D|S|P Housing & Development Consultants

Report for:

Reigate & Banstead Borough Council

Local Development Framework Affordable Housing Viability Assessment 2011/12 Update

March 2012

Ref: DSP 11021

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Executive Summary

i. Dixon Searle Partnership (DSP) was commissioned by Reigate & Banstead Borough Council to review and update the Council's understanding and evidence on affordable housing viability. Therefore, this resulting study has been carried out to inform the Council's affordable housing policy development in the context of its proposed Core Strategy revisions and re-submission. It builds upon the previous viability study work undertaken for the Council, to ensure that the evidence base for this policy area remains robust and up to date.

ii. Having checked and updated the assumptions as necessary, and in accordance with well established practice, the study used residual land valuation techniques to consider the likely impact of varying affordable housing policy combinations – thresholds and proportions (%s) of affordable housing.

iii. Affordable housing has a significant viability impact mainly because it usually produces a much lower level of revenue (sales receipts) for a developer than market housing; but the cost of its provision is similar. In using the term 'viability', in this context we mean the financial health of a scheme; so that it can proceed on the basis of supporting a sufficient level of land value and profit (profit being the developer's risk reward) along with suitable planning obligations (including affordable housing). This is on the basis of the market-led processes that underpin this stream of affordable housing delivery alongside market housing. There are other sources of new affordable housing but this work concentrates on this 'planning-led' supply route. The starting point for the planning requirements is the very significant level of affordable housing need in the Borough.

iv. This update includes the consideration of 'Affordable Rented' tenure (as introduced in 2011) renewed market context and other updating; including a renewed approach to assumptions on wider planning obligations. The study has been approached suitably with the draft version National Planning Policy Framework (NPPF) in mind, as was available at the time of undertaking the work.

v. The study sets out the full information including the detail of the background to the points below. However, in brief summary, our findings indicate that the Council could consider the following policy development options and key themes (as the report sets out):

A - Reduce Borough-wide affordable housing headline target from previously considered levels (i.e. 40% on sites of 15 or more dwellings) to not more than 30% on the same basis.

B - As A, but considered for certain areas of the Borough only – those being the typically lower value areas, although the detail of this could be considered further if an option taken on by the Council. This would result in a more complex policy scenario.

C – To continue with a 40% headline target aspiration but to do so through placing an increased emphasis on its application through flexible, negotiated means based on it as a starting point which may well need to be adjusted in the types of scenarios we have raised as potential viability issues.

D – A role for a financial contributions approach – for the smallest sites falling beneath the on-site affordable housing thresholds.

E – Wherever the policy %s are placed (including for financial contributions equivalents, if specified) they need to be regarded as targets which should be accompanied by a practical negotiated approach where needed; including the sharing of viability information to inform that process.

G – In our view the Council could also consider a lower on-site threshold than the 15 units previously put forward, albeit a less market friendly scenario.

H – Policy positions recommended for net application; especially on the smallest schemes.

Update Note: Subsequent to undertaking the research and appraisals work for this study, the National Planning Policy Framework (NPPF) has been published in final form and supersedes all of the Government's previous Planning Policy Statements (PPSs), including PPS3:Housing which to date has provided the principal context for carrying out this type of assessment.

1 Introduction

1.1. Background

1.1.1 The level of affordable housing need within the Borough has been tracked through various studies within the Council's evidence base. The current Reigate & Banstead Strategic Housing Market Assessment Update (February 2012) points to an annual shortfall of affordable housing of 505 homes per annum assuming a meeting of the backlog over the remaining (16 year) development plan (Core Strategy) period. If a shorter-term view is taken then the annual level of new affordable housing needed to meet the currently assessed shortfall housing over a 10 year period rises to 536 homes. A shorter time horizon increases this annual shortfall figure further. In all cases these levels of shortfall significantly exceed the Council's current proposals for overall housing supply (a target of about 460 new dwellings per annum across all tenures is being considered). The high level of affordable housing need across the Borough is clear.

1.1.2 The Council commissioned Dixon Searle Partnership (DSP) to carry out this Affordable Housing Viability Assessment update to refresh the previous information provided through Affordable Housing (Viability) Study work Undertaken in 2007 and last updated in 2009 in the context of the previous Core Strategy submission. From interim findings stage, this work has informed the Council's development of affordable housing policy within its revised Core Strategy (Proposed Submission Document (March 2012). This is as part of the wider robust evidence base for this and in due course will potentially also contribute to the development of Supplementary Planning Documents (SPD) and other material involving the enabling and development of affordable housing in the Borough. A further look into to affordable housing viability was considered necessary given the variety of influences from a changing market, development costs and values; together with the introduction in 2011 of the Homes and Communities Agency's (HCA) latest Affordable Housing (funding) Programme (AHP); including the affordable rent regime and the relationships between these and other factors. This review has therefore served the purpose of checking the scope and options still suitable for affordable housing policy in viability terms, ensuring that the proposed policy is robust, and its evidence base on this aspect is kept up to date.

1.1.3 Therefore this study re-assessed the (financial) capacity of residential development schemes in the Borough to deliver affordable housing without their viability being unduly affected – based on an updated review of circumstances and therefore assumptions used within the assessment. This is in the context of developing suitable affordable housing policies which aim to strike an appropriate balance between affordable housing needs and scheme viability, bearing in mind the need to also maintain overall housing supply. The study was carried out in accordance with Planning Policy Statement 3 (PPS3) - Housing[1] and its accompanying document "Delivering Affordable Housing"[2]; also with a view to ongoing equivalent requirements under the National Planning Policy Framework (published in draft on 25th July 2011) which will supersede the current raft of Planning Policy Statements (PPSs) under current Government proposals.

1.1.4 Paragraphs 27-30 of PPS3, in particular, deal with the Government's approach to, and key guidance to local authorities on, seeking affordable housing through Local Development Documents (LDDs). Paragraph 29 is the focus of this, within which local authorities are required to undertake an informed assessment of the economic viability of any proposed affordable housing thresholds and proportions.

1.1.5 The current stage draft National Planning Policy Framework (NPPF), which is expected to be finalised and published as this study period comes to an end, reiterates this and places an emphasis upon ensuring the viability and deliverability of proposed development, and states that:

'*To enable a plan to be deliverable, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, local standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and on site mitigation, provide acceptable returns to a willing land owner and willing developer to enable the development to be deliverable*.'

1.1.6 The draft NPPF at paragraph 111 states on affordable housing:

[1] Communities and Local Government - Planning Policy Statement 3: Housing (June 2011)
[2] Communities and Local Government – Delivering Affordable Housing (November 2006)

'In respect of affordable housing where they have identified affordable housing is required, set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock) and the agreed approach contributes to the objective of creating mixed and balanced communities.'

1.1.7 Within the Glossary of the draft NPPF, the Government defines affordable housing as follows (the bold text emphasis on the tenure types is DSP's:

'Affordable housing: *Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.*

- ***Social rented*** *housing is owned by local authorities and private registered providers, for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.*
- ***Affordable rented*** *housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).*
- ***Intermediate housing*** *is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.*

Homes that do not meet the above definition of affordable housing, such as "low cost market" housing, may not be considered, for planning purposes, as affordable housing.'

1.1.8 From our review of it, the direction of the NPPF does not fundamentally change aspects of considering affordable housing policy targets and enabling compared with recent developments and established practice, including the introduction of Affordable Rent in 2011. The study approach and assumptions fully reflect this updated picture.

1.1.9 It is important that the Council's policies do not deter development through unduly reducing the supply of land brought forward for residential development. Any policy must balance delivery of affordable housing and planning obligations with maintaining sufficient incentive (reasonable land value levels) for landowners to release land – allowing developers to promote and bring forward schemes.

1.1.10 These were key drivers behind and themes for the Council's previous affordable housing viability study work; the current viability work continues this and will keep the Council's evidence base on this area up to date. The outputs of the modelling work and emerging findings were used to inform the updating of this policy in the Core Strategy: Proposed Submission Document (March 2012).

1.1.11 As with the previous viability study work, this update study tested a range of affordable housing options by running development appraisals on a variety of development scenarios or site typologies that reflect the nature of development coming forward across the Borough. This enabled us to test the impact of a range of cost assumptions and variables on likely development viability (e.g. affordable housing proportion, tenure mix, developer's profit, planning obligations requirements etc). As a key part of the process we also considered viability over a range of values ('value levels') evidenced by our research for this study, so that we could test how viability varies with location within the Borough and could also change over time taking into account variations to market conditions. It is necessary to take not just a "now" view, but also to consider the potential influence of changing property values levels.

1.1.12 As with the earlier assessments, the update study tests a range of affordable housing proportions over a variety of notional site types and sizes, in accordance with the most established methodology for this purpose. The threshold at which on-site affordable housing is sought from market residential development is also considered through the testing, by selecting scheme types relevant to the potential threshold points (points at which affordable housing target %s take effect or change).

1.1.13 The premise adopted for this update review was basically to test the Council's previously proposed policy positions (i.e. previous Core Strategy Submission – previously proposed Policy CS13) based on seeking 40% affordable housing on sites of 15+ dwellings; with a sliding scale approach to provision beneath that (based on financial contributions equivalent to 10-20% on smaller sites; i.e. in the range 1 to 14 dwellings). The update review again includes the consideration of a sliding scale approach so that the burden of providing the much needed affordable housing (or in some cases making financial contributions towards meeting needs) falls more equitably across a greater range of sites.

1.1.14 This document sets out to provide a comprehensive report of the current study so that the previous affordable housing viability reports do not necessarily need to be referred to.

1.1.15 The methodology and assumptions used are outlined in Chapter 2; the findings in Chapter 3. The appraisal outcomes tables and supporting information are appended to the rear of this document.

1.2 Notes and Limitations

1.2.1 This study has been carried out using well recognised residual valuation techniques by consultants highly experienced in the production of strategic viability assessments for local authority policy development. In order to carry out this type of study a large number of assumptions are required alongside a large quantity of data which rarely fits all eventualities. Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) generated – the RLVs generated by the development appraisals for this study will not necessarily reflect site specific circumstances. Therefore this assessment (as with similar studies of its type) is not intended to prescribe land values or otherwise substitute for the usual considerations and discussions that will continue to be needed as particular developments having varying characteristics come forward.

1.2.2 It should be noted that every scheme is different and no study of this nature can reflect the variances seen in site specific cases. Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing the Council's affordable housing policy decision making processes.

1.2.3 This report sets out parameters and options for the Council in relation to affordable housing policy development from a viability perspective. Interim findings were presented to the Council for consideration and to inform policy development alongside wider policy considerations and overall priorities (wider planning objectives for the Borough and its Community).

1.2.4 It must be recognised that this planning based tool for securing affordable housing relies on market-led processes. We have to place an emphasis on the need for a practical approach to be taken by Council, bearing in mind development viability – with an increased focus on that remaining likely; especially given the current and likely short-term ongoing uncertain market conditions. By this we mean the Council being adaptable also to market housing scheme needs, being prepared to negotiate and consider varying solutions, and being responsive to varying scheme types and circumstances. The various components of a scheme will need to be considered in terms of market homes needs, affordable homes needs, their successful integration and tenure mixes. This will involve considering local needs, scheme location, type, design, management, affordability, dwelling mix, tenure, funding, numbers rounding and the like in formulating the detail from the targets basis – so, taking a view on how these things come together to impact and benefit schemes, by looking at what works best to optimise provision in the given circumstances.

1.2.5 In carrying out this update assessment from the necessary strategic viewpoint, it is assumed that there will be a variety of market conditions during the Core Strategy time span, including periods in which we will see more stable and confident economic and property market conditions.

1.2.6 The review of development viability is not an exact science. There can be no definite viability cut off point owing to variation in site specific circumstances. These include the land ownership situation. It is not appropriate to assume that because a development appears to produce some land value (or in some cases even value equivalent to an existing / alternative use), the land will change hands and the development proceed. This principle will in some cases extend to land owners expecting or requiring the land price to reach a higher level, perhaps even significantly above that related to an existing or alternative land use. This might be referred to as a premium, "overbid" or sufficient level of incentive to sell. In some specific cases, whilst weighing up overall planning objectives to be achieved, therefore, the proposals may need to be viewed alongside the owner's enjoyment / use of the land, and a potential "overbid" relative to existing use value or perhaps to an alternative use that the site may be put to. In practice, whether and to what extent an active market exists for an existing or alternative use will be a key part of determining whether or how site discussions develop. This could result in highly variable circumstances and requirements. The general decline we have seen in the demand for and the value of commercial property may be a significant factor in land value expectations and the strength of existing / alternative (comparative) use values in some instances. Land value expectations will need to be realistic and reflective of the opportunities offered by, and constraints associated with, particular sites and schemes.

1.2.7 In no way does this study provide formal valuation advice; it provides an overview not intended for other purposes nor to over-ride particular site considerations as the Council's policies continue to be applied practically from case to case.

2 Assessment principles, methodology and detail

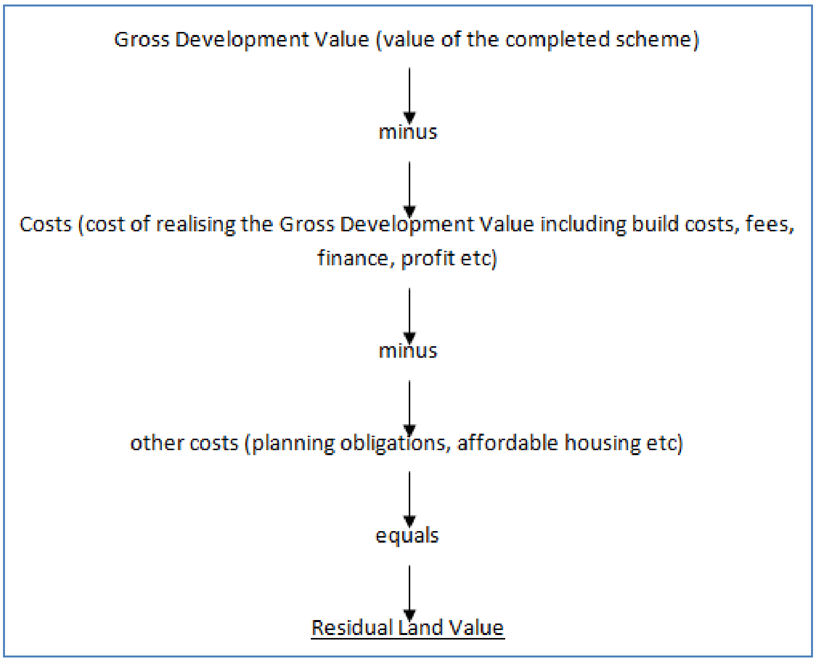
2.1 Introduction

2.1.1 In order to determine the likely impact of the Council's proposed affordable housing policies on the viability of residential development in the Borough we need to review what effect changes to the affordable housing proportion may have on the value of a potential development site, whilst also allowing for a range of other development requirements and costs.

2.1.2 Affordable housing has a significant impact on overall development viability because invariably it produces a significantly lower level of revenue (receipt) for the developer compared with that from the market sale housing; but costs broadly the same to build.

2.1.3 This study applies the same principles as the previous affordable housing studies in testing the broad viability of a range of potential affordable housing policy scenarios on notional site typologies across Reigate & Banstead Borough. Again, it uses Residual Land Valuation techniques; the most established and accepted route for studying development viability at this level. Since these principles were covered in more detail in the previous study documents, we will not repeat them here. The basic steps and structure of the calculation are as follows (Figure 1 below):

Figure 1: Simplified Residual Land Valuation Principles



2.1.4 Having determined the RLV results for each development scheme typology and each sensitivity testing layer through running a large range of these appraisal calculations, we then need to compare those results with a range of land value levels that could relate to potential existing / alternative site uses. This comparison can vary significantly. The ability of a scheme to produce a residual land value in excess of some form of comparative land value (existing or alternative use value, potentially plus a premium to incentivise release of land for development depending on the circumstances) is a key factor in determining development viability. If insufficient value is created by a development proposal then land will not come forward for development, ultimately putting at risk the Council's housing targets (for both open market and affordable) if this becomes too regular an occurrence. This also has important implications for the appropriate wording of the policy so that it will be applied sufficiently practically as development circumstances vary.

2.1.5 The following sections set out further detail on the methodology; highlighting the key inputs into the residual land value appraisals (assumptions used in this process) and in particular the assumptions which have been reviewed since the previous viability study timing. Appendix I sets out a summary of the key assumptions used for appraising each site including site size, density, housing numbers, tenure mix, dwelling mix, market sales values, build cost and fees assumptions, profit levels and planning infrastructure (obligations) costs.

2.2 Scheme types tested

2.2.1 The notional scheme typologies tested for this update study were as those considered in the 2007 and 2009 viability assessment work, with a 100 units scenario subsequently added as the study progressed.

2.2.2 This renewal of the scheme typologies was considered and agreed with the Council also taking into account a range of information including the Council's annual monitoring reports, Strategic Housing Land Availability Assessment (SHLAA) and through discussions with Council officers at project inception. Appendix I sets out the scheme typologies and associated main assumptions.

2.2.3 Therefore, with regard to on-site affordable housing, schemes of between 10 and 100 dwellings were tested to allow us to investigate the range of policy options being considered by the Council. Within this range the smaller schemes allowed us to test the impact of the proposed threshold and proportions (%s) combinations on development viability and the larger schemes enabled us to consider further the impact of varying affordable housing proportions and tenure mix.

2.2.4 Given the recent changes in the Government's position on planning obligations (principally through the introduction of the Community Infrastructure Levy – 'CIL') this update also provides an opportunity to start aligning the review of the impact of wider obligations levels (i.e. in addition to affordable housing and currently secured through s.106 arrangements) so that those are expressed in this work in £ per sq m terms. This could also enable comparison by the Council with typical £ per dwelling levels (or £ total for a scheme) as has been the main mode of measuring and / or charging these obligations to date. Further work will need to be done by the Council on this, but it begins to move the thinking in the CIL direction, should the Council pursue that.

2.2.5 Appendix I sets out the proportions of on-site affordable housing tested alongside the tenure mix variations. The private and affordable unit mix assumptions are also included there. In summary, first the 10 and 25 unit housing scenarios were tested at 20% affordable housing (i.e. including 2 and 5 affordable units respectively) with a 50/50 tenure mix of affordable rent and shared ownership. 15 and 25 unit schemes (houses and flats) were tested at 30% and 40% affordable housing again assuming a 50/50 split between affordable rent and shared ownership. Further trials were then carried out on the basis of switching 30% of the affordable housing from affordable rent to social rent (giving a trial tenure mix of 20% affordable rent / 30% social rent / 50% shared ownership). In addition, the 25 unit housing scheme was tested across these tenure variations also at 20% and 30% overall affordable housing proportions.

2.2.6 These affordable housing scenarios were appraised across the full range of values levels (see 2.3.3 below) therefore covering a broad range of potential locations within the Borough.

