

**Herefordshire Council
Local Development Framework Viability Study**

Report of Study

February 2010

**Three Dragons
with Roger Tym and Partners**

CONTENTS

Executive summary	(i)
1 Introduction	p1
2 Methodology	p8
3 Market Value Areas	p11
4 High Level Testing	p15
5 Land Supply, Small Sites and Use of Commuted Sums	p30
6 Case Study Viability Analysis	p37
7 Main findings and conclusions	p47
Appendices	
1 Glossary	p54
2 Notes of development industry workshop	p57
3 Method statement	p61
4 Results (high level testing - baseline)	p64
5 Results (high level testing – sensitivity tests)	p65

Executive Summary

1. **The Local Development Framework Viability Study** provides Herefordshire Council with an assessment of the viability of residential schemes to support development of the council's Core Strategy. The viability study is intended to provide well reasoned justification for proposed thresholds and targets emerging from the study and which take into account current market uncertainties while recognising that Core Strategy policies have to be credible over the medium to long term.
2. **Information used in the study** included data supplied by the council and a workshop held with developers, land owners, their agents and representatives of Registered Social Landlords active in the area.
3. **National planning guidance** indicates the importance of viability in developing affordable housing policies at the local level:

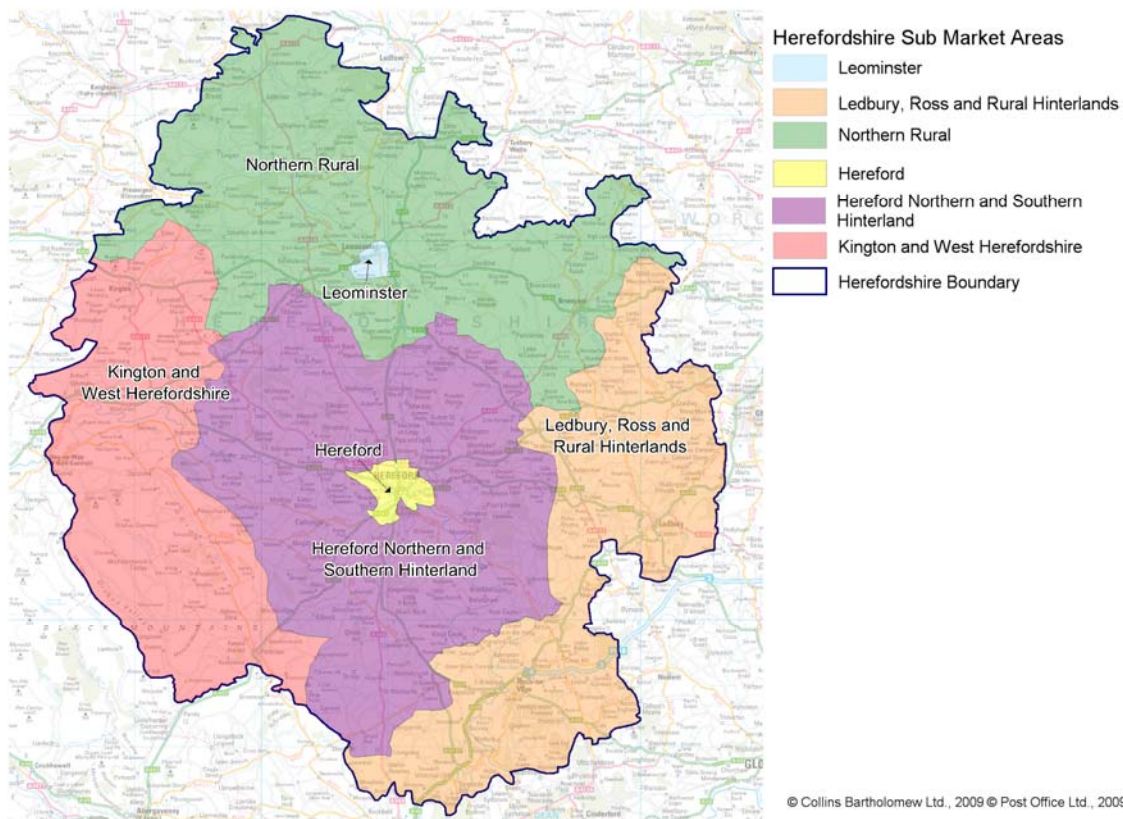
"In Local Development Documents, Local Planning Authorities should: Set out the range of circumstances in which affordable housing will be required. Local Planning Authorities will need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed, including their likely impact upon overall levels of housing delivery and creating mixed communities". (PPS3: Housing (2006) Para 29)
4. Emerging **regional policy**¹ for the West Midlands sets out an affordable housing target of 35% of the net housing increase in the region. Policy CF7 and states that, '.....Only exceptionally will the proportion be either below 25% or above 40% of the total housing provision'.
5. The **Herefordshire Unitary Development Plan** (UDP) (2007) sets a target for affordable housing of 35% of dwellings on specific allocated sites in Hereford, the market towns and the main villages and on windfall sites of 15 dwellings, or 0.5 hectares or more, in Hereford, the market towns (excluding Kington) and in settlements of above 3,000 inhabitants. The 35% target also applies to windfall sites of 6 or more dwellings, or 0.2 hectares or more, in settlements with a population of less than 3,000.
6. The **Strategic Housing Market Assessment** (2008) estimates a net annual affordable housing need in Herefordshire of 1,113 dwellings per annum. This is more than 100% of the total housing requirements set out in the emerging RSS.
7. Over the 5 years 2004/9 average **annual housing completions** in Herefordshire were 742 dwellings, of which 16% were affordable housing. The rate of delivery of affordable housing increased from 70 to 152 dwellings between 2004 and 2009.
8. For this study, viability was assessed using a **residual value appraisal model**. This mimics the approach typically used by developers and assesses the total value in a scheme less scheme costs. The model can take into account the impact of affordable housing and other s106 contributions. The approach was agreed at the development industry workshop.
9. The Viability Study assessed the residual value for a variety of development types (which varied with the assumed density of development from 30 to 60 dwellings per hectare) and amounts of affordable housing from 0% to 45%, with the affordable housing split

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

80% social rent and 20% New Build Homebuy (with an equity share of 50%). **The main or baseline testing** was carried out on the basis of a notional 1 hectare site and it was assumed that there would be no grant available and that other s106 contributions would total £5,000 per dwelling.

10. **Sensitivity tests** were also carried out to show how changing different assumptions would affect the results. The sensitivity tests included the impact of changed market values, of introducing grant for the affordable housing and of higher levels of the Code for Sustainable Homes and/or a higher level of s106 contribution. Other sensitivity tests showed the impact on residual values of different (tenure) mixes of affordable housing.
11. The study included a broad analysis of market values across Herefordshire to identify **market value areas in the county**, as shown in the map below.

Figure 1 Map showing market value areas – Herefordshire



Note: Kington and West Herefordshire includes that part of Hay-on-Wye lying within Herefordshire.

12. Residual values generated can be assessed against different **benchmarks**, including existing use values. Feedback from the development industry workshop suggested greenfield land values of about £1.2m per hectare. Drawing on information from the Valuation Office Agency and local data, a suggested benchmark for comparison with existing use values of around £600,000 per hectare appears realistic.
13. **Results from the high level testing** show residual values varying with alternative development scenarios (depending on development density). As a general rule, a density of 40 dph tends to give the highest residual values of the options tested.
14. Residual values also vary considerably with market value area. At 35% affordable housing, the maximum residual value achieved ranged from £0.04m (at 30 dph) in

Leominster to £1.84m (at 40 dph) in Ledbury et al. The equivalent residual value for Hereford was £1.11m (at 40 dph). At 45% affordable housing residual values per hectare still exceeded £1.2m for at least one of the development scenarios in the two highest market value areas of Ledbury et al and Northern Rural.

15. Using the benchmark land value of £600,000 per hectare, residual values per hectare are exceeded at 35% affordable housing in all market value areas except for Leominster. In Leominster, the £600,000 benchmark is exceeded at 35% affordable housing with grant in place (at the grant levels tested) or if there were a 20% uplift in prices.
16. Increase in market values has a significant impact on residual values across the area but with important implications for weaker market value areas. With the 20% increase in values (and associated increase in costs), residual values in Hereford increase to about £1.35m per hectare (at 35% affordable housing) and Leominster values increase for 35% affordable housing from £0.4m to £0.61m (at 30 dph).
17. Introducing additional costs (either with the Code for Sustainable Homes at Level 4 with Lifetime Homes and/or an increased s106 package) significantly dents residual values. Combining a £15,000 per dwelling s106 package with Code for Sustainable Homes Level 4 (and Lifetime Homes) produces a negative residual value in Leominster and a residual value of around £0.5m in Hereford with 35% affordable housing.
18. Changing the mix of affordable housing can produce very different residual values but only when low cost sale represents most/all of the affordable housing.
19. **Analysis of planning permissions** for the last three years shows that over half the dwellings granted permission (51%) were on sites of less than 15 dwellings (i.e. the national indicative minimum threshold).
20. Sites of less than 5 dwelling made the single largest contribution to the supply of new housing in Herefordshire (at 32% of all dwellings granted permission). In the rural part of the county, nearly two thirds of the supply (62%) came from sites of under 5 dwellings. Sites of under 5 dwellings are also important in Bromyard and Ledbury.
21. In Hereford and Leominster, sites below 15 dwellings are much less important but nevertheless represented about a fifth to a quarter of the supply.
22. The **suitability of small sites for affordable housing** was discussed at the development industry workshop held as part of the study. The general consensus was that, as a rule, there is no management reason why affordable housing cannot be provided in small numbers and one affordable home in a mixed tenure scheme can be acceptable.
23. Some concerns were expressed at the development industry workshop that very small sites may not be viable with affordable housing. To test this issue and the **development economics of small sites**, a number of case studies were analysed. The case studies ranged from 1 to 13 dwellings and were broadly representative of sites of this size. The viability testing of the case studies was undertaken for the rural market value areas and used the same baseline assumptions as for the high level testing, including nil grant and a s106 package of £5,000 per dwelling.
24. In the market value areas of Ledbury et al and Northern Rural, per hectare residual values were at or exceeded the industrial alternative use comparator value (£600,000) at 35% or 40% affordable housing for the majority of the case studies. However, in Hereford Northern and Southern Hinterland, residual values did not exceed the

comparator industrial alternative use value at 35% or above and at 25% affordable housing, the comparator was exceeded (or fell just below) for only two case studies.

25. Where a scheme involves the demolition of an existing residential property there are few case studies where, with the introduction of affordable housing, the residual value generated exceeds the value of the existing property (and therefore is a viable scheme). However, demolition and redevelopment represents a small minority of schemes in rural areas and are only of any significance for schemes of 1 and 2 dwellings (and then only account for 17% and 12% of schemes respectively).
26. Herefordshire Council does not accept **payments in lieu** for affordable housing provided on site, except in exceptional circumstances. If affordable housing is sought from very small sites, it may become impractical to achieve on-site provision and a payment in lieu would be a realistic alternative for the affordable housing contribution.
27. In coming to a view on the **policy options for affordable housing** it is noted that there is no detailed government guidance setting out how targets or thresholds should be assessed. It is important that, in order to meet the high level of need for affordable housing identified, the council maximises delivery of affordable housing through its planning policies and sets ambitious affordable housing targets and thresholds, that are realistic in terms of development viability.
28. The viability study concluded that there are two main options for **affordable housing targets** in the county.
 - A single target with a realistic expectation that it can generally be achieved without grant. A target of 35% would be reasonable. However, if this target is adopted, it must be recognised that this is a very stretching target for Leominster and schemes will generally need grant support to achieve the target. In the longer term, and assuming an increase in market values, there would be nil/less need for grant support to sustain a 35% target;
 - A split target which seeks different amounts of affordable housing in different parts of the county. Two options for a split target are put forward
 - 35% generally but 25% in Leominster; or
 - 40% in Ledbury et al and Northern Rural, 35% in Hereford, Kington and West Herefordshire and Hereford Hinterland and 25% in Leominster.
29. On **site size thresholds**, a threshold of 15 dwellings is proposed for the towns (i.e. Hereford, Bromyard, Kington, Ledbury, Leominster and Ross on Wye) and a very low threshold in the rest of the county. With the latter, a zero threshold would seem justified. However, in the case of Ledbury and Bromyard, there is a very high level of need for affordable housing identified by the council and small sites are making a significant contribution to the very limited supply of new homes coming through. There may therefore be justification for seeking a threshold below 15 dwellings in these towns also. Were very low site size thresholds to be adopted, commuted sums or a mix of on-site provision and a commuted sum would need to be collected from some small sites.
30. Introducing a (very) low threshold will lead to a significant increase in schemes where affordable housing is applicable. The council needs to be aware of this and be geared up to deal with the increased workload.

31. It will also be important that the council has mechanisms in place to take into account **site specific circumstances** and to deal with the situation where individual schemes cannot achieve the targets set out in policy. This should not detract from the robustness of the overall targets but the council will need to take into account specific site viability concerns when these are justified. The council could consider introducing a formal 'cascade' into its policy framework which set out the options the council would consider where scheme viability is an issue.
32. Where **commuted sums** are collected the sum sought should be the equivalent amount which would be contributed by the developer/landowner were the affordable housing provided on site.
33. Whatever targets and thresholds are adopted, the council will need to **keep under review** market trends and regularly monitor house prices, development costs and other factors that affect viability e.g. through the Annual Monitoring Report. As with any other aspect of the LDF, if there is a significant and sustained change in circumstances, the council will have the option of reviewing its policy.

1 INTRODUCTION

Purpose of the study

- 1.1 The Local Development Framework Viability Study provides Herefordshire Council with an assessment of affordable housing viability to support development of the council's Core Strategy (with adoption anticipated towards the end of 2011) along with the Hereford Area Plan and a Market Towns and Rural Areas Plan.
- 1.2 The study brief identified a number of specific issues to be covered by the study and which included (in summary):
- Respond to the completed Strategic Housing Market Assessment which identified that 100% of the total RSS requirement for housing should be affordable;
 - Reflect the sub market areas identified in the Strategic Housing Market Assessment (SHMA) (Hereford, Kington, Bromyard, Ledbury, Leominster, Ross-on-Wye and the Golden Valley) and compare viability in the urban and rural areas of the county (*It is noted that, for the purposes of this Viability Study, a series of market value areas were identified solely on the basis of price. There is some overlap with the SHMA areas but the two approaches are not identical, reflecting their different purposes*);
 - Be flexible enough to take account of changing circumstances including changes to the RSS and the potential to introduce a Community Infrastructure Levy;
 - Reflect other published strategies (e.g. the Housing Strategy) and background evidence already collected;
 - Provide evidence across a range of affordable housing scenarios and alternative policy positions as well as different types of development densities and development types and for alternative mixes of social rented and intermediate affordable housing;
 - Identify alternative site size thresholds which reflect the likely future supply of sites and test their development economics;
 - Consider the impact of changing build standards;
 - Provide well reasoned justification for proposed thresholds and targets emerging from the study. These need to take into account current market uncertainties whilst recognising that the policies have to be credible over the medium to long term.

A glossary of the key terms used in the report is shown at appendix 1.

Policy context - national

- 1.3 The need for planning authorities to take viability into account in determining policies for Local Development Documents is established in PPS3:Housing – paragraph 29:
- 'Set an overall (i.e. plan-wide) target for the amount of affordable housing to be provided. The target should reflect an assessment of the likely economic viability of land for housing within the area, taking account of*

risks to delivery and drawing on informed assessments of the likely levels of finance available for affordable housing, including public subsidy and the level of developer contribution that can reasonably be secured’.

- 1.4 The companion guide to PPS3² provides a further indication of the approach which Government believes local planning authorities should take in planning for affordable housing. Paragraph 10 of the document states:

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

- 1.5 On thresholds, PPS3 goes on to state that local planning authorities, in their Local Development Documents 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)

Policy context – West Midlands Region

- 1.6 The West Midlands Assembly submitted the draft **West Midland Regional Spatial Strategy: Phase Two Revision** to the Secretary of State in December 2007. An Examination in Public (EiP) into the Draft Revision took place between April - June 2009. The Panel report was published in September 2009.
- 1.7 The Panel Report sets out an indicative annual housing provision for Herefordshire between 2006 and 2026 of 900 of which 425 are in Hereford³.
- 1.8 Policy CF7 of the Phase 2 Revision ‘Delivering affordable housing’ provides a regional affordable housing target of 35% of the net housing increase. The Panel Report amplifies the way local authorities should work with the regional target in framing their Development Plan Document policies with the following policy wording at CF7 C. i)⁴:

² CLG, Delivering Affordable Housing, November 2006

³ West Midlands Regional Spatial Strategy Phase Two Revision, Report of the Panel: September 2009, Policy CF3, Table 1

⁴ Ibid CF7 para C i)

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

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

- 1.9 The Panel Report provides an annual affordable housing target for each housing market area of the region. For the West Housing Market Area⁵ (which includes Herefordshire) the figure is 760 per annum.
- 1.10 The Panel Report, through Policy CF7, also allows (where appropriate) for separate indicative targets and for the option of allocating 100% affordable housing and lower site thresholds in rural areas.⁶

Policy context – Herefordshire

- 1.11 The Herefordshire Unitary Development Plan (UDP) was adopted in March 2007. Policies H2 and H5 set a target for 35% of dwellings on specific allocated housing land to be affordable housing in Hereford, the market towns and the main villages. Policy H9 indicates that on windfall sites of 15 dwellings, or 0.5 hectares or more, in Hereford, the market towns (excluding Kington) and in settlements of above 3,000 inhabitants, a target of 35% affordable housing will also be required.
- 1.12 The policy goes on to provide for 35% affordable housing on windfall sites of 6 or more dwellings, or 0.2 hectares or more, in settlements with a population of less than 3,000. This policy therefore covers Herefordshire's main villages and also Kington.
- 1.13 Policy H10 provides a rural exception policy for land within or adjoining established rural settlements which would not usually be released for development so that such land may be released for affordable housing.
- 1.14 Supplementary Planning Guidance (SPG) was published for affordable housing in March 2001, this was then updated in 2004 and also 2006. The SPG advocates policy H9 of the UDP. The SPG also encourages developers to consider providing affordable housing on sites that are below the thresholds detailed in Policy H9 of the UDP where appropriate. Only in exceptional circumstances will developers be able to provide affordable housing off site or in lieu of on-site provision.

⁵ For regional spatial planning purposes, the West Midlands is divided into a number of Housing Market Areas.

⁶ Ibid CF7 C.

Emerging Policy

- 1.15 Herefordshire Council is currently preparing its Core Strategy which, once adopted, will replace the UDP. A set of Developing Options was published for consultation during summer 2008 and a results report published in January 2009.
- 1.16 Seventy four per cent of those consulted believed that a combination of the following two options was the most appropriate option in regard to affordable housing provision:
- Increasing the percentage of affordable housing required on housing sites from 35%, and
 - Lowering the site thresholds for affordable housing, particularly in rural areas where most housing is completed on sites smaller than existing thresholds.
- 1.17 Those consulted provided a divided view on whether settlements or areas should be identified where new housing development is limited only to affordable housing. A proviso was given that this option could mean that rural exceptions sites for affordable housing are the subject of specific allocations.
- 1.18 Another round of public consultation is scheduled for early in 2010, with a view to submitting the Core Strategy by June 2010 and adoption anticipated towards the end of 2011.

