BNP PARIBAS REAL ESTATE

Real Estate for a changing world

Affordable housing viability study update

Prepared for

Royal Borough of Kensington & Chelsea

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1 Introduction

The Royal Borough of Kensington & Chelsea (‘the Council’) has commissioned BNP Paribas Real Estate to undertake an update to the ‘Affordable Housing Target: Viability Study’ (July 2016). This update is undertaken in the context of the Council’s Local Plan Partial Review (‘LPPR’) which includes a review of the Council’s housing policies which were adopted in 2010. As part of this review, the Council has undertaken an *‘Issues and Options consultation’* which ran for an eight week period ending in February 2016; a consultation on ‘*Draft Policies’* which took place for six weeks ending on 11 December 2016; and a consultation on ‘*Publication Policies’* which ran for six weeks ending 16 March 2017. <u>The 2019 update re-runs the appraisal exercise with a tenure mix of 70% social rent and 30% intermediate (London Living Rent and rents at Local Housing Allowances). All other inputs and assumptions remain unchanged from the April 2017 report</u>.

During the most recent consultation period, the government published its White Paper ‘Fixing our broken housing market’ on 7 February 2017, which proposes the following changes:

- Changes to the definition of affordable housing to include Starter Homes with a household income cap of £90,000 or less in Greater London;
- Include Discount Market Sale housing within the definition of affordable housing, with a discount of at least 20% below market value and eligibility to be determined with regard to local incomes and local housing prices. The discount should be retained for the benefit of future occupiers;
- Provision of units for ‘Affordable private rent housing’ let at discounts of at least 20% to market rents, with eligibility determined with regards to local incomes and local house prices. The discount to market rent is to be retained for the benefit of future households. If the discount is withdrawn, alternative housing provision is to be made available;
- Changes to the NPPF to require local authorities to seek to ensure that a minimum of 10% of all homes on individual developments of 10 or more units are affordable home ownership products

1.1 Aims

The purpose of the study is to consider the viability impacts of the changes above in relation to Publication Policy CH2 (Affordable Housing) which requires the provision of 35% affordable housing on developments providing 650 square metres or more with a tenure mix of 50% social/affordable rent and 50% intermediate housing. To test the impact of the tenure changes outlined above, the Council has instructed us to test the following tenure mixes:

Table 1.1.1: Tenure mixes to be tested in the study

Social rent	Afford-able rent	Intermediate						
		Shared owner-ship	Starter Homes	Discounted market sale	Discounted market rent (Affordable Private Rent)	Inter-mediate Rent	London Living Rent	Local Housing Allowance
	50%	4%	3%	3%		40%		
					100%			
	50%		10%			40%		
	50%			10%		40%		
	50%	10%				40%		
70%							15%	15%
70%							30%	

1.2 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 within the United Kingdom and over sixty offices in key commercial centres in Europe, the United States of America and the Asian and Pacific regions.

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 Anthony Lee MRTPI MRICS, RICS Registered Valuer.

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. In 2011, we were appointed again by the GLA to undertake a further review of the toolkit and other available appraisal models. Our report was published by the GLA in October 2012.

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

Anthony Lee was a member of the working group under the chairmanship of Sir John Harman which prepared guidance titled 'Viability Testing Local Plans: Advice for Practitioners', published by the Local Housing Delivery Group in 2012.

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.

1.3 Report structure

This report is structured as follows:

Section 2 provides a brief summary of the policy background;

Section 3 provides an overview of our methodology and approach to testing the impact of the proposed tenure changes on the delivery of affordable housing in the borough;

Section 4 sets out the assumptions for rent levels and income thresholds for each tenure type;

Section 5 summarises the results of the appraisals;

Section 6 sets out our conclusions.

1.4 Disclaimer

This report is not a valuation and should not be relied upon as such. 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 has been carried out in accordance with National Planning Practice Guidance (March 2014, as revised in May 2019) and the Local Housing Delivery Group guidance 'Viability Testing Local Plans: Advice to Planning Practitioners' (2012).

2 Policy background

This section briefly summarises the emerging affordable housing policies which are being considered as part of the Local Plan review.

2.1 Emerging affordable housing policy

The Council adopted the Core Strategy on 8 December 2010. Policy CH 2 requires developments to "provide affordable housing at 50% by floor area on residential floorspace in excess of 800 sq.m gross external area". The Council's 'Issues and Options' document (December 2015) notes that the highest percentage of affordable housing achieved in the four years to 2014/15 was 31% in 2011/12, although the figures do not take account of payments in lieu.

The Issues and Options document notes the need for schemes to be deliverable with an affordable housing target that does not adversely impact on viability. Two options were proposed; firstly, a Borough-wide target of 30% to 35%; and secondly, a split target with a higher percentage target in higher value areas.

The Publication Policies propose that the Council will seek 35% affordable housing from all sites capable of providing 650 square metres (gross internal area) of floorspace, with a tenure split of 50% social/affordable rent and 50% intermediate housing. Affordable housing is to be provided on-site unless there are exceptional circumstances justified by robust evidence to support a payment in lieu.

2.2 Affordable housing tenure

As noted above, the Publication Policies propose the provision of 35% of units on qualifying developments, 50% to be provided as social/affordable rent and 50% as intermediate housing. The Housing White Paper indicates that the government will require local planning authorities to secure the provision of alternative forms of intermediate housing which the Council's Publication Policies do not currently include explicitly. To a degree, the current policy as drafted includes sufficient flexibility and scope to cater for the tenures sought by the proposed changes to the definition of affordable housing.

The Council intends to meet the tenure requirements in the Housing White Paper through the provision of 50% 'intermediate' housing (as per the Publication Polices) within which various tenure mixes will be sought, as set out in Table 2.2.1. For private rented sector ('PRS') schemes, the Council has requested that we test 100% of the affordable housing provision as 'Affordable Private Rent', which shares all the normal characteristics of intermediate housing.

Table 2.2.1: Housing tenure split scenarios

Social rent	Affordable rent	Intermediate						
		Shared ownership	Starter Homes	Discounted market sale	Discounted market rent (Affordable Private Rent)	Intermediate rent	London Living Rent	Local Housing Allowance
	50%	4%	3%	3%		40%		
					100%			
	50%		10%			40%		
	50%			10%		40%		
	50%	10%				40%		
70%							15%	15%
70%							30%	

2.3 Revised Planning Obligations SPD

The Council adopted its Planning Obligations SPD in August 2010. Sections 16 to 29 set out the Council's approach to seeking affordable housing obligations in more detail. We understand that the Council intends to adopt a revised Planning Obligations SPD at some point in the near future.

