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LEVVEL

**BRIEFING NOTE ON THE COMMUTED SUM PRINCIPLES RELATING TO
THE DEVELOPMENT OF THE SITE AT HAWTHORN RD, ALDWICK BY
MCCARTHY AND STONE (DEVELOPMENTS) LTD**

March 2008

1.0 Introduction

The purpose of this paper is to derive an affordable housing contribution for the proposed McCarthy and Stone site at Hawthorn Rd, Aldwick. In January 2007, a sum of £607,504 was agreed as the figure to be provided by McCarthy and Stone to satisfy Arun District Council's affordable housing requirement. This was based on the value of the land given over to affordable housing calculated using a residual land value methodology.

Proposals for the site have subsequently undergone a redesign, resulting in a different number of units, provided in a different unit mix, which has had an effect on the costs and receipts of development. However, the principles agreed in early 2007 still apply, and as such, this paper will detail the residual appraisal undertaken to produce a commuted sum of £500,000.

2.0 Detailed consideration of the affordable housing liability arising due to the development of the site at Hawthorn Rd, Aldwick.

It has previously been established that the most appropriate form of provision will be through a financial contribution in lieu of on-site development. PPS3 details that the off-site contribution should be of "a broadly equivalent value"¹ to on site provision when provided off site. Therefore, the commuted sum will be calculated on the basis of the equivalent on-site contribution.

The previous offer was based on the scheme for 44 units. As such, the previous offer was based on provision of 13 units of affordable housing. However, the revised scheme proposal is for 36 units. Therefore, the affordable housing liability is for 11 units.

It has also previously been established that the maximum commuted sum should relate to the value of the land for affordable housing, a principle accepted by the Council and indeed, used by Adams Integra when establishing the evidence base for policy.

As outlined in our briefing note of January 2007, Levvel uses a residual land value assessment model to derive the affordable housing land value. Effectively the model calculates receipts based on Open Market Values of the sheltered housing development (unencumbered by an affordable housing liability) and takes away the costs of development (build costs, finance charges etc) and developer profit to be left with a value which is assigned to the land, i.e. a value that can be paid to a landowner for the whole site.

¹ Para 29 PPS3 2006



A second calculation is then made which assumes that affordable housing will be provided. This takes receipts (from the Open Market units and any potential grant/RSL contribution) and removes the costs of development and developer profit. In this regard, an encumbered land value is produced, i.e. a value that can be paid to a landowner for the whole site when affordable housing is provided.

The affordable housing land value is therefore the difference between the two calculations and equals the commuted sum.

Levvel has developed a model which has regard to the methodology used in the development of the Housing Corporation's preferred toolkit produced by GVA Grimley to derive the residual land value for the site in Arun.

3.0 Specific Affordable Housing Land Value – Hawthorn Road

Using the model described above, real values and costs have been used to assess the values and subsidy requirements for the site at Hawthorn Rd, Aldwick. In calculating the affordable housing offer, Levvel originally grant assumptions of £50,000 per unit for social rented housing, and £nil per unit for the intermediate housing and a tenure mix of 60:40 in favour of social rented units.

The outputs from the model are as follows:

1 Unencumbered land value	100% Sheltered housing scheme	£1,715,357
2 Encumbered land value	Assuming 14 units of affordable housing are provided at 60:40 split with £50k grant per social rented unit.	£1,216,750
Affordable Housing Land Value	1 minus 2	£498,607

Therefore, with grant available, we can assess the subsidy from the position being the difference between encumbered and unencumbered residual land values as assessed in the model. This derives a subsidy for the 60:40 tenure split of circa £500,000, using the same principles as those used when calculating the previous offer.



4.0 Conclusion

£500,000 represents a fair and reasonable contribution based on the principles established in the negotiation of early 2007 which still stand at this time. With grant available, £500,000 would be sufficient to deliver the affordable housing on a similar site in Arun District.

