

**THREE DRAGONS**  
**DEVELOPMENT APPRAISAL TOOLKIT**  
**CAIRNGORMS NATIONAL PARK AUTHORITY**  
**GUIDANCE NOTES**

**September 2010**



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## A PRINCIPLES AND USE OF THE TOOLKIT

### A1 Overview

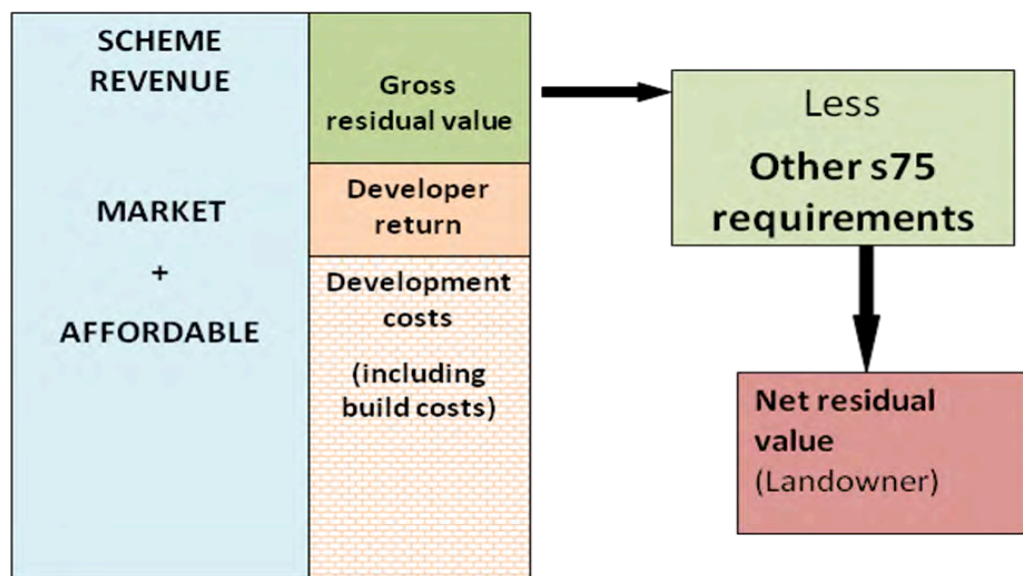
The Development Appraisal Toolkit provides the user with an assessment of the economics of residential development. It allows the user to test the economic implications of different types and amounts of planning obligation and, in particular, the amount and mix of affordable housing in a scheme. The user can alter a range of different assumptions including house prices, density and build costs and compare the results these generate.

The Toolkit can be an aid to decision making but it cannot make decisions. It does not say if such and such a residual value is achieved then development can or cannot go ahead. However, it gives the user information about the economics of development, which can be taken into account, along with a range of other factors about the site, in developing affordable housing policy and making decisions about proposed schemes, be they at pre-application negotiation stage, an outline planning application or a full/detailed application.

### A2 Residual value approach

The Toolkit compares the potential revenue from a site with the potential costs of development before a payment for land is made (i.e. the main output of the Toolkit is a residual value). Development costs include a standard return for the developer and contractor. The diagram below shows this approach schematically and distinguishes between the gross residual value and a net residual value (which includes the costs of s75 obligations other than affordable housing).

**Figure 1: Residual Value Approach Modelled in the Toolkit**



### A3 Default and Scheme Specific Values

For some inputs, such as house prices and building costs, the Toolkit has 'default' values. The default values vary by house type and by area. These values are based on 2006 house prices, provided by Heriot-Watt University, uplifted to 2010 levels based on average levels of house price inflation in each local authority area between 2006

and 2010. Where the user has scheme specific values, these should always be used in preference to the default values. See AN2 on page 48.

The Toolkit can be used to test the sensitivity of the residual value to different input values. For example, the user can see how different amounts of affordable housing, higher or lower house prices or higher or lower build costs influence the residual value.

Values shown in the screenshots in these guidance notes are for illustrative purposes. Default values will vary for different authorities.

#### **A4 Interpretation of Toolkit Results**

The residual value generated by the Toolkit can be compared with various benchmark values. These include the existing use value of a site, alternative use values and/ or the acquisition cost of the land.

The existing use of a site is simply the value of the site in its existing use e.g. as industrial or commercial land or agricultural or garden land. The alternative use value is the value of a use for which planning permission has already been granted or where it might realistically be expected.

Under most circumstances, a planning permission for residential development, even with an element of affordable housing will raise the site value beyond its existing use. However, there may be existing or, more likely, alternative uses, which have a value similar to or greater than residential development e.g. as retail

Where the existing use is commercial/industrial, any residential planning permission (with or without affordable housing) will have to provide sufficient money to allow for the relocation of any existing occupiers.

There is no set rate at which land will come forward for residential development. This will vary by location, existing or alternative use and the landowner's specific circumstances and expectations. Nevertheless, published data is a useful starting point from which to derive benchmark land values. The Valuation Office Agency publishes Property Market Report twice annually, in January and July<sup>1</sup>. The most recent report (January 2010) gives typical residential and industrial land values for Aberdeen, Edinburgh and Glasgow. Typical agricultural land values are also given for a number of areas, including Grampians / Aberdeen (the latter will be most applicable to CNPA). This source provides benchmark land values (per hectare equivalents) which can be useful in comparing the residual values generated by the Toolkit with typical values found in the market.

As Property Market Report does not provide appropriate benchmark values for all locations and circumstances, it is important that that published information be supplemented with local knowledge. Local Authorities should consult with local experts in the land market, such as surveyors and estate agents, to determine typical land values for their location.

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<sup>1</sup> ([http://www.voa.gov.uk/publications/property\\_market\\_report/index.htm](http://www.voa.gov.uk/publications/property_market_report/index.htm)).

It is important that where affordable housing contributions are being negotiated on specific schemes that local authorities are in possession of full scheme specific information. A 'check list' of information requirements is set out in Appendix 1.

