



## **Caerphilly County Borough Local Development Plan**

### **Joint Statement of Common Ground between Caerphilly County Borough Council and the Home Builders Federation**

### **Affordable Housing Viability Assessment**

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**Caerphilly County Borough Council submission**

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## **Joint Statement of Common Ground between Caerphilly County Borough Council and the Home Builders Federation**

### **1 Purpose of the Statement**

- 1.1 This statement is issued jointly by the Home Builders Federation (HBF) and Caerphilly County Borough Council (CCBC) and sets out the level of agreement between the parties with respect to the assumptions used for the Affordable Housing Viability Assessment and explains the position of each party in respect of those areas where it has not been possible to reach agreement.

### **2 Background**

- 2.1 As part of the evidence base for the Local Development Plan (LDP), an Affordable Housing Viability Assessment (AHVA) was undertaken to inform affordable housing policies on targets and thresholds. This AHVA, undertaken using the base date of 1<sup>st</sup> July 2009, was informed by the methodology set out in a regional Good Practice Guide produced by Three Dragons on behalf of the South East Wales Strategic Planning Group (SEWSPG).
- 2.2 Caerphilly CBC led the stakeholder group set up to inform the regional guidance and acted as a pilot authority in testing this regional methodology in producing a local-authority specific AHVA. Through this process key stakeholders including representatives from the house building industry had the opportunity to comment on the assumptions used in the Caerphilly study. However, no locally specific workshop was held with the local development industry at the time of the preparation of the AHVA. Instead, the variables were discussed at the strategic level as part of the preparation of the regional guide.
- 2.3 At the Hearing Session into affordable housing provision held as part of the Examination process on 28<sup>th</sup> April 2010, the Home Builders Federation (HBF) raised concerns regarding the methodology and assumptions used in the viability assessment, in particular how a development is identified as being viable, as the figures had not been tested at a local development industry workshop specific to Caerphilly's own AHVA process. The HBF position was supported by a Position Statement which was issued in May 2010.
- 2.4 In light of the HBF concerns, the Inspector (Mr Alwyn Nixon) requested that the Council hold a local development industry workshop to consider the variables used to inform the AHVA, including the 25% uplift methodology used to determine what is a 'viable' development. The workshop was intended to inform this Statement of Common Ground.
- 2.5 The developer workshop was held on 14<sup>th</sup> June 2010 and was well attended by a range of industry representatives including developers, agents, landowners, Registered Social Landlords (RSLs), Welsh Assembly Government (WAG) and officers from the Council's planning, property and housing departments. The workshop was facilitated by Dr Andrew Golland of Three Dragons, who developed the Development Appraisal Toolkit (DAT) and prepared the SEWSPG Guidance.
- 2.6 In advance of the Workshop, a briefing paper was circulated to all invited parties (Appendix 1) which set out the assumptions that had been used for the viability testing and the questions that would be discussed at the workshop. It was highlighted

in the briefing paper that participants were expected to bring any evidence they may wish to refer to with them for this to be discussed at the session.

- 2.7 If representatives were unable to attend the Workshop, written comments would be accepted. However, no written submissions were received.
- 2.8 A meeting was held between the Council and the HBF on 18<sup>th</sup> June to discuss the areas of common ground and areas upon which no agreement can be reached.

### **3 Areas of Common Ground**

- 3.1 As a result of discussions at the Developer Workshop there was general agreement from all parties on the principle of following the SEWSPG Good Practice Guidance to undertake the viability assessment.
- 3.2 As part of the workshop, participants were offered the opportunity to comment on all testing assumptions that had been used to inform the viability testing, as set out within the briefing paper (Appendix 1) and the PowerPoint presentation (Appendix 3). Participants were generally content with all the assumptions used for testing and raised no significant issues of concern except in relation to the inputs used for build costs and house prices. There were also significant concerns in respect of the 25% above industrial use value approach to determining viability.
- 3.3 The strategic nature of the viability assessment was accepted and it was recognised that consideration would be given to site-specific circumstances at planning application stage.
- 3.4 There was general agreement from participants at the development workshop to the approach that sought to set different targets for different market areas and there were no significant objections to the proposal to set the threshold at 5 dwellings from either the RSLs who will need to be involved in the management of units, although the resource implications of this were recognised, or from the private developers.
- 3.5 However it should be noted that even though the developers present stated that they might not be affected by the 5 unit threshold, there was still uncertainty as to whether the smaller developer would be affected by such a low threshold. The HBF believed that there would be a particular problem in areas where larger developers did not operate, which would also compromise the LDPs plans for regeneration in those areas.

### **4 Areas of Dispute**

#### **4.1 *Determining Viability***

- 4.1.1 For the purposes of the analysis, the approach used in the Caerphilly assessment has been to compare the residual values generated from the testing with an existing use value of industrial land (the most common type of land to come forward for housing as evidenced by an analysis of site supply) plus a 25% uplift as a basis for determining whether a development with a specific percentage of affordable housing would be viable.

## HBF Position

- 4.1.2 In terms of the 25% uplift from existing use methodology, we have stated within our position statement submitted for the affordable housing examination session (described above) and have also commented consistently at each Affordable Housing Viability Workshop undertaken by various local authorities throughout Wales, that the methodology does not produce sound or meaningful results, due to the disparity between the value of residential land compared to other uses. The recent affordable housing viability assessment undertaken by Caerphilly was no exception, where the HBF and the developers categorically stated that the methodology would not result in a sound and robust estimation of a suitable residential land value for Caerphilly.
- 4.1.3 As we have discussed in the past, when the methodology was first suggested, it was the only methodology that was known to have been used in such assessments (mainly in England) and it was therefore seen as a useful starting point to include within the guidance being written for Wales. Clearly, the methodology relies on a number of different factors, an important one being the value of the existing use being used as the comparison. In many circumstances, the methodology has been applied to projects where the existing use was itself residential and therefore provides a reasonable uplift in the value of the current use, in order to incentivise the landowner to sell to an investor.
- 4.1.4 As can be seen from the Council's evidence, which is provided within their Affordable Housing Viability Study, the value of industrial land in Caerphilly, when compared to residential land is vastly different. Indeed, in order to equate to the going rate for residential land, the percentage increase from industrial land would need to represent an uplift of nearly 635%. In light of this, we do not believe it is the percentage increase within the methodology that is incorrect; we believe it is the methodology itself that is incorrect. Due to the disparity between the value of residential land and industrial/commercial land in Caerphilly, we do not believe it is appropriate to link the value of these uses to residential uses in any way, in order to make assumptions on viability. There clearly needs to be a different approach taken, which acknowledges that the benchmark for assessing viability must be set at the current value of residential land within each respective area of the County Borough. In this respect, we are currently writing to the Three Dragons Consultancy to discount the 25% uplift methodology, as with hindsight, we do not believe it is an appropriate methodology to include with the Affordable Housing Viability Guidance.
- 4.1.5 In the context of the above, Paragraph 2.15 of the SEWSPG Affordable Housing Viability Guidance states that for greenfield sites, the AHVS needs to consider current 'going rates' for land as the basis for determining viability. As such, for greenfield land, the measure of viability within the assessment would be compared to the current residential land values within any given area, according to the DV. In this context, if this methodology is a suitable methodology to use with respect to one type of land, we cannot understand why it is not suitable to apply this methodology to all types of land within Caerphilly. We recognise there will be increased costs associated with developing brownfield sites, this will be accounted for at the site specific stage of the planning application process. It should be remembered that for policy setting, we are assuming a notional one hectare site, and even though we have to be mindful of the Council's 97% brownfield strategy in the SCC, the AHVS does not make any allowances for remediating brownfield sites and therefore we are judging the assessment on a site that is free from significant constraints and ready for development.

- 4.1.6 In light of this, we do not see any reason why the comparison methodology for assessing the viability of a greenfield site, should differ from that of a brownfield site. Whether the site is a brownfield industrial use or a greenfield agricultural use, if a planning application is approved on the site, the land use will change from its current use to a residential use. As such, the going rate for residential land use in the respective area must then be applied as the measure of viability, if the assessment of the site for residential proposes is to be sound and realistic.
- 4.1.7 As we have discussed in the past, we agree that the planning system can play a role in influencing land values, but to what extent and how quickly this can happen are difficult issues to quantify. If residential land values for the purposes of the assessment are assumed to be too low, it is unlikely that landowners will bring their land forward for development, which will compromise the delivery of affordable housing, despite the percentage set within the policy. The assertion that landowner expectation has been increasing and needs to be curtailed is rather misleading given the fact that we have recently had to deal with a recession that has seen land values plummet by 50%. As such, we must consider land values at present to be values that a landowner would be extremely hesitant to accept, rather than a value that is “unrealistically high”. In order to produce a sound and robust study and hence affordable housing policy, it is important that the assumptions on land values are in the correct ballpark for landowners to consider the offer to be a suitable one. In the case of greenfield sites, the guidance allows the benchmark to be set at the going rates, which we believe should also be applied to brownfield land.

#### CCBC Position

- 4.1.8 In considering the comments made both in the HBF Position Statement and as part of the developer workshop, it is important to remember that the viability testing had already been carried out in July 2009 and has been published as part of the evidence base for the LDP. Comments made on the inputs into the viability assessment have been made in the full knowledge of the likely policy output, in particular the 40% target in the Caerphilly Basin. This differs from other workshops that have been carried out in advance of the testing, where participants would be commenting on the assumptions without the knowledge of what targets would be derived from them and would therefore be more objective.
- 4.1.9 The Caerphilly AHVA follows the approach set out within the SEWSPG Guide, which promotes using a residual value approach which calculates the residual value generated from a scheme with different levels of affordable housing provided and compares this to the existing use value plus an uplift of a site to determine what would be a reasonable return for a landowner. This approach was endorsed by the HBF and other representatives from the housebuilding industry, who were on the sub-group set up to inform the SEWSPG Guidance. It would appear that despite the HBF being fully involved in the preparation of the guidance, they now consider that it is no longer an appropriate way to determine viability.
- 4.1.10 It is important to stress that as far as the Council are aware the SEWSPG Guide is the only formal guidance on the area of viability. Neither WAG nor the UK government has produced guidance. This is a difficult area and the conclusions on policy need in some respects to be seen in the light of wider factors than simply the number crunching exercise. In practice, the delivery of housing and affordable housing will be subject to a complex interaction between planning, the land and the

housing market going forward. In drawing conclusions on the policy stance it is always important to allow authorities to maximise targets for affordable housing.

- 4.1.11 It is furthermore very important to stress that the Council, along with other authorities in Wales, have their Development Appraisal Toolkit (DAT), which can be used for negotiation at planning application stage. The Council may choose where it is appropriate to be flexible in their policy position on landowner (and developer) return in response to changing market circumstances. The HBF, in their response here, seek to create an impression that there is no flexibility in policy. This is not correct as Policy CW14 of the LDP clearly states that the targets are indicative and site-specific requirements will depend on current market conditions and other factors at the time that a planning application is submitted.
- 4.1.12 The SEWSPG guide indicates that current practice suggests a margin of between 20% and 30% over the existing and/or alternative use value is appropriate. The SEWSPG guide states that 25% was noted with the HBF as a reasonable starting point for the analysis of brownfield sites. Specifically the guide states that this figure should be tested at local development industry workshops to identify if there are local circumstances that would justify the use of a different figure. The question of whether there were local circumstances in Caerphilly that would justify a different approach was raised at the workshop, but the developers gave no substantive evidence as to why the situation in Caerphilly was different.
- 4.1.13 Furthermore, at the workshop clarification was sought on what an appropriate uplift level of above existing/alternative use value would be if developers do not consider a figure of 25% to be appropriate. No alternative uplift figures were suggested.
- 4.1.14 One of the main areas of contention for the development industry was the significant difference between industrial land value plus a 25% uplift and residential land values. This argument was based on a comparison of the figures for each land value provided by the DVS in 2009. However, it is not appropriate to draw comparisons between what residential values were in the sub-market areas at the time of the viability assessment and what they are likely to be in the future.
- 4.1.15 The HBF correctly contended in the workshop that industrial land is only one measure of existing use and that in many cases existing use value will reflect the value of a commercial concern. Under these circumstances, the negotiations will deal with this on the site in question. But what the Council has done in setting policy is to come up with a measureable unit for which there is empirical evidence based on the most common land use. The Council believes that information is represented by the District Valuers' land values.
- 4.1.16 It should also be pointed out that in the example given by the HBF on the differences between current residential and industrial land values relate only to the Caerphilly Basin sub-market, which has the highest percentage and total difference between the figures. As shown in Appendix 3, the difference in prices in the other areas is significantly lower.
- 4.1.17 The land values provided by the DVS were reflective of the level of planning obligations including affordable housing that were being secured at that time (July 2009). The Council recognises that it has not maximised the level of planning obligations, particularly affordable housing, in the past as it has not had a strong policy framework upon which to achieve this. As such, the land values based on land deals in 2009 will be reflective of low levels of affordable housing delivery and



therefore will be higher, as it is expected that the cost of planning obligations should be taken off the cost of the land.

