BNP PARIBAS REAL ESTATE | Real Estate for a changing world

Commuted Sum In Lieu Of On-Site Affordable Housing Formula Study

Prepared for

Southend-on-Sea Borough Council

October 2015

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Appendices

1 Introduction and Terms of Reference

BNP Paribas Real Estate has been commissioned by Southend-on-Sea Borough Council ('the Council') to provide advice on potential approaches to securing payments in lieu of on-site affordable housing.

We set out below the Council's brief in respect of the requirements of this commission:

- An exploration of the right approach for the authority to affordable housing (AH) commuted sum calculations when on-site provision is deemed unfeasible;

- In practical terms, if developers are not claiming viability issues and are happy to pay a commuted sum in lieu of the policy compliant number of AH units, then we need a robust, simple and transparent formula to apply. Whilst it is more accurate to assess each site individually based on a viability appraisal we feel it would be a bit unfair to require an appraisal if the proportion of AH is not being disputed as our policy allows for a commuted sum in lieu of on-site provision;

- Considering Core Strategy Policy CP8 and the fact that it allows for commuted sums to be sought on schemes of any size we would like a formula that could be applied above and below the 10 unit AH threshold;

- Provide 2/3 different commuted sum formula options to consider.

This report evaluates the current approach adopted by the Council in addition to common approaches to securing payments in lieu adopted by other authorities. This report considers the benefits and issues associated with each approach and their subsequent suitability to the Council given their local circumstances.

1.1 BNP Paribas Real Estate

BNP Paribas Real Estate is a leading firm of chartered surveyors, town planning and international property consultants. The practice offers an integrated service from nine offices in eight cities within the United Kingdom and 150 offices, across 30 countries in Europe, Middle East, India and the US, including 15 wholly owned and 15 alliances.

BNP Paribas Real Estate has a wide ranging client base, acting for international companies and individuals, banks and financial institutions, private companies, public sector corporations, government departments, local authorities and registered social landlords.

The full range of property services includes:

- Planning and development consultancy;
- Affordable housing consultancy;
- Valuation and real estate appraisal;
- Property investment;
- Agency and Brokerage;
- Property management;
- Building and project consultancy; and
- Corporate real estate consultancy.

This report has been prepared by James Purvis MRICS under the supervision of Anthony Lee MRICS MRTPI, RICS Registered Valuer.

The Affordable Housing Consultancy of BNP Paribas Real Estate advises landowners, developers, local authorities and registered social landlords ('RSLs') on the provision of affordable housing.

In 2007 we were appointed by the GLA to review its Development Control Toolkit Model (commonly referred to as the 'Three Dragons' model). This review included testing the validity of the Three Dragons' approach to appraising the value of residential and mixed use developments; reviewing the variables used in the model; and advising on areas that required amendment in the re-worked toolkit. We were appointed again in 2012 by the GLA to review the Three Dragons model and our recommendations were carried forward to the 2014 version of the Toolkit.

Anthony Lee is a member of the RICS 'Experts in Planning Service' panel, which was established in March 2009 to support the Planning Inspectorate on major casework and local development plan work submitted for independent examination. He has assisted the inspectors examining the economic viability of housing policies within the Core Strategies of Stockton Borough Council; Hinckley and Bosworth Council; and East North Hants District Council. He was also a member of the working group which drafted guidance for planning authorities on viability, which was published by the Local Housing Delivery Group in June 2012 as 'Viability Testing Local Plans: Advice to Planning Practitioners'.

In addition, we were retained by the Homes and Communities Agency ('HCA') to advise on better management of procurement of affordable housing through planning obligations.

The firm therefore has extensive experience of advising landowners, developers, local authorities and RPs on the value of affordable housing and economically and socially sustainable residential developments.

1.2 Report Structure

This report is structured as follows:

- **Section two** evaluates the Council's current approach to securing payments in addition to approaches adopted by other local authorities;
- **Section three** considers how these approaches might be adopted in the Lambeth context; and
- **Section four** sets out our conclusions and recommendations.

1.3 Disclaimer

This report contains several appraisals of hypothetical development scenarios. These appraisals do not constitute valuations in accordance with PS 1.6 of the RICS Valuation – Professional Standards (January 2014 Edition) (the 'Red Book'), the provisions of VPS 1 to VPS 4 are not of mandatory application and accordingly this report should not be relied upon as a Red Book valuation. This report is addressed to Southend-on-Sea Borough Council only and its contents should not be reproduced in part or in full without our prior consent.