Strategic Housing Market Assessment

- 1.19 Shropshire and Herefordshire councils commissioned Outside Consultants to undertake a Strategic Housing Market Assessment (SHMA) for the West Midlands West Housing Market Area. This was published in June 2008.
- 1.20 The report estimates a net annual affordable housing need for Herefordshire of 1,113 dwellings per annum. This is more than 100% of the total housing requirements set out in the RSS (either at the time of the SHMA or the most recent Panel Report figure of 900 per annum).
- 1.21 The SHMA recognised this point and concluded that there was evidence to support current policies, but also revisions to policies that enable the maximisation of affordable housing supply – provided that revisions do not make future developments commercially unviable.

Historic Delivery of Affordable Housing

- 1.22 Total housing completions in Herefordshire have risen over the past 8 years⁷, as shown in Table 1.1 and Chart 1.1 below. Between 2001/02 and 2007/09 completions ranged from 483 to 841, with 689 dwellings completed in 2008/09. Over the past 5 years completion rates have averaged 742 dwellings per annum. The downturn in the market is marked by a decrease in housing completions from 2007/08 onwards.

⁷ Data provided by Herefordshire Council from the residential land monitoring database.

1.23 In terms of delivery of affordable housing:

- During the past 5 years affordable housing has averaged 16% of total completions (well short of the policy target of 35%);⁸
- However, the rate of delivery of affordable housing has been increasing year on year, rising from 70 to 152 dwellings over the past 5 years;
- But it also needs to be noted that there are other mechanisms the county can use to increase affordable housing and the number of completions may not be the same as net additions to the affordable housing stock.

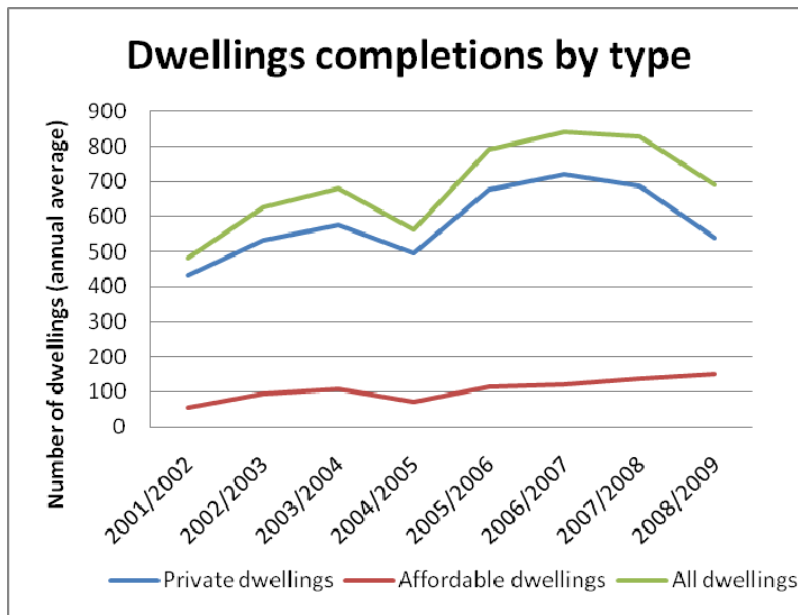
Table 1.1: Housing Completions 2001/2002 to 2007/2008 –by Private and Affordable Housing

Year	Total private dwellings	Total affordable dwellings	Total dwellings	Percentage affordable dwellings
2001/2002	430	53	483	11%
2002/2003	533	94	627	15%
2003/2004	574	108	682	16%
2004/2005	493	70	563	12%
2005/2006	677	114	791	14%
2006/2007	721	120	841	14%
2007/2008	687	140	827	17%
2008/2009	537	152	689	22%
2001/2009(dpa)	582	106	688	15%
2004/2009(dpa)	623	119	742	16%

Source: Herefordshire Council

⁸ The percentages of affordable housing shown is for all new development. Many sites being developed are below the current site size threshold and affordable housing cannot be sought. The overall percentage of affordable housing achieved will reflect this.

Figure 1.1: Housing Completions 2001/2002 to 2008/2009 – by Market and Affordable Housing



Source: Herefordshire Council

Research undertaken

1.24 The research undertaken to complete this study included:

- Discussions with council officers from Planning and Housing departments;
- Analysis of information held by the authority, including that which described the profile of land supply;
- Use of the Three Dragons Toolkit, adapted for Herefordshire, to analyse scheme viability;
- A workshop held with developers, land owners, their agents and representatives from a selection of Registered Social Landlords active in the area. Appendix 2 provides a note of the workshop.

Structure of the report

1.25 The remainder of the report uses the following structure:

- Chapter 2 explains the principles which underlie our approach to viability assessments. We explain that this is based on a residual value approach;
- Chapter 3 compares overall house prices in Herefordshire with those of the region and other nearby authorities. The chapter then explains how prices vary *within* Herefordshire and how we have used this variation to identify market value areas;
- Chapter 4 provides analysis of residual values generated across a range of different development scenarios (including alternative percentages and mixes of affordable housing) for a notional 1 hectare site. The Chapter includes a series of sensitivity tests to identify how residual values are affected by changes in key variables;

- Chapter 5 considers options for site size thresholds. It reviews national policy and the potential future land supply and the relative importance of small sites. The chapter considers practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate (and the principles by which such contributions should be assessed);
- Chapter 6 identifies a number of notional case study schemes (generally small sites which are currently in use), that represent examples of site types found in the Herefordshire. For each site type, there is an analysis of the residual value of the sites and compares this with their existing use value.
- Chapter 7 summarises the evidence collected through the research and provides a set of policy options and some comments on delivery mechanisms.

2 METHODOLOGY

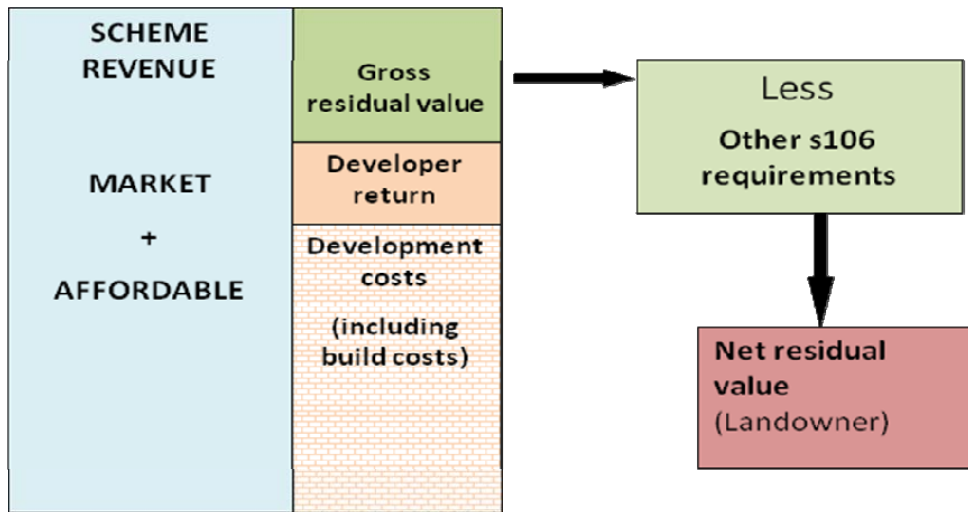
Introduction

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

Outline of residual value approach

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

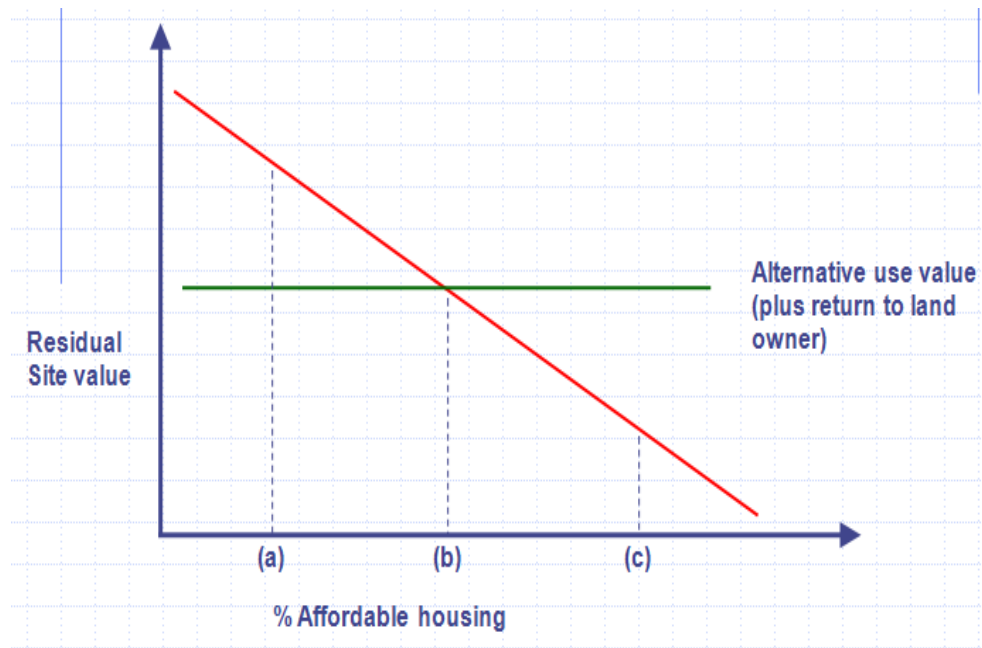
Figure 2.1 Principle of residual value and s106 contributions



Source: Three Dragons

Residual value and alternative use values

- 2.5 Assessing residual value provides only part of the picture in assessing viability. A scheme is most unlikely to proceed where its costs exceed the revenue (i.e. there is a negative residual value). But simply having a positive residual value will not guarantee that development happens. The existing use value of the site, or indeed a realistic alternative use value for a site (e.g. commercial) will also play a role in determining whether the site is brought forward for development and whether the development will be for housing.
- 2.6 Figure 2.2 shows how this relationship operates in theory. Residual value falls as the proportion of affordable housing increases. At some point (here 'b'), alternative use value (or existing use value whichever is higher) will be equal to the scheme's residual value. At point 'c', affordable housing is making the site unviable. At 'a' the residual value exceeds the alternative/existing use value (with a return to the landowner) and the scheme should (with that level of affordable housing) be capable of encouraging the land owner to bring forward their site (all other things being equal).

Figure 2.2 Affordable housing and alternative use value

Source: Three Dragons

- 2.7 In other studies we have been involved in, the development industry, when consulted has indicated that, in the case of a site with an existing use (or a known alternative use) something in the order of a 20-30% uplift over existing/alternative use values would be needed to encourage landowners to bring forward their land for residential development. The development industry workshop conducted for the Herefordshire study did not specifically comment on this point but the message on uplift has been so consistent from other workshops, we feel it is reasonable to use it here as a benchmark.
- 2.8 However, the Herefordshire workshop did indicate that land values are now considerably lower than they have been recently and '£500,000 per acre' was quoted as a 'going rate' in the context of greenfield sites.

Three Dragons Toolkit

- 2.9 The analysis of residual values undertaken for this study uses the Three Dragons Viability Toolkit. The Excel based model has been developed over a number of years and is widely used to test viability. Appendix 3 provides a brief description of the model and includes a description of the key assumptions used for the modelling undertaken for Herefordshire and which were generally endorsed at the development industry workshop. There was an exception to this that emerged from the workshop and that was the level of developer return used. A 15% return was put forward to the workshop for discussion but it was agreed that, as a consequence of the credit crunch, this figure should be increased to 17% (and we have made that change).

3 MARKET VALUE AREAS

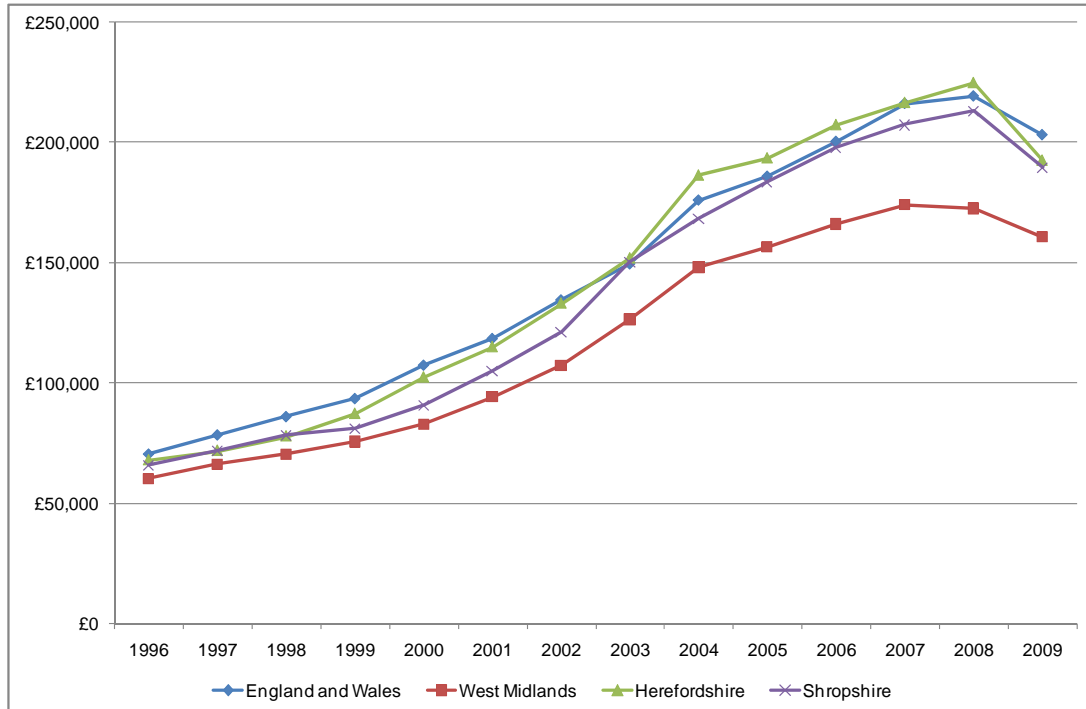
Introduction

- 3.1 The chapter first compares overall house prices in Herefordshire with those of the region and other nearby authorities. It then explains the importance of market values to residual values and how our approach defines market value areas within the authority that are used in the subsequent analysis.

House price comparison and trends

- 3.2 The average mean house price (for all properties, new and second-hand) in Herefordshire was at £192,640 for Q2 2009⁹. This was about 19% lower than the peak value shown at Q3 2008 of £237,809.
- 3.3 At Q2 2009, Herefordshire average house values were higher than those of the West Midlands but below those of England and Wales as a whole. At Q2 2009, Herefordshire house prices were about 120% of the West Midlands figure. While these percentages have varied year on year since 1996 (the period for which the data is provided by CLG), there appears to be something of a trend with the prices in Herefordshire moving away from West Midlands values over the period.
- 3.4 The following chart shows this and provides a comparison with prices in Shropshire. This shows that between 1996 and 2009, average Herefordshire house prices have always been slightly higher than those in Shropshire.

⁹ All information about house prices referred to in this section is taken from the CLG website, Live Table 581, Mean house prices based on Land Registry data (by district, quarterly). The information is not separated into new and second-hand house prices. Q2 data is shown as provisional at date of preparing this report.

Figure 3.1 Herefordshire house prices compared: 1996 to 2009 (Q2 values)

Source: CLG Live Table 581

- 3.5 Given the important relationship between house prices and residual values; the very simple analysis of prices indicates that delivering affordable housing through the planning system should generally be easier in Herefordshire than for the West Midlands as a whole.

Market value areas

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

Figure 3.2 Map showing market value areas – Herefordshire

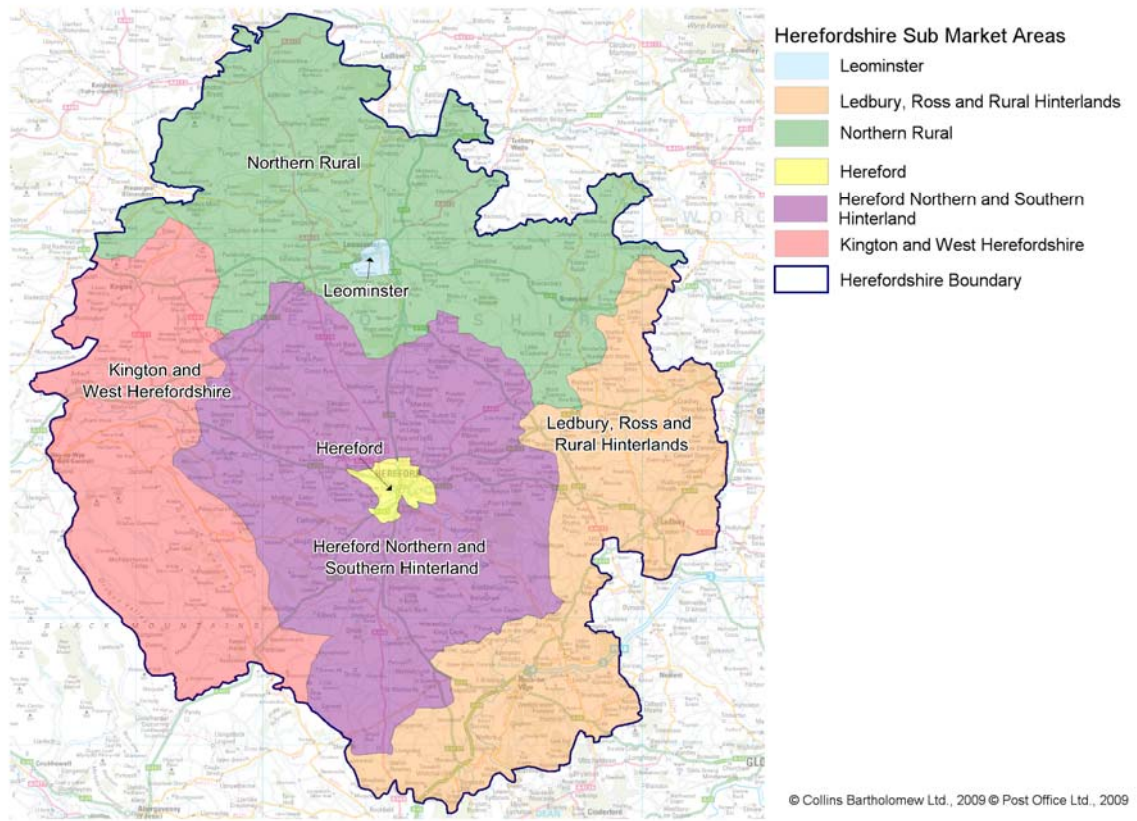


Table 3.1 Market value areas in Herefordshire

Ledbury, Ross and Rural Hinterlands	HR8 1	Ledbury (East)	Bosbury; Eastnor
	HR8 2	Ledbury (West)	Trumpet; Newtown; Much Marcle; Munsley
	WR13 5 (West)		Mathon; Bromyard; Edwyn Ralph; Stoke Lacy; Pencombe
	WR6 5 (West)		Acton Green; Whitborne; Stanford Bishop; Evesbatch
	HR9 6		Glewstone; Peterstow; Llnagaron; Whitchurch.
	HR9 7	Ross on Wye	Brampton Abbots; Upton Bishop; Linton; Crow Hill
	HR9 5		Hope Mansell; Walford
Northern Rural	HR6 0		Steens Bridge; Luston; Docklow; Ivington Green
	HR 7 4		Bromyard; Collington; Pencombe
	SY8 4 (South)		Orleton; Little Hereford
	SY8 2 (South)		Burrington; Elton
	SY7 0		Letton; Lingen; Buckton; Birtley
	HR6 9		Lower Lye; Lucton; Pembridge; Wigmore; Croft
Hereford	HR4 9	Hereford	
	HR1 1	Hereford	
	HR 4 8	Hereford	
	HR4 0	Hereford	
	HR1 2	Hereford	
	HR2 7	Hereford	
Kington & West Herefordshire	HR3 5	Hay on Wye	Hardwicke
	HR3 6 (East)		Winforton; Britley; Almetey; Kinnersley; Bredwardine;
	HR2 0		Bacton; Peterchurch; Michealchurch Escley; Longtown
	HR5 3 (East)	Kington	Nash; Lyonshall; Holme
Hereford Northern and Southern Hinterland	HR4 8		Canon Pyon; Dilwyn; Wellington;
	HR1 3		Preston Wynne; Maund Bryan; Sutton St Nicholas; Westhide; Ocle Pychard
	HR4 7		Kenchester; Norton Cannon; Monnington-on-Wye; Streeten Sugwas
	HR1 4		Sollers Hope; Weston; Beggard; How Caple
	HR2 8		Orcon Hill; Michaelchurch; Saint Weonards
	HR2 9		Thruxton; Blakemere; Kilpeck; Alensmore
	HR2 6		Dinedor; Ballingham; Little Dewchurch
Leominster	HR6 8	Leominster	

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

Note: Kington and West Herefordshire includes that part of Hay-on-Wye lying within Herefordshire.

