

# Making Localism Pay

Using viability appraisal to unlock sites  
and build trust between developers and  
local communities

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# Who are Three Dragons

- Based in Milton Keynes
- New City contains 5 thriving market towns
- Good understanding of economics of development **and** need for community infrastructure and support



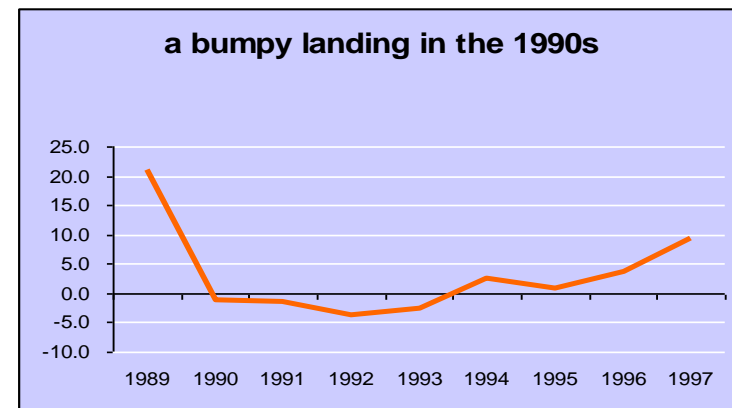
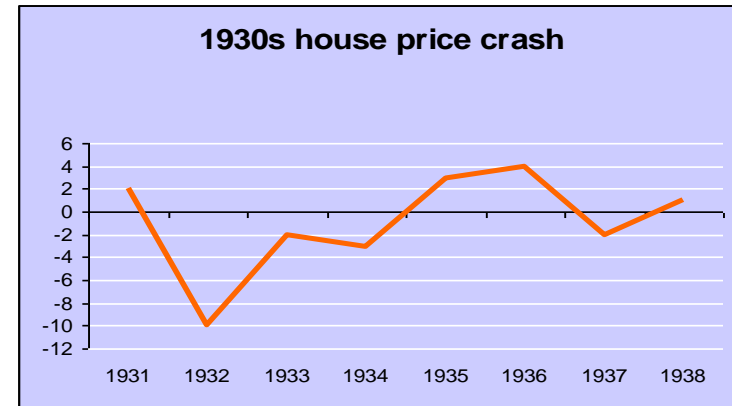
# Building a development partnership

- Understand what is viable
- Be clear about what you want – and how much it costs
- Try not to get into a position where there is only 1 possible site for development
- Understand that very big sites have higher costs and lower values than small sites – but location is key
- Development is a risky process
- There are no “right answers” - only what works for you

