Test Valley Borough Council Local Development Framework: Core Strategy

Affordable Housing Development Viability Study (Update)

FINAL REPORT

Report for the consideration of Test Valley Borough Council:
This does not constitute Council Policy

September 2007

Prepared by

55 West Street
Chichester
West Sussex
PO19 1RU
01243 771304
www.adamsintegra.co.uk

CONTENTS

FIGURES

APPENDICES

EXECUTIVE SUMMARY

- In June 2007 Adams Integra was instructed by Test Valley Borough Council to carry out a study examining the impact on development viability of lowering the affordable housing policy threshold from current levels.

- This study updates the original overview of development viability completed by Adams Integra in December 2004.

- The Council's brief was written and the study carried out in the context of seeking to maintain the supply of housing sites overall, whilst increasing the number of contributing developments and thus affordable housing numbers provided through market-led housing developments.

- The requirement for market-led schemes to provide affordable housing impacts on development viability because the levels of financial receipt available to the developer are significantly reduced in comparison to market sale receipt levels for the completed homes. The affordable housing requirement is regarded in much the same way as other planning obligations – a cost to the scheme, which is largely passed on to the landowner by way of a reduced sum available for land purchase (reduced land value when compared with a scheme which provides solely market housing).

- The Council's adopted Local Plan affordable housing policy ESN 04 seeks 40% affordable housing on sites of 15 or more new dwellings within settlements with a population of 3,000 or more, and on sites of 5 or more dwellings in settlements in rural areas with a population of 3,000 or less. The Council sought to explore the impacts of, and required our recommendations on, reducing the affordable housing threshold. This is in the context of the recognised high levels of affordable housing need locally.

- As a part of the project brief, Adams Integra was also required to make recommendations on the likely scale of appropriate financial contributions if an approach is developed to seek such contributions from smaller sites below the on-site affordable housing threshold which is ultimately settled upon.

- The study involved carrying out developer type appraisals covering a range of notional schemes from 5 to 14 dwellings in size, representing various potential site size thresholds; all with affordable housing provision at 40%.

- The appraisals were based on local property values research. We noted an overall strengthening of values since 2004.

- The specific threshold level at which affordable housing is required is not as significant as the requirement to provide 40% affordable housing for the first time on sites below the current 15 unit threshold (as would be the case currently for sites in the settlements with a population of 3,000 or more).

- As we observe consistently from our study findings, site size in itself is not a determinant of viability. The appraisal process and calculations, and thus the outcomes in terms of how development values and costs relate, do not differ purely as a result of site size. This principle applies in Test Valley, as we have seen elsewhere. In practice, land values and viability outcomes are site specific. We have to make judgements on appropriate and sustainable policy target positions based on our overview of the range of scenarios considered.

- A threshold as low as 5 units across Test Valley can be supported in pure viability terms as a target.

- From a viability viewpoint, there is no particular reason for maintaining a policy distinction between sites in smaller and larger settlements (or urban and rural areas). The current policy distinction, as in other local areas, was hinged on the Government's previous Planning Guidance note 3 (PPG3) position, which permitted greater potential policy flexibility for rural areas.

- The replacement national guidance, as set out in the current Planning Policy Statement 3 (PPS3), puts forward a "national indicative minimum" site size threshold of 15 dwellings. Importantly, however, it gives more scope for local setting of threshold positions, not just in rural areas, "where viable and practicable". Many Local Authorities are responding to this by considering locally relevant approaches. This study was carried out in the context of the requirement to consider development viability as a part of this process. It is beyond the scope of the study to consider the wider drivers behind, plus planning and evidence base factors relevant to, potential lowered threshold positions. The Council will need to consider the wider aspects such as housing needs, site supply and resulting affordable housing delivery characteristics, etc.

- The study contains updated local property prices information. As found in 2004, this update again reveals a range of values in Test Valley. New build housing values in the majority of areas are consistently high. There are still some areas where lower values are typical. The fact that these are restricted to Andover, and to particular limited areas of Andover, supports our view that a 40% affordable housing requirement could be applicable Borough-wise. It is worth noting that our research identified some areas of Andover to typically see value levels similar to those in the higher value areas of the Borough. Given the value patterns, we feel that over-complicated revised policy positions could result from some form of area-

related specific approach (for example varying thresholds and/or proportions in relation to different and potentially quite small geographical areas). In practice, values vary over very small distances and we consider that an attempt to define particular policy areas could be quite arbitrary. We cover this in the study detail, touching on this as an option but, on balance, we consider such an approach to be unnecessary. A clear target and negotiated approach should be sufficiently responsive.

- Accordingly, the proviso to the 40% headline position is that the Council would need to maintain its practical approach and acknowledge it as a target position. On that basis it would form sound background to clear expectations, in turn informing land negotiations and feasibility studies, and acting also in the background to negotiations where lower values or other viability issues (such as abnormal costs or overall planning obligations burdens) meant a reduced provision of some form being considered.

- We also reviewed and put forward the possibility of a "sliding scale" approach being considered as an alternative to the straightforward 40% target at 5 dwellings, and we discuss the merits of this. We feel such an approach might well be beneficial and should be reviewed alongside a straight 40% policy position in the Test Valley context. It means seeking lower proportions of affordable housing on smaller sites, with the proportion increasing with site size before it reaches the full (usually 40%) requirement at a certain site size – often around 15. The steepest viability impacts are seen on the sites which are captured for the first time, i.e. those sites which fall below current thresholds but above the potential new ones. Many of our Local Authority clients are considering a sliding scale (graduated) approach of some form; not usually related to geographical areas but as an acknowledgement primarily of this first time impact issue.

- Graduated proportions also have the potential to be set to relate well to an approach to seek financial contributions, perhaps at a lower equivalent proportion than the headline target, on the smallest sites. It can help to reduce the size of steps in requirements, including at the switch point between on and off-site provision.

- The study details Adams Integra's suggested calculation approach to guide suitable financial contribution levels, based on a formulaic, land value driven approach.

- Wider recommendations and discussion are set out, in the context of the Council continuing to relate the information set out and evidence base to its development of Supplementary Planning or other Guidance.

1. INTRODUCTION

1.1 Background and Purpose of Study

1.1.1 Test Valley Borough Council is currently developing its Local Development Framework (LDF), in line with the requirements of the Planning and Compulsory Purchase Act 2004. Through a number of key policies, the LDF will guide and control the future use and development of land in the Borough. The Core Strategy of the LDF will include a policy framework for affordable housing.

1.1.2 A previous study of affordable housing development viability to inform the draft Local Plan was undertaken by Adams Integra and published in December 2004. That study considered the viability of thresholds of 6 and 3 units (as proposed at the time for larger/urban and smaller/rural settlement types respectively). Through that study, Adams Integra was able to support those proposed policy positions provided adopted as a target for the background to negotiations, and practically applied. The previous study however did need to acknowledge that Adams Integra had some concerns about site viability in Andover and any similarly lower value areas. The viability concerns were around that issue rather than specifically related to particular threshold points, however. The issue of viability and the impact on potential sites being brought forward for housing development were factors amongst those which lead to the suggested thresholds being challenged and subsequently amended following the outcome of the Inquiry into the Local Plan. The following paragraph clarifies the current policy position in the Borough.

1.1.3 Test Valley Borough Council's adopted affordable housing planning policy is as follows (Policy ESN04):

"On housing sites of:

- 15 or more dwellings (or sites of 0.5 hectares or more) within or on the edge of settlements with a population of 3,000 or more; and

- 5 dwellings or more (or sites of 0.2 hectares or more) within the edge of settlements in the rural area with a population of less than 3,000;

the Council will negotiate provision for up to 40% of the dwellings to be affordable."

1.1.4 The Council wishes to examine whether the current thresholds should be revised in terms of the impact on housing development viability. The Council does not consider that the amount of affordable housing sought can

reasonably be increased above 40% of units and, therefore, the method through which greater affordable housing could be achieved is through lowering of the existing thresholds and thereby increasing the number of contributing schemes.

1.1.5 This study is an update to the one carried out in 2004 by Adams Integra. The aim of this study, as per the Council's brief, is to provide an updated financial assessment of residential development in Test Valley. Key points we were to consider included the following:

- Testing the impact of lower thresholds than 15 dwellings in settlements with a population of 3,000 or more.
- The implications for viability of any changes in land values and house prices since 2004.
- Whether different thresholds are appropriate for different areas of the Borough.
- The impact on viability of any other S106 contributions sought.
- Whether a proportionate financial contribution should be sought from sites below the thresholds on the basis of the cost of service land.

1.1.6 Planning Policy Statement 3 (PPS3) confirms the need for Affordable Housing policies to be considered in light of the economic viability of land for housing in the local area (for example at its paragraph 29). PPS3, introduced in late 2006, has provided a new backdrop for the consideration of affordable housing policy. In particular, it includes an "indicative national minimum site size threshold" of 15 dwellings but goes on to state that Local Authorities can set lower thresholds "where viable and practicable". Thus, in our view, it allows more flexibility and this is something that our Local Authority clients are now exploring almost without exception giving declining affordability and the levels of affordable housing need in areas such as Test Valley. PPS3, in our view, removes the need to necessarily consider rural and urban areas differently. In general it provides a different, up-dated, context for considering these policy areas as compared with the national guidance relevant at the time of the previous policy review and Local Plan Inquiry.

1.1.7 The role of this study is to inform future Council planning policy in regard to affordable housing policy concerning thresholds of numbers of units for seeking affordable housing from housing development sites. The Council wishes to determine the amount of affordable housing which can be sought from development sites without risking unduly prejudicing the delivery of housing overall, leading to schemes not being financially viable through insufficient incentive to making land for housing development.

1.1.8 Adams Integra's report investigates and assesses the impact on land values and viability of potentially lowering affordable housing thresholds on private (market sale) residential sites across Test Valley Borough. It also provides recommendations to the Council on robust but workable policy that will ensure successful delivery of affordable housing in Test Valley while making sure that housing supply in the wider sense is not unduly affected.

1.1.9 The study examines the variations in approximate development and, therefore, land values within the Borough and the implications of these are included in the assessment of site viability and delivery. The context for this is that the potential for and constraints of a particular site determine its (gross) development value, which in turn drives the resulting land value.

1.1.10 We have used our assessments of the impact of varying affordable housing requirements on residual land value as our measure in putting forward to the Council our judgements and guidelines. This means that we have compared the impact of possible alternative policy approaches with the current policy position. So we have reviewed the impact on approximate land values of reducing the site sizes on which affordable housing is sought. At all points of the study, the current policy position with which we seek to make comparisons is as at 1.1.3 above.

1.1.11 This is an approach that we have used in many such studies to date and which we believe has been validated through Local Plan Inquiry outcomes and LDF Core Strategy Examination (e.g. at Horsham District and Crawley Borough).

1.1.12 Whilst there are alternatives, such as cash-flow modelling, those tend to rely on greater knowledge of specific scheme assumptions and can make comparison of land value impacts more difficult. More assumptions have to be made for this type of exercise. If some form of cash-flow modelling were applied to our scheme assumptions it would usually tend to give slightly higher approximate land residual values than we have arrived at.

1.1.13 Adams Integra have also considered whether, or how, private residential development more generally might contribute to affordable housing delivery through a commuted payments scheme, with smaller schemes potentially below the threshold for on-site provision in mind. This topic is covered in the results and conclusions sections.

1.1.14 This sets out the requirements of the study. The methodology and assumptions used are described in Section 2, the results are discussed in Section 3 and the key findings, recommendations and wider conclusions set out in Section 4. The tables, graphs and associated information referred to throughout the report are appended to the rear of the document.

2. METHODOLOGY and related commentary

2.1 Introduction

2.1.1 This study updates a previous one carried out by Adams Integra in 2004. Since the initial study, Adams Integra has undertaken numerous viability studies for Local Authorities with wide-ranging market types, and in the process its methodology has been scrutinised at Local Plan Inquiries and LDF examination. We have decided to detail fully the methodology, assumptions and explanations in this update study so that it stands alone and limits the need for cross reference.

2.1.2 The methodology adopted for this study is in most cases the same as was used previously. Any differences between methodologies for this and the previous study are highlighted in the appropriate section below.

2.1.3 In considering the factors that need to be taken into account in bringing forward sites that include an element of affordable housing it is first necessary to determine what effect increased rates of affordable housing provision and reduced thresholds may have on the value of a potential residential development site.

2.1.4 This report investigates a range of development scenarios all with affordable housing provision at 40% as required by the Council's brief. A range of site size thresholds have been tested. These are – notional sites of 5, 8, 10, 12 and 14 units. They have been considered at a range of development value points representative of the typical range of values seen within the Borough (see Appendix I for the range of appraisals carried out).

2.1.5 Currently the Council seeks, as a starting point, in urban areas/larger settlements (those having a population of 3,000 or more) 40% affordable housing on qualifying sites of 15 or more dwellings. For smaller settlements/rural areas (settlements of less than 3,000 population) the policy applies at a threshold of 5 dwellings or more; see 1.1.3 above. The development scenarios summarised above, and set out at Appendix I, test development viability at potential lowered thresholds for the urban areas/larger settlements. We do not, however, make any reference to settlement size or type in our results, however, since as above (1.1.6) those distinctions need not be continued now in our view and experience of thinking. The outcomes of the appraisals based on this range of scenarios provides us with a scale of results (discussed in Section 3) from which conclusions can be drawn as to the key factors and trends in Test Valley, how these might be considered in reviewing policy options. Recommendations are then made for the direction of those.

2.1.6 The schemes modelled are not actual developments, but notional schemes chosen to reflect scenarios that best match the various potential policy options tested. These were arrived at through discussion with the Council's Officers, and should reasonably reflect a range of scheme types coming forward now and anticipated. In practice all schemes are different, however, it is considered that those selected cover a sufficient range of scenarios on which to base our recommendations.

2.1.7 Research into residential property prices across the Borough, on a detailed localised basis, was undertaken to determine realistic residential development (property sales) values assumptions for each appraisal model (see Appendix III – Property Values Report). Rather than divide the Borough into settlement areas (as was carried out for the previous study), it was decided to fix a range of value points which represented the variety of typical new build values in the Borough. The results of our property values research informed these judgements. This methodology allows the results of this study to be used independently of location and so, more usefully, by approximate development value. The range of new build value points across the District were determined through this research and can be seen in Figure 2: "Summary of value points and property types" at section 2.5.

2.1.8 In the previous study, and indeed all of our studies, we state that property, and therefore land, values vary by location and often over very small distances. While there are value patterns (there is a distribution of areas which are generally higher and lower in value) in Test Valley as in any geographical area, in reality those patterns cannot be identified or applied rigidly. The study, including Appendix III, discusses these points further with reference to Test Valley specifically. It is because value patterns are not rigid that we have decided to carry out this study with reference to our value points methodology, which is as applied in most of our more recent studies, rather than studying values relating to particular localities, potentially resulting in the labelling of those – or presenting a hierarchy of values - in an over-specific way.

2.1.9 The detailed review of property values brings increased local relevance to the study and the context for recommendations. While it is possible to carry out a comparative exercise driven by Land Registry average values, those are not related to particular property types. They also cover the whole re-sale market and, therefore, fail to pick up on any differentiation between that and the local new build market which is the supply source of this planning-led affordable housing.

2.1.10 The requirement to place an increased proportion of affordable housing on a site, or introduce it as a requirement for the first time, will inevitably reduce the sales revenue that a developer can reasonably expect to receive. As this reduction will not be accompanied by lower construction costs, the offset must

be taken up in either a reduced development profit, lower land price or a combination of the two.

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

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

2.1.13 Assuming that a developer will require a minimum fixed profit margin on any given site to balance risk and obtain funding, beyond a certain point it is, therefore, the land value that will be affected by the introduction of affordable housing or other infrastructure requirements, provided the developer's profit expectations are not excessive. This follows the general principle that cost burdens on a development are basically passed through to the landowner, i.e. they impact on land value. In this sense, and while there can be positive cash flow issues, affordable housing is viewed as a cost element to the developer's appraisals, in much the same way as other planning infrastructure requirements (planning obligations) are.

2.1.14 Positive cash-flows from affordable housing, whilst not modelled in this overview study, are mentioned here because affordable housing sales are often akin to "off plan" sales made quite early in the development period. This can make a positive contribution to viability, particularly if cashflow is modelled. Development Agreements are often structured so that the Registered Social Landlord - usually a Housing Association - (RSL) pays sums to the developer during construction. Reduced marketing costs can also be relevant.

2.1.15 Developers view the affordable housing provision as a cost because it has the effect of reducing scheme revenue (gross development value), whatever the subsidy level sought or financial basis applied by the Local Authority. This revenue impact feeds its way down through the appraisal to reduced land value – i.e. the cost is normally passed on to the landowner.

2.1.16 To establish the potential effect of affordable housing on the supply and development of residential sites, we have compared scheme viability based on the application of the existing policy (0% affordable housing on sites of

less than 15 units in larger settlements/urban areas) with the range of possible alternative options being considered for those – i.e. 40%, affordable housing requirement on thresholds of 5, 8, 10, 12 and 14 units.

2.2 Approximate Residual Land Value

2.2.1 In order to determine the impact of proposed affordable housing policy on a range of site types given various value scenarios it is necessary to determine a common indicator.

2.2.2 In normal circumstances the developer is aiming to secure a minimum predetermined level of profit (sometimes described as a margin). Assuming a developer has already reached the initial conclusion that, in principle, a site is likely to be suitable and viable for development, an appraisal is then carried out to fine tune scheme feasibility and discover what sum they can afford to pay for the site. Some sites coming forward for development will have already been purchased by a developer in advance of planning permission being granted and/or have already secured planning permission based on the then prevailing policy position. Sites are secured by a variety of means with the completion of the purchase from the landowner taking place at varying points depending on the detail of the particular deal. Such circumstances will have to be dealt with case by case. However, in this study, we have assumed that any negotiations will take place in the knowledge of the current development climate and planning policy requirements as they could apply to a scheme using the various scenarios we have tested for this study.

2.2.3 The simplest, most effective and widely understood way of checking site viability in most instances is via a residual land value based model. We have developed our own spreadsheet model for this purpose. In doing so we have made what we feel are reasonable assumptions, but it must be noted that individual developers will have their own variety of approaches, and a developer might also apply a different approach from one site to another. Generally, however, the basic structure of these calculations does not vary greatly and, in our experience, running a variety of models will give similar approximate land value outcomes assuming similar inputs are made overall.

2.2.4 A highly simplified example (used in all Adams Integra studies) which groups various cost elements together and showing only the basic structure of the calculation method, is shown in outline below in Figure 1. This is an example only and is not to be relied upon for calculation purposes. It demonstrates, in outline only, the key relationship between development values and costs. It is not to be referred to for its content figures – those are here only to help show the relationship between them. This is a dynamic relationship and determines the amount left over (hence residual) for land purchase. Broadly speaking, as residential sales values increase (e.g. from one location to another) but development costs remain similar, there is more scope to sustain adequate developer's profit levels together with, crucially, sufficient land values to

promote development. From this flows the concept that with increased values development will begin to be able to bear the cost of supporting infrastructure and other justified requirements, including affordable housing, through planning obligations.

Figure 1: Simplified Example of Residual Land Value Calculation for illustration purposes only.

Number of Units =	10
Sales Value =	£120,000
Gross Development (sales) Value = A ("GDV")	£1,200,000
Development Costs (build costs, fees, etc.) = B	£575,000
Development Profit (@15% of GDV) = C	£180,000
Costs associated with Land Purchase and planning infrastructure obligations (not including affordable housing element) = D	£75,000
So, Gross Development Value **Less Development Costs** **Less Profit** **Less Land Purchase costs and planning infrastructure obligations**	
Leaves Approximate Residual Land Value ("RLV") **= E**	
A – (B + C + D) = E	**£370,000**

2.2.5 This general method of assessment reflects one of the main ways of how development viability tends to be assessed and land value checked relative to sales values and development costs. It is an established one, and just as important is the making of sound judgements when inputting to it. Through our day to day and wider cross-sector work, and consultations with developers and others in the supply chain, we have been able to verify our experience and thoughts on components of the model, indicative output land values, as well as the general approach. It is also now benefiting from our previous Local Plan Inquiry, LDF examination and planning appeal experience. No form of assessment such as this can be regarded as an exact science due the nature of it and of the development process. There are other methods such as cash-flow driven models and the use of comparative information from other land deals but unless full, reliable information is

available to drive the thinking using those, more assumptions generally need to be made. Therefore, it can also be more difficult to make like for like comparisons on land value impacts using such information and methods.

2.2.6 We will at this point make reference to other study types/approaches that we are aware of since that element of commentary required by the Council does not affect our results or conclusions.

2.2.7 The subject of development viability is approached by a range of advisors including consultants such as Adams Integra, land and property advisors, planning consultancies, housing consultancies active in the Areas of housing markets and needs. It involves developers, landowners, Local Authorities and funding organisations such as the Housing Corporation (New Homes Agency). Whilst we are aware of approaches to considering viability which involve building a case based on planning legislation and guidance scope together with reasonableness from a precedents point of view (existing policies elsewhere, appeal and Inquiry outcomes, etc), in our view it is always necessary to carry out two key elements to help inform judgements on such policy positions. These are:

1. Studying local property values, including the new build market, which are key to development viability, and
2. Carrying out modelling which considers the relationship between those values and development costs, and then how that is impacted by the introduction or increase of affordable housing policy requirements being considered.

2.2.8 These two steps are key in our view, and bring the required local relevance to build an understanding of the local market and context for policy development.

2.2.9 It is difficult for us to comment on what other specific approaches have been undertaken in respect of step 1 above, and it must be noted that the precise detail of step 2 requirements varies between models and in any case from one study area to another. However, our appraisal model shares much in common with others of a similar type, which as we have discussed is we believe the key way of considering development viability. It allows you to vary assumptions inputted and see the impact of those variations on the resulting ("residual") land value (RLV). Two of the most commonly recognised models are those adopted by the Greater London Authority (GLA) prepared by consultancy The Three Dragons following their earlier work in London; and the GVA Grimley/Bespoke Property Group model adopted by the Housing Corporation as its "Economic Appraisal Tool". These are based on residual valuation thinking and, much like the Adams Integra model or those used by developers and their agents, calculate the estimated RLV based on the

assumptions entered. Features of all such models are that they rely on assumptions. The more assumptions required, especially where it is difficult to inform those assumptions accurately, perhaps because of the stage a scheme has reached, the more complex and uncertain the modelling and certainly the interpretation of results can become. In our view, it is best to keep the modelling relatively simple unless there is plentiful and certain information about a scheme to hand, and vary as few assumptions as possible when considering the impact of affordable housing requirements. In essence, having acknowledged that the affordable housing element of a scheme is usually regarded by the landowner and often the developer as a cost to the scheme, considering the impact of affordable housing in financial viability terms is like considering the impact of other cost requirements such as site abnormals or planning infrastructure requirements.

2.2.10 In this context we are considering viability related to the establishing of policy targets. That is different to, and as we state will never be a complete substitute for, considering viability on a site specific basis – where much more information will normally be known to help underpin assumptions and relate the outcomes to the site characteristics and its potential. However similar methodologies such as ours and those mentioned are used. For site specifics, the use of these models also needs to be combined with thinking on the type of site being reviewed – its development potential and constraints. Alongside site constraints, there may be ownership factors and/or existing/alternative use considerations to weigh up in comparison with the RLV outcomes from the model(s). This means that for site specifics, usually the RLV outcomes from the models are not considered in isolation. Planning and other factors aside, whether a particular piece of land comes forward for residential development with or without affordable housing, from a financial viability point of view, will often depend on how the likely RLV outcomes relate to existing/alternative use factors. For site specific cases, we have tended to run two or models to bring a wider understanding of the RLV outcomes and greater comfort in judgements being made. In our experience, outcomes from our, typical developers/agents or the GLA/Housing Corporation tools tend to be similar providing similar inputs are made overall. There can be issues with all such models in terms of having to manipulate information to fit it in to the model, and making sure that it or the results are not skewed by the manipulating. The varying of inputs on a sample or test basis, i.e. running of multiple appraisals or varying the same appraisal, can be a helpful process in reviewing the sensitivity of outcomes to the various inputs changing.

2.2.11 The model used for analysis in this instance uses the process discussed above - a calculation that provides an approximate residual land value, after taking into account assumed normal costs for site development. It does not allow for any abnormal development costs which tend to be of a site specific nature. We do not consider it helpful in the context of sound policy targets to depress development viability outcomes and risk prejudicing delivery against

those targets based on some form of standard abnormal cost assumption. Again, there is no substitute for site specific consideration of such issues.

2.2.12 We have then added to the model the inclusion of an affordable housing element, whereby an assumption has been made that the developer receives a payment for a number of completed affordable homes based on predetermined calculation (discussed later), but that is not at a level comparable with open market values.

2.2.13 In addition, an allowance has been made in the appraisal model, for other planning infrastructure costs. The figures used are shown in 2.8: “Other Assumptions”.

2.2.14 The results of the modelling then show the change in approximate residual land value or change as a percentage of approximate gross development value. It should be noted that this modelling is based on notional sites and is a relative exercise only - to determine the probable effect of revised affordable housing policy. The figures arrived at relate only to the notional schemes modelled and are the result of calculations that use assumptions associated only with these notional scheme types. They cannot be used to substitute actual, site specific consideration of viability, although the methodology and starting point assumptions should aid that process. The *relative changes* in results as the affordable housing criteria alter are the key outcomes.

