Luton Borough Council Affordable Housing Viability Study

Report of Study

Three Dragons – April 2013

Three Dragons

This report is not a formal land valuation or scheme appraisal. It has been prepared using the Three Dragons toolkit and non-residential model and is based on district level data supplied by Luton Borough Council, consultation and quoted published data sources. The toolkit provides a review of the development economics of a range of illustrative schemes and the results depend on the data inputs provided. This analysis should not be used for individual scheme appraisal.

No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.

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EXECUTIVE SUMMARY

Purpose of the Study

To test and identify an appropriate Affordable Housing Target threshold and percentage contribution based on the future population and households forecast in the Borough over the period of the Local Plan being prepared (2011-31).

Three Dragons was appointed in September 2012 to undertake an affordable housing viability appraisal for the Borough.

Summary of Conclusions

- There has been no provision of affordable housing on private sector led mixed tenure schemes in recent years, with most provision coming from publicly owned land and supported by HCA grant. Most private sector led schemes have been below the current affordable housing threshold of 15 units and over.
- Based on assessment of a range of different types of scheme a realistic affordable housing target for mixed tenure schemes is likely to be 15-20% to be applied to all schemes (not just those of 15 units and over).
- Very large schemes (over 100 dwellings) and flatted schemes will struggle to achieve this and require site specific negotiation. Small flatted town centre schemes may require a zero affordable housing target.
- Any aspiration to set a CIL or achieve higher development standards would require a reduction in the affordable housing target.

Methodology

Viability analysis of a specimen 1 ha site at densities of 35, 50 and 60 dph (testing both housing and flatted development) and comparison with a series of case studies based on typical recent developments in the Borough.

Key cost and revenue variables are based on published sources (including the SHMA) and a stakeholder workshop. It is assumed that no Social Housing Grant is available and that affordable housing is provided as a mix of affordable rented and low cost home ownership housing.

It is assumed that £520,000 per ha needs to be achieved for land to be brought forward and this is defined as the benchmark for testing purposes[1]. Former agricultural land is appraised at a lower benchmark of £330,000 per ha[2].

The results are very dependent on assumptions about build costs. They were tested at BCIS median build costs (as put forward by Three Dragons and agreed at the stakeholder workshop). A sensitivity test was also run at Gleeds estimates of build costs in Luton (which for houses are 12% lower than BCIS median) and are proposed as the basis for the CIL study.

Evidence

In terms of key policies for this study, Luton Borough Council currently seeks 50% affordable housing on sites of 15 or more units or 0.5 hectares and above.

Affordable housing provision has varied between one third and a half of all new housing provision but has predominantly been on publicly owned land and supported by HCA grant.

No market led schemes which include an element of affordable housing have received planning consent since 2007. There is some evidence that market sites are coming in below the threshold for affordable housing – of 52 sites completed between 2010 and 2012 only 6 sites have been over the 15 unit threshold.

Results of analysis

The results presented below are all based on the BCIS median build costs:

Development at 35 dph (2-5 bed houses) produces the highest residual land value on the specimen 1 hectare site, followed by the 60 dph site (predominantly 2-3 bed units with some flats). Residual value is worst for the 50 dph site (2-3 bed units no flats). Precise mixes of dwellings in schemes of the same density can affect residual values.

Analysis of individual case studies confirms that large scale housing schemes are more viable than similar size flatted schemes. A typical 35 dph housing scheme of upto 100 units could deliver upto a maximum of 10-15% affordable housing depending on the level of s106 contributions sought and the extent of site remediation required.

There is no evidence to suggest that small scale housing schemes are more expensive to develop or have lower house prices than schemes over the 15 dwelling/0.5 hectare affordable housing threshold. Analysis of the case studies suggests that these smaller schemes could also deliver a maximum of 10-15% affordable housing. There is therefore no reason, in viability terms, to set an affordable housing threshold and we recommend that **all** new housing developments are subject to the same affordable housing requirement.

[1] Based on 30% uplift on industrial use and comparable with £490,000 per ha used in previous SHMA
[2] Based on 15 x agricultural value.

Flatted developments are less viable than housing schemes. Case study analysis suggests that the flatted schemes of fewer than 15 units which have formed an important part of overall private housing delivery in Central Luton are only viable at 0% affordable housing and even at this level will struggle to achieve the specified residual land value. If this type of development is to continue the Council has two possible options; one is to negotiate each scheme on its merits subject to a site specific viability appraisal, the other is to set a 0% affordable housing target for flatted developments in Central Luton.

Large scale schemes have higher site opening up costs and S106 requirements than smaller schemes and may also have higher remediation costs. Interest charges over the course of the development also have a negative impact on viability. Case study analysis suggests that such schemes will achieve land values closer to £400,000 per ha at 25% affordable housing[3]. We recommend that the Council sets the same affordable housing target as for mainstream development but that individual schemes will need to be appraised on a scheme specific basis.

We have made very modest assumptions about S106 requirements – typically £2,200 per dwelling. If the Council wishes to set a CIL on top of site specific S106 requirements or to seek higher build standards (such as Lifetime Homes or Code for Sustainable Homes) then the affordable housing target will need to be reduced.

Finally we note that the results of the viability analysis using the Gleeds build costs (which are about 12% lower for houses than those derived from BCIS), produce higher residual land values and would indicate that the maximum affordable housing target that could realistically be sought across the full range of types of site would be upto 25%. However it should be noted that whichever build costs are used there would be a requirement for flexibility on a scheme by scheme basis.

Policy Conclusions

- Based on the BCIS build costs our analysis suggests that the Council should give consideration to setting an affordable housing target of upto 15% applied to all schemes (not just those over 15 units).
- Based on the Gleeds build costs a higher percentage of affordable housing becomes viable, potentially upto 25% or 35% for some types of development.
- Build costs vary between schemes and according to the method by which the data was collected.
    - The BCIS data is a nationally recognised datasource quoted in the Harman report[4] "Viability testing local plans: advice for planning practitioners". The BCIS build costs were tested and agreed at the stakeholder workshop held on 11th September 2012.
    - Gleeds is a national surveying practice which, we understand from the Council, has drawn on its own database of build costs.

[3] with £125,000 per ha site opening up/infrastructure costs

[4] "For build costs, these should be based on the BCIS or other appropriate data, adjusted only where there is good evidence for doing so based on specific local conditions and policies including low quantities of data."

- Our advice to the Council is to adopt a policy based on the BCIS build costs. If the decision is taken to adopt a policy based on Gleeds build costs we would urge caution in going above a 20% affordable housing requirement.
- Very small schemes (1 to 6 units) should be required to pay a commuted sum, such sum to be equivalent to the reduction in residual value were the affordable housing provided on-site.
- Any affordable housing target will be subject to site specific negotiation.
- Flatted schemes are most likely to struggle to achieve the specified affordable housing target and if flats are seen as having a contribution to make to overall housing supply then a zero affordable housing target may be appropriate for town centre flats.
- Any aspiration to set a CIL or achieve higher development standards would require a reduction in the affordable housing target.
- The Council should carefully monitor delivery of affordable housing against plan policy: looking at delivery on both privately owned and local authority land and should include this information in its Annual Monitoring Report.

1 CONTEXT

Purpose of the Study

1.1 Three Dragons has prepared evidence based on viability appraisal for Luton Council to assist the Council in drawing up its affordable housing policies for inclusion in the Local Plan.

1.2 The study updates an earlier viability study by Savills (2010[5]) which recommended 25% social housing plus 10% intermediate affordable housing as the target. This report was prepared when public sector grant was more readily available than is the case today.

1.3 The latest Strategic Housing Market Assessment by Opinion Research Services shows continued strong demand for affordable housing but the council requires evidence of viability to assess whether the current policy (of seeking 50% affordable housing on sites of 15 units or more) needs to be revised.

National planning context

National Planning Policy Framework

1.4 The National Planning Policy Framework or NPPF, published last year is adopted government policy. It recognises the need for planning authorities to consider what policies they require to deliver affordable housing in their area[6].

'To deliver a wide choice of high quality homes, widen opportunities for home ownership and create sustainable, inclusive and mixed communities, local planning authorities should:

- *where they have identified that affordable housing is needed, set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock) and the agreed approach contributes to the objective of creating mixed and balanced communities. Such policies should be sufficiently flexible to take account of changing market conditions over time.* (Para 50 – extract only).

1.5 On site size thresholds for affordable housing, the NPPF is silent and leaves this to the discretion of local planning authorities.

1.6 The NPPF reiterates the importance of taking viability into account in developing policies for affordable housing (amongst other calls on development):

'Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of

[5] Bedfordshire and Luton SHMA Research Paper 7 Viability Assessment March 2010 Savills/ORS
[6] Paragraph 50

any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable. (Para 173)

1.7 Local planning authorities are to assess the '*likely cumulative impact*' of their proposed development standards and policies and that:

"….the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle. Evidence supporting the assessment should be proportionate, using only appropriate available evidence.'" (Para 174)

Furthermore, the NPPF specifically notes that:

'Where practical, Community Infrastructure Levy charges should be worked up and tested alongside the Local Plan'. (Para 175)

Guidance on plan viability testing

1.8 Further guidance has been published to assist practitioners in undertaking viability studies for policy making purposes – "Viability Testing Local Plans - Advice for planning practitioners"[7]. The approach to viability testing follows the principles set out in the advice. The advice re-iterates that:

"*The approach to assessing plan viability should recognise that it can only provide high level assurance*."

1.9 The Advice also comments on how viability testing should deal with potential future changes in market conditions and other costs and values and states that:

"*The most straightforward way to assess plan policies for the first five years is to work on the basis of current costs and values*". (page 26)

But that:

"*The one exception to the use of current costs and current values should be recognition of significant national regulatory changes to be implemented……"(page 26)*

1.10 In the light of this advice on national regulatory changes we have taken into account an additional cost of £795 per dwelling which anticipates changes to the Building Regulations this year.