- 3.9 Appendix 3 shows the indicative new prices for a range of different property types for each of the market value areas.
- 3.10 A particular issue has been raised about the indicative prices for Leominster identified for this study. It is generally agreed that prices are lower in Leominster than elsewhere in Herefordshire but the size of the differential has been questioned by the project steering group (e.g. we are showing an indicative price for a new 3 bed terrace in Leominster at about 83% that of the same property in Hereford). The indicative market values for Leominster have been verified independently and other data e.g. that collected by the council itself on asking prices in the summer of 2009, has been reviewed. These other data sources all indicate that the prices shown for Leominster for this study are broadly appropriate. However, when reporting on viability issues later in this report, it is worthwhile bearing in mind, these concerns about Leominster prices.

4 HIGH LEVEL TESTING

Introduction

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

Testing assumptions (notional one hectare site)

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

Table 4.1: The development mixes

Density (dph)	30 dph	40 dph	50 dph	60 dph
1 bed flat				10%
2 bed flat		5%	10%	25%
2 bed town house	10%	15%	20%	25%
3 bed town house	15%	25%	30%	30%
3 bed semi	25%	20%	30%	5%
3 bed detached	15%	10%	10%	5%
4 bed detached	25%	20%		
5 bed detached	10%	5%		
	100%	100%	100%	100%

- 4.3 We tested the impact on residual values for the following percentages of affordable housing (and assuming **nil grant**):
0%, 25%, 35%, 40%, 45%
- 4.4 For the affordable housing we assumed a tenure split of 80% social rent and 20% intermediate affordable housing. The latter was assumed to be New Build Homebuy with an equity share of 50%.
- 4.5 For the baseline modelling (and unless shown otherwise) we have assumed that other planning obligations have a total cost of £5,000 per unit. This figure was agreed with the council and is intended to represent a very approximate 'going rate' for s106 contributions currently being sought. It is not intended to represent the council's view on what level of s106 should be collected.
- 4.6 We have also tested selected scenarios for a £15,000 planning gain package on which we report later in this chapter.

- 4.7 The other assumptions used in the modelling, including build costs, social rents and factors used in assessing net social rents are set out in Appendix 3. It has been assumed that the build costs used reflect Code for Sustainable Homes Level 3.

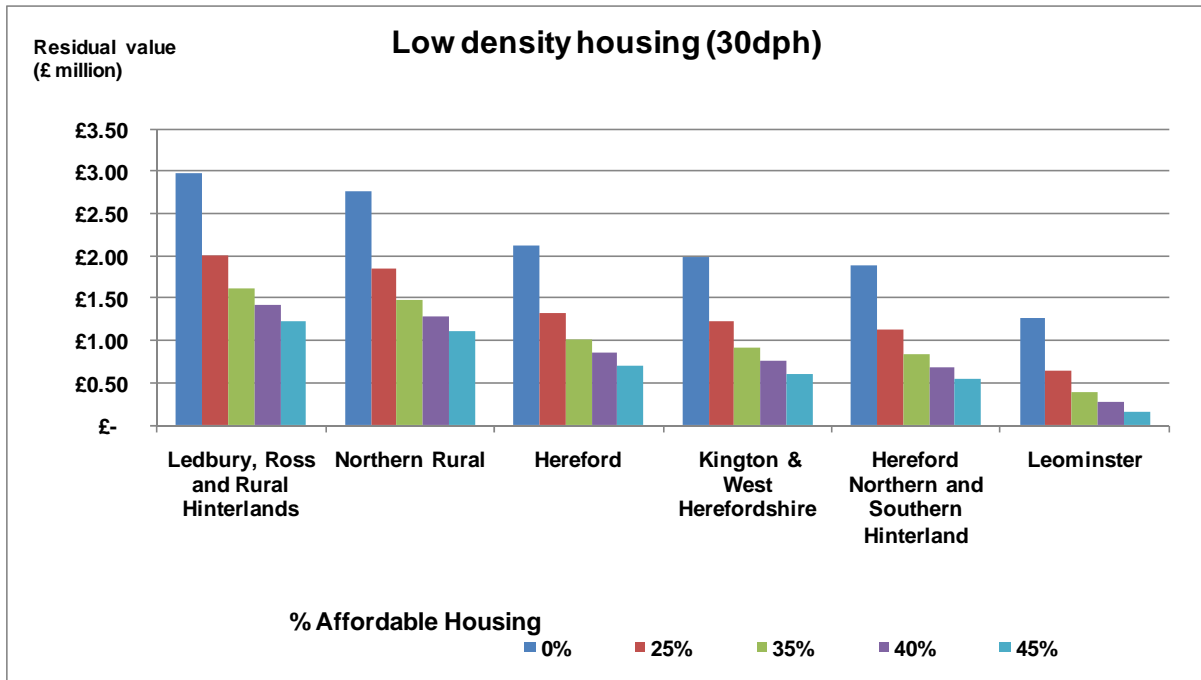
Results: residual values for a notional one hectare site

- 4.8 This section reports on the residual values for the 1 ha notional site for the different development mixes, for each market value area for the alternative amounts of affordable housing tested. All the residual values shown are £s million per hectare. The full set of results is shown in Appendix 4.

Low density housing (30 dph)

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

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

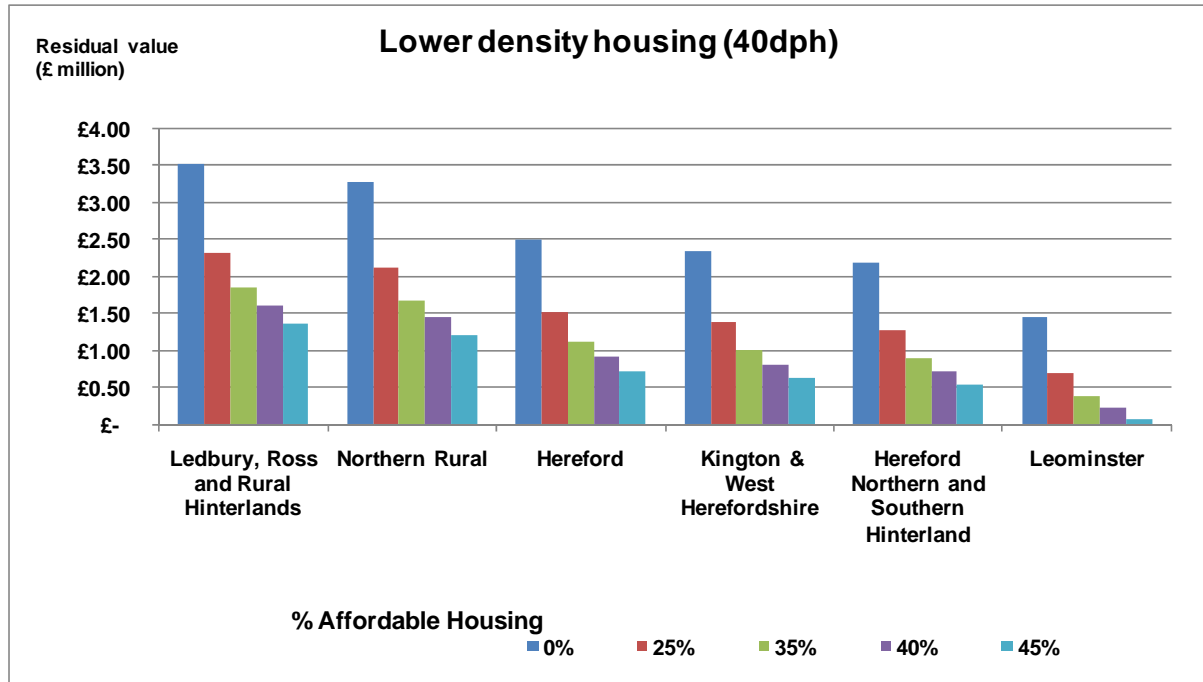


- The chart shows a very significant variance in residual values by market value area, reflecting their differing house prices. At, for example, 35% affordable housing, residual values range from £1.62m per hectare in Ledbury, Ross and Rural hinterland to £1.01m in Hereford to £0.4m in Leominster;
- The Leominster market value area is seen to be weaker than other parts of Herefordshire. Even so, positive residual values area achieved for all the affordable housing options tested;
- Ledbury et al and 'Northern Rural' are the strongest market value areas and achieve residual values in excess of £1m for all the levels of affordable housing tested;
- Hereford achieves a £1m per hectare residual value for up to and including 35% affordable housing. The residual value drops to £0.69m at 45% affordable housing.

Lower density housing (40 dph)

4.10 The lower density scenario includes a mix of terrace, semi and detached houses but with 5% as 2 bed flats. Figure 4.2 shows the residual values for each of the market value areas.

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

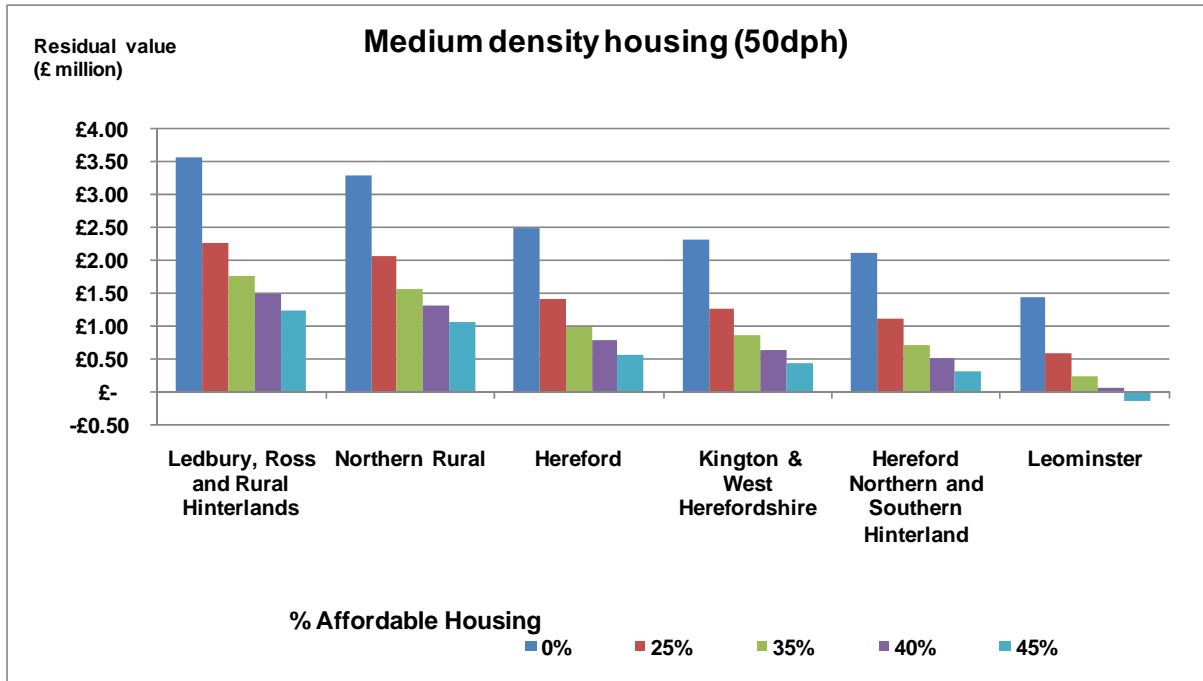


- The impact of increased density is complex and varies between market areas and at different levels of affordable housing. Increasing density does not simply lead to higher residual values as, for each development scenario there is a different mix of dwelling type and the relationship between value and costs varies between dwelling types and between market value areas. Generally, smaller units have a poorer relationship between costs and values than larger units. So, for example, in Leominster, the 40 dph scenario produces the highest residual value with 100% market housing and at 25% affordable housing of all the density options tested but produces a lower residual value than at 30 dph with affordable housing at 35% and above;
- Conversely in the higher market value areas of Ledbury et al and 'Northern Rural' – the 40 dph scenario produces the highest residual values of all the density scenarios with affordable housing. For example, at 45% affordable housing the residual value per hectare produced is £1.37m and £1.21m per hectare respectively in Ledbury et al and 'Northern Rural';
- The three middle market value areas of Hereford, Kington and West Herefordshire and Hereford Northern and Southern Hinterland, produce broadly similar residual values at each level of affordable housing. For example, with the 40 dph development scenario, at 35% affordable housing, the residual values are £1.11m, £1.00m and £0.89m respectively. At 40% affordable housing, residual values per hectare have decreased to £0.92m, £0.81m and £0.71 and at 45% to £0.72m, £0.62m and £0.52m respectively.

Medium density housing (50 dph)

4.11 The medium density development scenario includes a mix of terrace, semi and detached houses but with 10% as flats. Figure 4.3 shows the residual values for each of the market value areas.

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

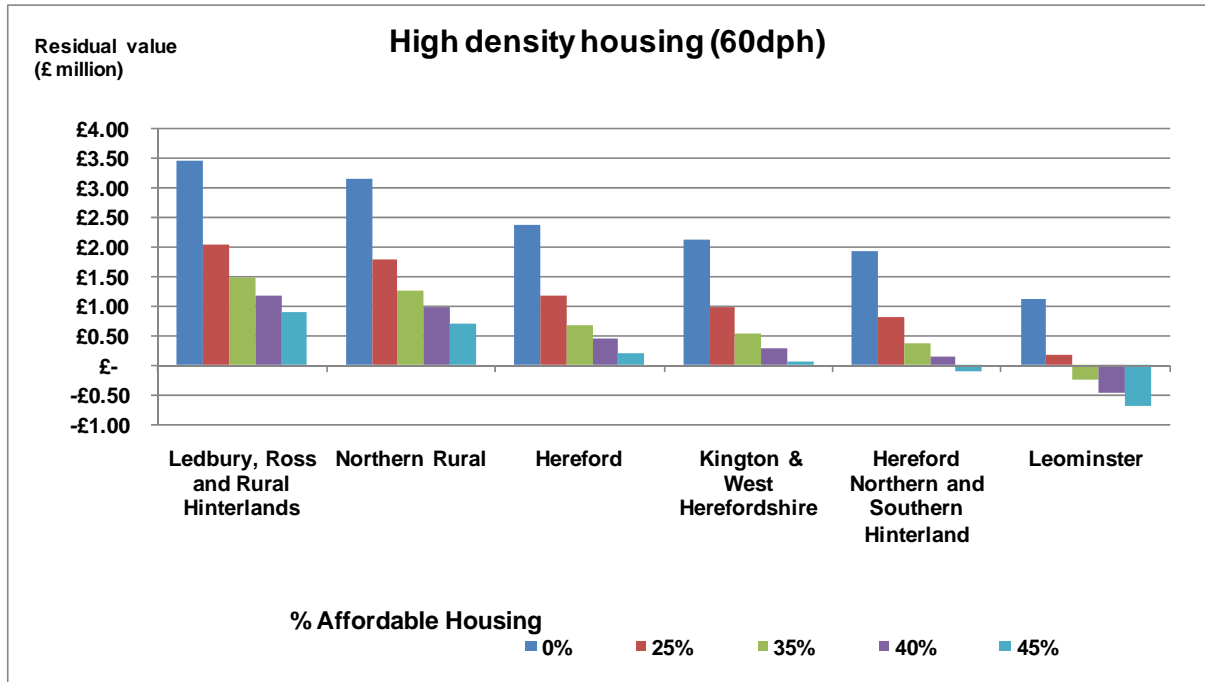


- The impact of an increase to 50 dph is again dependent on market value area but generally produces residual values lower than those of the 30 dph and 40 dph scenarios. The two stronger market areas have a (relatively small) increase in residual values per hectare at 100% market housing but otherwise residual values are slightly down;
- In the lower value market areas, the increase in density to 50 dph does not increase residual values. At 45% affordable housing in Leominster, a negative residual value is produced.

Higher density (60 dph) scheme

- 4.12 The higher density development scenario is 35% flats and 55% 2 and 3 bedroom terrace housing with the balance as 3 bed (semi) detached houses. Figure 4.4 shows the residual values for each of the market value areas.

Figure 4.4 High density housing (60 dph) – Residual value in £s million per hectare



- Again, increasing density (this time to 60 dph) does not lead to increased residual values over the lower density scenarios. For none of the market value areas and percentages of affordable housing tested, does the 60 dph scenario produce the highest residual value of the four density scenarios tested;
- For Leominster, the impact of increasing density is particularly pronounced and negative residual values are found at 35% affordable housing and above;
- In Hereford, the residual value is below £1m (at £0.68m) at 35% affordable housing compared with £1.11m for 35% affordable housing with the 40 dph scenario;
- Even though residual values are weaker at 60 dph, they are still at or above £1m per hectare in Ledbury et al and Northern Rural up to and including 40% affordable housing.

Sensitivity testing – main additional tests

- 4.13 The second element of the high level testing undertaken is a series of sensitivity tests. The sensitivity tests consider the impact on residual values (again of a notional 1 ha site) of changes to certain variables across the market value areas identified. Importantly, the sensitivity tests include consideration of the impact of possible future changes (up and down) of market values. The sensitivity tests were undertaken for the 30 dph and 50 dph development scenarios and were as follows:

- With social housing grant at £50,000 for a social rent dwelling and £20,000 for New Build Homebuy: (noting that recent grant levels have been higher than this but the grant levels tested are more representative of longer term levels);
- S106 contributions at a higher level than the £5,000 per dwelling assumed in the baseline testing (at £10,000 and £15,000 per dwelling but noting that these amounts have been used for testing purposes and do not represent a level the council is seeking to introduce);
- Three alternative changes in prices and associated change in build costs. These were:
 - Plus 10% on market values and plus 7% on build costs;
 - Minus 10% off market values and minus 7% off build costs;
 - Plus 20% on MV and plus 14% on build costs.
- Code for Sustainable Homes Level 4 plus Lifetime Homes– assume an average additional cost per dwelling of £6,000. This is made up of approximately £5,450 for moving from CSH 3 to 4¹⁰ and £550 for the Lifetime Home.¹¹ element ;
- A combined package of increased s106 contribution at £15,000 and CSH Level 4 and Lifetime Homes. This equates to an increase of £16,000 per dwelling over the baseline position i.e. an additional £10,000 over the baseline s106 contribution and £6,000 for CSH 4a and LTH;

Only the final test (increased s106 package and CSH4/LTHs) combines the impact of changes to two variables. All the other tests use the baseline testing assumptions other than for the variable that is being tested.