2.2.7 Figure 2 below shows a summary of the affordable housing tenure mixes tested within those scenarios, noting that on the schemes of fewer dwellings than the scenarios outlined above it is often impractical or unworkable to test varying tenure mix (there is little scope to accommodate it and view variations meaningfully at this level of overview). The intermediate housing element of the affordable is assumed to be in the usual form of shared ownership. This part of the exercise enabled us to look particularly at the impacts of 40% affordable housing (as per the Council's previous Core Strategy version policy direction) compared with potential alternatives. By varying the tenure mix in this way it also enabled some review of the impact of social rent on scheme viability, compared with that from affordable rent, through this switching of part of the affordable rented element. In summary, these scenarios were as follows:

Figure 2: Affordable housing proportion and tenure mix variations

Scheme Tested (on-site AH) – dwelling numbers	**On-site Affordable Housing test proportion (% overall)**	**Make-up of overall affordable housing proportion (%) – i.e. tenure mix**		
		Social Rent	**Affordable Rent**	**Intermediate (Shared ownership)**
10 (Houses)	20%	0%	50%	50%
15 (Houses)	40%	0%	50%	50%
15 (Houses)	40%	30%	20%	50%
15 (Flats)	30%, 40%	0%	50%	50%
15 (Flats)	30%, 40%	30%	20%	50%
25 (Houses)	20%	0%	50%	50%

25 (Houses)	30%, 40%	30%	20%	50%
25 (Houses)	30%, 40%	0%	50%	50%
25 (Flats)	40%	30%	20%	50%
25 (Flats)	40%	0%	50%	50%
100 (Flats)	30%	0%	50%	50%
100 (Flats)	30%	30%	20%	50%

2.2.8 This update study also provided an opportunity to consider and reflect an updated approach to wider planning obligations, as introduced at 2.2.4 above. The base appraisals as discussed here included an assumption of £150/sq m planning obligations costs applied to all dwellings (in addition to affordable housing obligations assumed). The level of planning obligations was further tested through variations to subsequent sets of appraisals (which assumed £125/sq m and £100/sq m wider planning obligations – applied to all dwellings – as below).

2.2.9 Further consideration has also been given to the collection of financial contributions as a potential policy position (rather than direct affordable housing provision on-site) in respect of schemes of fewer than 15 dwellings (reflecting the Council's previously proposed policy direction and also providing information for the potential consideration of an alternative application of such an approach). This builds on the principles explored through the Council's previous viability work; all as part of a more equitable overall approach that seeks contributions in some form towards meeting affordable housing needs from an increased range of schemes rather than placing that burden simply on the larger sites based on the largely arbitrary thresholds approach from older Government guidance. In the last few years, many local authorities have adopted or have been developing policies of this type. The study information on this aspect is set out in Chapter 3 (and particularly at sections 3.4 to 3.6).

2.2.10 The dwelling sizes assumed for the purposes of this study are as follows (see Figure 3 below):

Figure 3: Residential Unit Size Assumptions

Unit Sizes (sq m)	Affordable	Market
1-bed flat	50	45
2-bed flat	67	60
2-bed house	75	75
3-bed house	85	95
4-bed house	110	125

2.2.11 In practice, as with most assumptions, variety will be seen. Therefore no single assumed size or range of sizes will represent all dwellings coming forward on a range of schemes. It must be remembered that the aim of this study is to investigate the broad viability of the policies being appraised. This is done by exploring the relationship between development values and costs based on an appropriate overview.

2.2.12 Since there is a relationship between values and build costs, it is the levels of those relative to each other that are most important for the purposes of this study, rather than the specific dwelling sizes. The sizes indicated are gross internal areas (GIAs). They are reasonably representative of standard unit types coming forward for smaller and average family accommodation in our experience. We acknowledge that these 3 and 4-bed house sizes, in particular, may be small compared with some of those coming forward. However, the values for larger house types would often exceed those we have assumed, meaning that there remains a similar relationship in terms of a "£ per sq m" view of values and costs. All will vary, from scheme to scheme and by individual developer / house builder. It is always necessary to consider the type and size of new build accommodation and not just its price – hence the range of values expressed per square metre is the key measure used in considering the research, working up the range of values levels for the appraisals; and for reviewing the results.

2.2.13 It has been assumed, again for the purposes of this study, that the affordable housing dwelling types and mix will broadly reflect those provided by the private (market) housing scheme and be "transferred" to a Registered Provider (RP); on the basis of a proportional content of the market-led scheme as far as possible, given that overall mix. The one exception to this is that, where possible, we have assumed that (as a general starting point) larger units (3+ beds) would not be necessarily be "transferred" as shared ownership due to potential difficulties with affordability of larger than 2 bedroom dwellings for this tenure type. Where possible, the larger (3+ beds) affordable homes would be considered as a priority for rented tenure. The appraisals reflect this and the other principles outlined above as far as possible within the confines of a limited overall dwelling mix. These study assumptions do not equate to fixing such principles for site specifics - particular scheme circumstances will be considered by the Council at the delivery stage.

Smallest sites – potential financial contributions (housing enabling fund)

2.2.14 As at 2.2.9 above, some further consideration was also given to the potential to bring smaller sites or potentially all sites providing additional (net new) dwellings in to the overall policy scope. This is envisaged as part of the overall sliding-scale type approach which seeks to respect the additional sensitivities often seen with respect to the smallest sites, moving away from seeking provision only from larger developments that "trigger" the current, historically set, policy thresholds. We consistently find that smaller developments are not necessarily any less or more viable than larger ones – site size alone is not a determinant of viability. A wider range of factors come together to influence scheme viability and a practical approach by the Council could be responsive to these whilst contributing by way of an important additional housing enabling funding stream.

2.2.15 The potential to add to housing enabling initiatives and funds can be particularly positive. This is especially the case in times of typically limited public funding (grant) availability for affordable housing, such as we are now experiencing; and are likely to continue to see in the next few years.

2.2.16 It is beyond the scope of this study to consider the strategies and details that would inform and accompany this addition to the affordable housing policies and approach (if progressed by the Council). However, to inform the Council's thinking on this, and to check the scope to seek a suitable level of contribution from sites falling beneath the on-site affordable housing thresholds, we have carried out some further work to build on the understanding and current relevance of the picture established through the earlier viability work. This includes information on potential calculation methods, sum levels and worked examples – for the Council's consideration if later developing detail on these aspects. Again, further information is set out in Chapter 3 – Findings (particularly at sections 3.4 to 3.6).

2.2.17 For clarity, we consider that this small sites financial contributions discussion is distinct from the Council reviewing any potential financial contributions in lieu of affordable housing relevant to larger sites where, exceptionally, an alternative to on-site provision may be considered. For those exceptional schemes, or parts of schemes, we expect that the Council would continue to implement a negotiated process based on the starting point of on-site affordable housing and the finances associated with that; so as to ensure that a broadly similar level of subsidy is provided to that which would have been made available through the normal on-site affordable housing provision route for the larger sites (here meaning 10/15 dwellings or more, depending on the point at which the on-site affordable housing requirements are to be set). Potential mechanisms for use in negotiating, exceptionally, financial contributions on larger sites were set out in the 2007 Affordable Housing Viability Study.

2.3 Gross Development Value (completed scheme value i.e. sales value)

2.3.1 The gross development value (GDV) of a scheme means the total revenue generated by the open market and affordable homes it contains – the value created on completion. Desktop research was undertaken into property prices across the Borough during November 2011 (at which point much of the available information included data to September 2011 latest). For this we used existing information for example from internet property search and data sites (e.g. zoopla.co.uk), estate agents' information, Land Registry and Valuation Office Agency (VOA) data – enabling a review of price trends since the Council's previous viability work. This was considered alongside our own research on the pricing of new build schemes where units were being sold or had recently been sold at the time of the values review (November 2011). The key sources of information behind our values assumptions are shown in Appendix III – and are not included in the main part of this report. Collectively, this allowed us to see broadly how values varied across the Borough in the context of the range of value levels tested.

2.3.2 From the results of our research it was decided that the viability overview should consider a scale of values represented by 6 levels ('value levels' – 'VL's) within the overall range relevant for the Borough. This covers both the likely range of new build property values seen currently, by locality; and also provides an indication of the potential influence of the market moving forward – i.e. allows for the review of the sensitivity of outcomes to upward and downward movements in property prices over time. So by looking at viability across a range of value levels effectively the study again considers what the viability of a particular scheme or site typology might look like if it were moved to a range of locations within the Borough or viewed over time with increasing or decreasing values produced by varying market conditions. We have provided a very broad indication of the likely relationship between locality and typical value level (for new build housing). However, it should be remembered that values can change significantly within a very small area with variations in values often seen at a street by street level, or even between one end of a street and another. The information provided here is therefore purely a broad guide and again not intended to represent all site specifics but, viewed overall, it does enable us to consider the range of scenarios likely to be seen across the Borough so as to inform affordable housing policy development

2.3.3 A summary of the values assumed for each unit type at each value level is shown in Figure 4 below. These are shown as £ per sq m rates and also expressed as equivalent property values based on the dwelling types and sizes assumed within this study.

Figure 4: Summary of assumed sales values range – 'Value Levels'

Value Level ('VL') (£ / sq m)	(Approx. £ per sq ft)	1-bed flat (45 sq m)	2-bed flat (60 sq m)	2-bed house (75 sq m)	3-bed house (95 sq m)	4-bed house (125 sq m)
1 (£2,200/m²)	£204	£99,000	£132,000	£165,000	£209,000	£275,000
2 (£2,600/m²)	£242	£117,000	£156,000	£195,000	£247,000	£325,000
3 (£3,000/m²)	£279	£135,000	£180,000	£225,000	£285,000	£375,000
4 (£3,400/m²)	£316	£153,000	£204,000	£255,000	£323,000	£425,000
5 (£3,800/m²)	£353	£171,000	£228,000	£285,000	£361,000	£475,000
6 (£4,200/m²)	£390	£189,000	£252,000	£315,000	£399,000	£525,000

2.3.4 Figure 5 below shows the broad relationship between the value levels tested and the main settlement areas / localities in the Borough (with related market comments):

Figure 5: Indicative relationship between value level and locality

<table>
<tr><th>Value Level</th><th colspan="3">Relationship between value level, locality (indicative) and market conditions</th></tr>
<tr><td>1
(£2,200/sq m)</td><td>Beneath typical current new build values – principally a sensitivity test level.</td><td colspan="2">In the main representing market falling from current lower end new builds.</td></tr>
<tr><td>2
(£2,600/sq m)</td><td rowspan="2">Typical new build values in Hooley, Merstham, Redhill, Horley.</td><td colspan="2"></td></tr>
<tr><td>3
(£3,000/sq m)</td><td rowspan="2">Typical mid-range new build values</td><td rowspan="2">Lower end new build values increasing with rising market / higher values falling back</td></tr>
<tr><td>4
(£3,400/sq m)</td><td rowspan="3">Typical new build values in Reigate, Tadworth, Banstead, Chipstead, Kingswood, Walton On The Hill.</td></tr>
<tr><td>5
(£3,800/sq m)</td><td>Current mid range values increasing with rising market.</td><td>Upper end values falling back.</td></tr>
<tr><td>6
(£4,200/sq m)</td><td colspan="2">Upper end of typical values range.</td></tr>
</table>

2.3.5 Property market reporting continues to indicate an uncertain residential market (as highlighted in Appendix III). Future values cannot be predicted, but our methodology does allow for potential future review of results in response to changes over time, perhaps including more established market trends or revised price levels - as well as sale price variations through site characteristics or location. It enables us to look more widely at the sensitivity of results to value levels as part of making our strategic overview.

2.3.6 Appendix III contains further information on house prices trends – for context relative to the previous stages of the Council’s evidence base. Our current stage review has found that house prices are at similar levels to where they were while the 2007 Affordable Housing Study was being prepared. At the time of this current (2011/12) research they were significantly ahead (indicated by about 13.5%) of where they were at the point of the research for the study work in 2009; we can now see that the research for the latter was undertaken at around the market trough point. Values at this point were found to be within about 5% of their peak levels, although as already acknowledged the market is still very uncertain. On this last point it is interesting to note that sales volumes observed recently are at around the same level they were at the 2009 study point; i.e. well down on the levels seen at the earlier study timing. The sales volumes suggest that house prices are likely to be relatively flat or wavering at best short-term, although of course only time will tell how this plays out. The currently observed ongoing market uncertainty could be a key factor, however.

2.3.7 The following table (Figure 6) summarises the Land Registry House Prices Index (Surrey) movements between the various affordable housing viability study research points and also key points in recent market trends (extracted from Appendix III):

Figure 6 – Summary of Land Registry House Prices Index – prices movements

Timing	**Land Registry House Prices Index**	**Index change (%) between Nov 2006 and each noted date to September 2011**
November 2006 (2007 viability study research)	285.1	-
March 2008 (Pre-recession peak)	321.1	36.0% (positive)
June 2009 (Market values trough)	267.9	-17.2% (negative)
July 2009 (2009 study research)	271.2	-13.9% (negative, but upward trend)
October 2010 (More recent high)	309.3	24.2% (positive - had recovered, but not to peak levels)
September 2011 (Latest data available as at November 2011)	307.1	22.0% (positive – but marginally lower than a year previous)

2.3.8 The Council's 2009 viability study update covered a similar overall range of market sales values assumptions over 4 'value points' – in that case from £2,000 (acknowledged as a reduced values sensitivity layer) to approximately £4,500/sq m. It found the average new build pricing point at the time to be just in excess of £3,500/sq m; and that local values in some instances were seen to exceed the range studied.

2.3.9 Overall, this latest (late 2011) market research suggests that we would not expect viability to have deteriorated significantly (compared with the 2009 study view) in terms of the influence of values trends alone. However, as this study identifies, values trends cannot be considered in isolation.

2.4 Scheme Value - Gross Development Value ('GDV') - Affordable Housing Revenue

2.4.1 In considering the overall value (as expressed by terms such as the 'GDV', 'revenue' or 'sales receipts') produced by a development, we need to allow for the fact that the affordable housing content invariably produces a significantly lower level of revenue than equivalent market housing - but costs broadly the same to build as the market housing. This is the main reason for the large impact on viability that affordable housing has – it has the effect of reducing the RLV and is the main factor under review through this study.

2.4.2 Within this overall picture, the affordable housing revenue available to the developer is based on the payment level that a Registered Provider ('RP' – usually a Housing Association or similar) can generate based on the capitalised net rental stream (for affordable rent or social rent) and the capital value plus capitalised net rental stream (for intermediate tenure assuming shared ownership). In past studies this typically included social rent combined with forms of intermediate tenure, and potentially included some level of public subsidy in the form of social housing grant. However the HCA Affordable Homes Programme framework (2011-2015) published in February 2011 stated that '*there is an expectation that S106 schemes can be delivered at nil grant for both affordable home ownership and for Affordable Rent*. *For the latter, our assumption is that the price paid will be no more than the capitalised value of the net rental stream of the homes.*'[3] This study is therefore underpinned by an assumption of nil grant and no other form of subsidy for the

[3] Homes & Communities Agency - 2011-15 Affordable Homes Programme – Framework

affordable homes, regardless of the assumed tenure. The affordable housing revenue assumptions have been pitched accordingly.

2.4.3 The assumed RP payment to developer (affordable housing revenue) levels have been calculated using the capitalised net rental stream approach with appraisal inputs made from our experience of working in this field and verified as far as possible through seeking soundings from locally active RPs. Calculations carried out using SDS Proval software, as used by many RPs, produced varying revenue (payment to developer) levels of approximately 28-40% of market value (MV) but more typically 30-35% MV for social rented properties; 35-50% of MV (typically approximately 45-50% MV) for affordable rented properties and 60-70% of MV for shared ownership properties, varying in all cases by unit type and size.

2.4.4 From there, for the payment to developer for affordable rented properties we assumed 45% MV and also introduced a revenue level cap. This has the effect of building-in high level allowance for the potential affordability issues that could arise from affordable housing revenue assumptions that might otherwise be too reliant on excessive affordable rent levels. We did this by not further increasing the affordable housing revenue (payment to developer) assumption beyond value level 3. In any event the assumption has been made that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set (i.e. that those levels represent 80% of market rent including service charge). The effect of our approach to these affordable housing revenue assumptions overall is that generally they would be derived from affordable rents equivalent to less than 80%, and often not more than approximately 70% of market rent. In some instances, the assumptions equate to a lower still affordable rent assumption. This varies with dwelling type and value level of course. As with other delivery stage details, the market rent context (and therefore affordable rents at up to 80% of the market rent level; but in many cases below that) will be a site specific consideration with regards to affordability; and also financial viability for the RP. As part of the variety that we are seeing already, RPs' views, attitudes to risk and abilities to support the development or purchase of affordable rented properties will be wide ranging.

2.4.5 In terms of background assumptions, the shared ownership figures are calculated on the basis of not more than a 40% equity share with a rent of not more than 2.75% on the unsold equity. This fits with the Council's typical approach, which is to base initial share purchases on a range of percentages starting at 35% but with site specifics considered in detail. These assumptions amount to payments to the developer varying by unit type and value but in most cases not exceeding 67% MV; within the general guideline level we also picked up from the RP liaison exercise. As at 2.2.12 above, our practice for shared ownership revenue inputs, with affordability in mind, is to avoid assuming the transfer of larger than 2 bedroom properties for shared ownership wherever possible (3 + bedroom affordable homes are assumed principally for rented tenure).

2.4.6 Annual rental increases are based on RPI +0.5% for social rent; RPI for affordable rent); voids and bad debts are based on 2% social rent; 3% for affordable rent). Social rents are based on Target Rents.

2.4.7 Overall, the indicative revenue (payment to developer) levels assumed, as at 2.4.3 to 2.4.5, were considered reasonable and were within the parameters outlined within the RP feedback that we received and have seen for other recent viability studies.

2.4.8 In practice, the affordable housing values generated (revenue) would be dependent on a range of scheme specifics and on other factors including the RP's own development strategies; and therefore would vary from case to case. The RP may have access to other sources of funding, such as its own resources, but any additional funding cannot be regarded as the norm – it is highly scheme dependent, and variable, and therefore has not been factored in here as fits the nil grant / other subsidy approach as a starting point.

2.5 Development Costs – Build Costs

2.5.1 The build costs assumptions, as shown below and included at Appendix I, are sourced from the Royal Institution of Chartered Surveyors' (RICS) Build Cost Information Service (BCIS). The selected levels are the "Median" figures for that build type - assuming the categories of 'mixed housing development' and 'flats' (generally). The figures are from 3rd Quarter (Q3) 2011 (the latest non-forecast data available at the time of carrying out the appraisals); and with a Reigate & Banstead location index factor of 114 also applied (compared with national base of 100).

Figure 7: Build Cost Data (BCIS Median, Q3 2011, Location Index 114)

Property Type	BCIS Build Cost (£/m²)*
Housing (Mixed Developments)	£917
Flats – generally (3-5 Storey)	£1048

*excludes external works and contingencies (these are added to base build cost – see 2.5.2 and 2.5.3)

2.5.2 The above base build costs do not include contingencies or external works. An allowance for external works (including for example site clearance and preparation, roads, pavements, sewers, utilities, street lighting and landscaping) has been added to these on a variable basis depending on the scheme type but typically between 14% and 21% of build cost for flatted and housing schemes, respectively, based on analysis of specific schemes within the BCIS dataset. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials, etc). As with many aspects there is no single appropriate figure in reality, so a judgement on suitable assumption levels is necessary. Again, as applies to any assumption, variation relative to site specifics will be seen.

2.5.3 An allowance of 5% of build cost has also been added to cover contingencies. This assumption is a relatively regular one in our experience. Reduced contingency levels at say 3% are seen too, but our preference for this purpose is to make sure that adequate allowances have been made.