Council policy on affordable housing

1.11 Council policy on affordable housing as set out in the 2007 Planning Obligations SPG [8] states that:

[7] Local Housing Delivery Group, Viability Testing Local Plans, Advice for Planning Practitioners, June 2012. The Local Housing Delivery Group was a cross-industry group, supported by the Local Government Association and the Home Builders Federation.

[8] Luton Borough Council, Planning Obligations Supplementary Planning Document, September 2007

"*The Council seeks to ensure that 50% (as an indicative target) of the proposed new units in all residential developments of 15 dwellings units or more (or 0.5ha and above) are affordable housing*." (page 11)

The affordable housing is to be split 80:20 rented : low cost home ownership

Recent delivery of affordable housing

1.12 As shown in table 1.1 below housing completions (excluding student accommodation) have fluctuated from just over 250 units a year to over 400 units a year. 40% of completions have been on sites of below 15 units and therefore have not been eligible to provide an affordable housing contribution. This is particularly true of conversions, where more than 85% of units were provided on sites of fewer than 15 units.

1.13 Total delivery of affordable housing over the three year period has been 370 units (33.7% of total housing supply). But the affordable units have overwhelmingly been delivered on either 100% affordable sites (270 units) or on "mixed sites" (100 units) where the Council and its development partners are the lead landowner and developer. No market led schemes which include an element of affordable housing have received planning consent since 2007. However, affordable housing has been provided on local authority land where development has been undertaken in partnership with developers and over the three year period, 181 units were provided on local authority led open market sites. To date market housing schemes have not been delivering affordable housing in Luton and there is therefore no land market which would allow us to test the land value at which the Council's affordable housing policy is working.

Table 1.1: Recent housing delivery

	No of newbuild units completed				
Size of site	**2010**	**2011**	**2012**	**Total**	**%**
1 - 4	22	22	24	68	7.7%
5-9	0	19	34	53	6.0%
10 - 14	21	51	57	129	14.6%
15 - 50	152	68	103	323	36.6%
50+	171	29	110	310	35.1%
Total	**366**	**189**	**328**	**883**	**100.0%**
Note: excludes student accommodation					

	No of conversions completed				
Size of site	**2010**	**2011**	**2012**	**Total**	**%**
1 - 4	28	33	39	100	47.2%
5-9	19	13	34	66	31.1%
10 - 14	0	21	8	29	13.7%
15 - 50	0	0	17	17	8.0%
50+	0	0	0	0	0.0%
Total	**47**	**67**	**98**	**212**	100.0%

	Total no of units completed				
Size of site	**2010**	**2011**	**2012**	**Total**	**%**
1 - 4	50	55	63	168	15.3%
5-9	19	32	68	119	10.9%
10 - 14	21	72	65	158	14.4%
15 - 50	152	68	120	340	31.1%
50+	171	29	110	310	28.3%
Total	**413**	**256**	**426**	**1095**	100.0%

Research

1.14 The research which underpins the viability assessment includes:

- An analysis of publicly available data to identify the range of values and costs needed for the viability assessment;
- Discussions with council officers from planning, economic development and housing departments;
- Analysis of information held by the authority, including the profile of land supply identified in the Strategic Housing Land Availability Assessment and a review of historic planning permissions;
- A workshop held with developers, land owners, their agents and representatives from a selection of registered providers in the area. Annex 1 provides a note of the workshop.
- Subsequent discussions with agents and providers who operate in the town to verify the assumptions used in the analysis;
- Use of the Three Dragons Toolkit, adapted for Luton to analyse scheme viability for residential development.

2 VIABILITY TESTING

Residual Value Approach

2.1 The viability testing uses a residual value approach, the principles of which are set out in the figure below.

Figure 2.1 Residual Value Approach

Total development value (market and affordable)

Minus

Development costs (incl. build costs and return to developer)

=

Gross residual value

Minus

CIL + planning obligations (including AH)

=

Net residual value (available to pay for land)

2.2 To assess viability, the residual value generated by a scheme is compared with a benchmark value, which reflects a competitive return for a landowner.

2.3 The benchmark land value with which residual values are compared is £520,000 per ha and this is defined as the benchmark for testing purposes. This figure is based on a 30% uplift on industrial use

2.4 Guidance in "Viability Testing Local Plans - Advice for planning practitioners"[9], indicates that using an uplift over existing use values is an appropriate approach for deciding on benchmark land values:

"We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values…." (page 29)

2.5 There is no direct guidance on the percentage premium that is acceptable although Annex 1 (Transparent Viability Assumptions) to the Homes and Communities Agency guidance for its Area Wide Viability Model published in August 2010 states that:

"*There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy*

[9] Local Housing Delivery Group, Viability Testing Local Plans, Advice for Planning Practitioners, June 2012. The Local Housing Delivery Group was a cross-industry group, supported by the Local Government Association and the Home Builders Federation.

have varied. Benchmarks and evidence from planning appeals tend to be in a range of 10% to 30% above EUV in urban areas." (page 9)[10]

2.6 Reflecting the relative position of the Luton market, we have taken a conservative approach and chosen a 30% uplift.

2.7 Other evidence to establish the benchmark is found in a recent study undertaken by Savills[11].The benchmark of £520,000 we are using is slightly above the £490,000 per ha (lower density brownfield edge) and £440,000 per hectare (urban centre) used in the Savills study.

2.8 The question of the benchmark was also discussed at the workshop held with the development industry. The workshop commented that there is very little evidence of transactions to provide any further guidance.

2.9 Our understanding however is that a high proportion of housing sites in Luton are vacant industrial sites which no longer have a viable alternative use and it may therefore be that actual comparator land values are lower than the benchmark modelled.

2.10 For largescale greenfield development a land value of £330,000 per ha has been used based on a multiplier of 15 x agricultural value[12]. This figure is consistent with guidance issued by the HCA, also found in "Transparent Assumptions: Guidance for the Area Wide Viability Model" which states that:

"For greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value. Higher multiples will apply to higher value areas."

2.11 For the case studies, we put forward indicative benchmark values based on this figure but note that higher or lower values may apply.

Testing Approach and Assumptions

2.12 Two types of testing have been undertaken:

- A notional 1 hectare site (at a range of densities from 20dph to 50dph);
- A series of 7 case studies ranging in size from 1 to 500 dwellings have been tested. The case studies are representative of development in the district. Annex 3 sets out the details of the case studies.

2.13 Annex 2 sets out in full the assumptions used in the viability testing. The assumptions are based on a number of data sources, including published data wherever available. The assumptions were presented to the development industry workshop in September 2012 and were amended in light of comments made at the workshop and subsequent feedback.

2.14 Key assumptions used in the analysis include:

- Build Costs

[10] EUV – existing use value, AUV – alternative use value

[11] Savills (L and P) Limited Bedfordshire and Luton Strategic Housing Market Assessment, Research Paper 7, Viability Assessment, March 2010. Table 17

[12] Based on recent research by Smiths Gore showing that agricultural land values in the Eastern Region average £9,000 per acre or £22,000 per ha.

- Flats
  - 1-2 storeys £1,085/sq m
  - 3-5 storeys £1,155/sq m
- Houses £1,050 /sq m

The costs per sq m above include a 15% additional cost for external works (e.g. local roads, pavements, incidental landscaping).[13]

2.15 An alternative set of build costs has also been tested. These costs were provided by Gleeds. Gleeds are advising the council for the sister study providing viability evidence for the preparation of Community Infrastructure Levy charging schedule. The Gleeds build costs are:-

- Flats (all) £1,080/sq m
- Houses £940/sq m

For houses, these are about 12% below those of the BCIS based costs.

2.16 There is a range of other development costs assumed for the analysis , including that the return to the developer will be 20% of gross development value (GDV) for the market housing and a 6% return on costs for the affordable housing. The latter reflects the typical relationship between developer and purchasing affordable housing provider (typically a housing association).

2.17 It is assumed that public subsidy in the form of Social Housing Grant is not available.

2.18 In addition, based on information provided by the council, we assume a s106 contribution per dwelling of £2,200.

Market Values

2.19 The market values used for this study were drawn from the SHMA. The values were 'reality' checked through a survey of properties on the market and informal feedback from a selection of estate agents in the borough. The market values were further verified through the development industry workshop.

2.20 None of the analysis undertaken suggested that there is more than one housing market in Luton that can be readily identified. This issue was discussed at the development industry workshop and the conclusion drawn by the industry that:

"….. although there are pockets of higher and lower value areas in Luton ……., the Luton market is fairly heterogeneous and there is no need to distinguish sub markets for the viability study."

2.21 The market values used in the study are set out in the table below.

Table 2.1: Market Values (in £000s)

[13] For both sets of build costs, we also assume an additional cost of £795 per dwelling to meet the costs of changes to the Building Regulations which DCLG has announced will be introduced this year.

Detached			Semi			Terrace			Flat		
5 bed	4 bed	3 bed	4 bed	3 bed	2 bed	4 bed	3 bed	2 bed	3 bed	2 bed	1 bed
295	255	195	210	170	135	170	150	130	120	110	90

2.22 The values are for 'average' new build units and produced in autumn 2012. They were derived from the emerging updated SHMA[14] and verified with a survey of local agents, undertaken by Three Dragons. The values were presented at the development industry workshop where it was noted that there is effectively a single Luton market. The above values were not challenged at the workshop or thereafter.

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3 VIABILITY ANALYSIS – NOTIONAL 1 HECTARE SITE

Dwelling mix of notional site

3.1 We have modelled the residual value of a notional 1 hectare site at 35 dph, 50 dph and 60 dph. The three densities/mixes were selected in discussion with the council to represent types of development typical for Luton.

3.2 The current Luton Local Plan 2001-2011 specifies a minimum density of 40 dph with a minimum density of 50 dph in the central areas. However, the council is aware that lower density schemes are also being put forward.

