

**Melton Borough Council**  
**Affordable Housing Viability Study**

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# 1 POLICY CONTEXT AND STUDY OBJECTIVES

## National policy context

1.2 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.

1.3 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)

1.4 PPS3 also reduced the national indicative minimum site size threshold set out in previous guidance (Circular 6/98 and PPG3, 2000) at which affordable housing may be required from 25 to 15 dwellings. (Para 29). Local authorities can, following PPS3, set lower minimum thresholds, where viable and practicable, including in rural areas.

## Local policy

1.5 Within Melton Borough there is a significant need for affordable homes to meet local needs. Current affordable housing delivery has been below the level of identified need and the Council is seeking to increase the number of affordable housing completions.

1.6 The Melton Local Plan adopted in 1999 has two ‘saved policies’ which deal with affordable housing – policy H7 states that the Council will, ‘seek to negotiate’ for provision of affordable housing on specified allocated sites and policy H8 deals with affordable housing in exception sites in village locations (rural exception sites). There is no general policy setting out the amount of affordable housing the Council is generally seeking or a specific size of site above which the Council will seek affordable housing.

1.7 Following the publication of PPS3, Melton Borough Council passed a resolution in February 2007 to seek a minimum of 35% affordable housing

provision on sites of 15 dwellings or more (effective from 1st April 2007). This resolution reduced the threshold which the Council were operating (through an earlier resolution) from 25 to 15 dwellings. PPS3 states that local planning authorities can set lower minimum thresholds, where viable and practicable including in rural areas but an assessment of the likely economic viability of land for housing within the area should inform such decisions, taking account of risks to delivery and drawing on informed assessments of the likely levels of developer contribution that can reasonably be secured.

- 1.8 The Council's Local Development Framework includes preparation of a Core Strategy DPD. The Core Strategy Preferred Options Document was subject to consultation in January 2008. The submission version of the Core Strategy is in preparation and this study will contribute to the evidence base for that DPD.
- 1.9 The Core Strategy (Preferred Options) document proposed that all residential developments should make a contribution towards affordable housing. A full Council resolution was made (in line with previous resolutions) to take forward CS PO strategy as affordable housing requirements from Jan 08. The Strategy specifically proposes a 40% contribution on developments of 6 dwellings or more. On smaller development sites the level of contribution is not specifically clarified in the Core Strategy document. The Council resolved in December 2007 to implement this policy stance under saved policy H7 of the adopted Melton Local Plan.
- 1.10 The Council has also prepared a draft Affordable Housing Supplementary Planning Document (SPD) which was subject to consultation in late 2007. This draft SPD is in line with the emerging Core Strategy and contains the following draft policies:
- "Policy 1 - Melton Borough Council will require a contribution towards affordable housing on all residential developments.*
- *Melton Borough Council will require a 40% contribution on developments of 6 dwellings or more.*
  - *Melton Borough Council will require a (financial) contribution of 13% of the open market land value on all developments of 5 dwellings or less, in lieu of provision on the site."*
- 1.11 In calculating contributions from smaller sites the Council has negotiated contributions on a site by site basis, with regard to economic viability and the levels justified in the draft affordable housing SPD. One of the outputs of this study will be a robust methodology to assist the Council to define contributions from smaller development sites.

### **Study Objectives**

- 1.12 This study's main objectives are to:
- Demonstrate an understanding of property value patterns, in particular with regard to new build residential properties;

- Give a broad indication as to how much and what type of affordable housing could be provided whilst keeping development viable;
- Have regard to relative differences in values across the Borough and provide advice on the threshold and proportion of affordable housing likely to be viable across each of the Council areas;
- Provide recommendations relating to potentially different policy treatments for Greenfield and Brownfield sites of varying types;
- Take into consideration the impact of other planning obligations and infrastructure on site viability and to assess the collective impact of these in tandem with proposed affordable housing policy changes;
- Take into consideration different tenure mixes of affordable housing provision and highlight any viability concerns regarding the provision of low-cost housing within market developments
- To assess the impact of a range of affordable housing policy options to deliver this policy option;
- To test and make recommendations whether the impact of increased proportions and/or reduced thresholds will reduce development viability to the point of reducing likely residential land supply on the viability of affordable housing contribution;
- To provide indicative levels for commuted sum contributions and provide a basis for a calculation methodology based on robust and easily updateable information.

1.13 It is important to state that this study relates to affordable housing policies in the wider context of the Borough. The Core Strategy document proposed that a significant proportion of housing development to 2026 will be provided by way of a Sustainable Urban Extension (SUE) to the town of Melton Mowbray. A separate study is being carried out to assess the viability of this proposed SUE which will assess the viability to provide both affordable housing and other developer contributions.

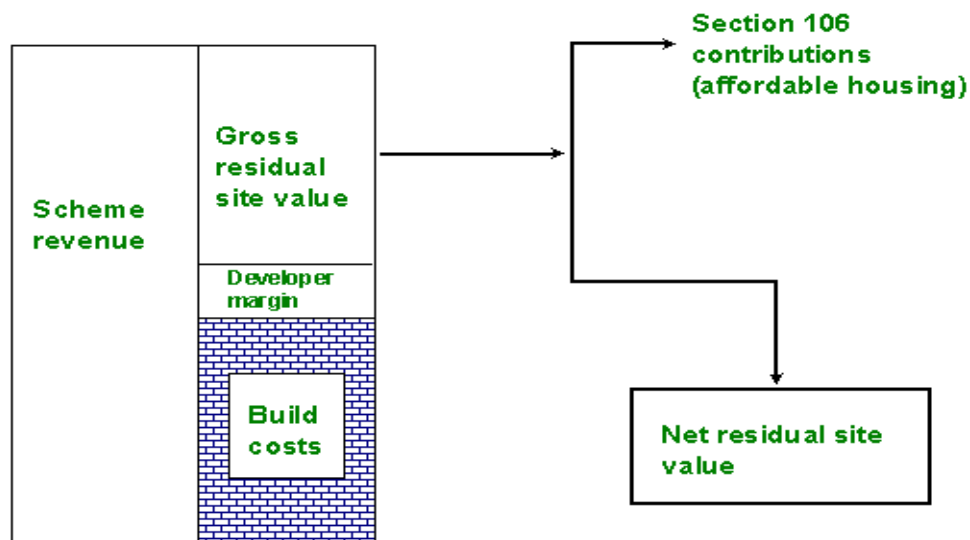
1.14 This study does not consider the need for affordable housing in the Borough. Advice from the Council is that other assessments have consistently found a high need for additional affordable housing (e.g. Housing Needs Survey (2004; David Couttie Associates), Housing Needs Survey Update (2006; David Couttie Associates), Strategic Housing Market Assessment (2008, BLine Housing). Over the Local Development Framework (LDF) plan period to 2026 the need for affordable housing is estimated to be in excess of 80% of the total supply of the housing which is planned in the Borough.

## 2 METHODOLOGY

### Viability – Starting Points

- 2.1 We use a residual development appraisal model to assess development viability. This mimics the approach of virtually all developers when purchasing land. This model assumes that the value of the site will be the difference between what the scheme generates and what it costs to develop. The model can take into account the impact on scheme residual value of affordable housing and other Section 106 contributions.
- 2.2 Figure 2.1 below shows diagrammatically the underlying principles of the approach. Scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme costs assume a profit margin to the developer and the 'build costs' as shown in the diagram include such items as professional fees, finance costs, marketing fees and any overheads borne by the development company.
- 2.3 The gross residual value is the starting point for negotiations about the level and scope of Section 106 contribution. The contribution will normally be greatest in the form of affordable housing but other Section 106 items will also reduce the gross residual value of the site. Once the Section 106 contributions have been deducted, this leaves a net residual value.

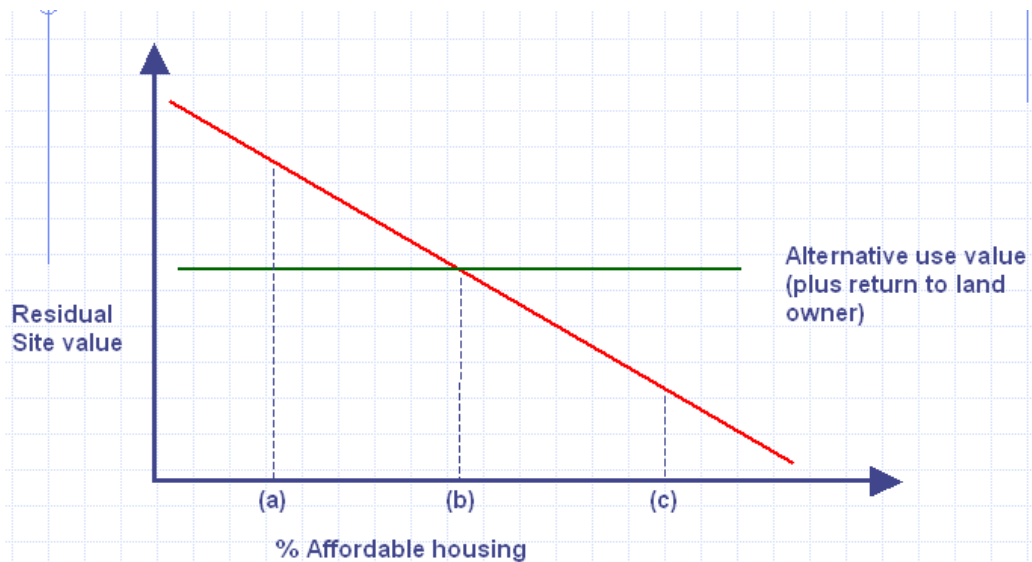
**Figure 2.1 Theory of the Section 106 Process**



- 2.4 Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.
- 2.5 Clearly a site is highly unlikely to proceed where the costs of a proposed scheme exceed the revenue. But simply having a positive residual value will

not guarantee that development will happen. 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 viable for housing.

**Figure 2.2 Alternative and existing use value impacts**



2.6 Figure 2.2 shows how this operates. As affordable housing is increased within a scheme, residual value falls. At a certain point (in the diagram shown at point 'b') the residual value will equal the alternative use (or existing use) value. At this point the site will only come forward if the land owner receives what s/he considers a reasonable return. At 'c' the site is unviable since alternative (existing) use value is higher than the residual site value including affordable housing; at 'a', the site would in theory be viable, since the planning permission (at a lower percentage of affordable housing) gives a higher residual value than the alternative use.

2.7 The analysis we have undertaken uses the generic Three Dragons Viability model.

### Overview of Approach in this Study

2.8 Our approach is a detailed analysis of development economics as they are affected by affordable housing and other planning obligations. We undertake viability assessment using a range of different scenarios testing sub markets and site size.

2.9 Our findings also take account of a workshop held in Melton Mowbray with developers, housing associations and land owners. A full note of the workshop is shown in Appendix 1. The workshop took account of the full range of views from local stakeholders involved in the provision and development of housing in Borough.

### **3 HIGH LEVEL TESTING**

#### **Sub Markets**

- 3.1 In this section, we look at the impact of affordable housing on a notional one hectare site. We recognise that the Council are concerned with a range of site types which we consider at Stage 2 of the analysis. Here we look at the broader Section 106 requirements incorporating affordable housing and a wider planning gain package of £5,000 per unit. By basing the analysis on a one hectare site, and looking at a range of sub markets, the broader (Section 106) impacts can be gauged along with the impacts of development mix.
- 3.2 We have undertaken a broad analysis of viability across the housing market, using HM Land Registry data to identify sub markets in the Borough. The sub markets are defined by reference to house prices and provide the basis for a set of indicative new build values. 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. The datum for the analysis is July 2008.
- 3.3 The table 3.1 sets out the sub markets defined for the Borough. These show six district descriptors (e.g. 'Melton Rural South' through to 'Melton and Asfordby Lower').

**Table 3.1 Sub Markets in Melton Borough**

<b>MELTON BC</b>													
<b>Sub markets</b>	<b>DETACHED</b>			<b>SEMIS</b>			<b>TOWN HOUSES</b>		<b>FLATS</b>			<b>BUNGALOWS</b>	
	<b>5 Bed</b>	<b>4 Bed</b>	<b>3 Bed</b>	<b>4 Bed</b>	<b>3 Bed</b>	<b>2 Bed</b>	<b>3 Bed</b>	<b>2 Bed</b>	<b>3 Bed</b>	<b>2 Bed</b>	<b>1 Bed</b>	<b>3 Bed</b>	<b>2 Bed</b>
Melton Rural south	£490,000	£445,000	£380,000	£295,000	£270,000	£230,000	£230,000	£210,000	£215,000	£195,000	£145,000	£325,000	£275,000
Melton Rural East	£430,000	£390,000	£330,000	£260,000	£235,000	£200,000	£200,000	£185,000	£190,000	£170,000	£130,000	£285,000	£240,000
Vale of Belvoir	£390,000	£355,000	£300,000	£240,000	£215,000	£185,000	£185,000	£165,000	£175,000	£155,000	£120,000	£260,000	£220,000
Bottesford	£365,000	£335,000	£285,000	£225,000	£205,000	£175,000	£175,000	£155,000	£160,000	£150,000	£110,000	£245,000	£205,000
Melton & Asfordby Middle	£315,000	£285,000	£245,000	£190,000	£175,000	£150,000	£150,000	£135,000	£140,000	£130,000	£95,000	£210,000	£180,000
Melton & Asfordby Lower	£285,000	£260,000	£220,000	£175,000	£160,000	£135,000	£135,000	£125,000	£125,000	£115,000	£85,000	£190,000	£160,000

### **Testing assumptions (notional one hectare site)**

- 3.4 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 development densities and mixes reflect a range of factors including housing needs, desired density from developers and the types of mixes and densities being encouraged within the Borough to help balance the local housing market.

