AFFORDABLE HOUSING VIABILITY STUDY

Solihull Metropolitan Borough Council

June 2012

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CBRE

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Introduction

X1.1 This report has been prepared by CBRE on the instructions of Solihull Metropolitan Borough Council (the Council) to examine in detail the viability of the Council's proposed Affordable Housing Policy P4 in the draft Local Plan. This is in the context of reviewing the impact of the proposed Policy on the viability of a range of residential development sites within the Borough.

X1.2 The report advises on the impact of the various key components of the Policy including the affordable housing target proposed; the affordable housing threshold; the affordable housing tenure split; and the affordable housing requirement in the context of other Local Plan policies.

Methodology

X1.3 The approach of the study has been to review a notional and representative sample of residential development sites reflecting the diversity of locational characteristics, site areas and land values in different geographical areas within the Borough. A total of 10 "notional" sites across the Borough were selected with a variety of hypothetical former/current existing uses.

X1.4 In assessing viability, the study has adopted the Residual Land Value (RLV) method of ascertaining the value of the individual development sites. The RLV is the method used to calculate how much a developer would pay for a site, taking into account the surplus remaining after all development costs have been allowed for, together with an allowance for profit required to carry out the project.

X1.5 We have also taken into account the Existing Use Value (EUV) to ensure that there is sufficient margin between the RLV and the EUV to provide an incentive for the landowner to release the site for development.

X1.6 For each of the individual sites, we have assembled a bespoke development appraisal and tested the RLV outputs to see how these are affected by changing market conditions, development costs and the form of affordable housing contribution required. Sensitivity analysis has been undertaken on the RLV outputs to test the effect of variations in sales values, build cost, S.106/infrastructure costs and, for the town centre sites, a variation in site densities.

X1.7 Consideration was also given to testing financial viability relating to affordable housing policy including different affordable housing levels (35%, 40% and 45% of the total number of units); testing small sites of three or more net dwellings or a minimum of 0.2 ha to assess the affordable housing threshold proposed; and testing the affordable housing tenure split between social rented and intermediate comprising 70%/30%, 65%/35% and 62%/38%.

Summary of Findings

X1.8 A summary of the findings of the viability testing is as follows:

- Sites with low EUVs, such as greenfield sites, are more capable of delivering high levels of affordable housing. Town centre sites are likely to be high density schemes that are more reliant on apartments to drive value, which is currently a weaker sector of the residential market and may also attract greater contributions towards planning obligations. Town centre sites are more sensitive to changes in variables including sales values and affordable housing contributions.

Executive Summary

- Sites with a high EUV present a challenge to delivering new development. These include "intervention sites" such as in the North Solihull Regeneration Area, where the existing residential properties are acquired and replaced by new development of a similar density leading to poor site viability.
- The testing of various affordable housing contribution percentages highlights that RLVs in the higher value areas can support a minimum of 40% affordable housing contribution. The higher value greenfield sites are more readily able to absorb a higher affordable housing contribution than the brownfield town centre sites.
- In lower value areas, in particular in the North Solihull Regeneration Area, sites are demonstrating significant problems with viability and potential inability to support an affordable housing contribution of 40%. Where sales values are lower, affordable housing provision can help the RLV as there is a smaller gap between open market and affordable values and the developer will accept a substantially lower profit margin.
- In respect of small sites, our analysis demonstrates that these can match the RLVs on a pro-rata basis with those of the large sites and are able to support an affordable housing contribution.
- The viability testing demonstrates a marginal effect in changing the percentage requirement between social rented and intermediate tenures. In practice, for the smaller sites a shift in tenure allocation may only involve a very small number of units.

Conclusions

X1.9 The report supports the Council's proposal for a challenging affordable housing target in the Local Plan and indicates that 40% affordable housing should be achievable on sites coming forward within the Borough.

X1.10 The proposed wording provides for an affordable housing contribution of "at least 40%". This report concludes that this may be achievable on some greenfield sites but the policy should not be too onerous as to threaten site viability or deter residential development. The lack of a percentage ceiling within the currently drafted P4 does not provide certainty for landowners and developers and this can be expected to result in protracted and expensive negotiations relating to economic viability assessments on individual sites.

X1.11 This report supports a general Borough wide target of 40%. This is with the aim of maximising the provision of affordable housing that can be delivered through the planning system, providing clarity and certainty for landowners and developers, but does not threaten site viability and should not deter private residential development.

X1.12 Adopting the target of 40% would provide a baseline provision, whilst also allowing flexibility with the suitability of sites and the level of affordable housing being determined by negotiation on a site by site basis.

X1.13 The report is also supportive of the proposed 65% social rented/35% intermediate split within the affordable housing provision.

X1.14 Similarly, the report supports the proposed affordable housing threshold that sites of a minimum of 0.2 ha or housing developments of three or more dwellings will require an affordable housing contribution.

1. Introduction

1.1 CBRE has been commissioned by Solihull Metropolitan Borough Council (the Council) to provide a report on the viability of residential development sites in relation to the impact of the proposed Affordable Housing Policy P4 in the draft Local Plan.

1.2 The report is to advise on the impact of the proposed affordable housing policy on the viability of a number of notional development sites representing a cross-section of development opportunities in the Borough. The report is to advise on the viability of the sites; the impact of the following factors; and their ability to support the following:

- The affordable housing target proposed.
- The affordable housing threshold proposed.
- The proposed affordable housing tenure split.
- The affordable housing requirement in the context of other Local Plan policies.

1.3 The report will be required to provide supporting evidence in the future Examination in Public of the Local Plan. The draft Affordable Housing SPD that the Council has consulted upon will become live in tandem with the Local Plan and in particular Policy P4 Meeting Housing Needs.

1.4 The report analyses the effect on viability of the following key factors in the Council's affordable housing policy:

i. A site triggering the affordable housing threshold would require a contribution of at least 40% of dwelling units on the development site.

ii. The affordable housing threshold comprises 0.2 ha or more or housing developments of three or more net dwellings.

iii. The proportion of affordable housing provision is to comprise 65% social/affordable rent and 35% intermediate.

1.5 The proposed affordable housing policy in the Local Plan ('P4') introduces two important changes to the existing approved policy ('H4') in the Solihull Unitary Development Plan, 2006. Firstly, P4 reduces the threshold at which the policy is applied. H4 defined this as residential sites of 0.5 hectares or more or housing developments of 15 or more dwellings. P4 lowers the threshold to residential sites of 0.2 hectares or more, or housing developments of 3 or more (net) homes...' Secondly, whereas H4 says that 'Contributions will be expected to be made in the form of 40% dwelling units...', P4 amends this by saying 'Contributions will be expected to be made in the form of *at least* 40%..'.

1.6 The aim of this viability assessment is therefore to test and demonstrate the policy proposals to ensure that the affordable housing policy is robust, realistic and reasonable. It is important that the proposed policy is not onerous, limiting the ability for sites to be developed on a viable basis. In the absence of subsidy/grant funding, the analysis needs to demonstrate that reasonable viability can be achieved and the affordable housing policy is realistic taking into account current market conditions.

1.7 In reviewing the proposed affordable housing policy we have reviewed local housing market conditions including sales prices, the rate of sales, build cost and overall likely development cost to determine viability. The scenarios tested also take into account the types of residential property; tenure mix for the affordable housing; wider planning obligations in the context of other Local Plan policies; and other generic characteristics relating to the development of residential sites.

1. Introduction

1.8 This viability study has analysed a range of notional sites across the various geographic areas within the Borough on the basis that similar sites may come forward for development in the future. Our methodology has assumed a standard residual valuation approach to allow comparisons between the various sites and to test development appraisal variables and the impact of an affordable housing contribution.

2. Planning Policy and Residential Market Context

National Planning Policy

2.1 National policy is now set out in the National Planning Policy Framework (NPPF) which was published on 27 March 2012 with the aim of making the planning system less complex and replacing all previous Planning Policy Guidance and Planning Policy Statements. Its stated aim is to provide a framework within which Local Planning Authorities and local people can produce distinctive local and neighbourhood plans and for the planning system to contribute to the achievement of sustainable development.

2.2 Housing is dealt with under "Section 6: Delivering a Wide of Choice of High Quality Homes" with various requirements on Local Planning Authorities to "boost significantly the supply of housing". Para. 50 refers to the delivery of "a wide choice of high quality homes, widening opportunities for home ownership and creating sustainable, inclusive and mixed communities" and specifies that:

"where they have identified that affordable housing is needed, 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. Such policies should be sufficiently flexible to take account of changing market conditions over time".

2.3 "Ensuring Viability and Deliverability" comprises para. 173 in the section on Plan-making. It states that:

"pursuing sustainable development requires careful attention to viability and costs in the plan-making and decision-taking. Plans should be deliverable. Therefore 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, standards, infrastructure contributions or other requirements should, when taking account of the normal costs of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable".

2.4 Through these provisions, it is clear that the Government's aim is to ensure that land is brought forward for housing and that the burden of such planning requirements as affordable housing does not depress residual land values to deter land owners from bringing sites forward for housing. Viability therefore remains a key theme of national policy for open market and affordable housing development as supported by a robust evidence base.

Local Planning Policy

2.5 The Solihull (draft) Local Plan sets out the long term vision for how the towns, villages and countryside will develop over the Plan period to 2028. The draft Local Plan highlights the shortage of affordable housing across the Borough as informed by the Council's Strategic Housing Market Assessment (SHMA) which was completed in 2009 and showed that 1,183 affordable homes were required each year in the Borough. This requirement is across the Borough to meet priority needs including those of local families and children, local single person households and local first time buyers.

2.6 Since the SHMA was undertaken, the supply of social rented housing has decreased and demand (the Council's housing waiting list and homelessness) has increased and this suggests that the need for affordable housing has not decreased.

2. Planning Policy and Residential Market Context

2.7 Affordable housing policy is set out in the draft Local Plan in Policy P4 Meeting Housing Needs. Policy 4(a) Affordable Housing refers to the following proposed requirements:

- A contribution to affordable housing on residential sites of 0.2 ha or more, or housing developments of three or more (net) homes.
- Affordable housing includes social rented, affordable rented or intermediate tenure housing which is available at below market price or rent (as defined in Annex 2 of NPPF).
- Contributions will be expected to be made in the form of at least 40% affordable dwelling units on each development site but will take into account:
  - i. Site size.
  - ii. Accessibility to local services and facilities and access to public transport.
  - iii. The economics of provision, including particular costs that may threaten the viability of the site.
  - iv. Whether the provision of affordable housing would prejudice the realisation of other planning objectives that need to be given priority in the development of the site.
  - v. The need to secure a range of house types and sizes in the locality in helping to achieve socially balanced and mixed communities.
  - vi. The need to achieve successful housing development.
- Where on site provision is not feasible or viable there could be a financial contribution towards the provision of affordable housing on sites elsewhere in the Borough by virtue of a commuted sum payment. This approach would need to be robustly justified and be of broadly equivalent value to on-site affordable housing provision.

2.8 The Council's draft Affordable Housing SPD (2012) has been subject to public consultation and will be issued in tandem with the implementation of Local Plan draft Policy P4(a) Meeting Housing Needs and (b) Affordable Housing. It is intended that the SPD will provide a consistent approach to policy implementation and to give landowners, valuers, developers and other professionals clarity and certainty in bringing forward proposals for residential development. The SPD will be reviewed on an annual basis and will be a material consideration in determining planning applications for all housing developments at and above the policy threshold.

2.9 The draft SPD refers to the affordable housing target of *at least* 40% of dwelling units on the site as "ambitious but realistic". It cites that since the adoption of Policy H4 in the Solihull UDP (February 2006), 40% affordable housing has been achieved on a number of privately-led residential developments. It states that the proposed affordable housing contribution should maximise the contribution to housing needs but should "not threaten the viability of sites or deter private residential investment".

2.10 The requirements include an indicative tenure mix of 65% social/affordable rent and intermediate of 35%.

2.11 The draft SPD states that Policy P4(a) is based on affordable housing being delivered at nil public grant subsidy.

2.12 The site viability review in this report is testing whether the proposed affordable housing policy would have a negative effect on viability and deliverability, based on a sample

2. Planning Policy and Residential Market Context

selection of sites. The Council acknowledges that the policy must sit alongside a negotiated approach taking account of site specific circumstances, such as contamination remediation and highways contributions. It states that the Council will negotiate with developers where "particular factors could threaten the viability of developments as a result of site specific constraints or circumstances".

2.13 It is important that the policy is capable of being applicable to the vast majority of residential development opportunities in the Borough to avoid it being under constant challenge through negotiation with developers or else has the effect of deterring investment in and development of new site opportunities.

2.14 We attach at **Appendix 1** a summary table of adopted affordable housing requirements for other local planning authorities in the West Midlands region as a comparison. This demonstrates that local planning authorities have been able to justify a requirement of a 40% affordable housing contribution where higher land and property values are achievable.

Residential Property Market Context

2.15 We attach at **Appendix 2** CBRE Research's overview of the residential property market both on a national and local basis to establish the property context and market conditions within which the Council will need to test its affordable housing policy.

2.16 The housing market continues to function far from normally which is a reflection of ongoing credit constraints with activity levels remaining well below 2007 levels. The first time buyer market has been particularly affected and the "credit crunch" legacy means that the market is unlikely to return to the pre-recession days with widely available and cheap credit. These challenging market conditions will be reflected in site values with lower house prices and longer sales periods.

2.17 Appendix 2 reviews the economic background and highlights the continuing unsettled backdrop to the housing market including the current low interest rates that we anticipate to continue through to the end of 2012.

2.18 The recent Bank of England Agents' Summary of Business Conditions April 2012 states that there have been reports of tightening in credit conditions in recent months where existing facilities have often been made more costly on renewal; arrangement fees have risen; and lending has become more stringent. An improvement in conditions in the housing market was however reported, partly due to the Government's First-Buy scheme; the impending ending of stamp duty relief at the end of the tax year; construction companies' own initiatives; and growth in buy-to-let demand.

2.19 The CBRE Research commentary on the Solihull market confirms the local impact of the credit crunch in 2007 with activity contracting sharply and average house prices falling sharply, particularly once the economy fell deeper into recession in 2008. Whilst Solihull house prices have not yet recovered in that they are still some 7% below their former peak levels, they are still 9% higher than the 10-year average.

2.20 Additionally, the Solihull market has generally outperformed the rest of the region and the rest of the country over the last year with average house prices increasing by 12% since the trough of the market compared with only 1% across the rest of the West Midlands and 6% across the rest of England and Wales. Average house prices are currently around £228,500 based on Land Registry quarterly figures.

2. Planning Policy and Residential Market Context

2.21 Whilst the Council will be required to review its affordable housing policies over the Local Plan period, our study has looked at appraisals based on current day values and also applied sensitivity analysis on potential development appraisal variables including future house prices to demonstrate the impacts of both improving and worsening market conditions on the delivery of affordable housing.

Development Areas

2.22 The Borough covers a wide area (17,828 ha) with distinct and diverse characteristics leading to a wide range of house prices, development site values and development activity. Its own motto of "Town in the Country" is characterised by the popular town centre and suburbs; rural villages; the Regeneration Area in the North of the Borough; and attractive countryside. The draft Local Plan defines three broad area types: "Mature Suburbs"; the "Rural Area"; and the "North Solihull Regeneration Area", as well as Solihull Town Centre and the M42 Economic Gateway.

2.23 House prices in the popular residential areas of the Mature Suburbs and Rural Area considerably exceed the West Midlands and national averages leading to an acute shortage of affordable housing in these areas. In North Solihull, however, house prices remain low leading to marginal development opportunities with similar pockets of deprivation in areas such as Elmdon, Lyndon, Olton and Shirley.

2.24 In reviewing notional sites to test affordable housing policy, we have therefore taken a range of sites across the Borough reflecting the context for bringing forward development sites in relation to market demand and prevailing values.

3. Methodology

Site Selection

3.1 Ten "notional" sites across the Borough have been selected to be representative of the various differing residential development sites that could come forward for development. These have been chosen to reflect a diversity of locational characteristics, existing uses, site areas and land values that can be identified in different geographical areas.

