

West
Somerset:
Strategic
Housing
Viability
Assessment

2014



Section 1: Introduction

The 2012 National Planning Policy Framework, called for a balance between sustainable development which benefits the local community, and realistic returns for land owners and developers such that development is commercially viable. Given the parallel between the economic viability testing of Local Plans and achieving associated planning obligations for social and environmental benefits, the advice contained in this document is designed to help prepare a policy for affordable housing across the West Somerset Local Planning Authority. As such it outlines the importance of viability and deliverability of affordable housing in developing a Local Plan for West Somerset Council [WSC].

West Somerset Council [WSC] commissioned EVPC to carry out viability appraisals on three categories of development sites, namely:

- a. **Strategic housing sites:** which have the potential to deliver at least 250 dwelling units in total. WSC identified **eight sites** located in the primary settlements of Minehead [and Alcombe], Williton and Watchet.
- b. **Non-strategic housing sites:** these comprise **eight sites** that were identified either through the SHLAA process [WSC, 2010] or had failed to qualify as strategic housing sites, but nonetheless such sites had been judged to have the potential to contribute to the delivery of the Plan's housing supply requirement.
- c. **Other housing sites:** these comprise **eight sites** that had been appraised as part of an earlier study [SHVA, 2008] and now required re-appraising on equivalent terms.

Given the mix of the housing sites, the approach used in the report requires us to adopt two separate approaches as follows:

1. **Strategic [aspatial] viability appraisals:** for strategic housing sites the viability appraisals model a range of hypothetical developments [i.e. non-site specific] from 5 units to 250 units.
2. **Site-specific viability appraisals:** for the other two categories of housing viability appraisals take into account site-specific factors that influence the development potential and explicitly take account of local market context.

The report is structured as follows:

- **Section 1:** Outlines the national policy requirements and guiding principles for strategic housing viability assessment.
- **Section 2:** Summarises the site details of the 24 sites identified by WSC for viability assessment.
- **Section 3:** Sets out the modelling for residential viability appraisal: summarising the assumptions and outlining the key outputs.
- **Section 4:** Presents the findings.
- **Section 5:** Draws conclusions and makes recommendations for WSC members and officers to consider.

The National Planning Policy Framework (2012)

The *National Planning Policy Framework* [DCLG, 2012] set out the Government's requirements for the planning system – providing a framework within which local people and their councils can produce their own distinctive local and neighbourhood plans, which reflect the needs and priorities of their communities. To facilitate this, the 2012 Framework recommends that each local planning authority produce a Local Plan for its area. In supporting the local plan it is important that the local authorities (in this case WSC) understand district-wide development costs at the time that the Plans are drawn up. For this reason, the NPPF recommends that infrastructure and development policies should be planned at the same time, in the Local Plan. For example, any affordable housing or local standards requirements that may be applied to development should be assessed at the plan-making stage, and kept under review.

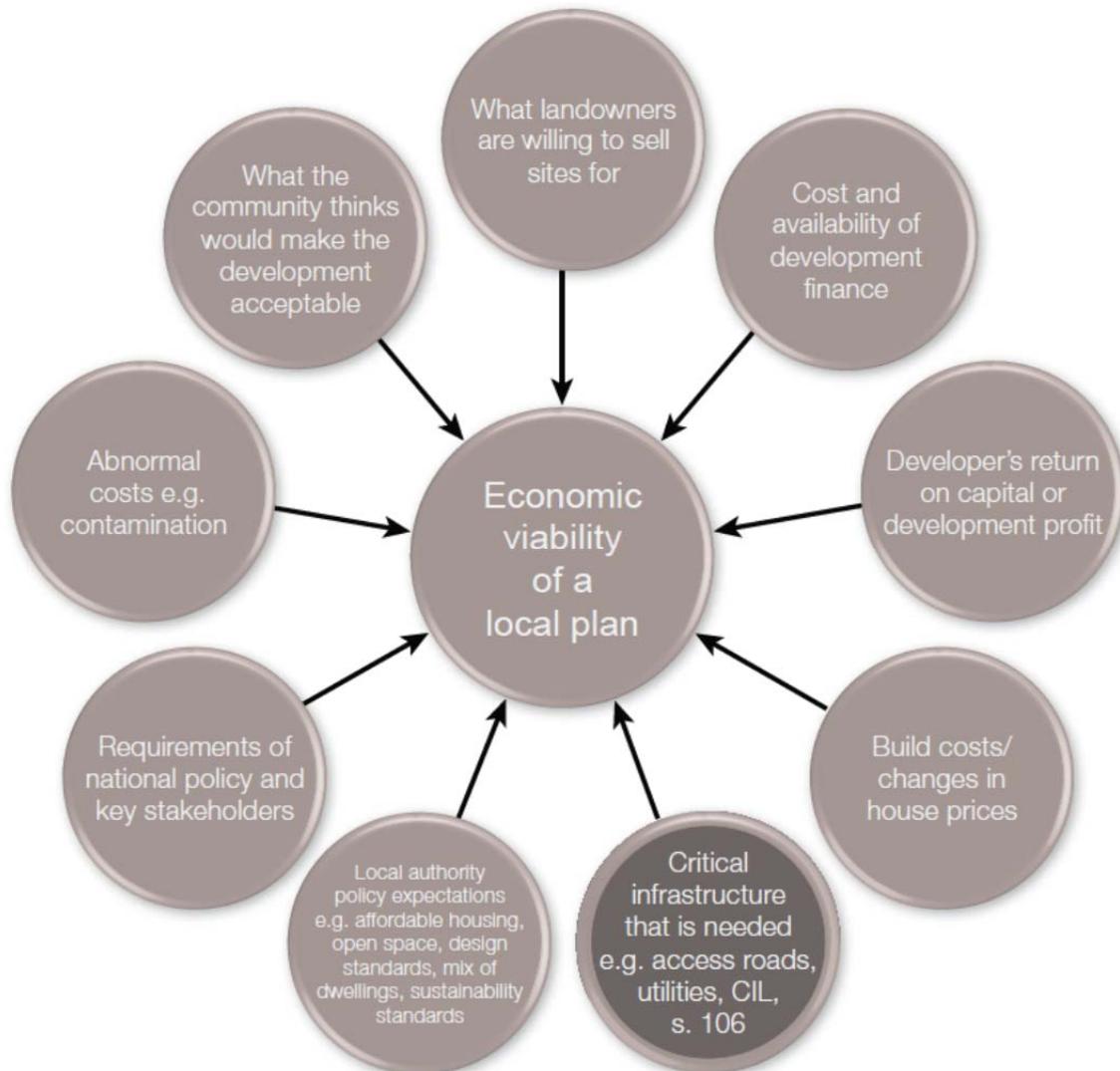
Indeed the National Planning Policy Framework [NPPF] recognises the importance of viability and deliverability. In the sense that the 'developer funding pot' or residual land value, is finite and decisions relating to how this sum is distributed between affordable housing, infrastructure, and other policy requirements have to be considered as a whole; crucially they should not be considered in isolation of each other. As such the Framework document acknowledges (with emphasis added):

"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 cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable."
[See: DCLG, 2012: paragraph 173]

The National Planning Policy Framework therefore stresses the need to ensure that the sites and scale of development identified in a Local Plan should not be subject to obligations that are too onerous; policy burdens that cumulatively threaten a plan's ability to be developed must be avoided. In short the scale of obligations should not threaten the viability of development.

The factors that a local authority needs to consider and balance in preparing a Local Plan are outlined in the diagram on the next page.

Figure 1.1 Inputs informing economic viability



Source: *Viability Testing Local Plans, Advice for Planning Practitioners*, Harman, 2012: 9.

The central objective of the viability evidence is to show that the overall development aspirations of a particular area should not be put at serious risk once a Planning Authority has taken account of the cumulative burden of policy costs such as CIL, affordable housing, space standards, green infrastructure, flood mitigation measures, design standards. There is also a need to ensure that the first five years housing supply is 'deliverable' and that the remainder of the housing supply is developable.¹

The guidance contained in the "*Viability Testing Local Plan Report*" – an advice note for planning practitioners prepared by the Local Housing Delivery Group, and chaired by Sir John Harman in June 2012 (abbreviated as the Harman Report), as well as recognising the policy imperatives contained in the *National Planning Policy Framework* published by DCLG in March 2012, provides a basis for informing the approach to this strategic housing viability assessment.

¹ See Paragraph 47 and footnotes 11 and 12 of DCLG, 2012.

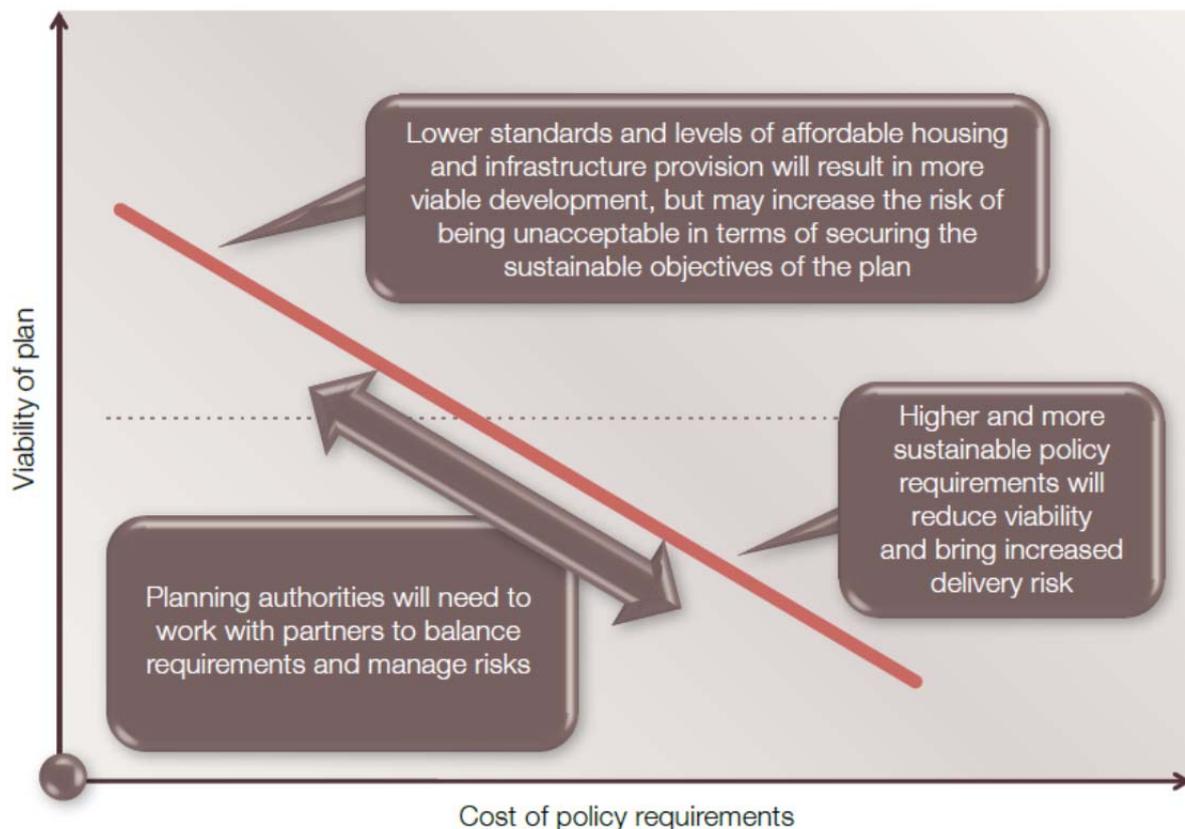
Balancing sustainable development with the realities of economic viability

Local Plan making will involve decisions about striking a balance between policy requirements that are deemed necessary in order to provide sustainable development and the realities of economic viability. The Harman Report [2012] recognises, that except for the highest value areas, it is unlikely that all policy aspirations will be met via developer funding.

“The challenge for planning authorities is to balance this (sustainable development) with the realities of economic viability and develop plans that can deliver sustainable development – that is, to balance aspirational objectives with realistic and deliverable policies.” [DCLG, 2012: paragraph 154]

Local elected members will need to make important decisions based on the right balance for their area. The role of this assessment is to help inform the decisions made by elected members when preparing and adopting a Local Plan. The Harman Report [2012] uses the illustration in figure 1.2 to demonstrate the important trade-offs between delivering viable development and securing policy requirements.

Figure 1.2 Balancing delivery risk and sustainable plan policies



Source: Viability Testing Local Plans, Advice for Planning Practitioners, June 2012.

It is understood at the outset of this study that once all policy requirements are taken into account, West Somerset Council members and officers will need to make important decisions about prioritising policy requirements based on the evidence presented in this report.

Guiding principles to inform strategic housing viability assessment

The Harman Report [CLG, 2012] provides some important guiding principles that inform strategic housing viability assessments. The most important of these inform the approach used in this study.

Principle 1: The difference between strategic viability and site specific assessment

It is important to clarify that a strategic viability assessment is different from a site specific assessment. With a site specific assessment, the appraisal is informed by an actual site value and costs and will be assessed against existing policies. Whereas a strategic housing assessment will be based on hypothetical development scenarios and helps to shape future policy which developers will then need to factor into their viability assessments. It is important that all parties involved in the development process appreciate what this means. As Harman explained:

“This means that the assessment should allow for a process of iteration of assumptions and policy goals, leading to a final set of policies that will ensure the plan’s strategic objectives are deliverable. Although this will be more challenging, it will increase the prospect of being able to successfully balance viability and sustainability considerations within the Local Plan.”

This advice goes to the very heart of the benchmark land value assumptions used for the viability appraisal. The benchmark values need to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations²; just as future planning policy will impact on the use of land and so affect the value of the land. A balancing is needed to reflect a benchmark that enables future policy to be delivered, but it should not be set at a level that will lead to the creation of a landowner becoming an ‘unwilling seller’.

The precise figure for the benchmark value will be determined locally, and depends on a local authority’s attitude to development risk. An authority that is very confident of the level of demand and competition for sites coming forward for development may take a more bullish attitude to development risk and pitch the benchmark lower and secure greater policy contributions and vice versa. It is also true that the developer’s return will need to reflect the risk and return required and landowners will have an expectation for their assets too. (More detail on benchmark land values in West Somerset is outlined in Section 3 below – where we discuss assumptions of the model used).

Principle 2: This is a high level strategic assessment

It is important to note that a strategic viability assessment of this nature helps to provide plan wide assurance that policies are set in a way that the bulk of the development is likely to be economically viable and that in principle the first five years’ supply is deliverable. It is essential, therefore, to ensure that sites included in the plan are in locations where developers can build without the need for high infrastructure costs and in areas where they can readily sell. Obviously, there are no guarantees that every development in the plan period will come forward during the timescale and/or prove viable.

Principle 3: We are testing at current values and costs

The Harman Report [2012]³ clarifies that current costs and values based on NPPF [2012]⁴ should be used to support the five year deliverable housing supply. The guidance recognises that this approach helps to keep data requirements simpler, but more importantly, in a turbulent economic market as now, this approach avoids potentially misplaced assumptions about future economic change that

² See page 29.

³ Ibid page 26.

⁴ See paragraph 47 and footnote 11.

might render viability judgements incorrect. For longer term a more flexible approach may be taken, recognising the impact of economic cycles and policy changes over time.

