Mole Valley District Council

MoleValley
District Council

Local Development Framework:

Supplementary work to Adams Integra's April 2008 Affordable Housing Financial Viability Assessment

Additional study input for the consideration of Mole Valley District Council;
this does not constitute Council Policy

This supplementary work completed: October 2008

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1. INTRODUCTION

1.1 Background

1.1.1 In April 2008 Adams Integra completed a detailed study which looked at residential development viability as impacted by affordable housing policy requirements.

1.1.2 Adams Integra has completed approximately 30 similar studies since 2004, using the same basic methodology. The approach is now well established. It has been applied in a wide range of Local Authority areas - through very close working with Council clients and detailed local property market research to ensure local relevance. LDF Core Strategy/Affordable Housing Development Plan Document policies have been supported using this work in locations including Horsham, Crawley and, most recently (following Examination in Public during the summer of 2008), at South Hams. In a wide range of other areas our work supports the day-to-day operation of planning-led affordable housing policy targets.

1.1.3 Amongst the previous study findings, Adams Integra was able to support the principle of all residential development schemes providing some level of contribution towards meeting affordable housing needs. The level of contribution from sites providing fewer than 10 dwellings was recommended at 20% affordable housing – either by way of in lieu for sites of 1 to 4 dwellings and on-site for sites of 5 or more, or by way of financial contribution from sites of 1 to 9 dwellings. In coming to those potential positions, Adams Integra raised the issues that can be associated with seeking on-site affordable provision on the very smallest sites.

1.1.4 This further study work was commissioned by Mole Valley District Council to supplement our main study document and findings by seeking to look at actual sites and consider how the viability of those might have been impacted by the circumstances in which the Council can expect the residential property market to deliver the required levels of affordable housing. Consistent with the original study, this additional work also makes allowance for the introduction of the Council's (Planning Obligations) Tariff System and how this would impact development viability.

1.1.5 The aim was to see whether, on examining specific sites, the earlier viability overview findings could be explored further in terms of additional testing of the potential policy positions – particularly to seek financial contributions from those smaller sites.

1.1.6 Therefore, two Case Study scenarios were selected by Adams Integra from a list of recently completed schemes supplied by the Council. This process, together with our findings, is described briefly in the following pages.

1.1.7 Given the well-reported further deterioration in property market conditions during the summer 2008, the Council also asked Adams Integra to provide brief updated information on that, as part of its ongoing monitoring processes.

2. METHODOLOGY

2.1 Case Study Selection and Information

2.1.1 In recognition of the sensitivities that are often associated with development schemes at the planning and negotiation stage, we decided to look at sites which had been completed recently. We felt it was more likely that we would be able to obtain information on those schemes – the negotiations would all have been dealt with, planning secured, and more would be known about those sites (as opposed to sites which were still undergoing exploratory work and where proposals and detail was being built up).

2.1.2 We took the view that, depending on the level of success of this exercise in terms of available information to support our assumptions, it may be something which could be built on further by the Council – other schemes could potentially be reviewed. However, whilst there are numerous other examples of schemes or scheme types which could be relevant to consider in this way, our main study acknowledged that each site is different and has to be considered on its specifics. The main study noted that it was aimed at a strategic overview in the context of policy targets, and that a second layer of considerations would need to be given to sites specifics as they come forward. There needed to be judgements made by the Council about how extensively this could realistically be studied further at economic cost.

2.1.3 The Case Studies selected, both sites within Mole Valley, were:

Case Study 1
1 no. new 4 bed house of approximately 173 sq m on a site formed from part of the rear garden of a substantial property, with new/ rearranged access).

Case Study 2
4 no. new 4 bed houses and 1 no. new 2 bed bungalow (5 new dwellings total) on a "back land"/"infill" site formed from parts of the rear garden from 2 adjoining properties – with new access).

2.1.4 The Council supplied base information from its planning files for each of these cases. This enabled us to familiarise ourselves with the locations (which we visited) and the characteristics of the schemes, and therefore helped inform our additional appraisals.

2.1.5 This base information included plans, details of Section 106 planning obligations, any Highways or other requirements which the schemes were subject to, and the planning applicant's/agent's contact details.