3.2 Each of the sites falls within one of the key housing market areas identified in the draft Local Plan: "Mature Suburbs"; the "Rural Area"; the "North Solihull Regeneration Area"; Solihull Town Centre; and the M42 Economic Gateway. They range in size from small windfall sites of as few as three plots, up to substantial development sites in excess of 150 plots.

3.3 The information on any specific sites has then been adjusted to take into account generic assumptions for modelling purposes, such as density and timescales, in order that they can be used to test the base-line appraisal data and inform sensitivity analysis where variables are changed.

3.4 A summary of the various sites is set out below and further information is provided in Section 5 on the hypothetical assumptions that have informed the development appraisals:

Table 3.1: Site Summary

	DEVELOPABLE AREA	LOCATION	CURRENT USE
Site 1	0.47 ha	Mature Suburbs	Brownfield, former public house
Site 2	3.64 ha	Rural Area	Greenfield, farmland
Site 3	1.96 ha	Mature Suburbs	Greenfield, pasture
Site 4	2.23 ha	Mature Suburbs	Brownfield, mixed use
Site 5	2.63 ha	Rural Area	Greenfield, pasture
Site 6	1.13 ha	Rural Area	Open storage, Green Belt
Site 7	1.72 ha	North Solihull Regeneration	Greenfield and part brownfield
Site 8	0.96 ha	Solihull Town Centre	Brownfield, mixed use
Site 9	0.13 ha	Mature Suburbs	Brownfield, scrubland
Site 10	0.15 ha	North Solihull Regeneration Area	Brownfield, former public house

3.5 These "notional" sites have been suggested by the Council and we have not been provided with any valuation or transactional information that would be commercially confidential. Sensitivity analysis testing and the impact of the proposed affordable housing policy has therefore been applied to these sites whilst the identity of them remains confidential. The analysis has not been informed by any actual development proposals or transactional data.

Residual Land Value

3.6 The methodology that we have adopted in analysing the scope for affordable housing follows a standard residual development appraisal approach whilst considering also the existing use value (EUV) to ensure that there is sufficient margin (between the residual land value and the EUV) to provide an incentive for the landowner to release the site for development.

3.7 The residual land value (RLV) is derived from a change of use or intensification of use anticipated by the site's redevelopment. It is the value that a developer will pay a landowner for the land that can justify the implementation of development.

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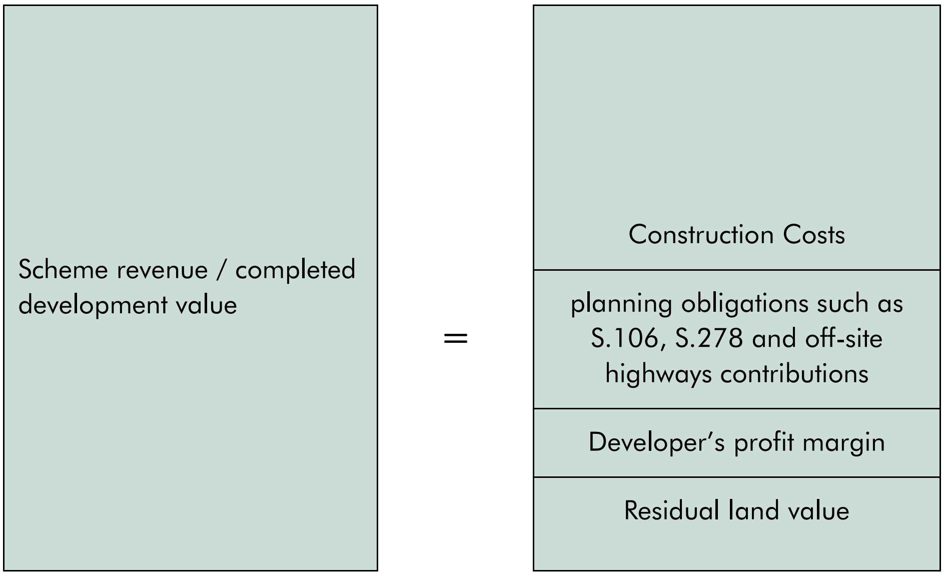
3.8 The residual method is adopted in the valuation of development land on the premise that the price which the purchaser/developer can pay for such land is the surplus after the cost of construction, cost of purchase and sale, cost of finance and an allowance for profit required to carry out the project has been deducted from the proceeds of the sale of the finished development.

3.9 The diagram below summarises the principles of the residual method approach:



3.10 In terms of assembling a generic development appraisal, key variables have been identified that are specific to residential development and market conditions reflecting the time at which the appraisals are undertaken. The development appraisals will require ongoing review during the Plan period in the light of changing market circumstances and planning polices both on a local and national basis.

3.11 In practice, site specific residual appraisals can be affected by a number of factors including but not limited to the following:

- "abnormal" costs related to, for example, ground conditions and the need for remediation and demolition.
- interest rate fluctuations.
- changes in market sentiment.
- build costs in terms of the proposed quality envisaged by the respective developers and market fluctuations in terms of rising/falling building prices
- effect on sales value and rates of sale related to the performance of the local housing market.
- the extent of any other planning obligations
- development phasing
- amount of developer's profit which will be correlated with the risk profile.

3.12 In the light of the extent of these development appraisal variables, future changes in the financial, housing and construction market together with policy requirements will all impact on development viability.

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3.13 We comment in Section 4 below on the standard assumptions that we have adopted for the purposes of this viability review.

Existing Use Value/Alternative Use Value

3.14 Both the developer and landowner will need a sufficient return to provide an incentive to undertake the development and release the land for housing. Existing Use Value (EUV) and Alternative Use Value (AUV) are therefore key factors in assessing the base position of whether a site is viable for redevelopment.

3.15 There would be an assumption that the landowner needs to be incentivised to bring the site forward for residential development and it is therefore essential that a margin above the EUV is achieved which reflects the commercial risk and return that any prudent landowner would seek to undertake a development project. A site occupied by a building producing a valuable rental income stream over a future long term period is unlikely to come forward for residential development as the RLV assuming residential development is probably less than the EUV.

3.16 We are assuming that a landowner/developer would seek a return of 20% above the EUV to justify development i.e. the residual value of the land for new residential development will need to exceed EUV + 20% for development to come forward. This study tests whether the RLVs assuming affordable housing requirements exceed this EUV threshold.

3.17 The table below provides a summary of the Existing Use Values for the notional sites. In most cases the EUV is the appropriate threshold land value as apart from their current use, new residential development would be the most appropriate form of development. It is the town centre sites where AUVs in particular become relevant. The EUVs shown in the table represent a broad review of the likely range of values and are not specific valuations.

3.18 A summary of the EUVs of the selected sites is set out below:

Table 3.2: Existing Use Values

	LOCATION	EUV PER HA	EUV + 20%
Site 1	Mature Suburbs	£501,810	£602,172
Site 2	Rural Area	£50,000	£60,000
Site 3	Mature Suburbs	£50,000	£60,000
Site 4	Mature Suburbs	£64,342	£77,210
Site 5	Rural Area	£239,400	£287,280
Site 6	Rural Area	£123,550	£148,260
Site 7	North Solihull Regeneration	£193,155	£231,800
Site 8	Solihull Town Centre	£1,770,412	£2,124,490
Site 9	Mature Suburbs	£50,000	£60,000
Site 10	North Solihull Regeneration Area	£50,000	£60,000

Grant

3.19 Grant from the Homes and Communities Agency is generally no longer available to subsidise affordable housing whereas previously Housing Corporation Grant assisted in gap funding sites in low value areas to allow the delivery of a higher proportion of

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affordable housing. No allowance has therefore been made in the development appraisals for grant subsidy to assist with marginal sites.

Community Infrastructure Levy

3.20 As at the date of this report, if a CIL charging schedule is introduced in Solihull, it would be on the basis that on-site affordable housing is provided through Section 106 arrangements at the level proposed in Policy 4 of the draft Local Plan. Under current CIL Regulations, any CIL would not include a charge payable on the development of affordable housing.

3.21 The NPPF refers to CIL charges being worked up and tested alongside the Local Plan and that any CIL should support and incentivise new development.

4. Development Appraisal Assumptions

4.1 The following assumptions were identified as key factors to inform the base case development appraisals that define the residual land values (RLVs) of the various notional sites. The assumptions as detailed below provided the base appraisals from which land values were derived. Sensitivity analysis (see Section 6) was then applied to test the effect of any variation of key factors on the sites' ability to deliver the required affordable housing.

Local Planning Policy Requirements

4.2 Based on the draft SPD guidelines, we have assumed the following base position in the development appraisals:

- a contribution of 40% affordable dwelling units on each development site.
- a tenure split of 65%/35% in respect of social/affordable rent and intermediate.
- small sites – a contribution to affordable housing required on residential sites with a minimum area of 0.2 ha or housing developments of three or more (net) homes.

4.3 Developer infrastructure contributions/planning obligations - these will vary according to individual development sites but we have assumed a contribution of £8,000 per unit for Section 106/infrastructure costs. This is to allow for planning obligations such as general infrastructure requirements including potential future infrastructure payments such as CIL; off-site highway works contributions; education contributions; and on-site mitigation. This allowance was discussed with the Council and in practice the amount will vary on a site by site basis.

4.4 Code for Sustainable Homes – based on discussions with the Council we have tested the feasibility of requiring Code Level 4 as encouraged by draft Policy P9. This will result in increased costs above base build cost assumptions. We set out in table 4.4 below the adjustment to reflect the uplift from Code Level 3.

4.5 Lifetime Homes – we have assumed that developers comply with the requirement to build to Lifetime Homes standards as required in draft Policy P15 Securing Design Quality. This is allowed for in the base building costs and floor areas for the residential units.

Unit Mix

4.6 We set out in Table 4.1 below the assumptions in respect of unit mix relating to the various notional sites. This takes into account current market sentiment to optimise the number of family housing units, i.e. 3-bed and 4-bed houses within any development scheme together with a reduction in the number of apartments. The table shows the densities assumed in the base-line appraisal, as advised by the Council.

4. Development Appraisal Assumptions

Table 4.1: Unit Mix

UNIT TYPE	SITE 1	SITE 2	SITE 3	SITE 4	SITE 5	SITE 6	SITE 7	SITE 8	SITE 9	SITE 10
1 bed flat						31	6	32		
2 bed flat				56		9	6	57		15
3 bed flat								6		
2 bed house		47	25		32		21			
3bed house		47	25	32	32		21		3	
4 bed house	10	47	25		9		0			
4 bed townhouse				12	21		21			
5 bed house	2	9	5		6					
Total	**12**	**150**	**80**	**100**	**100**	**40**	**75**	**95**	**3**	**15**

Source: Solihull Council

Unit Areas

4.7 Based on discussions with the Council and comments received from local Registered Providers (RPs) the areas that we have adopted for the respective unit types are set out in table 4.2 below.

Table 4.2: Unit Areas

UNIT TYPE	GROSS INTERNAL AREA (M2)	GROSS TO NET	NET INTERNAL AREA (M2)
1 bed flat	53	85%	45
2 bed flat	71	85%	60
3 bed flat	94	85%	80
2 bed house	65	100%	65
3bed house	90	100%	90
4 bed house	121	100%	121
4 bed townhouse	111	100%	111
5 bed house	149	100%	149

Source: Solihull Council

4.8 It has been assumed the same unit areas apply to affordable and private market housing.

4.9 Table 4.2 also demonstrates the gross to net floor space assumptions adopted. High density apartment accommodation requires common areas including entrance areas and stair cores and a gross to net ratio of 85% for flats has been allowed. In the case of houses it is assumed that houses provide 100% sellable space.

Sales Values

4.10 Sales values will be determined by a number of variables including the location of the development; the specification/quality to which the units are to be built; and then market conditions. We have considered all of the notional sites and taken into account current

4. Development Appraisal Assumptions

market conditions (see CBRE's research at Appendix 2) together with input from the Council, local agency advice and detailed in-house research.

4.11 The conclusions as to appropriate sales values (assuming current April 2012 values) are set out in table 4.3 below. This adopts the hypothetical mix of units and densities as described in Table 4.1 above.

Table 4.3: Private Sales Values - £ per sq. m.

UNIT TYPE	SITE 1	SITE 2	SITE 3	SITE 4	SITE 5	SITE 6	SITE 7	SITE 8	SITE 9	SITE 10
1 bed flat						£3,588	£1,794	£3,812		
2 bed flat				£2,318		£3,643	£1,656	£3,726		£1,656
3 bed flat								£3,004		
2 bed house		£3,229	£2,307		£2,768		£1,845			
3bed house		£3,052	£2,219	£3,052	£2,774		£1,554		£2,774	
4 bed house	£3,188	£2,898	£2,277	£2,484	£2,898					
4 bed townhouse					£3,140		£1,525			
5 bed house	£2,691	£3,027	£2,018		£2,960					

4.12 As stated in para 4.2 above, the base case appraisals assume a 40% affordable housing contribution of which 65% is affordable/social rent and 35% is intermediate.

4.13 The value for social rented units is assumed to be 45% of the private sale value and for shared ownership this percentage increases to 65%.

4.14 Affordable housing sales are assumed to follow a 'Golden Brick Rule' where 40% of value gets paid when the initial third of the gross area is built, 40% when two thirds is built and the remaining 20% is paid when all of the gross affordable area is developed.

Construction Cost

4.15 The build costs that we have adopted are taken from the industry standard, the current RICS Building Cost Information Service (BCIS) (regionally adjusted). We have also taken account of Spon's Architects' And Builders' Price Book 2012 which is a further industry publication advising of average build prices. The build costs used are shown in table 4.4 below as the Base Cost per sq m. These assume current day build costs without inflation applied.

4.16 Table 4.4 demonstrates additions to the Base Cost to allow for the following:

- an uplift of 10% to take account of external works which are otherwise excluded from the BCIS figures.
- an uplift to reflect Code Level 4 of £8,000 per unit.
- the draft Policy P15 Securing Design Quality proposes Lifetime Homes standards and at least "Gold/Silver" Building For Life design standards and these are allowed for in the Base Cost.

4. Development Appraisal Assumptions

Table 4.4: Base Build Cost

UNIT TYPE	BASE COST PSM	UPLIFT FOR EXTERNAL WORKS	UPLIFTED COST FOR EXTERNAL WORKS PSM	CODE LEVEL 4 ADDITIONAL COST PER UNIT	TOTAL COST PSM
1 bed flat	959	10%	1,055	£8,000	1,206
2 bed flat	959	10%	1,055	£8,000	1,168
3 bed flat	959	10%	1,055	£8,000	1,140
2 bed house	828	10%	911	£8,000	1,034
3 bed house	828	10%	911	£8,000	1,000
4 bed house	828	10%	911	£8,000	977
4 bed townhouse	828	10%	911	£8,000	983
5 bed house	828	10%	911	£8,000	965

4.17 The same Base Cost has been applied to both affordable and private market housing to reflect the quality standards required by the Council and RPs.

4.18 We have made assumptions in respect of the base case appraisals in relation to phasing the development. This is in terms of both the construction period which varies between the schemes based on the size of the development and also the projected sales rates whereby the developer will only build out the units in line with sales being achieved.

4.19 Table 4.5 below sets out our assumptions in respect of the lead-in period before construction commences, the construction period and the rate of sales per month. The private sales void refers to the number of months prior to construction end that the sales start.

Table 4.5: Phasing

UNIT TYPE	PRE CONSTRUCTION/MTHS	CONSTRUCTION PERIOD/MTHS	PRIVATE SALES VOID/MTHS	PRIVATE SALES RATE/UNITS PER MONTH
Site 1	3.00	12.00	-6.00	3.00
Site 2	3.00	36.00	-24.00	3.00
Site 3	3.00	24.00	-8.00	3.00
Site 4	3.00	24.00	-12.00	3.00
Site 5	3.00	24.00	-12.00	3.00
Site 6	3.00	18.00	-9.00	3.00
Site 7	3.00	24.00	-12.00	3.00
Site 8	3.00	24.00	-12.00	3.00
Site 9	N/A	N/A	N/A	N/A
Site 10	3.00	12.00	-6.00	3.00

Source: CBRE

4. Development Appraisal Assumptions

Developer's Profit

4.20 The developer will seek to take a profit margin on its development costs and this will correlate with the perceived risk of the development. The delivery of open market housing is considered to be riskier than affordable housing where the developer would pre-agree disposal onwards to an RP.

