council could consider or trial other intermediate forms of tenure, or variations to the assumptions applied. The strategic aspiration and likely starting point to seek a predominance of affordable rented tenure is in line with local needs profiles, consistent with that of other authorities and also with the GLA Housing Strategy thrust and investment priorities.

4.1.56 An emphasis is and will be placed on affordable rented accommodation given that the severest needs are for that. A 70%/30% tenure mix target and starting point would be in line with current regional policy (although that is being reviewed at present in the shape of the draft replacement London Plan 2009 which, on closing this study, is open for public comment until January 2010). Also it would go as far as reasonably possible to respect the balance of local needs. We can support this approach - providing it is considered as a target, with site specific consideration linked also to dwelling types, mix, specification, grant availability and numbers rounding (i.e. to the affordable housing viewed in the sense of an appropriate overall package, optimised in the actual circumstances).

4.1.57 As would be expected, the 70/30 tenure mix sample appraisals produced lower land value results – reduced viability outcomes – than the comparative 60/40 and 50/50 appraisals, and than the appraisals which assumed an affordable mix skewed in favour of intermediate tenure. While detailed actual scheme comparisons vary and we have commented on the current market and funding trends, skewing the mix towards affordable rented homes generally reduces viability (unless appropriate grant input is available to counter balance that effect).

4.1.58 The sample with grant appraisals showed the extent to which grant can improve viability, although in practice that would be through protecting viability while achieving an appropriate affordable dwelling and tenure mix – which in any event will always need to be in accordance with HCA value for money principles and investment priorities - rather than through boosting land value unduly. Grant availability is highly unpredictable. This may well be a factor in dictating how flexible the Council needs to be in settling tenure mixes from one site to the next. There could, however, be positive aspects to running with an adaptable approach in that there may be certain sites and locations where an affordable tenure mixes biased towards intermediate tenure (rather than affordable rent) could contribute towards the delivery of balanced, sustainable communities.

4.1.59 While the Council's starting point might be to see what can be achieved without social housing grant, we anticipate that grant input may well be necessary to help underpin local delivery – particularly of the right type and

most needed affordable homes. This again links to the need, in our view, not to over-play the total proportion of affordable homes sought - at the expense of what those are, and the levels of grant that may be needed to support them alongside other planning and specification requirements.

- 4.1.60 It will be vitally important for the Council and its partners to keep in contact with the HCA's investment managers so that funding priorities and allocations processes can be understood. Like others, at the time of completing this study we are observing HCA funding being available on quite a responsive basis – opportunity led, where schemes can be delivered (bearing in mind the dramatic slowing up of the planning led (via Section 106) affordable housing delivery programme. We understand from the HCA that the approach to funding is likely to move away from this opportunity led approach and return to a more planned approach in the short-term.
- 4.1.61 The Council will need to consider the wider issues of need, site supply and the like alongside our viability findings.
- 4.1.62 The key viability findings discussed in relation to the level of challenge associated with different affordable housing target levels are based on current or short-term typical planning infrastructure burdens and other costs likely to be applicable in the Borough – as those are more readily understood. However, the likely direction of travel on costs and obligations, plus the need to avoid seeing affordable housing just in terms of numbers rather than mix and quality as well has also been taken in to account in coming to recommendations (see Chapter 5, following).
- 4.1.63 We cannot speculate on exactly how the area of collective costs impact may develop as we move on, but it will be need to be kept in mind and monitored in relation to viability. The Council's consideration of wider issues and collective burdens made it appropriate to consider at this stage how these viability results might be affected by potential increased planning obligations levels.
- 4.1.64 From our results it is possible to start considering the potential “trade-offs” which may occur should the Council move to increase planning infrastructure burdens or other scheme costs increase in a similar way (for example, through an increased renewable energy requirements target in future, or if other burdens such as flood risk mitigation were relevant). Examples of this can be seen in the results where the RLV outcomes from various combinations of affordable housing proportion, tenure mix and other obligations can be seen. The preceding results chapter gave some comparisons.
- 4.1.65 To build on that and take another example for illustration of this point, on a 10 unit housing scheme with 40% affordable housing assuming 70/30 tenure mix

(results Table 1 within Appendix II) we see a RLV of £1,140,891 produced at Value Point 5 with £5,000 infrastructure costs. Once the infrastructure cost rises to the upper trial level of £20,000 per unit, to get to a similar or (in this case slightly better) RLV - £1,228,189 - the affordable housing proportion has to drop to 25% given the same assumptions otherwise.