2.5.4 In early stages project discussions with the Council, it was clarified that the more challenging local stance taken to sustainable construction standards and similar at the previous Core Strategy submission and viability study work stages was now likely to be changed in favour of a simplified national (Building Regulations) led approach.

2.5.5 To the adjusted build cost assumptions (after the above allowances) of £1,161 and £1,248 / sq m for housing and flatted based schemes respectively we have added a further 4%. Our assumptions are therefore appropriate to cover costs associated with Code for Sustainable Homes Level 4 or equivalent standards across developments and bearing in mind that the most recent DCLG costs review (Code for Sustainable Homes - Updated Costs Review - August 2011) information shows that cost additions for some specification improvements in these respects have reduced since the previous (2010) costs review information.

2.5.6 Nevertheless, this area and the potential growth in other costs is a general factor to be kept in mind by local authorities in setting affordable housing targets or other planning obligations at suitable levels.

2.5.7 Our review of build costs for this update arrived overall at similar levels of build costs being applied, to those assumed in 2009. Base costs for houses are assumed at approximately £60 / sq m more than they were in that study.

2.5.8 As is always the case, the interaction of costs and values levels will need to be considered again at future review points. In this context it is also important to bear in mind that the base build cost levels will also vary over time. In the recent recessionary period we have seen build costs fall, but moving ahead they are expected to rise steadily again.

2.5.9 Lifetime Homes or similar standards can affect scheme viability in a wider sense - from the point of view of increasing building footprints and therefore cost and, potentially, site capacity. However, such requirements may not necessarily add significant cost if designed-in sufficiently early as they should be. There are design implications though. The standards are not mandatory from a Government / HCA perspective. Design and cost impacts depend on a range of factors. These can include whether the criteria were designed-in from the outset or whether a standard house type is modified (it is more cost effective to incorporate the standards at the early design stage rather than modify standard designs); the experience of the home designer and builder; the size of the dwelling (it is usually more straight-forward to design larger dwellings that incorporate Lifetime Homes standards cost effectively than it is smaller ones). Analyses of costs can be variable. Our study assumption (purely for this purpose) is to include an allowance of £575 per dwelling – for all dwellings as a standard cost. The cost of implementing Lifetime Homes or similar could be expected to diminish if the concept becomes more widely adopted and the standards become embedded as the norm. Further information can be seen at www.lifetimehomes.org.uk).

2.6 Wider planning obligations /other costs – e.g. s.106 / forthcoming potential CIL

2.6.1 The base appraisals were carried out assuming a rate of £150/sq m to cover other (i.e. non-affordable housing) planning obligations contributions. This assumption was considered with the Council and selected as a suitable base assumption, representing a likely maximum "CIL equivalent" level of wider planning obligations / future charging rate in terms of impact on viability in the local context.

2.6.2 As the study progressed on an exploratory basis, it was considered valuable to widen this element of the review in order to consider the potential combined impact in the event of those assumed typical obligations varying (and potentially reducing under the CIL bearing in mind the £150/sq m base assumption had been applied to all dwellings - whereas any future CIL charging would not apply to the affordable housing content of schemes under the current CIL Regulations).

2.6.3 Therefore sensitivity testing was also carried out assuming alternative levels of £125/sq m and £100/sq m (again applied to all dwellings). These figures (as per the £150/sq m test level) are not to be regarded as potential Community Infrastructure Levy (CIL) charging rates fully tested for that purpose. They are currently allowed for on all dwellings (including affordable) as per the present planning obligations regime. However, this rate per sq m basis allows comparison between scenarios and outcomes – for example so that the impacts of these levels varying can be considered and also allowing comparison between different combinations of affordable housing and other planning obligations levels (e.g. that might produce similar results). It is an appropriate overview method and provides wider context for the review of results. It also allows for comparison with existing planning obligations levels (an example is provided below). As acknowledged at 2.6.2, if the Council implements the CIL locally in future, this will not be charged on the affordable dwellings. Therefore, as a general principle, this would have the effect of concentrating the CIL burden on the market homes. This was one of the drivers to our considering with the Council lower trial rates of planning obligations as applied to all dwellings. In practice the equivalent per sq m cost of planning obligations falling upon the market units only (e.g. under CIL) would vary across our scenarios depending on the affordable housing proportions and dwelling sizes. Should CIL be implemented, it could also be that in practice a proportion of overall planning obligations burden remains with s.106 site specific requirements – just for example, related to particular highway improvements or open space contributions.

2.6.4 These cost assumptions can (in full or part) also relate to a range of different factors including potentially representing additional sustainability measures, site abnormals or other costs – they simply show the impact of adding that levels of cost per sq m across the scheme.

2.6.5 This part of the update review process was undertaken through sample appraisals based on the same 25 unit (housing scheme); applied at 20%, 30% and 40% affordable housing (as per the 50/50 base appraisal assumptions on tenure mix) at each of the 3 tested £/sq m planning obligations levels.

2.6.6 In the background to agreeing suitable assumptions for this area of the study, the Council provided DSP with information on the levels of planning obligations secured (agreed and collected / delivered) through s.106 in the last approximately 3 years. Within the Horley Master Plan area (three wards of Horley) this was at the relevant adopted tariff level £16,224 per net new dwelling. Within the remainder of the borough, planning infrastructure contributions (per net new dwelling) were on a variable basis according to scheme requirements as implemented through negotiation. The following table (Figure 8) indicates for the last three years or so the majority of obligations secured have been at or near the average figures given:

Figure 8: Recent Reigate and Banstead planning obligations levels - indications (s.106)

Size	£ maximum secured per dwelling under s.106	£ average secured per dwelling under s.106
1 bed	7712	5282
2 bed	10363	7096
3 bed	14777	10120
4 bed	16838	11532
5+ bed	21958	15039

2.6.7 We understand that the Council will be considering implementing the CIL approach within the next 2 years. It is possible that for some large (strategic) residential sites, s.106 planning obligations mechanisms could continue to be used with regard to some significant site specific infrastructure provision. No draft charging rates have been considered at this stage. However, purely for comparison with the information above and the purposes of these study assumptions, the trial obligations rates (applied here to all dwellings rather than to the market units alone as would be the case with the CIL regime), Figure 9 below gives a feel for what the assumptions mean according to the dwelling sizes that we have applied.

Figure 9: Comparison of planning obligations with £ per sq m levels

Dwelling size		£/sq m planning obligations indication – assumptions (CIL type approach, but applied to all dwellings – market and affordable - in this study)		
Beds	**sq m**	**100**	**125**	**150**
1 bed	50	5,000	6,250	7,500
2 bed	75	7,500	9,375	11,250
3 bed	95	9,500	11,875	14,250
4 bed	125	12,500	15,625	18,750
5+ bed	150	15,000	18,750	22,500

2.7 Summary of other development cost assumptions – Fees, Finance & Profit

2.7.1 The following costs allowances have been assumed for the purposes of this study:

Build period:	*6-24 months (after lead-in period) - varied by scheme size – details as per Appendix I based on BCIS Construction Duration Calculator and professional experience*
Professional and other fees:	*Total of 12.5% of build cost*
Contingencies:	*5% of build cost* *(Total for fees and contingencies therefore 2% higher than the Council's 2009 study assumption)*
Site Purchase Costs:	*1.0% agent's fees* *0.75% legal fees* *Standard scale rate for Stamp Duty Land Tax (SDLT)*
Planning Application Costs:	*£335 per dwelling*
Finance:	*6.0% interest rate (assumes scheme is debt funded)* *1.0% notional arrangement fee* *(Finance rate assumption 7% in 2009 study; but then with no arrangement fee assumed)*
Marketing costs:	*3.0% (of GDV market units) sales fees* *£750 per unit legal fees (increased from £600 / unit 2009 study assumption)*
Developer Profit:	*Affordable Housing – 6% of GDV (affordable housing receipts)*

Open Market Housing – 17.5% of GDV (consistent with 2009 viability study assumption).

Note that we acknowledge the variable role of and level of profits in terms of risk-reward for varying scheme types and in varying market conditions. We have seen profits across a wider range from less than 15% to in excess of 20% (of GDV) in our wide-ranging scheme specific viability work. Our acknowledgement that profits could exceed our assumed 17.5% GDV base level is to be borne in mind as a factor in considering policy targets setting (e.g. not overstating affordable housing targets).

2.7.2 A summary of assumptions is included at Appendix I.

2.8 Indicative Land Value Comparisons

2.8.1 For viewing of results context it is necessary to compare the RLV results with indicative levels of potential land value expectations. This is common feature of most current viability studies, so that we develop a feel for how likely the RLV results from the various assumptions combinations are to support viable schemes – i.e. in what circumstances they are likely to produce sufficient land value after all assumed development costs (including profit, affordable housing and other planning obligations) are met.

2.8.2 In practice, land value requirements vary significantly according to a range of constraints and opportunities - site type and conditions, planning scope and requirements, owner's circumstances and requirements, market conditions / demand and the extent to which alternative uses etc might be an option.

2.8.3 Given the low level of recent and current activity, it has not been possible to find meaningful evidence of recent land transactions. In this event (and this is certainly not unusual in recent experience) it is necessary to consider information such as is available to provide guides as to appropriate land value comparisons. Our practice is to consider a range of comparisons, relating to varying potential site types (e.g. greenfield and 'PDL' – previously developed land / brownfield). This also provides a scale of land values which may need to be matched or exceeded so that with each step matched or exceeded comes an increased confidence level in that scenario being deliverable in a range of circumstances. So, for example, we would expect to see some combinations of obligations and assumptions delivered in full where lower greenfield related comparison values needed to be achieved (provided that abnormal costs were not too great) but would expect less viability scope as the land value comparison increases; so that costs or obligations may need to be adjusted to maintain a viable scheme. While the Council can react through negotiations as may be needed in considering individual schemes, policy targets which respect these factors should to be set – to create the necessary clarity as to expectations on affordable housing and other matters. Appropriate policy wording should then deal with the application of these targets – adaptable where necessary.

2.8.4 The Valuation Office Agency (VOA) Property Market Report 2011 (the latest available) provides no information relating to localities within or near to Reigate and Banstead. It provides a limited range of indications based particular locations within regions. However the VOA's July 2010 residential building land figures provided indications in the range £2.85 - £3.65m / Ha depending on size and type. This assumed established residential use and suggests that as an upper end land value comparison locally, values could need to reach circa £3m / Ha equivalent for certain sites although we cannot be certain what type of planning assumptions (including obligations) are associated with those indications.

2.8.5 In reviewing our results based on the principles outlined at 2.8.3 above, we consider that a range of land value comparisons could well be relevant locally. For greenfield land (enhancement to agricultural values typically of £15,000 – 20,000/Ha and based on a multiplier of 10 to 20) we might expect values of say £500,000/Ha to be sufficient to secure land release in a range of circumstances; lower figures might do so in the current circumstances. In between these land value levels, at say £1.5-1.8m/Ha we might expect a range of commercial use sites and lower value residential opportunities / potentials to produce suitable outcomes especially in a market where commercial property demand and values have been very severely hit. As acknowledged at 2.8.4 and further below, however, higher land values could be seen in a variety of circumstances in the Borough.

2.8.6 None of these scenarios represent fixed of definite cut-offs; they are put forward for this study purpose only and in the context of 2.8.3 above; i.e. viewing a variety of RLV results with increased confidence as the RLVs increase relative to these various potential land value requirement indications. Again, the assumptions are not intended to prescribe value levels or other factors which would override particular site and delivery considerations.

2.8.7 In practice a range of land value comparisons and requirements will be relevant, according to site characteristics, opportunities and constraints, owners' situations, timing, market conditions and other circumstances.

2.8.8 At the same time, landowners' expectations will need to be realistic. Land values reflect these various factors – the value is associated with what can be done with it; it's potential as affected by any constraints. A premium or uplift level of land value may well not be appropriate in a range of circumstances – that would rely on their being a ready market for a site in its existing or in an alternative use. For example, we would not expect to see premium value levels applied where commercial premises have not been marketable for that use. The range of influences on viability outcomes will need to be considered as the Council and Developers consider sites and apply the approach in dealing with scheme specifics.

3 Findings

3.1 Introduction and interpretation.

3.1.1 This section is compiled with reference to the range of tables set out within Appendix II. Those tables show the RLV results generated by our range of appraisals on the basis of the assumptions explained in chapter 2. Before outlining the results trends, the following first provides a brief guide to interpreting the tables, in the order seen in Appendix II.

3.1.2 Table 1 shows the base appraisal RLV results; scenarios as at 2.2.7 and Figure 2 above (page 11). The 10 unit scheme was not appraised at the adjusted tenure mix which included social rent because it only includes 2 affordable dwellings. As explained at section 2.6 above, in all cases a planning obligations level of £150/sq m has been assumed (applied to all dwellings) in addition to the affordable housing.

3.1.3 Table 2 shows the RLV results from additional appraisal layers carried out looking at the 25 unit housing scheme at 20%, 30% and 40% affordable housing (50/50 base tenure mix) in all cases also trialed at planning obligations levels of £100/sq m and £125/sq as well as the base £150/sq m level.

3.1.4 Table 3 summarises by increasing value level (VL1 – VL6) the RLV outcomes from the various affordable housing % and planning obligations levels – so that varying combinations can be considered, in this case, in the context of their strength against our PDL land value comparison indications. Table 4 repeats table 3 but shows the RLVs in the context of the lower potential Greenfield enhancement type land value comparisons discussed at 2.8.5. The keys at the base of each Appendix table provide a guide to the colour-coding used there – that is purely indicative of trends (not providing firm cut-offs) to guide as to the increasing confidence associated with the results (for example as the VL increases or affordable housing % reduces).

3.1.5 It should be noted that in the case of all results tables there are a number of not applicable (‘N/A’) scenarios where the affordable housing proportions and / or specific tenure mix variations cannot be applied to the development scenario (scheme type) listed on the left hand side.

3.1.6 In the following sections we will outline the meaning on the results – moving through tables 1 to 4, in each case considering the results by reference to increasing value level (increasing value of market housing) - and then provide our overall interpretation of these by drawing the points together before providing our conclusions.

3.2 Table 1 – Base appraisal results and findings

3.2.1 The results for the 10 unit scheme, which is assumed to be providing 20% affordable housing, all show strong prospects of viability in a greenfield scenario at all values except from VL1, which is showing only a nominally positive RLV (unlikely to be workable). However, we commented that VL1 mainly represents a sensitivity test for current low end values in the Borough falling – those are not values typically seen for new builds in any area locally at present.

3.2.2 The larger housing scheme RLVs shown suggest similar outcomes overall in that the VL1 results are negative RLVs (very unlikely to be viable). The same is seen at VL2 for the mixed (houses and flats) scenario and the all flatted one – showing that based on the assumptions made the inclusion of a significant proportion of flats within the scenario is reducing viability (at VL1 and 2 making it likely to be unworkable).

3.2.3 VL2 results look potentially sufficient to support viability on the greenfield comparison basis assuming housing based schemes (as opposed to flatted) with 40% affordable housing. VL3 values appear to support a wide range of scheme types on a greenfield basis.

3.2.4 However at least VL3 values, and more likely VL4 or possibly higher (depending on the site type), are needed to support the 40% affordable housing together with the £150/sq m planning obligations level on a range of PDL scenarios. Looking at the flatted scenarios, increased emphasis would be on VL4-5 values potentially needed to support viability with 40% affordable housing and this level of wider assumptions. For the highest land value comparisons to be met (for example intensification of existing residential sites) then the high end values look to be needed to support this full collection of obligations.

3.2.5 The VL2-3 outcomes point to potential issues with the scope to support 40% affordable housing alongside the £150/sq m planning obligations assumption in the lower value areas of the Borough (for example most typically Hooley, Merstham, Redhill and Horely), which are likely to see significant development; particularly in the case of schemes on previously developed land. We should reiterate that in indicating typically lower value areas there will always be variations - including schemes that have higher value levels in such areas.

3.2.6 These results also indicate that the high-end values in the Borough are likely to produce viable schemes with significant planning obligations funding scope. However, the Council will need to consider the frequency and type of schemes likely to come forward in those areas and, therefore, their overall contribution to the planned levels of housing growth in the Borough over the Plan period. On this basis, there may well be limited justification for considering a differentiated policy approach for such areas, bearing in mind also the move away from a clear single Borough-wide clarity that such an approach would bring. The factor of higher land values tending to accompany the higher sales values scenarios also needs to be considered and is a balancing factor when thinking about viability.

3.2.7 Overall, Table 1 also clearly shows (and particularly on the PDL comparisons) the viability improvements that would be likely to come from 30% affordable housing compared with 40%.

3.3 Table 2 – Variable affordable housing % and planning obligations trials

3.3.1 In Table 2 we can see the interaction of the trial levels of affordable housing proportion (20%, 30% and 40%) and planning obligations at the 6 value levels.

3.3.2 Again we can see that, at VL1 levels, values are unlikely to support even 20% affordable housing combined with reduced (from base assumption of £150/sq m) planning obligations levels; whether on greenfield or PDL. At VL2 this combination (including at £100/sq m wider obligations rather than the base £150/sq m) is still unlikely to work on most PDL sites. On greenfield at VL2 all scenarios look potentially workable. While the increasing affordable housing % is seen to significantly reduce the RLVs, especially combined with increasing planning obligations levels all but the most demanding combination (40% AH with £150/sq m) look potentially workable; that one may be marginal.

3.3.3 In general we can see that the value level available to drive viability and the level of affordable housing are, as would be expected, more significant influences on viability than the assumed steps in the planning obligations level.

3.3.4 Related to this, it is evident that increasing affordable housing percentage produces a more significant challenge when dealing with PDL type land value requirements. VL3 may well be sufficient to support 20-30% affordable housing on PDL, but VL4 looks far more likely to be needed to support 40% affordable housing on that basis.

3.3.5 It is not necessary or meaningful to discuss all possible variations but the Council could use this type of understanding as a rough guide to help it compare and consider different scenarios (on affordable housing %, planning obligations and potentially other factors) that might either produce similar or improved results. Just as one example, at VL4 with 40% affordable housing and £100/sq m planning obligations the RLV indication is £2.26m/Ha. A similar level of land value could also be achieved as a result of other assumptions combinations; for example the affordable housing % could be lowered but combined with an increased level of other obligations – at £125/sq m or £150/sq m – to produce a similar RLV.

3.3.6 This could also be used with respect to the impact of changing values levels and the associated varying ability of schemes or locations to support combinations of obligations on that basis.

3.3.7 Tables 3 and 4 can be used to pick out these trends and comparisons. Again they show the critical role of sufficient sales values, relative to the overall planning obligations and costs package, in supporting viability.

3.4 Smaller sites – financial contributions potential

3.4.1 The Council's earlier policy direction included considering a financial contributions approach for – potentially for sites of fewer than 15 dwellings.

3.4.2 Generally, we consider that it is often impractical to expect on-site affordable housing to be integrated into the smallest sites; certainly developments of fewer than 5 dwellings. This may be possible in some cases, but may be problematic in others owing to design, affordability, management and any wider sustainability and management issues associated with highly dispersed RP housing stock. We find that views vary from one area to another, but in our experience on-site affordable housing on the very smallest schemes should not usually be a rigid expectation.

