

Appendix 4

Calculation of In Lieu Payments for Affordable Housing

Developer subsidy relates to the implications for the land use of a particular site. The developer subsidy is established by looking at the difference in residual land value between the development without an encumbrance (in this case the encumbrance is the imposition of affordable housing) and the residual land value with the encumbrance. The simple formula for developer subsidy is thus:

$$\begin{aligned} & \text{DEVELOPER SUBSIDY FOR AFFORDABLE HOUSING} \\ & = \\ & \text{RESIDUAL VALUE OF DEVELOPMENT UNENCUMBERED BY AFFORDABLE} \\ & \quad \text{HOUSING} \\ & \quad \text{LESS} \\ & \text{RESIDUAL VALUE OF DEVELOPMENT ENCUMBERED BY AFFORDABLE} \\ & \text{HOUSING (TAKING INTO ACCOUNT ANY REALISTICALLY ACHIEVABLE} \\ & \text{ESTABLISHED ALTERNATIVE OR EXISTING USE)}^5 \end{aligned}$$

Thus the formula involves two discrete calculations and we would suggest a simple matrix that enables these two calculations to be assessed. This is as follows with example figures input⁶

| Scheme | A 100% Market | B Mixed Scheme (Affordable & Market) |
|---------------------------------------|---------------------|--|
| Gross Development Value (GDV) | £10,000,000 | £6,500,000 |
| Values/Receipts | | £2,000,000 |
| Grant Provided | | Nil |
| Total Build Costs | £4,750,000 | £4,750,000 |
| Total On Costs | £475,000 | £475,000 |
| Total Other s106 Costs | £100,000 | £100,000 |
| Total Sales Costs | £650,000 | £450,000 |
| Total Finance Costs | £1,000,000 | £700,000 |
| Total Acquisition Costs | £100,000 | £70,000 |
| Developer Profit @ 17% GDV | £1,700,00 | £1,225,000 |
| Residual (Values/Receipts Less Costs) | £1,225,000 | £730,000 |
| Developer Subsidy Required (A-B) | £495,000 | |

⁵ Any realistically achievable alternative use must accord with the approach of the Development Plan

⁶ Please note that these figures are for illustrative purposes only

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