4.21 We have assumed for the base case appraisals a profit level of 20% of Gross Development Value (GDV) in respect of open market housing and 6.5% of GDV on affordable housing reflecting the limited sales risk on these units. This provides a blended yield of 16.67% on GDV.

Site Abnormal Costs

4.22 We have not taken into account in the base case scenarios any "abnormal" costs related to site specific items. This could include site clearance, demolition, remediation and/or extra-ordinary infrastructure costs. The draft Affordable Housing SPD is clear that the Council expects that abnormal development costs would be reflected in the land purchase price unless it can be demonstrated that they could not have reasonably been anticipated.

Finance Costs

4.23 An interest rate of 7% per annum has been assumed.

Other Base Case Appraisal Assumptions

4.24 The base case appraisals assume the following:

- Contingency – 5% of construction cost to allow for the mitigation of any exceptional costs arising and which is a standard included by developers in their appraisals
- Professional fees – assumed at 10% of construction cost. This comprises design team fees such as architects, quantity surveyors, structural engineer and project management fees.
- Site purchase costs of 5.8% to include stamp duty, agent's fees and solicitor's fees.
- Sales and marketing costs of 4%

5. Results of Development Appraisals

5.1 The results of the modelling of the development appraisals for the ten notional sites are set out below. These development appraisals have been informed by the base case data as set out in the previous section prior to any sensitivity analysis. The results therefore represent the viability of a number of generic sites based on general assumptions and create the base case RLVs. These assumptions may not be entirely relevant in actual scenarios where sites have site specific abnormal costs.

5.2 We attach at **Appendix 3** the development appraisal outputs relating to the sites below.

5.3 A summary of the EUVs for the various sites compared to the Residual Land Values is set out below at Table 5.1. This justifies redevelopment of the sites for residential uses in the majority of cases:

Table 5.1: Existing Use Values and Residual Land Values

	EUV PER HA	EUV PER HA + 20%	BASE RLV PER HA
Site 1	£501,810	£602,172	£2,198,463
Site 2	£50,000	£60,000	£2,093,359
Site 3	£50,000	£60,000	£455,345
Site 4	£64,342	£77,210	(£344,256)
Site 5	£239,400	£287,280	£1,659,474
Site 6	£123,550	£148,260	£706,463
Site 7	£193,155	£231,800	(£1,079,632)
Site 8	£1,770,412	£2,124,490	£2,556,987
Site 9	£50,000	£60,000	£1,002,319
Site 10	£50,000	£60,000	(£4,122,666)

Site 1– Mature Suburbs

5.4 This is hypothetically a small brownfield "windfall" site located in a "Mature Suburbs" area of the Borough. It is unlikely any alternative use would be appropriate other than residential accommodation. This site provides a developable area of 0.47 ha (1.15 acres).

5.5 The suggested development proposals comprise a high quality development:

- a density of 26 units per ha (10 units per acre)
- 10 no. 4-bed houses and 2 no. 5-bed houses

5.6 The existing use value is estimated at **£502,000** per ha (£203,200 per acre) taking into account a hypothetical use as a former public house. The residual land value for the site comprises **£1,023,140** equating to **£2.198m per ha** (£889,700 per acre).

Site 2 – Rural Area

5.7 This is a hypothetical greenfield site located in a Rural Area. Other than the existing use, the only likely alternative use is residential. The site provides a developable area of 3.64 ha (9 acres).

5.8 The suggested development proposals comprise:

- a density of 41units per ha (16.6 units per acre)

5. Results of Development Appraisals

- 47 no. 2-bed houses; 47 no. 3-bed houses; 47 no. 4-bed houses; and 9 no. 5-bed houses

5.9 The existing use value is estimated at circa **£50,000** per ha (£20,235 per acre) taking into account a hypothetical previous use as agricultural. The residual land value for the site comprises **£7.624m** equating to **£2.093m per ha** (£847,200 per acre).

Site 3 – Mature Suburbs

5.10 This is assumed to be a greenfield site within the "Mature Suburbs" housing market area where the only likely alternative use is residential. The site provides a developable area of 1.96 ha (4.84 acres).

5.11 The suggested development proposals comprise:

- a density of 41 units per ha (17units per acre)
- 25 no. 2-bed houses; 25 no. 3-bed houses; 25 no. 4-bed houses; and 5 no. 5-bed houses

5.12 The existing use value is estimated at circa **£50,000** per ha (£20,325 per acre) taking into account a hypothetical current use as agricultural. The residual land value for the site comprises **£891,875** equating to **£455,345 per ha** (£184,300 per acre).

Site 4 – Mature Suburbs

5.13 This is a hypothetical brownfield town centre site within the "Mature Suburbs" housing market area. Alternative uses could include mixed use development providing office accommodation and leisure uses, in addition to residential. The site provides a developable area of 2.43 ha (6.0 acres).

5.14 The suggested development proposals comprise:

- a density of 45 units per ha (18 units per acre)
- 56 no. 2-bed flats; 32 no. 3-bed houses; 12 no. 4-bed town houses

5.15 The existing use value is estimated at circa **£64,342 per ha** (£26,040 per acre) on the hypothetical basis that the only income generated by the site would be from temporary parking. The residual land value for the site is negative and comprises **-£835,900** equating to **-£344,000 per ha** (-£139,200 per acre).

Site 5 – Rural Area

5.16 This is assumed to be a greenfield site predominantly within the "Rural Area". Other than the existing use, the only likely alternative use is residential. The site provides a developable area of 2.63 ha (6.5 acres).

5.17 The suggested development proposals comprise:

- a density of 38 units per ha (15 units per acre)
- 32 no. 2-bed houses; 32 no. 3-bed houses; 9 no. 4-bed houses; 21 no. 4-bed town houses; and 6 no. 5-bed houses

5.18 The existing use value is estimated at circa **£239,400** per ha (£96,890 per acre) taking into account a hypothetical current use as part agricultural and part residential. The residual land value for the site comprises **£4,365,200** equating to **£1,659,800 per ha** (£671,700 per acre).

5. Results of Development Appraisals

Site 6 – Rural Area

5.19 This is assumed to be a "Rural Area" site located within the Green Belt, which would be released for development from its existing use as a rural exception. Given the Green Belt designation of the site, aside from its existing use no alternative use is likely to be appropriate other than residential. The site provides a developable area of 1.13 ha (2.8 acres).

5.20 The suggested development proposals comprise:

- a density of 35 units per ha (14 units per acre)
- 31 no. 1-bed flats; 9 no. 2-bed flats.

5.21 The existing use value is estimated at circa **£123,500** per ha (£50,000 per acre) taking into account a hypothetical current use as open storage. The residual land value for the site comprises **£800,507** equating to **£706,500 per ha** (£285,900 per acre).

Site 7 – North Solihull Regeneration Area

5.22 This site is assumed to be located within an area that is recognised as being in need of substantial community, economic and environmental regeneration in order to reduce high levels of deprivation and reduce the inequality gap with the generally more prosperous south of the Borough. The area is characterised by relatively low house prices and land values. Other than the hypothetical existing use, the only likely alternative use is residential. The site provides a developable area of 1.72 ha (4.25 acres).

5.23 The suggested development proposals comprise:

- a density of 44 units per ha (18 units per acre)
- 6 no. 1-bed flats; 6 no. 2-bed flats; 21 no 2-bed houses; 21 no.3-bed houses; 21 no. 4-bed town houses.

5.24 The existing use value is estimated at circa **£193,200** per ha (£78,200 per acre) taking into account a hypothetical current use as public open space and storage. The residual land value for the site comprises a negative value of **-£1,861,243** equating to **-£1.079m per ha** (-£436,700 per acre).

Site 8 – Solihull Town Centre

5.25 This site is assumed to cover a number of individual plots within the Solihull Town Centre area, where mixed-use redevelopment schemes including residential, retail, office, leisure and car parking uses may be appropriate. High density development would be anticipated. The site provides a developable area of 0.96 ha (2.37 acres).

5.26 The suggested development proposals comprise:

- a density of 100 units per ha (40 units per acre)
- 32 no. 1-bed flats; 57 no. 2-bed flats; 6 no.3-bed flats.

5.27 The existing use value is estimated at **£1,770,412** per ha (£716,500 per acre) taking into account, as an example, a hypothetical current use as surface car parking. The residual land value for the site comprises **£2,457,600** equating to **£2.557m per ha** (£1,035m per acre).

5. Results of Development Appraisals

Site 9 – Mature Suburbs

5.28 This is assumed to be a small brownfield site in the "Mature Suburbs". It is unlikely any alternative use would be appropriate other than residential accommodation. The site provides a developable area of 0.13 ha (0.31 acres). It comprises a "small site" that in previous affordable housing policy would have not been required to provide any contribution.

5.29 The suggested development proposals comprise three 3-bed houses

5.30 The existing use value is estimated at **£50,000** per ha ((£20,325 per acre) taking into account the hypothetical current use as vacant/derelict land in a residential location. The residual land value for the site comprises **£125,743** equating to **£1.002m per ha** (£406,000 per acre).

Site 10 – North Solihull Regeneration Area

5.31 This is assumed to be a small brownfield site within the North Solihull Regeneration Area. It is unlikely any alternative use would be appropriate other than for residential accommodation. An apartment development is suggested. The site provides a developable area of 0.15 ha (0.37 acres). It is a small site that in previous affordable housing policy would have not been required to provide any contribution if the number of apartments was below 15 units.

5.32 The suggested development proposals comprise:

- a density of 100 units per hectare (40 units per acre)
- 15 no. 2-bed apartments

5.33 The existing use value is estimated at **£50,000** per ha (£20,325 per acre) taking into account that it is hypothetically a cleared site that is currently not income producing. The residual land value for the site comprises a negative land value of -£618,400 equating to -£4.123m per ha (-£1,668m per acre).

6. Sensitivity analysis and other scenarios

6.1 We have tested a range of variables against the residual land value outputs to see how these are affected by changing market conditions, development costs and the form of affordable housing contribution required.

Increase/decrease in sales values

6.2 Firstly we have run a sensitivity analysis in which sales values either fall or increase by 10% & 20% as set out in Table 6.1below. This demonstrates that the impact of house prices on land value is significant. In terms of all the variables tested below, sensitivity to movement in sales values shows the greatest change in residual land values per ha.

Table 6.1: Increase/decrease in sales values

SALES VALUES LAND VALUE PER HA	-20%	-10%	+0%	+10%	+20%
Site 1	£1,098,856	£1,648,690	£2,198,463	£2,748,234	£3,298,005
Site 2	£871,147	£1,482,252	£2,093,359	£2,704,466	£3,315,571
Site 3	(£511,778)	(£1,488)	£455,345	£912,092	£1,368,844
Site 4	(£1,481,362)	(£906,996)	(£344,256)	£113,128	£551,637
Site 5	£574,375	£1,116,924	£1,659,474	£2,202,025	£2,744,574
Site 6	£18,541	£362,501	£706,463	£1,050,423	£1,394,385
Site 7	(£1,869,419)	(£1,474,525)	(£1,079,632)	(£686,813)	(£307,326)
Site 8	£341,983	£1,449,485	£2,556,987	£3,664,489	£4,771,991
Site 9	£310,982	£656,650	£1,002,319	£1,347,987	£1,693,656
Site 10	(£5,442,702)	(£4,782,682)	(£4,122,666)	(£3,465,741)	(£2,818,882)
Average Land Value per Ha	**(£147,077)**	**£410,223**	**£958,787**	**£1,490,295**	**£2,017,281**

6.3 It should also be noted that residual value is much more sensitive to house price change in lower value areas than higher ones with a greater percentage differential for sites such as, for example, Site 3 than Sites 1 and 2. Lower value sites therefore become more marginal and less able to sustain affordable housing requirements when sales values fall. RLVs for higher density sites are also more volatile in responding to house price fluctuations.

6.4 Given ongoing concerns about availability of credit for the housing market and for developers, it is difficult to predict the outturn for land values in the future, hence requiring ongoing review of the affordable housing contribution during the Plan period.

Increase/decrease in build costs

6.5 The modelling has also taken into account an increase or decrease in the range of base construction costs (from +20% to -20%) as there remains uncertainty over trends in build costs partly due to the lack of activity and reported downturn in construction.

6.6 Table 6.2 below illustrates the effect of changes in build costs and whilst residual land values are not as sensitive to change as with sales values, there is still a marked impact on residual land values. It is the lower value sites that again demonstrate the greatest percentage changes in land value as a result of the fluctuation of these costs.

6. Sensitivity analysis and other scenarios

Table 6.2: Increase/decrease in build cost

BUILD COSTS LAND VALUE PER HA	+20%	+10%	+0%	-10%	-20%
Site 1	£1,622,757	£1,889,011	£2,198,463	£2,507,916	£2,817,368
Site 2	£1,419,379	£1,724,288	£2,093,359	£2,462,431	£2,831,503
Site 3	(£250,165)	£76,558	£455,345	£834,132	£1,212,919
Site 4	(£1,366,638)	(£906,210)	(£344,256)	£112,968	£551,320
Site 5	£1,027,859	£1,313,055	£1,659,474	£2,005,895	£2,352,314
Site 6	£273,814	£461,175	£706,463	£951,750	£1,197,038
Site 7	(£1,924,965)	(£1,545,945)	(£1,079,632)	(£615,681)	(£185,020)
Site 8	£1,169,511	£1,783,657	£2,556,987	£3,330,315	£4,103,639
Site 9	£589,642	£775,869	£1,002,319	£1,228,769	£1,455,219
Site 10	(£5,908,589)	(£5,110,947)	(£4,122,666)	(£3,138,435)	(£2,165,529)
Average Land Value per Ha	**£197,783**	**£540,912**	**£958,787**	**£1,359,684**	**£1,753,799**

Increase/decrease in S.106/Infrastructure costs

6.7 In the light of the possible future preparation of a Preliminary Draft Charging Schedule, we have also tested the effect of changes to payments for Section 106 and infrastructure contributions. Table 6.3 below sets out the impact of overall infrastructure costs per unit (where £8,000 per unit is our base assumption) of £5,000 to £15,000 per unit. The table demonstrates that this creates a slight reduction in viability with an increase in such contributions and only a marginal improvement, across all sites, with a reduction in such costs:

Table 6.3: Increase/decrease in S.106/Infrastructure costs

S106 COSTS PER UNIT LAND VALUE PER HA	£5,000	£8,000	£10,000	£15,000
Site 1	£2,275,232	£2,198,463	£2,147,283	£2,019,334
Site 2	£2,215,976	£2,093,359	£2,011,614	£1,807,250
Site 3	£576,949	£455,345	£374,275	£171,600
Site 4	(£214,525)	(£344,256)	(£430,742)	(£646,960)
Site 5	£1,772,659	£1,659,474	£1,584,017	£1,395,374
Site 6	£811,564	£706,463	£636,395	£461,226
Site 7	(£942,593)	(£1,079,632)	(£1,170,992)	(£1,399,390)
Site 8	£2,851,270	£2,556,987	£2,360,798	£1,870,318
Site 9	£1,073,517	£1,002,319	£954,854	£836,188
Site 10	(£3,807,664)	(£4,122,666)	(£4,332,663)	(£4,857,663)
Average Land Value per Ha	**£1,088,915**	**£958,787**	**£872,034**	**£655,153**

6. Sensitivity analysis and other scenarios

Increase/decrease in densities for town centre sites

6.8 We have also considered changes in the proposed density of development for the town centre sites. Table 6.4 below illustrates the impact of increases and decreases in densities for the site by 10% and 20% with a 40% affordable housing contribution. The more marginal town centre site, Site 4 in the Mature Suburbs, demonstrates a worsening viability with a greater density of development whereas Site 8, in Solihull Town Centre improves its viability as each unit of housing adds profit to the development.