2.2.15 This study has involved making informed judgements based on development values and changes seen in land values as a result of the range of potential planning policy positions on affordable housing. This is all in the context of seeking to guide policy development and arrive at clear policy targets. It cannot be a definitive guide to how specific sites will be appraised or how outcomes on a site specific basis will look; as above. The aim was to set out reasonable parameters to assist the Council in reviewing its planning policies. As such, the report is not intended for other purposes. However, it is considered that the approach and assumptions used here will, in a general rather than rigid sense, be sufficiently robust to guide and inform the Council as to a reasonable starting point for site specific consideration and related negotiations it will need to have.

2.3 Gross Development Value

2.3.1 Gross Development Value (“GDV”) is the term used to describe the amount a developer ultimately receives on completion or sale of a scheme whether through open market sales alone or a combination of those and the receipt from a RSL for completed affordable homes. Thus the developer’s profit in each case relates to a scheme specific sum rather than to a base level of GDV that assumes no affordable housing. It is reasonable to assume that the developer has appraised the site and secured land in the knowledge of and

reflecting policy that will apply, i.e. is aware that receipts will be at a lower level than prior to affordable housing policy taking effect. This can be regarded as a reasonable approach given the long established principles flowing from national policy guidance on the provision of affordable housing, currently expressed by PPS3.

2.3.2 Ultimately, land value is a product of a series of calculations that provides a residual valuation based on both the specific form of development a site can accommodate and its development costs. While the market uses a variety of approaches to appraise sites and schemes (including comparisons between sites) in early stages of feasibility, a more detailed approach is necessary to understand how the value/cost relationship appears.

2.3.3 Models which study cash flow over the development lead in, build and sales periods are also used in this context – perhaps particularly for larger, phased developments. As mentioned above, such methods, because they take account of income being received from sales during the build period, tend to produce slightly higher residual land values than the traditional residual approach, if used on comparable schemes.

2.3.4 In this study we have looked at values and costs and, therefore, viability outcomes, on a snapshot basis. Whilst the approach of setting and considering a range of value points gives some appreciation of how viability can improve with increased values, this work will need to be updated periodically and the development cost/value relationships kept under review. Changing wider planning infrastructure obligations could impact on the cost side.

2.4 Developer's Profit

2.4.1 Adams Integra's experience of working with a range of developers leads us to suggest that they would need to seek a fixed profit (margin) of at least 15% (gross) of gross development value particularly in regard to smaller sites and the types of developers likely to be involved here. This assumption has underpinned our previous studies for Local Plan and LDF purposes. It is consistent with the default of "typically around 15%" assumed in the GVA Grimley and Bespoke Property Group Housing Corporation Economic Appraisal Tool. It was also considered for example by the Local Plan Inspector at Portsmouth who agreed with our contention. Only if the projections reveal this fixed profit margin (as a minimum) would they pursue a site.

2.4.2 Some developers will look at alternative profit criteria, for example a higher percentage (perhaps up to 30%) of capital employed. We felt it appropriate to appraise the scenarios at the margins from the developer's perspective. Higher profit levels than those we have assumed may well be appropriate, depending on the nature of the project and risk/reward scenario. Different

profit aspirations will also be held by different types of house building and development companies. Once again, there are no firm rules when it comes to scheme specifics.

2.5 Approach to Property Values Overview and Unit Values

2.5.1 In determining the basis for the use of property values assumptions to drive the appraisals, it was decided that it would be more useful to Test Valley Borough Council to define a range of "value points" rather than concentrate on the specifics of settlement areas or centres, within which and between which values can vary greatly in any event. This approach differs from the original study where overall values (i.e. resale and new build – all sales) were used with reference to specific settlement areas or location types. This meant an overall average value for each settlement was used. Although this is not incorrect, many more recent viability studies carried out by Adams Integra have been based on using our "value points" method. We feel that this brings more local relevance. It encourages a greater understanding of the market which will be the supply source of the planning-led affordable housing, and makes better links with that. We have found in some Local Authority areas subsequently that new build values are typically at a different (often higher) level than the overall re-sale market – based on a comparison of equivalent property types. Therefore, we feel that this adjustment to our methodology is well based. By taking an approach that looks at a range of value points, we are saying that the value levels identified at each point could be found anywhere within the Borough, not isolated to particular settlements. This also fits well with the clear target approach, framed as simply as possible, as the foundation for negotiations and practical application.

2.5.2 To this end, Adams Integra reviewed the asking and subject to contract sale prices of all available new build properties across the Borough. This work is set out at Appendix III - Property Prices Report. It enabled us to consider whether any distinct value patterns exist within the Borough, before settling on our value points approach. It also provided us with the range of values encountered across the Borough for new build property by type. The data was collected through a mixture of "on the ground" and desktop/internet research.

2.5.3 As part of our research, we also spoke to a number of estate agents at different locations in the District. Where little data was available at the time of the search, the data has been verified or supplemented by using Land Registry average figures. The study approach has been further verified through research and discussions with land agents as to the way in which developers price their new schemes, and through visits to, and enquiries of, house builders' sales offices open locally at the time of the study.

2.5.4 Finally, the Council provided Adams Integra with CACI data which was analysed alongside re-sale data (collected previously and updated) to ascertain the state of the overall housing market in Test Valley, including

existing values (re-sale values). This data was then manipulated to gain an idea of the local hierarchy of selected wards with Test Valley. This enables us to develop a wider understanding of the local market and to verify and supplement the new build property values research.

2.5.5 The results of the new build property value research led to the formation of 5 value points, covering the range within which most, what might be regarded as typical, new build property values found in the Borough fall. Figure 2 shows this range.

2.5.6 In general terms, the new build market in Test Valley does not vary greatly although, typically, the lowest values encountered were in parts of Andover whilst the highest were seen in a range of localities across the Borough – mainly urban Romsey and rural Test Valley. These statements are indications only, and the methodology does not make any reference to them.

Figure 2: Summary of Value Points relating to property types:

<<<<<<<<<< Typical Value Range >>>>>>>>>>

Unit Type / Value point	Value Point 1	Value Point 2	Value Point 3	Value Point 4	Value Point 5
1-Bed Flat	£112,200	£131,325	£150,450	£169,575	£188,700
2-Bed Flat	£145,200	£169,950	£194,700	£219,450	£244,200
2-Bed House	£167,200	£195,700	£224,200	£252,700	£281,200
3-Bed House	£189,200	£221,450	£253,700	£285,950	£318,200
4-Bed House	£222,200	£260,075	£297,950	£335,825	£373,700

2.5.7 The Value Points have been settled upon to cover the range of values seen for typical new build schemes in the area. The purpose is not to assign particular viability outcomes to specific locations, as in reality within each settlement or other area boundary there will be a range of values, even for similar properties, depending on matters such as size of property, quality of design and build, proximity to key commuting nodes such as train stations, schools and other factors that determine an area's desirability to buyers.

2.5.8 The Value Points are intended to provide broad indicative values within the overall Test Valley range, so that we can understand how varying policy and the resultant range of viability outcomes might affect housing and affordable housing delivery in various parts of the Borough or in various value scenarios typically occurring within it.

2.5.9 This report does not attempt to provide comprehensive property valuation data but rather identifies the typical range of new build values of various unit types. The values research was not in-depth market research, but was carried out to enable us to make judgements about the range of values of new build

properties typically available in the Borough. The values used in the appraisals are taken from our judgements on the range of values of varying sizes and types of property. We believe, however, that the information used and judgements made are reasonably representative of the values to be found across the Borough.

2.5.10 Also relevant in this context is the fact that the values used here can only be on a snapshot/current time basis and do not anticipate future property value increases or decreases.

2.5.11 We will give a brief overview of the values patterns seen at section 3.1; further information on which can be found in Appendix III.

2.6 Model Scenarios, Unit Types, Mix and Size

2.6.1 Test Valley Borough Council required a range of scenarios to be tested in order to examine the impact of a range of possible policy options on site viability. These are outlined in Appendix I – Development Scenarios.

2.6.2 The scheme types modelled range in size from 5 to 14 units to allow the study to investigate wide range of potential affordable housing policy options on qualifying sites in settlements of 3,000 or more.

2.6.3 Each of these scenarios were appraised on the basis of nil-cost serviced land scenario. In effect nil-cost land usually involves an approach whereby the developer receives reasonable build costs in return for completed affordable units and that sum does not vary with affordable housing tenure. This means that subsidy can be kept within the scheme to support the affordable rented element. It also forms a sound base from which to work with the Housing Corporation having secured a good base level of subsidy, enabling “additionality” to be demonstrated by the improvement of affordable housing numbers and/or tenure mix (towards affordable rented) and/or potentially affordability or other sustainability benefits.

2.6.4 This update study appraised notional sites comprised only of 3-bed units. This was to allow ease of comparison in viability terms across each scenario, ensuring that the impact of affordable housing was easily identifiable. We assume a 3-bed unit will be 86 sq m.

2.6.5 We acknowledge that these 3 bed house sizes may be small compared with some coming forward, but our research suggests that the values for larger house types would often exceed those we have used. Often properties will be innovatively designed and, for example, make use of the roof space or provide more accommodation on a similar footprint through increased heights. Thus floor areas vary dependent on design, but again it was necessary to fix assumptions. The assumption to use these sizes also means

that build costs are reflected accordingly; it is that value/cost relationship which is important as opposed to the unit size in isolation.

2.6.6 The sizes used are also broadly consistent with the range of sizes set out in the Housing Corporation's latest Housing Quality Indicators which are cross referenced from the Housing Corporation's latest "Design and Quality Standards" published April 2007 following the completion of our modelling exercise. Fixed points, not ranges of sizes, needed to be selected to allow for the like for comparison of impacts process.

2.6.7 For details of the unit mix for each scenario see Appendix I – Development Scenarios.

2.7 Affordable Housing Unit Transfer (to RSL) – Method of Payment Calculation and Type of Unit Transferred

2.7.1 Discussions with Test Valley Borough Council indicate that the payments developers receive from RSLs (Registered Social Landlords) for the provision of completed affordable units on-site effectively reflect a nil-cost land scenario. We understand that this approach will be continued as it is a very valuable tool in helping to secure affordability by controlling its input costs whilst giving clarity of approach.

2.7.2 The consequence of not promoting such an approach is often a reliance on an unachievable level of grant funding, or the compromising of affordability (access) levels to the housing produced. This was the driver behind the former "Total Cost Indicators" published by the Housing Corporation. Those are now defunct and in the absence of any similar mechanism Local authorities now need to use alternative mechanisms to secure delivery and affordability. This will also be driven by the Housing Corporation's "additionality thinking", whereby in order to secure grant it will be necessary to demonstrate what benefits it brings, for example by way of improved affordable housing units numbers, types, tenure mix or perhaps sustainability benefits – or a combination of these. In our view, Local Authorities are increasingly going to need to secure a good base level of subsidy.

2.7.3 With recent developments in Government thinking, developers are in some cases going to be providing affordable housing without involving RSLs in the development process. It is a scenario more likely to be relevant to larger schemes, but looks likely to develop. The free serviced land level of subsidy could be aligned to this approach, as there is still a land input cost even though there may be no land transfer in the same way. In this sense, the scenario involving a developer with grant is equivalent to the use of a development agreement between a developer and RSL, currently one of the most common routes of affordable housing procurement.

2.7.4 The amount a developer can expect to receive for the completed affordable homes is equivalent to the reasonable build costs for the dwelling type and site conditions. With the Government's drive through the Housing Corporation for best value, and making sure that grant money achieves the "additionality" rather than supporting land value or similar, we may see downward pressure on costs for affordable homes working against increasing tender prices in some way.

2.7.5 We have taken what we feel is a fairly cautious view of the payment likely to be received by the developer from the RSL given the uncertain affordable housing funding climate.

2.7.6 In practice, a developer may be able to recoup a larger sum, improving site viability marginally. However, there will be costs associated with servicing the affordable housing land to its boundaries and the RSL will also need to fund its own development management cost, hence we have not allowed for the developer receiving back the equivalent of the full design and build package cost. As mentioned previously, currently we also allow for a developer's profit on the affordable housing element, although as we state there this approach will need to be kept under review.

2.7.7 We have assumed a rate of approx £1,000/sq m (gross internal floor area of development) will be received in the case of standard house schemes, and £1,150 in the case of flatted schemes. As above, in practice this might be enhanced but again we consider it appropriate to take a fairly cautious view of factors affecting viability. Viability would then be boosted, albeit perhaps only marginally, by increased receipts for the affordable housing units.

2.7.8 If these or similar build rates are to be incorporated into any Supplementary or Development Plan Documents (SPD or DPD) in our view such an approach would need to set as a baseline or guide, rather than be fixed or prescriptive. All schemes vary. They would need to be kept under review, relating to delivery experiences.

2.7.9 Within the models used for each of the scenarios listed above (and shown in Appendix I) we have assumed that the affordable housing element of each scheme is tenure neutral. This is because by applying the assumption that the developer's receipt from the affordable housing will be build cost based, there is little difference between the costs of providing for different tenures. With improved payments to the developer for some forms of low cost market housing, for example, (where that has a role in producing genuinely affordable housing) this may increase slightly the financial viability of some sites.

2.7.10 In arriving at the build cost reimbursement figures, we assume that the developer receives base build costs back for the completed affordable homes. We acknowledge that this is a fairly cautious viability assumption,

particularly as those cost levels will need to be tested and monitored. However, in our view, in a climate of uncertain funding, availability for affordable housing such as we have, and a basis for that being dependent on significant private subsidy being secured (e.g. through land value), then the Council needs to set some relatively challenging markers and expectations, which it will then monitor. These should not be prescriptive in our view; they should be benchmarks. Nevertheless, we think Local Authorities will increasingly need to take this type of approach. Otherwise public funding (social housing grant) expectations are likely to be too high or affordability compromised.

2.7.11 The reason we assume the developer received only base build costs back is that on the nil-cost serviced land model he will also be expected to prepare the site for the affordable housing development. That model assumes a site already acquired and serviced (usually to its boundaries) ready for the affordable housing construction. That is a cost to the developer which, although usually passed on to the landowner, means that some allowance has to be made to reflect that cost in our viability calculations. In other words, if the developer were fully reimbursed for all construction and land-related expenses, and that meant he could pay a little more for the land, we would not be reflecting the nil-cost serviced land assumption. Alternatively, the developer might be paid more for the construction but then have to make some level of payment or allowance in another way for the land acquisition and servicing costs. Those costs need to be reflected and although again there is no one right answer or genuine “one size fits all” approach, ours is a reasonable assumption in the circumstances from a viability perspective.

2.7.12 In reality each scheme will differ as it could be argued that for low cost ownership forms of tenure provided on site, the market value of the remaining private units might not be affected as much as by affordable rented tenure adjacent. Whilst difficult to acknowledge these types of factors given the level of housing need and sustainable communities themes, there are nonetheless market perceptions and realities around such issues.

2.7.13 As above, we have not reflected such subtleties as it is not possible to do so with notional sites where the positioning of units and accesses etc is not known. These are, however, real factors in the market which again it is suggested should be assessed as part of a practical approach to producing successful development schemes as a whole. Again, site specifics will need to be considered.

2.8 Other Assumptions

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

2.8.2 As will be seen from the notes accompanying the list below, these figures in some instances are factors of other elements of the appraisal and therefore vary by site size and type. For example, certain fees in the calculations are percentages of sales values and, therefore, as sales values change, so will the related fees. In practice each site and developer approach would vary and it is appreciated that the figures used here will not always be appropriate; site specifics will prevail. However, crucially for this exercise this appraisal model enables a comparison to be drawn across sites on a 'like for like' basis so that it is the impact of changing affordable housing policy which is highlighted.

2.8.3 The percentages and values assumed for the purposes of this exercise are listed below and are the result of Adams Integra's current day to day experience, work with and discussions with developers, housing associations, Local Authorities, and regular contact with the Housing Corporation, valuers, agents and others:

- **Base Build Costs (House Schemes)** – *£1,000/sq m*

  The above are applied to the Gross Internal Area (GIA) of the accommodation.

  There will always be a range of opinions on, and methods of, describing build costs. In our view we have taken a reasonable view which lies within the range of figures generally discussed for typical new build schemes rather than high spec, complex or sensitive schemes which might require particular construction techniques or detailing. As with many aspects there is no single appropriate figure in reality, so a judgement on where to fix the assumption is necessary. These figures are similar to those used for the original study, however, in our view they are appropriate as base costs for typical new build housing and low rise flatted developments – ignoring any particular site issues or abnormal costs. Recent experience from our work and contact with developers indicates this to be the case.

  We are aware that the developer's base build costs can be lower than our above base cost figure guide, and also that the BCIS tends to indicate lower figures depending on what scheme types are reviewed. In contrast however, there is much said about costs being higher than this, often in the context of RSLs procuring new housing through contractors and developers, and in the context of some developer schemes depending on the build detail and specification, etc. In this connection, there is a dynamic relationship with property price too, as higher spec schemes will often command premium sale prices in excess of those we have envisaged for more typical new build housing. Overall, a view needs to be taken, and then monitored, tested and updated as informed by the experience of site specifics,

negotiations and (from the affordable housing perspective) in light of funding availability and affordability for occupants.

Typical scheme specific additions to these are:

- **Architect Fees** *3.5% of build costs*
- **Consultants Fees** (e.g. engineer, planning supervisor, project manager) *3.0% of build costs*
- **Contingencies** *3.0% of build costs*
- **Insurances** *2.5% of build costs*
- **Marketing and Sales Fees** *1.5% of Estimated Gross Sales Value. There will be instances, dependent on the location and scheme type, where some of this expense or an additional sum will be directed to the setting up of a show home. This will, however, not be appropriate on all schemes hence we have not included for it as a standard assumption item. We would not expect it to alter the outcomes fundamentally.*
- **Legal Fees on Sale** *£400 per unit*
- **Finance (build)** *7.5% APR on above costs over build period. At the time of our calculations base rates appeared to be on a potentially rising trend to some extent, so with time this – as with all other elements – might need to be reviewed. Results would not be materially affected with the types of changes seen recently, and there will be balancing factors to the costs side – for instance through current property prices trends. Our assumptions have to be fixed and appraisals carried out at a specific point in time.*
- **Build Period** *6 months for 5 to 12 unit schemes; 9 months for 14 unit schemes*
- **Land Survey Costs** *5 unit scheme - £3,000*
  8 unit scheme - £5,000
  10 unit scheme - £6,000
  12 unit scheme - £7,000
  14 unit scheme - £8,000
  (Includes basic ground conditions research only)

- **Legal Fees on Land Purchase** *0.5% of land value (this will often produce a low figure (when looking at very small or low value sites) but only make a minimal difference to outcome.*

- **Planning Application costs** *£265 per dwelling (this applies, as in all cases here) where the number of dwellings is 50 or fewer [typically where the number of dwellings exceeds 50, an additional £80 is applicable for each extra dwelling, subject to a maximum total fee of £50,000 – not applicable for this study].*

- **Stamp Duty Land Tax** *Between 0% and 4% depending on residual land value.*

- **Infrastructure Payments** *£4,000 per unit (applied in all cases, regardless of site specifics) as agreed with Test Valley Borough Council. This is a simplified assumption compared with the initial study, which is representative on an average basis in the context of this overview study.*

  Please note that this is the figure is used in the appraisals but is not necessarily representative of any particular new residential development as each site will need to be assessed on its own merits.

- **Finance related to land purchase** *7.5% APR* on land survey, planning costs, legal fees on land purchase and residual land value over build time plus 26 weeks. No finance arrangement or related fees have been included for the purposes of this exercise. They might in practice be applicable, but we would not expect them to alter the viability equation fundamentally. Scheme funding arrangements will vary greatly, dependant again in the type of developer and scheme. As with much of this exercise, this is a snapshot and there are varying views as to what future lending rate and other trends will hold.

2.8.4 As this is a relative exercise aimed at determining the likely impact of a range of potential policy options, the most important factor is consistency between assumptions used for modelling scenarios. As we point out, specific assumptions and values for our notional schemes may not be appropriate for any particular actual development. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and thus in the context of the Council considering clear policy targets to underpin a negotiated approach.

3. RESULTS ANALYSIS

3.1 Introduction

3.1.1 First it is relevant to consider a quick overview of the property values research carried out; more detail can be found in Appendix III.

3.1.2 As we have discussed, for this update study we have concentrated on new build development values in making our appraisal assumptions, having also reviewed the overall resale market. Generally, new build values are high in Test Valley, and land values strong.

3.1.3 Reviewing the overall re-sale market with reference to generally available Land Registry sale prices information and the more specific CACI data supplied by the Council revealed that although four Andover Wards (Winton, Millway, Charlton and St Mary's) came at or towards the bottom of the ranking of average values for the Borough; there were two Andover Wards (Harroway and Alamein) where resale value averages came consistently high in the rankings – behind only Chilworth and/or Romsey Extra Ward average values.

3.1.4 So whilst it is true to say that on the whole Andover Values are generally amongst the lowest in the Test Valley context, there are exceptions. Although average prices in any area will be affected by the property types most commonly occurring there, they are still indicative of areas within which higher or lower values tend to be seen and would, therefore, be picked up on by landowners and developers – there will be some influence on new build pricing from the resale market levels. There were some notable inconsistencies between the rankings produced from the CACI sourced and Land Registry data, but generally the hierarchies show that higher values are found in Southern Test Valley and Romsey, than in Andover.

3.1.5 The results of our modelling are shown in Appendix II, and II (a). Appendix II shows the results of the modelling carried out on the basis of free land developer subsidy. Appendix II (a) covers the payment in lieu appraisals carried out.

3.1.6 Tables 1, 1a and 1b are a summary of Tables 2-6 and show a summary of the Land Residual Value appraisals for points 1-5 in value, % of GDV, and reduction in RLV (%) respectively. This is also shown on Graphs 1, 1a and 1b. Tables 2-6 show the reduction in RLV as a consequence of reducing the potential threshold across the development scenarios for value points 1 through to 5.

3.1.7 The results shown in Tables 2-6 have also been represented in a series of graphs (2 to 16). Graphs 2-4 relate to Table 2; Graphs 5-7 relate to Table 3; Graphs 8-10 relate to Table 4; Graphs 11-13 relate to Table 5 and Graphs 14-16 relate to Table 6.

3.1.8 For Table 2 (point 1), Graph 2 highlights the RLV in monetary terms (approximate). Graph 3 shows the RLV as a percentage of GDV. Graph 4 indicates the percentage reduction in RLV as a result of the increase in affordable housing required from 0% to 40%. These reflect the changes from current adopted policy to potential future policy options. Graphs 5-7, 8 to 10, 11 to 13 and 14 to 16 repeat the information but for Tables 3 to 6 (points 2 to 5) respectively.

3.1.9 Figures 5 and 6 below provide a quick summary of the information to be found in Appendix II and II (a).

Figure 3: Summary of Tables and Graphs Relationship from Appendix II

Table No.	Title	Graph No.	Title
1	Summary of Land Residual Value (£) Appraisals for All points	1	Summary of Land Residual Values at 0%, 20%, 30% & 40% Affordable Housing Across All Value points - 15% Developer Profit.
1a	Summary of Land Residual Value (as % of GDV) Appraisals for All points	1a	Summary of Land Residual Values (as % of GDV) at 0%, 20%, 30% & 40% Affordable Housing Across All Value Points - 15% Developer Profit.
1b	Summary of Reduction in Land Residual Value (%) Appraisals for All Points	1b	Summary of Reduction in Land Residual Values (%) at 0% to 20%, 0% to 30%, 0% to 40% and 30% to 40% Affordable Housing Across All Value s - 15% Developer Profit.
2	Summary Table Showing Reduction in Land Residual Based - Point 1	2	Residual Land Value (£) - **Point 1**
		3	Residual Land Value (% of GDV) - **Point 1**
		4	Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing **- Point 1**
3	Summary Table Showing Reduction in Land Residual Based - Point 2	5	Residual Land Value (£) - **Point 2**
		6	Residual Land Value (% of GDV) - **Point 2**
		7	Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing **- Point 2**
4	Summary Table Showing Reduction in Land Residual Based - Point 3	8	Residual Land Value (£) - **Point 3**
		9	Residual Land Value (% of GDV) - **Point 3**
		10	Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing **- Point 3**
5	Summary Table Showing Reduction in Land Residual Based - Point 4	11	Residual Land Value (£) - **Point 4**
		12	Residual Land Value (% of GDV) - **Point 4**
		13	Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing **- Point 4**
6	Summary Table Showing Reduction in Land Residual Based - Point 5	14	Residual Land Value (£) - **Point 5**
		15	Residual Land Value (% of GDV) - **Point 5**
		16	Reduction in Residual Land Value as a Percentage of GDV from 0% to 20%, 30% and 40% Affordable Housing and 30% to 40% Affordable Housing **- Point 5**

3.2 Reduction in Land Residual in Schemes below Current 15 unit Threshold - Points 1 to 5 (Tables 2 - 6, Column 9)

3.2.1 For schemes below the current Test Valley Borough adopted affordable housing policy threshold of 15 units, the modelling carried out for this study applies a proportion of affordable housing for the first time (on sites in settlements above 3,000 population). So on these sites previously there would have been a zero affordable housing requirement.

3.2.2 Analysis of the results indicates that, as expected, requiring an affordable housing element on any of the scenarios modelled leads to a reduction in RLV across the entire range of value Points and scheme types.

3.2.3 It is worth reiterating here that as the approach to modelling has involved the use of Value Points (or "Points") rather than specific settlements, these results will apply to all settlements that fit into the Value Points. So, if we talk about Point 3 for example, this means all schemes that either come from settlements in that Point, or schemes that have a value that fit into the Point 3 profile, no matter where they are located. This comes back to the discussion earlier where we emphasise that land value will vary down to street level (this is especially true, just for example, where a settlement has high value riverside areas adjacent to lower value non-riverside areas).