- 4.14 The sensitivity tests were undertaken for a selection of scenarios, again using the notional 1 ha site. The tests presented below are at 35% affordable housing, first for the 30 dph scenario and then the 50 dph scenario. The detailed testing on alternative affordable housing mixes is reported after the main body of sensitivity testing. Annex 4 provides the results in full.

¹⁰ This estimate is derived from the 2008 CLG publication, 'Cost Analysis of the Code for Sustainable Homes'. The publication provides estimates for terrace and detached houses and for flats for a 'Best' 'Medium' and 'Worst' case. The estimate used for this study is a broad figure of a mix of different property types for the Medium case. Like all such figures, there will be cases where going from CSH 3 to 4 may be more costly and others where the cost may be lower.

¹¹ The additional costs of achieving Lifetime Homes have been considered in DCLG's report, Lifetime Homes, Lifetime Neighbourhoods report of 2008. This indicates that the additional cost of achieving Lifetime Homes Standards will be around £550 per dwelling (although additional costs can be avoided if they are "designed-out early enough".)

Table 4.1 Residual values per hectare in £ms at 35% affordable housing and at 30 dph with different sensitivity tests

At 30 dph - 35% affordable housing	Baseline	With grant	s106 at £10,000	s106 at £15,000	Plus 10% prices, 7% costs	Minus 10% prices and 7% costs	Plus 20% prices and 14% costs	CSH 4 and LTH	s106 at £15,000 and CSH4 and LTH
Ledbury, Ross and Rural Hinterlands	£ 1.62	£2.03	£1.48	£1.35	£1.85	£1.39	£2.07	£1.45	£1.18
Northern Rural	£ 1.47	£1.89	£1.33	£1.20	£1.69	£1.26	£1.90	£1.31	£1.04
Hereford	£ 1.01	£1.43	£0.88	£0.74	£1.19	£0.85	£1.35	£0.85	£0.58
Kington & West Herefordshire	£ 0.92	£1.33	£0.78	£0.65	£1.08	£0.76	£1.23	£0.75	£0.48
Hereford Northern and Southern Hinterland	£ 0.84	£1.25	£0.70	£0.57	£0.99	£0.69	£1.14	£0.68	£0.41
Leominster	£ 0.40	£0.81	£0.26	£0.13	£0.51	£0.29	£0.61	£0.24	-£0.04

Table 4.2 Residual values per hectare in £ms at 35% affordable housing and at 50 dph with different sensitivity tests

At 50 dph - 35% affordable housing	Baseline	With grant	s106 at £10,000	s106 at £15,000	Plus 10% prices, 7% costs	Minus 10% prices and 7% costs	Plus 20% prices and 14% costs	CSH 4 and LTH	s106 at £15,000 and CSH4 and LTH
Ledbury, Ross and Rural Hinterlands	£1.74	£2.43	£1.51	£1.29	£2.01	£1.47	£2.28	£1.47	£1.02
Northern Rural	£1.54	£2.24	£1.32	£1.09	£1.80	£1.30	£2.04	£1.27	£0.82
Hereford	£0.98	£1.67	£0.75	£0.53	£1.18	£0.79	£1.37	£0.71	£0.26
Kington & West Herefordshire	£0.84	£1.53	£0.61	£0.39	£1.02	£0.67	£1.20	£0.57	£0.12
Hereford Northern and Southern Hinterland	£0.71	£1.40	£0.49	£0.26	£0.88	£0.55	£1.04	£0.44	-£0.01
Leominster	£0.22	£0.91	-£0.00	-£0.28	£0.34	£0.10	£0.46	-£0.06	-£0.61

- 4.15 The sensitivity tests show how sensitive residual values are to changes in the market and to the introduction of introduce additional development costs. As would be expected, across all the sensitivity tests, the highest residual values are consistently delivered in the stronger housing market areas.
- 4.16 Grant significantly increases residual values across all the market value areas, with proportionately greater impact in the weaker market areas e.g. doubling residual values from £0.40m to £0.81m at 30 dph in Leominster.
- 4.17 Conversely, a percentage increase in market values has a bigger impact in the stronger market value areas. Nevertheless, in the weakest market value area of Leominster, a house price increases of 10% (with a 7% increase in build costs) delivers a significant increase in residual values and a 20% increase in market values produces residual values of around £0.6m or over (at 25% affordable housing the residual value increases to £0.93m with the 20% increase in values – see Appendix 5).
- 4.18 With the 20% increase in values (and associated increase in costs), residual values in Hereford increase to about £1.35m per hectare (at both 30 dph and at 50 dph). The same increase in values produces residual values in excess of £2m per hectare in the two highest market value areas (Ledbury et al and Northern Rural).
- 4.19 Introducing additional costs (either with the Code for Sustainable Homes at Level 4 (with Lifetime Homes) and/or a £10,000 per dwelling s106 package) significantly dents residual values. The most marked impact is in Leominster where with either a £10,000 planning obligations package or Code for Sustainable Homes 4, a residual value of £0.25m is produced (at 30 dph).
- 4.20 The negative impact is, of course, higher with the £15,000 per dwelling s106 package. And the combined impact of this higher level of planning obligation plus Code for Sustainable Homes Level 4 (and Lifetime Homes) produces a negative residual value in Leominster and a residual value of around £0.5m in Hereford (at 30 dph).
- 4.21 However, in the strongest market value areas of Ledbury et al and Northern Rural, residual values in excess of £1m per hectare are still produced with this level of additional costs.
- 4.22 It is also worth noting that a further sensitivity test was considered but was not included in the study. This was for a move from CSH 3 to 6. Government policy is for this level of the code to be obtained by 2016. Current estimates of the associated costs are high but also across a very wide range (say in the order of £26,000 to £31,000 for an end terrace)¹², reflecting the lack of certainty about the technology and spatial planning that achieving CSH 6 will entail. The council is aware of the importance of the Code but prefers to assess how costs settle down and will review their impact in a future DPD review, while being able to respond to any scheme specific issues associated with an enhanced CSH in the meantime.

¹² CLG, Cost Analysis of the Code for Sustainable Homes, (2008).

Sensitivity testing – alternative affordable housing mixes

- 4.23 We were also asked to review the impact on residual values for a variety of different mixes of affordable housing. The tests were as follows:
- 80% social rent and 20% intermediate rent at rental levels representing a 20% discount on market rents:
 - 1 bed £78 per week
 - 2 bed £98
 - 3 bed £120
 - 4 bed £146
 - 80% social rent and 20% intermediate rent at rental levels representing a 30% discount on market rents
 - 1 bed £68 per week
 - 2 bed £86
 - 3 bed £105
 - 4 bed £128
 - 80% social rent and 20% low cost sale at following prices to the purchaser:
 - 1 bed £75,000 (assumed to be a flat for single person household)
 - 2 bed £93,000 (assumed to be 2 bed terrace for 2 person household)
 - 3 bed £98,000 (assumed to be a 3 bed terrace for family occupancy)
 - All affordable housing as low cost sale at prices to the purchaser as above.
- 4.24 To illustrate the impact of the alternative affordable housing mixes set out above, we have taken the 50 dph scenario and 35% affordable housing. All the other assumptions are those used in the baseline testing (including with no grant and a £5,000 per dwelling s106 package).

Table 4.3: Residual value in £s million per hectare for alternative mixes of affordable housing – 50 dph at 35% affordable housing

	Baseline 80% SR and 20% NBHB	80% SR and 20% Intermedi ate rent – higher rentals	80% SR and 20% Intermedi ate rent – lower rentals	80% SR and 20% low cost sale	All affordable housing as low cost
Ledbury, Ross and Rural Hinterlands	£1.74	£1.47	£1.43	£1.57	£2.40
Northern Rural	£1.54	£1.29	£1.26	£1.40	£2.23
Hereford	£0.98	£0.78	£0.74	£0.88	£1.71
Kington & West Herefordshire	£0.84	£0.65	£0.61	£0.75	£1.58
Hereford N and S Hinterland	£0.71	£0.53	£0.50	£0.64	£1.47
Leominster	£0.22	£0.09	£0.05	£0.19	£1.02

Note: SR = social rent and NBHB = New Build Homebuy (modeled at a 50% share size)

- 4.25 Switching the New Build Homebuy to intermediate rent reduces residual values but with very little difference between the higher and lower rental levels used. The introduction of the low cost sale product improves the residual values but not to any great extent when low cost sale represents 20% of the affordable housing. However, when all the affordable housing is delivered as low cost sale, residual values are significantly increased and exceed all the other affordable housing mixes that we tested.
- 4.26 With all the affordable housing as low cost sale, residual values are improved across all the market value areas but the impact is most apparent in the lower value areas. For example, in Leominster, residual values increase from £0.22m with the baseline mix (i.e. 80% social rent and 20% NBHB) to £1.02m.
- 4.27 From the viability perspective, the above analysis illustrates which tenure switches make most difference and where changing the affordable tenure has more limited impact. The council will have the facility to test alternative tenure mixes with the use of its bespoke Toolkit and will be able to test which affordable housing mixes deliver viable schemes. But it is also acknowledged that, in coming to a view on an appropriate tenure mix for any scheme, the council will have to balance viability considerations with the circumstances of the households whose needs the affordable housing is to meet.

Benchmarking results

- 4.28 There is no specific guidance on the assessment of viability which is published by national government and which sets out benchmark values to be used. In Chapter 2, we explained the relevance of existing or alternative use values in assessing viability. Our experience elsewhere is that the development industry considers an uplift of between 20% and 30% on existing use values is needed for landowners to bring land forward for development. The development industry workshop for Herefordshire did not directly comment on this.
- 4.29 For greenfield sites, the Herefordshire workshop indicated that values of around £500,000 per acre (say £1.2m per hectare) was a current 'going rate' but noting that this figure was significantly below values achieved in recent years.
- 4.30 Other evidence on current land values comes from the Valuation Office Agency (VOA) which publishes a property report twice a year. Table 4.4 below shows residential land values for specific locations within the West Midlands as at July 2009 (but not specifically for Hereford).

Table 4.4: Residential land values regionally

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

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

- 4.31 For bulk land, Table 4.4 indicates values of around £1.4m to £2.0m per hectare for larger market towns/sub regional centres e.g. Shrewsbury and Worcester and nearer £1.5m in the Black Country (e.g. Sandwell and Wolverhampton). These values are above the value for greenfield land indicated at the Herefordshire development industry workshop.

- 4.32 The other benchmark we have considered is industrial land value (as being the most likely existing/alternative use). The VOA also publishes information about industrial land values, but again, Hereford is not an identified location.

Table 4.5 West Midlands industrial land values

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

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

- 4.33 Average industrial land values in the West Midlands at July 2009 were reported at around £0.5m per hectare. The above table indicates that outside Birmingham, values do not vary greatly between locations and typically lie in the range £500,000 to £600,000.
- 4.34 Herefordshire Council has provided comment on the above values and, based on recent land transactions of which they are aware, have indicated that Herefordshire values are lower than those shown for the region – perhaps more like £0.3m to £0.4m per hectare.
- 4.35 Taking the higher level of uplift (30%) indicated above as being needed by land owners to bring land forward, and an ‘ambitious’ industrial land value of £450,000 per hectare, a figure of about £600,000 becomes a benchmark to compare residual values against.

Summary

- 4.36 Residual values generated can be assessed against different **benchmarks**, including existing use values. Feedback from the development industry workshop suggested greenfield land values of about £1.2m per hectare (which is below regional averages provided by the Valuation Office Agency). Drawing on information from the Valuation Office Agency and local data, a suggested benchmark for industrial land (as an alternative/existing use) of around £600,000 per hectare appears realistic.
- 4.37 The **baseline high level testing** shows residual values varying with alternative development scenarios (depending on development density). Different development scenarios maximise residual values in different market value areas and

with different levels of affordable housing. However, as a general rule, a density of 40 dph will tend to produce the highest residual values of the options we tested.

- 4.38 Residual values also vary considerably with market value area. At 35% affordable housing, the maximum residual value achieved ranged from £0.04m (at 30 dph) in Leominster to £1.84m (at 40 dph) in Ledbury et al. The equivalent residual value for Hereford was £1.11m (at 40 dph). At 45% affordable housing (the highest percentage we tested) residual values per hectare still exceeded £1.2m for at least one of the development scenarios in the two highest market value areas of Ledbury et al and Northern Rural.
- 4.39 Using the benchmark land value of £600,000 per hectare, residual values per hectare are exceeded at 35% affordable housing in all market value areas except for Leominster. In Leominster, the £600,000 benchmark is exceeded at 35% affordable housing with grant in place (at the grant levels we tested) or if there were a 20% uplift in prices. However, this benchmark of £600,000 is exceeded in Leominster at 25% affordable housing (for at least one density scenario) without grant and with the baseline house prices.
- 4.40 From the baseline tests it is possible to see Herefordshire as being three broad market value areas:
- A higher market value area in Ledbury et al and Northern Rural;
 - A middle market area of Hereford and its immediate hinterland (Hereford Northern and Southern Hinterland) and Kington and West Herefordshire;
 - With Leominster as a lower value market area.
- 4.41 The **sensitivity tests** showed the impact of changed assumptions about value (e.g. with grant and increase in market values) and costs (e.g. with a higher CSH assumed). But the residual values follow the same pattern as for the baseline testing in that the highest residual values are consistently delivered in the stronger housing market areas (Ledbury et al and Northern Rural).
- 4.42 Nevertheless, in the weakest market value area of Leominster, a house price increases of 10% (with a 7% increase in build costs) delivers a significant increase in residual values and a 20% increase in market values produces residual values of around £0.5m or over (at 25% affordable housing the residual value increases to £0.93m with the 20% increase in values – see Annex 4).
- 4.43 Increase in market values has a significant impact on residual values across the area but with important implications for weaker market value areas. With the 20% increase in values (and associated increase in costs), residual values in Hereford increase to about £1.35m per hectare (at 35% affordable housing) and Leominster values increase for 35% affordable housing from £0.4m to £0.61m (at 30 dph).
- 4.44 Introducing additional costs (either with the Code for Sustainable Homes at Level 4 (with Lifetime Homes) and/or an increased s106 package significantly dents residual values. Combining a £15,000 per dwelling s106 package with Code for Sustainable Homes Level 4 (and Lifetime Homes) produces a negative residual value in Leominster and a residual value of around £0.5m in Hereford with 35% affordable housing.

- 4.45 **Changing the mix of affordable housing** can produce very different residual values but only when low cost sale represents most/all of the affordable housing. Shifting to intermediate rented housing (from New Build Homebuy) has a limited impact on residual values – but may be a useful option (at least in the short term) while mortgages for shared equity products (e.g. New Build Homebuy) are in limited supply. The use of grant, when available, offers an alternative mechanism to enhance viability while retaining a tenure mix more weighted towards social rented housing – and which may better matches the need for affordable housing in Herefordshire.

5 LAND SUPPLY, SMALL SITES AND USE OF COMMUTED SUMS

Introduction

- 5.1 This chapter reviews the policy context and options for identifying the size of sites above which affordable housing contributions would be sought. It provides an assessment of the profile of land supply and the likely relative importance of small sites as well as considering practical issues about on-site provision of affordable housing on small sites and the circumstances in which collection of a financial contribution might be appropriate.

Policy position

- 5.2 Current local policy, as set out in the Herefordshire Unitary Development Plan, is for affordable housing to be sought on specific allocated sites and on windfall sites of 15 dwellings, or 0.5 hectares or more, in Hereford, the market towns (excluding Kington) and in settlements of above 3,000 population and on windfall sites of 6 or more dwellings, or 0.2 hectares or more, in settlements with a population of less than 3,000 (and which covers the main villages and also Kington).
- 5.3 PPS3 Housing sets out national policy on thresholds and affordable housing and states:

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

- 5.4 By reducing site size thresholds and 'capturing' more sites from which affordable housing can be sought, an authority can potentially increase the amount of affordable housing delivered through the planning system.

Site size analysis

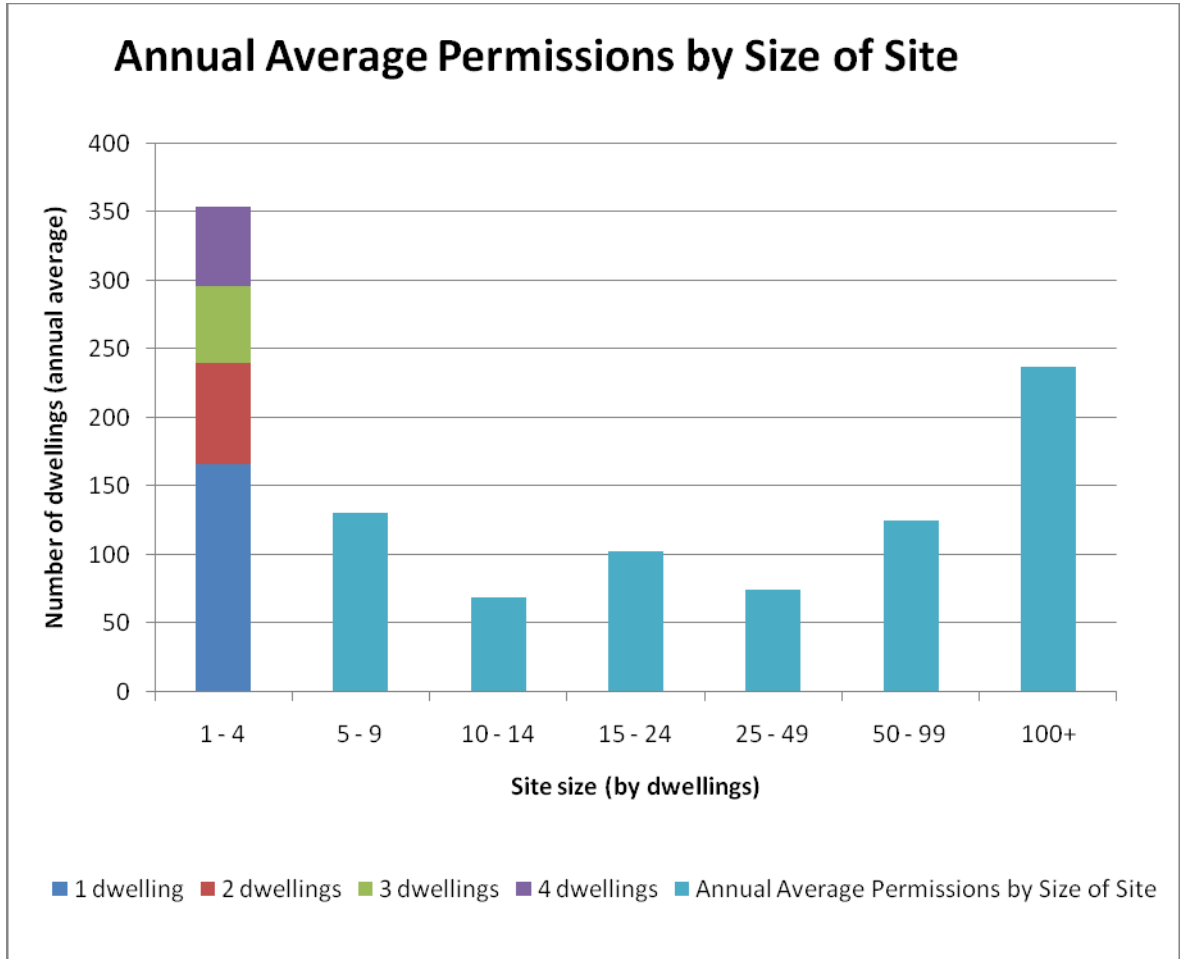
- 5.5 We have analysed residential planning permissions granted over the five years between 2003 and 2008. The data has been provided by Herefordshire Council and is taken from their residential land monitoring database. An annual average has been calculated for the number of dwellings on different sizes of sites. The information is shown first as a table and then graphically. Since small sites make up a large percentage of the supply, detailed information is provided for sites of 1, 2, 3 and 4 dwellings.

