

Replacement Local Development Plan 2018-2033

Background Paper

BP68: Affordable housing led sites



Deposit Plan

May 2024

Mae'r ddogfen hon ar gael yn Gymraeg hefyd.

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Affordable-led development in Conwy County Borough Council

1 Introduction

Conwy County Borough Council are currently in the process of reviewing the Local Development Plan. To support the new Plan it is important to have an up-to-date evidence base. To this end, a full viability report has been prepared (see background paper 10), which will be submitted for examination.

To supplement the evidence base, and to meet housing needs, the Welsh Government is placing an emphasis on the delivery of Affordable-led sites.

A letter from Julie James MS, Cabinet Secretary for Housing, Local Government and Planning of 8th July 2019 states:

'When reviewing LDPs local planning authorities must make provision for affordable housing led sites. Such sites will include at least 50% affordable housing, which is defined as social rented housing provided by local authorities and registered landlords, and intermediate housing where prices or rents are above those of social rent but below market levels and there are secure arrangements to recycle receipts to use for future affordable housing where full ownership is achieved. In the first instance affordable housing led housing sites should make use of public land. Where public land is not available, privately owned land may be identified. Sites should not be inferior in any way to sites which are being promoted for market housing.'

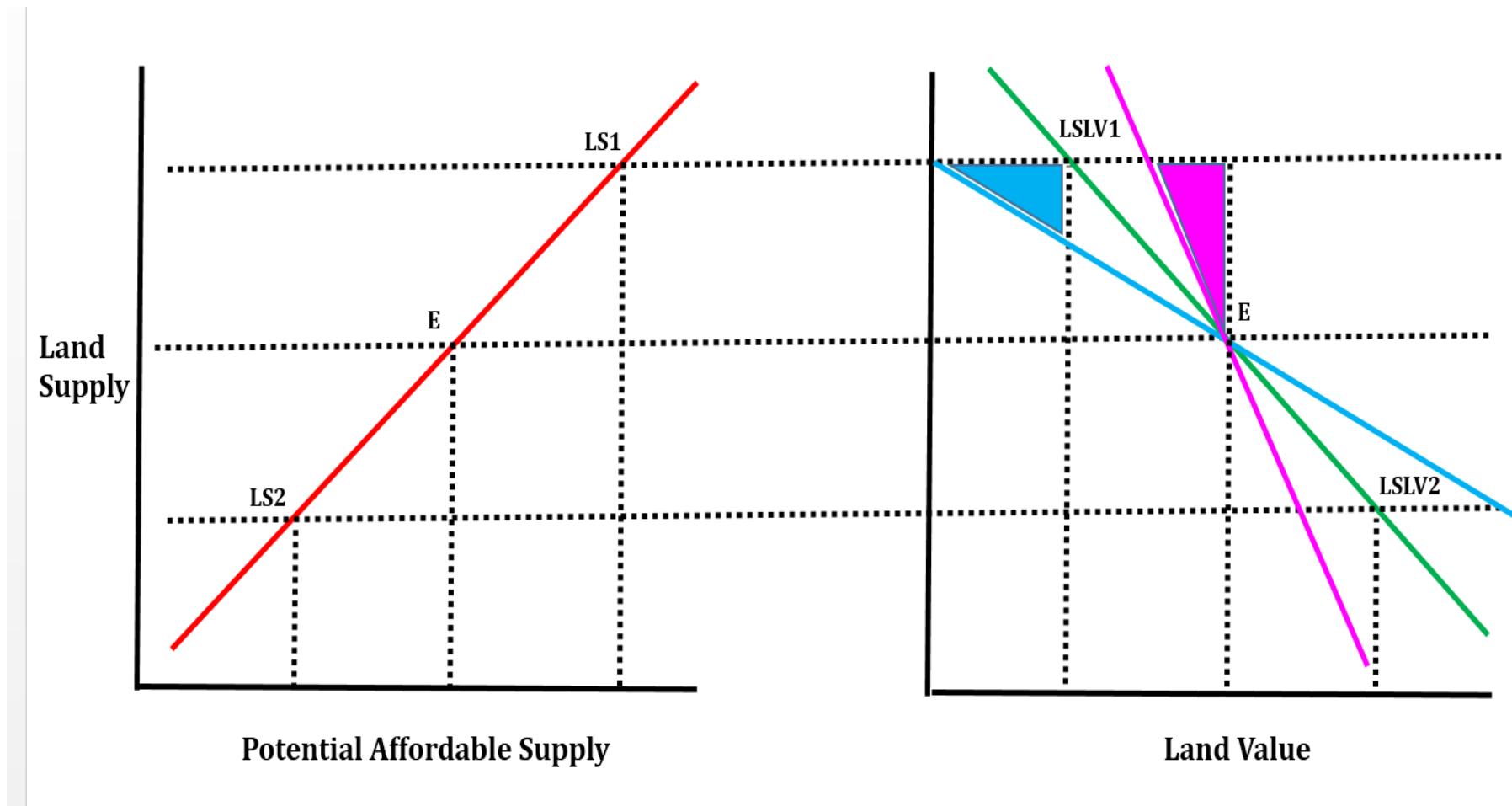
This study looks at the potential for Affordable-led sites. It looks at a number of issues which may help answer the central question. It looks initially at the wider relationship between planning, land supply and Affordable Housing delivery; it looks at land value benchmarks (and whether these can be 'affordable'); it looks at the scope for the housing market to deliver Affordable-led sites; it looks at the potential for enhancing Affordable Housing supply via the Call for Sites process; it looks at the current structures and operation of Registered Social Landlords (RSLs) in delivering Affordable-led schemes and finally it looks at the potential for grant to enhance delivery, and how it might most effectively be issued.

2 Land supply and Affordable Housing

It is important to consider the wider relationships between land supply and Affordable Housing. These will hold across a range of housing markets.

The diagram shows two main relationships. First the relationship between land supply and potential Affordable Housing Supply. Second, it shows the relationship between land supply and land value.

Figure 1 Relationships between land supply and potential affordable housing supply, and between land supply and land value



Source: Dr A Golland

The two main economic relationships are posited as follows. It is assumed that (left hand chart with red line) as land supply increases, the potential to deliver Affordable Housing increases. As we increase from E (Equilibrium) to LS (Land Supply) 1 we get more housing (and Affordable Housing) and when we decrease supply to LS2 we get less housing. This is logical on the basis that the more land that comes into the system, the greater the potential to build houses.