3.3 The three density options were presented to the development industry who indicated that schemes of 30-40 dph are relevant to the more 'suburban' parts of Luton but with higher density schemes in the central area.

3.4 The mixes used are shown in the table below.

Table 3.1: Mixes for 1 hectare scheme

	35 pdh	50 dph	60 dph
2b flat			20%
2 bed terrace	10%	30%	40%
3 bed terrace	20%	30%	40%
4 bed terrace	10%	10%	
3 bed semi	25%	30%	
4 bed detached	25%		
5 bed detached	10%		

3.5 The following sections set out the key results for the notional 1 hectare site, while Annex 3 shows the results in full[15]. For each notional scheme, we test the impact of different percentages of affordable housing – from 0% to 50%. Two mixes of affordable housing are tested i) 80% affordable rent/20% shared ownership ii) 60% affordable rent/40% shared ownership. A third test is undertaken using the 60/40 affordable housing mix. This test applies to the 35 dph and 50 dph mixes. It keeps the overall number of each dwelling type as in the table above (e.g. there are 7 x 3 bed terrace units and 8.75 x 4 bed detached units in the

[15] A land finance cost of 10% has been assumed in modelling the notional site. This allows for land purchase costs, stamp duty and some land-holding costs.

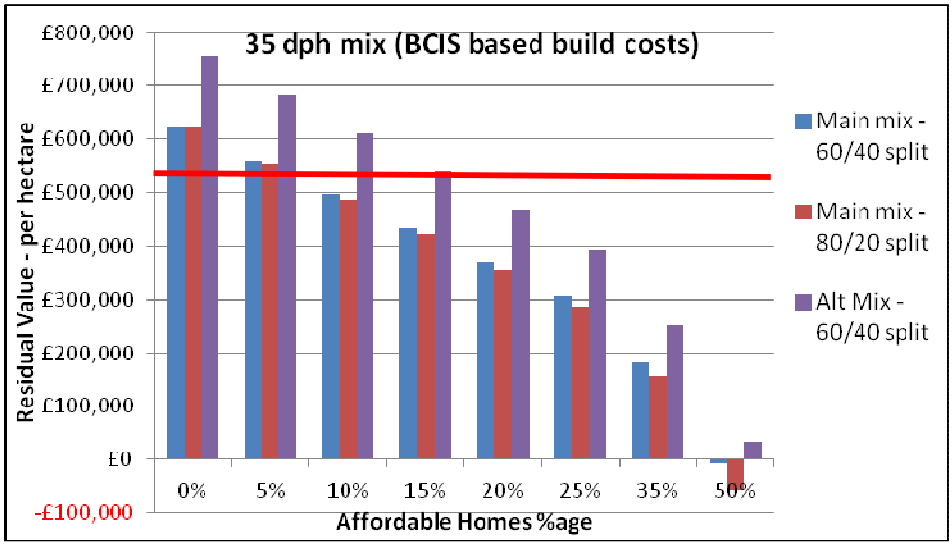
modelled 35 dph scheme) but allocates the affordable housing to specific unit types (terrace and semi detached) and allocates the detached houses as market housing only.

3.6 The results of the analysis highlight the fact that residual values will vary with development type and higher density development does not necessarily mean an increase in residual value.

Notional 1 hectare Scheme Results

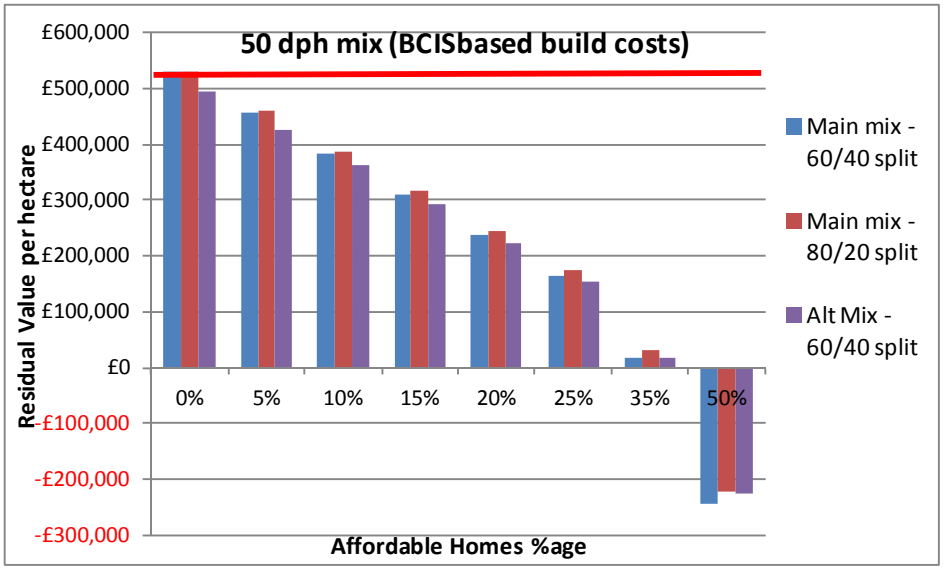
3.7 The charts below summarise the results – for each mix of affordable housing.

Table 3.2a: Residual value per hectare – for alternative percentages of affordable housing (35 dph scheme)



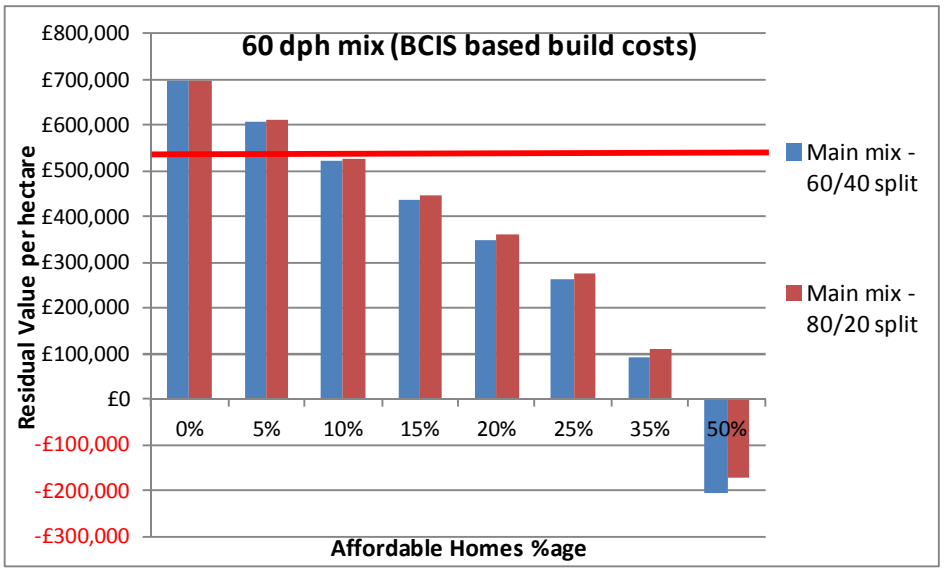
Benchmark land value - £520,000 per hectare (indicated by red horizontal line)

Table 3.3b: Residual value per hectare – for alternative percentages of affordable housing (50 dph scheme)



Benchmark land value = £520,000 per hectare (indicated by red horizontal line)

Table 3.2a: Residual value per hectare – for alternative percentages of affordable housing (60 dph scheme)



Benchmark land value = £520,000 per hectare (indicated by red horizontal line)

3.8 Across the three development types (35 dph, 50 dph and 60 dph), the overall finding is of relatively low residual values, with few cases where the residual value exceeds the benchmark when affordable housing is included.

3.9 Generally, the 35 dph mix delivers higher residual values than the higher density schemes tested but the 60 dph scheme performs better than the 50 dph scheme[16].

3.10 There is very little difference in residual value between the two main alternative mixes of affordable housing – i.e. 60/40 and 80/20. This implies that the revenue from an affordable rent dwelling is little different from a similar type of shared ownership property (with 35% share purchased as we have modelled).

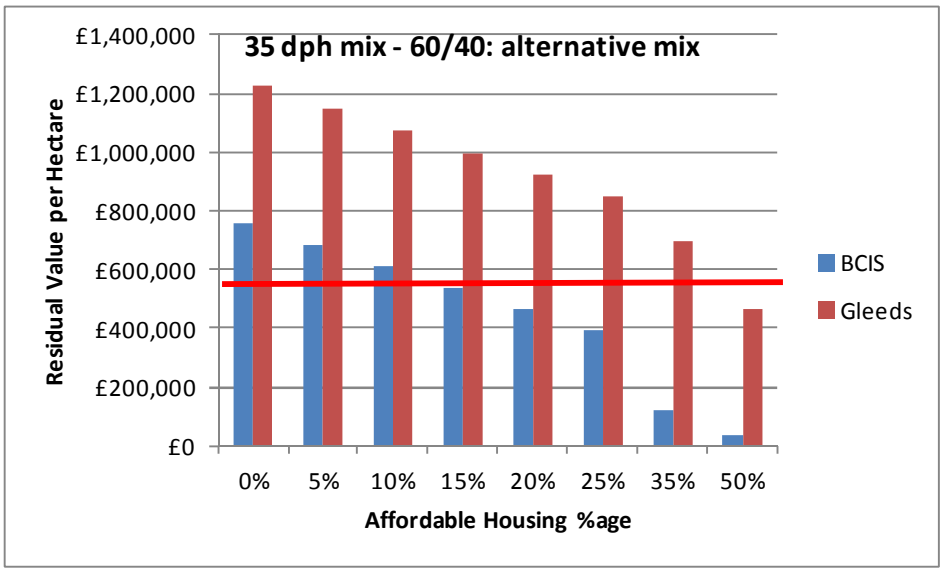
3.11 The main variation in the results is the higher residual values found with the 35 dph scheme with a 60/40 affordable housing split and the affordable units concentrated on lower value (terrace and semi detached units) and the market housing including larger detached units (i.e. the alternative mix). With this approach (which reflects the reality of how affordable housing can be provided) 15% affordable housing can be delivered and produces a residual value above the benchmark.