3.4.3 A financial contributions approach can provide a more practical solution which is more consistently deliverable and potentially sees all additional dwellings contributing to a very useful enabling fund. As a more market-friendly approach than seeking on-site affordable housing on small schemes the approach could be applied over an extended range - to schemes providing one new dwelling or more; up to say 9 or 14 dwellings. This means collecting financial contributions as the primary route on the small sites. It is distinct from payment "in-lieu" scenarios where in exceptional circumstances on sites over the on-site thresholds a financial contribution may be negotiated in preference to a compromised on-site affordable housing solution. If it is progressed by the Council, with this potential new policy area (which goes straight to a final contribution on the smallest sites) there would be no starting requirement for on-site affordable housing in those instances; the financial contribution is a simply replacement approach rather than a potential alternative where on-site provision will not be workable. The approach would become the primary one on the selected site types.

3.4.4 Next, we will provide further background and a potential route to calculating the type of affordable housing contributions discussed here (rather than the exceptional "in-lieu" scenarios mentioned above). There are many possible routes, including variations of the following. This is an initial review only of this area and usually Councils develop this thinking further through detailed SPD or similar guidance. Ultimately there are various options for the Council to consider, depending on the level of complexity thought appropriate in the local circumstances; and the degree of resourcing the various routes might need in terms of guidance, updating and site specific discussions / negotiations.

3.4.5 There is no Government or other formal requirement, or widely recognised guidance, as to how affordable housing contributions of this type should be calculated or set out. We are assuming that these contributions would be made on top other s.106 obligations already factored in to the appraisals (the £100 - 150/sq m wider planning obligations assumptions).

3.4.6 In essence, the precise calculation method and accompanying text is a means to an end in that the important aspects are to arrive at a suitable figure or figures which can be clearly explained; and that do not unduly affect development viability so that site supply is not restricted by the implementation of the approach.

3.4.7 There is also no requirement to link the contribution level to a stated proportion (%) of affordable housing however we understand that it would be this Council's preference to do so, for consistency with its on-site affordable housing targets approach (expressing % targets in the usual way) and for clarity at the Core Strategy level. In any event it should be borne in mind that, at the low proportions (%s) that are appropriate for this part of a sliding scale in viability terms (usually no more than 10 to 20% equivalent) the calculation often means that a fraction of one whole affordable dwelling equivalent is being requested. A continuation of the sliding scale approach in this Borough could mean a 10% affordable housing equivalent for sites of 1 to 5 or 1 to 9 dwellings; 20% if this approach were extended over the range 10 to 14 dwellings. An alternative, though more significant for viability impact, would be to introduce the 20% equivalent proportion at say 5 dwellings.

3.4.8 We find that on most occasions these calculations on developments of this scale arrive at a fraction of an affordable dwelling in some way, and the contribution is ultimately expressed as a sum in £s. For example 10% at 4 dwellings produces 0.4 dwelling equivalent; 0.9 dwelling equivalent at 9 dwellings. Taken to its potential maximum likely use, as an example, 20% affordable equivalent at 14 dwellings would produce 2.8 dwellings equivalent.

3.4.9 The calculation of a financial contribution (monetary sum) can be exact and thereby overcome these matters – it does not need to reflect whole dwellings and in our view need not be tied by such a link to the proportion. Effectively, the proportion could be omitted from the calculation to simplify it, if a suitable contribution level can be described in another way.

3.4.10 The 10% equivalent (affordable housing) proportion, where used in the examples below, reflects a potential extension downwards (based on sliding scale principles) of the 20% affordable housing proportions likely to be relevant beneath the start of the on-site affordable housing requirements.

3.5 Financial contributions trial calculations

3.5.1 In this section we consider some worked examples as indications of how the land value based potential financial contributions calculation could operate, using assumptions from the on-site affordable housing scenarios. This information is provided in the context purely of helping to inform the Council's ongoing consideration of potential calculation methodologies and detailed implementation of this area, should it be pursued as part of the affordable housing policy approach.

3.5.2 The methodology uses the RLV as a proportion of GDV (RLV %) from an equivalent scenario without affordable housing (0% affordable housing) to approximate the factor that should be applied to the sales value (GDV) of a relevant affordable home type to arrive at the base value of the land required for that affordable home. A factor of 15% (1.15) is than applied to that base land (plot) value to notionally reflect the fact that there would be acquisition and preparatory costs also involved in buying or paying for land elsewhere – on which to put the equivalent affordable home. This calculation provides a "per whole unit" sum, which then needs to be applied pro-rata to the 0% affordable housing scenario (market unit numbers) according to the equivalent affordable housing proportion selected by the Council as the policy target position for these smaller sites (considered here at 10% and 20% equivalent target proportions).

3.5.3 This is not to say that this is the only potential calculation method, as we acknowledge more widely in this study. There are a variety of potentially suitable methods and in our experience it will be appropriate to use this information to consider the policy context now (appropriate framing of the principle to seek any financial contributions and of the targets associated with those) but to develop the detail with this type of information to accompany the core policy through subsequent SPD/DPD/guidance or similar.

3.5.4 Leading on from this calculation approach, we have also sought to indicate what the potential resulting financial contribution sums could be equivalent to in £ per sq m terms. At this stage these are indications for the Council's information and have been prepared with CIL-type thinking and potential routes to simplicity in mind (on a similar basis to the study approach to wider – currently s.106 based – planning obligations which have been assumed and trialled at various £ levels per sq m). The

Council will no doubt wish to consider the detailed operation of this as it develops further thinking on it. In the following examples:

- 'AH' means affordable housing
- 'RLV' means residual land value
- 'RLV %' means the RLV expressed as a % of the GDV ('gross development' or 'sales' value i.e. the market value (MV) of the completed dwelling).
- /sq m means per square metre (/sq ft means per square foot)
- 'equivalent' refers to the proportion (%) of affordable homes that would be sought through the on-site (direct provision) AH route.

3.5.5 **Example 1** (Looking at 20% equivalent; for example if applicable to developments of 10-14 (net new) dwellings – taking here a 10 dwellings scenario as an example)**:**

10 Unit scheme VL3 (market sales @ £3,000/sq m i.e. approx. £270/sq ft).

Indicative financial contribution calculation trial steps:

1. On-site AH test at 20%

5 x 2 bed houses; 5 x 3 bed houses – RLV with 20% on-site AH (1 x 3 bed 85 sq m AR; 1 x 2 bed 75 sq m SO).
RLV on this basis is £440,885 (£1,322,566/Ha)

2. Remove the 2 affordable dwellings (convert into market = becomes 0% AH). Means 3 bed house becomes 95 sq m (from 85 sq m).

RLV improves to £571,230 (£1,713,690/Ha) with 0% affordable housing.

3. 20% AH equivalent x 10 units = 2 AH units relevant to formula.

1 x 3 bed unit @£285,000 x current 0% AH RLV% of 22.4% (RLV as % of GDV) = £63,840 x 1.15 = £73,416 contribution (per whole unit).

1 x 2 bed unit @£225,000 x (same) 22.4% = £50,400 x 1.15 = £57,960 contribution (per whole unit).

Total contribution: 2 above units equivalent (from total 10) = 20% - i.e. £131,376 contribution total. This could be divided by (÷) the scheme floor area or part of that, in order to consider what the sum is equivalent to in £ / sq m terms expressed in various ways. For example:

÷170 sq m = £772.80/sq m expressed by floor area of equivalent AH units (2)
÷850 sq m = **£154.56/sq m contribution across the scheme as a whole**
÷950 sq m = **£138.29/sq m contribution across the scheme if now assumed as 95 sq m units**

Or, equates to average contribution per equivalent (affordable) dwelling of £65,688 (total of £131,376 divided by 2).

4. Applying varying rate/sq m approach as further trials – examples:

Alternative approach simply applying a £/sq m rate to the total floor area of the development – compared with the £/sq m indicative contributions that the land value based formula (steps 1 to 3) produces:

950 sq m @ £125/sq m – produces £118,750 contribution
950 sq m @ £100/sq m – produces £95,000 contribution
(For comparison with the land value based approach that produced contributions equivalent to circa £140 - 150/sq m as at step 3 above).

5. Add in s.106 payment - AH contribution of (stated sums / sq m – as below) reduces the 0% on-site AH scheme RLV (as at step 2) to:

£496,304 (£1,488,913/Ha) - after adding £100/sq m for AH to the £150/sq m wider obligations (produces total s.106 contribution of £250/sq m);

£477,573 (£1,432,719/Ha) after adding £125/sq m for AH (total s.106 contribution of £275/sq m on the same basis);

£458,842 (£1,376,525/Ha) after adding £150/sq m for AH (total s.106 contribution of £300/sq m on the same basis) – an equivalent £ contribution, approximately, to land value based approach.

3.5.6 **Example 2** (Looking at 10% equivalent; for example if applicable to developments of 1-9 (net new) dwellings – taking here a 5 dwellings scheme as an example:

5 Unit scheme VL3 (market sales @ £3,000/sq m i.e. approx. £270/sq ft)

Indicative financial contribution calculation trial steps (same basis as example 1 above)**:**

1. On-site AH test at 10%

5 x 3 bed houses – RLV with 10% on-site AH (1 x 3 bed 85 sq m assumed for shared ownership).
RLV on this basis £213,010 (£1,278,059/Ha)

2. Remove the 1 affordable dwelling (convert into market = becomes 0% AH). Means 3 bed house becomes 95 sq m (from 85 sq m).

RLV improves to £328,158 (£1,968,939/Ha)

3. 10% AH equivalent x 5 units = 0.5 AH units relevant to formula.

1 x 3 bed unit @£285,000 x current 0% AH RLV% of 23% = £65,550 x 1.15 = £75,383 contribution (per whole AH unit)
x 0.5 (AH units equivalent) = £37,692 contribution (total). Again, this could be divided by (÷) the scheme floor area or part of that, in order to consider what the sum is equivalent to in £ / sq m terms expressed in various ways. For example:

÷95 sq m = £397/sq m expressed by floor area per whole equivalent AH unit
÷47.5 sq m = £794/sq m expressed by 0.5 unit floor area
÷475 sq m = **£79.35/sq m contribution across the scheme as a whole** (assuming 5 no. 95 sq m units).

4. Applying varying rate/sq m approach – example contribution levels (indications):

Alternative approach simply applying a £/sq m rate to the total floor area of the development – compared with the £/sq m indicative contributions that the land value based formula (steps 1 to 3) produces:

475 sq m @ £155/sq m (as test 1) – produces £73,625
475 sq m @ £150/sq m – produces £71,250
475 sq m @ £125/sq m – produces £59,375 contribution
475 sq m @ £100/sq m – produces £47,500 contribution
(For comparison with the land value based approach that produced contributions equivalent to circa £79/sq m - as at step 3 above - when allied to a 10% equivalent proportion)

5. Add in s.106 payment - AH contribution of (stated sums / sq m – as below) reduces the 0% on-site AH scheme RLV (as at step 2) to:

£294,272 (£1,765,630/Ha) after adding £79/sq m for AH to the £150/sq m for wider obligations (total s.106 contribution of £229/sq m)

£285,264 (£1,711,586/Ha) after adding £100/sq m for AH (total s.106 contribution of £250/sq m; same basis)

£274,541 (£1,647,247/Ha) after adding £125/sq m for AH (total s.106 contribution of £275/sq m; same basis)

£263,818 (£1,582,909/Ha) after adding £150/sq m for AH (total s.106 contribution of £300/sq m; same basis)

3.6 Affordable housing contributions summary:

3.6.1 Based on the above we can see that a 10% affordable housing equivalent based contribution using the land plot calculation is approximately equivalent to all new market dwellings contributing at about £79/sq m; based on the assumptions and indications provided by our calculations purely for this purpose of information for the Council.

3.6.2 On the same indicative and 'for information' basis, a 20% affordable housing equivalent based contribution using the land plot calculation is approximately equivalent to all new market dwellings contributing at up to about £155/sq m.

3.6.3 In practice there tends to be a number of ways of reaching and justifying particular figure(s). The 'land plot calculation' used in these comparisons is as the Council has used in previous affordable housing contribution negotiations in the Borough. As above, it is simply one method; which involves estimating the value of the land that would have been provided to accommodate the on-site affordable housing.

3.6.4 We can see that in both above examples, the financial contributions approach at these sum levels produces RLVs which are better than the RLVs where on-site affordable housing is required at the same %.

3.6.5 RLVs from the contribution route are marginally better than the on-site route at 20% affordable housing equivalent; notably better at the 10% equivalent comparison. Varying examples (and of course assumptions) would produce changes to the figures to some degree.

3.6.6 As with all other example scenarios and results (e.g. on-site affordable housing scenarios), the RLV indications can be considered in the context of the range of potential land value comparisons discussed previously. With smaller sites the RLVs in £ sums could also have an increased relevance in comparison with particular site uses (for example whether they would be sufficient to enable the purchase of former commercial premises such as a pub, yard, industrial / workshop etc, filling station and potentially existing residential). The outcomes fit with the tone of wider results in that lower values in the Borough context could be an issue with some PDL land value expectations. Mid to higher-end values are likely to be needed to support affordable housing provision in re-use of residential land scenarios in particular – to allow the likely land / property values to be replaced. This is also likely to bring a focus on the careful selection of and optimal use of such sites. The study work shows that in a range of scenarios, whilst affordable housing has a significant viability impact, the wider circumstances including nature of the site, the specific proposals and market conditions together contribute to a bigger picture whereby some schemes will inherently struggle in viability terms prior to consideration of full affordable housing or other planning obligations requirements. In our experience it is often incorrect to point only to affordable housing in cases of non-viability.

3.6.7 In our experience such financial contributions calculations are in the main a means to an end. Ultimately what tends to matter more is seeking and agreeing an appropriate, proportionate and equitable level of contribution from schemes. In our previous work as consultants for local authorities on these aspects, solutions have often been found successfully through negotiation. This has sometimes included varying the mechanism and/or figures used within a formulaic approach according to scheme specifics and viability outcomes (regardless of the particular mechanism in place). While it depends largely on the particular local authority approach, in our experience, therefore, a specified mechanism often acts simply (but positively) as a starting point or framework rather than necessarily being the precise route through which final contributions are rigidly calculated and agreed.

3.6.8 While a mechanism could be arrived at to produce affordable housing contributions at this type of level, a straight-forward contribution per sq m could also be appropriate for clarity and simplicity in our view. This could certainly be considered further – the above initial / trial thinking could be reviewed and built-on to put forward a simple contribution approach in more detailed guidance.

3.6.9 In summary on this aspect, the key ingredients of an approach that we suggest should be sought are:

- Clarity - certainty for developers, landowners, their advisers and others when looking at opportunities and exploring scheme feasibility etc.

- Simplicity – ease of explanation (e.g. guidance in SPD), calculation and understanding.

- Viability impacts not too great – meaningful contributions for the enabling fund, but striking a balance so that major negotiations are not required too frequently or as the norm.

- Therefore be regarded as targets, as for on-site affordable housing.

- Proportional contributions and effects.

- Simple to monitor and review / update

3.7 Findings Overview – Key themes

3.7.1 VL2 to VL3 values, indicative of typically lower value area of the Borough such as Hooley, Merstham, Redhill and Horley, are unlikely to support scheme viability, particularly on previously developed sites, with more than 30% affordable housing. They would be likely to support 40% affordable housing on uncomplicated greenfield land (i.e. without major abnormal costs) except for perhaps becoming marginally viable at 40% affordable housing with the full £150/sq m planning obligations level tested.

3.7.2 Higher value scenarios (such as are likely to be seen in many cases in Reigate, Banstead, Tadworth, Chipstead, Kingswood and Walton On The Hill) are likely to be able to bear greater costs and obligations – including 40% affordable housing – on a wider range of site types including land that has to be bought in at greater cost.

3.7.3 The positive impact of a 50/50 affordable housing tenure mix based on affordable rent (with shared ownership) is more positive for overall scheme viability than a tenure mix that also introduces social rent (assuming in all cases and tenure forms nil grant).

3.7.4 The impact on scheme viability of increasing planning obligations (in addition to affordable housing) can be seen but at the variation levels tested is not as great as the varied impact seen from increasing affordable housing %; or compared with the significant influence from the level of the market sales value levels available to support viability.

3.7.5 Nevertheless, it is the collective burden on schemes that counts for viability so that careful consideration will need to be given to wider planning obligations levels if optimal levels of affordable housing are to be delivered within market led developments. This will be an important factor should the Council consider implementing CIL, given the non-negotiable nature of that charge.

3.7.6 There is scope for the Council to build-in to its approach a beneficial affordable housing contributions approach for the smaller sites (in our view with flexibility over the scheme size range which might be relevant to that). It could become part of an expanded enabling approach.

3.8 Recommendations - options for Affordable Housing policy positions

A - Reduce Borough-wide affordable housing headline target from previously considered levels (i.e. 40% on sites of 15 or more dwellings) to not more than 30% on the same basis.

B - As A, but considered for certain areas of the Borough only – those being the typically lower value areas (for example Hooley, Merstham, Redhill and Horley) although the detail of this could be considered further if an option taken on by the Council. This would result in a more complex policy scenario. We also suggest that this should also be considered in the context of the frequency and type of schemes likely to be coming forward in the Borough as a whole – i.e. the roles that various development types and locations are likely to be playing in overall development plan (Core Strategy) delivery.

C – To continue with a 40% headline target aspiration but to do so through placing an increased emphasis on its application through flexible, negotiated means based on it as a starting point which may well need to be adjusted in the types of scenarios we have raised as potential viability issues.

D – A role for a financial contributions approach. In any event this should not be set at more than 10% equivalent affordable housing proportion across schemes of fewer than 5 dwellings. The approach could be extended upwards to include sites in the range, or any part of the range, 1 to 14 net new dwellings.

E – Wherever the policy %s are placed (including for financial contributions equivalents, if specified) they need to be regarded as targets which should be accompanied by a practical negotiated approach where needed; including the sharing of viability information to inform that process.

G – In our view the Council could also consider a lower on-site threshold than the 15 units previously put forward, albeit a less market friendly scenario. For example on-site affordable housing could potentially be introduced at 10 dwellings (coupled with a 20% target, as tested). In any event, however, we consistently recommend that affordable housing is not sought on-site as a regular occurrence from schemes of fewer than 5 dwellings.

H – Policy positions recommended for net application; especially on the smallest schemes.

3.8.1 The Council will need to consider how the resourcing side balances with the need to do all possible to optimise the enabling scope that might be provided through the affordable housing targets and perhaps especially the a financial contributions approach if that is to become part of policy.

3.8.2 These are put forward given the need to ensure that affordable housing targets are not set so high as to jeopardise overall development in the Borough taking into account the potential for other development costs to increase and also the potential for falling values in a further period of sustained economic uncertainty.

3.8.3 The affordable housing contributions element does have potential to provide valuable contributions to add to the Council's enabling tools through an affordable housing fund. If it decides to pursue this element, the Council will need to link it to an open strategy and records relating to the funding plans, collection and allocation of monies. In our experience local authorities are able to use these funds flexibly to support a variety of affordable housing initiatives. These might include gap funding or forward funding schemes, development on Council or RP owned land, empty properties / refurbishments, purchase of existing properties, improvement of numbers or tenure provision on s.106 quota sites, etc.

3.8.4 The recommendations are based not just on a "now" view. We consider that the above identifies scope to find the appropriate balance between affordable housing needs and scheme viability, in accordance with our wide experience of successful Core Strategy and Affordable Housing DPD evidence and EiP outcomes, as well as the detail of affordable housing and other planning policies and viability factors in operation in practice.