Table 6.4: Increase/decrease in town centre site densities

TOWN CENTRE DENSITY LAND VALUE PER HA	-20%	-10%	+0%	+10%	+20%
Site 4	(£258,775)	(£300,415)	(£344,256)	(£392,498)	(£444,136)
Site 8	£2,099,669	£2,331,825	£2,556,987	£2,794,344	£3,008,249

Testing a range of affordable housing contributions

6.9 Sensitivity analysis can address one of the key questions of the report as to the extent to which the affordable housing target proposed impacts on the viability of the sites. Table 6.5 below tests the ability of the land values to support the scenarios of a 35%, 40% and 45% contribution of affordable housing with all other base variables remaining the same.

6.10 As expected, an increased affordable housing requirement will decrease RLVs although the impact is likely to be more severe at the lower end of the market. On the face of it, the higher value greenfield sites are more readily able to absorb a higher affordable housing contribution. The higher affordable housing contribution does however have a more significant negative effect on brownfield town centre, high density sites.

Table 6.5: Affordable Housing Contributions

AFFORDABLE % LAND VALUE PER HA	EUV + 20% PER HA	35%	40%	45%
Site 1	£602,172	£2,359,553	£2,198,463	£2,037,371
Site 2	£60,000	£2,235,569	£2,093,359	£1,959,531
Site 3	£60,000	£559,972	£455,345	£355,432
Site 4	£77,210	(£266,096)	(£344,256)	(£447,974)
Site 5	£287,280	£1,790,386	£1,659,474	£1,534,118
Site 6	£148,260	£792,680	£706,463	£615,571
Site 7	£231,800	(£990,056)	(£1,079,632)	(£1,160,158)
Site 8	£2,124,490	£2,816,562	£2,556,987	£2,308,436
Site 9	£148,300	£1,094,307	£1,002,319	£910,330
Site 10	£60,000	(£3,944,690)	(£4,122,666)	(£4,287,379)
Average Land Value per Ha	£500,339	£1,080,030	£958,787	£838,412

Extra Care Housing

On any given S.106 Agreement, there may be circumstances where the Council seeks to negotiate affordable Extra Care provision within a development scheme as an appropriate component. Viability is likely to be different for affordable Extra Care provision in

6. Sensitivity analysis and other scenarios

comparison with other general needs. The assessment of the relevant provision will therefore need to be looked at on a site specific basis to assess an appropriate contribution. Variables may include a non-standard net to gross ratio of floorspace created. There may also be the possibility of grant funding being available from sources such as the Homes and Communities Agency.

7. Summary of Findings

7.1 This section of the report sets out the conclusions from the viability analysis in the context of the study brief in relation to:

- the affordable housing target proposed.
- the affordable housing threshold proposed.
- the proposed affordable housing tenure split.
- the affordable housing requirement in the context of other Local Plan policies.

7.2 The Council in its draft SPD is proposing an affordable housing requirement of at least 40% with the aim of maximising the level of on-site affordable housing on any suitable site. The draft SPD states that, for larger sites, the Council will normally prepare a development brief in consultation with the landowner or developer and this will incorporate guidance on the amount and type of affordable housing.

7.3 The testing of the affordable housing policy has been based around a number of notional case study sites. The ten case studies cover a wide area across the Borough and have varying characteristics in terms of greenfield, town centre and brownfield locations. The case study list therefore provides only a limited sample of sites and therefore broad assumptions can only be drawn from the modelling exercise and analysis of the output residual land values.

Existing Use Value

7.4 In determining viability and whether a site is able to come forward for new residential development, existing use value is a key driver. We have adopted the assumption that any land owner/developer would seek a 20% uplift on EUV to justify development and in addition there will need to be a sufficient margin of value created for the site to be able to deliver affordable housing.

7.5 Many of the sites tested have very low EUVs being currently agricultural land, public open space or low value brownfield land. The town centre sites have differing characteristics and Site 8, Solihull Town Centre has higher prevailing EUVs/AUVs where office, retail or car parking uses otherwise drive value. Site 8 becomes marginal once risk factors such as falling sales values or increased development costs reduce the RLV below its EUV. By contrast, Site 4 is a brownfield town centre site where the EUV is assumed to be minimal yet the site is only marginal as a residential development opportunity.

7.6 The town centre sites, in contrast to the greenfield sites and low value brownfield sites, are less able to justify a 40% affordable housing content as the sites are more sensitive to adjustment of the appraisal variables that increase cost or reduce value.

7.7 Sites with low EUVs such as greenfield and public open space sites are more capable of delivering higher levels of affordable housing. In addition, town centre sites are likely to be high density schemes and more reliant on apartments to drive value which is currently a weaker sector of the residential market. High density schemes may also attract greater contributions towards planning obligations on a pro-rata basis in comparison to lower density schemes.

7.8 We set out at Table 7.1 below a summary of the EUVs with a 20% "development incentive" margin in comparison to the RLVs adjusted for the worst-case sensitivity analysis for the various scenarios (only the factors highlighted have been changed from the base case). This confirms that the high density town centre sites and the lower value sites are most sensitive to negative impacts on the appraisal. The greatest impact on land value (as

7. Summary of Findings

shown by the Average RLVs) is, firstly, a fall in sales value of 20% and secondly a rise in build costs of 20% i.e. the RLVs are most sensitive to market conditions. In these cases the RLV is less than the EUV +20% so development would not come forward.

Table 7.1: EUVs+20% with Sensitivity Adjusted RLVs Per Ha

	EUV + 20% PER HA	BASE RLV PER HA	SALES VALUES – 20%	BUILD COSTS +20%	S.106 - £15,000 PER UNIT	AFFORDABLE HOUSING 45%
Site 1	£602,172	£2,198,463	£1,098,856	£1,622,757	£2,019,334	£2,037,371
Site 2	£60,000	£2,093,359	£871,147	£1,419,379	£1,807,250	£1,959,531
Site 3	£60,000	£455,345	(£511,778)	(£250,165)	£171,600	£355,432
Site 4	£77,210	(£344,256)	(£1,481,362)	(£1,366,638)	(£646,960)	(£447,974)
Site 5	£287,280	£1,659,474	£574,375	£1,027,859	£1,395,374	£1,534,118
Site 6	£148,260	£706,463	£18,541	£273,814	£461,226	£615,571
Site 7	£231,800	(£1,079,632)	(£1,869,419)	(£1,924,965)	(£1,399,390)	(£1,160,158)
Site 8	£2,124,490	£2,556,987	£341,983	£1,169,511	£1,870,318	£2,308,436
Site 9	£148,300	£1,002,319	£310,982	£589,642	£836,188	£910,330
Site 10	£60,000	(£4,122,666)	(£5,442,702)	(£5,908,589)	(£4,857,663)	(£4,287,379)
AVERAGE	£500,339	£958,787	(£147,077)	£197,783	£655,153	£838,412

7.9 Where there may be insufficient margin between the EUVs+20% and the RLV, residential development would not come forward without a possible renegotiation of the affordable housing contribution.

7.10 Some types of development present a challenge to delivering a significant level of affordable housing due to the high EUV in comparison with the RLV that would be generated by any new redevelopment. In particular, in the North Solihull Regeneration Area a number of the sites are intervention sites where the existing residential properties need to be acquired, demolished and replaced by new development of a similar density where sales values are low. This leads to poor site viability and questionable deliverability.

Affordable Housing Target

7.11 Our analysis assumes a base-line position for the RLV modelling of a 40% affordable housing contribution albeit the draft SPD refers to a contribution of at least 40% on the dwelling site. We have therefore tested the residual land values and viability for contributions of 35%, 40% and 45%. The testing of the contribution percentage highlights that residential land values in the higher value areas can support a minimum of 40%.

7.12 However if market conditions deteriorate and in particular if sales values fall, then sites in the lower value areas would clearly be unable to support a 40% contribution. Additionally too high a proportion of affordable housing on sites could impact on sales values for the open market dwellings, reduce RLVs and potentially deter some developers/landowners from bringing forward development.

7.13 The Council should take into account the development market reaction to the lack of a ceiling on the affordable housing contribution if the proposed wording remains. Indeed in Section 2 Purpose and Status of the draft SPD it states that a consistent approach should be provided to give…"clarity and certainty" to landowners, valuers and developers.

7. Summary of Findings

7.14 To cite the required percentage as a minimum may create uncertainty for the developers who will not know what percentage contribution to apply, particularly on smaller sites, and this may lead to individual site viability testing. The planning officers would then need to review the financial appraisals and have sufficient resources and capacity to enable them to do this and with possible consequent delays in processing applications.

7.15 Schemes that have substantive exceptional development costs such as decontamination or demolition may not be able to deliver the target level required by the Council leading to negotiation of a viable contribution.

7.16 Developers and landowners are likely to seek a negotiation of a lower or zero percentage rate for the North Solihull Regeneration Area and other deprived areas in the Borough where RLVs are negative compared to EUVs and in particular in cases where there are intervention sites. It is likely that in these deprived areas, developers would in any event seek to involve an RP due to the benefit of certainties of sale receipts early in the sales period.

7.17 Should the Council decide on a fixed rate higher than 40% for the Borough there is a risk that the developers may seek to negotiate more off-site contributions due to the impact of a high percentage of affordable housing on their open market sales values. Developers are averse to high affordable housing percentages on site as they consider it negatively affects their open market sales values. As shown in our sensitivity analysis, reductions in sales values have the greatest impact on land values and site viability.

7.18 In summary, the analysis that we have undertaken demonstrates that the delivery of a 40% affordable housing contribution in the south of the Borough is generally achievable taking into account the types and size of sites coming forward for development. We consider that fixing the rate above 40% or stating a requirement of <u>at least</u> 40% would be a deterrent to development and result in protracted negotiations with developers and landowners.

7.19 We consider therefore that the Council should consider fixing the affordable housing percentage rate at 40%.

7.20 Sites in lower value areas, in particular in the North Solihull Regeneration Area, are demonstrating significant problems with viability issues and an inability to support an affordable housing contribution of 40%. Rather than introduce a differential rate in areas where the land values are significantly below the Borough average, individual sites could be assessed for viability on a site-by-site basis.

7.21 The principle of developers being able to seek a developer contribution/commuted sum payment for off-site affordable housing provision is addressed in the draft SPD and we consider that this offers greater flexibility to developers. This policy will need to be applied on a site-by-site basis taking site characteristics, the type of housing to be provided and location into account. Development appraisal variables will change during the Plan period and the affordable housing percentage will require ongoing review.

Affordable Housing Threshold

7.22 We note that the proposed SPD policy is proposing that sites of a minimum of 0.2 ha or housing developments of three or more net dwellings will require an affordable housing contribution.

7.23 One of the notional sites, Site 9, provides a test case for a small site that in previous affordable housing policy would not have been required to provide any contribution. With a 40% affordable housing contribution, the RLV for Site 9 still demonstrates a significant

7. Summary of Findings

margin above EUV with a positive land value of £1.002m per ha using the base appraisal data and assuming that one out of the three houses is affordable.

7.24 In the past, small sites have made a significant contribution to the supply of residential sites in Solihull. The Draft Local Plan continues to support windfall development in sustainable locations where it will protect and enhance local distinctiveness. Policy P5 allows for 150 'windfall' dwellings each year during the plan period. This is a modest proportion compared to the previous ten years, which averages 214 dwellings per annum.

7.25 The Council is confident, therefore, that the supply of smaller sites will continue and be in compliance with national policy in the NPPF which expects local authorities to resist inappropriate development in residential gardens.

7.26 We have considered whether there could be management issues for RPs around the provision of affordable housing on small sites where there are single units. From initial discussions with local Registered Providers, some have responded that they would not consider this to be a management problem for them and they would be prepared to take on single or small numbers of affordable units.

7.27 An alternative to on-site provision on very small sites could be for the developer to seek a commuted sum due to the cost and resource issues otherwise to service the management requirements of a single unit. Sales values for smaller schemes can occasionally be higher per sq m than average values for larger developments and this will assist in sustaining the RLV and providing affordable housing on site or to finance a payment in lieu.

7.28 The draft SPD allows for developer payments/commuted sums, where it can be robustly justified, including in the circumstances where an RP may not want to take a single or very small number of dwellings.

7.29 A benefit of including smaller sites within the affordable housing threshold is that, assuming development sites continue to come forward, there will be an increase in the supply of affordable housing including in higher value areas in the south of the Borough where there is a current shortage.

7.30 The analysis demonstrates that the small sites can match the residual land value on a pro-rata basis with that of the larger sites. In practice, as sites come forward, however, there may be disproportionate costs such as provision of access and demolition that may more significantly affect the RLV.

Affordable Housing Tenure Split

7.31 We have also reviewed the impact of changes in the tenure split between social rented/affordable and intermediate. Table 7.2 below shows the marginal impact on land value for all sites where the variables are social or affordable rent/intermediate on a 70%/30%, 65%/35% and 62%/38% basis. This includes for the average site RLV where there is little fluctuation in the adjusted values.

7. Summary of Findings

Table 7.2: Affordable Housing Tenure Split

SOCIAL RENTED/INTERMEDIATE SPLIT LAND VALUE PER HA	70%/30%	65%/35%	62%/38%
Site 1	£2,173,415	£2,198,463	£2,213,491
Site 2	£2,062,734	£2,093,359	£2,111,734
Site 3	£431,951	£455,345	£469,382
Site 4	(£369,388)	(£344,256)	(£331,564)
Site 5	£1,631,584	£1,659,474	£1,676,209
Site 6	£688,394	£706,463	£717,304
Site 7	(£1,100,236)	(£1,079,632)	(£1,067,269)
Site 8	£2,497,484	£2,556,987	£2,592,688
Site 9	£984,220	£1,002,319	£1,013,178
Site 10	(£4,157,009)	(£4,122,666)	(£4,102,060)
Average Land Value per Ha	**£931,264**	**£958,787**	**£974,920**

7.29 The increase in the intermediate content would lead to a marginal increase in development profitability which could in turn justify a greater contribution of affordable housing. In practice, for the smaller sites a shift in tenure may only involve a small number of units.

7.30 As the viability testing has demonstrated a marginal effect in changing the percentage requirement, the preferred split should be driven by housing need comprising the need to provide either family housing units (social rented) or units for the first-time buyer market which is more likely to focus on intermediate units. This can be informed by the Council's Strategic Housing Market Assessment.

7.31 The Affordable Housing SPD recognises that the economic viability of some sites may result in less social rented housing being provided and in these circumstances affordable rent will be considered. In the case of houses in particular, this can improve economic viability by generating greater revenues and therefore value to the development appraisal.

Affordable housing requirements in the context of other Local Plan policies

7.32 In terms of the viability testing, we have tested the appraisals with variations in build cost relating to current and future policies within the draft Local Plan. The base case assumptions that have been used to determine overall site viability and development cost include:

- S106/infrastructure payments – an assumed average of £8,000 per unit has been allowed for planning obligations to include potential future infrastructure payments such as CIL; off-site highway works contributions; and education payments
- Code Level 4 for Sustainable Homes – whilst this is currently not a standard, it reflects the need for high quality sustainable building practice and is encouraged in the draft Local Plan (paragraph 10.2.6). The base case build cost assumes that the new housing is built to this standard.
- Draft Policy P15 Securing Design Quality standards – to include Lifetime Home Standards and Building for Life Standards which leads to larger property sizes. Energy Standards have also been taken into account.

7. Summary of Findings

7.33 The base case RLVs and the subsequent sensitivity analysis undertaken demonstrate that the affordable housing contribution of 40% allows for the implementation of these additional policies.