**30 dph:** 35% 2 bed town houses; 15% 2 bed bungalows; 5% 3 bed bungalows; 15% 3 bed town houses; 15% semis; 15% 4 bed detached houses.

**40 dph:** 10% 2 bed flats; 35% 2 bed town houses; 15% 2 bed bungalows; 20% 3 bed town houses; 20% 4 bed detached houses.

**50 dph:** 20% 2 bed flats; 30% 2 bed town houses; 30% 3 bed town houses; 20% 4 bed detached houses.

**60 dph:** 30% 2 bed flats; 30% 2 bed town houses; 20% 3 bed town houses; 20% 4 detached bed houses.

**70 dph:** 40% 2 bed flats; 25% 2 bed town houses; 20% 3 bed town houses; 15% 4 detached bed houses.

- 3.5 We calculated residual site values for each of these (base mix) scenarios in line with further set of scenarios across a range of tenure assumptions. These were 30%; 40%; 50% and 60% affordable housing. These were tested at 70% Social Rent and 30% New Build HomeBuy in each case. For the New Build HomeBuy, the share purchase was assumed to be 50%. Again, these assumptions were discussed and agreed with the Council.

### **Other Section 106 Contributions**

- 3.6 Although affordable housing is usually the most significant factor affecting site viability, other Section 106 contributions can impact on scheme viability.
- 3.7 Melton Borough Council is currently considering an appropriate contribution to social and physical infrastructure provision beyond the affordable housing Section 106. All councils will have the opportunity to introduce a Community Infrastructure Levy (CIL), subject to the introduction of regulations by central government. Melton Borough Council may wish to use this option.3.8 As the planning process for any formalised levy is still under consideration, we have tested our analysis assuming a £5,000 per unit base cost. We have developed this figure in conjunction with the Borough as a reasonable starting point. We also comment in the analysis below on the likely impact of a standard charge or levy per unit of £10,000. However, neither figure should be

taken to imply that they would be the level of CIL operated by the Council, if it chooses to take up this option.

### Subsidy

3.9 For all the analysis and scenario testing, we have assumed that no Social Housing Grant or other form of subsidy will be available. Whilst this is useful for comparison purposes, some further commentary about the impact of typical grant levels available for different tenures might be helpful.

### Results of the Scenario Testing

3.10 In this section we report on the results from the scenario testing. All figures in this section show residual values for the notional one hectare site in £ million.

#### Low Density Scheme

3.11 Figure 3.1 shows residual values for a notional one hectare site at low density (30 dph) and with a mix of family type housing.

**Figure 3.1 Low Density Housing Scheme (30 dph)**

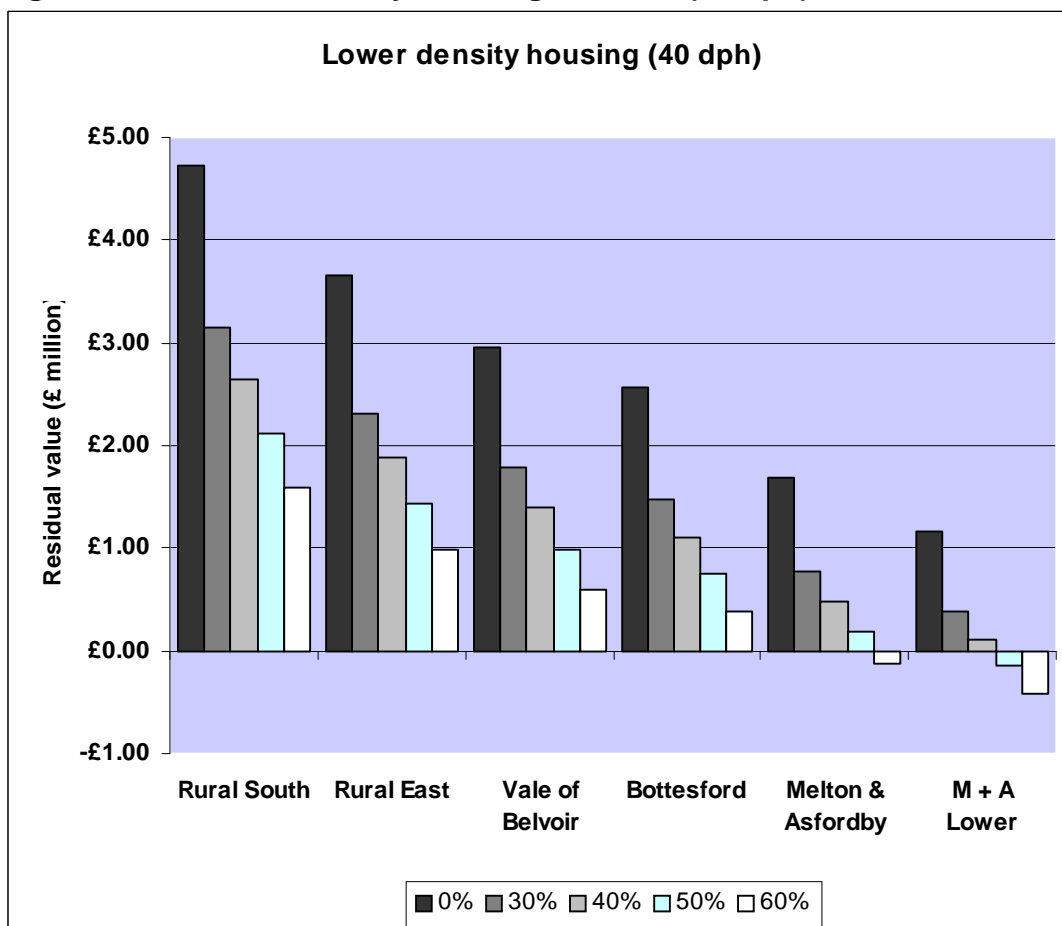


- The range of sub markets produce a wide range of residual site values. This is what we would expect to find given the fact that dwelling prices differ very substantially across the Borough.
- Residual site value in the Rural South sub market at 30% affordable housing, would expect to be around £2.5 million per hectare, whilst the same affordable housing contribution would be likely to generate a residual value of less than £500,000 per hectare in the lower value areas of Melton and Asfordby ('M and A Lower')
- The impacts of sub markets are such that a 'typical' site with 60% affordable housing in the Rural East area would be likely to be as valuable as a site with 30% affordable housing in Melton or Asfordby;
- In the 'middle market' locations (e.g. Vale of Belvoir and Bottesford), relatively strong RVs (i.e. in excess of £500,000 per hectare) are achieved with affordable housing up to 40/50%.

### Lower Density Scheme

3.12 Figure 3.2 assumes a similar development mix to that in Figure 3.1, although this time includes flats and with overall density at 40 dph.

**Figure 3.2 Lower Density Housing Scheme (40 dph)**



- By increasing density (from 30 dph to 40 dph) there are some beneficial impacts in terms of residual value. Site value is enhanced in the higher value locations, although in lower value locations (and particularly Melton and Asfordby and Melton and Asfordby Lower) increasing density would not appear to enhance site value.
- This conclusion is however influenced not only by density but also by development mix. In the 40 dph scenario, we have included flats. In our experience (and which is borne out in Melton Borough – examples or evidence of this would strengthen this statement), the inclusion of flats in lower value areas act as a ‘dead weight’ to viability;
- What we believe is happening here is that higher density is being ‘traded’ for development mix. This means that when negotiating schemes, it would

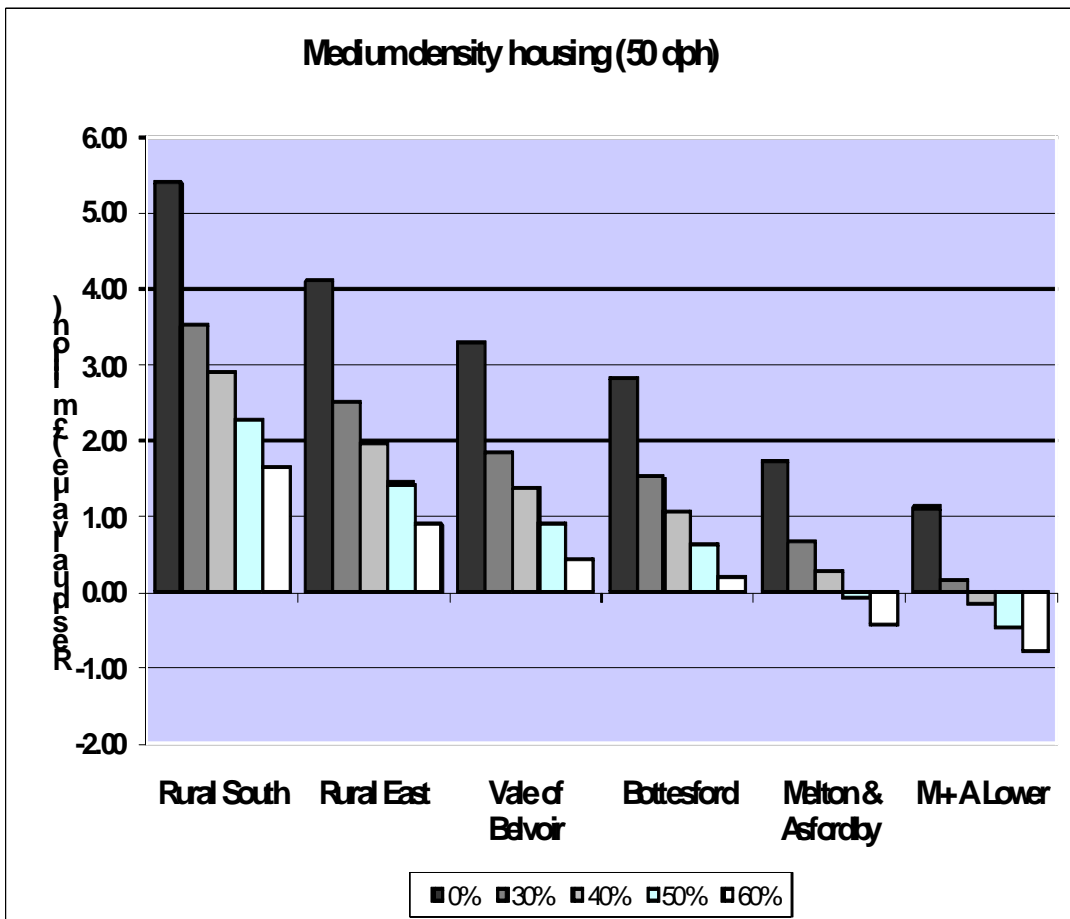
be important for the Council to be fully appraised of the location, density, development mix and financial relationships.

- It is important to underline the point here that different development mixes may provide very different conclusions. Whilst increasing density generally from 30dph to 40 dph will enhance site value; this will not happen uniformly.

**Medium Density Housing Scheme**

3.13 Figure 3.3 shows the residual value results at different affordable housing targets where site density is increased to 50 dph. The mix assumed at this medium density 50 dph is not dissimilar to that at 40 dph, but includes a higher proportion of flats and smaller units. There are no bungalows in this development mix.

**Figure 3.3 Medium Density Housing Scheme (50 dph)**



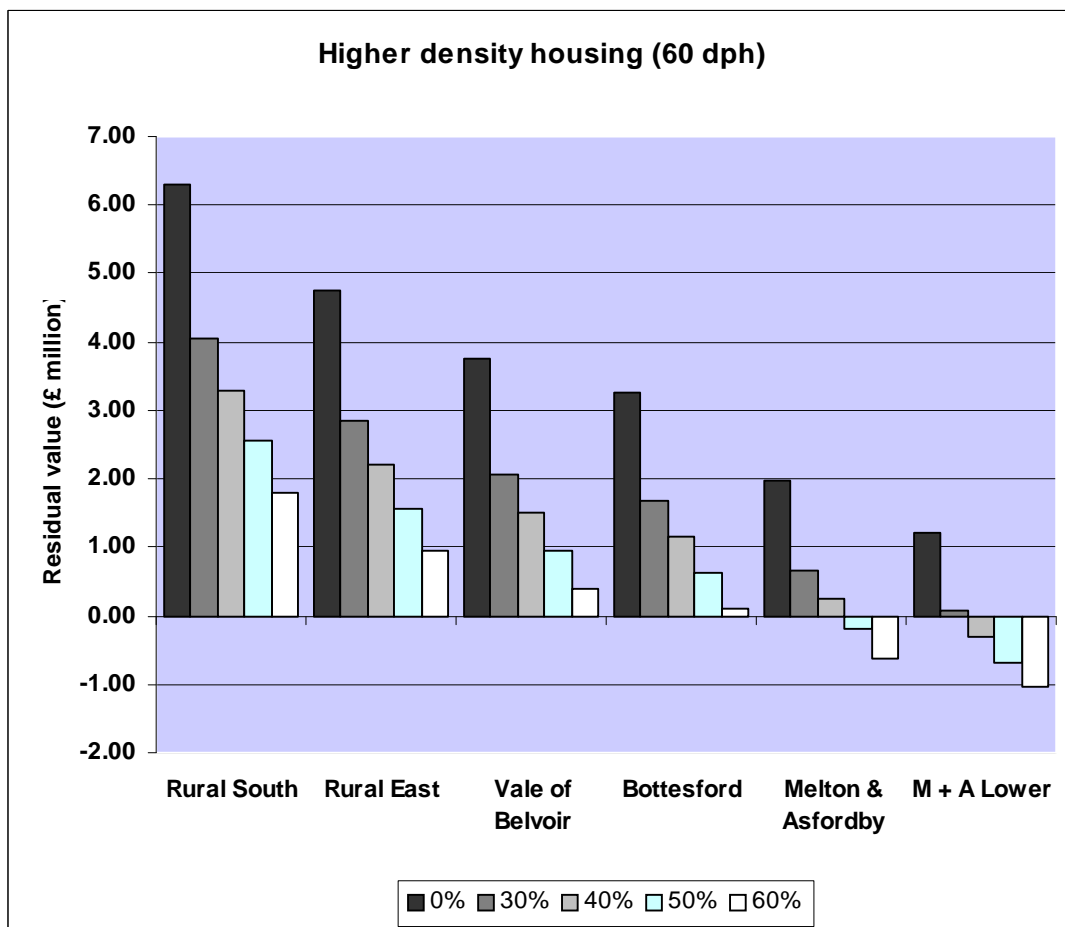
- The impact of increasing density again (from 40 dph to 50 dph) on the basis of the development mixes assumed, is generally not beneficial to residual value. In all areas, except the Rural South, increasing density from 40 dph to 50 dph does not enhance the residual;

- What is happening is that in the stronger market area (Rural South) the sale value of smaller units exceed development costs by a good margin providing greater potential for cross subsidy to affordable housing.. In the middle and weaker markets, larger dwelling types are needed to maintain a favourable (for Section 106) value-cost financial relationship.