Sensitivity Testing – Alternative Build Costs

3.12 We have reviewed the impact of using the lower build costs put forward by Gleeds. The chart below uses the 35 dph scheme with the 'best' results using the BCIS based build costs (i.e. the 60/40 split using the alternative mix). A full set of results for the three development densities using the Gleeds build costs are set out in Annexes 3 and 5.

[16] By making some slight alterations in the mix of units in the 50 dph scheme, stronger residual values can be achieved. For example, replacing 10 of the 3 bed semi detached dwellings with 5 x 4 bed detached and 5 more 3 bed terraces, improves the residual value with the 60/40 split, at 25% affordable housing from £164,000 to £284,000 per hectare. This is still below the benchmark but illustrates the potential to improve residual values by careful attention to the units that are developed.

Table 3.3: Residual value per hectare – for alternative percentages of affordable housing (35 dph scheme) – BCIS based and Gleeds build costs compared



Benchmark land value = £520,000 per hectare (indicated by red horizontal line)

3.13 The lower Gleeds build costs produce residual values significantly above the BCIS based figures e.g. with 25% affordable housing the Gleeds based residual value is about £850,000 per hectare which is about £400,000 greater than the BCIS based figure of £395,000 per hectare.

3.14 Using the Gleeds build costs, the maximum level of affordable housing that produces a residual value in excess of the benchmark is 35%.

3.15 Annex 3 shows that similar differences are found with the other development types. These results are summarised in the table below.

Table 3.4: Residual value per hectare in £s million (50 and 60 dph schemes) – for alternative percentages of affordable housing– BCIS based and Gleeds build costs compared

	residual land value £m per hectare				
50 dph	**0%**	**15%**	**25%**	**35%**	**50%**
BCIS	0.50	0.29	0.15	0.02	-0.23
Gleeds	1.00	0.80	0.66	0.53	0.33
60 dph					
BCIS	0.70	0.44	0.26	0.09	-0.21
Gleeds	1.11	0.86	0.70	0.53	0.30

3.16 As with the 35 dph scheme, with the 50 dph and 60 dph development types a residual value slightly in excess of the benchmark is achieved with 35% affordable housing.

Notional 1 hectare site – Overview

3.17 Development at 35 dph (2-5 bed houses) produces the highest residual land value on the specimen 1hectare site, followed by the 60 dph site (predominantly 2-3 bed units with some flats. Residual value is worst for the 50 dph site (2-3 bed units no flats).

3.18 At BCIS median build costs affordable housing provision of 15% on units should be possible on market sites. If Gleeds build costs are used the affordable housing percentage could be as high as 35%.

4 CASE STUDY SITES

4.1 40% of recent housing development in Luton has taken place on sites below the 15 dwelling threshold. 32% has taken place on sites of 15-49 units and 28% has taken place on sites of 50 or more units. The Council's analysis of future supply indicates that more than half of all units will be provided on sites of over 50 units. We have therefore looked at a cross section of case study sites ranging in size from 1 to 500 units.

4.2 The table below sets out the full range of sites tested (Annex 4 provides information about the mix of units in each case study). The case studies were derived in consultation with the Council and drawing on information about recent planning permissions.

Table 4.1: Case study sites

Case Study	Site Type	No of dwgs	Description	Net/gross ratio	Gross (ha)	Net (ha)	Net density	Additional costs per hectare	Dev period (years)
1	Small infill	1	Infill	100%	0.05	0.05	20	£0	1
2	Urban infill	4	Infill	100%	0.08	0.08	50	£0	1
3	Edge of urban	9	Greenfield	100%	0.26	0.26	35	£0	1
4	Small brownfield	14	Infill	100%	0.25	0.25	56	£0	1
5	Small brownfield	30	Infill	100%	0.55	0.55	55	£0	1
6	Large brownfield	100	Infill	90%	2.02	1.82	55	£0	3
7	Edge of urban	100	Greenfield	80%	2.27	1.82	55	£50,000	3
8	Edge of urban	500	Greenfield	75%	12.12	9.09	55	£125,000	10

Case study 3 with 9 dwellings is less typical of smaller residential schemes in Luton than the other case studies. It is a lower density, edge of settlement scheme (which may be found on greenfield or previously developed land) with a higher proportion of larger units. Similar schemes are, occasionally, brought forward and therefore this example is included for completeness.

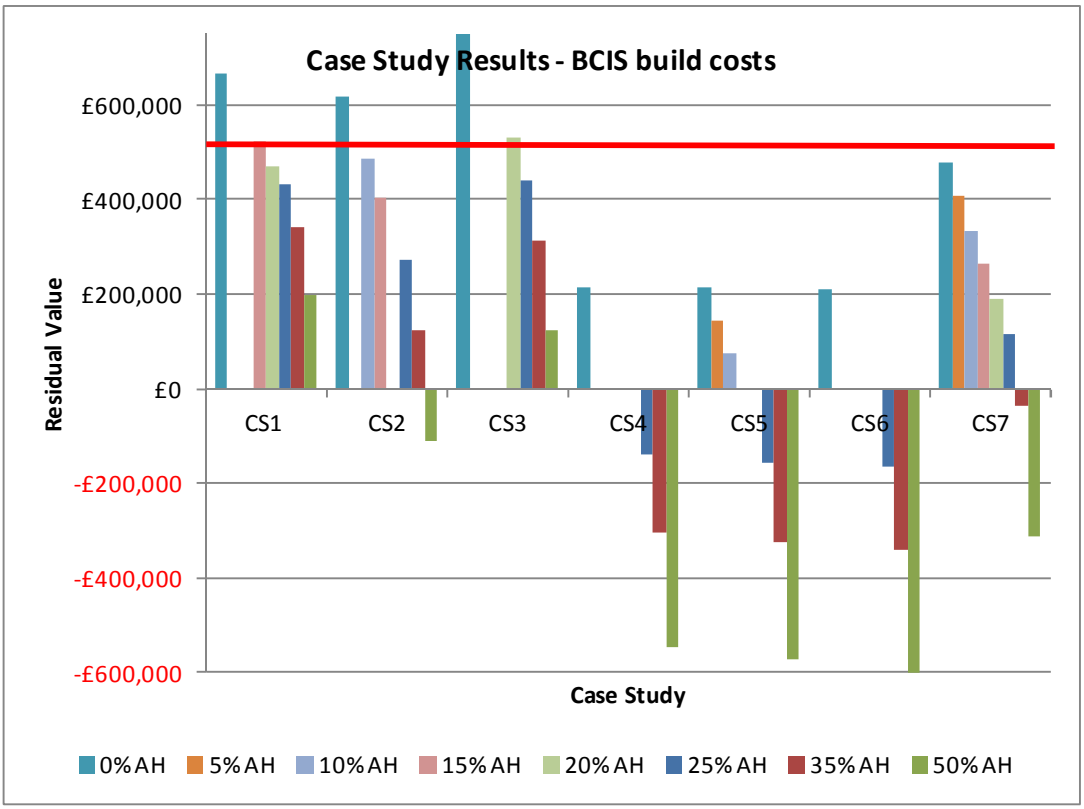
4.3 The other assumptions used in testing the case studies are those for the notional 1 hectare. They include an allowance of £795 per unit to comply with proposed 2013 Building Regulations and an allowance of £2,200 per dwelling for residual S106 costs. The analysis is based on BCIS median build costs.

4.4 Case study sites have been tested with affordable housing from 0% to 50% with the affordable housing as 60% affordable rent and 40% shared ownership, with a 35% share being sold.

4.5 For case studies where development is identified as taking more than 2 years, we have modelled the scheme over time, using a discount cash flow, to show how time impacts on residual values. The development programme for case studies is shown on the table in Annex 4.

4.6 All results are based on residual values for the gross area, compared with the benchmark land values used. For case studies 1 to 7 we have used the benchmark land value of £520,000 per hectare. For case study 8, the large edge of urban greenfield development, we assume a multiple of agricultural value at £330,000 per ha. The first set of results deal with case studies 1 to 7 and we report on case study 8 later in the chapter.

Chart 4.1a: Case Studies 1 to 7 – Residual Value per hectare for Affordable Housing from 0% to 50% - BCIS build costs



Benchmark land value = £520,000 per hectare (indicated by red horizontal line)
(Note not all affordable housing percentages modelled in all cases)

4.7 The very small schemes emerge as the most viable options. Case study 1 (a single unit scheme) achieves the benchmark with 15% affordable housing and case study 2 (a four unit scheme) with 5% affordable housing. These small schemes are currently being developed without affordable housing and on this basis they would generate residual land values in excess of £600,000 per ha.

4.8 Case study 3 (the lower density scheme of 9 terrace and detached houses), exceeds the benchmark with 20% affordable housing.