- 4.1.66 To extend that example, the otherwise comparative 40% assuming 60/40 tenure mix result shows that a combination of that tenure and an intermediate £10,000 per unit planning obligations cost produces a similar RLV of £1,198,064.
- 4.1.67 Given current values and market conditions in particular, it is possible that the Council may in some situations need to consider prioritising planning obligations. Based on current viability tones, this will certainly be the case if overall planning obligations costs are to be significantly increased. Future values trends, or higher value instances, could of course help this balance.
- 4.1.68 This same principle of trade-off and potential prioritising might apply to the area of property specification, for example related to Code for Sustainable Homes, renewable energy requirements, Lifetime Homes or other standards. Cost burdens will need to be monitored and considered collectively.

5 KEY RECOMMENDATIONS

- 5.1.1 In light of the discussion around the possible policy options (in Chapter 4, Conclusions, and especially at paragraph 4.1.44), we consider that a single, clear Borough-wide target would be more appropriate overall. The Council should weigh up the factors discussed alongside its wider evidence base, local knowledge and delivery experiences. It should weigh up which options(s) have the potential to provide maximum certainty and which fit best with that wider evidence, including on the anticipated land supply pattern. This will also be in the context of seeking to optimise affordable housing supply given the set of circumstances, which will need to be monitored over time.
- 5.1.2 **40% in our view would represent a suitably challenging affordable target if applied Borough-wide in this way – to sites of 10 or more dwellings as are already subject to the existing London Plan led approach.**
- 5.1.3 **Wherever fixed, policy positions should be set out as clear targets, to help inform land value expectations and form the basis for a practical, negotiated approach.** Widely used economic appraisal tools such as those produced and promoted by/for the HCA and the GLA, though not exclusively, should be used to help review site viability – this strategic overview is not a substitute for detailed review at a site specific stage.
- 5.1.4 **Policy wording will need to acknowledge the relevance of considering development viability on case specifics.**
- 5.1.5 Recognising the grant funding and potential viability implications of high proportions of affordable rent as well as how the existing tenure balance varies across the Borough, and the need to create sustainable mixed communities, **it could be relevant to consider varying affordable tenure mix targets by area and/or by site. This would probably be beneath the headline of emphasising the need for affordable rented homes, accompanied by a strategic target in favour of those – as a starting point target for and background to site specific considerations.**
- 5.1.6 **In considering bringing schemes of fewer than 10 dwellings within the policy scope, we recommend a reduced proportion of affordable housing is sought from those.**
- 5.1.7 **We also recommend that the Council considers seeking financial contributions rather than on-site affordable housing within that scheme size range (so as an alternative to an on-site threshold at say 5 dwellings). We suggest that this approach could be based on a single clear target set at no more than 25-30% equivalent proportion – as a target - in any event.**

- 5.1.8 Bearing in mind the sensitivities and looking at simplicity and clarity of policy as a key point, we consider that **an appropriate target allied to a financial contributions route on schemes of 1 to 9 dwellings would be 20% (equivalent proportion).**
- 5.1.9 In any event, but particularly if lowering thresholds and looking to on-site provision from smaller sites, the Council will need to consider its approach to the mathematical subtleties of its selected policy positions – for example how numbers rounding affects it, and at what points the threshold and proportion combinations work most logically together.
- 5.1.10 In considering the setting and application of all targets, the Council will need to be aware of the added and, therefore, collective viability impact which flows from other costs areas increasing within development appraisals, as modelled (e.g. planning obligations, scheme specification, developer's profit, and potentially others), and that these mean increasingly smaller sums left available for land purchase (RLVs).
- 5.1.11 Adams Integra considers that there may be some scope to seek such additional Council-led requirements in the future (i.e. those going beyond Code for Sustainable Homes Level 3 and plus additional 10% reduction in CO₂ allowance (e.g. through on site renewable energy generation) together with the lower to mid level planning obligations levels assumed.
- 5.1.12 However, particularly in the current and likely short-term market conditions it is not likely that those will all be achieved together. Values and costs, and their interaction, will need to be monitored. Increased (more ambitious) targets could be set, and the approach would need to be phrased or explained in that way, but it is likely that priorities would need to be weighed up according to local and site specific issues – especially in the short-term. In the future, with developing markets and technologies, different views may be made of the costs associated with environmental matters and the specification of developments. The cost uplifts we have to assume now could reduce, but there is no current basis that we know of for making such assumptions.
- 5.1.13 The findings on these potential added cost factors add weight to our view that it would not be appropriate to be inflexible or over-ambitious about affordable housing targets, adding to thinking behind the parameters set out above. It can be seen that a straight 50% affordable housing policy applied Borough-wide in conjunction with such other costs might well not be workable, particularly when viewed along with the incidence of some relatively low values locally. 40% would represent a suitably challenging Borough-wide affordable housing headline as applied to sites already within the policy scope.