2.4 The adopted RBKC CIL charging schedule

The CIL Draft Charging Schedule was published for consultation between 21 January 2014 and 23 February 2014. It was subsequently submitted for examination, with hearings taking place on 9 June 2014 and 14 October 2014. The Examiner's report was published on 22 December 2014.

The Council approved the Charging Schedule on 21 January 2015 and it was effective from 6 April 2015.

The Charging Schedule, as amended by the Examiner[1], contains the following levy rates on residential development:

Zone	C3 residential	Extra-care housing
A	£750	£510
B	£590	£230
C	£430	£300
D	£270	£160
E	£190	£0
F	£110	£0
G	£0	£0
H	£0	£0

A map showing the boundaries of each zone is contained within the Charging Schedule. The zones broadly align with different postcodes within the Borough, as follows:

- Zone SW1X
- Zone B: SW3, SW7 and SW1W
- Zone C: W8
- Zone D: SW5 and SW10
- Zone E: W14
- Zone F: W10
- Zone G: The Earl's Court Exhibition Centre site
- Zone H: Kensal Strategic Site

In addition to the rates on residential development outlined above, the Charging Schedule also applies a levy of £160 per square metre on hotel developments and £125 per square metre on student housing. All other types of development are nil rated.

[1] The Examiner proposed that a new nil rated zone be created around the strategic development at the Kensal Gas Works site (the Draft Charging Schedule had proposed a £110 per square metre charge) and that the levy for Extra-care housing in zones E and F be reduced from the proposed £20 per square charge to nil.

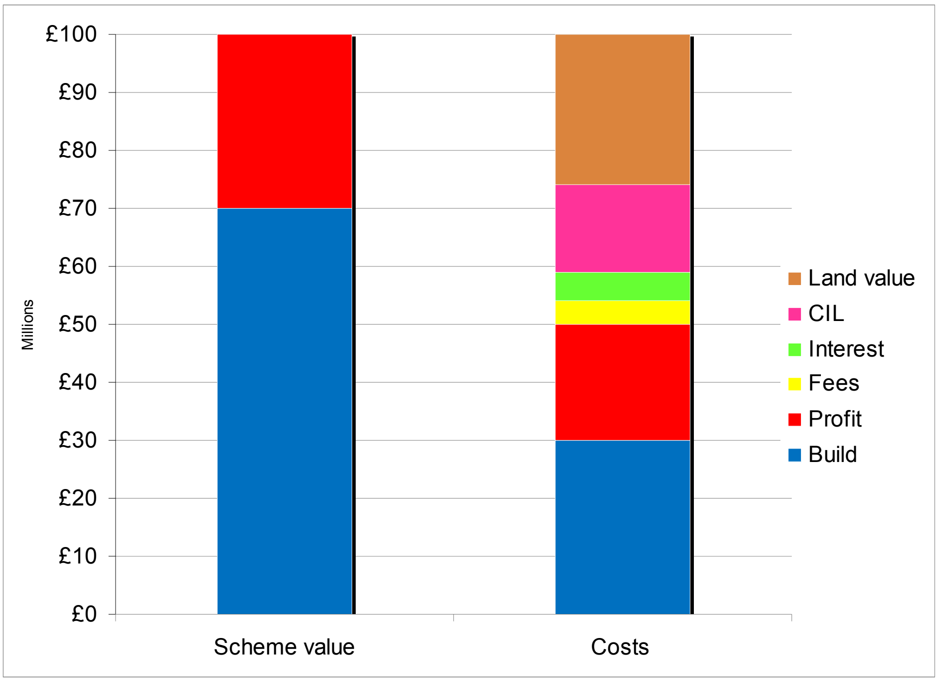
3 Approach to establishing viability

Our methodology for testing the impact of affordable housing obligations on viability of developments in the Borough utilises the 'residual valuation' approach, using locally-based sites and assumptions that reflect local market and planning policy circumstances.

3.1 Residual value approach

The residual value approach essentially calculates the value of the scheme once completed and deducts the development costs to determine a 'residual' amount that is left over to pay for the land. This is a standard approach that developers will adopt when calculating how much they should pay to acquire development opportunities.

Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing and the payment from a Registered Provider ('RP') for the completed affordable housing units (if they are to be provided on site). The model then deducts the build costs, fees, interest, planning obligations and/or Community Infrastructure Levy ('CIL') and developer's profit. A 'residual' amount is left after all these costs are deducted –this is represented by the brown portion of the right hand bar in the diagram.



The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of current or existing use value, which we discuss later), it is likely to be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.

The reliability of the results generated by development appraisals is dependent upon the inputs. Given that the inputs are (to a degree) based on forecasts, appraisals should be regarded as snapshots which are time limited. Issues with key appraisal inputs are outlined as follows:

- Development costs are subject to national and local benchmarking and can be reasonably accurately assessed in 'normal' circumstances. In boroughs like RBKC, some sites will be previously developed. These sites can sometimes encounter 'exceptional' costs such as decontamination (the costs of addressing the previous use of Kensal Gas Works, for example). Such costs can be very difficult to anticipate before detailed site surveys are undertaken;

- Development value and costs will also be significantly affected by assumptions about the nature and type of affordable housing provision and other planning obligations. In addition, on major projects, assumptions about development phasing; and infrastructure required to facilitate each phase of the development will affect residual values. Where the delivery of the obligations are deferred, the less the real cost to the applicant (and the greater the scope for increased affordable housing and other planning obligations). This is because the interest cost is reduced if the costs are incurred later in the development cashflow; and
- While Developer's Profit has to be assumed in any appraisal, its level is closely correlated with risk. The greater the risk, the higher the profit level required by lenders. While profit levels were typically up to around 15% of completed development value at the peak of the market in 2007, banks currently require schemes to show a higher profit to reflect the current risk. Typically developers and banks are targeting 20% profit on the private element of scheme value (a lower profit typically applies to the affordable housing, due to the reduced risk).

Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value[2]' or another appropriate benchmark to make development worthwhile. The margin above existing use value may be considerably different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites.