2.1.6 Adams Integra then sought to build on that information by approaching the planning applicant in each case. The purpose here was to see if they would be prepared to help with sharing information on the schemes – thus enabling Adams Integra to verify or supplement, at least to some degree, the assumptions it would make within its additional appraisals of these schemes.

2.1.7 In this process, the purpose of requesting the information was fully explained. While the introduction to the request (insight to Mole Valley District Council policy development work) and some specifics have been removed from the sample text included here, the information requests were expressed in the following terms (through email dialogue following initial phone calls made to the relevant contacts for each scheme):

> As mentioned, we would not be quoting [you], your client, any other party or the site address - or any other specific information which would link the Case Study to you/them - or to the actual scheme. We would simply call this "Case Study 1" or similar, with a site type description. We appreciate that there are sensitivities around such information. We have chosen sites which have already been built mainly for this reason, as negotiations and planning are already dealt with. More is known about those sites too.
>
> While we are equipped to make reasonable assumptions about the values and costs associated with such a scheme (and therefore about viability), we thought it would be preferable to try and support/check those assumptions by consulting builders/developers involved in the selected Case Study schemes, such as yourselves. This level of depth is not practical for our much wider viability overview work, and it does bring difficulties with trying to compare outcomes "like for like" when thinking about the strategic overview and policy impacts for that. However, for the purpose of this more directed Case Study work, it would be very helpful to have some information from you or your client, if possible please. Apologies, I am not sure of the extent of your involvement on this scheme.
>
> Either way, perhaps you can please let me know in the next few days – so that we can move ahead without anyway; or consider any information that you or colleagues/contacts are able to provide for us. The intention is not to put you to a lot of trouble or expect you to spend very much time on this, but to seek help with some basics.

The following list indicates the sort of information that would help us, even if not in response to all points here:

"Case Study X"
(X no. new dwelling(s) on a site formed from part of rear garden of an adjoining property, with new /rearranged access)

- Development plot land price (even if indicative/"in the order of…")

- Cost of construction of the new property – expressed either as an all-inclusive figure (i.e. including external works, service connections, design and other fees, insurances and contingencies etc) <u>or</u> as a base figure but if possible with the cost of all such additions also clarified? This or these might per £s total/rates per sq ft or m (as available/preferred).

- Confirmation of Section 106 and Highways agreement costs (planning obligations) – these were understood to be…………

- Development plot area (excluding/including access?)?

- Confirmation of size of new house(s) - understood to be approximately X sq m (but confirmation sought, and clarification re the confirmed floor area being expressed in terms of GIA, GEA etc).

- Value/sale price of new property(ies) – if it was/they were developed for sale (sorry, we are unaware of the background - again, even indication would be useful if possible…).

- Any development costs considered to be abnormal/not included in construction or additional cost items covered above?

- *If available*, overall scheme finance costs/experiences/rates?

- Anything else you think was pertinent to viability (had a significant impact on that) in the case of this scheme?

Many thanks for your time in considering this, and any responses will be much appreciated.

2.2 Appraisals – general

2.2.1 Adams Integra again used the Residual Land Valuation technique – as applied for the main study. Therefore, the methodology basis is not discussed here again – the original report and terminology may be referred to[1].

2.2.2 At the time of drafting this no information has been received. One development company has responded that "unfortunately we're unable to assist at this time". No response has been forthcoming in respect of the other Case Study. Tracking down the appropriate contacts and running this part of the process has proved to be quite time-consuming. We understand the sensitivities which can be involved in such matters.

2.2.3 Therefore, the appraisals have been run using actual information on the sites provided by the District Council's planning team, but using Adams Integra's assumptions in respect of key financial aspects of the appraisals.

2.2.4 We have been able to feed in to the appraisals specific, or more specific, information on:

- Property sizes
- In some cases property values
- Planning obligation costs (Section 106 and Highways)
- Any abnormal costs known through the planning process

2.2.5 In the absence of site-specific information enabling us to do otherwise, Adams Integra's previous study assumptions have been applied in respect of:

- Build costs
- Fees (all)
- Insurances
- Contingencies
- Marketing
- Survey Costs
- Finance
- Renewable Energy[2]

2.2.6 The other specific key assumptions for the new base appraisals carried out for each Case Study are as set out in 2.3 below. We then varied certain assumptions to investigate further what added costs or varying scenarios would mean for the RLV results produced and thus scheme viability outcomes.