Principle 4: The 'Duty to Cooperate' in assessing viability

The Harman Report highlights⁵ the importance of the Duty to Cooperate stemming from the NPPF (paragraph 157) for two reasons:

- Planning authorities need to collaborate with a range of agencies; some of whom will make a significant contribution to the viability assessment exercise [e.g. highways, education provision].
- The duty is a means through which neighbouring authorities will collaborate on strategic planning matters that go beyond the boundary of a single authority [e.g. Local Economic Partnerships, flood defence measures].

Principle 5: Viability is an art not a science

The Harman Report [CLG, 2012] highlights the limitations of strategic housing viability assessment⁶, stating that it is important to have realistic expectations of the scope and accuracy of viability testing for a planning authority's local plan – it is not a precise science – as it is based on a number of assumptions at a set point in time. Much can change and no two sites will be the same. So a pragmatic approach to viability testing based on sensible assumption inputs and a good appreciation of what is currently happening in the local markets has been adopted for this study. We acknowledge that the assumptions used will not apply to all or any particular site scenario, but it is intended to provide a broad representation of the likely development for the short term delivery of the area. As Harman acknowledges

“Assessments are carried out at a particular point in time and are therefore limited by the data and information available at that time. This will inevitably limit the value of those assessments in informing plan policies that will be set for the long-term” (Harman, 2012: 18).

⁵ See page 14, The Harman Report, 2012.

⁶ Ibid page 18.

Section 2: Study Sites

This report contains viability appraisals of 24 residential development sites in the West Somerset Council Local planning Authority. It was commissioned in December 2013 to assess the potential to deliver affordable housing and other policy requirements on a variety of housing sites across the towns of Minehead, Williton, Watchet and wider countryside.

The sample sites fall into three general categories:

Strategic housing sites: these are sites with the potential to deliver at least 250 dwelling units [WSC, 2013]. In total, WSC identified **eight sites** located in the primary settlements of Minehead [and Alcombe], Williton and Watchet.

Non-strategic housing: these comprise **eight sites** that either had been identified through the SHLAA process [WSC, 2010] or had failed to qualify as strategic housing sites, but nonetheless such sites had been judged to have the potential to contribute to the delivery of the Plan's housing supply requirement.

Other housing sites: these comprise **eight sites** that had been appraised as part of an earlier study [SHVA, 2008] and now required re-appraising on equivalent terms.

Details of the 24 sites comprising the sample are summarised according settlement and location, as follows:

- Table 2.1: Minehead
- Table 2.2: Watchet
- Table 2.3: Williton
- Table 1.4: Villages and Rural Settlements

Sites located in Minehead

Sites numbered 1 to 5 are located in the principal settlement of Minehead [including Alcombe]. The total housing capacity of these five sites is estimated at between 1,130 to 1,302 dwellings across 37.66ha of developable land. This is based on a development density of 30 dwellings per hectare for the smaller sites and a range of 30 – 35 dwellings per hectare for strategic sites.

Table 2.1: Minehead Site Details

Site Number	Site Name	Site Size	Details
1	MD2: South of A39 between Lower Hopcott and Chestnut Way/Staunton Road, Minehead.	Overall Size: 25.94ha Comprising: Housing, 22.94 ha; & employment and other non-residential uses, 3 ha.	Housing capacity: 688 - 803 dwellings based on 30 -35 dwellings per hectare [dph]. The site is in flood risk zone 1; it is well related to existing services and facilities in Minehead and Alcombe; and the site is readily accessible. It is identified as a “key strategic” site [for development in the first 10 years of the plan period].
2	LT1: South of A39 between Periton Cross and Higher and Lower Hopcott, Minehead.	Overall Size: 14.5ha Comprising Housing: 11.5 ha; Employment and other non-residential uses: 3ha.	Housing capacity: 342 – 402 dwellings based on 30 – 35 dph. The site is in flood risk zone 1; it is well related to existing services and facilities in Minehead and Alcombe; and the site is readily accessible. It is identified as a “key strategic” site [for development in the latter period of the plan period].
3	Lower Slope of Mount Brake, East of Porlock Road, Minehead. [The site is part of MIN30 and MIN41 , which has multiple landowners.]	Overall Size: 1.7ha	Housing capacity: 51 dwellings based on 30 dph. It was identified as having housing potential in the SHLAA [2010]; the site is judged to be remote from Minehead town centre and Alcombe local centre [1.5-2miles]. It is situated adjacent to a high quality residential neighbourhood [e.g. Home Meadow and Abbots Way]. The lower slope of the site is situated in flood risk zone 1. The site is constrained by a public right of way and stream on its northern/western edge close to the adjacent cemetery; whilst the upper slopes are steep and woodland constrain development potential on its southern/western edges.
4	MIN4: Land North of Porlock Road, Minehead. [Part of <i>SHLAA</i>]	Overall size: 1.2ha.	Housing capacity: 36 dwellings based on 30 dph. It was identified as having housing potential in the SHLAA [2010]. It is currently a caravan site with permanent structures [i.e. toilet and shower block], with two good access points [i.e. Bratten Lane, and onto A39]. The site has natural contours [e.g. terraced] and character with boundary trees and hedgerows. The eastern & south –eastern edge of the site has a stream running round it which is identified as flood zone 3b and may require development to be set back. However, the site is adjacent to a high quality residential neighbourhood [to the east of the site], though situated on the western edge of Minehead and as such remote from the town centre’s facilities and services.

5	Former Telephone Exchange, Parkhouse Road, Minehead.	Overall size: 0.32ha	Its estimated capacity is 10 dwellings, which depends upon the impact of flooding and decontamination issues. This windfall site lies in a suburban location, within the town's development boundary – it is just beyond the edge of the town centre, adjacent to 1920s detached villas. Its most recent use has been as a Motor Museum, though there are some signs that BT continue to use some of the site.
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Sites located in Watchet

Sites numbered 6 to 12 are located in Watchet. The total housing capacity of these seven sites is estimated at between 655 and 733 dwelling units on 21.81ha of developable land. This is based on a development density of 30 dwellings per hectare for the smaller sites and a range of 30 – 35 dwellings per hectare for strategic sites.

Table 2.2: Watchet Site Details

Site Number	Site Name	Site Size	Details
6	D1: Parsonage Farm complex, Brendon Road, Watchet. Identified as a key strategic site [If co-developed with D2].	Overall size: 3.34ha	Housing capacity: nil ; likely to be developed for a mix of non-residential uses to complement adjoining residential site. Located in flood risk zone 1. The site has good access onto main road between Watchet and Washford Cross.
7	D2: Land to the east and north of Parsonage Farm , Brendon Road, Watchet Identified as a key strategic site [If co-developed with D1].	Overall size:16.45ha; Housing site area: 9.56ha inclusive of public open space.	Housing capacity: 287 – 335 dwellings based on a development density of 30 – 35 dph. Located in flood risk zone 1. It is in an elevated location, which is relatively close to the facilities in Watchet town centre. Good access onto main road between Watchet and Washford Cross and potential for a secondary access via Churchill Way for the lower part of site. 20% of land area allotted for public open space.
8	D3: Land at Cleeve Hill, Watchet.	Overall size: 7.08ha; (Road re-alignment reduces the development capacity for housing to 5.833 ha).	Housing capacity: around 175 - 204 dwellings based on a development density of 30 – 35 dph for a site of 5.833ha. The site is located relatively close to the facilities in Watchet town centre. However, since the site needs to provide land to accommodate re-alignment of the B3191, its site area and housing capacity is reduced. Such additional costs and impacts will be off-set by a substantial reduction in the provision of affordable housing. Some areas of the site are constrained by its steep sloping topography and

			<p>potential noise and pollution from the paper mill's valley location.</p> <p>It is identified as a "key strategic" site [even though its housing capacity falls below the 250 unit threshold applied to key strategic sites due to its ability to help resolve a re-alignment of the B3191 road near Daws Castle. This road acts as an important alternative route for light traffic between Williton and Minehead when the A 39 is closed.</p>
9	<p>E3: Land between Normandy Road and Liddymore Lane, Watchet.</p> <p>[Southern part of area <i>SHLAA</i>, site WAT1]</p>	<p>Overall size: 1.58ha;</p>	<p>Housing capacity: 47 dwellings based on 30 dph. Site comprises gently sloping grassland and rough pasture; trees and hedgerows form site boundaries. The site can be accessed from existing estate roads [i.e. Liddimore Road], giving access to schools and other facilities in Watchet's centre.</p>
10	<p>E4: Land southeast of Liddymore Road, Watchet.</p> <p>[Nominated as part of a <i>SHLAA</i>, site WAT6]</p>	<p>Overall size: 3.69ha;</p>	<p>Housing capacity: 111 dwellings based on 30 dph. Adjoining site E3. The site comprises open fields, gently sloping upwards from north to south. Trees and hedgerows form site boundaries. Telephone overhead power lines cross the site. The site can be conveniently accessed from Liddimore Road.</p>
11	<p>Land off West Street, Watchet.</p> <p>[Nominated as part of <i>SHLAA</i>, Site WAT2].</p>	<p>Overall size: 0.15ha;</p>	<p>Housing capacity: 5 dwellings based on 30 dph. Located off West Street and so in close proximity to Watchet's town centre. The land comprises garden land and demolished cottages [in 1960s], which is on an elevated and stepped site. The site has access constraints [i.e. pedestrian access only], which is likely to adversely affect its buildability. The site is adjacent to a recently completed housing scheme [of 1, 2, 3 and 4 bed homes] on a former caravan site [now Lorna Doone Estate, built by Royal Heritage].</p>
12	<p>Land adjoining Brendon Road, Watchet.</p>	<p>Overall size: 1.0ha</p>	<p>The capacity is estimated at 30 homes given constraints on design due to the sloping site. This sloping Greenfield site is located at the town centre's edge lies within the development boundary, adjacent to an existing paper mill. This is a former employment site identified in the Adopted Local Plan and Employment Land Review Stage 1 Report (ELR site ref. 4.18).</p>

Sites located in Williton

Sites numbered 13 to 18 are located in Williton. The total housing capacity of these seven sites is estimated at between 1,323 and 1,441 dwellings on 44.43 Hectares of developable land. This is based on a development density of 30 dwellings per Hectare for the smaller sites and a range of 30 – 35 dwellings per Hectare for the strategic sites.

Table 2.3: Williton Site Details

Site Number	Site Name	Site Size	Details
13	<p>G1: Land north of schools and west of Liddymore Lane, Williton.</p> <p>Identified as a “key strategic” site [when co-developed with G2].</p>	Overall size: 5.42ha;	<p>Housing capacity: 163 – 190 dwellings based on a development density between 30 and 35 dwellings per Hectare [dph]. The site comprises flat open land, but rises towards its northern edge, currently arable and pasture land with some rough grassland. The site is well-located to access Williton village centre’s services, though some highway constraints on North and Doniford Roads, while development may have to be set back from its southern edge as the stream and adjoining road are identified as Flood Zone 3b and the land immediately north of the Danesfield School buildings is identified as Flood Zone 2. Power lines cross the southern edge of the site.</p>
14	<p>G2: Land north of Roughmoor industrial Estate between Liddymore Lane and West Somerset Railway.</p> <p>It is identified as a “key strategic” site [when co-developed with G1].</p>	Overall size: 3.45ha;	<p>Housing capacity: 104 – 121 dwellings based on a development density between 30 and 35 dwellings per Hectare [dph]. The site comprises flat open land with few hedges except along its boundaries. The site’s boundaries are formed by watercourses and parts of the development may be constrained by flood risk zone 3b and the southern part of the site is within Flood Zone 2. The site largely used for low grade arable and grassland and rough pasture; and an equestrian centre operates in the central southern part of the site. The site is well-located to access Williton village centre’s services, though some highway constrains are evident.</p> <p>Part of this site had been identified through the SHLAA process. [Source: <i>SHLAA, Final Report, Site Profiles WIL9</i>, Appendix 5, March 2010, pp.18-19].</p>
15	<p>H1A: Land west and north of A39/Mamsey House, Williton.</p> <p>[See: <i>SHLAA, 2010 WILA</i>].</p>	Overall size: 17.89ha Comprising housing 14.89ha; Employment and other non-residential uses: 3ha.	<p>Housing capacity: 447 – 521 dwellings based on a development density between 30 and 35 dwellings per Hectare [dph]. The site comprises of open fields gently sloping upwards from east to west and north to south. The area is drained via man-made courses that run southwards through the centre of the site. The land to the east is a flood risk zone 3. Any new development</p>

	It is identified as a key strategic site		will need to provide and improve pedestrian and cycle routes particularly to the town centre's facilities and services. A larger site than H1A had been included as a potential housing site through the SHLAA process..
16	F3: Western edge of elevated land bounded by Calwell to the north and Tower Hill Quarry to the south, Williton .	Overall size: 6.51ha	Housing capacity: 195 dwellings based on 30 dph. The site comprises of pasture/grassland that is gently sloping, open landscape on the lower slopes of Tower Hill. The site is compromised by the fact that the northern edge of site is in flood risk zone 3 and barbastelle bat consultation zone; and elevated nature of parts of the land. Access will need to be via A39 to the north at Pondhead Cross or the A358 to the south at Raglan's Cross. The site had been included as a potentially larger housing site through the SHLAA process. [Source: <i>SHLAA, Final Report, Site Profiles WIL3, Appendix 5, March 2010, pp.8-9.</i>]
17	F4: Land north of A358 and eastern edge of Tower Hill, Williton .	Overall size: 13.46ha	Housing capacity: 404 dwellings based on 30 dph. Contiguous to F3 site. The site comprises of pasture/grassland that is gently sloping, open landscape on the lower slopes of Tower Hill. The site is compromised by the fact that the northern edge of site is in flood risk zone 3 and barbastelle bat consultation zone; and elevated nature of parts of the land. Access will need to be via A39 to the north at Pondhead Cross or the A358 to the south at Raglan's Cross. The site had been included in a potentially larger housing site through the SHLAA process. [Source: <i>SHLAA, Final Report, Site Profiles WIL3, Appendix 5, March 2010, pp.8-9.</i>]
18	Bridge Farm, Williton .	Overall size: 0.7ha	Its estimated capacity is 10 new homes, plus conversion of existing listed structures. The site lies within the settlement's development boundary, but its ultimate development may be constrained by its proximity to a stream and listed Church.

Sites located in Villages and other Rural Settlements in West Somerset

Sites numbered 19 to 24 are located in primary and secondary villages across West Somerset; they have been identified to accommodate "limited or small-scale development" in the *Revised Draft Preferred Strategy* [WSC, June 2013] The total housing capacity of these six sites is an estimated 78 dwelling units on a total site area of 2.48ha [equating to 31.45 dph].