- 4.1.18 The HBF, through their representatives have provided a moving feast of definitions on viability. Initially they accepted the principle of existing use value plus uplift. They have at various times presented an approach which defines viability as a ratio of land value to gross development value. This measure is the equivalent of a satellite navigation system, plotting in what part of the country one happens to be. In the South East of England, the ratio will be high, in the North West of England, low; in South Wales it will be somewhere in between. This tells us nothing. The HBF now wish to residual values benchmarked against current land values. This is considered wholly inappropriate as current land values reflect the low levels of planning obligations that have been secured. If current land values are used as a benchmark, there will be very limited scope to increase the level of affordable housing beyond what is currently being achieved.
- 4.1.19 The HBF highlights that the SEWSPG guidance identifies that for greenfield sites the 'going rate' for land should be considered rather than an uplift approach and therefore they consider that the methodology for greenfield sites should also be used for brownfield sites. The Council have consulted the authors of the report on this point. They have responded that the key word used is 'considered' and that going rates for land on both brownfield and greenfield sites should be a consideration but that other factors such as EUV will also be key.
- 4.1.20 The HBF make the point that landowner expectation should not be ignored as if land values drop significantly below what landowners expect, landowners will not sell. The Council does not accept the argument that landowner expectation should be the determining factor in the consideration of what a viable development will be. Clearly, landowners have been receiving significant returns for their land as a result of low levels of planning obligations historically. The fact that they have received inflated prices in the past does not mean this should continue in the future. Whether a landowner sells their site depends on individual circumstances. There may be some landowners who would be prepared to accept existing use value for their site, whereas other may be unwilling to sell whatever the affordable housing requirement may be.
- 4.1.21 The HBF also make the point that the planning system should not be used to set land values. It must be acknowledged that planning policies have changed with affordable housing being a key WAG ministerial priority. The Council have set affordable housing policies that reflect this priority and seek to address the significant level of need that exists in Caerphilly. It is entirely appropriate for the Council to do this in line with national planning guidance. Clearly, by setting ambitious yet realistic policies for affordable housing, these policies will affect land values as planning policy and land values are intrinsically linked. Indeed, it is the planning system through planning policies that indicates what land can be used for in the first place. It is therefore quite rightly the case that land values should be adjusting to reflect planning policy, rather than policy being adjusted to reflect landowner's expectations.
- 4.1.22 The Council recognises that there will be a transitional period as landowners expectations change. However, having clear planning policies in the LDP setting out what the affordable housing targets are will make it more transparent to landowners as to what is expected of them. Individual landowners have different motivations for selling and, at whatever level affordable housing targets are set at, there will be landowners that will sell and those that will not.

- 4.1.23 The HBF make the point that the AHVA does not make assumptions for remediating brownfield sites. It is indeed the case that such costs have not been factored in as only a small number of housing sites would require remediation and the specific costs for these sites is a matter to be considered at planning application stage, not at the high level testing stage. However, the Council disagrees with the statement that there will be increased costs associated with developing brownfield sites, as this is not always necessarily the case. There can be cost benefits associated with brownfield sites such as the fact that many will already have access to utilities. Furthermore, the BCIS build costs used for testing will be reflective of the types of sites being developed at the time. These have been primarily brownfield sites.
- 4.1.24 Overall, the Council considers that the approach it has taken is consistent and robust as it accords with the regional guidance and practice elsewhere. Whilst developers are critical of the approach, no substantive evidence has been submitted in respect of why Caerphilly's circumstances are so different as to warrant a different uplift figure and what such a figure should be. The criticism by the HBF that the uplift approach is not now appropriate to use is inconsistent with the endorsement that they and other members of the development industry had previously given to the approach. No alternative approaches have been suggested, other than to benchmark the residual value to the current value of residential land, the effect of which will be to have a policy based on landowner expectation, which will clearly limit the amount of affordable housing that can be delivered.

## **4.2 Build Costs**

- 4.2.1 In accordance with the SEWSPG Guide, build costs data has been sourced from the Royal Institute of Chartered Surveyor's Building Cost Information Service (BCIS) Quarterly Review. The BCIS costs are based primarily on RSL development costs. Where a local authority is already developing to Code Level 3 it is reasonable to assume that build costs based on current BCIS data broadly reflect those costs. At the time that the assessment was carried out (July 2009) RSLs were already building to Code Level 3.

### HBF Position

- 4.2.2 We provided a detailed response to this within our position statement as mentioned above, which we do not wish to reiterate in its entirety here. However, a summary of the main points is given below.
- 4.2.3 Firstly, it is important to note that we do not have a requirement to build to Code level 3. Our requirement is to build to Code Level 3 plus 6 credits, which **MUST** be acknowledged within the assessment and the costs included as appropriate.
- 4.2.4 In terms of developing to this standard, the HBF and its members have provided various examples of the costs involved. At Caerphilly's Affordable Housing Viability Workshop, one of our members stated that achieving this standard is currently costing 7k per plot extra on a certain development and an RSL stated the costs are lower for their particular development. This we believe highlights the importance that we recognise that achieving different standards of the Code for Sustainable Homes on different sites can incur vastly different costs, depending on the nature of the site. Therefore we believe we should revert to the latest evidence on this subject, which has been provided by the UK Zero Carbon Hub and includes costs to achieving different levels of the Code on **a mass produced basis**, rather than basing these

costs on examples from single sites. This evidence can be found within our position statement, but in summary the UK Hub places the cost of developing to Code for Sustainable Homes Level 3 plus 6 credits, on a mass produced basis, at roughly £8000 per plot for the energy requirements alone. When we include the additional requirements of Code 3, the cost can increase to approximately £12,000 per plot.

- 4.2.5 In terms of the actual build costs, our members have repeatedly stated that the build costs currently given within the toolkit are roughly the costs they are operating at present and therefore do not include any flexibility for building to the Code for Sustainable Homes at any level. The reason the costs within the toolkit are assumed to include building to the Code for Sustainable Homes is based on the fact that the costs reflect the activity of RSLs that have been building to this standard in the past. However, we do not believe it is appropriate to base the build costs for developing to the level of the private sector in Wales, on the extremely small volume of output of RSLs. Particularly as the BCIS only takes a small proportion of that RSL volume as the sample. The private sector will be developing on mass produced level, well in excess of that of RSL's, which means the probability of encountering the many difficulties that can present themselves when developing different housing sites to the Code for Sustainable Homes is far more likely. This must be considered when setting the build cost data within the toolkit, because it will have a fundamental impact on the average build cost assumed within Caerphilly and across Wales. In addition to this, many of the RSL costs are based on tender prices and not actual build costs and therefore do not reflect the actual costs associated with the development.
- 4.2.6 At present the assessment has evidence of build costs from a small section of the RSL output and also from the private sector in Wales. The idea behind obtaining the BCIS costs was to provide a starting point to assess what the build costs might be and make an assumption that these would be the costs of the private sector in developing land in Wales. However, considering that we now have evidence of the actual costs from the private sector, surely the necessity for making assumptions with this RSL sample data is no longer required. As such, the build costs within the toolkit should be taken as the costs that private sector developers are currently operating at, and therefore, any cost assumptions required for building to the Code for Sustainable Homes should be included within the affordable housing viability assessment in addition.
- 4.2.7 In terms of the matter regarding whether or not the finance costs are taken as a percentage of build costs or GDV, our members have stated that in their operations, the finance costs are taken as a percentage of GDV. In light of this, the particular section of the toolkit that deals with this needs to be altered.

#### CCBC Position

- 4.2.8 Whilst built costs and the costs associated with meeting the Code for Sustainable Homes requirements was a matter of concern raised by the HBF as part of the Focused Changes consultation and in the Position Statement produced after Hearing Session 3, discussion at the developer workshop indicated that several developers considered that the build cost data was accurate.
- 4.2.9 It is important to note that even though the requirement for all developments of 5 or more dwellings to meet Code Level 3 plus achieve 6 credits under ENE1 has been in place since 1<sup>st</sup> September 2009, there have been few major applications since then due to economic conditions and those sites that are currently under construction would have been subject to applications submitted prior to the change in regulations.

As a result, there are no private developers that have direct experience of building to Code Level 3 plus 6 credits in Caerphilly upon which to provide actual evidence of the additional costs.

- 4.2.10 Anecdotal evidence was provided by one developer at the workshop who indicated that it would cost £7,000 a plot extra to achieve Code 3 plus 6 credits under ENE1 and £15,000 to achieve Code 4. However, this is not supported by any published evidence. The HBF also cite in their Position Statement similar costs of £6,000 per dwelling for achieving only the energy requirements of Code Level 3 and £10,000 for the energy requirements of Code Level 4. To meet all the requirements of Code Level 3 plus 6 credits under ENE1, it has been suggested that this will result in an additional cost on a mass produced basis of £12,000 per dwelling. Whilst it is claimed that these figures have been identified by the UK Zero Carbon Hub, it is understood that these figures are not in any published report.
- 4.2.11 The DCLG published 'Code for Sustainable Homes – A Cost Review' in March 2010. The UK Zero Carbon Hub helped to inform this study. This document indicated that the extra costs of meeting all requirements of Code Level 3, not just the energy requirements, from a 2006 Building Regulation compliant dwelling are cited in the document as between £2,000 and £3,000 per dwelling depending on the type of dwelling. However, by using BCIS data, which is primarily sourced from RSLs, who already build to Code Level 3, the costs of achieving Code Level 3 have already been factored in.
- 4.2.12 Indeed, it may well be the case that the figures used as reflective of Code Level 3 may be slightly too high as an RSL indicated that they have tendered for a development within Caerphilly which will meet Code Level 4 but will cost less per sq m than the costs assumed in the testing for meeting Code Level 3.
- 4.2.13 It is recognised that the assumptions used are based upon Code Level 3 data rather than Code Level 3 plus 6 energy credits. However, this additional requirement is only for 1 extra credit as 5 credits are already mandatory under Code Level 3. There is no available evidence on how much it would cost to achieve this additional credit. However, the RSLs, who are already building to higher levels of the Code, have indicated that the cost of technology is reducing and there are opportunities to obtain technologies with no installation cost. As such, it is considered that the additional cost of achieving the one extra energy credit will be marginal, as costs will be reducing overall over time.
- 4.2.14 The argument has been made by the HBF that the RSL data represents an extremely small proportion of overall housing and it is not therefore appropriate to base build costs on this small sample. The Council would dispute this, as evidence from the 2008, 2009 and provisional 2010 Joint Housing Land Availability Studies indicate that the RSLs in Caerphilly have delivered 15%, 34% and 31% respectively of all units delivered on large sites in Caerphilly. This is a substantial number of units across a range of sites. It should be noted that these sites do not include only those units delivered on mixed tenure sites but also 100% affordable housing sites such as Twyncarn House in Cwmcarn, Varman's Yard in Abercarn, the former Brynheulog Nursing Home in Penybryn and YCG Cwm Rhymni in Bargoed. **The RSLs have been building to Code Level 3 and above in Caerphilly for the last three years and therefore have actual costs for a number of schemes that are reflective of the costs used in the testing.** To date the private sector has not been developing properties that meet the Code for Sustainable Homes within the county borough and

have not therefore submitted any Caerphilly specific information to indicate what the build costs would be.

