
**Council of the Isles
of Scilly**

**Housing Viability
Assessment**

**Three Dragons with
Rural Housing
Solutions
March 2018**

FINAL REPORT



This report is not a formal land valuation or scheme appraisal. It has been prepared using the Homes & Communities Agency (HCA) Development Appraisal Toolkit (DAT) and is based on local data supplied by the Council of the Isles of Scilly, consultation and quoted published data sources. The DAT provides a review of the development economics of a range of illustrative schemes and the results depend on the data inputs provided. This analysis should not be used for individual scheme appraisal.

No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.

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EXECUTIVE SUMMARY

1. The Council of Isles of Scilly is currently reviewing its Local Plan. The new Local Plan will set out the circumstances in which new development can take place on Scilly and the policies to support that development until 2030. The Council recognises that, '*Fundamental to the future sustainability of the islands is the need to build more homes to address the acute housing problems.*'¹
2. Under the current Local Plan (adopted in 2005) the Council restricts new residential development (Policy 3) to that which meets local affordable housing need in perpetuity or provides accommodation for staff. Development of general open market housing has been prohibited. The draft Local Plan notes that in recent years this has resulted in minimal development and a housing stock which does not meet the needs of the current population.
3. As part of the Local Plan review, the Council seeks to reverse the decline in new affordable housing development and has put forward policies that promote delivery of housing to meet local community need. The Council is obliged to ensure that such policies are deliverable and viable. This may mean allowing some open market housing where this enables affordable development to take place. This Housing Viability Assessment provides evidence to demonstrate the viability implications of the policies in the Public Consultation Draft of the Council's Local Plan.
4. The Viability Assessment has been prepared in consultation with the local development industry and has followed the relevant regulations and guidance and meets the requirements in the National Planning Policy Framework.

Testing Principles

5. The testing undertaken uses a standard residual value approach. The residual value of development (total value less all development and policy costs, including planning obligations) is compared to a land value benchmark and the scheme is said to be viable if the residual value exceeds the benchmark. In accordance with the emphasis on delivering affordable homes to meet locally based need, the benchmark land value adopted is based on a Rural Exception Site (RES) approach.
6. For the testing we used the Homes & Communities Agency (HCA) Development Appraisal Toolkit (DAT) which is particularly suitable for small local site viability modelling.

Residential Development

Types of site tested

7. To test the viability of residential development, we devised a number of case studies which reflect the type of sites likely to be come forward, in light of the policies in the consultation draft Local Plan and historic patterns of development. The case studies are:
 - A1 – 4 units of Affordable Rent
 - A2 – 4 units of Shared Ownership
 - B6 - 10 units of Affordable Rent
 - B7 – 10 units of Shared Ownership.

¹ Draft Local Plan 2015 - 2030 for consultation, para 74

8. The testing undertaken identified the level and type of market housing (if any) that might be needed to enable delivery of affordable homes.

Key assumptions used in the testing

9. The testing has taken account of the policies in the consultation draft Local Plan, in particular:
 - Policy LC1: Housing Strategy to 2030 requiring up to 105 new affordable homes to address local housing need
 - New homes should be delivered with the “*minimum amount of open market homes necessary to enable the delivery of the affordable homes target*”
 - Where market conditions and viability allow, any market housing must be occupied as a *principal residence*.
 - Policy LC3: Accessible Homes requires that new homes meet PartM4(2) of the Building Regulations 2015² (or any subsequent Government Standard)
10. All assumptions used in the testing are based on published sources, local research and industry norms. They have been devised in consultation with the development industry and affordable housing providers with experience of development on Scilly. Sensitivity testing has been undertaken on a sample of case studies.

Key findings of viability analysis

11. Housing development on Scilly would not be able to deliver schemes of purely affordable housing without significant levels of grant funding. In order to deliver affordable homes without grant, around 40% to 50% of dwellings³ will need to be market housing. Local Plan policy LC1 supports the approach of allowing market homes where they enable the delivery of affordable housing.
12. Schemes maximising the proportion of affordable dwellings can be best delivered as a mix of tenures, with a combination of Affordable Rent, Shared Ownership and open market sale to meet a range of housing needs.
13. The policy of requiring open market dwellings to be sold to those who will occupy them as their principal residence is supported by the viability analysis. However, it should be noted that, in some cases, this restriction may marginally reduce the number of affordable dwellings delivered. But by optimising the mix of dwelling types and affordable housing tenures, the introduction of principal residence should not impact on the overall level of affordable housing delivered.
14. Delivery of affordable housing is sensitive to development costs and it will be important that costs are minimised so that the maximum amount of affordable housing can be delivered.

² For details of this accessibility standard see <https://www.gov.uk/government/publications/access-to-and-use-of-buildings-approved-document-m>

³ Depending on type/tenure of scheme

1 INTRODUCTION

Purpose of the Economic Viability Assessment

- 1.1 The Council of Isles of Scilly is currently reviewing its Local Plan. The new Local Plan will set out the circumstances in which new development can take place on Scilly and the policies to support that development until 2030. The Council recognises that, '*Fundamental to the future sustainability of the islands is the need to build more homes to address the acute housing problems.*'⁴
- 1.2 Under the current Local Plan (adopted in 2005)⁵ the Council restricts new residential development (Policy 3) to that which meets local affordable housing need in perpetuity or provides accommodation for staff. Development of general open market housing has been prohibited. In recent years, this has resulted in minimal development and a housing stock which does not meet the needs of the current population.
- 1.3 As part of the Local Plan review, the Council seeks to reverse the decline in new affordable development and has put forward policies that promote delivery of housing to meet local community need. The Council will need to ensure that such policies are deliverable and viable. This may mean allowing some open market housing where this enables affordable development to take place. The Housing Viability Assessment provides background information and evidence to demonstrate the viability implications of the policies in the Council's Draft Local Plan.

National planning context

National Planning Policy Framework

- 1.4 The government published a proposed revised version of the National Planning Policy Framework (NPPF) for consultation⁶, at the beginning of March. Our report makes reference to the new draft NPPF but uses the extant version, published in 2012, in reviewing current government policy. However, we note that the draft NPPF does not introduce new policies that would significantly undermine the method used for this assessment or its conclusions. Alongside the new draft NPPF the government published 'Draft Planning Practice Guidance for Viability'. We also comment on the possible impact of this on our viability assessment of the draft Local Plan.
- 1.5 The extant NPPF places importance on taking viability into account in developing plans and ensuring viability and deliverability. This is set out as follows:

"Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable." (Paragraph 173)

⁴ Council of the Isles of Scilly, Draft Local Plan 2015 - 2030 for consultation, para 74

⁵ Council of the Isles of Scilly, Local Plan, A 2020 Vision, Adopted November 2005

⁶ National Planning Policy Framework, Draft text for consultation, Ministry of Housing, Communities and Local Government, March 2018

- 1.6 The NPPF explicitly recognises the need to provide competitive returns to a willing land owner and willing developer, and local planning authorities are to assess the ‘*likely cumulative impact*’ of their proposed development standards and policies.⁷

National Planning Practice Guidance on plan viability testing

- 1.7 Planning Practice Guidance⁸ (PPG) provides further detail about how the NPPF should be used. PPG contains general principles for understanding viability. It also notes that a range of sector-led guidance is available⁹. In order to understand viability, a realistic understanding of the costs and the value of development is required and “*direct engagement with development sector may be helpful in accessing evidence*”¹⁰. The evidence should be proportionate to ensure plans are underpinned by a broad understanding of viability, with further detail where viability may be marginal or for strategic sites with high infrastructure requirements¹¹. However not every site requires testing and site typologies may be used to determine policy¹².
- 1.8 PPG advises against planning to ‘*the margin of viability*’ but that a buffer should be allowed. Current costs and values should be used (except where known regulation/policy changes are to take place)¹³.

*“Plan makers should not plan to the margin of viability but should allow for a buffer to respond to changing markets and to avoid the need for frequent plan updating. Current costs and values should be considered when assessing the viability of plan policy. Policies should be deliverable and should not be based on an expectation of future rises in values at least for the first five years of the plan period.”*¹⁴

Other guidance on plan viability testing

- 1.9 Sector-led guidance has also been published to assist practitioners in undertaking viability studies for policy making purposes – including “Viability Testing Local Plans - Advice for planning practitioners”¹⁵ (The Harman Guide): The advice re-iterates that:
- “The approach to assessing plan viability should recognise that it can only provide high level assurance.”*¹⁶
- 1.10 The Advice also comments on how viability testing should deal with potential future changes in market conditions and other costs and values and states that:
- “The most straightforward way to assess plan policies for the first five years is to work on the basis of current costs and values The one exception to the use of current costs and current values should be recognition of significant national regulatory changes to be implemented.....”*¹⁷

⁷ Paragraph 173

⁸ DCLG, Planning Practice Guidance

⁹ PPG Paragraph: 002 Reference ID: 10-002-20140306

¹⁰ PPG Paragraph: 004 Reference ID: 10-004-20140306

¹¹ PPG Paragraph: 005 Reference ID: 10-005-20140306

¹² PPG Paragraph: 006 Reference ID: 10-006-20140306

¹³ PPG Paragraph: 008 Reference ID: 10-008-20140306

¹⁴ PPG Paragraph: 008 Reference ID: 10-008-20140306

¹⁵ The guide was published in June 2012 and is the work of the Local Housing Delivery Group, which is a cross-industry group, supported by the Local Government Association and the Home Builders Federation.