3.2.4 A comparison of the reduction in RLVs for a 14 unit housing scheme across Points 1 to 5 resulting from a proposed policy of increasing the affordable housing requirement on qualifying sites from 0% to 40% affordable housing indicates a reduction of between approximately 70.6% in Point 1 to 52.1% in Point 5.

3.2.5 On a 10 unit scheme this reduction is slightly less at 64.4% and 48.3% for Points 1 and 5 respectively.

3.2.6 On the smallest site size tested, the results are again similar – a reduction of between 66.8% and 48.2% for Points 1 and 5 respectively.

3.3 Land Residual as Percentage of GDV in Schemes Below Current Threshold – Points 1 to 4 (Tables 2 to 5, Column 8)

3.3.1 Whilst the above highlights the impact of affordable housing on site viability by looking at the overall reduction in land residual value, it is also relevant to review the approximate land residual figures produced (in monetary terms) and compare these across the range of proportion and threshold levels considered.

3.3.2 These are notional/illustrative only and not too much weight should be attached to them, but what we attempt to do is get a general feel for the

amounts of money likely to be available to landowners, to help assess to what extent they might be incentivised to sell.

3.3.3 There can be no definite cut-off point owing to each landowner's position. It is not appropriate to assume that because a development appears to produce some land value, the land will change hands and the development proceed. This must be viewed alongside the owner's enjoyment/use of the land, existing use value and alternative uses that the site may be put to in order for a greater receipt to be achieved.

3.3.4 In reality, scheme specific land values would have to be considered alongside existing or alternative use values and the latter, being very location and planning use or business dependent, will vary significantly too. To attempt to make comparisons with existing or alternative uses in this type of policy context study would, in our view, be meaningless owing to these site specific factors.

3.3.5 In terms of the notional land residual remaining for the 14 unit housing scheme in Point 1 (columns 7 and 8 of Table 2), the notional land residual lowers from £625,253 to £183,890 (or from 23.6% of GDV to 9.1% of GDV) as a result of applying a 40% affordable housing policy from an original starting position where zero affordable housing was required.

3.3.6 For a Point 1, 10 unit housing scheme the notional land residual reduces from £472,174 for zero affordable housing to £167,937 if 40% affordable housing was required. As a percentage of GDV this is a reduction from 25.0% to 11.4%.

3.3.7 The same investigation of a 5 unit housing scheme in Point 1 shows notional RLVs of £233,724 and £77,529 at zero and 40% policy positions or 24.7% and 10.5% of GDV.

3.3.8 The trend of results shows increases in RLV in each of the policy positions as we move through Points 2 to 4. For example, a 14 unit housing scheme at 40% affordable housing produces notional RLVs of £368,506, £551,097, £737,488 and £923,878 or 16.1%, 21.6%, 26.3% and 30.2% of GDV in Points 2 to 5 respectively. These trends again are seen across all scheme sizes.

3.3.9 The overall trend shows an increase in development viability from a scheme in Point 1 with 40% affordable housing to a scheme in Point 5 with zero affordable housing – the extremes in the range studied.

3.4 Viability Study Trends

3.4.1 Due to potential existing and alternative use values of schemes and owners' circumstances combined with the specific characteristics of sites, it is impossible to provide the Council with definitive "cut-off" points where viability

will be compromised to the degree that development may not take place. However, it is possible to provide likely outcomes at varying levels as studied.

3.4.2 By way of an example, a residual calculation that provides an output of zero value (or 0% of GDV) after the application of an affordable housing policy means, obviously, that development on this site would be compromised regardless of wider assumptions. Conversely, on a site where the residual land value approaches 40% of GDV after the application of affordable housing policy it is likely (although not definitive) that land values are high enough to absorb the costs of providing for affordable housing.

3.4.3 We have, therefore, provided in Table 1(a) (Appendix II) a guide to the likely trend of outcomes by colour coding the land residuals as a percentage of GDV. In this table, we have used the following notional/arbitrary cut-off points to grade the results purely for the purposes of high-lighting trends. The matrix of results is based on the notional scheme types appraised and already described. This is aimed to help guide the Council to understand what the outcomes of the modelling mean overall – i.e. to highlight the trends found. The aim is to demonstrate in general terms at what Value Point levels the various policy option points might become more or less workable.

3.4.4 The following divisions have been made with an explanation of the significance of each – but as above for a rough guide to the relative outcomes only (increasing likelihood of the need to negotiate with moving from green to red areas of the table, but by no means as a matter of course) :

- Green = Showing “RLV as % of GDV” greater than 30% - At this point, land values after policy application remain typically the strongest seen locally and are likely to be able to support affordable housing policy with the least negotiation and least compromise.

- Yellow = Showing “RLV as % of GDV” 20% - 30% - At this point, land values after policy application likely to support affordable housing policy with reduced negotiation and major compromise only required in certain circumstances (for example with significant abnormal site costs or collective infrastructure burden).

- Orange = Showing “RLV as % of GDV” 10% - 20% - Transitional zone, at this point land values (certainly at the bottom end) will not always be high enough after the application of affordable housing policy to support the requirements. Negotiation is perhaps likely to be required more often than not.

- Red = Showing “RLV as % of GDV” <10% - Land values after policy application are unlikely to support affordable housing policy. Compromise and negotiation on the level of affordable housing may be required on sites most commonly.

3.4.5 The table clearly shows the impact of applying a 40% affordable housing policy at each threshold and the reduction in RLV those results from that policy application.

3.4.6 The starting sales values have a greater impact on the viability of the schemes than the threshold at which policy would apply (represented by the various scheme sizes).

3.4.7 A notable results trend is that in the case of all notional scheme types modelled, the reduction in RLV resulting from the 0% to 40% policy proposal is much steeper going from Point 2 to Point 1 values than from the higher Value Points down to Point 2 – see Table 1a (final column). There is a significant deterioration of results from Point 2 to Point 1; more notable than what happens from Point 5 to 4; 4 to 3; and 3 to 2. This fits with our emphasis on viability issues in the lowest value areas, but balanced with a justified view that such locations are not going to be widespread in Test Valley – see section 4.

3.5 On-Site Viability - Summary

3.5.1 It is at the lowest value points that we envisage the greatest difficulties occurring in terms of development viability. Appraisals carried out at Value Point 1 figures show that development viability is poor at this level with affordable housing unlikely to be sustainable at 40% provision i.e. values at Point 1 are unlikely to support a 40% affordable housing proportion regardless of threshold level adopted.

3.5.2 Appendix III shows the results and provides commentary on our values research (see for detail). It suggests that the occurrences of Value Point 1 levels are limited across the Borough and that most values lie within the range of Value Points 2-4. Andover in general (new build and re-sale) appears to show new build values around Value Point 2, however, there are exceptions where Value Point 1 values are seen and are likely to occur. These also coincide with where new build activity is occurring in Andover e.g. St Mary's Ward which appears to be one of the lower value areas of the Borough where values are seen to be within the range of Value Points 1 to 2.

3.5.3 Depending on the type of sites that come forward, Value Point 2 levels appear to be the transition point where a 40% target approach could be supported at a threshold of 5 units and above. This will, as mentioned previously, depend on site specific abnormals, existing use, hope value etc.

3.5.4 At Value Point 3, a 40% target of affordable housing on planning lead affordable housing sites is likely to be workable in most cases but bearing in mind we still see a very large reduction in RLV from 0% affordable housing requirement to 40%.

3.5.5 Point 3 values relate to the villages surrounding Andover and potentially the lower value areas of Romsey.

3.5.6 Value Points 4 and 5 are likely to support a 40% target policy without development viability issues (again bearing in mind the usual caveats around site specifics/abnormals etc). These value points represent locations such as central Romsey and the rural areas. Value Point 5 values are likely only to be seen in the highest value developments where the quality is higher than normal or in the rural areas of the Borough.

3.6 Collection of Financial Contributions

3.6.1 As requested in the Council's Brief, we carried out some modelling relating the financial viability of requesting affordable housing contribution payments from sites below any recommended threshold.

3.6.2 The notional sites appraised in this way were of 2 to 14 dwellings in size. Appendix II (a) sets out the additional range of appraisals carried out, and the results those gave.

3.6.3 Each site size/threshold has been tested at 20%, 30% and 40% affordable housing equivalent provision to provide the Council with a full suite of results (Appendix II (a)). The discussion below will concentrate on the equivalent 40% approach, in line with the options required to be tested for on-site provision.

3.6.4 Sites of 2 and 4 units investigate the impact of requesting financial contributions below the lower threshold limit of 5 units. The remaining sites are the same size and type as used for on-site affordable housing to show the impact of requesting commuted sums at these thresholds. Any approach, if implemented, would effectively mean a lowering of thresholds (rather than requesting payments in lieu below a threshold) but with financial payments being made on sites within that size range in lieu of the on-site provision requirement.

3.6.5 On-site provision would then commence above the recommended "on-site" threshold. The thinking behind this being that there is no particular reason why smaller sites should not make some contribution – why they should effectively receive special treatment by carrying no burden in this respect. It might be argued that such an approach could also fit with a Planning Gain Supplement type approach which we understand the Treasury are still considering for implementation, although (latest news July 2007) now possibly alongside other ideas or subject to further review. However, the purpose of this study is not to comment on the planning policy scope or wider merits of such an approach, but to inform on the development viability aspects.

3.6.6 Policy development should include this aspect so as to make clear to landowners and developers how the Council would apply its approach, and on what basis calculations would be made. PPS3 (paragraph 29) makes it clear that such payments should be of a 'broadly equivalent value' to an on-site affordable housing solution.

3.6.7 It is an area of the Council's approach that would, in our opinion, need to be developed in detail through an affordable housing Supplementary Planning Document, or possibly within a Development Plan Document.

3.6.8 In our experience, Local Authorities adopt a number of calculation methods.

3.6.9 The results from these appraisals (based on those providing a financial contribution) within Appendix II (a) can be compared with the summary Table 1 within Appendix II.

3.6.10 Looking at 40% equivalent provision the RLV as a % of GDV ranges from approximately 10% in Point 1 to approximately 30% in Point 5, regardless of the threshold level on sites of 5 to 14.

3.6.11 On sites of between 2 and 4 units, RLV as a % of GDV ranges from 6.3% to 29.0%. Once again, some potential viability difficulties are indicated at the lower end of the values range; a trend we saw with the equivalent on-site provision. This looks to be the case particularly on scheme types at Value Point 1.

3.6.12 At Value Points 1 and 2 at 40% affordable housing equivalent, development viability is poor. It needs to be noted though that the RLV % results look worse because GDV increases as the affordable housing is moved off site. This also has to be viewed in the context of site specifics. What one landowner finds acceptable as a payment for their land will be different from another – this is especially true on sites as small as two units where we could be discussing garden plots etc. In real monetary terms, the residual value of land may reduce to the point whereby small landowners don't feel there is sufficient recompense.

3.6.13 On sites of less than 5 units, requesting 20% affordable housing equivalent in lieu of on-site provision improves viability to the point where it appears to be sustainable at Value Point 2 and above.

3.6.14 Above 5 units (excepting abnormal issues or costs), there should be no pure viability issues with schemes that are at Value Point 3 and levels above at 40% equivalent provision.

3.6.15 For the purpose of our modelling on this aspect, we assumed a contribution equivalent to the nil cost land based on the same methodology and key assumptions as used for the on-site affordable housing appraisals carried out.

This means securing a broadly equivalent level of subsidy to that which would be secured with an on-site approach that aims to secure nil cost serviced land.

3.6.16 The broadly equivalent criterion is as set in PPS3 (paragraph 29). In summary, we added the relevant plot values and acquisition expenses to the costs side of the equation (as payments by the developer are being assumed). So, effectively, the methodology assumes an additional planning obligations payment being made by the developer, albeit from the increased Gross Development Value which results from having no affordable housing on site.

3.6.17 So far as we can see, the calculation should not (and this way it does not) look at the benefit to the developer of moving the affordable housing contribution off-site.

3.6.18 We recognise that other Local Authorities more widely, are exploring the scope for, and issues with, lower thresholds and/or financial contributions from smaller sites.

3.6.19 Policy development should include this payments in lieu aspect if it is to be pursued, so as to make clear to landowners and developers how the Council would apply its approach, and on what basis calculations would be made.

3.6.20 It should be noted, however, again in accordance with established guidance and working practice, but confirmed by PPS3, that this is a secondary approach to sites where there is a very good case for off-site provision and normally where more appropriate provision would result through that route. There may also be a route which involves the provision of an alternative site.

3.6.21 These sub-sections will cover this topic in outline. It is an area of the Council's approach that would need to developed in detail through an affordable housing Supplementary Planning Document, or possibly a Development Plan Document.

3.6.22 As far as establishing or indicating payment levels is concerned, Local Authorities adopt a number of calculation methods. The most appropriate in Test Valley Borough Council's case, in our view, would be one which resolves around land value. This is the basis we have assumed. We have advised other Authorities similarly, and used this approach in negotiations successfully on behalf of Local Authorities. In our experience it also tends to be understood by landowners and developers better than potentially more complex affordable housing finance related mechanisms. It links better to market reality and processes, and is simpler to take account of in the early stages of site feasibility. More certainty can be created by a move away from having to make grant assumptions and the like, as a starting position.

3.6.23 Whilst some Local Authorities have continued using mechanisms which relate back to the former Housing Corporation Total Cost Indicator regime in some way, or to RSL finance driven models, we feel those are now outmoded and should be set aside in favour of methodologies which relate more closely to the market led provision that flows from the planning obligations.

3.6.24 This means considering a methodology which either:

- Relates to the build cost of the affordable homes in some way, or
- Relates to the land cost element – allied to a nil cost land approach to on site affordable housing, or
- Considers the difference between the open market sale revenue and the affordable housing revenue for the relevant homes which would have formed the on site quota. This latter route may be more complex, need more updating and be viewed as less market related.

3.6.25 Having settled a basic methodology, in our view a land value based one being the most appropriate here, there are 2 potentially simple routes to clarifying the Authority's approach.

3.6.26 Firstly, a calculation route might not be prescriptive but instead might set out the principles and underlying methodology but still allow for some degree of site specific influence and negotiation in cases where scheme viability dictates (and is fully justified). Thus it would be formulaic and, with negotiation, a parallel process to the on-site one. Example calculations could still be set out and thus give a guide to the level of payments expected for a range of unit and possibly tenure types.

3.6.27 Alternatively, the same formulaic approach could drive the build up of a payments table. This would be best still viewed as indicative, because all schemes are different. It could set out, Borough-wide (or alternatively, sub-areas if more detail was thought advantageous and helpful) levels of payments required for the range of property types. This might be viewed as more prescriptive. It might mean an averaging out of payment levels across the Borough. On the other hand, however, it might give more clarity.

3.6.28 Ultimately the chosen route will be influenced by a balance between providing a simple, clear guide for negotiations, and the need to manage the approach and resource the discussions around it. The level of research updating required might be relevant regarding this last point.

3.6.29 Where a Local Authority has developed a more prescriptive approach to the sums a developer will receive for completed affordable homes on site (i.e. a formal 'Payment Table' it may be possible to base a formula on the difference between market value and the payment table figure.

3.6.30 However, we reiterate our view the most appropriate route may be to look at land value. This means working out how much it would cost to go elsewhere and replace the land on which the affordable housing would have been sited.

3.7 Calculation Method

3.7.1 We would start by taking a pre-affordable housing land value, calculated as a percentage of the market sale value of a property. This percentage would reflect the pre-affordable housing (0%) residual land value results, as taken from this study.

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

3.7.3 Figure 4 below sets out the per unit indicative payments in lieu which we have arrived at on this basis, using our property size and wider assumptions. These figures are as applied in our additional Appendix II (a) appraisals of notional sites of 2, 4, 5, 8, 10, 12 and 14 units.

Figure 4: Indicative Payment in lieu Figures

Value Point	1 Bed Flat		2 Bed Flat	
	OMV £	Commuted Payment	OMV £	Indicative £ payment
1	£112,200	£45,677	£145,200	£59,111
2	£131,325	£53,462	£169,950	£69,187
3	£150,450	£61,248	£194,700	£79,262
4	£169,575	£69,034	£219,450	£89,338
5	£188,700	£76,820	£244,200	£99,414

Value Point	2 Bed House		3 Bed House		4 Bed House	
	OMV £	Indicative £ payment	OMV £	Indicative £ payment	OMV £	Indicative £ payment
1	£167,200	£68,067	£189,200	£77,023	£222,200	£90,458
2	£195,700	£79,669	£221,450	£90,152	£260,075	£105,877
3	£224,200	£91,272	£253,700	£103,281	£297,950	£121,295
4	£252,700	£102,874	£285,950	£116,410	£335,825	£136,714
5	£281,200	£114,477	£318,200	£129,539	£373,700	£152,133

3.7.4 In our experience these figures are likely to be of the right order in the Test Valley context. As discussed above, seeking to collect sums such as these should at a 40% equivalent provision may impact financial viability at the lowest Value Points. If applied with modest affordable housing proportions such as the 20% and 30% that has been modelled, the financial viability impact can be reduced on the lowest value areas. Allowing for the relative value levels, they are broadly equivalent to sums we are involved in negotiating in other Local Authority areas in the South East and central South in particular.

3.7.5 The Council could decide to further simplify the above type of approach with a District wide single figure per property type. If this route were preferred then an average or mid range figure from the above could be selected for each unit type. Further work could be carried out to settle the figures once the route to applying the basic land value driven formula had been chosen.

3.7.6 Conversely, the approach could be further worked up to reflect on more local value specific basis the land value percentage to be applied to the property open market value (OMV) starting point. We applied a figure of 35.4% of OMV being the average outcome (% of GDV remaining for residual land value) from all 0% affordable housing appraisals – sites in range 2 to 14 units.

3.7.7 This approach is felt to be sound. While something more complex and reflective of particular local area values and land residuals could be used, this

fits with our overall feel for Test Valley Borough values. In reality a replacement site, or scheme to be funded with the monies collected, could be anywhere within the administrative boundaries given Borough wide affordable housing need.

3.7.8 The indicative payment figures in the table at 3.12.3 are arrived at by the following steps:

a. Open market value (OMV) of relevant or comparative property (depending on to what degree the formulaic approach is to be site specific, District wide, etc).

b. Multiply by the residual land value percentage. We have used 35.4%, derived as above (it would be possible to look at this in a variety of ways, including on a more specific RLV basis).

c. Add 15% of the result of a x b to reflect site acquisition and servicing costs. This gives the per unit sum. All sites will be different but this addition in our view is a reasonable one in the context of aiming to get to a simple, formulaic approach which reflects the relevant costs.

d. Apply to the relevant site number and proportion (in this case 20%, 30% or 40% depending on the Council's preferred route).

4. CONCLUSIONS

4.1 General background

4.1.1 The Council wished to understand the development viability impacts from potentially reducing the threshold at which affordable housing will be sought in settlements of 3,000 or more across the Borough. The Council is in the process of developing Core Strategy Policy proposals, and needs to judge the soundness these potential policies, from a viability point of view, before committing to any particular route. Currently the Council seeks as a starting point 40% affordable housing on qualifying sites of 15 or more dwellings (in such larger settlement locations). It already seeks affordable housing at a threshold of 5 dwellings on sites located in smaller settlements. Potential policy options include no change. However, in the context of severe affordability issues and local levels of need, securing more affordable housing is a key aim of the Council. This study updates a previous study carried out by Adams Integra in 2004.

4.1.2 We agreed a methodology with the Council to review the likely viability impacts of and lowering the trigger threshold below 15 units whilst maintaining a 40% proportion. This study investigated the viability of both on-site provision for these smaller sites and commuted payments in lieu of on-site provision. So a range of policy options have been explored.

4.1.3 The context of this study is seeking to maintain the supply of housing sites in recognition of the need for sustained provision of the full range of housing types (market and affordable) in the Borough. It is also work which is needed in the context of the LDF Core Strategy evidence base and requirements of Local Authorities as set out in paragraph 29 of PPS3.

4.1.4 We appraised a range of notional residential development schemes based on the typical range of sales values encountered within the Borough. The notional schemes varied in size from 5 to 14 units, being comprised of 3-bed houses. We fixed development values and costs assumptions while varying the affordable housing content of schemes so as to review the impact of the changing affordable housing policy on development viability.

4.2 Property values research

4.2.1 Property market research was carried out to establish the range of sales values which we used in the appraisal modelling. Owing to the variety of value levels encountered in the Borough, and the sometimes unpredictable distribution of those value levels we settled on an approach which groups the values into stepped ranges, which we have called value points. However,

looking at the level of new build values, those are most likely to be in our mid-value range (Points 2 to 4).

4.2.2 Each Value Point gives a typical price point to each property type contained in the appraisals – the range of Points then covers the typical range of new build values seen in Test Valley.

4.2.3 We did not see it as useful to specifically label certain locations, areas or settlements as higher/lower value, or similar, by linking the value points to examples which may then be quoted inappropriately. This is because in practice values can vary from street to street and within very small areas. The value points approach means that viability outcomes can effectively be transported around the Borough and a feel for viability gained in relation to relevant value levels, rather than based on what could be an arbitrary property sales figure for any given location.

4.2.4 We describe the value Points in terms of 1 to 5. Just for example, at the lowest value point studied (Point 1 scenarios), a 3 bed house is valued at £189,200; moving through a range of value points to £318,200 in Point 5.

4.2.5 Therefore we have studied what financial viability looks like in the lowest value (worst case values) scenarios likely to exist in the Borough, through to the upper value level scenarios where as above financial viability issues are usually of much less concern.

4.3 Other methodology points – a reminder

4.3.1 There are provisos to this, which the report sets out. These include the fact that on this notional sites basis, site specific issues and abnormal costs cannot be accounted for. The fact that individual sites and schemes vary is a key characteristic of the development process. As this study explains, there will be occasions where particular site characteristics and costs mean that a negotiated approach and potential compromise on affordable housing provision and/or other infrastructure requirements may be necessary.

4.3.2 In our opinion the use of notional sites most effectively enables like for like comparisons to be made, i.e. the testing of impacts of the varying requirements on the same typical scheme in a range of value locations. The fact that individual schemes vary makes like for like comparison very difficult when studying those for this purpose of trying to measure policy impacts. Fully reliable and readily comparable information on actual sites would be needed were policy positions to be compared using actual sites.

4.3.3 The appraisals used a residual valuation approach which, in summary, deducts development costs from total sales values to ascertain what sum of money remains for site purchase. As the affordable housing policy and therefore content changes, we see significant changes in the RLVs and we

use the size of those changes as our key indicator for judging the likely impacts of a variety of possible affordable housing policy positions.

4.4 Outcomes - general

4.4.1 The results highlighted in the report above and shown in the tables and graphs which make up Appendix II and II(a) indicate, as expected, that the proposed increased proportions (moving from 0% to 40%) of affordable housing sought on qualifying sites has an impact across the model scenarios that is directly correlated to the Value Point. In all cases, the proposed policy has the effect of reducing the RLV.

4.4.2 There is a notable impact from policy which sees affordable housing required on sites for the first time. This gives rise to a large dip in land values, and is relevant in the case of lowering trigger thresholds for the affordable housing policy. The impact can be very large. We will revisit this point as it is relevant to considering the policy direction.

4.4.3 There is a range of values in the Borough and consequently viability varies across it.

4.4.4 To give a little more detail here before summarising outcomes and, therefore, providing the background to our recommendations, for the on-site affordable housing scenarios we studied sites of 5, 8, 10, 12 and 14 units (all reflecting a potential lowered threshold from the present policy level of 15 as affects larger settlement sites). These were tested at 40% for all schemes. All schemes tested below the current 15 threshold were also modelled with zero affordable housing content so that we could compare approximate starting point (pre-policy) land values with those resulting from the changes tested. This is important because it is necessary to consider the before and after potential policy positions. This is how landowners will tend to view the scenario.

4.4.5 To review the affects on RLV of the potential payment in lieu approach to smaller sites we ran appraisals on notional sites of 5, 8, 10, 12 and 14 units and also 2 and 4 units (should the Council further consider policy to that level), each contributing to affordable housing at levels of 20%, 30% and 40%.

4.4.6 Viability of housing schemes in Value Point 1 situations looks relatively poor, with in our view little prospect of being able to sustain 40% affordable housing provision.

4.4.7 There is significant improvement from Point 1 to Point 2 results, although some in Point 2 situations still give some cause for concern as the affordable housing proportion is introduced and increased.

4.4.8 It appears that values on sites may need to hit Point 3, 4 and 5 levels for up to 40% affordable housing to be sustained more regularly, or without too much negotiation.

4.4.9 This is a key point because from our research and the new build scheme examples we found information for, although there are areas (as discussed above) that will fall into the lower Points, much of the Borough will see new build levels within the higher Points.

4.4.10 A review of the local property market for this study shows that there still appears to be distinct differences between property values across the Borough. However, there has been an overall strengthening of property values since the original 2004 study was conducted which leads to an improvement in terms of overall development viability.

4.4.11 We consider that most new build schemes seen in the Borough will be at value levels represented at least by our value Points 2 to 4. This means new build schemes, which will be the supply source of this planning led affordable housing, will most typically be priced at the middle values within the range we have envisaged.

4.4.12 The exception to the above is in some areas of Andover, new build values are within the range of Value Points 1 to 2. This is true of current activity which has seen development within the St Mary's Ward of Andover which typically has some of the lowest values in the Borough.

4.5 Recommendations and points for consideration

4.5.1 The threshold level at which affordable housing is required is not as significant as the requirement to provide 40% affordable housing for the first time on sites below the current 15 unit threshold. As such, in general terms a threshold as low as 5 units can be supported in pure viability terms across much of the Borough as a target. However, in the lowest value areas there would need to be negotiation; as there would be on any site where site abnormals, other costs or alternative use values impact.