2 Approaches to securing payments in lieu

2.1 Background and Policy Position

Under section 106 of the Town and Country Planning Act 1990 (S106), the council can, in appropriate circumstances seek a legal agreement as part of a planning permission for a development. The Local Planning Authority must ensure that a S106 obligation meets the relevant tests set out in the Community Infrastructure Levy Regulations 2010 (CIL).

It must be satisfied that the obligation is necessary to make the development is:

■ Acceptable in planning terms;
■ Directly related to the development and fairly and
■ Reasonably related in scale and kind.

Requirements may vary depending upon site specific conditions, but could include making a contribution to open space, affordable housing etc. This can either be physical provision on site or a commuted sum in lieu of on-site provision.

Government guidance on affordable housing commuted sums is set out in the National Planning Policy Framework ('NPPF'). The NPPF strongly recommends that affordable housing contributions be satisfied by building the homes on site, however, when there is robust justification, off-site provision in the firm of a commuted sum may be acceptable. Any financial contribution should be of 'broadly equivalent value'.

The Council recognises the practical difficulties of securing affordable housing on-site on smaller schemes and therefore accepts that a payment in lieu might be preferable in many cases. The ability of schemes to make financial contributions in-lieu inevitably varies between sites and areas. It is therefore unlikely to be possible to arrive at a common formula that can be applied to all sites and there may therefore be a need to assess the level of financial contributions on a site by site basis.

Whilst it is recognised to be more accurate to assess each site individually based on a viability appraisal. The Council is of the opinion that a full appraisal would be onerous in the event that the proportion of AH is not being disputed as the Council's policies allow for a commuted sum payment in lieu of on-site provision. In practical terms, if developers are not claiming viability issues and are happy to pay a commuted sum in lieu of the policy compliant number of affordable housing units, the Council require a suitable formula.

The challenge for the Council is therefore to develop an approach that can be relatively simple and time efficient way of determining an appropriate payment in lieu of on-site affordable housing.

2.2 The Council's current approach

In this section we consider the current approach adopted by the Council which is has also been adopted by Mole Valley.

The Council through their SPD (2007) adopt formula based contribution for schemes of between 1 and 9 units. The Council has indicated that it may also use the formula in exceptional circumstances when sites of 10 or more units are to provide a payment in lieu. The current formula has also been amended to

reflect the National Space Standards which outlines required space standards for affordable housing units.

The formula is summarised as follows:

- The market value of each residential unit in the development is determined (by reference to comparable evidence);

- The value per square metre is calculated by dividing the total value by the Unit's floor area;

- The market value (rate per sq/m) of a market housing unit is applied to an equivalent sized affordable housing unit. If for example, a four bed unit is 173 square metres and an equivalent affordable 4 bed unit is 100 square metres, the market value on a per square metre basis would be applied to a 100 square metre unit;

- A 'residual value' or 'plot value' is determined by taking 30% of the 'market value' of an affordable-sized unit and adding 10% for acquisition fees. (30% is a broad 'rule of thumb' for land value as a percentage of Gross Development Value (GDV));

- The Council's policy requires 20% affordable, so the payment in lieu is based on 20% of the resulting 'plot value' figure applied across the scheme.

We set out below an example of how this formula works in practice.

Example of Formula

1 x 173m² (GIA) 4-bed house with reference to comparable evidence has a market value of £495,000

Guide size for a suitable affordable home – 130 m² (GIA).

Step 1: Open market value (OMV) of a relevant or comparative property divided by the size of the property and multiplied by the appropriate affordable housing size that would have been required on site.

£495,000 / 173 m² = £2,861 per m²

£2,861 per m² x 100m² = £371,930

Step 2: Multiply the OMV (completed sale value, or GDV) by the residual land value percentage (30%)

£371,930 x 30% = £111,579 (base land / plot value)

Step 3: Add 10% to the step 2 result to reflect site acquisition costs (this gives the per unit sum for that property type)

£111,579 + 10% = £122,737

Step 4: Apply to the relevant number of units and affordable housing policy requirement (i.e. 20%)

£122,737 x 20% = Payment in Lieu of £24,547

We set out as appendix 1 a further worked example of this approach.