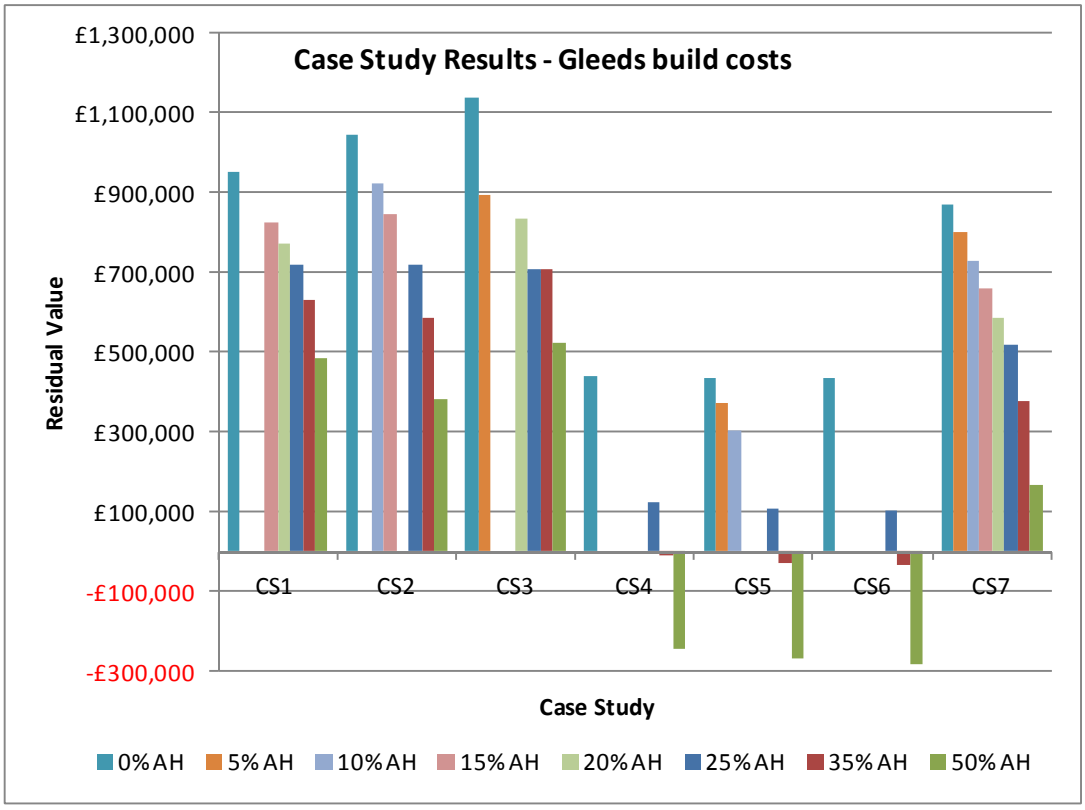
4.9 The larger greenfield scheme (case study 7), does not achieve the benchmark land value even at 100% market housing. The scheme has to bear some additional opening up costs and the developable area is only 80% of the site. It is possible that the land value benchmark for this sort of scheme would be lower than for the other case studies tested but even so, with affordable housing as low as 10%, the residual value is down to around £280,000 per gross hectare.

4.10 Case studies 4 to 6 generate the lowest residual values and do not exceed the benchmark even with 100% market housing. At 100% market housing they generate land values of only £200,000 per hectare. With 25% affordable housing, the residual value per hectare are negative, ranging from -£140,000 to -£165,000 per hectare.

4.11 These three case studies are all higher density schemes which contain only apartments. They might be considered typical of likely town centre development but the evidence shows there is an underlying viability issue, which the introduction of affordable housing does not cause but serves simply to exacerbate. This reflects the views of the development industry that there has been a significant shift away from apartment developments and that the market is strongest for a mix of 2 and 3 bed homes and smaller 4 bed units.

4.12 We model these same case studies using the Gleeds build costs (chart 4.1b below) and even at these lower build costs case studies 4 to 6 only achieve £400,000 per hectare at 100% market housing.

Chart 4.1b: Case Studies 1 to 7 – Residual Value per hectare for Affordable Housing from 0% to 50% - Gleeds build costs



(Note not all affordable housing percentages modelled in all cases)

4.13 Case study 7 is an edge of town greenfield site of predominantly 2 and 3 bed houses. Its viability is significantly better than the smaller flatted urban sites but not as good as the specimen 1 ha site. This is partly because we have assumed higher site opening costs (£50,000 per net hectare) and partly because the scheme is still relatively high density at 55 dph and a lower density scheme would deliver better residual land values (as indicated by the results for case study 3). We test the same scheme at 35 dph and this increases land values but at zero affordable housing and BCIS build costs the scheme achieves £507,000 per hectare, still slightly short of the benchmark land value. At Gleeds build costs the scheme achieves the benchmark land value at 25% affordable housing.

Table 4.2a: Illustration of impact of alternative build costs – case study 7, BCIS build costs – residual value per hectare

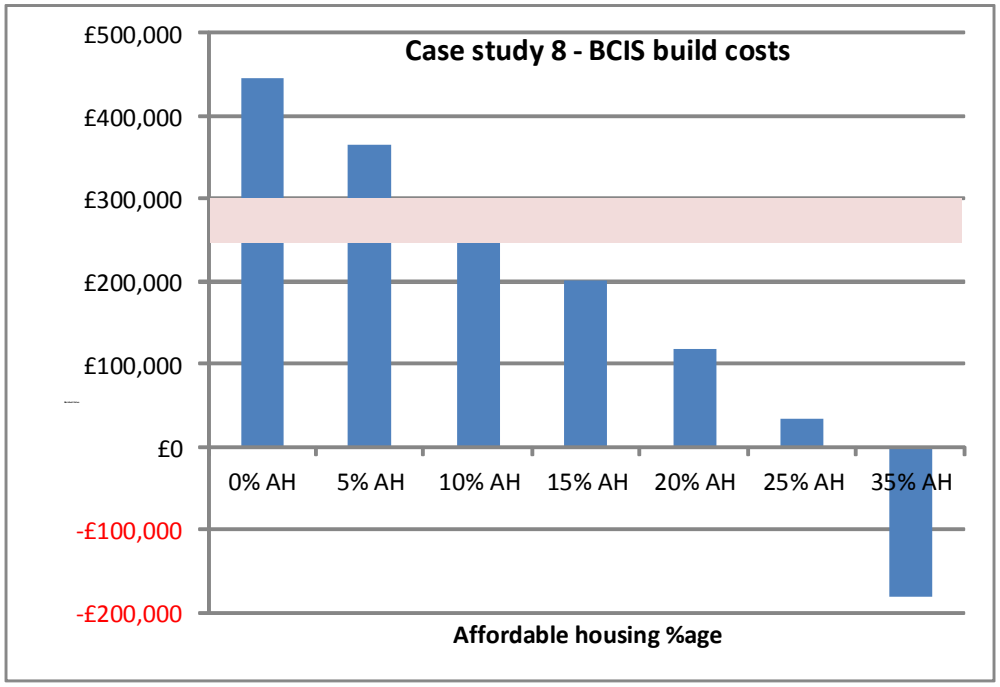
	BCIS build costs							
Density	**0% AH**	**5% AH**	**10% AH**	**15% AH**	**20% AH**	**25% AH**	**35% AH**	**50% AH**
35 dph	£507,442	£451,369	£395,296	£339,224	£283,151	£227,078	£114,932	-£68,652
55 dph	£479,460	£407,079	£334,699	£262,319	£189,938	£117,558	-£36,055	-£311,324

Table 4.2b: Illustration of impact of alternative build costs – case study 7, Gleeds build costs – residual value per hectare

	Gleeds build costs							
Density	**0% AH**	**5% AH**	**10% AH**	**15% AH**	**20% AH**	**25% AH**	**35% AH**	**50% AH**
35 dph	£880,398	£825,251	£770,103	£714,956	£659,807	£604,660	£494,365	£305,100
55 dph	£870,103	£799,905	£729,707	£659,508	£589,309	£519,111	£378,714	£168,118

4.14 The final case study is the large scale greenfield development of 500 dwellings, case study 8. The benchmark land value (as illustrated below) reflects developments of this type and a range of potential benchmark values.

Chart 4.1c: Case Study 8 (Large urban extension) – Residual Value per hectare for Affordable Housing from 0% to 35% with BCIS build costs



Benchmark land value = £250,000 to £300,000 per hectare (indicated by pink horizontal bar)

4.15 An opening up cost of £125,000 per net hectare has been allowed for this scheme and net developable area is only 75% of gross area. Both these factors increase costs and reduce viability. However the benchmark land value is lower at £330,000 per hectare because of the site's current agricultural use.

Table 4.3a: Illustration of impact of alternative build costs – case study 8, BCIS build costs – residual value per hectare

	BCIS Build Costs							
Density	**0% AH**	**5% AH**	**10% AH**	**15% AH**	**20% AH**	**25% AH**	**35% AH**	**50% AH**
35 dph	£705,677	£606,141	£506,604	£406,541	£306,829	£205,100	-£4,759	-£410,469
55 dph	£446,302	£364,539	£282,733	£200,547	£117,758	£33,087	-£180,540	-£513,978

Table 4.3b: Illustration of impact of alternative build costs – case study 8, Gleeds build costs – residual value per hectare

	Gleeds Build Costs							
Density	**0% AH**	**5% AH**	**10% AH**	**15% AH**	**20% AH**	**25% AH**	**35% AH**	**50% AH**
35 dph	£1,365,227	£1,267,783	£1,170,338	£1,072,895	£975,450	£878,006	£682,463	£388,128
55 dph	£883,984	£806,810	£727,835	£648,860	£569,885	£395,100	£277,200	£92,504

4.16 At BCIS build costs the scheme can achieve 5% affordable housing at 55 dph and 20% affordable housing at 35 dph. At Gleeds build costs 25% affordable housing can be achieved at 55 dph and 50% affordable housing at 35 dph.

Summary

4.17 The case studies demonstrate the weakness of the market for flatted schemes which struggle to achieve the benchmark land value even at 100% market housing

4.18 Very small schemes of 1-4 houses have more favourable economics and would be able to deliver up to 15% affordable housing at BCIS build. Such small schemes cannot realistically provide affordable housing on site (15% of 4 units is 0.6 units) so in practice a commuted sum payment would be required.

4.19 Some types of lower density schemes which include more larger houses (as illustrated by case study 3) will be able to provide more affordable housing. However, these schemes are developed less often and it would not be appropriate to rely on them for policy making.

