

# **Telford and Wrekin Council Affordable Housing Viability Study**

**Study Report**  
**December 2009**

**Three Dragons**



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## Telford and Wrekin Council Affordable Housing Viability Study

### Executive Summary

(Draft ver one – 14<sup>th</sup> December 2009)

1. **The Affordable Housing Viability Study** was commissioned by Telford and Wrekin Council to (in summary), “....assess the viability of affordable housing provision in mixed tenure developments in the Borough” and to “....advise upon appropriate affordable housing planning policy requirements and thresholds for inclusion in Development Plan Documents. (Extracts from the study brief).
2. **National planning guidance** indicates the importance of viability in developing affordable housing policies at the local level:  
*“In Local Development Documents, Local Planning Authorities should:  
Set out the range of circumstances in which affordable housing will be required. The national indicative minimum site size threshold is 15 dwellings. However, Local Planning Authorities can set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area. Local Planning Authorities will need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed, including their likely impact upon overall levels of housing delivery and creating mixed communities”. (PPS3: Housing (2006) Para 29)*
3. Emerging regional **policy**<sup>1</sup> for the West Midlands sets out an affordable housing target of 35% of the net housing increase in the region.
4. At the local authority level, the Council’s Core Strategy (2007) sets an affordable housing target of 35% for Newport and 40% for the rural areas of the authority. There is no target for Telford nor a site size threshold (above which affordable housing could be sought) for any part of the authority.
5. The Council’s **Housing Market Assessment** in 2008<sup>2</sup> identified need for affordable housing almost as great as the total housing requirement. It is therefore appropriate for the Council to maximise affordable housing delivery, consistent with financial viability and other mixed community and regeneration objectives.
6. Three Dragons assess development viability using a **residual value appraisal model**. This mimics the approach typically used by developers and assesses the total value in a scheme less scheme costs. The model can take into account, amongst other things, the impact of affordable housing and other s106 contributions.
7. Using this approach, the Viability Study assessed the residual value for a variety of development types (which varied with the assumed density of development from 30 to 70 dwellings per hectare) and amounts of affordable housing from 0% to 45%.

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<sup>1</sup> West Midlands Regional Spatial Strategy Phase Two Revision, Report of the Panel: 2009

<sup>2</sup> Telford and Wrekin Housing Market Assessment – 2008 Update, Nevin Leather Associates, 2008

The main or baseline testing was carried out on the basis of a notional 1 hectare site and it was assumed that there would be no grant available, that the affordable housing would be 80% social rent and 20% intermediate affordable housing and that other s106 contributions would total £4,000 per dwelling.

8. Sensitivity tests were also carried out to show how changing different assumptions would affect the results. The sensitivity tests included the impact of changed market values, of introducing grant for the affordable housing and of higher levels of the Code for Sustainable Homes and/or a higher level of s106 contribution.
9. For this study, Telford and Wrekin was divided into nine **market value areas**, defined by houses prices (at post code sector level). The market value areas were Ironbridge Gorge, Rural Telford and Wrekin, Newport, Wellington & North West Telford, Telford Outer Fringe, Central Telford, North & West Central Telford and South East Telford. For Central Telford there is no established market so, having sought the views of local property agents, it was agreed that market values for North and West Central Telford could be used as a proxy for Central Telford.
10. The analysis of house prices in Telford and Wrekin showed that **average prices** across the authority are generally below those of the West Midlands and England. Since lower market values will translate into lower residual values (all other things being equal), this indicates that delivering affordable housing will tend to be more difficult in Telford and Wrekin than the average for the region.
11. Residual values generated (either from the main or sensitivity testing) were assessed against different **benchmarks**, including existing use values. Using feedback from the development industry workshop held, a value of around £400,000 provides a possible benchmark for industrial land but with higher values likely anticipated for greenfield land and land in the higher market value areas identified e.g. Rural Telford and Wrekin.
12. **Results from the baseline high level testing** show significant differences between residual values achieved between the market value areas with Ironbridge Gorge and Rural Telford and Wrekin showing positive residual values of more than £1m per hectare with affordable housing at all the percentages tested (including 45%). In Newport, values are lower, at or beneath around £0.5m per hectare with 35% or more affordable housing.
13. In Telford itself, the market is much weaker. In Wellington and North West Telford and Telford Outer Fringes residual values remain just positive up to around 30%/35% affordable housing but to achieve around £0.5m per hectare, the level of affordable housing has to decrease to 10-20%. The other market value areas in Telford struggle to deliver a positive residual value with any level of affordable housing. At 10% affordable housing, £0.28m per hectare is the highest residual value achieved in Central Telford/North and West Central Telford. Even at 10%, in South East Telford no development scenario showed a positive residual value.
14. The **sensitivity tests** follow the same pattern as for the baseline testing in that the highest residual values are consistently delivered in the stronger housing market areas (Ironbridge and Rural Telford and Wrekin). In the weaker market value areas, house price increases can have a significant impact, changing a marginal residual value to one which compares favourably with benchmark values. For instance, in

Central Telford a 20% increase in market value produces a residual value of about £0.5m per hectare (at 30 dph) and with 10% affordable housing.

15. Introducing additional costs (e.g. higher levels of the Code for Sustainable Homes) may be achievable in the higher market value areas (Ironbridge and Rural Telford and Wrekin), combined with delivery of affordable housing and in Newport (at low levels of affordable housing) but produces negative or only marginally positive values in (most of) the Telford market value areas, even at 10% affordable housing.
16. **Analysis of recent planning permissions** showed that across Telford and Wrekin, sites of less than 15 dwellings accounted for just over 10% of the supply of dwellings. Sites of 100 dwellings accounted for more than three quarters of all dwellings granted permission. But the pattern of site supply in Newport and the Rural area of the Telford and Wrekin is different from that found in Telford town and sites of less than 15 dwellings represent about 65% and 77% of dwellings permitted respectively.
17. The **suitability of small sites for affordable housing** was discussed at the development industry workshop held as part of the study. The general consensus was that, as a rule, there is no management reason why affordable housing cannot be provided in small numbers and one affordable home in a mixed tenure scheme can be acceptable.
18. In terms of viability and small sites, views at the development industry workshop were mixed with some participants stating that small sites were more expensive to develop but others stating that site location and site circumstances played just as significant role in determining the costs of developing different sized schemes.
19. To test the viability of small sites in Newport and the Rural part of the authority number of case studies were selected, ranging from 1 to 13 dwellings in size. Residual values (on an equivalent per hectare basis) varied between the case study sites but there was no distinct pattern showing that sites of a particular size were more or less viable. In the case of Newport, at 35% affordable housing residual values were from £0.36m to £1.02m per hectare depending on the case study. Higher values were achieved in Ironbridge and Rural Telford and Wrekin (up to £2.6m and £2.1m per hectare respectively for a single 3 bed detached house).
20. An important land supply for small sites, and particularly sites of under 5 dwellings, is 'residential land' but this appears mainly to be small infill plots, back garden land and similar. Residential demolitions and redevelopments are relatively rare, which means that viability issues of this development type (and the associated high existing use value) are not significant.
21. In coming to a view on the **policy options for affordable housing** it is noted that there is no detailed government guidance setting out how targets or thresholds should be assessed. The Council is faced with a situation where the need for affordable housing is considerable and almost exceeds the total annual housing requirement. It is therefore important that the Council maximises delivery of affordable housing through its planning policies and sets affordable housing targets and thresholds that help to achieve this but are realistic in terms of development viability. It will also be important that the Council has mechanisms in place to take into account site specific circumstances and to deal with the situation where individual schemes cannot achieve the targets set out in policy.

22. It has been concluded that the current targets for Newport and the rural areas remain appropriate. In the Rural areas we found residual values (at 40% affordable housing) at or in excess of our comparator values. However, in the case of Newport, the position is more marginal at 35% and there may be individual schemes where, given current market values, alternative affordable housing mixes and/or grant support may be needed to ensure delivery of the target level of affordable housing. As the market returns to more 'normal' conditions this should be less of an issue.
23. The position in **Telford** is more complex. On viability grounds, the target will need to be considerably lower than in other parts of the authority. A target of 20% is a realistic starting point, but it needs to be recognised that some schemes may not be able to achieve this level of affordable housing, without grant.
24. In Central Telford, there is an untried market where it is very difficult to gauge likely values and it may take a number of years for these to be established. In the short term (say 3 or 5 years after the start of plan period) the Council could waive the affordable housing requirement as a means of supporting the early development of Central Telford. If this option is followed, it is important that there are mechanisms e.g. the use of short life permissions, in place to ensure that schemes are brought forward speedily and advantageous planning permissions are not 'banked'.
25. However, Ironbridge should be an exception. Given the strength of the residual values identified, our view is that an affordable housing target of 40% is justified.
26. For **site size thresholds** the Council should adopt a 15 dwelling threshold in Telford, introduce a 5 dwelling threshold in Newport and a zero threshold in the Rural area. It may be appropriate to include the Ironbridge Gorge market value area with the Rural area but further analysis of the site supply in Ironbridge is needed before this .
27. On-site provision of affordable is the preferred approach to providing affordable housing but there will be circumstances where this may not be practical and a **commuted sum** should be sought (e.g. if operating a 40% target with a site of 2 dwellings). Where commuted sums are collected, it should be equivalent to the amount which would be contributed were the affordable housing provided on site.
28. The Council already has a **delivery vehicle is in place for (Central) Telford** and is working closely with the Homes and Communities Agency to secure regeneration of the area.
29. The **housing market** in Telford and Wrekin, as elsewhere in the country, has been going through a **period of great uncertainty**. The policy framework that is set out by the Council will need to be sufficiently flexible to take account of any further price reductions as well as any sustained up-turn in prices. There may be site-specific circumstances where achievement of the affordable housing target is not possible on viability grounds. The Council will have available a bespoke Toolkit which will provide an effective mechanism to review scheme specific circumstances and viability.

# 1 INTRODUCTION

## Purpose of the study

- 1.1 The Council appointed Three Dragons to undertake a study, *“to assess the viability of affordable housing provision in mixed tenure developments in the Borough”* and to *“.....support the recently completed Strategic Housing Market Assessment and advise upon appropriate affordable housing planning policy requirements and thresholds for inclusion in Development Plan Documents. In addition the Study will support the negotiation of affordable housing through Sec106/Planning Obligations.”* (Extracts from the study brief).
- 1.2 Other requirements for the study set out in the brief included:
- Compliance with PPS3 requirements;
  - Commenting on tenure split and provision of specialist housing;
  - A methodology which catered for local variables e.g. availability of public subsidy, build costs, variations in tenure mix, land prices, infrastructure requirements and vacancy rates in social housing and lack of a local housing market in Telford Town Centre;
  - Providing a long term view of development economics in the Borough and delivery of affordable housing (including possible changes in costs arising from the need to meet sustainable design standards) while acknowledging the current uncertainties in the market place;
  - Advice on the delivery of the overall housing target;
  - Commenting on the success of local delivery vehicles elsewhere and advice on the best approach for a local delivery vehicle in Telford and Wrekin.
- 1.3 At the time of appointment, it was hoped that the study would be able to feed into the consultation version of the Central Telford Area Action Plan. Unfortunately, the study timetable did not allow this but the results of the study will help to support the Area Action Plan.

## Policy context - national

- 1.4 This study focuses on the percentage of affordable housing sought on mixed tenure sites and the size of site from above which affordable housing is sought (the site size threshold). National planning policy, set out in PPS3 makes clear that local authorities, in setting policies for site size thresholds and the percentage of affordable housing sought, must consider development economics and should not promote policies which would make development unviable.

PPS3: Housing (November 2006) states that:

*“In Local Development Documents, Local Planning Authorities should:*

*Set out the range of circumstances in which affordable housing will be required. The national indicative minimum site size threshold is 15 dwellings. However, Local Planning Authorities can set lower minimum thresholds, where viable and practicable,*



*including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area. Local Planning Authorities will need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed, including their likely impact upon overall levels of housing delivery and creating mixed communities". (Para 29)*

- 1.5 The companion guide to PPS3<sup>1</sup> provides a further indication of the approach which Government believes local planning authorities should take in planning for affordable housing. Paragraph 10 of the document states:

*"Effective use of planning obligations to deliver affordable housing requires good negotiation skills, **ambitious but realistic affordable housing targets and thresholds** given site viability, funding 'cascade' agreements in case grant is not provided, and use of an agreement that secures standards."* (our emphasis).

- 1.6 The Government is also intending to introduce a Community Infrastructure Levy (or CIL) and has recently published a consultation document setting out proposals for this.<sup>2</sup> However, contributions towards the provision of affordable housing should:

*".....continue to be negotiated through planning obligations, to ensure that there is sufficient affordable housing to achieve genuinely mixed communities. The Government's policy is that in order to secure the provision of mixed communities, affordable housing should where possible be provided in kind, and on the development site. Planning obligations enable affordable housing contributions to be tailored to the particular circumstances of the site, and crucially, enable affordable housing to be delivered on-site, in support of the policy of mixed communities."* (para 5.53)

- 1.7 The Government is concerned that there should be no reduction in the level of affordable housing contributions as a result of the introduction of CIL<sup>3</sup>. The legislation also allows for CIL revenue to be applied by local authorities to affordable housing<sup>4</sup> but it appears that the Government is unlikely to pursue this in the short term.

### **Policy context – West Midlands Region**

- 1.8 Policy CF5: Delivering affordable housing and mixed communities, of the **West Midlands Regional Spatial Strategy (2004)** provides general guidance to local planning authorities on the policies they should cover in their development plans – including indicating how many affordable homes are required in an authority and justification for the site size threshold, especially if this is to be below the national indicative minimum of 15 dwellings. On the latter point, the RSS indicates that a threshold below 15 dwellings is more likely to be needed in specific parts of the region (but not Telford) and generally in settlements of below 3,000 dwellings.

<sup>1</sup> CLG, Delivering Affordable Housing, November 2006

<sup>2</sup> CLG, Community Infrastructure Levy, Detailed proposals and draft regulations for the introduction of the Community Infrastructure Levy: Consultation (July 2009)

<sup>3</sup> Ibid para 5.54

<sup>4</sup> Ibid para 5.55 Legislation is the Planning Act 2008



There is no guidance in the 2004 RSS on the target percentage of affordable housing which would apply in Telford and Wrekin.

- 1.9 The West Midlands Assembly submitted the **WMRSS Phase Two Revision** draft to the Secretary of State in December 2007. An Examination in Public (EiP) into the Draft Revision took place between April - June 2009. The Panel report was published in September 2009.
- 1.10 The Panel Report sets out a housing provision figure for Telford and Wrekin of 26,500 between 2006 and 2026 (or approximately 1,325 per annum) of which 25,000 are in Telford<sup>5</sup>.
- 1.11 Policy CF7 of the Phase 2 Revision 'Delivering affordable housing' provides a regional affordable housing target of 35% of the net housing increase. The Panel Report amplifies the way local authorities should work with the regional target in framing their DPD policies with the following policy wording at CF7 C. i)<sup>6</sup>:

**C. Local Planning Authorities in their DPDs, together with local or sub-regional housing market partnerships in their Housing Investment Strategies should:**

**(i) set an overall minimum target for their area for the amount of affordable housing to be provided, in the light of local and sub-regional assessments of need and subject to economic viability assessment. Targets should have regard to the regional target and indicative sub-regional minima set out in part B above. Only exceptionally will the proportion be either below 25% or above 40% of the total additional housing provision;**

- 1.12 The Panel Report provides an affordable housing target for each housing market area of the region. For the Central HMA (including Telford and Wrekin) the figure is 4,340.

#### **Policy context – Telford and Wrekin**

- 1.13 The Council's Core Strategy Development Plan Document was adopted in December 2007. The Core Strategy includes a number of policies that deal with affordable housing:
- CS6 – Newport: "New housing development will be expected to deliver affordable housing to the level of 35% of all such development."
  - CS7 – Rural Areas "New housing development will be expected to deliver affordable housing to the level of 40% of all such development."
- 1.14 The Core Strategy did not provide guidance on the affordable housing target to be used in Telford but pointed to the forthcoming Central Telford Area Action Plan to, "set out the development proposals and policies for this area in more detail" (CS 4).

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<sup>5</sup> West Midlands Regional Spatial Strategy Phase Two Revision, Report of the Panel: September 2009, Policy CF3, Table 1

<sup>6</sup> Ibid CF7 para C i)

- 1.15 The Central Telford Area Action Plan (CTAAP) was published in June 2009 for consultation. It has 2 policies specifically relating to affordable housing. These are reproduced below.

#### **POLICY CT5a**

##### **Affordable housing tenures and their spatial distribution**

Affordable housing schemes will provide a mix of tenures to ensure that the varying circumstances of people needing affordable housing are met and to create mixed communities.

The tenure mix appropriate to a particular site will be informed by up-to-date evidence, principally from the Council's Strategic Housing Market Assessment and will also need to be considered with reference to the context for particular Character Areas.

The context for particular Character Areas will also need to be reflected in the approach to the spatial distribution of affordable housing.

#### **POLICY CT5b**

##### **Percentage of affordable housing**

The level of affordable housing to be provided on sites in Central Telford must contribute to balancing the tenures in the local housing market, whilst ensuring that there is a sufficient range of affordable housing to meet the needs of the existing population and the new population.

The percentage requirement will be informed by up-to-date evidence, principally from the Council's Strategic Housing Market Assessment and Affordable Housing Viability Study.

The Council will take particular account of the need to take a flexible approach to the proportion of affordable housing expected in the town centre, in order to support the development of a new housing market here.

- 1.16 This study (along with the Strategic Housing Market Assessment) will therefore be used as the basis for identifying the level of affordable housing to be sought on sites in Central Telford.
- 1.17 Neither the Core Strategy nor the draft CTAAP set a site size threshold above which affordable housing could be sought.
- 1.18 It is intended that the outcomes and recommendations of this Viability Study feed into the preparation of subsequent LDF documents.

## **Need for Affordable Housing**

- 1.19 The Council had prepared a Housing Market Assessment update in 2008.<sup>7</sup> This identified a high level of need for affordable housing as follows:

*“There is an annual need for affordable housing of 2,120, made up of an annual backlog need of 592 units and newly arising need of 1,528 units. The annual estimate of backlog need assumes that the full volume of backlog need will be met over a five year period. The gross need for affordable housing must be set against affordable housing relets (mainly of social rented housing). This is estimated at 880 units per annum, although supply may decline further in the future as a result of the right to buy and a reduction in numbers leaving social renting as a result of high house prices. This leaves an annual shortfall of 1,240 units of affordable housing.*

*For the Borough as a whole, the desirable split of net annual need between social rented housing and intermediate housing is 984 to 256. (HMA, chapter 8)*

- 1.20 The level of need for affordable housing of 1,240 dwellings per annum compares with a total annual housing requirement of around 1,330 dwellings per annum. It is therefore reasonable to assume that the Council will need to maximise delivery of affordable housing, consistent with financial viability considerations dealt with in this report (and other mixed community and regeneration objectives).