[1] Mole Valley District Council Local Development Framework Affordable Housing Financial Viability Assessment November 2007 – April 2008

[2] Although we think it unlikely that any renewable energy measures were included in the developments, and were not required by the Council to our knowledge, a cost allowance has been included in these appraisals as per the original study.

2.3 Appraisal assumptions - specifics

2.3.1 **Case Study 1:**
1 no. new 4 bed house of approximately 173 sq m on a site formed from part of the rear garden of a substantial property, with new/rearranged access).

Site area = 0.065 Ha (Source: planning application)

Property value: (*Source: Land Registry*) Dwelling of approximately 173 sq m @ £495,000.

In terms of per sq m rates, this indicates approximately £2,860 per sq m.

So in this case the scheme **GDV is indicated as £495,000.**

Other assumptions as per main study:

Developer's profit at 15% GDV = £74,250

Planning obligations
This scheme made no contribution in respect of the tariff standards as it was submitted before those were introduced on 1 February 2008.

The scheme was not required to pay any Section 106 costs when permitted.

However, if the scheme came forward after the tariff it would be required to pay:

Total for the site - **£15,413** (including 5% monitoring charge).

Breakdown:

Education (primary)	£3,675
Education (secondary)	£4,044
Libraries	£263
Equipped playspace	£1,647
Community Facilities	£429
Recycling	£94
Environment Improvements	£715
Transport	£3,812

Sub Total = £14,679

Monitoring Fee = £734

In this instance there would have been no Highways payment requirement (over and above the transport element included in the tariff calculation). The Adams Integra **assumptions for planning obligations** (excluding affordable housing) within the original viability study would have calculated this at £18,155 and therefore allowed more than adequately to reflect what would be charged for this scheme now (post tariff introduction).

Finance rate 7.5% maintained – no reduction allowed in respect of recent lowering of Base Rate to 4.5%.

Similarly, **build costs, fees, site preparation, survey and all other cost allowances as per main study.**

Affordable Housing Contribution calculated (in accordance with main study methodology – for example at 3.10.19 of that document) **at £26,020** being [39.6% of value of suitable family affordable housing unit of 100 sq m were it requested on site (£286,127) plus 15%] x 20% affordable housing equivalent proportion.

For clarity, the value of the equivalent affordable housing unit is calculated by taking the actual value of the unit on the site (£495,000) and dividing by the unit size (173m²) to get to a £ per sq m rate (£2,861/m²). This is then multiplied by a typical affordable housing 4 bed unit size (100m²).

2.3.2 **Case Study 2:**

4 no. new 4 bed houses and 1 no. new 2 bed bungalow (5 new dwellings total) on a "back land"/"infill" site formed from parts of the rear garden from 2 adjoining properties – with new access).

Site area 0.26 Ha (Source: planning application)

Property values (*Source: Agent's current marketing information and feedback on sales achieved from subsequent enquiry*).

4 bed houses of approximately 177 sq m @ £645,000 to £685,000 each; 2 bed bungalow of approximately 108 sq m @ £400,000.

These values range from approximately £3,640 to £3,870 per sq m for the houses and approximately £3,700 per sq m for the bungalow.

Totalled-up, they indicate **a GDV of £3,070,000.**

Other assumptions as per main study:

Developer's profit: at 15% of GDV = £460,500

Planning obligations:
This scheme made no contribution in respect of the tariff standards as it was submitted before those were introduced on 1 February 2008.

The scheme contributed only towards Highway Improvements (see below).

However, if the scheme came forward after the tariff it would be required to pay:

Total for the site - **£71,143** (including 5% monitoring charge).