- 4.2.15 In respect of the issue raised at the workshop on whether or not the finance costs are taken as a percentage of build costs or GDV, it should be noted that the briefing paper and PowerPoint presentation incorrectly state that in the Caerphilly testing, a figure of 6% of build costs was used for calculating finance costs for market sector properties. This statement was taken directly from the SEWSPG guidance, where a percentage of build costs was recommended to be used for finance costs. Furthermore, a % of build costs is included in the latest 2010 version of the DAT on the basis of consultation with stakeholders. However, the Caerphilly study used the 2008 version of the DAT, rather than the 2010 version as the 2008 version was the most up to date at the time that the viability study was undertaken. The 2008 version includes a finance calculation based on a finance figure of 6% of market value and **not** build costs. It should be noted that whilst the percentage can be changed, the way the calculation is derived is not something that local authorities can change as it is inbuilt into the DAT. A screenshot of the model showing the assumptions used is set out on page 46 of the SB35 (BP6 Supplementary Paper 4: AHVA). In light of the fact that market value rather than build costs have been used, it will conform with the position being promoted by the developer.
- 4.2.16 Overall, given that the data used has been derived from the BCIS, which is the recommended data source as set out in the SEWSPG guide, it is considered that the Council's decision to use this data is sound.

### **4.3 House Prices**

- 4.3.1 In determining the houses prices HM Land Registry data was used, as recommended within the SEWSPG Guide. The house price figures were derived through a consideration of three years' worth of data on house sales from Land Registry from the second hand market was used these were then index linked to the market position as of July 2009. A new build premium of between 5% for a detached to 15% for flats or terraces was then applied. This information was validated against actual sale prices for new and non-new build properties.

#### **HBF Position**

- 4.3.2 At Caerphilly's Affordable Housing Viability Workshop, our members categorically stated that the new build premium no longer exists. In addition to this, Andrew Golland, the meeting facilitator and author of the SEWSPG Guidance also stated that he accepted the new build premium did not exist at present, but he expected it to return over the 15 year plan period. This is substantiated by the minutes of the meeting. Therefore, we cannot understand why this assumption on new build premium is proposed to be applied.
- 4.3.3 In addition to this oral evidence at the workshop, our members have submitted written evidence showing examples of sales achieved on properties in the various areas of Caerphilly County Borough, which proves that the majority of the house price assumptions within the affordable housing viability assessment are too high. In addition to this, all HBF members that have responded stated categorically that there is no new build premium attached to new house sales at present, with many agents valuing the properties at below second hand property values. This evidence has been sent to the Council.

- 4.3.4 In light of this, there is absolutely no justification for the new build premium to be included within the house price assumptions of the assessment and therefore it should be removed. The house prices included within the assessment at present are too high, which therefore renders the assessment unsound. At the meeting, our members stated that without the new build premium, the house prices would be roughly correct, with which the HBF agrees.
- 4.3.5 In terms of the assessment, we believe a more sound approach would be to take the house prices as they are now and then use the review process to monitor any increase in house prices as they occur, which could then trigger a review to the affordable housing viability assessment. This is an accepted methodology for the study, and should therefore be applied.

#### CCBC Position

- 4.3.6 It is important to note that the HBF were provided with a copy of the house prices to be used for testing in July 2009. At the time of testing, no concerns were raised by the HBF on the accuracy of the figures.
- 4.3.7 Concerns were raised at the developer workshop that it was inappropriate to assume a new build premium would apply to new dwellings, as this is no longer the case. Whilst the Council accept that it may now be the case that on some sites and with certain types of units there is no new build premium, it is contended that as new build premiums have historically been a feature of the new build market and it is likely that this will return in the future, it is appropriate to factor in a small assumption for the costs of new build properties being higher in price than the second hand market given that the policy seeks to form the basis of policies over the plan period. The situation in respect of new build premium is unique to this recession. In any event, what is important is what the house prices are, rather than whether they include a new build premium or not.
- 4.3.8 It is important to recognise that, particularly for the flat and terraced housing market, there is likely to be a significant difference in the prices for such properties in the second hand market where sales are characterised by poor quality low value stock, compared to a new build property of the same type which will inevitably have a much greater value.
- 4.3.9 A consideration of the recent property sales demonstrates that this is the case. Appendix 5 sets out a list of new build dwellings sold in each of the six sub-markets in 2009 (the time that the viability assessment was carried out) using data from the Land Registry (accessed through [www.nethouseprices.com](http://www.nethouseprices.com)). It should be noted that the sample size is extremely limited due to the lack of new build sales over the last year and therefore it is difficult to draw conclusions across all properties types. However, it does demonstrate that where there have been sales of flats and terraces the sale values have generally been above the figures used for testing purposes, even though a 15% new build premium has been applied.
- 4.3.10 For example in Newbridge the market values assumed for flats in the testing is between £69,000 for a 1 bed to £87,000 for a 3 bed, whereas actual sales prices for these units are between £70,000 and £120,000, indicating the assumptions used for testing may be slightly under-estimated. This is also the case in Ystrad Mynach where the testing values assumed a range of £78,000 - £103,000 but actual sales

were in the range £90,000-£145,000. In the Caerphilly sub-market, sales figures for flats were broadly consistent with what was tested.

- 4.3.11 There were few sales of terraced dwellings in 2009. However, whilst in the Newbridge area the one sale was consistent with the testing range, in Caerphilly the testing range assumed values of £115,000 to £166,000 whereas the actual sales of this type of property were between £170,000 and £200,000.
- 4.3.12 In terms of semi detached properties sold, the sale prices were broadly consistent with the figures used for testing. However, as the number of bedrooms are unknown in the sales data, an accurate comparison cannot be made.
- 4.3.13 In terms of detached houses, the Council accepts that some prices used for testing, particularly for the 4 and 5 beds may be slightly higher than experienced in some market areas. For example in Caerphilly the testing range for detached properties is between £233,000 to £337,000 yet the sales values are between £203,000 and £285,000. Whilst the actual sales figures are lower than those tested, it contradicts the statement from developers at the workshop that houses are not selling for more than £200,000.
- 4.3.14 In the Blackwood market area the one sale of a detached house was marginally below the testing range. In the other areas sales were within the identified range, although in Newbridge there were several properties sold for values below the range. The one sale in the Rhymney market area was below the identified range for this area.
- 4.3.15 Information on selling prices has also been provided by two developers. The first developer gives information in respect of two sites in the Newbridge area. The two and three bed properties have sold for considerably more than the values assumed in the testing framework. The sales prices for the 4 bed properties on the sites are broadly consistent with the testing assumptions, with sales prices of £210,000 and £216,000 compared to a figure of £218,000 used for the testing. As such, this developer evidence indicates that the house prices for lower value properties in the Newbridge area used in the testing are too low rather than too high, as suggested by developers, whereas the higher value properties are consistent.
- 4.3.16 The figures for a site in Caerphilly show that the assumption for a 2-bed semi is again lower than its actual sale value. However, it is the case that for the other property types on this particular site the sales values are lower than the testing assumptions.
- 4.3.17 Whilst the Council acknowledge the limited nature of the dataset it has provided and the information provided by the developers themselves, it does provide some evidence that the smaller property types (flats/terraces) may be undervalued slightly in the testing values. The reason for this is that the value of the second hand market for these types of properties is low due to the prevalence in particular of large concentration of similar terraced housing stock in the Valleys context, much of which is in poor condition. New build properties will diversify housing in these areas and will therefore command a greater premium than has been assumed.
- 4.3.18 Conversely, there is some evidence to suggest that the larger property types (detached) may be slightly overvalued. However, it is certainly not the case, as suggested in the developer workshop, that all of the values used in the testing are too high.

- 4.3.19 In reality, it is likely that the undervaluation of smaller properties and overvaluation of larger properties will balance each other out and it is not therefore considered that any revisions to the market values will lead to any different conclusions to the study. In addition, it is worth remembering that house prices are liable to significant change and within any one market area there will be 'hot spots' and 'cold spots' where prices will vary significantly.
- 4.3.20 Notwithstanding the examples of actual sale prices cited above, it is not possible to base a viability assessment on solely new build data as the sample size is too small. The only robust way of determining house prices is to look at second hand market data over a longer time period and index this to the current position. Factoring in new build premiums has traditionally been a part of any such calculation and has been found to be appropriate by Inspectors at appeal. It is clearly relevant to taken into account the differences between the second hand market and new build market for the lower value property type. However, in the interests of a consistent approach being used if new build premiums are being factored in for one type of property, they should be factored in for all property types. As stated, any minor variations will be balanced out and it is unlikely to result in different conclusions.
- 4.3.21 Furthermore, these house prices have been derived only for the purposes of high level testing to inform the policy. It should be recognised that the at planning application stage the specific house prices relevant to a particular site can be considered as part of the site-specific considerations.
- 4.3.22 Based on the above assessment, it remains the Council's position that the house prices used for testing are credible, as they have been calculated on the basis of robust and consistent assessment and, on balance overall, would be reflective of actual prices.

## **5 Conclusion**

- 5.1 As requested by the Inspector in his letter of 24<sup>th</sup> May 2010, the Council and the HBF have engaged in considerable dialogue regarding the assumptions used as part of the AHVA. As part of this dialogue a developer workshop was held. Whilst there are a number of assumptions that both parties agree on, it still remains the case that the respective positions of the Council and the HBF in respect of the approach used to determining viability and the assumptions for build costs have not altered from those previously set out. In addition, it is now the case that, following on from the developer workshop, concerns have also been raised regarding the house prices used for the testing.



## **Appendices**

Appendix 1 – Briefing Paper

Appendix 2 – List of Invitees and Recipients of the Briefing Paper

Appendix 3 – Powerpoint Presentation for Developer Workshop

Appendix 4 – Minutes of Developer Workshop

Appendix 5 – New Build House Price Sales by Dwelling Type (2009)

Appendix 6 – Evidence submitted by developers

## **Appendix 1**

### **Caerphilly Affordable Housing Viability Assessment Developer Workshop - Briefing Paper**

#### **Background**

As part of the evidence base for the Local Development Plan (LDP), an Affordable Housing Viability Assessment (AHVA) was undertaken to inform affordable housing policies in order to set realistic targets and thresholds. This AHVA, undertaken using the base date of 1<sup>st</sup> July 2009, was informed by the methodology set out in a regional Good Practice Guide produced by Three Dragons on behalf of the South East Wales Strategic Planning Group (SEWSPG).

Caerphilly CBC led the stakeholder group set up to inform the regional guidance and acted as a pilot authority in testing this regional methodology in producing a local-authority specific AHVA. Through this process key stakeholders including representatives from the house building industry had the opportunity to comment on the assumptions used in the Caerphilly study. However, no locally specific workshop was held with the local development industry at the time of the preparation of the AHVA. Instead, the variables were discussed at the strategic level as part of the preparation of the regional guide.

An Examination is currently being conducted into the Caerphilly LDP by Planning Inspector Mr Alwyn Nixon, who has been appointed to conduct the Examination to determine whether the LDP is sound. His role is to consider all the evidence and to produce a report for the Council giving his recommendations for action.

A Hearing Session into affordable housing provision was held as part of the Examination process on 28<sup>th</sup> April 2010, where the Home Builders Federation (HBF) raised concerns regarding the methodology and assumptions used in the viability assessment, in particular how a development is identified as being viable, as these figures had not been tested at a local development industry workshop specific to Caerphilly's own AHVA process. The HBF stance was supported by a Position Statement, which was produced in May 2010.

In light of the HBF concerns, the Planning Inspector has requested that the Council hold a local development industry workshop to consider viability related issues.

#### **Purpose of the Workshop**

The purpose of this workshop will be to reach agreement on the overall approach and to discuss the Caerphilly specific assumptions.

The two key areas of concern upon which discussion will be focused are those raised by the HBF in their position statement:

- The methodology used to determine viability;
- The assumptions used for the Code for Sustainable Homes

In addition, it is considered appropriate to discuss the other assumptions used to inform the viability assessment with a view to validating the information.

In order to aid discussions at the workshop session it would be beneficial if participants bring any evidence they may wish to refer to at the session.

If a participant or alternative representative, is unable to attend the session but wishes to make comments, these should be sent to the Local Authority by **5pm on 11<sup>th</sup> June 2010** in order for them to be taken into account alongside verbal comments on 14<sup>th</sup> June 2010.

The findings of this workshop will be provided to all participants and will inform a position statement between the local authority and the HBF, which will form part of the evidence base for the LDP.

### **Principle of the Methodology**

The Caerphilly AHVA was undertaken in accordance with the Guidance on Preparing Affordable Housing Viability Studies prepared by Three Dragons on behalf of the South East Wales Strategic Planning Group (SEWSPG). The methodology assumes that testing will be undertaken using the Development Appraisal Toolkit (DAT).

The purpose of this study is to inform policy decisions on reasonably and routinely viable affordable housing targets, and to recommend appropriate thresholds above which an element of affordable housing should be sought, based on an assessment of generic sites within the County Borough Council's area.