The right hand chart (green line) assumes that as land supply increases from E to LSLV2, land value falls; following this assumption, where supply decreases to LSLV 1, we get an increase in land value. This is because, in line with an increase in the quantity of a product, the price falls as a position is reached where there is a surplus.

Taking the two charts together an increase in land supply leads to a potential increase in Affordable Housing supply whilst coinciding with a decrease in land values. In principle, a decrease in land values is a problem in delivering Affordable Housing as there is less in the land from which to require community benefits. This is a dilemma for Housing and Planning officers since allocating more land could in principle reduce Section 106 contributions (including Affordable Housing and other contributions). The question is by how much)?

Role of the market and planning

The reduction in land value as a result of increasing land supply depends on the nature of the land market, and where the land market is, in the housing market cycle.

Where the market is elastic, and land prices respond elastically to changes in land supply through the planning system then reductions in land price might be expected where the system increases supply. This is depicted in the blue triangle on the right hand chart where relatively small increases in land supply lead to relatively large reductions in land value – a much more flat line relationship.

Where the market is more inelastic, at a given level of Section 106 requirement, land values will hold up much better in the face of increased land supply. In this case the land value reduction is smaller – here shown by the pink triangle, as against relatively large increases in land supply.

Traditionally house prices (the key determinant of land values) have been inelastic to changes in supply. There is plenty of research showing this, not least the excellent Barker Report into housing supply (2004). Generally in the UK it is accepted that the new build market is so small compared to the second hand, that prices are determined by the strength of the economy, levels of credit and interest rates. Generally new supply has little effect on price formation.

Therefore although in theory increasing land supply leads to reduced land prices (and hence the dilemma that Affordable Housing is potentially greater but practically less) in practice increasing land supply is unlikely to lead to any significant reduction in land values: and, given the importance of the wider and second hand housing market in the formation of house prices and land values, planners may reasonably safely conclude that by allocating more sites, and even over allocating land is unlikely to affect the delivery of Affordable Housing and other Section 106 contributions.

3 Land value benchmarks for Affordable-led sites; the evidence

To maximise the delivery of Affordable Housing it is important to understand the site benchmarks that are sometimes used to deliver this type of dwelling.

One benchmark is provided via Rural Exception Sites (RESs). This is principally an English approach but nevertheless relevant in Wales. Their primary objective is to provide Affordable Housing at 100%. Their land value reflects the fact that sites are not allocated in a local plan, and that they are outside of settlement boundaries, where residential development would not normally be permitted.

However, the landowner will want more than the present agricultural value of the land.

In respect of this model, (Rural Affordable Housing on Rural Exception Sites; a hands-on guide for land owners, Strutt and Parker, July 2017) poses the question:

‘How much income or return can I achieve?

These sites have no open market housing value, so typically, if you sell the land to a housing association or community housing organisation

you can expect around £100,000 - £120,000 per acre (£10k a plot), but with some small variation reflecting local and site circumstances.

This compares with an agricultural value that is typically around £6,000 to £15,000 per acre. If you develop and own the affordable homes you can typically expect a return on investment, before finance costs of around 4 to 5% compared with 1% to 1.5% if it was retained as agricultural land. If you sell land to a housing association their return on investment is typically around 4%.'

[A report](#) from North West Leicestershire asks:

'How much will be paid for land for Exception Sites? And states:

'Exceptions sites have a unique land value because only affordable housing can be built on them. One of our aims as a District Council is to have a consistent approach to exception site land values, to ensure that rural housing schemes are viable and affordable. This will generally be in the region of £10,000 to £12,000 per plot dependent upon the site constraints.'

South Gloucestershire provide the following guidance and ask:

'How much should a landowner expect to be paid for a rural exception site, what is considered a reasonable land value?

- As a guide the council expects exception site land values to be marginally above agricultural values and considers that individual plots should attract approximately £10,000 land value.'

The CPRE, Countryside Charity look at the same issue with specific regards to rural Affordable Housing and state in their guide How to improve the supply of rural affordable housing: A guide for members (June, 2020):

'How is the land price calculated?

The cost of the land is critical to whether a scheme is financially viable. Too high a land price and the costs cannot be covered by the income, leaving a gap that is not possible to fill by subsidy, either in the form of a grant or cross-subsidy from market sales.

For a market-led development, the land price will be calculated by subtracting the income it is expected to generate from the expected costs of development. This should take into account any affordable housing that is required by local plan policy. It is known as the residual valuation method.

For rural exception sites, a different process is used as these sites do not have any development value because they would not normally be considered appropriate for housing. Instead, a multiple of existing use value is used.

The 'rule of thumb' is that this gives a value of £10,000 to £12,000 per plot, which is equivalent to £100,000 to £120,000 an acre.'

A paper produced by PAS (Planning Advisory Service) and the Local Government Association highlights:

'Cornwall Council Cross-subsidy on rural exception sites

- Must meet proven need and have community support
- Target 60% affordable housing
- Land price set at no more than £13k per plot
- Unfettered open market provides cross-subsidy'

The Country Land Owners Association (CLA) state:

'Another option for landowners wanting to bring forward affordable housing is Entry Level Exception Sites. These are sites that allow the development of entry-level housing for first time buyers or the equivalent looking to rent.

It is understood that this is an English model currently but the principles still apply to bringing forward land more affordably.

As with Rural Exception Sites, there are a number of conditions that apply to Entry Level Exception Sites, which include:

- The housing must be suitable for first time buyers or equivalent renters

- The site must be on land not allocated for housing
- The site must be adjacent to an existing settlement and must be no larger than one hectare or 5% of the size of the existing settlement
- It must offer one or more types of affordable housing (starter homes, discounted market housing, etc).
- It cannot be in a National Park, AONB, or on Green Belt.

However, one feature of Entry Level Exception Sites that might make them attractive to landowners is that they offer a broader definition of what constitutes affordable housing. With an Entry Level Exception Site, affordable housing includes homes affordable for purchase or rent, starter homes, discounted market sale housing, first homes, or the provision of other forms affordable routes to home ownership.'

Conclusions

These reports and evidence suggest that in circumstances where sites are being brought forward outside the allocation process, a lower site value can be argued for in terms of Affordable Housing and Section 106 negotiation.

The level is circa £10,000 to £15,000 a plot.

It should be noted that even this relatively low level is not achievable for even low levels of Affordable Housing delivery in the weaker sub markets of Conwy County Borough. However, taking a view on a lower site benchmark for sites not already allocated, may deliver a significant number of additional Affordable Housing.

