

## **AFFORDABLE HOUSING ASSESSMENT PROCEDURE**

Where developers raise issues relating to viability during pre-application discussions, the Housing Strategy Officer will invite the developer to provide details of the value of the completed development and all costs incurred to achieve this value.

On receipt of these details, the Council shall in the first instance seek an opinion from an in-house Valuation Officer. If agreement cannot be reached on the valuation, a second opinion would be sought from an independent external valuation expert.

The Valuation Officer will consider the financial impact of the cost of the affordable housing on affecting the overall viability of the development. In making this assessment, the Valuation Officer will build in an assumed acceptable developer profit level.

In instances where the Developer does not provide sufficient or adequate information for the Valuation Officer to make a satisfactory assessment, the Valuation Officer will advise the Planning Development and Housing Strategy Officers who will inform the Developer and advise the developer what further information is required.

In instances where the developer pushes ahead with the application without a satisfactory assessment being made, the application will be recommended for refusal.

If there is a disagreement or a dispute concerning the Council's own valuation, a second independent assessment will need to be undertaken by an external valuation expert. It is anticipated that the costs of providing this valuation should be borne by the Developer.

If the provision of affordable housing at the proposed target figure is proven to affect the overall viability of the scheme, the Valuation Officer will calculate the total viability shortfall cost (i.e. the additional sum required to make the scheme viable for the developer with on-site affordable housing provided).

If the SHG subsidy is available to assist with the purchase, then the Council will put these details to the Developer and invite them to negotiate the details with the RSL. In these instances, if an agreement still cannot be reached on a transfer price then any subsequent planning application that does not include the required number of affordable homes will be recommended for refusal.

A full assessment and agreement needs to be reached prior to the Planning Application being submitted or the application shall be recommended for refusal.

## **Viability Assessment – Guidance Notes**

The following notes are intended to help developers provide a Viability Assessment calculation together with the supporting information necessary to ensure that the checking process moves along quickly and smoothly.

Where an applicant wishes to demonstrate that a site is not viable at the level of affordability required by the Council, they must provide a suitably detailed Viability Assessment to support their claim. Within the Viability Assessment, the applicant will be expected to provide, where necessary, information from a professionally qualified source at their own expense. Finally, developers will be expected to demonstrate that their Viability Assessments are based upon reasonable and realistic assumptions and expectations.

### **Sale Prices**

Valuation evidence must be supplied. Ideally, this should be in the form of certified valuations from local RICS qualified surveyors.

### **Commercial element – Sale Prices**

Valuation evidence must be supplied. Ideally, this should be in the form of certified valuations from local RICS qualified surveyors.

### **Building Costs**

The Building costs should not exceed the current rates published by the BCIS for New Build units (upper quartile) in the appropriate categories and adjusted for Location factor. However, if the Building costs for the development exceed the BCIS rates, then the developer will be required to provide written evidence to justify the increased costs.

The rates are based on Gross Internal Floor Area (RICS definition) and exclude external works and contingencies, which should be costed and added separately within the calculation.

### **Legal Fees**

These should reflect the charging rates of local Solicitors and Conveyancers.

### **Sale Fees**

These should reflect the charging rates of local Agents (although it is recognised that larger house builders may provide this service in-house).

### **Professional Fees**

Where relevant, these can include Architect, Quantity Surveyor, Structural Engineer, Mechanical and/or Electrical Engineer, Project Manager, CDM Management, and other necessary consultants. Evidence should be provided.

**Cost of Finance**

For most developments, a rate of 2% above Bank of England Base Rate is expected but developers unable to borrow at this level should provide evidence of the actual rate applicable.

**Development Period**

It is accepted that this will vary from project to project, a reasonable and realistic estimate should be provided.

**Contingency**

The more complex the project, the more likely it is that there will be difficulties or delays. Therefore, contingencies should be calculated at between 2% and 5% of total costs (i.e. building costs, ancillaries and professional fees) depending on the complexity of the development, on the basis that other abnormal costs will be separately identified and reflected in other parts of the calculation.

**Developer's Gross Margin % of GDV**

A typical margin in the region of 15% is expected. However, higher/lower profit levels may be appropriate, depending on the nature of the project and the risk/reward scenario.

The above paragraph reinforces the need for site-specific consideration, particularly in lower value situations where viability outcomes will be more sensitive to increasing costs. In all cases, an increased developer's profit leads to further reductions in the financial sums available and, therefore, impacts further on site viability.

**Site Acquisition Costs**

This should include Planning and Survey Costs, Agents and Legal fees, Stamp Duty etc. The fee levels should reflect local rates where appropriate.

**Abnormal Costs**

The Council considers that costs incurred in delivering a workable, high quality development are to be expected and should be reflected in the price paid for the land, and will not normally reduce the ability of the site to contribute towards the affordable housing provision.

Standard development costs such as demolition works, landscaping, noise bunds, archaeological and ecological surveys, drainage and flood prevention measures, noise and other environmental attenuation, and appropriate infrastructure provision, which may include highway and public transport measures, will not usually be considered as abnormal site costs. However, the Council accepts that land may have been purchased before the implementation of its Affordable Housing policy. Therefore, each case will be assessed on its individual merits.

In the event that a developer considers that abnormal development costs will be incurred, it will be the responsibility of the applicant to demonstrate how the costs have been derived. A site investigation report, remediation statement, detailed foundation drawings and

calculations of how the abnormal costs have been derived must be submitted with the application.

**Residual Site Value**

Developers are encouraged not to commit to purchase before obtaining planning consent since the Viability Assessment to provide a level of affordability to the Council may require a lower residual site value to be paid than has been agreed.

## **Breakdown of information required for submission with a Viability Assessment**

### **(A) Value**

- The gross internal area of the properties.
- The value or values used per unit area.
- The value of sales, or lettings, including marketing, agents' fees and legal costs, to arrive at a 'net value'.

### **(B) Costs**

- Site acquisition costs and date of acquisition (an acquisition cost, which does not reflect current planning policies in the valuation, is not a reason to reduce the affordable housing element required. The amount paid the site should reflect the requirement for affordable housing provision to be made).
- Costs associated with acquisition (broken down into legal fees, stamp duty etc)
- Build Costs (say whether these are a tendered sum or an estimates.)
- Preliminaries allowed for (state what is included).
- External Works (state what is included).
- Planning Costs (planning and building regulation fees, any commuted sum money for open space etc)
- Fees (architect, designer, QS etc)
- Cost of finance (indicate period and interest rate)
- Community Benefits (if the scheme includes any benefits in kind, for example the restoration of a listed building, include the cost of providing this).
- Abnormal Costs (these are additional costs required to bring the site forward, over and above those that could reasonably be expected. Abnormals exclude all known costs that should have been reflected in the site acquisition cost.)
- Developers Profit Margin.
- Cost of Affordable Housing Provision (based on actual price offered by RSL).