¹⁶ P10 Viability Testing Local Plans June 2012

¹⁷ P26 Viability Testing Local Plans June 2012

Potential implications of the Draft Planning Practice Guidance for Viability

- 1.11 In our view, the Draft Planning Practice Guidance for Viability does not radically alter how viability assessments should be undertaken but there are some proposed shifts in emphasis that are worthy of note and are briefly summarised below – recognising that the Guidance is in draft and the final version may differ:
- The role for viability assessments is primarily at the plan making stage. Drafting of plan policies should include engagement with landowners, developers, infrastructure and affordable housing providers.;
 - Policy requirements, particularly for affordable housing, should be set at a level that allows for sites allocated in the plan to be delivered without the use of further viability assessment at the decision-making stage. However, plans should however set out circumstances in which viability assessment at the decision-making stage may be required;
 - Plan makers should engage with landowners, developers, infrastructure and affordable housing providers to secure evidence on costs and values to inform viability assessment at the plan making stage;
 - Land purchases should consider the total cumulative cost of all relevant policies when agreeing a price for the land. The price paid for land is not a relevant justification for failing to accord with relevant policies in the plan;
 - Viability assessments will be publicly available. Where a viability assessment is submitted to accompany a planning application, the executive summary should refer back to the viability assessment that informed the plan and summarise what has changed since then.
- 1.12 The approach adopted for the Housing Viability Assessment for the Isles of Scilly is consistent with the draft Guidance.

National Policy context relevant to Areas of Outstanding Natural Beauty

- 1.13 The Isles of Scilly are a special and unique place. Twenty-eight miles off the coast of Cornwall, the entire islands are designated a Conservation Area, Area of Outstanding Natural Beauty (AONB) and Heritage Coast. There are a high percentage of designated and non-designated heritage assets including large numbers of archaeological remains, 238 Scheduled Monuments, 128 Listed Buildings, a Grade I Registered Park and Garden on Tresco. There are also a high number of natural environment designations including 26 Sites of Special Scientific Interest (over 25 sites), a Special Protection Area and Special Area of Conservation. Additionally, around the coast is a Marine Conservation Zone.
- 1.14 All these have to be taken into account in the design of planning policy and planning decisions. Of particular significance is the designation of much of the plan area as an AONB. Its primary purpose, set out in statute¹⁸, is to conserve and enhance the natural beauty of the landscape, with two secondary aims: meeting the need for quiet enjoyment of the countryside and having regard for the interests of those who live and work there. In effect AONBs and National Parks are of equal importance for landscape and scenic beauty. However, unlike National Parks, AONBs are not local planning authorities in their own right. Instead the Countryside Rights of Way Act¹⁹ places a duty on any relevant authority, in exercising or performing any functions in relation to, or so as to affect, land in an AONB, to have regard to the purpose of conserving and enhancing the natural beauty of the AONB.

¹⁸ Section 11A(2) of the National Parks and Access to the Countryside Act 1949 (National Parks), Section 17A of the Norfolk and Suffolk Broads Act 1988 (The Broads) and Section 85 of the Countryside and Rights of Way Act 2000 (AONBs).

¹⁹ Section 85 Countryside Rights of Way Act 2000

- 1.15 Local Planning authorities are a ‘relevant local authority’ and in consequence this duty is echoed in the extant NPPF, which states,
- “Great weight should be given to conserving landscape and scenic beauty in National Parks, the Broads and Areas of Outstanding Natural Beauty, which have the highest status of protection in relation to landscape and scenic beauty.”²⁰*
- 1.16 How this is to be implemented is set out in the NPPF that refers to the need for planning bodies covering AONBs to have regard to their Management Plans²¹. Whilst these are not part of the statutory development plan the NPPG states that they “may contribute to setting the strategic context for development by providing evidence and principles, which should be taken into account in the local planning authorities’ Local Plans. Furthermore, may also be material considerations in making decisions on individual planning applications, where they raise relevant issues.”²²
- 1.17 The Isles of Scilly AONB Management Plan sets out its vision in the following terms, *“The Isles of Scilly AONB will remain one of England’s finest landscapes through the conservation and enhancement of its special features. The islands will be enjoyed by residents and visitors who will have an understanding of the AONB’s special and unique qualities. The Islands will support a population with a strong sense of community working together to achieve environmental, economic and community sustainability.”*
- 1.18 It goes on to set out the principles that will underpin its partnership working and the mission of the Partnership, *“to safeguard, enhance and promote the distinctive landscape, wildlife, historical and architectural character of the Isles of Scilly whilst fostering the social and economic well being of its people. The Partnership is not a local government executive body. It seeks to inform and influence, but it does not attempt to control the work of its members within their own areas of responsibility.”*
- 1.19 In responding to all the issues the LPA is still also expected to meet the more generic requirements of the NPPF. This includes a requirement for the Local Plan to include strategic policies to meet the homes and jobs needed in the area (paragraph 156); be based on evidence to meet the objectively assessed needs for market and affordable housing in the housing market area²³. In so doing deliver a wide choice of high quality homes, widen opportunities for home ownership and create sustainable, inclusive and mixed communities. This is to be achieved by identifying the size, type, tenure and range of housing that is required in particular locations, reflecting local demand; and set policies for affordable housing where need for this tenure has been identified.²⁴ Specifically, for rural areas the NPPF requires that LPAs are responsive to rural circumstances; and promote sustainable development in rural areas, housing should be located where it will enhance or maintain the vitality of rural communities, either in individual or for a group of rural communities²⁵.

Local Policy Context

- 1.20 The Council approved the Draft Local Plan 2015 - 2030 for consultation, in February 2018. The Draft Local Plan summarises the aim of the Council’s housing policies as, *“.....to deliver as many affordable homes as possible with flexibility for allowing some open market housing to enable delivery. Development proposals solely to meet the demands of the open market is not sustainable on the islands and will be resisted.”* (Para 214).

²⁰ National Planning Policy Framework - paragraph 110

²¹ National Planning Policy Guidance - Paragraph: 004 Reference ID: 8-004-20140306

²² NPPG op-cit

²³ NPPF op cit - paragraph 46

²⁴ NPPF op cit - paragraph 50

²⁵ NPPF op cit - paragraphs 54 & 55

- 1.21 Where market housing is permitted, the Council will seek to restrict the use of enabling ‘open market’ housing to that of a ‘principal residence’²⁶. It is recognised that market housing with a ‘principal residence’ restriction may reduce its sale value and hence may lessen scheme viability. If this happens, to ensure viable development, the Council will have to balance an increase in ‘principal residence’ market housing against allowing ‘true’ open market housing to enable more affordable housing to be provided.
- 1.22 The Draft Local Plan sets a target for the amount of affordable housing to be provided (up to 105 dwellings) but no numeric target for market housing. Market housing is to be, “.....*the minimum amount of open market homes necessary to enable the delivery of the affordable homes target.*) (Policy LC1).
- 1.23 The Draft Local Plan recognises the needs of an ageing population and requires, subject to viability evidence to the contrary, that all new housing should meet the requirements of Part M4(2) of the Building Regulations 2015 or any subsequent Government Standard. The Draft Plan does not require any housing to be built to accessible or adaptable wheelchair standards i.e. to the standards in Part M4(3) of the Building Regulations.
- 1.24 The Housing Viability Assessment has reflected the draft Local Plan policies in the design of the testing undertaken.
- 1.25 The testing predated publication of the new draft NPPF. The draft NPPF signals some changes in government policy that have the potential to affect housing viability on the Isles of Scilly. The main changes we have identified include:
- The definition of affordable housing, with the inclusion of Starter Homes and Private Affordable Rented housing charged at least 20% below open market rents with eligibility being determined with regard to local incomes and local house prices
 - Providing 10% of all residential development on sites of more than 10 units as affordable sale housing
 - 20% of identified sites in plans to be 0.5 ha or less
 - Provision of affordable housing should not be sought in designated rural areas on sites of 5 units or fewer²⁷
 - Whilst strengthening support for rural exception sites and use of cross-subsidy from market housing ‘*to ensure that homes are genuinely affordable for local people*’, as opposed to current wording which is to significantly increase the supply of affordable homes to meet local needs
- 1.26 While design of the testing undertaken predated publication of the draft NPPF, the testing is not in contradiction to the draft NPPF policies.

Research evidence

- 1.27 The Viability Assessment has been prepared in consultation with the locally active development industry²⁸. In total, 12 organisations, all familiar with development on Scilly, were interviewed. They included four builders/developers, three

²⁶ A restriction which will ensure the dwelling is not used as a second or holiday home

²⁷ However we note that the courts have also recently considered the issue of site size thresholds. At the time of writing the most recent position is contained in the High Court Judgment of May 2016. In summary, the High Court ruled that, whilst the Written Ministerial Statement of November 2014 and then proposed revisions to the NPPG, advocating a threshold of 11 or more units, that these are no more than other material considerations and therefore, with sufficient evidence, a LPA could adopt lower thresholds.

²⁸ Interviews were conducted face to face or by telephone using agreed discussion agendas.

surveyors/cost consultants, estate agents serving the islands, the Duchy of Cornwall as the major landowner (and their agents) and three of the housing associations that have historically developed on Scilly or could be interested in doing so. A summary of the findings of the interviews is set out in Annex 1.

- 1.28 In addition, we have consulted officers from the Council's planning and housing departments and undertaken an analysis of publicly available data to identify the range of values and costs needed for the viability assessment.
- 1.29 All the viability testing used the Homes England (Homes and Communities Agency as was) Development Appraisal Toolkit. This model was used to allow the Council to undertake further testing if required, using the base models populated by Three Dragons for the testing.