2.2.1 Evaluation of the Council's current approach

This is a fairly simple approach and lends itself well to an area with fairly homogenous developments. Key issues for the Council to consider if they were to continue to adopt this approach are set out in the following paragraphs.

Issue 1: Step 2 involves multiplying the GDV of the unit (adjusted for size) by 30% to arrive at a 'land value' or 'plot value'. An addition of 10% is then made for land acquisition costs.

The difficulty with this approach is that the 30% used to arrive at a land or plot value is a broad rule of thumb and may not be at all reflective of individual site circumstances. Given the range of locations within the borough it is unlikely that it would be possible to arrive at a percentage to reflect land value that would reflect all developments, even at a very high level. However, we have been informed by the Council that their recent experience has found this percentage to be reasonably accurate.

We would also question whether the addition of 10% to the land value to cover site acquisition costs is an appropriate method of calculation. It should be noted that if acquisition costs were reduced this would reduce the potential payment in lieu. However, if the Council has evidence to support the acquisition costs this would mitigate this issue.

Issue 2: If a plot size for a typical home in the area would allow for a home of 173 square metres (as per the example) but the calculations are based on a property of only 100 square metres, it is questionable as to whether the commuted sum will be sufficiently large to purchase land on an alternative site.

We consider that the developer should be in no better position in providing a payment in lieu of actually providing the unit on site as this would incentivise the developer to seek off-site payments.

Issue 3: The most significant issue for the application of this approach is that the model assumes that affordable housing is always self-financing. The model generates the ability for the Council to provide clean and serviced land to RPs, but the costs of building might exceed the capitalised rental income.

Issue 4: We would question whether it is sufficiently flexible insofar that the approach complies with the requirements of CIL Regulations 122. Although the approach is formulaic, there is clearly scope for adjustment in Step 3. If a particular scheme could not viably meet a payment based on 20% affordable housing, the percentage could be adjusted downwards. This would need to be supported by a viability appraisal. This viability appraisal would need to be undertaken as a separate exercise.

2.3 Alternative approaches adopted by other Councils

In this section, we consider the alternative approaches adopted by other Councils.

2.3.1 Basingstoke & Deane Borough Council

Basingstoke's methodology is set out in appendix 2 of the 'Draft Planning Obligations SPD' published in November 2014. We set out below the following extract from the document

"Where the council agrees to accept a commuted sum towards affordable housing instead of either on-site or off-site affordable housing provision, the value of that financial contribution should be equivalent to the cost of providing 40% affordable housing on-site (i.e. the financial contribution will be the value of

private subsidy that the applicant, land-owner or developer would have been required to make, had the affordable housing been provided on-site).

The method that will be used to calculate the level of the commuted sum for affordable housing requires is very closely related to the method used in the main Community Infrastructure Levy evidence base work. It is a residual value approach sharing a viability methodology and development appraisal assumptions and is reliant on the same market evidence base.

The following inputs will be used to calculate the cost of the financial contributions towards off-site affordable housing provision:

- *Development scenarios (number of dwellings, dwelling mix, site area, site coverage and density);*
- *Level of affordable housing;*
- *Affordable housing rents and shared ownership costs;*
- *Market values;*
- *Build costs;*
- *Development costs (including professional fees, finance costs, marketing, developers return and contractors return);*
- *S106 costs;*
- *Appropriate CIL charge; and*
- *Cost to registered provider of acquiring affordable housing from developer.*

The values and costs used will reflect those used in the Basingstoke and Deane Viability Study (November 2013) and the Manydown and Golf Course Viability Report (July 2014). They will be updated over time.

The output will be expressed in terms of a cost per square metre. This cost will then be multiplied by the total gross internal floor area of all net additional dwellings to establish the total cost of the financial contribution towards affordable housing."

2.3.2 Evaluation of Basingstoke's approach

This approach relies upon the Council's 2013 viability study and 2014 viability studies for 2 large strategic sites. From a high level perspective, this approach is simple and straight forward for the Council and/or developer to calculate. It provides a degree of transparency insofar that the Council and developer have full knowledge of the inputs that will be used to calculate and as a result there is likely to be minimal disagreement on the inputs. However, there are flaws with this approach, which we set out below.

If this approach was to be considered for future use by the Council the viability studies that inform the Council's CIL charging schedule may be used as a basis for calculating such payments in lieu.