Table 2.4: Villages and Rural settlements' Site Details

Site Number	Site Name	Site Size	Details
19	Land North of Groves Lane, Blue Anchor, Carhampton .	Overall size: 0.8ha	Housing capacity: 24 dwellings based on 30dph. The site lies on the edge of Blue Anchor. Access can be achieved via Groves Lane with potential to improve overall accessibility for Grove Road and the B3191. The site is currently open grassland. The site had been identified as having housing potential through the SHLAA process. [Site Reference: <i>SHLAA, Final Report, Site Profiles, BLA2, Appendix 5, March 2010, pp.9-10.</i>]
20	Land at rear of St. Andrew's Road, Stogursey .	Overall size: 0.5ha	Housing capacity: 15 dwellings based on 30 dph. This windfall site [comprising of rear gardens] lies within a Conservation Area and Ancient Monument; there may also be access constraints. The site's housing capacity may be further limited due to recent Government policy changes on garden land development.
21	Brushford Garage, [B3222] Brushford .	Overall size: 0.18ha	Its estimated capacity is 7 homes, though some commercial element may need to be provided on the site. This site lies within the village's development boundary, which is currently operating as a garage and petrol station/store. Adjacent to the site is estate housing [bungalows and terraced homes] and recently refurbished hotel and apartments. Additionally, potential contamination issues may arise.
22	Land at rear of Church View, Church Lane, Carhampton .	Overall size: 0.45ha	Given its rural location, its estimated capacity is 14 homes. This windfall site lies with the village's development boundary and is currently being used for grazing and contains derelict/abandoned buildings. The site is close to the church and its churchyard, and there appears to be a number of access constraints.
23	Land adjacent to Titholes, Lower Street, Withycombe . SHLAA nominated site (CRO3)	Overall size: 0.15ha	Its estimated capacity is 6 homes; whilst part of the site may be judged to be categorized as a rural exception. This site lies across the village's settlement boundary and is currently used for grazing and is occupied by two abandoned farm buildings/sties.
24	Grimes Farm, Crowcombe . [Part of SHLAA]	Overall size: 0.4ha	Its estimated capacity is 6 units. This site lies within the village's settlement boundary. Though a windfall site, it is well located being within close proximity to cricket/tennis courts, playing fields and local primary school, pub, post office/shops. Site is within the Quantock Hills AONB."

Section 3: Viability Appraisal Inputs, Parameters and Assumptions

This section sets out:

- Our approach to housing viability appraisal
- The assumptions we used to inform the viability appraisals.
- The viability appraisal outputs stemming from the viability modelling.

Modelling housing development viability

We use the residual approach to development viability assessment for residential development. Our financial viability model takes the difference between the value and costs of a development scenario and compares the 'residual' with a land value benchmark to determine the balance available to support policy costs. This approach is in line with accepted practice recommended in The Harman Report [2012], NPPF [2012] and by The Planning Inspectorate [May, 2013].

The assessment is based on current market values and building and other development costs and the appraisal of hypothetical development schemes **and** site-specific development schemes.

In essence, development appraisal models are relatively simple⁷. The basic framework for development appraisal involves conducting a residual [land] valuation. This can be expressed in the form of a formula:

$$\text{GDV} - (\text{BC} + \text{P}) = \text{RLV}$$

Where:

GDV = Gross Development Value

BC = Building Costs, including abnormal costs, planning obligations, fees and interest

P = Developer's Profits [normal profits]

RLV = Residual Land Value

For our purposes, this basic equation can be re-arranged in three ways, as follows:

[1] $\text{GDV} - (\text{BC} + \text{P}) = \text{RLV}$ Here the Land Value is a residual. This is the maximum amount that can be offered to buy the land by the developer assuming a minimum target rate of profit.

[2] $\text{GDV} - (\text{BC} + \text{RLV}) = \text{P}$ Here the Land Value is known. The Profit is a residual in this equation.

[3] $(\text{BC} + \text{P} + \text{RLV}) = \text{GDV}$ Here the GDV is made up of the three main "cost" elements which explicitly include the developer's profit.

From these different equations we can identify critical values:

- Equation 1: for those who are seeking to **sell or buy land**;
- Equation 2: the amount of **profit** that might be achieved by the developer having bought the land; and
- Equation 3: this reveals the three **basic "costs"** that comprise the GDV.

For this study Equation 1 is the crucial reference point.

⁷ The procedures for the conduct of and the purpose of a valuation of this kind is set out in a manual known as "The Red Book" which is prepared and published by the RICS, the professional body of chartered surveyors. See RICS (2013) *RICS Appraisal and Valuation Standards* [The Red Book], 10th Edition.

To assess viability, the resultant RLV [i.e. future use land value] must be compared with known land values [existing or current use values] that reflect current market conditions and transactions. Viability is compromised when the RLV [the developer's land bid budget] falls below the value of land that incentivises the landowner to agree to sell. In this respect, we will be comparing the RLV against a land value benchmark for West Somerset; the latter is based on an inspection of market transactions and housing developments as well as an appreciation of industry requirements.

This assessment uses the cash flow based viability appraisal model which Professor Stephen Walker has developed in Microsoft Excel. The model provides the flexibility to input a wide range of policy variables and parameters across a number of development scenarios.

Assumptions used to inform the housing viability appraisals

The principal assumptions used to inform the 24 housing viability site appraisals are summarised in the following Tables namely:

- Tables 3.1: Revenue assumptions,
- Tables 3.2: Cost assumptions,
- Tables 3.3: Unit size, pace of development and density, and
- Tables 3.4: Policy mix and affordable housing requirements.

Each of these is based on current market evidence, and liaison with: local officers and representatives of the Council; housing associations [Registered Social Landlords (RSL) /Registered Providers (RP)]; and private house builders operating in West Somerset and adjoining councils. The assumptions are also informed by a review of viability codes of conduct and good practices advised by the Harman Report [2012] and The Planning Inspectorate (PI, 2013.). In short we believe the approach adopted in this Report is up-to-date and rigorous.

Table 3.1: Revenue Assumptions		
Assumption	Source	Details of data used in the study
Sale Values of Completed Schemes	Analysis of new housing development within WSC area	The property values are derived from values achieved by current new housing schemes in the West Somerset area [e.g. Minehead; Acombe; Williton; Crowcombe. Dulverton; Porlock]. Dwelling Unit :£2,814/m²
Affordable Housing Transfer Values [Intermediate]	Analysis of new housing developments within WSC area and information provided by WSC and locally operating RSLs	Intermediate <ul style="list-style-type: none"> ▪ 65m² Homes: 70% of £2814/m² =£1,969.38/m² ▪ 85m² Homes: 70% of £2,814/m²=£1,969.38/m²
Affordable Housing Transfer Values [Affordable and Social Rent]	Analysis of new housing developments within WSC area and information by WSC and locally operating RSLs	Affordable Rent [80% of market rents]: <ul style="list-style-type: none"> ▪ 65m² Homes: £87,552 [47.88% of Market Homes] ▪ 85m² Homes: £113,088 [47.29% of Market Homes] Social Rent [60% of market rents]: <ul style="list-style-type: none"> ▪ 65m² Homes: £65,664 [35.91% of Market Homes] ▪ 85m² Homes: £84,818 [35.47% of Market Homes]

Table 3.2: Cost Assumptions

Assumption	Source	Details of data used in the study									
Build Costs	BCIS Quarterly Review of Building Prices, December 2013	BCIS is published by RICS on a quarterly basis. BCIS offers a range of building prices dependent on the final building specification. The following build costs are derived from recent data of actual prices in the market place. As early as 2009, the market across the UK was constructing at around Code for Sustainable Homes Level 3 to 4 for private and Level 4 for social housing. The rate for Estate Housing is £1,002/m² [November, 2013]. This overall rate includes an allowance for external works of 15% of build costs. For smaller scale schemes [3 units or fewer] the rate rises to: £1,278/m² .									
Professional Fees on build costs	Industry Standards	Professional fees are based upon accepted industry standards and have been calculated as a percentage of build costs at 8% .									
Contingencies	Industry Standards	Contingency is based upon the risk associated with each site and has been attributed as a percentage of build costs at 5% .									
Sale Costs	Industry Standards	These are based on industry accepted scales at the following rates: Legal Fees: 1% of value Estate Agents' Fees: 0.5% of private sale value Marketing Costs: £1000/unit .									
Finance Costs	Industry Standards	Based upon the likely cost of development finance at current market rates of interest of 7%pa .									
Stamp Duty Land Tax on Land Purchase	HMRC	These are the current rates set by the Treasury at the following rates: Up to £150,000 0% Over £150,000 to £250,000 1% Over £250,000 to £500,000 3% Over £500,000 to £1m 4% Over £1m to £2m 5% Over £2m 7%									
Professional Fees on Land Purchase	Industry Standards	Fees associated with the land purchase are based on the industry standard: Legal Fees: 0.75%									
Planning Fees	CLG	These are based on the current national rates for a full planning application.									
Developer's Target Rate of Profit	Industry Standards and informed by Financial Analysis Made Easy [FAME] database	Gross development profit [including overheads] taken as a percentage of gross development value [GDV] or % on costs. <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>% of GDV</th> <th>% on Costs</th> </tr> </thead> <tbody> <tr> <td>Market Homes</td> <td>16.67%</td> <td>20%</td> </tr> <tr> <td>Affordable/Social Homes</td> <td>5.66%</td> <td>6%</td> </tr> </tbody> </table> Together these generate a "blended" rate of profit according to the housing tenure mix.		% of GDV	% on Costs	Market Homes	16.67%	20%	Affordable/Social Homes	5.66%	6%
	% of GDV	% on Costs									
Market Homes	16.67%	20%									
Affordable/Social Homes	5.66%	6%									
Housing Grant/ Subsidy	HCA	Nil									

Table 3.3: Unit size, pace of development, density

Assumption	Source	Details of data used in the study	
Time scales, build rates, units/per annum	Market analysis of comparable sites and build out rates set out in West Somerset Council's Revised Draft Preferred Strategy [2013]	These have been based upon current demand and build out rates in the West Somerset market. Sites up to 10 units 10pa Sites from 10 to 30 units 20pa Sites from 75 to 125 units 50pa Sites from 125 to 250 units 50pa Sites of more than 250 units 50pa	
Gross Densities	West Somerset planning officials	These are informed by evidence supplied by West Somerset Council and we use densities of 30 – 35 dwellings per hectare. On those sites larger than 1 hectare open space provision is required of 15% to 20% of the site area.	
Unit Sizes	West Somerset Strategic Housing Market Assessment [2013]	Private Homes	65m² 85m²
		Affordable Rented Homes	65m² 85m²
		Social Rented Homes	65m² 85m²
		Intermediate Homes for Sale	65m² 85m²

Table 3.4: Policy mix and affordability

Assumption	Source	Details of data used in the study	
Affordable Housing	West Somerset Council's Revised Draft Preferred Strategy [2013]	Proportion of Affordable Housing: 35%	
Affordable Tenure Mix	West Somerset Council's Revised Draft Preferred Strategy [2013]	Affordable Rented: 60% Social Rented: 40% Intermediate [shared ownership]: 0%	
S106 Policy Requirements	WSC's Planning Obligations Supplementary Planning Guidance, Codes of Practice and in liaison with planning officials	S106: £62/m² [equivalent to £5,022/unit on market homes only] CIL: NIL	

Observations

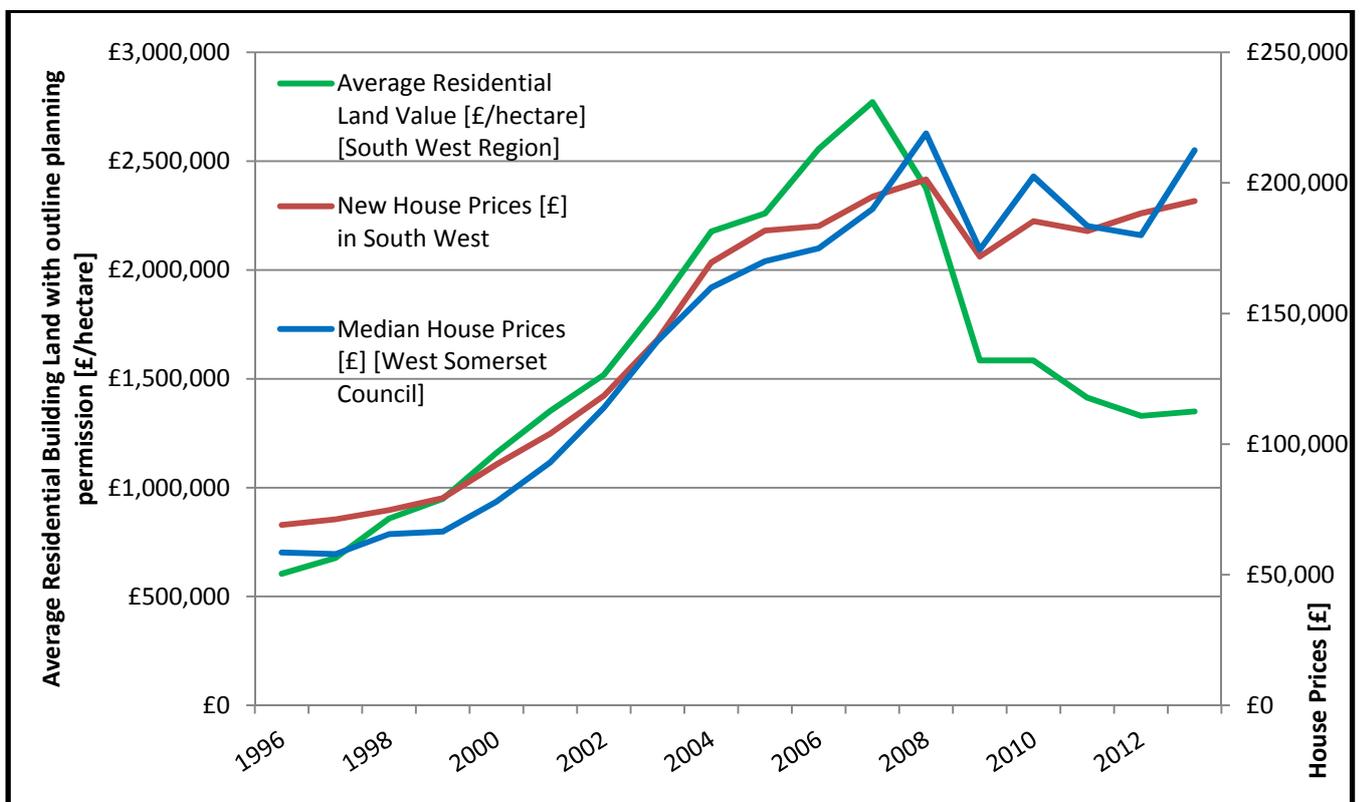
Prior to focusing on the main findings from the viability appraisals, a number of observations are made with regard to the above parameters and assumptions. These cover:

- Land Value Benchmarking
- Local House Prices
- Housing Delivery In West Somerset Local Planning Area
- Other variations in or differences from the 2008 SHVA Study.

Land Value Benchmarking

Figure 3.1 below shows there is a clear interaction between changes in house prices in the South West region and land values. In general terms as house prices increase so do land values for the period 1996 to 2007. Land values rose by a multiple of 4.5 between 1996 and 2007, while house prices had risen 4 times over the same period. This upward trend was brought sharply to a halt by the financial crisis of 2008. Since then residential land values have fallen by more than a half from £2.75m per hectare in 2007 to £1.35m per hectare in late 2012; whilst median house prices and new build house prices initially fell and since have shown instability, neither recovered to their pre-financial crisis heights. In other words, a significant impact of the financial crisis on the housing market has been the collapse in the volume of transactions and the number of new housing starts.

Figure 3.1 House Prices compared to Land Values



Source: DCLG, Live Tables 582 and 563; Nationwide Building Society, HousePriceAnalytics.com.