## **Research undertaken**

- 1.21 The research undertaken to complete this study included:

- Discussions with council officers from Planning, Housing and Estates departments as well as with Transforming Telford (the agency charged with helping to co-ordinate the regeneration of Telford);
- Discussions with the Homes and Communities Agency;
- Analysis of information held by the authority, including that which described the profile of land supply;
- Use of the Three Dragons Toolkit, adapted for Telford and Wrekin, to analyse scheme viability;
- Interviews with local agents to discuss the particular circumstances of the Telford town centre market;
- A workshop held with developers, land owners, their agents and representatives from a selection of Registered Social Landlords active in the area.

## **Structure of the report**

- 1.22 The remainder of the report uses the following structure:

- Chapter 2 explains the principles which underlie our approach to viability assessments. We explain that this is based on residual value principles;

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<sup>7</sup> Telford and Wrekin Housing Market Assessment – 2008 Update, Nevin Leather Associates, August 2008

- Chapter 3 compares overall house prices in Telford and Wrekin with those of the region and other nearby authorities. The chapter then explains how prices vary *within* Telford and Wrekin and how we have used this variation to identify market value areas. Research undertaken to help provide estimates of market values for Central Telford is described;
- Chapter 4 provides analysis of residual values generated across a range of different development scenarios (including alternative percentages and mixes of affordable housing) for a notional 1 hectare site. The Chapter includes a series of sensitivity tests to identify how residual values are affected by changes in key variables;
- Chapter 5 considers options for site size thresholds. It reviews national policy and the potential future land supply and the relative importance of small sites. The chapter considers practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed);
- Chapter 6 identifies a number of notional case study schemes (generally small sites which are currently in use), that represent examples of site types found in the Telford and Wrekin. For each site type, there is an analysis of the residual value of the sites and compares this with their existing use value;
- Chapter 7 summarises the evidence collected through the research and provides a set of policy options and some comments on delivery mechanisms.

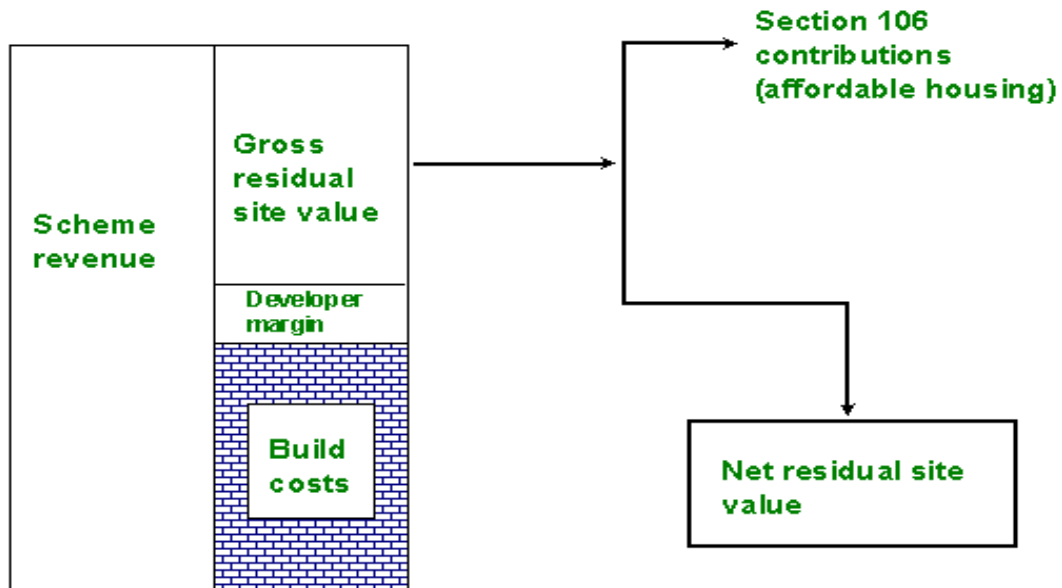
## 2 METHODOLOGY

### Introduction

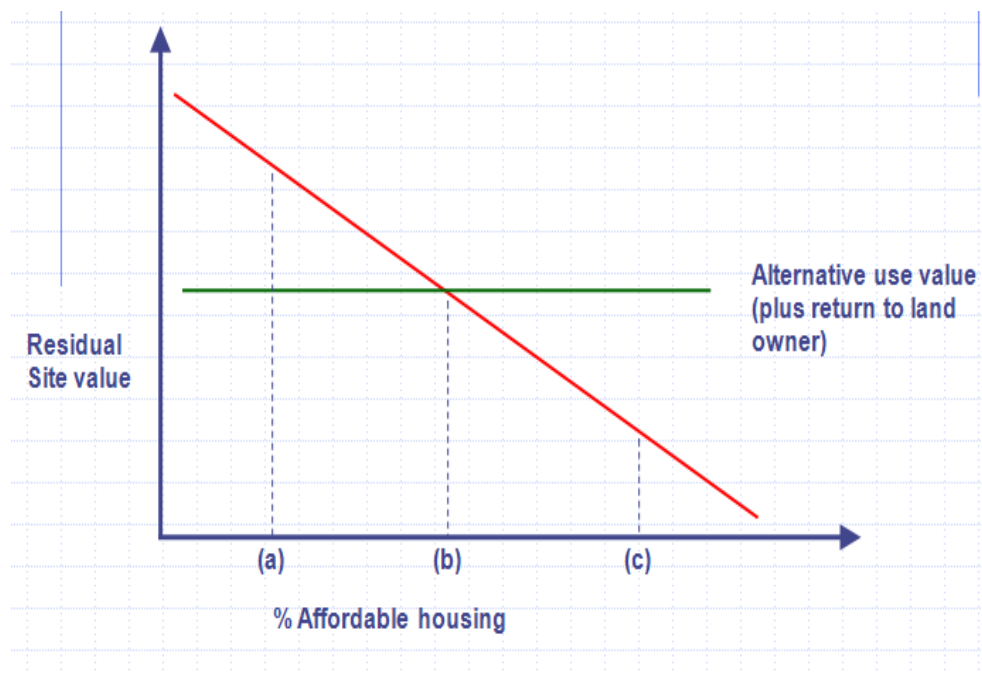
- 2.1 In this chapter we explain our approach to viability assessments and the concept of residual value. We also describe the relationship between residual values and existing/alternative use values.

### Outline of residual value approach

- 2.2 The model used by Three Dragons to assess development viability is a residual value appraisal model. This mimics the approach typically used by developers when purchasing land. This model assumes that the value of the scheme (i.e. its residual value) will be the difference between the revenue generated by the scheme and what it costs to develop. The model can take into account the impact of affordable housing and other s106 contributions.
- 2.3 Figure 2.1 below shows schematically the principles of the above approach. Scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme revenue includes the combined revenue from market and affordable housing (including grant where available). Scheme costs assume a profit margin to the developer and the 'build costs' as shown in the diagram include other development costs such as professional fees, finance costs, marketing fees and any overheads borne by the development company.
- 2.4 The gross residual value is the starting point for negotiations about the level and scope of s106 contribution. The contribution will normally be greatest for any affordable housing in a scheme but other s106 items will also reduce the gross residual value of the site. Once the s106 contributions have been deducted, this leaves a net residual value.

**Figure 2.1 Principle of residual value and s106 contributions****Residual value and alternative use values**

- 2.5 Assessing residual value provides only part of the picture in assessing viability. A scheme is highly unlikely to proceed where its costs exceed the revenue (i.e. there is a negative residual value). But simply having a positive residual value will not guarantee that development happens. The existing use value of the site, or indeed a realistic alternative use value for a site (e.g. commercial) will also play a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing.
- 2.6 Figure 2.2 shows how this relationship operates in theory. Residual value falls as the proportion of affordable housing increases. At some point (here 'b'), alternative use value (or existing use value whichever is higher) will be equal to the scheme's residual value. At point 'c', affordable housing will make the site unviable. At 'a' the scheme should be viable with affordable housing.

**Figure 2.2 Affordable housing and alternative use value**

- 2.7 The development industry workshop indicated that, in the case of a site with an existing use (or a known alternative use) something in the order of a 20-30% uplift over existing/alternative use values would be needed to encourage landowners to bring forward their land for residential development. This was not the case for greenfield (agricultural) land where land owners expectations were influenced by perceptions of the 'going rate' for such land.

### Three Dragons Toolkit

- 2.8 The analysis of residual values undertaken for this study uses the Three Dragons Viability Toolkit. The Excel based model has been developed over a number of years and is widely used to test viability. Appendix 2 provides a brief description of the model and includes a description of the key assumptions used for the modelling undertaken for Telford and Wrekin and which were generally endorsed at the development industry workshop. There was one particular exception to this that emerged clearly from the workshops and that was the level of developer return used. Three Dragons has been using a 15% return as the default percentage. Development industry representatives at the workshop indicated that, as a consequence of the credit crunch, this figure needed to be increased. In the light of the comments received, a 17% figure has been used for this study.



### 3 MARKET VALUE AREAS

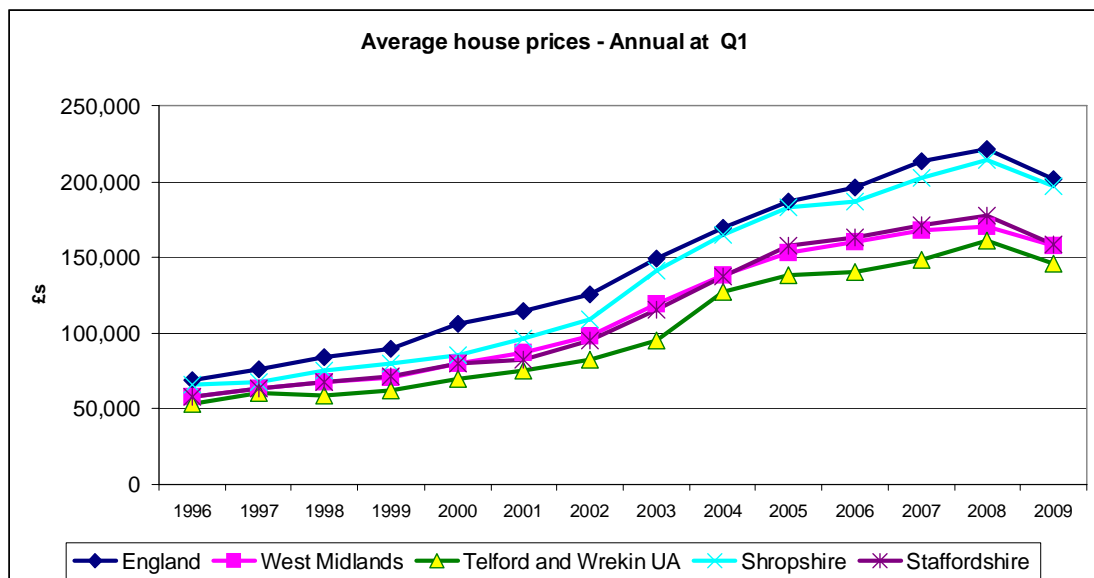
#### Introduction

- 3.1 This chapter first compares overall house prices in Telford and Wrekin with those of the region and other nearby authorities. It then explains the importance of market values to residual values and how our approach defines market value areas within the authority that are used in the subsequent analysis. Finally, the chapter describes the particular circumstances of Central Telford and the additional research undertaken to provide more information about this particular market.

#### House price comparison and trends

- 3.2 The average mean house price (for all properties, new and second-hand) in Telford and Wrekin was at £148,575 for Q2 2009<sup>8</sup>. This was about 9% lower than the peak value shown at Q2 2008 of £162,503 and shows a slight rise on Q1 2009 values.
- 3.3 Using Q1 figures for historic trend comparisons, we find that the January 2009 mean house price is about 90% of the average for the West Midlands and 75% the average for England. While these percentages have varied year on year since 1996 (the period for which the data is provided by CLG), they are very roughly the same at Q1 2009 as they were in Q1 1996.
- 3.4 House prices in Telford and Wrekin are also below that of other nearby authorities. In the chart below, local market values are compared with those of Shropshire and Staffordshire.

**Figure 3.1 Telford and Wrekin house prices compared: 1996 to 2009**

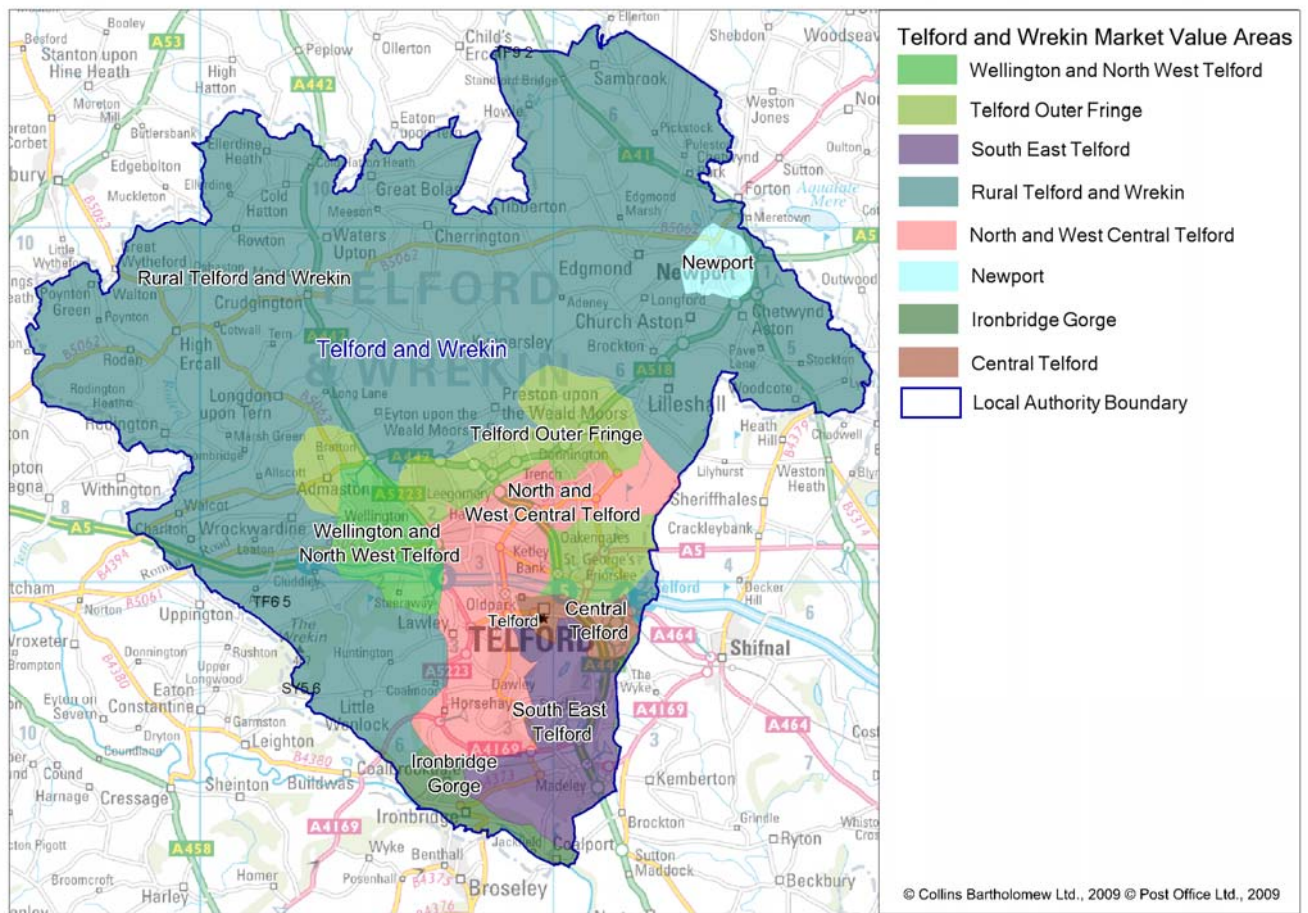


<sup>8</sup> All information about house prices referred to in this section is taken from the CLG website, Live Table 581, Mean house prices based on Land Registry data (by district, quarterly). The information is not separated into new and second-hand house prices. 2009 Q2 figures are provisional.

- 3.5 Telford and Wrekin prices have been below those of Shropshire and Staffordshire throughout the period 1996 to 2009 – well below those of Shropshire (which has prices similar to those of England) and roughly around 10% below values in Staffordshire.
- 3.6 Lower market values will translate into lower residual values (all other things being equal). This indicates that delivering affordable housing through the planning system (and without grant) will be more difficult in Telford and Wrekin than generally found in the region and more difficult than in areas such as Shropshire and Staffordshire.

#### **Market value areas**

- 3.7 Variation in house prices will have a significant impact on development economics and the impact of affordable housing on scheme viability. Market values will usually vary considerably within a local authority area but development costs do not. Therefore variation in residual values (all other things being equal) is largely governed by variations in market values.
- 3.8 We undertook a broad analysis of market values across Telford and Wrekin using HM Land Registry data to identify market value areas. Market value areas have prices within them that are broadly the same (although values will vary within market value areas as well as between market value areas).
- 3.9 The areas are defined by reference to postcode sectors and their house prices and provide the basis for a set of indicative new build values for April 2009. The purpose of this analysis is to help establish a broad starting point for target setting in the light of the general relationships between development revenues and development costs. Figure 3.2 shows the market value areas on a map and Table 3.1 lists the relevant postcode sectors.