2 APPROACH TO THE VIABILITY TESTING

Underlying Principles

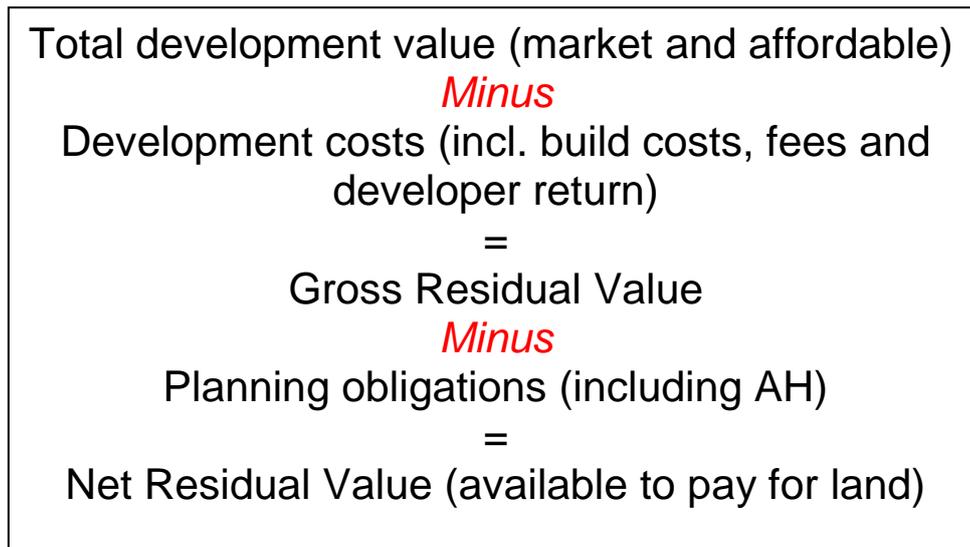
2.1 The Housing Viability Assessment has followed the relevant planning regulations and guidance and is in line with the National Planning Policy Framework.

2.2 The Advice for Planning Practitioners summarises viability as follows:

‘An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.’²⁹

2.3 As is standard practice³⁰, we have adopted a residual value approach to our analysis. Residual value is the value of the completed development (known as the Gross Development Value or GDV) less the development costs. The remainder is the residual value and is available to pay for the land. The value of the scheme includes both the value of the market housing and affordable housing. Scheme costs include the costs of building the development, plus professional fees, scheme finance and a return to the developer as well as any planning obligations.

Figure 2.1 Residual Value Approach



2.4 To assess viability, the residual value generated by a scheme is compared with a benchmark land value, which reflects a competitive return for a landowner.³¹

²⁹ P 14 Viability Testing Local Plans: Advice for Planning Practitioners Harman 2012

³⁰ See page 25 of Viability Testing Local Plans: Advice for Planning Practitioners Harman 2012 – “We recommend that the residual land value approach is taken when assessing the viability of plan-level policies and further advice is provided below on the considerations that should be given to the assumptions and inputs to a model of this type.”

³¹ Note that the benchmark land value is an estimate of the lowest value that a landowner may accept and does not preclude the possibility that some schemes may have enough value to pay more for land.

Land Value Benchmarks

- 2.5 In terms of benchmark land values, Viability Testing Local Plans³² sets out a preferred approach in the following extract from page 29:

Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful ‘sense check’ on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values (noting the exceptions below).

- 2.6 There is no single agreed figure to be used for the benchmark land value on the Isles of Scilly nor any published information available to guide this. We have arrived at realistic benchmark values through our discussions with the development industry and in consideration of the type of affordable housing-led development envisaged in the draft Local Plan.
- 2.7 Given the affordable housing-led approach in the draft Local Plan it is appropriate to use a Rural Exception Site (RES) model in setting benchmark land value. This is based on a plot value of £10,000 per plot³³, for all tenures, which is consistent with plot values for similar schemes and with local feedback. The benchmark land value would be different if policy was market housing-led.
- 2.8 The benchmark land values are an estimate of the lowest values that landowners may accept and where development is able to pay more, then land will be transacted at higher prices.

Testing Assumptions

Background to the Assumptions

- 2.9 Key assumptions in relation to costs and revenues used in the analysis can be found at Annex 2. These draw on a mix of publicly available data, local industry consultation, discussions with Council officers and industry standard practice.
- 2.10 The assumptions used and subsequent viability modelling have taken account of key policies in the consultation draft Local Plan³⁴. These include in particular
- Policy LC1: Housing Strategy to 2030 requiring up to 105 new affordable homes over the plan period to address local housing need
 - New homes should be delivered with the “*minimum amount of open market homes necessary to enable the delivery of the affordable homes target*”³⁵

³² See http://www.pas.gov.uk/c/document_library/get_file?uuid=90fc2589-685a-441f-be9c-1874de4f20b9&groupId=332612

³³ At 30 dph this would be equivalent to approximately £300,000 ha; at 20 dph it would be approximately £200,000 ha

³⁴ Isles of Scilly consultation draft Local Plan February 2018

³⁵ *ibid* para b)

- Where market conditions and viability allow, any market housing must be occupied as a *principal residence*³⁶
- Policy LC3: Accessible Homes requires that new homes meet PartM4(2) of the Building Regulations 2015³⁷ (or any subsequent Government Standard).

Market values

- 2.11 The estimates of house prices make use of Land Registry price paid data. It is recognised that sales volumes are limited and the data available is patchy, particularly for new build properties. The published data was supplemented by detailed discussions with the local estate agents and the development industry active in Scilly, and these discussions refined the values used in the testing.
- 2.12 Homes with a sea view will attract higher selling prices and thus improve viability outcomes. We have modelled our case studies without a sea view but show, via a sensitivity test, the additional value such market homes can add to development. Where principal residence market housing is tested we have reduced the selling price by 5%³⁸.

Development costs

- 2.13 The additional transport costs (for materials and labour) and smaller nature of schemes on Scilly as well as the limited pool of local labour means that build costs are higher than they would be on the mainland. Consultees offered divergent views about the additional cost of building homes on Scilly and for this exercise we have modelled two build cost scenarios:
- a) Base build costs³⁹ - equivalent to a Cornwall baseline + 25%
 - b) Higher build costs - equivalent to a Cornwall baseline + 40%.
- 2.14 Since our initial consultations, there has been a rise in the index and we have inflated our build costs accordingly: between August 2017 and January 2018, BCIS costs increased by approximately 7% for houses and 8% for low rise flats. We have not made an equivalent adjustment to market values as the evidence for this is very limited.
- 2.15 For the build costs, we have also added a further 15% to the costs to allow for external works such as footpaths, landscaping, access roads.
- 2.16 One issue about build costs worth noting from our researches, is the lack of a consistent view about whether using off-site construction methods necessarily reduces costs. Experience elsewhere is very mixed and our view is that it would be premature to base local plan policies on fixed assumptions about the costs of this method of construction. In due course, reduced costs may become the norm, but this cannot be assumed at the current time.

Size of dwellings

- 2.17 Affordable unit sizes meet nationally described space standards⁴⁰.

³⁶ Ibid para I

³⁷ For details of this accessibility standard see <https://www.gov.uk/government/publications/access-to-and-use-of-buildings-approved-document-m>

³⁸ Consistent with the reduction researched & applied in other areas e.g. Exmoor National Park Authority Whole Plan Viability Assessment *Three Dragons & Rural Housing Solutions* March 2016

³⁹ We use the 5 year median values

⁴⁰ <https://www.gov.uk/government/publications/technical-housing-standards-nationally-described-space-standard>

- 2.18 Market units are modelled at modest size, the largest of which is a 4 bed detached house at 115 sqm – this is equivalent to the size of 4 bed, 7 person, house as per nationally described space standards. Other market units are the same size as for affordable units.
- 2.19 The dwelling sizes used in the viability testing meet the requirements of Building Regulations Part M4(2)⁴¹ and units are more easily adaptable to meet mobility needs, in line with Local Plan policy LC3: accessible homes.
- 2.20 The supply of housing suitable for households with mobility needs, including older people, is limited on Scilly. In some of our sensitivity tests we have allowed for the affordable dwellings to meet Part M4(3) (wheelchair adaptable) of the Building Regulations 2010. For these dwellings we have increased floor space and costs⁴².

Affordable housing

- 2.21 It has been assumed that no grant is available to subsidise the affordable housing. In practice, some grant may be available in the future but it is not possible to say how much and in what circumstances. Testing with nil grant is therefore prudent but does mean we are reporting a 'worse case' picture.
- 2.22 In line with the findings of the SHMA⁴³ and following discussion with housing officers and housing associations, we have emphasised smaller affordable dwellings of 1-2 bedrooms to meet the needs of local households. All dwellings conform to national space standards.
- 2.23 Previous studies⁴⁴ have not found any demand for Shared Ownership housing and noted that this may be because there has not been any historic provision on Scilly. However, our consultations with housing officers and housing associations, indicated a potential market for the tenure (albeit small) and a potential willingness to deliver. We have therefore included an element of Shared Ownership housing in the assessment.
- 2.24 Rents are capped at the appropriate Local Housing Allowance Rate⁴⁵.

Other costs

- 2.25 On advice from the Council we have not included any S106 costs although we have added £2,500 per dwelling for the costs of dealing with waste water⁴⁶.

⁴¹ <https://www.gov.uk/government/publications/access-to-and-use-of-buildings-approved-document-m>

⁴² DCLG Housing Standards Review – EC Harris 2014

⁴³ Strategic Housing Market Assessment - Chapter 14 Isles of Scilly SHMA report 2016

⁴⁴ Para 2.7.11 Isles of Scilly SHMA report 2016

⁴⁵ Kernow West Broad Rental Market Area

⁴⁶ Based on discussions with the local development industry and checked with the Council

3. RESIDENTIAL VIABILITY ANALYSIS

Case Studies

- 3.1 To test the viability of residential development and assist the Council in considering policy options, we devised a number of case studies which reflect not only the type/size of sites that could come forward, given the circumstances of Scilly, but also a range of tenure options. Working with the Council, we drew up the following sets of case studies and a testing protocol for each.