Our approach to benchmark setting considers the value of land with planning permission and acknowledges that land owners will generally have an aspirational land value based on the planning consent that can be achieved for the land. However, we recognise that in the future, the price offered for land will need to reflect future policy requirements, but still ensure the land value is set at a level that provides some incentive for the land owner to release the site. This sentiment accords well with the approach recommended in the Harman Report [2012].

To set the benchmark land value it is necessary to research past property trends, using data sets, such as The Land Registry, DCLG, Nationwide; and HousePriceAnalytics.com; and we also consulted with local property agents. The professional consensus suggests that land values for fully serviced

sites has nearly halved from 2007/8 data, with typical land values which were about £2.75m/hectare having generally declined to £1.37m/hectare⁸. These figures are based on sites with planning consents and extant planning policy requirements.

With a developer's benchmark of £1.37m per hectare for a Greenfield site, this would be conditional that the costs of abnormal and remediation works, S106 obligations and affordable housing, and any other costs are **subtracted** from the land costs. When these costs are subtracted the average land price in Somerset area becomes about £550,000 per hectare.

It is difficult to predict land values for non-serviced sites that don't have the benefit of planning consent, as they will all have different servicing issues with varying costs. For example, a contaminated site with abnormal costs may cost the owner/promoter of the site more to fully service, but once the contamination has been removed by the landowner, the site will be sold for the same amount as one with no contamination.

In formulating a benchmark land value, for sites without planning consent, we have applied a value of **£550,000 per hectare** for a fully serviced site. This is in keeping with the NPPF [CLG, 2012] and the guidance in the Harman Report which states that land values should be set to provide sufficient incentives to encourage delivery of sites but at the same time look to secure future policy requirements.

In reality, a developer will often agree to pay something close to the existing use value for say agriculture or employment (depending on the sites credible current use), and there will be an agreement in place with the landowner to share any profits after costs (including an appropriate developers return) have been deducted. Thus there is scope, once the planning policy requirements and site investigations have been undertaken to assess the worth of the land more specifically to the site. In other words, the benchmark land value has to reflect the emerging planning policy; for example, requirements to supply affordable housing, flood mitigation, and energy efficiency measures, will typically lower the benchmark land value. So it should be noted that the greater the costs associated with providing serviced housing parcels the lower the benchmark value.

Land Value Benchmarking should reflect policy requirements

The main policy requirement for developer contributions [in financial terms] has been for affordable housing, and this was supported by the earlier SHVA study [NPHMAP, 2008]. The effects of these requirements have filtered through in the land value negotiations, which have coincided with the downturn in the property/housing market [i.e. 2008-2013].

The impact of providing affordable housing on the back of private development *had been* partially cushioned in some circumstances by way of substantial Homes and Community Agency [HCA] grant to support any gap funding to deliver affordable housing and by a rise in the upfront payment [from 50% to 80%] to developers to ease their cash flow difficulties. The current funding regime and availability of grants, however, is substantially lower and can no longer be relied upon to finance development. Consequently, the viability model used assumes *no subsidy or grant* for affordable homes delivered through S106 agreements.

⁸ Based on 'fully serviced' sites that are ready to develop without abnormal costs.

Land value benchmarking is in its infancy and as such is not universally understood. However we can take guidance from what is suggested in the Harman Report [2012]. This seeks to ensure an adequate supply of land coming forward throughout a local plan's existence [i.e. some 20 or more years]. In this regard, the price at which land is exchanged and transacted is a function of two opposing [and not necessarily equal or well-informed] forces:

- Land owners will generally seek to secure an aspirational land value based on the planning consent that can be achieved for the land; and
- The price offered for land [by prospective developers] will need to reflect future policy requirements.

This is in keeping with the NPPF [CLG, 2012] and the approach of the Harman Report [2012] that land values should be set to provide sufficient incentives to encourage delivery of sites but at the same time look to secure future policy requirements.

However, the approaches being promoted in Harman and in the NPPF in terms of land value benchmarking relate to strategic high level viability appraisals which are quite different from site-specific land value assessment. For example, although viability models use construction cost information provided by BCIS, it is worth noting that such data rarely provides information on the costs associated with providing serviced housing parcels, i.e. strategic infrastructure costs which are typically in the order of £17,000 - £23,000 per plot for larger scale schemes.

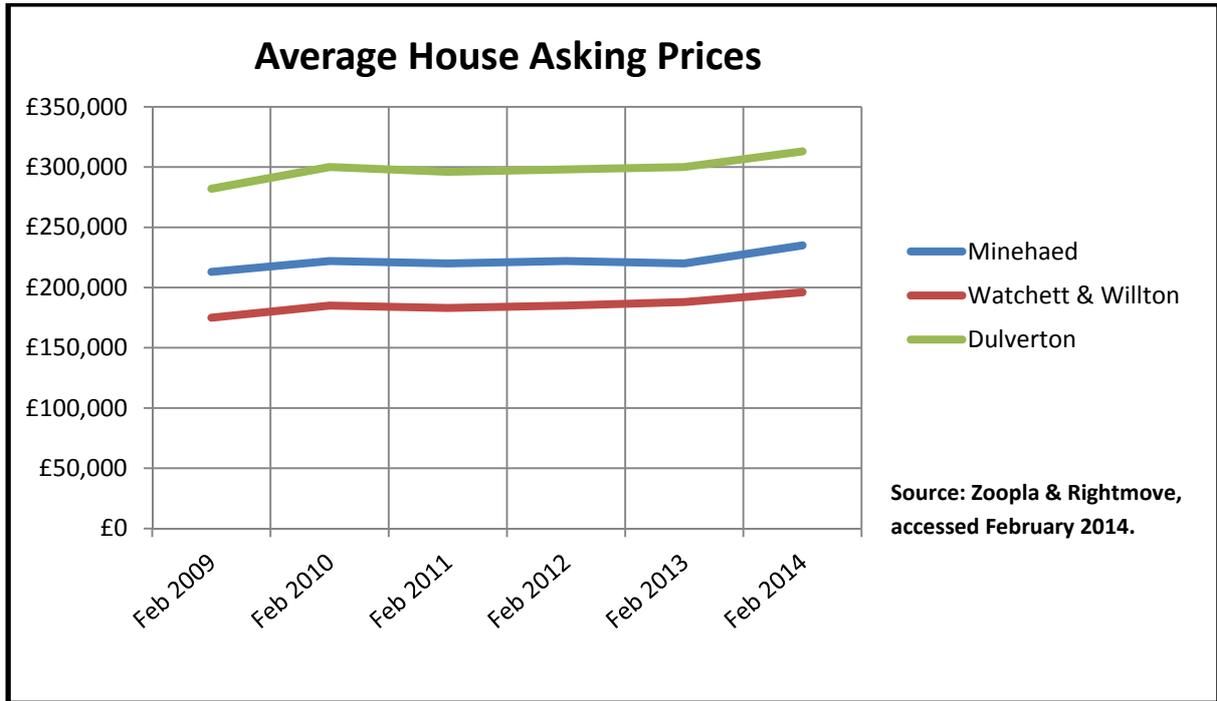
Consequently for a site-specific assessment, there can never be a single benchmark land value. Land is likely to come forward at a level higher or lower than this in practice. The actual value of land paid to a landowner comprises a function of many factors, including the landowner's financial circumstances, market demand and site specific residual valuations which may find a site is cheaper to develop than estimated, or requires less in the way of infrastructure and opening up costs. It is unwise in principle and in practice to believe that by setting a benchmark land value that it will definitively bring land forward for development.

Local House Prices

Publicly available data sets on house prices *do not* specifically reveal the housing markets of West Somerset Council area. However, we can get a sense of these markets by reference to data for Somerset County and the South West region, which have already been displayed in Figure 3.1 above.

More specifically, the average house price [£/m²] applied in the SHVA study of 2008 was £2,640/m². Based on new housing schemes recently completed or under-construction, equivalent new house prices are now achieving £2,813/m², which is an increase of over 6%. This higher figure has been applied in the viability appraisals in this report; for a market home of 65m² this is equivalent to £183,000 and £240,000 for a market home of 85m².

Figure 3.2 Average House Prices in selected towns in West Somerset area



In the case of site-specific viability appraisals, we have adjusted house prices to take account of differences in the sub-housing markets. Such differences are reflected in Figure 3.2, which suggests that sites in villages and other rural [remoter] settlements can achieve discernibly higher prices than sites in Minehead, Watchet or Williton. For example, using Minehead as the benchmark, house prices in Watchet and Williton can be between 10% to 15% lower – while house prices in villages and smaller settlements [such as Dulverton] can be 20% to 30% higher.

These asking house price differences will also affect the transfer values applied to affordable rented and social rented homes in these localities too.

Housing Delivery in West Somerset Local Planning Area

According to WSC data (supplied by the Affordable Housing Officer) 328 new homes have been built over the five year period 2008/09 to 2013/14, of which over 36% were affordable homes [comprising 78 social rented homes and 41 low-cost home-ownership]. These new homes have largely been built on small or very small sites [i.e. with fewer than 10 units]. The record of delivering 119 affordable homes is bolstered by two sites that accommodated 56 homes exclusively as affordable homes in Minehead and Watchet

Other variations or differences from the 2008 SHVA Study

There are a number of other variations or differences in the parameters or assumptions applied in this report compared to the 2008 SHVA study that merit discussion here, namely:

- **Developer's target rate of profit:** we have reduced the rate from 20% of GDV across all units to 16.67% of GDV for market homes and 5.66% of GDV for affordable/social homes.
- **Housing tenure mix:** a lower affordable policy requirement of 35% has been applied, where this proportion is split 60% for Affordable Rented Homes and 40% for Social Rented Homes. **No provision** has been made to deliver Intermediate Homes since their "affordability" is too onerous for West Somerset householders [i.e. only affordable homes for rent and social homes for rent are "affordable"].
- **Housing density:** In the 2008 SHVA study a gross density of 35 to 55, dph was applied depending on location; and in the current study a density range of 30 – 35 dwellings per Hectare has been used in the calculations).
- **Build costs:** these have largely flat-lined over the last 5 years or so, though in the future there is evidence that basic build costs are likely to rise because of shortages of skilled labour and additional costs associated with higher energy efficiency measures.
- **Contingency:** we have applied a 5% margin for contingency, whereas this had not been included in the 2008 SHVA study.
- **On-site open space:** provision of 15% of a site whose site area is at least 1hectare and no more than up 5 hectares; provision of 20% of a site whose site area is greater than 5hectares.
- **S106 policy requirements:** We have reduced the S106 policy requirements to between £2,000 and £5,000 per unit that is applied only to the market homes.
- **CIL payments:** The 2008 SHVA study also applied a CIL charge of £10,000 per unit but since SWC do not intend to apply a CIL this has been omitted.
- **Cash flow based modelling:** In this 2014 study the viability appraisals involve a cash flow based model; which is different from the static appraisal used in the 2008 SHVA study. The cash flow model explicitly takes into account timing and the phasing of values accrued and costs incurred in building out a housing scheme and exiting from the site. The cash flow model calculates the actual interest charges incurred rather than applying standard weighting factors which attempt to do the same in the context of a static residual appraisal. The result is that interest charges tend to be lower and so the residual available to buy the land is higher.
- **Miscellaneous items:** for some sites special designations or site conditions generate additional constraints and costs; sometimes however these higher specifications can lead to higher outturn prices. Where such costs are incurred or required this will be declared for specific sites.

Section 4: Findings

Viability appraisal outputs

A number of ‘iterations’ have been conducted to reflect different planning policy requirements in the viability appraisals. To simplify the presentation of this ‘iterative process’, we focus on the policy scenario options most likely to help WSC make informed choices. In this respect the critical question is:

“What is the impact on development viability of including some or all of the above policy requirements and is the plan deliverable and developable as a result of the cumulative impact of policy?”

The next section responds to this question by illustrating what happens to the residual land value and hence viability once a combination of the policy requirements are factored into appraisals.

An explanation of how to interpret the viability appraisal output tables

By necessity the presentation of this section is complicated, for example see the general approach to viability summarised in Figure 1.1 (Section 1, page 3).

For **all the housing development scenarios** we have assessed the following:

- Calculated the overall development value of the completed scheme.
- From this, we deducted the development cost to build the scheme and the developer’s profit margin.
- This generates the ‘residual value per hectare [£/ha]’ – a figure available to pay for the land and the planning policy requirements.
- We then deduct the benchmark land value per hectare to arrive at the balance available to contribute towards policy requirements. Note that in reality this will vary as discussed earlier, but we use a fixed figure to inform this strategic housing viability assessment.
- The residual value after deducting the benchmark land value forms the basis for assessing how it can fund the range of planning policy requirements.
- We then consider the implications on viability by incorporating the cost of providing a range of affordable housing and other planning policy requirements.

The findings are presented differently depending upon the category of housing site being appraised:

Strategic Housing Sites:

- If there is a **positive balance** remaining after all deductions (the build costs, developer profit, benchmark land value, affordable housing and other policy cost), then the particular development scheme is considered to be viable. A negative/red figure indicates that the scheme is not viable or maybe marginal.

The other two categories of Housing Sites:

- If the Residual Land Value [RLV], with different policy requirements, is **equal to or higher** than a notional benchmark land value, then the particular housing scheme is deemed viable.

The findings for each category of housing site are set out in the following order:

- Strategic Housing Sites: see Tables 4.1a and 4.1b; 4.2a and 4.2b; 4.3a, 4.3b, 4.3c and 4.3d; and 4.4a, 4.4b, 4.4c and 4.4d;
- Non-strategic Housing Sites: see Table 4.5 and Figure 4.1; and
- Housing Sites from the 2008 SHVA study: see Table 4.6 and Figure 4.2.

Strategic Housing Sites

In accordance with the evidence base generated by WSC the strategic site modelling has been based on a development density of 30 and 35 dwellings per hectare. Hence, for each of the appraisal iterations two tables are presented.

Residual balance with no policy requirements [baseline]

Tables 4.1a and 4.1b show that without any policy requirements all the development scenarios tested show a positive residual balance indicating that development is viable in the sort of locations and sites that are currently taking place. This is also reflected in the fact that development is taking place on the ground in Alcombe, Minehead [College Gardens], in Williton [The Paddocks] and in Bishops Lydeard near Crowcombe [Station Green].

Affordable housing delivery at 35% and no other policy requirements

Tables 4.2a and 4.2b show that a 35% affordable housing policy requirement is achievable based on the benchmark land value adopted for the Strategic Housing Sites. (See pages 18 to 20 above). Remember the benchmark value assumes a fully serviced site so the actual amount paid to the landowner could be considerably less than the benchmark value, and is likely to be close to its existing use value.

To provide an indication of whether this scenario is viable at current land values, we have undertaken sensitivity testing [for changes in prices and build costs] and these appraisals are set out in Tables 4.8a, 4.8b, and 4.8c

The findings in Tables 4.2a and 4.2b actually reflect the percentage of affordable housing currently being sought by WSC, on a like for like basis. For example, see the housing delivery performance achieved over the last five years (described on page 20) where more than 36% of the homes built has been affordable.

The findings in Tables 4.2a and 4.2b also show that **viability is compromised** for the larger development scenario of 250 dwelling units and thus provision for affordable housing would need to be lowered to ensure such strategic housing sites enter the development pipeline in the Local Plan period. Viability becomes marginal and negative for the larger size development scenarios due to the longer development time and extra finance costs incurred due to compounding.