4.20 Larger residential schemes have increased costs and lower net developable area. If they are expected to achieve a land value based on an uplift on industrial values at BCIS build costs they will not be viable, even without affordable housing. At Gleeds build costs a 100 unit scheme could achieve 25% affordable housing. However if the land value is based on a multiple of agricultural value (or reflects a site which has no realistic alternative use) then 20% affordable housing can be achieved at BCIS build costs and upto 50% at Gleeds build costs, though it

should be noted that viability is very dependent on the mix and density of units provided and individual sites may have higher or lower site opening up costs than assumed here.

5 CONCLUSIONS AND RECOMMENDATIONS

Main Findings

5.1 Affordable housing provision in Luton has been overwhelmingly on public sector land and/or developed by the local authority and its developer partners. There has been no affordable housing provision on mainstream market sites. Over the past three years overall affordable housing provision has averaged 33% of total housing provision.

5.2 Market housing sites have higher residual land value at 35 dph than at higher densities. Flats in particular have very poor overall viability.

5.3 Very small sites account for over half (54%) of all market housing provision and for 40% of total housing provision. They are no less viable than larger mainstream sites and are just as capable of making an affordable housing contribution.

5.4 Very large sites are more likely to have higher site opening up costs and a lower net developable area. Depending on alternative use they may also have a lower benchmark land value. At the lower benchmark value of £330,000 per ha very large sites could support an affordable housing target of upto 20% affordable housing at BCIS build costs. Large sites are important to future housing supply in Luton. Looking to pipeline sites not started 41% of new housing provision (including conversions) is expected to be on sites of more than 50 units[17].

5.5 Viability is very sensitive to assumptions about build costs. We have used BCIS median build costs which are accepted as the industry standard for assessment of scheme viability[18].and were tested and agreed at the stakeholder workshop held on 11 September 2012. On this basis looking at the standard 1 hectare site an affordable housing target of upto 15% would seem justified. Alternative build costs have been supplied to us by the local authority drawing on information provided by Gleeds, a national surveying practice which we are advised has its own database of build costs. Gleeds build costs, which are 12% lower than BCIS build costs for houses, would support an affordable housing target of upto 35%.

Policy Options

5.6 We recommend that the local authority should adopt a target of up to 15% affordable housing across all housing development (both newbuild and conversions).

5.7 The current policy threshold of 15 units (which is no longer a requirement of national planning policy) should be dropped and all schemes of 1 or more net units should be required to provide affordable housing. With a target of 15%, schemes of 7 dwellings or more can provide affordable housing on-site (at least one dwelling) but smaller schemes cannot. Commuted sums would therefore need to be collected from sites of 1-6 dwellings and the local authority should provide specific guidance to developers on how these will be calculated. A possible

[17] Local authority's own data

[18] " For build costs, these should be based on the BCIS or other appropriate data, adjusted only where there is good evidence for doing so based on specific local conditions and policies including low quantities of data" p34.

formula which ensures that offsite provision has the same financial impact as onsite affordable housing provision is as follows:

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

RV AH = Residual value with X% affordable housing (say 15%)

Equivalent commuted sum = RV 100% MV minus RV AH

For example, (using illustrative figures for a 4 dwelling scheme):

RV 100% market housing = £150,000

RV with 85% market and 15% AH = £120,000

Commuted sum = £30,000

5.8 If the local authority is persuaded by the lower build costs quoted by Gleeds then a higher overall affordable housing target of 25-35% is possible. This is a very ambitious step up from the current level of zero affordable housing provision by market housing schemes but would be comparable with what is currently being achieved on local authority land working with the local authority's own development partners. With the local authority as landowner these schemes are special cases. If the Council chooses to offer a higher percentage of affordable housing on its own land, a planning policy of 15% affordable housing would not be a bar to this.

5.9 Whatever affordable housing target is set the local authority will need to be prepared to appraise individual sites on a scheme specific basis and to accept a lower affordable housing target where the developer can demonstrate scheme specific viability. This is particularly likely to be the case on large sites and flatted sites. The resource implications of such negotiation will need to be taken into account if housing delivery is not to be compromised.

5.10 If the Council wishes to encourage flatted development in the town centre then it may wish to give consideration to setting a zero affordable housing target for flats in the central area. This could be time limited if the Council has a fixed time period within which it wishes to encourage town centre development.

5.11 The Council should carefully monitor delivery of affordable housing against plan policy looking at delivery on both privately owned and local authority land and should include this information in its Annual Monitoring Report.

- Based on the BCIS build costs our analysis suggests that the Council should give consideration to setting an affordable housing target of upto 15% applied to all schemes (not just those over 15 units).
- Based on the Gleeds build costs a higher percentage of affordable housing becomes viable, potentially upto 25%.
- Build costs vary between schemes and according to the method by which the data was collected. The BCIS data is a nationally recognised datasource quoted in the Harman report[19] "Viability testing local plans: advice for planning practitioners". The BCIS build costs were tested and agreed at the stakeholder workshop held on 11th September 2012. Gleeds is a national surveying practice which, we understand from the council, has drawn on its own database of build costs. Our advice to the Council is to adopt a policy based on the BCIS build costs. If the decision is taken to adopt a policy based on Gleeds build costs we would urge caution in going above a 20% affordable housing requirement.
- Very small schemes (1 to 6 units) should be required to pay a commuted sum, such sum to be equivalent to the reduction in residual value were the affordable housing provided on-site.
- Any affordable housing target will be subject to site specific negotiation.
- Flatted schemes are most likely to struggle to achieve the specified affordable housing target and if flats are seen as having a contribution to make to overall housing supply then a zero affordable housing target may be appropriate for town centre flats.
- Any aspiration to set a CIL or achieve higher development standards would require a reduction in the affordable housing target.

The Council should carefully monitor delivery of affordable housing against plan policy: looking at delivery on both privately owned and local authority land and should include this information in its Annual Monitoring Report

[19] "For build costs, these should be based on the BCIS or other appropriate data, adjusted only where there is good evidence for doing so based on specific local conditions and policies including low quantities of data."

ANNEX 1 NOTES OF THE DEVELOPMENT INDUSTRY WORKSHOP

Development Industry Consultation Workshop – Luton Affordable Housing Viability Study

Notes of the workshop held on 11th September 2012
Vauxhall Riverside Suite

Attending

George Adamopolous	Augur Group
Nick Alston	GVA (British Land)
Adey Badmos	Paradigm
Andy Baker	Wates Living Space
John Boyd	JBP Planning
David Joseph	Bloor Homes
Linda Rees	Luton Community Housing
Jennifer Thomas	dlp
Tim West	Taylor French
Kevin Owen	Luton Borough Council
Jake Kelley	Luton Borough Council
Greg Macrdechian	Luton Borough Council
Alan Thompson	Luton Borough Council
Ken Pinder	Luton Borough Council
Kathleen Dunmore	Three Dragons
Lin Cousins	Three Dragons

Introduction
Kevin Owen (KO) welcomed everyone to the workshop and explained that he is the team leader of the Local Plan team and the council officer overseeing the viability study.

About the study

Kathleen Dunmore (KD) explained that the current study is about affordable housing and does not include the Community Infrastructure Levy (CIL). She noted that there have been previous viability studies in the Borough, the most recent being a study in 2010 which set out a target of 25% social rent and 10% intermediate housing but this was on the basis that grant was available.

This workshop is an important part of the process of stakeholder consultation, giving stakeholders the opportunity to comment the key assumptions underlying the study. These are set out in detail and stakeholders are invited to feed back any views or data on alternative assumptions to the Council.

Opinion Research Services is currently undertaking a strategic market study. This indicates that a target of 50% affordable housing is required to meet the identified need – but the final target for the Local Plan must also take into account the viability analysis coming from this study.

The current borough plan has a site size threshold of 15 dwellings, which reflected the government guidance of the time. The recently published National Planning Policy Framework leaves the decision about thresholds to local planning authorities (LPAs).

KD confirmed that the viability study will take account of other development standards in the emerging Local Plan, including an estimate of a 'typical' s106 requirement. KD asked workshop participants to provide feedback on any other requirements in the Local Plan that have (most) impact on viability.

The study will assume that development has to achieve the 2013 Build Regulations but will not predict the additional costs of any future uplift in standards (other than those in the Local Plan).

Market overview

'The perception of the development industry is that there is very little private housing being built in Luton at the moment and development rates are on the decline – what is being developed is being led by affordable housing. The New Homes for Luton initiative is important to the current delivery of affordable housing. The New Homes scheme is a partnership between the council and a number of partners including Wates Living Space.

This view of activity levels in Luton was not shared by council officers present who indicated that house building levels, although lower than in neighbouring areas, had actually been holding up on historic rates.

Post meeting note - the following shows the level of housing starts in Luton over recent years and indicates that house building levels have varied year on year so that 2011/12 rates were down on the previous year but not very different from the longer term trends .

Luton	Private	RP	Total
2011/12	150	60	210
2010/11	200	150	350
2009/10	120	70	190
2008/09	180	0	180
2007/08	210	50	260

Source DCLG live table 253

Workshop participants explained that there has been a shift in the market from apartments to houses. This coincides with a need for family affordable housing including units which accommodate larger families – although smaller affordable homes are also needed (including 1 bed apartments).

End values for residential properties are relatively low and there is a very limited market in Luton for a high end product – with a market ceiling on both the size and value of new homes. It is felt that the Luton market is much lower value than in the surrounding areas.

Generally, the (sale) market is strongest for a mix of 2 and 3 bed homes and smaller 4 bed units. 2 bed houses are the best seller for the 1st time buyers market. However, there is now a 'm*assive resistance to 3 storey properties*

Similarly for shared owners, 2 bed houses and 2 bed flats are most popular although 1 bed flats are increasingly in demand. But there has been so little experience of mixed tenure development in recent years, it is difficult to tell whether 1 bed flats will work as part of a mixed tenure scheme.