This is considered below.

4 Market led sites for Affordable Housing at more than 50% of units

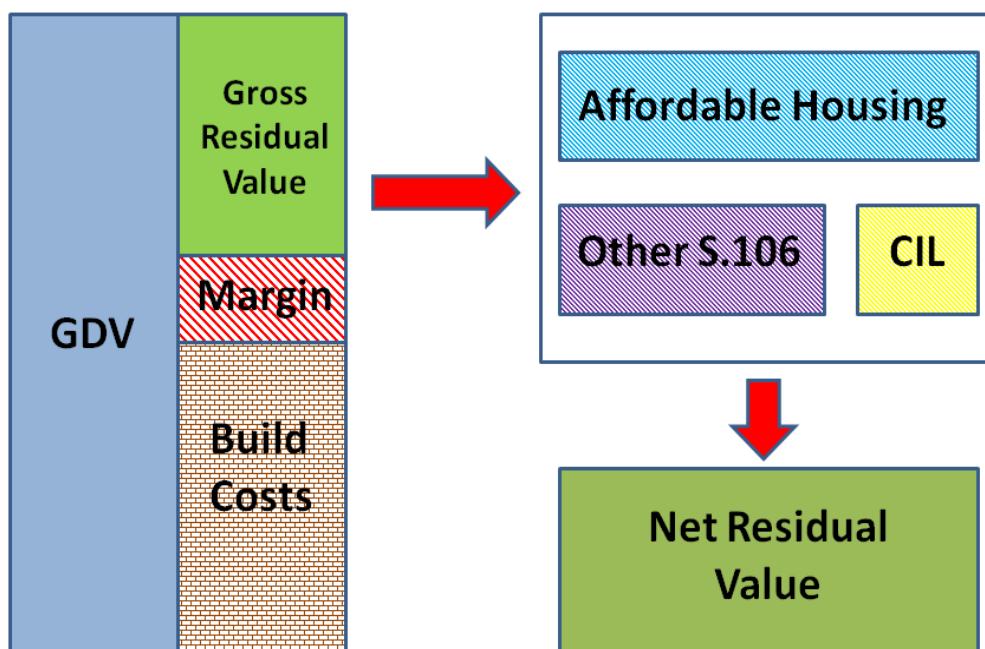
The letter from the WG makes it clear that LPAs should look at all options for delivering sites at more than 50% Affordable units.

The potential for this is limited by the extent to which sites where Section 106 (Affordable Housing and other contributions) would conventionally be sought, delivering on a viable basis.

The Council has a very recent analysis (2024) of viability which supports its emerging Replacement Local Development Plan position (see Background Paper 10). This has looked at a range of sub markets and calculated residual values. Residual value is the difference between gross development value and total development costs as explained below:

Scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme costs assume a profit margin to the developer and the 'build costs' as shown in the diagram include such items as professional fees, finance costs, marketing fees and any overheads borne by the development company.

Figure 2 Viability, CIL and Affordable Housing



Source: Dr A Golland

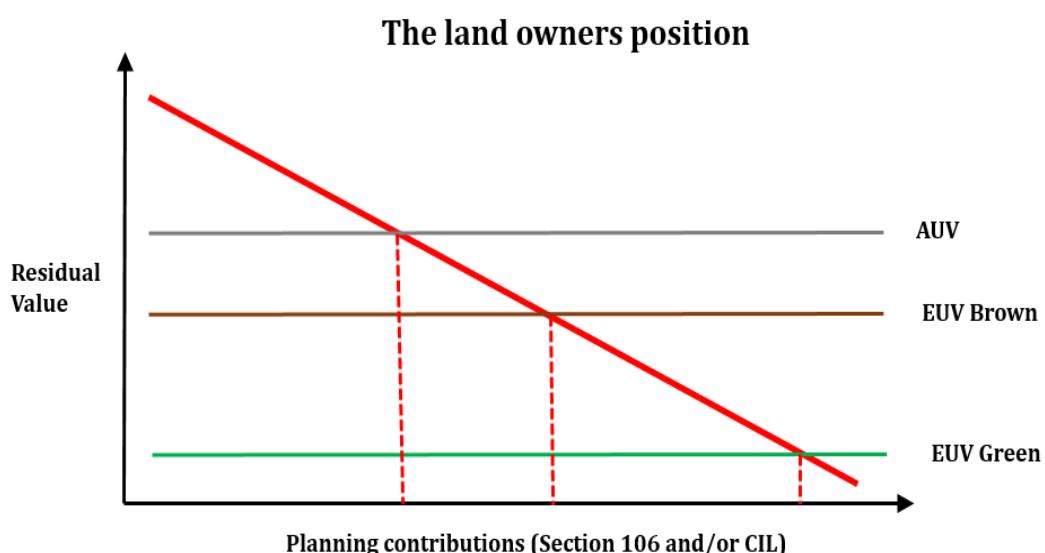
The gross residual value is the starting point for negotiations about the level and scope of Section 106 or CIL contribution. The contribution will normally be greatest in the form of affordable housing but other Section 106 items or CIL will also reduce the gross residual value of the site. Once the Section 106 contributions/CIL have been deducted, this leaves a net residual value.

Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.

A site is extremely unlikely to proceed where the costs of a proposed scheme exceed the revenue. But simply having a positive residual value will not guarantee that development happens. The Existing Use Value (EUV) of the site, or indeed a realistic alternative use value for a site will also play a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing or any other use.

The diagram below shows how this operates in theory. Residual value (RV) falls as planning contributions increase. The issue for the land owner will be the point at which RV is less than or equal to the land value benchmark.

Figure 3 Residual Value (RV) and the land owner's position



Source: Dr A Golland

Above this point there will be a land owner return. The extent of this return depends on the existing use value of the site (EUV). Some sites will be green field and some brown field. Normally brown field sites will have a higher EUV than green field but this does not always follow; for example where brown field land is heavily contaminated.