Table 4.1a: Residual Land Values [£/ha] with No Policy Requirements at 30 Dwellings per Hectare

Site Capacity [Number of Dwellings]	Build Rate pa	Project Duration	Build Duration	Site Area	Density	Housing Floor Space	Residual Land Value [RLV]	Land Value Benchmark	Cost of Affordable Housing	Other Policy Costs	Residual Balance
D	pa	Months	Months	ha	D/ha	m ²	£/ha	£/ha	£/ha	£/ha	£/ha
5	10	12	6	0.1667	30	405	£2,480,589	£550,000	£0.0	£0.0	£1,930,589
10	10	18	12	0.3333	30	810	£2,382,864	£550,000	£0.0	£0.0	£1,832,864
20	20	18	12	0.6667	30	1620	£2,360,524	£550,000	£0.0	£0.0	£1,810,524
30	20	24	18	1.0000	30	2430	£2,238,866	£550,000	£0.0	£0.0	£1,688,866
70	35	33	24	2.3333	30	5670	£2,129,908	£550,000	£0.0	£0.0	£1,579,908
125	50	42	30	4.1667	30	10125	£2,028,400	£550,000	£0.0	£0.0	£1,478,400
250	50	72	60	8.3333	30	20250	£1,713,850	£550,000	£0.0	£0.0	£1,163,850

Table 4.1b: Residual Land Value [£/ha] with No Policy Requirements at 35 Dwellings per Hectare

Site Capacity [Number of Dwellings]	Build Rate	Project Duration	Build Duration	Site Area	Density	Housing Floor Space	Residual Land Value [RLV]	Land Value Benchmark	Cost of Affordable Housing	Other Policy Costs	Residual Balance
D	pa	Months	Months	ha	D/ha	m ²	£/ha	£/ha	£/ha	£/ha	£/ha
5	10	12	6	0.1429	35	405	£2,896,044	£550,000	£0	£0	£2,346,044
10	10	18	12	0.2857	35	810	£2,781,952	£550,000	£0	£0	£2,231,952
20	20	18	12	0.5714	35	1620	£2,755,871	£550,000	£0	£0	£2,205,871
30	20	24	18	0.8571	35	2430	£2,613,837	£550,000	£0	£0	£2,063,837
70	35	33	24	2.0000	35	5670	£2,486,631	£550,000	£0	£0	£1,936,631
125	50	42	30	3.5714	35	10125	£2,368,121	£550,000	£0	£0	£1,818,121
250	50	72	60	7.1429	35	20250	£2,000,890	£550,000	£0	£0	£1,450,890

Table 4.2a: Residual Land Values [£/ha] with 35% Affordable Housing Threshold at 30 Dwellings per Hectare

Site Capacity [Number of Dwellings]	Build Rate	Project Duration	Build Duration	Site Area	Density	Housing Floor Space	Residual Land Value [RLV]	Land Value Benchmark	Cost of Affordable Housing	Other Policy Costs	Residual Balance
D	pa	Months	Months	ha	D/ha	m ²	£/ha	£/ha	£/ha	£/ha	£/ha
5	10	12	6	0.1667	30	405	£2,480,589	£550,000	£1,372,371	£0.0	£558,218
10	10	18	12	0.3333	30	810	£2,382,864	£550,000	£1,372,371	£0.0	£460,494
20	20	18	12	0.6667	30	1620	£2,360,524	£550,000	£1,372,371	£0.0	£438,154
30	20	24	18	1.0000	30	2430	£2,238,866	£550,000	£1,372,371	£0.0	£316,495
70	35	33	24	2.3333	30	5670	£2,129,908	£550,000	£1,372,371	£0.0	£207,538
125	50	42	30	4.1667	30	10125	£2,028,400	£550,000	£1,372,371	£0.0	£106,029
250	50	72	60	8.3333	30	20250	£1,713,850	£550,000	£1,372,371	£0.0	-£208,521

Table 4.2b: Residual Land Value [£/ha] with 35% Affordable Housing Threshold at 35 Dwellings per Hectare

Site Capacity [Number of Dwellings]	Build Rate	Project Duration	Build Duration	Site Area	Density	Housing Floor Space	Residual Land Value [RLV]	Land Value Benchmark	Cost of Affordable Housing	Other Policy Costs	Residual Balance
D	pa	Months	Months	ha	D/ha	m ²	£/ha	£/ha	£/ha	£/ha	£/ha
5	10	12	6	0.1429	35	405	£2,896,044	£550,000	£1,601,091	£0.0	£744,953
10	10	18	12	0.2857	35	810	£2,781,952	£550,000	£1,601,091	£0.0	£630,862
20	20	18	12	0.5714	35	1620	£2,755,871	£550,000	£1,601,091	£0.0	£604,780
30	20	24	18	0.8571	35	2430	£2,613,837	£550,000	£1,601,091	£0.0	£462,746
70	35	33	24	2.0000	35	5670	£2,486,631	£550,000	£1,601,091	£0.0	£335,540
125	50	42	30	3.5714	35	10125	£2,368,121	£550,000	£1,601,091	£0.0	£217,030
250	50	72	60	7.1429	35	20250	£2,000,890	£550,000	£1,601,091	£0.0	-£150,201

Table 4.3a: Residual Land Values [£/ha] with 35% Affordable Housing Threshold and £5,000/unit for Other Policy Requirements at 30 Dwellings per Hectare

Site Capacity [Number of Dwellings]	Build Rate	Project Duration	Build Duration	Site Area	Density	Housing Floor Space	Residual Land Value [RLV]	Land Value Benchmark	Cost of Affordable Housing	Other Policy Costs	Residual Balance
D	pa	Months	Months	ha	D/ha	m ²	£/ha	£/ha	£/ha	£/ha	£/ha
5	10	12	6	0.1667	30	405	£2,480,589	£550,000	£1,372,371	£97,929	£460,289
10	10	18	12	0.3333	30	810	£2,382,864	£550,000	£1,372,371	£97,929	£362,565
20	20	18	12	0.6667	30	1620	£2,360,524	£550,000	£1,372,371	£97,929	£340,225
30	20	24	18	1.0000	30	2430	£2,238,866	£550,000	£1,372,371	£97,929	£218,566
70	35	33	24	2.3333	30	5670	£2,129,908	£550,000	£1,372,371	£97,929	£109,609
125	50	42	30	4.1667	30	10125	£2,028,400	£550,000	£1,372,371	£97,929	£8,100
250	50	72	60	8.3333	30	20250	£1,713,850	£550,000	£1,372,371	£97,929	-£306,450

Table 4.3b: Residual Land Value [£/ha] with 35% Affordable Housing Threshold and £5,000/unit for Other Policy Requirements at 35 Dwellings per Hectare

Site Capacity [Number of Dwellings]	Build Rate	Project Duration	Build Duration	Site Area	Density	Housing Floor Space	Residual Land Value [RLV]	Land Value Benchmark	Cost of Affordable Housing	Other Policy Costs	Residual Balance
D	pa	Months	Months	ha	D/ha	m ²	£/ha	£/ha	£/ha	£/ha	£/ha
5	10	12	6	0.1429	35	405	£2,896,044	£550,000	£1,601,091	£114,250	£630,703
10	10	18	12	0.2857	35	810	£2,781,952	£550,000	£1,601,091	£114,250	£516,612
20	20	18	12	0.5714	35	1620	£2,755,871	£550,000	£1,601,091	£114,250	£490,530
30	20	24	18	0.8571	35	2430	£2,613,837	£550,000	£1,601,091	£114,250	£348,496
70	35	33	24	2.0000	35	5670	£2,486,631	£550,000	£1,601,091	£114,250	£221,290
125	50	42	30	3.5714	35	10125	£2,368,121	£550,000	£1,601,091	£114,250	£102,780
250	50	72	60	7.1429	35	20250	£2,000,890	£550,000	£1,601,091	£114,250	-£264,451

Table 4.3c: Residual Land Value [£/ha] with 35% Affordable Housing Threshold and £2,000/unit for Other Policy Requirements at 30 Dwellings per Hectare

Site Capacity [Number of Dwellings]	Build Rate	Project Duration	Build Duration	Site Area	Density	Housing Floor Space	Residual Land Value [RLV]	Land Value Benchmark	Cost of Affordable Housing	Other Policy Costs	Residual Balance
D	pa	Months	Months	ha	D/ha	m ²	£/ha	£/ha	£/ha	£/ha	£/ha
5	10	12	6	0.1429	30	405	£2,480,589	£550,000	£1,372,371	£39,014	£519,204
10	10	18	12	0.2857	30	810	£2,382,864	£550,000	£1,372,371	£39,014	£421,479
20	20	18	12	0.5714	30	1620	£2,360,524	£550,000	£1,372,371	£39,014	£399,139
30	20	24	18	0.8571	30	2430	£2,238,866	£550,000	£1,372,371	£39,014	£277,481
70	35	33	24	2.0000	30	5670	£2,129,908	£550,000	£1,372,371	£39,014	£168,523
125	50	42	30	3.5714	30	10125	£2,028,400	£550,000	£1,372,371	£39,014	£67,015
250	50	72	60	7.1429	30	20250	£1,713,850	£550,000	£1,372,371	£39,014	-£247,535

Table 4.3d: Residual Land Value [£/ha] with 35% Affordable Housing Threshold and £2,000/unit for Other Policy Requirements at 35 Dwellings per Hectare

Site Capacity [Number of Dwellings]	Build Rate	Project Duration	Build Duration	Site Area	Density	Housing Floor Space	Residual Land Value [RLV]	Land Value Benchmark	Cost of Affordable Housing	Other Policy Costs	Residual Balance
D	pa	Months	Months	ha	D/ha	m ²	£/ha	£/ha	£/ha	£/ha	£/ha
5	10	12	6	0.1429	35	405	£2,896,044	£550,000	£1,601,091	£45,516	£699,437
10	10	18	12	0.2857	35	810	£2,781,952	£550,000	£1,601,091	£45,516	£585,346
20	20	18	12	0.5714	35	1620	£2,755,871	£550,000	£1,601,091	£45,516	£559,264
30	20	24	18	0.8571	35	2430	£2,613,837	£550,000	£1,601,091	£45,516	£417,230
70	35	33	24	2.0000	35	5670	£2,486,631	£550,000	£1,601,091	£45,516	£290,024
125	50	42	30	3.5714	35	10125	£2,368,121	£550,000	£1,601,091	£45,516	£171,515
250	50	72	60	7.1429	35	20250	£2,000,890	£550,000	£1,601,091	£45,516	-£195,717

The effect of factoring in other policy requirements and affordable housing

Tables 4.3a, 4.3b, 4.3c and 4.3d show the effect on viability of introducing a developer contribution either £2,000/unit or £5,000/unit towards other policy requirements at two density levels of 30 and 35 Dwellings per Hectare **and continuing with a requirement of 35% affordable housing**.

The **residual balance** column in all four Tables [4.3a, 4.3b, 4.3c and 4.3d] now shows that the largest development scenario [i.e. 250 dwelling units] is **unviable** (minus red number) when 35% affordable and a developer contribution of either £2,000/unit or £5,000 per unit on market homes is requested. Thus where infrastructure contributions are required, there needs to be some flexibility on the level of affordable housing being sought.

If the policy requirements to meet some of the needs of growth are to be partly met by development, there will need to be some flexibility of affordable policy requirements. It is clear that the entire affordable housing and developer contribution requirement cannot be met in the current economic climate.

Further sensitivity testing reveals that **some kind of trade-off will be required for all development scenarios to be viable**. See Tables 4.4a, 4.4b, 4.4c and 4d.

Such trade-off includes either:

- At 30 dwellings per hectare, a **reduction in affordable housing to 26%**, and **keeping £5,000/unit developer contributions** towards other wider policy requirements [see Table 4.4a].
- At 35 dwellings per hectare, a **reduction in affordable housing to 30%**, and **keeping £3,200/unit developer contributions** towards other policy requirements [see Table 4.4b and 4.4c]
- At 35 dwellings per hectare, a **reduction in affordable housing to 31.5%**, and **trading-in all other policy requirements** [see Table 4.4d].

Thus with a reduction in the policy level of affordable housing, together with some movement in the amount offered to the landowner, these options set the parameter for delivery which reflects current market delivery values and still leaving a margin to reflect local market circumstances.

Strategic Housing Sites: summary findings

The important message from this assessment of the Strategic Housing Sites, reflecting the current economic and housing market, is that the residual sum available from development to fund policy requirements is finite and trade-offs will be required. All stakeholders involved in the process will need some degree of compromise if they want to see development taking place.

In summary, the trade-off between affordable housing and other planning policies are clearly demonstrated in Tables 4.1a to 4.4d. These range from 26% to 35% provision of affordable housing and £0 to £5,000 per unit on market homes towards other policy requirement funding, depending upon the density of permitted development [i.e. between 30 to 35 dwellings per hectare].

Table 4.4a: Residual Land Values [£/ha] with 26% Affordable Housing Threshold and £5,000/unit for Other Policy Requirements at 30 Dwellings per Hectare

Site Capacity [Number of Dwellings]	Build Rate pa	Project Duration	Build Duration	Site Area	Density	Housing Floor Space	Residual Land Value [RLV]	Land Value Benchmark	Cost of Affordable Housing	Other Policy Costs	Residual Balance
D	pa	Months	Months	ha	D/ha	m ²	£/ha	£/ha	£/ha	£/ha	£/ha
5	10	12	6	0.1667	30	405	£2,480,589	£550,000	£1,019,474	£111,488	£799,626
10	10	18	12	0.3333	30	810	£2,382,864	£550,000	£1,019,474	£111,488	£701,902
20	20	18	12	0.6667	30	1620	£2,360,524	£550,000	£1,019,474	£111,488	£679,562
30	20	24	18	1.0000	30	2430	£2,238,866	£550,000	£1,019,474	£111,488	£557,904
70	35	33	24	2.3333	30	5670	£2,129,908	£550,000	£1,019,474	£111,488	£448,946
125	50	42	30	4.1667	30	10125	£2,028,400	£550,000	£1,019,474	£111,488	£347,437
250	50	72	60	8.3333	30	20250	£1,713,850	£550,000	£1,019,474	£111,488	£32,888

Table 4.4b: Residual Land Value [£/ha] with 30% Affordable Housing Threshold and £5,000/unit for Other Policy Requirements at 35 Dwellings per Hectare

Site Capacity [Number of Dwellings]	Build Rate	Project Duration	Build Duration	Site Area	Density	Housing Floor Space	Residual Land Value [RLV]	Land Value Benchmark	Cost of Affordable Housing	Other Policy Costs	Residual Balance
D	pa	Months	Months	ha	D/ha	m ²	£/ha	£/ha	£/ha	£/ha	£/ha
5	10	12	6	0.1429	35	405	£2,896,044	£550,000	£1,601,091	£123,038	£850,642
10	10	18	12	0.2857	35	810	£2,781,952	£550,000	£1,601,091	£123,038	£736,551
20	20	18	12	0.5714	35	1620	£2,755,871	£550,000	£1,601,091	£123,038	£710,469
30	20	24	18	0.8571	35	2430	£2,613,837	£550,000	£1,601,091	£123,038	£568,435
70	35	33	24	2.0000	35	5670	£2,486,631	£550,000	£1,601,091	£123,038	£441,229
125	50	42	30	3.5714	35	10125	£2,368,121	£550,000	£1,601,091	£123,038	£322,719
250	50	72	60	7.1429	35	20250	£2,000,890	£550,000	£1,601,091	£123,038	-£44,512