## **B BASIC PRINCIPLES UNDERLYING THE TOOLKIT**

### **B1 The Scheme**

The Toolkit is designed to analyse the development economics of 'schemes' and to produce scheme-specific residual values. Usually a scheme will have a defined physical boundary (for example, the 'red line' of a planning application) but the Toolkit will operate provided the user can estimate the site area of the scheme. The Toolkit does not produce results for a particular site, which will hold whatever the characteristics of the development proposed. Residual values for a site will vary depending, for example, on the mix of uses, density, percentage of affordable housing, build costs etc.

### **B2 Units of Measurement**

The basic unit of measurement in the Toolkit is the dwelling. This dictates how prices are measured. Users can introduce some information about habitable rooms in a scheme but will need to input their own values.

### **B3 Core Dwelling Types**

The Toolkit has 14 core dwelling types:

Ref.	Dwelling Type
1	1 Bed Flat
2	2 Bed Flat
3	3 Bed Flat
4	2 Bed Terrace
5	3 Bed Terrace
6	4 Bed Terrace
7	2 Bed Semi-detached
8	3 Bed Semi-detached
9	4 Bed Semi-detached
10	3 Bed Detached
11	4 Bed Detached
12	5 Bed Detached
13	2 Bed Bungalow
14	3 Bed Bungalow

The Toolkit allows the user to either input scheme specific data or to select specimen development mixes using the core dwelling types determined by the Toolkit. The specimen development mixes are contingent on the density selected. When a higher density is selected, the Toolkit default mix which is called up will have a higher proportion of smaller units (eg flats) and a lower proportion of larger units than when a lower density is selected.

Where the user has very limited scheme information (for example, at pre-application discussion) the core dwelling types provide the basis of operation for the Toolkit.

## B4 Tenures

The four basic tenures which can be modelled in the toolkit are market / sale, social rent, mid market Rent and shared equity. Below is an explanation of the affordable housing tenures / products which the user may wish to model:

### Social rented

- Housing provided at an affordable rent and usually managed by a Registered Social Landlord such as a Housing Association. As set out in HIGN 2010/04, the standard rent for 2010/11 is £3,266 per annum (£3,103 for remote rural areas and small towns), based on a 3 person equivalent dwelling (paragraphs 3.1 and 3.2, p.5). The default social rents called up by the toolkit are based on these standard rents. Rents for the full range of dwelling types used in the toolkit have been calculated using the 3 person equivalency conversion tables in HIGN 2009/14.

### Subsidised low cost housing for sale

- Subsidised low cost sale – a subsidised dwelling sold at an affordable level (sale price to be informed by the relevant HNDA). Discounted serviced plots for self build can contribute. A legal agreement can be used to ensure that subsequent buyers are also eligible buyers. In rural areas this may be achieved through a rural housing burden (under the Title Conditions (Scotland) Act 2003)
- Shared ownership – the owner purchases part of the dwelling and pays an occupancy payment to a Registered Social Landlord on the remainder.
- Shared equity – the owner pays for the majority share in the property with the Registered Social Landlord, local authority, or Scottish Government holding the remaining share under a shared equity agreement. Unlike shared ownership, the owner pays no rent and owns the property outright.

The maximum sale price for NSSE properties will be set by the district valuer or an agreed independent valuer. Even in high value market areas the price limit for NSSE properties is unlikely to exceed £140,000. Details of the scheme are set out in HIGN 2010/05.

### Unsubsidised low cost housing for sale

- Entry level housing for sale – a dwelling without public subsidy sold at an affordable level (sale price to be informed by the relevant HNDA). Conditions may be attached to the missives in order to maintain the house as an affordable unit to subsequent purchasers.
- Shared equity - the owner purchases part of the dwelling, with the remaining stake held by a developer.

### Mid-market or intermediate rented

- Private rented accommodation available at rents below market rent levels in the area and which may be provided over the medium or long term (rent to

be informed by the relevant HNDA and agreed by the Local Authority, or be in line with Scottish Government requirements). Scottish Government terms mid-market rent, rent that does not exceeding 80% of Local Housing Allowance for a particular Broad Rental Market Area. (HIGN 2010/07 paragraph 3.13, p.11)

## **C GETTING STARTED USING THE TOOLKIT**

### **C1 Introduction**

To run the Toolkit Microsoft Excel 2000 or a more recent version is required. The user should have a valid and licensed copy of this software installed. The Toolkit should not be copied and supplied or in any way made available to any other persons.

The conditions for use of the Toolkit are set out in the 'click wrap' agreement incorporated within it which the user should accept before making use of the Toolkit.

Note: If the toolkit file has been opened from an email attachment, you will need to save the file to the computer before running the toolkit. Once the toolkit file has been saved to the computer, close the attachment and open the toolkit from the saved file.

### **C2 Set-up Notes**

Macros and security levels:-

This Toolkit contains macros that are required for it to function correctly.

Excel has 3 security levels (See the Excel help files for more information):

- High – in which case the macros will not run and the Toolkit will not function.
- Medium – in which case you will get a warning about macros each time you run the Toolkit. You should choose the 'Enable Macros' button.
- Low – this is not recommended as it offers only limited virus protection.

The recommended level is medium. To set the security level, open Excel without opening any of the Toolkit files, and select the 'security' menu option. The location of this option may vary according to which version of Excel you have. When the security level is set at medium a security warning will appear at the bottom of the toolbar when the toolkit is opened. Click on options. Select 'enable content' then click on 'ok'. The toolkit is now ready to use.

When you have enabled macros you will see a tab at the top of the screen labelled Add-Ins. Click on this tab and a series of icons will appear which enable quick navigation round the toolkit. Alternatively you can use the Go To button which takes you to a Drop Down menu which contains the same information and will also enable quick navigation between toolkit screens.

### **C3 Terminology**

These Guidance Notes provide a step-by-step guide through each part of the Toolkit. Each part of the Toolkit is shown as it appears on the screen and guidance given about what the user needs to do along with some further background information and helpful tips.