Figure 3.1: Case Studies

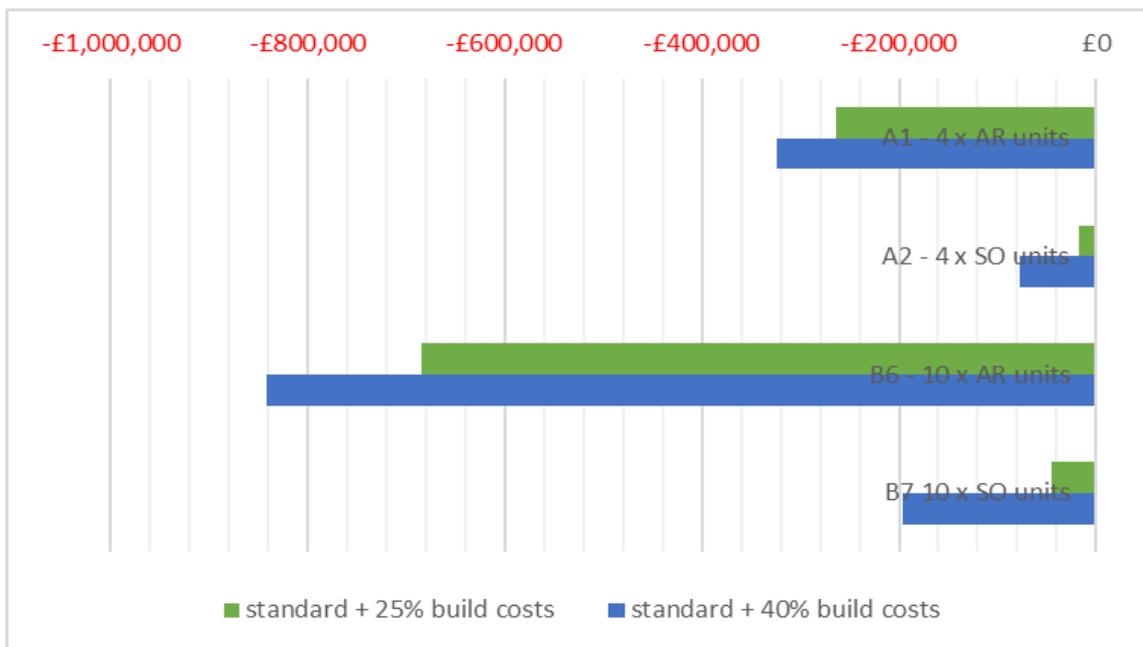
Test no.	Affordable housing		Market housing
	Tenure	Type	
CASE STUDY A: 4 units (0.2 ha)			
A1	Affordable rent (AR)	2 X 1 bed flat 2 X 2 bed houses	None
A2	Shared ownership (SO)	2 X 1 bed flat 2 X 2 bed houses	None
A3	AR	Starting point 2 X 1 bed flat 2 X 2 bed house	a) assess level of 'like-for-like' market housing (i.e. 1 bed flat affordable substituted with 1 bed flat market etc) required to deliver a viable scheme b) assess level of 3-4 bed market housing required to deliver a viable scheme
A4	SO	Starting point 2 X 1 bed flat 2 X 2 bed house	a) assess level of 'like-for-like' market housing required to deliver a viable scheme b) assess level of 3-4 bed market housing required to deliver a viable scheme
CASE STUDY B: 10 units (0.5 ha)			
B6	AR	4 X 1 bed flat 5 X 2 bed house 1 x 3 bed house	None
B7	SO	5 X 1 bed flat 5 X 2 bed house	None
B8	AR	Starting point 4 X 1 bed flat 5 X 2 bed house 1 x 3 bed house	a) assess level of 'like-for-like' market housing (i.e. 1 bed flat affordable substituted with 1 bed flat market etc) required to deliver a viable scheme b) assess level of 3-4 bed market housing required to deliver a viable scheme
B9	SO	Starting point 4 X 1 bed flat 5 X 2 bed house 1 x 3 bed house	a) assess level of 'like-for-like' market housing required to deliver a viable scheme b) assess level of 3-4 bed market housing required to deliver a viable scheme
B10	Re-do test 8		But assume market housing has a principal residence condition
B11	Re-do test 9		But assume market housing has a principal residence condition

- 3.2 The case studies use 100% affordable housing (delivered either as Affordable Rent or as Shared Ownership) as a starting point and are then adjusted to test how much market housing is required to produce a viable scheme. We have looked at both unfettered open market housing and housing with a principal residence restriction.
- 3.3 The case studies were subject to some sensitivity testing to demonstrate the impact of
- Market housing with a sea view (and which is likely to attract higher values);
 - Affordable housing built to a higher accessibility standard (and is therefore larger than equivalent 'standard units' and thus has a higher build cost);
 - The application of an alternate mix, as a method of establishing an optimum mix which would meet local need whilst maximising the number of affordable homes.

Findings from Base Case Studies

- 3.4 The chart below shows the residual value minus land value for the four base case studies: build costs at the mainland standard + 25% (the base build cost) are shown in green and those at mainland standard + 40% (the higher build cost) are shown in blue.

Figure 3.1: Base Case Studies – Residual Value minus benchmark land value per Scheme



- 3.5 Neither of the Affordable Rent schemes (A1 and B6) are viable using either build cost scenario. Similarly, neither of the Shared Ownership schemes (A2 and B7) are viable at either build cost scenario. The negative results (shown as residual value less benchmark land value) at +40% build costs range from -£77,400⁴⁷ for the 4-unit Shared Ownership scheme to -£841,350 for the 10-unit Affordable Rent scheme. At +25% build costs, the residual values (less benchmark land value) range from -£17,000 for the 4-unit Shared Ownership scheme to -£684,100 for the 10-unit Affordable Rent scheme.

⁴⁷ Results have been rounded to nearest £00s.

3.6 Clearly a purely affordable housing scheme cannot be delivered without some cross-subsidy from market housing and/or grant. The charts below give a visual indication of the number and type of units that would need to be replaced with market dwellings to make the case study schemes viable.

3.7 In Figure 3.2 below, we use the base build costs (i.e. build costs + 25%) and in Figure 3.3 we use higher build costs (i.e. build costs + 40%). Affordable Rent units are shown in green, Shared Ownership in yellow and market in blue. We have used two different types of market housing as the ‘replacement’ units – first on a ‘like for like’ basis (i.e. a 1 bed Affordable Rent flat is replaced with a market 1 bed flat) then replacing the affordable units with larger 3 and 4 bedroom market housing. Tables showing the full tenure breakdown are available at Annex 3. The number of units shown in this and subsequent charts are rounded to ‘whole dwellings’ while the Annex provides more detailed results.

Figure 3.2: Tenure mix of Viable Schemes at base build costs

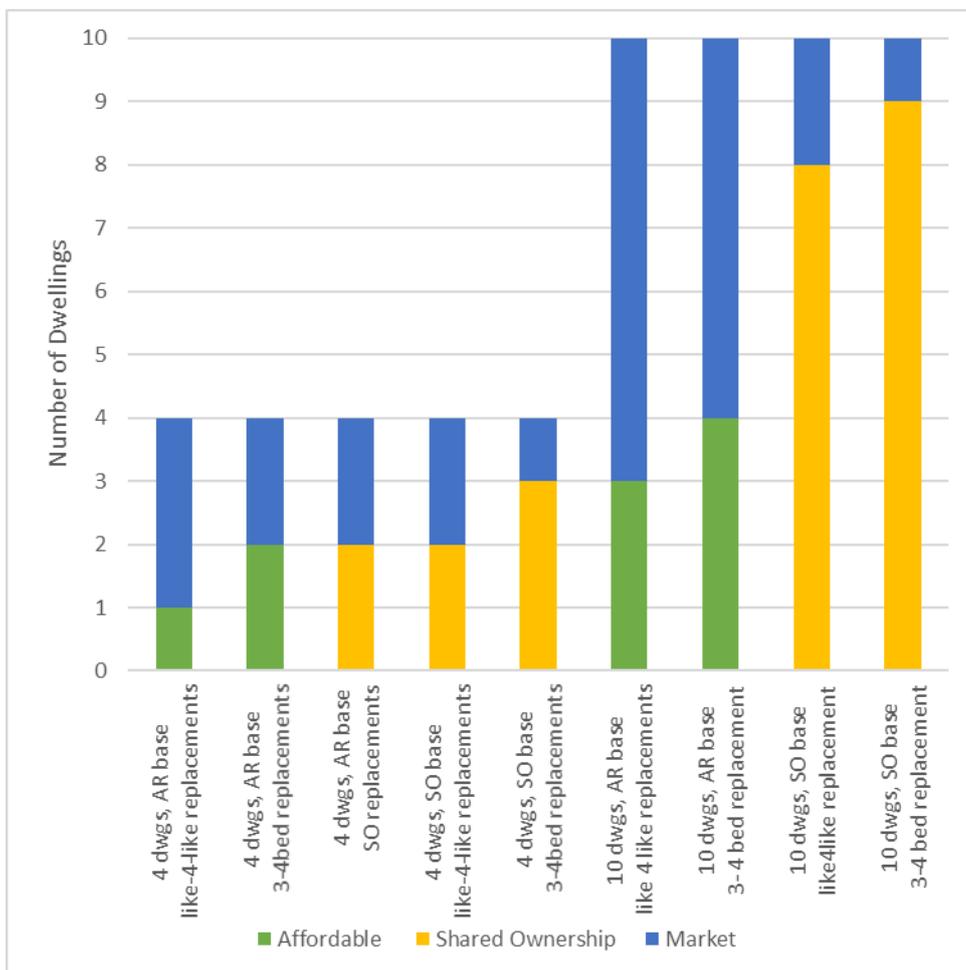
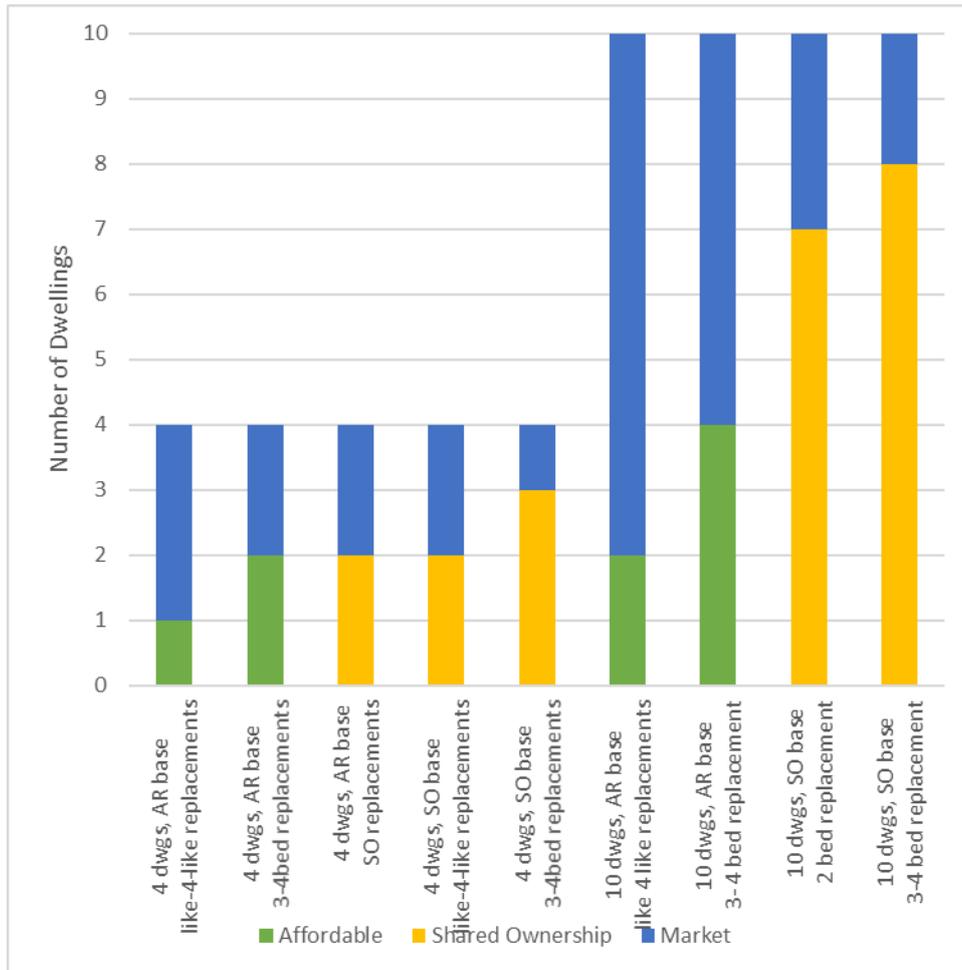