Clearly, however, landowners have expectations of the value of their land which often exceed the value of the current use. Ultimately, if landowners' expectations are not met, they will not voluntarily sell their land and (unless a Local Authority is prepared to use its compulsory purchase powers) some may simply hold on to their sites, in the hope that policy may change at some future point with reduced requirements. It is within the scope of those expectations that developers have to formulate their offers for sites. The task of formulating an offer for a site is complicated further still during buoyant land markets, where developers have to compete with other developers to secure a site, often speculating on increases in value.

3.2 Viability benchmark

The NPPF is not prescriptive on the type of methodology local planning authorities should use when assessing viability. The Local Housing Delivery Group published guidance in June 2012[3] which provides guidance on testing viability of Local Plan policies. The guidance notes that "*consideration of an appropriate Threshold Land Value [or viability benchmark] 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*".

In light of the weaknesses in the market value approach, the Local Housing Delivery Group guidance recommends that benchmark land value "*is based on a premium over current use values*" with the "*precise figure that should be used as an appropriate premium above current use value [being] determined locally*". The guidance considers that this approach "*is in line with reference in the NPPF to take account of a "competitive return" to a willing land owner*".

The examination on the Mayor of London's CIL charging schedule considered the issue of an appropriate land value benchmark. The Mayor had adopted existing use value, while certain objectors suggested that 'Market Value' was a more appropriate benchmark. The Examiner concluded that:

"The market value approach…. while offering certainty on the price paid for a development site, suffers from being based on prices agreed in an historic policy context." (para 8) and that "*I don't believe that the EUV approach can be accurately described as fundamentally flawed or that this examination should be adjourned to allow work based on the market approach to be done*" (para 9).

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[2] For the purposes of this report, existing use value is defined as the value of the site in its existing use, assuming that it remains in that use. We are not referring to the RICS Valuation Standards definition of 'Existing Use Value'.

[3] Viability Testing Local Plans: Advice for planning practitioners, Local Housing Delivery Group, Chaired by Sir John Harman, June 2012

In his concluding remark, the Examiner points out that

"the price paid for development land may be reduced [so that CIL may be accommodated]. *As with profit levels there may be cries that this is unrealistic, but* ***a reduction in development land value is an inherent part of the CIL concept****. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges.* (para 32 – emphasis added).

It is important to stress, therefore, that there is no single threshold land value at which land will come forward for development. The decision to bring land forward will depend on the type of owner and, in particular, whether the owner occupies the site or holds it as an asset; the strength of demand for the site's current use in comparison to others; how offers received compare to the owner's perception of the value of the site, which in turn is influenced by prices achieved by other sites. Given the lack of a single threshold land value, it is difficult for policy makers to determine the minimum land value that sites should achieve. This will ultimately be a matter of judgement for each individual local authority.

Advisors to developers often suggest that local authorities should run their analyses of the viability of sites on market values. This would be an extremely misleading measure against which to test viability, as market values should reflect *existing policies already in place*, and would consequently tell councils nothing as to how future policies might impact on viability. It has been widely accepted that market values are inappropriate for testing planning policy requirements.

Various Local Plan inspectors and CIL examiners have accepted the key point that Local Plan policies and CIL will ultimately result in a reduction in land values, so benchmarks must consider a reasonable minimum threshold which landowners will accept. The 'bottom line' in terms of land value will be the value of the site in its existing use. This fundamental point is recognised by the RICS at paragraph 3.4.4 of their Guidance Note on 'Financial Viability in Planning":

"For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted should be able to meet the cost of planning obligations while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project (the NPPF refers to this as 'competitive returns' respectively). The return to the landowner will be in the form of a land value in excess of current use value".

Other developers and their advisors also make reference to 'market testing' of benchmark land values. This is another variant of benchmarking against market values. These developers advocate using benchmarks that are based on the prices that sites have been bought and sold for. There are significant weaknesses in this approach for the following reasons:

- Transactions are often based on bids that 'take a view' on squeezing planning policy requirements below target levels. This results in prices paid being too high to allow for policy targets to be met. If these transactions are used to test the viability of sites and planning policy requirements, the outcome would be unreliable and potentially highly misleading.

- Historic transactions of housing sites are often based on the receipt of grant funding, which is no longer available.

- There would be a need to determine whether the developer who built out the comparator sites actually achieved a profit at the equivalent level to the profit adopted in the viability testing. If the developer achieved a sub-optimal level of profit, then any benchmarking using these transactions would produce unreliable and misleading results.

- Developers often build assumptions of growth in sales values into their appraisals, which provides a higher gross development value than would actually be achieved today. Given that our appraisals are based on current values, using prices paid would result in an inconsistent comparison (i.e. current values against the developer's assumed future values). Using these transactions would produce unreliable and misleading results.

For the reasons set out above, the approach of using current use values is a more reliable indicator of viability than using market values or prices paid for sites.

3.3 Using the appraisals to test the impact of tenure scenarios

The Council is considering a number of housing tenure scenarios that it considers will meet the objectives set out in the Housing White Paper. The overall affordable housing percentage was tested in our July 2016 report, so the key issue for testing in this update study is the impact varying tenure mixes will have on the Council's ability to secure the 35% of units proposed in its Publication Policies. A common approach using the same sets of development typologies is adopted for testing the impact of different tenure scenarios. The common assumptions are set out in Appendix 1.

3.4 Impact of National Housing Standards Review

The National Housing Standards Review has resulted in Code for Sustainable Homes being scrapped as a local requirement.

The Zero Carbon policy remains in place, but the 6% allowance previously included in our appraisals significantly exceeds the amounts that are reported to be required in research by Sweett Group and Zero Carbon Hub 'Cost analysis: meeting the zero carbon standards', (February 2014), which identifies the following typical costs:

- Detached house: £76 per square metre
- Semi-detached house: £62 per square metre
- Terraced house: £57 per square metre
- Flats: £43 per square metre

In contrast, the allowances in our appraisals range from a minimum of £96 per square metre to a maximum of £191 per square metre.

The unit sizes in our appraisals exceed the sizes set out in the DCLG 'Nationally described space standards' (March 2015) for both private and affordable housing.

Access requirements in the MALP require the provision of lifts providing access for wheelchair users. Given the nature of development in the Borough, lifts are a standard feature of all developments.