Users need to be aware that on the screen, the Toolkit will often show figures as whole numbers or numbers to one decimal place although the underlying calculations may be working at a more detailed level.

Important terms used in the Guidance Notes are:

**‘Tick a box’:** means left click with the mouse in the box. A tick will appear in the box which means that operation has been ‘turned on’. Left clicking again will remove the tick (and that function is ‘turned off’).

**‘Select an option button’:** this instruction will arise where the user has a series of options to choose from, each identified by a button with a description alongside. ‘Select an option button’ means left click with the mouse on the button to highlight it (which selects the way of working described next to the button).

A **‘drop down list’** is a series of options set out in a list. To use a ‘drop down list’ left click the mouse over the arrow at the right of the list to bring down the full list. Click over the required item from the list to select it.

A **test or run of the Toolkit** – refers to the completion of the Toolkit for a scheme and results shown on the Scheme Results page.

The Guidance Notes also include background policy information/advice about specific particular sections of the Toolkit. These notes are titled ‘Advisory’.

#### **C4 Layout of Toolkit**

The Toolkit is made up of a number of pages. There are several types of pages:

- User input pages;
- Users own values for particular variables
- Information sheet with Toolkit values;
- Results pages.

The Toolkit uses colour coding as follows:

For the ‘input pages’ the user can only enter or change values in the white cells;

Some pages have menu buttons at the top of the page which give the user options, for example, access to information and movement between the pages.

#### **C5 View and Go to**

For swift navigation round the Toolkit the user can refer to the **Go To** menu button at the top of the page. This provides a set of options, which allows the user to go directly to a particular page of the Toolkit.

The **View** facility offers the user options for zooming in and out and seeing a summary page of scheme information.

## **C6 Data Options**

For key variables, the Toolkit allows the user to choose two main ways of working which are, in order of preference:

1. Using the user's own scheme specific values;
2. Using the Toolkit default values.

Scheme specific values are provided by the user on a scheme-by-scheme basis as previously described.

## **C7 Density selection**

The user specifies their own density, although this can be varied on the 'Basic Site Information' page.

## **C8 Selecting dwelling mix**

Dwelling mix refers to the proportion of different dwelling types in a scheme. The dwelling types used in the Toolkit mix are either selected by the user on a scheme by scheme bespoke basis or driven by the density adopted.

## **C9 Selecting market values**

Market values can be selected from site specific user values, or by selecting one of the market areas on the Site Location page of the Toolkit.

## **C10 Data Entry**

Throughout the Toolkit, once you have entered a value in a cell press the 'return' key on your keyboard.

In cases where a cell does not require a value, the cell may still refuse to accept a value of zero. If you wish a cell to have no value and there is already a number entered, use the 'delete' key to leave the cell empty. Do not try to enter a zero in the cell.

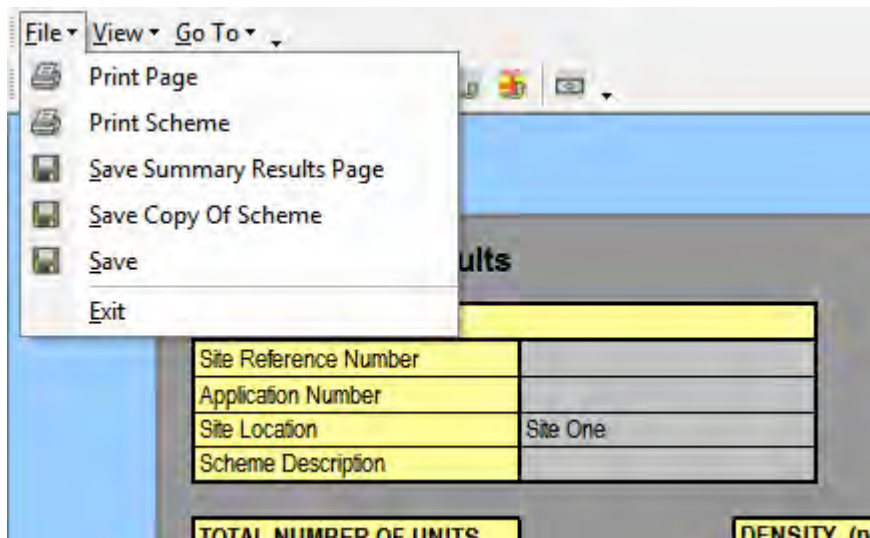
## **C11 Page and menu buttons**

Use the "Next Page" button to move forward one page. On some sheets a "Previous Page" button allows the user to move back one page. The user can also use the 'GO TO' menu button to move between pages.

## **C12 Saving files**

The toolkit allows users to save copies of the entire toolkit (with scheme data) as separate files. This makes it easier to keep a record of the appraisal and to allow future amendments. You may find it helpful to save the entire Toolkit run in its own file (perhaps within a folder which deals with a particular scheme). This section advises on how to do this.

When working with the original Toolkit file go to the file menu and select 'Save Copy Of Scheme', as shown below.



You will be prompted for a filename for the scheme. Enter a filename and press 'Save'. You will then be able to close the Toolkit and open the saved scheme, or alternatively carry on making changes in the Toolkit and save subsequent versions using the steps above.

Schemes that have been saved can be opened and altered. It is also possible to make changes to saved schemes and to then save those changes. Saved schemes (those derived from the original Toolkit) can have changes saved within them, or changes saved as another file.

It is possible to save many schemes within one folder on your computer, providing that they do not have same filename.

## D USER INPUTS

### D1 Overview

The Toolkit is organised with a number of different routes which reflect alternative ways in which users can work with the Toolkit, depending on the type of information they have available.

### D2 Site Identification

The first part of the Toolkit covers basic descriptive data about the scheme. The information should be entered in the white cells.

license agreement'."/>

**1 - SITE IDENTIFICATION**

Site Details

Site Address

Site Reference

Application Number

Scheme Description

Next Page

I have read, and accepted, the terms and conditions set out in the [license agreement](#)

Press the 'Next Page' button to continue entering information in the Toolkit.