# Understanding the market

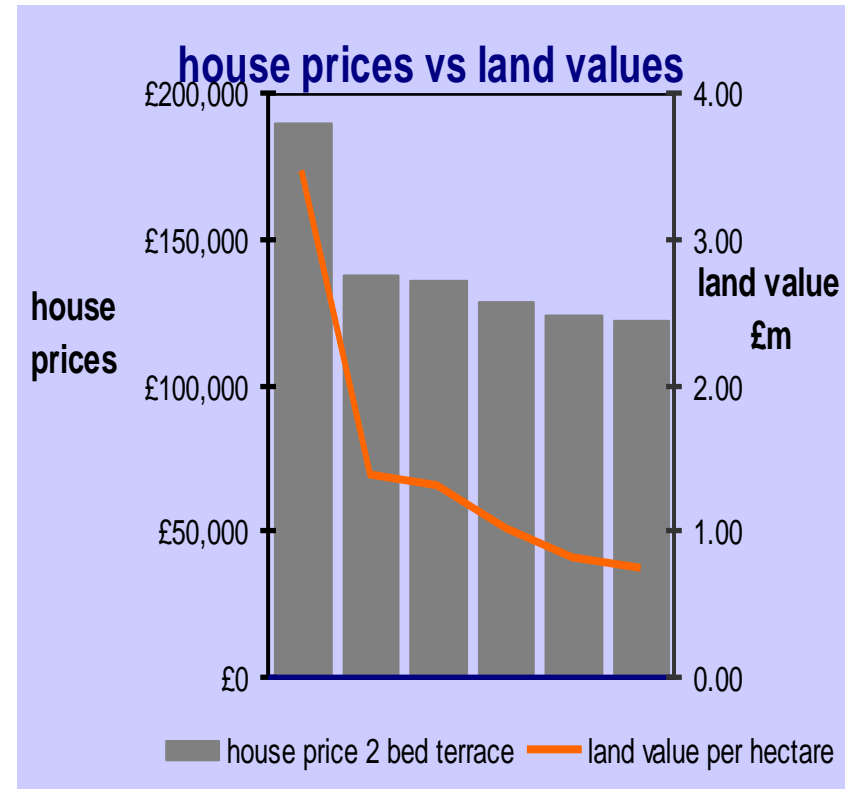
## Lessons from previous downturns

- It takes several years for recovery to commence.
- In the 1990s house prices did not recover to their 1989 peak until 1997.
- By 1938 house prices were still below their 1931 peak.
- House prices fell in 4 of the 8 years following a downturn

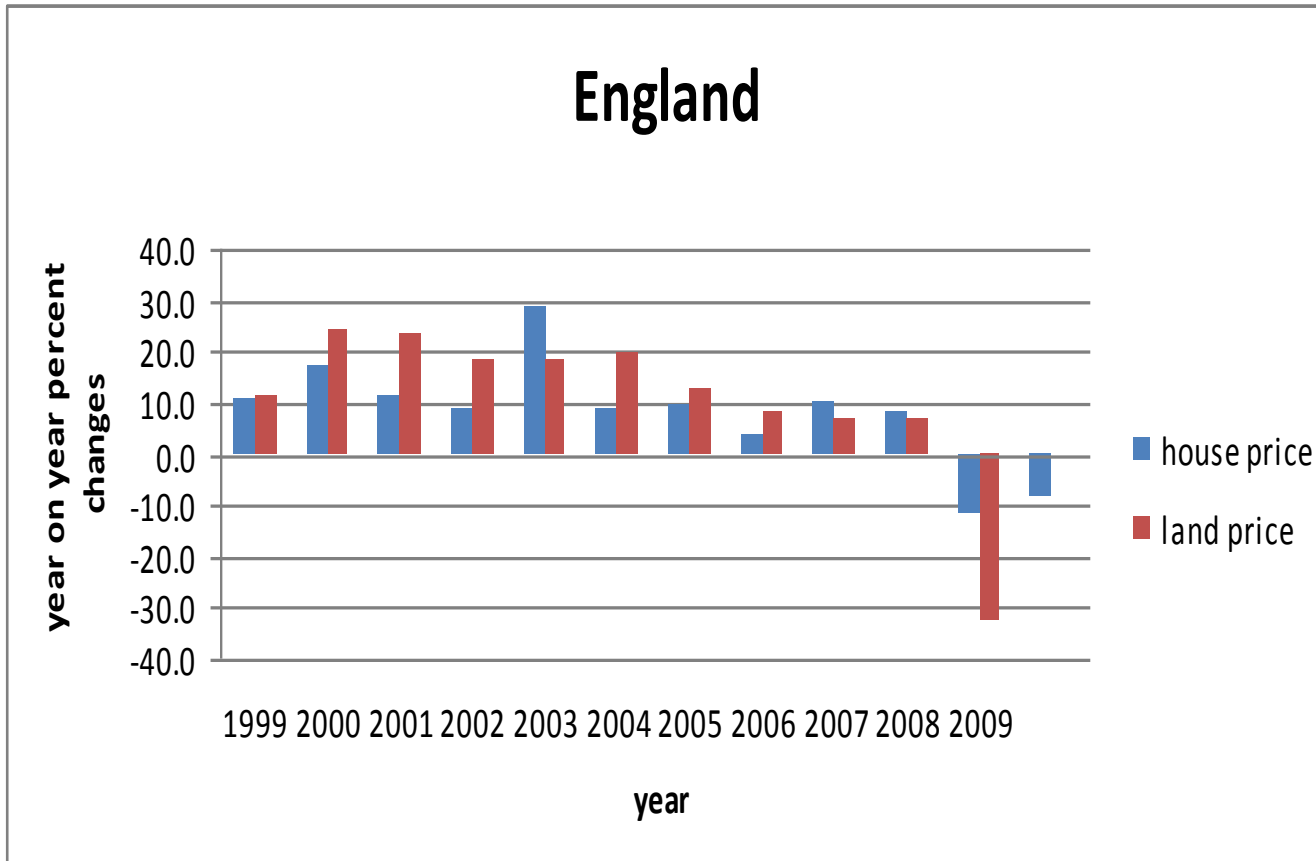


# Falling house prices impact harder on land values

- Land prices fall by 3-5 times as much as house prices
- Relationship is not linear – related to differential between build cost and house price
- Implications for planning obligations and affordable housing provision