3.5 Impact of Section 106 requirement

Since the 2015 Viability Study was completed, the Council has been operating CIL and collecting Section 106 contributions for infrastructure that is not funded through CIL, with items funded by CIL identified on the Regulation 123 List. The Regulation 123 list also identifies infrastructure for which the Council will seek to collect funds through Section 106 and Section 278 agreements (see overleaf).

We have retained the assumption of a £1,000 residual Section 106 figure adopted in the CIL Viability Study and subsequent appraisals prepared for the Borough's CIL Examination. This is a figure that was previously advised by the Council based on internal analysis of historic section 106 agreements in the context of what was (at the time) expected to be collected through Section 106 after CIL had been adopted. There is no evidence to suggest that this assumption is inappropriate for our updated testing.

Figure 3.5.1: RBKC Regulation 123 list

Category	Column A R123 List	Column B Exceptions from the R123 List i.e. draft list of provisions to be made by means of S106s/S278s/on-site provision (or possibly NCIL)
A Affordable Housing		Affordable Housing*
B Education	Education	
C Community Facilities	• Health • Libraries • Sport & Leisure • Community Facilities • Policing Resources & Emergency Services • Revenue Contributions • Cultural Facilities	
D Public Realm	• Parks & Open Space • Streetscape • Community Safety • Revenue Payments	Public Art
E Transport	• Public Transport • Highways & Traffic Works	• On-site provision of new or enhanced access from the highway or public transport facilities to a development site (S106/S278) • Highway measures necessary to directly mitigate the impact of particular development proposals (S106/S278) • Changes to, or introduction of, local traffic management or controlled parking (S106/S278) • Removal, relocation or replacement of street furniture, dropped kerbs, crossovers, street trees (S106/S278) • Revenue 'pump priming' of new/extended local bus routes/services and/or increased service frequencies** • Parking Restrictions • Travel Plans & Car Clubs
F Natural Resource Management	• Flood Risk • Air Quality • Waste • Biodiversity	• Energy Efficiency • Renewable Energy
G Employment & Training		• Local Training In Construction • General Employment & Training Contributions • Securing Employment Premises • Town Centres, Regeneration & Affordable Shops
Monitoring & Programme Costs	****	Monitoring & Programme Costs

Exceptions from the R123 List for which provision will be made by S106s/S278s/on-site provision

1. An item of infrastructure (or the improvement, replacement, operation or maintenance of any infrastructure) that is specifically required to make a development acceptable, subject to the 'S106 tests' and the pooling restrictions, including the below requirements
2. On-site provision of infrastructure required in accordance with the Development Plan
3. For development in the Earl's Court and West Kensington Opportunity Area / Earl's Court Strategic Site and/or the Kensal Gasworks Strategic Site / Kensal Canalside Opportunity Area, any infrastructure from all Categories required in accordance with the Development Plan (such as infrastructure specified in SPDs or the IDP)
4. For commercial floorspace subject to zero Borough CIL rates, any infrastructure from all Categories (except A Affordable Housing and B Education) required in accordance with the Development Plan (such as infrastructure specified in SPDs or the IDP)

4 Affordable housing tenure scenarios

In high value boroughs such as Kensington & Chelsea, the gulf between market values and the price registered providers can pay to acquire newly developed affordable housing on developments is so significant that changes to tenure mixes rarely result in a significant difference in outcome. However, the Council needs to understand the differences that different affordable housing tenure splits will make on viability, albeit that those differences are likely to be modest.

Following the results of our July 2016 Viability Study, the Council's Publication Policies adopted a tenure split of 50% social/affordable rent and 50% intermediate housing.

We have taken the assessments used in the July 2016 Viability Study as a starting point to establish a base position against which the impact of changes to the affordable housing tenure mix can be measured. As we are seeking to understand the impact of changes to tenure, the starting point is unimportant for this purpose. The underlying assumptions are attached as Appendix 1.

As noted in Section 2.2, the Council is seeking to consider five tenure mixes and have instructed that we retest the schemes in the 2016 Viability Study using all five mixes, and comparing them to a 'base' position reflecting the tenure mix in the Publication Policies of 50% social/affordable rent and 50% intermediate housing.

4.1 Establishing capital values of each tenure

The tenure scenarios the Council is considering are as follows: social/affordable rent; shared ownership; Starter Homes; Discounted Market Sale; Affordable Private Rent; and Intermediate Rent. Our approach to valuing each tenure is set out below.

4.1.1 Social/Affordable Rent

The approach to setting rents for affordable rented units is set out at Appendix 1. This approach remains consistent with the approach previously adopted in the July 2016 study.

For social rented units, we have adopted London Affordable Rent, which is equivalent to social/target rents. For 2019/20, weekly London Affordable Rents are as follows:

- One bed: £150.03
- Two bed: £158.84
- Three bed: £167.67
- Four bed: £176.49

4.1.2 Shared Ownership

The approach to determining the value of shared ownership unit is set out at Appendix 1. To maintain affordability of the units, the capital value is capped at £3,000 per square metre, which is consistent with the approach previously adopted in the July 2016 study.

4.1.3 Starter Homes

The 2017 Housing White Paper introduces an income threshold for determining affordability, which moves away from the previously proposed regime of price caps of £450,000 in London, which would have required a household income in excess of the current London Plan Annual Monitoring Report household income limit of £90,000.

Linking the capital value of the unit to household incomes renders the actual market value of the unit irrelevant for the purposes of determining the value of a unit. For determining the capital value of Starter Homes in the borough, we have assumed that households with the following household incomes will be eligible to access these units:

Table 4.1.3.1: Starter Homes assumed qualifying household incomes and capital values

Maximum qualifying household income	Total available to cover mortgage (40% of net income)	Maximum amount of income to be spent on mortgage	Income Multiplier for mortgage	Capital value	Unit size	Cap val per sqm	Deposit	Mortgage pcm	Annual mortgage
£50,000	£37,000	£14,800	6	£300,000	54	£5,556	£50,000	£1,186	£14,226
£65,000	£45,480	£18,192	6	£389,689	75	£5,196	£70,000	£1,516	£18,192
£85,000	£57,000	£22,800	6	£490,665	90	£5,452	£90,000	£1,900	£22,800
£90,000	£60,000	£24,000	6	£531,753	115	£4,624	£110,000	£2,000	£24,000

4.1.4 Discounted Market Sale

Logically, there is no reason why the household incomes required for Discounted Market Sale units should differ from those outlined above for Starter Homes, given that the Housing White Paper seeks to link price to household incomes of up to £90,000. Our appraisals therefore apply the same capital values to Discounted Market Sale units as those set out in Table 4.1.3.1.