Breakdown:

Education (primary)	£16,962
Education (secondary)	£18,665
Libraries	£1,214
Equipped playspace	£7,603
Community Facilities	£1,980
Recycling	£436
Environment Improvements	£3,300
Transport	£17,596

Sub Total = £67,756

Monitoring Fee = £3,387

Highway Requirements:

The case specifics were that a sum of £30,000 was paid before the tariff was introduced. If this scheme came forward after the tariff introduction then the Council would look for additional funding over and above the transport element of the tariff - to pay for the locally required improvements (resulting directly from the scheme and covered by the £30,000 which was collected). The applicant could therefore be asked to pay up to an additional £12,431 (being £30,000 paid minus £17,596 tariff Transport element).

The sum used in our calculations was therefore £83,574 (£71,143 plus £12,431) based on the Council's advice. Adams Integra's assumption for overall **planning obligations** (excluding affordable housing) for such a site calculated for the original viability study was a sum of £84,837. That therefore very accurately reflected what would be charged for this scheme now (post tariff).

Finance rate 7.5% maintained – no reduction allowed in respect of recent lowering of Base Rate to 4.5%.

Similarly, **build costs, fees, site preparation, survey and all other cost allowances as per main study.**

Affordable Housing Contribution calculated (in accordance with main study methodology – for example at 3.10.19 of that document) **at £162,764** being [39.6% of value of equivalent affordable housing units were they requested on site plus 15%] x 20% affordable housing equivalent proportion.

Again for clarity, the values of the equivalent affordable housing units are calculated by taking the actual value of the units on the site e.g. (£685,000) and dividing by the unit size (177 sq m) to get to a £ per sq m rate (£3,870/sq m). This is then multiplied by a typical family affordable housing 4 bed unit size (100 sq m). Note – as units of differing sizes were on the site, the calculation is averaged. It should also be noted that this calculation has assumed the upper end value rate per sq m to look at viability on that basis; selection of a lower value rate to applied to the affordable housing unit size would have produced a lower affordable housing financial contribution assumption.

3. CASE STUDY APPRAISAL RESULTS

3.1 Case Study 1 (1 dwelling scheme) outcomes

3.1.1 The base appraisal discussed at 2.3.1 produced a residual land value (RLV) of £148,963, which equates to 30.1% of the GDV. Given the site area, it could also be expressed as equivalent to £2,291,745/Ha or £927,436/acre.

3.1.2 Clearly, in practice, the balance between developer's profit and land value created could have been different to this, but nonetheless it indicates a positive RLV created for the owner of the existing residential dwelling (vendor of the garden land plot), bearing in mind that this appraisal includes an affordable housing contribution of £26,060 alongside the relevant planning obligations tariff figure.

3.1.3 In reality, there could be variations to all appraisal inputs with site specifics. As outlined in the original study, all sites and schemes are different. To test the sensitivity of the outcome to varying value and cost assumptions, however, we altered those within the base appraisal on a trial basis – with the following outcomes.

3.1.4 Increasing base build costs to £1,100/sq m and allowing £50/ sq m for Code for Sustainable Homes Level 3[3] reduces the RLV to £123,221; increasing developer's profit to 20% of GDV reduces the RLV to £126,421 and, reducing property value (GDV) by 15% reduces the RLV to £97,228.

3.1.5 As a worse case scenario (in terms of viability), the collective impact of the 3 changes trialled at 3.1.4 would be to reduce the RLV indicated to £50,626.

3.1.6 As we add more costs into this Case Study scenario, the impact of the reduced scope for sufficient land value being generated to incentivise release of the land for development for this scheme could be more significant than for Case Study 2. The question of whether the land value is significant enough to promote the release of this garden land for a single plot development becomes more marginal as cost assumptions are increased and/or value assumptions are lowered. In this context, however, the completed value level (GDV) assumed is considered to be low relative to the property type and more typical Mole Valley scenario.