Table 5.1: Dwellings by Size of Site – Annual Average Permissions 2003 to 2008

Site size (dwellings)	Annual average dwellings granted permissions by size of site	Percentage of total supply
1	167	15%
2	73	7%
3	56	5%
4	58	5%
1 - 4	354	32%
5	32	3%
6	44	4%
7	21	2%
8	18	2%
9	16	1%
5 - 9	131	12%
10	20	2%
11	13	1%
12	14	1%
13	5	0%
14	17	2%
10 - 14	70	6%
15 - 24	102	9%
25 - 49	75	7%
50 - 99	125	11%
100+	238	22%

Source: Herefordshire Council

Figure 5.1: Total Dwellings by Size of Site – Annual Average Permissions 2003 to 2008



Source: Herefordshire Council

- 5.6 Over half the dwellings granted permission (51%) were on sites of less than 15 dwellings (i.e. the national indicative minimum threshold).
- 5.7 Sites of less than 5 dwelling made the single largest contribution to the supply of new housing in Herefordshire. Overall 32% of all dwellings granted permission were on sites of less than 5 dwellings while 44% dwellings were on sites of less than 10 dwellings.
- 5.8 Of the total number of schemes granted planning permission (as opposed to the number of dwellings contained in the permissions), only 4% were for sites of 15 or more dwellings and, conversely, 96% were for schemes of less than 15 dwellings.
- 5.9 We have gone on to analyse the profile of the site supply by ‘area’ – i.e. the six main settlements of Hereford, Bromyard, Kington, Ledbury, Leominster and Ross-on-Wye and the remaining rural areas.

Table 5.2: Dwellings by area and size of site and percentage of overall supply by area – annual average permissions 2003 to 2008

	Hereford	Bromyard	Kington	Ledbury	Leominster	Ross-on-Wye	Rural
Annual average number of dwellings permitted	402	29	46	22	131	79	385
Percentage of total supply	37%	3%	4%	2%	12%	7%	35%
Total number of dwellings by size of site (dwellings) and percentage of county supply							
1 dwelling	13 (1.3%)	5 (0.4%)	3 (0.3%)	5 (0.5%)	3 (0.3%)	6 (0.6%)	131 (11.9%)
2 dwellings	12 (1.1%)	6 (0.5%)	2 (0.1%)	2 (0.1%)	3 (0.3%)	7 (0.6%)	43 (3.9%)
3 dwellings	12 (1.1%)	2 (0.1%)	1 (0.1%)	3 (0.3%)	4 (0.4%)	5 (0.5%)	29 (2.7%)
4 dwellings	11 (1.0%)	4 (0.4%)	1 (0.1%)	1 (0.1%)	3 (0.3%)	1 (0.1%)	37 (3.4%)
1-4 dwelling	48 (4.4%)	17 (1.6%)	6 (0.6%)	11 (1.0%)	14 (1.2%)	19 (1.7%)	240 (21.9%)
5 -9 dwellings	31 (2.8%)	4 (0.4%)	3 (0.3%)	5 (0.5%)	7 (0.6%)	13 (1.3%)	68 (6.2%)
10 - 14 dwellings	28 (2.6%)	0	5 (0.5%)	3 (0.3%)	4 (0.4%)	3 (0.3%)	27 (2.5%)
15 - 24 dwellings	49 (4.5%)	7 (0.6%)	0	3 (0.3%)	7 (0.6%)	4 (0.4%)	32 (2.9%)
25 - 49 dwelling	15 (1.4%)	0	9 (0.8%)	0	14 (1.2%)	17 (1.6%)	19 (1.7%)
50 - 99 dwellings	78 (7.1%)	0	23 (2.1%)	0	0	24 (2.2%)	0
100 + dwellings	153 (13.9)	0	0	0	85 (7.8%)	0	0

Source: Herefordshire Council

- 5.10 The supply of housing is clearly dominated by Hereford and the rural area, which together account for 72% of potential supply over the past five years. In terms of sizes of site, 1-4 dwellings in the rural area is the largest source of supply in the county at 22%. The only other significant sources are in Hereford for 100+ dwellings (14%) and 50-99 dwellings (7%) and in Leominster 100+ dwellings (8%).
- 5.11 The table below summarises the position and highlights the reliance on small sites in the rural part of the county.

Table 5.3: Dwellings by area and size of site and percentage of overall supply by area – annual average permissions 2003 to 2008

	Hereford	Bromyard	Kington	Ledbury	Leominster	Ross-on-Wye	Rural
Total dwellings	402	29	46	22	131	79	385
% dws in sites <15 dws	26.6%	72.4%	30.4%	86.4%	19.1%	44.3%	87.0%
% dws in sites < 5 dws	11.9%	58.6%	13.0%	50.0%	10.7%	24.1%	62.3%

Source: Herefordshire Council

- 5.12 It is very apparent that sites below 15 dwellings are the dominant size of site coming forward in the rural part of the county. Very small sites (of below 5 dwellings) are themselves very important to the site supply with nearly two thirds of the supply (62.3%) coming from sites of this size.
- 5.13 Sites below 5 dwellings also represent half or more than half the supply of dwellings in Bromyard and Ledbury but with both settlements, the total number of dwellings granted permission is low (less than 30 per annum) and the role of small sites in the longer term may be exaggerated by this data.
- 5.14 In Hereford and Leominster, sites below the national indicative threshold are much less important to the supply of dwellings but nevertheless represented about a fifth to a quarter of the supply.
- 5.15 The final part of our review of the land supply uses the data on permissions 2003 to 2008 and sets out the notional amount of affordable housing that would be delivered for different target percentages and with different site size thresholds.

Table 5.3: Notional contribution to the supply of affordable housing

Size of site in dwellings	Total dwellings	% Affordable					
		25%	30%	35%	40%	45%	50%
1 to 4	354	88	106	124	142	159	177
5 to 9	131	33	39	46	52	59	66
10 to 14	70	17	21	24	28	31	35
15 and over	540	135	162	189	216	243	270
Total	1095	274	328	383	438	493	547

Source: Herefordshire Council

- 5.16 Out of a total notional annual supply of 383 affordable dwellings at a 35% target (Regional Spatial Strategy policy target¹³), adopting a 15 dwelling threshold would mean that less than half the total potential supply of affordable housing could be delivered (i.e. 194 affordable homes on sites under 15 dwellings would be foregone).

¹³ See para 1.8 above re September Panel Report

The table shows that reducing the threshold to 10 dwellings or down to 5 dwellings would increase the potential supply of affordable housing (by 24 and 70 dwellings per annum respectively). But the really significant increase would come if there was a zero threshold and sites of 1 to 4 dwellings were required to provide affordable housing.

- 5.17 This analysis reinforces the message that reducing the site size threshold would significantly increase the supply of affordable housing. It is also apparent that a major component of the supply of housing comes from site sizes of 1-4 dwellings, which indicates that there may be an argument for reducing the threshold to zero.
- 5.18 The option of a lower threshold needs to be tested in terms of scheme viability and the next chapter includes a number of case studies down to 1 dwelling.
- 5.19 We discussed the suitability of small sites for affordable housing at the workshop with the development industry. Some participants expressed the view that very small schemes of, say, 1 to 3 dwellings would not be viable with affordable housing but schemes of, say, 6 dwellings with affordable housing would be. No specific evidence was put forward in support of these arguments but it was noted that developers of very small schemes may be less experienced and can pay 'too much' for the land, thus reducing their ability to provide affordable housing.

Small sites and management of affordable housing

- 5.20 The development industry workshop also considered any practical issues of managing small numbers of affordable homes in separate schemes. From the housing association perspective (as potential managers of affordable housing), there is no reason why affordable housing cannot be provided in small numbers (within mixed tenure schemes) and one dwelling in a scheme can be acceptable, so long as there is a housing association with a local management presence. The housing association representatives noted that Herefordshire is a rural county and it is already common for associations to be managing very small numbers of affordable homes in different locations.

Use of commuted sums

- 5.21 We understand that Herefordshire Council does not accept payments in lieu of affordable housing provided on site except under exceptional circumstances. We note that PPS3 states that provision of affordable housing on an alternative site or by way of a financial payment in lieu (or commuted sum) should only be used in exceptional circumstances. Paragraph 29 of 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.

- 5.22 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 29 as set out above). Our approach is that the commuted sum should be equivalent to the

‘developer/landowner contribution’ if the affordable housing was provided on site. One way of calculating this is to take the difference between the residual value of 100% market housing and the residual value of the scheme with the relevant percentage and mix of affordable housing.

- 5.23 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.
- 5.24 Any concerns about scheme viability (whatever size of site) should be reflected by providing grant or altering tenure mix, or by a ‘reduced’ affordable housing contribution whether provided on-site, off-site or as a financial contribution. Other planning obligations may also need to be reduced under some circumstances.
- 5.25 However, if affordable housing is sought from very small sites, in certain circumstances it becomes impractical to achieve on-site provision e.g. seeking less than 33% on a scheme of 3 dwellings. There will also be occasions where on-site provision can only deliver a partial contribution towards the proportion of affordable housing sought e.g. 30% affordable housing in a scheme of 4 dwellings would deliver one affordable unit on site. In the latter case, it is possible to devise a formula which mixes on-site provision with a commuted sum to ‘make up the balance.
- 5.26 Were Herefordshire Council to adopt a very low/zero threshold, the council will need to consider how contributions will be collected and the role of commuted sums in this.

6 CASE STUDY VIABILITY ANALYSIS

Introduction

- 6.1 The analysis in chapter 4 will apply for large as well as small sites (on a pro rata basis). We do not have any evidence to suggest that the economics of development are consistently different between large and small sites and that small sites are less likely to be viable, all other things being equal.
- 6.2 However, we note that some participants at the development industry workshop were concerned that very small sites may not be viable with affordable housing; although this may be as much about the limited experience of developers of small sites as about any inherent value/cost relationship.
- 6.3 In this context, it is worth noting that information from the VOA (see Table 4.4) shows that land values achieved by small sites (i.e. less than 5 dwellings) can be higher than those for 'bulk land'. This suggests that the economics of developing smaller sites could actually be more favourable than developing larger ones.
- 6.4 In theory, therefore, there may be no real need to review the viability of sites of different sizes (especially small sites). However, for the sake of further illustration, and recognising that there may be special circumstances that impact on the viability of some types of smaller sites, it was felt helpful to review the development economics of a sample of illustrative case studies, reviewing in depth the development economics of small sites.

Existing use of (small) sites

- 6.5 In the previous chapter we concluded that, on the basis of the profile of site supply, small sites (including sites down to 1 dwelling) make a significant contribution to the supply of dwellings across the county and particularly (but not exclusively) in the rural parts of the county.
- 6.6 The following table provides information about the previous use of schemes granted planning permission 2003 to 2008.

Table 6.1: Sites granted permission 2003 to 2008 – by current/previous use

Existing use	Incidence (no. of schemes)	Total dwellings
Greenfield	481	1235 (23%)
Residential	583	1142 (21%)
Employment	84	611 (11%)
Other brownfield	243	2486 (45%)
All uses	1391	5474

Source: Herefordshire Council

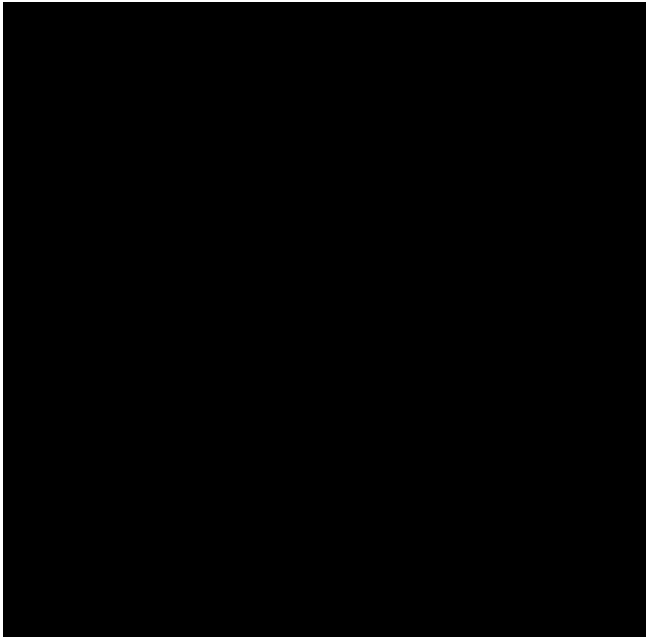
- 6.7 From inspection of the dataset of permissions it is possible to characterise the type of land supply in more detail – with comments on both small as well as larger sites:

- *Greenfield sites:* There is a large variety in the type of greenfield site found. Many of the smaller greenfield sites come from rural building conversions (classed as greenfield) in the rural parishes. Typical site sizes in rural areas range from 0.1 – 0.3 hectares, very often with just one dwelling (i.e. very low density developments). (Larger greenfield sites are generally found as extensions to existing urban areas in the main towns and villages. Sites will be for 15 dwellings or more);
- *Residential land:* Small sites brought forward within existing residential areas come from a variety of sources including infill, garden development and redevelopment of existing properties through conversion or demolition. Typically these sites are of between 0.01 and 0.05 hectares. Schemes are generally limited to 1 - 4 dwellings;
- *Brownfield sites.* This has been the major source of land supply in the past and can often be attributed to the release of public sector land, including former MOD sites. They are typically for 15 dwelling or more and are located across the county. There is also a bundle of smaller brownfield sites coming from uses such as garages, retail premises, pubs etc. These are located across the county, mainly ranging from 0.01-0.3 hectares. They are predominantly 1 – 4 dwellings in scheme size.

6.8 One other characteristic of site supply is relevant to our analysis and this is about schemes that involve the redevelopment of an existing residential dwelling i.e. one or more existing property is demolished and one or more new dwelling is built on the site. These schemes are a special case. They are important because the existing use value (as a residential unit) will almost always be the highest existing use value found in any development. To be viable, the new scheme will need to exceed the value of the demolished dwelling by an amount sufficient to encourage the property owner to bring them forward for development. Again a rough figure of 20-30% return above the market value of the existing property provides a 'marker'.

6.9 But the importance of this type of site can be exaggerated. We have analysed permissions for the rural part of the county (where small sites are particularly important to the supply of sites) and identified those schemes which involve the demolition of an existing dwelling. The results of this analysis are shown in the table below.

Table 6.2: Planning permissions 2003-2008, by size of site and whether involves demolition of an existing dwelling



Source: Herefordshire Council

- 6.10 Less than 1 in 6 schemes of 1 to 14 dwellings in the rural part of the county involved the demolition of an existing dwelling. Demolitions mostly occur with smaller schemes (say 1 to 6 dwellings) and are most important for single dwelling schemes. But even here, they represent fewer than 20% of all schemes granted permission 2003 to 2008.

Case study selection

- 6.11 In chapter 5 we concluded that small sites (including down to 1 to 4 dwellings) are very important in the rural part of the county, and to a lesser extent, in certain of the market towns. We therefore focused the viability analysis of case study sites on small sites in specific market value areas. The market value areas used were - Ledbury, Ross and Rural Hinterland, Northern Rural and Hereford Northern and Southern Hinterland.
- 6.12 The case studies devised are drawn from an inspection of the permissions dataset. The case studies are not intended to replicate a particular site or scheme but to be broadly representative of a family of sites of this general size.

Table 6.3: Case Studies

Case study	Dws	Area (ha)	Density (in dph)	Mix of dwellings
A	1	0.15	6.7	1 x 5 bed detached
B	2	0.20	10	2 x 4 bed detached
C	4	0.30	13	2 X 4 bed detached 2 X 3 bed detached
D	8	0.50	16	6 X 3 bed semi 2 X 3 bed det
E	13	0.25	52	6 x 2bed flat 7 x 3 bed terrace

Case study – residual values

6.13 Residual values¹⁴ for each case study for affordable housing at 0% to 45% are shown in the table below. In each case a scheme residual value is shown (in the upper row) and an equivalent per hectare residual value in £s million is shown (in the lower row). Results from the case study viability analysed are presented by each market value area in turn.

Table 6.4a: Case Studies - Ledbury, Ross and Rural Hinterland – Residual Values

Case Study	Affordable Housing (%)				
	0%	25%	35%	40%	45%
A	£149,400	£103,500	£87,300	£75,600	£67,500
	<i>£996,300</i>	<i>£690,300</i>	<i>£564,300</i>	<i>£504,000</i>	<i>£450,000</i>
B	£246,600	£170,100	£138,600	£103,800	£108,000
	<i>£1,233,000</i>	<i>£850,500</i>	<i>£693,000</i>	<i>£616,500</i>	<i>£540,000</i>
C	£495,000	£344,700	£256,770	£254,700	£225,000
	<i>£1,649,700</i>	<i>£1,149,300</i>	<i>£951,300</i>	<i>£848,700</i>	<i>£749,700</i>
D	£667,800	£443,700	£352,800	£308,700	£262,800
	<i>£1,335,600</i>	<i>£887,400</i>	<i>£705,600</i>	<i>£617,400</i>	<i>£525,600</i>
E	£725,400	£408,600	£282,600	£218,700	£155,700
	<i>£2,901,600</i>	<i>£1,634,400</i>	<i>£1,130,400</i>	<i>£874,800</i>	<i>£622,800</i>

Table showing residual values: the upper figure is the residual value for the whole scheme and the lower figure in italics is the equivalent residual value per hectare

6.14 As is expected, with more affordable housing, residual values decrease but remain positive for all the affordable housing percentages tested and for all the case studies.

¹⁴ The viability testing we have undertaken uses the same baseline assumptions as for the high level testing, including nil grant and a s106 package of £5,000 per dwelling.