The analysis carried out by the LPA looked at a number of density and development mix scenarios – from 20 dwellings per hectare (dph) to 50 dph. The results are shown in Table 1 below:

Table 1 High Level Testing results

20 DPH											
	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
Llandudno	£1.38	£1.26	£1.14	£1.02	£0.90	£0.78	£0.66	£0.54	£0.42	£0.30	£0.18
Conwy Valley	£1.29	£1.18	£1.06	£0.94	£0.82	£0.71	£0.59	£0.47	£0.36	£0.24	£0.12
Conwy	£1.26	£1.14	£1.02	£0.91	£0.79	£0.68	£0.56	£0.44	£0.33	£0.21	£0.10
Rural East	£1.20	£1.09	£0.97	£0.86	£0.74	£0.63	£0.52	£0.40	£0.29	£0.17	£0.06
Colwyn Bay and Old Colwyn	£0.91	£0.82	£0.73	£0.63	£0.54	£0.44	£0.34	£0.25	£0.15	£0.06	£0.04
Llanfairfechan and Penmaenmawr	£0.83	£0.74	£0.65	£0.56	£0.47	£0.38	£0.29	£0.21	£0.12	£0.03	£0.06
The Mountains	£0.74	£0.64	£0.54	£0.44	£0.34	£0.25	£0.15	£0.05	£0.08	£0.15	£0.15
Abergele and Llanddulas	£0.64	£0.55	£0.45	£0.36	£0.27	£0.17	£0.08	£0.22	£0.11	£0.20	£0.23
Towyn and Kinmel Bay	-	-	-	-	-	-	-	-	-	-	-
	£0.10	£0.17	£0.24	£0.31	£0.38	£0.45	£0.51	£0.58	£0.65	£0.72	£0.79

30 DPH											
	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
Llandudno	£1.92	£1.76	£1.59	£1.42	£1.25	£1.09	£0.92	£0.75	£0.58	£0.41	£0.25
Conwy Valley	£1.79	£1.63	£1.47	£1.30	£1.14	£0.98	£0.81	£0.65	£0.49	£0.32	£0.16
Conwy	£1.74	£1.58	£1.42	£1.26	£1.10	£0.93	£0.77	£0.61	£0.45	£0.29	£0.13
Rural East	£1.66	£1.50	£1.35	£1.19	£1.03	£0.87	£0.71	£0.55	£0.39	£0.23	£0.07
Colwyn Bay and Old Colwyn	£1.26	£1.13	£0.99	£0.96	£0.73	£0.59	£0.46	£0.33	£0.20	£0.07	£0.06
Llanfairfechan and Penmaenmawr	£1.23	£1.01	£0.88	£0.76	£0.64	£0.52	£0.39	£0.27	£0.15	£0.03	£0.09
The Mountains	£1.11	£0.86	£0.72	£0.59	£0.45	£0.31	£0.18	£0.04	-	-	-
Abergele and Llanddulas	£0.86	£0.73	£0.60	£0.47	£0.34	£0.21	£0.08	£0.05	£0.18	£0.31	£0.44
Towyn and Kinmel Bay	-	-	-	-	-	-	-	-	-	-	-
	£0.20	£0.30	£0.39	£0.49	£0.58	£0.68	£0.77	£0.87	£0.96	£1.06	£1.15

40 DPH											
	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
Llandudno	£2.47	£2.26	£2.06	£1.85	£1.64	£1.44	£1.23	£1.02	£0.81	£0.61	£0.40
Conwy Valley	£2.36	£2.16	£1.96	£1.75	£1.54	£1.34	£1.13	£0.92	£0.72	£0.52	£0.31
Conwy	£2.24	£2.04	£1.84	£1.64	£1.44	£1.24	£1.04	£0.84	£0.64	£0.44	£0.24
Rural East	£2.14	£1.94	£1.75	£1.55	£1.35	£1.16	£0.96	£0.76	£0.57	£0.37	£0.17
Colwyn Bay and Old Colwyn	£1.63	£1.46	£1.30	£1.14	£0.98	£0.81	£0.65	£0.49	£0.33	£0.16	£0.00
Llanfairfechan and Penmaenmawr	£1.46	£1.31	£1.16	£1.01	£0.86	£0.71	£0.56	£0.41	£0.27	£0.12	£0.03

20 DPH												
The Mountains	£1.29	£1.12	£0.95	£0.79	£0.62	£0.45	£0.28	£0.11	-	£0.06	£0.23	£0.39
Abergele and Llanddulas	£1.12	£0.96	£0.79	£0.63	£0.47	£0.31	£0.15	£0.01	-	£0.17	£0.33	£0.49
Towny and Kinmel Bay	-	-	-	-	-	-	-	-	-	-	-	-

50 DPH												
	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	
Llandudno	£2.92	£2.68	£2.44	£2.21	£1.97	£1.74	£1.50	£1.27	£1.03	£0.79	£0.56	
Conwy Valley	£2.72	£2.49	£2.26	£2.04	£1.81	£1.58	£1.35	£1.12	£0.89	£0.66	£0.43	
Conwy	£2.64	£2.42	£2.19	£1.97	£1.74	£1.51	£1.29	£1.06	£0.83	£0.61	£0.38	
Rural East	£2.53	£2.31	£2.08	£1.86	£1.64	£1.41	£1.19	£0.97	£0.74	£0.52	£0.31	
Colwyn Bay and Old Colwyn	£1.94	£1.76	£1.57	£1.39	£1.21	£1.02	£0.84	£0.66	£0.47	£0.29	£0.11	
Llanfairfechan and Penmaenmawr	£1.74	£1.57	£1.41	£1.24	£1.07	£0.91	£0.74	£0.57	£0.41	£0.24	£0.07	
The Mountains	£1.55	£1.35	£1.16	£0.97	£0.78	£0.59	£0.39	£0.20	£0.01	£0.18	£0.37	
Abergele and Llanddulas	£1.34	£1.16	£0.97	£0.79	£0.61	£0.43	£0.24	£0.06	-	£0.12	£0.30	£0.49
Towny and Kinmel Bay	-	£0.24	£0.37	£0.51	£0.64	£0.77	£0.90	£1.04	£1.17	£1.30	£1.44	£1.58

Source: Dr A Golland viability testing

I have condensed this table into a more accessible and meaningful table for the purposes of this report:

This identifies locations (all scenarios at 50% Affordable Housing) where development is viable having a positive residual value and being above the land value benchmark (LVB) (established in the Local Plan evidence base); it identifies locations where a positive residual value (RV) is likely but where the RV falls below the LVB and it identifies locations where residual value is negative.