The approach looks at residual values and land values (residential and other land uses) as a way of trying to define reasonable policy stances. In coming to a decision on appropriate policies the Council have considered a range of other factors including delivery of the LDP Strategy, levels of need and the priority 'weight' given to affordable housing.

### **KEY AREAS OF CONCERN**

#### **Land Values**

The SEWSPG Guide recommends that land values are sourced from the Valuation Office's Property Market Review where appropriate. However, not all local authorities are covered by the Property Market Report and in these situations the District Valuer can provide bespoke land value data for authorities.

Existing land values for agricultural, industrial, commercial (office/retail) and residential use in each of the six sub-market areas were obtained in July 2009 from the District Valuer Service (DVS). The figures are listed in Appendix 1. These figures provide the DVS' opinion of the average market value of one hectare of land in each of the locations identified as of the relevant date on the basis of existing use value, disregarding an alternative development value that might exist. In the case of residential land, the value is on the assumption that the land has the benefit of full planning consent for residential development.

***Are the July 2009 land values provided by the DVS appropriate?***

#### **Determining Viability**

The SEWSPG Guide advocates the use of the residual value approach in determining what would be a viable development. The guide promotes the use of the DAT, which considers the difference between the cost to develop a site and the amount the scheme generates. The difference is the residual value. This residual value is what developers should pay for sites, not necessarily what they have paid for sites.

In assessing viability, it is assumed that the existing use value of the site, or a realistic alternative use value plays a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing. The

residual value therefore needs to be higher than the existing or alternative use value in order to persuade the landowner to sell their site.

The SEWSPG Guide indicates that there are no guidelines on the uplift over existing or alternative use value that is required to encourage land owners to bring forward their sites but current practice suggests a margin of between 20% and 30% over and above existing and/or alternative value is appropriate. Indeed, 25% has been noted with the HBF as a reasonable starting point for analysis for brownfield sites.

For the purposes of the analysis, the approach used in the Caerphilly assessment has been to compare the residual values generated from the testing with an existing use value of industrial land (the most common type of land to come forward as housing as evidenced by an analysis of site supply) plus a 25% uplift as a basis for determining whether a development with a specific percentage would be viable.

*Is 25% uplift above industrial value an appropriate benchmark for determining viability?*

### **Build Costs (including Code for Sustainable Homes)**

An issue raised by the report was the possibility that build costs may rise in the future. This may happen either with, or without there being an impact on viability. Viability could improve despite significant additional build costs if revenues (house prices and/or RSL payments) increase.

In accordance with the SEWSPG Guide, build cost data has been sourced from the Royal Institution of Chartered Surveyor's Building Cost Information Service (BCIS) Quarterly Review. The build cost data used for testing is set out in Appendix 2.

The SEWSPG Guide, which was endorsed by the HBF, indicates that BCIS costs are based primarily on RSL costs. Where a local authority is already developing to Code Level 3 it is reasonable to assume that build costs based on current BCIS data broadly reflect those costs. At the time that the assessment was carried out (July 2009) RSLs were already building to Code Level 3.

It is recognised that as of 1<sup>st</sup> September 2009 there was a requirement that all applications for 5 or more dwellings were required to meet Code Level 3 plus obtain 6 credits under Ene1. The precise impacts, if any, on viability will need to be discussed at the Workshop.

*Are the build costs used appropriate for high level testing?*

### **OTHER ASSUMPTIONS**

#### **Split Targets in different market areas**

The study identifies six sub markets (see Appendix 3), which are meant to represent a range of housing market circumstances. These have been important in setting out differential policy target options.

*We would invite delegates to comment on any issues that may arise from a split affordable housing target.*

#### **Characteristics of Development**

The SEWSPG Guide recommends that at least three densities should be tested, which will provide different mixes of housing types. As part of the housing evidence base in the LDP using information from the Joint Housing Land Availability Study (JHLAS) it has been calculated that the average density of development in Caerphilly is 35 dwellings per hectare. This was therefore seen to be the appropriate medium density of development to be used as a basis for testing.

Based on JHLAS information on what common low and high density developments were, it was considered appropriate to also test for 20 dwellings per hectare and 50 dwellings per hectare.

Developments over 50 dwellings per hectare usually comprise flats/apartments. Evidence from the JHLAS indicates that this has not been a common type of development across the market areas in Caerphilly with the vast majority of developed sites comprising a mix of property types. As such it was not considered necessary to test for a very high density development as part of the high level testing.

It was considered that, for the purposes of high level testing, it was appropriate to use the default values for the types and sizes of units that would be likely to come forward at the densities identified – 20, 35 and 50 dwellings per hectare. These default values have been derived from a consideration of data from local authorities in Wales and this information is considered broadly reflective of the types of development that have recently been developed in Caerphilly. The default mix and units sizes associated with the different density scenarios is set out in Appendix 4.

***We would invite delegates to comment on the range of densities. Are any additional (higher than/lower than) densities relevant for testing?***

## **Market Values**

The default market values (house prices) contained within the DAT were updated to reflect the current prices at the time that the viability assessment was undertaken (July 2009). House prices have been defined for new property types in each of the six sub-market areas.

In determining the house prices consideration was given to the overall house price change that had occurred since the house prices in the DAT were last updated (April 2008) considering HM Land Registry Data, as recommended within the SEWSPG regional guide. This information was validated through a consideration of actual sale prices for both new build and non-new build properties (where an appropriate new-build uplift was be applied).

The market values to be used for testing were circulated to the HBF and the main RSLs operating in the area for their comments. The RSLs considered the figure to be appropriate for use and the HBF made no comment. The house prices are identified in Appendix 5.

***Are the defined house prices for the sub-market areas appropriate to use for the purposes of analysis?***

## **Tenure Mix and Rents**

The testing assumes a 75%/25% split between Social Rented and Homebuy. This split best reflects the tenure of units that have been developed to date and has been derived in consultation with the two main developing RSLs in the area.

The cost of social housing rents reflects an average of the two main developing RSLs in Caerphilly as of July 2009. This information is contained in Appendix 6. This approach

accords with the regional guidance which indicates that benchmark rents are best provided through the local authority in conjunction with local RSLs.

Local data reflecting the average figures from RSLs has been used in respect of per annum costs for management/maintenance, voids/bad debts, repairs reserve and capitalisation (% of net rent). The locally specific figures are also provided in Appendix 6.

*Are the tenure mix and social rents identified appropriate?*

*Are the capitalised net rent figures appropriate?*

### **Levels of Affordable Housing**

Testing was carried out for seven different levels of affordable housing as a percentage of overall housing provided – 10%, 15%, 20%, 25%, 30%, 35% and 40%. This accords with the recommendations in the SEWSPG guide, which indicates that at least three affordable housing proportions should be tested. Each of these proportions of affordable housing was tested in each of the six market areas to allow for comparison between the results.

*Is the range of affordable housing scenarios to be tested sufficient to inform the high level testing?*

### **The Use of Social Housing Grant**

It is assumed that affordable housing would be provided without the use of Social Housing Grant (SHG) or other public sector funding as SHG is only a limited resource and will not be available for every site to be delivered through the planning system.

*Is it appropriate to assume that no SHG will be available for the baseline testing?*

### **Other Development Costs**

Updated values have been used for the other development costs that need to be taken into account. These updated figures set out below were identified within the SEWSPG Guide and were agreed by the HBF and members of the sub-group that helped inform the guidance.

Professional fees – 12% of build costs

Overheads – 5% of build costs

Finance – 6% of build costs

Marketing fees – 3% of gross development value

Developer margin – 17% of GDV of market units

Contractor return – 5% of affordable housing construction costs.

*Are these development costs considered to be appropriate in the Caerphilly context?*

### **Planning Obligations**

Assumptions were factored in for the cost of providing other planning obligations in addition to affordable housing. In accordance with the regional guide these figures reflect the level of Section 106 contributions that is currently being collected, rather than an aspirational figure.

In all market areas apart from Caerphilly Basin this contribution equated to £5,000 per dwelling which comprised the following:

- £2,000 per dwelling for education
- £1,000 per dwelling for leisure
- £2,000 per dwelling for highways improvements

The Caerphilly Basin is subject to a strategic highways obligation of £5,500 per dwelling to be used for improvements to the strategic highways network. It is therefore appropriate to reflect this higher figure for testing in this market area. This highways contribution, in addition to contributions towards education and leisure, provides a combined total of £8,500 per dwelling and it was this higher figure that was used for testing in the Caerphilly market area.

### ***Are the assumptions for other Section 106 Costs appropriate?***

## **Sensitivity Testing**

The SEWSPG Guide indicates that as well as the baseline testing, it is good practice to include a number of sensitivity tests to consider the implication of other policy factors on viability. Examples of possible sensitivity tests included in the guide include the impact on viability if SHG is used, increases and decreases in house prices alongside associated changes in build costs, a higher level of Section 106 contributions and an alternative level for the Code for Sustainable Homes.

The Caerphilly testing has followed the approach and has undertaken sensitivity testing for the following:

### Changes in House Prices

Testing was carried out for a further 10% decrease in house prices as well as a 10% and 20% increase in house prices. A 20% increase would result in house prices reflecting their late 2007 peak. For every 10% increase or decrease in house prices, an associated 7% increase or decrease in build costs has been factored in, based on the relationship between house prices and build costs as set out within the regional guide.

### Use of Social Housing Grant

As the baseline testing assumed that no Social Housing Grant would be available, sensitivity testing was carried out to determine what the impact on viability would be if Grant was available.

### Planning Obligations

Higher levels of planning obligations were tested to reflect more aspirational figures for strategic highways contributions and education as set out within draft Supplementary Planning Guidance prepared to support the LDP. The higher figures tested £15,000 in the Caerphilly Basin and £9,000 in the other sub-market areas.

### Code for Sustainable Homes Level 4

The baseline testing is considered to be reflective of developing to Code Level 3. In testing for Code Level 4 it was assumed, based on information from Three Dragons that it would cost £5,000 more per dwelling to meet the higher level of Code.

### ***Are these sensitivity tests appropriate in testing a range of other policy scenarios?***

## **Thresholds**

As part of the analysis of the site supply, consideration was given to the analysis of permissions granted in the last three years (2006/7, 2007/8 and 2008/9) using information collected as part of the JHLAS. This three year time period was considered to be sufficient to

provide a large enough dataset upon which to consider the land supply situation in line with the recommended approach within the SEWSPG guide.

The distribution of sites that have been granted consent by site size is identified below. It is clear that there is no step change which would suggest a threshold (above which an element of affordable housing would be sought) would be appropriate at a particular point. However, in line with recommendations in the LHMA as well as the desire to secure on site provision it was considered appropriate to viability test a threshold of 10 dwellings. Given the significant level of need for affordable housing and the fact that any additional affordable housing would be seen as beneficial, testing was also carried out for a 5 dwelling threshold.

<b>Site Size (dwellings)</b>	<b>% of all dwellings permitted</b>
5 or less	13.7
6-10	4.1
11-15	4.1
16-20	3.6
21-25	1.8
26-30	3.4
31-35	5.4
Over 35	63.9

Consideration was also given to the split between large and small sites across the six sub-market areas. This analysis indicates broad similarities across the market areas in respect of the broad large and small site split. As it is clear that there is no particular market area or areas where the site supply is significantly different (as may be the case in local authority areas with distinct rural and urban areas), it was deemed appropriate on site supply analysis grounds to consider one overall threshold that would apply across the County Borough.