4.5.2 Alternatives for consideration could include:

- Setting a separate, lower target proportion for certain Wards or neighbourhoods, predominantly or exclusively in Andover to mitigate the impact of 40% affordable housing in those areas, or;

- Set a "sliding scale" - either in respect of the larger settlement/urban sites or across the Borough as a whole - so that there is a lower proportion of affordable housing required as a target between 5 and 14 units, stepping up to 40% at the 15 unit threshold. This might mean 10%, 20% or 30% affordable housing being sought on sites of a

gradually increasing size below the existing, adopted policy threshold. This type of approach has not been modelled, but it is likely that viability impacts would be reduced with lower proportions on these smaller sites, and the Council could explore this further. The range of payment in lieu RLV results at Appendix II (a) indicated how land values improve as the proportion driving the calculation falls. It could potentially mean an unusual relationship with the existing policy position on sites in rural areas/smaller settlements however – where the policy trigger threshold (where 40% is required) is already at 5 dwellings.

4.5.3 The issue surrounding the first alternative is where to draw the boundaries for implementation of variable policies. Not all of Andover by any means will produce lower value new build developments. As we have stated, values do vary over very short distances and it may be counter-productive to prejudice affordable housing delivery by lowering targets when, in fact, some sites and developments in the lower value areas will not fit the trend of the general lower values. In our opinion it would perhaps be more productive and simpler to apply a blanket approach to the headline policy (40% across the Borough) in the knowledge that in some cases this will not be achievable and negotiation will be required. There is nothing unusual about this position, as there are relatively lower value areas, relatively, in most Districts and Boroughs. We have experienced similar issues in some West Sussex coastal areas for example. In that case, there were considered to be political, wider investment and perception issues which added to the difficulties of giving particular geographies a distinct approach. The target approach also fits with the negotiated approach consistently sought by the Government, and acknowledged by the Local Plan text where the Council already states that it will “negotiate provision for up to 40% of the dwellings to be affordable”.

4.5.4 Having now considered new build development values in comparison to the overall resale market, it must be noted that whilst typically these still tend to be lower in some parts of Andover than other parts of the Borough, there is not the same level of differential as the Andover resale (all properties) market still shows relative to resale prices generally in the wider Borough. We were justified in stating (in our earlier study) Andover to be a generally lower value area in the Test Valley context. Although there are some notable ward area exceptions (Harroway and Alamein) this is still the case and needs to be re-acknowledged. However, looking at the level of new build values, those are most likely to be in our mid value range (Value points 2 to 3) in most Andover cases. There will be some sites nearer to Value Point 1 levels where we express the most concern about viability, however.

4.5.5 Consideration should be given to the sliding scale approach in our view. It can be seen that our concerns are around some Andover value levels rather than specifically related to particular threshold levels. We touched on this at 4.1.14 but will explain this point further below.

4.5.6 With regard to thresholds, the normal caveats on site specifics around the amount of money left for land purchase (RLV) relating to other use values and an owner's requirements apply. This relationship often becomes tighter on smaller schemes because there is less development value to erode. However, aside from those factors which are site specific, there is nothing within our results to suggest that site size in itself is the sole or a key driver of how viable a scheme is (relative to one of another size elsewhere). There is no rule of thumb or indicator that larger schemes are generally more or less viable than smaller ones. It all depends on site specifics and the RLV compared with existing/alternative use or owner's requirements.

4.5.7 The most severe impact from affordable housing policies comes where they are introduced for the first time. This is the main reason why we support sliding scale approaches in certain circumstances, because they reduce the impact on sites which are going to be captured by affordable housing policy for the first time – as would be the case in Test Valley were larger settlement sites of less than 15 dwellings expected to contribute.

4.5.8 The key disadvantage or difficulty with clarity of policy on this sliding scale basis in Test Valley would be around the relationship with existing policy for the smaller settlements (where a threshold of 5 dwellings already operates). It would be unusual for a Local Authority to reduce existing policy targets, unless they were found to be not working, in which case a dual policy for larger and smaller settlements or different areas of the Borough would potentially apply.

4.5.9 The Council's decisions may be influenced by the frequency with which sites of less than 15 dwellings come forward, or are likely to come forward, in the typically lower value Andover areas identified. Adopted policy already covers any larger sites in such areas, which would need to be dealt with on a negotiated basis if viability issues were demonstrated – for example in lower value Andover areas. So the discussion needs to be around the smaller sites, those of less than 15 dwellings. In most other areas of Test Valley where there is little likelihood of values in the lower part of our range, as a target, the 40% could be supported on sites as small as 5 dwellings purely from a viability point of view. The sliding scale would nevertheless reduce impacts and have merits from that point of view across the board.

4.5.10 With the high values levels in key urban parts of the Borough – such as Romsey and some high value Andover wards – there is no particular reason to differentiate between urban and rural areas (or larger and smaller settlements) for affordable housing policy from a viability viewpoint. Policy distinctions are more likely to be driven and justified by the type of sites coming forward and housing needs in various areas, as monitored and reviewed.

4.5.11 The potential policy approach to seek affordable housing financial contributions from smaller sites below the current threshold is likely to be workable in viability terms. Again we recommend the consideration of tapering requirements to overcome the lower value scenarios and acknowledge the steep impact suffered by newly captured sites. Payment levels should be judged carefully.

4.5.12 We have provided a base calculation and indications of those payment levels in the Test Valley context.

4.5.13 If the Council were minded to pursue an approach of requesting affordable housing contributions on sites below 5 units, at this stage of policy development it would be advisable to set an approach with a lowered affordable housing equivalent, of say 10-20%, again acknowledging the impact on newly captured sites. It is not the purpose of this report to provide advice on the planning legislation or guidance scope to support this type of approach. We are aware that authorities are considering such approaches, and some now have standard infrastructure charges applied to new developments (per dwelling) for some or all local services. Examples of this are to be found in Milton Keynes and Reigate and Banstead.

4.5.14 If the Council are not considering collecting payments below 5 units then the results indicate payments collected in lieu of on-site provision should follow the same pattern as for on-site affordable housing with the same caveats regarding the lowest value areas and the impact of requesting a 40% equivalent commuted sum, particularly on first time sites. An aligned approach would fit with the PPS3 requirement that any payment in lieu should provide a broadly equivalent benefit to that which would be secured through on site provision.

4.5.15 In the higher value areas (Value Point 3 and above), contributions could be based on up to 40%. However, to have varying policies for commuted sums would again require the Council to define the areas that each commuted sum level applies to – leading to potentially over-complicated policy. As mentioned previously, in any event, values will vary within settlement areas (even within the same street) dependent on a wide range of factors. A graduated approach applied Borough wide might be best if a sliding scale is to be considered.

4.5.16 So we are also able to lend support for a sliding scale approach which might see affordable housing introduced by way of a contribution in lieu of on-site provision at 20% on sites of 2-4 dwellings, and stepped up to 40% on-site provision at 5 dwellings to align with exiting policy for on site provision in smaller settlements. The viability concerns remain over the lowest value areas and negotiation will be important in these cases, however. This is where an extension of the sliding scale approach – particularly applicable to sites in larger settlements (current 15 threshold) – would have merits that should be considered in our view.

4.5.17 Providing the Council develops a clear strategy, based on meeting sustainable, mixed communities aims as indicated by PPS3, and manages the collection and use of such payments in a transparent way, then in our view the general approach of collecting payments in lieu to generate a local fund for enhancing delivery and ensure a focus on priority needs is a logical one.

4.5.18 The Council would need to be satisfied as to the planning climate scope for such an approach given that we have a system which assumes on-site provision as the starting point. On-site provision usually becomes more difficult to achieve on sites of just a few units or less. It also results in more dispersed affordable stock from a management point of view, and may mean seeking provision on more expensive smaller schemes where securing affordability then becomes more of a challenge.

4.5.19 In all cases, the policy positions ultimately adopted will need to be targets. The Council will need to adopt a practical approach to implementing them; including through the operation of cascade type mechanisms by which affordable housing provision can be optimised and fine tuned according to the level of grant funding available. Grant will increasingly need to add to the scheme by way of affordable housing numbers, tenure mix, potentially sustainability benefits or a mix of these. Landowners and developers will need to be aware of requirements early, and willing to share information on viability where overall circumstances dictate that there are delivery issues which need discussing.

4.5.20 The final judgement on exactly where policy proposals will settle should, in our view, be based on all the factors viewed together, i.e. wider issues alongside the viability outcomes. Included in these will be the key elements of:

- Forecasting of increased affordable housing units delivery based on the size and number of sites coming forward (site capture).

- Local housing needs and practical thinking on the outcome of having small numbers of affordable homes distributed widely (between one and probably a maximum of 5 units) spread across a higher number of schemes.

- Design and integration – sustainable communities - meeting of wider planning objectives.

- Affordability of the homes produced on some smaller schemes in particular.

4.5.21 It is vitally important that a flexible and negotiated approach to policy application is adopted to ensure the continued supply of residential development land. The new policy proposals should be viewed as targets and in the context of raising the bar on expectations to secure significantly improved delivery from current levels. The wording of policy and supporting text needs to be considered carefully.

4.5.22 It needs to be remembered that values for residential development must be sufficient relative to existing or alternative use values (e.g. commercial/domestic) for residential schemes to be pursued and promoted. We strongly recommend that the Council views and expresses its percentage requirement as a clear target, or words to this effect, not a minimum which could in fact be interpreted as any proportion and potentially lead to uncertainty.

4.5.23 As in the case of other viability overview studies we have carried out, we attempted to gather some purely comparative indications of commercial development land values in the locality. In the case of Test Valley, we were unable to find any suitable rough guide information of this type (for example typical land values for industrial or office development). This is not unusual. Commercially oriented agents told us that values are too site specific to provide even such guides on a reliable basis. Alternative use values will be highly influenced by location – access, trading potential, specific planning scope, and the like. This reinforces our view that normally it is not possible to make meaningful comparisons between residential and alternative use values unless on a site specific basis with full and reliable information to use.

4.5.24 There may be instances where location, design, servicing cost, marketing or other practical issues relating to a residential scheme will mean that a reduced proportion of less than the headline percentage affordable housing, and/or revised tenure mix will need to be negotiated following open discussions with developers. In appropriate circumstances only, alternative approaches to affordable housing provision may also be required to ensure a satisfactory level of contribution to affordable housing need (e.g. off-site contributions where an on site approach would have been the required starting point under Government Guidance and Council policy).

4.5.25 The onus will be on developers to clearly and fully demonstrate why they are unable to meet affordable housing or other planning infrastructure requirements in instances where that is the case. It is expected that a methodology similar to one we have used will be appropriate for this process, to explore the relationship between development costs and values. Again, however, we reiterate that whilst this methodology is generally accepted, and the assumptions we have used might guide the Council on starting/indicative parameters, there will be no substitute for site specific appraisal work of this type.

4.5.26 While the general methodology used for the modelling behind this report might be as applied to site specific discussions, each site will be different and assumptions would be varied accordingly.

4.5.27 There will be cases where abnormal conditions or localised circumstances determine that viability of a site is jeopardised by the additional impact of infrastructure demands. It is the collective burden of such things that will need to be considered.

4.5.28 There will even be cases in the higher value areas where the development value/cost relationship will not be strong enough to support an increased proportion of affordable housing and we are unable to state categorically that any particular proposed policy will be achievable across the board. There is no one "cut-off" point where sites become unviable, each needs to be considered given its specific characteristics.

4.5.29 In the lower value areas our support for the policy as a target has to be more firmly qualified by reference to a negotiated approach that we advocate throughout this report. If it is framed as a target and backed up by the other aspects of the evidence base – on housing market and need together with site types/numbers delivery, then this should result in a workable scenario for the Council and its Partners.

4.5.30 Clear policy, targets and Supplementary Planning Documents (SPD) will ultimately help with clarity as to the relevant local cost and affordability issues, the type and mix of affordable housing sought and site delivery generally. SPD needs to be capable of being updated readily.

4.5.31 Issues may arise come on those sites which have already changed hands or are committed through option or similar arrangements, where figures may simply not work when set against the proposed policy requirements. In the same way, there will be some previous planning consents capable of implementation.

4.5.32 A degree of difficulty with increasing planning-led affordable housing supply may be experienced during the adjustment process where there will be problems whilst developers/landowners get accustomed to the new policies and expectations are modified. The modelling in this study has been carried out on the assumption that knowledge of policies exists and that the landowner/developer education process has been undertaken.

4.5.33 The Council should continue to monitor houses prices and affordability, and whatever policy positions it adopts, should keep under review the success of those.

4.5.34 We recommend that the issue of viability be reviewed every one or two years (or at the point of any policy reviews affecting it) in overview terms. Such updates would need to look at then current values and costs, draw in the Council's delivery experiences to date, and also consider any changes to overall planning obligations or wider requirements.

End of Main Report
Appendices follow
September 2007

Appendices

Appendix I - **Development Scenarios - Showing Range of Appraisals**

Appendix II - **Results of On-Site Land Residual Calculations - Tables 1-6; Graphs 1 to 16**

Appendix II (a) - **Results of Payments in lieu Land Residual Calculations**

Appendix III - **Test Valley Borough Property Values Report**

Appendix I

Development Scenarios - Showing Range of Appraisals

On-Site Development Scenarios Required for Test Valley Borough Council Viability Study

Development Scenario / Threshold	Unit Mix	Value Points	Number					Total Affordable at each %		Affordable Element (40%)	Survey Costs (per site)	Build Period (Months)	Site Preparation
			1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	Total	0%	40%				
5 Units - Houses	**5 x 3-bed houses**	**1 to 5**	N/A	N/A	N/A	5	**5**	**0**	**2**	**2 x 3-bed house**	£3,000	6	£15,000
8 Units - Houses	**8 x 3-bed houses**	**1 to 5**	N/A	N/A	N/A	8	**8**	**0**	**3**	**3 x 3-bed house**	£5,000	6	£15,000
10 Units - Houses	**10 x 3-bed houses**	**1 to 5**	N/A	N/A	N/A	10	**10**	**0**	**4**	**4 x 3-bed house**	£6,000	6	£15,000
12 Units - Houses	**12 x 3-bed houses**	**1 to 5**	N/A	N/A	N/A	12	**12**	**0**	**5**	**5 x 2-bed house**	£7,000	6	£20,000
14 Units - Houses	**14 x 3-bed houses**	**1 to 5**	N/A	N/A	N/A	14	**14**	**0**	**6**	**6 x 3-bed house**	£8,000	9	£25,000

	Values					
Value Point	**1-Bed Flats**	**2-Bed Flats**	**2-Bed Houses**	**3-Bed Houses**	**4-Bed Houses**	**£ / sq m Equivalent**
1	£112,200	£145,200	£167,200	£189,200	£222,200	£2,200
2	£131,325	£169,950	£195,700	£221,450	£260,075	£2,575
3	£150,450	£194,700	£224,200	£253,700	£297,950	£2,950
4	£169,575	£219,450	£252,700	£285,950	£335,825	£3,325
5	£188,700	£244,200	£281,200	£318,200	£373,700	£3,700

Sizes (sq m)				
1-Bed Flats	**2-Bed Flats**	**2-Bed Houses**	**3-Bed Houses**	**4-Bed Houses**
51	66	76	86	101

Planning Infrastructure: From the 2004 report, planing infrastructure from all sources averaged approximately £3,200 per unit. If 5% per year indexation is allowed, this would increase to approximately £4,000 per unit. This is the sum we will assume wthin the appraisals.

Finance (%) 7.50%

Build Costs (Flats) £1,150 per sq m

Build Costs (Houses) £1,000 per sq m

Build Period Lead In 6 months

Affordable Unit Mix: Numbers of each unit type proportioned according to overall affordable mix. Unit numbers rounded using mathematical convention.

General Notes:

1. Appraisals carried out on the basis of free land. Therefore, tenure neutral approach to affordable units whereby the developer receives build cost back in return for completed affordable units.
2. A sample of appraisals will be carried out at 50% affordable housing if the initial results suggest this to be workable.
3. 3 bed houses only modelled initially to ensure iterative comparisons can be made. Flatted schemes may be modelled on a sample basis after the initial appraisals.
4. Commuted sums - TBC but modelling to be carried out below thresholds (dependent on where those thresholds are) - see separate sheet for example.

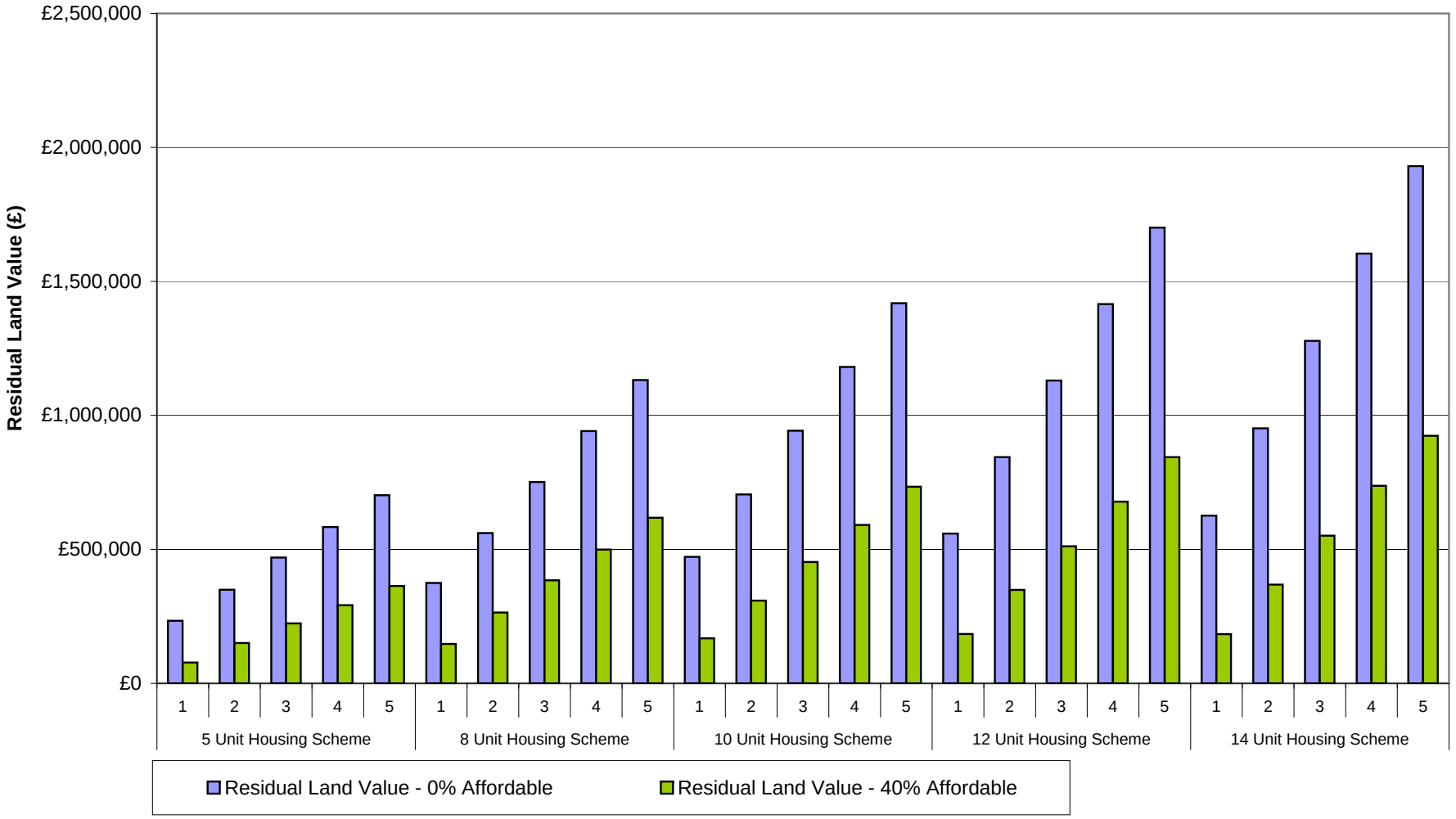
Appendix II

Results of On-Site Land Residual Calculations – Tables 1-6; Graphs 1 to 16

Table 1: Summary of Land Residual Value (£) Appraisals for All Value Points

Development Scenario / Threshold	Value Point	Residual Land Value - 0% Affordable	Residual Land Value - 40% Affordable
5 Unit Housing Scheme	1	£233,724	£77,529
	2	£349,159	£150,333
	3	£469,315	£223,914
	4	£583,394	£291,484
	5	£702,311	£363,577
8 Unit Housing Scheme	1	£374,693	£146,963
	2	£561,098	£264,150
	3	£751,366	£384,306
	4	£941,634	£499,261
	5	£1,131,902	£618,179
10 Unit Housing Scheme	1	£472,144	£167,937
	2	£705,111	£308,732
	3	£942,946	£452,919
	4	£1,180,781	£590,951
	5	£1,418,615	£733,651
12 Unit Housing Scheme	1	£559,058	£184,101
	2	£844,460	£348,601
	3	£1,129,861	£511,491
	4	£1,415,263	£677,975
	5	£1,700,665	£844,460
14 Unit Housing Scheme	1	£625,653	£183,890
	2	£951,836	£368,506
	3	£1,278,019	£551,097
	4	£1,604,201	£737,488
	5	£1,930,384	£923,878

Graph 1: Summary of Land Residual Values at 0% & 40% Affordable Housing Across All Value Points



Appendix II

Table 1a: Summary of Land Residual Value (as % of GDV) Appraisals for All Value Points

Development Scenario / Threshold	Value Point	Residual Land Value - 0% Affordable	Residual Land Value - 40% Affordable
5 Unit Housing Scheme	1	24.7%	10.5%
	2	31.5%	18.0%
	3	37.0%	24.0%
	4	40.8%	28.3%
	5	44.1%	32.3%
8 Unit Housing Scheme	1	24.8%	12.2%
	2	31.7%	19.3%
	3	37.0%	25.2%
	4	41.2%	29.6%
	5	44.5%	33.4%
10 Unit Housing Scheme	1	25.0%	11.4%
	2	31.8%	18.5%
	3	37.2%	24.3%
	4	41.3%	28.7%
	5	44.6%	32.6%
12 Unit Housing Scheme	1	24.6%	10.5%
	2	31.8%	17.6%
	3	37.1%	23.2%
	4	41.2%	27.9%
	5	44.5%	31.8%
14 Unit Housing Scheme	1	23.6%	9.1%
	2	30.7%	16.1%
	3	36.0%	21.6%
	4	40.1%	26.3%
	5	43.3%	30.2%

Showing “RLV as % of GDV” greater than 30% - At this point, land values after policy application remain typically the strongest seen locally and are likely to be able to support affordable housing policy with the least negotiation and least compromise.

Showing “RLV as % of GDV” 20% - 30% - At this point, land values after policy application likely to support affordable housing policy with reduced negotiation and major compromise only required in certain circumstances (for example with significant abnormal site costs or collective infrastructure burden).

Showing “RLV as % of GDV” 10% - 20% - Transitional zone, at this point land values (certainly at the bottom end) will not always be high enough after the application of affordable housing policy to support the requirements. Negotiation is perhaps likely to be required more often than not.

Showing “RLV as % of GDV” <10% - Land values after policy application are unlikely to support affordable housing policy. Compromise and negotiation on the level of affordable housing may be required on sites most commonly.