- 6.15 The larger sites case studies tend to produce higher residual values e.g. at 35% affordable housing, the per hectare residual value for case study B (2 dwellings) is £0.69m and £1.13m for case study E (13 dwellings). However, the case studies also highlight the variability of scheme residual values depending on the exact make-up of a scheme e.g. Case study C of 4 dwellings delivers a higher residual value (per hectare) than case study D of 8 dwellings (whatever the amount of affordable housing).
- 6.16 The residual values generated in the case studies can also be compared with alternative use values. We have previously identified £600,000 (para 4.35) as a reasonable benchmark for comparing with industrial use as an alternative use. Residual values generated by the case study sites exceed this value at 40% affordable housing for all the case studies except A (the single dwelling). In this case – it looks like an affordable housing percentage of about 30% would deliver a residual value above this comparator.
- 6.17 Of course, many small sites come from land which would only be acceptable for residential use and from sources such as small infill plots, existing gardens and other incidental residential land. So, with case study A, even at 45% affordable housing, the land owner would secure nearly £70,000 for a 0.15 hectare plot of land which would be unlikely to secure any other type of development.
- 6.18 However, when development of a small site involves demolition of an existing dwelling, residual values generated need to be compared with those of the existing second-hand property. Assuming a scenario with a 3 bed detached dwelling being demolished for the new development, the alternative use value of the site in Ledbury, Ross and Rural Hinterland Using our assessed notional market values) is estimated at £315,000. Residual values do not exceed this amount for any level of affordable housing for case studies A and B and only exceed £315,000 in case studies C and E at 25% affordable housing and at 35% for D.
- 6.19 The relatively poor economics of demolition and redevelopment will partly explain why this type of development is of such limited importance in the supply of sites (see Table 6.2 above). Also, in the real world, properties that are demolished to make way for new development are unlikely to be average properties and more likely to be of lesser quality and lower prices.

Table 6.4b: Case Studies – Northern Rural Market Area – Residual Values

Case Study	Affordable Housing (%)				
	0%	25%	35%	40%	45%
A	£138,600	£95,400	£76,500	£68,400	£60,300
	<i>£924,300</i>	<i>£636,300</i>	<i>£510,300</i>	<i>£456,300</i>	<i>£402,300</i>
B	£232,000	£158,400	£127,800	£113,400	£99,000
	<i>£1,161,000</i>	<i>£792,000</i>	<i>£639,000</i>	<i>£567,000</i>	<i>£495,000</i>
C	£459,000	£315,900	£259,200	£230,400	£202,500
	<i>£1,530,000</i>	<i>£1,053,000</i>	<i>£864,000</i>	<i>£767,700</i>	<i>£675,000</i>
D	£624,600	£409,500	£322,200	£279,000	£235,800
	<i>£1,249,200</i>	<i>£819,000</i>	<i>£644,400</i>	<i>£558,000</i>	<i>£471,600</i>
E	£653,400	£351,900	£231,300	£171,000	£110,700
	<i>£2,613,600</i>	<i>£1,407,600</i>	<i>£925,200</i>	<i>£684,000</i>	<i>£442,800</i>

Table showing residual values: the upper figure is the residual value for the whole scheme and the lower figure is the equivalent residual value per hectare

- 6.20 With the Northern Rural market value area, the same broad pattern of residual values is found as with the Ledbury et al market value area, reflecting the similarity of their house prices. Again, the larger case study sites tend to produce higher residual values but case study A still providing a £60,000 return for a scheme of 1 dwelling as set out in case study A.
- 6.21 Comparing the residual values generated in the case studies with the industrial alternative use value (£600,000), residual values exceed this value at 40% affordable housing for case studies C and E and at 35% for case studies B and D but only at 25% for case study A (the single dwelling).
- 6.22 In this market value area the value of a 3 bed detached property we have used is £300,000. Again, it can be seen from the above table, that there are few instances when the residual value generated in the case study exceeds this amount – and not at all for case studies A and B.

Table 6.4c: Case Studies – Hereford Northern and Southern Hinterland Market Area – Residual Values

Case Study	Affordable Housing (%)				
	0%	25%	35%	40%	45%
A	£99,000	£63,900	£48,600	£42,300	£35,100
	<i>£659,700</i>	<i>£425,700</i>	<i>£324,000</i>	<i>£281,700</i>	<i>£234,000</i>
B	£160,200	£100,800	£76,500	£64,800	£53,100
	<i>£801,000</i>	<i>£504,000</i>	<i>£382,500</i>	<i>£324,000</i>	<i>£265,500</i>
C	£322,200	£207,000	£162,000	£138,600	£116,100
	<i>£1,073,700</i>	<i>£690,300</i>	<i>£540,000</i>	<i>£461,700</i>	<i>£387,000</i>
D	£408,600	£237,600	£168,300	£134,100	£99,900
	<i>£817,200</i>	<i>£475,200</i>	<i>£336,600</i>	<i>£268,200</i>	<i>£199,800</i>
E	£394,200	£144,900	£46,800	£-3,300	£-64,900
	<i>£1,576,800</i>	<i>£597,600</i>	<i>£187,200</i>	<i>£-13,200</i>	<i>£-259,600</i>

Table showing residual values: the upper figure is the residual value for the whole scheme and the lower figure is the equivalent residual value per hectare

- 6.23 With the Hereford Northern and Southern Hinterland market value area, house prices are generally below those of the Ledbury et al and Northern Rural and this is reflected in the lower residual values found. For the first time there are negative residual values with one of the scenarios tested i.e. case study E at 40/45% affordable housing. This will reflect the relatively low value for small units (including flats) found in this market value area. All the other case studies generate positive residual values at 35% affordable housing – ranging from (on a per hectare basis) £324,000 to £540,000.
- 6.24 Comparing the residual values generated in the case studies with the comparator industrial alternative use value (£600,000), residual values do not exceed this comparator value at 35% or above for any of the case studies. At 25% affordable housing, the comparator is exceeded (or just falls below) for case studies C and E. The information in the table suggests that, for the other case studies, £600,000 per hectare would be exceeded at some point between 0% and 25% affordable housing.
- 6.25 Again, it needs to be pointed out that small residential sites tend to be the type of site where only a residential use will be acceptable and, as Table 6.2c shows, even at 35% affordable housing, with case study A, a land owner would receive about £50,000 for a 0.15 hectare plot of land.
- 6.26 As with the other two market value areas, we compare the residual values generated in the case studies with the notional value of a 3 bed detached property - £255,000. It can be seen that there are only three instances when this figure is exceeded and these are all with 100% market housing.

Rural Exception Sites

- 6.27 Although not directly related to the viability of affordable housing targets or site size thresholds, as part of this study we have undertaken a limited review of the economics of Rural Exception Sites (RES). We have assessed the position for the three market value areas we used for the case studies of small sites i.e. Ledbury, Ross and Rural Hinterland, Northern Rural and Hereford Northern and Southern Hinterland.
- 6.28 In agreement with the council, we identified a stylised Rural Exception Site of 15 dwellings¹⁵ with a mix of social rented housing and intermediate housing (with two options for the latter – one with New Build Homebuy and the other with intermediate rent). The other assumptions were the same as used for the other testing undertaken except we did not include a s106 contribution nor an allowance for financing the land purchase (on the basis that the land would not be purchased on a speculative basis). Importantly, we have assumed nil grant.
- 6.29 The assumptions about the mix and tenure of units in the 15 dwelling scheme are set out in the table below.

Table 6.5: Rural Exception Site Units

	Social Rental	Intermediate
Tenure Mix	12	3
Size of units		
2 bed terrace	6	1
3 beds terrace	6	2

With two options for the intermediate affordable housing:

- As New Build Homebuy at 50% share size;
 - As intermediate rent with weekly rents as:
 - 2 bed £98
 - 3 bed £120
- 6.30 We have also modelled a similar development of 15 dwellings in the same three market value areas but this time with a small element of market housing. We emphasise that this would not be a Rural Exception Site as defined by the government in PPS3. Modelling this type of scheme has been undertaken for illustrative purposes only and to show the impact on viability of a small element of market housing into a scheme that otherwise delivers a high proportion of affordable housing. The assumptions about the mix and tenure of the 15 dwelling scheme are set out in the table below.

¹⁵ The makeup and number of units in the RES tested does not indicate any particular preference of the council for RES and has been used simply for testing purposes.

Table 6.6: Mixed Tenure Scheme – High % Affordable Housing

	Social Rental	Intermediate	Market
Tenure mix	10	3	2
Size of units			
2 bed terrace	5	1	
3 bed terrace	5	2	2

With two options for the intermediate affordable housing:

- As New Build Homebuy at 50% share size;
- As intermediate rent with weekly rents as:
 - 2 bed £98
 - 3 bed £120

6.31 The tables below show the residual values generated by the RES and the 'rural, high percentage affordable housing' schemes for each of the three market value areas considered. The first table provides a total residual value for the scheme and the second shows this on a per dwelling basis (i.e. total residual value divided by 15).

Table 6.7a: Total residual value for the scheme (15 dwellings) - £s million

	No market housing		With 2 dwellings as market housing	
	With NBHB	With IR	With NBHB	With IR
Ledbury, Ross and Rural Hinterland	-£0.44	-£0.64	-£0.18	-£0.38
Northern Rural	-£0.46	-£0.64	-£0.21	-£0.40
Hereford Northern and Southern Hinterland	-£0.52	-£0.64	-£0.32	-£0.44

NBHB = New Build Home Buy and IR = Intermediate rent

Table 6.7b: Residual value per dwelling (actual £s)

	No market housing		With 2 dwellings as market housing	
	With NBHB	With IR	With NBHB	With IR
Ledbury, Ross and Rural Hinterland	-£29,000	-£43,000	-£12,000	-£26,000
Northern Rural	-£31,000	-£43,000	-£14,000	-£26,000
Hereford Northern and Southern Hinterland	-£35,000	-£43,000	-£21,000	-£30,000

NBHB = New Build Home Buy and IR = Intermediate rent

- 6.32 All the residual values generated are negative. Using New Build Homebuy as the intermediate tenure produces a less negative value and including the 2 market units, as would be expected, makes the schemes less negative but does not produce a positive residual.
- 6.33 The analysis of the notional RES modelled highlight the critical role that grant funding plays in ensuring that sites without or with very little market housing, come forward for development.

Summary

- 6.34 This chapter has focused on the development economics of small sites (including schemes down to 1 to 4 dwellings) in the rural part of the county, and to a lesser extent, in certain of the market towns.
- 6.35 The case studies were drawn from an inspection of the council's permissions dataset and were for schemes ranging from 1 to 13 dwellings.
- 6.36 The market value areas of Ledbury et al and Northern Rural have very similar results with the larger case study sites tending to produce higher residual values but case study A (with just one dwelling) still providing a significant plot value even up to 45% affordable housing.
- 6.37 Per hectare residual values were at or exceeded the industrial alternative use comparator value (£600,000) at 35% or 40% affordable housing for the majority of the case studies.
- 6.38 This was not the case in the third market value area considered (Hereford Northern and Southern Hinterland). In this market value area, house prices are lower and therefore so are residual values. Here, the residual values generated in the case studies did not exceed the comparator industrial alternative use value (£600,000) at 35% or above and at 25% affordable housing, the comparator is exceeded (or just falls below) for just two case studies.
- 6.39 Where a scheme involves the demolition of an existing property, there are few case studies in any of the three market value areas where, with the introduction of affordable housing, the residual value generated exceeds the value of the existing property. Indeed, there are many cases where the residual value is less than that of the existing property with 100% market housing.
- 6.40 This makes the point that the economics of demolition and replacement tend not to work with 'standard' house values and the likely circumstances for this form of development will be with the demolition of a low value property to be replaced by a development with a much higher Gross Development Value.
- 6.41 In any case, demolition and redevelopment represents a small minority of development types in the rural areas and are only really of any significance for schemes of 1 and 2 dwellings (and then only account for 17% and 12% of schemes respectively).
- 6.42 Rural Exception Sites, as we have modelled them, will rely heavily on grant to be viable. Introducing a small element of market housing (2 out of 15 dwellings in the example we modelled) does not deliver a positive residual value. This model of scheme is neither a Rural Exception Site nor one that is viable (without grant).

7 MAIN FINDINGS AND CONCLUSIONS

Key findings

- 7.1 We identified **6 market value areas** in Herefordshire for the purposes of this study and which were defined by house prices. The market value areas are:
- Ledbury, Ross and Rural Hinterland (Ledbury et al);
 - Northern Rural;
 - Hereford;
 - Kington and West Herefordshire;
 - Hereford Northern and Southern Hinterland;
 - Leominster.
- 7.2 There is **variation in market values** between the market value areas and there are three broad bands into which the market value areas fall:
- A higher value area covering Ledbury et al and Northern Rural;
 - A middle band area of Hereford, Kington and West Herefordshire and Hereford Northern and Southern Hinterland;
 - Then with Leominster as a 'band' on its own, with lower prices.
- 7.3 While the spread of values is apparent, we have found more diverse markets within local authorities elsewhere in the country. Taking a 3 bed terrace/town house as an example – the difference in value between the first five of the six market value areas is only £40,000 (£210,000 in Kington and West Herefordshire to £170,000 in Hereford Northern and Southern Hinterland). The equivalent Leominster value is £150,000 (i.e. the Leominster value is 71% that of Ledbury et al).
- 7.4 The residual values generated in the scenario testing we have carried out reflect these price differences. We also found that residual value varies with the type of development in terms of density and the mix of unit types.
- 7.5 Residual values generated can be assessed against different **benchmarks**, including existing use values. While greenfield land values of about £1.2m per hectare were suggested by the development industry workshop, a benchmark for industrial land as an alternative/existing use (with an uplift over base values) of around £600,000 per hectare appears realistic.
- 7.6 The **baseline high level testing** of a notional 1 ha site was based on a set of agreed assumptions including that the affordable housing is provided as 80% social rent and 20% intermediate affordable housing and without grant. The high level testing shows that residual values vary with alternative development scenarios (depending on development density) but, as a general rule, a density of 30/40 dph will tend to produce the highest residual values of the options we tested.
- 7.7 The main findings from the baseline testing were that:
- At 35% affordable housing (the regional affordable housing target currently proposed) and without grant, maximum residual value achieved ranged from

£0.40m (at 30 dph) in Leominster to £1.84m (at 40 dph) in Ledbury et al. The equivalent residual value for Hereford was £1.11m (at 40 dph);

- At 45% affordable housing (the highest percentage we tested) residual values per hectare still exceeded £1.2m for at least one of the development scenarios in the two highest market value areas of Ledbury et al and Northern Rural;
- Using the benchmark land value of £600,000 per hectare, residual values per hectare (without grant) exceed this figure at 40% affordable housing in all market value areas except for Leominster. In Leominster, the £600,000 benchmark (without grant) is exceeded at 25% affordable housing.

- 7.8 We carried out a number of **sensitivity tests** to show the impact of changed assumptions about value and costs. The residual values follow the same pattern as for the baseline testing.
- 7.9 Increase in market values has a significant impact on residual values across the county. In the weakest market value area of Leominster, a house price increase of 20% (with associated increase in development costs) produces residual values in excess of the £0.6m benchmark (at 35% affordable housing and at 30 dph).
- 7.10 In Hereford, a 20% increase in house prices increases residual values about £1.35m per hectare (at 35% affordable housing) and to £1.15m at 40% affordable housing.
- 7.11 Changing the mix of affordable housing can produce a significant increase in residual values but only when low cost sale represents most/all of the affordable housing. Shifting to intermediate rented housing (from New Build Homebuy) reduces residual values.
- 7.12 The introduction of grant (at the grant levels we tested) increases residual values and has the biggest proportionate impact in lower value market areas and particularly in Leominster. In Leominster, the per hectare residual value at 35% affordable housing (and 30 dph) goes from £0.40m to £0.81m with the introduction of grant (i.e exceeds the £0.6m benchmark).
- 7.13 Introducing additional costs (either with the Code for Sustainable Homes at Level 4 (with Lifetime Homes) and/or an increased s106 package significantly dents residual values. Combining a £15,000 per dwelling s106 package with Code for Sustainable Homes Level 4 (and Lifetime Homes) produces a negative residual value in Leominster and a residual value of around £0.5m in Hereford with 35% affordable housing.
- 7.14 Our analysis of the **size of sites** in the land supply showed that over half the dwellings granted permission (51%) between 2003 and 2008 were on sites of less than 15 dwellings (i.e. the national indicative minimum threshold).
- 7.15 The profile of sites varies between different parts of the county. Sites below 15 dwellings are the dominant size of site in the rural part of the county and nearly two thirds of the supply here (62.3%) are in sites of less than 5 dwellings.
- 7.16 In Hereford and Leominster, sites below the national indicative threshold are much less important to the supply of dwellings but nevertheless represented about a fifth to a quarter of the supply 2003 to 2008.

- 7.17 The site size profile indicates that the council should consider a site size threshold below the national indicative minimum of 15 dwellings outside Hereford and Leominster. We therefore identified a number of **case study sites, focusing on small sites** (down to 1 to 4 dwellings) in the rural part of the county and certain of the market towns. We did not test the case study sites for Hereford or Leominster.
- 7.18 In the market value areas of Ledbury et al and Northern Rural, the case study sites with more dwellings (but still below 15) tended to produce higher residual values but the case study with just one dwelling still generated a significant plot value even up to 45% affordable housing.
- 7.19 In the market value area of Hereford Northern and Southern Hinterland, residual values generated by the case studies did not exceed the comparator industrial alternative use value (£600,000) at 35% or above and at 25% affordable housing, the comparator is exceeded (or just falls below) for just two case studies.
- 7.20 The economics of development with small sites work least well where a scheme involves the demolition of an existing property. This is because the alternative use value (i.e. an existing residential property) is particularly high. There are few case studies in any of the three market value areas tested where, with the introduction of affordable housing, the residual value generated exceeds the indicative value of the existing property.
- 7.21 Although this phenomenon has to be taken into account in considering future affordable housing policy, it needs to be remembered that demolition and redevelopment represents a small minority of development types in the rural areas and are only really of any significance for schemes of 1 and 2 dwellings (and then only account for 17% and 12% of schemes respectively).
- 7.22 The development industry workshop also considered **practical issues of managing** small numbers of affordable homes in separate schemes. It was noted that there is no reason why affordable housing cannot be provided in small numbers (within mixed tenure schemes) and one dwelling in a scheme can be acceptable, so long as there is a housing association with a local management presence available to take on its management.
- 7.23 Only in exceptional circumstances does Herefordshire Council accept **payments in lieu** of affordable housing provided on site. However, on very small sites, it may be impractical mathematically to provide affordable housing on site and a payment in lieu provides a mechanism for collecting the affordable housing contribution.

Conclusions and policy options

- 7.24 There is no detailed government guidance setting out how targets should be assessed, based on an assessment of viability. In coming to our conclusions, we have reviewed a range of indicators including existing use values and taken into account feedback from the development industry workshop.
- 7.25 We also note that the council has a recently adopted Unitary Development Plan (UDP) (2007) which sets an affordable housing target of 35%. This level of affordable housing is to be sought on sites of 15 dwellings or more, in Hereford, the market towns (excluding Kington) and in settlements of above 3,000 inhabitants and on sites of 6 or more dwellings elsewhere.