### Higher Density Housing Scheme

3.14 Figure 3.4 shows residual values at higher density – 60 dph. The development mix assumed here is very similar to that assumed at 50 dph.

**Figure 3.4 Higher Density Housing Scheme (60 dph)**



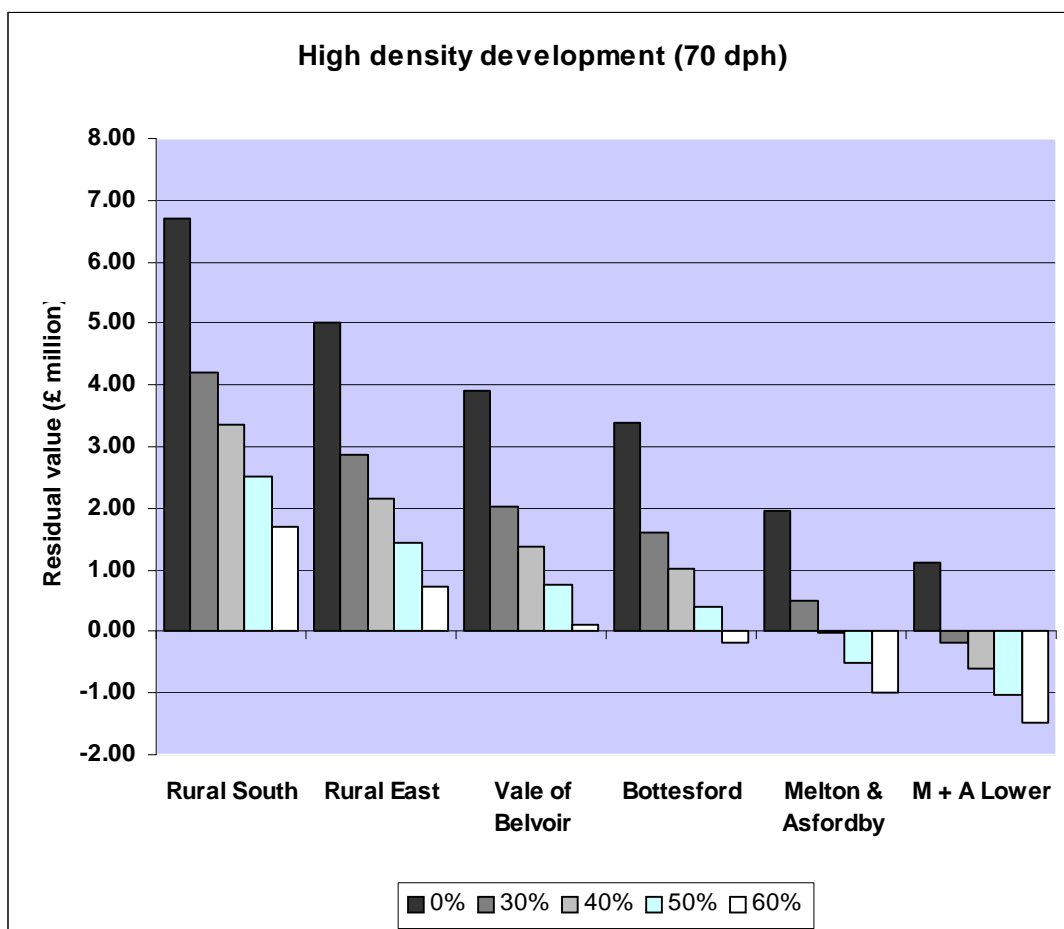
- The impact of increased density (from 50 to 60 dph) is not significant in the middle market locations (Vale of Belvoir and Bottesford) at the lower and middle range of affordable housing targets although at higher range (60%) the residual value is lower at 60 dph;
- In the stronger market locations (Rural South and Rural East), increasing density (development mix all other things equal) from 50dph to 60 dph would appear to enhance the residual;

- In weaker sub markets the opposite occurs and increases in density lead to lower residual values (because smaller dwellings tend to have relatively poor revenue to cost relationships)

**High Density development (70 dph)**

3.15 Figure 3.5 shows a high density development scheme example. This scheme incorporates 40% 2 bed flats; 25% 2 bed town houses; 20% 3 bed town houses and 15% 4 detached bed houses. It thus has a high percentage of flats.

**Figure 3.5 High Density Apartment Scheme (70 dph)**



- Figure 3.5 shows little advantage in terms of residual value versus Figure 3.4 (60 dph). Indeed, the residual values are significantly lower for the two weaker sub markets (Melton and Asfordby);
- Whilst we have to be careful about drawing general ‘lessons’ (not least because of the specific assumptions made about development mix at different densities), it would seem that in the context of the Melton Borough, where some smaller unit selling prices only cover build costs by a

marginal amount, that there may not be significant advantages in bringing forward high density schemes.

### Testing for tenure change

- 3.16 The foregoing analysis has assumed a split in the affordable housing element of schemes as 70% Social Rent and 30% Shared Ownership. Table 3.2 below sets out the residual values where the affordable element of the scheme is split 50% Social Rent (SR) and 50% Shared Ownership (SO). This has the impact of raising residual values. We take here a 40 dph scheme.

**Table 3.2 Residual values (£ million per hectare); affordable element as 50% SR and 50% SO.**

Sub Market	0% AH	30% AH	40% AH	50% AH	60% AH
Melton Rural South	£4.69	£3.50	£3.10	£2.71	£2.31
Melton Rural East	£3.64	£2.61	£2.27	£1.93	£1.59
Vale of Belvoir	£2.94	£2.03	£1.73	£1.43	£1.13
Bottesford	£2.54	£1.70	£1.42	£1.14	£0.86
Melton and Asfordby Middle	£1.66	£0.96	£0.73	£0.49	£0.27
Melton and Asfordby Lower	£1.14	£0.53	£0.33	£0.12	-£0.08

- 3.17 Table 3.2 provides data showing that residual values are raised, in some cases quite substantially against the baseline position of 70%SR and 30% SO.
- 3.18 For example, in Melton and Asfordby Middle, residual value is raised from £0.76 million per hectare at 30% affordable housing in the baseline scenario, to £0.96 million per hectare, an increase in residual value of 26%.
- 3.19 At the higher end of the market, for example in Melton Rural South, residual value at 40% affordable housing will rise from £2.61 million per hectare to £3.10 million per hectare, an increase of 19%.
- 3.20 Intermediate affordable housing is therefore a helpful way of increasing residual value and enhancing affordable housing contributions overall.

### Testing for market change

- 3.21 The housing market is currently in a state of flux. The credit crunch has tended to generate some quite volatile housing market forecasts.
- 3.22 To this end, we have looked at the potential impacts of changed house prices in the market going forward. Table 3.3 sets out results for three sub markets ranging from high to low value. The results relate to a scheme of 40 dph.

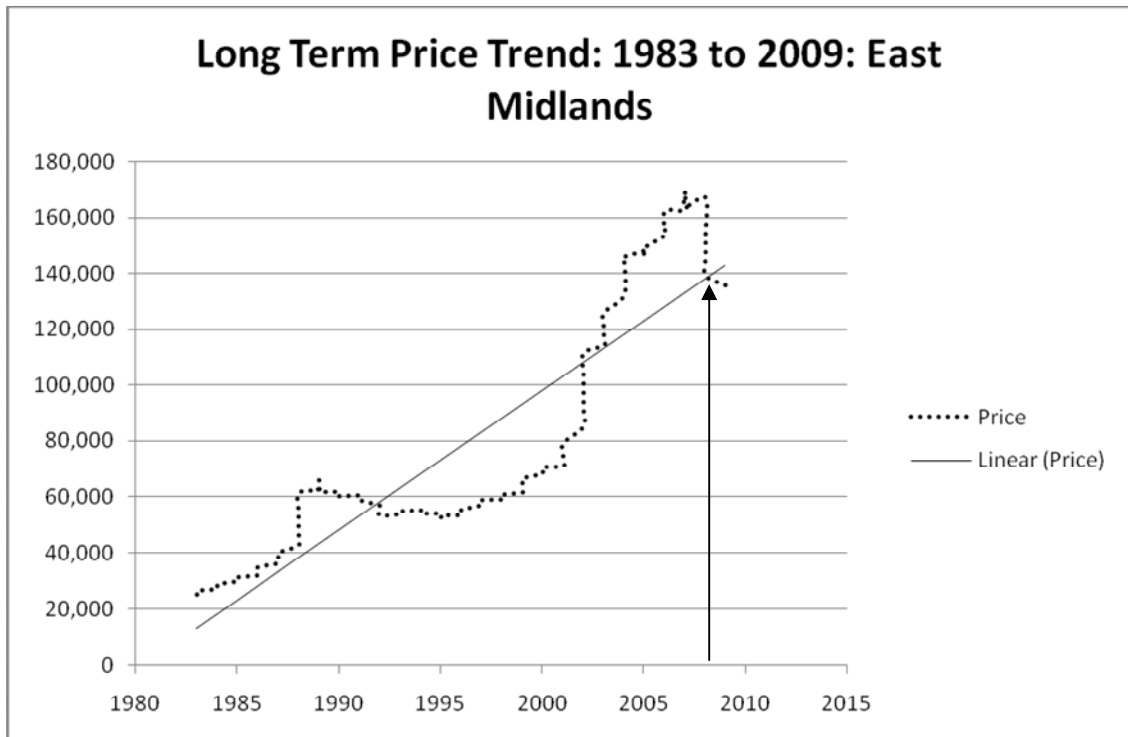
The residual site values are shown for situations where prices are assumed to be 10% higher than the standard (tested) results as well as 10% lower.

**Table 3.3 Impact of house price change on residual values**

	% AH	House Prices		
		Plus 10%	Standard (July 2008)	Less 10%
<b>Melton Rural South</b>	0%	£5.56	£4.69	£3.84
	30%	£3.81	£3.13	£2.46
	40%	£3.23	£2.61	£2.00
	50%	£2.65	£2.09	£1.55
	60%	£2.06	£1.57	£1.09
<b>Vale of Belvoir</b>	0%	£3.64	£2.94	£2.26
	30%	£2.30	£1.75	£1.23
	40%	£1.86	£1.36	£0.88
	50%	£1.42	£0.97	£0.54
	60%	£0.97	£0.58	£0.19
<b>Melton &amp; Asfordby Lower</b>	0%	£2.22	£1.66	£1.11
	30%	£1.19	£0.76	£0.33
	40%	£0.86	£0.46	£0.06
	50%	£0.52	£0.16	-£0.19
	60%	£0.17	-£0.15	-£0.45

- 3.23 The absolute values are shown in the 'Plus 10%' and 'Less 10%' columns. This analysis shows that in a lower value sub market, namely Melton and Asfordby Lower, that a 10% price fall is likely to make site values negative at a 50% affordable housing contribution, whereas at the standard or baseline residual, site values are likely to be positive at a 60% affordable housing contribution.
- 3.24 The very 'elastic' response of land value to falls in house prices means that affordable housing supply is very sensitive to market change in weaker sub markets of the Borough.
- 3.25 Arguably a more robust measure of viability is to look at the relationship between short and long term trends. Figure 3.6 shows short term volatility in house prices against the long term straight line trend. It puts into context the findings of this study. It suggests (included in report as at Dec 2009) that our analysis (July 2008) has been carried out at a time when the short run trend in house prices co-incides with the long term trend in house prices.

**Figure 3.6 Long term house price trends – East Midlands**



**Source: Halifax House Price Index**

- 3.26 This means that any policy conclusions arrived at using the analysis in this report will be in line with the long term viability position of the housing market.
- 3.27 Historically, house prices have risen faster than development costs. An analysis of Figure 3.6 above, suggests that prices rose on average by 7.6% per annum over the period 2000 and 2009. The BCIS (Building Cost Information Service) suggests that costs rose on average over the same period by 4.1% per annum. If this trend continues going forward it would result in a net improvement in viability of around 3.5% per annum, reflecting the difference in trends between house prices and development costs. This would suggest that any conclusions derived from the foregoing analysis are cautious in approach.