Graph 1a: Summary of Land Residual Values (as % of GDV) at 0% & 40% Affordable Housing Across All Value Points

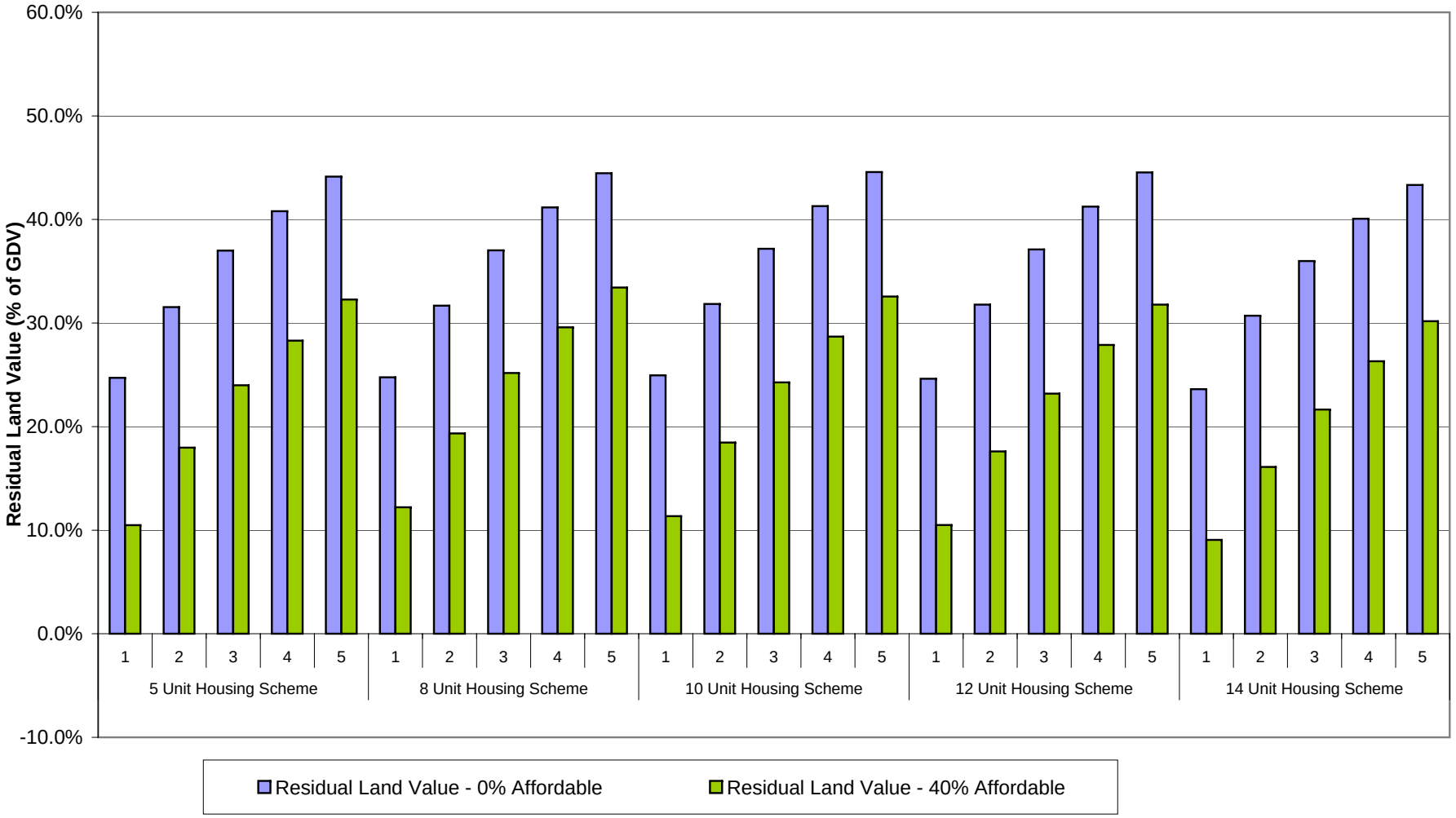


Table 1b: Summary of Reduction in Land Residual Value (%) Appraisals for All Value Points

Development Scenario / Threshold	Value Point	Reduction in Residual Land Value - 0% to 40% Affordable
5 Unit Housing Scheme	1	66.8%
	2	56.9%
	3	52.3%
	4	50.0%
	5	48.2%
8 Unit Housing Scheme	1	60.8%
	2	52.9%
	3	48.9%
	4	47.0%
	5	45.4%
10 Unit Housing Scheme	1	64.4%
	2	56.2%
	3	52.0%
	4	50.0%
	5	48.3%
12 Unit Housing Scheme	1	67.1%
	2	58.7%
	3	54.7%
	4	52.1%
	5	50.3%
14 Unit Housing Scheme	1	70.6%
	2	61.3%
	3	56.9%
	4	54.0%
	5	52.1%

Graph 1b: Summary of Reduction in Land Residual Values (%) at 0% to 40% Affordable Housing Across All Value Points

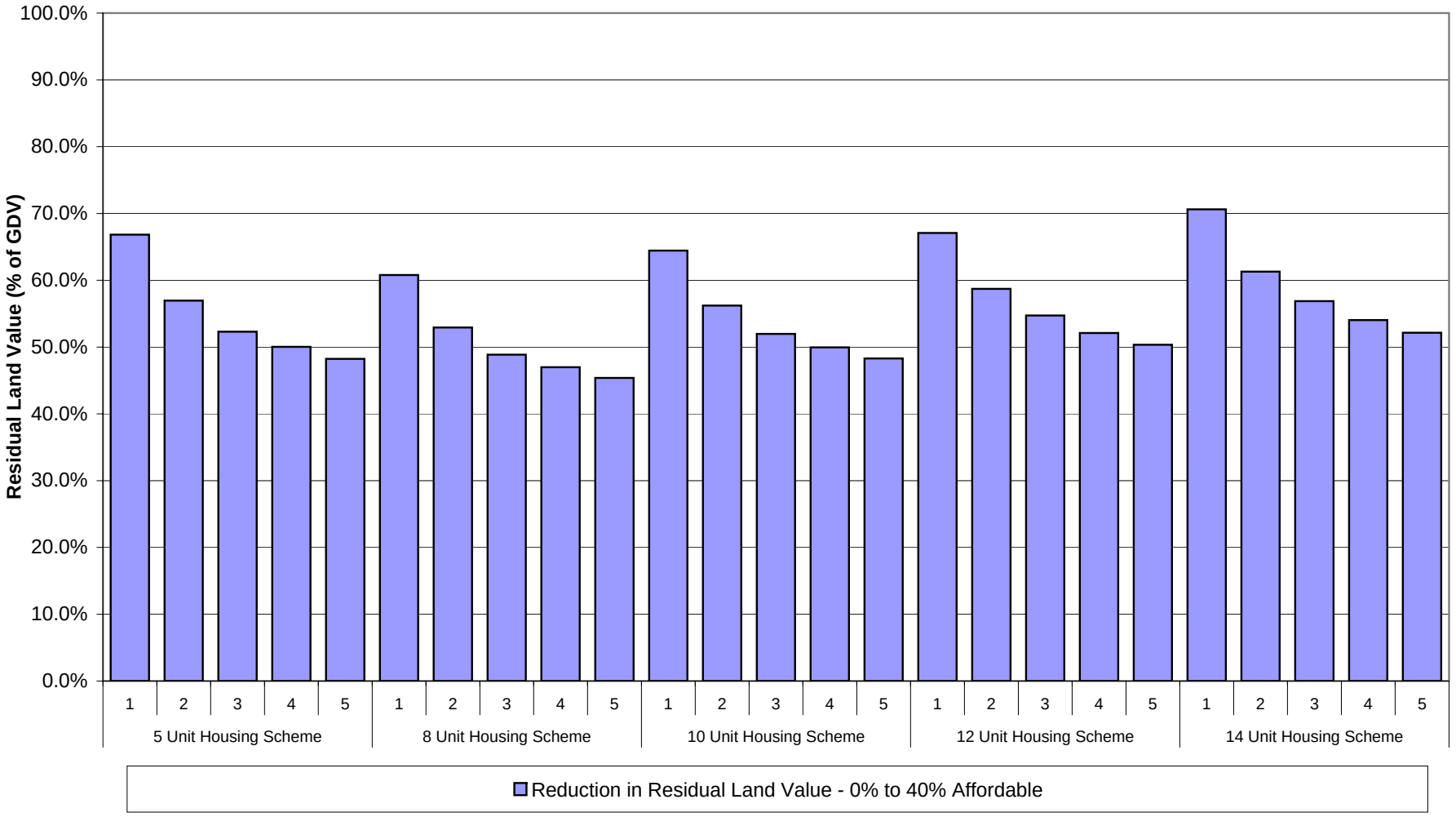
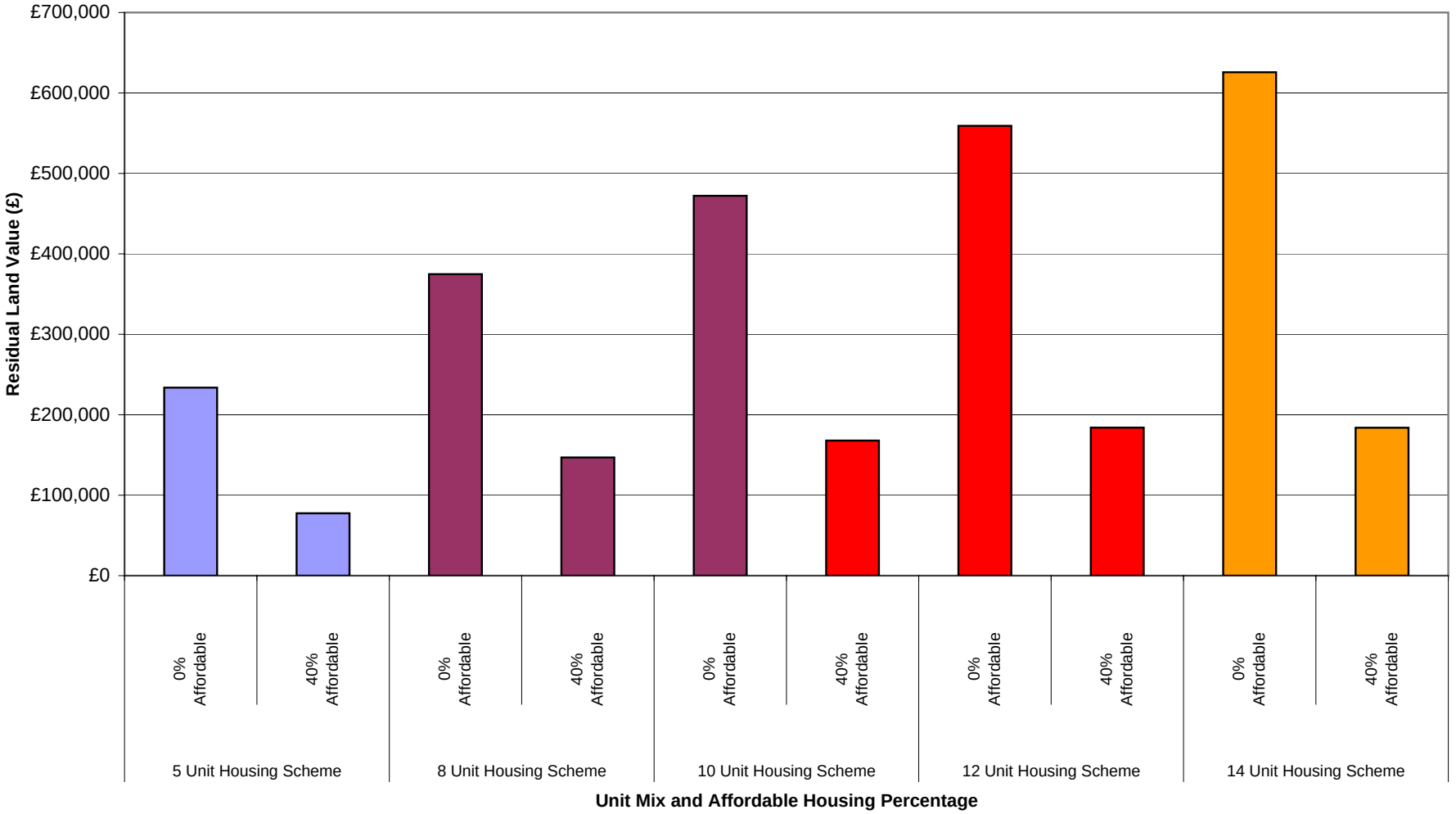


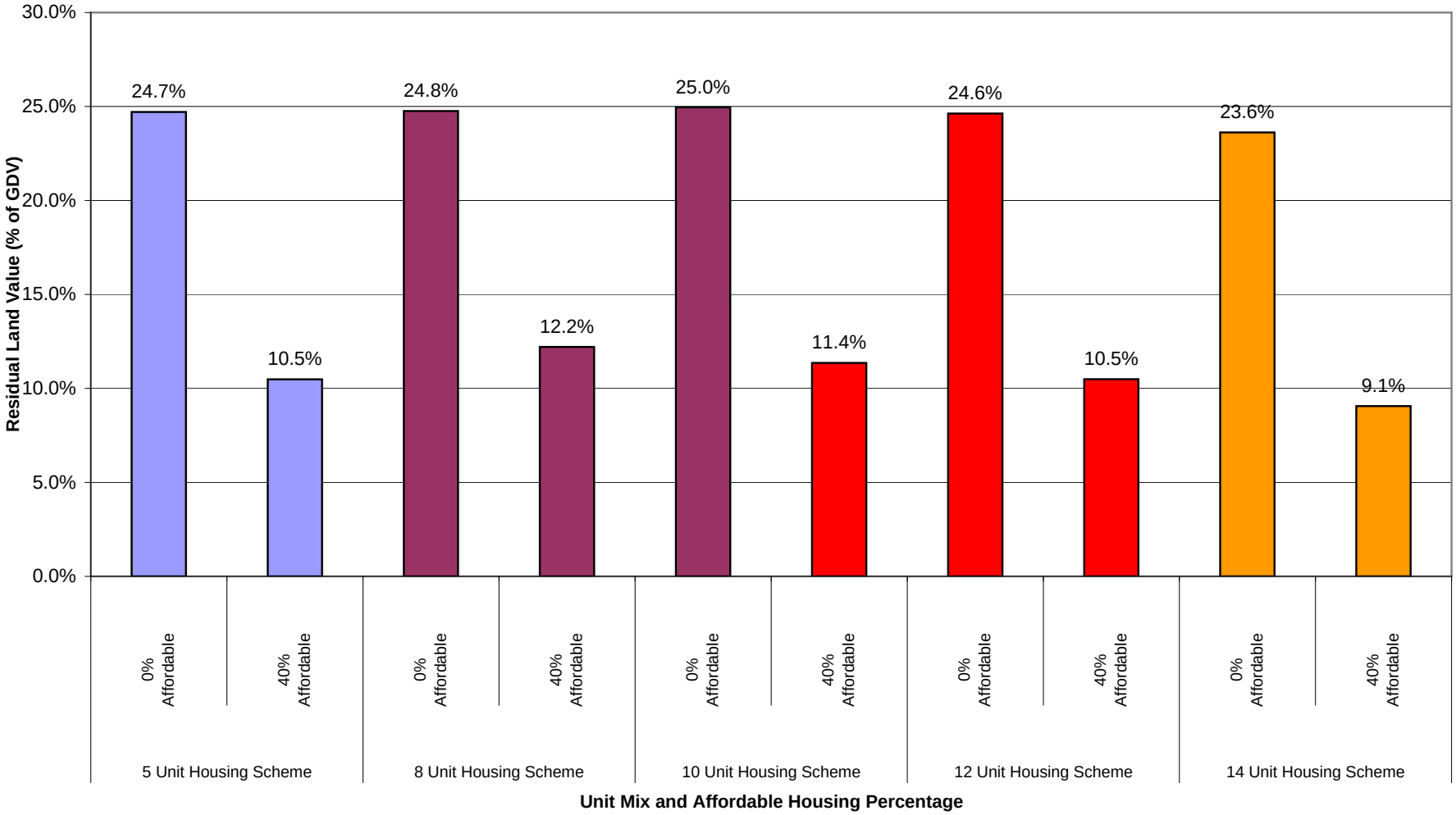
Table 2: Summary Table Showing RLV, RLV as % of GDV & Reduction in Land Residual - Value Point 1

1		2	3	4	5	6	7	8	9
Value Point	**Number of Units**	**Scenario**	**GDV**	**Development Cost**	**Developer Profit (@15%)**	**Finance & Land Costs**	**Residual Land Price**	**% Land Residual (of GDV)**	**% Reduction in Land Residual From 0% Affordable Housing**
Value Point 1	**5 Unit Housing Scheme**	0% Affordable Housing	£946,000	£483,700	£141,900	£84,315	£233,724	24.7%	N/A
		40% Affordable Housing	£739,600	£483,700	£110,940	£67,431	£77,529	10.5%	66.8%
	8 Unit Housing Scheme	0% Affordable Housing	£1,513,600	£764,920	£227,040	£135,358	£374,693	24.8%	N/A
		40% Affordable Housing	£1,204,000	£764,920	£180,600	£110,033	£146,963	12.2%	60.8%
	10 Unit Housing Scheme	0% Affordable Housing	£1,892,000	£952,400	£283,800	£169,054	£472,144	25.0%	N/A
		40% Affordable Housing	£1,479,200	£952,400	£221,880	£135,287	£167,937	11.4%	64.4%
	12 Unit Housing Scheme	0% Affordable Housing	£2,270,400	£1,144,880	£340,560	£202,608	£559,058	24.6%	N/A
		40% Affordable Housing	£1,754,400	£1,144,880	£263,160	£160,399	£184,101	10.5%	67.1%
	14 Unit Housing Scheme	0% Affordable Housing	£2,648,800	£1,337,360	£397,320	£262,398	£625,653	23.6%	N/A
		40% Affordable Housing	£2,029,600	£1,337,360	£304,440	£202,053	£183,890	9.1%	70.6%

Graph 2 - Residual Land Value (£) - Value Point 1



Graph 3 - Residual Land Value (% of GDV) - Value Point 1



Graph 4 - Reduction in Residual Land Value as a Percentage of GDV from 0% to 40% Affordable Housing - Value Point 1

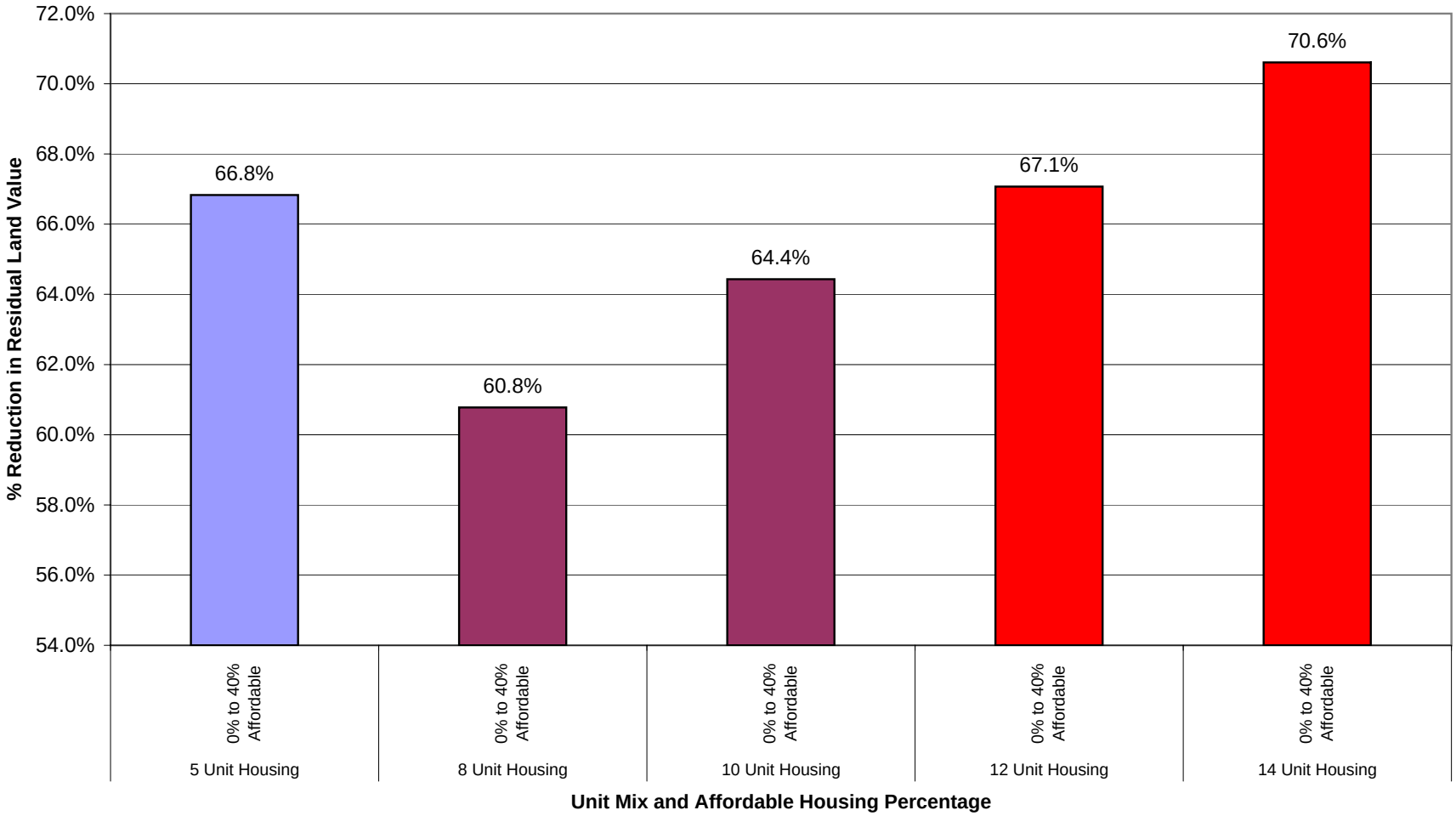
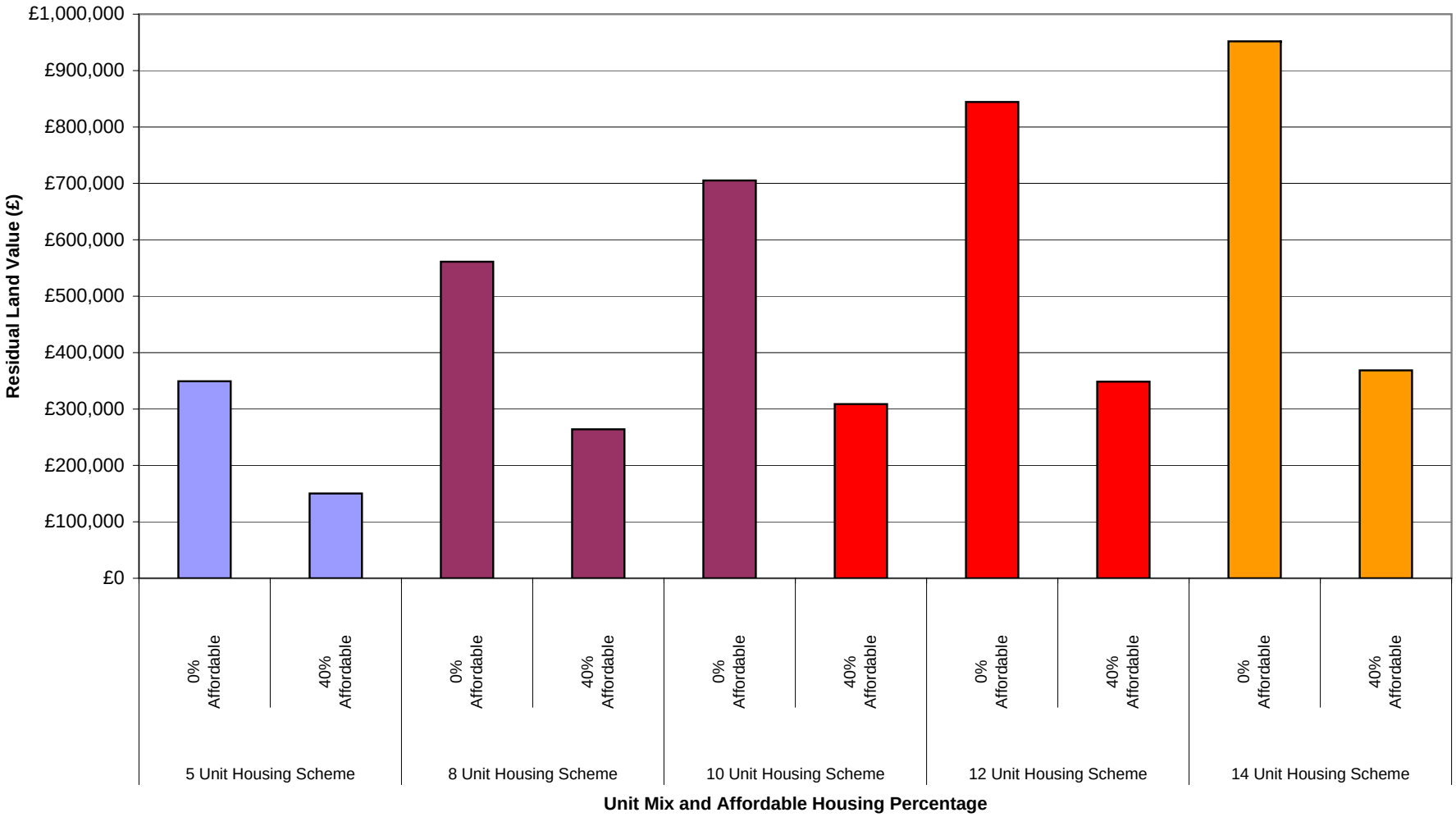


Table 3: Summary Table Showing RLV, RLV as % of GDV & Reduction in Land Residual - Value Point 2