3.8.5 Wherever pitched, the policies will need to be accompanied and explained by appropriate wording and guidance that sets out the strategic context and nature of the targets but also recognises the role of viability in implementation.

3.8.6 Allied to this, a practical, negotiated approach will need to be acknowledged - which can be responsive to particular circumstances as those will continue to be highly variable with site specifics. The need for this type of approach is likely to be particularly important in the event of ongoing economic and market uncertainty such as we still have at the current time.

3.8.7 This viability evidence will need to be considered in conjunction with wider evidence on housing needs and the shape of site supply (type, location and size of sites coming forward).

3.8.8 Other detail will need to be considered, including on:

- Numbers rounding / numerical implications of targets etc (often best dealt with through negotiation, but as part of a package of viability influences which may also include dwelling types and mix, tenure mix, specification, timing of delivery and so on)

- Detailed application of targets – e.g. with reference to net or gross new dwelling numbers, and bearing in mind that gross application can produce significant impacts in some circumstances.

- Strategy for financial contributions, if pursued – collection, allocation and monitoring.

- Monitoring / review / updating – it will be essential to consider the monitoring and review aspects associated with these policies as part of creating a sound overall approach.

Main report text ends.
March 2012.
Appendices follow.

Appendix I - Reigate & Banstead Borough Council - Affordable Housing Viability Study Update - Residential Assumptions Sheet

Site Size Appraised	Dwelling Mix (BF = Bed Flat; BH = Bed House	Likely Density (dph)	Site Type	Percentage Affordable Housing & Tenure Mix									Construction Duration (months)
				Private Mix	20% Affordable Tenure Split 50% AR; 50% SO*	Private Mix	30% Affordable Tenure Split 50% AR; 50% SO*	30% Affordable Tenure Split 20% AR; 30% SR; 50% SO*	Private Mix	40% Affordable Tenure Split 50% AR; 50% SO*	Private Mix	40% Affordable Tenure Split 20% AR; 30% SR; 50% SO*	
Option for 1 - 14 units			PDL / Greenfield	Financial Contribution - See Report Text Chapter 3 for Detail									
10 Units (Housing)	5 x 2BH; 5 x 3BH	40	PDL / Greenfield	4 x 2BH, 4 x 3BH	1 x 3BH AR; 1 x 2BH LCHO	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6
15 Units (Housing)	5 x 2BH; 10 x 3BH	40	PDL / Greenfield	N/A	N/A	N/A	N/A	N/A	2 x 2BH, 7 x 3BH	3 x 3BH AR; 3 x 2BH LCHO	2 x 2BH, 7 x 3BH	1 x 3BH AR, 2 x 3B SR; 3 x 2BH LCHO	9
15 Units (Flats)	5 x 1BF; 10 x 2BF	75	PDL / Greenfield	N/A	N/A	3 x 1BF; 7 x 2BF	1 x 1BF, 2 x 2BF AR; 1 x 1BF, 1 x 2BF LCHO	1 x 1BF AR, 1 x 2BF SR; 1 x 1BF, 2 x 2BF LCHO	3 x 1BF; 6 x 2BF	1 x 1BF, 2 x 2BF AR; 1 x 1BF, 2 x 2BF LCHO	3 x 1BF; 6 x 2BF	1 x 1BF AR, 2 x 2BF SR; 1 x 1BF, 2 x 2BF LCHO	9
25 Units (Housing)	6 x 2BH; 13 x 3BH; 6 x 4BH	40	PDL / Greenfield	4 x 2BH; 11 x 3BH; 5 x 4BH	2 x 3BH, 1 x 4BH AR; 2 x 2BH LCHO	1 x 2BH; 11 x 3BH; 5 x 4BH	1 x 2BH, 2 x 3BH, 1 x 4BH AR; 4 x 2BH LCHO	1 x 2BH, 1 x 3BH AR, 1 x 3BH, 1 x 4BH AR; 4 x 2BH LCHO	1 x 2BH; 9 x 3BH; 5 x 4BH	4 x 3BH, 1 x 4BH AR; 5 x 2BH LCHO	1 x 2BH; 9 x 3BH; 5 x 4BH	2 x 3BH AR, 2 x 3BH, 1 x 4BH SR; 5 x 2BH LCHO	12
25 Units (Flats)	10 x 1BF; 15 x 2BF	75	PDL / Greenfield	N/A	N/A	N/A	N/A	N/A	6 x 1BF; 9 x 2BF	2 x 1BF, 3 x 2BF AR; 2 x 1BF, 3 x 2BF LCHO	6 x 1BF; 9 x 2BF	2 x 1BF AR, 3 x 2BF SR; 2 x 1BF, 3 x 2BF LCHO	12
100 Units (Flats)	30 x 1BF; 70 x 2BF	75	PDL	N/A	N/A	21 x 1BF; 49 x 2BF	5 x 1BF; 10 x 2BF AR; 4 x 1BF; 11 x 2BF SO	2 x 1BF, 4 x 2BF AR; 3 x 1BF, 6 x 2BF SR; 4 x 1BF; 11 x 2BF SO	N/A	N/A	N/A	N/A	24

*Policy position. Actual percentage will vary due to numbers rounding.

AR = Affordable Rent; SR = Socal Rent; SO = Shared Ownership (intermediate tenure)

Unit Sizes (sq m)	Affordable	Private
1-bed flat	50	45
2-bed flat	67	60
2-bed house	75	75
3-bed house	85	95
4-bed house	110	125

Market Value, dwelling type & location - indications	Value Level 1**	Value Level 2	Value Level 3	Value Level 4	Value Level 5	Value Level 6
		Hooley, Merstham, Redhill, Horley		Reigate, Tadworth, Banstead, Chipstead, Kingswood		
1-bed flat	£99,000	£117,000	£135,000	£153,000	£171,000	£189,000
2-bed flat	£132,000	£156,000	£180,000	£204,000	£228,000	£252,000
2-bed house	£165,000	£195,000	£225,000	£255,000	£285,000	£315,000
3-bed house	£209,000	£247,000	£285,000	£323,000	£361,000	£399,000
4-bed house	£275,000	£325,000	£375,000	£425,000	£475,000	£525,000
Value (£ / sq m)	£2,200	£2,600	£3,000	£3,400	£3,800	£4,200

** Sensitivity test - beneath typical current new build values

Development Costs		
RESIDENTIAL BUILDING, MARKETING & S106 COSTS		
Build Costs Flats (Generally) (£/sq m)[1]	£1,248	
Build Costs Houses (Mixed Developments) (£/sq m)[1]	£1,161	
Survey Costs (£ / unit)	£500	
Contingencies (% of build cost)	5%	
Professional & Other Fees (% of build cost)	12.5%	
Sustainable Design / Construction Standards (% addition to build cost)[2] - Code Level 4	4%	
Lifetime Homes / Other (£ per unit)[3]	£575	
Planning obligations /non-CIL costs (£ per unit)	£150/sq m	(Applied to all units) - Sample also tested at £100/sq m and £125/sq m (all units)
Marketing & Sales Costs (% of GDV)	3%	
Legal Fees on sale (£ per unit)	£750	
DEVELOPER'S RETURN FOR RISK AND PROFIT		
Open Market Housing Profit (% of GDV)	17.5%	
Affordable Housing Profit (% of GDV)	6.0%	
FINANCE & ACQUISITION COSTS		
Arrangement Fee - (% of loan)	1.0%	
Agents Fees (% of site value)	1.00%	
Legal Fees (% of site value)	0.75%	
Stamp Duty (% of site value)	0% to 5%	
Finance Rate - Build (%)	6.0%	
Finance Rate - Land (%)	6.0%	

Notes:

[1] Build cost taken as "Median" figure from BCIS for that build type - e.g. flats ; houses storey heights etc and then rounded. Median figure gives a more appropriate figure than the Mean as it is not so influenced by particular figures that can distort the mean on small sample sizes. BCIS data: Flats (Generally): £1,048/m² GIA; Houses Mixed Development: £917/m² GIA.
Build costs taken from 3rd Quarter 2011 and rebased to Reigate & Banstead BC Location Factor of 114 without externals, contingencies or fees
Adjusted build costs in table above typically include addition of externals at 21% for houses; 14% for flats.

[2] The above costs are based on the Cost of Building to the Code for Sustainable Homes - Updated Cost Review (August 2011) cost data assuming Building Regs 2010 baseline.

[3] Allowance to achieve Lifetime Homes Standards acknowledged within report as potential variable cost issue (depending on design etc).There have been a number of studies into the costs and benefits of building to the Lifetime Homes standard. These have concluded that the costs range depending on: the experience of the home designer and builder; the size of the dwelling (it is generally easier to design larger dwellings that incorporate Lifetime Homes standards cost effectively than smaller ones); whether Lifetime Homes design criteria were designed into developments from the outset or whether a standard house type is modified (it is generally more cost effective to incorporate the standards at the design stage rather than modify standard designs); and any analysis of costs is a 'snapshot' in time. The net cost of implementing Lifetime Homes will diminish if / as the concept is more widely adopted and as design standards, and market expectations, rise (www.lifetimehomes.org.uk).

Table 1: Residual Land Value Base Results
Planning Obligations Level £150/sq m

			Residual Land Value (£)					Residual Land Value (£/Ha) - Greenfield					Residual Land Value (£/Ha) - PDL				
			50% AR / 50% SO			20%AR / 30% SR / 50% SO		50% AR / 50% SO			20%AR / 30% SR / 50% SO		50% AR / 50% SO			20%AR / 30% SR / 50% SO	
Development Scenario	Value Level	Site Density (dph)	Residual Land Value - 20% Affordable	Residual Land Value - 30% Affordable	Residual Land Value - 40% Affordable	Residual Land Value - 30% Affordable	Residual Land Value - 40% Affordable	Residual Land Value - 20% Affordable	Residual Land Value - 30% Affordable	Residual Land Value - 40% Affordable	Residual Land Value - 30% Affordable	Residual Land Value - 40% Affordable	Residual Land Value - 20% Affordable	Residual Land Value - 30% Affordable	Residual Land Value - 40% Affordable	Residual Land Value - 30% Affordable	Residual Land Value - 40% Affordable
10 Houses	1	40	£2,426	N/A	N/A	N/A	N/A	£9,703	N/A	N/A	N/A	N/A	£9,703	N/A	N/A	N/A	N/A
	2	40	£221,640	N/A	N/A	N/A	N/A	£886,562	N/A	N/A	N/A	N/A	£886,562	N/A	N/A	N/A	N/A
	3	40	£440,855	N/A	N/A	N/A	N/A	£1,763,421	N/A	N/A	N/A	N/A	£1,763,421	N/A	N/A	N/A	N/A
	4	40	£632,255	N/A	N/A	N/A	N/A	£2,529,021	N/A	N/A	N/A	N/A	£2,529,021	N/A	N/A	N/A	N/A
	5	40	£834,161	N/A	N/A	N/A	N/A	£3,336,643	N/A	N/A	N/A	N/A	£3,336,643	N/A	N/A	N/A	N/A
	6	40	£1,036,066	N/A	N/A	N/A	N/A	£4,144,265	N/A	N/A	N/A	N/A	£4,144,265	N/A	N/A	N/A	N/A
15 Houses	1	40	N/A	N/A	-£175,744	N/A	-£209,753	N/A	N/A	-£468,652	N/A	-£559,342	N/A	N/A	-£468,652	N/A	-£559,342
	2	40	N/A	N/A	£152,106	N/A	£116,981	N/A	N/A	£405,617	N/A	£311,949	N/A	N/A	£405,617	N/A	£311,949
	3	40	N/A	N/A	£446,540	N/A	£417,273	N/A	N/A	£1,190,772	N/A	£1,112,727	N/A	N/A	£1,190,772	N/A	£1,112,727
	4	40	N/A	N/A	£709,136	N/A	£669,604	N/A	N/A	£1,891,029	N/A	£1,785,610	N/A	N/A	£1,891,029	N/A	£1,785,610
	5	40	N/A	N/A	£971,732	N/A	£932,200	N/A	N/A	£2,591,286	N/A	£2,485,867	N/A	N/A	£2,591,286	N/A	£2,485,867
	6	40	N/A	N/A	£1,234,329	N/A	£1,194,796	N/A	N/A	£3,291,543	N/A	£3,186,124	N/A	N/A	£3,291,543	N/A	£3,186,124
15 Flats	1	75	N/A	-£215,643	-£252,000	-£208,941	-£278,806	N/A	-£1,078,213	-£1,259,998	-£1,044,704	-£1,394,032	N/A	-£1,078,213	-£1,259,998	-£1,044,704	-£1,394,032
	2	75	N/A	£14,287	-£24,451	£21,209	-£56,131	N/A	£71,437	-£122,253	£106,045	-£280,657	N/A	£71,437	-£122,253	£106,045	-£280,657
	3	75	N/A	£217,033	£177,495	£225,019	£145,549	N/A	£1,085,164	£887,477	£1,125,097	£727,743	N/A	£1,085,164	£887,477	£1,125,097	£727,743
	4	75	N/A	£393,458	£350,039	£414,223	£318,092	N/A	£1,967,290	£1,750,194	£2,071,117	£1,590,460	N/A	£1,967,290	£1,750,194	£2,071,117	£1,590,460
	5	75	N/A	£555,863	£509,726	£588,582	£478,565	N/A	£2,779,317	£2,548,629	£2,942,911	£2,392,826	N/A	£2,779,317	£2,548,629	£2,942,911	£2,392,826
	6	75	N/A	£727,948	£678,024	£773,131	£646,864	N/A	£3,639,742	£3,390,122	£3,865,657	£3,234,318	N/A	£3,639,742	£3,390,122	£3,865,657	£3,234,318
25 Houses	1	40	-£32,752	-£178,329	-£302,613	-£215,330	-£356,613	-£52,404	-£285,327	-£484,180	-£344,528	-£570,581	N/A	-£285,327	-£484,180	-£344,528	-£570,581
	2	40	£560,328	£427,278	£296,205	£389,750	£241,434	£896,525	£683,645	£473,929	£623,600	£386,295	N/A	£683,645	£473,929	£623,600	£386,295
	3	40	£1,148,051	£982,009	£830,476	£939,807	£768,884	£1,836,882	£1,571,214	£1,328,761	£1,503,691	£1,230,214	N/A	£1,571,214	£1,328,761	£1,503,691	£1,230,214
	4	40	£1,698,819	£1,500,372	£1,312,047	£1,458,171	£1,250,455	£2,718,110	£2,400,596	£2,099,275	£2,333,073	£2,000,728	N/A	£2,400,596	£2,099,275	£2,333,073	£2,000,728
	5	40	£2,249,587	£2,018,736	£1,793,618	£1,976,534	£1,732,026	£3,599,339	£3,229,977	£2,869,788	£3,162,454	£2,771,241	N/A	£3,229,977	£2,869,788	£3,162,454	£2,771,241
	6	40	£2,800,354	£2,537,099	£2,275,189	£2,494,898	£2,213,597	£4,480,567	£4,059,359	£3,640,302	£3,991,836	£3,541,755	N/A	£4,059,359	£3,640,302	£3,991,836	£3,541,755
25 Flats	1	75	N/A	N/A	-£431,857	N/A	-£472,057	N/A	N/A	-£1,295,570	N/A	-£1,416,171	N/A	N/A	-£1,295,570	N/A	-£1,416,171
	2	75	N/A	N/A	-£59,640	N/A	-£107,149	N/A	N/A	-£178,919	N/A	-£321,448	N/A	N/A	-£178,919	N/A	-£321,448
	3	75	N/A	N/A	£268,261	N/A	£221,215	N/A	N/A	£804,784	N/A	£663,644	N/A	N/A	£804,784	N/A	£663,644
	4	75	N/A	N/A	£531,581	N/A	£485,729	N/A	N/A	£1,594,742	N/A	£1,457,186	N/A	N/A	£1,594,742	N/A	£1,457,186
	5	75	N/A	N/A	£801,714	N/A	£755,862	N/A	N/A	£2,405,142	N/A	£2,267,586	N/A	N/A	£2,405,142	N/A	£2,267,586
	6	75	N/A	N/A	£1,071,847	N/A	£1,025,995	N/A	N/A	£3,215,541	N/A	£3,077,986	N/A	N/A	£3,215,541	N/A	£3,077,986
100 Flats	1	40	N/A	-£1,628,432	N/A	-£1,738,724	N/A	N/A	-£651,373	N/A	-£695,489	N/A	N/A	-£651,373	N/A	-£695,489	N/A
	2	40	N/A	-£41,165	N/A	-£171,510	N/A	N/A	-£16,466	N/A	-£68,604	N/A	N/A	-£16,466	N/A	-£68,604	N/A
	3	40	N/A	£1,194,170	N/A	£1,078,007	N/A	N/A	£477,668	N/A	£431,203	N/A	N/A	£477,668	N/A	£431,203	N/A
	4	40	N/A	£2,303,972	N/A	£2,187,808	N/A	N/A	£921,589	N/A	£875,123	N/A	N/A	£921,589	N/A	£875,123	N/A
	5	40	N/A	£3,413,773	N/A	£3,297,610	N/A	N/A	£1,365,509	N/A	£1,319,044	N/A	N/A	£1,365,509	N/A	£1,319,044	N/A
	6	40	N/A	£4,523,575	N/A	£4,407,411	N/A	N/A	£1,809,430	N/A	£1,762,965	N/A	N/A	£1,809,430	N/A	£1,762,965	N/A

Base appraisals - 17.5% developer's profit; standard build costs; planning obligations of £150/m²
For Financial Contributions on Sites 1-14 please see Report Text Chapter 3.