### **Conclusions on the High Level Testing**

- 3.28 Section 3 has reviewed residual values for a number of generic scenarios for notional schemes at different densities, in the sub market areas and with different amounts of affordable housing.
- 3.29 The range of sub markets tested show a range of residual site values. The Borough contains very high value areas with also low value areas. We have

identified one sub market, by combining the lower value areas within of Melton Mowbray and Asfordby, where if sites are to be brought forward, the economics of development look difficult compared with the other areas of Melton Mowbray and Asfordby and certainly by comparison with the wider rural areas.

- 3.30 The analysis suggests that on the basis of a notional one hectare site, that a split or graded affordable housing target may be desirable across the Borough's area. This would reflect the significantly different development economics in so far as affordable housing is concerned. We note for example that the value of sites in the Rural South sub market at 40% affordable housing is around £2.5 million per hectare, whereas in Melton and Asfordby (the second weakest sub market), the residual value is less than £0.5 million per hectare. This is a very significant difference and one which we would recommend the Council look at with a view to differential policy starting points.
- 3.31 The analysis shows that increasing density does not necessarily lead to higher residual values. In some instances an increased density enhances site value and will provide the basis of a higher affordable housing contribution. This depends on the precise mix and its relationship with density. There is evidence here to suggest that increased density will help viability in the higher value sub markets; however, in the lower value areas, it will work against viability, as smaller dwellings generate a lower RV on a per unit basis.
- 3.32 Our conclusion is that in the middle markets of the Borough, family type housing, developed in the density range 40 dph to 50 dph will provide the best option to maximise planning obligations including provision of affordable housing. At the top end of the market, smaller units (flats and smaller town houses) will cover development costs well, and as such, higher density may yield higher residual values.
- 3.33 It is important to stress that the analysis here does not include grant. Grant, depending on the particular level, can make a significant difference to viability. At the lower end of the market it may be instrumental in bringing forward sites or may assist in increasing the proportion of affordable housing and/or the mix of affordable housing tenures (e.g. by increasing the proportion of social rented units).
- 3.34 Finally, the findings should hold in view of the longer term, as the analysis has been carried out at a point in time where the short and long term trends in the housing market co-incide. Thus policy should be robust over the Plan period.

## **4 MELTON BC: GENERIC SITE ANALYSIS**

### **Introduction**

- 4.1 This section analyses the viability of a range of generic site types. As outlined earlier in the report, this stage represents a more detailed examination of viability with a particular focus on the existing use value of sites and the potential uplift created by a new scheme. This stage is important in terms of identifying any particular viability issues in relation to sub sets of sites. As previously, we undertook the analysis at a sub market level, although this analysis is focused on generic site types in each of the sub market areas..
- 4.2 We developed a range of sites based on the typical types of development which come forward in the Borough. This resulted in a strong emphasis on small sites which make up the majority of residential development applications. It is also on smaller sites that the council is seeking more detailed direction in relation to viability and affordable housing contributions.
- 4.3 The types of development sites identified included back land/garden land, residential to residential (these are in practice demolitions to new build), factory/warehouse conversions, village infill and commercial use in a village. We also look at the viability of Rural Exception sites in both a small and a medium sized example.
- 4.4 In this analysis, we have taken a 20% affordable housing target in addition to the full range of targets (30%-60%) tested at the Stage 1 'High level' analysis. The lower target is important to understand viability in areas where viability can be more difficult.
- 4.5 As for the High Level testing, we assume a split in the affordable housing element of 70% Social Rent to 30% Shared Ownership. We assume, as previously, no grant being available.

### **Back or garden land (0.025 Ha @ 40dph)**

- 4.6 We look initially at a development of one detached house on a small plot of 0.025 Ha, developed at an equivalent density of 40 dph. This would be a typical example of a site coming forward in the Borough and it might come forward within any of the sub markets identified.
- 4.7 Table 4.1 shows the results. These are shown in terms of residual site values (the difference between scheme revenue and scheme cost), expressed in terms of the absolute value and the pro rata value on a per hectare basis. Expressing the residual value on a per hectare basis as previously discussed, provides a perspective on value and allows comparison with other data sources.
- 4.8 Table 4.1 shows a very wide range of results. It shows for example at 30% affordable housing, the value of the site in the Melton Rural South area would be expected to be around £127,000 whilst at the same target, the value in

Melton and Asfordby Lower would be expected to be less than £30,000. As with the high level testing these are significant differences.

**4.9 Table 4.1 Development of one detached house: back land or garden land on a 0.025 Ha plot at 40 dph**

	0% Affordable	20% Affordable	30% Affordable	40% Affordable	50% Affordable	60% Affordable
Melton Rural South	£179,000 (£7.16)	£145,000 (£5.80)	£127,000 (£5.08)	£112,000 (£4.48)	£95,000 (£3.80)	£78,000 (£3.12)
Melton Rural East	£139,000 (£5.56)	£111,000 (£4.44)	£96,000 (£3.84)	£83,000 (£3.32)	£69,000 (£2.76)	£55,000 (£2.20)
Vale of Belvoir	£115,000 (£4.60)	£91,000 (£3.64)	£78,000 (£3.12)	£66,000 (£2.64)	£54,000 (£2.16)	£41,000 (£1.64)
Bottesford	£103,000 (£4.12)	£80,000 (£3.20)	£69,000 (£2.76)	£57,000 (£2.28)	£46,000 (£1.84)	£34,000 (£1.36)
Melton & Asfordby Middle	£71,000 (£2.84)	£53,000 (£2.12)	£44,000 (£1.76)	£35,000 (£1.40)	£26,000 (£1.04)	£17,000 (£0.68)
Melton & Asfordby Lower	£51,000 (£2.04)	£36,000 (£1.44)	£28,000 (£1.12)	£21,000 (£0.84)	£13,000 (£0.52)	£6,000 (£0.24)

Absolute Value  
(*pro rata value per hectare in £ million*).

- 4.10 The table shows that the affordable housing policy tends to hit harder in the weaker market areas. In Melton Rural South residual site value at 40% affordable housing policy is 62% of residual site at 100% sale value, but in Melton and Asfordby Lower, residual site value at 40% affordable housing policy is 41% of residual value at 100% sale value. More dramatic is the fall in value at higher proportions of affordable housing. For example in Melton and Asfordby Lower, residual site value at 60% affordable housing policy is only 12% of residual site value at 100% sale.
- 4.11 Despite the impact of affordable housing, residual values are nevertheless robust in most cases. In middle market Melton Mowbray (Vale of Belvoir and Bottesford) a 40% affordable housing target is likely to yield around £60,000 per plot.
- 4.12 With garden land, there is no consistent alternative use value which can be used as a benchmark with which to compare the out-turn RV. Each site will have its own existing use value depending on, for instance, the impact of the new development on the property from which the garden land has been taken.
- 4.13 This type of situation must be assessed on its merits, although we believe that this source of land supply, because of the land values generated, should attract an affordable housing contribution.

### Residential to residential (0.05 Ha; 40 dph)

- 4.14 This scenario assumes the development of two new detached homes replacing one large detached house. The new scheme is assumed to be one three bed and one four bed. We assume a site of 0.05 Ha with a density of 40 dph and test in all sub market areas.
- 4.15 This type of scheme is increasingly important in the Borough as elsewhere in England. There will normally be a net gain of at least one dwelling and this might provide the basis for an affordable housing contribution.
- 4.16 Table 4.2 sets out the results. As previously (Table 4.1) sub market impacts are significant on residual values. At 30% affordable housing for example in the Melton Rural South area, the site value (two plots) is around of £280,000 on the basis of the assumptions made. By comparison, at the same affordable housing target, the value in Melton and Asfordby is £95,000.

**Table 4.2 Residential to residential development: demolition of an existing house and new build two detached houses: 0.05 Ha plot at 40 dph**

	0% Affordable	20% Affordable	30% Affordable	40% Affordable	50% Affordable	60% Affordable
Melton Rural South	£390,000 (£7.80)	£316,000 (£6.32)	£280,000 (£5.60)	£243,000 (£4.86)	£206,000 (£4.12)	£169,000 (£3.38)
Melton Rural East	£306,000 (£6.12)	£245,000 (£4.90)	£214,000 (£4.28)	£183,000 (£3.66)	£152,000 (£3.04)	£121,000 (£2.42)
Vale of Belvoir	£254,000 (£5.08)	£200,000 (£4.00)	£174,000 (£3.48)	£146,000 (£2.92)	£120,000 (£2.40)	£92,000 (£1.84)
Bottesford	£226,000 (£4.52)	£176,000 (£3.52)	£152,000 (£3.04)	£126,000 (£2.52)	£101,000 (£2.02)	£76,000 (£1.52)
Melton & Asfordby Middle	£154,000 (£3.08)	£114,000 (£2.28)	£95,000 (£1.90)	£75,000 (£1.50)	£55,000 (£1.10)	£35,000 (£0.70)
Melton & Asfordby Lower	£114,000 (£2.28)	£80,000 (£1.60)	£63,000 (£1.26)	£47,000 (£0.94)	£30,000 (£0.60)	£35,000 (£0.70)

Absolute Value  
(pro rata value per hectare in £ million).

- 4.17 The economics of this type of development are tight. Providing affordable housing and/or any other form of Section 106 contribution will be difficult.
- 4.18 At the top of the market (Melton Rural South) a 20% affordable housing contribution generates only £316,000. This will not normally be above the value of a single detached dwelling in that area (average price around £400,000, based on a 10% discount to an indicative new build price), let alone allow the land owner a price premium which will normally be needed to bring the site forward. In short, even at 20% affordable housing, there would be almost no incentive for the owner to bring forward the site.
- 4.19 At the lower end of the market the economics are even tighter. With a site being developed for 100% market housing in Melton and Asfordby Middle, the

developer would need to acquire a detached house at less than £154,000. Our analysis suggests that an average detached price will be around £250,000, significantly less and a considerable likely shortfall.

### Residential to residential (0.2 Ha; 30 dph)

- 4.20 This scheme (as per the examples in Section 4.14) is also a residential to residential one. This one assumes however the demolition of two large detached houses and the development of:
- 2 x 2 bed semis;
  - 2 x 3 bed detached;
  - 1 x 3 bed bungalow;
  - 1 x 5 bed executive detached.
- 4.21 This assumes a significantly larger site (0.2 Ha) with six dwellings being built in total (a net gain of four homes). This scenario has been tested in the four more rural sub markets of the Borough.
- 4.22 Table 4.3 shows the residual values for the different range of affordable targets. As may be anticipated, this type of scheme will generate significantly higher values than for the previous scheme.
- 4.23 Nevertheless, these may still not be enough to bring sites forward. Based on our assumptions (existing use value at 10% less than new build) in the Melton Rural South sub market, this would mean an existing use value of around £800,000 for two detached houses. As Table 4.3 shows, at 20% affordable housing, the site value is £759,000, significantly below the benchmark.
- 4.24 In Bottesford, the weaker of these areas in terms of house prices, the picture is similar. There, two second hand or existing detached houses would be expected to command a 'buy-out' price of around £600,000. At a residual site value for the sample scheme, the value is £545,000, even for a scheme of 100% market housing.

**Table 4.3 Development of five new homes: demolition of two large detached houses on a 0.2 Ha plot at 30 dph**

	0% Affordable	20% Affordable	30% Affordable	40% Affordable	50% Affordable	60% Affordable
Melton Rural South	£949,000 (£4.75)	£759,000 (£3.79)	£665,000 (£3.32)	£569,000 (£2.85)	£475,000 (£2.37)	£378,000 (£1.89)
Melton Rural East	£741,000 (£3.71)	£581,000 (£2.91)	£503,000 (£2.51)	£421,000 (£2.01)	£342,000 (£1.71)	£261,000 (£1.31)
Vale of Belvoir	£617,000 (£3.08)	£475,000 (£2.37)	£404,000 (£2.02)	£333,000 (£1.66)	£262,000 (£1.31)	£192,000 (£0.96)
Bottesford	£545,000 (£2.75)	£414,000 (£2.07)	£348,000 (£1.74)	£282,000 (£1.41)	£216,000 (£1.08)	£151,000 (£0.76)

Absolute Value  
(*pro rata value per hectare in £ million*).

- 4.25 The economics of these types of (residential to residential) sites are therefore not easy. There are clear signals here that an affordable housing, or wider Section 106 policy, will be difficult to deliver. This is however not unexpected. It is a finding which is consistent with other studies we have carried out.
- 4.26 The precise financial relationships between residual value and existing open market value for a detached house will need to be explored on a site by site basis. Some sites may yield an affordable housing contribution notwithstanding an existing residential use. However, our general conclusion here is that Section 106 contributions will only be very modest, if at all, on sites of this type.

#### **Builders/storage yard (0.28 Ha; 50 dph)**

- 4.27 The site supply data suggests a small number of builders yard/storage land sites may potentially come forward for housing. We have taken this as an example, assuming a small development of:

2 x 2 bed flats;  
 6 x 2 bed houses;  
 2 x 3 bed houses;  
 2 x 4 bed semis;  
 2 x 4 bed detached

- 4.28 This generic development type is likely to occur most frequently in the urban areas of Melton and Asfordby (the lower two sub market areas). Table 4.4 shows the results:

**Table 4.4 Small development of 14 units: builders yard/storage land**

	0% Affordable	20% Affordable	30% Affordable	40% Affordable	50% Affordable	60% Affordable
Melton & Asfordby Middle	£458,000 (£1.64)	£263,000 (£0.94)	£166,000 (£0.59)	£68,000 (£0.24)	- £29,000 (- £0.10)	- £126,000 (- £0.45)
Melton & Asfordby Lower	£298,000 (£1.06)	£126,000 (£0.45)	£41,000 (£0.15)	- £45,000 (- £0.16)	- £131,000 (- £0.47)	- £216,000 (- £0.77)

Absolute Value  
 (pro rata value per hectare in £ million).