- 7.26 The council is currently preparing its Core Strategy and consultation responses on a set of Developing Options indicated that there was majority support for a combination of the following two options:
- Increasing the percentage of affordable housing required on housing sites from 35%, and
 - Lowering the site thresholds for affordable housing, particularly in rural areas where most housing is completed on sites smaller than existing thresholds.
- 7.27 Our analysis indicates that the council has a number of policy options which we set out below. These options reflect the high level of need for affordable housing in the county and that the council will want to maximise the amount of affordable housing delivered through the planning system, which maintains economic viability and meets other mixed community objectives.
- 7.28 On **affordable housing targets** the options we put forward are:
- A single target across the county with a realistic expectation that the target can generally be achieved without grant. A target of 35% would be reasonable, although there may be some site specific circumstances where the council will need to be flexible (e.g. in working with the HCA to secure grant support and/or allowing alternative mixes of affordable housing). However, if a single target of 35% is taken forward it must be recognised that this is a very stretching target for Leominster and schemes will generally need grant support to achieve this. In the longer term, and assuming a reasonable increase in market values, there would be less need for grant support to sustain a 35% target in Leominster;
 - A split target which seeks different amounts of affordable housing in different parts of the county. This approach would be helpful in dealing with the lower values found in Leominster. We are putting forward two options for a split target approach – the second of which includes a higher target percentage in those market value areas which can afford to do so. The two split target options are:
 - 35% generally but 25% in Leominster; or
 - 40% in Ledbury et al and Northern Rural, 35% in Hereford, Kington and West Herefordshire and Hereford Hinterland and 25% in Leominster.
- 7.29 A single target across the county has the advantage of clarity and ease of operation. A split target helps take account of the different values identified across the county but will only work if the different areas to which targets apply can be clearly identified.
- 7.30 On **site size thresholds**, given the high level of need for affordable housing, it is appropriate to consider the option of introducing a lower site size threshold than the national indicative minimum of 15 dwellings.
- 7.31 In light of the pattern of site supply analysed, we are proposing a threshold of 15 dwellings in the towns and a very low threshold in the rural areas. With the latter, a zero threshold would seem justified, given the importance of schemes of as few as 1 or 2 dwellings to the supply of sites and the viability evidence from the case studies.

- 7.32 We are aware that there are smaller market towns where need has been identified by the council as being very high but development levels are very low and small sites are making a significant contribution to the very limited supply of new homes coming through. Ledbury and Bromyard are the main two examples of this and there may be justification for seeking a lower threshold here. The analysis of case study sites included these two towns and therefore there should be no objection on viability grounds to operating lower thresholds in these cases.
- 7.33 Were very low site size thresholds to be adopted, there are practical issues about delivery of affordable housing which would need to be taken into account. For example, at below 3 dwellings (assuming a 35% target percentage) on-site provision is not mathematically practical but the council should seek to provide affordable housing on-site on schemes of 3 or more dwellings.
- 7.34 Commuted sums would need to be collected from sites of 1 and 2 dwellings and for some small schemes, a mix of on-site provision and a commuted sum might need to be sought. For example:
- Site of 4 dwellings and target percentage of 40%
- 40% of 4 dwellings = 1.6 dwellings
- So, on-site contribution = 1 dwelling
- Financial contribution equivalent to 0.6 affordable dwellings
- 7.35 There is one other issue that the council needs to take into account if it wishes to propose a very low (zero) threshold. This relates to the practicality of dealing with a significant increase in planning applications where affordable housing is to be sought and the subsequent negotiation of s106 agreements to accompany planning permissions. The council needs to be aware of this and be geared up to deal with the increased workload if a low threshold policy is to be successfully introduced and managed.

Viability on individual sites

- 7.36 Our analysis of residual values has been based on an analysis of typical development types in the county. There will be site-specific circumstances where achievement of the affordable housing proportions set out above may not be possible (e.g. where there are particularly difficult site conditions or small sites involving the demolition of a high value existing dwelling). This should not detract from the robustness of the overall targets but the council will need to take into account specific site viability concerns when these are justified.
- 7.37 If there is any doubt about viability on a particular site, it will be the responsibility of the developer to make a case that applying the council's affordable housing requirement for their scheme makes the scheme **not viable**. Where the council is satisfied this is the case, the council has a number of options open to it (including changing the mix of the affordable housing and supporting a bid for grant funding from the Homes and Communities Agency and/or using their own funds) before needing to consider whether a lower level of affordable housing is appropriate. In individual scheme negotiations, the council will also need to consider the balance between seeking affordable housing and its other planning obligation requirements.

- 7.38 The council could consider introducing a formal ‘cascade’ into its policy framework which set out the options the council would consider where scheme viability is an issue and the order of priority given to the options by the council. There are examples of similar policies in adopted DPDs and an example from Bournemouth Borough Council is set out below to illustrate how a ‘cascade’ approach could work – without suggesting that the council should follow this particular format.

Where developers demonstrate to the Council's satisfaction that providing 40% affordable housing in a particular scheme would not be viable the Council will adopt the following cascade mechanism to increase site viability:

1. Seek Homes and Communities Agency grant (or other public subsidy) to achieve the level and mix of affordable housing consistent with the policy;
2. Vary the tenure mix of the affordable component (e.g. more intermediate and less social rented) and/ or the type of units provided (e.g. more smaller units);
3. Seek a reduction in the overall amount of affordable housing sought.

Bournemouth Borough Council, Affordable Housing Development Plan Document, Adopted December 2009. Extract from Policy AH1

- 7.39 Herefordshire Council will have available a bespoke Toolkit to help in the analysis of individual sites which will help streamline negotiations and ensure that scheme specific issues can be addressed.

Commuted sums

- 7.40 Where **commuted sums** are collected a possible approach to calculating the appropriate sum sought is to base this on the equivalent amount which would be contributed by the developer/landowner were the affordable housing provided on site. This is expressed as follows:

RV 100% M = Residual value with 100% market housing
 RV AH = Residual value with X% affordable housing (say 40%)
 Equivalent commuted sum = RV 100% MV minus RV AH

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

Changing market conditions

- 7.42 Whatever targets and thresholds are adopted by the council, in the light of this study and other elements of the evidence base, the council needs to be aware that the market has been going through a difficult period recently and there remains considerable uncertainty about the future direction of house price – although we know in the long terms that house prices have increased by about 3% per annum. The policy recommendations set out in this report are robust in the light of the

available evidence. The council, through the operation of the Toolkit, will have an effective mechanism to quickly review scheme specific circumstances and move away from its targets where this is justified.

- 7.43 We also recommend that the council keeps market trends under review and regularly monitors house prices, development costs and other factors that affect viability e.g. through the Annual Monitoring Report. As with any other aspect of the LDF, if there is a significant and sustained change in circumstances, the council will have the option of reviewing its policy.

Appendix 1 Glossary of key terms used in the report

Affordable Housing –

Annex B of PPS3 provides the following general definition of affordable housing:

“Affordable Housing includes social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market. Affordable housing should:

- *Meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices.*
- *Include provision for the home to remain at an affordable price for future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision.¹⁶*

Annex B of PPS3 provides further definitions of social rented and intermediate affordable housing.

Intermediate Affordable Housing

“Housing at prices and rents above those of social rent, but below market price or rents.....These can include shared equity products (eg HomeBuy), other low cost homes for sale and intermediate rent”.¹⁷

Social Rented Housing

Rented housing owned and managed by local authorities and registered social landlords, for which guideline target rents are determined through the national rent regime. The proposals set out in the Three Year Review of Rent Restructuring (July 2004) were implemented as policy in April 2006. It may also include rented housing owned or managed by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Housing Corporation as a condition of grant.¹⁸

Alternative Use Value – Alternative use value refers to the value a site would have were it developed for another purpose, such as industrial or commercial use, rather than housing.

Brownfield Site –PPS3 defines brownfield land as:

‘Previously-developed land is that which is or was occupied by a permanent structure, including the curtilage of the developed land and any associated fixed surface infrastructure.’

PPS3 also sets out certain development types that are excluded from the definition.¹⁹

Code for Sustainable Homes (CSH) – In place since May 2008, the Code for Sustainable Homes outlines criteria for evaluating the overall sustainability and environmental performance of individual dwellings. Performance is assessed using a rating system (with six levels). Each level sets minimum standards for water and energy efficiency. The current

¹⁶ *Planning Policy Statement 3: Housing* (November, 2006) Annex B p.25

¹⁷ PPS3 (November, 2006) Annex B p.25

¹⁸ PPS3 (November, 2006) Annex B p.25 Note ‘the Housing Corporation’ is now the Homes and Communities Agency

¹⁹ PPS3 (November, 2006) Annex B

government target is for all new homes to achieve a zero carbon rating (CSH level 6) by 2016. The CSH replaces the EcoHomes scheme that was previously applicable in England.²⁰

Commuted Sum – a commuted sum (also known as a financial contribution) is a payment made by a developer to a local authority in lieu of providing on-site affordable housing. As outlined in paragraph 29 of PPS3, commuted sums, as an alternative to on-site provision, should only be accepted in exceptional circumstances in which there is robust evidence demonstrating the impracticality of direct provision on an application site. Circular 2/2005, paragraph B17, sets out the form financial contributions from developers can take, including lump sum payments, endowments, or phased payment organised on the basis of clearly identified triggers. A local authority's policy for collecting financial contributions should be clearly set out in the relevant Development Plan Document.

Core Strategy – see Local Development Framework

Developer Margin – The developer margin is the return (or profit) to a developer for a particular scheme and is expressed as a percentage of the gross development value for the market housing. A lower return (referred to as contractor return) is received for the affordable housing,

Existing Use Value – Existing use value is the value of a site in its current use, for example, as a commercial or industrial site or as agricultural land.

Gross Residual Value – Gross residual value is the total revenue of a scheme minus total development cost, including a return to the developer. Gross residual value does not include the cost of planning obligations (see definition of Net Residual Value).

Intermediate affordable housing – See Affordable Housing

Intermediate Rent – The government's *Affordable Housing Policy* defines intermediate rent as a rent above social rent but below market rent levels. The Homes and Communities Agency refers to intermediate rent as rent levels not exceeding 80% of the current market rent in a given area.

Local Development Framework (LDF) – '*The Local Development Framework is the collection of local development documents produced by the local planning authority which collectively delivers the spatial planning strategy for its area*'.²¹ Within the LDF, the Core Strategy is the most important document, translating a planning vision into practical strategic considerations which assess where and when development can happen.²²

Lifetime Homes – Lifetime homes standards are a set of features designed to make a dwelling functional and accessible to families and disabled and older persons. The publication *Lifetime Homes, Lifetime Neighbourhoods: A National Strategy for Housing in an Ageing Society*, states that by 2011 all publicly funded housing should be built to Lifetime Homes standards.²³

New Build HomeBuy (NBHB) – Under the NBHB scheme a buyer can purchase between 25% and 75% of the value of a property, paying an affordable rent on the remaining proportion.

²⁰ <http://www.communities.gov.uk/planningandbuilding/buildingregulations/legislation/codesustainable/>

²¹ Planning Policy Statement 12 (PPS 12) *creating strong safe and prosperous communities through Local Spatial Planning* (2008) paragraph 3.1 and Section 4, 1.4

²² PPS12 paragraph 3.1 and Section 4

²³ *Lifetime Homes, Lifetime Neighbourhoods: A National Strategy for Housing in an Ageing Society* (February, 2008) pp.87-95

When able, a buyer can purchase additional shares in the property up to 100%. While eligibility criteria for NBHB is wider than for social rented accommodation, the scheme is generally restricted to social housing tenants, households on waiting lists, key workers and first time buyers.²⁴

Net Residual Value – The net residual value of a site is the difference between the total revenue of a scheme and its total costs, including all planning obligations.

PPS3 – *Planning Policy Statement 3: Housing* sets a national planning policy framework in accordance with government objectives for housing delivery. Published in 2006, PPS3 was developed in response to the 2004 *Barker Review of Housing Supply*.

Registered Social Landlord (RSL) – RSLs are housing associations that are registered and monitored by the Housing Corporation. While they are eligible to bid for social housing grant funding, they are also entitled to access private finance.

S106 agreement – A s106 agreement is a legally binding agreement between a local authority and a developer which forms part of a planning permission. This is in accordance with section 106 of the Town and Country Planning Act of 1990 as substituted by section 12 of the Planning and Compensation Act 1991. S106 agreements are the central means by which benefits to the wider community are secured.

Shared Ownership – The publication, *Shared Ownership: Joint Guidance for England*, describes shared ownership as a scheme whereby households who cannot afford to buy a home on the open market are given the opportunity to purchase a share in a property and pay a rent on the portion not owned. Participants in shared ownership scheme have the option to continue to purchase shares in the property over time until it is owned outright unless a particular development is restricted to a percentage that can be owned.²⁵

Social Rented Housing – See Affordable Housing

Strategic Housing Market Assessment (SHMA) – SHMAs are designed to aid local authorities in developing long-term spatial housing policies based on robust and credible evidence which considers housing sub-markets and changing demographic trends. The findings of a SHMA should inform local development documents and the regional spatial strategy and should aid in assessing housing demand and need in accordance with the guidance set out in PPS3.²⁶ There are 8 core outputs identified for SHMAs including an 'Estimate of future households that will require affordable housing'.²⁷

Target Rents – Target rents are set annually by the Tenant Services Authority. They prescribe the maximum rent that housing associations are expected to charge in a given local authority for different sizes of social rented housing.

²⁴ See http://www.homesandcommunities.co.uk/new_build_homebuy

²⁵ *Shared Ownership: Joint Guidance for England* (March, 2009) p.6

²⁶ *Strategic Housing Market Assessments Practice Guide Version 2* (Department for Communities and Local Government, August, 2007)

²⁷ *Strategic Housing Market Assessments Practice Guide Version 2* – Figure 1.1

Appendix 2

Notes of workshop held on Friday 26th June 2009 at the Kindle Centre, Hereford.

Attendance:

Sharon Rivers	Festival Housing
Graham Parfitt	Herefordshire Housing
Richard Finney	Two Rivers Housing
Alan Pole	Mosaic Estates
Graham Day	Mosaic Estates
Garry Hicks	CBRE
Tim Evans	IE Developments
Phil Collins	Collins Design and Build
Alistair McHarg	Biddle Property
Mark Tansley	Herefordshire Council, Development Control
Claire Rawlings	Herefordshire Council, Forward Planning
Kevin Singleton	Herefordshire Council, Forward Planning
Mark Felgate	Roger Tym & Partners
Lin Cousins	Three Dragons

Introduction

CR welcomed workshop participants and set out the purpose of the study and the workshop. It was explained that the requirements of PPS3 and the 'Blyth Valley decision' provide the impetus for undertaking this study, which will help guide affordable housing (AH) policy and provide the necessary evidence base for the Local Development Framework (LDF). CR said that is the intention of the council to submit its Core Strategy in November 2010, with a view to adoption in August 2011.

Issues in delivering affordable housing

The existing policy in the UDP was not considered to be unrealistic. It is well established and developers are used to working with it, in negotiating specific schemes. It was said that the Herefordshire approach was more favourable than that taken in neighbouring authorities where, for example in Gloucestershire, it was understood, that 40% and 50% AH is required.

Parish councils were said not to be always supportive of affordable housing provision. They could have the perception that AH has a negative effect on an area. Furthermore, those being housed in AH were not necessarily from the local community.

There was discussion about the relationship between the AH target in the Core Strategy, the AH target in the RSS and the level of need for AH identified in the Strategic Housing Market Assessment (which had indicated that, to meet identified need, over 100% of RSS requirement for all housing in Herefordshire would need to be affordable). LC explained that the council would need to take into account a number of factors in coming to a view on its AH target, including viability and need. This study will focus on viability.

Current housing market and owner and developer expectations

AH is coming forward ahead of market housing, especially on larger sites where the major housebuilders are involved. In some cases market housing, especially flats, are now being

sold for AH. The AH is considered less risky in the current market and it is AH delivery that is propping up the housing market. Government funding is playing a big role in bringing AH forward.

Biggest issue in the current economic climate is convincing landowner to sell their land for a price which reflects market conditions. Many landowners are farmers, who are happy to continue to farm the land and can wait, in the expectation that prices will recover. Developers with long term options on land based on past higher land values are now trying to renegotiate, although not always successfully.

Land values have dropped considerably and are now a quarter to half of what they have been in the recent past. £500,000 per acre was quoted as a 'going rate' currently.

The workshop considered that current market difficulties stem from a lack of credit (for purchasers and developers). Whilst a flexible approach from the council in negotiating planning obligations (including affordable housing) is helpful, this, alone, will not get the market moving.

Study methodology

LC explained the testing approach to be adopted. The testing will 'measure' viability by reference to residual scheme value (i.e. total scheme revenue less scheme costs) and then compare the residual value with the existing or alternative use value of a site. Viability testing is carried out using the Three Dragons toolkit – an Excel based model. The attached PowerPoint presentation illustrates the study approach, along with other key information provided at the workshop.

Workshop participants accepted the approach and figures outlined (unless noted otherwise below) in principle. Specific comments raised were:

- Where land has already been purchased, there are particular viability issues to consider;
- When considering the impact of planning obligations, it was stated that these were increasing and becoming more demanding (even the Police are now thought to be asking for a contribution);
- Agreed that testing on a range of planning obligations costs was appropriate for modelling purposes;
- Noted that the modelling takes a single point in time and assumes that all costs and receipts arise at the same time. In reality, the timing of costs and revenue can make a difference. However it was agreed that as long as approach is consistent, using a single point in time for modelling purposes is acceptable;
- However, it was agreed that 3D should include as a case study, a notional large site with revenue and costs spread over a period of time;
- Developer return is too low at 15%. Agreed that 3D to test at 17%;
- Herefordshire council don't support grant funding of AH on mixed tenure schemes. LC explained that main testing will assume nil grant but it was agreed that it would also be appropriate to test with grant - at £50k for social rented units and £20K for intermediate (Homebuy);

- The allowance of £500 per unit for Lifetime Homes proposed by LC was accepted as a reasonable level for testing purposes (especially in light of supporting government research) but participants did note concerns that the figure may be somewhat low in some circumstances;
- Agreed that main viability testing should be on basis of Code for Sustainable Homes, Level 3 but with sensitivity test at CSH Level 4;
- Further discussion required with Registered Social Landlords (RSLs) to agree appropriate costs of providing intermediate rent in Herefordshire (which should be tested);
- Large brownfield sites (e.g. former MOD land, Bulmers etc) have in the past provided a large supply of housing land, however their availability is now more scarce and the authority will be more reliant on greenfield sites, therefore model should focus on these types of sites.

Use of Market Value Areas

LC presented an initial draft of the market value areas and associated house prices being put forward. The following observations were made:

- South Hereford prices should be much lower than North Hereford prices
- Ledbury prices should be higher
- The range of prices was too wide, it should be much flatter
- 2 bed flat price in Hereford possibly too high
- Should reduce the number of areas as follows:
 - Ledbury and Ross should be joined
 - Western area (Kington and Hay²⁸/West Herefordshire should be joined
 - Hereford Northern and Southern Hereford hinterlands should be joined
 - Leominster and Hereford North and South to remain

LC agreed to review the market value areas and seek further comment from workshop participants. *Note – the accompanying Powerpoint presentation includes an updated map and schedule of indicative house prices which take into account above comments.*

Small sites

Some participants expressed the view that AH on very small sites (e.g. a single AH unit in a scheme of 3 dwellings) would not be viable. However, AH on sites of 6 or more dwellings was said to be more likely to be viable. Where AH is included on smaller sites, it was said that the sale price of market housing is reduced and therefore land value would be lower. No specific evidence was offered on this point.

²⁸ At the time of the workshop – the market value area subsequently called Kington and West Herefordshire included 'Hay' in its title.