8. Conclusions

- This report has examined in detail the viability of the Council's proposed policy P4 Meeting Housing Needs.
- It has looked at a representative sample of residential development sites within the Borough by size, geography, type and value.
- A RLV method has been used, supported by robust information. This has included local intelligence on achieved sales prices and sales rates.
- This report supports the Council's proposal for a challenging affordable housing target in the Local Plan.
- The application of a lower threshold is justified in the context of Solihull's local circumstances and Registered Providers have confirmed to the Council that they would have no in principle objection to taking on single or very small numbers of affordable dwellings that would arise under this approach.
- The proposed wording provides for 'at least 40%'. The report concludes that while this may be achievable on some Greenfield sites, the policy should not be too onerous so as to threaten site viability or deter private residential development. In particular, the lack of a percentage ceiling within the currently drafted P4 does not provide certainty for landowners and developers and this can be expected to result in protracted negotiations and expensive site specific economic viability assessments.
- Instead, this study supports a general Borough wide target of 40%. This maximises the provision of affordable housing that can be delivered through the planning system, provides clarity and certainty for landowners and developers but does not threaten site viability and should not deter private residential development.
- Where a developer seeks to challenge the policy on viability grounds, the proposed policy commits the Council to adopting a negotiated approach on each development site against the range of factors (i) – (vi) below:

  i. Site size.

  ii. Accessibility to local services and facilities and access to public transport.

  iii. The economics of provision, including particular costs that may threaten the viability of the site.

  iv. Whether the provision of affordable housing would prejudice the realisation of other planning objectives that need to be given priority in the development of the site.

  v. The need to secure a range of house types and sizes in the locality in helping to achieve socially balanced and mixed communities.

  vi. The need to achieve successful housing development.

- Where site viability is more challenging, in locations such as the North Solihull Regeneration Area, it is not proposed that there is a differential rate for affordable housing provision. Instead there would be negotiations to assess an appropriate affordable housing requirement on a site specific basis, in line with current UDP policy.
- Adopting this approach would provide the baseline of a specific provision level and threshold while also providing flexibility, with the suitability of sites and the level of affordable housing being determined by negotiation on a site-by-site basis.

8. Conclusions

- The viability testing has also addressed the affordable housing requirement in the context of allowing for other Local Plan policies in the development appraisals such as Lifetime Homes Standards, energy standards and planning obligations that may be introduced relating to infrastructure contributions.

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CBRE

APPENDICES

Appendix 1 – Affordable Housing Requirements for West Midlands

	STATUS	WHEN ADOPTED	QUALIFYING SITES	AFH % REQUIREMENT	SOCIAL RENTED: SHARED OWNERSHIP RATIO
Bromsgrove	Adopted	Jun-06	Sites where there is a net increase of 5 or more dwellings or all sites equal to or over 0.2 ha	40%	66% social rent
Lichfield	Under consultation	TBC	Lichfield City & Burntwood: sites of 15 dwellings or more, or over 0.5 ha. Elsewhere: sites of 5 dwellings or more, or over 0.2ha	up to 40% (currently 25%, adopted 1998)	Up to 80% social rent
North Warwickshire	Adopted	Jul-06	Atherstone & Mancetter, Polesworth & Dordon and Coleshill: sites of 15 dwellings or more or 0.5ha or more. Elsewhere: generally 5 dwellings or 0.2ha site area or above. Some settlements up to 100%.	40%	96% social rent
Warwick	Adopted	Sep-07	Urban areas: 10 dwellings or more or sites 0.25ha or more. Rural areas: sites of 3 dwellings or more	40%	Case by case basis
Birmingham	Adopted	2001, under review	Sites of 15 dwellings or 1ha or more (or smaller if form part of site of this size)	35% (proposals under consideration to reduce to 20% within city centre & increase on Council owned land)	c. 71% social rent sought
Stratford Upon Avon	Adopted	2008	Sites of 10 or more dwellings and/or 0.4ha or more of land, or 15 or more dwellings and/or 0.5ha or more of land, depending on location. (Proposed: sites of 5 dwellings or more)	35%	75% social rent
Dudley	Adopted	Oct-05	Sites of at least 1ha or 25 dwellings	30%	c. 83% social rented
Coventry	Adopted	Dec 01 (amended Feb 2006)	Sites of 25 dwellings or 1ha or more	25%-30% depending on need	50-60% social rented depending on need
Sandwell	Adopted	2004 (amended Dec 2007)	Sites of at least 1ha or 25 dwellings	Up to 25%	Depending on need
Walsall	Adopted	Oct-05	Sites of 15 dwellings or more	25%	A 'focus' on social rented
Wolverhampton	Adopted	Jun-06	Sites of at least 1ha or 25 dwellings	City centre: 20%; housing renewal sites: 20%; elsewhere: 25%	Flexible depending on local need

Appendix 2 – Overview of the Residential Property Market

National Market Overview

The Economic Backdrop

The weak economic climate has continued to provide a very unsettling backdrop to the housing market. Domestically, the level of public debt still forms a long-term structural problem for the economy. In the short-term, this will manifest itself in spending cuts and job losses. Consumer confidence has also got progressively worse over the last year. However, although most commentators were downgrading their economic forecasts for 2012 towards the end of last year, these have now been revised again. The OBR is anticipating growth of 0.8% for this year, slightly up on their Autumn 2011 estimate of 0.7%.

The general sense of trepidation in the economy is a global story, as is evidenced by the ongoing Euro-zone crisis. Indeed, the prolonged uncertainty surrounding Europe, with an apparent lack of any meaningful resolution, is exacerbating the situation. This does not look likely to improve dramatically any time soon.

Domestically, we expect base rates to remain at 0.5% through to the end of the year. Meanwhile, spare capacity should absorb further inflationary pressures, most notably from rising energy prices. As a result, CPI inflation is expected to fall back within the Bank of England's target rate of 2% in the medium term.

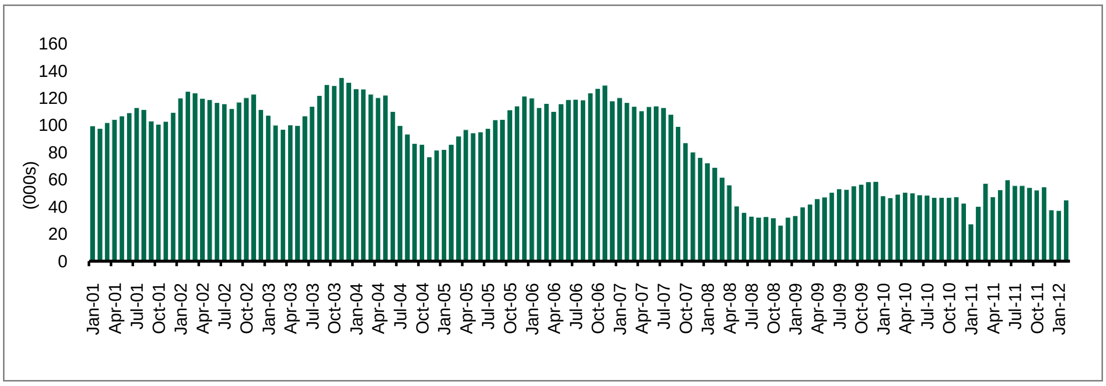
Unemployment is expected to increase from 8.3% to 8.7% in the final quarter of 2012, before falling back to 6.2% by 2016. In addition, real household disposable income is estimated to have fallen by 2.3% over the last year, and earnings growth is not expected to overtake inflation again until 2013, and not by any significant margin until 2014.

Overall, the OBR estimates that the economy will grow by only 0.7% in 2012, and then slowly up to 2.1% in 2013. However, there are clearly a number of varied and wide-ranging downside risks, most notably around the Euro-zone crisis.

The Residential Market

Despite the wider economic uncertainty, activity in the housing market improved marginally in 2011. The number of mortgage approvals in the final quarter of 2011 increase by 4%, or an additional 6,000, than the previous quarter. There were 158,000 mortgage approvals in Q4 2011, compared with 152,000 in Q3, and 138,000 a year ago. However, this is still well below the level when the market was at its peak. For example, in Q4 2007, there were 243,800 mortgage approvals.

Chart 1: Mortgage Approvals



Source: CML

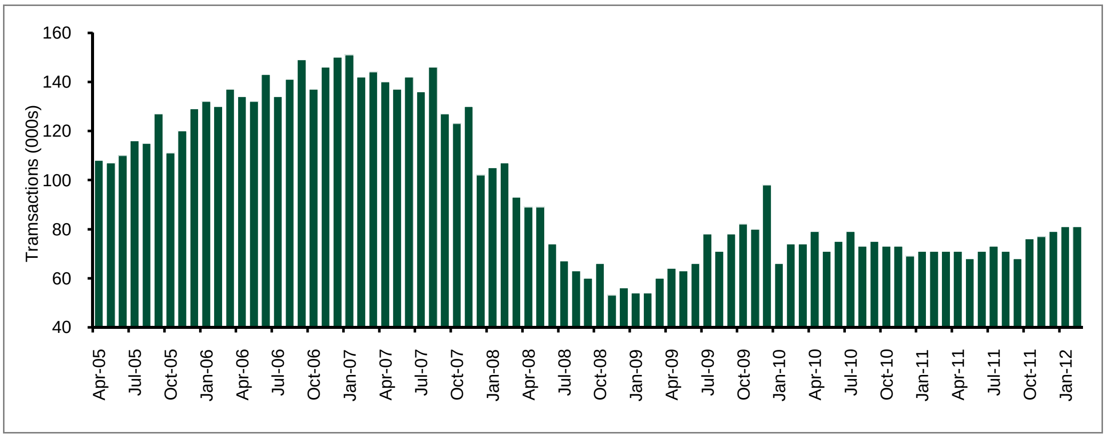
National Market Overview

While the Bank of England said the availability of credit was broadly unchanged in the three months to mid-December 2011, lenders stated that they expected availability to increase a little over the following three months. Indeed, Moneyfacts.com have also provided tentative signs the mortgage market is beginning to defrost. There has been a steady increase in the number of low deposit mortgages being offered over the past year; the latest research from Moneyfacts.co.uk shows that 49% more 90% LTV products are on offer this February. Moneyfacts.com also report that the overall number of mortgages available to UK borrowers currently stands at 3,180, which compares with only 2,527 at the same time last year.

Although a step in the right direction, lending still remains relatively muted and expensive, with the number of products well below its peak of 15,600. Moreover, until deposit requirements relax, borrowing will remain the preserve of those with significant equity.

Mirroring the mortgage market, transaction levels have also picked up slightly over the last year. In January this year, there were 85,000 transactions. This is the highest monthly figure since it peaked in December 2009, at 98,000. Since this peak, monthly transaction levels have averaged 73,000 per month. However, despite the slight improvement, this does not provide evidence of a meaningful long-term change; rather, we are still a long way off a fully functioning market.

Chart 2: Housing Transactions

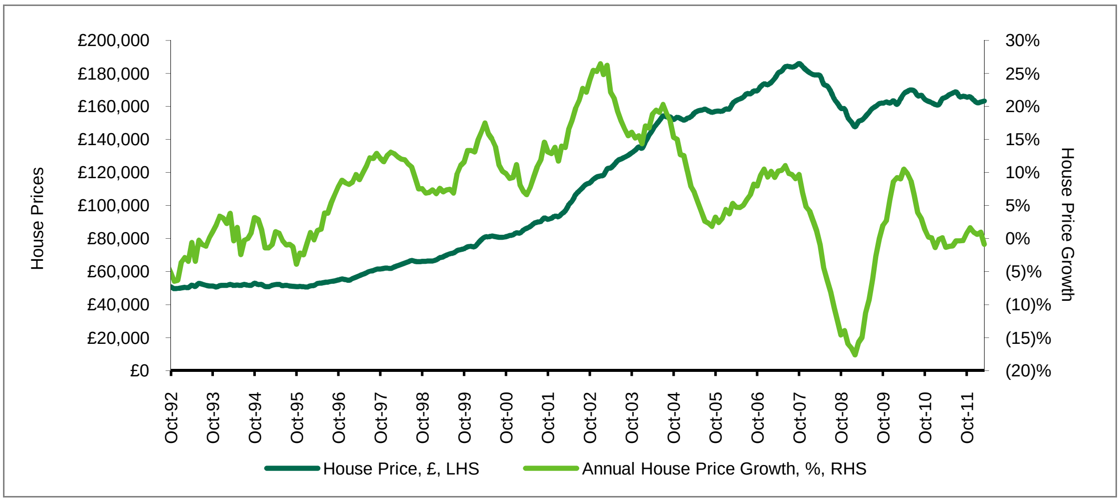


Source: CML / HMRC

Ongoing low levels of activity are reflected in house prices, which fluctuate marginally each month. In March this year, they edged up slightly by 0.4%, but over the course of the last year they have actually fallen slightly, by 0.9%.

National Market Overview

Chart 3: House Price Growth



Source: Nationwide

According to the National Association of Estate Agents the number of buyers per agent dropped to 5 in December. However, this is to be expected around Christmas. The HBF also reported that planning permission approvals in Q3 were a 10% decrease on the previous year, indicating the house-building activity also looks likely to slow.

Although the government has introduced a number of initiatives that should help stir the market, in terms of both housing building and trading, these are relatively small in scale and unlikely to drive the structural shifts required in the market over the longer term.

Unless there is a realistic means of feeding first time buyers back into the market, the backlog will only get bigger, and the supply and demand imbalance will become yet more pronounced. This is likely to create much more severe peaks and troughs in future. Unless we drive the market to a new 'normal' of our own design, it could derail and take itself to a much more volatile 'normal' in the long-term. Nationally, we anticipate that house prices will fall this year, by roughly 3%.

National Rental Market

Nationally, the rental market has strengthened over the last few years and this has been widely publicised. As the difficulties in accessing home ownership continues, the demand for rental property has increased, outstripping instructions in most parts of the country. According to the most recent RICS Residential Lettings Survey (Q4 2012), rents continue to rise, but growth has moderated. Expectations are for further increases. While demand from tenants continues to be strong, which is exerting upward pressure on rents, surveyors suggest that the supply of new residential lettings is rising. Rents are rising most rapidly in the South East, and are stabilising in the South West and the North.

National Market Overview

Table 1: Balance* of surveyors reporting a change over the last quarter

	TENANT DEMAND **	NEW LANDLORD INSTRUCTIONS	RENTS	RENT EXPECTATIONS **	GROSS YIELD
Jan 2011	32	-2	40	37	37
Apr 2011	33	6	42	32	30
Jul 2011	25	5	34	24	37
Oct 2011	19	10	21	24	15
Jan 2012	19	8	13	14	13

Source: RICS

**Balance = Percentage of surveyors reporting a rise in a variable minus percentage reporting a fall (e.g. if 50% report a rise, 30% report no charge, and 20% report a fall, the balance is 30% = 50% - 20%)*

*** These series adjusted for significant seasonal fluctuations. Number of contributions = 166.*

The most recent ARLA research (released January 2012) also states that the rental market may now be softening, due to a rise in the number of tenants struggling to meet their monthly rent payments and an easing of overall demand. Just over half of all ARLA members (55%) reported that there were more tenants than properties available in Q4 2011. While this indicates that demand is still robust, the figure is sharply down on Q3, when three quarters (74%) of members noted that trend.

The number of consumers actually signing a new tenancy was consistent with Q3, with an average of 34 new tenancies signed per ARLA member office during each quarter. The figure was lowest in Central London, where an average of 26 tenancies were signed per branch during October – December, compared with an average of 31 in Q3. Over the same period, 39% of members reported an increase in tenants struggling to pay their rent; up from 36% the previous quarter.

Tim Hyatt, president of ARLA, says;

> *'with household income decreasing and job uncertainty prevailing, it could be that increasing rental arrears is a sign that the wider economic malaise is having a tangible impact on personal finance – some consumers may have reached the limit of their access to finance, while others may be cutting back as many commentators have predicted. We are reassured by the fact that the number of new tenancies is stable, but we will be watching the market closely in the coming months.'*

Compared with Q3 2011, average rental returns for houses fell from 5.1% to 4.9% in Q4. Average weighted rental returns for flats are also down, from 5.3% to 5.1%. It is likely that this decline in rental returns may be a reflection of the increase in rented property values.

On balance, ARLA members reported an increase in achievable rental levels over the last six months on all types of rented property, but the average proportion of respondents across all property types who now say that they think achievable rent levels have increased over the last six months has fallen from 60% to 54% suggesting some weakening of the overall position.

Compared with three months ago, the average void period is up from 2.7 weeks to 2.9 weeks but this change merely reverses the change seen then and the average number of new tenancies signed up in the preceding three months is virtually unchanged at 34 tenancies. On average, ARLA members say that their tenants remain in the same property for a period of 19.3 months; a figure up from 19.0 in Q3.