**Figure 3.1 Map showing market value areas – Telford and Wrekin**

**Table 3.1 Market value areas in Telford and Wrekin**

<b>Sub Markets</b>	<b>Key Settlements/Areas</b>	<b>Postcode Sectors</b>
<b>Ironbridge Gorge</b>	The Gorge Sutton Wood (North East of Coalport)	TF8 7 TF11 9
<b>Rural Telford and Wrekin</b>	Rural South – Wrockwardine; The Wrekin; Little Wenlock Rural North West – Roden; High Ercall; Waters Upton; Kynnersley Rural North East – Tibberton; Egmond; Sambrook Rural North East – Lilleshall; Chetwynd Aston Rural West – Rodington; Poynton Green; Rural areas at the edge of the Borough - mainly agricultural but may contain a small number of residential properties	TF6 5 TF6 6 TF10 8 TF10 9 SY4 4 TF9 2 TF11 8, SY5 6
<b>Newport</b>	Newport	TF10 7
<b>Wellington &amp; North West Telford</b>	Wellington Haygate; Arleston College; Dothill	TF1 1 TF1 2 TF1 3
<b>Telford Outer Fringe</b>	Priorslee; St Georges Muxton; Donnington Admaston; Shawbirch Apley Castle; Leegomery (Hortonwood – employment area, little or no residential properties)	TF2 9 TF2 8 TF5 0 TF1 6 TF1 7
<b>Central Telford</b>	Telford Town Centre; Old Park (Stafford Park – employment area, little or no residential properties)	TF3 4 TF3 3
<b>North &amp; West Central Telford</b>	Hadley; Ketley Oakengates; Wombridge Ketley Bank Trench; Donnington Wood Lightmoor; Dawley South South Lawley; North Dawley North Lawley; The Rock	TF1 5 TF2 6 TF2 0 TF2 7 TF4 3 TF4 2 TF3 5
<b>South East Telford</b>	Woodside; Madeley Halesfield; Sutton Hill; Tweedale Stirchley; Brookside Randlay; Hollinswood; Malinslee	TF7 5 TF7 4 TF3 1 TF3 2

Source: Market value areas as agreed between Three Dragons and Telford and Wrekin Council, and taking into account discussion at development industry workshop

- 3.10 Appendix 2 shows the indicative new prices for a range of different property types for each of the market value areas.

## **Central Telford**

- 3.11 There is no established housing market in Central Telford but the CTAAP identifies its future role as a location for housing development. Therefore we have identified it as a housing market value area for this study. However, we could find no source of information to indicate an appropriate set of house prices (neither Transforming Telford nor the development industry workshop were able to assist).
- 3.12 However, we carried out a survey of 4 local property agents (from across the market) to discuss their views on the overall state of the local market and their views on potential development in Central Telford. The survey was conducted by a member of the research team and was undertaken on the basis of face to face meetings. With a sample size of 4 interviews the survey is not comprehensive. However it does provide important original qualitative information about current market sentiments.
- 3.13 The key messages from the survey were that:
- Generally the market has seen big falls in prices (20% quoted) but is starting to improve although credit remains relatively tight, especially for first time buyers;
  - Central Telford can become a location that attracts younger households on reasonable incomes but not necessarily the high earners;
  - There is scope to provide for high quality living for young professionals looking for a 'sushi culture' but the area should cater for a range of households and will need to provide garages and gardens for some;
  - Demand for housing in Central Telford could be from local (young) people and from in-migrants attracted to Telford from elsewhere in the West Midlands because of its competitive prices;
  - There is no clear view on likely market values for Central Telford but no indication that values are likely (at least in the short run) to be very different from established prices in the area.
- 3.14 On the basis of the limited information available and the lack of any clear signals from the commercial sector to the contrary, we have used the market values for North and West Central Telford as a reasonable proxy for the Central Telford values.
- 3.15 However, when we review the policy options in Chapter 8, we comment on possible mechanisms open to the Council to deal with the obvious uncertainty over future market performance in Central Telford.

## 4 HIGH LEVEL TESTING

### Introduction

- 4.1 This chapter of the report considers viability for mixed tenure residential development for a number of different proportions and types of affordable housing. The analysis is based on a notional 1 hectare site and has been undertaken for the series of market value areas that have been identified. The residual value identified will be the same whether the site is greenfield or on previously used land. The chapter explains this and explores the relationship between the residual values identified and existing/alternative use values.

### Testing assumptions (notional one hectare site)

- 4.2 For the viability testing, we defined a number of development mix scenarios, using a range of assumptions agreed with the Council and discussed at the development industry workshop. The scenarios show a different mix of dwelling types depending on the density of development. For the same density, the mix will be the same for all the market value areas.

**Table 4.1: The development mixes**

		30 dph	40 dph	50 dph	70dph
Flats	1 bed			10%	20%
	2 bed		20%	20%	30%
Terraces / Town Houses	2 bed	10%	15%	20%	25%
	3 bed	10%	15%	15%	25%
Semi – Detached Houses	3 bed	35%	20%	15%	
Detached Houses	3 bed	20%	10%	15%	
	4 bed	20%	20%	5%	
	5 bed	5%			

- 4.3 For the affordable housing we assumed a tenure split of 80% social rent and 20% intermediate affordable housing. The latter was assumed to be New Build Homebuy with an equity share of 50%.
- 4.4 For the baseline modelling (and unless shown otherwise) we have assumed that other planning obligations have a total cost of £4,000 per unit. This has been estimated in consultation with the council as follows:
- £600 per dwelling for leisure and recreation that is typically sought in accordance with policy;
  - Education contributions estimated using the Council's education contributions calculator. The notional 30 dph and 50 dph development types were modelled with the calculator and gave a contribution of about £2,100 and £1,500 per dwelling respectively. A figure of £1,800 was used as a reasonable compromise between the two options;

- An indicative allowance of £1,500/£2,000 for highways/transport which is considered a realistic indicative average on the basis of recent experience;
- 4.5 We have also tested selected scenarios for a £15,000 planning gain package on which we report later in this chapter.
- 4.6 We tested the impact on residual values for the following percentages of affordable housing (and assuming **nil grant**):  
0%, 10%, 15%, 20%, 30%, 35%, 40%, 45%
- 4.7 The other assumptions used in the modelling, including build costs, social rents and factors used in assessing net social rents are set out in Appendix 2.

**Results: residual values for a notional one hectare site**

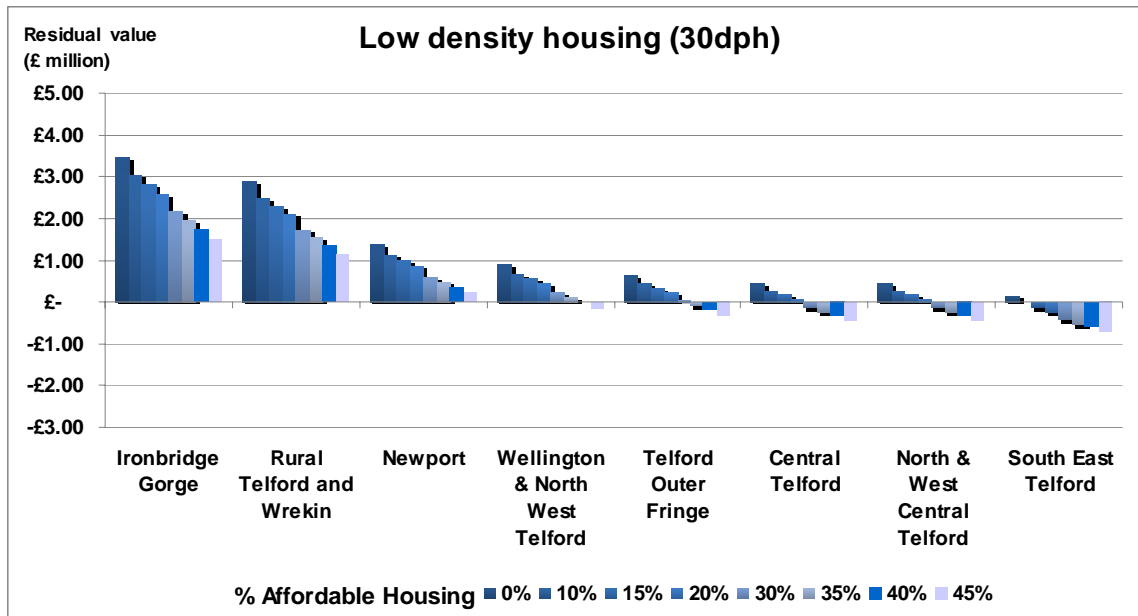
- 4.8 This section reports on the residual values for the 1 ha notional site for the different development mixes, for each market value area for the alternative amounts of affordable housing tested. All the residual values shown are £s million per hectare. The full set of results is shown in Appendix 3.



**Low density housing (30 dph)**

- 4.9 The low density scenario includes a mix of terrace, semi and detached houses. Figure 4.1 shows the residual values for each of the market value areas.

**Figure 4.1 Low density housing (30 dph) – Residual value in £s million per hectare**

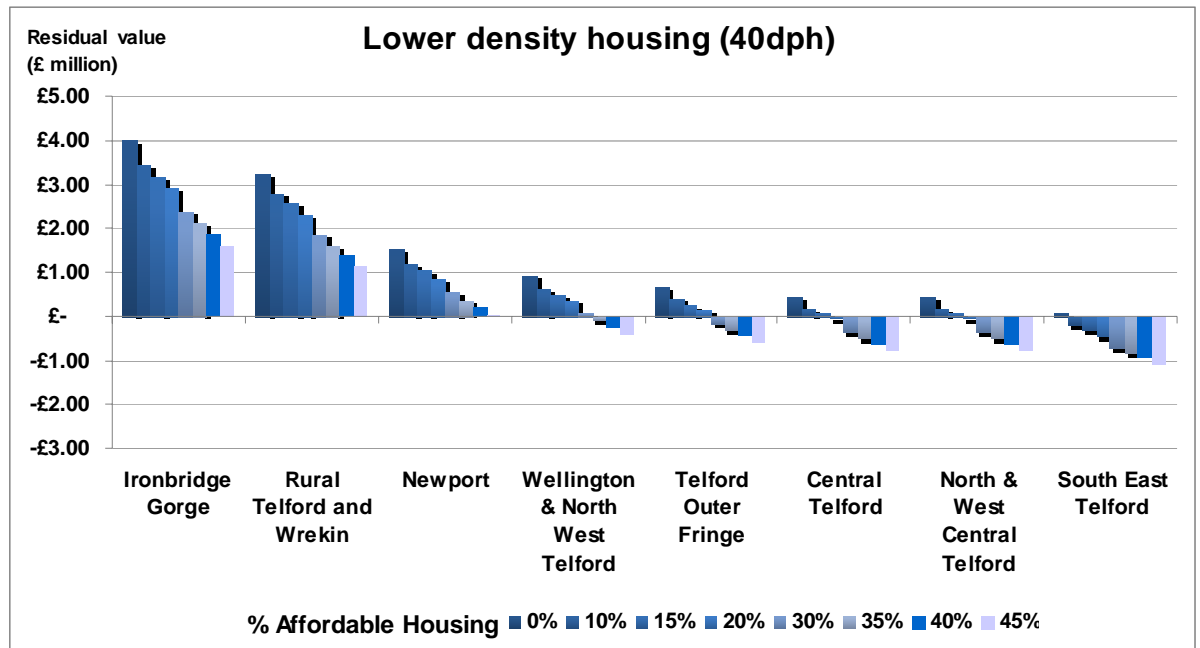


- The chart shows a very significant variance in residual values by market value area, reflecting their different market values. At, for example, 30% affordable housing, residual values range from £2.17m per hectare in Ironbridge Gorge to £1.73m in Rural Telford and Wrekin to -£0.61m in the lowest market value area of South East Telford;
- The four weaker market value areas (Telford Outer Fringes, Central Telford, North and West Central Telford and South East Telford) have residual values that are either negative or less than £0.5m /ha at all levels of affordable housing;
- The range in values has potentially important implications for policy making. With the scenarios tested, a 30% affordable housing allocation generates a higher value per hectare (£1.73m) in Rural Telford and Wrekin than 100% market housing in Newport (£1.41m).

**Lower density housing (40 dph)**

- 4.10 The lower density scenario includes a mix of terrace, semi and detached houses but with 20% as 2 bed flats. Figure 4.2 shows the residual values for each of the market value areas.

**Figure 4.2 Lower density housing (40 dph) – Residual value in £s million per hectare**

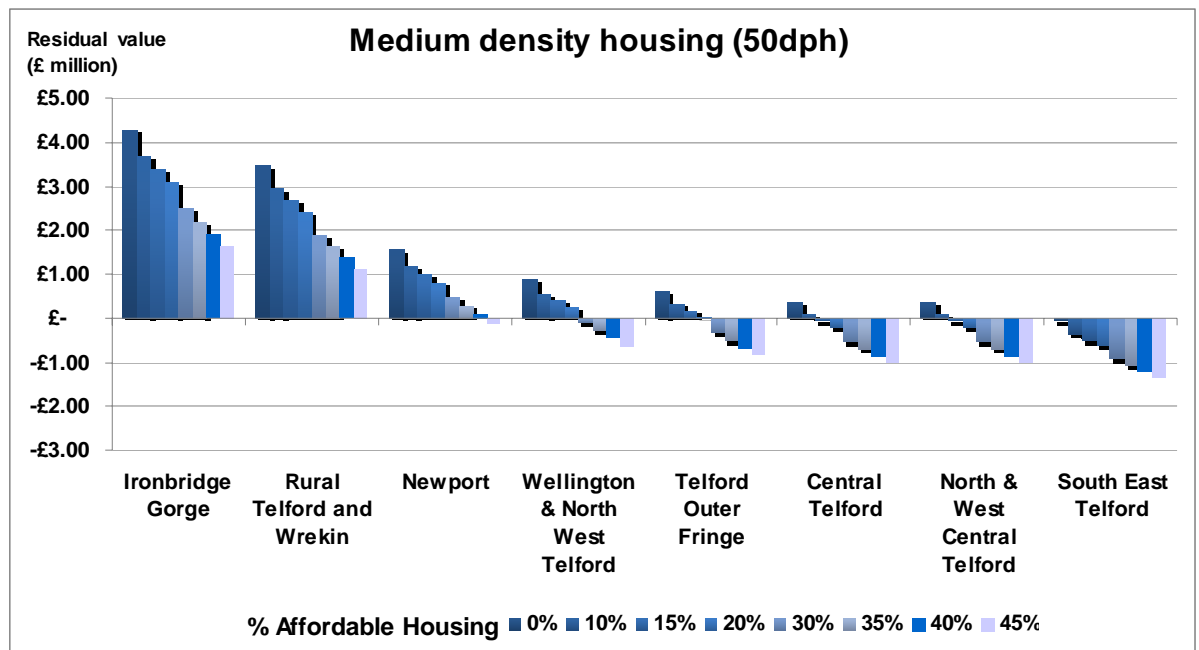


- The impact of increased density is complex and varies between market areas and at different levels of affordable housing. With 100% market housing, residual values are increased in the four higher value areas (Ironbridge Gorge, Rural Telford, Newport and Wellington and North West Telford) but are reduced in the remaining (lower value) market areas. The implication of this is that in lower value areas, residual values are better (and viability more easy to achieve) when there are more larger dwellings in the mix;
- With the introduction of affordable housing, again in the higher market value areas, residual values with the 40 dph development mix are greater than with the 30 dph mix but the pattern is the other way round around in lower value areas;
- Newport and Wellington behave differently again, illustrating the complex relationship between density/development mixes and residual values. In these two market value areas, residual values with 100% market housing are greater at 40 dph than they were at 30 dph but are lower when affordable housing is introduced.

### Medium density housing (50 dph)

4.11 The medium density development scenario includes a mix of terrace, semi and detached houses but with 30% as flats. Figure 4.3 shows the residual values for each of the market value areas.

**Figure 4.3 Medium density housing (50 dph) – Residual value in £s million per hectare**

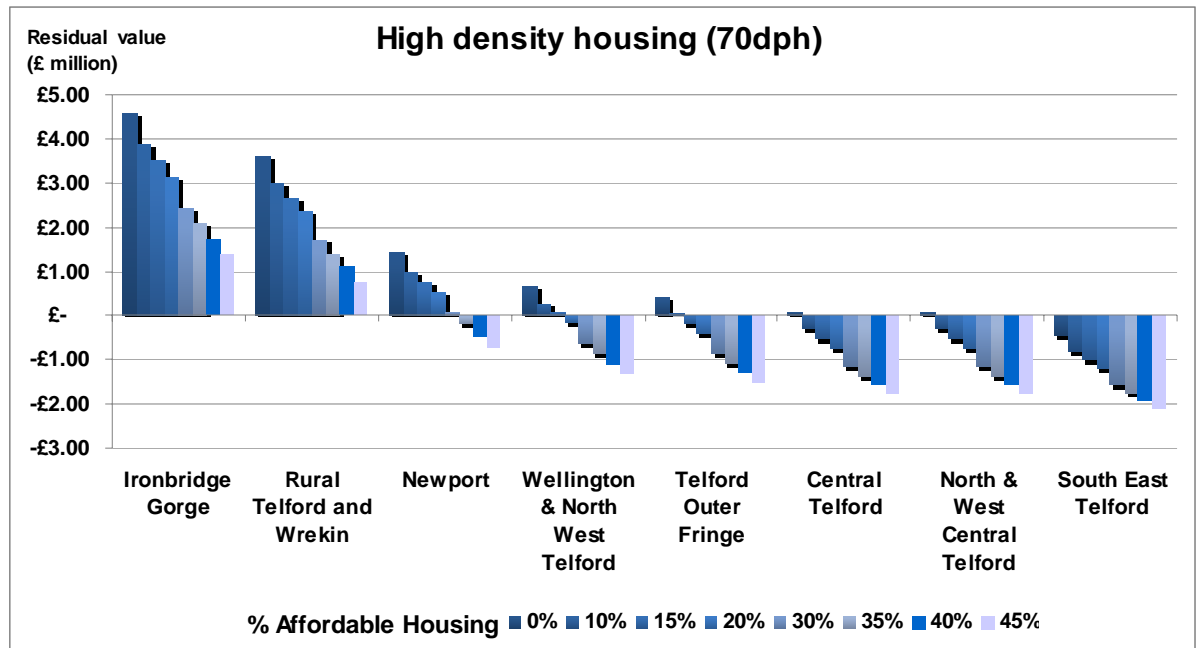


- The impact of an increase to 50 dph (from 30 dph and 40 dph) is again dependent on market value area. The two stronger market areas have a (relatively small) increase in residual values per hectare (except at 45% affordable housing in Rural Telford). All other market areas see a reduction in residual values;
- The four weaker submarkets all produce negligible or negative residuals at all levels of affordable housing. At 50 dph, residual values are negative in South East Telford at all percentages of affordable housing modelled (including even at 100% market housing);
- In Central Telford and North and West Central Telford, residual values become negative at 15% affordable housing and are only just positive at 10% affordable housing. But at 10% affordable housing, the residual value per hectare at 30 dph was £0.28m.

### Higher density (70 dph) scheme

4.12 The higher density development scenario is 50% flats and 50% 2 and 3 bedroom terrace housing. Figure 4.4 shows the residual values for each of the market value areas.

**Figure 4.4 High density housing (70 dph) – Residual value in £s million per hectare**



- An increase in density to 70 dph will tend to favour schemes with a lower percentage of affordable housing and in the high value market areas. For example, the residual value per hectare in Ironbridge Gorge at 10% affordable housing is £2.5m at 30 dph and £3.87m at 70 dph. But with affordable housing increased to 45%, the residual values at 30 dph and 70 dph are £1.52m and £1.38m;
- Increasing density to 70 dph tends to reduce residual values in lower market value areas. Taking Central Telford to illustrate the point – at 30 dph and 20% affordable housing there was a small positive residual value per hectare (£0.09m). The residual value falls to -£0.72m at 70 dph with the same level of affordable housing.