Issue 1: The approach relies upon inputs from historic viability studies and as a result it is unlikely that the appraisal inputs (i.e. costs and values) will be valid/relevant due to changes in the market. For example, the use of this data will not capture movement's in house prices or cost inflation from the date of the viability studies to the date of the calculation of the payment in lieu. One method through which to address this flaw would be to update values on a regular basis or more simply to increase/decrease housing values in line with the land registry house price index or tender price inflation set out on the BCIS website.

The affordable housing values would also be set as a specific rate per sq/ft dependent upon tenure type the values would be unresponsive to changes in Government policy.

Issue 2: The viability studies provide a high level perspective of viability and appraisal inputs across a wide geographical area. This approach is unable to capture the value or cost implications associated with specific sites and emerging development proposals.

We consider that this approach would not suit Southend due to the diverse range of values that are currently being achieved within the Borough. For example, if apartments in Leigh-on-Sea were banded there would be complications with ascertaining appropriate values as values are extremely sensitive to location, height, views etc. As a result, developers could potentially gain benefit from paying a commuted sum that is artificially low in comparison to the market values they would be achieving for the units.

Notwithstanding the above issues, the approach fails to provide a means to calculate a payment in lieu on the basis of present day inputs that reflect the subject site.

2.3.3 London Borough of Richmond-Upon-Thames

This approach attempts to directly tackle the question of compliance with Regulation 122 by adopting an 'opportunity cost' approach (i.e. calculating the cost to the developer, in terms of value that would have been forgone had the affordable housing been provided on site). Under this approach, the developer is no better (and no worse off) than they would have been had the affordable housing been provided on site.

The formula is calculated by using a simple Microsoft Excel spreadsheet. This calculates the benefit accruing to the developer of providing units that would otherwise have been affordable as private housing.

The commuted sum is calculated as follows:

A = Market Value of unit LESS profit (profit does not apply to affordable housing);

B = Value of affordable housing (capitalised net rent for rented units plus capitalised rent and equity sales for shared ownership units);

A – B = payment in lieu (equivalent to the 'opportunity cost' or value that would have been lost, had the affordable units been provided on site.

An example of the calculation is provided at Appendix 2.

2.3.4 Evaluation

The Richmond approach is superior to the Council's current adopted approach, as the calculation reflects individual site circumstances and does not rely upon the broad rule of thumb 30% of GDV calculation. It provides a reasonably accurate reflection of the value uplift enjoyed by the developer resulting from the replacement of on-site affordable units as private.

The model addresses compliance with CIL regulation 122 by enabling the user to select the affordable housing percentage upon which the payment in lieu is to be calculated. If the developer has demonstrated that the scheme is only viable with a reduced quantum of affordable housing (or financial equivalent of), then the payment in lieu can be based on that agreed quantum.

The spreadsheet model is easy to replicate and amend so that it is suitable for use in Southend. However, there are several issues with the spreadsheet model that would need to be addressed if it were to be used by the Council in order to meet their requirements. These issues are outlined below. None of the issues

identified are sufficiently significant to warrant abandoning the approach altogether.

Issue 1: The information required to complete the model is somewhat onerous and could be simplified. In particular, determining the price a RP might pay for the units could be simplified by seeking a firm price. This would then reduce the need to determine weekly rent levels, management costs and yields. This would also help to address some of the other issues below.

Issue 2: The current calculations make no allowances for voids and bad debts, which has the effect of slightly over-valuing the affordable housing value. This could be addressed through an addition to the management costs, although it should ideally be entered separately to aid comparison of inputs.

Issue 3: RPs typically pay the developer the agreed purchase price during the build period. Having affordable housing on-site therefore provides a cash flow benefit, despite the reduction in value compared to private housing. However, this is unlikely to be so significant that the calculated sums are inaccurate. Arguably, there is potentially an uplift in value in the private housing values which is also not accounted for in the model, so the two factors may well balance each other out.

Issue 4: The model calculates the capital value of the affordable housing, but makes no account for the RPs deduction for on-costs (i.e. acquisition costs and employer's agent). On-costs are typically between 5% to 9% of value. The lack of a deduction for on-costs incorrectly enhances the affordable housing value, which in turn reduces the 'gap' between private and affordable values (and reduces the commuted sum).