Table 2 Viability for Affordable-led sites (50% Affordable Housing) – at a range of densities

Sub Markets	LVB	20 DpH	30 DpH	40 DpH	50 DpH
Llandudno	0.54	£0.18	£0.25	£0.40	£0.56
Conwy Valley	0.5	£0.12	£0.16	£0.31	£0.43
Conwy	0.48	£0.10	£0.13	£0.24	£0.38
Rural East	0.46	£0.06	£0.07	£0.17	£0.31
Colwyn Bay and Old Colwyn	0.35	-£0.04	-£0.06	£0.00	£0.11

Sub Markets	LVB	20 DpH	30 DpH	40 DpH	50 DpH
Llanfairfechan and Penmaenmawr	0.31	-£0.06	-£0.09	-£0.03	£0.07
The Mountains	0.23	-£0.15	-£0.37	-£0.39	-£0.37
Abergele and Llanddulas	0.28	-£0.23	-£0.44	-£0.49	-£0.49
Towyn and Kinmel Bay	-0.38	-£0.79	-£1.15	-£1.41	-£1.58

Viable - Above LVB
Potentially Viable - RV
Positive but below LVB
Unviable - Negative RV

Source: Dr A Golland viability testing

It can be seen that in the highest value sub markets residual value at higher density exceeds the LVB. These are locations where Affordable-led Housing sites should be focused on. These are locations and types of development where the land market should bring forward sites without putting pressure on land owners to release sites at less than 'market' value.

There are then a number of additional locations where sites may come forward at 50% Affordable Housing at below the site benchmark. At 50% Affordable Housing this may be possible in a range of locations such as Conwy Valley, Conwy, Rural East, Colwyn Bay and Old Colwyn. At these locations (50% Affordable Housing) plot values would be in the range £4,000 to £15,000.

In the lower value sub markets, residual values are negative at all densities at 50% Affordable Housing. In principle this takes these sites out of the strict definition of 'Affordable-led' sites.

Additional Affordable Housing where the land value benchmark is lower

Where land supply is at significant surplus then it may be expected that land value benchmarks will be lower: land owners will anticipate the housing requirement can be met from a whole range of sources and will hence reduce their expectations for return.

Table 3 below shows the potential additional supply of Affordable Housing that is possible where the LVB is:

- a) £20,000 a plot;
- b) £10,000 a plot;
- c) £5,000 a plot:

Table 3 Additional potential Affordable Housing supply with lower LVB

20 DPH						
	0%	10%	20%	30%	40%	50%
Llandudno	£1.38	£1.14	£0.90	£0.66	£0.42	£0.18
Conwy Valley	£1.29	£1.06	£0.82	£0.59	£0.36	£0.12
Conwy	£1.26	£1.02	£0.79	£0.56	£0.33	£0.10
Rural East	£1.20	£0.97	£0.74	£0.52	£0.29	£0.06
Colwyn Bay and Old Colwyn	£0.91	£0.73	£0.54	£0.34	£0.15	-£0.04
Llanfairfechan and Penmaenmawr	£0.83	£0.65	£0.47	£0.29	£0.12	-£0.06
The Mountains	£0.74	£0.54	£0.34	£0.15	-£0.08	-£0.15
Abergele and Llanddulas	£0.64	£0.45	£0.27	£0.08	-£0.11	-£0.23
Towyn and Kinmel Bay	-£0.10	-£0.24	-£0.38	-£0.51	-£0.65	-£0.79

30 DPH						
	0%	10%	20%	30%	40%	50%
Llandudno	£1.92	£1.59	£1.25	£0.92	£0.58	£0.25
Conwy Valley	£1.79	£1.47	£1.14	£0.81	£0.49	£0.16
Conwy	£1.74	£1.42	£1.10	£0.77	£0.45	£0.13
Rural East	£1.66	£1.35	£1.03	£0.71	£0.39	£0.07
Colwyn Bay and Old Colwyn	£1.26	£0.99	£0.73	£0.46	£0.20	-£0.06
Llanfairfechan and Penmaenmawr	£1.23	£0.88	£0.64	£0.39	£0.15	-£0.09
The Mountains	£1.11	£0.72	£0.45	£0.18	-£0.09	-£0.37
Abergele and Llanddulas	£0.86	£0.60	£0.34	£0.08	-£0.18	-£0.44
Towyn and Kinmel Bay	-£0.20	-£0.39	-£0.58	-£0.77	-£0.96	-£1.15

40 DPH						
	0%	10%	20%	30%	40%	50%

20 DPH						
Llandudno	£2.47	£2.06	£1.64	£1.23	£0.81	£0.40
Conwy Valley	£2.36	£1.96	£1.54	£1.13	£0.72	£0.31
Conwy	£2.24	£1.84	£1.44	£1.04	£0.64	£0.24
Rural East	£2.14	£1.75	£1.35	£0.96	£0.57	£0.17
Colwyn Bay and Old Colwyn	£1.63	£1.30	£0.98	£0.65	£0.33	£0.00
Llanfairfechan and Penmaenmawr	£1.46	£1.16	£0.86	£0.56	£0.27	-£0.03
The Mountains	£1.29	£0.95	£0.62	£0.28	-£0.06	-£0.39
Abergele and Llanddulas	£1.12	£0.79	£0.47	£0.15	-£0.17	-£0.49
Towyn and Kinmel Bay	-£0.25	-£0.48	-£0.71	-£0.94	-£1.17	-£1.41

50 DPH						
	0%	10%	20%	30%	40%	50%
Llandudno	£2.92	£2.44	£1.97	£1.50	£1.03	£0.56
Conwy Valley	£2.72	£2.26	£1.81	£1.35	£0.89	£0.43
Conwy	£2.64	£2.19	£1.74	£1.29	£0.83	£0.38
Rural East	£2.53	£2.08	£1.64	£1.19	£0.74	£0.31
Colwyn Bay and Old Colwyn	£1.94	£1.57	£1.21	£0.84	£0.47	£0.11
Llanfairfechan and Penmaen	£1.74	£1.41	£1.07	£0.74	£0.41	£0.07
The Mountains	£1.55	£1.16	£0.78	£0.39	£0.01	-£0.37
Abergele and Llanddulas	£1.34	£0.97	£0.61	£0.24	-£0.12	-£0.49
Towyn and Kinmel Bay	-£0.24	-£0.51	-£0.77	-£1.04	-£1.30	-£1.58

£20,000 a Plot

£10,000 a Plot

£5,000 a Plot

Source: Dr A Golland viability testing

Table 4 below shows the number of additional affordable housing units (30 dph) that would be achieved (over and above the policy LVB position) across the sub market areas:

Table 4 potential additional affordable housing units

Sub Market	At £10,000	At £5,000
Llandudno	3	3

Sub Market	At £10,000	At £5,000
Conwy Valley	3	3
Conwy	3	
Rural East	3	
Colwyn Bay and Old Colwyn	3	3
Llanfairfechan and Penmaenmawr	3	3
The Mountains	3	3
Abergele and Llanddulas	3	
Towyn and Kinmel Bay		

Source: Dr A Golland viability testing

5 Call for sites

The Council issued a second Call for Sites process in August/September 2022 in response to the Minister's letter. This was specifically for affordable housing led sites only. A number of submissions were received.