### Sensitivity testing

4.13 The second element of the high level testing undertaken is a series of sensitivity tests. The sensitivity tests consider the impact on residual values (again of a notional 1 ha site) of changes to certain variables across the market value areas identified. Importantly, the sensitivity tests include consideration of the impact of possible future changes (up and down) of market values.

4.14 The sensitivity tests undertaken were as follows:

- Grant for affordable housing at Social Rent = £50,000 per unit and New Build Homebuy = £25,000 per unit;

- An increase in market value of 10% with an associated increase in build costs of 7% (this relationship between market value and build costs is based on an analysis of historic trends);
- An increase in market value of 20% with an associated increase in build costs of 14%;
- A decrease in market value of 10% with an associated decrease in build costs of 7%;
- A s106 package of £15,000 per dwelling (i.e. £11,000 per dwelling higher than the baseline tests)<sup>9</sup>;
- Achieving Code for Sustainable Homes Level 4 with Lifetime homes (CSH4+LTH) and which is assumed to add £6,000 per dwelling;
- The combined impact of development to CSH4+LTH plus £15,000 s106 obligations.

The final sensitivity test is the only one that combines the impact of changes to two variables. All the other tests use the baseline testing assumptions other than for the variable that is being tested.

- 4.15 The sensitivity tests were undertaken for a selection of scenarios, again using the notional 1 ha site. The first set of tests used the 30 dph development scenario and 10% affordable housing. This option was chosen to consider the implications of the sensitivity tests in a situation most favourable to the low value market areas.

**Figure 4.5: Sensitivity testing - residual values (£s million per hectare) at 30dph with 10% affordable housing**

	Baseline	Market +20%	Market +10%	With Grant	CSH4/LTH	£15k S106	Market -10%	+ £15k S106 + CSH4/LTH
Ironbridge Gorge	£3.03	£3.82	£3.43	£3.16	£2.87	£2.74	£2.65	£2.58
Rural Telford and Wrekin	£2.50	£3.18	£2.84	£2.62	£2.34	£2.20	£2.17	£2.04
Newport	£1.15	£1.55	£1.35	£1.27	£0.98	£0.85	£0.94	£0.69
Wellington & North West Telford	£0.67	£0.98	£0.82	£0.79	£0.50	£0.37	£0.51	£0.21
Telford Outer Fringe	£0.45	£0.72	£0.59	£0.57	£0.29	£0.15	£0.32	-£0.01
Central Telford	£0.28	£0.52	£0.41	£0.41	£0.12	-£0.02	£0.17	-£0.21
North & West Central Telford	£0.28	£0.52	£0.41	£0.41	£0.12	-£0.02	£0.17	-£0.21
South East Telford	-£0.01	£0.17	£0.08	£0.11	-£0.21	-£0.37	-£0.11	-£0.57

- 4.16 Across all the sensitivity tests, the highest residual values are consistently delivered in the stronger housing market areas (Ironbridge and Rural).

<sup>9</sup> Using a £15,000 s106 package is purely for testing purposes and does not imply that this is a level of planning obligations the Council might seek.

- 4.17 In the weaker market value areas, house price increases of 10% deliver a significant increase in residual values and a 20% increase in market values produces residual values of about £0.5m per hectare.
- 4.18 As would be expected, in the weaker market value areas, introducing Code for Sustainable Homes at Level 4 (with Lifetime Homes) and/or a £15,000 per dwelling s106 package, produces negative or only marginally positive values. In the strongest market value area in Telford (Wellington and North West Telford), there is still a small positive residual value in the worst case of CSH4 plus a £15,000 s106 package but residual values are negative in all other Telford market value areas with this combination of additional costs, even at the 10% affordable housing being modelled here.
- 4.19 However, a per hectare residual value of over £2.5m is found in Ironbridge with the most onerous package of additional costs modelled but again, it is important to recognise the low percentage of affordable housing being assumed.
- 4.20 The introduction of grant lifts up residual values across the market areas and turns a negative residual value in Telford South without grant to a small positive with grant. However, ironically the introduction of grant is of limited impact with this scenario (30 dph and 10% affordable housing) since the number of dwellings for which grant is relevant is so small (at only 3).
- 4.21 The next set of sensitivity tests looks at the picture with the 50 dph development type and again with 10% affordable housing. Again the results are shown as a chart and then a table.

**Figure 4.6: Sensitivity testing - residual values (£s million per hectare) at 50 dph with 10% affordable housing**

	Baseline	Market +20%	Market +10%	Grant	CSH4+L H	£15k S106	Market-10%	£15k S106 CSH4+L H
Ironbridge Gorge	£3.68	£4.68	£4.19	£3.89	£3.41	£3.19	£3.20	£2.92
Rural Telford and Wrekin	£2.96	£3.80	£3.39	£3.16	£2.69	£2.46	£2.54	£2.19
Newport	£1.20	£1.69	£1.45	£1.40	£0.93	£0.70	£0.96	£0.43
Wellington & North West Telford	£0.57	£0.94	£0.76	£0.77	£0.30	£0.07	£0.39	-£0.24
Telford Outer Fringe	£0.33	£0.65	£0.50	£0.53	£0.06	-£0.20	£0.18	-£0.53
Central Telford	£0.11	£0.38	£0.25	£0.31	-£0.20	-£0.48	-£0.03	-£0.81
North & West Central Telford	£0.11	£0.38	£0.25	£0.31	-£0.20	-£0.48	-£0.03	-£0.81
South East Telford	-£0.34	-£0.09	-£0.20	-£0.09	-£0.67	-£0.94	-£0.45	-£1.27

- 4.22 As with the baseline testing, the increase in density has a mixed impact on residual values, depending on the market value area. However, the relative order of market value areas from highest to lowest residual values is in line with previous results but there are many more instances of a negative residual value. In the case of Telford

South, even with grant or with a 20% increase in market values, the residual values are negative throughout.

- 4.23 The next figure sets out the results from the sensitivity tests at 30dph but this time with 30% affordable housing.

**Figure 4.7: Sensitivity testing - residual values (£s million per hectare) at 30dph with 30% affordable housing**

	Baseline	Market +20%	Market +10%	With Grant	CSH4/LTH	£15k S106	Market -10%	+ £15k S106 + CSH4/LTH
Ironbridge Gorge	£2.17	£2.75	£2.46	£2.53	£2.01	£1.87	£1.88	£1.71
Rural Telford and Wrekin	£1.73	£2.22	£1.98	£2.09	£1.57	£1.43	£1.49	£1.27
Newport	£0.62	£0.88	£0.75	£0.98	£0.45	£0.32	£0.48	£0.16
Wellington & North West Telford	£0.22	£0.41	£0.32	£0.59	£0.06	-£0.09	£0.13	-£0.29
Telford Outer Fringe	£0.05	£0.20	£0.13	£0.41	-£0.14	-£0.31	-£0.03	-£0.50
Central Telford	-£0.11	£0.03	-£0.03	£0.27	-£0.31	-£0.48	-£0.18	-£0.67
North & West Central Telford	-£0.11	£0.03	-£0.03	£0.27	-£0.31	-£0.48	-£0.18	-£0.67
South East Telford	-£0.41	-£0.31	-£0.36	£0.03	-£0.61	-£0.77	-£0.45	-£0.97

- 4.24 At the higher level of affordable housing (30% in this test), values are lower than with 10% affordable housing but the relative order of residual values by market value area found in the other sensitivity tests still holds. In Central Telford, a positive residual value is found only with a 20% increase in market value (and associated rise in build costs) or with grant available. Even then, residual values are marginal. The addition of extra costs (e.g. CSH 4) generates a negative residual value (as it does across the majority of the Telford market value areas)
- 4.25 A full set of sensitivity test results are set out in Appendix 4.

#### **Benchmarking results**

- 4.26 There is no specific guidance on the assessment of viability which is published by national government and which sets out benchmark values to be used. In Section 2, we explained the relevance of existing or alternative use values in assessing viability and the development industry workshop confirmed this. Opinion was not uniform but it was said that a residual value of around 20% to 30% over existing/alternative use value should be sufficient for land owners to bring forward land for development. For greenfield sites, the development industry workshop indicated that values between £0.5m and £1.1m per hectare could be considered as the 'going rate'. We did not explore whether the amount of difference reflected different locations and/or site types.
- 4.27 Other evidence on current land values comes from the Valuation Office Agency (VOA) which publishes a property report twice a year. Table 4.2 below shows residential land values for specific locations within the West Midlands as at July 2009.



**Table 4.2: Residential land values regionally**

<b>WEST MIDLAND</b>			
<b>REGION</b>	<b>Small Sites (sites for less than five houses)</b>	<b>Bulk Land (sites in excess of two hectares)</b>	<b>Sites for flats or maisonettes</b>
	<b>£s per hectare</b>	<b>£s per hectare</b>	<b>£s per hectare</b>
Birmingham	1,620,000	1,530,000	1,440,000
Coventry	1,950,000	1,800,000	2,500,000
Sandwell	1,575,000	1,440,000	1,350,000
Wolverhampton	1,500,000	1,500,000	1,900,000
Lichfield	1,750,000	1,650,000	1,600,000
Shrewsbury	1,500,000	1,400,000	1,300,000
Stoke-on-Trent ( the market is composed of mainly brownfield sites)	1,400,000	1,250,000	1,200,000
Warwick	2,450,000	2,150,000	2,250,000
Worcester	2,300,000	1,900,000	2,100,000
Kidderminster	2,000,000	1,900,000	1,900,000

Source: Valuation Office Agency; Property Market Report, July 2009

- 4.28 For bulk land, Table 4.2 indicates values of around £1.5m to a little over £2.0m per hectare for larger market towns/sub regional centres e.g. Warwick, Worcester and Shrewsbury and nearer £1.5m in the Black Country (e.g. Sandwell and Wolverhampton). The latter values would be broadly equivalent (using our baseline testing) to the residual values achieved at 35/40% affordable housing in the Ironbridge and Rural market value areas but would only be met in the Newport market value area with 100% market housing. Residual values in the Telford market value areas do not approach the above benchmark values with any of the baseline options tested.
- 4.29 The other benchmark we have considered is industrial land value (as being the most likely existing/alternative use). The VOA also publishes information about industrial land values, with Telford as an identified location.

**Table 4.3 West Midlands industrial land values**

WEST MIDLANDS			
	From £s per ha	To £s per ha	Typical £s per ha
Birmingham	450,000	1,200,000	800,000
Coventry	275,000	625,000	575,000
Sandwell	325,000	540,000	430,000
Wolverhampton	350,000	600,000	500,000
Tamworth	250,000	550,000	400,000
Telford	230,000	400,000	300,000
Stoke/Stafford	250,000	500,000	325,000
Leamington Spa	500,000	675,000	650,000
Redditch	450,000	800,000	625,000
Dudley	325,000	540,000	430,000

Source: Valuation Office Agency; Property Market Report, July 2009

- 4.30 Industrial land in Telford is shown with a typical value of £300,000 per hectare. Taking the higher level of uplift (30%) indicated at the development industry workshop as being needed by land owners to bring land forward, a figure of about £400,000 becomes a benchmark to compare residual values against.
- 4.31 At this sort of benchmark value, it becomes more realistic to expect delivery of housing in Newport at around 30% affordable housing (without grant). Small amounts of affordable housing (say 10-15%) could be achieved in some parts of Telford; but not in South East, North and West Central and Central Telford where, without grant, none of the baseline scenarios achieved this 'benchmark value' with any amount of affordable housing. However if market values improve and/or grant is introduced, the picture changes and affordable housing (albeit at relatively low percentages – 10/15%) can be achieved and residual values exceed the industrial value comparator.

### Summary

- 4.32 Residual values generated can be assessed against different **benchmarks**, including existing use values. Using feedback from the development industry workshop, a value of around £400,000 provides a possible benchmark for industrial land but with higher values likely anticipated for greenfield land and land in the higher market value areas identified e.g. Rural Telford and Wrekin.
- 4.33 The **baseline high level testing** shows significant differences between residual values achieved between the market value areas with Ironbridge Gorge and Rural Telford and Wrekin showing positive residual values of more than £1m per hectare with affordable housing at all the percentages (including 45%) that we tested (for at least one of the development mixes tested).
- 4.34 In Newport, residual values are also positive for at least one of the development scenarios modelled with affordable housing up to 45%. However, values are weaker than in Ironbridge and Rural Telford and Wrekin and are at or beneath around £0.5m per hectare with 35% or more affordable housing.

- 4.35 The market in Telford itself is much weaker. In Wellington and North West Telford and Telford Outer Fringes residual values remain positive up to around 30%/35% affordable housing, it is at lower levels (10-20%) that residual values of nearer £0.5m are achieved. Generally lower density developments generate higher residual values in these market value areas.
- 4.36 The other market value areas in Telford struggle to deliver a positive residual value with any level of affordable housing. At 10% affordable housing, £0.28m per hectare is the highest residual value achieved in Central Telford and North and West Central Telford (acknowledging that the same indicative house prices were used for these two market value areas). Even at 10%, in South East Telford there is no development scenario that we modelled that has a positive residual value with the assumptions we have used. It is worth remembering that these assumptions all include a per dwelling s106 contribution and that there is nil grant for the affordable housing.
- 4.37 In the Telford market value areas, the general pattern is for lower density developments (with a balance toward (larger) houses rather than flats) to produce a higher residual value than a scheme with a higher percentage of flats/small houses.
- 4.38 The **sensitivity tests** showed the impact of changed assumptions about value (e.g. with grant and increase in market values) and costs (e.g. with a higher CSH assumed). But the residual values follow the same pattern as for the baseline testing in that the highest residual values are consistently delivered in the stronger housing market areas (Ironbridge and Rural Telford and Wrekin).
- 4.39 In the weaker market value areas, house price increases can have a significant impact, apparently changing a marginal residual value to one which compares favourably with benchmark values. For instance, in Central Telford a 20% increase in market value produces a residual value of about £0.5m per hectare (at 30 dph) and with 10% affordable housing. The same level of house price increase but with 30% affordable housing, also gives a positive residual value but at a very low level (at £0.03m per hectare). To take this figure back up to the residual value generated at 10% affordable housing would require around £0.5m of subsidy.
- 4.40 Introducing additional costs (Code for Sustainable Homes at Level 4 (with Lifetime Homes) and/or a £15,000 per dwelling s106 package) may be achievable in the higher market value areas (Ironbridge and Rural Telford and Wrekin), combined with delivery of affordable housing and in Newport (at low levels of affordable housing) but produces negative or only marginally positive values in (most of) the Telford market value areas, even at 10% affordable housing.

## 5 LAND SUPPLY, SMALL SITES AND USE OF COMMUTED SUMS

### Introduction

- 5.1 This chapter reviews the policy context and options for identifying the size of sites above which affordable housing contributions would be sought, in the national policy context. The Core Strategy did not set out a specific threshold.
- 5.2 This chapter provides an assessment of the profile of land supply and the likely relative importance of small sites. It then considers practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed).

### Purpose of the Analysis

- 5.3 PPS3 Housing sets out national policy on thresholds and affordable housing and states:

*"The national indicative minimum site size threshold is 15 dwellings. However, Local Planning Authorities can set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area." (Para 29)*

- 5.4 By reducing site size thresholds and 'capturing' more sites from which affordable housing can be sought, an authority can potentially increase the amount of affordable housing delivered through the planning system.
- 5.5 In this section we examine the impact that varying site size thresholds would have on affordable housing supply. In order to do this we need to examine the likely future site supply profile.

### Small sites analysis

- 5.6 We have analysed data on past permissions to consider how important sites of different sizes are likely to be to the future land supply. The table below shows the results of this exercise. The analysis provides an overview for Telford and Wrekin as a whole and shows the picture for the three LDF areas used by the council for planning purposes i.e. Telford (and Wellington), Newport and Rural Telford and Wrekin. The table shows that there are significant differences in the size profile of the land supply.

**Table 5.1: Percentage of dwellings in different sizes of sites (annual average for last 3 years of permissions – 2005/06 to 2007/08)**

Size of site in dwellings	% of dws			
	Telford	Newport	Rural	All
1-4	4.5%	22.2%	43.9%	5.7%
5-9	2.0%	11.1%	33.2%	2.9%
10-14	1.4%	31.9%	0.0%	2.1%
15-24	1.6%	0.0%	10.2%	1.7%
25-49	3.1%	34.8%	12.8%	4.0%
50-99	7.9%	0.0%	0.0%	7.6%
100+	79.4%	0.0%	0.0%	76.1%
	100.0%	100.0%	100.0%	100.0%
Total dws	9252	207	196	9655

Note: The above figures include all permissions, whether of mixed tenure schemes or those of one tenure. The figures include sites for affordable housing only.

- 5.7 The supply of dwellings is dominated by the supply from the Telford LDF area with only 403 dwellings permitted outside. The patterns of supply found in Telford will therefore heavily influence the overall pattern of site supply in the authority.
- 5.8 Across Telford and Wrekin, sites of less than 15 dwellings accounted for just over 10% of the supply of dwellings granted permission. Large sites of 100 dwellings and over dominated the supply – accounting for more than three quarters of all dwellings granted permission.
- 5.9 Site supply in Newport and the Rural area is rather different from that found in Telford. In Newport and the Rural area sites of less than 15 dwellings are far more significant and represent about 65% and 77% respectively. In Newport, dwelling numbers are fairly spread across the size bands used and include 43% of dwellings in the size band 5-15 dwellings. In the Rural area schemes of less than 10 dwellings are very important to the supply (accounting for about 77% of supply) with sites of less than 5 dwellings accounting for about 44% of supply.
- 5.10 In both Newport and the Rural area, the number of dwellings granted permission in the three years covered are relatively small and it would be unwise to give undue weight to the specific figures reported. However, the overall pattern would appear to be quite clear, with Newport relying on sites under 15 dwellings significantly more than in Telford and housing in the Rural area coming from a wide range of small sites, including those of below 5 dwellings.
- 5.11 Given the high level of need for affordable housing in Telford and Wrekin, it is right to consider the option of introducing a lower site size threshold than 15 dwellings. But, looking at the overall pattern of supply from across the authority would seem to indicate that a threshold of 15 dwellings is appropriate. However, PPS3 allows authorities to set different thresholds for different parts of its area and, given the evidence about supply patterns, adopting a lower threshold in Newport and the Rural area would significantly increase the supply of affordable housing in the two areas.