3.1.7 Developing this point a little further, the base appraisal shows scope for a good level of RLV considering the scheme is a relatively low value one (equivalent to approximately Value Point 1 of our main study). The site is not in an ideal location for generating high values as are more usually seen in Mole Valley. It is interesting to note that an individual detached house in Mole

[3] Assume all housing achieves Code Level 3 - costs to be used £50 per m2 for houses based on Cyrill Sweet Cost Analysis of the Code for Sustainable Homes July 2008 (assumes medium case scenario)

Valley would more usually command a significantly higher value than this one. This is evidenced by the value levels that are seen in Case Study 2 and were seen in our main study work too, for example. It is the case even if downward adjustments are made to those higher value levels in respect of what appear to be deteriorating market conditions. A higher property value for such a scheme would mean a significantly improved RLV appraisal result, or at the very least scope to bear more cost. Particularly with smaller schemes, we are aware that build costs could be higher than those assumed – related to the specification and build details. However, this will normally be justified by, and hence off-set (or bettered) by, often significantly increased value levels to that assumed here.

3.1.8 As we add in further costs we can, therefore, see the need to carefully consider the calculation of affordable housing contributions and the need to be flexible over policy application – just as with the on-site affordable housing target scenario. The appraisals carried out all include a financial contribution allowance based on the value of a suitable affordable unit of more modest size, which would have been sought in an on-site scenario - rather than the larger market dwelling built on-site. This is due to the fact that if on-site affordable housing were required it would have been a much smaller dwelling type (to achieve affordability) and thus a less valuable property in terms of the inputs to our suggested formula. This more lenient approach to the commuted sum calculation (rather than aligning it to the market sized unit and thus value created) applies the relevant affordable housing target proportion but based on the per unit guide sums at Fig 10 (3.10.20) of the main viability report. In this case the relevant proportion within the formula is 20% of the dwelling numbers – so in this case 0.2 unit equivalent for affordable housing.

3.1.9 As at 3.1.8, it would also be possible to calculate the sum based on the value and size of the actual market units built. This would lead to an increased financial contribution for affordable housing, which would reduce viability. In this Case Study, if the commuted sum were based on the actual market property built at 173 sq m, the commuted sum would be £45,085 (compared to £26,060) leading to a reduced base RLV of £130,662 (compared to the base RLV result above of £148,963).

3.1.10 So, in summary, relatively modest single (or perhaps multiple) new dwelling schemes, such as with the value and property size assumptions considered in this Case Study, point to the approach at 3.1.8 as the main one to underpin contributions from these smallest schemes, particularly at this sensitive stage of policy development.

3.1.11 This is consistent with the per unit guide/example contribution sums provided in the main study report.

3.1.12 We have commented that in Mole Valley there will also be instances of much larger property types built and more valuable schemes of this type. The Council may wish to consider whether such instances will be considered more directly in terms of their size and value. In essence they are equivalent to developing a larger number of smaller/less valuable properties in terms of value created. Whilst the potential to look in this way at these more valuable scenarios might not be the main route followed, in viability terms this area can be left open for the Council to look at further in relation to the type of smaller schemes that come forward.

3.2 Case Study 2 (5 dwelling scheme) outcomes

3.2.1 The base appraisal discussed at 2.3.2 produced a RLV of £1,136,919, which equates to 37.0% of the GDV. Given the site area, it could also be expressed as equivalent to £4,372,765/Ha or £1,769,595/acre. It also equates to approximately £220,000 per plot (average based on the 5 new plots) or approximately £550,000 for each of the 2 landowners who we assume each released a portion of their rear gardens to facilitate the scheme. This is a significant outcome – a very positive land value result.

3.2.2 Clearly, in practice, the balance between developer's profit and land value created could, again, have been different to this but nonetheless it indicates significant value scope within such a scheme, bearing in mind that this appraisal includes an affordable housing contribution of £162,764.

3.2.3 In our view, this appraisal suggests sufficient scope for the costs side to rise. For example more scope could be allowed for build and other costs whilst still providing a very attractive land value in relation to the householders' selling parts of their gardens. Such significant value levels would far outweigh the loss in value (from reduced garden size) to their retained properties – particularly given the types of properties in question, and their likely values.

3.2.4 On the same basis as for Case Study 1 we altered the value and cost assumptions within the appraisal to test the sensitivity of those. These produced the following outcomes.