AH = Affordable Housing
AR = Affordable Rent; SR = Social Rent; SO = Shared Ownership (Intermediate)

Greenfield Key:
- RLV Negative
- RLV between zero and assumed lower agricultural value with premium (c£0 - £250,000/ha)
- RLV between assumed lower & upper agricultural value with premium (c£250,000 - £500,000/ha)
- RLV above agricultural value with premium (>c£500,000/ha)

PDL Key:
- RLV Negative
- RLV between zero and assumed lower PDL value (c£0 - £1,500,000/ha)
- RLV between PDL range c£1,500,000 - £1,800,000/ha
- RLV between assumed PDL range (£1,800,000 - £3,000,000/ha)
- RLV in excess of £3,000,000/ha

Source: Dixon Searle LLP (December 2011)

Table 2: Residual Land Value Results
Sensitivity Analysis - 25 Unit Housing Scheme - Variable Planning Obligations & Affordable Housing Proportion

Development Scenario		Value Level	Site Density (dph)	Residual Land Value (£)	Residual Land Value (£/Ha) - Greenfield	Residual Land Value (£/Ha) - PDL
£100/m² Planning Obligations	25 Houses (20% AH)	1	40	£77,526	£124,041	£124,041
		2	40	£663,279	£1,061,247	£1,061,247
		3	40	£1,251,002	£2,001,604	£2,001,604
		4	40	£1,801,770	£2,882,832	£2,882,832
		5	40	£2,352,538	£3,764,061	£3,764,061
		6	40	£2,903,306	£4,645,289	£4,645,289
	25 Houses (30% AH)	1	40	-£55,244	-£88,391	-£88,391
		2	40	£519,376	£831,002	£831,002
		3	40	£1,084,960	£1,735,936	£1,735,936
		4	40	£1,603,324	£2,565,318	£2,565,318
		5	40	£2,121,687	£3,394,700	£3,394,700
		6	40	£2,640,051	£4,224,081	£4,224,081
	25 Houses (40% AH)	1	40	-£180,558	-£288,892	-£288,892
		2	40	£400,956	£641,530	£641,530
		3	40	£932,565	£1,492,105	£1,492,105
		4	40	£1,414,136	£2,262,618	£2,262,618
		5	40	£1,895,708	£3,033,132	£3,033,132
		6	40	£2,377,279	£3,803,646	£3,803,646
£125/m² Planning Obligations	25 Houses (20% AH)	1	40	£24,708	£39,534	£39,534
		2	40	£611,804	£978,886	£978,886
		3	40	£1,199,527	£1,919,243	£1,919,243
		4	40	£1,750,295	£2,800,471	£2,800,471
		5	40	£2,301,062	£3,681,700	£3,681,700
		6	40	£2,851,830	£4,562,928	£4,562,928
	25 Houses (30% AH)	1	40	-£116,787	-£186,859	-£186,859
		2	40	£467,901	£748,641	£748,641
		3	40	£1,033,485	£1,653,575	£1,653,575
		4	40	£1,551,848	£2,482,957	£2,482,957
		5	40	£2,070,212	£3,312,339	£3,312,339
		6	40	£2,588,575	£4,141,720	£4,141,720
	25 Houses (40% AH)	1	40	-£241,585	-£386,536	-£386,536
		2	40	£348,581	£557,729	£557,729
		3	40	£881,521	£1,410,433	£1,410,433
		4	40	£1,363,092	£2,180,947	£2,180,947
		5	40	£1,844,663	£2,951,460	£2,951,460
		6	40	£2,326,234	£3,721,974	£3,721,974
£150/m² Planning Obligations	25 Houses (20% AH)	1	40	-£32,752	-£52,404	-£52,404
		2	40	£560,328	£896,525	£896,525
		3	40	£1,148,051	£1,836,882	£1,836,882
		4	40	£1,698,819	£2,718,110	£2,718,110
		5	40	£2,249,587	£3,599,339	£3,599,339
		6	40	£2,800,354	£4,480,567	£4,480,567
	25 Houses (30% AH)	1	40	-£178,329	-£285,327	-£285,327
		2	40	£427,278	£683,645	£683,645
		3	40	£982,009	£1,571,214	£1,571,214
		4	40	£1,500,372	£2,400,596	£2,400,596
		5	40	£2,018,736	£3,229,977	£3,229,977
		6	40	£2,537,099	£4,059,359	£4,059,359
	25 Houses (40% AH)	1	40	-£302,613	-£484,180	-£484,180
		2	40	£296,205	£473,929	£473,929
		3	40	£830,476	£1,328,761	£1,328,761
		4	40	£1,312,047	£2,099,275	£2,099,275
		5	40	£1,793,618	£2,869,788	£2,869,788
		6	40	£2,275,189	£3,640,302	£3,640,302

Greenfield Key:

Source: Dixon Searle LLP (December 2011)

AH = Affordable Housing

- RLV Negative
- RLV between zero and assumed agricultural value with premium (c£0 - £250,000/ha)
- RLV between assumed lower & upper agricultural value with premium (c£250,000 - £500,000/ha)
- RLV above agricultural value with premium (>c£500,000/ha)

PDL Key:

- RLV Negative
- RLV between zero and assumed lower PDL value (c£0 - £1,500,000/ha)
- RLV between PDL range c£1,500,000 - £1,800,000/ha
- RLV between assumed PDL range (£1,800,000 - £3,000,000/ha)
- RLV in excess of £3,000,000/ha

Table 3: 25 Unit Housing Scheme - Varying Affordable Housing Proportion
& Planning Obligations Level (£/sq m) - PDL

VL1			
AH %	Residual Land Value - £100/m² Planning Obligations	Residual Land Value - £125/m² Planning Obligations	Residual Land Value - £150/m² Planning Obligations
20%	£124,041	£39,534	-£52,404
30%	-£88,391	-£186,859	-£285,327
40%	-£288,892	-£386,536	-£484,180

VL2			
AH %	Residual Land Value - £100/m² Planning Obligations	Residual Land Value - £125/m² Planning Obligations	Residual Land Value - £150/m² Planning Obligations
20%	£1,061,247	£978,886	£896,525
30%	£831,002	£748,641	£683,645
40%	£641,530	£557,729	£473,929

VL3			
AH %	Residual Land Value - £100/m² Planning Obligations	Residual Land Value - £125/m² Planning Obligations	Residual Land Value - £150/m² Planning Obligations
20%	£2,001,604	£1,919,243	£1,836,882
30%	£1,735,936	£1,653,575	£1,571,214
40%	£1,492,105	£1,410,433	£1,328,761

VL4			
AH %	Residual Land Value - £100/m² Planning Obligations	Residual Land Value - £125/m² Planning Obligations	Residual Land Value - £150/m² Planning Obligations
20%	£2,882,832	£2,800,471	£2,718,110
30%	£2,565,318	£2,482,957	£2,400,596
40%	£2,262,618	£2,180,947	£2,099,275

VL5			
AH %	Residual Land Value - £100/m² Planning Obligations	Residual Land Value - £125/m² Planning Obligations	Residual Land Value - £150/m² Planning Obligations
20%	£3,764,061	£3,681,700	£3,599,339
30%	£3,394,700	£3,312,339	£3,229,977
40%	£3,033,132	£2,951,460	£2,869,788

VL6			
AH %	Residual Land Value - £100/m² Planning Obligations	Residual Land Value - £125/m² Planning Obligations	Residual Land Value - £150/m² Planning Obligations
20%	£4,645,289	£4,562,928	£4,480,567
30%	£4,224,081	£4,141,720	£4,059,359
40%	£3,803,646	£3,721,974	£3,640,302

Table 4: 25 Unit Housing Scheme - Varying Affordable Housing Proportion & Planning Obligations Level (£/sq m) - Greenfield

VL1			
AH %	Residual Land Value - £100/m² Planning Obligations	Residual Land Value - £125/m² Planning Obligations	Residual Land Value - £150/m² Planning Obligations
20%	£124,041	£39,534	-£52,404
30%	-£88,391	-£186,859	-£285,327
40%	-£288,892	-£386,536	-£484,180

VL4			
AH %	Residual Land Value - £100/m² Planning Obligations	Residual Land Value - £125/m² Planning Obligations	Residual Land Value - £150/m² Planning Obligations
20%	£2,882,832	£2,800,471	£2,718,110
30%	£2,565,318	£2,482,957	£2,400,596
40%	£2,262,618	£2,180,947	£2,099,275

VL2			
AH %	Residual Land Value - £100/m² Planning Obligations	Residual Land Value - £125/m² Planning Obligations	Residual Land Value - £150/m² Planning Obligations
20%	£1,061,247	£978,886	£896,525
30%	£831,002	£748,641	£683,645
40%	£641,530	£557,729	£473,929

VL5			
AH %	Residual Land Value - £100/m² Planning Obligations	Residual Land Value - £125/m² Planning Obligations	Residual Land Value - £150/m² Planning Obligations
20%	£3,764,061	£3,681,700	£3,599,339
30%	£3,394,700	£3,312,339	£3,229,977
40%	£3,033,132	£2,951,460	£2,869,788

VL3			
AH %	Residual Land Value - £100/m² Planning Obligations	Residual Land Value - £125/m² Planning Obligations	Residual Land Value - £150/m² Planning Obligations
20%	£2,001,604	£1,919,243	£1,836,882
30%	£1,735,936	£1,653,575	£1,571,214
40%	£1,492,105	£1,410,433	£1,328,761

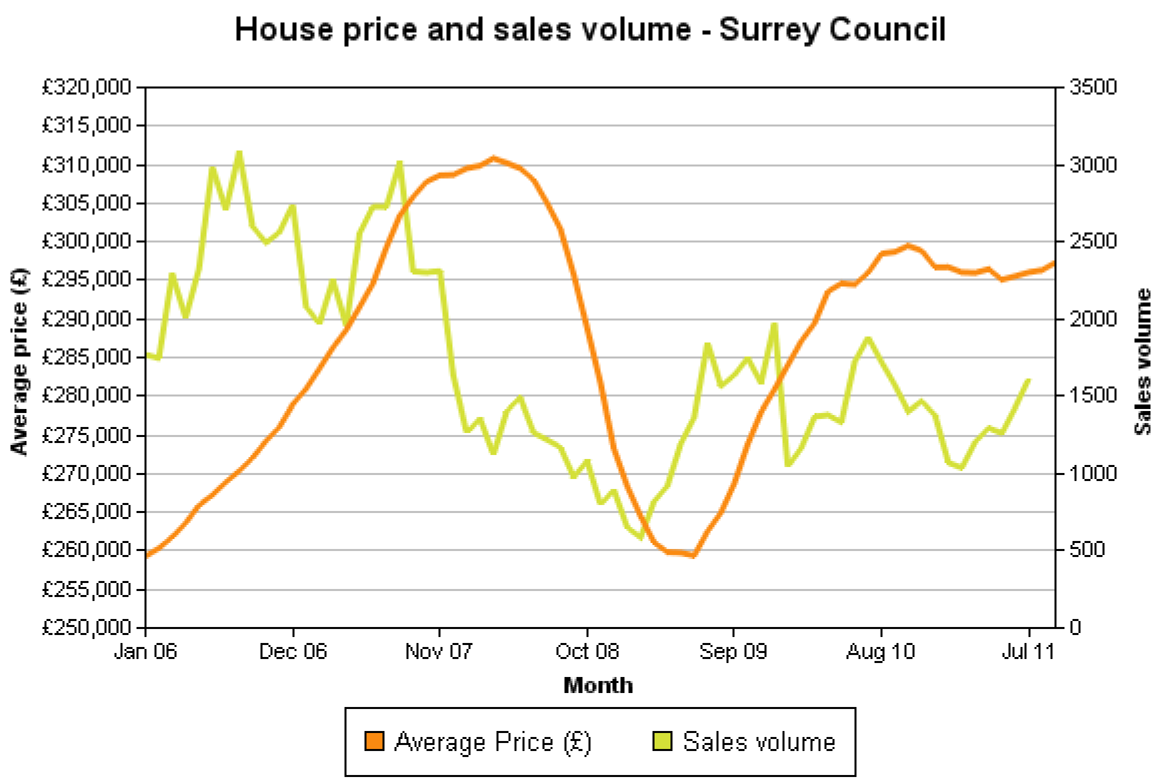
VL6			
AH %	Residual Land Value - £100/m² Planning Obligations	Residual Land Value - £125/m² Planning Obligations	Residual Land Value - £150/m² Planning Obligations
20%	£4,645,289	£4,562,928	£4,480,567
30%	£4,224,081	£4,141,720	£4,059,359
40%	£3,803,646	£3,721,974	£3,640,302

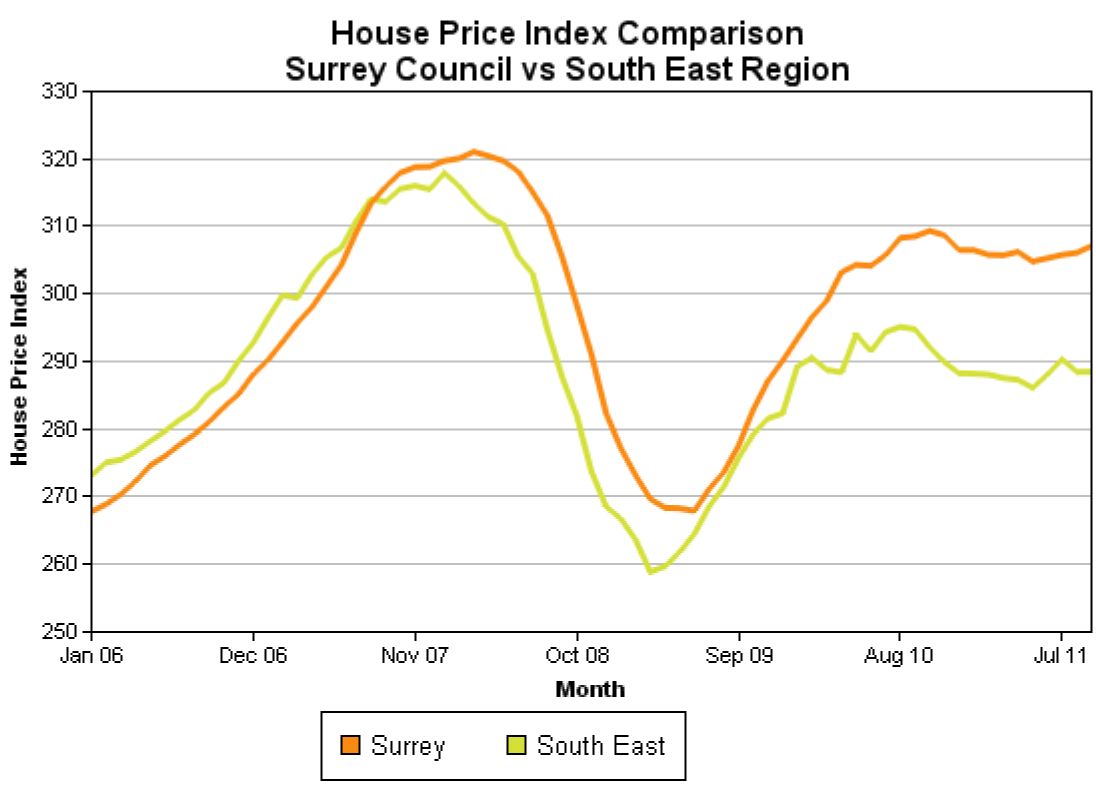
Appendix III

Background data – research (Affordable Housing Viability Update 2011/12)

In this Appendix first we provide house price trends information and updated values research relevant to the study. Towards the end of the Appendix, wider economic and housing market context information is outlined. In summary, it appears that while the economic backdrop remains highly uncertain principally due to influences outside the UK, while overall there are signs of a still uncertain housing market, in Spring 2012 those are mixed with some signals emerging of a potentially more stable housing market scenario. Clearly this picture could well change and only time will tell how this develops.

House prices trends and local values research – see the following pages.





Source of above graphs – Land Registry House Prices Index

House Price Index Report - Surrey Council vs South East Region

(January 2006 - September 2011)

Source: Land Registry House Price Index (November 2011)

	Surrey Council		South East Region	
Month	Index	Average Price (£)	Index	Average Price (£)
January 2006	267.8	259,290	273.2	196,286
February 2006	268.9	260,348	275.1	197,642
March 2006	270.4	261,770	275.5	197,949
April 2006	272.3	263,612	276.7	198,804
May 2006	274.7	265,917	278.3	199,910
June 2006	276.1	267,244	279.7	200,965
July 2006	277.8	268,893	281.4	202,145
August 2006	279.3	270,358	282.8	203,181
September 2006	281	272,041	285.4	205,014
October 2006	283.3	274,224	286.8	206,042
November 2006 (1)	285.1	276,036	290.1	208,399
December 2006	288.1	278,918	292.8	210,337
January 2007	290.2	280,942	296.5	212,988
February 2007	292.9	283,557	299.8	215,412
March 2007	295.7	286,263	299.4	215,099
April 2007	298.1	288,564	302.9	217,612
May 2007	301.2	291,545	305.5	219,476
June 2007	304.3	294,612	306.8	220,434

July 2007	309.1	299,258	310.8	223,302
August 2007	313.4	303,391	314.1	225,634
September 2007	315.9	305,819	313.7	225,344
October 2007	317.9	307,792	315.6	226,719
November 2007	318.8	308,611	316	227,047
December 2007	318.9	308,678	315.5	226,669
January 2008	319.7	309,506	317.9	228,405
February 2008	320.1	309,864	316	227,017
March 2008 (2)	321.1	310,808	313.4	225,148
April 2008	320.4	310,210	311.4	223,724
May 2008	319.7	309,513	310.4	222,978
June 2008	318.2	308,043	305.6	219,581
July 2008	315.1	305,040	303	217,679
August 2008	311.6	301,689	294.7	211,753
September 2008	305.5	295,752	287.7	206,701
October 2008	298.4	288,848	282	202,579
November 2008	291	281,722	273.8	196,684
December 2008	282.3	273,262	268.6	192,938
January 2009	277.2	268,369	266.8	191,663
February 2009	273.2	264,484	263.7	189,424
March 2009	269.7	261,090	258.9	185,999
April 2009	268.4	259,836	259.7	186,593
May 2009	268.3	259,744	261.8	188,105

June 2009 (3)	267.9	259,376	264.6	190,063
July 2009 (4)	271.2	262,526	268.6	192,956
August 2009	273.7	264,951	271.5	195,070
September 2009	277.6	268,734	275.8	198,123
October 2009	282.9	273,823	279.3	200,635
November 2009	287.1	277,957	281.6	202,283
December 2009	290.1	280,853	282.3	202,814
January 2010	293.4	284,020	289.3	207,836
February 2010	296.6	287,108	290.5	208,731
March 2010	299	289,464	288.8	207,457
April 2010	303.2	293,556	288.4	207,186
May 2010	304.3	294,593	294	211,229
June 2010	304.2	294,467	291.5	209,418
July 2010	305.7	295,969	294.4	211,482
August 2010	308.3	298,463	295.1	212,030
September 2010	308.5	298,688	294.8	211,787
October 2010 (5)	309.3	299,472	292.1	209,870
November 2010	308.7	298,849	289.9	208,252
December 2010	306.5	296,707	288.3	207,093
January 2011	306.5	296,707	288.2	207,045
February 2011	305.8	296,040	288.1	206,953
March 2011	305.7	295,975	287.5	206,582
April 2011	306.2	296,448	287.3	206,393
May 2011	304.8	295,085	286.1	205,545

June 2011	305.3	295,545	288	206,936
July 2011	305.8	296,032	290.3	208,585
August 2011	306.1	296,327	288.5	207,245
September 2011 (6)	307.1	297,303	288.5	207,244

Source: Land Registry House Price Index (November 2011)

Key to high-lighting/notes in above Land Registry Index listing (calculations by DSP):

(1) November 2006: Research for August 2007 Study (index 285.1; ave. price £276,036)
(2) March 2008: Pre-recession market peak locally (index 321.1; ave. price £310,808)
(3) June 2009: Market values had fallen to trough (index 267.9; ave. price £259,376)
(4) July 2009: Research for October 2009 Study update (index 271.2; ave. price £262,526)
(5) October 2010: Level of recovery - more recent high (index 309.3; ave. price £299,472)
(6) September 2011: Latest available data – current review (index 307.1; ave. price £297,303)

Month	Land Registry Index	Index change since Nov 06
November 2006 (1)	285.1	-
March 2008 (2)	321.1	36.0
June 2009 (3)	267.9	-17.2
July 2009 (4)	271.2	-13.9
October 2010 (5)	309.3	24.2
September 2011 (6)	307.1	22.0

CLG Median House Prices by District – Reigate & Banstead – Quarter (Q) 1 2009 to Q3 2011

(£K = £000) (Figures sourced - www.communities.gov.uk – local level house prices; Land Registry data based)

Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
£215k	£245k	£257k	£250k	£275k	£282k	£295k	£285k	£273k	£264k	£286k