Figure 3.3: Tenure mix of Viable Schemes at higher build costs



3.8 The charts above show that neither the 4 nor the 10-unit case studies were able to deliver Affordable Rent homes without some market replacement dwellings. Shared Ownership schemes are similarly unable to deliver affordable homes without some replacement market dwellings. The Shared Ownership schemes require fewer market replacements than the Affordable Rented schemes. Viability is strongly influenced by assumptions about build costs.

4-unit Scheme

3.9 When market replacement dwellings were added on a like-for-like basis (i.e. a 1 bed Affordable Rent flat is replaced with a market 1 bed flat) the scheme of 4 Affordable Rented units required 3 market units to achieve viability, this was the case at both base build costs and at the higher build costs. Where 3-4 bed market units⁴⁸ were used as replacement dwellings, 2 units needed to be replaced with market housing to produce a viable scheme.

3.10 If the affordable units were delivered as Shared Ownership, with the higher build costs, 2 units need to be replaced by market housing to provide a viable scheme on a like-for-like basis and 1 unit where 3 & 4 bed replacements were modelled.

⁴⁸ 3 bed semi (93sqm) & 4 bed detached (115 sqm)

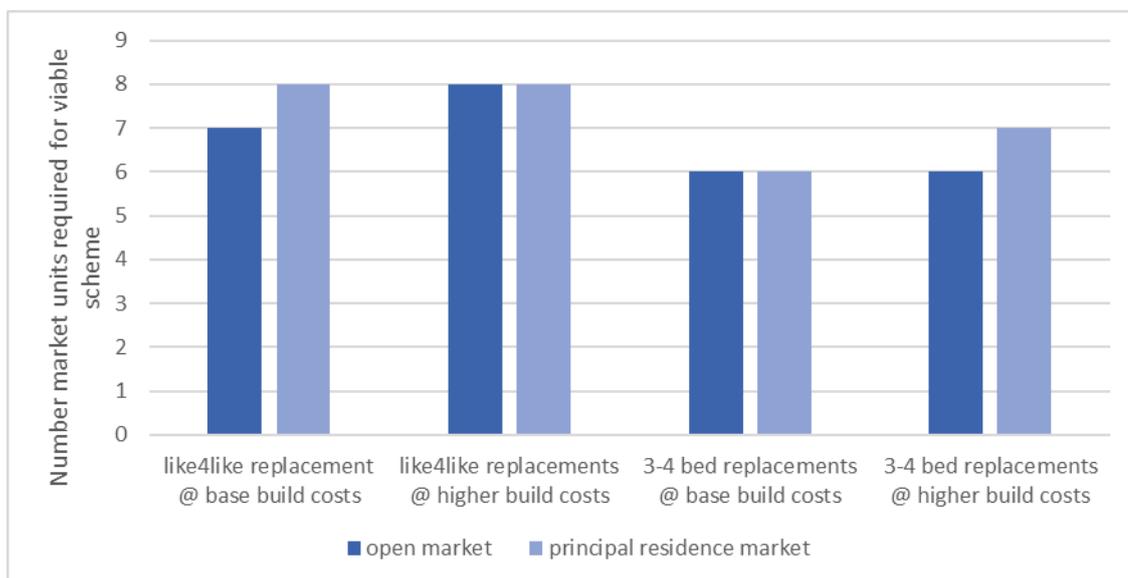
- 3.11 With both Affordable Rent and Shared Ownership schemes fewer affordable housing units have to be 'lost' to achieve viability when the larger market units are substituted.

10-unit Scheme

- 3.12 The scheme of 10 affordable units produces similar results. For the Affordable Rented scheme, with the base build costs, 7 market units are required to produce a viable scheme using like-for-like dwelling replacement or 6 where the market replacement dwellings are 3 & 4 bed houses. With the higher build costs, then market replacements are 8 and 6 units respectively. For Shared Ownership, 2 market replacements are required at base build costs and 3 at higher build costs with like-for-like replacements but this reduces to 1 and 2 respectively where market replacements are with 3 & 4 bed houses.
- 3.13 As with the 4-unit scheme, with both Affordable Rent and Shared Ownership, fewer affordable housing units need to be replaced by market housing to achieve viability when larger units are substituted.
- 3.14 The 10-unit scheme was also modelled using principal residence market housing replacements. Values for these market dwellings are suppressed (at 95% of their full value) because of the restrictions attached to ownership. Of the 8 tests for the 10-dwelling scheme, 3 cases produced the same results⁴⁹ where the market replacement dwellings were principal residence *and* where they were unfettered open market housing. However, in the other 5 tests an additional market dwelling was needed to produce a viable scheme. This implies that the introduction of principal residence would need to be traded off against the amount of affordable housing delivered.
- 3.15 The chart below shows, by way of example, the difference between the number of market units required to achieve a viable scheme using unfettered market units and the number of market units required using *principal residence* market units – the example takes the Affordable Rent base scheme, showing both like-for-like replacement dwellings and 3-4 bed replacement dwellings.

⁴⁹ These were – for case studies B8(a)3; B8(C); B9(c) – see annex 4 for full details of results

Figure 3.4: Number of Market Units required to enable Affordable Rented Development (comparison of unfettered open market units with principal residence market units)



3.16 The chart illustrates that introducing principal residence market housing can reduce the ability of schemes to deliver affordable homes.

Sensitivity Testing

3.17 Sensitivity testing was carried out to assist in understanding the impact of

- the higher house prices achieved on properties with a sea view⁵⁰;
- building homes to a higher accessibility standard where affordable homes can easily be adapted for wheelchair use (part M4(3) of the Building Regulations 2010⁵¹).

3.18 Dwellings with a sea view improved viability to the extent that 1 more affordable unit was possible in both the 4-unit scheme and the 10-unit scheme, at base build costs.

3.19 The cost of providing more accessible affordable homes resulted in a reduced affordable provision in all of the scenarios tested. The situation could be ameliorated by using the improved viability gained on developments with market sea view homes to develop Part M4(3) affordable homes.

Optimum Mixes

3.20 In our final testing we moved away from the set scenarios to create more complex schemes in order to demonstrate how a mix of tenures may improve viability whilst meeting local needs through the maximum possible provision of affordable homes, both Affordable Rented and Shared Ownership.

3.21 The set of findings is shown on the table below. These are all viable schemes that use a combination of tenure. Results are shown using both base build costs and higher build costs.