<b>Sub Market Area</b>	<b>% dwellings on sites of less than 10 dwellings</b>
Rhymney	14.4
Newbridge	24.1
Rest of Caerphilly	16.6
Blackwood	16.9
Pontllanfraith & Ystrad Mynach	24.6
Caerphilly	9.9

***Are thresholds of 5 or 10 dwellings considered to be realistic and appropriate levels at which to require affordable housing?***

***Is it appropriate to set one threshold for all sub-market areas based on the site supply analysis?***



## **APPENDIX 1**

### **Land Values for Caerphilly for a 1 Hectare site**

<b>Area</b>	<b>Agricultural</b>	<b>Commercial</b>	<b>Industrial</b>	<b>Residential</b>
Caerphilly	20,000	315,000	225,000	1,650,000
Blackwood	18,000	280,000	200,000	1,150,000
Pontllanfraith & Y.Mynach	18,000	250,000	180,000	1,150,000
Rest of Caerphilly	15,000	245,000	175,000	850,000
Newbridge	18,000	280,000	200,000	925,000
Rhymney Valley	13,000	200,000	160,000	575,000

**Source: District Valuer Service (July 2009)**

## APPENDIX 2

### Build Costs per sq m

### 11 - DEVELOPMENT COSTS

#### Build Costs per sq m

If you wish to use your own values then you can enter them in the white cells below. If you leave any blank the Toolkit Value for that row will be

	Toolkit Values	User Values
Bungalows	£1,067	£1,145
Flats (16+ storeys)	£1,739	£2,004
Flats (6-15 storeys)	£1,408	£1,622
Flats (5 & less storeys)	£1,056	£1,155
Houses <= 75m2	£902	£975
Houses > 75m2	£792	£850

Ecohomes Standards	
Market Housing	Affordable Housing
None	None

#### Other Development Costs

If you wish to use your own values then you can enter them in the white cells below. If you leave any blank the Toolkit Value for that row will be used

	Toolkit Values	User Values	
Professional Fees %	12%		of build costs
Internal Overheads	10%	5.00%	of build costs (Market and ES)
Finance (Market)	6%		of market value (Market and ES)
Finance (Affordable Housing)	6%		of development costs (SR, NH and IR units)
Marketing Fees	4%	3.00%	of market value (Market and ES)
Developers Return	15%	17.00%	of market value (Market and ES)
Contractors Return	10%	5.00%	of development costs (excl finance) applies to SR, NH and IR units

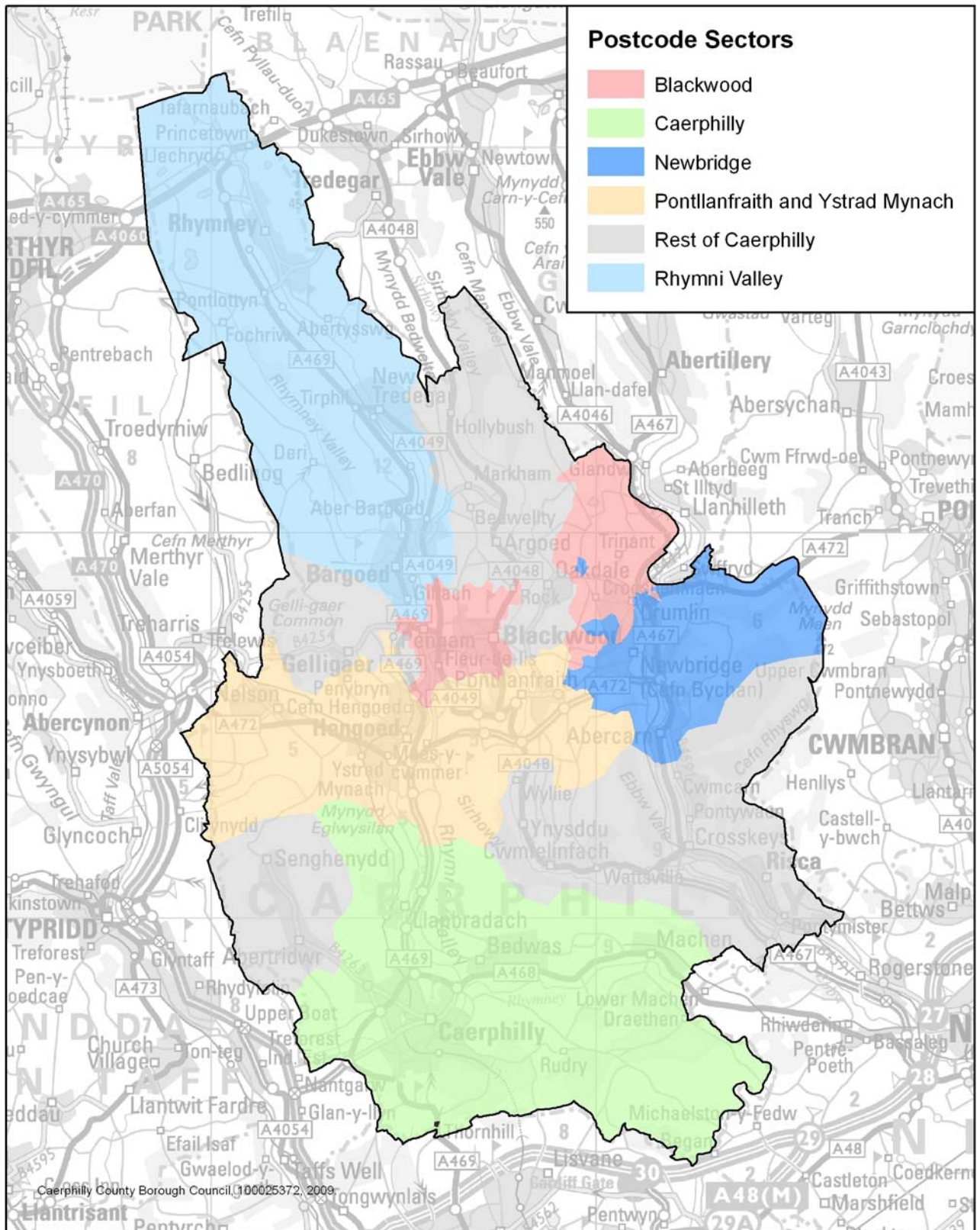
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Source: BCIS

## APPENDIX 3

Map showing the proposed Housing Sub-Market Areas within Caerphilly by Postcode sector



## **APPENDIX 4**

### **Proposed Density, Dwelling Size and Type Testing Regime**

<b>Description</b>	<b>Size in sq.m Affordable Units</b>	<b>Size in sq.m Market Units</b>	<b>Density (dwellings per hectare</b>		
			<b>20</b>	<b>35</b>	<b>50</b>
1 Bed Flat	48	50			15%
2 Bed Flat	60	55		10%	20%
2 Bed Terrace/Town House	73	55		15%	25%
3 Bed Terrace/Town House	80	80	10%	20%	30%
3 Bed Semi Detached	80	75	10%	10%	5%
4 Bed Semi Detached	100	105	10%	10%	5%
3 Bed Detached	80	100	20%	10%	
4 Bed Detached	100	130	30%	15%	
5 Bed Detached	120	150	20%	10%	

**Source: DAT Guidance Notes for Welsh local authorities and partner Housing Associations Consortia**

## **APPENDIX 5**

### **Current New House Prices**

	<b>Blackwood</b>	<b>Caerphilly</b>	<b>Newbridge</b>	<b>Pontllanfraith &amp; Y Mynach</b>	<b>Rest of Caerphilly</b>	<b>Rhymni Valley</b>
1 Bed Flat	73,000	89,000	69,000	78,000	71,000	60,000
2 Bed Flat	89,000	109,000	82,000	95,000	86,000	73,000
3 Bed Flat	96,000	117,000	87,000	103,000	92,000	78,000
2 Bed Terrace	97,000	115,000	89,000	103,000	93,000	79,000
3 Bed Terrace	117,000	138,000	106,000	123,000	110,000	94,000
4 Bed Terrace	141,000	166,000	127,000	148,000	131,000	112,000
2 Bed Semi	103,000	122,000	93,000	108,000	96,000	83,000
3 Bed Semi	146,000	173,000	132,000	154,000	136,000	117,000
4 Bed Semi	168,000	199,000	152,000	177,000	157,000	135,000
3 Bed Detached	203,000	233,000	175,000	203,000	177,000	156,000
4 Bed Detached	255,000	293,000	218,000	255,000	221,000	195,000
5 Bed Detached	293,000	337,000	251,000	293,000	254,000	224,000

**Source: HM Land Registry, Hometrack**

## APPENDIX 6

### Social Rent Values per week

Description	Social Rent Values (per week)
1 Bed Flat	£57
2 Bed Flat	£57
2 Bed Terrace/Town House	£73
3 Bed Terrace/Town House	£73
3 Bed Semi Detached	£73
4 Bed Semi Detached	£85
3 Bed Detached	£73
4 Bed Detached	£85
5 Bed Detached	£88

Source: Information from developing RSLs in Caerphilly (July 2009)

### Capitalised Net Rent Factors

**10 - SOCIAL RENT AND INTERMEDIATE RENT -  
CAPITALISED NET RENT FACTORS**

These values are used to calculate capitalised value when no grant is available.  
If you wish to use your own values then you can enter them in the white cells below. If you leave any blank then the Toolkit Value for that row will be used

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Social Rent		Toolkit Values	User Values
Costs per annum	Management / maintenance costs	£950	£ 250 per annum
	Voids / bad debts	3.00%	1.10% of gross rent
	Repairs reserve	£ 700	£ 265 per annum
Capitalisation		6.25%	6.50% of net rent

Intermediate Rent		Toolkit Values	User Values
Costs per annum	Management / maintenance costs	£ 700	per annum
	Voids / bad debts	4.00%	of gross rent
	Letting fee	1.00%	of gross rent
Capitalisation		6.25%	of net rent

Source: Information from developing RSLs in Caerphilly (July 2009)

## Appendix 2

### List of Invitees and Recipients of the Briefing Paper

Name	Organisation
Keith Warren	Asbri Planning
Gareth Hawke	Barratt Homes
Charlotte Quealey	Barratt Homes
Sonia Bird	Bird Group
Owen Jones	Boyer Planning
Kevin Fortey	CCBC (Housing)
Mark Jennings	CCBC (Housing)
Tim Stephens	CCBC (Planning, DC)
Tim Broadhurst	CCBC (Property)
Mark James	CCBC (Property)
Victoria Morgan	CCBC (Strategic Planning)
Rhian Kyte	CCBC (Strategic Planning)
Lesley Thomas	Davis and Sons
Neil Taylor	Fairlake
Neil Barber	Fairlake
Rhys Parry	Fairlake
Andrew Muir	Harmers
Richard Price	HBF
Scott Howell	Howses Ltd
Representative	JW Homes
Elise Coalter	Linc Cymru
Ross Murray	Llanover Estates
Jonathan Matthews	Lovell
Gareth Williams	NLP
Simon Coup	NLP
Jon Harvey	Persimmon Homes
Myles Thomas	Persimmon Homes
Jack Hanbury	Pontypool Park Estates
Emma Powell	Redrow Homes
Ray Hulland	Rhondda Development Company
Representative	Richard Tuck Estate Agents
Mark Roberts	RPS
Sheryl Fussell	Fussells Estate Agents
Christine Sullivan	Sullivan Land and Planning
Richard Cresswell	Taylor Wimpey
Richard Mann	UWHA
Gareth Davies	UWHA
Judith Askew	WAG (Affordable Housing)
Lydia Haskey	WAG (DET)
Mark Newey	WAG (Planning)
Elgan Jones	Welsh Health Estates

## Appendix 3 – Powerpoint Presentation for Developer Workshop

### Caerphilly CBC Affordable Housing Viability Assessment Developer Workshop

14<sup>th</sup> June 2010



Three Dragons

### Background

- TAN 2 – need to consider viability when setting thresholds and targets
- SEWSPG commissioned Three Dragons to prepare regional guidance for undertaking viability studies
- Informed by a sub-group including LAs, RSLs and the HBF
- Caerphilly was the pilot authority to test methodology



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### LDP Examination

- AHVA carried out in July 2009 – informed revised policies on affordable housing
- Hearing Session held on 28<sup>th</sup> April 2010 on affordable housing as part of Examination
- HBF submitted a position statement after the session raising concerns that a developer workshop had not been held
- LDP Inspector requested that a workshop should be held to discuss the evidence



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### Purpose of the Workshop

- To discuss the Caerphilly specific assumptions for the viability testing
- Focus on areas of key concern from HBF:
  - Land Values/Determining Viability
  - Build Costs and Code for Sustainable Homes
- Validation of other testing assumptions



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### Changing Context

- The national planning policy framework is placing greater emphasis on delivering affordable housing
- Relationship between revenues and costs in future uncertain;
- Rising land values have led to high land owner expectations;
- Robust policy – need for developers to reflect this in land bids.