- 4.29 The table shows positive site values in Melton and Asfordby Middle up to 40% affordable housing, with positive values in the Melton and Asfordby Lower areas up to 30% affordable housing. Clearly beyond these points, development is unviable.
- 4.30 The 'benchmark' for judging the viability of this type of site is probably best looked at in terms of industrial or warehouse land values. The Valuation Office's Property Market report (as at July 1<sup>st</sup> 2007) suggests typical values on a per hectare basis (see Table 4.5). These vary, but we suggest for Melton

(looking at values for Leicester and Nottingham) a typical value per hectare of around £575,000

**Table 4.5 Industrial and warehouse land values (Valuation Office’s Property Market report)**

<b>EAST MIDLANDS</b>			
	<b>From £s per ha</b>	<b>To £s per ha</b>	<b>Typical £s per ha</b>
Lincoln	300,000	350,000	325,000
Mansfield	250,000	325,000	275,000
Nottingham	475,000	625,000	550,000
Derby	375,000	525,000	450,000
Leicester	400,000	700,000	600,000
Northampton	450,000	650,000	500,000

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- 4.31 On the basis of this benchmark, it would be difficult to deliver anything other than a site for 100% market housing in the weakest (Melton and Asfordby Lower) sub market. Table 2 suggests a site value of £1.06 million per hectare; this would provide the site owner with a sum of around £300,000. At a 20% affordable target, site value in this sub market falls to less than £500,000 per hectare.
- 4.32 In the Melton and Asfordby Middle market, a 30% affordable housing target should just exceed the existing use value (see Table 4.4) on a per hectare basis. Housing development should yield a site value approaching £0.6 million per hectare (based on the mix and density assumed), but only marginally above the existing use value of £575,000 assumed.
- 4.33 Generally, this type of site will have a significant existing use value, and in locations such as Melton and Asfordby, where residential land values are not high, it will not be easy to deliver Section 106.
- 4.34 These types of sites may require a higher % of intermediate affordable housing to bring them forward. For example, at 30% AH in Melton & Asfordby Middle, with a 50%:50% SR:SO ratio, the residual is £232,000 (£0.83 per Ha). This is in excess of the benchmark and may well be enough to bring this type of site forward.
- 4.35 Grant provides an additional option here by which the affordable housing contribution may be enhanced.
- 4.36 Finally, it is important to emphasise that the mix adopted for this scenario provides very specific conclusions (as elsewhere). A development of larger units may well deliver a stronger residual value.

### Factory or warehouse conversion to flats (0.1 Ha; 70 dph)

4.37 There may be opportunities to develop new homes via the conversion of factories and warehouses. As an example, we take the situation of a development of:

6 x 2 bed flats;  
1 x 3 bed flat

4.38 The viability of such schemes is difficult to predict since conversion costs vary significantly. Some conversions can be completed at a very low proportion of new build development costs; others where conversions costs will exceed new build. We have taken conversion costs at 60% of new build for the examples shown below. Would it be possible to include another option here, one where conversion costs are equal to or exceed new build costs? We have looked at the economics in the two Melton and Asfordby areas.

**Table 4.6 Factory or warehouse conversion to flats (0.1 Ha; 70 dph)**

	0% Affordable	20% Affordable	30% Affordable	40% Affordable	50% Affordable	60% Affordable
Melton & Asfordby Middle	£307,000 (£3.07)	£223,000 (£2.23)	£180,000 (£1.80)	£138,000 (£1.38)	£96,000 (0.96)	£53,000 (£0.53)
Melton & Asfordby Lower	£223,000 (£2.23)	£150,000 (£1.50)	£115,000 (£1.15)	£78,000 (£0.78)	£42,000 (£0.42)	£7,000 (£0.07)

Absolute Value  
(*pro rata value per hectare in £ million*).

4.39 These schemes are quite high density and with development costs significantly below average new build. Even though these are not the highest value sub markets, site values on a per hectare equivalent basis are significantly higher than for the builders yard example, although this reflects in large measure, assumptions on development costs.

4.40 Using a benchmark of industrial land (£575,000 per hectare), Table 4.6 shows residual scheme values clearing this benchmark up to 50% affordable housing in Melton and Asfordby Middle, and up to 40% in the Lower sub market. However, it is important to note that this will in many cases not be a sufficient benchmark as existing use value will be higher, reflecting the investment (not development) value of a building. This is difficult to judge and should be considered on a scheme by scheme basis as sites come forward. We think in most cases investment value will exceed development (land) value and hence achieving 40% or 50% affordable housing is very unlikely with this type of site.

## Allotments (0.2 Ha; 40 dph)

4.41 Smaller allotment sites provide further housing development opportunities. Typically these will, and have been developed, for a range of medium density housing. For example:

- 2 x 2 bed terraced houses;
- 2 x 2 bed semis;
- 2 x 4 bed detached;
- 2 x 3 bed bungalow.

4.42 We have tested this typical scheme type in the two urban sub markets of Melton and Asfordby. The results (scheme residual value) are shown in the Table below.

**Table 4.7 Allotment site developed for housing (0.2 Ha; 40 dph)**

	0% Affordable	20% Affordable	30% Affordable	40% Affordable	50% Affordable	60% Affordable
Melton & Asfordby Middle	£426,000 (£2.13)	£295,000 (£1.47)	£230,000 (£1.15)	£164,000 (£0.82)	£97,000 (0.48)	£31,000 (£0.16)
Melton & Asfordby Lower	£314,000 (£1.57)	£199,000 (£0.99)	£141,000 (£0.71)	£84,000 ( £0.42)	£26,000 (£0.13)	- £32,000 (- £0.16)

Absolute Value  
(*pro rata value per hectare in £ million*).

4.43 Table 4.7 shows a range of positive site values in the case of Melton and Asfordby Lower. At 60% affordable housing, the scheme value is £160,000 per hectare, although the actual receipt to the land owner(s) is £31,000. In the weaker sub market, site value is negative at 60% affordable, although produces an equivalent (per hectare) value of almost £1 million and an absolute value of almost £200,000 at 20% affordable housing.

4.44 In theory, the uplift from the value of an allotment site is likely to be significant and for this reason we think that this type of site should make a Section 106 contribution.

## Village infill (small site) – 0.2 Ha (30 dph)

4.45 Village infill sites have provided a number of homes in the Borough and we believe will continue to do so. Site sizes will vary. We test here a site of 0.2 hectares and (see below Section 4.9), a site of 0.35 hectares. We have tested a scheme assuming a development mix and density as shown below:

- 2 x 2 bed semi-detached;
- 2 x 3 bed detached;
- 1 x 3 bed bungalow;
- 1 x 5 bed detached.

4.46 The scheme values are shown for the four rural sub markets. As in scenario 2b, residual site values are relatively high, especially in the Rural South and Rural East sub markets.

**Table 4.8 Small village infill site (0.2 Ha at 30 dph)**

	0% Affordable	20% Affordable	30% Affordable	40% Affordable	50% Affordable	60% Affordable
Melton Rural South	£949,000 (£4.75)	£759,000 (£3.79)	£665,000 (£3.32)	£569,000 (£2.85)	£475,000 (£2.37)	£378,000 (£1.89)
Melton Rural East	£741,000 (£3.71)	£581,000 (£2.91)	£503,000 (£2.51)	£421,000 (£2.01)	£342,000 (£1.71)	£261,000 (£1.31)
Vale of Belvoir	£617,000 (£3.08)	£475,000 (£2.37)	£404,000 (£2.02)	£333,000 (£1.66)	£262,000 (£1.31)	£192,000 (£0.96)
Bottesford	£545,000 (£2.75)	£414,000 (£2.07)	£348,000 (£1.74)	£282,000 (£1.41)	£216,000 (£1.08)	£151,000 (£0.76)

Absolute Value  
(*pro rata value per hectare in £ million*).

4.47 We think that this type of site, in a rural location, provides a very good opportunity to promote a robust affordable housing target. Site value equivalents of £2 million per hectare are achieved at 40% affordable housing in the Melton Rural South sub market and at 30% in the Vale of Belvoir sub market. These figures provide around £70,000 per plot taking the relative affordable housing contributions into account. We do not think that a 40% target on this basis would make development unviable. Of course, whether the contribution is taken on or off site or in the form of a payment in lieu will depend on the specific site circumstances.

#### **Village infill (medium site) – 0.35 Ha (35 dph)**

4.48 As an example of a larger village infill site, we have looked at a development mix including:

- 4 x 2 bed town houses;
- 1 x 3 bed semi;
- 1 X 3 bed detached;
- 3 x 3 bed bungalows;
- 3 x 5 bed 'Exec' detached.

4.49 Table 4.9 shows the results of the analysis. In terms of site values on a per hectare basis, the residual values are not significantly different to those in Table 4.8 (smaller site). However, the absolute sum of money to the land owner will be significantly more with a larger infill site (13 dwellings) which may in many circumstances lead towards a higher percentage of affordable housing being delivered.

**Table 4.9 Medium village infill site (0.35 Ha at 35 dph)**

	0% Affordable	20% Affordable	30% Affordable	40% Affordable	50% Affordable	60% Affordable
Melton Rural South	£1,666,000 (£4.76)	£1,317,000 (£3.76)	£1,144,000 (£3.27)	£970,000 (£2.77)	£795,000 (£2.27)	£621,000 (£1.77)
Melton Rural East	£1,306,000 (£3.73)	£1,010,000 (£2.88)	£862,000 (£2.46)	£714,000 (£2.04)	£566,000 (£1.62)	£418,000 (£1.19)
Vale of Belvoir	£1,070,000 (£3.06)	£809,000 (£2.31)	£678,000 (£1.94)	£547,000 (£1.56)	£416,000 (£1.19)	£285,000 (£0.81)
Bottesford	£934,000 (£2.67)	£692,000 (£1.98)	£571,000 (£1.63)	£450,000 (£1.28)	£329,000 (£0.94)	£208,000 (£0.59)

Absolute Value  
(pro rata value per hectare in £ million).

#### Commercial use in village centre (e.g. pub) – 0.06 Ha (70 dph)

4.50 We also looked at the example of a small scheme where four, two bed flats would be developed. This has not been an uncommon form of scheme in the Borough. Table 4.10 shows the results.

4.51 Four flats will however generate only relatively low site values as the Table shows. The nature of the commercial existing use value clearly will vary from site to site. We do not have specific valuations for a commercial use such as a pub, but note that most of the values shown in Table 4.10 are likely to fall below the value of a single private dwelling. All considered, we do not think this type of development, on commercial infill sites in villages, will routinely deliver affordable housing at anything above very modest levels.

**Table 4.10 Small scheme – four 2 bed flats on a commercial use, e.g. pub**

	0% Affordable	20% Affordable	30% Affordable	40% Affordable	50% Affordable	60% Affordable
Melton Rural South	£240,000 (£4.00)	£158,000 (£2.63)	£116,000 (£1.93)	£75,000 (£1.25)	£34,000 (£0.57)	- £8,000 (- £0.13)
Melton Rural East	£160,000 (£2.67)	£89,000 (£1.48)	£54,000 (£0.90)	£18,000 (£0.30)	- £17,000 (- £0.28)	- £53,000 (- £0.88)
Vale of Belvoir	£112,000 (£1.87)	£48,000 (£0.80)	£16,000 (£0.27)	- £16,000 (- £0.27)	- £48,000 (- £0.80)	- £80,000 (- £1.33)
Bottesford	£99,000 (£1.60)	£35,000 (£0.58)	£3,000 (£0.05)	- £27,000 (- £0.45)	- £58,000 (£0.97)	- £88,000 (- £1.47)

Absolute Value  
(pro rata value per hectare in £ million).

**Small rural affordable housing mixed tenure/exception site – 0.15 Ha (35 dph)**

4.52 The Council have been successful in bringing forward a number of Rural Exception sites (RESs). RESs are sites of 100% affordable housing and as such are expected to yield site values below those of mixed tenure sites.

4.53 We have looked at a number of typical RES type schemes. In the first example (below) we take a development mix including:

- 2 x 2 bed houses;
- 2 x 2 bed bungalows;
- 1 x 3 bed house

4.54 For the Exception site examples, we have tested a range of tenure mixes. Because of concerns over viability, we have included some element of market housing in some of the scenarios (thus they are not RES's). In doing this, we need to make clear that the sites would then no longer be rural exception sites as defined in PPS3 and should, more correctly, be described generically as small mixed tenure schemes in rural settlements. The tenure mixes we have tested are as follows:

- 33.3% Sale; 33.3% Social Rent (SR) ; 33.3% Shared Ownership (SO).
- 20% Sale; 40% Social Rent; 40% Shared Ownership;
- 40% Social Rent; 60% Shared Ownership;
- 50% Social Rent; 50% Shared Ownership.

4.55 Table 4.11 shows residual site values for a small site of 0.15 hectares developed at 35 dph. As would be expected, the higher the proportion of market units, the higher the residual value. A relatively small site in the Vale of Belvoir yields, according to the assumptions made, a value of around £100,000, with a similar scheme in Melton Rural South being expected to achieve over double this figure.