4.1.5 Affordable Private Rent

Affordable Private Rent will only be sought on schemes which are to be provided as 'Build to Rent' schemes. These schemes differ from build for sale schemes in two main respects; firstly, capital values are slightly lower due to the discount applied by the block purchaser; and secondly, developer's profit is reduced due to the reduced risk associated with a pre-sale. The Council's brief indicates that the rent levels for Affordable Private Rent should be modelled on the Council's Intermediate Rent Policy set at 'Option 2' levels from the July 2016 viability study, which are summarised in Table 4.1.5.1.

Table 4.1.5.1: Rent levels for Affordable Private Rent units

Unit type	Strategic Housing Market Assessment median weekly market rents	Rent charged as % of median weekly market rents	Resulting rent per week	LHA per week as comparison
One bed	£450	32%	£144	£276.51
Two bed	£650	34%	£221	£320.74
Three bed	£975	35%	£341	£376.04
Four bed	£1,200	35%	£420	£442.42

4.1.6 Intermediate Rent

The rent levels for Intermediate Rent units will also be set at 'Option 2' levels from the July 2016 viability study, as set out in Table 4.1.5.1.

4.1.7 London Living Rent and Local Housing Allowance

London Living Rents are based on the GLA's published London Living Rent ward data. The Council intends to apply the lowest London Living Rents (for Notting Dale Ward) across the borough. The rents are as follows:

- One bed: £229.72
- Two bed: £255.24
- Three bed: £280.76
- Four bed: £306.29

Kensington and Chelsea falls within the Central London Broad Rental Market Area ('BRMA') and Inner North London BRMA, both of which have identical Local Housing Allowances, as follows:

- One bed: £276.51
- Two bed: £320.74
- Three bed: £376.04
- Four bed: £442.42

4.2 Summary of intermediate housing scenarios

Table 4.2.1 summarises the five scenarios for tenure mix. Scenarios 1 to 5 assume that 50% of the affordable housing is provided as affordable rent, while scenarios 6 and 7 assume that 70% of the affordable housing is provided as social rent.

Table 4.2.1: Summary of intermediate housing tenures

Scenario No	Shared ownership	Starter Homes	Discounted market sale	Discounted market rent	Intermediate Rent	London Living Rent	Local Housing Allowance
1	4%	3%	3%		40%		
2				100%			
3		10%			40%		
4			10%		40%		
5	10%				40%		
6						50%	50%
7						100%	

5 Appraisal results

The results of our appraisals are summarised in tables 5.2.1 to 5.2.5 below. The viability of the seven tenure split scenarios is compared to a base position of the Publication Policy requirement of 50% social/affordable rented and 50% shared ownership, assuming a 35% overall affordable housing provision. This is headed as the 'Starting RLV (Residual Land Value)' with the residual land values for scenarios 1 to 7 shown alongside the starting point. We have also shown the percentage change in RLVs against the base position for each of the tenure scenarios.

RLV scenario 6 assumes that the tenure split is altered to provide 70% social rent and 30% intermediate. The 30% intermediate housing is split equally between London Living Rent and Local Housing Allowances. RLV scenario 7 adopts the same 70%/30% split, but 100% of the intermediate is assumed to be provided as London Living Rent at the lowest rent in the borough (based on Notting Dale ward rents).

The impact of varying the rent levels and overall tenure split of the intermediate housing compared to the base position of 50% affordable rent and 50% shared ownership is modest in high value areas, due to the significant difference between market values and affordable housing in the wider sense. Adjustments to the tenure split and/or intermediate tenure types within the overall affordable housing provision therefore makes little difference to the overall residual land values generated by developments.

The exception to this general observation is Site type 5 in CIL Zone F, where there are significant changes to the RLV as a result of changes to rent scenarios (ranging from 39% to 201%). This is because the RLV is low and consequently very sensitive to changes in inputs. The reduction in capital value of the affordable housing resulting from moving from the base assumption to scenario 1 equates to £0.86 million, hence the significant change in the RLV from -£0.67 million to -£1.37 million.

The impact of varying the overall tenure mix from 50% rent / 50% intermediate to 70% rent and 30% intermediate is also modest in most areas and for most site typologies. In all but a handful of cases, the change in residual land value from the base position to scenarios 6 and 7 is less than 10%.

With that caveat in mind, it is clear from the results tables that all the scenarios result in viability outcome which is little changed from the base position. The Council could therefore proceed with any of the seven intermediate tenure scenarios as they all result in broadly viable outcomes; no reduction in the overall quantum of affordable housing would be required to accommodate the proposed tenure mixes.

Table 5.2.1: CIL Zone A

Site type	Starting RLV	RLV scenario 1	RLV scenario 2	RLV scenario 3	RLV scenario 4	RLV scenario 5	RLV scenario 6	PLV scenario 7
1	£9,657,943	£9,641,360	£9,641,191	£9,651,714	£9,651,714	£9,625,829	£9,612,631	£9,599,846
		0.17%	*0.17%*	*0.06%*	*0.06%*	*0.33%*	*0.47%*	*0.60%*
2	£7,320,685	£7,302,737	£7,302,554	£7,313,944	£7,313,944	£7,285,928	£7,271,644	£7,257,805
		0.25%	*0.25%*	*0.09%*	*0.09%*	*0.47%*	*0.67%*	*0.86%*
3	£61,654,288	£61,492,128	£61,490,476	£61,593,382	£61,593,382	£61,340,247	£61,211,187	£61,086,151
		0.26%	*0.27%*	*0.10%*	*0.10%*	*0.51%*	*0.72%*	*0.92%*
4	£113,238,284	£112,919,901	£112,916,656	£113,118,701	£113,118,701	£112,621,699	£112,368,304	£112,122,809
		0.28%	*0.28%*	*0.11%*	*0.11%*	*0.54%*	*0.77%*	*0.99%*
5	£209,254,710	£208,612,684	£208,606,143	£209,013,569	£209,013,569	£208,011,358	£207,500,384	£207,005,340
		0.31%	*0.31%*	*0.12%*	*0.12%*	*0.59%*	*0.84%*	*1.07%*