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### Methodology

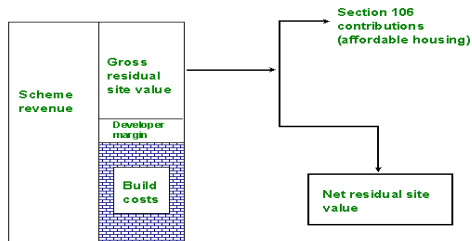
- Followed Three Dragons regional guide
- Involves testing notional 1 Ha sites in specific sub-market areas
- Development Appraisal Toolkit (DAT) used
- Residual Value assessment



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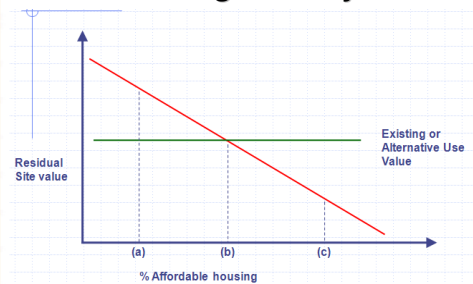


## Theory of viability and the Section 106 process



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## Defining Viability



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## Key Areas of Concern



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## Land Values

Area	Agricultural	Commercial	Industrial	Residential
Caerphilly	20,000	315,000	225,000	1,850,000
Blackwood	18,000	280,000	200,000	1,150,000
Pontllanfraith & Y Mynach	18,000	250,000	180,000	1,150,000
Rest of Caerphilly	15,000	245,000	175,000	850,000
Newbridge	18,000	280,000	200,000	925,000
Rhymney Valley	13,000	200,000	180,000	575,000

• Land Values provided by the District Valuer Service in July 2009

• Are these land values appropriate?



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## Determining Viability

- SEWSPG Guide recommends that a 20-30% uplift above existing use value is an appropriate definition of 'viability';
- Reflected in deals within England and Wales;
- Caerphilly AHVA considers a 25% uplift above an industrial use value to be viable
- *Is a 25% uplift above industrial value an appropriate benchmark for determining viability?*



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## Build Costs and the Code for Sustainable Homes

Build Costs per sq m		
If you wish to use your own values then you can enter them in the white cells below. If you leave any blank the Toolkit Value for that row will be		
	Toolkit Values	User Values
Bungalows	£1,067	£1,145
Flats (11+ storeys)	£1,739	£2,004
Flats (6-10 storeys)	£1,468	£1,622
Flats (5 & less storeys)	£1,056	£1,155
Houses < 75m2	£902	£975
Houses > 75m2	£782	£850
Ecobuild Standards		
Market Housing	Affordable Housing	
None	None	

- BCIS Data
- Includes Code Level 3 as build costs are primarily derived from RSL data
- *Are the build costs used appropriate for high level testing?*



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## Other Assumptions



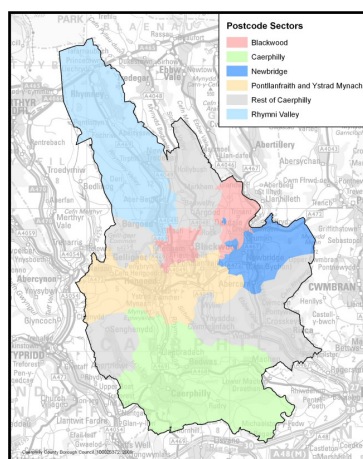
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## Sub-Market Areas

Based on postcode areas with similar house prices:

- Caerphilly
- Blackwood
- Ystrad Mynach/ Pontllanfraith
- Newbridge
- Rhymney Valley
- Rest of Caerphilly

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## Characteristics of Development

- Tested three densities – 20, 35 and 50 dph
- Default mixes and sizes used

Description	Size in sq.m Affordable Units	Size in sq.m Market Units	Density (dwellings per hectare)		
			20	35	50
1 Bed Flat	48	50			15%
2 Bed Flat	60	55		10%	20%
2 Bed Terrace/Town House	73	55		15%	25%
3 Bed Terrace/Town House	80	80	10%	20%	30%
3 Bed Semi Detached	80	75	10%	10%	5%
4 Bed Semi Detached	100	105	10%	10%	5%
3 Bed Detached	80	100	20%	10%	
4 Bed Detached	100	130	30%	15%	
5 Bed Detached	120	150	20%	10%	



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## Market Values

- House prices obtained from Land Registry

	Blackwood	Caerphilly	Newbridge	Pontllanfraith & Y Mynach	Rest of Caerphilly	Rhymni Valley
1 Bed Flat	73,000	89,000	89,000	78,000	71,000	60,000
2 Bed Flat	89,000	109,000	82,000	95,000	86,000	73,000
3 Bed Flat	96,000	117,000	87,000	103,000	92,000	78,000
2 Bed Terrace	97,000	115,000	89,000	103,000	93,000	79,000
3 Bed Terrace	117,000	138,000	106,000	123,000	110,000	94,000
4 Bed Terrace	141,000	166,000	127,000	148,000	131,000	112,000
2 Bed Semi	103,000	122,000	93,000	108,000	96,000	83,000
3 Bed Semi	148,000	173,000	132,000	154,000	136,000	117,000
4 Bed Semi	168,000	198,000	152,000	177,000	157,000	135,000
3 Bed Detached	203,000	233,000	175,000	203,000	177,000	158,000
4 Bed Detached	255,000	293,000	218,000	255,000	221,000	195,000
5 Bed Detached	293,000	337,000	251,000	293,000	254,000	224,000



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## Tenure Mix And Rents

- 75% Social Rented/ 25% Homebuy
- Social Rents agreed with RSLs
- Management costs amended from defaults

Description	Social Rent Values (per week)
1 Bed Flat	£57
2 Bed Flat	£57
2 Bed Terrace/Town House	£73
3 Bed Terrace/Town House	£73
3 Bed Semi Detached	£73
4 Bed Semi Detached	£85
3 Bed Detached	£73
4 Bed Detached	£85
5 Bed Detached	£98

Social Rent	Tenure Values	User Values
Management / maintenance costs	£960	£ 250 per annum
Home / lease fees	£ 300	£ 1,100 per annum
Repair / reserve	£ 200	£ 350 per annum
Capitalisation	£ 20%	£ 5.50% per annum



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## Other Development Costs

- Professional fees – 12% of build costs
- Overheads – 5% of build costs
- Finance – 6% of build costs
- Marketing fees – 3% of gross development value
- Developer margin – 17% of GDV of market units
- Contractor return – 5% of affordable housing construction costs



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### Other Assumptions

- Levels of affordable housing – 10%, 15%, 20%, 25%, 30%, 35% and 40% tested
- Assumption that no Social Housing Grant will be available
- Planning obligations - £8,500 in Caerphilly Basin, £5,000 in the other areas



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### Sensitivity Testing

- Changes in house prices – 10% and 20% increase, 10% decrease
- Associated 7% increase in build costs
- Use of Social Housing Grant
- Higher planning obligations - £15k in Caerphilly, £9k elsewhere



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### Thresholds

- *Are small sites more or less viable than large ones? Same?*
- *Are thresholds of 5 or 10 dwellings realistic and appropriate?*
- *Is it appropriate to set one threshold for all sub-market areas?*

Site Size (dwellings)	% of all dwellings permitted
5 or less	13.7
6-10	4.1
11-15	4.1
16-20	3.6
21-25	1.8
26-30	3.4
31-35	5.4
Over 35	63.9



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### Any Further Issues?



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### Next Steps

- Minutes from the workshops will be circulated as soon as possible
- CCBC and HBF will produce Position Statement identifying areas of common ground and areas of dispute
- Will be discussed at a Hearing Session scheduled for 29<sup>th</sup> June.
- Need to submit to Inspector 1 week before



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## Appendix 4

### Minutes of Developer Workshop for the Caerphilly Affordable Housing Viability Assessment

Monday 14<sup>th</sup> June 2010

#### Participants

Gareth Hawke (GH)	Barratt Homes
Charlotte Quealey (CQ)	Barratt Homes
Tim Stephens (TS)	CCBC (Development Control)
Kevin Fortey (KF)	CCBC (Housing)
Mark Jennings (MJe)	CCBC (Housing)
Mark James (MJa)	CCBC (Property)
Rhian Kyte (RK)	CCBC (Strategic Planning)
Victoria Morgan (VM)	CCBC (Strategic Planning)
Neil Taylor (NT)	Fairlake
Richard Price (RP)	Home Builders Federation
Simon Coup (SC)	NLP
Gareth Williams (GW)	NLP
Jon Harvey (JH)	Persimmon Homes
Richard Cresswell (RC)	Taylor Wimpey
Andrew Golland (AG)	Three Dragons (AG)
Richard Mann (RM)	United Welsh Housing Association
Judith Askew (JA)	WAG (Affordable Housing)
Lydia Haskey (LH)	WAG (DET)
Elaine Ancrum (EA)	WAG (Planning)
Mark Newey (MN)	WAG (Planning)
Clive Ball (CB)	Welsh Health Estates
Elgan Jones (EJ)	Welsh Health Estates

#### Apologies

Jonathan Matthews	Lovell
Myles Thomas	Persimmon Homes

#### Introduction

RK welcomed participants and explained the purpose of the workshop. It was clarified that Caerphilly had not held a workshop at the time that the Affordable Housing Viability Assessment (AHVA) was prepared as Caerphilly were the pilot authority in testing the regional guidance prepared by Three Dragons on behalf of the South East Wales Strategic Planning Group (SEWSPG). It was also explained that Caerphilly have already held a Hearing Session on affordable housing as part of the LDP Examination and that the need for a workshop was identified by the Inspector in response to a position statement to the Examination after the Hearing Session by the HBF.

AG explained the changing policy context towards affordable housing and set out the principles of the residual method of determining viability.

### Land Values

*Are the July 2009 land values provided by the DVS appropriate?*

Participants considered the figures to be broadly accurate.

### Determining Viability

*Is a 25% uplift above industrial value an appropriate benchmark for determining viability?*

AG explained that the residual method focused on what is a reasonable return to the landowner. The method is consistent with the s106 process.

RP recognised that the approach used in the Caerphilly study reflects the approach used elsewhere but that it is important that the methodology isn't used to set land values rather than being the residual.

There was discussion over the appropriateness of the 25% uplift above existing/alternative use value. AG indicated that the figure has been used in a number of local authorities in England and is used as an indicative good practice figure and was agreed by the sub-group as an appropriate figure to be included in the SEWSPG regional guide.

The key concern from developers was that there is a large disparity between the value of industrial land and the value of residential land as set out by the DV figures.

VM highlighted that the residential value obtained from the DV reflected the situation in July 2009 and would take into account the level of planning obligations being achieved at that time and the impact these would have on land values. As Caerphilly have not had the policy basis in place to maximise obligations, these figures would reflect a lower level of obligations being achieved.

RM indicated that he felt that Caerphilly's S106 delivery has been poor due to poor legal agreements, so that although developers could in principle be bound to deliver affordable housing, they had in practice not done so.

RP indicated that landowners have already experienced a large drop in land values as a result of the recession and there is a question of what is fair. It is considered that the figure payable to the landowner needs to be in the right ball park to persuade a developer to sell, particularly when other landowners in the same area have been receiving considerably more historically. It was recognised however that the planning process is two way and meeting affordable housing needs will over necessitate some adjustment in land owner horizons.

The developers raised concerns that landowners will not bring sites forward as the lower the land value, the higher the propensity not to bring forward land. One developer asserted that the major developers would end up focusing development in England where policy expectations are reduced. Developers stated that often the landowners do not need to sell their land so will not be flexible. One participant highlighted that it depends entirely on the will of the landowners and is based on their individual circumstances.

RP raised concerns that it will take time for attitudes to change.

RM indicated that some landowners have unrealistically high expectations. There has been a period of inflated land values and landowners should not be expecting to receive the levels they have in the past. AG stated that planning policies should not be based upon these inflated prices.

RP indicated that this assumed inflation in landowner expectation has not been a constant upward trend over the last 5-10 years, as the recession has had a huge impact on land values. Landowners have witnessed the value of their land cut in half and as such, this has had a marked effect on their expectation in recent years.

AG indicated that it needs to be accepted that planning policy will influence land values and should be a warning to developers not to pay too much for land. It was highlighted that without planning consent, land has no value. MN agreed that planning policy will shape and influence land values.

AG stated that on the English context, PPS3 allows authorities to set targets that are 'ambitious but realistic'

One developer indicated that developer profit is a constant and therefore it does not matter to them if they are paying money to landowners or for Section 106s. However, they do need landowners to sell their sites.

AG highlighted that 25% had been found to be appropriate elsewhere and what has been agreed elsewhere is important. The question is whether there is anything different about Caerphilly's situation that would mean another figure would be more appropriate. Delegates were asked about special circumstances locally.