Reigate & Banstead BC - Average Current and Sold House Prices (2004 – 2011)

Source: Zoopla.co.uk (downloaded November 2011)

Banstead

Average current value estimate: £412,803
Average current asking price: £459,565 (48 properties)

Property type	Ave. current value	Ave. £ per sq ft.	Ave. No. beds	Avg. £ paid (last 12m)
Detached	£575,443	£320	4.0	£562,513
Semi-detached	£371,347	£318	3.3	£355,557
Terraced	£298,737	£286	3.0	£289,768
Flats	£231,749	£330	2.0	£219,456

Period	Average Price Paid	No. of sales
Last year	£309,657	213
Last 3 years	£380,106	708
Last 5 years	£369,157	1,486
Last 7 years	£352,572	2,303

Chipstead

Average current value estimate: £630,623
Average current asking price: £728,145 (33 properties)

Property type	Ave. current value	Ave. £ per sq ft.	Ave. No. beds	Avg. £ paid (last 12m)
Detached	£728,241	£335	4.2	£693,079
Semi-detached	£460,925	£313	3.1	£360,000
Terraced	£416,723	£374	3.2	£640,000
Flats	£230,886	£295	2.0	£200,000

Period	Average Price Paid	No. of sales
Last year	£595,740	25
Last 3 years	£567,522	84
Last 5 years	£554,638	161
Last 7 years	£536,286	278

Source: Zoopla.co.uk

Hooley

Average current value estimate: £238,098
Average current asking price: £219,689 (9 properties)

Property type	Ave. current value	Ave. £ per sq ft.	Ave. No. beds	Ave. £ paid (last 12m)
Detached	£363,649	No data	3.3	No data
Semi-detached	£231,904	No data	2.5	£126,250
Terraced	£179,185	No data	No data	No data
Flats	£181,385	No data	1.9	£146,500

Period	Average Price Paid	No. of sales
Last year	£133,000	3
Last 3 years	£174,142	7
Last 5 years	£206,166	34
Last 7 years	£197,927	53

Horley

Average current value estimate: £278,701
Average current asking price: £309,701 (189 properties)

Property type	Ave. current value	Ave. £ per sq ft.	Ave. No. beds	Ave. £ paid (last 12m)
Detached	£399,592	£279	3.8	£403,466
Semi-detached	£266,070	£268	3.0	£256,302
Terraced	£215,732	£241	2.6	£209,774
Flats	£153,329	£245	1.7	£142,600

Period	Average Price Paid	No. of sales
Last year	£274,480	356
Last 3 years	£263,398	1,139
Last 5 years	£268,888	2,333
Last 7 years	£255,618	3,586

Source: Zoopla.co.uk

Kingswood

Average current value estimate: £1,068,531
Average current asking price: £1,683,008 (48 properties)

Property type	Ave. current value	Ave. £ per sq ft.	Ave. No. beds	Ave. £ paid (last 12m)
Detached	£1,202,587	£367	4.8	£1,369,167
Semi-detached	£517,869	No data	3.5	£564,000
Terraced	£468,346	No data	No data	£377,500
Flats	£533,537	£394	2.3	£352,333

Period	Average Price Paid	No. of sales
Last year	£1,260,307	44
Last 3 years	£1,174,698	118
Last 5 years	£1,008,059	232
Last 7 years	£939,529	366

Merstham

Average current value estimate: £286,462
Average current asking price: £274,039 (57 properties)

Property type	Ave. current value	Ave. £ per sq ft.	Ave. No. beds	Ave. £ paid (last 12m)
Detached	£502,835	£304	3.9	£534,341
Semi-detached	£260,745	£258	3.1	£254,940
Terraced	£222,240	£223	2.8	£204,969
Flats	£173,016	£243	1.9	£155,875

Period	Average Price Paid	No. of sales
Last year	£271,646	73
Last 3 years	£253,416	250
Last 5 years	£258,176	509
Last 7 years	£253,636	841

Source: Zoopla.co.uk

Redhill

Average current value estimate: £287,476
Average current asking price: £265,236 (395 properties)

Property type	Ave. current value	Ave. £ per sq ft.	Ave. No. beds	Ave. £ paid (last 12m)
Detached	£488,733	£290	3.9	£450,427
Semi-detached	£289,991	£277	3.1	£282,769
Terraced	£262,247	£274	2.9	£244,533
Flats	£176,310	£260	1.7	£159,075

Period	Average Price Paid	No. of sales
Last year	£270,721	563
Last 3 years	£259,975	1,925
Last 5 years	£263,603	4,146
Last 7 years	£253,922	6,394

Reigate

Average current value estimate: £419,290
Average current asking price: £376,302 (142 properties)

Property type	Ave. current value	Ave. £ per sq ft.	Ave. No. beds	Ave. £ paid (last 12m)
Detached	£695,320	£374	4.2	£692,997
Semi-detached	£357,667	£341	3.2	£359,128
Terraced	£311,575	£340	2.9	£333,162
Flats	£232,204	£287	1.9	£226,204

Period	Average Price Paid	No. of sales
Last year	£411,303	351
Last 3 years	£410,678	1,120
Last 5 years	£390,847	2,203
Last 7 years	£369,470	3,327

Source: Zoopla.co.uk

Tadworth

Average current value estimate: £519,067
Average current asking price: £907,235 (140 properties)

Property type	Ave. current value	Ave. £ per sq ft.	Ave. No. beds	Ave. £ paid (last 12m)
Detached	£805,102	£351	4.3	£923,665
Semi-detached	£352,430	£289	3.2	£361,173
Terraced	£270,716	£256	2.6	£255,858
Flats	£268,204	£303	1.9	£213,400

Period	Average Price Paid	No. of sales
Last year	£546,513	217
Last 3 years	£489,671	717
Last 5 years	£458,064	1,456
Last 7 years	£435,471	2,302

Walton on the Hill

Average current value estimate: £552,474
Average current asking price: £1,090,473 (13 properties)

Property type	Ave. current value	Ave. £ per sq ft.	Ave. No. beds	Ave. £ paid (last 12m)
Detached	£955,209	£366	4.7	£923,000
Semi-detached	£406,517	£321	3.1	£398,836
Terraced	£331,679	No data	2.5	£310,000
Flats	£261,567	£340	1.9	£224,800

Period	Average Price Paid	No. of sales
Last year	£458,220	22
Last 3 years	£501,298	75
Last 5 years	£512,651	152
Last 7 years	£509,238	248

Source: Zoopla.co.uk

Reigate & Banstead BC – New Build Properties for Sale at November 2011

Source: rightmove.co.uk and developer/agent websites

Address	Description	Price	Size (m2)	Price per m2	Price Less 20%	Price Less 10%	Price Plus 10%	Developer / Agent
Banstead								
Houses								
Sanderson Gardens, Nork Way, SM7 1PQ	4 bed detached	£649,950	*170.5*	*£3,812*	*£3,050*	*£3,431*	*£4,193*	Charles Church
	4 bed detached	£619,950	*168.5*	*£3,679*	*£2,943*	*£3,311*	*£4,047*	
	4 bed detached	£499,950	*152.5*	*£3,278*	*£2,623*	*£2,951*	*£3,606*	
	3 bed semi	£394,950	*105.5*	*£3,744*	*£2,995*	*£3,369*	*£4,118*	
	3 bed semi	£330,000	*90.0*	*£3,667*	*£2,933*	*£3,300*	*£4,033*	
	3 bed semi	£330,000	*90.0*	*£3,667*	*£2,933*	*£3,300*	*£4,033*	
Monarch Place, Nork Way	4 bed detached	£565,000	137.1	£4,121	£3,297	£3,709	£4,533	Devine Homes/ Williams Harlow
	3 bed semi	£410,000	90.8	£4,517	£3,614	£4,065	£4,969	
	3 bed semi	£395,000	90.8	£4,352	£3,481	£3,916	£4,787	
	3 bed semi	£395,000	90.8	£4,352	£3,481	£3,916	£4,787	
	3 bed semi	£395,000	90.8	£4,352	£3,481	£3,916	£4,787	
	3 bed terrace	£390,000	82.8	£4,711	£3,769	£4,240	£5,182	
	3 bed semi	£390,000	95.8	£4,072	£3,257	£3,665	£4,479	
	3 bed semi	£385,000	90.8	£4,241	£3,393	£3,817	£4,666	
	3 bed semi	£380,000	82.8	£4,590	£3,672	£4,131	£5,050	
	3 bed semi	£375,000	82.8	£4,530	£3,624	£4,077	£4,983	
	3 bed terrace	£370,000	82.8	£4,470	£3,576	£4,023	£4,917	
	2 bed terrace	£295,000	65.9	£4,479	£3,583	£4,031	£4,926	
Average		£420,544	103.4	£4,146	£3,317	£3,732	£4,561	

Address	Description	Price	Size (m2)	Price per m2	Price Less 20%	Price Less 10%	Price Plus 10%	Developer / Agent
Chipstead								
Houses								
Hazelwood Lane	5 bed detached	£1,100,000	251.1	£4,381	£3,505	£3,943	£4,819	Whiteoak
The View, Outwood Lane, CR5	5 bed detached	£875,000	215.0	£4,070	£3,256	£3,663	£4,477	Croudace Homes/Fine & Country
	5 bed detached	£825,000	*203.0*	*£4,064*	*£3,251*	*£3,658*	*£4,470*	
	5 bed detached	£799,950	*193.5*	*£4,134*	*£3,307*	*£3,721*	*£4,548*	
	5 bed detached	£794,950	*193.5*	*£4,109*	*£3,287*	*£3,698*	*£4,520*	
	5 bed detached	£719,950	199.9	£3,602	£2,881	£3,241	£3,962	
	5 bed detached	£699,950	*173.3*	*£4,039*	*£3,231*	*£3,635*	*£4,443*	
	4 bed detached	£650,000	186.7	£3,482	£2,785	£3,133	£3,830	

How Lane, CR5 3LL	5 bed detached	£795,000	219.0	£3,630	£2,904	£3,267	£3,993	Richard Saunders
Average		£806,644	203.9	£3,946	£3,156	£3,551	£4,340	

Source: rightmove.co.uk and developer/agent websites

Horley								
Houses								
The Acres, Langshott, RH6 9HN	5 bed detached	£538,995	*177.0*	*£3,045*	*£2,436*	*£2,741*	*£3,350*	Barratt Homes
	5 bed detached	£523,995	*177.0*	*£2,960*	*£2,368*	*£2,664*	*£3,256*	
	4 bed terraced	£349,995	*115.0*	*£3,043*	*£2,435*	*£2,739*	*£3,348*	
	4 bed terraced	£349,995	*115.0*	*£3,043*	*£2,435*	*£2,739*	*£3,348*	
	4 bed terraced	£344,995	*115.0*	*£3,000*	*£2,400*	*£2,700*	*£3,300*	
	3 bed semi	£342,995	*102.0*	*£3,363*	*£2,690*	*£3,026*	*£3,699*	
	3 bed terraced	£278,995	*81.0*	*£3,444*	*£2,756*	*£3,100*	*£3,789*	
The Acres, Langshott, RH6 9HN	4 bed detached	£509,995	*160.0*	*£3,187*	*£2,550*	*£2,869*	*£3,506*	David Wilson Homes
	4 bed detached	£499,995	*160.0*	*£3,125*	*£2,500*	*£2,812*	*£3,437*	
	4 bed detached	£499,995	*160.0*	*£3,125*	*£2,500*	*£2,812*	*£3,437*	
	4 bed detached	£499,995	*160.0*	*£3,125*	*£2,500*	*£2,812*	*£3,437*	
	4 bed detached	£499,995	*160.0*	*£3,125*	*£2,500*	*£2,812*	*£3,437*	
	4 bed detached	£469,995	*138.0*	*£3,406*	*£2,725*	*£3,065*	*£3,746*	
	4 bed detached	£469,995	*138.0*	*£3,406*	*£2,725*	*£3,065*	*£3,746*	
	4 bed detached	£464,995	*138.0*	*£3,370*	*£2,696*	*£3,033*	*£3,706*	
	4 bed detached	£434,995	*130.0*	*£3,346*	*£2,677*	*£3,012*	*£3,681*	
	4 bed detached	£429,995	*130.0*	*£3,308*	*£2,646*	*£2,977*	*£3,638*	
	4 bed semi	£379,995	*117.0*	*£3,248*	*£2,598*	*£2,923*	*£3,573*	
	4 bed townhouse	£364,995	*136.0*	*£2,684*	*£2,147*	*£2,415*	*£2,952*	
	4 bed townhouse	£364,995	*136.0*	*£2,684*	*£2,147*	*£2,415*	*£2,952*	
	4 bed townhouse	£362,995	*136.0*	*£2,669*	*£2,135*	*£2,402*	*£2,936*	
	4 bed townhouse	£362,995	*136.0*	*£2,669*	*£2,135*	*£2,402*	*£2,936*	
	3 bed terraced	£343,995	*87.0*	*£3,954*	*£3,163*	*£3,559*	*£4,349*	
	3 bed terraced	£339,995	*87.0*	*£3,908*	*£3,126*	*£3,517*	*£4,299*	
	3 bed townhouse	£319,995	*87.0*	*£3,678*	*£2,942*	*£3,310*	*£4,046*	
	3 bed townhouse	£319,995	*87.0*	*£3,678*	*£2,942*	*£3,310*	*£4,046*	
	3 bed semi	£295,995	*75.0*	*£3,947*	*£3,157*	*£3,552*	*£4,341*	
	3 bed semi	£294,995	*75.0*	*£3,933*	*£3,147*	*£3,540*	*£4,327*	
	3 bed semi	£293,995	*75.0*	*£3,920*	*£3,136*	*£3,528*	*£4,312*	

	3 bed semi	£293,995	*75.0*	*£3,920*	*£3,136*	*£3,528*	*£4,312*	
	3 bed semi	£291,995	*75.0*	*£3,893*	*£3,115*	*£3,504*	*£4,283*	
	3 bed semi	£289,995	*75.0*	*£3,867*	*£3,093*	*£3,480*	*£4,253*	
	3 bed semi	£289,995	*75.0*	*£3,867*	*£3,093*	*£3,480*	*£4,253*	
	3 bed semi	£288,995	*75.0*	*£3,853*	*£3,083*	*£3,468*	*£4,239*	
Grayswood Place, RH6	5 bed detached	£475,000	170.4	£2,788	£2,230	£2,509	£3,066	Martin Grant Homes/White & Sons
	4 bed semi	£350,000	117.0	£2,992	£2,394	£2,693	£3,291	
	3 bed semi	£340,000	113.3	£3,001	£2,401	£2,701	£3,302	
1a Lee Street, RH6 8EH	4 bed detached	£415,000	n/k					White & Sons
Average		£383,943	118.0	£3,340	£2,672	£3,006	£3,674	
Kingswood								
Houses								
Greenacres, Beech Drive	6 bed detached	£3,750,000	749.0	£5,007	£4,005	£4,506	£5,507	Asprey Estates
Regency Gate, Beech Drive, KT20	7 bed detached	£3,250,000	749.7	£4,335	£3,468	£3,902	£4,769	Banner Homes
	7 bed detached	£3,250,000	749.7	£4,335	£3,468	£3,902	£4,769	
The Chase, KT20	6 bed detached	£3,250,000	737.5	£4,407	£3,525	£3,966	£4,847	Hamptons International
Oak Grove, Beech Drive	6 bed detached	£2,950,000	622.5	£4,739	£3,791	£4,265	£5,213	Saunders
Sandy Lane, KT20	6 bed detached	£2,450,000	557.0	£4,399	£3,519	£3,959	£4,838	Jackson-Stops
Woodland Way, KT20	6 bed detached	£2,395,000	464.5	£5,156	£4,125	£4,640	£5,672	Silver Homes
Sandy Lane, KT20	5 bed detached	£2,350,000	n/k					Saunders
Alcocks Lane, KT20	6 bed detached	£1,460,000	378.9	£3,853	£3,083	£3,468	£4,239	Saunders
	6 bed detached	£1,460,000	378.9	£3,853	£3,083	£3,468	£4,239	
Buckland Road, Lower Kingswood	4 bed detached	£379,950	144.0	£2,639	£2,111	£2,375	£2,902	Kennedys
Brighton Road, KT20	3 bed mews	£375,000	n/k					Penney & Co
Average		£2,276,663	553.2	£4,272	£3,418	£3,845	£4,699	

Source: rightmove.co.uk and developer/agent websites

Redhill								
Houses								
Horley Lodge Lane, RH1 5EA	5 bed detached	£795,000	213.7	£3,720	£2,976	£3,348	£4,092	Lewis White
Linkfield Lane, RH1 1JH	4 bed semi	£595,000	n/k					Savills
	4 bed semi	£595,000	n/k					
Water Colour, Ormside Way, RH1 2	4 bed townhouse	£499,995	206.0	£2,427	£1,942	£2,184	£2,670	Linden Homes
	4 bed townhouse	£459,995	168.1	£2,736	£2,189	£2,463	£3,010	
	4 bed townhouse	£449,995	168.1	£2,677	£2,142	£2,409	£2,945	
Napier Close, Salfords, RH1 5DA	4 bed detached	£425,000	133.6	£3,181	£2,545	£2,863	£3,499	White & Sons
	4 bed detached	£375,000	105.0	£3,571	£2,857	£3,214	£3,929	
Northmead, RH1	3 bed terraced	£275,000	91.9	£2,992	£2,394	£2,693	£3,292	White & Sons
Average		£496,665	155.2	£3,044	£2,435	£2,739	£3,348	
Flats								
Water Colour, Ormside Way, RH1 2	2 bed duplex	£269,995	117.2	£2,304	£1,843	£2,073	£2,534	Linden Homes
	2 bed duplex	£264,995	89.5	£2,962	£2,369	£2,666	£3,258	
	2 bed duplex	£259,995	112.1	£2,319	£1,855	£2,087	£2,551	
	2 bed duplex	£249,995	117.2	£2,133	£1,706	£1,920	£2,346	
	2 bed duplex	£225,000	76.3	£2,950	£2,360	£2,655	£3,245	
	1 bed flat	£164,995	63.3	£2,607	£2,085	£2,346	£2,867	
Holmesdale Manor, Ladbrooke Road	2 bed flat	£249,950	n/k					Bovis Homes (Retirement)
	2 bed flat	£219,950	n/k					
	2 bed flat	£199,950	n/k					
The Assembly, Frenches Road (conversion)	2 bed duplex	£236,250	n/k					Cubbitt & West
	1 bed flat	£173,250	n/k					
	1 bed flat	£152,250	n/k					
London Road (conversion)	1 bed flat	£155,000	n/k					Bairstow Eves
	1 bed flat	£135,900	n/k					
Average		£211,248	95.9	£2,546	£2,037	£2,291	£2,800	

Source: rightmove.co.uk and developer/agent websites

Source: rightmove.co.uk and developer/agent websites

Reigate								
Houses								
Lime Close, RH2	4 bed detached	£485,000	109.2	£4,441	£3,553	£3,997	£4,886	White & Sons
Castle Drive, RH2 8DW	3 bed semi	£249,950	87.1	£2,870	£2,296	£2,583	£3,157	Lodgecrest/ Lewis White
	3 bed semi	£249,950	87.1	£2,870	£2,296	£2,583	£3,157	
	3 bed semi	£249,950	87.1	£2,870	£2,296	£2,583	£3,157	
	3 bed semi	£249,950	87.1	£2,870	£2,296	£2,583	£3,157	
Average		£296,960	91.5	£3,184	£2,547	£2,866	£3,502	
Flats								
The Valley, Wray Common Road, RH2	3 bed duplex	£965,000	243.2	£3,968	£3,174	£3,571	£4,364	Whiteoak Develop-ments/Robert Leech & Partners
	3 bed duplex	£625,000	159.7	£3,914	£3,131	£3,522	£4,305	
	3 bed ground	£625,000	167.0	£3,743	£2,994	£3,368	£4,117	
	2 bed duplex	£575,000	149.2	£3,854	£3,083	£3,468	£4,239	
	2 bed	£435,000	112.0	£3,884	£3,107	£3,496	£4,272	
	2 bed	£425,000	110.0	£3,864	£3,091	£3,477	£4,250	
	1 bed	£250,000	68.0	£3,676	£2,941	£3,309	£4,044	
Old Dairy Mews, Warren Road, RH2 0BN	2 bed ground	£290,000	64.0	£4,531	£3,624	£4,077	£4,984	Shanly Homes/ Gascoigne-Pees
	2 bed first	£265,000	61.0	£4,341	£3,473	£3,907	£4,776	
	2 bed ground	£249,950	55.2	£4,530	£3,624	£4,077	£4,983	
	2 bed first	£249,950	56.9	£4,396	£3,517	£3,956	£4,835	
	1 bed ground	£220,000	45.3	£4,852	£3,882	£4,367	£5,337	
	1 bed first	£199,950	45.9	£4,357	£3,486	£3,921	£4,793	
Amberleigh House, Calrton Road, RH2	2 bed ground	£249,995	n/k					Lewis White
	2 bed first	£199,950	n/k					
Cedar Rise, Reigate Hill, RH2	1 bed	£204,950	n/k					October House/Your Move
Average		£376,859	102.9	£4,147	£3,317	£3,732	£4,561	

Tadworth								
Houses								
The Avenue, KT20 (conversion)	4 bed townhouse	£505,000	*157.0*	*£3,217*	*£2,573*	*£2,895*	*£3,538*	Kennedys
Average		£505,000	157.0	£3,217	£2,573	£2,895	£3,538	
Flats								
The Avenue, KT20 (conversion)	2 bed first	£319,950	86.4	£3,703	£2,963	£3,333	£4,073	Kennedys
	2 bed ground	£299,950	82.7	£3,627	£2,902	£3,264	£3,990	
Average		£309,950	84.6	£3,665	£2,932	£3,299	£4,032	

Source: rightmove.co.uk and developer/agent websites

Notes on above new builds information:

Not exhaustive – there may be other examples.