Issue 5: Although full profit is deducted from private housing, there is no corresponding profit deducted from the affordable housing. It is widely recognised that developers typically apply a profit to both tenures, although at a considerably reduced rate to the affordable housing (circa 6%, compared to 20% on private).

Issue 6: A decision needs to be made as to the tenure assumptions on the 'rented' element used entered into the model. Clearly the decision as to which tenure would have been provided on-site has a profound impact on the commuted sum. For example, if the capital value of the affordable housing units is based on social rented tenure, the value will be considerably lower than would be the case if they were provided as affordable rent. The lower the affordable housing value, the higher the payment in lieu.

2.3.5 London Borough of Bromley

Bromley's approach is set out in the 'Addendum (June 2013) to the Council's Adopted Supplementary Planning Document Planning Obligations (2010)

Bromley's formula for calculating financial contributions in lieu of on-site affordable housing provision is as follows:

"Difference between the open market value of the equivalent on-site affordable housing units and the maximum price that a Registered Provider (RP) would reasonably pay for those units, assuming nil grant (with limited adjustment reflecting potential cost variation for provision of units for private sale rather than affordable housing e.g. marketing costs)."

In summary, the approach adopted by Bromley is a simplified version of the Richmond approach.

2.3.6   Evaluation of Bromley's approach

Whilst the approach is simplistic it relies upon the maximum price that a RP would be prepared to pay for the affordable housing units. However, in circumstances where a scheme is only required to provide a small number of units RPs do not tend to be interested in taking on a small number of units in a scheme due to management issues. As a result, the Council would need to have access to values for affordable units that can be applied to the formula to reflect a policy compliant tenure mix. In addition, the formula does not allow the ability to deduct profit.

2.3.7   London Borough of Wandsworth

Wandsworth Council's approach is essentially the same as Richmond's in that the Council indicates that where payments in lieu are to be agreed "*there can be no financial advantage to the developer in not delivering the affordable housing onsite*".

However, in contrast to Richmond, Wandsworth do not provide a specific formula to calculate the payment in lieu. Wandsworth's Planning Obligations SPD indicates that the Council will seek two appraisals from the developer. The first is to assume that the scheme incorporates the required percentage of affordable housing. The second assumes that the scheme is 100% private.

The payment in lieu is determined by deducting the residual land value generated by the second appraisal from the residual land value generated by the first.

As a principle for calculating a payment in lieu, the approach is identical to the approach adopted by Richmond. The only material difference between the two approaches is how the payment in lieu is calculated. The Wandsworth approach is arguably more onerous, as the developer is required to complete two appraisals (although in reality, the additional work required to turn an appraisal which includes some affordable housing into a 100% private housing scheme is relatively limited).

Completing two full appraisals also offers the advantage of addressing most of the modelling issues raised in relation to the Richmond model. The main advantage of the Wandsworth approach is that it can be used for dual purposes of (a) determining the overall level of affordable housing – if a policy compliant level is considered unviable and (b) determining the amount of a payment in lieu.

In terms of applying this approach in Southend, there may be instances where a subsequent appraisal of a scheme where affordable housing is not being contested may reveal that the scheme on a current day basis may be unviable and unable to support a payment in lieu.

Viability has been an issue in Southend in recent years and as a result this approach when applied specifically to Southend may result in a reduction in payments for off-site affordable housing.

2.4   Comparing the outcome of the approaches

We have tested a hypothetical 10 unit development to the approaches set out above (excluding Basingstoke) to provide an indication of the likely levels of payment in lieu that would be generated. For simplicity, we have assumed that all units in the scheme are two bed flats. We have also reflected a policy

compliant level of affordable housing of 20% assuming a tenure mix split 70/30 between affordable rent and intermediate units.

Southend

The current Southend approach generates a payment in lieu of £107,784. The calculations are attached as Appendix 1.

Basingstoke & Deane Borough Council

We have not modelled this scenario due to the evidence base that informs the approach.

London Borough of Richmond-Upon-Thames

The Richmond approach generates a payment in lieu of £144,502. The calculations are attached as Appendix 2. The higher payment in lieu in comparison to the current Southend approach reflects the cross-subsidy required from the private housing to the affordable housing. In contrast, the Southend approach assumes that the affordable housing is cost neutral (i.e. the price payable by the RP equals the development costs).

London Borough of Wandsworth

The Wandsworth approach generates a payment in lieu of £96,586.