- 5.12 The option of a lower threshold needs to be tested in terms of scheme viability and the next chapter includes a number of case studies that of smaller sites, down to 1 dwelling.

### **Small sites and management of affordable housing**

- 5.13 We discussed the suitability of small sites for affordable housing at the workshop with the development industry and which included representatives from housing associations.
- 5.14 From the housing association perspective (as potential managers of affordable housing), there is no reason why affordable housing cannot be provided in small numbers (within mixed tenure schemes) and one dwelling in a scheme can be acceptable. Not all associations will want small numbers (including single units) of affordable housing in every location – it will depend where the associations already have a management presence. But, as a general rule, there will be an association prepared to take on a small group (single unit) of affordable housing where it is provided in Telford and Wrekin.
- 5.15 There may be circumstances where associations do not think it appropriate to provide affordable housing as part of a mixed tenure scheme e.g. in flatted blocks with high service charges or in very high price areas where the form of the affordable housing may be out of kilter with the majority development type. Associations would want to be consulted on the acceptability of affordable housing as part of mixed tenure schemes – whatever the number of units.

### **Use of commuted sums**

- 5.16 As a general principle, we recognise that seeking on-site provision of affordable housing will be the first priority and that provision of affordable housing on an alternative site or by way of a financial payment in lieu (or commuted sum) should only be used in exceptional circumstances. This position is consistent with national guidance in Paragraph 29 of PPS3 which states:
- “In seeking developer contributions, the presumption is that affordable housing will be provided on the application site so that it contributes towards creating a mix of housing. However, where it can be robustly justified, off-site provision or a financial contribution in lieu of on-site provision (of broadly equivalent value) may be accepted as long as the agreed approach contributes to the creation of mixed communities in the local authority area”* (PPS3, Para 29).
- 5.17 Where commuted sums are sought as an alternative to direct on or off-site provision, PPS3 sets out the appropriate principle for assessing financial contributions - that they should be of “broadly equivalent value” (see para 29 as set out above). Our approach is that the commuted sum should be equivalent to the ‘developer/landowner contribution’ if the affordable housing was provided on site. One way of calculating this is to take the difference between the residual value of 100% market housing and the residual value of the scheme with the relevant percentage and mix of affordable housing.

- 5.18 If the 'equivalence' principle is adopted, then the decision of the local authority to take a commuted sum will be based on the acceptability or otherwise of on-site provision as a housing and spatial planning solution.
- 5.19 Any concerns about scheme viability (whatever size of site) should be reflected by providing grant or altering tenure mix, or by a 'reduced' affordable housing contribution whether provided on-site, off-site or as a financial contribution. Other planning obligations may also need to be reduced under some circumstances.
- 5.20 However, if affordable housing is sought from very small sites, in certain circumstances it becomes impractical to achieve on site provision e.g. seeking less than 33% on a scheme of 3 dwellings. There will also be occasions where on-site provision can only deliver a partial contribution towards the proportion of affordable housing sought e.g. 30% affordable housing in a scheme of 4 dwellings would deliver one affordable unit on site (representing 33% of provision). In the latter case, it is possible to devise a formula which mixes on-site provision with a commuted sum to make up the balance.



## 6 CASE STUDY VIABILITY ANALYSIS

### Introduction

- 6.1 The analysis in Chapter 4 will apply for large as well as small sites (on a pro rata basis). We do not have any evidence to suggest that the economics are consistently different between large and small sites and that small sites are less likely to be viable, all other things being equal.

### Viability and small sites

- 6.2 Viability and small sites was debated at the development industry workshops held as part of this study. Views were mixed. On the one hand, some people attending the workshop stated that development overheads (including set-up costs) on small sites were necessarily 'spread' over a lesser number of units and that development of small sites was riskier (requiring higher margins) and therefore the cost per unit was higher. The alternative view put forward was that small sites tended to be developed by local builders operating with lower overheads and 'skinnier margins' and that small sites often benefited from a 'road frontage' location and therefore tended to have lower infrastructure and service costs to meet.
- 6.3 It was generally agreed that differences in the costs of developing housing schemes was not a simple function of scheme size and that site location and the specific site circumstances played a major role in the relative cost of developing one site rather than another.
- 6.4 It was also agreed at the workshops that small sites might generate additional revenue from their more 'exclusive nature' compared with larger scale schemes but that this was not a clear cut pattern.
- 6.5 Information from the VOA (see Table 4.2) shows that land values achieved by small scale developments are actually higher than those for 'bulk land' (i.e. larger sites). This suggests that the economics of developing smaller sites could actually be more favourable than developing larger ones.
- 6.6 In theory, therefore, there is no real need to review the viability of sites of different sizes (including small sites). However, for the sake of further illustration, and recognising that there may be special circumstances that impact on the viability of some types of smaller sites, it was felt helpful to review the development economics of some illustrative case studies.

### Selection of case study sites

- 6.7 In the previous chapter we concluded that, on the basis of the profile of site supply, the national indicative minimum threshold of 15 dwellings was appropriate in Telford. The analysis in Chapter 4 provides a wide-ranging assessment of development economics of sites and it is appropriate to draw policy conclusions for Telford on this basis. There will be circumstances where the viability of an individual site is different from the general pattern of sites in Telford (e.g. because of extensive contamination) and such sites will need to be individually assessed. But, as a general rule, the analysis in Chapter 4 provides robust evidence for policy making purposes.

- 6.8 However, in the case of Newport and the Rural areas of the authority, as described in the previous chapter, the pattern of site supply indicates that a site size threshold of below 15 dwellings (and potentially down to 1 dwelling) should be considered as an option. To complement the high level testing, and notwithstanding our earlier comments about the similar economics of large and small sites, we have therefore identified a number of case study sites of notional schemes below 15 dwellings to test out the viability of delivering affordable housing on small sites. The case studies are illustrative examples drawn from the set of planning permissions (2005/06 to 2007/08) and which are intended to represent typical scheme types in terms of site size and dwelling numbers.

### Sources of land supply

- 6.9 It is also important for the case study analysis to consider the sources of land supply in Newport and the Rural area. These are illustrated in the tables set out below.

**Table 6.1a: Newport – Number of schemes by number of dwellings and previous land use - permissions granted 2005/06 to 2007/08**

Size of site in dws	Converted employment	Converted other	Converted residential	Former employment	Former residential	Other brownfield	Greenfield	Total
1	4	2			13	4	1	24
2			1			2		3
3 - 4	1					3	1	5
5 - 9					2	1		3
10 - 14				2		1	2	5
Over 15				1		1		2
<b>Total</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>15</b>	<b>12</b>	<b>4</b>	<b>42</b>

Source: Telford and Wrekin Council

**Table 6.1b: Rural area – Number of schemes by number of dwellings and previous land use - permissions granted 2005/06 to 2007/08**

Size of site in dws	Converted employment	Converted other	Converted residential	Former employment	Former residential	Other brownfield	Greenfield	Total
1		3	4	5	27	1	19	59
2			1	1	1	1	3	7
3 - 4	1						3	4
5 - 9	1			1	1		7	10
10 - 14								0
Over 15						1	1	2
<b>Total</b>	<b>2</b>	<b>3</b>	<b>5</b>	<b>7</b>	<b>29</b>	<b>3</b>	<b>33</b>	<b>82</b>

Source: Telford and Wrekin Council

- 6.10 Former residential land is an important source of sites in both Newport and the Rural areas, especially for sites of less than 5 dwellings. In Newport, 13 of the 32 residential permissions for 1 to 5 dwellings were on residential land. In the Rural areas, the equivalent numbers were 28 out of 70 schemes. Greenfield sites were an important source of residential permissions in the Rural area but represented a small minority of the land supply in Newport. By contrast, brownfield sites (including employment sites and non-residential conversions) made up a significant proportion of the land supply in Newport – 20 out of the 40 sites with less than 15 dwellings.

**Case study viability analysis - Newport**

- 6.11 The case studies selected for the Newport market value area are shown in the table below.

**Table 6.2: Newport – case studies**

Case Study	Site Area (ha.)	No. Dwellings	Density (dph)	Unit Types
A	0.1	1	10	1 x 5 bed detached
B	0.03	1	33	1 x 3 bed detached
C	0.15	3	20	3 x 4 bed detached
D	0.25	8	32	4 x 4 bed det    4 x 3 bed semi
E	0.25	13	52	6 x 2 bed flat    7 x 3 bed terrace

- 6.12 Residual values<sup>10</sup> for each case study for affordable housing at 0% to 45% are shown in the table below. In each case a scheme residual value is shown (in the upper row) and an equivalent per hectare residual value shown (in the lower row)

**Table 6.3: Newport – case studies – residual values in £s.**

Case Study	0%	10%	15%	20%	30%	35%	40%	45%
<b>A (1 dw)</b>								
Residual	£84,600	£71,100	£63,900	£56,700	£43,200	£36,000	£27,900	£14,400
Residual per ha.	£846,000	£711,000	£639,000	£567,000	£432,000	£360,000	£279,000	£144,000
<b>B (1 dw)</b>								
Residual	£64,800	£54,900	£49,500	£45,900	£34,200	£30,600	£25,200	£15,300
Residual per ha.	£2,160,000	£1,830,000	£1,650,000	£1,530,000	£1,140,000	£1,020,000	£840,000	£510,000
<b>C (3 dws)</b>								
Residual	£210,600	£175,500	£157,500	£139,500	£104,400	£85,500	£67,500	£32,400
Residual per ha.	£1,404,000	£1,170,000	£1,050,000	£930,000	£696,000	£570,000	£450,000	£216,000
<b>D (8 dws)</b>								
Residual	£384,300	£309,600	£271,800	£234,000	£161,100	£124,200	£86,400	£11,700
Residual per ha.	£1,537,200	£1,238,400	£1,087,200	£936,000	£644,400	£496,800	£345,600	£46,800
<b>E (13 dws)</b>								
Residual	£306,900	£212,400	£164,700	£117,900	£22,500	-£29,700	-£88,000	-£203,500
Residual per ha.	£1,227,600	£849,600	£658,800	£471,600	£90,000	-£118,800	-£352,000	-£814,000

- 6.13 All the case studies produce a positive residual value, except for the 13 dwelling scheme at percentages of affordable housing above 30%.
- 6.14 At 35% affordable housing, case studies B (1 dwellings) and D (8 dwellings) produce a residual value of about £0.5m i.e. greater than with the notional 1 hectare scheme shown in the high level testing. Case study A (1 X 5 bed detached) has a lower

<sup>10</sup> The viability testing we have undertaken uses the same baseline assumptions as for the high level testing, including nil grant and a s106 package of £5,000 per dwelling.

residual value (at £0.36m per hectare) but case study B (1 X 3 bed detached) produces the highest equivalent per hectare value at £1.02m.

- 6.15 The relatively low residual value for case study E reflects the low values achieved for higher density schemes and the relatively poor relationship between value and costs for smaller units (including flats).
- 6.16 In other studies, we have found that small sites (especially under 5 dwellings), despite producing relatively high residual values, are difficult to bring forward with an element of affordable housing where they involve the demolition of an existing residential property. In these cases, the land already has a high existing use value (typically as a large house or bungalow). In the case of Newport, of the 42 permissions analysed, 15 were previously in residential use (13 of these were for one new dwelling). However, across the whole authority, in the five years 2004/2009 the annual average number of demolitions of a residential property was 8 (out of a total annual average new build completions of 480). Therefore we can be reasonably confident that the particular viability problem associated with demolition and residential redevelopment is of limited importance in Telford and Wrekin.

#### **Case study analysis – Rural Telford and Wrekin and Ironbridge**

- 6.17 In addition to the analysis of case studies for Rural Telford and Wrekin, we have run the same case studies for the Ironbridge Gorge market value area. Ironbridge falls within the Telford area for LDF and therefore is within the LDF area, where we have concluded a threshold of 15 dwellings is appropriate. However, our analysis of market value areas has both identified Ironbridge Gorge as a separate market value area and shown it to be the highest value area in the authority. The Council may consider it should be treated differently from the rest of the Telford LDF area. It could be identified as a separate area or be amalgamated with the LDF Rural area of the authority. If this is the case, a more detailed analysis of the size of sites typical of the Ironbridge market value area should be undertaken. This section of the report provides the necessary viability information to support adoption of a threshold below 15 dwellings, if this option is to be pursued.

6.18 The case studies selected for Rural Telford and Wrekin and Ironbridge are shown in the table below (the same case studies were used for each of the two market value area).

**Table 6.4: Rural Telford and Wrekin and Ironbridge – case studies**

Case Study	Area (ha.)	No. Dwellings	Density (dph)	Unit Types
<b>A</b>	0.1	1	10	1 x 5 bed detached
<b>B</b>	0.03	1	33	1 x 3 bed detached
<b>C</b>	0.15	3	20	3 x 4 bed detached
<b>D</b>	0.7	8	32	7 x 5 bed detached
<b>E</b>	0.25	13	52	6 x 2 bed flat    7 x 3 bed terrace

6.19 Again, residual values for each case study for affordable housing at 0% to 45% are shown in the table below. In each case a scheme residual value is shown (in the upper row) and an equivalent per hectare residual value shown (in the lower row)

**Table 6.2: Rural Telford and Wrekin and Ironbridge – case studies – residual values in £s.**

Ironbridge	0%	10%	15%	20%	30%	35%	40%	45%
<b>A (1 dw)</b>								
Residual	£192,600	£170,100	£159,300	£146,700	£124,200	£113,400	£100,800	£78,300
Residual per ha.	£1,926,000	£1,701,000	£1,593,000	£1,467,000	£1,242,000	£1,134,000	£1,008,000	£783,000
<b>B (1 dw)</b>								
Residual	£144,000	£127,800	£118,800	£111,600	£94,500	£86,400	£78,300	£62,100
Residual per ha.	£4,800,000	£4,260,000	£3,960,000	£3,720,000	£3,150,000	£2,880,000	£2,610,000	£2,070,000
<b>C (3 dws)</b>								
Residual	£491,400	£433,800	£404,100	£373,500	£315,900	£286,200	£256,500	£198,900
Residual per ha.	£3,276,000	£2,892,000	£2,694,000	£2,490,000	£2,106,000	£1,908,000	£1,710,000	£1,326,000
<b>D (8 dws)</b>								
Residual	£1,349,100	£1,188,900	£1,108,800	£1,029,600	£869,400	£789,300	£708,300	£549,000
Residual per ha.	£1,927,286	£1,698,429	£1,584,000	£1,470,857	£1,242,000	£1,127,571	£1,011,857	£784,286
<b>E (13 dws)</b>								
Residual	£941,400	£794,700	£720,900	£647,100	£500,400	£428,400	£353,700	£207,900
Residual per ha.	£3,765,600	£3,178,800	£2,883,600	£2,588,400	£2,001,600	£1,713,600	£1,414,800	£831,600

<b>Telford and Wrekin Rural</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
<b>A (1 dw)</b>								
Residual	£163,800	£143,100	£134,100	£122,400	£101,700	£92,700	£81,000	£61,200
Residual per ha.	£1,638,000	£1,431,000	£1,341,000	£1,224,000	£1,017,000	£927,000	£810,000	£612,000
<b>B (1 dw)</b>								
Residual	£122,400	£108,000	£100,800	£93,600	£78,300	£71,100	£63,000	£49,500
Residual per ha.	£4,080,000	£3,600,000	£3,360,000	£3,120,000	£2,610,000	£2,370,000	£2,100,000	£1,650,000
<b>C (3 dws)</b>								
Residual	£405,000	£353,700	£328,500	£302,400	£250,200	£225,000	£198,900	£147,600
Residual per ha.	£2,700,000	£2,358,000	£2,190,000	£2,016,000	£1,668,000	£1,500,000	£1,326,000	£984,000
<b>D (8 dws)</b>								
Residual	£1,147,500	£1,003,500	£932,400	£861,300	£717,300	£645,300	£572,400	£429,300
Residual per ha.	£1,639,286	£1,433,571	£1,332,000	£1,230,429	£1,024,714	£921,857	£817,714	£613,286
<b>E (13 dws)</b>								
Residual	£754,200	£621,900	£556,200	£491,400	£360,000	£294,300	£227,700	£98,100
Residual per ha.	£3,016,800	£2,487,600	£2,224,800	£1,965,600	£1,440,000	£1,177,200	£910,800	£392,400

- 6.20 All the case studies produce a positive residual value, including at 45%.
- 6.21 In Ironbridge, at 40% affordable housing, per hectare values range from just over £1m to £2.6m – with the latter figure being case study B with 1 X 3 bed detached dwelling.
- 6.22 Very similar values are found in Telford and Wrekin Rural with a range at 40% affordable housing from £0.08m to £2.1m residual value per hectare. Again, case study B gives the highest residual value.
- 6.23 Again, it is important to note that where residential land is the former use of a site (particularly schemes of less than 5 dwellings) inspection of the permissions database shows that this is, for instance, small infill plots and parts of existing gardens with typical descriptions from the permissions database as ‘garden land’, ‘land adjacent to Y property’. The number of demolition of residential properties across the authority indicates that demolition and redevelopment of residential dwellings are of very limited importance to the supply of (small) sites.

## 7 MAIN FINDINGS AND CONCLUSIONS

### Key findings

- 7.1 We identified eight market value areas in Telford and Wrekin. The market value areas are defined by prices by postcode sectors and are Ironbridge Gorge, Rural Telford and Wrekin, Newport, Wellington & North West Telford, Telford Outer Fringe, Central Telford, North & West Central Telford and South East Telford.
- 7.2 There is significant variation in market values between the market value areas with very much higher prices found in Ironbridge Gorge and Rural Telford and Wrekin than in the rest of the authority but with values in Newport being higher than those found in the town of Telford. These differences in market values were reflected in differences in residual values (for the different scenarios tested). We found that residual value is dependent not only on location but also on the type of development in terms of density and the mix of unit types.
- 7.3 Central Telford is the subject of an Area Action Plan and is a potentially important housing market for the future. However, there is no established housing market in Central Telford and so for the purposes of this study we have used the market values of the adjoining area of North and West Central Telford as current best estimates. We carried out a mini survey of local agents to test this as a working hypothesis and nothing they indicated (or the development industry workshop) suggested a better alternative.
- 7.4 Residual values generated need to be assessed in the light of appropriate **benchmarks**, including existing use values. Using feedback from the development industry workshop and data from the Valuation Office Agency, a value of around £400,000 provides a possible benchmark for industrial land brought forward for residential development or as an alternative use value for the land but with higher values likely anticipated for greenfield land and land in the higher market value areas identified e.g. Rural Telford and Wrekin. Land values of £500,000 to £1,000,000 per hectare were quoted at the development industry workshop and higher figures possibly indicated by comparison with values shown for other major (sub regional) centres in the West Midlands e.g. Worcester and Shrewsbury.
- 7.5 It must also be recognised that landowners are not a homogeneous group and a value that attracts one landowner to bring forward their land may not be sufficient for another. The benchmarks we have identified provide a reasonable set of comparisons and overall basis for the affordable housing targets we set out later in this chapter. However, it does need to be recognised that there is no single benchmark value which dictates what the affordable housing targets should be.
- 7.6 The **baseline high level testing** of a notional 1 hectare site shows significant differences between residual values achieved between the market value areas with Ironbridge Gorge and Rural Telford and Wrekin showing positive residual values without grant of more than £1m per hectare with affordable housing at all the percentages (including 45%) that we tested (for at least one of the development mixes used). With the 50 dph scenario (the scenario producing the highest residual values) and with 40% affordable housing, residual values per hectare were £1.91m in Ironbridge Gorge and £1.38m in Rural Telford and Wrekin.