- 5.1.14 **In line with the London Plan (although noted to be newly under review), as a strategic target position, the Council could aim for an affordable housing tenure mix of up to 70% affordable rent/30% intermediate** – providing the affordable housing element of a scheme is seen as a package which has a **range of key elements and inputs that need to be considered together**. As well as tenure mix, these include dwelling mix, sizes, specifications, grant availability, numbers rounding and the like. It is how these things come together to determine optimal provision of affordable housing on a specific site that will be important. Grant is likely to play a role in supporting significant proportions of affordable rented accommodation. Only on larger sites do the 60/40 tenure mix appraisals show a significant viability improvement in comparison. However, as the mix trialled moves to 50/50 and then in favour of intermediate tenure, results can be compared with those which produce a bias towards affordable rent but rely on grant, for example.
- 5.1.15 Within these parameters the Council will need to consider the most appropriate balance between optimising affordable housing delivery and its type, together with the continued overall delivery of an appropriate range of housing by the market in the Borough. This will need to be weighed up alongside other information the Council is gathering.
- 5.1.16 For clarity and smoothness of operation, the Council will **need to consider the application of net or gross new dwellings numbers for the calculation** of the relevant affordable housing quota; or financial contribution scenario. This tends to become an increasingly sensitive issue with decreasing scheme size – there can be a large difference between the outcomes from the two approaches. We **recommend alignment to net new dwelling numbers certainly for the small scheme scenarios**.
- 5.1.17 **Delivery experiences from all positions will need to be monitored**, regardless of where they are pitched. The Council should have **contingency plans** in place for reacting to those experiences as part of its practical, adaptable approach.

6 WIDER DISCUSSION

- 6.1.1 The “National indicative minimum” (site size) threshold for affordable housing is regarded as 15 dwellings, as set out by the Government’s PPS3 Housing (November 2006). The PPS3 goes on to say, however, that local authorities can set lower thresholds “where viable and practicable”. The results discussed in this study show that a lower threshold could be considered. We recommend that this would be linked to a form of sliding scale approach to the proportion of affordable housing sought. The London Plan position is also relevant in the background to considering and developing a more locally relevant approach, and has been a key driver of the Council’s current practice to seek 50% affordable housing on sites of 10 or more dwellings.
- 6.1.2 Where we have mentioned negotiation, that does not necessarily mean an overall reduction in affordable housing – it could mean negotiations over grant input or changes to the tenure mix to provide an element of cross-subsidy into a scheme. Cascade principles could be used – but where the Council is involved actively in the re-shaping of affordable housing elements of schemes where necessary. Similarly, there may need to be a compromise position which is achievable, rather than moving straight to an assumption that leaves a site contributing nothing to affordable housing needs, that allows the affordable housing delivery on particular sites to react to changing viability and funding circumstances as more certainty is created with scheme progression. This may also inter-act with the consideration of other planning obligations – weighing up of the collective burden on market led schemes and potential prioritising of planning obligations.
- 6.1.3 If the policy targets cannot be met, then landowners and developers will need to clearly demonstrate why. The final judgement on exactly where this element of the policy proposals will settle should be, in our view, based on all the factors and evidence viewed together, i.e. alongside the viability outcomes. Included in this wider picture will be the key elements of forecasting of increased affordable housing units delivery based on the size and number of sites coming forward (site capture and estimated yield), local housing needs and practical thinking on the consequences of having small numbers of affordable homes distributed widely across a higher number of schemes.
- 6.1.4 There may need to be some testing of any concerns over sustainability generally, including of RSL management regimes as applied to such dispersed affordable housing stock – if sites of fewer than 10 dwellings are to provide on-site affordable tenure. This is because the numbers of affordable homes in single locations would get very small. Individual affordable units might come forward. Whilst mixed signals from RSLs are picked up through our consultations with them (depending on their size and business plan, etc) further views might be sought.