It was agreed that, although there are pockets of higher and lower value areas in Luton (e.g. a higher price area around Old Bedford Road, the Luton market is fairly heterogeneous and there is no need to distinguish sub markets for the viability study. KD presented a set of new build market values to be used in the study and the workshop raised no particular comment about their appropriateness. The market values are presented below for any further detailed feedback.

Table 1: Luton house prices £000 (taken from the draft SHMA)

Det			Semi			Terrace			Flat		
5 bed	4 bed	3 bed	4 bed	3 bed	2 bed	4 bed	3 bed	2 bed	3 bed	2 bed	1 bed
295	255	195	210	170	135	170	150	130	120	110	90

Development densities

The Luton Local Plan 2001-2011 specifies a minimum density of 40 dph with a minimum density of 50 dph in the central areas.

Workshop participants commented that appropriate development densities depended on the site context. There was a consensus that development at 30-40 dph was appropriate in 'the suburbs', with higher densities acceptable in the town centre.

Typical s106 requirements

It was agreed that, other than for education (which is assessed on the basis of a formula), s106 requirements are very much on a site specific basis. Historically, the level of s106 requirements is seen as relatively low in Luton, averaging £2,200 per dwelling.

Affordable housing in mixed tenure schemes

The view of the workshop was clearly that mixed tenure schemes are not achieving anything like 50% affordable housing. Developers are saying that schemes are unviable even with quite low %s of affordable housing and were said to be 'locking horns' with the council to argue their case. It was said to be very important that the council takes a realistic view of what can be achieved in the current market. It was pointed out that there are a number of stalled schemes which have planning permission but are not making any progress.

The affordable housing that is being delivered is (mainly) on council land, developed in partnership with registered providers (RPs).

Approach to the viability assessment

KD explained that the study would use a residual value approach to testing viability and would be consistent with the recently published advice (sanctioned by the LGA and the HBF).[20]

Two types of testing will be undertaken - a notional 1 ha scheme at alternative densities and a series of case study schemes.

KD then asked for any comments on 'typical' case studies that should be included in the analysis. Points raised at the workshop included:

- Care must be taken in selecting different sizes of sites for testing and take into account the fact that larger sites require more infrastructure and this tends to be required early on in the development but that sales will be spread out over a longer period of time;
- It is realistic to include (a) larger greenfield sites in the case studies; but
- Around 80% of all development sites in Luton are under 1/4 acre and schemes of 2 to 12 dwellings built by local house builders are very typical of the supply of new homes.

KO explained that previous plans have talked about urban extensions on the periphery of the Luton conurbation and that it is assumed that some of Luton's needs will be met from surrounding areas but there is still a need to identify some local allocations within the borough. KO indicated that the council will seek nominations rights to adjoining developments but KD clarified that each local authority is

[20] Local Housing Delivery Group chaired by Sir John Harman, Viability Testing Local Plans, Advice for Planning Practitioners, June 2012

undertaking their own viability studies and the level of affordable housing delivered on schemes adjoining but outside the borough will be subject to their own viability assessments.

Assumptions about affordable housing
KD showed the affordable rents proposed for use in the study and this is reproduced below.

Table 2: Affordable rents (per week)

	1 bed	2 bed	3 bed	4 bed
Luton	£92.30	£107.08	£129.23	£156.92

RPs attending the workshop noted that affordable rents, at 80% of average market rents (net of service charges), can be very close to social rents (target rents) reflecting the relatively low private rents in the town.

However, there was a divergence of opinion as to whether the rents shown were realistic – some thought they were too low and others that they were 'about right'.

Further discussion indicated that for larger homes, affordable rents are significantly more than social rents but the values are more similar for smaller units.

Affordable housing costs
For social rent (and 'affordable rent):
Approach = 'capitalised net rent'
Gross to net factors for revenue calculation

- Management/maintenance costs = £900 per annum
- Voids/bad debts = 3% gross rent
- Repairs re serve = £500
- Capitalisation = 6.25%

For shared ownership
Average share size – depends on consumer costs?
Gross to net factors for revenue from 'shared ownership'

- Rental factor = 2.75%
- Capitalisation = 6.25%

For shared ownership, average share size purchased was reported as varying from 35% to 50%.
The 6% capitalisation rate shown was said to be realistic.

Build costs

KD presented the build costs being proposed for the study, based on BCIS figures and as set out below.

Build cost per sq metre

Houses	£1050
3 units or less	£1600
Sheltered	£1160
Extracare	£1205

(add 20-30% for common areas)

Flats	
1-2 storey	£1085
3-5 storey	£1155

(add 10% for common areas)

BCIS location factor 109 (median values)

- Costs include prelims- an uplift of 15% has been applied to allow for external works
- Assume 2010 Bldg Regs

Sustainable Homes

Add on £795 per dwelling for 2013 Bldg Regs

Lifetime Homes (per dwelling)

Houses £1050

Flats £750

Brownfield remediation

£160,000 per ha

KD pointed out that (BCIS) Luton values are slightly higher than in Central Bedfordshire whilst house prices are lower. When modelling town centre developments, the workshop noted that some schemes would include 6+ storey apartments, albeit that these sorts of development are not currently being built.

It was noted that the build costs shown are higher than many at the workshop thought was typical but the proposed costs included a 15% uplift for 'external works' which may make direct comparisons more difficult.

The workshop noted that some schemes in Luton face high remediation costs but some schemes have no remediation costs – it really does depend on the scheme. KD asked for any examples of this to be sent to her.

Other development costs

KD set out the other development costs proposed to be used in the viability analysis (as set out below)

• Professional fees	10-12% of total build costs
• Finance	7.5% of build costs
• Marketing fees	3% of gross development value of market units (GDV)
• Developer return	20% of GDV of market units
• Contractor return	6% AH construction costs

Comments from the workshop included:

- Larger schemes incur higher fees but then these are borne by a larger number of dwellings
- Finance costs of 6%/6.5% may be more realistic (for RPs) but the need for mezzanine finance also needs to be taken into account and this attracts a much higher rate than 7.5%
- At 3%, marketing fees are a bit low, they should be nearer 4/4.5%
- A developer return of 20% of GDV for market housing and a contractor return for the affordable housing of 6% are acceptable
- Large brownfield schemes have opening up costs (e.g. to bring in services) as well as remediation issues. ***It was agreed that more information is needed on this issue and that LBC and relevant developers should meet to discuss further***
- There was no comment on typical ratios between net and gross development areas on (larger) schemes.

Dwelling sizes

KD presented information on the dwelling sizes that were being proposed as set out below.

Size in m²	**Affordable**	**Market**
1 bed flat	48	45
2 bed flat	70	56
2 bed terrace	71	65
3 bed terrace	96	80
4 bed terrace	109	95
3 bed semi	96	95
3 bed detached	101	105
4 bed detached	114	125
5 bed detached	125	150

Comments from the workshop were:

- 2 bed flat – occasionally there is a larger market unit when there is a 2nd bathroom
- 3 bed terrace – the affordable housing is too big but 80 sq m is OK for market 3 bed terrace

Threshold Land values

KD set out the proposed threshold land value (i.e. the benchmark value to compare scheme residual values for the viability study) as follows:

Industrial land (PMR Jan 2011)	
Oxford	£1m per ha
Cambridge	£740,000 per ha (historically Luton comparable with Cambridge)
Norwich	£425,000 per ha
Leicester	£400,000 per ha
£400,000 plus 30% premium = **£520,000**	
£740,000 plus 30% premium = **£950,000**	
Savills *previous study £440,000 per ha in Central Luton and £490,000 per ha Edge of Luton - £650K per ha in Central Bedfordshire*	

Comments at the workshop included:

- Aspirations of landowners are much higher than these figures.
- LBC is a key landowner and reviewing land ownership and how this will impact on future development and viability of schemes. Council's Estates Team should give a view.
- But '*there is very little real evidence of transactions in the market that gives us any clues*' – one example quoted of an equivalent price of £1.2m per hectare for a small site, ex pub, sold to an RP.

Concluding comments

Luton is seen as a difficult market where costs versus value '*just makes it too difficult*' with an affordable housing requirement. Luton is more risky and it is better to go outside where there is greater certainty that development will work. With the unavailability of mortgage finance, slow rate of sales and high holding costs – the risk is high.

The Luton market has lots of small sites which are difficult to promote and inefficient

Compare the Luton market with St Albans which has similar constraints but has much higher market values and so people want to build there!

The council was cautioned against using claw back provisions etc in s106 agreements because the banks were said to be increasingly against this kind of arrangement, perceiving it to be an unquantified risk and funding can be (adversely) affected.

KO closed the workshop and thanked everyone for their participation in the event.

ANNEX 2 – ASSUMPTIONS USED IN VIABILITY TESTING

Affordable housing percentages

AH tested at 25%, 35%, 50%
With alternatives tenure mixes of i) 80% affordable rent/20% shared ownership ii) 60% affordable rent/40% shared ownership

Market values - £s000

Detached			Semi			Terrace			Flat		
5 bed	4 bed	3 bed	4 bed	3 bed	2 bed	4 bed	3 bed	2 bed	3 bed	2 bed	1 bed
295	255	195	210	170	135	170	150	130	120	110	90

Development mix for 3 different densities

	35 pdh	50 dph	60 dph
2b flat			20%
2 bed terrace	10%	30%	40%
3 bed terrace	20%	30%	40%
4 bed terrace	10%	10%	
3 bed semi	25%	30%	
4 bed detached	25%		
5 bed detached	10%		

Assume flats are 2-storey with surface parking.