Table 5 below sets out the sites:

Table 5 Affordable housing led call for sites

Ref	Site Name	Ha	Dwellings	Sub Market	Affordable Housing Target					
					0%	10%	20%	30%	40%	50%
2	Land off Nebo Road, Llanrwst	1.13	34	Conwy Valley	£1.79	£1.47	£1.14	£0.81	£0.49	£0.16
31	Land adjoining Tawelfan, Ty Du Road, Glan Conwy	2.83	85	Conwy Valley	£1.79	£1.47	£1.14	£0.81	£0.49	£0.16
48	Tyddyn Bach, Graiglwyd Road, Penmaenmawr	2.95	89	Penmaenmawr and Llanfairfechan	£1.23	£0.88	£0.64	£0.39	£0.15	-£0.09
59	Land North West of Llys y Coed, Llanfairfechan	0.88	26	Penmaenmawr and Llanfairfechan	£1.23	£0.88	£0.64	£0.39	£0.15	-£0.09
76	Land North of Sychnant Pass Road (Site 2), Conwy	7.91	237	Conwy Valley	£1.79	£1.47	£1.14	£0.81	£0.49	£0.16
84	Land off Gorwel, Llanfairfechan	3.47	104.	Penmaenmawr and Llanfairfechan	£1.23	£0.88	£0.64	£0.39	£0.15	-£0.09
86	Land off Penmaenmawr Road, Llanfairfechan (Option 2)	7.03	211	Penmaenmawr and Llanfairfechan	£1.23	£0.88	£0.64	£0.39	£0.15	-£0.09
87	Land to the South and East of Dolgau, Dolwyn Road,	6.11	183	Colwyn Bay & Old Colwyn	£1.26	£0.99	£0.73	£0.46	£0.20	-£0.06
96	Land off Cae Tyddyn, Llanrwst	0.59	17.7	Colwyn Bay & Old Colwyn	£1.26	£0.99	£0.73	£0.46	£0.20	-£0.06
113	Land at Tandderwen and off Tan Y Fron Road, Abergel	29.16	875	Abergel & Llanddulas	£0.77	£0.49	£0.21	-£0.08	-£0.36	-£0.64
130	Land adjoining Bodhyfryd, Llanrwst Road, Gyffin	0.59	18	Conwy Valley	£1.79	£1.47	£1.14	£0.81	£0.49	£0.16
136	Bryn Hyfryd-Ffordd Tan yr Ysgol, Llanrwst	1.99	60	Conwy Valley	£1.79	£1.47	£1.14	£0.81	£0.49	£0.16
138	Site D, East of Llanrwst	1.7	51	Conwy Valley	£1.79	£1.47	£1.14	£0.81	£0.49	£0.16
139	Site E, Adjacent to Bryn Hyfryd, Llanrwst	1.41	42	Conwy Valley	£1.79	£1.47	£1.14	£0.81	£0.49	£0.16
162	Bryn Rhodyn Farm, Old Colwyn	14.39	432	Colwyn and Colwyn Bay	£1.26	£0.99	£0.73	£0.46	£0.20	-£0.06
185	Land off Conway Road & Llanrwst Road Colwyn Bay	1.57	47	Colwyn and Colwyn Bay	£1.26	£0.99	£0.73	£0.46	£0.20	-£0.06
192	Land off Llanrwst Road, Conwy	4.89	147	Conwy & Conwy Valley	£1.26	£0.99	£0.73	£0.46	£0.20	-£0.06

Viability test using Land Value Benchmarks

Viability test using lower £5k a plot

Source: CCBC and Dr A Golland viability testing

Note: not all of these sites are considered appropriate for development

The table shows all sites in process or consultation, which are green field (most brown field sites submitted have been considered not realistic). The calculations relate to schemes assumed at 30 dwellings per hectare.

It is important to note that most of the sites submitted in this Call for Sites are coming from higher value market areas – Conwy and Conwy Valley and Penmaenmawr and Llanfairfechan. The only exception is Colwyn Bay and Old Colwyn, although this is by no means the lowest value sub market. Some were received in Towyn and Kinmel Bay, however, these were removed by officers as they fall within flood risk areas where residential development is not permitted on greenfield sites. This suggests that affordable housing led sites are mainly going to be brought forward in the high value areas and that the weaker areas may have to generate higher selling prices before sites there are developed.

The key question for this report is how much Affordable Housing will these sites yield? The table shows (light green) the viable percentages of Affordable Housing that can be developed taking into account the Land Value Benchmarks (LVBs) that have been adopted in the main policy development report (background paper 10).

In addition I have identified (dark green), additional supply that would come forward assuming a LVB of £5,000 per plot.

Assuming the LVBs adopted in the Replacement Local Development Plan evidence base (see background paper 10), and that all of these sites come forward for development, then an additional 177 Affordable Homes could be deliverable. The most significant sources of supply here are the sites at Tandderwen, Abergele and land off Conwy Road, Colwyn Bay; taken together these sites should contribute around 30% towards the Affordable Housing capacity. Other significant sites for Affordable Housing delivery are Land north of Sychnant Pass Road and Land off Penmaenmawr Road, Llanfairfechan; taken together these sites should contribute around 25% towards the Affordable Housing capacity.

It is important to recognise that this assessment has been undertaken purely on the financial viability of delivering these sites. It does not take into account the various planning matters that must be considered to demonstrate deliverability for the purpose of the RLDP. This has resulted in

many of these sites being deemed unsuitable for allocation in the RLDP – regardless of the level of Affordable Housing to be provided. The Minister's letter made clear that Affordable-led sites should not be inferior in any way to market-driven sites, therefore where sites have been assessed as unsuitable for other planning reasons, higher levels of AH will not justify their allocation.

It is important to state that the Call for Sites process is not going to lead to Affordable-led sites in the sense that the sites will have more than 50% Affordable Housing. This is because the economics of development will not allow for that. This does not mean that sites won't come forward because housing associations will in some instances use reserves to make schemes work by taking a long term view of future rental streams and hence capitalised values.