### D3 Site or sub market location

The user should select the relevant local authority and sub market area from the 'drop down' lists; as shown in the screenshot.

If the scheme is a rural development tick the applicable box. Ticking the box will affect the social rents and grant levels called up by the Toolkit. Appendix 1 of Scottish Government's HIGN 2010/04 provides guidance on how to check whether an area can be classified as remote rural or remote small town for the purpose of Housing Association Grant appraisal. Go to appendix 1 of HIGN 2010/04 for instructions on how to access [www.sns.gov.uk](http://www.sns.gov.uk) to get the urban/rural classification.

**2 - SITE LOCATION**

Use the drop down lists to call up the relevant local authority and market area.  
Please ensure the market area is within the selected local authority

Local Authority

Market Area

Is this a rural development?

### D4 Basic Site Information

On the 'Basic Site Information' sheet the user inputs the site size and the number of dwellings. The resulting density is shown in the box labelled 'Resulting Density'.

### 3 - BASIC SITE INFORMATION

**Site Area**

Total Size of Site In Hectares (Nett)

Total Size of Site In Hectares (Gross)  (You must enter both values)

**Density / Number of Dwellings**

Enter a number of dwellings  (You must enter a value in here)

Percentage Increase/Decrease in Density:  
 You may test the effect of a percentage increase/decrease in the site density by using the cell below

%

Resulting Number of Dwellings	<input type="text" value="30"/>
Resulting Density	<input type="text" value="30"/> dph (Nett)

You must enter **the nett residential site area** in hectares in the white cell with the red outline. Nett residential area is that portion of the site which is used for residential development (it excludes public open space, landscaping, and that portion of the site which is required for the delivery of major physical and social infrastructure). Nett site area can include internal roads and ancillary open spaces. This cell will drive the default density selected where default data is being used.

You must enter **the gross residential site area** in hectares in the second white cell with the red outline. This is the total area of the site including all ancillary and non-developable land. For major strategic sites and Sustainable Urban Extensions gross residential area can exceed nett residential area by a factor of 1.5 to 2. For the majority of sites, particularly small sites, there will be no difference between gross and nett residential area and the two can be set at the same figure. The toolkit will provide residuals for both the gross and the nett residential area.

You can test the impact of a percentage increase or decrease in density by selecting a positive or negative percentage in the white box - or by using the arrows. Use the 'Reset' button to remove any density adjustment.

#### D5 Characteristics of development

The next page allows the user to define the characteristics of the development.

The user can either:

- a) Select the Default Unit types, or:

b) Clear the tables and put own user data in.

If choice a) is made, then the Toolkit will automatically bring forward a mix that is based on the selection of density on page 3.

If choice b) is made then the user will be able to define the details of the scheme as s/he wishes.

A table showing the default unit sizes for the core dwelling types is provided below the screenshot for reference.

**4 - CHARACTERISTICS OF DEVELOPMENT**

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST  
 You then have 2 options for entering information about the scheme  
 EITHER, enter information for up to 20 dwelling types – each row must be either fully complete or left blank (enter 1 if information not relevant e.g. size of affordable unit but is a market unit)  
 OR select the Toolkit default mix by depressing the button called Use Default Unit Types

Clear Table      Use Default Unit Types      View Default Mix ->

Ref.	Description of Dwelling	No of Bed-Rooms	Dwelling Type	No of Units	Size in sq.m Affordable	Size in sq.m Market	Sustainable Homes Cost (see below)	No. of Storeys (1-99)
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
Total Number of units					Total Number Expected:			

Previous Page      Next Page

Default Unit Sizes for Core Dwelling Types

Core Dwelling Type	Typical Size (m <sup>2</sup> )	
	Affordable	Market
1 bed flat	46	45
2 bed flat	67	60
3 bed flat	86	75
2 bed terrace	76	65

3 bed terrace	86	80
4 bed terrace	101	110
2 bed semi-detached	76	75
3 bed semi-detached	86	90
4 bed semi-detached	101	115
3 bed detached	86	120
4 bed detached	101	150
5 bed detached	110	160
2 bed bungalow	67	75
3 bed bungalow	72	78

The user has the option on this page of inputting a cost, per dwelling, for meeting higher building regulations (labelled in the column as 'Code for Sustainable Homes'). Entering a cost in these cells is optional. If the cells are left blank, indicating no additional cost, the user is still able to move to the next page.

Guidance on the cost per unit of achieving Code for Sustainable Homes (CSH) is set out below the 'Characteristics of Development' table on page 4. This information is derived from page 12 of Communities and Local Government's *Code for Sustainable Homes: a Cost Review* (January, 2010). The table shows extra-over costs (above base build costs at 2006 building regulations) for achieving each level of the code. Costs are given by dwelling type and by the characteristics of the development. Additional costs entered in the 'Development Characteristics' table are added to base build costs and will in turn feed through into higher professional fees, overheads, interest charges and profit on affordable housing. For example, an increase of £5,000 per unit in base build costs for code for sustainable homes will feed into an overall increase in development cost per unit of £6,200 (using toolkit default values for other development costs).

Note: BCIS build costs typically reflect the cost of building to CSH level 3. The standards / regulations already reflected in the build costs should be taken into consideration when calculating extra-over costs for achieving a higher level of CSH.

## **D6 Market Values**

The Toolkit must have information about the market value of sale units to calculate the revenue from the scheme.

### 5 - MARKET VALUES

This is a custom scheme, default values are not available.

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

You can enter your own values for each dwelling type or select the Toolkit default market values by depressing the button called Load Default Values

You can adjust the market values by using the % increase/decrease arrows  %  Reset button to return to base market value

Ref	Unit Type	No of Bed-Rooms	Market Value	Adjusted Market Value
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

There are two main ways in which the Toolkit can operate:

- With scheme specific values identified by the user;
- With user default values provided by the Toolkit.