3.2.5 Increasing base build costs to £1,100/sq m and allowing £50/sq m for Code for Sustainable Homes Level 3[4] reduces the RLV to £1,014,726; increasing developer's profit to 20% of GDV reduces the RLV to £1,004,111 and, reducing property value by 15% reduces the RLV to £827,140.

3.2.6 As a worse case scenario (in terms of viability), the collective impact of the 3 changes trialled at 3.2.5 would be to reduce the RLV indicated to £592,061.

[4] Assume all housing achieves Code Level 3 - costs to be used £50 / m2 for houses based on Cyrill Sweet Cost Analysis of the Code for Sustainable Homes July 2008 (assumes medium case scenario)

3.2.7 Looking at this range of appraisals also indicates the scope here for an element of abnormal costs to be borne (over and above the allowances made), in the event there are additional costs affecting such a scheme.

3.2.8 Again, the appraisals carried out all include a financial contribution allowance based on the value of affordable units of more modest size (assuming those smaller units would have been appropriate to an on-site affordable housing solution) - rather than looking directly at the market dwellings built on-site. Following the discussion for Case Study 1 above (at 3.1.8), in this Case Study, if the affordable housing contribution were again based on the actual market units built, the sum would be £279,616 (compared to £162,764) leading to a reduced base RLV of £1,027,288 (compared to the base result above of £1,136,919).

3.2.9 In general we can see that the values (with respect to property, and therefore land) created by Case Study 2 are higher than for Case Study 1 and therefore allow more scope for additional cost. This also directly correlates to the findings of our original study, in terms of values ranges, that showed the location of Case Study 1 site to be in a typically lower value area (equivalent to approximately Value Point 1) of the District and Case Study 2 site to be in a typically higher value area (equivalent to approximately Value Point 3). As with the on-site affordable housing approach, this re-emphasises the need to set targets with flexibility in mind, where needed, to cater for those sites that are either of a lower value due to their location or where residual land values are affected by other factors such as abnormal costs.

4. PROPERTY MARKET UPDATE

4.1 Land Registry latest

4.1.1 On 26 September 2008 the Land Registry released its most up-to-date House Price Index report. This included data for August.

4.1.2 The index reported house prices for England and Wales down by 4.9% overall, over the year; 1.9% down for the month of August. The annual house price change was quite consistent across the full range of property types.

4.1.3 In respect of the figures for the South East, these showed a 4.8% fall over the year; 2.5% for the month.

4.1.4 Surrey prices, however, showed a notably stronger (less fragile) position – with prices recorded still up 0.7% on a year ago, and down a relatively modest 0.5% for the month.

4.1.5 The average house price (of all property types) reported for Surrey was £309,886, compared with a figure for the South East of £216,701 and for England and Wales as whole of £174,493. Thus, not withstanding the universal significant downturn, the relative level of local values and strength of local markets can still be seen through these figures. Clearly they do not include the very latest data which will be filtering through.

4.2 RICS latest

4.2.1 The RICS UK Housing Market Survey for September was published under the headline “Transactions fall further as price balance worsens”. Completed sales reported per surveyor fell to a new low, with an increased number of surveyors – 91% compared with 86% in August - reporting negative prices trends (prices falling). Looking only at the South East, 96% reported that they thought prices were falling.

4.2.2 However, the trends in the levels of new buyer enquiries and in newly agreed sales improved (became less negative) for the fifth consecutive month.

4.2.3 The price outlook deteriorated slightly on the month, but was still well above the April 2008 low point. Sales expectations turned positive for the first time since February, and were at the most buoyant level since June 2007.

4.2.4 Adams Integra comments that this is a very difficult picture to weigh up. From this information, there seems to be signs of more optimism; or perhaps at the very least an increased level of acceptance of, and adjustment to, these weak, uncertain market conditions.

4.2.5 In terms of feedback from the contributors to the survey, there were as usual a range of comments. Within Mole Valley, Latchmere Properties of Dorking were quoted as saying: "It's a buyer's market, but the right product, realistically priced and in the right location, will sell. The problem lies with public confidence and finance".