⁵⁰ Following consultation, an uplift of between 19% & 30% (depending upon property type) was applied to all dwellings on the site

⁵¹ V3 2016 <https://www.gov.uk/government/publications/access-to-and-use-of-buildings-approved-document-m> (homes are already built to M4(2) size requirements)

Figure 3.5: Detailed Testing of Alternative Mixes of Dwelling Types and Tenure

Ref	No. of units	Build costs % above Cornwall	Affordable Rent units (AR)	Shared Ownership units (SO)	Open Market units (M)	Principal Residence Open Market Units (M-PR)	Scheme mix
A	4	+25%	1	2	-	1	1 x 2bh AR 2 x 2bh SO 1 x 4bh M - PR
B	4	+40%	1	2	1	-	1 x 2bh AR 2 x 2bh SO 1 x 4bh M
C	10	+25%	5	1	4	-	4 x 2bh AR 1 x 2bh SO 1x 3bh AR 2 x 3bh M 2 x 4bh M
D	10	+25%	4	3	-	3	2 x 1 bf AR 2 x 2bh AR 3 x 2bh SO 1 x 3bh M-PR 2 x 4bh M-PR
E	10	+40%	3	3	4	-	2 x 2bh AR 3 x 2bh SO 1x 3bh AR 1 x 3bh M 3 x 4bh M
F	10	+40%	3	2	-	5	2 x 2bh AR 2 x 2bh SO 1x 3bh AR 2 x 3bh M-PR 3 x 4bh M-PR

- 3.22 These case studies are for example only and clearly there are endless permutations of dwelling mix that could be applied. Exact mix will depend upon a combination of need, site characteristics and economics.
- 3.23 Looking at the 4-unit scheme, it was possible to deliver 3 units of affordable housing (75% of scheme) with a combination of Affordable Rent and Shared Ownership. At base build costs the market unit required to enable development was modelled as principal residence but at the higher build costs it was not possible to achieve a viable scheme with a principal residence market unit, unless another affordable home was converted to market.
- 3.24 With the 10-unit scheme, the examples show it is possible to deliver around 60% to 70% of a scheme as affordable housing, using a mix of affordable tenures, where build costs are at base level. Example D shows a scheme where affordable housing is enabled with 3 units of open market (principal residence) housing. In example C,

there are fewer Shared Ownership units (and more Affordable Rent) and the scheme is enabled by 4 units of unfettered market housing.

- 3.25 Examples E & F show a 10-unit scheme with higher build costs. Where the open market element of the scheme is delivered as unfettered open market housing more units of affordable housing are delivered than where the open market housing has a principal residence condition. In this case 4 units as unfettered open market (60% of scheme is affordable) or 5 units as principal residence open market (50% of scheme is affordable).
- 3.26 Comparison with figures 3.2 and 3.3 show that where affordable tenure is mixed (i.e. both Affordable Rent & Shared Ownership) more affordable units can be delivered than on a scheme where the affordable housing is purely Affordable Rent. Where affordable units are purely Shared Ownership, more affordable housing may be delivered but our understanding is that Shared Ownership on its own is less likely to meet local need for affordable accommodation.
- 3.27 A full set of results from all the testing is shown at Annex4.

Summary of Findings

- 3.28 The Housing Viability Assessment leads to a number of conclusions regarding the interface between scheme viability and Local Plan policy, in particular the number of market units that are required to enable affordable housing to be delivered and the trade-off with other policy objectives. From the case studies tested:
- Schemes of purely Affordable Rented units are not viable and very unlikely to be delivered without significant public subsidy;
 - Schemes of purely Shared Ownership units are also not viable and some form of subsidy would be required;
 - With the base build costs and a proportion of 3 & 4 bed market homes developed alongside affordable units, up to 50% of units can be delivered as Affordable Rent;
 - If the units were Shared Ownership there will be situations where more than 50% of units can be delivered as affordable housing; for instance the 10 dwelling Shared Ownership scheme required 1 or 2 market units to become viable (thus delivering 80% to 90% affordable housing as Shared Ownership);
 - Different tenure mixes with a combination of Affordable Rent and Shared Ownership units would fall between these two extremes (i.e. between 50% and 90% of units could be delivered as affordable);
 - Although principal residence market homes have lower values than unfettered market housing, it may still be possible to achieve up to 50% of units as Affordable Rent with base build costs;
 - If costs are higher and/or market dwellings are delivered on a like-for-like basis (i.e. as 1 bed flats and 2 bed houses) up to 60% - 80% of units may need to be market;
 - Alternative mixes of affordable tenures (Affordable Rent & Shared Ownership) alongside 3 & 4 bed market homes (either open or principal residence) are able to deliver 50% or 60% of homes as affordable, even where build costs are higher; this illustrates the importance of scheme-by-scheme analysis to provide the maximum amount of affordable housing;

- It is easier to achieve a higher number of affordable units on the larger scheme because there are more options to vary the mix;
- Depending on the mix of units, building affordable units to Part M (3) standards will reduce the number of affordable units delivered;
- Where values are higher, such as for sea view properties, viability will improve, and it will be possible to deliver more affordable units and/or support other higher standards of development, e.g. greater accessibility or sustainability.

3.29 The modelling shows the sensitivity to increased build costs and it will be important that costs are minimised so that the maximum amount of affordable housing can be delivered. We have not identified a single answer to this and commented earlier that modular housing approaches may offer a route to lower build costs but this is not proven in an island context and we have not based the analysis on this possibility.

Implications of the Viability Assessment

3.30 The Housing Viability Assessment supports the policies in the consultation draft Local Plan but highlights a number of considerations including:

- A pre-requisite for affordable housing delivery is keeping build costs in check – the base build costs used in the testing should provide a good quality basic design, where build costs are higher there is a straight trade-off with the number of affordable units that can be delivered;
- On the assumption that principal residence market homes are 5% lower in value than full market homes, it would be reasonable to assume that sites can deliver viable mixed tenure developments where a principal residence condition is attached to market homes, although this may reduce the number of affordable homes provided in some cases;
- The introduction of Shared Ownership housing improves viability and reduces the requirement for market housing and, on sites of more than 10 dwellings assists the council in meeting the requirements of the NPPF⁵² to provide 10% of units for affordable sale; therefore mixed schemes providing Affordable Rent, Shared Ownership & market homes should be considered; but noting that this may be limited by the scope of the market for Shared Ownership;
- The amount of market housing required to deliver viable schemes depends also on the type of market housing assumed. All the maximum percentage of market housing set out above assumes larger market units (3 and 4 bed houses). Planning for delivery of smaller market homes (e.g. 2 bed terrace) would increase the stock of lower value market housing but would reduce the capacity to provide Affordable Housing;
- The implications of the above is that policy needs to remain flexible enough to allow market homes to be provided alongside affordable housing, to enable those affordable homes to be delivered; the Council could set a maximum number of market units in any scheme – from our modelling, 40% - 50% is suggested as a workable level;
- There is limited potential to require all affordable dwellings to be built to a wheelchair accessible standard but larger sites could provide one unit and sites with higher house prices (such as where market homes have a sea-view) may be able to deliver more than this;

⁵² Draft revised version issued for consultation 5th March 2018 paragraph 65

- The analysis has shown how sensitive the delivery of affordable housing will be to any significant increase in costs or land values which would reduce the amount of affordable housing that can be provided.

Annex 1 – Summary of key points from industry consultation

Interviews undertaken

1. In total 12 organisations, all familiar with island development and mostly with a presence on the islands, were interviewed, either face to face, by telephone or via email in one instance. Those interviewed included four builders/developers, three surveyors/cost consultants familiar with island development, the estate agents serving the islands, the Duchy of Cornwall as the major landowner (and their agents) and three of the housing associations that have historically developed on Scilly or could be interested in doing so. Officers from the planning and housing departments of the Council were also interviewed. The key points from the interviews are summarised below.

The Housing Market

2. The housing market on Scilly was slow to pick up after the market down-turn in 2007-08 but has been strengthening over the last two years or so but could slow down again if there are economic ‘head winds’.
3. Values are similar across St Mary’s. But properties with a ‘sea view’ will attract a premium.
4. The sales market is small with limited number of new properties coming to market each year. A significant addition of new supply of sale housing over a short period has the potential to disrupt the market.
5. Restricting potential purchasers of sale properties is likely to decrease market values. Said that restricting occupancy to local families with housing need could reduce market value by as much as 40%. A ‘principal residence’ condition would also impact on values but by less. No single view on the likely level of impact - could be marginal, de minimus or up to 15%.

Need for infrastructure to support new housing

6. New housing would not require additional provision for education, other community facilities, or energy.
7. However, there are issues about dealing with waste water and any new development will need to demonstrate that can deal with its own waste water.
8. Need to allow c.£2,500 per dwelling either to use existing system or for a local bio solution.

Development costs

9. Development costs are higher on the islands than the mainland for a number of reasons including higher transport costs for materials, higher costs for disposing of waste materials, limited economies of scale that can be achieved and need to ‘bring in’ specialist labour for certain tasks (with their associated transport and accommodation costs).
10. Estimates of residential (new) build costs said to be between £1200 per sq. m and £1,500 (including excavation, prelims, labour, contractor’s return) with higher costs where there is a higher build specification e.g. use of granite. Alternative estimate of costs provided as uplift on mainland costs (i.e. Cornwall). Again, various views about potential uplift which ranged from 25% to 40% uplift. Said that local firms are less costly than mainland contractors brought in for development projects – local firms have better knowledge of most efficient methods of transporting goods/using specialist labour.

11. Development costs for the off-islands said to be c.20% over those on St Marys.
12. Configuration of access to the quay limits size of lorries that can use the quay and therefore scale of goods that can be brought onto the islands. Beach landing is already used for large items but has its own costs.
13. Professional fees said to be similar to those on the mainland at c 10-12% but could be higher on some schemes e.g. up to 15%.

Scale of developments

14. Schemes of 5-8 said to be the 'right size' for the local development industry. But larger schemes (say up to 12 dwellings) within the local industry's capacity.

Land values

15. Very few sales of land for housebuilding in recent years so extremely difficult to judge.
16. Values for Rural Exception Sites would be around £10,000 per plot, akin to values on the mainland. However, sites for single market dwellings on their own would be significantly higher, depending on size and location of plot.

Affordable Housing

17. Registered Providers have some appetite to develop on the Isles of Scilly but sites would need to deliver market sale homes in tandem with affordable. A value of circa £10,000 per plot on a rural exception basis would be typical.
18. There is interest in delivering shared ownership but some caution around affordability as this would be a new product on the Isles of Scilly.
19. Maintenance and repairs will be considerably more expensive than on the mainland and management of homes is difficult.

