

# Viability Appraisal – Blessing or Curse

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# Policy context

- New Government new ideology – all bets are off
- RSS Housing numbers gone
- NHPAU gone
- Localism in
- Building bonus in – but is it worth having?
- SHG going – gap funding in
- Evidence base and PPS3 – still with us but for how long?
- CIL and Infrastructure Delivery Plans ???
- Code for Sustainable Homes ???

# Rental housing financed by cross subsidy (1)

- A scheme of 10 dwellings - 5 for rent 5 for sale
- Rent £55 per week (£40 nett after allowing for M+M)
- 1 acre site, market value of land £180,000 per acre
- Land made available for social housing at £5,000 per acre
- 10 dwellings to the acre
- Market value of sale dwellings £58,000
- Development cost per dwelling £40,000 (inc fees, finance etc estimated at £5,000)
- Finance available at 9% pa

# Rental housing financed by cross subsidy (2)

Housing association provides 5 homes for rent

Development cost

(£40,000 x 5)                      £200,000

Land payment                      £2,500

**Total                                      £202,500**

Nett rental income

(£40 x 52 x 5)                      £10,400

**Loan supported                      £115,000**

**Deficit                                      £87,500**

House builder provides 5 homes for sale

Development cost

(£40,000 x 5)                      £200,000

Land payment                      £2,500

**Total                                      £202,500**

**Sale proceeds**

**(£58,000 x 5)                      £290,000**

**Surplus                                      £87,500**

# Rental housing financed by cross subsidy (3)

Housing association provides 5 homes for rent

Development cost

(£40,000 x 5)                      £200,000

**Land payment                      £2,500**

**Total                                      £202,500**

Nett rental income

(£40 x 52 x 5)                      £10,400

**Loan supported                      £115,000**

**NO GRANT**

**Deficit                                      £87,500**

House builder provides 5 homes for sale

Development cost

(£40,000 x 5)                      £200,000

**Land payment                      £2,500**

**Total                                      £202,500**

**Sale proceeds**

**(£58,000 x 5)                      £290,000**

**SALE PROCEEDS EXCEED  
DEVT COST**

**Surplus                                      £87,500**

# Setting a land value

## Various options

- Existing/Alternative use value plus 30%
  - Punitive - will land come forward at this price?
- %age of GDV
  - Varies by location and density – no going rate
- Equally shared uplift
  - Logical but untried
- **BUT**
- **Landowners cannot be forced to sell**
- **Someone will always pay a silly price**

# Viability appraisal can help with

## For local authorities

- Setting an affordable housing target in the **Core Strategy**
- Assessing achievability in the **SHLAA**
- Preparing an **Infrastructure Delivery Plan**
- Preparing the **Local Investment Plan**

## For developers

- Assisting scheme specific negotiation – when something has gone wrong
- *It could help with setting a "ceiling" land value – but no one ever uses it for that purpose*

# The Big Fallacy

- If we do a viability appraisal we will get an answer



# Working with scenarios

**What you  
will get is  
a set of  
possible  
outcomes**

These depend on

- A range of hypotheses about house prices, mix, density and build costs –
- Assumptions about development period

Key trade-offs

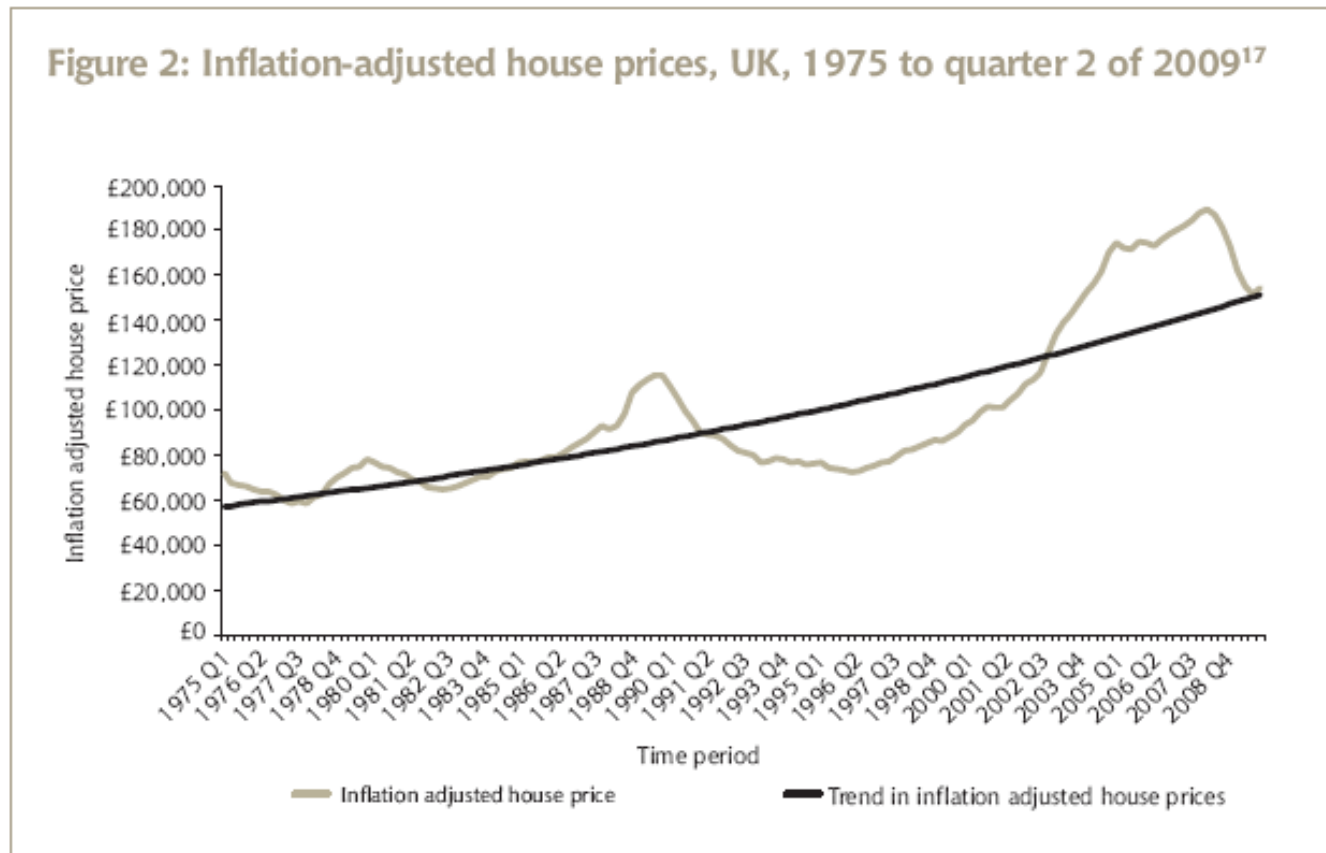
- Land Value – one factor among many or a deal breaker?

# Modelling time using a DCF function

- Money received now is worth more than future money
- The longer the term of development the greater the risk – and the opportunity

<b>5000 units developed over 5 years</b>	<b>RV per hectare</b>
Base	£600,000
DCF	£375,000
House prices rise 3% pa	£750,000
House prices rise 10% pa and build costs rise by 7% pa	£1.3m

# Will it all come right in the end? House prices – long term trend



# Sharing risk - and reward

- Joint venture
- Build under licence
- S106 with trigger points
  - But law is not clear (Wakefield case)
  - Overage bad, underage good
- Can we all play – Prince Charles and the Local Housing Bond