6 Publicly owned land

The Council are progressing parcels of their own land for disposal for Affordable Housing led schemes. A project group is established to manage the process. This paper does not consider these sites as negotiations are progressing between the Council and Registered Social Landlords (RSL). It would therefore not be appropriate to assess the sites at this stage.

Public sector bodies, including North Wales Police, Betsi Cadwaladr University Health Board and WG were notified of both Call for Sites exercises. WG were the only respondent to submit a site (former offices, Dinerth Road, Rhos on Sea). This is currently within the settlement boundary and allocated for housing in the adopted LDP, so could come forward for residential development at any time; there are no current planning barriers to its redevelopment.

The issue of public land was discussed with RSLs (see below). The Council has their own approach to land disposals which helps with the 'best value' challenge. However, other authorities have been less helpful in getting sites developed for housing (and Affordable Housing).

7 The role of the RSLs and Grant

7.1 The RSL sector in Conwy County Borough

Generally

An extended meeting was held with the leading RSLs in Conwy County Borough and from wider afield. Thanks are offered to all that took part in the discussion.

RSLs in Conwy are generally operating two main models. First, working with private developers through Section 106 deals; and second through their own schemes, in some cases supported through grant.

The Section 106 schemes operate with RSLs making an offer to the developer, usually around 42% of ACG (Acceptable Cost Guidance). These (ACGs) are set by the WG on an annual or regular basis. They are intended to cover build costs but also with an element of land cost. In the past, it has been the extent to which the land element has covered actual land costs, that has proven more difficult. The 42% of ACG of normally for Social Rented Housing and this is making up significant need in Conwy County Borough and across Wales more generally.

It was noted that the system is aimed to discourage RSLs getting in ‘bidding wars’, and the process for stopping this was evidenced in the case of South Wales and the Valley authorities, where transfer prices have been set out in Supplementary Planning Guidance.

In all these situations, grant is not normally available.

RSLs reported that in some senses the ‘market’ for Affordable Housing is structured in a twin track way, with Section 106 sites (as above) being one route, and the other route being for RSLs to take on, often smaller, more challenging sites. It is here that grant is often needed.

Grant modelling

The Wales RSLs tend to use the SVM (Standard Viability Model) for appraising schemes although not universally.

The model uses a NPV (Net Present Value) approach and a discounted methodology. It can be used as a way of calculating the need for gap funding, in the similar way to the Three Dragons Development Appraisal Toolkit.

Grant is set at a maximum of 58% of ACG, and the model is used to assess the need for subsidy. It does not necessarily reflect the actual viability of schemes and all RSLs are different and will have a different approach to viability assessment. Most use an investment approach – gross rents less management costs and then applied to a yield.

Grant can be given out for a number of reasons, although principally where additionality can be shown. ‘Additionality’ can take several guises although is mainly where sustainability of the structure can be enhanced or where additional Affordable Housing units are to be delivered.

Small sites

RSLs are developing small sites although management considerations sometimes mitigate against taking on a small scheme. Likewise some schemes are located in locations which are really sustainable for Affordable Housing.

Where RSLs do not have stock in the area, they are sometime reluctant to take on new development.

In rural areas, RSLs have reported that there is little demand for Affordable Rent properties, with Low Cost Home Ownership being more popular. The reverse is true in the more heavily populated coastal towns. There is also demand for open market dwellings in rural villages from local residents not eligible for the AH registers.

Affordable-led sites

Affordable-led sites were discussed – sites across the County Borough which would generate 50% Affordable Housing and above.

These are seen as challenging without grant. Whether a 50% element or above is delivered depends however very much on the tenure assumed. If a high percentage per se is required then clearly the Affordable element should be made up of Intermediate Affordable rather than for example Social Rented housing. The precise trade-offs (between tenures) are not considered here, not least because housing needs are assessed on a site by site basis and it will often be the case that Social Rent is at a premium.

However the trade-offs in viability terms do need to be recognised at the policy and strategy level and is an issue in the allocation of housing for new build as well as for the stock.

Exception sites were discussed in this general context, although generally this was not highlighted as a major opportunity – current and traditional routes appear fairly deeply embedded although changing this situation will depend on changes in planning and housing policy.

Grant impacts generally

The availability of grant for the production of Affordable Housing is key in enhancing the delivery of new homes.

It can be used in several different ways. Perhaps most obviously to deliver sites at 100% Affordable. This is clearly a demanding option as providers will have to meet not only the challenge of acquiring land, but also of meeting the financial gap between the value of Affordable units and the development costs of providing them. In most cases (Social Rent and Affordable Rent) revenue does not cover development costs, and in the case of Intermediate Affordable, the revenue only marginally balances with the development cost.

7.2 Grant for Affordable-led sites

At an Affordable Housing element at 50% of all units a scheme could be deemed to be 'Affordable-led' (as per guidance in Planning Policy Wales and the Minister's letter referred to above).

The economics are looked at here.

The table on the following page shows residual values per hectare for a 30 dph scheme. It shows (red) the Land Value Benchmarks (LVB) for the range of sub markets across the County Borough.

The subsidy needed to get to a 50% Affordable Housing contribution is then shown. For higher value areas this is clearly lower. So, for example, the subsidy required for the Llandudno sub market is £290,000 per hectare, whereas the subsidy for Abergel and Llanddulas is £770,000.

Table 6 Subsidy requirements by sub markets and Affordable Housing unit

30 DPH	0%	10%	20%	30%	40%	50%	LVB
Llandudno	£1.92	£1.59	£1.25	£0.92	£0.58	£0.25	£0.54
Conwy Valley	£1.79	£1.47	£1.14	£0.81	£0.49	£0.16	£0.50
Conwy	£1.74	£1.42	£1.10	£0.77	£0.45	£0.13	£0.48
Rural East	£1.66	£1.35	£1.03	£0.71	£0.39	£0.07	£0.46
Colwyn Bay and Old Colwyn	£1.26	£0.99	£0.73	£0.46	£0.20	-£0.06	£0.35
Llanfairfechan and Penmaen	£1.23	£0.88	£0.64	£0.39	£0.15	-£0.09	£0.31
The Mountains	£1.11	£0.72	£0.45	£0.18	-£0.09	-£0.37	£0.23
Abergele and Llanddulas	£0.86	£0.60	£0.34	£0.08	-£0.18	-£0.44	£0.28
Towyn and Kinmel Bay	-£0.20	-£0.39	-£0.58	-£0.77	-£0.96	-£1.15	-£0.38

Subsidy Needed to get to 50% AH (On Build and Land) (£ million)	Multiplier	Subsidy Required to get to 50% AH	Units 50% AH	Subsidy needed per AH units
0.29	£1,000,000	£290,000	15	£19,333
0.34	£1,000,000	£340,000	15	£22,667
0.35	£1,000,000	£350,000	15	£23,333
0.39	£1,000,000	£390,000	15	£26,000
0.41	£1,000,000	£410,000	15	£27,333
0.40	£1,000,000	£400,000	15	£26,667
0.60	£1,000,000	£600,000	15	£40,000
0.72	£1,000,000	£720,000	15	£48,000
0.77	£1,000,000	£770,000	15	£51,333

Source: Dr A Golland viability testing

The column (table above) shows then the subsidy needed per Affordable Housing unit. This is £19,000 at the higher end of the market, whilst in the lower value areas it is around £50,000 per Affordable unit.