National Market Overview

The proportion of ARLA members' offices who believe that they are seeing an increase in rental property coming onto the market because it cannot be sold has changed very little over the last three months with the figure remaining at 47%. Detached and semi-detached houses continue to the main types of property that come to the market for this reason.

Table 2: Change in Average Rents, by Region, Flats

GEOGRAPHIC REGION	Q3 2011			Q4 2011		
	WEEK	MONTH	YEAR (000)	WEEK	MONTH	YEAR (000)
Prime Central London	£719	£3,115	£37.4	£767	£3,322	£39.9
Rest of London	£340	£1,473	£17.7	£342	£1,482	£17.8
Rest of South East	£184	£798	£9.6	£192	£831	£10.0
South West	£165	£715	£8.6	£168	£728	£8.7
Midlands	£108	£468	£5.6	£103	£445	£5.3
North West	£146	£632	£7.6	£147	£636	£7.6
North East	£110	£478	£5.7	£116	£503	£6.0
Scotland / Wales / NI	£140	£605	£7.3	£135	£584	£7.0

Source: ARLA Members Survey of the Private Rented Sector, Q4 2011

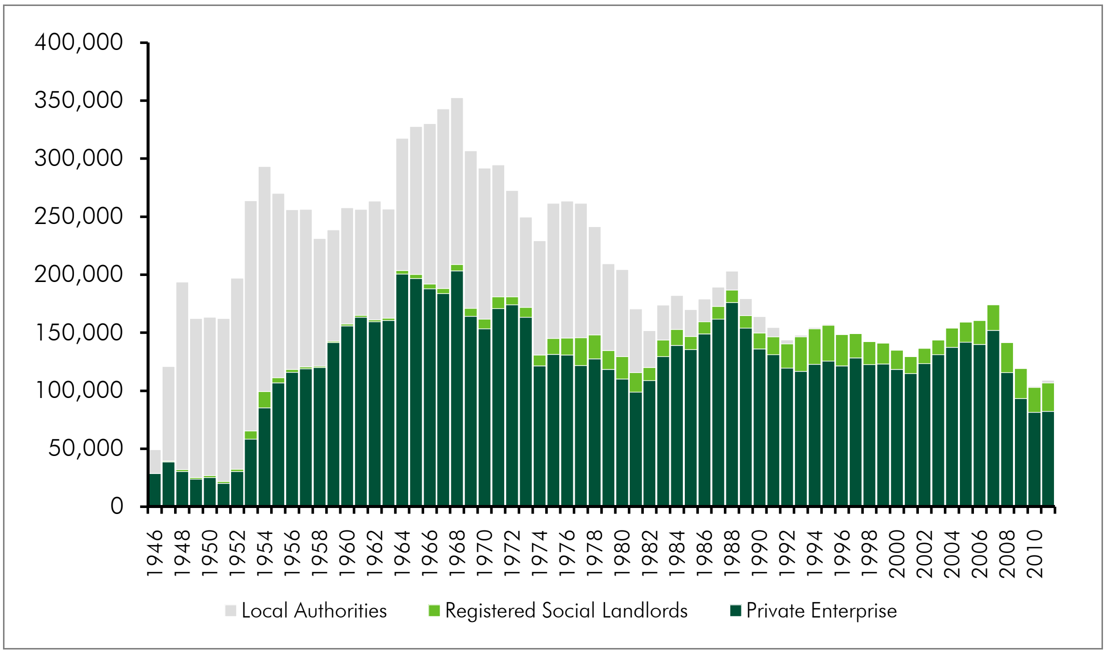
National Market Overview

UK Housing Supply

Even prior to the recession, the level of housing building was inadequate to satisfy household formation. At its peak in 2007, completions totalled 174,530, below the 240,000 target. Since the onset of the recession, the situation has worsened; developers have been forced to delay projects until better market fundamentals return. A lack of access to funding, potential sales, loss of land value and general uncertainty has stunted development across the country. House-building starts have fallen considerably.

There were around 109,000 completions in England last year; this is up very slightly (5%) on the previous year. Despite a fall in RSL completions, there was a marginal increase in the private sector, but more notably, an increase from Local Authority building. There were around 2,400 Local Authority completions last year; although this is not a huge volume given that it is for the whole of England, it is quite positive compared with the five year average prior to this, or around 440 completions per year.

Chart 4: Housing Completions, England



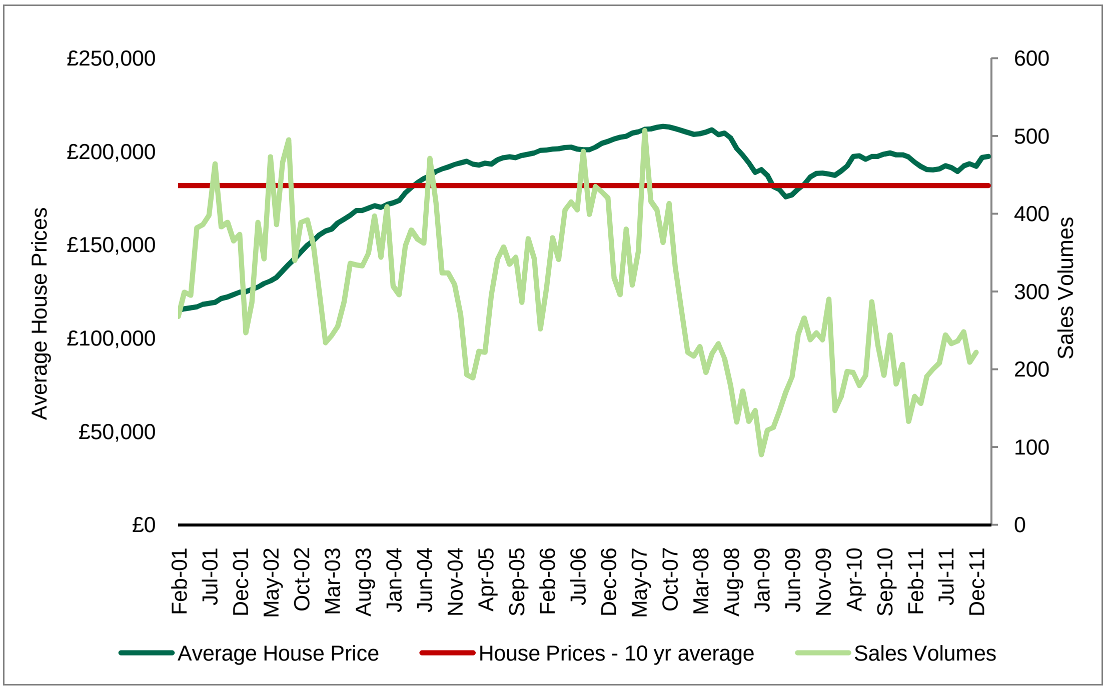
Source: CLG

A number of government funded schemes have helped provide some stimulus over the past couple of years. In addition, a slight pick-up in sentiment and lending allowed an improvement in sales, which has injected some spur back into the London development market. However, development overall remains muted and it is likely to be some considerable time before house-building rates return to their previous levels, and even more time for them to reach the levels required to meet actual demand across the UK.

Solihull Market Overview

In line with national trends, the housing market in Solihull peaked in Summer 2007; house prices were over £210,000 and there were over 500 sales per month. As soon as the credit crunch hit, activity contracted sharply and by January 2009, there were only around 100 sales per month. This has improved slightly since; there are currently around 225 sales per month. However, activity is still volatile, and still around 25% below the ten year average.

Chart 5: Housing Market Activity, Solihull, plus 10 year average



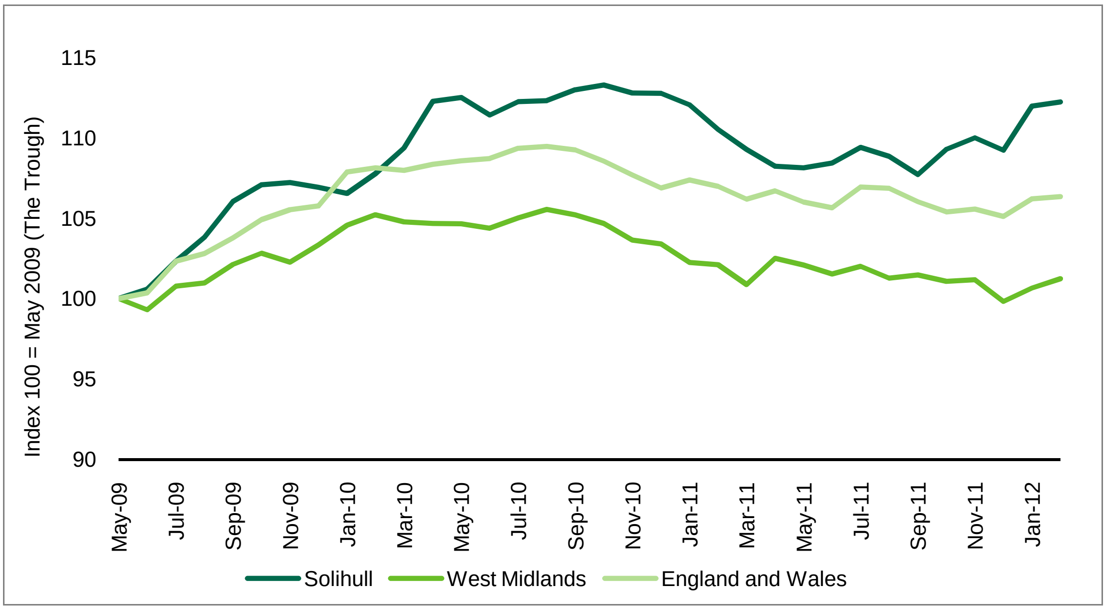
Source: Land Registry

Average house prices also began to fall sharply, once the economy fell deeper into recession in 2008. They peaked in October 2007 at £213,010, but then fell by nearly £40,000, or 17%, until they reached their lowest point in May 2009, of £175,740.

Although house prices have not yet recovered – they are still 7% below their former peak levels – they are still 9% higher than the ten year average. The Solihull market has generally out-performed the rest of the region, and indeed the rest of the country, over the last year or so. Average house prices have increased by 12% in Solihull since the trough of the market, compared with only 1% across the rest of the West Midlands, and 6% across the rest of England and Wales. This sharper up-turn is hugely encouraging.

Solihull Market Overview

Chart 6: Relative Performance since trough of the market, May 2009



Source: Land Registry

According to Land Registry quarterly figures (which vary slightly from the above monthly figures), average house prices in Solihull are around £228,500; this is nearly £60,000 more than the regional average and almost exactly in-line with the national average. The larger units seem to carry a slight premium, with detached and semi-detached properties notably higher than regional and national averages, but this is reversed on small units. Flats are still more expensive than those across the rest of West Midlands, but around £85,000 cheaper than the national average for flats.

Table 3: Residential Property Prices, Q4 2011

	DETACHED	SEMI-DETACHED	TERRACED	FLATS	OVERALL
Solihull	£383,786	£204,610	£158,879	£136,893	£228,457
West Midlands	£274,716	£151,809	£127,364	£110,664	£171,683
England and Wales	£324,324	£195,784	£185,237	£221,054	£228,385

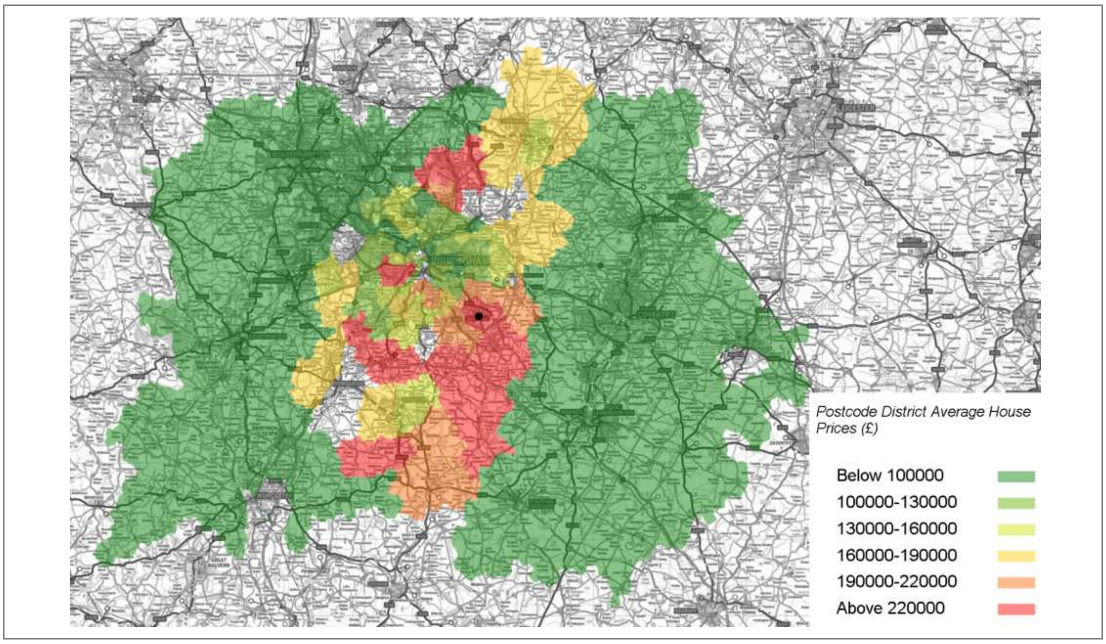
Source: Land Registry

As the map below confirms, the Solihull area is one of the most expensive across the whole region, with average prices over £220,000, compared with other areas around the outskirts where average prices fall well below £100,000.

As the following map indicates, higher values are much more concentrated in the flat market, as naturally they are more popular in the larger urban conurbations. Again Solihull is one of the more expensive areas.

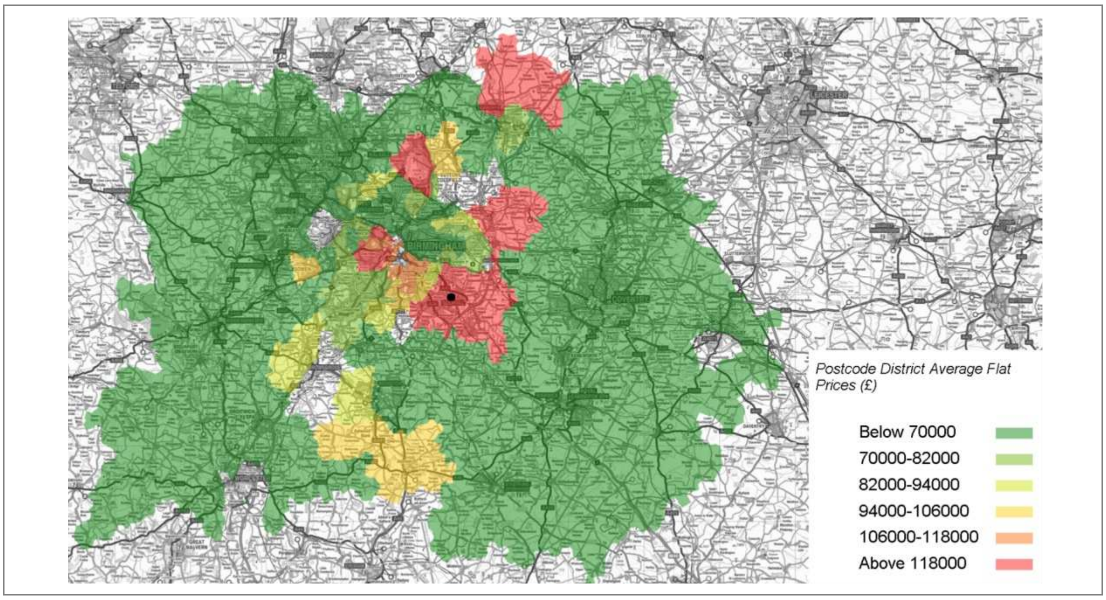
Solihull Market Overview

Map 1: Average House Prices, Q4 2011 (by post code district)



Source: Land Registry

Map 2: Average Flat Prices, Q4 2011 (by post code district)

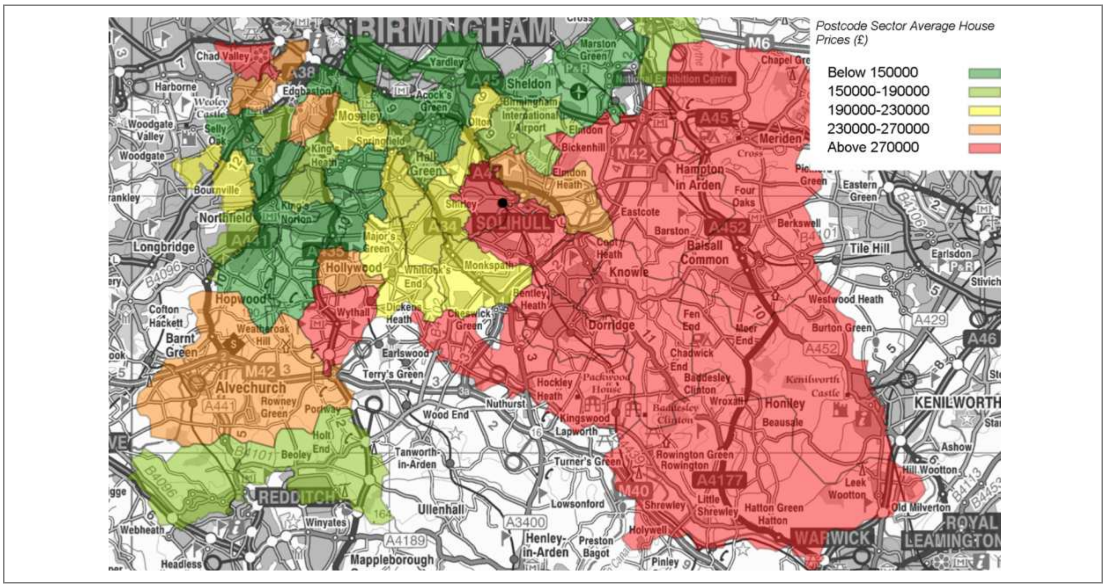


Source: Land Registry

Solihull Market Overview

Within the closer area, average house prices were considerably higher around Solihull and to the South East of Solihull, particularly in the more rural areas towards Warwick. In this region, they are well above £270,000. They fall considerably towards Birmingham, where they are less than £150,000 in some parts.