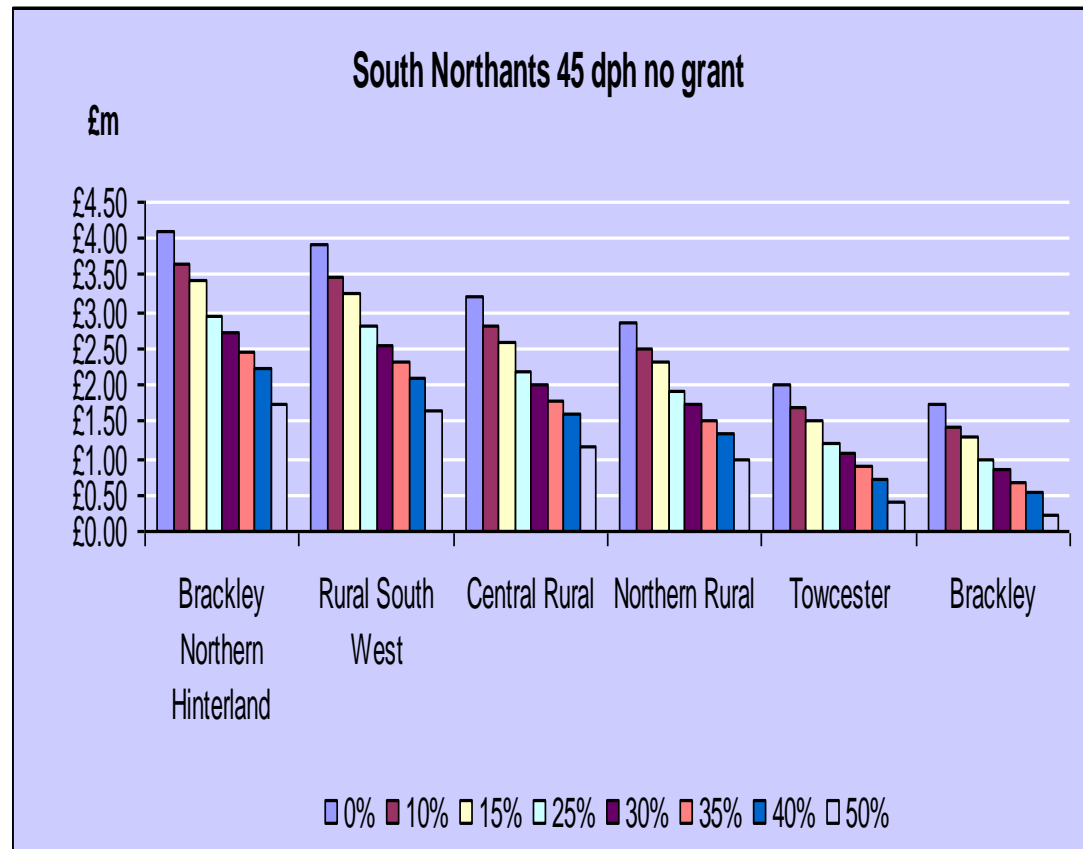


# What actually happened to land values



# Some sites are more equal than others

- Land values are highest in the rural areas
- And lowest in the market towns
- Two 1,000 unit SUEs are proposed on the edge of the market towns. What will their values and costs be?