Table 5.2.2: CIL Zone B

Site type	Starting RLV	RLV scenario 1	RLV scenario 2	RLV scenario 3	RLV scenario 4	RLV scenario 5	RLV scenario 6	PLV scenario 7
1	£4,954,142	£4,937,559	£4,937,390	£4,947,913	£4,947,913	£4,922,028	£4,908,831	£4,896,045
		0.33%	*0.34%*	*0.13%*	*0.13%*	*0.65%*	*0.91%*	1.17%
2	£3,363,305	£3,345,358	£3,345,175	£3,356,564	£3,356,564	£3,328,548	£3,314,264	£3,300,425
		0.53%	*0.54%*	*0.20%*	*0.20%*	*1.03%*	*1.46%*	1.87%
3	£26,464,887	£26,300,075	£26,298,395	£26,402,985	£26,402,985	£26,145,709	£26,014,539	£25,887,458
		0.62%	*0.63%*	*0.23%*	*0.23%*	*1.21%*	*1.70%*	2.18%
4	£45,051,080	£44,727,489	£44,724,192	£44,929,542	£44,929,542	£44,424,411	£44,166,871	£43,917,362
		0.72%	*0.73%*	*0.27%*	*0.27%*	*1.39%*	*1.96%*	2.52%
5	£72,202,853	£71,539,655	£71,532,898	£71,953,759	£71,953,759	£70,918,497	£70,390,673	£69,879,304
		0.92%	*0.93%*	*0.34%*	*0.34%*	*1.78%*	*2.51%*	3.22%

Table 5.2.3: CIL Zone C

Site type	Starting RLV	RLV scenario 1	RLV scenario 2	RLV scenario 3	RLV scenario 4	RLV scenario 5	RLV scenario 6	PLV scenario 7
1	£4,764,730	£4,748,147	£4,747,979	£4,758,502	£4,758,502	£4,732,616	£4,719,419	£4,706,633
		0.35%	*0.35%*	*0.13%*	*0.13%*	*0.67%*	*0.95%*	1.22%
2	£3,205,735	£3,187,788	£3,187,605	£3,198,994	£3,198,994	£3,170,978	£3,156,694	£3,142,856
		0.56%	*0.57%*	*0.21%*	*0.21%*	*1.08%*	*1.53%*	1.96%
3	£25,062,598	£24,897,785	£24,896,106	£25,000,695	£25,000,695	£24,743,421	£24,612,250	£24,485,169
		0.66%	*0.66%*	*0.25%*	*0.25%*	*1.27%*	*1.80%*	2.30%
4	£42,342,333	£42,018,742	£42,015,445	£42,220,794	£42,220,794	£41,715,664	£41,458,125	£41,208,614
		0.76%	*0.77%*	*0.29%*	*0.29%*	*1.48%*	*2.09%*	2.68%
5	£66,754,698	£66,091,500	£66,084,743	£66,505,605	£66,505,605	£65,470,343	£64,942,518	£64,431,150
		0.99%	*1.00%*	*0.37%*	*0.37%*	*1.92%*	*2.71%*	3.48%

Table 5.2.4: CIL Zone D

Site type	Starting RLV	RLV scenario 1	RLV scenario 2	RLV scenario 3	RLV scenario 4	RLV scenario 5	RLV scenario 6	PLV scenario 7
1	£2,988,423	£2,971,841	£2,971,673	£2,982,196	£2,982,196	£2,956,311	£2,943,113	£2,930,327
		0.55%	*0.56%*	*0.21%*	*0.21%*	*1.07%*	*1.52%*	1.94%
2	£2,183,686	£2,165,739	£2,165,556	£2,176,945	£2,176,945	£2,148,929	£2,134,646	£2,120,807
		0.82%	*0.83%*	*0.31%*	*0.31%*	*1.59%*	*2.25%*	2.88%
3	£16,780,443	£16,615,631	£16,613,952	£16,718,541	£16,718,541	£16,461,266	£16,330,096	£16,203,014
		0.98%	*0.99%*	*0.37%*	*0.37%*	*1.90%*	*2.68%*	3.44%
4	£27,741,792	£27,418,200	£27,414,904	£27,620,252	£27,620,252	£27,115,121	£26,857,582	£26,608,072
		1.17%	*1.18%*	*0.44%*	*0.44%*	*2.26%*	*3.19%*	4.09%
5	£41,607,425	£40,944,227	£40,937,470	£41,358,332	£41,358,332	£40,323,070	£39,795,246	£39,283,877
		1.59%	*1.61%*	*0.60%*	*0.60%*	*3.09%*	*4.36%*	5.58%

Table 5.2.5: CIL Zone E

Site type	Starting RLV	RLV scenario 1	RLV scenario 2	RLV scenario 3	RLV scenario 4	RLV scenario 5	RLV scenario 6	PLV scenario 7
1	£2,467,027	£2,450,445	£2,450,277	£2,460,800	£2,460,800	£2,434,915	£2,421,717	£2,408,931
		0.67%	0.68%	0.25%	0.25%	1.30%	1.84%	2.35%
2	£1,745,751	£1,727,804	£1,727,621	£1,739,010	£1,739,010	£1,710,994	£1,696,711	£1,682,872
		1.03%	1.04%	0.39%	0.39%	1.99%	2.81%	3.60%
3	£12,876,000	£12,711,188	£12,709,509	£12,814,098	£12,814,098	£12,556,823	£12,425,653	£12,298,571
		1.28%	1.29%	0.48%	0.48%	2.48%	3.50%	4.48%
4	£20,154,307	£19,825,422	£19,822,072	£20,030,779	£20,030,779	£19,517,387	£19,255,636	£19,002,046
		1.63%	1.65%	0.61%	0.61%	3.16%	4.46%	5.72%
5	£26,225,568	£25,551,524	£25,544,656	£25,972,401	£25,972,401	£24,920,208	£24,383,750	£23,864,018
		2.57%	2.60%	0.97%	0.97%	4.98%	7.02%	9.00%