If a user defined mix has been selected at page 4 'Characteristics of Development', then the Toolkit will require the user to put in scheme specific or bespoke values. If the user wishes to cross refer to the default market values then s/he can select the 'View Default values' button.

If you are using a default development mix and would prefer to enter your own house prices, you can use the 'Clear Table' button to remove any default values from the table. User values can then be entered in the column headed 'Market Values'. A value must be entered for every type of unit in the scheme.

If you are using a default development mix and choose 'Default Market Values' the Market Value column will display the relevant prices.

The Toolkit allows the user to test the impact of a percentage reduction or increase in market values. To do this, enter the percentage increase or decrease. You can use the 'up' and 'down' arrows to adjust the percentage figure. To clear a figure from here, use the button marked 'RESET'.

Values shown in the column called 'Adjusted Market Value' are the basic values plus the percentage increase or decrease specified by the user. It is these figures that the Toolkit will use in its analysis.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

For information on how the default house prices are sourced please see Advisory Note AN 1 on page 48.

#### **D7 Selecting the tenure mix**

It is possible to apportion the tenure mix either by percentage, or by quantity, as described in the instructions above the table on page 6 of the Toolkit itself.

If the user has previously entered data using a default dwelling mix, then s/he must select 'Input by Percentage' on page 6. If, on the other hand, the user has entered their own dwelling mix at Page 4 of the Toolkit 'Characteristics of Development' then s/he can input the data either on a 'by Percentages' or on a 'by Quantity' basis'.

## 6 - TENURE MIX

If you are using a default mix then you can distribute units across the tenures by percentage; enter the percentage of units to assign to each tenure in the top row. The percentages are applied equally across all unit types

If you are not using a default mix then you may either enter units by percentage or by the exact number of units of each type for each tenure; in the table enter the exact number of units of each type for each tenure in the table

Whichever method is selected, ensure that relevant information is entered in the boxes at the bottom of the table.

Input by Percentages      Input by Quantity    

Ref.	Description	SALE	AFFORDABLE			Required No. of Units
			Social rent	Mid-Market Rent	New Supply Shared Equity	
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
Total						
Average bedspaces per unit*						
3-person equivalent						

\* this is applicable to Social Rent and Mid-Market rent grant calculations.

New Supply Shared Equity	Percentage Purchased	
--------------------------	----------------------	--

If the 'Input by Percentages' button is clicked, then the user simply has to apportion the scheme across the relevant tenures to make 100%.

The bottom part of this page refers to shared equity products. If these tenures are relevant to the scheme being tested, then the user must fill in the white boxes, indicating the typical percentage share purchased.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

### D8 Social and Intermediate Rent Assumptions

Page 7 of the Toolkit relates to social and mid-market / intermediate rents. If a default development mix has been entered on page 4 of the Toolkit, default values will be called up for social rents and will appear in the grey column under 'Social Rent Values (per week)'. The user can override the default values by entering his/her own values in the white cells.

If the user has entered their own dwelling mix on page 4 of the Toolkit, he/she will be required to enter social rent values in the white column labelled 'User Rents' under 'Social Rent Values (per week)'. Default social rents are shown in the table to the right of the main page for reference.

Whether using a default development mix or applying a specific scheme, mid-market rent values must be calculated by the user and input into the white column labelled 'User Rents' under 'Mid-market rents (per week)'. In allocating grant for mid-market rented units, Scottish Government, in HIGN 2010/07, defines mid-market rent as rent levels not exceeding 80% of Local Housing Allowance for a given Broad Rental Market Area (paragraph 3.13, pp. 11). Local Housing Allowances for applicable areas are shown in the table to the right of the main page for the user's reference.

**7 - SOCIAL AND MID\_MARKET RENTS**  
 ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST

This is a custom scheme, default rents are not applicable. Please enter your own values into the white cells. Mid-Market rents must be entered at 80% of Local Housing Allowance

Ref.	Description	Social Rent Values (per week)		Mid-Market Rent Values (per week)	
		No. of units	User Rents	No. of units	User Rents
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					

*Default rents are based on the weekly 3-person equivalent*

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

See also Advisory Note AN 2, beginning on page 49.

## D9 Affordable housing – costs and capitalisation factors

Page 8 relates to costs (mainly gross to net rental factors) and allows the user to either select the defaults as shown in the greyed cells or to select his/her own inputs.

### 8 - AFFORDABLE HOUSING COSTS AND CAPITALISATION FACTORS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST ClearTable

You can enter your own values in the white cells below  
Where cells are left blank, the Toolkit value for that row will be used

Social Rent		ToolKit Values	User Values
Costs per annum	Management	£ 334	
	Maintenance	£ 465	
	Voids/bad debts	1.00%	
	Sinking Fund	£ 527	
Capitalisation		6.50%	

Mid-Market Rent		ToolKit Values	User Values
Costs per annum	Management costs	£ 270	
	Maintenance Costs	£ 465	
	Voids/bad debts	1.00%	
	Sinking Fund	£ 527	
Capitalisation		6.50%	

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The toolkit's default costs for affordable housing are based on the standard cost assumptions, published by Scottish Government, that are used in allocating grant (see HIGN 2010/04 and HIGN 2010/07).

The same set of standard cost assumptions are used for social rented and mid market rented units. These are derived from HIGN 2010/04. The one exception is the management allowance provision for mid market rent. That figure, as set out in HIGN 2010/07, is £270 per annum (paragraph 3.7, p. 10).

The management cost for social rented units and the maintenance costs for both tenures (shown in the 'toolkit values' column) are drawn from Appendix 3 of HIGN 2010/04. Government guidance assumes that management costs for social rented units differ according to the number of units in a housing association's stock. Volume-based costs per unit, as set out in Appendix 3, are shown in the table on the right hand side of page 8. The default management cost per unit, as shown in the 'toolkit values' column, is an average of these volume-based cost figures.