Modular Housing

20. We also spoke to another island council about modular housing and to providers of such – no evidence that this was a cheaper option. Modular housing could meet other aims, e.g. sustainability or some (limited) portability.

Annex 2: Testing Assumptions at January 2018

Size of dwellings

Nationally Described Space Standards⁵³ are used – with same dwelling sizes for affordable and market housing

1 bed flat	1b/2p	50 sq m
2 bed terrace house	2b/4p	79 sq m
3 bed semi-detached house	3b/5p	93 sq m
4 bed detached	4b/7p	115 sq m

The above equates to M4(2) accessibility standard. For the M4(3) units 15% floor area is added to the above.

For all flats – an additional 10% is added to dwelling size to allow for circulation space and common parts.

Market Values.

These are notional values for new build dwellings. Based on analysis of recent sales⁵⁴ (which provide a £ per sq m for different unit types) and industry consultations.

	No sea view	With sea view
1 bed flat	£180,000	£230,000
2 bed flat	£240,000	£310,000
2 bed terrace house	£280,000	£350,000
3 bed semi-detached house	£320,000	£390,000
4 bed detached	£420,000	£490,000

For principal residence housing a 5% reduction on open market values is assumed.

Affordable Housing

Affordable rents

Based on LHA rates for Kernow BRMA⁵⁵

1 bed unit	£104 pw
2 bed unit	£132 pw
3 bed unit	£151 pw

£5 pw week deducted from above rents for a service charge

Other assumptions used for the modelling – these are inputted into the Development Appraisal Toolkit which assesses the value of affordable housing based on capitalised net rent

⁵³ <https://www.gov.uk/government/publications/technical-housing-standards-nationally-described-space-standard>

⁵⁴ Land Registry House Price Index - 5 years data for Scilly referenced to EPC data for unit sizes

⁵⁵ Affordable Rents are based on 80% of the market, capped at the relevant LHA rate

Management & maintenance costs - £2,000 per annum

Voids – 2%

Borrowing/capitalisation – 5%

For Shared Ownership

40% average initial share purchase

Rent on unbought share – 2.5%

Development costs

Build costs

Build costs based BCIS costs (5 year median values), for Cornwall. These are increased by 25% (base) and 40% (higher) for the testing.

Build costs - £s per sq m GIA

	Cornwall 'baseline' values 20/01/2018	+ 25%	+40%
Houses (assumed to be 2 storey)	£1,077	£1,346	£1,508
Flats (assumed to be 2 storey)	£1,248	£1,560	£1,747
Houses with + 15% externals		£1,548	£1,734
Flats with + 15% externals		£1,794	£2,009

15% is added to the above for 'external works' – footpaths, landscaping, access roads etc. Where affordable units are built to Building Regs Part M (3) (i) standards for wheelchair adaptability this will incur an additional cost of between £4,000 & £9,500 per dwelling based on DCLG cost review findings⁵⁶.

The above are 'average' costs and use of 'quality' materials e.g. granite will increase costs

Other development assumptions

Professional fees	10% of build costs
Finance	6%
Credit interest	2%
Marketing costs (for market housing)	3% of value
Contractor's return for affordable housing	6% of costs
Developer's return for market housing	20% of value
Legal fees etc	1.5%
Ground rent	Nil
SDLT – use HMRC rates	n/a unless land over £150K

Other costs

£2,500 per dwelling allowed for dealing with waste water

Otherwise assume all utilities can be provided within the build costs

S106 costs

Assume to be nil

Land value

⁵⁶ DCLG Housing Standards Review – EC Harris 2014

Assume developments to be modelled are equivalent to rural exception sites and therefore a plot cost of £10k will apply.

Build out rates

Based on experience elsewhere, assume 9 months build period and 6 months for sales and that max no of dwellings in a year would be 5 market and 5 affordable housing – for both site sizes.

Affordable Rent dwellings purchased by RP at end of build period.

Annex 3: Market Replacement Dwelling Required to Achieve a Viable Scheme

Key to tables:

AR – Affordable Rent

SO Shared Ownership

M – market dwelling

M-PR – market dwelling with a principal residence condition

1bf – 1 bed flat

2bh – 2 bed house

Replacement Dwellings required to make schemes viable @ base build costs

Case study	Base Case Description & number of dwellings	To make viable with like-for-like replacements		To make viable with 3 & 4 bed replacements	
		Number of market dwellings required	Viable mix	Number of market dwellings required	Viable mix
Case Study A: 4 unit scheme					
A	Affordable Rent: 2 X 1 bed flat 2 X 2 bed houses	3	1x2bh AR 2x1bf M 1x2bh M	2	1x2bf AR 1x2bh AR 1x3bh M 1x4bh M
A	Shared Ownership: 2 X 1 bed flat 2 X 2 bed houses	2	2x2bh SO 2x2bf M	1	1x2bf SO 2x2bh SO 1x3bh M
Case Study B: 10 unit scheme – first test using market replacements					
B	Affordable Rent: 4 X 1 bed flat 5 X 2 bed house 1 x 3 bed house	7	1x1bf AR 1x2bh AR 1x3bh AR 3x1bf M 4x2bh M	6	1x1bf AR 2x2bh AR 1x3bh AR 6x3bh M
B	Shared Ownership: 4 X 1 bed flat 5 X 2 bed house 1 x 3 bed house	2	1x1bf SO 5x2bh SO 1x3bh SO 3x1bf M	1	3x1bf SO 5x2bh SO 1x3bh SO 1 x 2bh M
Case study B: 10 unit scheme – second test using principal residence market replacements					
B	Affordable Rent: 4 X 1 bed flat 5 X 2 bed house 1 x 3 bed house	8	1x2bh AR 1x3bh AR 4x1bf M-PR 4x2bh M-PR	6	1x1bf AR 2x2bh AR 1x3bh AR 6x3bh M-PR
B	Shared Ownership: 4 X 1 bed flat 5 X 2 bed house 1 x 3 bed house	3	1x1bf SO 5x2bh SO 1x3bh SO 3x1bf M-PR	2	2x1bf SO 5x2bh SO 1x3bh SO 2x2bh M-PR

Replacement Dwellings required to make schemes viable @ higher build costs

Case study	Base Case Description & number of dwellings	To make viable with like-for-like replacements		To make viable with 3 & 4 bed replacements	
		Number of market dwellings required	Viable mix	Number of market dwellings required	Viable mix
Case Study A: 4 unit scheme					
A	Affordable Rent: 2 X 1 bed flat 2 X 2 bed houses	3	1x1bf AR 1x1bf M 2x2bh M	2	2x1bf AR 2x4bh M
A	Shared Ownership: 2 X 1 bed flat 2 X 2 bed houses	2	1x1bf SO 1x2bh SO 1x1bf M 1x2bh M	1	1x1bf SO 2x2bh SO 1x3bh M
Case Study B: 10 unit scheme – first test using market replacements					
B	Affordable Rent: 4 X 1 bed flat 5 X 2 bed house 1 x 3 bed house	8	1x2bh AR 1x3bh AR 3x1bf M 5x2bh M	6	1x1bf AR 2x2bh AR 1x3bh AR 3x3bh M 3x4bh M
B	Shared Ownership: 4 X 1 bed flat 5 X 2 bed house 1 x 3 bed house	3	2x1bf SO 4x2bh SO 1x3bh SO 3x2bh M	2	2x1bf SO 5x2bh SO 1x3bh SO 1 x 3bh M 1 x 4bh M
Case study B: 10 unit scheme – second test using principal residence market replacements					
B	Affordable Rent: 4 X 1 bed flat 5 X 2 bed house 1 x 3 bed house	8	1x2bh AR 1x3bh AR 2x1bf M-PR 3x2bh M-PR 3x3bh M-PR	7	2x2bh AR 1x3bh AR 5x3bh M-PR 2x4bh M-PR
B	Shared Ownership: 4 X 1 bed flat 5 X 2 bed house 1 x 3 bed house	5	2x1bf SO 2x2bh SO 1x3bh SO 2x1bf M-PR 3 x 2bh M-PR	2	6x2bh SO 2x3bh SO 2x3bh M-PR

Annex 4: Case Study Results

Case Study A

Case Study Ref	Scheme type	No of Dwgs	Site Area (ha)	Units AR	Units SO	Units - open market	Units - market primary residence	Mix details	£106	Residual Value (£) @ +25% build costs	Residual Value (£) @ +40% build costs
A1	AR	4	0.20	4				2 x 1bf AR 2 x 2 bh AR	2,500	-264,416	-324,730
A2	SO	4	0.20		4			2 x 1bf SO 2 x 2 bh SO	2,500	-17,077	-77,391
A3 (a)	AR base like-4-like replacements	4	0.20	1		3		1 x 2bh AR 2 x 1bf M 1 x 2bh M	2,500	17,971	-39,862
A3 (a) ii	AR base like-4-like replacements	4	0.20	1		3		1 x 1bf AR 1 x 1bf M 2 x 2bh M	2,500	not tested	15,212
A3 (b)	AR base 3-4bed replacements	4	0.20	2		2		1 x 2bf AR 1 x 2bh AR 1 x 3bh M 1 x 4bh M	2,500	35,906	-35,443
A3 (b) ii	AR base 3-4bed replacements	4	0.20	2		2		2 x 1bf AR 2 x 4bh M	2,500	not tested	7,089
A3 c)	AR base SO replacements	4	0.20		2	2		2 x 2bh SO 2 x 2bf M	2,500	4,927	-53,825
A3 c) i	AR base SO replacements	4	0.20		2	2		2 x 2bh SO 2 x 2bh M	2,500	not tested	37,045
A4 (a)	SO base like-4-like replacements	4	0.20		2	2		1 x 1bf SO 1 x 2bh SO 1 x 1bf M 1 x 2bh M	2,500	62,639	4,404
A4 (b)	SO base 3-4bed replacements	4	0.20		3	1		1 x 1bfSO 2 x 2bh SO 1 x 3bh M	2,500	69,163	4,538