Off site contributions (commuted sums) were said sometimes to help with this situation (developers would expect to pay an off site contribution of equivalent value to an on-site contribution). However Herefordshire Council does not allow off-site contributions.

The council noted that it does not seek planning contributions from small sites.

One participant observed that the smaller sites identified in the UDP have not come forward and that viability may be a factor in their non delivery.

RSLs stated that there was no issue in principle in taking on single or small numbers of AH in mixed tenure schemes as long as there was a RSL with an established management presence locally. They noted that in a rural area such as Herefordshire, it was common for RSLs to manage very small numbers of dwellings in an area.

It was said that small sites can run into viability difficulties because (less experienced) developers sometime buy the land before considering site viability and so may pay 'too much' for the land, reducing their ability to provide AH.

Density and development mix

Appropriate densities and development mixes were discussed for the purposes of viability testing. It was agreed that a range of 30-60dph should be considered for testing, any higher was considered unrealistic for Herefordshire. It was agreed that some of the dwelling sizes by densities needed amending as follows:

- Remove 80dph
- Change 50dph – 2 bed flat should be 10% and 3 bed semi should be 30%

The proposed framework is set out in the attached Powerpoint presentation and reflects feedback the workshop.

Other Issues

The other main issues raised at the workshop covered:

- Pepperpotting of AH within mixed tenure schemes – debate regarding the merits and pitfalls of this approach. Some felt that this doesn't work in terms of social mixing and that affordable housing should be grouped on the edges of developments sites and not spread about. However it was also put forward that management rather than location was the biggest factor in determining the success of AH. It was also stated that the range of people in AH is now much wider and that those with significant household incomes could be eligible for AH. LC asked whether the RSL's developers and council planners and housing staff sit down and discuss the best approach to layout to deal with any perceived issues. It was explained that this does happen and that as long as there is flexibility and constructive dialogue from all parties this can be very successful.
- Code for Sustainable Homes – Not possible to achieve this without main gas supply. Rural area such as Herefordshire immediately disadvantaged as mains gas is not always available.

LC thanked participants and confirmed that the notes of the meeting and amended version of the Powerpoint presentation would be circulated for comment.

Appendix 3 Three Dragons model: Method statement

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

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

The main output of the Toolkit is the residual value. In practice there is a 'gross' residual value and a 'net' residual value. The gross residual value is that value that a scheme generates before s106 is required. Once s106 contributions have been taken into account, the scheme then has a net residual value, which is effectively the land owner's interest.

Key data assumptions

Market value areas and indicative new build prices

Market value area	Detached			Semis			Terraced			Flats		
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	4 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed
Ledbury, Ross and Rural Hinterlands	£400,000	£345,000	£315,000	£235,000	£215,000	£190,000	£210,000	£210,000	£180,000	£205,000	£160,000	£120,000
Northern Rural	£385,000	£335,000	£300,000	£230,000	£210,000	£185,000	£205,000	£200,000	£175,000	£195,000	£155,000	£115,000
Hereford	£345,000	£295,000	£270,000	£205,000	£185,000	£170,000	£200,000	£180,000	£155,000	£170,000	£140,000	£105,000
Kington & West Herefordshire	£335,000	£290,000	£260,000	£200,000	£180,000	£165,000	£195,000	£175,000	£150,000	£165,000	£135,000	£100,000
Hereford Northern and Southern Hinterland	£330,000	£285,000	£255,000	£195,000	£175,000	£160,000	£190,000	£170,000	£145,000	£160,000	£130,000	£95,000
Leominster	£280,000	£245,000	£220,000	£180,000	£160,000	£120,000	£165,000	£150,000	£130,000	£140,000	£110,000	£85,000

Development mixes

Density (dph)	30 dph	40 dph	50 dph	60 dph
1 bed flat				10%
2 bed flat		5%	10%	25%
2 bed town house	10%	15%	20%	25%
3 bed town house	15%	25%	30%	30%
3 bed semi	25%	20%	30%	5%
3 bed detached	15%	10%	10%	5%
4 bed detached	25%	20%		
5 bed detached	10%	5%		
	100%	100%	100%	100%

Development costs

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

Build Costs	
Bungalows	£n/a
Flats (3 – 5 storeys)	£1,160
Flats (1 – 2 storeys)	£1,040
Houses <= 75m ²	£920
Houses > 75m ²	£800

No abnormals assumed
Plus a 10% land financing costs

Development Costs		
Professional Fees %	12%	of build costs
Internal Overheads	5%	of build costs
Finance (Market)	7%	of build costs
Finance (Affordable Housing)	7%	of build costs
Marketing Fees	3%	of market value
Developers Return	17%	of market value
Contractors Return	6%	of developments costs

Typical unit sizes (m²):

	Affordable	Market
1 Bed Flat	46	45
2 Bed Flat	67	60
2 Bed Terrace	76	65
3 Bed Terrace	84	80
3 Bed Semi	86	90
3 Bed Detached	90	110
4 Bed Detached	110	135
5 Bed Detached	125	150

Social housing rents

	Weekly Rent (£)
1 Bed Flat	56
2 Bed Flat	65
2 Bed Terrace	65
3 Bed Terrace	75
3 Bed Semi	75
3 Bed Detached	75
4 Bed Detached	85
5 Bed Detached	91

Rents are (rounded) target rents from Dataspring.

Gross to net factors (Affordable housing revenue)

Social Rent Costs	
Management and maintenance	£1000
Voids/bad debts	3.00%
Repairs reserve	£500
Capitalisation	6.00%

Intermediate Rent Costs	
Management Costs	6.00%
Maintenance costs	£500
Voids/bad debts	5.00%
Repairs reserve	1% ²⁹
Capitalisation	6.00%

Homebuy Costs	
Operating Cost	2.75%
Capitalisation	6.00%
Percentage Purchase	50.00%

²⁹ 1% of build costs

**Appendix 4 Results – Residual values in £s million per hectare (no grant).
For different %s affordable housing**

Affordable Housing %

30 dph	0%	25%	35%	40%	45%
Ledbury, Ross and Rural Hinterlands	£2.97	£2.00	£1.62	£1.42	£1.23
Northern Rural	£2.77	£1.84	£1.47	£1.29	£1.10
Hereford	£2.12	£1.33	£1.01	£0.85	£0.69
Kington & West Herefordshire	£1.99	£1.22	£0.92	£0.76	£0.61
Hereford Northern and Southern Hinterland	£1.88	£1.14	£0.84	£0.69	£0.54
Leominster	£1.26	£0.65	£0.40	£0.28	£0.15
40 dph	0%	25%	35%	40%	45%
Ledbury, Ross and Rural Hinterlands	£3.51	£2.32	£1.84	£1.60	£1.37
Northern Rural	£3.26	£2.12	£1.66	£1.43	£1.21
Hereford	£2.49	£1.51	£1.11	£0.92	£0.72
Kington & West Herefordshire	£2.32	£1.37	£1.00	£0.81	£0.62
Hereford Northern and Southern Hinterland	£2.18	£1.26	£0.89	£0.71	£0.52
Leominster	£1.45	£0.68	£0.37	£0.22	£0.06
50dph	0%	25%	35%	40%	45%
Ledbury, Ross and Rural Hinterlands	£3.55	£2.26	£1.74	£1.48	£1.22
Northern Rural	£3.28	£2.04	£1.54	£1.30	£1.05
Hereford	£2.49	£1.41	£0.98	£0.77	£0.55
Kington & West Herefordshire	£2.29	£1.25	£0.84	£0.63	£0.42
Hereford Northern and Southern Hinterland	£2.11	£1.11	£0.71	£0.51	£0.31
Leominster	£1.42	£0.57	£0.22	£0.05	-£0.15
60dph	0%	25%	35%	40%	45%
Ledbury, Ross and Rural Hinterlands	£3.45	£2.03	£1.46	£1.18	£0.90
Northern Rural	£3.15	£1.79	£1.25	£0.98	£0.70
Hereford	£2.35	£1.15	£0.68	£0.44	£0.20
Kington & West Herefordshire	£2.12	£0.97	£0.51	£0.29	£0.06
Hereford Northern and Southern Hinterland	£1.91	£0.80	£0.36	£0.14	-£0.10
Leominster	£1.12	£0.17	-£0.25	-£0.48	-£0.71

Appendix 5: Sensitivity tests – Residual values in £s million per hectare - At 30 dph

Baseline	30 dph	0%	25%	35%	40%	45%
	Leibury, Ross and Rural Hinterlands	£2.97	£2.00	£1.62	£1.42	£1.23
	Northern Rural	£2.77	£1.84	£1.47	£1.29	£1.10
	Hereford	£2.12	£1.33	£1.01	£0.85	£0.69
	Kington & West Herefordshire	£1.99	£1.22	£0.92	£0.76	£0.61
	Hereford Northern and Southern Hinterland	£1.88	£1.14	£0.84	£0.69	£0.54
	Leominster	£1.26	£0.65	£0.40	£0.28	£0.15
With Grant	30 dph	0%	25%	35%	40%	45%
	Leibury, Ross and Rural Hinterlands	£2.97	£2.30	£2.03	£1.90	£1.76
	Northern Rural	£2.77	£2.14	£1.89	£1.76	£1.63
	Hereford	£2.12	£1.63	£1.43	£1.33	£1.23
	Kington & West Herefordshire	£1.99	£1.52	£1.33	£1.24	£1.14
	Hereford Northern and Southern Hinterland	£1.88	£1.43	£1.25	£1.16	£1.07
	Leominster	£1.26	£0.94	£0.81	£0.75	£0.69
Market +10%	30 dph	0%	25%	35%	40%	45%
	Leibury, Ross and Rural Hinterlands	£3.38	£2.29	£1.85	£1.63	£1.41
	Northern Rural	£3.15	£2.11	£1.69	£1.48	£1.27
	Hereford	£2.44	£1.54	£1.19	£1.01	£0.83
	Kington & West Herefordshire	£2.29	£1.42	£1.08	£0.90	£0.73
	Hereford Northern and Southern Hinterland	£2.18	£1.33	£0.99	£0.83	£0.66
	Leominster	£1.49	£0.79	£0.51	£0.37	£0.23
Market -10%	30 dph	0%	25%	35%	40%	45%
	Leibury, Ross and Rural Hinterlands	£2.58	£1.73	£1.39	£1.22	£1.05
	Northern Rural	£2.39	£1.58	£1.26	£1.10	£0.93
	Hereford	£1.82	£1.13	£0.85	£0.71	£0.57
	Kington & West Herefordshire	£1.69	£1.03	£0.76	£0.62	£0.49
	Hereford Northern and Southern Hinterland	£1.60	£0.95	£0.69	£0.56	£0.43
	Leominster	£1.04	£0.51	£0.29	£0.19	£0.08
Market +20%	30 dph	0%	25%	35%	40%	45%
	Leibury, Ross and Rural Hinterlands	£3.76	£2.56	£2.07	£1.83	£1.59
	Northern Rural	£3.52	£2.36	£1.90	£1.67	£1.44
	Hereford	£2.75	£1.75	£1.35	£1.15	£0.95
	Kington & West Herefordshire	£2.58	£1.62	£1.23	£1.04	£0.85
	Hereford Northern and Southern Hinterland	£2.46	£1.52	£1.14	£0.95	£0.77
	Leominster	£1.72	£0.93	£0.61	£0.45	£0.30
£10k S106	30 dph	0%	25%	35%	40%	45%
	Leibury, Ross and Rural Hinterlands	£2.84	£1.87	£1.48	£1.29	£1.09
	Northern Rural	£2.63	£1.70	£1.33	£1.15	£0.96
	Hereford	£1.99	£1.19	£0.88	£0.72	£0.56
	Kington & West Herefordshire	£1.85	£1.09	£0.78	£0.63	£0.47
	Hereford Northern and Southern Hinterland	£1.75	£1.00	£0.70	£0.55	£0.41
	Leominster	£1.13	£0.51	£0.26	£0.14	£0.02
£15k S106	30 dph	0%	25%	35%	40%	45%
	Leibury, Ross and Rural Hinterlands	£2.70	£1.73	£1.35	£1.15	£0.96
	Northern Rural	£2.50	£1.57	£1.20	£1.02	£0.83
	Hereford	£1.85	£1.06	£0.74	£0.58	£0.42
	Kington & West Herefordshire	£1.72	£0.95	£0.65	£0.49	£0.34
	Hereford Northern and Southern Hinterland	£1.61	£0.87	£0.57	£0.42	£0.27
	Leominster	£0.99	£0.38	£0.13	£0.01	-£0.15
CSH Level 4 + Lifetime H	30 dph	0%	25%	35%	40%	45%
	Leibury, Ross and Rural Hinterlands	£2.81	£1.84	£1.45	£1.26	£1.07
	Northern Rural	£2.60	£1.68	£1.31	£1.12	£0.94
	Hereford	£1.96	£1.17	£0.85	£0.69	£0.53
	Kington & West Herefordshire	£1.83	£1.06	£0.75	£0.60	£0.45
	Hereford Northern and Southern Hinterland	£1.72	£0.97	£0.68	£0.53	£0.38
	Leominster	£1.10	£0.48	£0.24	£0.11	-£0.01
£5k (S106 + CSH Level 4 + Lifetime Homes)	30 dph	0%	25%	35%	40%	45%
	Leibury, Ross and Rural Hinterlands	£2.54	£1.57	£1.18	£0.99	£0.80
	Northern Rural	£2.33	£1.41	£1.04	£0.85	£0.67
	Hereford	£1.69	£0.90	£0.58	£0.42	£0.26
	Kington & West Herefordshire	£1.56	£0.79	£0.48	£0.33	£0.18
	Hereford Northern and Southern Hinterland	£1.45	£0.70	£0.41	£0.26	£0.11
	Leominster	£0.83	£0.21	-£0.04	-£0.19	-£0.34

At 50 dph

Baseline	50 dph	0%	25%	35%	40%	45%
	Ledbury, Ross and Rural Hinterlands	£3.55	£2.26	£1.74	£1.48	£1.22
	Northern Rural	£3.28	£2.04	£1.54	£1.30	£1.05
	Hereford	£2.49	£1.41	£0.98	£0.77	£0.55
	Kington & West Herefordshire	£2.29	£1.25	£0.84	£0.63	£0.42
	Hereford Northern and Southern Hinterland	£2.11	£1.11	£0.71	£0.51	£0.31
	Leominster	£1.42	£0.57	£0.22	£0.05	£-0.15
With Grant	50 dph	0%	25%	35%	40%	45%
	Ledbury, Ross and Rural Hinterlands	£3.55	£2.75	£2.43	£2.27	£2.11
	Northern Rural	£3.28	£2.54	£2.24	£2.09	£1.94
	Hereford	£2.49	£1.91	£1.67	£1.56	£1.44
	Kington & West Herefordshire	£2.29	£1.75	£1.53	£1.42	£1.32
	Hereford Northern and Southern Hinterland	£2.11	£1.61	£1.40	£1.30	£1.20
	Leominster	£1.42	£1.06	£0.91	£0.84	£0.77
Market +10%	50 dph	0%	25%	35%	40%	45%
	Ledbury, Ross and Rural Hinterlands	£4.05	£2.59	£2.01	£1.72	£1.43
	Northern Rural	£3.75	£2.36	£1.80	£1.52	£1.24
	Hereford	£2.88	£1.66	£1.18	£0.94	£0.69
	Kington & West Herefordshire	£2.66	£1.49	£1.02	£0.79	£0.56
	Hereford Northern and Southern Hinterland	£2.47	£1.34	£0.88	£0.66	£0.43
	Leominster	£1.70	£0.73	£0.34	£0.14	£-0.06
Market -10%	50 dph	0%	25%	35%	40%	45%
	Ledbury, Ross and Rural Hinterlands	£3.06	£1.93	£1.47	£1.25	£1.02
	Northern Rural	£2.82	£1.73	£1.30	£1.08	£0.87
	Hereford	£2.11	£1.17	£0.79	£0.60	£0.42
	Kington & West Herefordshire	£1.93	£1.03	£0.67	£0.48	£0.30
	Hereford Northern and Southern Hinterland	£1.77	£0.90	£0.55	£0.38	£0.20
	Leominster	£1.14	£0.40	£0.10	£-0.05	£-0.23
Market +20%	50 dph	0%	25%	35%	40%	45%
	Ledbury, Ross and Rural Hinterlands	£4.53	£2.92	£2.28	£1.95	£1.63
	Northern Rural	£4.21	£2.66	£2.04	£1.74	£1.43
	Hereford	£3.26	£1.91	£1.37	£1.10	£0.83
	Kington & West Herefordshire	£3.02	£1.72	£1.20	£0.94	£0.68
	Hereford Northern and Southern Hinterland	£2.80	£1.55	£1.04	£0.79	£0.54
	Leominster	£1.98	£0.89	£0.46	£0.24	£0.02
£10k S106	50 dph	0%	25%	35%	40%	45%
	Ledbury, Ross and Rural Hinterlands	£3.32	£2.03	£1.51	£1.25	£1.00
	Northern Rural	£3.05	£1.82	£1.32	£1.07	£0.83
	Hereford	£2.26	£1.19	£0.75	£0.54	£0.32
	Kington & West Herefordshire	£2.06	£1.03	£0.61	£0.41	£0.20
	Hereford Northern and Southern Hinterland	£1.88	£0.89	£0.49	£0.29	£0.09
	Leominster	£1.20	£0.34	£-0.00	£-0.21	£-0.42
£15k S106	50 dph	0%	25%	35%	40%	45%
	Ledbury, Ross and Rural Hinterlands	£3.10	£1.81	£1.29	£1.03	£0.77
	Northern Rural	£2.83	£1.59	£1.09	£0.85	£0.60
	Hereford	£2.04	£0.96	£0.53	£0.32	£0.10
	Kington & West Herefordshire	£1.84	£0.80	£0.39	£0.18	£-0.03
	Hereford Northern and Southern Hinterland	£1.66	£0.66	£0.26	£0.06	£-0.17
	Leominster	£0.97	£0.12	£-0.28	£-0.49	£-0.70
CSH Level 4 + Lifetime Homes	50 dph	0%	25%	35%	40%	45%
	Ledbury, Ross and Rural Hinterlands	£3.28	£1.99	£1.47	£1.21	£0.95
	Northern Rural	£3.01	£1.77	£1.27	£1.03	£0.78
	Hereford	£2.22	£1.14	£0.71	£0.50	£0.28
	Kington & West Herefordshire	£2.02	£0.98	£0.57	£0.36	£0.15
	Hereford Northern and Southern Hinterland	£1.84	£0.84	£0.44	£0.24	£0.04
	Leominster	£1.15	£0.30	£-0.06	£-0.27	£-0.48
65k (S106 + CSH Level 4 + Lifetime Homes)	50 dph	0%	25%	35%	40%	45%
	Ledbury, Ross and Rural Hinterlands	£2.83	£1.54	£1.02	£0.76	£0.50
	Northern Rural	£2.56	£1.32	£0.82	£0.58	£0.33
	Hereford	£1.77	£0.69	£0.26	£0.05	£-0.21
	Kington & West Herefordshire	£1.57	£0.53	£0.12	£-0.11	£-0.36
	Hereford Northern and Southern Hinterland	£1.39	£0.39	£-0.01	£-0.26	£-0.50
	Leominster	£0.70	£-0.19	£-0.61	£-0.82	£-1.03