**Table 4.11 Small Mixed Tenure/Exception Site – 0.15 Ha (35 dph)**

	33.3% Sale; 33.3% SR; 33.3% SO	20% Sale; 40% SR; 40% SO	40% SR; 60% SO	50% SR; 50% SO
Melton Rural South	£226,000 (£1.51)	£163,000 (£1.08)	£138,000 (£0.92)	£70,000 (£0.47)
Melton Rural East	£150,000 (£1.00)	£136,000 (£0.91)	£72,000 (£0.48)	£15,000 (£0.10)
Vale of Belvoir	£101,000 (£0.67)	£52,000 (£0.35)	£31,000 (£0.21)	- £20,000 (- £0.13)
Bottesford	£70,000 (£0.47)	£26,000 (£0.17)	£4,000 (£0.03)	- £42,000 (- £0.28)

Absolute Value  
(*pro rata value per hectare in £ million*).

- 4.56 Schemes including 40% Social Rent and 60% Shared Ownership look marginal, with the exception of perhaps the highest value area – Melton Rural South. Although the pro-rata value of the site in Melton Rural East is just under £500,000, the actual anticipated receipt to the land owner is just over £70,000. This is some £14,000 per plot. At a 50%:50% Social Rent: Shared Ownership split, the site value is anticipated to be negative in the two weaker sub markets.
- 4.57 With RES, the benchmark expected land owner value will vary. The agricultural land value on a plot per plot basis is around £500, based on a 35 dph density and £15,000 per hectare going rate.
- 4.58 Therefore even an RES in a stronger sub market will deliver a significant land value uplift. Much will then depend on the location of the site, especially where land might otherwise be sold as paddock land.
- 4.59 A final consideration is the approach of the Housing Corporation to the provision of grant on RES. If grant is made contingent on the sale of land at a specified level (e.g. we are aware that grant funding in some regions depends on the sale of plots at a maximum of £5,000), then this can act as a barrier to land being brought forward for RES.

**Medium rural affordable housing mixed tenure/exception site – 0.30 Ha (35 dph)**

- 4.60 We also tested a medium sized RES on a 0.3 Ha site with the following development mix (again comparing this to a mixed tenure scheme):

4 x 2 bed town houses;  
 3 x 2 bed bungalow;  
 3 x 3 bed town houses

- 4.61 The findings are not dissimilar to those shown for the smaller site, in terms of the residual site values generated by the schemes on a per hectare basis.

**Table 4.12 Medium Mixed Tenure/Exception Site – 0.15 Ha (35 dph)**

	33.3% Sale; 33.3% SR; 33.3% SO	20% Sale; 40% SR; 40% SO	40% SR; 60% SO	50% SR; 50% SO
Melton Rural South	£508,000 (£1.69)	£375,000 (£1.25)	£323,000 (£1.07)	£181,000 (£0.60)
Melton Rural East	£349,000 (£1.12)	£235,000 (£0.78)	£188,000 (£0.63)	£68,000 (£0.23)
Vale of Belvoir	£246,000 (£0.82)	£145,000 (£0.48)	£100,000 (£0.33)	- £4,000 (- £0.01)
Bottesford	£188,000 (£0.63)	£92,000 (£0.31)	£50,000 (£0.17)	- £46,000 (- £0.15)

Absolute Value  
*(pro rata value per hectare in £ million).*

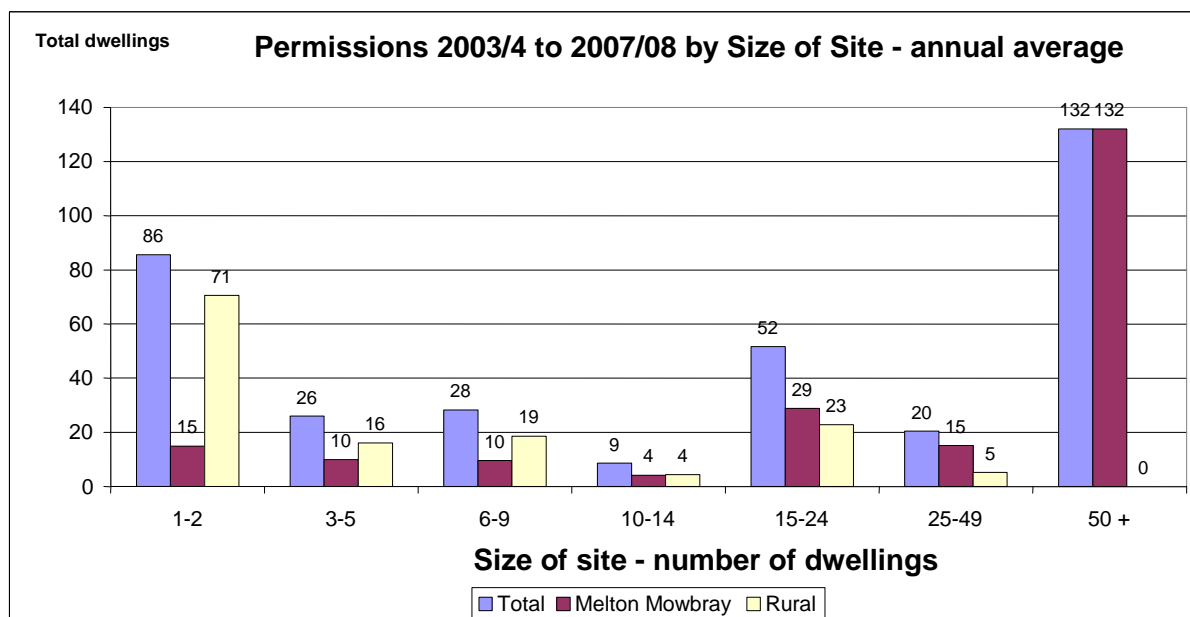
## General findings from the case studies

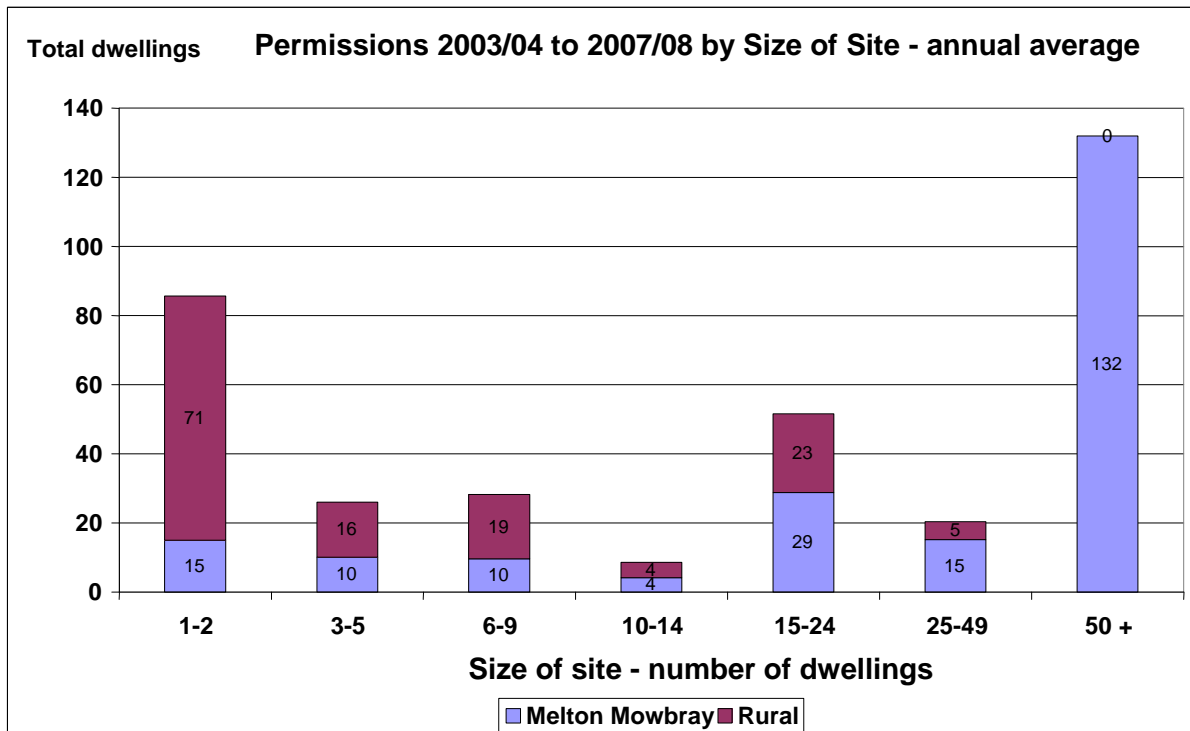
- 4.62 We have considered here a range of typical or case study sites. The purpose of the analysis has been to look at what levels of residual value might be generated as against a range of existing use values. Existing use value is significant because it provides a key benchmark against which land owners can decide whether it is financially worthwhile to bring a site forward for housing or not.
- 4.63 Most of the sites looked at here can be described as smaller ones. However, it is highly important to emphasise that the case study analysis is NOT an analysis of the viability of smaller sites. The viability of any size of site can equally validly be checked by looking at both the High Level and Case Study testing work. Viability is simply a measure of the difference in value between housing land residual and the existing or indeed, alternative use. Both High Level and Case Study testing provide this potential.
- 4.64 This is because we found no evidence either in this study, or in related work, to show that smaller schemes are any less viable to develop than larger ones, the key factors affecting viability being, we would argue, location, development mix, density and existing or alternative use. The case for a lower threshold is therefore based, not narrowly on site size, but on the relationship between the types of sites bringing forward housing (existing use values) and their size.
- 4.65 In these respects, it is important to recognise that residential to residential sites, which are normally small in size, present very particular challenges for viability. But it is important to recognise that the viability challenge relates not to site size, but to existing use value; other small sites have significantly lower existing use values and are more viable.
- 4.66 The case study analysis suggests, depending on the nature of the existing use of sites, that affordable housing will be viable within a range of 30% to 40%, assuming the relationship in (residential versus other) land values remains broadly constant going forward.
- 4.67 However, sites, as previously stated, will need to be assessed on an individual basis, with site specific data being available.

## 5 SITE SIZE THRESHOLDS

- 5.1 In this section, we consider the appropriate size of site, above which an affordable housing contribution should be sought (the site size threshold).
- 5.2 Given the high level of need for affordable housing as shown in the recent Strategic Housing Market Assessment (2008) and other previous needs studies, we have worked on the basis that it is appropriate for the Council to have policies which maximise affordable housing delivery – consistent with practical development constraints, including viability and other planning considerations e.g. developing mixed and inclusive communities. Affordable housing policies could include the use of thresholds below the 15 dwelling national guideline set out in PPS3. To review whether an alternative threshold would be appropriate we have first considered the overall pattern of supply of sites in the Borough and then considered any viability issues which might arise with delivery of small sites.
- 5.3 At the present time there is no Strategic Housing Land Availability Assessment available for the Borough. We have therefore relied on information about historic patterns of permissions to assess the pattern of land supply; using information from the recent past as a reasonable guide to the future.
- 5.4 The chart below shows the number of dwellings in sites of different sizes which were given permission during the 5 year period 2003/08. The figures are shown as an annual average. Information is provided separately for Melton Mowbray and the remaining (rural) area of the Borough as well as providing a total for the Borough.

**Figure 5.1 Dwellings granted planning permission (03/08) by size of site (on an annual average basis)**





- 5.5 The chart shows a significant variation in dwellings with permission in the different site sizes between Melton Mowbray and the rest of the Borough. In Melton Mowbray, the importance of larger sites to the supply is significant and about 61% of dwellings granted permission in Melton Mowbray are on sites of 50 dwellings or more. These sites contribute about 37% of the Borough's total permissions.
- 5.6 On the basis of the data representing recent planning permissions, smaller sites play a less significant role in meeting total supply in the town itself. 18% of dwellings granted permission are on sites of less than 15 dwellings. In the rural areas, the reverse is the case and about 80% of dwellings permitted were on sites of below 15 dwellings.
- 5.7 Of the smaller sites – developments of 1 and 2 dwellings dominate – with an average of about 71 dwellings in rural locations (or more than half the total annual average supply in the rural areas) being in schemes of 1 or 2 dwellings.
- 5.8 The following table illustrates the level of affordable housing which could be achieved on mixed tenure schemes for different sizes of sites and assuming the Council achieves a 40% target on every site. The analysis must be treated as illustrative - we recognise that not all sites should be expected to deliver 40% affordable housing and that it is impractical to consider on-site delivery at 40% on sites below 3 dwellings. The 'all dwellings figure' is the annual average of permissions for 2003/08 which was used in Figure 5.1 above.

**Table 5.1: Notional Potential Affordable Housing Delivery at a 40% Target – Based on Annual Average Permissions 2003/08**

Site size in dwellings	Melton Mowbray			Rest of Borough		
	All dwellings	AH at 40%	at	All dwellings	AH at 40%	at
1-2	15	6		71	28	
3-5	10	4		16	6	
6-9	10	4		19	7	
10-14	4	2		4	2	
15-24	29	12		23	9	
25-49	15	6		5	2	
50 +	132	53		0	0	

- 5.9 The above table indicates that in a ‘typical year’ of permissions, in Melton Mowbray, compared with a threshold of 15 dwellings, a threshold of 1 dwelling would yield a notional additional 16 affordable dwellings. At a threshold of 6 dwellings, it would yield 6 extra affordable homes compared with a threshold of 15 dwellings. In the rest of the Borough, the benefits of a threshold below 15 dwellings look stronger but, consistent with the analysis in Figure 5.1, the real benefit comes from seeking contributions from the smallest sites (of 1 and 2 dwellings – albeit that this would necessarily be as a commuted sum). A reduced threshold of 6 dwellings would deliver 9 more affordable dwellings each year compared with delivery with a threshold of 15 dwellings in the rural areas. At a threshold of 1 dwelling, delivery of affordable housing increases by a notional 43 affordable dwellings compared with a threshold of 15 dwellings in the rural areas.
- 5.10 The evidence from the analysis of recent permissions indicates that the Council would have a strong case to seek a site size threshold below the 15 dwellings level indicated in PPS3. The Council could consider operating a differential threshold (between the town and the rural areas). On the basis of the evidence, a rural threshold of 1 dwelling could be appropriate but there are practical issues about collecting contributions and viability which would also need to be considered. At 1 or 2 dwellings, on-site provision of affordable housing would not be meaningful (at a 40% target) but a commuted sum could be collected. At three or more dwellings, on-site provision becomes an option for consideration.