Dwelling sizes – in sq m GIA

	Affordable	**Market**
1 bed flat	48	45
2 bed flat	70	56
2 bed terrace	71	65
3 bed terrace	90	80
4 bed terrace	109	95
3 bed semi	96	95
3 bed detached	101	105
4 bed detached	114	125
5 bed detached	125	150

Build Costs (per sq m)

A) Using BCIS 5 year median values and including a 15% uplift for external works

Houses	£1050
Flats	
1-2 storey	£1085
3-5 storey	£1155

B) Using data provided by Gleeds

All houses	£940
All Flats	£1,080

For A and B – allow £795 per dwelling to meet 2013 Bldg Regs -

Development costs

Professional fees	12%
Finance	7.5%
Marketing fees	3%
Developer return	20%
Contractor return	6%

Other costs

S106 contribution - £2,200 per dwelling

Affordable housing – values/costs to provide revenue calculation

Affordable rents (per week)

	1 bed	2 bed	3 bed	4 bed
Luton	£109.62	£132.69	£161.54	£184.62

Less service charges of £10 for flats and £3 for houses

Affordable housing costs

Affordable rent
Management/maintenance costs = £900 per annum
Voids/bad debts = 3% gross rent
Repairs reserve = £500
Capitalisation = 6.25%

Shared ownership
Gross to net factors for revenue from 'shared ownership'

- Average share size – 35%
- Rental factor = 2.75%
- Capitalisation = 6.25%

ANNEX 3 – RESULTS NOTIONAL 1 HECTARE SCHEME

Residual values per hectare for alternative levels of affordable housing

Using BCIS based build costs

	AH% - 60/40 split							
BCIS Build costs	**0%**	**5%**	**10%**	**15%**	**20%**	**25%**	**35%**	**50%**
35 dph								
Main mix	£621,900	£558,900	£495,900	£433,800	£371,700	£307,800	£182,700	-£6,600
Alternative mix	£756,000	£684,000	£612,000	£539,100	£468,000	£394,200	£252,000	£34,200
50 dph								
Main mix	£530,100	£458,100	£383,400	£311,400	£238,500	£164,700	£18,900	-£245,300
Alternative mix	£495,900	£426,600	£360,900	£291,600	£223,200	£154,800	£18,900	-£227,700
60 dph								
Main mix	£695,700	£609,300	£523,800	£436,500	£349,200	£262,800	£90,900	-£206,800

	AH% - 80/20 split							
BCIS Build costs	**0%**	**5%**	**10%**	**15%**	**20%**	**25%**	**35%**	**50%**
35 dph								
Main mix	£621,900	£555,300	£487,800	£422,100	£354,600	£287,100	£154,800	-£56,100
50 dph								
Main mix	£530,100	£459,000	£387,900	£316,800	£243,900	£173,700	£30,600	-£224,400
60 dph								
Main Mix	£695,700	£612,000	£528,300	£444,600	£360,900	£277,200	£110,700	-£172,700

Using Gleeds build costs

	AH% - 60/40 split							
Gleeds Build costs	**0%**	**5%**	**10%**	**15%**	**20%**	**25%**	**35%**	**50%**
35 dph								
Main mix	£1,044,000	£982,800	£919,800	£859,500	£798,300	£735,300	£611,100	£426,600
Alternative mix	£1,224,000	£1,148,400	£1,073,700	£997,200	£922,500	£846,900	£694,800	£466,200
50 dph								
Main mix	£1,012,500	£943,200	£872,100	£803,700	£734,400	£663,300	£524,700	£315,000
Alternative mix	£998,100	£929,700	£864,900	£796,500	£720,900	£662,400	£528,300	£327,600
60 dph								
Main mix	£1,111,500	£1,028,700	£945,900	£862,200	£779,400	£696,600	£531,000	£282,600

	AH% - 80/20 split							
Gleeds Build costs	**0%**	**5%**	**10%**	**15%**	**20%**	**25%**	**35%**	**50%**
35 dph								
Main mix	£1,044,000	£979,200	£911,700	£847,800	£781,200	£714,600	£583,200	£386,100
50 dph								
Main mix	£1,012,500	£944,100	£876,600	£809,100	£739,800	£672,300	£536,400	£332,100
60 dph								
Main Mix	£1,111,500	£1,031,400	£950,400	£870,300	£791,100	£711,000	£550,800	£310,500

ANNEX 4 – CASE STUDY DETAILS

Case Study	Site Type	No of dwgs	Description	Net/gross ratio	Gross (ha)	Net (ha)	Net density	1 bed flat	2 bed flat	2 bed terrace	3 bed terrace	4 bed terrace	3 bed semi	3 bed detached	4 bed detached	5 bed detached	Additional costs per hectare	Dev period (years)
1	Small infill	1	Infill	100%	0.05	0.05	20								1		£0	1
2	Urban infill	4	Infill	100%	0.08	0.08	50			2	2						£0	1
3	Edge of urban	9	Greenfield	100%	0.26	0.26	35			3	2				4		£0	1
4	Small brownfield	14	Infill	100%	0.25	0.25	56	8	6								£0	1
5	Small brownfield	30	Infill	100%	0.55	0.55	55	15	15								£0	1
6	Large brownfield	100	Infill	90%	2.02	1.82	55	50	50								£0	3
7	Edge of urban	100	Greenfield	80%	2.27	1.82	55	20	20	15	15		10	10	10		£50,000	3
8	Edge of urban	500	Greenfield	75%	12.12	9.09	55	100	100	75	75		50	50	50		£125,000	10

ANNEX 5 – CASE STUDY RESULTS

BCIS Build Costs

BCIS Build Costs							Residual value per gross ha (£)							
		Units	Net Area	Gross area	Net Density	Gross Density	0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	35% AH	50% AH
Case Study	1	1	0.05	0.05	20.00	20.00	£666,000			£522,000	£468,000	£432,000	£342,000	£198,000
Case Study	2	4	0.08	0.08	50.00	50.00	£619,200		£484,200	£405,000		£270,000	£124,200	-£110,000
Case study	3	9	0.26	0.26	35.00	35.00	£751,500				£529,200	£439,200	£311,400	£124,200
Case Study	4	14	0.25	0.25	56.00	56.00	£216,000					-£140,800	-£303,600	-£545,600
Case Study	5	30	0.55	0.55	55.05	55.05	£213,300	£144,900	£75,600			-£155,100	-£323,400	-£570,900
Case Study	6	100	1.82	2.02	55.01	49.50	£211,322					-£165,461	-£339,009	-£599,333
Case Study	7	100	1.82	2.27	55.01	43.99	£479,460	£407,079	£334,699	£262,319	£189,938	£117,558	-£36,055	-£311,324
Case Study	8	500	9.09	12.12	55.01	41.25	£446,302	£364,539	£282,733	£200,547	£117,758	£33,087	-£180,540	-£513,978

Gleeds

Gleeds Build Costs							Residual value per gross ha (£)							
		Units	Net Area	Gross area	Net Density	Gross Density	0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	35% AH	50% AH
Case Study	1	1	0.05	0.05	20.00	20.00	£954,000			£828,000	£774,000	£720,000	£630,000	£486,000
Case Study	2	4	0.08	0.08	50.00	50.00	£1,046,700		£922,500	£844,200		£720,000	£585,000	£382,500
Case Study	3	9	0.26	0.26	35.00	35.00	£1,138,500	£896,400			£834,300	£709,200	£709,200	£522,900
Case Study	4	14	0.25	0.25	56.00	56.00	£439,200					£122,400	-£8,800	-£242,000
Case Study	5	30	0.55	0.55	55.05	55.05	£437,400	£371,700	£305,100			£110,700	-£26,400	-£264,000
Case Study	6	100	1.82	2.02	55.01	49.50	£433,824					£105,497	-£32,814	-£283,031
Case Study	7	100	1.82	2.27	55.01	43.99	£870,103	£799,905	£729,707	£659,508	£589,309	£519,111	£378,714	£168,118
Case Study	8	500	9.09	12.12	55.01	41.25	£883,984	£806,810	£727,835	£648,860	£569,885	£395,100	£277,200	£92,504

Comparison of 35 and 55 dph schemes: Case studies 7 and 8

BCIS Build Costs							Residual value per gross ha (£)							
Luton		Units	Net Area	Gross area	Net Density	Gross Density	0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	35% AH	50% AH
Standard Mix														
Case Study	7	100	2.86	3.57	35.00	28.01	£507,442	£451,369	£395,296	£339,224	£283,151	£227,078	£114,932	-£68,652
		100	1.82	2.27	55.01	43.99	£479,460	£407,079	£334,699	£262,319	£189,938	£117,558	-£36,055	-£311,324
Case Study	8	500	14.29	19.05	35.00	26.25	£705,677	£606,141	£506,604	£406,541	£306,829	£205,100	-£4,759	-£410,469
		500	9.09	12.12	55.01	41.25	£446,302	£364,539	£282,733	£200,547	£117,758	£33,087	-£180,540	-£513,978
Alternative Mix														
Case Study	7	100	2.86	3.57	35.00	28.01							£175,559	
Case Study	8	500	14.29	19.05	35.00	26.25							£110,813	

Gleeds Build Costs								Residual value per gross ha (£) less 10% acquisition costs							
Luton		Units	Net Area	Gross area	Net Density	Gross Density		0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	35% AH	50% AH
Standard Mix															
Case Study	7	100	2.86	3.57	35.00	28.01		£880,398	£825,251	£770,103	£714,956	£659,807	£604,660	£494,365	£305,100
		100	1.82	2.27	55.01	43.99		£870,103	£799,905	£729,707	£659,508	£589,309	£519,111	£378,714	£168,118
Case Study	8	500	14.29	19.05	35.00	26.25		£1,365,227	£1,267,783	£1,170,338	£1,072,895	£975,450	£878,006	£682,463	£388,128
		500	9.09	12.12	55.01	41.25		£883,984	£806,810	£727,835	£648,860	£569,885	£395,100	£277,200	£92,504
Alternative Mix															
Case Study	7	100	2.86	3.57	35.00	28.01								£567,322	
Case Study	8	500	14.29	19.05	35.00	26.25								£811,969	