Per sq m values are necessarily indications.

Entries in *italics* text are based on estimated floor areas (by DSP) from plans or other information provided by Agents / house builders.

n/k = not known. Where no plan or other information was readily available to allow us to estimate the floor area and therefore provide per sq m pricing indications.

Wider market context

Communities and Local Government House Prices Index January 2012

(Source: www.communities.gov.uk)

'The latest UK house price index statistics produced by the Department for Communities and Local Government were released on Tuesday 13 March 2012.

The latest statistics release includes data based on mortgage completions during the month of January 2012.

The key points from the release are:

- *In January UK house prices increased by 0.2 per cent over the year and decreased by 0.7 per cent over the month (seasonally adjusted).*
- *The average mix-adjusted UK house price was £206,523 (not seasonally adjusted).*
- *Average house prices increased by 0.2 per cent over the quarter to January, compared to an increase of 0.6 per cent over the quarter to October (seasonally adjusted).*
- *Average prices decreased during the year in three UK countries; Wales (-0.5 per cent), Scotland (-1.7 per cent) and Northern Ireland (-7.6 per cent). However, there was an increase of 0.4 per cent in average house prices in England.*
- *Prices paid by first time buyers were 0.8 per cent higher on average than a year earlier whilst there was no change in the prices paid by former owner occupiers.*
- *Prices for new properties were 8.8 per cent higher on average than a year earlier whilst prices for pre-owned dwellings decreased by 0.4 per cent.'*

RICS UK Economy & Property market Chartbook – Overview / headlines (August 2011)

'Financial markets: *Although concerns are growing over the stuttering UK recovery, the commitment of the government to its austerity plan has enabled the gilt market to shrug off the tremors being felt in some bond markets in the euro area. Meanwhile, gold continues to hit new highs as US policymakers struggle to reach agreement on lifting the debt ceiling.'*

'Economy: *Poor economic data has led to suggestions that a further round of quantitative easing may be necessary to kick start activity. However, with inflation continuing to run way above target we find it improbable that the Bank of England will be in any rush to sanction such a strategy. For the time being, the employment picture is still painting a brighter picture with jobs continuing to be created in the private sector.'*

'Construction: *Preliminary GDP data suggests that construction output rose by 0.5% in the second quarter following a drop of around 5.5% over the previous half year. Some improvement in sentiment had been signalled by the last RICS Construction Market Survey. Predictably, insufficient demand remains the key factor restricting output according to the EC survey. '*

'Housing: *Activity remains flat in the residential sector with most indices indicating that prices are lower than where they were a year earlier. The one part of the country where this is not the case is London. The latest RICS Housing Market Survey suggests that prices are likely to continue rising in the capital.'*

'Commercial property: *A very striking regional divide is evident in the results of the Q2 RICS Commercial Property Survey. While rent expectations generally remain negative, for London offices they are strongly positive.'*

The Royal Institution of Chartered Surveyors (RICS) produces a monthly 'UK Housing Market Survey'. DSP has considered information such as this during the study period. The survey is compiled through interviews with a wide range of valuers and agents, in order to provide an overview of the market sentiment. It helps to provide market context, as follows. *(Italic text is quoted from the surveys).*

RICS Housing Market Survey November 2011

Headines: *'Modest pick up in sales activity'*

- *First time since spring 2010 that buyer enquiries series has been positive for three successive months*
- *Fresh demand and supply continuing to run at broadly similar rates*
- *Three-fifths of respondents seeing flat trend in prices'*

'The November RICS Housing Market Survey continues to show more respondents reporting price declines than price increases although the negative net balance of -17 was less than the October reading of -24. Significantly, close to three-fifths of surveyors indicated that prices had not changed over the month and of those reporting a fall, the vast majority indicated that it had been in the 0 to 2% range.

Meanwhile, the new buyer enquiries net balance recorded its third consecutive monthly increase. Although the pick-up in interest signalled by the results is still relatively modest, this is *the first time since the spring of 2010 that the series has been in positive territory for three months in a row. New instructions also edged upwards with the net balance climbing to 10 in November; this is the best reading since April. Nevertheless, for the time being new demand is*

pretty much running in-line with fresh supply coming onto the market, which helps to explain why the pricing picture is broadly stable.

The slightly firmer tone to the new buyer enquiries series is being reflected in a modest improvement in the level of transaction activity……..

….. the sales to stock ratio slipped back from 21.2 to 21 as the increase in properties coming to the market led to a rise in the level of inventory. The flat trend in this series is, once again, also consistent with little movement in prices.

The forward looking indicators continue to tell a broadly similar story to that signalled for much of 2011. Price expectations remain slightly negative while the net balance for sales expectations is still in positive territory although the November reading of 5 for the latter was somewhat lower than the 17 recorded in October.'

The survey included one local (Reigate) agent's market view:

'Slower than usual for a November on both the supply and demand sides. Lack of confidence caused by the gloomy economic picture seems to be the main reason.'

There were some other, mixed, comments from surveyors in the Surrey area, for example:

'A lack of correctly priced properties has meant there is a two tiered market, buyers will not pay premium prices in this stagnant market.'

'Disappointing end to a disappointing year.'

'Mixed set of results this month. Chain free buyers are making lower than expected offers while vendors hold out for a white knight.'

'Limited activity, previously in middle price bands, but market slowing for Christmas. Lack of choice not helping to encourage buyer activity.'

'A flurry of late activity and an nexpectedly busy month for new sales. Perhaps both buyers and sellers have felt they were running out of time. Obtaining new stock will be key in the New Year.'

'Worries about the European economy have increased and this has had an adverse knock-on effect on both new instructions and sales.'

'November/December are always quieter motnhs but the market remains active for well located prime property that is correctly priced. Banks continue to present a problem and fall- throughs are higher as a result.'

RICS Housing Market Survey January 2012

Headines: **'***Expiry of stamp duty exemption boosts activity'*

- *'Rush to beat stamp duty holiday boosts activity*
- *Price balance least negative since July 2010*
- *Regional divergence persists'*

'The (January survey) *highlights a moderately negative price picture at the national level, although there remains significant divergence at the regional level. The better tone to the activity data remains more or less intact, although anecdotal evidence from surveyors suggests this is being driven largely by temporary factors i.e. the expiration of the first-time buyer stamp duty exemption in March, rather than improving fundamentals. While one-off factors are clearly having a visible effect on current activity and expectations three months ahead, surveyors have also become markedly less pessimistic about the price outlook 12 months ahead, possibly factoring in a less severe economic outlook than only a few months ago.*
The net price balance remained unchanged in January at -16 i.e. 16% more surveyors still recorded price falls rather than rises. Whilst still negative overall, it is the best reading since July 2010. Moreover, of those surveyors reporting price falls, 82% of them are doing so within the 0 to -2% range.

At least part of the explanation to the slightly improved tone of the price and activity data is down to the expiry of the first-time buyer stamp duty exemption on 24 March 2012 (for homes costing less than £250,000). This has driven a stronger pick-up in demand than in availability as new households seek to beat the deadline.

This is starkly illustrated in our sales and stocks data; over the last three months, average sales per surveyor (branch) have increased by 1.8%, while average stock levels per surveyor (branch) have fallen by 5.5%. However, the recent pickup in sales needs to be put into context; average sales levels in January were still only 15.7 per surveyor (branch) compared to the long-run average of 26.

Given the remaining time left before expiry of the stamp duty holiday, it is not surprising that surveyors' outlook for prices three months ahead and sales is relatively upbeat; sales expectations are at their highest since May 2010 and price expectations (notwithstanding last July's reading) are at their least negative since June 2010.

Whilst the recent improvement in activity and confidence is likely to be unwound, at least partially, after the expiry of the stamp duty exemption, it is encouraging nonetheless that price expectations 12 months ahead are now only slightly negative and at their best level since May 2010. It is possible, given the generally better tone to the news flow, that surveyors are now factoring in a less severe economic outlook than recently.'

Surrey area surveyors comments within the January survey included the following:

'With a shortage of quality stock and having ready and willing buyers there will be more roperty transactions if confidence continues to prove that property is still a good long term investment.'

'The market has some movement but lacks any sensible volume.'

' A marked increase in the number of applicants through the door compared to website enquiries. This is producing a more productive relationship and has increased viewings. More offers have resulted but not sales as yet.'

'With Christmas over and 2011 out of the way, the market seems on the up. Long may it continue and lets hope 2012 is as good as it would seem.'

'Promising start to the year with most action in sub £500,000 region. More instructions required tomaintain impetus.'

'Activity picked up in January with price levels held up by reasonable demand and shortage of stock.'

'A reasonable start to 2012 and a good number of viewings but a reluctance from prospective buyers to commit. New instructions picking up.'

On closing the study, the March survey was also considered. This indicated further potential stability in the market, as follows:

RICS Housing Market Survey March 2012

Headines: '*Trend towards price stabilisation continues*

- *Firmer tone to price and activity data*
- *Sales-to-stock ratio edges up*
- *London continues to outperform'*

'*The* (March Survey) *shows the trend towards price stabilisation continues to be driven by the London market. The better tone to the activity and confidence data remains largely intact, supported*

by temporary (stamp duty exemption expiry and unseasonably warm weather in March) as well as more fundamental factors (less economic downside risk perceived).
The (seasonally adjusted) net price balance improved in March from -13 to -10 i.e. 10% more surveyors recorded price falls rather than rises. Whilst the price balance is still negative, March's reading is the least negative since June 2010. Moreover, the non-seasonally adjusted breakdown that underpins the headline price balance shows that 67% of surveyors reported no change in prices and of those surveyors reporting price falls, 79% of them are doing so within a range of 0 to -2%.

On the activity side, the RICS data highlights a further, albeit modest, improvement in newly agreed sales and new buyer enquiries, while new vendor instructions remained relatively unchanged on the month. While the survey's net balance data does not correlate exactly with the sales and stocks data, they are both providing a broadly consistent message i.e. a slightly firmer market. Indeed, the sales-to-stock ratio - a lead indicator of market slack - rose from 22.9% to 23.3%. This is the best reading since September 2010, but is still well below the long run average of 33%.

At least part of the explanation of the improved tone of the survey in recent months can be attributed to the 24 March expiry of the first-time buyer stamp duty exemption (for homes costing less than £250,000). Anecdotal evidence suggests this has helped to support a pick-up in demand as new households seek to beat the deadline.

Another factor that appears to have had a positive impact during March is the weather. Indeed, March was warmer than 'normal' so its impact on the survey data would not have been fully accounted for by the seasonal adjustment procedure (see notes to editors for more info). This procedure - which is applied to remove seasonal distortions from the data to give a clearer reading of the underlying trend - can only remove 'normal' levels of seasonality. As a result, the data may be giving a more robust impression of the underlying trend than is actually the case.

However, there is growing evidence in the RICS survey of a more fundamentally driven market improvement. Indeed, it is possible that surveyors, as with financial markets, are now beginning to factor in less economic downside risk going forward. This is consistent with the more solid trend in sales expectations at the 3-month horizon. Indeed, if the recent improved tone was boosted purely by the stamp duty changes and seasonal distortions, near term activity expectations would likely reflect this by receding but they remain elevated. It is also consistent with positive price expectations at the 12-month horizon for the second successive month.'

A selection of Surrey area agentscomments, including one within the Borough, to the survey were as follows:

'Market conditions are still tough owing to a lack of stock.'

'Desperate shortage of new stock.'

'A busy period, with one week's activity producing 13 offers (on separate properties) resulting in 6 sales agreed. It's a long time since results have been that high. What is telling is that the 7 other bids have made the decision to look elsewhere, rather than increase their offers.'

'Much improved levels of activity resulting in more instructions and resultant sales. Market still price sensitive in spite of increased buyer activity. Sales predominantly at top and bottom of market so far. Bodes well for fast approaching prime spring market.'

'The recovery is now clear to see - long may it stay!'

'The market is ticking over fairly slowly with buyers still fairly restrained and with a continuing shortage of supply.'

'A better month for new sales but disappointing in terms of fresh instructions. Most vendors are choosing to overprice their homes, often on the advice of other, over optimistic agents, which will lead to problems as we move towards the summer.'

' A more active sales market in March and stock of available properties now at the lowest level for five years as instructions to sell have slowed down. The lack of property and the increase in demand is underpinning prices which are holding firm. It is still a buyers market but sellers are seeing the benefit of being in a stronger position with improved offers.'

'Similar stock numbers to February. However, vendor discussions indicate higher instruction levels after Easter.'

Source of all above italics sections: RICS monthly UK Housing Market Survey.

Council of Mortgage Lenders (CML) **(Source: www.cml.org.uk)**

Bulletin 16th January 2012:

'House purchase lending in November experienced a year-on-year rise for only the second time in 2011, according to the Council of Mortgage Lenders.

Loans for house purchase totalled 47,000 (worth £6.9 billion) in November, a 4% rise (5% in value) from October and a 3% rise (5% in value) compared to November 2010. Remortgaging also increased. There were 31,200 loans (worth £4 billion), up from 29,500 (worth £3.7 billion) in October and 30,700 (worth £3.8 billion) the previous November.'

CML Bulletin 30th March 2012:

'Gross mortgage lending held steady in February and was an estimated £10.7 billion, according to the Council of Mortgage Lenders. This is almost identical to January's gross lending total of £10.65 billion and 14% higher than February last year (£9.4 billion).

In today's CML market commentary, CML chief economist Bob Pannell comments:

"Although a seasonal decline is expected over the winter months, our forward estimates suggest that February was the seventh month in a row of higher year-on-year lending. This indicates that lending for house purchase remains brisk in advance of the ending of the Stamp Duty concession.

"The launch of the NewBuy scheme is an important addition to lenders' toolkit in addressing the various needs of would-be borrowers. The scheme has the potential to offset the dip in first-time buyer activity that the end of the stamp duty concession on 24 March may produce."'

Bank of England **(Source – www.bankofengland.co.uk)**

- The base lending rate has remained stable at 0.5% since March 2009.

The Governor's address on December 1st 2011 ('Financial Stability Report Press Conference') included opening remarks as follows:

'Faced with a crisis of the euro-area system, we are seeing at first hand the costs of financial instability.

The symptoms of the crisis have been widely reported. Many European governments are seeing the price of their bonds fall, undermining banks' balance sheets. In response, banks, especially in the euro area, are selling assets and deleveraging. An erosion of confidence, lower asset prices and tighter credit conditions are further damaging the prospects for economic activity and will affect the ability of companies, households and governments to repay their debts. That, in turn, will weaken banks' balance sheets further. This spiral is characteristic of a systemic crisis.

Tackling the symptoms of the crisis without resolving the underlying causes, by measures *such as providing liquidity to banks or sovereigns, offers only short-term relief. Ultimately, governments will have to confront the underlying causes. A loss of external competitiveness in some euro-area countries has led to current account imbalances and large build-ups of private and public debt, much of it external. The problems in the euro area are part of the wider imbalances in the world economy. The end result of such imbalances is a refusal by the private sector to continue financing deficits, as the ability of borrowers to repay is called into question.*

Resolving these wider problems is beyond the control of any UK authority. The responsibility of the Financial Policy Committee is to focus on measures that can protect and enhance the resilience of the UK financial system in this threatening environment, and ensure it is better equipped to counter even more serious potential problems further down the road. It is crucially important that we avoid causing individual banks to seek to strengthen their balance sheets in such a way that, when taken together with similar actions by others, may cause harm to the wider economy. '

In terms of wider market context and give thsat sites in or formerly in a range of uses wil be relevant to housing delivery, the headlines from the latest available RICS commercial market overview, at the point of considering the study assumptions, are as below.

RICS UK Commercial Property Market Survey Q3 2011

'Occupier demand falls back for the first since Q3 2010

- *London rental expectations ease, though offices remain more resilient*
- *Capital value expectations outside the capital turn more negative as investment demand dries up*

The latest RICS UK Commercial Market Survey shows that tenant demand retreated over the quarter which, coupled with rising available space, is resulting in a more negative view on rental expectations. Surveyors attribute the fall in sentiment to the uncertain outlook for the wider economy.

At the all property level, respondents turned downbeat across much of the UK, though the picture in London and the South remains broadly flat.

There are also some tentative signs that the London market, which has largely bucked the national trend up to now, is beginning to see sentiment ease; rents are expected to fall in the capital for the first time in a year. Meanwhile, outside of London rental expectations turned even more negative.

Significantly, sentiment has fallen across all sectors of the market. Retail demand slipped furthest into negative territory, while available space also rose fastest in the retail sector.

However, rental expectations at the national level were most negative for offices.

Development starts declined across all sectors, while investment demand remained largely unchanged from last quarter.

Capital value expectations fell across all sectors outside of London, most noticeably for offices.'

Source: RICS UK Commercial Property Market Survey Q3 2011

Appendix III ends