Table 4.4c: Residual Land Value [£/ha] with 30% Affordable Housing Threshold and £2,000/unit for Other Policy Requirements at 35 Dwellings per Hectare

Site Capacity [Number of Dwellings]	Build Rate	Project Duration	Build Duration	Site Area	Density	Housing Floor Space	Residual Land Value [RLV]	Land Value Benchmark	Cost of Affordable Housing	Other Policy Costs	Residual Balance
D	pa	Months	Months	ha	D/ha	m ²	£/ha	£/ha	£/ha	£/ha	£/ha
5	10	12	6	0.1429	35	405	£2,896,044	£550,000	£1,601,091	£49,017	£924,663
10	10	18	12	0.2857	35	810	£2,781,952	£550,000	£1,601,091	£49,017	£810,572
20	20	18	12	0.5714	35	1620	£2,755,871	£550,000	£1,601,091	£49,017	£784,490
30	20	24	18	0.8571	35	2430	£2,613,837	£550,000	£1,601,091	£49,017	£642,457
70	35	33	24	2.0000	35	5670	£2,486,631	£550,000	£1,601,091	£49,017	£515,250
125	50	42	30	3.5714	35	10125	£2,368,121	£550,000	£1,601,091	£49,017	£396,741
250	50	72	60	7.1429	35	20250	£2,000,890	£550,000	£1,601,091	£49,017	£29,509

Table 4.4d: Residual Land Value [£/ha] with 31.5% Affordable Housing Threshold and £NIL/unit for Other Policy Requirements at 35 Dwellings per Hectare

Site Capacity [Number of Dwellings]	Build Rate	Project Duration	Build Duration	Site Area	Density	Housing Floor Space	Residual Land Value [RLV]	Land Value Benchmark	Cost of Affordable Housing	Other Policy Costs	Residual Balance
D	pa	Months	Months	ha	D/ha	m ²	£/ha	£/ha	£/ha	£/ha	£/ha
5	10	12	6	0.1429	35	405	£2,896,044	£550,000	£1,440,982	£0.0	£905,062
10	10	18	12	0.2857	35	810	£2,781,952	£550,000	£1,440,982	£0.0	£790,971
20	20	18	12	0.5714	35	1620	£2,755,871	£550,000	£1,440,982	£0.0	£764,889
30	20	24	18	0.8571	35	2430	£2,613,837	£550,000	£1,440,982	£0.0	£622,855
70	35	33	24	2.0000	35	5670	£2,486,631	£550,000	£1,440,982	£0.0	£495,649
125	50	42	30	3.5714	35	10125	£2,368,121	£550,000	£1,440,982	£0.0	£377,139
250	50	72	60	7.1429	35	20250	£2,000,890	£550,000	£1,440,982	£0.0	£9,908

Non-Strategic Housing Sites

Viability appraisal with various policy requirements

The figures in Table 4.5 overleaf for non-strategic housing sites have been modelled showing the resulting land bid budget [£/hectare] under **four** different housing and planning policy positions:

- Land bid budget with no policy requirements [i.e. baseline] [see column 6, Table 4.5]
- Land bid budget with a 35% affordable housing policy threshold [see column 7, Table 4.5];
- Land bid budget with a 35% affordable housing policy threshold and a financial contribution of £5,000/unit on market homes only for other policy requirements [see column 8, Table 4.5]; and
- Land bid budget with a 35% affordable housing policy threshold and a financial contribution of £2,000/unit on market homes only for other policy requirements [see column 9, Table 4.5].

For these more site-specific viability appraisals, house prices have been moderated as set out on page 20 for sites in Watchet, Williton and the villages and rural settlements. For site 5, additional costs of 10% of building costs have been included too.

As expected, as the policy obligations increase, the land bid budgets fall for all of the eight sites comprising the Non-Strategic Housing Sites. However, *all* the sites, except site 17, remain viable after meeting WSC's extant affordable housing and other policy requirements – applying a notional land value benchmark of £550,000 per hectare [see Figure 4.1].

Given the specific constraints affecting site 17, it would seem appropriate to treat it as an exception and when a planning application is submitted WSC should seek to work with the promoters towards a viable housing scheme.

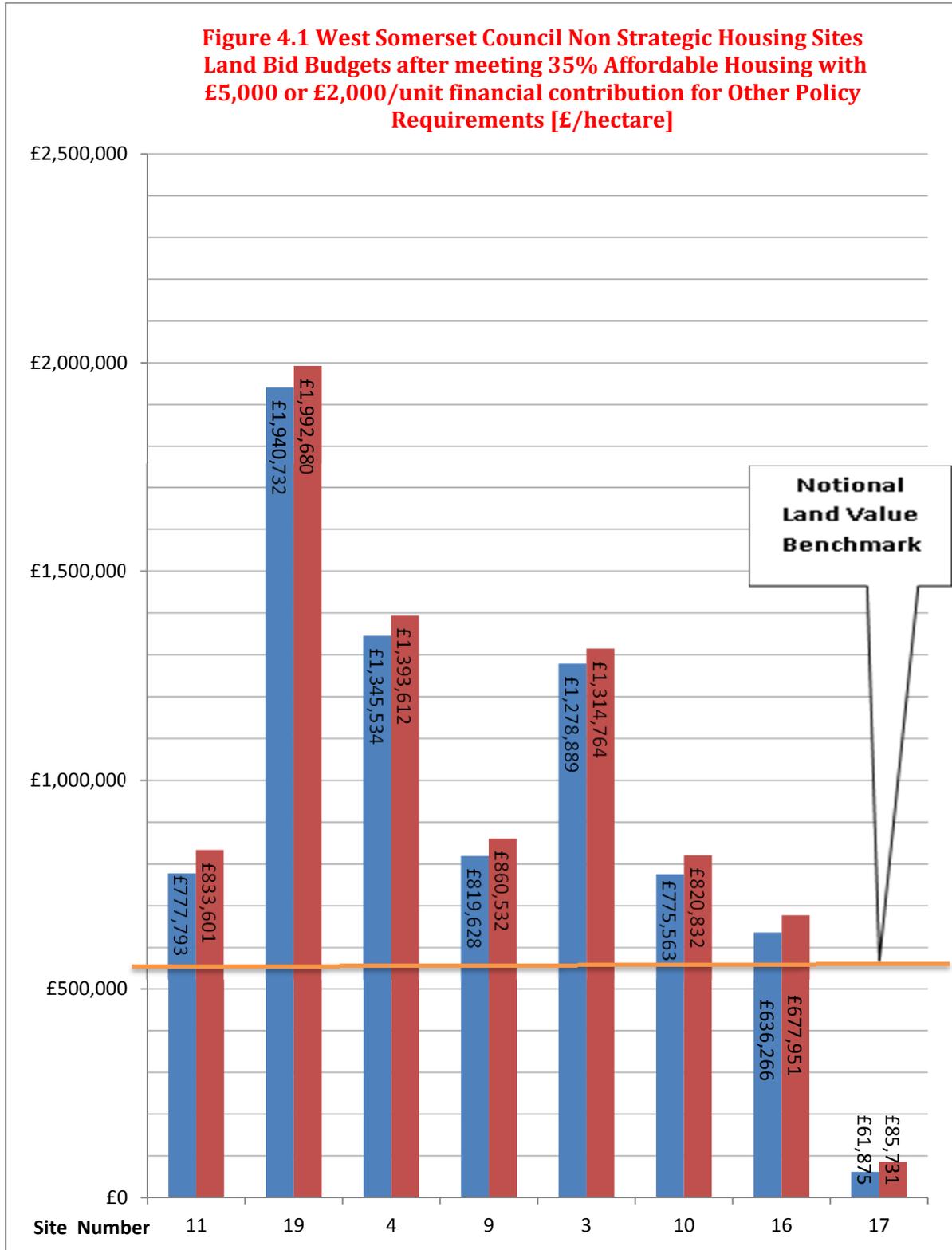


Table 4.5 Non-Strategic Housing Sites: Residual Land Values [£/hectare]

Site Number	Site Address	Site Capacity [Number of Dwellings]	Site Area	Housing Floor Space	Residual Land Value No Policy Requirements	Residual Land Value with 35% Affordable Housing Policy Requirements	Residual Land Value with 35% Affordable Housing Policy and £5,000/unit for other Policy Requirements	Residual Land Value with 35% Affordable Housing Policy and £2,000/unit for other Policy Requirements
		[D]	ha	m ²	£/ha	£/ha	£/ha	£/ha
11	Land off West Street, Watchet	5	0.15	405	£1,877,563	£880,889	£777,793	£833,601
19	Land north of Groves Lane, Blue Anchor, Carhampton	24	0.8	1944	£2,858,919	£2,030,224	£1,940,732	£1,992,680
4	Land North of Porlock Road, Minehead	36	1.2	2916	£2,186,923	£1,427,307	£1,345,534	£1,393,612
9	Land between Normandy Road and Liddymore Lane, Watchet [E3]	47	1.58	3807	£1,662,955	£897,421	£819,628	£860,532
3	Lower Slope, Mount Brake, East of Porlock Road, Minehead	51	1.7	4131	£2,119,860	£1,356,464	£1,278,889	£1,314,764
10	Land South east of Liddymore Road, Watchet [E4]	111	3.69	8991	£1,602,009	£852,476	£775,563	£820,832
16	Western edge of elevated land bounded by Calwell to the North & Tower Hill Quarry to the south, Williton [F3]	195	6.51	15795	£1,366,143	£705,462	£636,266	£677,951
17	Land north of A358 and eastern edge of Tower Hill, Williton [F4]	404	13.46	32724	£474,437	£101,557	£61,875	£85,731

Housing Sites from the 2008 SHVA study **Viability appraisal with various policy requirements**

The figures in Table 4.6 below, for eight of the housing sites from the 2008 SHVA study have been remodelled showing the resulting land bid budget [£/hectare] under four different housing and planning policy positions:

- Land bid budget with no policy requirements [i.e. baseline] [see column 6, Table 4.6]
- Land bid budget with a 35% affordable housing policy threshold[see column 7, Table 4.6]
- Land bid budget with a 35% affordable housing policy threshold and a financial contribution of £5,000/unit on market homes only for other policy requirements [see column 8, Table 4.6]; and
- Land bid budget with a 35% affordable housing policy threshold and a financial contribution of £2,000/unit on market homes only for other policy requirements [see column9, Table 4.6].

For these more site-specific viability appraisals, house prices have been moderated as set out on page 20 for sites in Watchet, Williton and the villages and rural settlements. For site 21, an estimated sum of £50,000 has been included to take account of possible remediation costs. For site 20 building costs have been increased by 10% to reflect the Conservation Area status in which this site is located. For site 18, the housing capacity has been halved from 21 units to 10 units in order to set back the development and to accommodate flooding attenuation measures; additional costs of 10% of build costs have also been included.

As expected, as the housing and planning policy obligations increase, the land bid budgets fall for all of the eight sites comprising the housing sites from the 2008 SHVA study. All the sites, except site 18, remain viable after meeting WSC's extant affordable housing and a financial contribution of either £2,000/unit or £5,000/unit towards the provision of other planning policy requirements [see Figure 4.2], if we apply a notional land value benchmark of £550,000 per hectare.

Given the specific constraints affecting site 18, it would seem appropriate to treat it as an exception and when a planning application is submitted WSC should seek to work with the promoters towards a viable housing scheme.

**Figure 4.2 West Somerset Council Housing from 2008 SHVA Study:
Land Bid Budgets after meeting 35% Affordable Housing and
£5,000/unit and £2,000/unit for Other Policy Requirements**

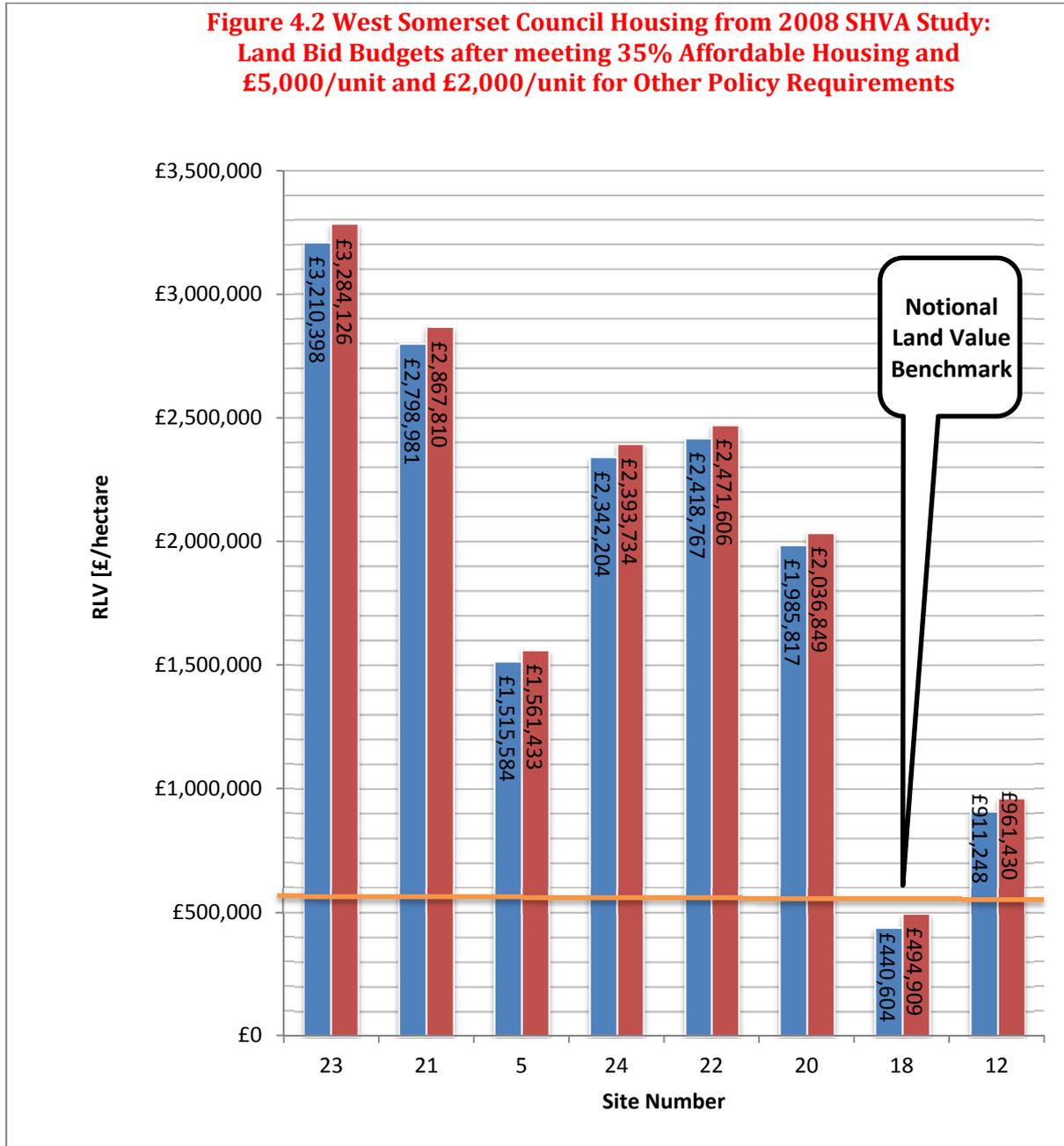


Table 4.6 Housing Sites from the 2008 SHVA Study: Residual Land Values [£/hectare]