- 7.7 In Newport, residual values are also positive for at least one of the development scenarios modelled with affordable housing up to 45%. However, values are lower than in Ironbridge and Rural Telford and Wrekin and are at or beneath about £0.5m per hectare with 35% or more affordable housing and nil grant for the different density scenarios used.
- 7.8 The market in Telford itself is much weaker. In Wellington and North West Telford and Telford Outer Fringes, while residual values just about remain positive up to around 30%/35% affordable housing, it is at lower levels (10-20%) that residual values of nearer £0.5m are achieved.
- 7.9 The other market value areas in Telford struggle to deliver a positive residual value with affordable housing. At 10% affordable housing, £0.28m per hectare is the highest residual value achieved in Central Telford and North and West Central Telford but even at 10%, there is no development scenario that we modelled that has a positive residual value in South East Telford.
- 7.10 In the Telford market value areas, the general pattern is for lower density developments (with a balance toward (larger) houses rather than flats) to tend to produce a higher residual value than a scheme with a higher percentage of flats/small houses.
- 7.11 The **sensitivity tests** showed the impact of changed assumptions about value (e.g. with grant and increase in market values) and costs (e.g. with a higher CSH assumed).
- 7.12 A rise in house prices increase residual values in all market value areas. In the weaker market value areas, house price increases can have a significant impact, for instance, in Central Telford a 20% increase in market value produces a residual value of about £0.5m per hectare (at 30 dph) and with 10% affordable housing. The same level of house price increase but with 30% affordable housing also gives a positive residual value, but at a very low level (at £0.03m per hectare).
- 7.13 Introducing additional costs (Code for Sustainable Homes at Level 4 (with Lifetime Homes) and/or a £15,000 per dwelling s106 package) may be achievable in the higher market value areas (Ironbridge and Rural Telford and Wrekin), combined with delivery of affordable housing and in Newport (at low levels of affordable housing) but produces negative or only marginally positive values in (most of) the Telford market value areas, even at as little as 10% affordable housing.
- 7.14 The **supply of sites** in Telford and Wrekin is dominated by large scale development found in Telford itself and across the authority, sites of less than 15 dwellings accounted for just over 10% of the supply of dwellings granted permission 2005/06 to 2007/08.
- 7.15 Site supply in Newport and Rural Telford and Wrekin is different and sites of less than 15 dwellings represent about 65% and 77% of the supply of dwellings respectively. In Newport, 43% of all dwellings permitted were in the size band 5-15 dwellings. In the Rural area schemes of less than 10 dwellings are very important to the supply (accounting for about 77% of supply) with sites of less than 5 dwellings accounting for about 44% of supply.



- 7.16 This pattern of site supply, indicates that a threshold of less than 15 dwellings might be appropriate in Newport and Rural Telford and Wrekin and, in accordance with PPS3, we undertook analysis of a range of notional **case study sites** in the two areas (plus Ironbridge Gorge) to assess viability on particular types of small sites, ranging from 1 dwelling to 13 dwellings. Residual values (on an equivalent per hectare basis) varied between the case study sites but there was no distinct pattern showing that sites of a particular size were more or less viable. In the case of Newport, at 35% affordable housing residual values were from £0.36m to £1.02m per hectare depending on the case study. Higher values were achieved in Ironbridge and Rural Telford and Wrekin (up to £2.6m and £2.1m per hectare respectively for a single 3 bed detached house).
- 7.17 An important land supply for small sites, and particularly sites of under 5 dwellings, is 'residential land' but this appears mainly to be small infill plots and back garden land and the like. Residential demolitions and redevelopments are relatively rare in the authority and this means that viability issues caused by the high existing use values associated with this development type will be very limited.
- 7.18 From a **housing management perspective**, there is no reason why affordable housing cannot be provided in small numbers (within mixed tenure schemes) and one dwelling in a scheme can be acceptable. There may be circumstances where associations do not think it appropriate to provide affordable housing as part of a mixed tenure scheme e.g. in flatted blocks with high service charges or in very high price areas where the form of the affordable housing may be out of kilter with the majority development type but there is no in-principle objection to taking into management very small numbers (including one dwelling) of affordable housing.
- 7.19 Where a **financial payment in lieu** of on-site provision of affordable housing (or commuted sum) is to be sought, it should be of "broadly equivalent value". This approach is, on the evidence we have considered, a reasonable one to take in policy terms.

### Conclusions and policy options

- 7.20 There is no detailed government guidance setting out how targets should be assessed, based on an assessment of viability. In coming to our conclusions, we have reviewed a range of indicators including existing use values, and taken into account feedback from the development industry workshop and our consultations with other stakeholders.
- 7.21 Government guidance states that targets (and thresholds) should be, "**ambitious but realistic**"<sup>11</sup>. The Council is faced with a situation where the need for affordable housing is considerable and almost exceeds the total annual housing requirement (see para 1.20). It is therefore important that the Council maximises delivery of affordable housing through its planning policies and sets affordable housing targets and thresholds that help to achieve this but are realistic in terms of development viability. It will also be important that the Council has mechanisms in place to take

<sup>11</sup> CLG, Delivering Affordable Housing, November 2006

into account site specific circumstances and to deal with the situation where individual schemes cannot achieve the targets set out in policy.

- 7.22 We also note that the Council has a recently adopted Core Strategy (2007) which included a target of 35% affordable housing in **Newport** and 40% in the **Rural areas** of the authority. While we have been aware of the existing policy, this has not influenced the way we have reviewed viability issues in Telford and Wrekin.
- 7.23 However, on the basis of our independent analysis, we have concluded that both targets remain appropriate. In the Rural areas we found residual values (at 40% affordable housing) at or in excess of our comparator values. However, in the case of Newport, the position is more marginal at 35% and there may be individual schemes where, given current market values, alternative affordable housing mixes and/or grant support may be needed to ensure delivery of the target level of affordable housing. As the market returns to more 'normal' conditions this should be less of an issue.
- 7.24 But were the Council to introduce a higher s106 package (with the introduction of a Community Infrastructure Levy or otherwise) and coupled with a requirement for higher quality housing (e.g. CSH Level4), it would be difficult to meet the current affordable housing target for Newport (without grant being available on a consistent basis).
- 7.25 The position in **Telford** is more complex.
- 7.26 On viability grounds, it will not be possible to operate an affordable housing target in line with that of Newport or the Rural area. The target will need to be considerably lower. A 20% target could be achievable but many schemes would require grant to do so. If the prospect of securing grant funding appears uncertain generally, a more realistic affordable housing target would be 10% or 15%.
- 7.27 In Central Telford, there is an untried market where it is very difficult to gauge likely values and it may take a number of years for these to be established. On the other hand, the benefits of the location and the opportunity to achieve a high quality and distinctive development from the start, could mean that values will quickly establish themselves and rapidly strengthen. The Council needs to establish a policy framework that reflects current realities but is flexible and can take into account the potential uplift in the next few years.
- 7.28 Our view is that a single affordable housing target for Telford should be established and that a figure of 20% is a realistic starting point.
- 7.29 Many schemes (inside and away from Central Telford) will not be able to achieve this level without grant support and it must be recognised that a lower level of affordable housing (if any) may need to be accepted for some schemes where grant funding is not available.
- 7.30 For Central Telford, in the short term (say 3 or 5 years after the start of plan period) the Council could waive the affordable housing requirement as a means of supporting the early development of Central Telford. If this option is followed, it is important that there are mechanisms in place to ensure that schemes are brought forward to development and advantageous planning permissions are not 'banked'. We outline some options for this at the end of the chapter.

- 7.31 However, where there is a significant level of public funding available, the full target level of affordable housing should be achievable in mixed tenure schemes from the start of residential development in Central Telford.
- 7.32 However the early phases of development of Central Telford are progressed, we strongly recommend that sale prices are carefully monitored and the affordable housing policy kept under review (with a suggested full review after the first 3 years of development).
- 7.33 The above policy options and commentary is based on assumptions about the quality of development and that broadly Code for Sustainable Homes Level 3 was met. Certainly in the early years of development in Central Telford and more generally in Telford, introducing, for example, the Code for Sustainable Homes Level 4 and a higher level of other s106 contributions would be very difficult to achieve and maintain delivery of the target levels of affordable housing (15-20%) we are suggesting without significant public subsidy.
- 7.34 Finally we consider the case of **Ironbridge**. Ironbridge is within Telford for planning purposes but it is totally different in terms of market values and can achieve much higher levels of affordable housing without grant support. On the other hand, it is a World Heritage Site and design quality in new development has to reflect this and we understand there are land stability constraints in parts of the settlement. However, given the strength of the residual values we identified, our view is that an affordable housing target of 40% is justified. But, as with the other targets, where scheme specific circumstances justify, a lower level of affordable housing may need to be accepted on individual sites.

#### **Viability on individual sites**

- 7.35 Our analysis of residual values has been based on an analysis of typical development types in the authority (both for the high level testing and the case study examples). As already mentioned, there may be site-specific circumstances where achievement of the affordable housing proportions set out above may not be possible. This should not detract from the robustness of the overall targets but the Council will need to take into account specific site viability concerns when these are justified.
- 7.36 If there is any doubt about viability on a particular site, it will be the responsibility of the developer to make a case that applying the council's affordable housing requirement for their scheme makes the scheme **not viable**. Where the Council is satisfied this is the case, the Council has a number of options open to it (including changing the mix of the affordable housing and supporting a bid for grant funding from the Homes and Communities Agency and/or using their own funds) before needing to consider whether a lower level of affordable housing is appropriate. In individual scheme negotiations, the Council will also need to consider the balance between seeking affordable housing and its other planning obligation requirements.
- 7.37 The Council will have available a bespoke Toolkit to assist in the analysis of individual sites and which will help streamline negotiations and ensure that scheme specific issues can be addressed.
- 7.38 It may also be useful for the Council to set out in its policy the options it will consider to improve viability (e.g. alternative mixes of affordable housing) so that the

development industry is clear about what to expect. This is sometimes called a cascade approach.

### Thresholds

- 7.39 Given the high level of need for affordable housing in Telford and Wrekin, it is appropriate to consider the option of introducing a lower site size threshold than the national indicative minimum of 15 dwellings. But, looking at the overall pattern of supply from across the authority would seem to indicate that a threshold of 15 dwellings is appropriate. However, PPS3 allows authorities to set different thresholds for different parts of its area and, given the evidence about supply patterns, adopting a lower threshold in Newport and the Rural area would significantly increase the supply of affordable housing in the two areas. The case studies of small sites that we modeled indicated that small sites generally can deliver affordable housing as effectively as larger sites from a viability (and management) perspective.
- 7.40 In our view, the Council should adopt a 15 dwelling threshold in Telford, introduce a 5 dwelling threshold in Newport and a zero threshold in the Rural area. It may be appropriate to include the Ironbridge Gorge market value area with the Rural area but we have not had the information about the supply of sites for Ironbridge to come to a firm conclusion. We recommend that the Council reviews any available data about the supply of land in Ironbridge before coming to a view on this.
- 7.41 There are practical issues about delivery of affordable housing which would need to be taken into account in determining policy. For example, at below 2 or 3 dwellings (depending on the target percentage adopted) on-site provision is not mathematically practical and an equivalent commuted sum will need to be sought. For example, if the target percentage is 40%, on-site provision would only be practical in schemes of 3 dwellings or more.
- 7.42 For some small schemes, a mix of on-site provision and a commuted sum might need to be sought. For example:
- Site of 4 dwellings and target percentage of 40%
- 40% of 4 dwellings = 1.6 dwellings
- So, on-site contribution = 1 dwelling
- Financial contribution equivalent to 0.6 affordable dwellings
- 7.43 There is one other issue that the Council needs to take into account in considering the introduction of a very low (zero) threshold, as we are suggesting for some parts of the authority. This relates to the practicality of dealing with a significant increase in planning applications where affordable housing is to be sought and the subsequent negotiation of s106 agreements to accompany planning permissions. The Council needs to be aware of this and be geared up to deal with the increased workload if a low threshold policy is to be successfully introduced and managed.

### Commuted sums

- 7.44 Where **commuted sums** are collected a possible approach to calculating the appropriate sum sought is to base this on the equivalent amount which would be

contributed by the developer/landowner were the affordable housing provided on site. This is expressed as follows:

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

RV AH = Residual value with X% affordable housing (say 40%)

Equivalent commuted sum = RV 100% MV minus RV AH

- 7.45 Where commuted sums are collected, the council will need to have in place a strategy to ensure the money is spent effectively and in a timely manner. Options for spending will be a matter for the council to consider but could include supporting schemes which would otherwise not be viable, increasing the amount of social rented housing in a scheme, increasing the proportion of family units in a scheme, seeking higher quality affordable housing (e.g. a higher level of the Code for Sustainable Homes).

### **Delivery vehicles**

- 7.46 The brief for this study asked for commentary on the success of local delivery vehicles elsewhere and advice on the best approach for a local delivery vehicle in Telford and Wrekin. Following discussion with the Council, we agreed that through its own activities and those of Transforming Telford, a delivery vehicle is already in place for (Central) Telford. The Council already works closely with the Homes and Communities Agency and is aware of the importance of linking its planning and economic development functions with those of land ownership and in maintaining strong relationships with other land owners and potential (public and private) funders. Joint ventures are a possible route forward which can be explored. In this case the parties agree to create a new entity by both contributing equity, and they then sharing in the revenues, expenses, and control of the enterprise.
- 7.47 It is acknowledged that the 'single conversation' with the HCA will be an important part of the process of delivering the plans for Central Telford (and Telford and Wrekin more generally) and we understand that the Council is working with the HCA to produce a Joint Housing Local Investment Plan. It is hoped that the viability evidence from this study can make a useful addition to this process and that the need for grant to support development proposals in (Central) Telford is recognised. Similarly, the Investment Plan, when finalised, should have an influence on the affordable housing policy where it provides evidence on the likely future availability of grant.

### **Housing Market**

- 7.48 The housing market in Telford and Wrekin, as elsewhere in the country, has been going through a period of great uncertainty with falls in market values from the high point of 2008. Evidence from Q2 of this year indicates that prices may be stabilising/moving up but this should not be taken to mean that we have the start of a consistent upward trend in prices.
- 7.49 The policy framework that is set out by the Council will need to be sufficiently flexible to take account of any further losses as well as a sustained up-turn in prices. The Council, through the operation of the Toolkit, will have an effective mechanism

to quickly review scheme specific circumstances and move away from its targets where this is justified.

- 7.50 The Council also needs to plan for a large amount of development in Telford itself and with a new housing market in Central Telford. We have indicated the need for grant to achieve the (modest) levels of affordable housing we are suggesting for the area, at least in the short term. We have also suggested that the Council might wish to waive even that contribution to help encourage development in the short term. If the Council follows this course (or otherwise wants to take action to encourage development and improve viability) there will need to be in place mechanisms to ensure that advantageous permissions are not 'banked' until prices increase.
- 7.51 A number of mechanisms to help in this are emerging, although we note that this is a rapidly changing situation and new ideas are still being brought forward. The options open at the moment appear to be of two main types:
- Granting short life permissions that include a reduced level of planning obligations (including affordable housing) with a clear definition of what amount of development needs to be in place to say that the requirements of the permission have been met (and which also set out what is to happen if these requirements have not been met);
  - Setting out the overall level of obligations sought at Day 1 then reviewing the package over different 'phases' of a scheme's development and allowing a lower level of requirement if warranted for each phase. This can be linked to a deferred payment mechanism.
- 7.52 The HCA published a good practice note in July 2009 which provides some further information on this - "Investment and Planning Obligations: Responding to the downturn."

## Appendix 1

### Notes of the development industry workshop held on Thursday 19<sup>th</sup> February 2009

There were 2 workshop sessions – one in the morning and one in the afternoon. These are reported below. The workshop notes were circulated to participants

#### Morning workshop

##### Attendees:

Andrew Dixon, Andrew Dixon Company  
Dave Pritchard, Wrekin Housing Trust  
Will Schofield, Transforming Telford  
Penny Stephan, Les Stephan Planning Ltd  
Steve Swann, Bromford Group  
Harvard Thorne, Shropshire Homes  
Paul Tiley, Telford and Wrekin Council  
Sarah Tyrer, Savills (L and P) Ltd  
Matthew Wedderburn, Telford and Wrekin Council  
Dave Williams, Sanctuary Group: Beth Johnson Housing  
Hannah Willcock, Les Stephan Planning Ltd

Andrew Golland, Three Dragons  
Lin Cousins, Three Dragons

## 1 Introduction

Matthew Wedderburn began the meeting by setting out the background to the study. He explained the context for housing delivery in Telford, highlighting a current target of 1,325 per year in draft West Mids RSS and the potential for additional requirements following RSS examination. He also noted that Telford has always had significant development levels and indeed noted a development at Lawley of over 3,000 homes. The town will have a Central Telford Area Action Plan which will provide for about 2,500 homes in total with 2,000 in the town centre. The Council hopes to publish the Area Action Plan in May prior to its examination by a planning inspector.

It is recognised that the town centre does not have an established housing market.

Matthew explained that the Council already had an adopted Core Strategy as part of its Local Development Framework. The Core Strategy does not provide an affordable housing targets for Telford, although 35% is sought in Newport and 40% in the rural areas. The Core Strategy does not include a site size threshold above which affordable housing will be sought. The aim of the current viability study is to derive a realistic and deliverable target for Telford and to review an appropriate threshold for the area. Telford and Wrekin is the only Core Strategy adopted in the West Midlands Region.

Matthew commented that the Council wants to be clear in policy terms about its 'starting point' for seeking affordable housing (and other s106 contributions) and open and



transparent about the way it will handle proposals when the developer/land owner believes the level of contribution makes a scheme unviable.

Three Dragons then introduced the workshop by way of a Powerpoint presentation (attached).