RP indicated that the 25% uplift has been used in areas where the value of the existing use was sufficiently high enough to make the methodology viable – for example where the existing use is a residential use. The 'special circumstance' with Caerphilly is the massive disparity between the value of industrial land and the value of residential land, which renders the 25% uplift methodology unsuitable as a method of assessing viability. The affordable housing viability guidance states that the methodology should be tested with developers at the workshop. This view was supported by other developers who stated that the methodology would not leave sufficient land value for sites to be brought forward for development.

MN raised the question if 25% above existing/alternative use value is not considered to be appropriate, what would an appropriate figure be? If the Inspector is going to change the policy he needs to base it on evidence and the purpose of the workshop is to provide this evidence.

In response to this question, one developer indicated that the approach should be to look at what the existing residential value is and go down rather than looking at the industrial value and going up.

A developer also stated that the approach should be based upon a % of GDV not a % above the existing use value.

Another developer indicated that an affordable housing target of 20% would be a more appropriate figure than the 40% target.

The developers indicated that they would need to do further work to define what an appropriate level for determining viability would be and would report back to the HBF.

VM explained that it was only in the Caerphilly Basin that there was a 40% requirement. The targets in the other areas were 25% and 10% with no requirement in the Heads of the Valleys.

AG indicated that the application of different targets in different areas was a step forward and it will send a clear message to the market.

RM indicated that in setting the policy, it is based on the worst case scenario – there are some areas within each sub-market that could deliver more affordable housing, but that won't be achieved as developers will never provide more than they need to. It is necessary for the purpose of the policy to base it on the average but some areas could provide more.

**Action – Developers to provide the HBF with quantitative information on what an appropriate level for determining viability would be.**

#### Build Costs

*Are the build costs appropriate for high level testing?*

AG clarified that the build costs were derived from mainly RSL data so should be reflective of building to Code for Sustainable Homes Level 3. The BCIS data includes preliminary works, substructure, superstructure, external works, garages and service roads. The figures do not include off-site highways works etc.

RM indicated that the figures used were consistent with the costs that the RSLs are working to. He indicated that a Code 4 scheme has been achieved at £845 per sq m on a brownfield site. This figure included groundworks but excluded professional fees. NT indicated that they had achieved Code 4 for under £1000 per sq m. It was identified that the costs of technology is

reducing and the RSLs are exploiting opportunities such as the installation of PV at no cost to the developer by companies who collect the feeding tariff.

One developer indicated that their costs were 98-105 per sq ft/ 1,100 per sq m to achieved Code 3 but those figures also included Section 106 costs.

One developer indicated that they considered it would cost £7,000 a plot extra to achieved Code 3 plus 6 credits under ENE1 and £15,000 to achieved Code 4. MN highlighted that these costs appeared to be over double that of the figures provided in the Code for Sustainable Homes Cost Review published by the DCLG in March 2010.

Other developers stated that they felt the build costs were broadly right. AG indicated that developers elsewhere were often happy with using BCIS data.

It was questioned whether the tender prices is an appropriate measure, but RM indicated that their developments the tender price has been the same as the build costs.

#### Split Targets in different market areas

*Are there any issues that may arise from a split affordable housing target?*

No issues were raised.

#### Characteristics of Development

*Are there any comments on the range of densities. Are any additional (higher than/lower than) densities relevant for testing?*

AG indicated that the default values from the Toolkit were used and that these figures had been subject to consultation in the past.

One developer noted that town houses are not coming forward at the levels experienced previously as the extra build costs of providing an additional storey are not worth it.

#### Market Values

*Are the defined house prices for the sub-market areas appropriate to use for the purposes of analysis?*

AG highlighted that house prices will always be changing and within a particular area there will be variations. However, the important thing is how house prices change alongside other variables such as build costs.

The methodology used to derive the house price data was questioned. AG explained that the house price figures were derived through a consideration of three years' worth of data on house sales from Land Registry from the second hand market was used these were then index linked to the market position as of July 2009. A new build premium of between 5% for a detached to 15% for flats or terraces was then applied. It was explained that this approach has been used in numerous other studies and accepted by inspectors at appeal.



It was indicated by several developers that a new build premium no longer exists and therefore the house prices are too high. If the new build premium was taken off the figures would be about right.

AG indicated that whilst there may be no premium now, the Council is looking at policies for a 15 year plan period and if consideration is given to the longer term, there has been a premium and it is therefore appropriate to take this in account.

RP stated that if AG accepts there is no new build premium now, but it might return over the 15 year plan period, then why is the new build premium being included in the house prices that are being used to inform the study at this juncture. It is considered that house prices should be taken as they are now and then use the review process to trigger any increase in house prices as they occur, which is an accepted methodology for the study. If there is no new build premium and this is accepted by everyone, then it should not be included in the study.

Several developers indicated that there was a ceiling level of around £200,000 for the larger properties due to affordability. This has squeezed the prices at the top end of the market and has changed the range of housing being provided.

It was stated anecdotally that 4 bed houses were currently being sold for £205,000 and 3 bed houses for £189,000 in the Ystrad Mynach market area. No developers were able to provide actual sales prices at the meeting, although it was stated that this information is available and will be provided.

One developer highlighted that the house prices used for testing do not matter as each developer will have actual prices at the time that a planning application is submitted which will be used for site specific testing.

AG indicated that although a premium has been added in some areas the figures may still be too low as in some cases the second hand market upon which the new build figures are based would reflect low value poor quality terraced housing and even with an additional percentage added on, it would still not be reflective of what new build properties would be selling for. There is therefore an element of swings and roundabouts – there may not be a premium on some types of units but on others the house price assumptions may be too low.

RM asked about opportunities to review the policy should house prices change. VM explained that the LDP should be reviewed every 4 years. However, a monitoring framework has been prepared to consider how the affordable housing policy is being implemented and significant changes in house prices may trigger a review of the policy if appropriate.

**Action – Developers to provide the HBF actual sales price information**

### Tenure Mix and Rents

*Are the tenure mix and social rents identified appropriate? Are the capitalised net rent figures appropriate?*

The RSLs agreed with the figures provided.

RP questioned whether the testing should have used equity share rather than Homebuy as Homebuy is reliant on grant funding. The RSLs advised that grant did not have to be used for Homebuy.

### Levels of Affordable Housing

*Is the range of affordable housing scenarios tested sufficient to inform the high level testing?*

No issues were raised.

### The Use of Social Housing Grant

*Is it appropriate to assume that no SHG will be available for the baseline testing?*

No issues were raised.

### Other Development Costs

*Are these development costs considered to be appropriate in the Caerphilly context?*

AG stated that the figures used reflect those in the SEWSPG Guidance.

One developer indicated that he thought they calculated finance costs on the basis of a % of GDV and not as a % of build costs. However, the developer indicated that he would need to confirm this.

The point was made that developer margins differ depending on the level of risk. However, it was recognised that the policy testing was a broad brush approach that could not take this into account.

**Action – Developer to provide clarification on whether their finance were based on a % of GDV or a % of build costs.**

### Planning Obligations

*Are the assumptions for other Section 106 costs appropriate?*

RP questioned whether the assumptions were realistic in light of Supplementary Planning Guidance which indicates that obligations in the South could be £15,000. RK indicated that SPG documents prepared to support the LDP were prepared before the viability assessment was undertaken and that they would need to be reviewed. It is likely that the Council will proceed with the CIL rather than review the SPG in any event. The figures used in the testing reflect what has actually been achieved so are realistic.

### Sensitivity Testing

*Are these sensitivity tests appropriate in testing a range of other policy scenarios?*

No issues were raised.

### Thresholds

*Are small sites more or less viable than large ones? Same?*

*Are thresholds of 5 or 10 dwellings realistic and appropriate?*

*Is it appropriate to set one threshold for all sub-markets?*

RK highlighted that a threshold of 10 was identified in the Deposit LDP. However, as a result of discussions in the Hearing Session in respect of the need to maximise affordable housing, the Council is now recommending that a threshold of 5 should be used.

MN indicated that the purpose of this workshop is to discuss the model assumptions and is not an opportunity to reopen the debate on thresholds, overall need and percentage of affordable housing across the borough as these issues have already been determined through the LDP Hearing Sessions.

Developers indicated that in many cases it would not affect them as they develop sites that are larger than 10 dwellings. However, concern was raised on the impact that this may have on smaller developers, particularly in the north of the County Borough.

VM highlighted that there was no set target for affordable housing in the north (Heads of the Valleys) area due to concerns over viability so these developers would not be affected.

It was questioned whether the RSLs had concerns with working with small developers for few units. The RSLs indicated that working with smaller developers was more resource intensive as they needed more assistance.

AG indicated that the Council had increased build costs by 10% for the testing of small sites in order to consider the worst case scenario that developers may experience addition costs on small sites due to economies of scale.

Whilst AG did not consider that small sites would necessarily have higher build costs, it was highlighted that even if costs were higher there may be some benefit from higher house prices on smaller sites due to their exclusivity.

### Any Further Issues

No further issues were raised.

### Next Steps

RK thanked participants for their input. It was highlighted that it was made clear to participants that they should have brought any evidence to the workshop if they wished to refer to it. However, it was recognised that were things discussed that participants wished to gain further information on. This issue of commercial sensitivity was also highlighted.

It was discussed whether the development industry wished to make a separate submission of their position and any evidence to support it, or whether their views should be incorporated in the Joint Statement between the HBF and the Council. It was agreed that the HBF would coordinate the collection of any evidence and points of clarification and submit this as part of the Joint Statement.

Due to the tight timescales for the submission of this work to the Inspector, it was highlighted that the submission document needed to be completed by the end of the week and therefore participants should provide the HBF with any evidence as soon as possible.

## Appendix 5

### New Build House Price Sales by Dwelling Type (2009)

[www.nethouseprices.com](http://www.nethouseprices.com)

#### CAERPHILLY

<b>Flat/Apartment</b>		
17 Castle Mews, Caerphilly. CF83 1PY	<b>£102,000</b> Flat Newbuild	27-Mar-09
Flat D 11 Knights Walk Caerphilly. CF83 2XN	<b>£97, 500</b> Flat Newbuild	16-Jan-09
12, Castle Mews, North Terrace, Caerphilly. CF83 1PY	<b>£104,000</b> Flat Newbuild	06-Feb-09

<b>Terraced</b>		
8 Druids Close, Caerphilly. CF83 2XR	<b>£170,000</b> Terraced Newbuild	27-Mar-09
7 Druids Close, Caerphilly. CF83 2XR	<b>£199,995</b> Terraced Newbuild	26-Mar-09

<b>Semi-Detached</b>		
12 Druids Close, Caerphilly. CF83 2XR	<b>£202,495</b> Semi- Detached Newbuild	14-Dec-09
29 Druids Close, Caerphilly. CF83 2XR	<b>£200,000</b> Semi- Detached Newbuild	30-Oct-09
3 Drum Tower View, Caerphilly. CF83 2XY	<b>£180,000</b> Semi- Detached Newbuild	26-Mar-09
8 Ffordd Ynys Sgomer, Caerphilly. CF83 2AR	<b>£140,000</b> Semi- Detached	18-Dec-09

	Newbuild	
6 Llanddwyn Island Close, Caerphilly. CF83 2AS	<b>£140,000</b> Semi- Detached Newbuild	17-Dec-09
<b>Semi-Detached (continued)</b>		
16 Llanddwyn Island Close, Caerphilly. CF83 2AS	<b>£163,500</b> Semi- Detached Newbuild	11-Dec-09
7 Llanddwyn Island Close, Caerphilly. CF83 2AS	<b>£156,000</b> Semi- Detached Newbuild	02-Dec-09
8 Llanddwyn Island Close, Caerphilly. CF83 2AS	<b>£155,000</b> Semi- Detached Newbuild	16-Oct-09
6 Skomer Island Way, Caerphilly. CF83 2AR	<b>£128,995</b> Semi- Detached Newbuild	31-Jul-09
4 Skomer Island Way, Caerphilly. CF83 2AR	<b>£126,000</b> Semi- Detached Newbuild	24-Jul-09
52 Skomer Island Way, Caerphilly. CF83 2AR	<b>£137,000</b> Semi- Detached Newbuild	17-Jul-09