Case Study B – showing unfettered open market replacement dwellings

Case Study Ref	Scheme type	No of Dwgs	Site Area (ha)	Units AR	Units SO	Units - open market	Units - market primary residence	Mix details	£106	Residual Value (£) @ +25% build costs	Residual Value (£) @ +40% build costs
B6	AR	10	0.50	10				4 x 1bf 5 x 2bh 1 x 3bh	2,500	-684,133	-841,361
B7	SO	10	0.50		10			5 x 1bf 5 x 3bh	2,500	-45,566	-196,718
B8 (a)	AR base like 4 like replacements	10	0.50	4		6		1 x 1bf AR 2 x 2bh AR 1 x 3bh AR 3 x 1bf Mkt 3 x 2bh Mkt	2,500	-72,390	-224,822
B8 (a) 2	AR base like 4 like replacements	10	0.50	3		7		1 x 1bf AR 1 x 2bh AR 1 x 3bh AR 3 x 1bf Mkt 4 x 2bh Mkt	2,500	56,781	-94,280
B8 (a) 3	AR base like 4 like replacements	10	0.50	2		8		1 x 2bh AR 1 x 3bh AR 3 x 1bf Mkt 5 x 2bh Mkt	2,500	not tested	24,990
B8 (b)	AR base 3- 4 bed replacement	10	0.50	5		5		2 x 1bf AR 2 x 2bh AR 1 x 3bh AR 5 x 3bh Mkt	2,500	-19,961	-192,786
B8 (c)	AR base 3- 4 bed replacement	10	0.50	4		6		1 x 1bf AR 2 x 2bh AR 1 x 3bh AR 6 x 3bh Mkt	2,500	107,124	-70,234
B8 (d)	AR base 3- 4 bed replacement	10	0.50	4		6		1 x 1bf AR 2 x 2bh AR 1 x 3bh AR 3 x 3bh Mkt 3 x 4bh Mkt	2,500	not tested	24,780
B9 (a)	SO base	10	0.50		10			4 x 1bf SO 5 x 2bh SO 1 x 3bh SO	2,500	-14,222	-171,449
B9 (a) 2	SO base like 4 like replacement	10	0.50		8	2		2 x 1bf SO 5 x 2bh SO 1 x 3bh SO 1 x 1bf Mkt 1 x 2bh Mkt	2,500	98,521	not shown
B9 (b)	SO base 3-4 bed replacement	10	0.50		9	1		3 x 1bf SO 5 x 2bh SO 1 x 3bh SO 1 x 2bh Mkt	2,500	108,382	not shown
B9 (c)	SO base 2 bed replacement	10	0.50		7	3		2 x 1bf SO 4 x 2bh SO 1 x 3bh SO 3 x 2bh Mkt	2,500	not tested	34,891
B9 (c)	SO base 3-4 bed replacement	10	0.50		8	2		2 x 1bf SO 5 x 2bh SO 1 x 3bh SO 1 x 3bh Mkt 1 x 4bh Mkt	2,500	not tested	24,197

Case study B – showing open market principal residence replacements

Case Study Ref	Scheme type	No of Dwgs	Site Area (ha)	Units AR	Units SO	Units - open market	Units - market primary residence	Mix details	£106	Residual Value (£) @ +25% build costs	Residual Value (£) @ +40% build costs
B10 (a)	Based on B8(a) - SPs = primary residence	10	0.50	4		6		1 x 1bf AR 2 x 2bh AR 1 x 3bh AR 3 x 1bf Mkt 3 x 2bh Mkt	2,500	-122,595	-275,136
B10 (a) 2	Based on B8(a) - SPs = primary residence	10	0.50	3		7		1 x 1bf AR 1 x 2bh AR 1 x 3bh AR 3 x 1bf Mkt 4 x 2bh Mkt	2,500	-3,550	-154,727
B10 (a) 3	Based on B8(a) - SPs = primary residence	10	0.50	2		8		1 x 2bh AR 1 x 3bh AR 4 x 1bf Mkt 4 x 2bh Mkt	2,500	63,175	-87,199
B10 (a) 4	Based on B8(a) - SPs = primary residence	10	0.50	2		8		1 x 2bh AR 1 x 3bh AR 2 x 1bf Mkt 3 x 2bh Mkt 3 x 3bh Mkt	2,500	not tested	988
B10 (b)	Based on B8(b) - SPs = primary residence	10	0.50	5		5		2 x 1bf AR 2 x 2bh AR 1 x 3bh AR 5 x 3bh Mkt	2,500	-78,095	-251,121
B10 (b) 2	Based on B8(b) - SPs = primary residence	10	0.50	3		7		1 x 1bf AR 1 x 2bh AR 1 x 3bh AR 1 x 1bf mkt 1 x 2bh mkt 5 x 3bh Mkt	2,500	107,468	-63,319
B10 (b) 3	Based on B8(b) - SPs = primary residence	10	0.50	3		7		2 x 2bh AR 1 x 3bh AR 5 x 3bh mkt 2 x 4bh Mkt	2,500	Not tested	26,767
B10 (c)	Based on B8(c) - SPs = primary residence	10	0.50	4		6		1 x 1bf AR 2 x 2bh AR 1 x 3bh AR 6 x 3bh Mkt	2,500	37,587	-140,011
B10 (c) 2	Based on B8(c) - SPs = primary residence	10	0.50	3		7		3 x 2bh AR 2 x 1bf Mkt 5 x 3bh Mkt	2,500	67,520	-100,607
B10 (c) 3	Based on B8(c) - SPs = primary residence	10	0.50	3		7		2 x 2bh AR 1x 3bh AR 5 x 3bh Mkt 2 x 4bh Mkt	2,500	Not tested	26,767
B11(a)	Based on B9(a) - SPs = primary residence	10	0.50		7	3		1 x 1bf SO 5 x 2bh SO 1 x 3bh SO 3 x 1bf Mkt	2,500	63,287	-90,953
B11 (a)2	Based on B9(a) - SPs = primary residence	10	0.50		5	5		2 x 1bf SO 2 x 2bh SO 1 x 3bh SO 2 x 1bf Mkt 3 x 2bh Mkt	2,500	not tested	-1,151
B11 (b)	Based on B9(b) - SPs = primary residence	10	0.50		8	2		2 x 1bf SO 5 x 2bh SO 1 x 3bh SO 2 x 2bh Mkt	2,500	117,128	-42,959
B11 (c)	Based on B9(b) - SPs = primary residence	10	0.50		8	2		6 x 2bh SO 2 x 3bh SO 2 x 3bh Mkt	2,500	Not tested	23,907

Sensitivity tests

Case Study Ref	Scheme type	No of Dwgs	Site Area (ha)	Units AR	Units SO	Units - open market	Units - market primary residence	Mix details	£106	Residual Value (£) @ +25% build costs	Residual Value (£) @ +40% build costs
A3 (a) - Seaview SPs	AR base like-4-like replacements	4	0.20	1		3		1 x 2bh AR 2 x 1bf M 1 x 2bh M	2,500	140,822	83,299
A3 (a) - Seaview SPs	AR base like-4-like replacements	4	0.20	2		2		1 x 1bf AR 1 x 2bh AR 1 x 1bf M 1 x 2bh M	2,500	35,768	-22,653
A3 (a) - Part M4 (3) unit	AR base like-4-like replacements	4	0.20	1		3		1 x 2bh AR PtM 2 x 1bf M 1 x 2bh M	2,500	-12,158	-72,060
B8 (a) Seaview SPs	AR base like-4-like replacements	10	0.50	4		6		1 x 1bf AR 2 x 2bh AR 1 x 3bh AR 3 x 1bf Mkt 3 x 2bh Mkt	2,500	188,315	37,030
B8 (a) ii Seaview SPs	AR base like-4-like replacements	10	0.50	6		4		3 x 1bf AR 2 x 2bh AR 1 x 3bh AR 1 x 1bf Mkt 3 x 2bh Mkt	2,500	-29,992	-183,603
B8(a) Part M4(3) units	AR base like-4-like replacements	10	0.50	4		6		1 x 1bf AR PtM 2 x 2bh AR 1 x 3bh AR 3 x 1bf Mkt 3 x 2bh Mkt	2,500	-96,862	-251,401
B8(a) Part M4(3) units & Seaview	AR base like-4-like replacements	10	0.50	4		6		1 x 1bf AR PtM 2 x 2bh AR 1 x 3bh AR 3 x 1bf Mkt 3 x 2bh Mkt	2,500	103,486	-55,221

Optimum Mixes

Case Study Ref	No of Dwgs	Site Area (ha)	Units AR	Units SO	Units - open market	Units - market primary residence	Mix details	£106	Residual Value (£) @ +25% build costs	Residual Value (£) @ +40% build costs
A	4	0.20	1	2		1	1 x 2bh AR 2 x 2bh SO 1 x 4bh M - PR	2,500	70,369	
A	4	0.20	1	2	1		1 x 2bh AR 2 x 2bh SO 1 x 4bh M	2,500		15,946
B	10	0.50	5	1	4		4 x 2bh AR 1 x 2bh SO 1x 3bh AR 2 x 3bh M 2 x 4bh M	2,500	11,099	
B	10	0.50	4	3		3	2 x 1 bf AR 2 x 2bh AR 3 x 2bh SO 1 x 3bh M-PR 2 x 4bh M-PR	2,500	50,340	
B	10	0.50	3	3	4		2 x 2bh AR 3 x 2bh SO 1x 3bh AR 1 x 3bh M 3 x 4bh M	2,500		44,913
B	10	0.50	3	2		5	2 x 2bh AR 2 x 2bh SO 1x 3bh AR 2 x 3bh M-PR 3 x 4bh M-PR	2,500		12,688