- 6.1.5 The affordable housing content of a particular scheme could be negotiated by reference to factors other than numbers of dwellings. The Council could consider detail for potential use alongside affordable housing thresholds and proportions linked solely to dwelling numbers. For example, it would be possible to align the thinking to the number of habitable rooms or size of floor space added by a development scheme. There may be instances where it would be appropriate to commute the affordable housing provision in such a way (if, for example, a straight split on dwellings numbers was not going to provide suitable accommodation for priority needs affordable housing). This may be best left as scope to explore in some instances within the negotiations, rather than it being a policy point. In our experience having this type of approach embedded in policy can still result in (or even increase) difficulties in achieving a mix of dwelling types for affordable housing.
- 6.1.6 Crucially, and regardless of detail, the policy should be worded in clear terms. It should not be expressed as a minimum level of provision or be capable of interpretation in an ambiguous way. We have suggested that the Council could potentially consider the idea of a range of proportions, depending on site specifics and site size. Supporting text and/or accompanying guidance/SPD or similar could amplify the selected approach. New policy proposals should be viewed in the context of raising the profile and delivery expectations of affordable housing across the wider Enfield development scene, with the Council seeking to secure improved delivery overall from current levels. This is not likely to be through increased target proportions on the sites that are already within the scope of the Council's approach. It is more likely to be through the potential to reduce affordable housing thresholds and bring more sites in to the delivery scope, whilst setting ambitious but achievable targets for the larger sites - so as not to unduly deter landowners and developers from bringing those forward and optimising the use of those sites.
- 6.1.7 Targets should be worded and regarded as such. The Council could consider phrasing the requirements in terms of "seeks x% affordable housing" or "requires x% affordable housing", with wording which also goes on to acknowledge viability and cover the negotiated approach in supporting text.
- 6.1.8 It is important that a flexible and negotiated approach to policy application is adopted to ensure the continued supply of residential development land, notwithstanding the very high priority that will be given to addressing affordable housing need. The policy or supporting text would need to make this flexible approach clear. The aim is to provide clear and robust targets for guidance to developers and landowners in appraising and bringing forward sites.

- 6.1.9 We expect that in site-specific viability discussions, where necessary, the use of a toolkit will help the common analysis of appraisal information between the Council and developing parties. These include but are not limited to the Housing Corporation's (now re-badged as the HCA's) "Economic Appraisal Tool", GLA sponsored "Three Dragons" toolkit or developer's own workings) and the use of such a tool will be encouraged. Developers will be encouraged to work closely with their RSL partners, who will increasingly be using that type of appraisal work to support their decisions and approaches for social housing grant.
- 6.1.10 Policy should be kept under review in view of key drivers including housing needs, site supply and viability. Our recommendations are considered to be sound for the current stage of policy development, but their impact and the delivery resulting from them will need to be monitored with a view to future direction. The Council will also need to consider monitoring property prices regularly and consider updates of the viability picture periodically. This could be linked to changes to planning policy or work on SPD, or (better still) at regular intervals as part of the Council maintaining its knowledge of local markets. The monitoring of property prices will help the Council to understand the property market and how it reacts to changing financial circumstances over time. This could be carried out by reviewing information such as Land Registry House Price Index figures, RICS and CLG survey data, Home Track information, internet estate agents' websites or a mixture of such sources. We find it very useful to speak to estate agents and staff in developers' sales offices.
- 6.1.11 It will also be important for the Council to detail contingency plans in the event of failure to meet affordable housing targets (potentially through short-term worsening of housing markets).
- 6.1.12 The Council will expect developers and landowners to come to the table and be prepared to explain and justify why, in any relevant cases, the affordable housing targets and/or other planning obligations requirements cannot be met given other demands on a scheme. The onus will be on developers to clearly and fully demonstrate the issues, with evidence to back up abnormal site complexities and the like.
- 6.1.13 It is expected that a methodology similar to one we have used will be appropriate for this process, to explore the relationship between development costs and values. Again, however, we reiterate that whilst this methodology is generally accepted, and the assumptions we have used might guide the Council on starting/indicative parameters, there will be no substitute for site-specific appraisal work of this type. Such work would take into account appropriate specific assumptions.
- 6.1.14 Issues may arise on those sites which have already changed hands or are committed through option or similar arrangements, where figures may simply

not work when set against the proposed policy requirements. In the same way, there will be some previous planning consents capable of implementation.