<b>Detached</b>		
4 Druids Close, Caerphilly. CF83 2XR	<b>£249,995</b> Detached Newbuild	11-Dec-09
34 Druids Close, Caerphilly. CF83 2XR	<b>£280,995</b> Detached Newbuild	20-Aug-09
1 Druids Close, Caerphilly. CF83 2XR	<b>£250,000</b> Detached Newbuild	19-Jun-09
31 Druids Close, Caerphilly. CF83 2XR	<b>£285,000</b> Detached Newbuild	22-May-09
5 Druids Close,	<b>£250,000</b>	24-Apr-09

Caerphilly. CF83 2XR	Detached Newbuild	
29 Drum Tower View, Caerphilly. CF82 2XY	<b>£275,000</b> Detached Newbuild	31-Mar-09
24 Knights Walk, Caerphilly. CF83 2XN	<b>£208,000</b> Detached Newbuild	27-Mar-09
<b>Detached (continued)</b>		
10 Llanddwyn Island Close, Caerphilly. CF83 2AS	<b>£141,000</b> Detached Newbuild	02-Nov-09
11 Llanddwyn Island Close, Caerphilly. CF83 2AS	<b>£202,750</b> Detached Newbuild	30-Sep-09
52 Skomer Island Way, Caerphilly. Cf83 2AR	<b>£225,000</b> Detached Newbuild	06-Nov-09
38 Skomer Island Way, Caerphilly. Cf83 2AR	<b>£227,000</b> Detached Newbuild	14-Oct-09

### **BLACKWOOD**

No flat, terraced or semi-detached sales in the year

<b>Detached</b>		
28 Park Lane, Oakdale, Blackwood. NP12 0NS	<b>£192,995</b> Detached Newbuild	18-Dec-09

### **PONTLLANFRAITH/YSTRAD MYNACH**

No terraced sales in the year

<b><u>Flat/Apartment</u></b>		
21 Griffin Drive, Penallta, Hengoed. CF82 6AB	<b>£99,950</b> Flat Newbuild	18-Dec-09
25 Griffin Drive, Penallta, Hengoed. CF82 6AB	<b>£99,995</b> Flat Newbuild	10-Dec-09
18, The Great Engineering Building, Winding Wheel Lane,	<b>£145,000</b> Flat	17-Jun-09

Penallta, Hengoed. CF82 6AN	Newbuild	
3, The Engineering Hall, Winding Wheel Lane, Penallta, Hengoed. CF82 6AL	<b>£120,000</b> Flat Newbuild	05-Jun-09
3, The Great Engineering Building, Winding Wheel Lane, Penallta, Hengoed. CF82 6AN	<b>£120,000</b> Flat Newbuild	28-May-09
4, The Great Engineering Building, Winding Wheel Lane, Penallta, Hengoed. CF82 6AN	<b>£120,000</b> Flat Newbuild	19-May-09
7, The Engineering Hall, Winding Wheel Lane, Penallta, Hengoed. CF82 6AL	<b>£120,000</b> Flat Newbuild	13-May-09
13, The Great Engineering Building, Winding Wheel Lane, Penallta, Hengoed. CF82 6AN	<b>£120,000</b> Flat Newbuild	30-Apr-09
6, The Engineering Hall, Winding Wheel Lane, Penallta, Hengoed. CF82 6AL	<b>£139,000</b> Flat Newbuild	27-Mar-09
Flat 6, The Engineering Hall, Winding Wheel Lane, Penallta, Hengoed. CF82 6AN	<b>£90,000</b> Flat Newbuild	27-Feb-09
8, The Engineering Hall, Winding Wheel Lane, Penallta, Hengoed. CF82 6AL	<b>£90,000</b> Flat Newbuild	26-Feb-09

<b>Semi-Detached</b>		
61 Cwm Braenar, Pontllanfraith, Blackwood. NP12 2DS	<b>£147,995</b> Semi- Detached Newbuild	22-May-09



59 Cwm Braenar, Pontllanfraith, Blackwood. NP12 2DS	<b>£130,000</b> Semi- Detached Newbuild	01-May-09
63 Cwm Braenar, Pontllanfraith, Blackwood. NP12 2DS	<b>£144,000</b> Semi- Detached Newbuild	24-Apr-09
65 Cwm Braenar, Pontllanfraith, Blackwood. NP12 2DS	<b>£130,000</b> Semi- Detached Newbuild	20-Mar-09
27 Buzzard Way, Penallta, Hengoed. CF82 6GX	<b>£174,000</b> Semi- Detached Newbuild	20-Aug-09
35 Buzzard Way, Penallta, Hengoed. CF82 6GX	<b>£182,995</b> Semi- Detached Newbuild	10-Jul-09
37 Buzzard Way, Penallta, Hengoed. CF82 6GX	<b>£172,500</b> Semi- Detached Newbuild	25-Jun-09
7 Dragon Way, Penallta, Hengoed. CF82 6GT	<b>£155,000</b> Semi- Detached Newbuild	24-Jun-09
41 Griffin Drive, Penallta, Hengoed. CF82 6AB	<b>£115,000</b> Semi- Detached Newbuild	09-Oct-09
39 Griffin Drive, Penallta, Hengoed. CF82 6AB	<b>£115,000</b> Semi- Detached Newbuild	25-Sep-09
49 Griffin Drive, Penallta, Hengoed. CF82 6AB	<b>£149,995</b> Semi- Detached Newbuild	27-Mar-09

<b>Detached</b>		
30 Cwm Braenar, Pontllanfraith, Blackwood. NP12 2DS	<b>£202,995</b> Detached Newbuild	02-Jun-09

57 Cwm Braenar, Pontllanfraith, Blackwood. NP12 2DS	<b>£147,995</b> Detached Newbuild	29-May-09
68 Cwm Braenar, Pontllanfraith, Blackwood. NP12 2DS	<b>£175,000</b> Detached Newbuild	27-Mar-09
9 Dragon Way, Penallta, Hengoed. CF82 6GT	<b>£170,000</b> Detached Newbuild	02-Mar-09
62 Ffordd y Ddraig, Penallta, Hengoed. CF82 6GT	<b>£190,000</b> Detached Newbuild	04-Dec-09
11 Ffordd y Ddraig, Penallta, Hengoed. CF82 6GT	<b>£245,000</b> Detached Newbuild	20-Feb-09
29 Griffin Drive, Penallta, Hengoed. CF82 6AB	<b>£155,143</b> Detached Newbuild	27-Nov-09
33 Griffin Drive, Penallta, Hengoed. CF82 6AB	<b>£180,000</b> Detached Newbuild	27-Oct-09
37 Griffin Drive, Penallta, Hengoed. CF82 6AB	<b>£154,000</b> Detached Newbuild	25-Sep-09
19 Griffin Drive, Penallta, Hengoed. CF82 6AB	<b>£180,000</b> Detached Newbuild	19-Jun-09
9 Griffin Drive, Penallta, Hengoed. CF82 6AB	<b>£145,000</b> Detached Newbuild	22-May-09

## **NEWBRIDGE**

<b>Flat/Apartment</b>		
Flat A, Mayfield Court, Greenfield, Newbridge. NP11 4QX	<b>£119,700</b> Flat Newbuild	15-Apr-09
Flat J, Mayfield Court, Greenfield,	<b>£70,554</b>	11-Feb-09

Newbridge. NP11 4QX	Flat Newbuild	
Flat K, Mayfield Court, Greenfield, Newbridge. NP11 4QX	<b>£82,830</b> Flat Newbuild	21-Jan-09
Flat E, Mayfield Court, Greenfield, Newbridge. NP11 4QX	<b>£79,002</b> Flat Newbuild	21-Jan-09
70 Woodside Drive, Newbridge. NP11 4NQ	<b>£104,995</b> Flat Newbuild	09-Apr-09

#### **Terraced**

35 Woodside Drive, Newbridge. NP11 4NP	<b>£104,995</b> Terraced Newbuild	26-Mar-09
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#### **Semi-Detached**

Plot 69c Pennar Heights, Newbridge.	<b>£152,000</b> Semi- Detached Newbuild	23-Oct-09
94 Woodside Drive, Newbridge. NP11 4NQ	<b>£158,995</b> Semi- Detached Newbuild	14-Dec-09
82 Woodside Drive, Newbridge. NP11 4NQ	<b>£141,995</b> Semi- Detached Newbuild	01-May-09
93 Woodside Drive, Newbridge. NP11 4NP	<b>£155,500</b> Semi- Detached Newbuild	27-Mar-09

#### **Detached**

65 Woodside Drive, Newbridge. NP11 4NP	<b>£247,000</b> Detached Newbuild	10-Dec-09
91 Woodside Drive, Newbridge. NP11 4NP	<b>£159,995</b> Detached Newbuild	25-Sep-09

16 Woodside Drive, Newbridge. NP11 4NQ	<b>£145,500</b> Detached Newbuild	03-Jul-09
95 Woodside Drive, Newbridge. NP11 4NP	<b>£165,000</b> Detached Newbuild	12-Jun-09

### **REST OF CAERPHILLY**

No flat or terraced sales in the year

<b>Semi-Detached</b>		
1 Foundry Road, Risca, Newport. NP11 6AL	<b>£152,995</b> Semi- Detached Newbuild	27-Feb-09
26 Under The Meio, Abertridwr, Caerphilly. CF83 4BZ	<b>£133,000</b> Semi- Detached Newbuild	29-May-09
31 Under The Meio, Abertridwr, Caerphilly. CF83 4BZ	<b>£133,000</b> Semi- Detached Newbuild	30-Apr-09
25 Under The Meio, Abertridwr, Caerphilly. CF83 4BZ	<b>£142,995</b> Semi- Detached Newbuild	01-Apr-09

<b>Detached</b>		
47 Woodside Walk, Wattsville, Newport. NP11 7NZ	<b>£189,950</b> Detached Newbuild	20-Mar-09

### **RHYMNEY**

No flat, terraced or semi-detached sales in the year

<b>Detached</b>		
16 Marsh Court, Aberbargoed, Bargoed. CF81 9BF	<b>£100,000</b> Detached Newbuild	27-Mar-09

## Appendix 6

### Evidence Submitted by Developers after the Development Workshop

Evidence provided by Gareth Hawke – Land Manager at Barratt Homes South Wales

#### House Prices

##### ***Development - Pennar Heights, Newbridge:***

2bed - £145k May 2010  
3bed - £168k June 2010  
4 bed - £216k June 2010

##### ***Development - Coed Celynen, Abercarn:***

4bed - £210k June 2010  
3bed - £156k June 2010  
2bed - £135k March 2010

There is no new build premium attached to new house sales, which apparently is confirmed on the Nationwide website.

#### **Evidence provided by Simon Grey – Managing Director at Llanmoor Homes**

#### House Prices

##### ***Development - Castlegate, Caerphilly Sales achieved over April – June 2010***

2 bed semi (661sf) - £129500  
3 bed semi (742sf) - £140000  
3 bed semi (899sf) - £165000  
3 bed detached (899sf) - £167000  
3 bed detached (1163sf) - £208000  
4 bed detached (1288sf) - £235000

#### **New Build Premium**

This no longer exists with Building Societies deliberately valuing new property at below second hand values.

#### **Evidence provided by Jon Harvey – Land Manager at Persimmon Homes Wales**

#### House Prices

In terms of house prices, Persimmon Homes Wales states that, whilst they have no current sales within Caerphilly, there has been no new build premium attached to any new home sales they have achieved over the last 2 years in Wales.

## **Build Costs**

In terms of build costs, Persimmon Homes Wales states that the build costs within the Three Dragons Toolkit reflect the costs they are currently operating at, which do not include any flexibility for building to Code for Sustainable Homes Level 3 or Code for Sustainable Homes Level 3 plus 6 credits.

## **Evidence provided by Richard Cresswell – Land Manager at Taylor Wimpey South Wales**

### **House Prices**

In terms of house prices, Taylor Wimpey South Wales states that, whilst they have no current sales within Caerphilly, there has been no new build premium attached to any new home sales they have achieved over the last 2 years in Wales.

### **Build Costs**

In terms of build costs, Taylor Wimpey South Wales states that the build costs within the Three Dragons Toolkit reflect the costs they are currently operating at, which do not include any flexibility for building to Code for Sustainable Homes Level 3 or Code for Sustainable Homes Level 3 plus 6 credits.

In terms of development costs, we work on the following:-

- Professional fees – 12% of GDV (not build cost)
- Overheads - 5% of GDV (not build cost)
- Finance – 6% of GDV (not build cost)
- Contractor return is 15% of affordable housing construction costs.