London Borough of Bromley

We modelled this scenario assuming a blended capital value for the affordable units of £1,500 per sq/m. The payment in lieu generated is £129,500 and we attach a copy of this calculation as appendix 3.

3 Conclusion

In our view, payment in lieu structures should be tested against the three criteria, as follows:

- That the structure satisfies the tests contained within CIL Regulation 122;
- Ease of application to small schemes; and
- Provides a robust approach and is capable of reflecting the Council's policies and specific market conditions.

Basingstoke's approach is the least suitable approach and does not meet the criteria as the information base to be used for the calculation, although transparent, is unable to respond to market conditions or site specific factors that influence cost and value.

The Council's current approach is also unable to fully meet these three tests. Although it is a simple approach to apply, it is reliant on a percentage of GDV to arrive at a plot value. Whilst this approach could serve to distort the true value of the site, the Council have advised us that in their experience this method has been reasonably accurate.

We have previously discussed with the Council an approach that determines varying land values which would adopt different land values to reflect the three areas outlined in the Council's CIL Charging Schedule. However, there would be considerable difficulty in arriving at an appropriate method of adopting generic land values assessed for generic typologies and applying them to site specific scenarios. Furthermore, this approach would not allow for the payment in lieu to reflect movements in values of residential dwellings.

One positive of the current adopted methodology is that the payment in lieu will always be a function of current day sales as at the date of assessment and as a result as sales values increase the Council can capture higher payments in lieu.

The Richmond approach is based on the principle that replacing on site affordable housing provision with a payment in lieu should be financially neutral for the developer. In other words, the payment in lieu option should leave the developer no better, but no worse off. Consequently, the option meets the test of reasonableness in CIL Regulation 122; the approach is not punitive when considered alongside the Council's policies.

In terms of practical application, Bromley's approach is simple (comparing the value 100% market value of the units against what a RP is prepared to pay), but requires the developer to complete this exercise. However, there are potential issues for the Council to determine the value of the affordable units.

In summary, the Wandsworth approach is the most reliable and transparent way of ascertaining an appropriate payment in lieu formula in which two appraisals are modelled with 100% market housing and one with policy compliant affordable housing. The payment in lieu would therefore be the sum which is the difference between the land values.

However, we note from the brief that the Council feel it would be onerous to require a full appraisal from a developer if the level of affordable housing was not being disputed as the Council's policy allows for a commuted sum in lieu of on-site provision. We have also set out that if this approach was adopted it may serve to highlight that such schemes are unviable on a current day basis if a negative land value is generated and therefore a payment in lieu could not be justified.

In summary, none of the approaches set out above sufficiently meet all of the Council's objectives and therefore the Council will need to accept a compromise position. In doing so, the Council will need to consider all of the pros and cons of each approach and choose the approach they consider will best fit their prioritised objectives

We highlight however that the Council's current adopted approach allows for a simple, transparent and quick calculation of a payment in lieu which is one of the Council's objectives in avoiding full viability assessments on each occasion.

The fact there are a wide range of approaches adopted by a number of Council's indicates that there is not a 'one size fits all' approach to ascertaining an appropriate formula that can tick every Council's requirements.

We would highlight that if the Council were to adopt an alternative approach it is likely that any approach would be subject to scrutiny and challenge from developers. We understand that the Richmond approach has in the past attracted opposition from developers and that there have been appeals in respect of the payment in lieu. However, Richmond's policy is subject to viability and we understand that appeals have focused upon agreeing the actual viability position of the scheme.

Appendix 1 - Southend-on-Sea Commuted Sum Formula

For each property type:

Step 1: Market value (MV) of the relevant or comparative market property divided by the size of that property and multiplied by the affordable housing property size equivalent (to assess the market value of a suitably sized affordable home).

Step 2: Multiply by the residual land value percentage (30%) – to get to the base plot value for that home.

Step 3: Add 10% to the step 2 figure, to reflect site acquisition costs (this gives the per unit sum)

Then to get to the total contribution:

Step 4: Apply the resulting per unit sum(s) to the relevant site number and proportion (i.e. Step 3 per unit sum x number of dwellings in scheme x 20%).