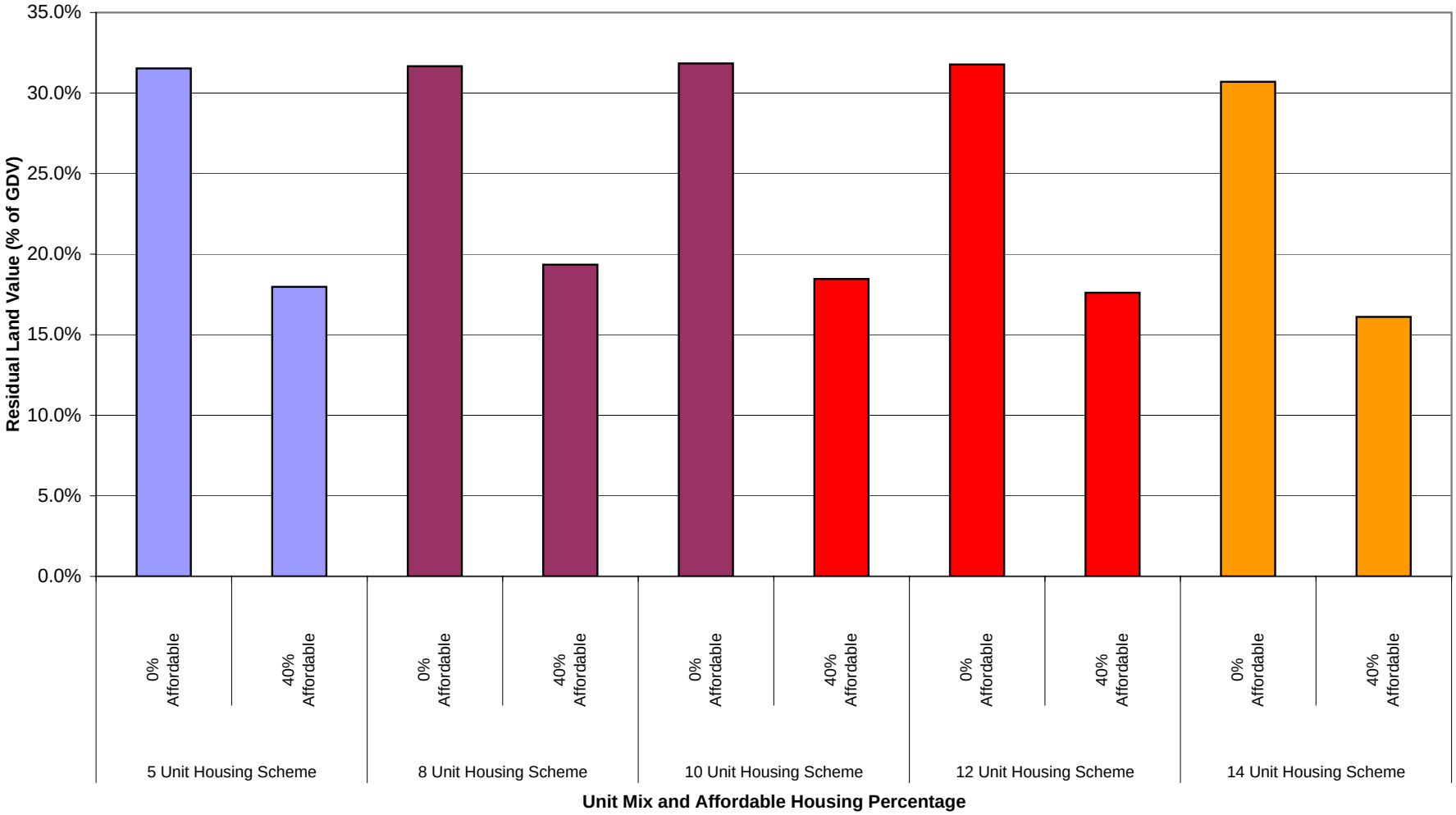
1		2	3	4	5	6	7	8	9
Value Point	**Number of Units**	**Scenario**	**GDV**	**Development Cost**	**Developer Profit (@15%)**	**Finance & Land Costs**	**Residual Land Price**	**% Land Residual (of GDV)**	**% Reduction in Land Residual From 0% Affordable Housing**
Value Point 2	**5 Unit Housing Scheme**	0% Affordable Housing	£1,107,250	£483,700	£166,088	£97,505	£349,159	31.5%	N/A
		40% Affordable Housing	£836,350	£483,700	£125,453	£75,346	£150,333	18.0%	56.9%
	8 Unit Housing Scheme	0% Affordable Housing	£1,771,600	£764,920	£265,740	£156,463	£561,098	31.7%	N/A
		40% Affordable Housing	£1,365,250	£764,920	£204,788	£123,223	£264,150	19.3%	52.9%
	10 Unit Housing Scheme	0% Affordable Housing	£2,214,500	£952,400	£332,175	£195,434	£705,111	31.8%	N/A
		40% Affordable Housing	£1,672,700	£952,400	£250,905	£151,115	£308,732	18.5%	56.2%
	12 Unit Housing Scheme	0% Affordable Housing	£2,657,400	£1,144,880	£398,610	£234,264	£844,460	31.8%	N/A
		40% Affordable Housing	£1,980,150	£1,144,880	£297,023	£178,865	£348,601	17.6%	58.7%
	14 Unit Housing Scheme	0% Affordable Housing	£3,100,300	£1,337,360	£465,045	£306,399	£951,836	30.7%	N/A
		40% Affordable Housing	£2,287,600	£1,337,360	£343,140	£227,196	£368,506	16.1%	61.3%

Graph 5 - Residual Land Value (£) - Value Point 2



Appendix II

Graph 6 - Residual Land Value (% of GDV) - Value Point 2



Graph 7 - Reduction in Residual Land Value as a Percentage of GDV from 0% to 40% Affordable Housing - Value Point 2

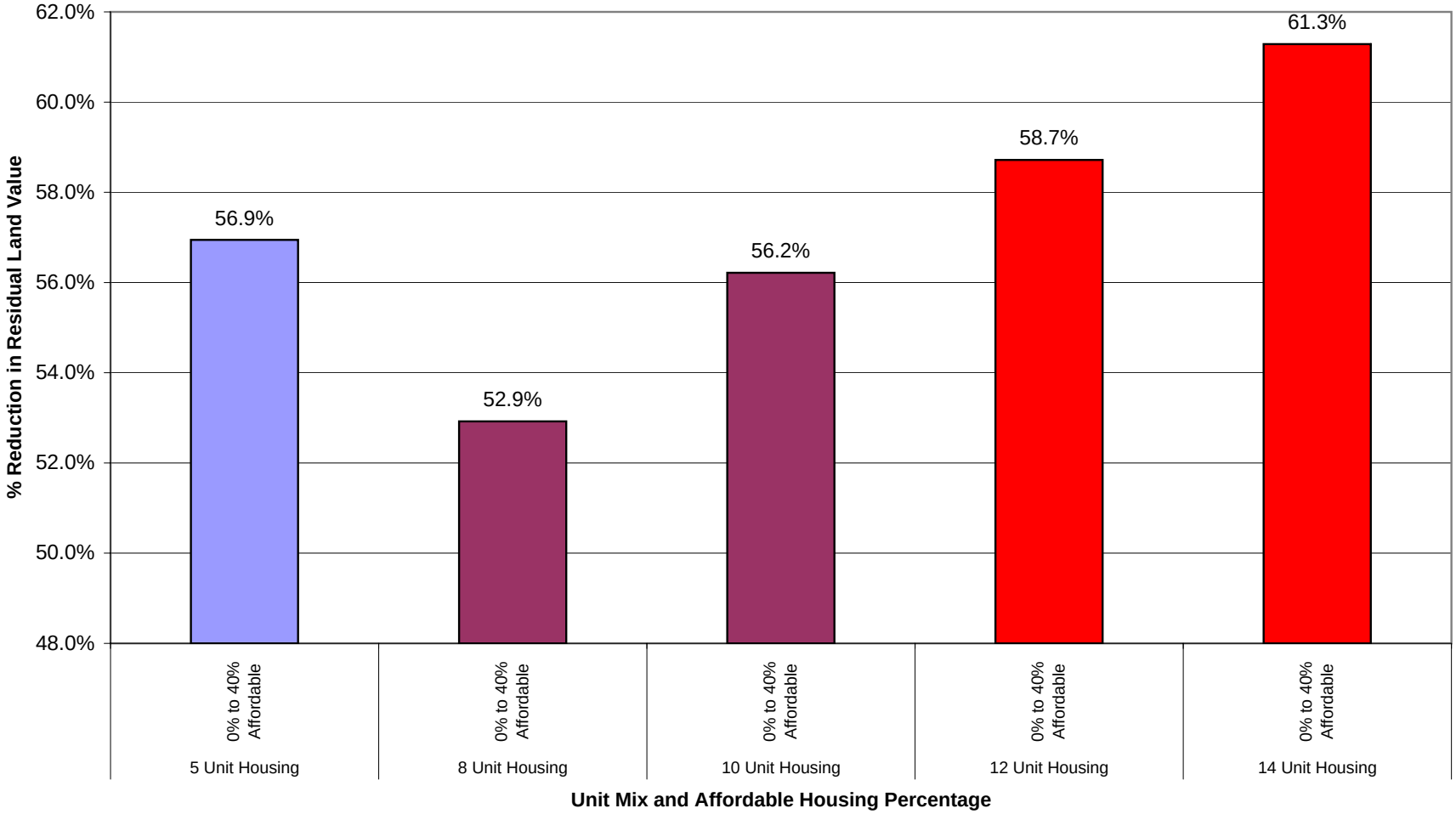
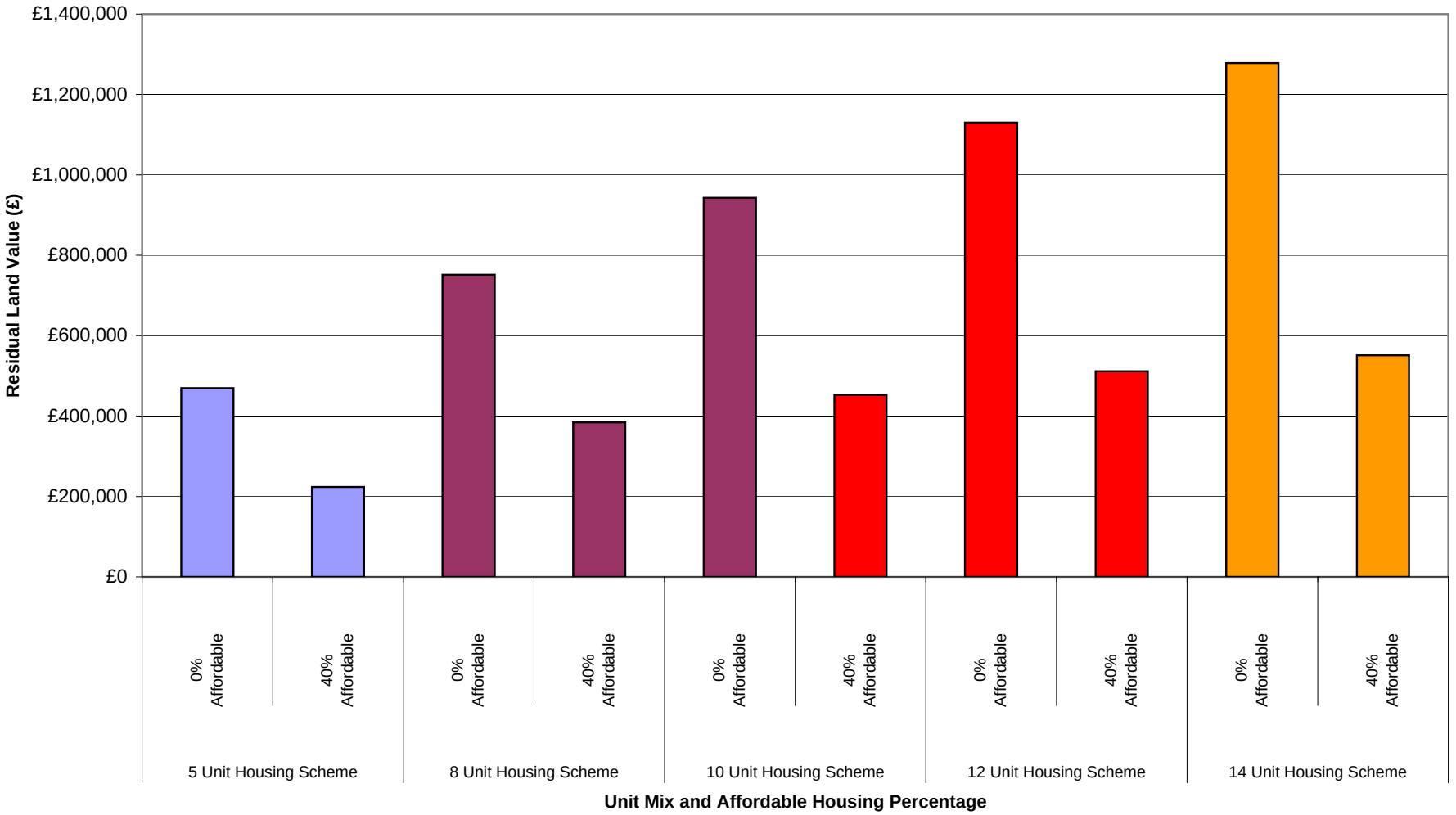


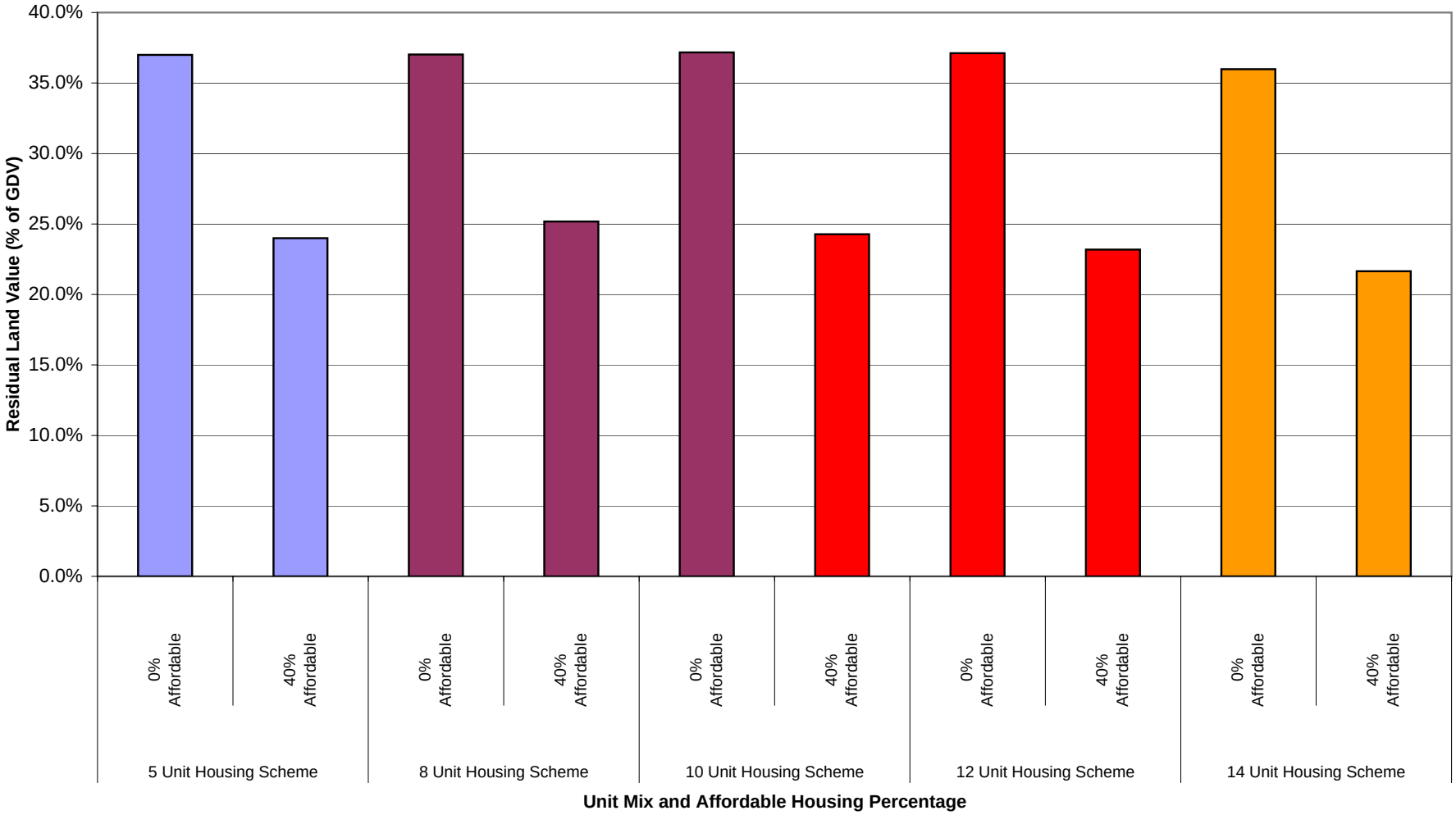
Table 4: Summary Table Showing RLV, RLV as % of GDV & Reduction in Land Residual - Value Point 3

1		2	3	4	5	6	7	8	9
Value Point	**Number of Units**	**Scenario**	**GDV**	**Development Cost**	**Developer Profit (@15%)**	**Finance & Land Costs**	**Residual Land Price**	**% Land Residual (of GDV)**	**% Reduction in Land Residual From 0% Affordable Housing**
Value Point 3	**5 Unit Housing Scheme**	0% Affordable Housing	£1,268,500	£483,700	£190,275	£110,695	£469,315	37.0%	N/A
		40% Affordable Housing	£933,100	£483,700	£139,965	£83,260	£223,914	24.0%	52.3%
	8 Unit Housing Scheme	0% Affordable Housing	£2,029,600	£764,920	£304,440	£177,567	£751,366	37.0%	N/A
		40% Affordable Housing	£1,526,500	£764,920	£228,975	£136,413	£384,306	25.2%	48.9%
	10 Unit Housing Scheme	0% Affordable Housing	£2,537,000	£952,400	£380,550	£221,815	£942,946	37.2%	N/A
		40% Affordable Housing	£1,866,200	£952,400	£279,930	£166,943	£452,919	24.3%	52.0%
	12 Unit Housing Scheme	0% Affordable Housing	£3,044,400	£1,144,880	£456,660	£265,921	£1,129,861	37.1%	N/A
		40% Affordable Housing	£2,205,900	£1,144,880	£330,885	£197,332	£511,491	23.2%	54.7%
	14 Unit Housing Scheme	0% Affordable Housing	£3,551,800	£1,337,360	£532,770	£350,401	£1,278,019	36.0%	N/A
		40% Affordable Housing	£2,545,600	£1,337,360	£381,840	£252,340	£551,097	21.6%	56.9%

Graph 8 - Residual Land Value (£) - Value Point 3



Graph 9 - Residual Land Value (% of GDV) - Value Point 3



Graph 10 - Reduction in Residual Land Value as a Percentage of GDV from 0% to 40% Affordable Housing - Value Point 3

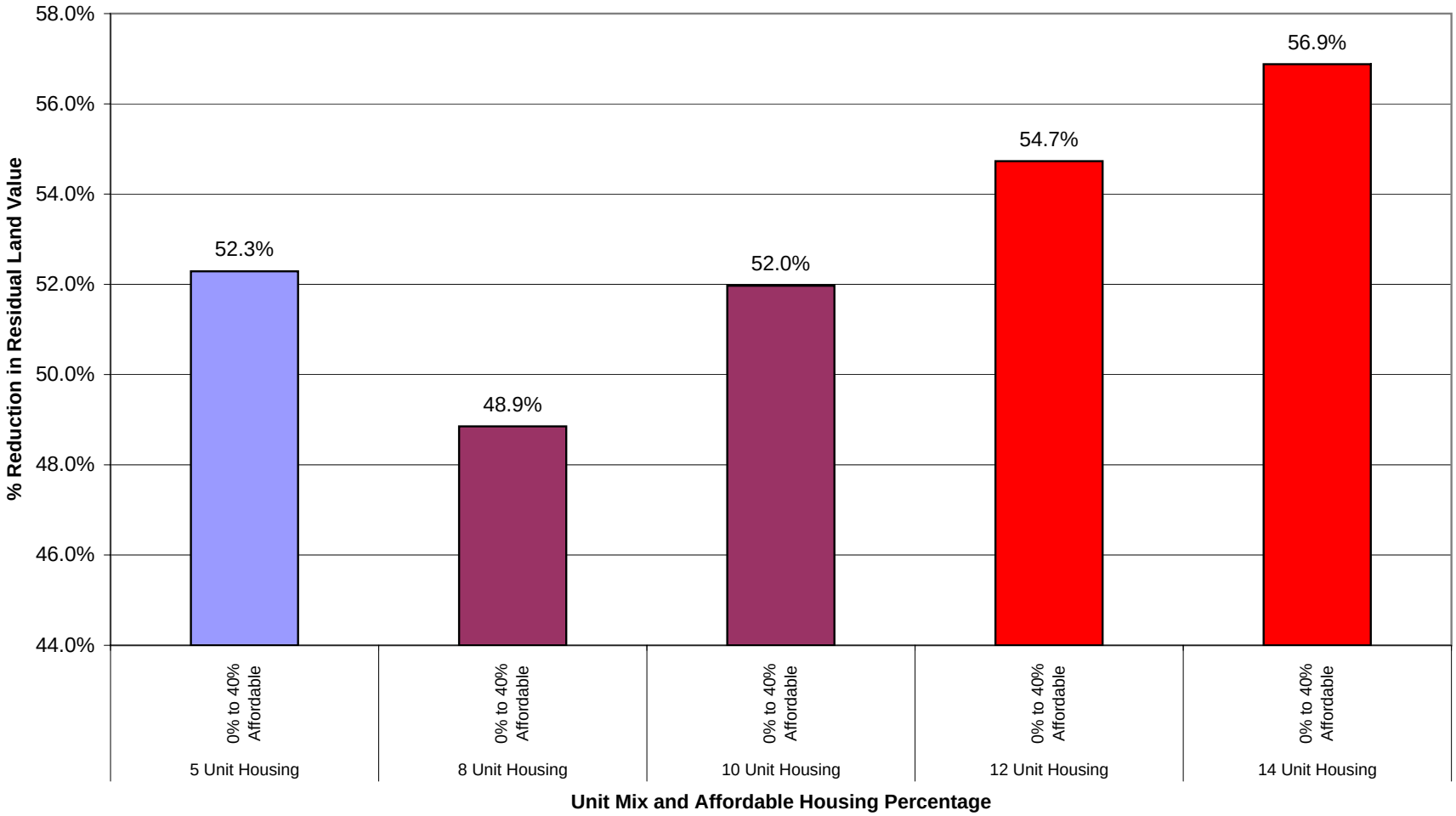
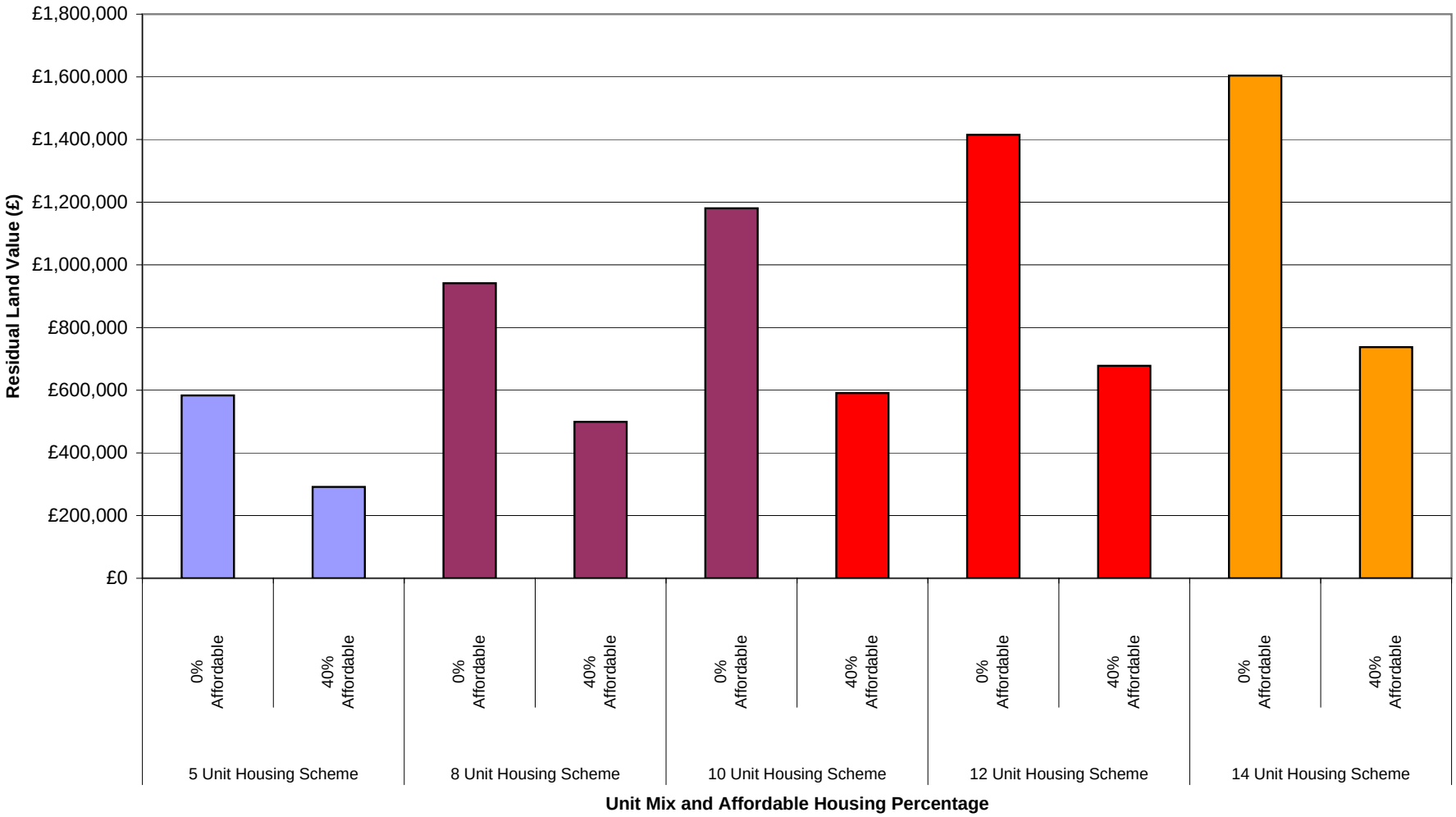