The toolkit default value for voids is 1% of gross rental income. This cost includes an allowance for bad debts (HIGN 2010/04 paragraph 3.5, p.5).

The toolkit value for sinking fund (major repairs) is drawn from Appendix 5 of HIGN 2010/04.

The capitalisation rate is the rate applied to a property's prospective net revenue to determine its capital value. In the toolkit, the capitalisation rate is used to determine the amount a housing association could pay a developer for a social rented property. The toolkit calculates the value of social rented units by taking gross revenue (based on weekly target rent) minus operating costs to determine net revenue. The net revenue is divided by the capitalisation rate to determine the capital value of the unit. The amount a housing association could pay for a social rented unit will fall as the capitalisation rate is increased.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

## D10 Development costs

### D10.1 Overview

The Toolkit divides development costs into a number of components. It provides default values for these and also allows the user to provide their own values if better information is available and to test the sensitivity of Toolkit results to changes in these variables (see screenshot below).

**9 - DEVELOPMENT COSTS**

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST Clear Tables

**Build Costs per sq m**

You can enter your own values in the white cells below. Where cells are left blank, the Toolkit value for that row will be used

Correct as of July 2010	Toolkit Values	User Values
Flats (1-2 storeys)	£940	
Flats (3-5 storeys)	£1,030	
Houses	£850	

*Please see p4 for Sustainable Homes costs*

**Other Development Costs**

You can enter your own values in the white cells below. Enter 0% for non-applicable items. Where cells are left blank, the Toolkit value for that row will be used.

	Toolkit Values	User Values	
Professional Fees %	12.00%		of build costs
Internal Overheads	5.00%		of build costs (Market and Discount Market units)
Interest Rate (Market)	6.50%		of build Costs (Market, Discount Market and Low Cost Sale units)
Interest Rate (Affordable Housing)	6.50%		of build costs (SR, HB, IR units)
Marketing Fees	3.00%		of market value (Market and Discount Market units)
Developers Return	15.00%		of market value (Market and Discount Market units)
Contractors Return	6.00%		of development costs (SR, HB, IR and LCS units)
Land financing costs	£	-	<i>Please see the Guidance Notes for use of this value</i>

**Exceptional Development Costs**

You may enter SCHEME totals for exceptional costs. Enter the name of the cost in the left hand cells and SCHEME value in the right hand cell.

Other Exceptional Costs		Scheme Total	
decontamination	£ -	per dwelling	
<Enter Costs Description>	£ -	per hectare	
<Enter Costs Description>	£ -		

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### D10.2 Build costs

In the area of the page called 'Build Costs per sq m', there are three categories of building types which reflect the different costs associated with these types.

The Toolkit defaults are in the grey cells. The default build costs come from Build Cost Information Service and are an average for the Highlands. If the user wants to provide alternative costs, these should be entered in the white cells.

If the scheme is a building conversion then users MUST provide their own build costs, since the Toolkit does not provide default values for building conversions.

Users should note that the default base build costs include an allowance for external works and estate roads that would normally be considered integral to the site.

### **D10.3 Other Development Costs**

The area of the page called 'Other Development Costs' sets out other costs used in the Toolkit. Those in the grey cells are Toolkit default values.

Note: the developer's return will only apply to revenue from market housing and that the contractor's return will only apply to affordable units. In no circumstances will both the developer's return and the contractor's return be factored into the development costs for the same unit.

The default development cost figures in the toolkit were agreed with the development industry. If the user would prefer to apply alternative rates, these can be entered in the white cells under 'User Values'.

### **D10.4 Exceptional Development Costs**

The section of the page called 'Exceptional Development Costs' allows the user to specify development costs specific to the scheme which are considered unusually onerous. The user can enter up to three different types of cost.

A note on 'Exceptional Development Costs' and their interpretation within the Toolkit has been prepared in the Advisory Note AN 3 below (page 50).

### **D10.5 Land Financing Costs**

If land financing costs are relevant, these should be added in the box below 'Other Development Costs' on the 'Development Costs' page of the Toolkit.

### **D10.6 Interpretation and use of costs – generally**

More detailed guidance is provided in Advisory Note AN 3 of these Guidance Notes, beginning on page 50.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

## **D11 Planning Obligations**

The Toolkit allows the user to consider the impact of a range of different planning obligations. There is a list of typical obligations and 3 user categories for items not covered by the list. The Toolkit does not provide any default values for this sheet.

## 10 - PLANNING OBLIGATIONS

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

For each type of contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure). If you choose the second option, the Toolkit will calculate the total obligation 'cost' for the scheme.

To enter one total value for a row, tick the corresponding box in the 'Enter Total?' column and enter a value in the 'User Total' column: To enter the values by tenure leave the box un-ticked

	Input by Total		Input by Unit			Calculated Total (Affordable and Sale)
	Enter Total?	User Total	Sale	Affordable		
				Social Rent	Mid-Market Rent	
Education Contribution	<input type="checkbox"/>					
Highway Works	<input type="checkbox"/>					
Contribution to public transport	<input type="checkbox"/>					
Contribution to community facilities	<input type="checkbox"/>					
Provision for open space	<input type="checkbox"/>					
Contribution to public realm	<input type="checkbox"/>					
Contribution to public art	<input type="checkbox"/>					
Environmental improvements	<input type="checkbox"/>					
Town centre improvements	<input type="checkbox"/>					
Waterfront Improvements	<input type="checkbox"/>					
Support for employment development	<input type="checkbox"/>					
Employment related training	<input type="checkbox"/>					
<Enter Planning Obligation Description here>	<input type="checkbox"/>					
<Enter Planning Obligation Description here>	<input type="checkbox"/>					
<Enter Planning Obligation Description here>	<input type="checkbox"/>					

Obligations package per unit

Contribution from Commercial

Total for Scheme	
Total for Scheme per hectare	
Total for Scheme divided by total number of units	
Total for Scheme divided by number of sale units	N/A

For each type of contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure). If you choose the second option, the Toolkit will calculate the total obligation 'cost' for the scheme.