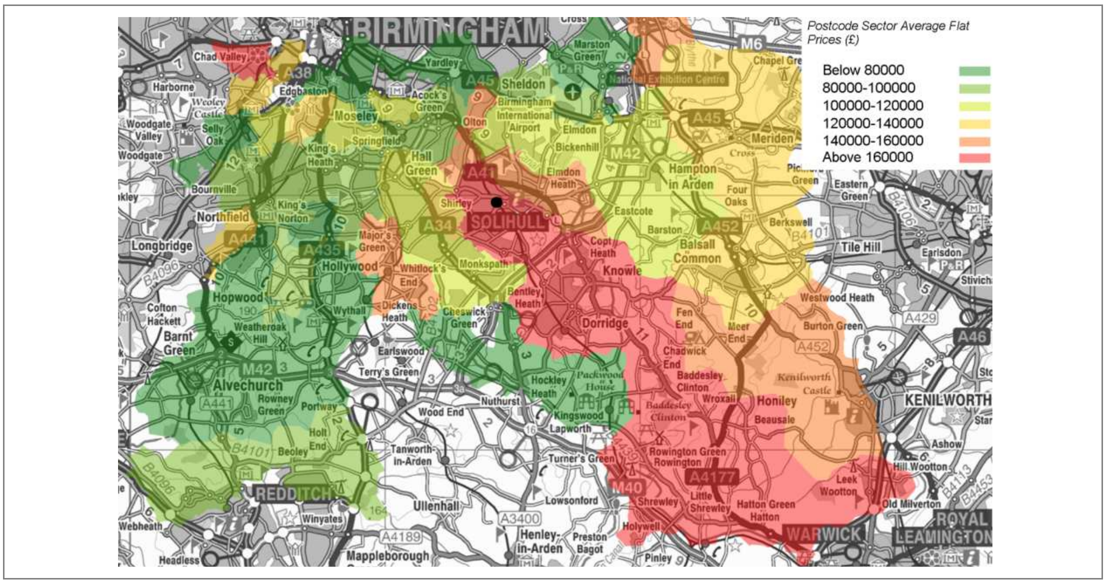
Map 3: Average House Prices, 2011 (by post code sector)



Source: Land Registry

Average flat values are clearly much lower across the board, and only break £160,000 in a very narrow corridor from Solihull down to Warwick. There is also a very small pocket around Chad Valley, as well as potentially in Birmingham City Centre (not shown).

Map 4: Average Flat Prices, 2011 (by post code sector)



Source: Land Registry

Appendix 3 – Residential Development Appraisal Outputs for the Notional Sites

RESIDENTIAL APPRAISAL - Site 1

Return Indicators

Land Value	£1,023,139
Number of Hectares	0.47
Land Value per Ha	£2,198,463
Developer Profit on Cost	20.00%
Developer Profit on Total GDV	16.67%
Developers Profit	£599,600
NPV of Developers Profit	£585,933
IRR for Developer Equity Return	0.00%

Key Assumptions

Affordable Housing level	40%
% Social Rented	65%
% Shared ownership	35%

	No. of Units	NIA	G-N	Build Cost	Sales Value
1 bed flat	0	45 sqft	85%	£1,055 psm	£0 psm
2 bed flat	0	60 sqft	85%	£1,055 psm	£0 psm
3 bed flat	0	80 sqft	85%	£1,055 psm	£0 psm
2 bed house	0	65 sqft	100%	£911 psm	£0 psm
3 bed house	0	90 sqft	100%	£911 psm	£0 psm
4 bed house	10	121 sqft	100%	£911 psm	£3,188 psm
4 bed townhouse	0	111 sqft	100%	£911 psm	£0 psm
5 bed house	2	149 sqft	100%	£911 psm	£2,691 psm

Contingency	5%
Professional Fees	10%
Start Date	01 March 2012
Build Start Date	01 June 2012
Build End Date	31 May 2013
Private Sales Start Date	30 November 2012
Private Sales End Date	29 January 2013

Appraisal Summary

GDV		£3,597,600
Private Residential Sales	£2,790,000	
Private Ground Rent	-	
Affordable Residential Sales	£807,600	
Commercial Sales	-	
Disposal Fees		(£41,850)
Residential Disposal Fees	(£41,850)	
Commercial Disposal Fees	-	
NDV		**£3,555,750**
Development Costs		(£1,471,361)
Infrastructure Costs	(£96,000)	
Private Residential Construction Costs	(£880,046)	
Affordable Residential Construction Costs	(£495,315)	
Commercial Construction Cost	-	
Land Fees		(£59,342)
SDLT & acquisition fees	(£59,342)	
Contingency		(£73,568)
Infrastructure Contingency	(£4,800)	
Residential Build Contingency	(£68,768)	
Commercial Contingency	-	
Professional Fees		(£144,413)
Infrastructure Professional Fees	-	
Residential Professional Fees	(£144,413)	
Commercial Professional Fees	-	
Marketing & Letting		(£111,600)
Residential Marketing	(£111,600)	
Commercial Marketing	-	
Commercial Letting Fees	-	
Finance Costs		(£72,726)
Senior Debt Arrangement Fee	-	
Senior Debt Commitment Fee	-	
Senior Debt Interest (Rolled Up)	(£72,726)	
Developers Profit		(£599,600)
Total Costs		**(£2,532,611)**
Land Value		**£1,023,139**

RESIDENTIAL APPRAISAL - Site 2

Return Indicators

Land Value	£7,624,371
Number of Hectares	3.64
Land Value per Ha	£2,093,359
Developer Profit on Cost	20.00%
Developer Profit on Total GDV	16.67%
Developers Profit	£5,711,951
NPV of Developers Profit	£5,077,670
IRR for Developer Equity Return	0.00%

Key Assumptions

Affordable Housing level	40%
% Social Rented	65%
% Shared ownership	35%

	No. of Units	NIA	G-N	Build Cost	Sales Value
1 bed flat	0	45 sqft	85%	£1,055 psm	£0 psm
2 bed flat	0	60 sqft	85%	£1,055 psm	£0 psm
3 bed flat	0	80 sqft	85%	£1,055 psm	£0 psm
2 bed house	47	65 sqft	100%	£911 psm	£3,229 psm
3 bed house	47	90 sqft	100%	£911 psm	£3,052 psm
4 bed house	47	121 sqft	100%	£911 psm	£2,898 psm
4 bed townhouse	0	111 sqft	100%	£911 psm	£0 psm
5 bed house	9	149 sqft	100%	£911 psm	£3,027 psm

Contingency	5%
Professional Fees	10%
Start Date	01 March 2012
Build Start Date	01 June 2012
Build End Date	31 May 2015
Private Sales Start Date	31 May 2013
Private Sales End Date	29 November 2015

Appraisal Summary

GDV		£34,271,685
Private Residential Sales	£25,977,000	
Private Ground Rent	-	
Affordable Residential Sales	£8,294,685	
Commercial Sales	-	
Disposal Fees		(£389,655)
Residential Disposal Fees	(£389,655)	
Commercial Disposal Fees	-	
NDV		**£33,882,030**
Development Costs		(£15,004,920)
Infrastructure Costs	(£1,200,000)	
Private Residential Construction Costs	(£8,537,809)	
Affordable Residential Construction Costs	(£5,267,111)	
Commercial Construction Cost	-	
Land Fees		(£442,214)
SDLT & acquisition fees	(£442,214)	
Contingency		(£750,246)
Infrastructure Contingency	(£60,000)	
Residential Build Contingency	(£690,246)	
Commercial Contingency	-	
Professional Fees		(£1,449,517)
Infrastructure Professional Fees	-	
Residential Professional Fees	(£1,449,517)	
Commercial Professional Fees	-	
Marketing & Letting		(£1,039,080)
Residential Marketing	(£1,039,080)	
Commercial Marketing	-	
Commercial Letting Fees	-	
Finance Costs		(£1,859,733)
Senior Debt Arrangement Fee	-	
Senior Debt Commitment Fee	-	
Senior Debt Interest (Rolled Up)	(£1,859,733)	
Developers Profit		(£5,711,951)
Total Costs		**(£26,257,659)**
Land Value		**£7,624,371**

RESIDENTIAL APPRAISAL - Site 3

Return Indicators

Land Value	£891,875
Number of Hectares	1.96
Land Value per Ha	£455,345
Developer Profit on Cost	20.00%
Developer Profit on Total GDV	16.67%
Developers Profit	£2,258,125
NPV of Developers Profit	£2,056,479
IRR for Developer Equity Return	0.00%

Key Assumptions

Affordable Housing level	40%
% Social Rented	65%
% Shared ownership	35%

	No. of Units	NIA	G-N	Build Cost	Sales Value
1 bed flat	0	45 sqft	85%	£1,055 psm	£0 psm
2 bed flat	0	60 sqft	85%	£1,055 psm	£0 psm
3 bed flat	0	80 sqft	85%	£1,055 psm	£0 psm
2 bed house	25	65 sqft	100%	£911 psm	£2,307 psm
3 bed house	25	90 sqft	100%	£911 psm	£2,219 psm
4 bed house	25	121 sqft	100%	£911 psm	£2,277 psm
4 bed townhouse	0	111 sqft	100%	£911 psm	£0 psm
5 bed house	5	149 sqft	100%	£911 psm	£2,018 psm

Contingency	5%
Professional Fees	10%

Start Date	01 March 2012
Build Start Date	01 June 2012
Build End Date	31 May 2014
Private Sales Start Date	30 September 2013
Private Sales End Date	29 January 2015

Appraisal Summary

GDV		£13,548,750
Private Residential Sales	£10,275,000	
Private Ground Rent	-	
Affordable Residential Sales	£3,273,750	
Commercial Sales	-	
Disposal Fees		(£154,125)
Residential Disposal Fees	(£154,125)	
Commercial Disposal Fees	-	
NDV		**£13,394,625**
Development Costs		(£8,011,029)
Infrastructure Costs	(£640,000)	
Private Residential Construction Costs	(£4,559,692)	
Affordable Residential Construction Costs	(£2,811,337)	
Commercial Construction Cost	-	
Land Fees		(£51,729)
SDLT & acquisition fees	(£51,729)	
Contingency		(£400,551)
Infrastructure Contingency	(£32,000)	
Residential Build Contingency	(£368,551)	
Commercial Contingency	-	
Professional Fees		(£773,958)
Infrastructure Professional Fees	-	
Residential Professional Fees	(£773,958)	
Commercial Professional Fees	-	
Marketing & Letting		(£411,000)
Residential Marketing	(£411,000)	
Commercial Marketing	-	
Commercial Letting Fees	-	
Finance Costs		(£596,357)
Senior Debt Arrangement Fee	-	
Senior Debt Commitment Fee	-	
Senior Debt Interest (Rolled Up)	(£596,357)	
Developers Profit		(£2,258,125)
Total Costs		**(£12,502,750)**
Land Value		**£891,875**

RESIDENTIAL APPRAISAL - Site 4

Return Indicators

Land Value	£835,892
Number of Hectares	2.43
Land Value per Ha	£344,256
Developer Profit on Cost	20.00%
Developer Profit on Total GDV	16.67%
Developers Profit	£2,666,853
NPV of Developers Profit	£2,408,006
IRR for Developer Equity Return	0.00%

Key Assumptions

Affordable Housing level	40%
% Social Rented	65%
% Shared ownership	35%

	No. of Units	NIA	G-N	Build Cost	Sales Value
1 bed flat	0	45 sqft	85%	£1,055 psm	£2,691 psm
2 bed flat	56	60 sqft	85%	£1,055 psm	£2,318 psm
3 bed flat	0	80 sqft	85%	£1,055 psm	£0 psm
2 bed house	0	65 sqft	100%	£911 psm	£0 psm
3 bed house	32	90 sqft	100%	£911 psm	£3,052 psm
4 bed house	0	121 sqft	100%	£911 psm	£2,484 psm
4 bed townhouse	12	111 sqft	100%	£911 psm	£0 psm
5 bed house	0	149 sqft	100%	£911 psm	£0 psm

Contingency	5%
Professional Fees	10%
Start Date	01 March 2012
Build Start Date	01 June 2012
Build End Date	31 May 2014
Private Sales Start Date	31 May 2013
Private Sales End Date	30 May 2015

Appraisal Summary

GDV		£16,001,120
Private Residential Sales	£11,664,000	
Private Ground Rent	-	
Affordable Residential Sales	£4,337,120	
Commercial Sales	-	
Disposal Fees		(£174,960)
Residential Disposal Fees	(£174,960)	
Commercial Disposal Fees	-	
NDV		**£15,826,160**
Development Costs		(£11,374,542)
Infrastructure Costs	(£800,000)	
Private Residential Construction Costs	(£6,191,737)	
Affordable Residential Construction Costs	(£4,382,804)	
Commercial Construction Cost	-	
Land Fees		-
SDLT & acquisition fees	-	
Contingency		(£568,727)
Infrastructure Contingency	(£40,000)	
Residential Build Contingency	(£528,727)	
Commercial Contingency	-	
Professional Fees		(£1,110,327)
Infrastructure Professional Fees	-	
Residential Professional Fees	(£1,110,327)	
Commercial Professional Fees	-	
Marketing & Letting		(£466,560)
Residential Marketing	(£466,560)	
Commercial Marketing	-	
Commercial Letting Fees	-	
Finance Costs		(£475,043)
Senior Debt Arrangement Fee	-	
Senior Debt Commitment Fee	-	
Senior Debt Interest (Rolled Up)	(£475,043)	
Developers Profit		(£2,666,853)
Total Costs		**(£16,662,052)**
Land Value		**(£835,892)**

RESIDENTIAL APPRAISAL - Site 5

Return Indicators

Land Value	£4,365,175
Number of Hectares	2.63
Land Value per Ha	£1,659,474
Developer Profit on Cost	20.00%
Developer Profit on Total GDV	16.67%
Developers Profit	£3,564,483
NPV of Developers Profit	£3,250,460
IRR for Developer Equity Return	0.00%