- 6.1.15 Similarly, a degree of difficulty with increasing planning-led affordable housing supply may be experienced during the adjustment process where there will be problems whilst developers/landowners get accustomed to the new policies and expectations are modified. The modelling in this study has been carried out on the assumption that knowledge of policies exists and that the landowner/developer information and adjustment process has been undertaken.
- 6.1.16 This type of negotiated approach, as advocated by Government Guidance, then needs to be brought to life through appropriate Supplementary Planning Documents and/or Development Plan Documents. Those might usefully include guidance for developers, RSLs and others on the local approach – including on any move towards guiding developer expectations on affordable housing revenue (e.g. through a “payment table”, free serviced land approach or similar). Such documents and approaches should be regularly updated. The documents could be set up so that updating can be done through changing appendices only – rather than regularly reviewing the whole document.
- 6.1.17 The Council could consider the use of the cascade principle within its model Section 106 agreements for affordable housing. We understand that the HCA is encouraging this, and they could be consulted on it as the Council develops its approach to building up the detail of its affordable housing approach more generally.
- 6.1.18 This study has considered planning-led affordable housing in the context of integrated provision within market-led schemes, secured through planning obligations usually embodied in a Section 106 agreement. The Council, along with its partners, should also continue to consider the wider routes to affordable housing provision. Housing Association or contractor/developer-led schemes can be successful in significantly bolstering local provision – sometimes on lower value, more difficult sites, for example as a part of removing non-conforming uses from older residential areas or recycling unviable former commercial land. There will always be a balance with retaining sufficient land for employment use, but the various supply sources of affordable housing need to be considered and encouraged. The use and role of Council or other publicly owned land might also be very valuable in this sense.
- 6.1.19 In tandem with planning-led policies to secure affordable housing, all other efforts to secure affordable housing should be optimised. Within those wider initiatives, the Council and other public sector organisations are in a position to consider the appropriateness of providing more than the standard policy

elements of affordable housing on their own land holdings. This can be through sale contracts for development by others; or through developments they lead or enter into partnerships/joint ventures on. In our experience of dealing with land owning authorities previously, while there are implications around capital receipt levels, it is possible to invite dual or varying bids for sites or partnership proposals. For example, these could be based on standard and enhanced affordable housing content levels. In that way, the impact of the additional affordable housing can be seen and the benefits of its provision measured against budget factors and other criteria. In the current market conditions, where developer interest may well be limited or suppressed, alternative marketing routes, schemes ideas and types of partnerships may well be attractive financially and risk wise as well.

- 6.1.20 The appraisals for RSL-led schemes can sometimes be aided by taking a reduced view on the return (profit) needed and through risk sharing. Housing Associations and others should be encouraged to be proactive in these areas, and supported by the Council where possible.

**End of main study text
Appendices follow
Study period completed November 2009**

Appendices

- **Appendix I** sets out the Development Scenarios (scheme types and key assumptions)
- **Appendices II, IIa and IIb** show the results from appraisals carried out assuming infrastructure costs of £5,000, £10,000 and £20,000 per unit respectively.
- **Appendix IIc** shows the results of the sample appraisals carried out assuming changes to tenure mix (60% affordable rented and 40% intermediate).
- **Appendix IId** shows the results of the sample appraisals carried out assuming changes to tenure mix (50% affordable rented and 50% shared ownership).
- **Appendix IIe** shows the results of the sample appraisals carried out assuming increased developer profit.
- **Appendix II f** shows the results of the appraisals that assume an element of grant (70% affordable rented and 30% intermediate).
- **Appendix IIg** shows the results of the sample appraisals carried out testing the requirement for 20% reduction in CO₂ through on site renewable energy generation.
- **Appendix IIh** shows the results of the sample appraisals carried out testing the requirement for Levels 4 and 6 of the Code for Sustainable Homes.
- **Appendix Ili** sets out a summary of the RLV maths behind and the appraisal results relating to the potential collection of financial contributions from sites in the size range 1 to 9 dwellings.
- **Appendix IIj** sets out the appraisal results relating to the additional sample modelling carried out with affordable housing content skewed towards intermediate tenure (30% affordable rent/70% intermediate, and 40% affordable rent/60% intermediate).
- **Appendix IIk** provides results from appraisal variations at Value Point 4, looking at the potential cumulative impact of increasing cost obligations.
- **Appendix III** contains a summary of our property values and market research.
- **Appendix IV** provides a Glossary of terms.