To enter one total value for a row, tick the corresponding box in the 'Enter Total?' column and enter a value in the 'User Total' column: To enter the values by tenure leave the box un-ticked.

Where the user knows the anticipated overall cost of a planning obligations package but not the cost of individual items this can be entered separately as obligations package per unit. This function over-rides the individual entries above and it is not possible for the user to enter individual contributions and a total obligations package.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

### D12 Capital contributions from Other Sources

The Toolkit allows the user to consider sources of revenue to the residential scheme from a range of different capital contributions. There is a list of typical contributions and a category called 'other' for items not covered by the list.

The Toolkit does not provide any default values for this sheet.

## 11 - CAPITAL CONTRIBUTIONS FROM OTHER SOURCES

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST

Clear Table

For each type of contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure). If you choose the second option, the Toolkit will calculate the total contribution for the scheme.

To enter one total value for a row, tick the corresponding box in the 'Enter Total?' column and enter a value in the 'User Total' column.  
To enter the values by tenure leave the box un-ticked

	Input by Total		Input by Unit			Calculated Total (Affordable and Sale)
	Enter Total ?	User Total	Sale	Affordable		
				Social Rent	Mid-Market Rent	New Supply Shared Equity
European Union funding	<input type="checkbox"/>					
Scottish Government funding	<input type="checkbox"/>					
Local Authority capital grant	<input type="checkbox"/>					
Other regeneration funding	<input type="checkbox"/>					
Lottery grant	<input type="checkbox"/>					
Contribution from Payment in Lieu fund	<input type="checkbox"/>					
Employer contribution	<input type="checkbox"/>					
Scottish Water	<input type="checkbox"/>					
<Enter Capital Contribution Description here>	<input type="checkbox"/>					
<Enter Capital Contribution Description here>	<input type="checkbox"/>					

Total for Scheme	
Total for Scheme per hectare	
Total for Scheme divided by total number of units	
Total for Scheme divided by number of sale units	N/A

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For each type of capital contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure). If you choose the second option, the Toolkit will calculate the total contribution for the scheme.

To enter one total value for a row, tick the corresponding box in the 'Enter Total?' column and enter a value in the 'User Total' column: To enter the values by tenure leave the box un-ticked.

### D13 Scheme revenue from affordable housing

The scheme revenue from the affordable element is calculated in one of two ways as shown in the screenshot below.

## 12 - SCHEME REVENUE FROM AFFORDABLE HOUSING

Please choose the method by which the payment is made by the affordable housing provider to the developer

Payment by affordable housing provider to developer is calculated by the Toolkit

Payment by affordable housing provider to developer is fixed and is a known amount

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### D13.1 Option 1: 'Payment by affordable housing provider to developer is calculated by the Toolkit'

Selecting this option allows the Toolkit to calculate the revenue for each of the affordable tenures in use. Additional information relating to Grant and On-costs is required.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

### D13.2 Grant

The user then has the option to include grant within the scheme or to assume there will be no grant.

If grant is available, the user must indicate whether the grant value is known or whether it should be calculated by the toolkit.

14 - SCOTTISH GOVERNMENT GRANT AVAILABILITY

No - Grant is not available  
 Yes - Grant is available and is calculated  
 Yes - Grant is available and is a known value

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If 'no grant' is selected, then no additional revenue is added to the scheme.

If the 'yes – grant is available and is calculated' button is selected, then the following screen will appear:

14 - SCOTTISH GOVERNMENT GRANT AVAILABILITY

No - Grant is not available  
 Yes - Grant is available and is calculated  
 Yes - Grant is available and is a known value

	Number of units	Grant by tenure
Social Rent	4	£ 348,572
Mid-Market Rent	1	£ 45,693
NS' Shared Equity	3	£ 86,037

Total Grant  
£ 480,302

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In this scenario, the toolkit will automatically calculate total grant for the scheme.

If the 'Yes – Grant is available and is a known value' option is selected, the following screen will appear:

## 14 - SCOTTISH GOVERNMENT GRANT AVAILABILITY

- No - Grant is not available  
 Yes - Grant is available and is calculated  
 Yes - Grant is available and is a known value

Enter known grant into the table below. Grant may be specified on a per unit basis or by tenure or as a total for the three affordable housing tenures on this page.

	Number of units	Grant by unit	Grant by tenure	Grant by scheme	Tenure Total Grant	Method by which grant is calculated	Total Grant
Social Rent				A lump sum that covers all affordable housing tenures	£ -	N/A	£ -
Mid-Market Rent					£ -	N/A	
NS' Shared Equity					£ -	N/A	

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This screen allows the Toolkit user to enter an amount of grant either:

- By unit, or;
- By Tenure (lump sum); or,
- By scheme (overall lump sum).

A number of tables containing useful information to assist with calculating grant appear below the main table on page 14. These are as follows:

- Bedrooms and Equivalent Bedspaces
- Grant per 3 Person Equivalent (social rent)
- Grant per Unit (mid market rent)
- Development Allowances (as set out in HIGN 2010/04, Appendix 2)
- 3 Person Equivalent Conversion Factors

The table directly below the main table (labelled Table 14A is designed to assist the user in calculating grant. This table is shown below:

**Table 14A** - Use these tables to calculate grant for individual tenures. Transfer the tenure totals or the scheme total to the table above

Grant for New Supply Shared Equity is based on 50% difference between market and purchase

Social Rent grant is based on a 3-person equivalent.

Social Rent	
Number of units	4.0
Average Bedspaces per unit	4.70
3-person Equivalent	1.129
Grant per unit	
Development Allowance per unit	
Total Grant	£ -

Mid-Market rent is based on a grant per unit

Mid-Market Rent	
Number of units	4.0
Grant per unit	
Total Grant	£ -

Maximum grant is £45,000 per unit

New Supply Shared Equity *	
Total Units	4
Development Allowance per unit	
Total Development Allowance	£ -
Total market value of tenure	£ 761,200
Total share value of tenure	£ 380,600
Difference between share and value	£ 380,600
50% of difference	£ 190,300
Total Grant	£ 190,300

Total Grant for all tenures £ 204,168  
(includes £13,868 allowance per scheme)

Note: values entered in Table 14A will not be recognised by the toolkit. Values generated in this table must be transferred to the table above in order to be factored into toolkit calculations.