Site Number	Site Address	Site Capacity [Number of Dwellings]	Site Area	Housing Floor Space	Residual Land Value No Policy Requirements	Residual Land Value with 35% Affordable Housing Policy Requirements	Residual Land Value with 35% Affordable Housing Policy and £5,000/unit for Other Policy Requirements	Residual Land Value with 35% Affordable Housing Policy and £2,000/unit for Other Policy Requirements
		[D]	ha	m ²	£/ha	£/ha	£/ha	£/ha
23	Land adjacent to Titholes, Lower Street, Withycombe	6	0.15	486	£4,489,712	£3,333,278	£3,210,398	£3,284,126
21	Brushford Garage [B3222], Brushford	7	0.18	567	£4,035,565	£2,913,696	£2,798,981	£2,867,810
5	Former Telephone Exchange, Parkhouse Road, Minehead	10	0.32	810	£2,474,399	£1,591,998	£1,515,584	£1,561,433
24	Grimes Farm, Crowcombe	12	0.4	972	£3,271,447	£2,428,087	£2,342,204	£2,393,734
22	Land at rear of Church View, Church Lane, Carhampton	14	0.45	1134	£3,349,832	£2,506,831	£2,418,767	£2,471,606
20	Land at rear of St. Andrew's Road, Stogursey	15	0.5	1215	£2,872,146	£2,070,870	£1,985,817	£2,036,849
18	Bridge Farm, Williton	21	0.7	1701	£1,369,203	£531,111	£440,604	£494,909
12	Land adjoining Brandon Road, Watchet	30	1	2430	£1,776,179	£994,885	£911,248	£961,430

Viability Appraisal: Sensitivity Testing

Sensitivity testing is an integral aspect of appraising viability, and has been carried out on the three categories of housing sites selected by West Somerset Council. As markets are rarely stable, appraisals must be conducted with changes to build costs and house prices modelled separately as well as measuring their cumulative impact on the land bid budget and ultimately viability. The different categories of housing sites have undergone sensitivity testing in the following ways:

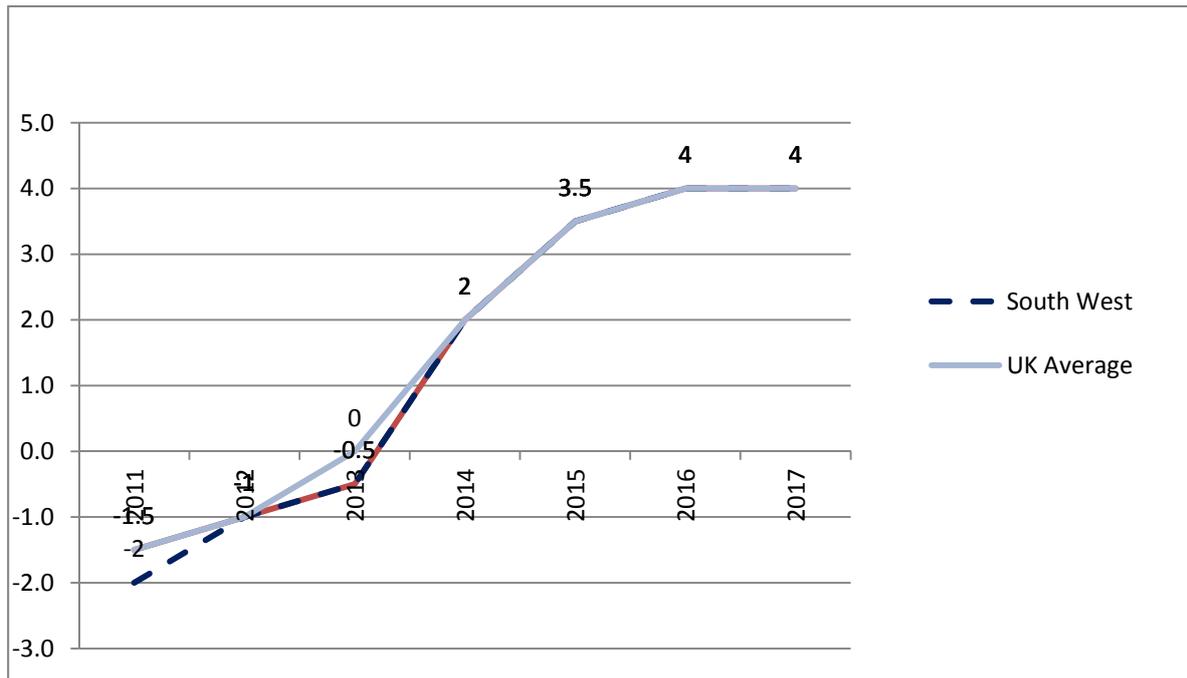
- Strategic Housing Sites:
 - Delivering a 26% affordable housing policy requirement with a financial contribution of £5,000/unit on market homes towards the provision of other planning policy requirements [at a density of 30 dwellings per hectare] See Table 4.8a];
 - Delivering a 30% affordable housing policy requirement with a financial contribution of £3,200/unit on market homes towards the provision of other planning policy requirements [at a density of 35 dwellings per hectare] [See Table 4.8b]; and
 - Delivering a 31.5% affordable housing policy requirement without a financial contribution on market homes towards the provision of other planning policy requirements [at a density of 35 dwellings per hectare] [See Table 4.8c].

- Non-Strategic Housing Sites and housing sites from the 2008 SHVA Study:
 - Delivering a 35% affordable housing policy requirement with a financial contribution of £5,000/unit on market homes towards the provision of other planning policy requirements [See Table 4.9a and 4.10a]; and
 - Delivering a 35% affordable housing policy requirement with a financial contribution of £2,000/unit on market homes towards the provision of other planning policy requirements [See Table 4.9b and 4.10b].

Build Costs

As a function of the housing market cycle, build/construction costs have been flat-lining for the last four years [BCIS, 2013]. The appraisals have already included a 5% build cost contingency. In short, if costs rise by more than this sum, then the land bid budget is reduced [prior to buying the site] or would fall on developers' profit [if the site has already been purchased]. As future housing output is expected to grow, capacity constraints relating to shortages of skilled labour and key materials is likely to lead to a rise in outturn build as the following data in Figure 4.3 suggests.

Figure 4.3 Housing Tender Price Forecast: % Annual Change [from base 2013]



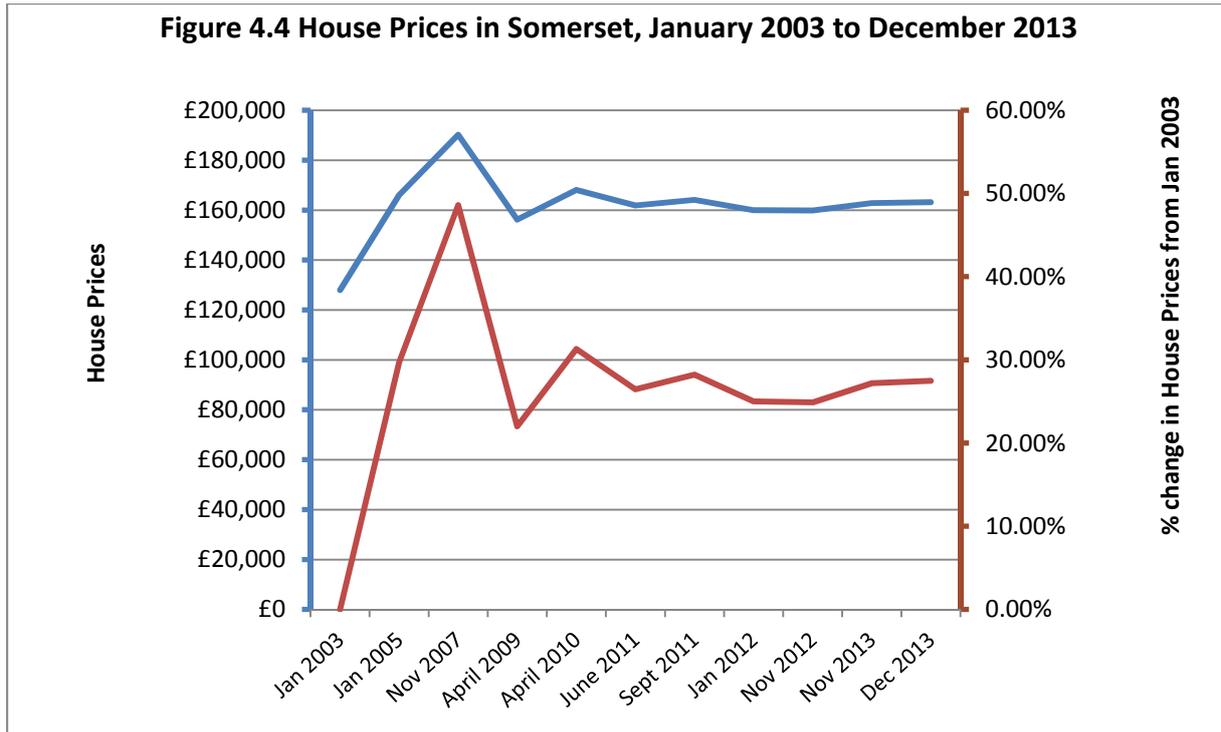
Source: BCIS, 2013 and Cyril Sweett, 2014

There is a good degree of uncertainty regarding the future of zero carbon homes; it is targeted to come into full effect by 2016 and revisions to building regulations are moving in that direction (e.g. see Part L1a of the 2013 regulations due to come into force in April 2014).

According to Cyril Sweett, [2014] zero carbon developments could increase costs by around £5,000 per unit (equivalent to around £50/m²) depending upon house type. The viability **model tests the impact of these additional build costs** on the land bid budget at an affordable housing threshold of 26%, 30%, 31.5% and 35%. The same sequence of thresholds is run to test for payments towards other policy requirements at £2000 and £5000 per unit. The findings are shown in Tables 4.8a, 4.8.b and 4.8.c; 4.9a and 4.9b; and 4.10a and 4.10b, below

House Prices: Actual and Forecasts

The underlying trend in house prices [offer and those transacted] for Somerset, like many other localities, has shown some improvements in recent times. Drawing on the data in Figure 4.4 for Somerset in the last decade [2003 to 2013] house prices have grown by 21.55%, which is equivalent to a compound annual growth rate of 1.97%. However, house prices in the last 4 years [April 2009 to December 2013] have risen by just 4.48%, which is equivalent to a compound annual growth rate of less than 1%. It is this last period in the decade’s cycle that continues to set the market context for new housing development locally.



Source: The Land Registry, February 2014

Notwithstanding criticisms connected with forecasting, especially of local housing markets, Table 4.7 displays future house prices for England. In relative terms house prices in the South West are forecast to record one of the highest growth rates, showing an annual growth of around 5.9%. A key restraining factor affecting housing markets is the continuing disparities in, and falling levels of, real disposable incomes which are currently growing less rapidly than consumer prices [OFBR, 2013]. As a result, and given that West Somerset’s housing markets are less buoyant than the rest of the SW region; we applied a lower annual growth rate of 4% in the sensitivity testing on viability.

Table 4.7: House Price Forecasts, percentage change from 2014 to 2018

Regions of England	2014	2015	2016	2017	2018	Cumulative Change [2014 – 18]	Average Annual Change
South West	7	6	5.5	4.5	3.5	29.42%	5.88%
East	7	6	5.5	5	4	30.67%	6.13%
South East	7	6.5	6	5	4	31.91%	6.38%
East Midlands	6	5	4.5	4	3	24.59%	4.92%
London	8.5	6	4	2	2	24.44%	4.89%
West Midlands	6	4.5	4	4	3	23.40%	4.68%
Yorkshire & Humber	5	4.5	3.5	3.5	2.5	20.48%	4.10%
North West	5.5	4.5	3	3	2	19.30%	3.86%
North East	5	4	3	3	2	18.17%	3.63%

Source: Savills, December 2013

Findings of sensitivity testing

Markets are rarely stable, so in the following section appraisals are conducted for changes to build cost and house prices. In Tables 4.8a, 4.8b and 4.8c build cost and house prices are modelled separately and cumulatively to assess the impact on the land bid budget and ultimately viability. The importance of this so-called 'sensitivity testing' on the robustness of the findings was introduced above, on page 38.

The findings in Table 4.8a for **Strategic Housing Sites** shows that all site scenarios are viable *when one takes into account the cumulative impact of rises in both house prices and build costs*.

Table 4.8a Strategic Housing Sites: Viable Residual Balance – Results of Sensitivity Testing					
26% Affordable Housing Threshold and £5,000/unit for other Policy Requirements at 30 Dwellings /hectare					
Site Capacity [Number of Dwellings]	Baseline Residual Balance	With Build Cost Rise Of £5,000/unit	With a 4% Annual Rise in House Price	Cumulative Impact	Viability YES or NO
5	£799,626	£620,769	£907,000	£728,143	Yes/Yes/Yes
10	£701,902	£524,743	£808,256	£631,098	Yes/Yes/Yes
20	£679,562	£510,850	£861,524	£692,812	Yes/Yes/Yes
30	£557,904	£394,091	£740,294	£576,481	Yes/Yes/Yes
70	£448,946	£295,386	£677,585	£524,025	Yes/Yes/Yes
125	£347,437	£218,311	£574,023	£443,917	Yes/Yes/Yes
250	£32,888	-£89,221	£465,849	£343,477	No/Yes/Yes

The power of an expected rise in house prices, as seen for the largest site scenario [i.e. 250 dwellings] quickly compensates for the extra costs of meeting zero carbon standards (or other cost rises). The *cumulative figures* (shown in Column 5) of Tables 4.8a, 4.8b and 4.8c also suggest that the residual balance is sufficiently large to move towards a 35% affordable housing target, on strategic sites, at some time in the future; but WSC will need to monitor local housing markets and collate the evidence.

Table 4.8b Strategic Housing Sites: Viable Residual Balance – Results of Sensitivity Testing					
30% Affordable Housing Threshold and £3,200/unit for other Policy Requirements at 35 Dwellings /Hectare					
Site Capacity [Number of Dwellings]	Baseline Residual Balance	With Build Cost Rise Of £5,000/unit	With a 4% Annual Rise in House Price	Cumulative Impact	Viability YES or NO
5	£895,293	£740,972	£1,839,972	£1,099,000	Yes/Yes/Yes
10	£781,202	£620,881	£1,725,881	£1,105,000	Yes/Yes/Yes
20	£755,120	£589,244	£1,699,799	£1,110,555	Yes/Yes/Yes
30	£613,086	£429,977	£1,557,765	£1,127,788	Yes/Yes/Yes
70	£485,880	£290,448	£1,430,559	£1,140,111	Yes/Yes/Yes
125	£367,370	£165,716	£1,312,049	£1,146,333	Yes/Yes/Yes
250	£139	-£209,860	£944,818	£734,958	No/Yes/Yes

Table 4.8c Strategic Housing Sites:

Viable Residual Balance – Results of Sensitivity Testing

31.5% Affordable Housing Threshold and £NIL/unit for other Policy Requirements at 35 Dwellings /Hectare

Site Capacity [Number of Dwellings]	Baseline Residual Balance	With Build Cost Rise Of £5,000/unit	With a 4% Annual Rise in House Price	Cumulative Impact	Viability YES or NO
5	£905,062	£739,741	£1,839,805	£1,674,484	Yes/Yes/Yes
10	£790,971	£625,206	£1,725,714	£1,559,949	Yes/Yes/Yes
20	£764,889	£601,902	£1,699,632	£1,536,645	Yes/Yes/Yes
30	£622,855	£453,899	£1,557,598	£1,388,642	Yes/Yes/Yes
70	£495,649	£320,645	£1,430,392	£1,255,388	Yes/Yes/Yes
125	£377,139	£191,358	£1,311,883	£1,126,102	Yes/Yes/Yes
250	£9,908	-£200,091	£944,651	£734,652	No/Yes/Yes

For results of the sensitivity testing relating to the non-strategic housing sites and the housing sites from the 2008 SHVA Study. See pages 43 and 44 respectively

Continued.....