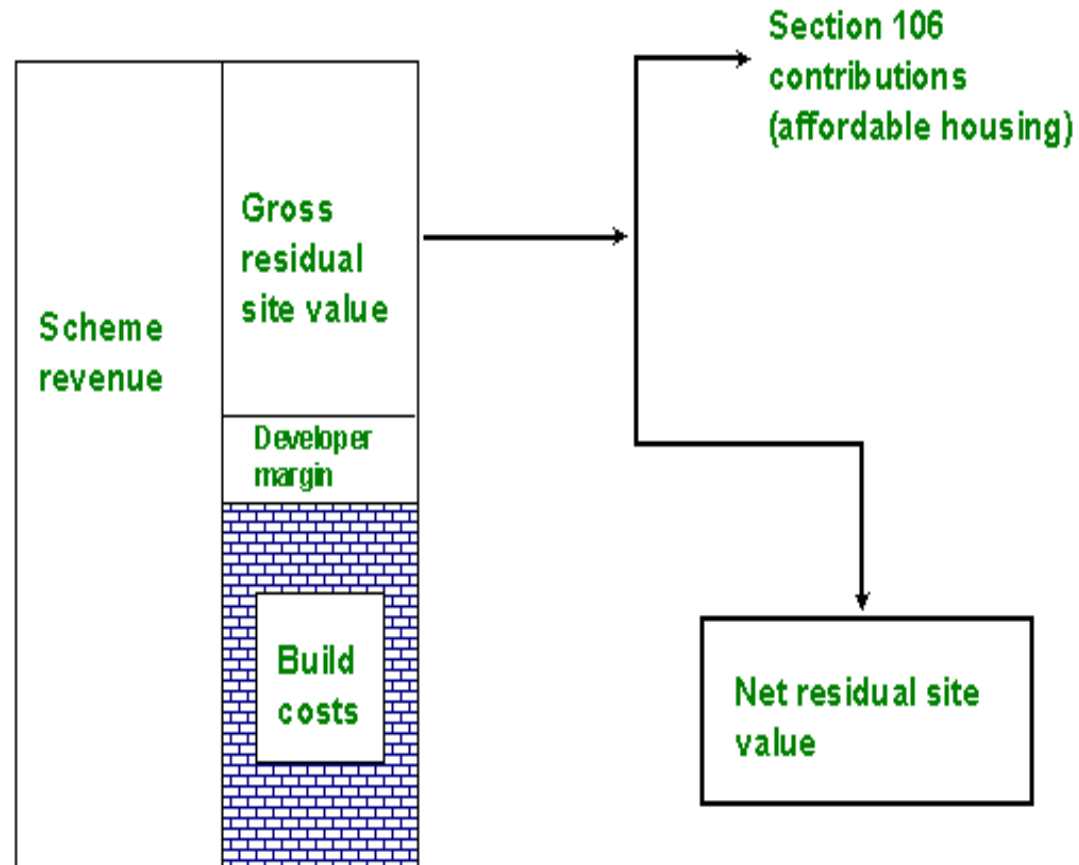


# Three Dragons Toolkit

- Residual valuation model
- Developed for GLA, used by Las in England, Wales and Scotland
- Test sensitivity to
  - Changes in density
  - Changes in % and mix of affordable housing
  - Impact of CSH and CIL
  - Changes in costs and revenues over time
- *Use it to answer the question “what is in this development for the local community”*