### **Future housing supply context**

- 5.11 Table 5.2 sets out a summary of expected housing supply to 2026 which has been calculated by the Council. It is included within Appendix 15 of the Core Strategy (Preferred Options) consultation document (the figures are rounded approximates).

**Table 5.2: Summary of Estimated Supply of Housing over the LDF period to 2026 (rounded approximates).**

Source (large sites are sites of 10 dwellings or more)	Approx No. Dwellings		
	Total	MM	Rural
Completions over the period 2001/02 to 2007/08	1160	710	450
Large sites with planning permission at 30/09/08	760	635	125
Specific Allocated Brownfield Sites	20	20	0
Specific Unallocated Brownfield Sites to 2018	130	130	0
Sustainable Urban Extension to Melton Mowbray	1000	1000	0
Allowance for Unidentified Brownfield Sites 2018 to 2026	520	420	100
Allowance for Small Development Sites to 2026	720	360	360
Allocated 'Exception' Sites	50	0	50
<b>Total</b>	<b>4360</b>	<b>3275</b>	<b>1085</b>

**Source: Melton Borough Council**

- 5.12 Table 5.2 distinguishes between recent completions and permissions, allocated and unallocated brownfield sites, the SUE (Sustainable Urban Extension) and makes an allowance for unidentified and small development sites. It does so, as with the previous analysis of planning permissions, on the basis of likely development in and around the town, and development in rural areas.
- 5.13 In so far as the rural areas are concerned, the analysis suggests a significant number of additional small sites coming forward – to add to the high number of small development with current outstanding planning permissions. There is an allowance for 360 dwellings on small development sites.
- 5.14 In Melton Mowbray itself, 41% of supply going forward (1345 homes) are accounted for by current completions and permissions. We believe there will be a significant 'overlap' with the data in Figure 5.1 which suggests that in the immediate future the town will see much development on larger sites.
- 5.15 However, the analysis suggests a significant allowance for small development sites and for unidentified brownfield sites in the town. If the SUE figures (1000 homes) are excluded, then this source of supply will make up 34% of all dwellings over the LDF period.
- 5.16 We understand from the Council that a significant proportion of these sites are small and therefore any policy response on thresholds should take the

likelihood of an increased number of smaller developments within the town, into account.

### **Small Sites and Affordable Housing**

- 5.17 We discussed the suitability of small sites for affordable housing at the development industry workshop which included representatives from Registered Social Landlords (RSLs).
- 5.18 The RSLs indicated their willingness in principle to take on small numbers of affordable units in mixed tenure development, although much depends on location and specific management issues.
- 5.19 Generally, small sites were not considered to be systematically less viable to develop than larger sites with viability depending more significantly on scheme location, development mix and the quality of the development.

### **Use of Commuted Sums and formulaic approach**

- 5.20 On the use of commuted sums, PPS3 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”*  
Para 29.
- 5.21 As a general principle, this is the position which the Council takes and which seeks on-site provision of affordable housing as the first priority on larger sites. However, the Preferred Options Core Strategy and the draft Affordable Housing SPD also has a draft policy which seeks a, “.....(financial) contribution of 13% of the open market land value on all developments of 5 dwellings or less “.
- 5.22 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 set out 29 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 on site.
- 5.23 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.

### **Example of calculation of a commuted sum.**

- 5.24 Commuted sums can be precisely calculated using the Three Dragons Affordable Housing Viability Toolkit, at the Council’s disposal. There are three stages to this process:

- a) Calculate the residual value of the site assuming the scheme is developed for 100% market housing (i.e no affordable);
- b) Calculate the residual value of the site assuming the scheme is developed at the relevant policy position.
- c) Calculate the difference in residual value between the calculation and a) and the calculation at b)

**Example:**

Value of site with no affordable housing	£2,000,000
Value of site with 40% affordable housing	£1,200,000
Commuted sum payment	£800,000.

It should be noted that a commuted sum approach cannot make unviable on site schemes, viable. If a scheme is not viable with on-site provision, deciding to have a commuted sum will not then make the scheme viable.

In the example above therefore, if the existing use value of the site is say £1,500,000 then the maximum commuted sum will be £2,000,000 less £1,500,000.

The commuted sum will vary according to location within the Borough. As a rough guide a commuted sum of around £80,000 per unit will be needed in Melton Mowbray itself. This is made up:

£20,000 land plot value

£60,000 – difference between build costs and what an RSL could afford to pay excluding grant.

The addition of grant may reduce the commuted sum significantly.

## 6 CONCLUSIONS AND RECOMMENDATIONS

- 6.1 By way of policy review, it is important to state that the Preferred Option for the Core Strategy requires developments of 6 dwellings or more to make a 40% on-site contribution. On smaller developments, it is proposed that a financial contribution, in lieu of provision on site development, be required. The draft SPD sets this at 13% of open market value.
- 6.2 Our conclusion on policy target is that a 40% contribution will be significantly easier to sustain in the higher value sub markets, the lower value sub markets showing low, and in some instances (most notably at higher density), very low residual values.
- 6.3 In the light of the evidence we have examined, we feel that the Council should consider a split affordable housing target taking into account the full range of housing market circumstances that exist across the Borough.
- 6.4 There is a strong case, based on the analysis, for a target which relates to a) Melton town itself and b), the wider rural areas. This is because land values are generally higher in the rural areas which are also more likely to have lower existing use values (green field and/or infill sites).
- 6.5 Setting of targets for affordable housing is not a precise science. Government currently does not provide either explicit or implicit guidelines. With respect to rural areas and areas which attract relatively low existing use values, we feel that the 40% target set out in the Core Strategy Preferred Option will not be an unrealistic starting point over the Plan period.
- 6.6 However, we feel that a 40% target applied to many of the urban sites, and particularly those in lower value areas, will be too high. Therefore in Melton and Asfordby, we feel that the target should be set around 30%, reflecting the difference in sub market situations.
- 6.7 Specific types of sites present particular viability challenges. We think that residential to residential sites involving demolition of existing dwellings will be problematic, even where there is a net gain in the number of dwellings built. Policy will need to be flexible here; and the Council should consider how it might use whatever subsidy is available to assist delivery of affordable housing on these types of sites.
- 6.8 Where viability is challenging, the Council should we feel, take a flexible approach to the affordable housing product required, potentially increasing the proportion of intermediate affordable housing where necessary and appropriate.
- 6.9 Large greenfield site releases should deliver affordable housing up to 40% in most instances. Values in the Borough, even in weaker sub markets should generate figures significantly above existing use values. We do not however think that a special greenfield (as opposed to brownfield) policy target should be adopted. Greenfield land releases will very often attract high infrastructure costs and, when compared with brownfield sites, are not, as a matter of course, more difficult to deliver from a viability perspective.

- 6.10 We underline the importance of bespoke analysis of the Sustainable Urban Extension (SUE) for the town itself. Our recommendation of a 30% target for Melton town should not prejudice a higher target for the SUE should any bespoke viability work show the land could deliver a higher target.
- 6.11 Small sites are making a significant contribution to the land supply in the rural areas of the Borough, outside Melton Mowbray. About 80% of all dwellings granted permission over the last 5 years are on sites below 15 dwellings. Very small sites (of below 5 dwellings) are particularly important to the supply. In a situation where there is a significant need to deliver affordable housing; there seems a strong argument for the Council to implement a zero threshold outside Melton Mowbray – acknowledging that on-site provision would not be achievable at 1 dwelling and at anything below 50% on sites of 2 dwellings and below 33% on sites of 3 dwellings.
- 6.12 However, some of the small sites are residential to residential (re) developments which involve the demolition of an existing dwelling. As noted earlier, these sites are likely to be problematic in so far as delivering affordable housing is concerned, because of the relatively high existing use value. Discounting this component of the site supply in its rural areas, a zero threshold would seem justified and capable of implementation.
- 6.13 There is no reason why the Council does not seek delivery of affordable housing on-site (at least on sites above 2 dwellings if a 40% target is followed). Increasing on-site delivery wherever possible would seem crucial in meeting the need for affordable housing in rural areas.
- 6.14 The position re small sites and site size threshold in Melton Mowbray is less clear cut. In Melton, large sites have been dominating the supply of housing, with 82% of all dwellings granted permission over the last 5 years being on sites of 15 dwellings or more. However, the Council's own data may suggest that small sites will feature more strongly over the period of the Plan. On this basis, a lower threshold than 15 would be justified.
- 6.15 In summary we are proposing a zero threshold in rural areas, recognising the significance of smaller sites. For the town itself, we believe that a threshold of 6 dwellings, as set out in the Preferred Option is a realistic policy position to adopt. This recognises that currently a significant amount of supply is emanating from larger sites but that the Council's data might indicate an increasing significance of smaller sites in the town.
- 6.16 We believe that the form of contribution (on site or commuted sum) is not a viability issue, but a planning and site suitability matter. On this basis, either on site provision or commuted sums could then be sought at six dwellings in the town and at a zero threshold in the rural areas. We recommend that the 'equivalence' principle is followed in calculating commuted sums. Any concerns then about scheme viability (whatever size of site) should be reflected in a 'reduced' affordable housing contribution whether provided on-site, off-site or as a financial contribution.
- 6.17 The Local Development Framework is looking to identify a sustainable urban extension to Melton Mowbray and this will provide a significant level of supply in the medium term – but unlikely before 2012/2013. In the interim, it is not

anticipated that any other large allocated sites will become available and the land supply will rely on unallocated brownfield sites coming forward.

## Appendices

### Appendix 1 Findings from the consultation workshop on the Affordable Housing Viability Study for Melton BC

#### Present:

<b>Name</b>	<b>Organisation</b>
<b>A Burdett</b>	<b>Intali</b>
<b>Nicola Butcher</b>	<b>Melton BC</b>
<b>Caroline Chave</b>	<b>Andrew Martin Associates</b>
<b>Nick Cullen</b>	<b>LHA-ASRA</b>
<b>Pat Cumbers</b>	<b>Melton Mowbray Town Estates</b>
<b>Elaine Exton</b>	<b>Land owner</b>
<b>Michael Exton</b>	<b>Land owner</b>
<b>Maurice Fairhurst</b>	<b>Consultant</b>
<b>Martin Herbert</b>	<b>Brown and Co</b>
<b>Catherine Hewitt</b>	<b>NCHA</b>
<b>Lynsey Hillman-Gamble</b>	<b>Smith Stuart Reynolds</b>
<b>R Hussey</b>	<b>Longhurst GP</b>
<b>N Johnson</b>	<b>Consultant</b>
<b>Martin Letts</b>	<b>Vision Four Developments</b>
<b>Megan Lewis</b>	<b>Muir Group</b>
<b>David Matthews</b>	<b>Darian Homes</b>
<b>B McNulty</b>	<b>Land owner</b>
<b>Richard Mugglestone</b>	<b>Midlands Rural Housing</b>
<b>Jim Patman</b>	<b>East Midlands HA</b>

<b>Sarah Robinson</b>	<b>Eastern Shires Housing Group</b>
<b>D Smart</b>	<b>Griegs Ltd</b>
<b>Paul Treston</b>	<b>Riverside</b>
<b>Christopher Whitmore</b>	<b>Andrew Martin Associates</b>
<b>R Windley</b>	<b>L &amp; R RHE</b>
<b>Andrew Golland</b>	<b>Three Dragons</b>
<b>Kathleen Dunmore</b>	<b>Three Dragons</b>
<b>Bob Line</b>	<b>B line Housing Information</b>

(Submission separately by Mr Ian Gidley)

## **1 Issues constraining the supply of affordable housing in Melton Borough**

The relatively low housing requirement (all tenures) in the Borough was initially suggested to be a constraint. The problem is perceived to be low housing numbers overall which then constrain the hand of the planners to bring forward affordable housing. Whilst the Melton Mowbray SUE (Sustainable Urban Extension) has the potential to bring forward affordable housing, mainstream housing supply is nevertheless still low.

The current state of the housing market is perceived to be a constraint to delivering affordable housing. Land has been purchased at high values and hence sites won't be brought forward until either house prices 'catch up' (with the land values assumed) or options can be negotiated downwards. The 'credit crunch' is real, and prevents many first time buyers from accessing the market.

The national house builders are currently trying to offload sites to housing associations. This may provide an opportunity to increase affordable housing supply but there are issues about mix and quality of development.

## **2 The policy position**

The current policy objective is to deliver 40% affordable housing on sites which yield six or more dwellings. 35% has been achieved on major sites within the town of Melton Mowbray, provided as a mix of social rent and low cost home ownership. It was suggested that shifting affordable housing targets (not specifically in Melton, but generally) will cause some destabilisation of the land market.