For the **Non-Strategic Housing Sites** the findings in Tables 4.9a and 4.9b show that two of the eight sites [i.e. sites 16 and 17] are vulnerable to a rise of £5,000/unit in build costs. However, if we focus on the cumulative impact of both house prices and build costs, all the sites [except Site 17] retain their viability to deliver WSC’s extant affordable housing policy requirement and make £5,000 financial contribution towards the provision of other policy requirements.

**Table 4.9a Non-Strategic Housing Sites:
Viable Residual Land Value – Results of Sensitivity Testing**

Site Number	RLV with 35% Affordable Housing Policy and £5,000/unit for Other Policy Requirements	With Build Cost Rise Of £5,000/unit	With a 4% Annual Rise in House Price	Cumulative Impact	Notional Land Value Benchmark	Viability YES or NO
11	£777,793	£586,709	£951,250	£690,104	£550,000	Yes/Yes/Yes
19	£1,940,732	£1,774,842	£2,129,351	£1,963,460	£550,000	Yes/Yes/Yes
4	£1,345,534	£1,157,784	£1,502,998	£1,322,099	£550,000	Yes/Yes/Yes
9	£819,628	£612,302	£1,025,232	£848,548	£550,000	Yes/Yes/Yes
3	£1,278,889	£1,124,220	£1,537,502	£1,385,514	£550,000	Yes/Yes/Yes
10	£775,563	£628,412	£1,087,462	£937,528	£550,000	Yes/Yes/Yes
16	£636,266	£517,809	£915,184	£799,133	£550,000	No/Yes/Yes
17	£61,875	-£10,670	£95,814	£79,419	£550,000	No/No/No

Only site 17 fails the viability test against all three sensitivity tests. Even reducing the financial contribution to £2,000/unit is not sufficient to improve the viability position of this Site [See Table 4.9b for data]. Given the range of site specific constraints affecting the site, WSC will need to work with the landowners and prospective developers to achieve a viable scheme on this large site in Williton – which could involve a different policy mix from WSC’s extant policy requirements.

**Table 4.9b Non-Strategic Housing Sites:
Viable Residual Land Value – Results of Sensitivity Testing**

Site Number	RLV with 35% Affordable Housing Policy and £2,000/unit for Other Policy Requirements	With Build Cost Rise Of £5,000/unit	With a 4% Annual Rise in House Price	Cumulative Impact	Notional Land Value Benchmark	Viability YES or NO
11	£833,601	£806,586	£970,957	£913,957	£550,000	Yes/Yes/Yes
19	£1,992,680	£1,872,440	£2,324,860	£2,204,620	£550,000	Yes/Yes/Yes
4	£1,393,612	£1,180,252	£1,625,927	£1,445,567	£550,000	Yes/Yes/Yes
9	£860,532	£625,064	£1,012,588	£851,118	£550,000	Yes/Yes/Yes
3	£1,314,764	£1,179,251	£1,573,083	£1,491,573	£550,000	Yes/Yes/Yes
10	£820,832	£675,742	£1,125,739	£1,001,528	£550,000	Yes/Yes/Yes
16	£677,951	£558,853	£954,931	£841,612	£550,000	Yes/Yes/Yes
17	£85,731	£14,835	£127,532	£97,721	£550,000	No/No/No

For the **housing sites from the 2008 SHVA Study** the findings in Tables 4.10a and 4.10b show that apart from site 18 in Williton, all other sites retain their viability when subject to sensitivity testing. Even with a reduced financial contribution of £2,000/unit, Site 18 remains unviable [see Table 4.10b]. The specific site constraints associated with site 18 explain its vulnerability and if a planning application comes forward then WSC would need to seek a viable scheme with promoters in the spirit of the NPPF.

**Table 4.10a Housing Sites from the 2008 SHVA Study:
Viable Residual Land Value – Results of Sensitivity Testing**

Site Number	RLV with 35% Affordable Housing Policy and £5,000/unit for Other Policy Requirements	With Build Cost Rise Of £5,000/unit	With a 4% Annual Rise in House Price	Cumulative Impact	Notional Land Value Benchmark	Viability YES or NO
23	£3,210,398	£2,972,188	£3,344,740	£3,135,042	£550,000	Yes/Yes/Yes
21	£2,798,981	£2,595,321	£2,956,191	£2,752,122	£550,000	Yes/Yes/Yes
5	£1,515,584	£1,352,185	£1,617,104	£1,453,407	£550,000	Yes/Yes/Yes
24	£2,342,204	£2,168,188	£2,536,536	£2,362,851	£550,000	Yes/Yes/Yes
22	£2,418,767	£2,259,906	£2,619,804	£2,442,271	£550,000	Yes/Yes/Yes
20	£1,985,817	£1,835,348	£2,171,628	£2,005,279	£550,000	Yes/Yes/Yes
18	£440,604	£355,025	£503,303	£417,725	£550,000	No/No/No
12	£911,248	£749,545	£1,038,425	£868,296	£550,000	Yes/Yes/Yes

**Table 4.10b Housing Sites from the 2008 SHVA Study:
Viable Residual Land Value – Results of Sensitivity Testing**

Site Number	RLV with 35% Affordable Housing Policy and £2,000/unit for Other Policy Requirements	With Build Cost Rise Of £5,000/unit	With a 4% Annual Rise in House Price	Cumulative Impact	Notional Land Value Benchmark	Viability YES or NO
23	£3,269,927	£3,031,717	£3,404,269	£3,194,571	£550,000	Yes/Yes/Yes
21	£2,858,510	£2,654,850	£3,015,720	£2,811,651	£550,000	Yes/Yes/Yes
5	£1,515,584	£1,411,714	£1,676,633	£1,512,936	£550,000	Yes/Yes/Yes
24	£2,401,733	£2,227,717	£2,596,065	£2,422,380	£550,000	Yes/Yes/Yes
22	£2,478,296	£2,319,435	£2,679,333	£2,501,800	£550,000	Yes/Yes/Yes
20	£2,045,346	£1,894,877	£2,231,157	£2,064,808	£550,000	Yes/Yes/Yes
18	£500,133	£414,554	£562,832	£477,254	£550,000	No/Yes/No
12	£970,777	£809,074	£1,097,954	£927,825	£550,000	Yes/Yes/Yes

Section 5: Conclusions and Recommendations

This section summarises the strategic housing viability study; conclusions and our recommendations.

The National Planning Policy Framework (2012) & strategic housing viability assessment

The National Planning Policy Framework (NPPF) set out a requirement to assess the availability, suitability and economic viability of land to meet the identified need for housing over the plan period. Accordingly we assessed the impact of delivering affordable housing and made provision through developer contributions to mitigate other relevant development impacts.

The NPPF introduces the concept of delivery and developable

The NPPF⁹ introduces a time consideration for the viability assessment, one that states that the viability assessment should focus on demonstrating, for the short term at least, that the five year land supply is deliverable. We are operating in an unstable market, with some uncertainty about the future direction of values. For the present time, we note that some delivery is taking place in the West Somerset Council area [e.g. Minehead, Alcombe, Williton], especially on sites with limited infrastructure costs and stronger market demand. Our viability assumptions have reflected current circumstances for sites that do not require any major critical infrastructure to bring them forward. In short, West Somerset Council's "Sites and Allocations" document will need to include these types of sites for in its first five years' housing land supply.

The viability assessment reflects current values and hypothetical scenarios

Our viability appraisals are based on current market values and hypothetical scenarios for a range of housing developments that reflect the needs, priorities and type of sites that are likely to come forward in the near term [i.e. first five years]. In a turbulent economic market, this approach avoids potentially misplaced assumptions about future economic changes that might render the viability judgements unrealistic. An integral aspect of this current study is the inclusion of testing the sensitivity of viability.

Development viability is marginal and other funding sources are limited.

The research demonstrates that though there has been a small increase in house prices, other cost inputs have increased and this has adversely impacted development viability, especially for the largest development scenarios. We are also aware that landowner expectations remain high and developers are looking for better profit margins to compensate for greater risk. To compound this situation, the general policy requirements on the cost of development have increased whilst past funding sources in the form of HCA affordable housing grant or funding for education from Building Schools for the Future programmes and various transport infrastructure funds to support delivery have all but disappeared. Thus in the future, more of the growth related infrastructure requirements will be reliant on some funding from the development [i.e. direct costs via S106] to support the needs of planned growth.

⁹ NPPF paragraph 47 and footnote 12

There is some residual value available but policy trade-offs will be needed

One of the main policy successes for WSC has been to secure affordable housing and appropriate developer contributions towards other needs arising from development. However, this is unlikely to remain the case in the future as funding from other sources and existing infrastructure constraints remain, service providers are increasingly likely to be looking towards private development to meet some of the costs of other policy requirements.

Table 5.1. Viable Policy Mix Options			
Strategic Housing Sites			
Gross Density [Dwellings per Hectare]	Affordable Housing Policy Threshold	Other Policy Requirements [£/unit on Market Homes]	Reference
30 DPH	26%	£5,000	Table 4.4a
35 DPH	26%	£2,000	Extrapolated
35 DPH	30%	£3,200	Table 4.8
35 DPH	30%	£2,000	Table 4.4c
35 DPH	31.5%	£,0000	Table 4.4d
Non-Strategic Housing Sites			
Viable Policy Mix	35.0%	£5,000	Table 4.9a
	35.0%	£2,000	Table 4.9b
Other Housing Sites from 2008 SHVA Study			
Viable Policy Mix	35.0%	£5,000	Table 4.10a
	35.0%	£2,000	Table 4.10b

Table 5.1 displays the policy mix options available to WSC for the three categories of housing sites appraised. The study confirms that the extant policy mix is sustainable and viable for all sites *except* for the largest development scenario [i.e. 250 dwelling units]. However, to achieve overall viable for all sites [irrespective of the category of site], compromise, at least in the short run, will be necessary *if all* development scenarios are to come forward as viable schemes.

These findings are largely consistent with what has been delivered over the last five-years, which shows that the majority of schemes have been providing over 30% affordable housing as well as other site-specific S106 contributions.

Four Recommendations

Recommendation 1: WSC will need to make important choices about policy requirements and affordable housing thresholds

The report demonstrates that if 35% affordable housing threshold remains the priority, then for the very **largest of the strategic sites** there is **no residual balance** left to support the cumulative costs of other policy requirements or a margin to absorb adverse market changes. WSC will need to make important choices about policy priorities.

For the **other housing sites**, even under pressure of sensitivity testing, these sites on the whole **retain viability** to deliver WSC's extant affordable housing threshold of 35% and some financial contributions to other policy requirements.

A reduction in the level of affordable housing sought in the short term for the largest of the housing sites, together with some movement in the amount offered to the landowners and developers' profit, this policy option sets the parameter for housing delivery that reflects current market values and still retains a buffer to reflect local circumstances.

Otherwise, if WSC continues requesting developer contributions at a rate of 35% for affordable housing, then a number of other policy requirements tested as part of this study, cannot be funded through developer contributions and other means will have to be sought. Important choices will have to be made between the balance of affordable housing and other policy requirements to be funded via developer contributions.

The policy mix options presented in Table 5.1 summarise the appraisals, which confirm that viability is a function of geography, site size and capacity, housing market prices, and build costs.

Recommendation 2: Policy reviews based on market monitoring of key indicators

The Harman Report¹⁰ recognises the importance of including a flexible approach to policy to account of changes in economic cycles and also to meet longer term policy targets. The further away we move from current timescales the harder it is to estimate the direction of future markets.

To reflect the sentiments of the Harman Report, and to recognise the continuing economic uncertainties, the policies recommended in the emerging Core Strategy should allow for flexibility [i.e. improvements and deterioration] in local housing market circumstances. In doing so, it will allow:

- Developers to negotiate current delivery based on site specific circumstances.
- WSC to adjust policy requirements to reflect changes (particularly improvements) in the market in the future.

Evidence shows that developers are seeking a higher degree of certainty, at least for the short term, as to what will be required by way of developer contributions. So policy requirements for the next five years should be based on the current market conditions. For instance, in the short term there may be a reduction in the level of affordable housing to fund other policy requirements. If this is the

¹⁰ See section on 'Treatment of viability over time' pages 26 and 27 of The Harman Report, 2012

case then the viability assessment should be kept under review to reflect changes in the market and to move closer towards target based policy requirements in the medium to longer term.

There are no prescribed review periods in legislation. Much will depend on market conditions and their impacts on development viability, as well as lessons learnt from the implementation of the S106 obligations, affordable housing and other requirements. We recommend that WSC implements a programme of monitoring market conditions on a regular basis; at the very least every five years.

Housing development viability [and thus the budget available to buy the land] is most sensitive to changes in market values. We have demonstrated separately and cumulatively the impact on viability of changes to build costs and house prices. Other factors that have a significant impact on viability include landowner value expectations, the density of development and policy requirements. These assumption inputs should be kept under review and used as triggers for reviewing policy linked to strategic and site-specific housing viability.

Recommendation 3: Delivery considerations for Site Allocations for the first five years

Delivery of the *Revised Preferred Draft Strategy* [WSC, 2013] objectives will also depend on whether sufficient sites have been identified in lower risk areas, which have low servicing costs and where developers can generate sufficient value, to offer a better price for the land and be confident that the properties they build will sell [i.e. there is effective demand].

There is development taking place within WSC, indicating that schemes are viable based on historic policy requirements and effective negotiations with development partners. It will be important to ensure that sites included in the first five years of the plan are in locations where developers can build without the need for high infrastructure costs and in areas where they can readily sell. Analysis of the housing market in West Somerset shows that there are no major national house builders operating; although, their presence can be found in the neighbouring towns of Taunton, Bridgwater, Wellington, and Tiverton.¹¹ The house builders that are currently on site are regional and medium-sized operators [e.g. Summerfield Developments]. Their capability to deliver the scale and pace of housing development expected is likely to be constrained as a result of limits to their capital/risk exposure.

Recommendation 4: Innovative approaches to infrastructure funding

Looking towards the future, the developer, infrastructure provider, landowner and WSC will need to collaborate to deliver growth, infrastructure and other policy requirements in as cost efficient way as possible.

In the future:

- There is a need to have flexibility to allow for staged developer contribution payments.
- Assessment should be undertaken to investigate mechanisms to help forward fund critical infrastructure using various local authority powers and policy trade-offs [e.g. West Somerset Council and other Council partners].
- There should be some consideration of the new and innovative mechanisms to help deliver the much needed affordable housing requirements off-site.

¹¹ Evidence from the Home Builders' Federation as part of the SHLAA process conducted in West Somerset.

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