The relationship between the study and site specific negotiations was discussed. Three Dragons explained that there will be consistency between the approach used for policy development, and the approach used by the Council in negotiating sites. The study will provide an Affordable Housing Viability Toolkit which will enable the Council to forward test targets and to negotiate sites.

The general approach to the study met with broad agreement. It was explained that the study would not be concerned with individual sites and that these will have to be negotiated on their merits as they come through the planning process.

It was explained that the study will focus on residential development, although accepted that s106 contributions may also be sought from commercial elements within new schemes.

## **2 Key issues and constraints in delivering affordable housing**

A number of issues were raised about the constraints to delivering affordable housing. A key constraint is credit, or lack of it. Although English Partnerships (HCA) have in the past put in infrastructure and serviced sites, this does not provide the catalyst to development that formerly was the case, as credit is now so tight.

It was stated that the s106 burden is increasingly rapidly at the current time. This presents a challenge for developers in negotiating sites with land owners who are often not prepared to accept the consequent reduction in site value. An increased s106 burden is also expected to be introduced at a time where build costs are increasing – the Code for Sustainable Homes was quoted here as an issue.

It was noted, in relation to larger sites and payment of s106 obligations (and other scheme infrastructure costs) that the timing of payments could make a significant difference to scheme viability. Where payments could be delayed until late on in a development programme, scheme viability would be stronger.

There are some sub markets – noted Woodside and Brookside where affordable housing has traditionally been difficult but it was stated that there are hot spots within these locations where affordable housing may viably be delivered in future.

In the past few years, it has not been a problem to deliver 30% affordable housing in the area, although it was stated that this reflected a position where the market was rising.

In the context of Telford, it is important to recognise that the HCA are a very important player in the land market.

## **3 Three Dragons approach to viability**

The residual development appraisal approach was considered by all to be a good and justified approach to the study. The issue was seen to be the reasonable land value return to the land owner. It was stated that land owners will need a return of around £400,000 to £500,000 per acre (£1.1 million per hectare) in order to bring land forward.

It was stated that a 20% to 30% return on existing use value for brownfield land would normally be sufficient to encourage a site to come forward for residential development,



although this would not apply to agricultural land, where the uplift will need to be significantly higher.

It is expected that Social Rented housing will bring in a revenue of around 40% of open market value.

Developer profit margin was an issue raised by attendees. It was stated that these currently range from 18% to 27% but would be expected to come back down when the market became more 'normal'. It was suggested that Three Dragons should model developer return at 17% as a reasonable long term estimate.

It was questioned how exceptional development costs would be accounted for within the modelling analysis. Three Dragons stated that it was not possible to model for abnormal costs.

#### **4 Market values and sub markets**

Three Dragons put forward provisional analysis highlighting a number of sub markets and a set of indicative new build house prices.

The feedback on this analysis was that indicative prices were about right, although some of the sub markets contained too broad a grouping (Telford itself was quoted here) and that some neighbourhoods (eg Oakengates and Muxton) were placed in wrong categories. Three Dragons have subsequently forwarded the classification to the Council for further feedback.

It was noted that Madeley should be included as a distinct settlement. Also Ironbridge and Coalbrookdale.

It was agreed that where the (postcode sector) methodology presented particular problems of classification, then certain settlements could be exempted.

#### **5 Thresholds and small sites**

Small sites, viability and thresholds were discussed. Views were very mixed on whether small sites were more expensive to develop (per unit) than larger sites. On the one hand, some delegates said that necessary overheads (and including set-up costs) on small sites were necessarily 'spread' around a lesser number of units and therefore the cost per unit was higher. On the other hand, some workshop attendees stated that small sites tended to benefit from a 'road frontage' location and therefore tended to have lower infrastructure and service costs to meet. It was generally agreed that the cost of sites was not a simple function of size and that site location and the specific site circumstances played a major role in the relative cost of developing one site rather than another (whatever their size).

It was generally agreed that it is unclear whether small sites might generate additional revenue from their more 'exclusive nature' compared with larger scale development.

From the housing association perspective, there is no reason why affordable housing cannot be provided in small numbers (within mixed tenure schemes) and one dwelling in a scheme can be acceptable. Not all associations will want small numbers (single units) of affordable housing in every location – it will depend where the associations already have a management presence. But, as a general rule, there will be an association prepared to take on a small group (single unit) of affordable housing in Telford and Wrekin.

The association representatives made clear the importance of mixed tenure development as a long term goal. However, there may be circumstances where associations do not think it appropriate to provide affordable housing as part of a mixed tenure scheme e.g. in flatted blocks with high service charges or in very high price areas where the form of the affordable housing may be out of kilter with the majority development type. Associations would want to be consulted on the acceptability of affordable housing as part of mixed tenure schemes – whatever their size.

**Other assumptions to be used by Three Dragons**

Workshop attendees were asked for any further feedback on the assumptions Three Dragons indicated they would be using in the viability study. The attached copy of the presentation used at the workshop provides this information and workshop attendees are asked for any further comments in writing.

Initial views expressed at the workshop were that:

- The 'other development costs' looked appropriate (excluding earlier comments on developer return');
- Use of discount function is to be welcomed for long term, large scale development.
- Levels of grant for Social Rented and NewBuild Homebuy were about right in the longer term – although noting that grant levels are much higher at the moment;

## **Afternoon session**

### **Attendees:**

Richard White, George Wimpey  
Clive Roberts, Kembertons Planning Consultants  
Paul Rodgers, Bloor Homes  
Ken Allen, Bloor Homes  
Tim Brickley, Persimmon Homes  
Alex Fury, Morris Homes  
Mark Bielby, Your Move Estate Agents  
Katherine Kynaston, Telford and Wrekin Council  
Matthew Wedderburn, Telford and Wrekin Council

Andrew Golland, Three Dragons  
Lin Cousins, Three Dragons

(Note: No housing association representative in the afternoon workshop)

### **1 Introduction**

Introduction as per morning workshop – see above. Note that the Powerpoint presentation used at the workshop is attached to the draft notes.

Workshop attendees made the general comment about the importance of the Council setting clear policy targets but being flexible about scheme negotiations and being responsive to proven developer concerns about scheme viability.

### **2 Key issues and constraints in delivering affordable housing**

Similar constraints were raised as per the morning session – credit crunch, increasing s106 requirements and sustainability requirements.

The challenge of ‘fixed’ land value assumptions was raised by attendees. Land owners have fixed horizons and it is difficult to shift away from this. The other critical issue is the price paid for land when it was bought. Where developers fixed a price at the height of the market – development viability can now be seriously compromised and land owners, for option agreements, were reluctant to accept any reduction in value.

A going rate (2008) of £500,000 per hectare was suggested by one attendee as land value.

### **3 Three Dragons approach to viability**

The basic premise of assessing viability by reference to a residual development appraisal approach was agreed .

Three Dragons presented the development costs which it was proposed to include in the viability assessment and the following comments were made:

- Developer margin at 15%, whilst being appropriate over the longer term, was no longer appropriate in the short term credit crunch world. A more appropriate margin is 22%, according to one attendee;
- Development costs can be very high. The Millennium scheme is currently averaging £1,500 per square metre. This is in part to achieve a high level for the Code for Sustainable Homes. One workshop attendee said that the most up to date research showed that to get from Code Level 3 to Code Level 4 costs between £3,000 and £5,000 per unit;
- Including contractor's return in the costs is 'generous' and some developers in current market are not getting this at all – so figure of 6% is a reasonable assumption;
- Whilst professional fees are falling on a 'pre expert' basis the requirement for supporting evidence is becoming wider and so a 12% fee across a scheme is about right today;
- Marketing fees at 3% 'seems a bit light in the current market' and 4% would be a more appropriate figure in the short term.

LC noted that the viability testing would include sensitivity testing at 2 levels of s106 obligations. These would be a notional 'low' figure and a higher figure. Neither would represent a council view on the appropriate level of obligations that should be pursued in Telford and Wrekin – they would be amounts to consider for testing purposes only.

Land owner returns were discussed. It was thought that between 20% and 30% over existing use value is a reasonable uplift although this will need to be significantly higher with green field sites.

The Telford market is dominated by the HCA, although their expectations for land value do not unduly affect the aspirations of private sector land owners.

It was stated that the land market is being driven by build quality expectations. These are driving land values down as much as any other potential factor. Workshop attendees stated that although the inclusion of Lifetime Homes and Code for Sustainable Homes added to development costs, there was no compensatory uplift in the market value of properties – in short, home buyers would not pay for any perceived benefits of these standards. But the workshop acknowledged that Lifetime Homes is *'pretty much there now'*.

### **Affordable housing assumptions**

Grant – work on the basis of £50,000 for Social Rent and £25,000 for New Build HomeBuy.

Important that there is clarity in the analysis on what type of intermediate tenure is being modelled. There is a growing market for intermediate rented housing at rentals around 80% of market rents. *Request from Three Dragons – please can housing associations which attended the morning workshop comment on whether intermediate affordable rent is a growing market in their experience and whether the 80% figure quoted above is a reasonable starting point.*

#### **4 Market values and sub markets**

Three Dragons put forward provisional analysis highlighting a number of sub markets and a set of indicative new build house prices.

This approach was generally welcomed although it was stated that some of the sub markets (most notably Telford town) were too broad.

A point was raised about larger developments such as Lawley. It was stated that these will create their own markets and that prices there will not necessarily 'lift' from adjacent housing.

Attendees agreed to feed back on the sub markets and prices in the presentation and will provide Three Dragons with information about actual selling prices of new homes in Telford and Wrekin.

One attendee was concerned by the principle of using averages for the analysis. Three Dragons suggested that the study would best work with normal rather than extreme situations if the general policy implications were to be properly drawn out.

#### **5 Thresholds and small sites**

There was a feeling that this area is a 'moving feast'; i.e, wherever councils set the threshold, it will always be circumvented. It was agreed that there is no particular case for a 15 dwelling threshold.

The case against lower thresholds can be argued on the basis that smaller sites are developed by smaller builders and it was stated by one attendee that smaller builders work with 'skinnier margins'. It was also stated that small schemes can be riskier and if '*anything goes wrong*' there is not enough subsequent development to recover viability.

A point was made in this and the morning workshop, that a sliding scale could help to encourage smaller sites to come forward with affordable housing.

There is no particular case against a lower threshold from a viability viewpoint.

#### **6 Development density and mix**

Three Dragons showed their proposed development mix and density matrix. Attendees suggested:

- Generally – reduce the number of 1 bed flats and 3 bed detached properties – neither are dwelling types which are generally included in new housing, whatever the density;
- Take out the terraces from the 30 dph scheme;
- Reduce 3 Bed Detached – go for 20% 3 bed (detached) and 20% 4 bed (detached).

## **Appendix 2    Three Dragons model: Method statement**

The Toolkit provides the user with an assessment of the economics of residential development. It allows the user to test the economic implications of different types and amounts of planning obligation and, in particular, the amount and mix of affordable housing. It uses a residual development appraisal approach which is the industry accepted approach in valuation practice.

The Toolkit compares the potential revenue from a site with the potential costs of development before a payment for land is made. In estimating the potential revenue, the income from selling dwellings in the market and the income from producing specific forms of affordable housing are considered. The estimates involve (1) assumptions about how the development process and the subsidy system operate and (2) assumptions about the values for specific inputs such as house prices and building costs. These assumptions are made explicit in the guidance notes. If the user has reason to believe that reality in specific cases differs from the assumptions used, the user may either take account of this in interpreting the results or may use different assumptions.

The main output of the Toolkit is the residual value. In practice, there is a 'gross' residual value and a 'net' residual value. The gross residual value is that value that a scheme generates before Section 106 is required. Once Section 106 contributions have been taken into account, the scheme then has a net residual value, which is effectively the land owner's interest.

## Key data assumptions

## Market value areas and indicative new build prices

Market value area	Unit Types						
	Flats				Terraces / Town Houses		
	Studio	1 bed	2 bed	3 bed	2 bed	3 bed	4 bed
Ironbridge Gorge	£100,000	£140,000	£200,000	£220,000	£205,000	£225,000	£250,000
Rural Telford and Wrekin	£90,000	£125,000	£180,000	£200,000	£185,000	£205,000	£225,000
Newport	£70,000	£95,000	£135,000	£150,000	£140,000	£155,000	£170,000
Wellington & NW Telford	£60,000	£85,000	£120,000	£135,000	£125,000	£135,000	£150,000
Telford Outer Fringe	£55,000	£80,000	£115,000	£125,000	£120,000	£130,000	£140,000
Central Telford							
North & West Central Telford	£55,000	£75,000	£110,000	£120,000	£115,000	£120,000	£135,000
South East Telford	£50,000	£70,000	£100,000	£110,000	£105,000	£110,000	£120,000

Market value area	Unit Types							
	Semi Detached Houses			Detached Houses			Bungalows	
	2 bed	3 bed	4 bed	3 bed	4 bed	5 bed	3 bed	4 bed
Ironbridge Gorge	£210,000	£235,000	£260,000	£350,000	£410,000	£470,000	£255,000	£280,000
Rural Telford and Wrekin	£190,000	£215,000	£235,000	£320,000	£370,000	£430,000	£230,000	£255,000
Newport	£145,000	£160,000	£175,000	£240,000	£280,000	£320,000	£175,000	£190,000
Wellington & NW Telford	£130,000	£140,000	£155,000	£210,000	£250,000	£284,870	£155,000	£170,000
Telford Outer Fringe	£125,000	£135,000	£145,000	£195,000	£230,000	£265,000	£145,000	£160,000
Central Telford								
North & West Central Telford	£115,000	£125,000	£140,000	£190,000	£220,000	£255,000	£140,000	£150,000
South East Telford	£110,000	£115,000	£125,000	£170,000	£200,000	£230,000	£125,000	£140,000

**Development mixes**

		30 dph	40 dph	50 dph	70dph
Flats	1 bed			10%	20%
	2 bed		20%	20%	30%
Terraces / Town Houses	2 bed	10%	15%	20%	25%
	3 bed	10%	15%	15%	25%
Semi - Detached Houses	3 bed	35%	20%	15%	
Detached Houses	3 bed	20%	10%	15%	
	4 bed	20%	20%	5%	
	5 bed	5%			

**Affordable Housing**

Affordable Housing Targets
0%
10%
15%
20%
30%
35%
40%
45%

Tenure Splits	
Social Rent	80%
Homebuy	20%

Homebuy Equity Share	50%
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**Development costs**

Build costs based on RICS BCIS database: Development costs based on established Toolkit defaults as discussed at development industry workshop.

Build Costs	
Bungalows	£1,049
Flats (6-15 storeys)	£1,545
Flats (5 storeys)	£1,185
Houses <= 75m2	£975
Houses > 75m2	£850

Development Costs		
Professional Fees %	12%	of build costs
Internal Overheads	5%	of build costs
Finance (Market)	6%	of build costs
Finance (Affordable Housing)	6%	of build costs
Marketing Fees	3%	of market value
Developers Return	17%	of market value
Contractors Return	6%	of developments costs

No abnormals assumed  
10% finance costs assumed



**Typical unit sizes adopted (m<sup>2</sup>):**

		Affordable(m <sup>2</sup> )	Market(m <sup>2</sup> )
Flats	1 bed	46	45
	2 bed	67	60
Terraces / Town Houses	2 bed	76	65
	3 bed	84	80
Semi - Detached Houses	3 bed	86	90
Detached Houses	3 bed	90	110
	4 bed	110	135
	5 bed	125	150

**Other Affordable Housing Factors:****Social rents**

		Social Rent (£/week)
Flats	1 bed	£60
	2 bed	£68
Terraces / Town Houses	2 bed	£70
	3 bed	£74
Semi - Detached Houses	3bed	£76
Detached Houses	3 bed	£78
	4 bed	£80
	5 bed	£84

Rents are (rounded) target rents from the Dataspring source for March 2008 with a 5% increase to take to 2009 values

**Gross to net factors (Affordable housing revenue)**

Social Rent Costs	
Managem ent	£1000
Maintenan ce	£400
Voids/bad debts	3.00%
Repairs reserve	£500
Capitalisati on	6.00%

Intermediate Rent Costs	
Management Costs	6.00%
Maintenance Costs	£500
Voids/bad debts	5.00%
Letting fee	1.00%
Capitalisati on	6.00%

Homebuy Costs	
Operating Cost	2.75%
Capitalisation	6.00%
Percentage Purchase	50%

**Appendix 3 Results – Residual values in £s million per hectare (no grant).**

	% Affordable Housing →							
<b>30 dph</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£3.47	£3.03	£2.82	£2.60	£2.17	£1.95	£1.74	£1.52
Rural Telford and Wrekin	£2.89	£2.50	£2.31	£2.11	£1.73	£1.54	£1.34	£1.15
Newport	£1.41	£1.15	£1.01	£0.88	£0.62	£0.48	£0.35	£0.22
Wellington & North West Telford	£0.89	£0.67	£0.55	£0.44	£0.22	£0.11	-£0.00	-£0.14
Telford Outer Fringe	£0.65	£0.45	£0.35	£0.25	£0.05	-£0.07	-£0.19	-£0.32
Central Telford	£0.47	£0.28	£0.19	£0.09	-£0.11	-£0.23	-£0.34	-£0.46
North & West Central Telford	£0.47	£0.28	£0.19	£0.09	-£0.11	-£0.23	-£0.34	-£0.46
South East Telford	£0.15	-£0.01	-£0.11	-£0.21	-£0.41	-£0.51	-£0.61	-£0.70

<b>40 dph</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£3.98	£3.45	£3.18	£2.92	£2.39	£2.12	£1.86	£1.59
Rural Telford and Wrekin	£3.26	£2.79	£2.55	£2.32	£1.84	£1.61	£1.37	£1.14
Newport	£1.52	£1.19	£1.03	£0.86	£0.54	£0.37	£0.21	£0.04
Wellington & North West Telford	£0.91	£0.63	£0.49	£0.35	£0.07	-£0.08	-£0.25	-£0.42
Telford Outer Fringe	£0.65	£0.39	£0.26	£0.14	-£0.15	-£0.31	-£0.47	-£0.62
Central Telford	£0.43	£0.19	£0.07	-£0.06	-£0.36	-£0.50	-£0.65	-£0.79
North & West Central Telford	£0.43	£0.19	£0.07	-£0.06	-£0.36	-£0.50	-£0.65	-£0.79
South East Telford	£0.05	-£0.19	-£0.32	-£0.44	-£0.70	-£0.83	-£0.96	-£1.08