Table 4.2.6: CIL Zone F

Site type	Starting RLV	RLV scenario 1	RLV scenario 2	RLV scenario 3	RLV scenario 4	RLV scenario 5	RLV scenario 6	PLV scenario 7
1	£1,570,526	£1,553,944	£1,553,774	£1,564,297	£1,564,297	£1,538,412	£1,525,215	£1,512,429
		1.06%	*1.07%*	*0.40%*	*0.40%*	*2.04%*	*2.89%*	*3.70%*
2	£992,086	£974,139	£973,956	£985,345	£985,345	£957,329	£943,045	£929,207
		1.81%	*1.83%*	*0.68%*	*0.68%*	*3.50%*	*4.94%*	*6.34%*
3	£6,144,044	£5,976,536	£5,974,830	£6,081,129	£6,081,129	£5,819,647	£5,686,331	£5,557,171
		2.73%	*2.75%*	*1.02%*	*1.02%*	*5.28%*	*7.45%*	*9.55%*
4	£6,979,760	£6,645,497	£6,642,092	£6,854,213	£6,854,213	£6,332,425	£6,066,391	£5,808,654
		4.79%	*4.84%*	*1.80%*	*1.80%*	*9.27%*	*13.09%*	*16.78%*
5	-£669,339	-£1,365,612	-£1,372,706	-£930,855	-£930,855	-£2,017,748	-£2,571,896	-£3,108,768
		104.02%	*105.08%*	*39.07%*	*39.07%*	*201.45%*	*284.24%*	*364.45%*

6 Conclusions

This report addresses specific affordable housing issues in relation to the government's proposals in the February 2017 Housing White Paper *'Fixing our broken housing market'.* It has been updated to add an additional scenario of 70% rent and 30% intermediate, with two intermediate tenure splits (an equal split between London Living Rent and Local Housing Allowance; and 100% London Living Rent). In both cases, the London Living Rent values are based on the rents for the lowest value ward in the borough (Notting Dale).

While maintaining an overall level of 35% affordable housing, 50% of which is to be provided as Affordable Rent, we have tested the remaining 50% with varying intermediate tenures, including Starter Homes (with affordability amended to household incomes rather than unit price); Discounted Market Sale; and Intermediate Rent. Where schemes are to be provided as build for rent, the whole affordable housing requirement is satisfied through the provision of Affordable Private Rent which generally is viable at 35%. Due to the constraint of affordability, the value generated by these tenures is not significantly different from each other. The change in residual values when varying the mix of the tenure scenarios is relatively modest as a consequence of the limited difference in values.

The additional scenarios added in August 2019 assume that the 70% rented element is provided as social rent, with the remaining 30% split between London Living Rent and Local Housing Allowance, or as 100% London Living Rent.

Our testing of the Council's affordable housing tenure scenarios indicates that there is little difference in residual land values in comparison to the Publication Policies mix of 50% Affordable Rent and 50% Shared Ownership. The evidence shows that a range of scenarios that could arise from the emerging national requirements in the Housing White Paper do not adversely affect the viability of the Council's Publication Policy affordable housing floorspace target of 35% and tenure split of 50% social/affordable rent and 50% intermediate (which could include intermediate rent and/or affordable home ownership).

Appendix 1 - Appraisal assumptions

Appraisal inputs

Site areas and scheme content

We have adopted the same typologies as those used in the 2015 Viability study, which are summarised in Table 1.1.1. Development densities range from 60 dwellings per hectare to 300 dwellings per hectare.

Table 1.1.1 – Development typologies

	Number of units	Housing type	Development density units per ha	Net developable area (ha)
1	4	Houses	60	0.067
2	5	Flats	100	0.05
3	50	Flats	150	0.33
4	100	Flats	200	0.50
5	200	Flats	300	0.67

The unit mix adopted in the appraisals is summarised in Table 1.1.2.

Table 1.1.2: Unit mix

Site type	1 Bed flat	2 bed flat	3 bed flat	4 bed flat	3 bed house	4 bed house
Unit sizes – private	*70*	*90*	*110*	*150*	*150*	*200*
Unit sizes – affordable	*54*	*75*	*90*	*115*	*100*	*120*
1	-	-	-	-	50%	50%
2	-	20%	40%	40%	-	-
3	10%	10%	50%	30%	-	-
4	10%	10%	50%	30%	-	-
5	10%	10%	40%	40%	-	-

Residential Sales values

Sales values used in the appraisals are summarised in Table 1.1.3. These values are sourced from the 2015 Viability Study. Land Registry data indicates that there have been no significant changes in values in the Borough over the past twelve months.

Table 1.1.3: Sales values used in the appraisals

Area	Average values £s per sqm
North of Ladbroke Grove W10	9,188
Holland Park W11	15,546
Olympia W14	12,307
Notting Hill Gate and Kensington High Street W8	20,350
Earls Court SW5 and SW10	14,168
Chelsea SW3, SW1W	21,120
Knightsbridge	37,210

Residential Sales rate

Our appraisals assume that most units will be sold off-plan prior to practical completion, with income received at practical completion. Our appraisals assume that there will be a period following practical completion during which any units that are not pre-sold will be marketed.

Build costs

We have sourced build costs for the residential schemes from the RICS Building Cost Information Service (BCIS), which is based on tenders for actual schemes (attached as Appendix 2). However, adjustments to the base costs are necessary to reflect the specification of development in the Borough, which is reflective of high specification and high value property. BCIS estimate that costs require an upwards adjustment of 24% to reflect Borough-specific circumstances.

Our approach for each site is set out in the following paragraphs.

Site type 1 is a scheme of 4 houses. The upper quartile BCIS base cost for "one-off housing terraced" schemes is £1,402 per square metre, excluding external works and fees. We have adjusted the base costs by 30% to reflect additional costs that would be incurred to meet the expectations of purchasers. The adjusted cost is therefore £1,823 per square metre. After a 15% allowance for external works has been added, the final build cost is £2,096 per square metre. As the scheme is comprised wholly of houses, we have assumed a gross to net ratio of 100%.

Site type 2 is a scheme of 5 flats. We have adopted the upper quartile BCIS base cost for "flats of 6 or more storeys" of £1,950 per square metre, excluding external works and fees. We have adjusted the base costs by 30% to reflect additional costs that would be incurred to meet the expectations of purchasers. The adjusted cost is therefore £2,535 per square metre. After a 15% allowance for external works has been added, the final build cost is £2,915 per square metre. We have assumed a net to gross ratio of 85%.