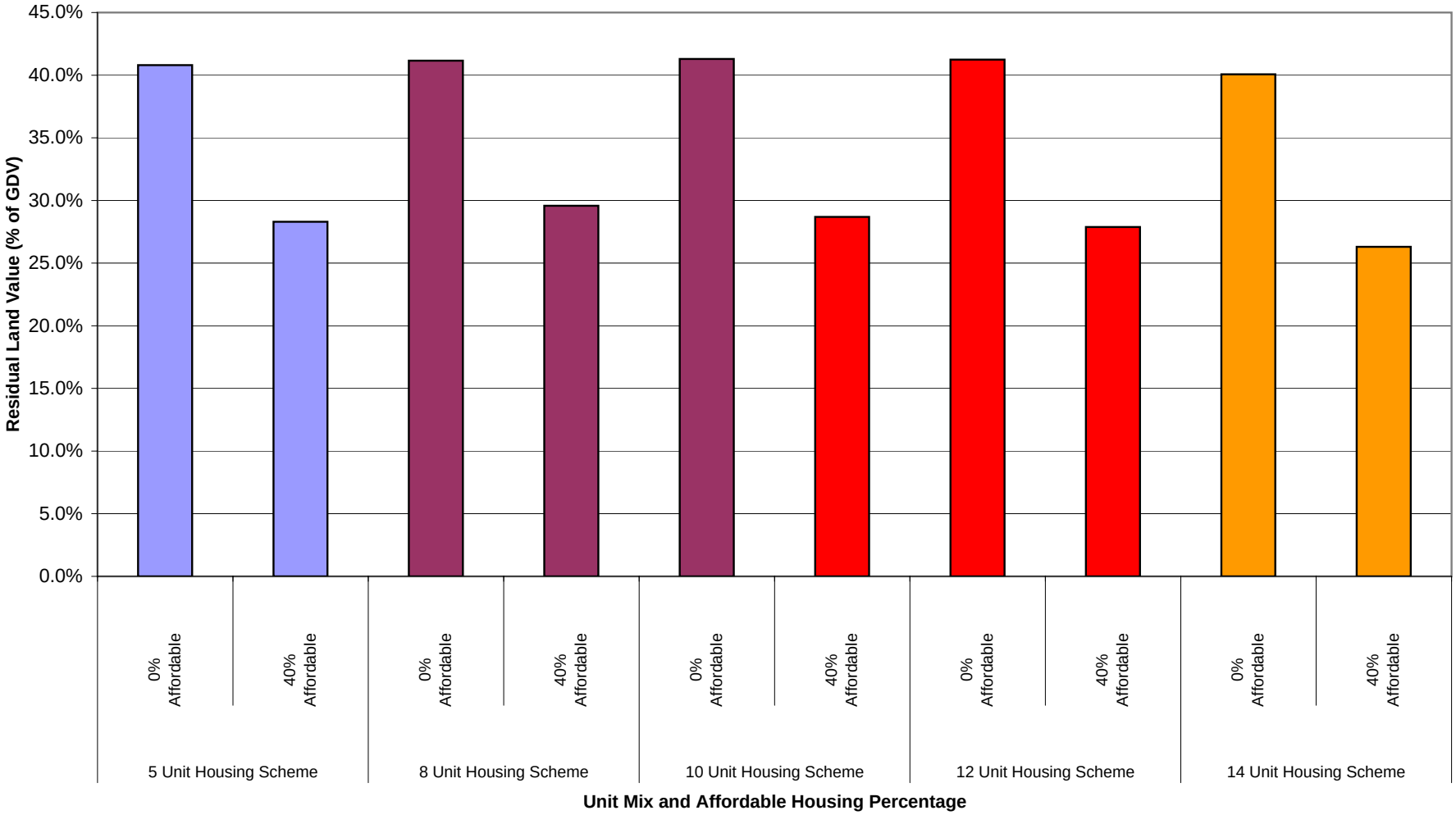
Table 5: Summary Table Showing RLV, RLV as % of GDV & Reduction in Land Residual - Value Point 4

1		2	3	4	5	6	7	8	9
Value Point	**Number of Units**	**Scenario**	**GDV**	**Development Cost**	**Developer Profit (@15%)**	**Finance & Land Costs**	**Residual Land Price**	**% Land Residual (of GDV)**	**% Reduction in Land Residual From 0% Affordable Housing**
Value Point 4	**5 Unit Housing Scheme**	0% Affordable Housing	£1,429,750	£483,700	£214,463	£123,886	£583,394	40.8%	N/A
		40% Affordable Housing	£1,029,850	£483,700	£154,478	£91,174	£291,484	28.3%	50.0%
	8 Unit Housing Scheme	0% Affordable Housing	£2,287,600	£764,920	£343,140	£198,671	£941,634	41.2%	N/A
		40% Affordable Housing	£1,687,750	£764,920	£253,163	£149,604	£499,261	29.6%	47.0%
	10 Unit Housing Scheme	0% Affordable Housing	£2,859,500	£952,400	£428,925	£248,195	£1,180,781	41.3%	N/A
		40% Affordable Housing	£2,059,700	£952,400	£308,955	£182,771	£590,951	28.7%	50.0%
	12 Unit Housing Scheme	0% Affordable Housing	£3,431,400	£1,144,880	£514,710	£297,578	£1,415,263	41.2%	N/A
		40% Affordable Housing	£2,431,650	£1,144,880	£364,748	£215,798	£677,975	27.9%	52.1%
	14 Unit Housing Scheme	0% Affordable Housing	£4,003,300	£1,337,360	£600,495	£394,402	£1,604,201	40.1%	N/A
		40% Affordable Housing	£2,803,600	£1,337,360	£420,540	£277,484	£737,488	26.3%	54.0%

Graph 11 - Residual Land Value (£) - Value Point 4



Graph 12 - Residual Land Value (% of GDV) - Value Point 4



Graph 13 - Reduction in Residual Land Value as a Percentage of GDV from 0% to 40% Affordable Housing - Value Point 4

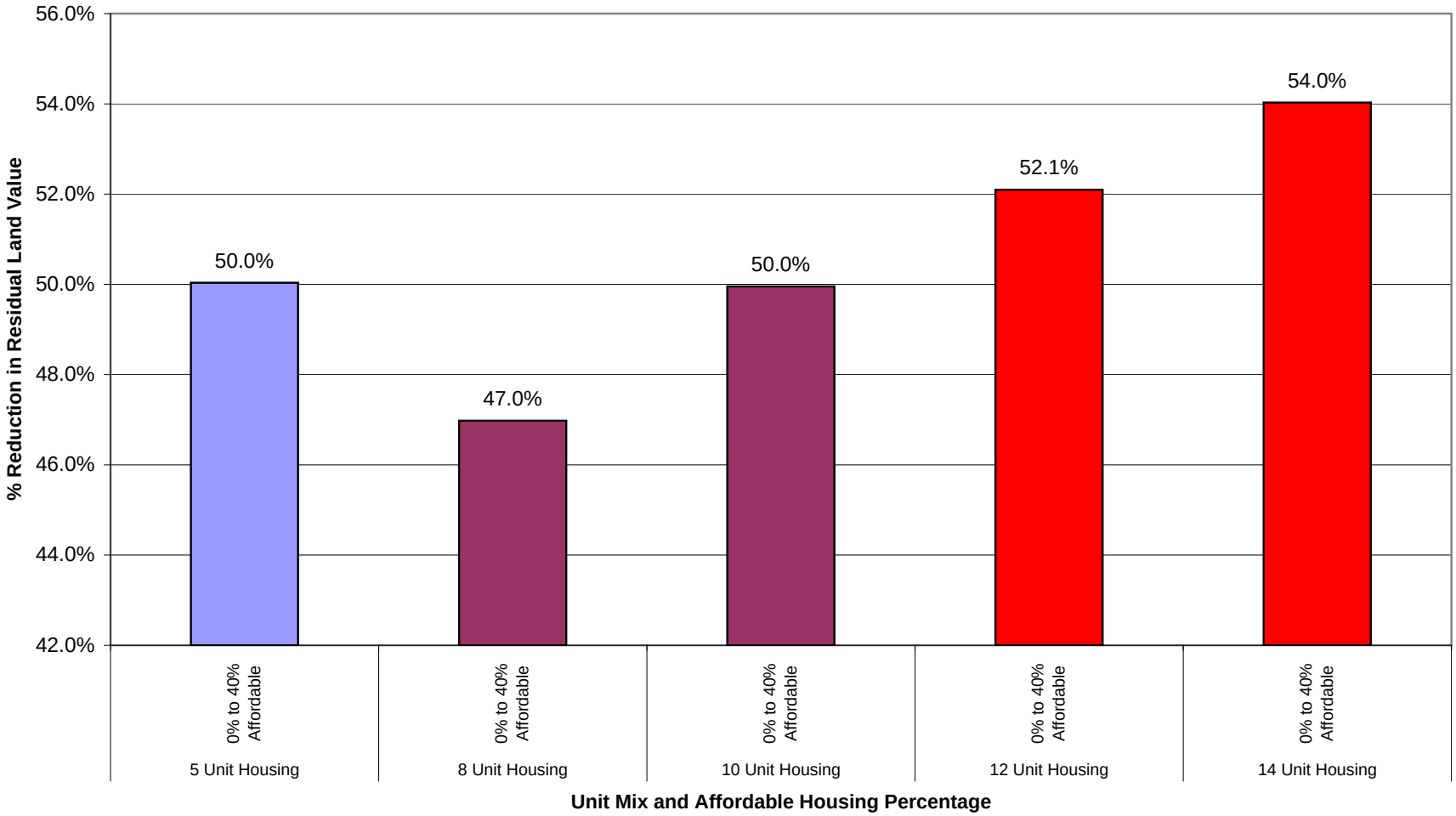
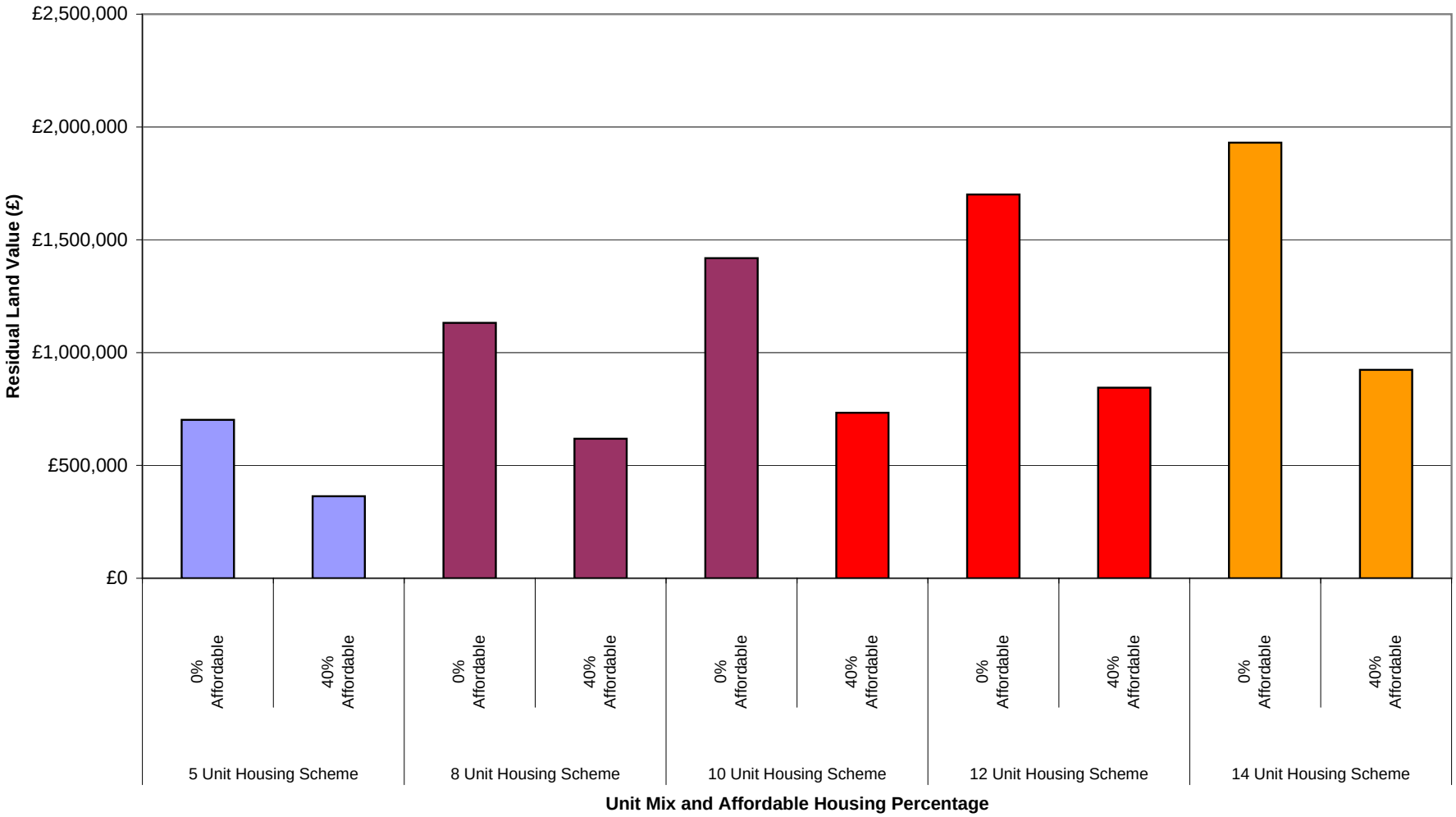


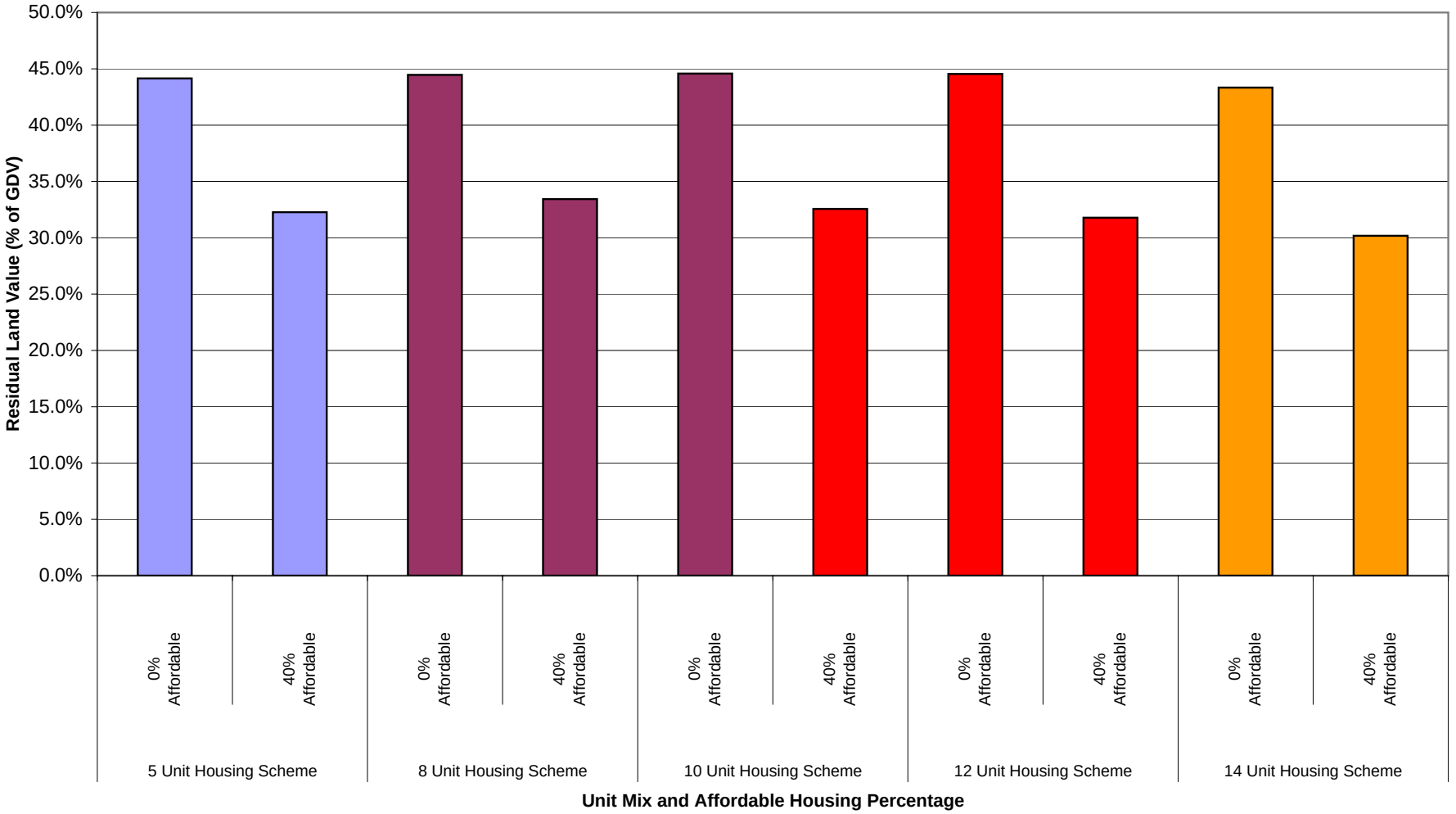
Table 6: Summary Table Showing RLV, RLV as % of GDV & Reduction in Land Residual - Value Point 5

1		2	3	4	5	6	7	8	9
Value Point	**Number of Units**	**Scenario**	**GDV**	**Development Cost**	**Developer Profit (@15%)**	**Finance & Land Costs**	**Residual Land Price**	**% Land Residual (of GDV)**	**% Reduction in Land Residual From 0% Affordable Housing**
Value Point 5	**5 Unit Housing Scheme**	0% Affordable Housing	£1,591,000	£483,700	£238,650	£137,076	£702,311	44.1%	N/A
		40% Affordable Housing	£1,126,600	£483,700	£168,990	£99,088	£363,577	32.3%	48.2%
	8 Unit Housing Scheme	0% Affordable Housing	£2,545,600	£764,920	£381,840	£219,776	£1,131,902	44.5%	N/A
		40% Affordable Housing	£1,849,000	£764,920	£277,350	£162,794	£618,179	33.4%	45.4%
	10 Unit Housing Scheme	0% Affordable Housing	£3,182,000	£952,400	£477,300	£274,576	£1,418,615	44.6%	N/A
		40% Affordable Housing	£2,253,200	£952,400	£337,980	£198,600	£733,651	32.6%	48.3%
	12 Unit Housing Scheme	0% Affordable Housing	£3,818,400	£1,144,880	£572,760	£329,234	£1,700,665	44.5%	N/A
		40% Affordable Housing	£2,657,400	£1,144,880	£398,610	£234,264	£844,460	31.8%	50.3%
	14 Unit Housing Scheme	0% Affordable Housing	£4,454,800	£1,337,360	£668,220	£438,404	£1,930,384	43.3%	N/A
		40% Affordable Housing	£3,061,600	£1,337,360	£459,240	£302,628	£923,878	30.2%	52.1%

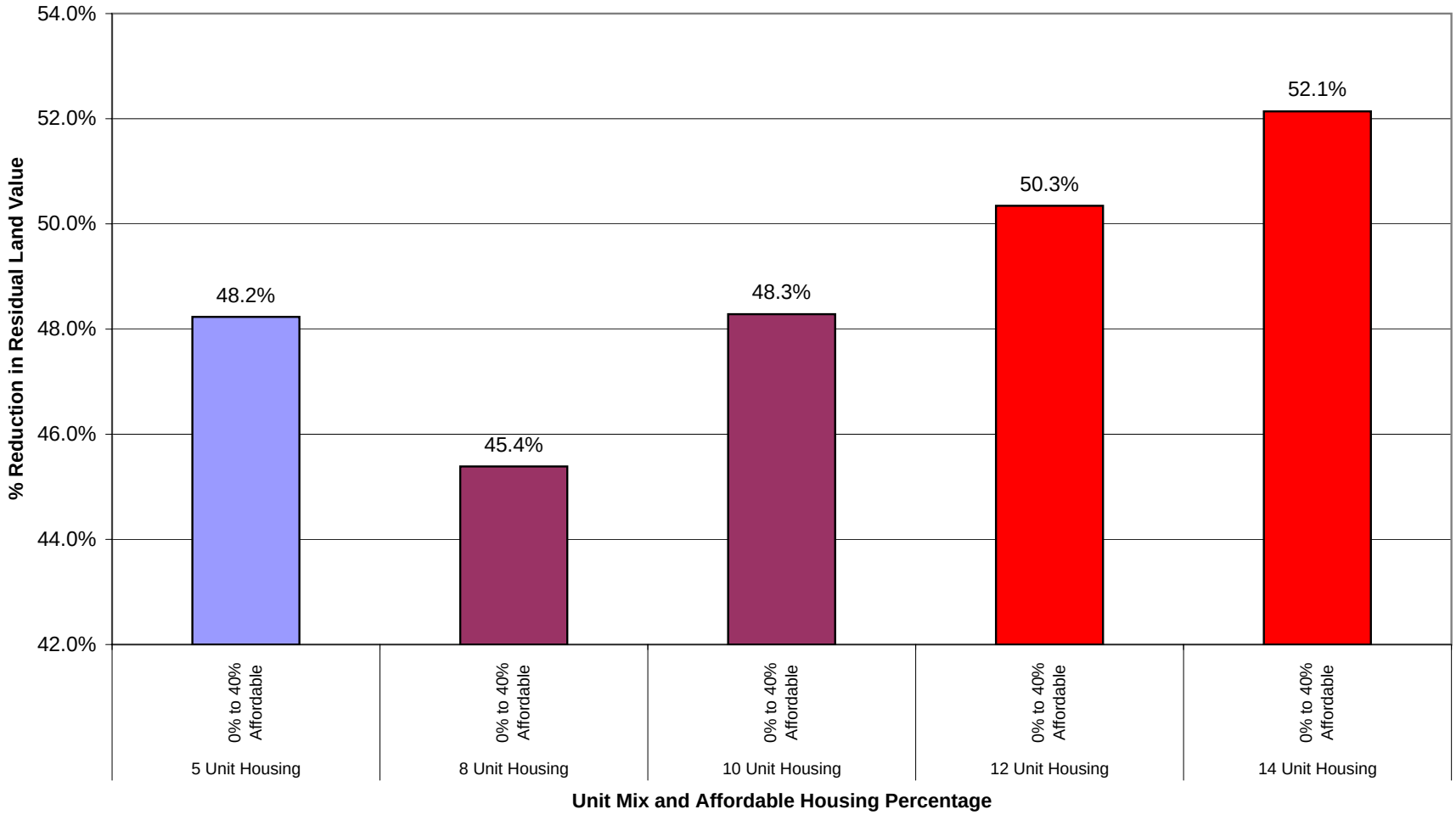
Graph 14 - Residual Land Value (£) - Value Point 5



Graph 15 - Residual Land Value (% of GDV) - Value Point 5



Graph 16 - Reduction in Residual Land Value as a Percentage of GDV from 0% to 40% Affordable Housing - Value Point 5



Appendix II (a)

Results of Payments in lieu Land Residual Calculations

Appendix II (a): Test Valley Borough Council Payments in lieu of on-site provision - Value Points 1 to 5: 0%, 20%, 30% and 40% Equivalent Affordable Housing Provision - Sites Above 5 Units

Value Point 1

Scheme Size	Mix	0% Affordable Equivalent		20% Affordable Equivalent			30% Affordable Equivalent			40% Affordable Equivalent		
		RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)
5 Houses	5 x 3-bed houses	£233,724	24.7%	£77,023	£159,625	16.9%	£115,535	£123,814	13.1%	£154,047	£86,390	9.1%
8 Houses	8 x 3-bed houses	£374,693	24.8%	£123,237	£258,530	17.1%	£184,856	£204,582	13.5%	£246,475	£145,302	9.6%
10 Houses	10 x 3-bed houses	£472,144	25.0%	£154,047	£326,940	17.3%	£231,070	£254,338	13.4%	£308,093	£185,483	9.8%
12 Houses	12 x 3-bed houses	£559,058	24.6%	£184,856	£390,637	17.2%	£277,284	£303,514	13.4%	£369,712	£220,854	9.7%
15 Houses	14 x 3-bed houses	£625,653	23.6%	£215,665	£454,334	17.2%	£323,498	£352,691	13.3%	£431,331	£251,048	9.5%

Value Point 2

Scheme Size	Mix	0% Affordable Equivalent		20% Affordable Equivalent			30% Affordable Equivalent			40% Affordable Equivalent		
		RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)
5 Houses	5 x 3-bed houses	£349,159	31.5%	£90,152	£264,181	23.9%	£135,228	£226,264	20.4%	£180,305	£182,899	16.5%
8 Houses	8 x 3-bed houses	£561,098	31.7%	£144,244	£430,979	24.3%	£216,366	£362,998	20.5%	£288,487	£295,016	16.7%
10 Houses	10 x 3-bed houses	£705,111	31.8%	£180,305	£536,909	24.2%	£270,457	£457,524	20.7%	£360,609	£372,547	16.8%
12 Houses	12 x 3-bed houses	£844,460	31.8%	£216,366	£642,617	24.2%	£324,548	£541,695	20.4%	£432,731	£445,365	16.8%
15 Houses	14 x 3-bed houses	£951,836	30.7%	£252,426	£748,325	24.1%	£378,640	£630,583	20.3%	£504,853	£512,841	16.5%

Value Point 3

Scheme Size	Mix	0% Affordable Equivalent		20% Affordable Equivalent			30% Affordable Equivalent			40% Affordable Equivalent		
		RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)
5 Houses	5 x 3-bed houses	£469,315	37.0%	£103,281	£371,962	29.3%	£154,922	£323,286	25.5%	£206,563	£274,609	21.6%
8 Houses	8 x 3-bed houses	£751,366	37.0%	£165,250	£597,208	29.4%	£247,875	£520,128	25.6%	£330,500	£447,664	22.1%
10 Houses	10 x 3-bed houses	£942,946	37.2%	£206,563	£750,248	29.6%	£309,844	£653,899	25.8%	£413,125	£557,550	22.0%
12 Houses	12 x 3-bed houses	£1,129,861	37.1%	£247,875	£898,624	29.5%	£371,813	£783,005	25.7%	£495,750	£667,386	21.9%
15 Houses	14 x 3-bed houses	£1,278,019	36.0%	£289,188	£1,047,000	29.5%	£433,781	£912,111	25.7%	£578,375	£777,222	21.9%

Value Point 4

Scheme Size	Mix	0% Affordable Equivalent		20% Affordable Equivalent			30% Affordable Equivalent			40% Affordable Equivalent		
		RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)
5 Houses	5 x 3-bed houses	£583,394	40.8%	£116,410	£479,743	33.6%	£174,615	£424,879	29.7%	£232,820	£370,015	25.9%
8 Houses	8 x 3-bed houses	£941,634	41.2%	£186,256	£767,879	33.6%	£279,385	£681,002	29.8%	£372,513	£594,124	26.0%
10 Houses	10 x 3-bed houses	£1,180,781	41.3%	£232,820	£963,587	33.7%	£349,231	£854,990	29.9%	£465,641	£746,394	26.1%
12 Houses	12 x 3-bed houses	£1,415,263	41.2%	£279,385	£1,154,631	33.6%	£419,077	£1,024,315	29.9%	£558,769	£893,999	26.1%
15 Houses	14 x 3-bed houses	£1,604,201	40.1%	£325,949	£1,345,674	33.6%	£488,923	£1,193,639	29.8%	£651,897	£1,041,603	26.0%

Value Point 5

Scheme Size	Mix	0% Affordable Equivalent		20% Affordable Equivalent			30% Affordable Equivalent			40% Affordable Equivalent		
		RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)
5 Houses	5 x 3-bed houses	£702,311	44.1%	£129,539	£581,467	36.5%	£194,309	£521,044	32.7%	£259,078	£465,420	29.3%
8 Houses	8 x 3-bed houses	£1,131,902	44.5%	£207,263	£938,550	36.9%	£310,894	£841,875	33.1%	£414,526	£745,199	29.3%
10 Houses	10 x 3-bed houses	£1,418,615	44.6%	£259,078	£1,176,926	37.0%	£388,618	£1,056,082	33.2%	£518,157	£935,237	29.4%
12 Houses	12 x 3-bed houses	£1,700,665	44.5%	£310,894	£1,410,638	36.9%	£466,341	£1,265,624	33.1%	£621,788	£1,120,611	29.3%
15 Houses	14 x 3-bed houses	£1,930,384	43.3%	£362,710	£1,644,349	36.9%	£544,065	£1,475,167	33.1%	£725,420	£1,305,985	29.3%

Value Point	1-Bed Flats	Commuted Payment (Per Unit)	2-Bed Flats	Commuted Payment (Per Unit)	2-Bed Houses	Commuted Payment (Per Unit)	3-Bed Houses	Commuted Payment (Per Unit)	4-Bed Houses	Commuted Payment (Per Unit)
1	£112,200	£45,677	£145,200	£59,111	£167,200	£68,067	£189,200	£77,023	£222,200	£90,458
2	£131,325	£53,462	£169,950	£69,187	£195,700	£79,669	£221,450	£90,152	£260,075	£105,877
3	£150,450	£61,248	£194,700	£79,262	£224,200	£91,272	£253,700	£103,281	£297,950	£121,295
4	£169,575	£69,034	£219,450	£89,338	£252,700	£102,874	£285,950	£116,410	£335,825	£136,714
5	£188,700	£76,820	£244,200	£99,414	£281,200	£114,477	£318,200	£129,539	£373,700	£152,133

Commuted payment calculated by:
1. Taking average residual land value as percentage of GDV from all appraisals with zero affordable housing = 35.4%
2. Multiplying this figure by the open market unit value
3. Adding 15% on-costs
4. Multiplying this figure by the equivalent affordable housing percentage.