<b>50dph</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£4.28	£3.68	£3.39	£3.09	£2.50	£2.21	£1.91	£1.62
Rural Telford and Wrekin	£3.48	£2.96	£2.70	£2.43	£1.91	£1.65	£1.38	£1.12
Newport	£1.57	£1.20	£1.01	£0.83	£0.46	£0.28	£0.09	-£0.11
Wellington & North West Telford	£0.88	£0.57	£0.41	£0.26	-£0.07	-£0.26	-£0.45	-£0.64
Telford Outer Fringe	£0.62	£0.33	£0.18	£0.04	-£0.31	-£0.49	-£0.67	-£0.84
Central Telford	£0.38	£0.11	-£0.04	-£0.20	-£0.53	-£0.70	-£0.87	-£1.03
North & West Central Telford	£0.38	£0.11	-£0.04	-£0.20	-£0.53	-£0.70	-£0.87	-£1.03
South East Telford	-£0.04	-£0.34	-£0.48	-£0.62	-£0.92	-£1.06	-£1.21	-£1.35

<b>70 dph</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£4.58	£3.87	£3.51	£3.16	£2.45	£2.09	£1.74	£1.38
Rural Telford and Wrekin	£3.62	£2.99	£2.67	£2.36	£1.72	£1.41	£1.09	£0.78
Newport	£1.44	£0.99	£0.76	£0.53	£0.08	-£0.18	-£0.46	-£0.74
Wellington & North West Telford	£0.67	£0.28	£0.08	-£0.14	-£0.61	-£0.85	-£1.09	-£1.33
Telford Outer Fringe	£0.42	£0.05	-£0.17	-£0.39	-£0.84	-£1.07	-£1.30	-£1.52
Central Telford	£0.10	-£0.29	-£0.50	-£0.72	-£1.14	-£1.35	-£1.56	-£1.77
North & West Central Telford	£0.10	-£0.29	-£0.50	-£0.72	-£1.14	-£1.35	-£1.56	-£1.77
South East Telford	-£0.43	-£0.80	-£0.99	-£1.18	-£1.55	-£1.74	-£1.93	-£2.12

**Appendix 4: Full results of sensitivity tests – Residual values in £s million per hectare.****At 30 dph**

<b>No Grant</b>	<b>% Affordable Housing →</b>							
	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£3.47	£3.03	£2.82	£2.60	£2.17	£1.95	£1.74	£1.52
Rural Telford and Wrekin	£2.89	£2.50	£2.31	£2.11	£1.73	£1.54	£1.34	£1.15
Newport	£1.41	£1.15	£1.01	£0.88	£0.62	£0.48	£0.35	£0.22
Wellington & North West Telford	£0.89	£0.67	£0.55	£0.44	£0.22	£0.11	-£0.00	-£0.14
Telford Outer Fringe	£0.65	£0.45	£0.35	£0.25	£0.05	-£0.07	-£0.19	-£0.32
Central Telford	£0.47	£0.28	£0.19	£0.09	-£0.11	-£0.23	-£0.34	-£0.46
North & West Central Telford	£0.47	£0.28	£0.19	£0.09	-£0.11	-£0.23	-£0.34	-£0.46
South East Telford	£0.15	-£0.01	-£0.11	-£0.21	-£0.41	-£0.51	-£0.61	-£0.70

<b>With Grant</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£3.47	£3.16	£3.00	£2.84	£2.53	£2.38	£2.22	£2.07
Rural Telford and Wrekin	£2.89	£2.62	£2.49	£2.36	£2.09	£1.96	£1.83	£1.70
Newport	£1.41	£1.27	£1.19	£1.12	£0.98	£0.91	£0.84	£0.77
Wellington & North West Telford	£0.89	£0.79	£0.74	£0.69	£0.59	£0.53	£0.49	£0.43
Telford Outer Fringe	£0.65	£0.57	£0.53	£0.49	£0.41	£0.37	£0.33	£0.29
Central Telford	£0.47	£0.41	£0.37	£0.34	£0.27	£0.24	£0.20	£0.17
North & West Central Telford	£0.47	£0.41	£0.37	£0.34	£0.27	£0.24	£0.20	£0.17
South East Telford	£0.15	£0.11	£0.09	£0.07	£0.03	£0.01	-£0.01	-£0.04

<b>Market +10%, Build Costs +7%</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£3.92	£3.43	£3.19	£2.95	£2.46	£2.22	£1.98	£1.73
Rural Telford and Wrekin	£3.28	£2.84	£2.63	£2.41	£1.98	£1.76	£1.54	£1.33
Newport	£1.65	£1.35	£1.20	£1.05	£0.75	£0.60	£0.45	£0.30
Wellington & North West Telford	£1.08	£0.82	£0.70	£0.57	£0.32	£0.19	£0.06	-£0.08
Telford Outer Fringe	£0.83	£0.59	£0.48	£0.36	£0.13	£0.01	-£0.13	-£0.27
Central Telford	£0.62	£0.41	£0.30	£0.19	-£0.03	-£0.17	-£0.30	-£0.43
North & West Central Telford	£0.62	£0.41	£0.30	£0.19	-£0.03	-£0.17	-£0.30	-£0.43
South East Telford	£0.27	£0.08	-£0.01	-£0.13	-£0.36	-£0.47	-£0.58	-£0.70

<b>Market -10%, Build Costs -7%</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£3.03	£2.65	£2.46	£2.27	£1.88	£1.69	£1.50	£1.31
Rural Telford and Wrekin	£2.50	£2.17	£2.00	£1.83	£1.49	£1.32	£1.15	£0.98
Newport	£1.17	£0.94	£0.83	£0.71	£0.48	£0.37	£0.25	£0.14
Wellington & North West Telford	£0.70	£0.51	£0.41	£0.32	£0.13	£0.03	-£0.08	-£0.19
Telford Outer Fringe	£0.50	£0.32	£0.24	£0.15	-£0.03	-£0.14	-£0.24	-£0.35
Central Telford	£0.33	£0.17	£0.09	£0.01	-£0.18	-£0.28	-£0.38	-£0.48
North & West Central Telford	£0.33	£0.17	£0.09	£0.01	-£0.18	-£0.28	-£0.38	-£0.48
South East Telford	£0.04	-£0.11	-£0.20	-£0.28	-£0.45	-£0.53	-£0.62	-£0.70

<b>Market +20%, Build Costs +14%</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£4.36	£3.82	£3.55	£3.28	£2.75	£2.48	£2.21	£1.94
Rural Telford and Wrekin	£3.66	£3.18	£2.94	£2.70	£2.22	£1.98	£1.74	£1.50
Newport	£1.89	£1.55	£1.39	£1.22	£0.88	£0.71	£0.55	£0.38
Wellington & North West Telford	£1.26	£0.98	£0.83	£0.69	£0.41	£0.27	£0.12	-£0.02
Telford Outer Fringe	£0.98	£0.72	£0.59	£0.46	£0.20	£0.07	-£0.08	-£0.24
Central Telford	£0.76	£0.52	£0.40	£0.27	£0.03	-£0.11	-£0.26	-£0.41
North & West Central Telford	£0.76	£0.52	£0.40	£0.27	£0.03	-£0.11	-£0.26	-£0.41
South East Telford	£0.38	£0.17	£0.06	-£0.06	-£0.31	-£0.44	-£0.57	-£0.70

<b>£15,000 S106 contributions</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£3.17	£2.74	£2.52	£2.30	£1.87	£1.66	£1.44	£1.22
Rural Telford and Wrekin	£2.59	£2.20	£2.01	£1.82	£1.43	£1.24	£1.05	£0.85
Newport	£1.11	£0.85	£0.72	£0.58	£0.32	£0.19	£0.05	-£0.10
Wellington & North West Telford	£0.59	£0.37	£0.26	£0.15	-£0.09	-£0.23	-£0.36	-£0.50
Telford Outer Fringe	£0.36	£0.15	£0.05	-£0.06	-£0.31	-£0.43	-£0.56	-£0.68
Central Telford	£0.17	-£0.02	-£0.13	-£0.25	-£0.48	-£0.59	-£0.71	-£0.82
North & West Central Telford	£0.17	-£0.02	-£0.13	-£0.25	-£0.48	-£0.59	-£0.71	-£0.82
South East Telford	-£0.18	-£0.37	-£0.47	-£0.57	-£0.77	-£0.87	-£0.97	-£1.07

<b>CSH Level 4 with Lifetime Homes</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£3.31	£2.87	£2.66	£2.44	£2.01	£1.79	£1.57	£1.36
Rural Telford and Wrekin	£2.72	£2.34	£2.14	£1.95	£1.57	£1.37	£1.18	£0.99
Newport	£1.25	£0.98	£0.85	£0.72	£0.45	£0.32	£0.19	£0.06
Wellington & North West Telford	£0.73	£0.50	£0.39	£0.28	£0.06	-£0.06	-£0.20	-£0.33
Telford Outer Fringe	£0.49	£0.29	£0.19	£0.09	-£0.14	-£0.27	-£0.39	-£0.51
Central Telford	£0.31	£0.12	£0.03	-£0.08	-£0.31	-£0.43	-£0.54	-£0.66
North & West Central Telford	£0.31	£0.12	£0.03	-£0.08	-£0.31	-£0.43	-£0.54	-£0.66
South East Telford	-£0.01	-£0.21	-£0.31	-£0.41	-£0.61	-£0.70	-£0.80	-£0.90

<b>CSH Level 4 with Lifetime Homes + £15k S106 contributions</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£3.01	£2.58	£2.36	£2.14	£1.71	£1.49	£1.28	£1.06
Rural Telford and Wrekin	£2.43	£2.04	£1.85	£1.66	£1.27	£1.08	£0.88	£0.69
Newport	£0.95	£0.69	£0.55	£0.42	£0.16	£0.02	-£0.13	-£0.29
Wellington & North West Telford	£0.43	£0.21	£0.09	-£0.02	-£0.29	-£0.43	-£0.56	-£0.70
Telford Outer Fringe	£0.20	-£0.01	-£0.13	-£0.26	-£0.50	-£0.63	-£0.75	-£0.88
Central Telford	£0.01	-£0.21	-£0.33	-£0.45	-£0.67	-£0.79	-£0.91	-£1.02
North & West Central Telford	£0.01	-£0.21	-£0.33	-£0.45	-£0.67	-£0.79	-£0.91	-£1.02
South East Telford	-£0.37	-£0.57	-£0.67	-£0.77	-£0.97	-£1.07	-£1.17	-£1.27

**At 50dph**

<b>No Grant</b>	<b>% Affordable Housing →</b>							
	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£4.28	£3.68	£3.39	£3.09	£2.50	£2.21	£1.91	£1.62
Rural Telford and Wrekin	£3.48	£2.96	£2.70	£2.43	£1.91	£1.65	£1.38	£1.12
Newport	£1.57	£1.20	£1.01	£0.83	£0.46	£0.28	£0.09	-£0.11
Wellington & North West Telford	£0.88	£0.57	£0.41	£0.26	-£0.07	-£0.26	-£0.45	-£0.64
Telford Outer Fringe	£0.62	£0.33	£0.18	£0.04	-£0.31	-£0.49	-£0.67	-£0.84
Central Telford	£0.38	£0.11	-£0.04	-£0.20	-£0.53	-£0.70	-£0.87	-£1.03
North & West Central Telford	£0.38	£0.11	-£0.04	-£0.20	-£0.53	-£0.70	-£0.87	-£1.03
South East Telford	-£0.04	-£0.34	-£0.48	-£0.62	-£0.92	-£1.06	-£1.21	-£1.35

<b>With Grant</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£4.28	£3.89	£3.69	£3.50	£3.11	£2.92	£2.72	£2.53
Rural Telford and Wrekin	£3.48	£3.16	£3.00	£2.84	£2.51	£2.35	£2.19	£2.03
Newport	£1.57	£1.40	£1.32	£1.23	£1.07	£0.98	£0.90	£0.82
Wellington & North West Telford	£0.88	£0.77	£0.72	£0.66	£0.55	£0.50	£0.44	£0.39
Telford Outer Fringe	£0.62	£0.53	£0.49	£0.44	£0.35	£0.31	£0.27	£0.22
Central Telford	£0.38	£0.31	£0.28	£0.24	£0.17	£0.14	£0.10	£0.07
North & West Central Telford	£0.38	£0.31	£0.28	£0.24	£0.17	£0.14	£0.10	£0.07
South East Telford	-£0.04	-£0.09	-£0.11	-£0.13	-£0.17	-£0.19	-£0.22	-£0.24

<b>Market +10%, Build Costs +7%</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£4.85	£4.19	£3.86	£3.53	£2.86	£2.54	£2.20	£1.87
Rural Telford and Wrekin	£3.98	£3.39	£3.10	£2.80	£2.21	£1.91	£1.62	£1.32
Newport	£1.87	£1.45	£1.24	£1.03	£0.62	£0.41	£0.20	-£0.01
Wellington & North West Telford	£1.12	£0.76	£0.58	£0.40	£0.05	-£0.16	-£0.38	-£0.60
Telford Outer Fringe	£0.83	£0.50	£0.33	£0.17	-£0.20	-£0.41	-£0.61	-£0.82
Central Telford	£0.56	£0.25	£0.10	-£0.07	-£0.45	-£0.64	-£0.83	-£1.02
North & West Central Telford	£0.56	£0.25	£0.10	-£0.07	-£0.45	-£0.64	-£0.83	-£1.02
South East Telford	£0.11	-£0.20	-£0.37	-£0.54	-£0.87	-£1.04	-£1.21	-£1.38

<b>Market -10%, Build Costs -7%</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£3.72	£3.20	£2.94	£2.68	£2.16	£1.90	£1.64	£1.38
Rural Telford and Wrekin	£3.01	£2.54	£2.31	£2.08	£1.62	£1.39	£1.16	£0.93
Newport	£1.28	£0.96	£0.80	£0.64	£0.32	£0.16	-£0.01	-£0.20
Wellington & North West Telford	£0.66	£0.39	£0.26	£0.12	-£0.18	-£0.35	-£0.51	-£0.68
Telford Outer Fringe	£0.43	£0.18	£0.05	-£0.09	-£0.40	-£0.55	-£0.70	-£0.86
Central Telford	£0.21	-£0.03	-£0.17	-£0.31	-£0.60	-£0.74	-£0.88	-£1.03
North & West Central Telford	£0.21	-£0.03	-£0.17	-£0.31	-£0.60	-£0.74	-£0.88	-£1.03
South East Telford	-£0.20	-£0.45	-£0.58	-£0.70	-£0.94	-£1.07	-£1.19	-£1.32

<b>Market +20%, Build Costs +14%</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£5.41	£4.68	£4.31	£3.94	£3.21	£2.85	£2.48	£2.12
Rural Telford and Wrekin	£4.46	£3.80	£3.48	£3.15	£2.50	£2.17	£1.84	£1.51
Newport	£2.16	£1.69	£1.46	£1.23	£0.76	£0.53	£0.29	£0.06
Wellington & North West Telford	£1.34	£0.94	£0.74	£0.54	£0.14	-£0.07	-£0.32	-£0.56
Telford Outer Fringe	£1.03	£0.65	£0.46	£0.28	-£0.12	-£0.34	-£0.57	-£0.80
Central Telford	£0.73	£0.38	£0.21	£0.03	-£0.39	-£0.60	-£0.81	-£1.03
North & West Central Telford	£0.73	£0.38	£0.21	£0.03	-£0.39	-£0.60	-£0.81	-£1.03
South East Telford	£0.24	-£0.09	-£0.28	-£0.47	-£0.84	-£1.03	-£1.22	-£1.41



<b>£15,000 S106 contributions</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£3.78	£3.19	£2.90	£2.60	£2.01	£1.72	£1.42	£1.13
Rural Telford and Wrekin	£2.99	£2.46	£2.20	£1.94	£1.41	£1.15	£0.89	£0.62
Newport	£1.07	£0.70	£0.52	£0.33	-£0.04	-£0.27	-£0.49	-£0.72
Wellington & North West Telford	£0.39	£0.07	-£0.10	-£0.29	-£0.67	-£0.87	-£1.06	-£1.25
Telford Outer Fringe	£0.13	-£0.20	-£0.38	-£0.56	-£0.91	-£1.09	-£1.27	-£1.45
Central Telford	-£0.14	-£0.48	-£0.64	-£0.81	-£1.14	-£1.30	-£1.47	-£1.64
North & West Central Telford	-£0.14	-£0.48	-£0.64	-£0.81	-£1.14	-£1.30	-£1.47	-£1.64
South East Telford	-£0.65	-£0.94	-£1.08	-£1.23	-£1.52	-£1.67	-£1.81	-£1.96

<b>CSH Level 4 with Lifetime Homes</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£4.01	£3.41	£3.12	£2.82	£2.23	£1.94	£1.64	£1.35
Rural Telford and Wrekin	£3.21	£2.69	£2.43	£2.16	£1.64	£1.38	£1.11	£0.85
Newport	£1.30	£0.93	£0.74	£0.56	£0.19	£0.01	-£0.22	-£0.44
Wellington & North West Telford	£0.61	£0.30	£0.14	-£0.02	-£0.40	-£0.59	-£0.78	-£0.97
Telford Outer Fringe	£0.35	£0.06	-£0.10	-£0.28	-£0.64	-£0.82	-£1.00	-£1.17
Central Telford	£0.11	-£0.20	-£0.37	-£0.53	-£0.86	-£1.03	-£1.20	-£1.36
North & West Central Telford	£0.11	-£0.20	-£0.37	-£0.53	-£0.86	-£1.03	-£1.20	-£1.36
South East Telford	-£0.37	-£0.67	-£0.81	-£0.95	-£1.25	-£1.39	-£1.54	-£1.68

<b>CSH Level 4 with Lifetime Homes + £15k S106 contributions</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>
Ironbridge Gorge	£3.51	£2.92	£2.63	£2.33	£1.74	£1.45	£1.15	£0.86
Rural Telford and Wrekin	£2.72	£2.19	£1.93	£1.67	£1.14	£0.88	£0.62	£0.35
Newport	£0.80	£0.43	£0.25	£0.06	-£0.37	-£0.60	-£0.82	-£1.05
Wellington & North West Telford	£0.12	-£0.24	-£0.43	-£0.62	-£1.00	-£1.20	-£1.39	-£1.58
Telford Outer Fringe	-£0.18	-£0.53	-£0.71	-£0.89	-£1.14	-£1.42	-£1.60	-£1.78
Central Telford	-£0.47	-£0.81	-£0.97	-£1.14	-£1.47	-£1.63	-£1.80	-£1.97
North & West Central Telford	-£0.47	-£0.81	-£0.97	-£1.14	-£1.47	-£1.63	-£1.80	-£1.97
South East Telford	-£0.98	-£1.27	-£1.41	-£1.56	-£1.85	-£2.00	-£2.14	-£2.29

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