Calculation

Step 1: Value of each property = £175,000

Size of each unit (private) 75 sqm = £2,333 per sqm

Size of equivalent affordable housing unit (70 sqm) = £163,310

Step 2: £163,310 x 30% = £48,993

Step 3: £48,993 + 10% = £53,892

Step 4: 10 units @ £53,892 each x 20% = £107,784

Appendix 2 - Richmond-upon-Thames Commuted Sum Formula

LONDON BOROUGH OF RICHMOND UPON THAMES
AFFORDABLE HOUSING SPD - ANNEXE A - COMMUTED SUM CALCULATION

Site Name: Example	Date		Notes
Number of Units on proposed development	10	No.	
Level of Affordable Housing required	20%	Per DMH 06	
Number of Affordable Units required	2.00	No.	See SPD Para 2.8.3
Percentage Affordable Rented Units required	70%		
Number of Affordable Rented Units required	1.40	No.	
Percentage Intermediate required	30%		
Number of Intermediate units required	0.60	No.	

Less on Site provision

Affordable Rented Units provided on site	0	No.
Net number of units of Affordable Rented off-site	1.40	No.
Intermediate Units provided on site	0	No.
Net number of Intermediate units off-site	0.60	No.

Off-Site Commuted Sum calculation

Affordable Rented

Unit type	Off Site Provision	OMV £	Profit 0.00%	Net Total Cost	Rent per week	Mgt Charge 25.00%	Yield 6.00%	Capitalised Rent	Commuted Sum
1 Bed Flat			0	0	0	0	6.00%	0	0
2 Bed Flat	1.40	175,000	0	175,000	150	1,950	6.00%	97,500	108,500
3 Bed Flat			0	0	0	0	6.00%	0	0
2 Bed Hse			0	0	0	0	6.00%	0	0
3 Bed Hse			0	0	0	0	6.00%	0	0
4 Bed Hse			0	0	0	0	6.00%	0	0
5 Bed Hse			0	0	0	0	6.00%	0	0
Total	1.4						Total		108,500

Intermediate - Shared Ownership

Unit type	Off Site Provision	OMV £	Profit 0.00%	Net Total Cost	Equity Rent 2.75%	Mgt Charge 6.50%	Yield 6.00%	Capitalised Rent	1st Tranche 40.00%	Commuted Sum
1 Bed Flat			0	0	0	0	6.00%	0	0	0
2 Bed Flat			0	0	0	0	6.00%	0	0	0
3 Bed Flat	0.60	175,000	0	175,000	2,888	188	6.00%	44,997	70,000	36,002
2 Bed Hse			0	0	0	0	6.00%	0	0	0
3 Bed Hse			0	0	0	0	6.00%	0	0	0
4 Bed Hse			0	0	0	0	6.00%	0	0	0
5 Bed Hse			0	0	0	0	6.00%	0	0	0
Total	0.8									36,002

Total Units	2.00		Total Commuted Sum	144,502

Appendix 3 - Bromley's Commuted Sum Formula

Bromley's formula for calculating financial contributions in lieu of on-site affordable housing provision is as follows:

"Difference between the open market value of the equivalent on-site affordable housing units and the maximum price that a Registered Provider (RP) would reasonably pay for those units, assuming nil grant (with limited adjustment reflecting potential cost variation for provision of units for private sale rather than affordable housing e.g. marketing costs)."

Calculation

Step 1 – Market Value of Units

Market Value of 2 bed units (75 sq/m) is £175,000 (£2,333 per sq/m)

10 units x £175,000 each = £1,750,000

Less 3% for sales and marketing fees = £1,697,500

Step 2 – Scheme with 20% Affordable Housing

Affordable Values

Policy compliant affordable housing is 20%. Affordable housing on a 10 unit scheme would be 2 units.

2 x 2 bed units = floor area of 140 sq/m

140 sq m x value of units of £1,500 per sq/m = £210,000

Market Housing Values

8 units x £175,000 each = £1,400,000

Less 3% for sales and marketing fees = £1,358,000

Value of scheme with 20% affordable Housing = £1,568,000

Step 3 -

Deduct scheme with affordable from scheme with 100% market housing

£1,697,500 - £1,568,000 = £129,500 payment in lieu

Appendix 4 - Wandsworths Approach

Appraisal Model assuming 100% Market Housing

APPRAISAL SUMMARY

Wandsworth - Payment in Lieu example
100% Market Housing Model

Summary Appraisal for Merged Phases 1 2

Currency in £

REVENUE

Sales Valuation	Units	m²	Rate m²	Unit Price	Gross Sales
2 Bed Flats	10	750.00	2,333.00	174,975	1,749,750