Table 7 below shows the impact of grant on the total number of Affordable homes by sub market area; and also the knock on effect to total housing supply assuming Affordable-led schemes. Grant is assumed at around £12 million per annum at the current time.

Table 7 Impact of grant by sub market

Sub Markets	Subsidy needed per AH units	Grant per Annum	AH Units Generated	Total Dwellings
			No of Units	
Llandudno	£19,333	£12,000,000	621	1,241
Conwy Valley	£22,667	£12,000,000	529	1,059
Conwy	£23,333	£12,000,000	514	1,029
Rural East	£26,000	£12,000,000	462	923
Colwyn Bay and Old Colwyn	£27,333	£12,000,000	439	878
Llanfairfechan and Penmaenmawr	£26,667	£12,000,000	450	900
The Mountains	£40,000	£12,000,000	300	600
Abergele and Llanddulas	£48,000	£12,000,000	250	500
Towyn and Kinmel Bay	£51,333	£12,000,000	234	468

Source: Dr A Golland viability testing

This shows clearly the ratcheting up effect of investing grant in higher value areas which are already delivering relatively high proportions of Affordable Housing.

In large measure, this is reflecting the fact that in lower value areas, grant goes less far.

The grant required to increase AH delivery on the four residential strategic sites proposed in the RLDP has also been considered (Table 8). This is based only on the standard viability assumptions and indicative housing numbers on the site (RLDP BP10) at this stage – it does not take account of site-specific viability matters, which would be relevant if higher AH levels on these sites are proposed. Further work on site-specific viability is underway. The table will be updated once all allocations are housing numbers are known.

Table 8 Subsidy requirements for strategic sites

Site	No of dwellings	AH delivery at target %	Added AH at 50%	Total subsidy	Subsidy per extra AH unit
Llanfairfechan	150	45	30	£ 2,000,000	£ 66,667
Llanrhos	150	52.5	22.5	£ 1,750,000	£ 77,778
Old Colwyn	250	75	50	£ 3,416,667	£ 68,333
Llanrwst	100	40	10	£ 1,133,333	£ 113,333

Source: CCBC/Dr A Golland

8 Conclusions

This study aims to examine the case for ‘Affordable Housing-led’ schemes in the Conwy CBC area.

‘Affordable-led’ schemes are defined broadly here but principally as schemes which will have an Affordable Housing element of 50% of units or more.

It is focused primarily on the role of the market to deliver these schemes but also looks at the situation of Registered Social Landlords (RSLs) and at the potential role of grant in increasing the delivery of affordable homes.

The main findings are:

- Conwy County Borough is not a location where the general housing market will deliver Affordable-led schemes. Values are generally not very much higher than development costs meaning that residual values cannot sustain higher levels of Affordable Housing. At the lower end of the market, Affordable Housing delivery is unlikely to exceed 20% of all units on site. These are the findings of the RLDP Viability Study (Background Paper 10) but which are important for this work;
- Land Value Benchmark (LVB) is very key in determining whether sites come forward; and, whether they include Affordable Housing – and at what percentage of the scheme. These should be the starting point for any discussion on Affordable-led sites. In this respect, it is important to note that schemes at the higher end of the market, whilst reaching 40% Affordable Housing do not overcome the LVB at 50% meaning there is a viability shortfall;
- The LVB is not ‘fixed’. It can be adjusted by policy where the policy releases land, or encourages it to come forward, where it might otherwise not do so. There are many examples of sites for Affordable Housing being negotiated at plot values of around £10,000. This tends to happen in two main instances. First, where development generally is discouraged, such as in National Parks, where the emphasis is on meeting local needs rather than catering for inward migration or second homes. The other situation is where policy actively encourages

exception site through planning policy. In these circumstances sites may come forward at lower levels;

- Linked to the point above is the wider question about increasing Affordable Housing supply through planning and land release. The 20% contingency included in the RLDP housing provision is intended to ensure adequate supply over the plan period, without risking over-supply. The theory and principles were examined in Section 2 above. This analysis (and indeed related analysis) suggests that significant volume of additional land can be allocated and released without significant impact on land values. Hence land values hold up in the face of increased supply; not least because house prices are driven principally by the second hand market. This means more housing generally and with it an opportunity to deliver more Section 106. This is not a solution to the Affordable-led route, but one which might nevertheless increase the volume of newly provided Affordable units;
- Public land is seen by Welsh Government as one important way in which Affordable Housing supply can be increased. The Council are progressing parcels of their own land for disposal for Affordable Housing led schemes. A project group is established to manage the process. There does appear to be some frustrations amongst RSLs with certain public sector agencies;
- RSLs are delivering Affordable Housing in two main ways. First, via Section 106 schemes where the units are built by private developers and handed over to RSLs at a percentage of ACG, and second via RSL driven sites, some of which can achieve 100% Affordable Housing. However, RSLs are clear that this cannot be achieved without grant;
- Grant tends to be driven by additionality which is represented either by improvement to specification or increase in the number of units. This appears to be done on a site by site basis and effectively, on a bidding basis. The foregoing analysis shows how grant could be used to achieve Affordable-led sites. The figures suggest that relatively higher levels of Affordable Housing are achieved with smaller subsidy in the stronger market areas. This is not unsurprising, but if the objective is to simply enhance the number of Affordable-led sites, then focusing grant on locations which already achieve relatively high levels of Affordable Housing, may be the optimal way of achieving ostensibly strong

outcomes. Ultimately to determine the value of this approach will mean a triangulation of analysis between needs, supply and market strength.