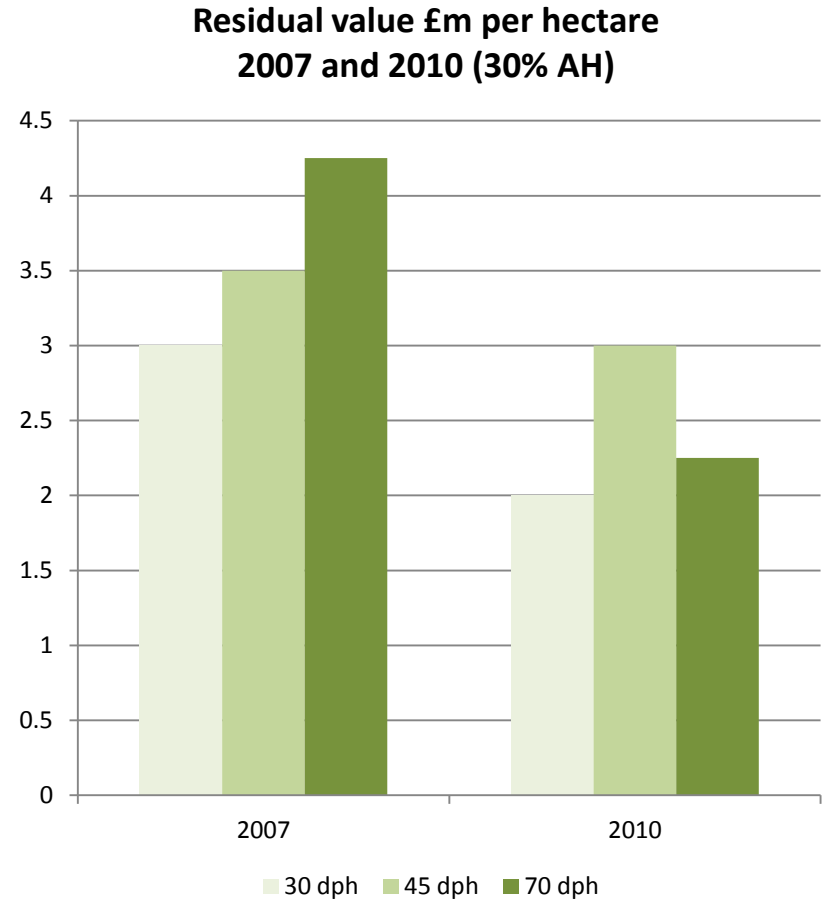
# Residual valuation model

- Gross Residual = revenue – costs
- Nett Residual (RV) = gross residual – (S106 contributions + AH)
- S106 UP
- Build Costs UP
- Revenue DOWN
- AH squeezed



# Changing the product

- Place is important – a greenfield site in a good location
- Product is important – houses not flats, 2 storey not 3 storey, adequate car parking
- This impacts on density – historic mixes need to be revisited
- The question to ask is what type of housing and for whom – for both market and affordable housing



# Principles of viability appraisal applied to specific schemes

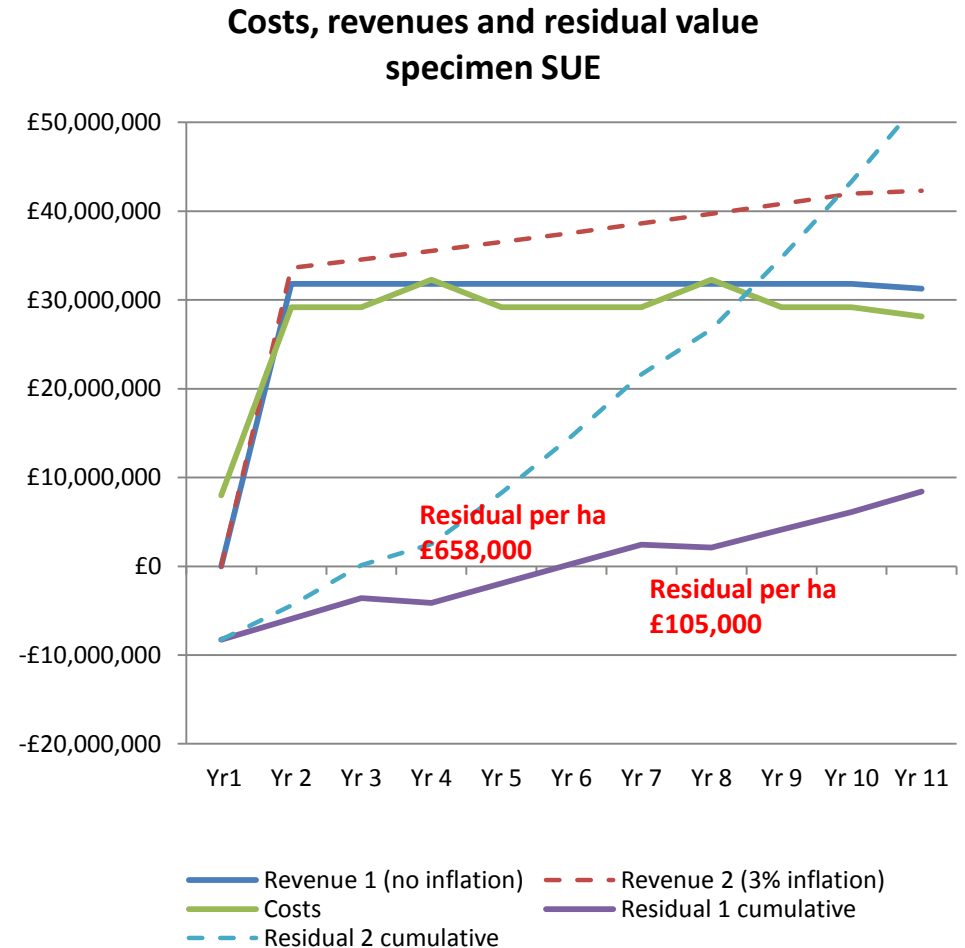
- **Calculation**
    - Compare revenues and costs
    - Arrive at a calculated residual value (RV)
  - **Negotiation**
    - Agree between parties what is a reasonable RV
    - Identify areas of uncertainty and agree how to share risk and reward
    - Set up appropriate legal mechanisms
  - **Outcome**
    - Improved mutual understanding and trust
- 5 Year Land Supply !!**