Other (than affordable housing) contributions are an additional burden on sites. Open space, education and other planning gain, plus affordable housing, it was stated, could make site value negative. It was accepted however that this is very much down to site specific circumstances and that some sites could still deliver affordable housing and other Section 106 without jeopardising the viability of schemes.

The question as to whether split (affordable housing) targets would help, where high land value areas attract a higher target, and lower value areas have a lower one was discussed. There was no particular preference expressed for either approach from delegates.

One delegate pointed out that the targets in practice tend to be set on the basis of needs and not viability. This leads to some developments carrying relatively heavy affordable housing contributions, whilst others are let off more lightly. This is a problem for the land market as it is often difficult for land owners and developers to anticipate what will be required in local circumstances.

The issue of sheltered schemes and affordable housing contributions was raised. It was suggested by one delegate that these schemes should carry an affordable housing/Section 106 obligation which could be in the form of a financial contribution to be consistent with more mainstream housing schemes. This was on the basis that integrating mixed tenures can be difficult. However, the current policy position is that each scheme will be judged on its merits and there is no particular presumption in favour of commuted sums.

### **3 Small sites and thresholds**

Delegates were asked for their views on small sites, viability and thresholds.

There was a fairly consistent view that there is no particular problem with viability on small sites. The viability of sites depends more significantly on their location, development mix and the intended quality of build (and its impact hence on costs and revenues). The size of the site is not a viability issue and there was some level of consensus that small sites generate higher (pro rata) land values than larger ones.

One delegate stated however that if there is a stigma effect caused by affordable housing on site, then this will be more acute on smaller sites, despite the fact that the overall proportions (small versus large sites) remain consistent.

RSLs are of the view that normally they can deal with small schemes (2 to 4 affordable units) although much depends on the location and the extent to which ongoing management is an issue.

### **4 Solving the affordable housing problem**

There was a significant focus within the Workshop on the role of Rural Exception Sites (RESs). Some delegates see this option as being the main way in which housing need can be met. It was pointed out however, that although the Borough has had some historic success in delivering Rural Exception Sites, the actual number of affordable homes developed remains low. The current state of play with respect to Exception schemes is:

### **Existing schemes**

Waltham – 10

Wyndham – 6 (with 5 more planned with permission on new site)

Somerby – 6 (with 7 more planned on new site to go for planning this year)

Scalford – 6

Old Dalby – 9

### **Pipeline**

Wyndham – 5 more planned with planning permission on new site

Somerby – 7 more planned on new site to go for planning permission 2008

Bottesford – 22 (site finding stage)

Asfordby – 14 (site finding stage)

Long Clawson – Conducting Housing Needs Survey 2008

Harby – Conducting Housing Needs Survey 2008

Hose – Conducting Housing Needs Survey 2008

There are a number of 'traditional' problems associated with RESs; these include local (NIMBY) pressure, and the hope value sometimes generated for land owners with 'permission' for what they perceive to be mainstream housing sites ('I'll get permission eventually for market housing'). Village sites are rather 'inert' and take a lot of effort to bring forward. Nevertheless, one view expressed was that if land supply 'dries up' then RESs will be the only realistic option for affordable housing.

One delegate stated that a much stronger policy is needed in the villages to stem the flight of people, particularly young people to the main urban areas. The decline of farming is driving this trend. Rural jobs and affordable housing is needed in some large measure to reverse the current trends. It was stated by one delegate that new comers to villages often do not help the process of developing local communities.

There is a general issue about how to deliver affordable housing in settlements that are in essence, unsustainable. One view is that needs from several unsustainable settlements can be 'clustered' together and larger developments in more sustainable locations be developed. This is an ongoing debate which the Council are trying to resolve in conjunction with the parishes.

## **5 Other development issues**

The question of development mix was discussed. It was stated that there is an over supply of flats in market towns (as well as in the cities). Developers are likely to avoid first time buyer flats in the current market situation. There may be a market for luxury flats for older people trading down.

Developers generally, and land owners more particularly, are likely to take a longer term view and to hold back on the release of land until the market strengthens. This has implications for housing trajectories as well as for the delivery of affordable housing.

There is an ongoing tension between housing demand and housing needs. The housing needs tend to focus development at the lower end and on those trying to access the market whilst demand tends to focus towards larger units as these dwellings help to maximise developer returns.

## **Consultation workshop: Affordable Housing Viability Study for Melton BC**

### **1 Background and progress with project**

Three Dragons and B Line Housing have been appointed by Melton BC to look at the issue of viability, affordable housing and site supply in their local authority area.

The question of the viability of land for housing is central to planning policy as a result of the recently published PPS3 (Para 29) which states that local authorities should, in forward planning, set targets for affordable housing which reflect the 'likely economic viability of land for housing'. Local authorities are now responding to this requirement and we feel it is necessary and helpful to take on board the views of developers, their agents, land owners and RSLs.

The Borough has a range of housing market challenges. Much of it is rural and the future supply of housing is likely to rely to a significant extent on small sites, and sites in rural areas. The study will look to see which of these types of sites can typically deliver affordable housing viably. The workshop represents a key milestone in the project and we are looking to obtain the views of experts in the field of housing delivery.

### **2 Questions for the agenda**

The workshops will aim to discuss the impacts of affordable housing and other Section 106 contributions on the viability of sites and development in the two local authority areas. Also to understand more about the varying factors that impact on the deliverability of Section 106: development mix; density; and not least, the existing and alternative use value for sites, site specific infrastructure, market prices and whether the site is located on green field or on previously developed land.

Questions and issues we would like to address are:

- Key factors constraining the delivery of affordable housing in the Borough? (is it the market or the policy?);
- The housing market varies – what is the case for split targets recognising viability reflects (in large measure) differences in house prices?
- What is specific about the land market – what types of policy are most appropriate recognising balance between green and brown field sites? Should there be targets for green and brown field sites specifically?
- Are there areas where only low affordable housing delivery is possible? If so, why?
- Viability – how to assess it – what are benchmarks? What are land owner expectations? What's going wrong (right?) with negotiations?

- Thresholds: is there an appropriate level that makes development viable? Are small sites less viable than large ones? Is there a case for a nil (or one unit threshold?)
- Development mix: what should be built to meet needs and demands. Are there typical mixes that work?
- Off site contributions; where are these appropriate in the local market circumstances?
- Related viability issues: other (than affordable housing) Section contributions; working towards CIL.
- Working protocols: how should viability be dealt with on a scheme by scheme basis; what scope is there for joint working and common practice?
- Any other issues

THANK YOU FOR YOUR PARTICIPATION.

If there are further questions relating to the workshop please contact:

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# High Level Viability Testing framework: Melton BC

## 1 Market areas and prices

Prices and sub markets as in table below as at July 2008.

MELTON BC													
Sub markets	DETACHED			SEMIS			TOWN HOUSES		FLATS			BUNGALOWS	
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed	3 Bed	2 Bed
Melton Rural south	£490,000	£445,000	£380,000	£295,000	£270,000	£230,000	£230,000	£210,000	£215,000	£195,000	£145,000	£325,000	£275,000
Melton Rural East	£430,000	£390,000	£330,000	£260,000	£235,000	£200,000	£200,000	£185,000	£190,000	£170,000	£130,000	£285,000	£240,000
Vale of Belvoir	£390,000	£355,000	£300,000	£240,000	£215,000	£185,000	£185,000	£165,000	£175,000	£155,000	£120,000	£260,000	£220,000
Bottesford	£365,000	£335,000	£285,000	£225,000	£205,000	£175,000	£175,000	£155,000	£160,000	£150,000	£110,000	£245,000	£205,000
Melton & Asfordby Middle	£315,000	£285,000	£245,000	£190,000	£175,000	£150,000	£150,000	£135,000	£140,000	£130,000	£95,000	£210,000	£180,000
Melton & Asfordby Lower	£285,000	£260,000	£220,000	£175,000	£160,000	£135,000	£135,000	£125,000	£125,000	£115,000	£85,000	£190,000	£160,000

## 2 Development density and mix

Please test for all market the following mixes.

**30 dph:** 35% 2 bed town houses; 15% 2 bed bungalows; 5% 3 bed bungalows; 15% 3 bed town houses; 15% semis; 15% 4 bed detached houses.

**40 dph:** 10% 2 bed flats; 35% 2 bed town houses; 15% 2 bed bungalows; 20% 3 bed town houses; 20% 4 bed detached houses.

**50 dph:** 20% 2 bed flats; 30% 2 bed town houses; 30% 3 bed town houses; 20% 4 bed detached houses.

**60 dph:** 30% 2 bed flats; 30% 2 bed town houses; 20% 3 bed town houses; 20% 4 detached bed houses.

**70 dph:** 40% 2 bed flats; 25% 2 bed town houses; 20% 3 bed town houses; 15% 4 detached bed houses.

## 3 Affordable housing scenarios to test:

Test at overall targets of:

- 30%;
- 40%;
- 50%;

- 60%.

Affordable housing split:

Run at 70% Social Rent and 30% Shared Ownership.

Set NBHB as shown in screenshot:

New Build HomeBuy	Percentage Purchased	50%
	Rental limit on unbought share	100%
Percentage purchased by purchaser for Discount Market		
Local Sale	Average Income	
	Income Multiplier	

#### 4 Unit sizes

Unit for all tests:

	Sizes (sq m)	
	Affordable	Private
<b>1 Bed Flat</b>	<b>46</b>	<b>45</b>
<b>2 Bed Flat</b>	<b>67</b>	<b>62</b>
<b>3 Bed Flat</b>	<b>84</b>	<b>75</b>
<b>2 Bed Town</b>	<b>68</b>	<b>66</b>
<b>3 Bed Town</b>	<b>86</b>	<b>84</b>
<b>2 Bed Semi</b>	<b>70</b>	<b>68</b>
<b>3 Bed Semi</b>	<b>88</b>	<b>90</b>
<b>4 Bed Semi</b>	<b>100</b>	<b>115</b>
<b>3 Bed Det</b>	<b>90</b>	<b>116</b>
<b>4 Bed Det</b>	<b>106</b>	<b>135</b>
<b>5 Bed Det</b>	<b>120</b>	<b>150</b>
<b>2 Bed Bung</b>	<b>72</b>	<b>70</b>
<b>3 Bed Bung</b>	<b>90</b>	<b>94</b>

#### 5 Build costs

These are based as at July 2008.

## 10 - DEVELOPMENT COSTS

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST

Clear Tables

### Build Costs per sq m

You can enter your own values in the white cells below. Where cells are left blank, the Toolkit value for that row will be used

	Toolkit Values	
Bungalows	£1,049	£880
Flats (6+ storeys)	£1,545	
Flats (5 & less storeys)	£1,115	£1,185
Houses <= 75m2	£999	£925
Houses > 75m2	£901	£835

### Other Development Costs

You can enter your own values in the white cells below. Enter 0% for non-applicable items. Where cells are left blank, the Toolkit value for that row will be used.

	Toolkit Values	User Values	
Professional Fees %	12.00%		of build costs
Internal Overheads	5.00%		of build costs (Market and Discount Market units)
Interest Rate (Market)	7.00%		of build Costs (Market, Discount Market and Low Cost Sale units)
Interest Rate (Affordable Housing)	7.00%		of build costs (SR, HB, IR units)
Marketing Fees	3.00%		of market value (Market and Discount Market units)
Developers Return	15.00%	17.00%	of market value (Market and Discount Market units)
Contractors Return	6.00%		of development costs (SR, HB, IR and LCS units)
Land financing costs	£	-	Please see the Guidance Notes for use of this value

### Exceptional Development Costs

You may enter SCHEME totals for exceptional costs. The first row is for Sustainable Homes costs. The other three rows are for user defined costs. You can enter the name of the cost in the left hand cells and SCHEME value in the right hand cell.

Sustainable Homes Standard	
Market Housing	Affordable Housing
None	None

Costs incurred for Sustainable Homes Levels None and None	£	-
<Enter Costs Description>	£	-
<Enter Costs Description>	£	-
<Enter Costs Description>	£	-

Scheme Total	
per dwelling	
per hectare	

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## 7 Planning obligations

Test at £5,000 per unit in all tests.

## 8 Target rents

### TARGET RENTS - MELTON BC

DETACHED		SEMIS			TOWN HOUSES		FLATS			BUNGALOWS		
5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed	3 Bed	2 Bed
£96	£92	£84	£88	£82	£76	£80	£74	£76	£72	£60	£82	£76

## 9 Affordable housing factors to calculate revenue

As per LCB defaults:

## 9 - AFFORDABLE HOUSNG COSTS AND CAPITALISATION FACTORS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

Clear Table

You can enter your own values in the white cells below  
Where cells are left blank, the Toolkit value for that row will be used

Social Rent		Toolkit Values	User Values	
Costs per annum	Management & Maintenance	£ 1,000		per annum
	Voids/bad debts	3.00%		of gross rent
	Repairs reserve	£ 500		per annum
Capitalisation		6.00%		of net rent

New Build HomeBuy		Toolkit Values	User Values	
Costs per annum	Rental Factor	2.75%		of share
Capitalisation		6.00%		of net rent

Intermediate Rent		Toolkit Values	User Values	
Costs per annum	Management costs	6.00%		of gross rent
	Maintenance Costs	£ 500		per dwelling
	Voids/bad debts	5.00%		of gross rent
	Repairs Reserve	1.00%		of gross rent
Capitalisation		6.00%		of net rent

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### 10 Grant

Assume no grant on all tests.

### 11 Other assumptions for Toolkit:

Set parking to 'n/a';

Set flats to 2 storey;

No wheelchair units;

No capital contributions;

Apply on-costs at default of 6%;

No commercial development included