Site type 3 is a scheme of 50 flats. We have again adopted the upper quartile BCIS base cost for "flats of 6 or more storeys" of £1,950 per square metre, excluding external works and fees. We have adjusted the base costs by 15% to reflect additional height above six storeys and the likelihood of the provision of an element of basement car parking. A further 30% is added to reflect additional costs that would be incurred to meet the expectations of purchasers. The adjusted cost is therefore £2,828 per square metre. After a 15% allowance for external works has been added, the final build cost is £3,252 per square metre. We have assumed a net to gross ratio of 82.5%.

Site type 4 is a scheme of 100 flats. We have again adopted the upper quartile BCIS base cost for "flats of 6 or more storeys" of £1,950 per square metre, excluding external works and fees. We have adjusted the base costs by 30% to reflect additional height above six storeys and the likelihood of the provision of an element of basement car parking. A further 30% is added to reflect additional costs that would be incurred to meet the expectations of purchasers. The adjusted cost is therefore £3,120 per square metre. After a 15% allowance for external works has been added, the final build cost is £3,588 per square metre. We have assumed a net to gross ratio of 82.5%.

Site type 5 is a scheme of 200 flats. We have again adopted the upper quartile BCIS base cost for "flats of 6 or more storeys" of £1,950 per square metre, excluding external works and fees. We have adjusted the base costs by 50% to reflect additional height above six storeys and the likelihood of the provision of an element of basement car parking. A further 30% is added to reflect additional costs that would be incurred to meet the expectations of purchasers. The adjusted cost is therefore £3,150 per square metre. After a 15% allowance for external works has been added, the final build cost is £4,037 per square metre. We have assumed a net to gross ratio of 80%.

A summary of build costs for each scheme type is provided in Table 1.1.4.

Table 1.1.4: Build costs

Site type	BCIS base – quarter 2 2012	Base cost	Height adjust	Quality adjust[4]	Adjusted cost	External works	All-in cost
1	One off housing terraced Upper Quartile	£1,402	0	30%	£1,823	15%	£2,096
2	Flats 6+ storeys Upper Quartile	£1,950	0	30%	£2,535	15%	£2,915
3	Flats 6+ storeys Upper Quartile	£1,950	15%	30%	£2,828	15%	£3,252
4	Flats 6+ storeys Upper Quartile	£1,950	30%	30%	£3,120	15%	£3,588
5	Flats 6+ storeys Upper Quartile	£1,950	50%	30%	£3,510	15%	£4,037

An additional 6% allowance is included across all tenures for meeting Code for Sustainable Homes level 4, which is reflective of the findings of work undertaken by Cyrill Sweett on behalf of CLG. This allowance exceeds the amounts that are reported to be required in research by Sweett Group and Zero Carbon Hub '*Cost analysis: meeting the zero carbon standard*' (February 2014) which identifies the following typical costs:

- Detached house: £76 per square metre
- Semi-detached house: £62 per square metre
- Terraced house: £57 per square metre
- Flats: £43 per square metre

In contrast, the allowances in our appraisals range from a minimum of £84 per square metre to a maximum of £117 per square metre.

Affordable Housing

Policy (CH2) of the Core Strategy sets the following affordable housing requirements:

- Schemes up to 799 square metres (GEA) – no requirement;
- Schemes of between 800 to 1,200 square metres (GEA) or more – a payment based on the entire net increase in floorspace on site (revised from the current requirement of a payment based on the floorspace in excess of 800 square metres);
- Whilst the current policy seeks a £2,500 per square metre charge, this is under review;

[4] Applies in higher value areas only (Knightsbridge, Chelsea, Notting Hill and Kensington High Street areas)

- Schemes providing 1,201 square metres or more – current policy assumes delivery on site.

For the purposes of testing the affordable housing target, we have assumed that all sites would be required to provide affordable housing on-site, rather than through a payment in lieu. Thresholds and payments in lieu are tested in a separate report.

The Council has adopted a policy position with regards to rent levels for Affordable Rented properties[5]. Having regard to incomes of households in housing need and the benefit caps under the Universal Credit, the Council has concluded that setting a rent as a percentage of market rents is inappropriate. Instead, the Council has adopted a system that takes Target Rents as a starting point. Where affordability allows, the Council would then add a percentage uplift to rents for certain properties, as shown in Table 1.1.5.

Table 4.5.1: RBKC Affordable Rent units – proposed rent levels

Unit type	Percentage uplift under interim housing policy
1 bed	Average RP Target Rent plus 30%
2 beds	Average RP Target Rent plus 25%
3 beds	Average RP Target Rent plus 12%
4 beds	Average RP Target Rent plus 5%
5 beds	Average RP Target Rent plus 5%

Values for shared ownership properties are capped at £3,000 per square metre to ensure that units can be sold to purchasers who qualify under the London Plan household income thresholds. Applying typical metrics in terms of equity sale tranches and rent and unsold equity would exceed these income thresholds in most cases in the Borough.

Build to rent

Our appraisals for build to rent schemes assume a 5% discount to market values for block purchase, with receipts at practical completion.

Developer's profit on build to rent schemes is applied at a reduced rate of 15% to reflect the block sale of the units to a single purchaser. This reduced profit rate has been applied on numerous live developments submitted for planning.

Community Infrastructure Levy and section 106 obligations

The position regarding the Council's CIL is discussed in Section 2.1. We have incorporated CIL at the relevant rate for each area into our appraisals. In addition, we have incorporated an additional allowance of £1,000 per unit across all tenures for residual Section 106 requirements.

Other assumptions

The other assumptions in our appraisals are as follows:

- Allowance for professional fees of 10% of build costs on site typologies 1, 2 and 3, and 12% on site typologies 4 and 5;
- Finance costs of 7% on negative balances; 0% on positive balances;
- Profit of 20% of private housing Gross Development Value (GDV) and 6% on affordable housing GDV;
- Acquisition costs: 4% stamp duty land tax, 1% agent's fee and 0.8% legal fees;

[5] RBKC: 'Key Decision Report 18 November 2011 – Adoption of the Affordable Rent Interim Housing Policy for Section 106 agreements'

- Marketing costs: 3% of private housing GDV;
- Sales legal fee of 0.5% of private housing GDV; and
- Code for Sustainable Homes Level 4: 6% of base build costs.

Benchmark land values

Benchmark land values are not relevant for this update study as all the testing we have undertaken is based on comparisons of residual land values before and after the adoption of newly proposed policies.