# Former industrial site

- 157 units on a former pipe works
- £1.4m decontamination and site preparation
- House prices
  - 1 bed flat £80,000
  - 2 bed terrace £110,000
  - 4 bed detached £200,000
- Local authority sought 40% affordable housing plus £1.25m S106 contribution (health, education, waste and libraries)
- Viability appraisal demonstrated 40% not viable, 10-20% provided a viable scheme with a realistic land value.
- In context of continued fall in housing market and shortfall in land supply overall S106 contribution of £1m offered and accepted to be divided pro rata between S106 bids.

# An SUE – living with uncertainty

- 1000 units on edge of market town developed over 10-12 years
- Dialogue focussed on
  - House prices
  - Mix of affordable housing tenures
  - Timing of S106 contributions
  - Density and mix
- Lack of certainty leads to focus on overage/clawback



# The Development Game

- Deal or no deal?
- **Role play 1:**
  - Landowner of a two acre brownfield site
  - Purchased 40 years ago
  - Current land value £280,000
  - Developer's offer £388,000
  - Would you accept or reject this deal?



# Developer's offer

- Mix of 32 homes, 2 and 3 bed in size (total 2,800sqm)
  - Expected sales value (average £150,000 each) = £4.80 million
  - Expected costs (construction; fees; finance; marketing) =  
£3.14 million
  - Gross margin = £1.66 million
  - To fund:
  - Affordable housing contribution      £360,000
  - CIL (£40/m<sup>2</sup> x 2,800sqm)      £112,000
  - Developer's profit      at 20%      £800,000
  - Residual land cost      **£388,000**
    - =      £190,000 per acre
    - £475,000 per ha
    - £12,000 per plot
- CSH @ £5,000 per unit = £160,000
- Land value falls to **£228,000**



# Role Play 2

- Landowner of a ten-acre (4 ha) field on the edge of a market town.
- Agricultural value £70,000
- Purchased 10 years ago for £500,000 in the expectation that it would be suitable for development.
- Remains outside the development boundary.
- You are hopeful it will be allocated
- for development in the
- Local Development Framework.
- Developer's offer £1.32m or £330,000 per ha
- Deal or No Deal?



# Developer's offer

Mix of 120 homes (total 12,000sqm)

Expected sales value (average £200,000 each) = £24 m

Expected costs (construction; fees; finance; marketing) = £16 m

Gross margin = £8 million

To fund:

Affordable housing = £1.4m

CIL (£40/m<sup>2</sup> x 12,000sqm) = £480,000

Developer's profit at 20%

of value = £4.8 m

Residual land value **£1.32m**

## **S106 options**

Bus Shelter £15,000

Contribution to local library £10,000

Sports pitch £75,000

Children's play £50,000



# Role Play 3

- 93 units on 2.7 ha former factory site,
- Of which 18 social rent and 15 Homebuy
- Average price £170,000
- Revenue = **£15.1m**
  
- Build costs = £11.2m (of which S106 £32,000)
- (inc developer profit at 20% of value = £3m)
- Decontamination = £4m
- Total costs = £15.2m
- Land value **-£100,000**
- Land acquisition cost £1.3m



# Options to improve viability

- Change the mix of housing
- Reduce the %age of affordable
- Change the tenure mix of affordable
- Reduce the developer's profit
- Write down the value of the land
  
- Parish politics :
  - there is a need for additional children's play facilities.
  - Individual members of the parish council are not sure that additional social housing will bring "the right type of people" to the village.

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