Key Assumptions

Affordable Housing level	40%
% Social Rented	65%
% Shared ownership	35%

	No. of Units	NIA	G-N	Build Cost	Sales Value
1 bed flat	0	45 sqft	85%	£1,055 psm	£0 psm
2 bed flat	0	60 sqft	85%	£1,055 psm	£0 psm
3 bed flat	0	80 sqft	85%	£1,055 psm	£0 psm
2 bed house	32	65 sqft	100%	£911 psm	£2,768 psm
3 bed house	32	90 sqft	100%	£911 psm	£2,774 psm
4 bed house	9	121 sqft	100%	£911 psm	£2,898 psm
4 bed townhouse	21	111 sqft	100%	£911 psm	£3,140 psm
5 bed house	6	149 sqft	100%	£911 psm	£2,960 psm

Contingency	5%
Professional Fees	10%
Start Date	01 March 2012
Build Start Date	01 June 2012
Build End Date	31 May 2014
Private Sales Start Date	31 May 2013
Private Sales End Date	30 January 2015

Appraisal Summary

GDV		£21,386,880
Private Residential Sales	£16,140,000	
Private Ground Rent	-	
Affordable Residential Sales	£5,246,880	
Commercial Sales	-	
Disposal Fees		(£242,100)
Residential Disposal Fees	(£242,100)	
Commercial Disposal Fees	-	
NDV		**£21,144,780**
Development Costs		(£9,853,231)
Infrastructure Costs	(£800,000)	
Private Residential Construction Costs	(£5,553,783)	
Affordable Residential Construction Costs	(£3,499,449)	
Commercial Construction Cost	-	
Land Fees		(£253,180)
SDLT & acquisition fees	(£253,180)	
Contingency		(£492,662)
Infrastructure Contingency	(£40,000)	
Residential Build Contingency	(£452,662)	
Commercial Contingency	-	
Professional Fees		(£950,589)
Infrastructure Professional Fees	-	
Residential Professional Fees	(£950,589)	
Commercial Professional Fees	-	
Marketing & Letting		(£645,600)
Residential Marketing	(£645,600)	
Commercial Marketing	-	
Commercial Letting Fees	-	
Finance Costs		(£1,019,860)
Senior Debt Arrangement Fee	-	
Senior Debt Commitment Fee	-	
Senior Debt Interest (Rolled Up)	(£1,019,860)	
Developers Profit		(£3,564,483)
Total Costs		**(£16,779,605)**
Land Value		**£4,365,175**

RESIDENTIAL APPRAISAL - Site 6

Return Indicators

Land Value	£800,507
Number of Hectares	1.13
Land Value per Ha	£706,463
Developer Profit on Cost	20.00%
Developer Profit on Total GDV	16.67%
Developers Profit	£934,587
NPV of Developers Profit	£888,669
IRR for Developer Equity Return	0.00%

Key Assumptions

Affordable Housing level	40%
% Social Rented	65%
% Shared ownership	35%

	No. of Units	NIA	G-N	Build Cost	Sales Value
1 bed flat	31	45 sqft	85%	£1,055 psm	£3,588 psm
2 bed flat	9	60 sqft	85%	£1,055 psm	£3,643 psm
3 bed flat	0	80 sqft	85%	£1,055 psm	£0 psm
2 bed house	0	65 sqft	100%	£911 psm	£0 psm
3 bed house	0	90 sqft	100%	£911 psm	£0 psm
4 bed house	0	121 sqft	100%	£911 psm	£0 psm
4 bed townhouse	0	111 sqft	100%	£911 psm	£0 psm
5 bed house	0	149 sqft	100%	£911 psm	£0 psm

Contingency	5%
Professional Fees	10%
Start Date	01 March 2012
Build Start Date	01 June 2012
Build End Date	30 November 2013
Private Sales Start Date	28 February 2013
Private Sales End Date	27 September 2013

Appraisal Summary

GDV		£5,607,520
Private Residential Sales	£4,164,000	
Private Ground Rent	-	
Affordable Residential Sales	£1,443,520	
Commercial Sales	-	
Disposal Fees		(£62,460)
Residential Disposal Fees	(£62,460)	
Commercial Disposal Fees	-	
NDV		**£5,545,060**
Development Costs		(£3,030,066)
Infrastructure Costs	(£320,000)	
Private Residential Construction Costs	(£1,626,040)	
Affordable Residential Construction Costs	(£1,084,026)	
Commercial Construction Cost	-	
Land Fees		(£46,429)
SDLT & acquisition fees	(£46,429)	
Contingency		(£151,503)
Infrastructure Contingency	(£16,000)	
Residential Build Contingency	(£135,503)	
Commercial Contingency	-	
Professional Fees		(£284,557)
Infrastructure Professional Fees	-	
Residential Professional Fees	(£284,557)	
Commercial Professional Fees	-	
Marketing & Letting		(£166,560)
Residential Marketing	(£166,560)	
Commercial Marketing	-	
Commercial Letting Fees	-	
Finance Costs		(£130,851)
Senior Debt Arrangement Fee	-	
Senior Debt Commitment Fee	-	
Senior Debt Interest (Rolled Up)	(£130,851)	
Developers Profit		(£934,587)
Total Costs		**(£4,744,553)**
Land Value		**£800,507**

RESIDENTIAL APPRAISAL - Site 7

Return Indicators

Land Value	£1,861,243
Number of Hectares	1.72
Land Value per Ha	£1,079,632
Developer Profit on Cost	20.00%
Developer Profit on Total GDV	16.67%
Developers Profit	£1,351,167
NPV of Developers Profit	£1,341,591
IRR for Developer Equity Return	0.00%

Key Assumptions

Affordable Housing level	40%
% Social Rented	65%
% Shared ownership	35%

	No. of Units	NIA	G-N	Build Cost	Sales Value
1 bed flat	6	45 sqft	85%	£1,055 psm	£1,794 psm
2 bed flat	6	60 sqft	85%	£1,055 psm	£1,656 psm
3 bed flat	0	80 sqft	85%	£1,055 psm	£0 psm
2 bed house	21	65 sqft	100%	£911 psm	£1,845 psm
3 bed house	21	90 sqft	100%	£911 psm	£1,554 psm
4 bed house	0	121 sqft	100%	£911 psm	£0 psm
4 bed townhouse	21	111 sqft	100%	£911 psm	£1,525 psm
5 bed house	0	149 sqft	100%	£911 psm	£0 psm

Contingency	5%
Professional Fees	10%
Start Date	01 March 2012
Build Start Date	01 June 2012
Build End Date	31 May 2014
Private Sales Start Date	31 May 2013
Private Sales End Date	30 August 2014

Appraisal Summary

GDV		£8,107,000
Private Residential Sales	£6,066,000	
Private Ground Rent	-	
Affordable Residential Sales	£2,041,000	
Commercial Sales	-	
Disposal Fees		(£90,990)
Residential Disposal Fees	(£90,990)	
Commercial Disposal Fees	-	
NDV		**£8,016,010**
Development Costs		(£7,010,299)
Infrastructure Costs	(£600,000)	
Private Residential Construction Costs	(£3,888,825)	
Affordable Residential Construction Costs	(£2,521,474)	
Commercial Construction Cost	-	
Land Fees		-
SDLT & acquisition fees	-	
Contingency		(£350,515)
Infrastructure Contingency	(£30,000)	
Residential Build Contingency	(£320,515)	
Commercial Contingency	-	
Professional Fees		(£673,081)
Infrastructure Professional Fees	-	
Residential Professional Fees	(£673,081)	
Commercial Professional Fees	-	
Marketing & Letting		(£242,640)
Residential Marketing	(£242,640)	
Commercial Marketing	-	
Commercial Letting Fees	-	
Finance Costs		(£249,551)
Senior Debt Arrangement Fee	-	
Senior Debt Commitment Fee	-	
Senior Debt Interest (Rolled Up)	(£249,551)	
Developers Profit		(£1,351,167)
Total Costs		**(£9,877,253)**
Land Value		**(£1,861,243)**

RESIDENTIAL APPRAISAL - Site 8

Return Indicators

Land Value	£2,457,593
Number of Hectares	0.96
Land Value per Ha	£2,556,987
Developer Profit on Cost	20.00%
Developer Profit on Total GDV	16.67%
Developers Profit	£2,650,779
NPV of Developers Profit	£2,423,734
IRR for Developer Equity Return	0.00%

Key Assumptions

Affordable Housing level	40%
% Social Rented	65%
% Shared ownership	35%

	No. of Units	NIA	G-N	Build Cost	Sales Value
1 bed flat	32	45 sqft	85%	£1,055 psm	£3,812 psm
2 bed flat	57	60 sqft	85%	£1,055 psm	£3,726 psm
3 bed flat	6	80 sqft	85%	£1,055 psm	£3,004 psm
2 bed house	0	65 sqft	100%	£911 psm	£0 psm
3 bed house	0	90 sqft	100%	£911 psm	£0 psm
4 bed house	0	121 sqft	100%	£911 psm	£0 psm
4 bed townhouse	0	111 sqft	100%	£911 psm	£0 psm
5 bed house	0	149 sqft	100%	£911 psm	£0 psm

Contingency	5%
Professional Fees	10%
Start Date	01 March 2012
Build Start Date	01 June 2012
Build End Date	31 May 2014
Private Sales Start Date	31 May 2013
Private Sales End Date	30 December 2014

Appraisal Summary

GDV		£15,904,672
Private Residential Sales	£11,810,400	
Private Ground Rent	-	
Affordable Residential Sales	£4,094,272	
Commercial Sales	-	
Disposal Fees		(£177,156)
Residential Disposal Fees	(£177,156)	
Commercial Disposal Fees	-	
NDV		**£15,727,516**
Development Costs		(£8,144,392)
Infrastructure Costs	(£760,000)	
Private Residential Construction Costs	(£4,430,635)	
Affordable Residential Construction Costs	(£2,953,757)	
Commercial Construction Cost	-	
Land Fees		(£142,540)
SDLT & acquisition fees	(£142,540)	
Contingency		(£407,220)
Infrastructure Contingency	(£38,000)	
Residential Build Contingency	(£369,220)	
Commercial Contingency	-	
Professional Fees		(£775,361)
Infrastructure Professional Fees	-	
Residential Professional Fees	(£775,361)	
Commercial Professional Fees	-	
Marketing & Letting		(£472,416)
Residential Marketing	(£472,416)	
Commercial Marketing	-	
Commercial Letting Fees	-	
Finance Costs		(£677,216)
Senior Debt Arrangement Fee	-	
Senior Debt Commitment Fee	-	
Senior Debt Interest (Rolled Up)	(£677,216)	
Developers Profit		(£2,650,779)
Total Costs		**(£13,269,923)**
Land Value		**£2,457,593**

RESIDENTIAL APPRAISAL - Site 9

Return Indicators

Land Value	£125,743
Number of Hectares	0.13
Land Value per Ha	£1,002,319
Developer Profit on Cost	20.00%
Developer Profit on Total GDV	16.67%
Developers Profit	£101,000
NPV of Developers Profit	£98,525
IRR for Developer Equity Return	0.00%

Key Assumptions

Affordable Housing level	40%
% Social Rented	65%
% Shared ownership	35%

	No. of Units	NIA	G-N	Build Cost	Sales Value
1 bed flat	0	45 sqft	85%	£1,055 psm	£0 psm
2 bed flat	0	60 sqft	85%	£1,055 psm	£0 psm
3 bed flat	0	80 sqft	85%	£1,055 psm	£0 psm
2 bed house	0	65 sqft	100%	£911 psm	£0 psm
3 bed house	3	90 sqft	100%	£911 psm	£2,774 psm
4 bed house	0	121 sqft	100%	£911 psm	£0 psm
4 bed townhouse	0	111 sqft	100%	£911 psm	£0 psm
5 bed house	0	149 sqft	100%	£911 psm	£0 psm

Contingency	5%
Professional Fees	10%
Start Date	01 March 2012
Build Start Date	01 June 2012
Build End Date	28 February 2013
Private Sales Start Date	28 November 2012
Private Sales End Date	27 December 2012

Appraisal Summary

GDV		£606,000
Private Residential Sales	£450,000	
Private Ground Rent	-	
Affordable Residential Sales	£156,000	
Commercial Sales	-	
Disposal Fees		(£6,750)
Residential Disposal Fees	(£6,750)	
Commercial Disposal Fees	-	
NDV		**£599,250**
Development Costs		(£294,226)
Infrastructure Costs	(£24,000)	
Private Residential Construction Costs	(£162,136)	
Affordable Residential Construction Costs	(£108,090)	
Commercial Construction Cost	-	
Land Fees		(£7,293)
SDLT & acquisition fees	(£7,293)	
Contingency		(£14,711)
Infrastructure Contingency	(£1,200)	
Residential Build Contingency	(£13,511)	
Commercial Contingency	-	
Professional Fees		(£28,374)
Infrastructure Professional Fees	-	
Residential Professional Fees	(£28,374)	
Commercial Professional Fees	-	
Marketing & Letting		(£18,000)
Residential Marketing	(£18,000)	
Commercial Marketing	-	
Commercial Letting Fees	-	
Finance Costs		(£9,902)
Senior Debt Arrangement Fee	-	
Senior Debt Commitment Fee	-	
Senior Debt Interest (Rolled Up)	(£9,902)	
Developers Profit		(£101,000)
Total Costs		**(£473,507)**
Land Value		**£125,743**

RESIDENTIAL APPRAISAL - Site 10

Return Indicators

Land Value	£618,400
Number of Hectares	0.15
Land Value per Ha	£4,122,666
Developer Profit on Cost	20.00%
Developer Profit on Total GDV	16.67%
Developers Profit	£202,000
NPV of Developers Profit	£213,429
IRR for Developer Equity Return	0.00%

Key Assumptions

Affordable Housing level	40%
% Social Rented	65%
% Shared ownership	35%

	No. of Units	NIA	G-N	Build Cost	Sales Value
1 bed flat	0	45 sqft	85%	£1,055 psm	£0 psm
2 bed flat	15	60 sqft	85%	£1,055 psm	£1,656 psm
3 bed flat	0	80 sqft	85%	£1,055 psm	£0 psm
2 bed house	0	65 sqft	100%	£911 psm	£0 psm
3 bed house	0	90 sqft	100%	£911 psm	£0 psm
4 bed house	0	121 sqft	100%	£911 psm	£0 psm
4 bed townhouse	0	111 sqft	100%	£911 psm	£0 psm
5 bed house	0	149 sqft	100%	£911 psm	£0 psm

Contingency	5%
Professional Fees	10%
Start Date	01 March 2012
Build Start Date	01 June 2012
Build End Date	31 May 2013
Private Sales Start Date	30 November 2012
Private Sales End Date	27 February 2013

Appraisal Summary

GDV		£1,212,000
Private Residential Sales	£900,000	
Private Ground Rent	-	
Affordable Residential Sales	£312,000	
Commercial Sales	-	
Disposal Fees		(£13,500)
Residential Disposal Fees	(£13,500)	
Commercial Disposal Fees	-	
NDV		**£1,198,500**
Development Costs		(£1,364,127)
Infrastructure Costs	(£120,000)	
Private Residential Construction Costs	(£746,476)	
Affordable Residential Construction Costs	(£497,651)	
Commercial Construction Cost	-	
Land Fees		-
SDLT & acquisition fees	-	
Contingency		(£68,206)
Infrastructure Contingency	(£6,000)	
Residential Build Contingency	(£62,206)	
Commercial Contingency	-	
Professional Fees		(£130,633)
Infrastructure Professional Fees	-	
Residential Professional Fees	(£130,633)	
Commercial Professional Fees	-	
Marketing & Letting		(£36,000)
Residential Marketing	(£36,000)	
Commercial Marketing	-	
Commercial Letting Fees	-	
Finance Costs		(£15,933)
Senior Debt Arrangement Fee	-	
Senior Debt Commitment Fee	-	
Senior Debt Interest (Rolled Up)	(£15,933)	
Developers Profit		(£202,000)
Total Costs		**(£1,816,900)**
Land Value		**(£618,400)**