Example: 10 Unit Housing Scheme of 10 x 3-bed houses
3-bed houses at £253,700 x 0.354 = £89,810
£89,810 +15% = £103,281
10 x 3-bed houses x 30% = 3.0 houses x £103,281 = £309,844

Appendix III

Test Valley Borough Property Values Report

Appendix III

Property Values Report for Test Valley Borough

Viability Study Update

Introduction

Adams Integra was asked to prepare a study that investigated the impact of potential lowered affordable housing thresholds on residential development viability. This updates a previous study undertaken by Adams Integra published in December 2004.

As part of this update study, research was required to determine the level of new build housing values in Test Valley. This was carried out through a mixture of on-site and desktop research. As context for the viability study work, an understanding was required of the level and range of values encountered so as to make judgements on the figures most appropriate for use in the appraisal modelling for the study.

It is the new build values that are of key relevance to the viability study, given that such schemes are the supply source of the planning-led affordable housing being considered.

In addition to new build sales rates and for general background purposes, CACI data supplied by the Borough Council and desktop research carried out by Adams Integra was analysed to further inform our view of the overall housing market in Test Valley, including overall values (i.e. including re-sale values). This data was then manipulated to gain an idea of the local hierarchy of selected wards with Test Valley, in terms of typical value levels. This enabled us to develop a wider understanding of the local market and to verify and supplement the new build property values research.

The information below shows the results of both the desktop and on the ground research carried out. Market overview information has also been included, sourced from reports provided by the RICS and Land Registry.

Housing Market Overview – June 2007

RICS

In June 2007 RICS (Royal Institution of Chartered Surveyors) published a Housing Market Survey.

The report stated that the 'House price growth eased in June to half the pace of the previous month. The national price balance fell below the survey's long run average for the first time since the mini-boom began in early 2006. Supply conditions showed a turn around, with new instructions falling sharply in June as many vendors had bought forward their instructions into May because of the prospective introduction of 'Home Information Packs' (HIPs). June's slowdown in price rises has resulted from weaker demand as the four interest rate hikes since last August have weighed on buyer affordability.'

New buyer enquiries declined at the fastest pace since February, a more concrete sign that potential buyers are taking note of rising borrowing costs and the possibility of further rate hikes later in the year. Nevertheless, the impact of the current rate tightening cycle on new buyer enquiries is still more subdued than in the previous interest rate cycle of 2003/04 due to strong economic conditions.'

New buyer enquiries levels declined, signifying that potential home buyers are fully aware of the implications and the rising cost of borrowing with a distinct possibility of further rate hikes later on in the year. However, this decrease is far more subdued than the previous rate tightening cycle of 2003/2004, mainly due to strong economic conditions. On the other side of the coin, new instructions to sell fell sharply. This decrease is in response to a surge in new instructions, in the previous month, to avoid the HIPs costs, which have since been delayed.

Four interest rate increases and a continued combative attitude has had a negative effect on surveyor confidence in the price outlook, which has now become neutral. The confidence has almost halved and fallen to its lowest level since June 2004.

Scotland has fallen behind London in terms of house price rises, according to the house price rise league table, but the strongest inflation is taking place in Northern Ireland. Outside of London, the rest of England has seen price inflation moderate. The South East has seen an end to the boom conditions, the North of England and the Midlands have encountered subdued conditions compared to the moderate to firm increases of six months ago. There has been a slight decline in the Midlands, Yorkshire & Humberside and Wales.

In the South East 'House price growth slowed for the third consecutive month, falling below the survey's long run average for the first time since April 2005. New buyer enquiries declined for the eighth consecutive month and at the fastest pace since February. New vendor instructions declined at the fastest pace since June 2002. Surveyor confidence in prices fell for the fourth consecutive month to the lowest level since August 2005, although it remains positive. Confidence in the sales outlook declined fractionally although it remains above the survey's long run average.'

In May 2007, 40% of surveyors reported rise in house prices (nationally) over a three month period and only 7% reported falls. In June 2007, the figures had altered dramatically with only 26% reporting rise in house prices, 60% stating prices were constant and 15% stating losses.

In the South East, 44% of surveyors reported a rise in house prices (May 2007) over a three month period and only 5% reported falls. In June 2007, the figures had altered dramatically to 32% of surveyors reporting rise in house prices, 48% stating prices were constant and 20% stating price drops.

RICS Economics - June 2007 RICS housing market survey

Land Registry

The Land Registry House Price Index June 2007, released 27 July 2007, states as its headlines:

"House price change in England and Wales remained positive for residential property transactions that completed in June 2007. The 0.4 per cent rate of monthly increase is slightly less than the previous month. The change raises this month's average house price to £181,039. The annual change in house prices is 9.1 per cent. There is evidence of increased growth rate divergence between London and the rest of the country, however across England and Wales as a whole, growth remains positive..."

England & Wales, the detail of the Index reveals that the price of flats/maisonettes have risen the fastest overall with a 9.7% over the last year taking the average price to £169,874. Detached houses showed the smallest annual increase, overall, of 7.5% to a price of £271,530.

Regionally, West Sussex saw an increase of 0.3% for the month; 9.2% over the last year, to give an average figure of £222,901. Wiltshire prices remained stagnant in June (0.0%) but an overall rise of 7.0% over the previous year gave an average figure of £198,411. The South East saw a monthly figure of -0.3% and an annual change of 9.1% to give an average price of £221,760.

In the Test Valley context, the Index shows Hampshire prices remained the same during June, 8.6% over the year; a rise of 0.5% less than both the England and Wales and the South East Regional figures. The average house price in Hampshire according the Land Registry currently stands at £219,559.

Land Registry House Price Index June 2007

Update and Overview
On finalising the study, we reviewed the latest available information against the above. During the period summer in to early autumn of 2007, a degree of uncertainty influenced the market – not just locally but in a wider sense.

The latest **Land Registry** statistical release - its **House Price Index July 2007** (released 29 August 2007) – indicated house prices for England and Wales more or less static, when viewed overall. July sale completions showed a 0.1% price increase over the month; the rate of price increase over the preceding year 8.8%. It commented on London, and to a lesser extent the South East, continuing to ensure positive house price inflation.

South East region prices overall showed a monthly increase rate of 1.1% (the greatest increase in England and Wales) and annual change 10.5%.

Both preceding month and annual trends for prices were reported to be below these for Hampshire; at 0.6% and 9.0% respectively. The average property price for Hampshire was quoted at £221,693.

So the Land Registry indicated that whilst the overall trend of rising prices had slowed, the latest widely reported national trends and figures can conceal the continued relative strength of local markets.

The **August 2007 RICS Housing Market Survey** included overall statements suggesting the continued uncertainty in the market. Its opening bullet points referring to the national picture included statements such as:

- New buyer enquiries down at the fastest pace since August 2004.
- Confidence in the price outlook falls to the lowest level since June 2005, but confidence in the sales outlook improves slightly.

Surveyors reported relatively large price falls in many areas outside London, with moderate price growth continuing to take place in the South East (as well as South West and North).

Within the surveyors' market comment of the section, there was some feedback attributed to Andover agent Dreweatt Neate, stating that: "A slow August but increased activity at the beginning of September with stocks rising due to 10 September 2007 HIP day for 3 bed properties. There remain a good number of buyers and provided vendors are realistic and accept a levelling of the market there are good opportunities for increases sales".
From its nearby Winchester office the same Company indicated that: "The holiday season has had its usual suppressant effect. Strong signs of a re-emerging market".

So, overall we observed a levelling market, but one which remains relatively strong locally in comparison with the widely reported picture of a downturn in many areas across the Country.

Test Valley – Ward Hierarchy – CACI Data

The CACI data supplied by Test Valley Borough was separated by postcodes and applied to a map of Wards using http://neighbourhood.statistics.gov.uk and www.google.co.uk/maps. An average figure was taken from all the data available to gain an understanding of the ward hierarchy. i.e. Millway ward = SP10 3--; Alamein ward = SP11 6--, Chilworth = SO16 7--.

This table ranks the 15 selected Wards, by collating the average price of the resale value from CACI data. The average price is the resale value of all properties, the data being collected during the year prior to November 2006.

Rank	Ward	Average Price	Location
1	Chilworth	£586,673	Southern Test Valley
2	Romsey Extra	£428,603	Romsey
3	Harroway	£359,520	Andover
4	Alamein	£339,189	Andover
5	Valley Park	£279,588	Southern Test Valley
6	Rownhams	£271,088	Southern Test Valley
7	Cupernham	£241,632	Romsey
8	Abbey	£232,600	Romsey
9	Nursling	£228,722	Southern Test Valley
10	North Baddesley	£218,168	Southern Test Valley
11	Tadburn	£200,960	Romsey
12	Winton	£200,072	Andover
13	Millway	£193,599	Andover
14	Charlton	£192,471	Andover
15	St. Mary's	£143,842	Andover

CACI data – December 2005 – November 2006

Despite two wards featuring fairly high in the ranking order, the majority of Andover has a lower average property price than Romsey and Southern Test Valley with four out of the six wards featured at the bottom of the hierarchy. Chilworth is the most expensive ward from the data analysed, with an average price of £586,673. St Mary's ward is bottom of the ranking with an average price of £143,842, just under £50,000 less than the average price of a property in the Charlton ward.

Test Valley – Ward Hierarchy – Land Registry Data/CACI Comparison

Rank	Ward	Detached*	Semi-Detached*	Terraced*	Flat*	Overall*	CACI **	Location	Rank Average
1	Romsey Extra	1	-	-	-	1	2	Romsey	1.3
2	Harroway	2	1	-	5	3	3	Andover	2.8
3	Alamein	3	-	-	-	2	4	Andover	3.0
4	Valley Park	8	3	3	1	5	5	Southern Test Valley	4.2
5	Abbey	4	9	2	4	7	8	Romsey	5.7
6	Cupernham	6	5	5	-	8	7	Romsey	6.2
7	North Baddesley	13	4	1	6	6	10	Southern Test Valley	6.7
8	Tadburn	7	6	6	3	9	11	Romsey	7.0
9	Chilworth	11	11	9	2	12	1	Southern Test Valley	7.7
10	Millway	9	8	4	7	10	13	Andover	8.5
11	Nursling	14	-	-	-	4	9	Southern Test Valley	9.0
12	St Mary's	-	2	8	8	14	15	Andover	9.4
13	Winton	12	7	7	9	11	12	Andover	9.7
14	Rownhams	10	10	10	-	13	6	Southern Test Valley	9.8
15	Charlton	5	12	11	10	15	14	Andover	11.2

* Data: The Land Registry, Quarter October to December 2006

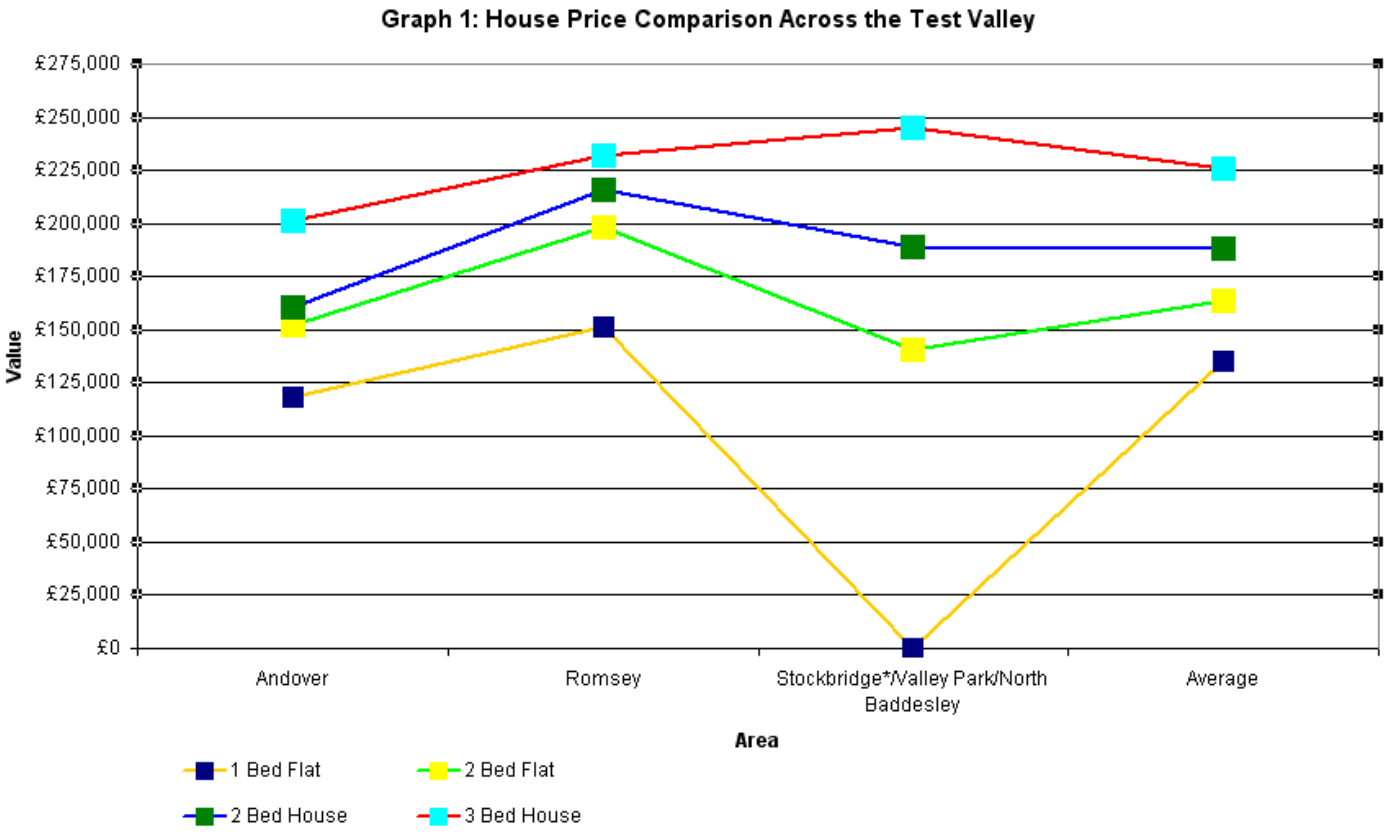
** Data: CACI, December 2005 to November 2006

Average prices were collected for each ward using Land Registry figures and a ranking system was applied by Adams Integra. The average prices were ranked from 1 to 15, 1 being the most expensive ward and 15 being the cheapest. The data collected from the Land Registry (October to December 2006 quarter) was separated into property types, plus an overall figure to give an average ranking – which informs the value patterns overview. There are a number of cells with a dash rather than a rank. This is due to the fact that figures were not attainable for the property type in that ward; e.g. the vast majority of properties in Romsey Extra are detached properties with very few alternative dwelling types, of which none were sold during the Oct-Dec 06 quarter.

From the data collected, Romsey Extra shows the highest figures, with Harroway and Alamein, both within Andover, second and third respectively. Three of the bottom five wards from this analysis were in Andover, with Charlton showing the lowest average values.

Property Values Update – Test Valley (From 2004 Data)

The tables below show the pricing of various types of property within Test Valley. The



New Build Housing Values

The new build data included here (shown below) was assembled through on the ground and desktop research. The site research included travelling throughout area to view new developments and speak to the on-site sales agents for those schemes that had sales offices. Where this was not possible, the sales agents were contacted by telephone or in some cases, by email.

A review of new build pricing of all available unit types at the time of the study across the Borough enables us to underpin our judgements on the various value levels (range of 'Value Points') for the range of dwelling types assumed in our appraisal modelling. In addition to speaking to on-site sales agents, Adams Integra also requested opinions from Estate Agents within Test Valley with regard to new build sales values.

The results of the new build property values research led to the formation of five Value Points which we consider cover the typical range of new build values within Test Valley. As most areas have a variety of property values, the results of this research can be used independently of location where approximate sales values can be estimated.

The new build data and information collected from estate agents allows us to apply a realistic value to each property type at each value point; for use in the residual land value appraisal modelling.

The two tables below include the data we found from our research of New Build developments within Test Valley, showing schemes being marketed and sold at the time.

Location	Address	Description	Price	Developer (D) and/or Agent (A)	Notes
Andover	Brookside, River Way	1-bed flat	£130,000	Connells (A)	
		2-bed flat	£150,000		
		2-bed flat	£155,000		
		3 x 2-bed flat	£160,000		
Andover	Waverley Hall, Andover Town	1-bed flat	£145,000	Connells (A)	
		1-bed flat	£147,500		
		2-bed flat	£155,000		
		3 x 2-bed flat	£165,000		
		3-bed flat	£175,000		
Andover	Wykeham Place	6-bed detached	£675,000	Dreweatt Neate (A)	
		5-bed detached	£675,000		
Appleshaw	The Old Courtyard	2 x 3-bed terraced	£395,000	Dreweatt Neate (A)	
		2 x 3-bed terraced	£425,000		
		2 x 3-bed terraced	£475,000		
Barton Stacey	Roberts Road	4 x 1-bed flats	From £145,000	Aero Construction (D) Connells (A)	
North Baddesley	Rosslyn Mews	3 x 3-bed linked detached houses + parking	From £295,000	Connells (A)	
		2 x 4-bed detached houses + garage	From £355,000		
North Baddesley	Knights Grove	4 bed detached + en suite & garage	£395,000	George Wimpey (D)	
		2 bed flat	£160,000 (+)		
		3 bed house	£265,000 (+)		
		4 bed town house	£250,000 to £275,000		
		4 bed detached	£355,000		
		5 bed house	£400,000 (+)		
		6 bed house	£450,000 (+)		

Location	Address	Description	Price	Developer (D) and/or Agent (A)	Notes
Romsey	The Malthouse, Brewery Lane	1st Flr 2 bed flat	£279,000		
		Gnd Flr 1 bed flat	£169,500		
		1st Flr 1 bed flat	£169,500		
		2 x 1st Flr 1 bed flats	£167,500		
		1st Flr 2 bed flat	£210,000		
		1st Flr 2 bed flat	£225,000		
		2 x 2nd Flr 2 bed flats	£248,500		
		2nd Flr 2 bed flat	£217,500		
		2nd Flr 2 bed flat	£231,000		
		2nd Flr 2 bed flat	£236,000		
		3rd Flr 2 bed flat	£225,500		
		3rd Flr 2 bed flat	£259,000		
Romsey	Charter Court, Winchester Road	1 bed GF Flat	£154,950	Parsons & Joyce (D) Fox & Sons (A)	Prices have increased, during construction, by £5,000-£7,000
		2 bed GF Flat	£187,950		
		2 bed 1F Flat	£194,950		
		1 bed 1F Flat	£158,950		
		2 bed 1F Flat	£197,950		
		2 bed 1F Flat	£199,950		
		1 bed 2F Flat	£162,950		
		2 bed 2F Flat	£197,950		
		3 bed 2F Flat	£209,950		
Romsey	Canal Walk, SO51 8BX	"Washington" 2 x 2 bed terrace + 2 car spaces	£192,000	Barratt Homes (D)	"Wellow" 5% deposit paid, stamp duty and legal fees paid.
		"Hundere" 2 bed coach house + car port	£222,995		
		"Farley" 3 bed terrace + car port	£292,995		
		"Broadlands" 4 bed semi + garage	£429,995		
		"Wellow" 4 bed detached + garage	£414,995		
Romsey	Masons Yard, Station Road	3 storey, 3 bed mock Victorian House + en suite	£285,000	Fox & Sons (A)	
Shipton Bellinger	Parkhouse Road	4-bed detached house	£374,950	Graham & Co. (A)	
Timsbury	Beech Cottage, New Road	4-bed detached house + study	£495,000	Graham & Co. (A)	

Discussions with Estate Agents

Discussions with Estate Agents locally have also provided the following more general details as to approximate values. The various responses are summarised in the following section. Per sq ft figures provided by the various estate agents have been converted to their per sq m equivalents. Each bullet point refers to individual Estate Agent responses:

- Andover in the main is generally less valuable than outside, however, ex Local Authority addresses tend to attract the lowest value in the region of £2,636 per sq m for 3 and 4 bed town houses.
- Andover – Centre: 1, 2 & 3 beds - £2,797 per sq m if a good location.
- Andover - Woodlands Way: 3 bed terrace - £2,711 per sq m.
- Andover - South Street: 2 bed terrace - £3,045 per sq m (very desirable location).
- Andover - River Way: 2 bed apartment - £2,657 per sq m.
- As expected, across the Andover area, variations are very site specific. According to this agent the new build sales value is £2,636 per sq m (new development of 3 & 4 bed townhouses on the Marlborough Road, for example, have been marketed at an expected £2,529 per sq m).
- Andover (central and generally): £2,152 per sq m; Andover (villages outside town) – top end values of £3,443 per sq m.
- Andover (general): £2,959 per sq m.
- Andover (general): Range between £2,808 and £3,088 per sq m.
- North Baddesley: £3,228; Test Valley (general) range - £2,690 to £2,905.
- Romsey (urban general): £3,228 to £3,766 (individual rural).

All above based on request for info on 3 bed house (except where stated).

All responses indicated a fairly wide variation across the region.

In reality there will be always be a variety of values for similar property in any area, but the collated data indicates general values levels and patterns. The values research is not a statistical exercise, but is carried out to enable us to make judgements about the values likely to be appropriate for the range of values of new build properties typically available in the Borough, and, therefore, for Adams Integra's appraisal modelling.

Summary/Outcomes

Based on the information provided by sales offices, estate agents and internet searches, it is Adams Integra's opinion that the following fairly reflects the range of values (in £ per sq m) likely to be seen across Test Valley for units of varying sizes. The table below shows the range of values used within the development scenario appraisals within this study. The values research was carried out to enable us to make judgments about the range of values of new build properties typically available throughout Test Valley and it must be remembered that any settlement could contain a range of property values covering a single property type. The £ per square meter rates have been applied to each of the unit types (assuming the unit sizes shown):

Unit	Value Point 1	Value Point 2	Value Point 3	Value Point 4	Value Point 5
1-Bed Flat	£112,200	£131,325	£150,450	£169,575	£188,700
2-Bed Flat	£145,200	£169,950	£194,700	£219,450	£244,200
2-Bed House	£167,200	£195,700	£224,200	£252,700	£281,200
3-Bed House	£189,200	£221,450	£253,700	£285,950	£318,200
4-Bed House	£222,200	£260,075	£297,950	£335,825	£373,700
£/m²	**£2,200**	**£2,575**	**£2,950**	**£3,325**	**£3,700**

Acknowledgement:

Adams Integra would like to thank the range of local Estate Agents, house builders' sales teams and others that provided helpful information and insights enabling us to build on our local knowledge and inform our thinking.