Rental Area Summary	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV	
Ground Rents	10	200	2,000	2,000	
Totals	10		2,000	2,000	

Investment Valuation
Ground Rents

	Units		Rate		
Current Rent	2,000	YP @	5.5000%	18.1818	36,364
					36,364

GROSS DEVELOPMENT VALUE				1,786,114
Purchaser's Costs		5.80%	(2,109)	
				(2,109)

NET DEVELOPMENT VALUE	1,784,005
NET REALISATION	1,784,005

OUTLAY

ACQUISITION COSTS

			Cost	
Residualised Price			154,644	
Stamp Duty		3.00%	4,639	
Agent Fee		1.00%	1,546	
Legal Fee		0.80%	1,237	
				162,067

CONSTRUCTION COSTS

Construction	m²	Rate m²	Cost	
2 Bed Flats	882.35 m²	1,150.00 pm²	1,014,706	
Contingency		5.00%	50,735	
CIL			26,471	
				1,091,912

PROFESSIONAL FEES

Architect	6.00%	60,882	
			60,882

MARKETING & LETTING

Marketing	1.50%	26,246	
			26,246

DISPOSAL FEES

Sales Agent Fee	1.50%	26,760	
Sales Legal Fee	0.50%	8,920	
			35,680

FINANCE
Debit Rate 7.000% Credit Rate 0.000% (Nominal)

Land	13,673	
Construction	36,322	
Total Finance Cost		49,994

TOTAL COSTS	1,426,782

PROFIT	357,223

Performance Measures

Profit on Cost%	25.04%
Profit on GDV%	20.00%
Profit on NDV%	20.02%
Development Yield% (on Rent)	0.14%
Equivalent Yield% (Nominal)	5.50%
Equivalent Yield% (True)	5.69%

Appraisal Model with 2 affordable housing units

Wandsworth - Payment in Lieu example
Affordable Housing Model

Summary Appraisal for Merged Phases 1 2

Currency in £

REVENUE

Sales Valuation	Units	m²	Rate m²	Unit Price	Gross Sales
2 Bed Flats Affordable	2	150.00	1,500.00	112,500	225,000
2 Bed Flats	8	600.00	2,333.00	174,975	1,399,800
Totals	10	750.00			1,624,800

Rental Area Summary	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground Rents	2	200	400	400

Investment Valuation
Ground Rents

Current Rent	400	YP @	5.5000%	18.1818	7,273

GROSS DEVELOPMENT VALUE				1,632,073
Purchaser's Costs		5.80%	(422)	
				(422)

NET DEVELOPMENT VALUE   1,631,651

NET REALISATION   1,631,651

OUTLAY

ACQUISITION COSTS

Residualised Price		58,118	
Stamp Duty	3.00%	3,146	
Agent Fee	1.00%	1,049	
Legal Fee	0.80%	839	
			63,152

CONSTRUCTION COSTS

Construction	m²	Rate m²	Cost	
2 Bed Flats Affordable	176.47 m²	1,150.00 pm²	202,941	
2 Bed Flats	705.88 m²	1,150.00 pm²	811,765	
Totals	882.35 m²		1,014,706	1,014,706
Contingency		5.00%	50,735	
CIL			26,471	
				77,206

PROFESSIONAL FEES

Architect	6.00%	60,882	
			60,882

MARKETING & LETTING

Marketing	1.50%	20,997	
			20,997

DISPOSAL FEES

Sales Agent Fee	1.50%	21,100	
Sales Legal Fee	0.50%	8,158	
			29,258

FINANCE
Debit Rate 7.000% Credit Rate 0.000% (Nominal)

Total Finance Cost			33,245

TOTAL COSTS   1,299,446

PROFIT   332,205

Performance Measures

Profit on Cost%	25.57%
Profit on GDV%	20.35%
Profit on NDV%	20.36%
Development Yield% (on Rent)	0.03%
Equivalent Yield% (Nominal)	5.50%

Payment in lieu calculation =

Residual Land Value of 100% Market Housing scheme = £154,644

Less

Residual Land Value of scheme with 20% affordable housing = £58,118

= Payment in Lieu of £96,256