4.2.6 In the wider sub-regional market context, Keats Fearn in Farnham commented: "A strong start to the month in terms of instructions and sales, but things tailed off towards the end of September". Clarke Gammon Wellers of Guildford commented "The market conditions are tough, but deals are still being done if vendors are realistic enough. Incomplete chains and down-valuations are still prevalent. The market looks set to continue like this for several months to come."

4.2.7 In separate information released by newsletter in September 2008, The RICS indicated that the gap between asking prices and sale prices was widening. It stated that, across the UK, houses were selling at an average of 9% below asking price, with some vendors having to accept as much as 12.5% discount from advertised price.

4.3 CLG latest

4.3.1 On 16 September 2008, the Government's CLG Department published its July 2008 House Price Index. It is interesting to note the differences between the various available reporting.

4.3.2 This stated that UK house prices were 0.3% lower than in July 2007. It stated that UK prices fell by 0.5% in the quarter ending July 2008; compared with a fall of 1.3% for the quarter ending April 2008.

4.3.3 It put annual house price growth for the South East at 0.1% (the only other regions still showing positive growth at that point being the East (0.8%) and North West (0.5%); with London neutral – at 0%).

5. SUMMARY FINDINGS – CONCLUSIONS

5.1.1 The findings here are consistent with those from the main study, and thus this further examination of viability gives us no reason to depart from the recommendations flowing from that.

5.1.2 Significant uncertainty in the property market has continued through 2008, since the main study period. At the time of completing this supplementary work, it is continuing to deteriorate according to most commentators and the now well established "credit crunch" is the most reported daily news item. We will not go into this further here, but must firmly acknowledge how it is severely impacting on the progression of developments and is now showing more signs of impacting more significantly on values – through the sustained very low level of sales volumes.

5.1.3 As can be seen from section 4 above, property market reporting is variable and difficult to overview – especially at this time. It consistently appears that Surrey prices have held up better than most however and, going in to late summer/early Autumn of 2008, were at approximately the same levels to a year ago, having initially risen but more recently fallen back from their peak. From the various statistics, it appears that market confidence was at its lowest earlier in the year (around April 2008), but this can be difficult to square with other commentary which suggests that things have not picked up, and indeed seem to have deteriorated, since then.

5.1.4 In our view, however, in would be inappropriate and unhelpful (given the need to create clarity of expectations and consistency of approach) to reduce affordable housing ambitions in the short term through much more lenient policy positions which could then need updating/moving back. Clearly, no-one involved in the markets knows how long current trends will last or what will happen to values in the future. In our opinion, these very difficult factors bring into further focus the need for monitoring of local markets, practical operation of policies, periodic review and contingency measures – rather than for moving targets based on a reaction to short term trends. This smaller sites/ financial contributions aspect of the bigger picture is no different in this sense to the on-site affordable housing approach relevant to larger sites.

5.1.5 Depending on the location and values of schemes, the results of appraisals carried out on the basis of the assumptions in Case Study 1 and 2 lead us to reinforce our conclusion that carefully considered affordable housing contributions of the scale envisaged (and modelled here) would not, in our view, be a factor which in itself made the difference between such a scheme proceeding (being viable) and not. This is in the context of a negotiated approach, as with the on-site route to affordable housing provision.

5.1.6 Assuming that prior knowledge of the policy positions is factored-in at the point of first appraising sites, there should be a workable route to seeking contributions from smaller sites and thus making more equitable the spread and source of those contributions towards meeting need; as opposed to a reliance on larger sites driven threshold points which are essentially arbitary.

5.1.7 In our main study we noted the difficulties in making useful ("like for like") comparisons between sites for the purposes of assessing affordable housing impact. Information gathering is also an issue. The process of carrying out this additional work for the Council has re-emphasised the difficulty in readily obtaining useful information on actual sites to enable an "actual site" approach to a strategic viability study/overview for policy target setting purposes. This further reinforces Adams Integra's approach to strategic development viability studies through the use of notional scheme types. Not only has our "notional sites" approach allowed us to test the impact on development viability of potential future thresholds, it has also successfully supported affordable housing polices though Core Strategy examination for several Local Authorities. Our methodology has been developed, used and tested over a period of several years, continually based on our experience of this area of work – and in the absence of guidance on how to make such assessments.

5.1.8 The difficulties in obtaining site-sensitive information for this study repeat experiences we have had elsewhere with developers, landowners and agents reluctant to release potentially sensitive information. We understand these sensitivities. The process of seeking information, and clarifying/building-up any that is provided is a time-consuming, and thus costly, one in the context of an exercise like this. The value achieved from such cost needs to be weighed-up in terms of what such an exercise adds to the process.

5.1.9 The lack of more specific information available and thus continued necessary use of assumptions, together with the consistency of findings with the main study, leads us to the position that there would be little point in the Council committing more resource to additional Case Studies

5.1.10 The process is such that ultimately, and in any event, we have to make a series of informed assumptions regardless of whether we are looking at an "actual" or "notional" site. This fits with taking an independent view for the purpose of informing a Council's policy thinking or health-checking potential policy positions as targets.

5.1.11 As the outcomes of these two Case Studies have also shown, results from one site or a small group of "actual" sites cannot be representative of the wide range of scenarios which will be found in practice across the District.

5.1.12 The results of the appraisals showed positive residual land values thought appropriate to support the release of these sites, and in Case Study 2, quite significant values. However, we have to acknowledge (as we have done through the original viability study) that viability can be significantly affected by requirements placed on a site by the Local Authority and ultimately, this is about a balance between those and landowners' expectations and their willingness to sell.

5.1.13 As mentioned previously and in our original report, the Council will need to adopt a practical view, but against a background of being obliged to optimise contributions towards meeting very significant and worsening affordable housing needs, and using a wider range of tools to help with that.

5.1.14 Alongside that, as more cost is added to development (affordable housing or any other cost that affects the bottom line RLV), so landowner value expectation will need to be reduced - but not to the point where potential alternative or existing use values exceed those. This is a balancing act between optimising affordable housing (and also securing other benefits through the planning infrastructure tariff and potential environmental benefits) whilst maintaining the supply of land for residential development.

5.1.15 As with the on-site affordable housing targets approach, the requirements will also be subject to continued evidence of affordable housing need. Similarly, the Council will need to consider site supply patterns along with its wider evidence base in coming to policy positions and developing the detail of its approach - as per our main report findings and commentary.

5.1.16 The Council may wish to consider the calculations and levels of contributions as it develops the detail in due course.

5.1.17 We have shown that a methodology based on a formula to approximate land value could be applied. As a main theme it would most likely relate to the value of appropriately sized affordable housing dwellings which would have been provided through the usual on-site approach.

5.1.18 As an alternative for the Council to consider, the formula could also relate to the actual value created on a site. This latter route would produce increased financial contributions for affordable housing, but would need to be driven by the development of larger/more valuable property types than that seen in Case Study 1, for example.

5.1.19 In summary, at this stage we consider that there are various options the Council could develop on this aspect. Potentially one which is based on affordable housing typical unit sizes (as used here and per our main report example guide figures) could be appropriate, although the Council may also consider seeking to capture equitable contributions from schemes which produce very high value from small unit numbers (including those as small as 1 unit).

5.1.20 The Council will wish to monitor ongoing work and progress by other authorities. We are aware that many are looking at this area – to explore whether it is possible to equitably seek contributions from smaller, or all, sites. This summer an Inspector has supported an effective threshold of 2 in South Hams, whereby such sites there will be required contribute financially towards meeting affordable housing needs. Mole Valley District Council will be able to consider the local applicability of such positions, given also the wider factors discussed.

5.1.21 The results for the 1 unit Case Study (as per the main study findings) indicate that the Council should consider carefully which sort of circumstances an affordable housing financial contribution should apply to. For example, it may well be necessary to set out the approach with regard to net numbers of dwellings; or at the very least to clarify that it would not apply to replacement dwellings. While the 5 unit scheme indicated sufficient value to potentially purchase entire properties (as opposed to significant parts of gardens) to clear for a redevelopment, the value created in a replacement dwelling scheme would be unlikely to afford similar scope (especially bearing in mind that the size of replacements normally relates in some way to the original dwelling).

End of Supplementary Study
October 2008