It is recommended that table 14A be used to calculate total grant for each applicable tenure. The total grant figure for each tenure should then be entered in the main table on page 14 under 'Grant by Tenure'. The toolkit will automatically calculate total grant for the scheme based on information entered by tenure.

Note: Table 14A will also automatically calculate 'Total Grant for all Tenures'. A development allowance of £13,868 will automatically be added to the total grant value for the scheme. If the user chooses to enter the 'Total Grant for all Tenures' figure, generated in table 14A, in the main table on page 14 under 'Grant by Scheme', the user must deduct £13,868 from the 'Total Grant for all Tenures' value. This will prevent the development allowance from being double counted by the toolkit.

### Using Table 14A

Some values will automatically be loaded into table 14A based on information entered on the Tenure Mix page and the Market Values page. This includes the number of units for each tenure, average bedspaces per unit for social rented properties and the market value and purchase share for NSSE.

**Grant for social rent** is calculated based on National Housing Association Grant Subsidy Target (HST) Benchmarks. National HST Benchmarks, as set out in HIGN 2010/06, are shown in the table labelled 'Grant per 3-person equivalent'. At June 2010, benchmark grants were £66,000 per unit (general) and £70,000 per unit (rural schemes), based on a 3 person equivalent (paragraph 7, p.3).

To calculate the level of grant for social rented units the user must enter the appropriate 3 person equivalent grant value – either general or rural – in the white cell labelled 'Grant per unit'. The user must also enter the appropriate development allowance per unit. Development allowances by tenure and by scheme (as shown in the yellow table labelled 'Development Allowances' are derived from Appendix 2 of HIGN 2010/04.

When the appropriate values are entered a grant value by tenure will appear in the green box at the bottom of the 'Social Rent' column. A value will also appear in the box on the far right side of the table, labelled 'Total Grant for all Tenures'. The 'Total Grant for all Tenures' value is the value of grant for all tenure for which information has been entered, plus £13,868, which is the development allowance per scheme.

**Grant for mid market rent** should be calculated in the column labelled 'Mid Market Rent'. Scottish Government guidance states that grant for mid market rent should not exceed £45,000 per unit, Development allowances are not additional to this figure which is a ceiling grant figure. (See Annex 3 of HIGN 021007 for a worked example of how to assess grant for midmarket rent)

When the appropriate value is entered in the white cell next to 'Grant per unit', a grant value by tenure will appear in the green box at the bottom of the table. The value of 'Total Grant for all Tenures' will also update automatically.

**Grant for New Supply Shared Equity (NSSE)** will be calculated in the column labelled 'New Supply Shared Equity'. The grant per unit for NSSE (i.e the amount to be paid by Scottish Government) is 50% of the value of the unbought share of a property (with the remaining 50% being purchased by the developer). Buyer purchases for NSSE are typically 60% to 80% of the total market value of a property (HIGN 2010/05 p.1). This means that Scottish Government's contribution will typically be 10% to 20% of the value of a property. For example, if the value of NSSE units in a scheme is £100,000 per unit, and it has been assumed that buyers will purchase 70% of the property, the grant value will be £15,000 per unit (15% of property value).

Table 14A will automatically calculate the value of grant for NSSE units based on the market values entered on the Market Values page and the typical purchase share for NSSE entered on the Tenure Mix page. The user must enter the appropriate development allowance per unit in the white cell next to 'Development Allowance per unit'.

When the appropriate value is entered, the grant value by tenure (in the green box at the bottom of the table) will automatically update. The value of 'Total Grant' will also be updated.

**Once the calculations are complete (i.e. information on grant for all applicable tenures has been entered) enter the 'Total Grant' figures for each applicable tenure in the 'Grant by Tenure' column in the main table on page 14. Note: if you choose to enter the 'Total Grant for all Tenures' figure, given in table 14A, in the 'Grant by Scheme' column in the main table, you must deduct £13,868 from the total grant value to avoid double counting the development allowance per scheme.**

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

### **D13.3 Option 2: 'Payment by affordable housing provider to developer is fixed and is a known amount'**

If option 2 on page 12 is selected, the following screen will appear:

### 13 - KNOWN PAYMENT FOR AFFORDABLE HOUSING

ALWAYS DEPRESS THE CLEAR PAGE BUTTON FIRST

Clear Page

Enter a known payment from the affordable housing provider either by unit, as a total sum for each tenure or as a total across the three affordable tenures shown on this page.

	Affordable Housing Tenures		Total
	Social Rent	Mid-Market Rent	Affordable Units
Number of units			
Payment By Unit			
Or Payment By Tenure			
Or lump sum payment for Affordable Housing			
Tenure Total	£ -	£ -	
Method by which Affordable Housing Revenue is calculated	N/A	N/A	
Total Known Payment for Affordable Housing	£ -		

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The user can enter the known payment from the RSL to the developer either:

- By unit, or:
- By Tenure (lump sum); or,
- By scheme (overall lump sum).

It should be noted that, with Option 2, the Toolkit assumes that the fixed sum identified includes any grant. If Option 2 is selected the user will not be asked to enter any information about grant.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

#### D14 Contribution from Commercial Elements

This page allows the user to input details of the commercial element of a mixed use scheme.

The page allows the user to input relevant revenue and cost data for six types of commercial property including office, industrial, retail, hotel, leisure/community services or any other relevant commercial use. The user may alter the category for

each column of information according to the commercial property types included in the scheme.

The white cells can be filled in. They allow the user to input:

- The floor area of the scheme (gross floor area per m<sup>2</sup>);
- The anticipated rent (per m<sup>2</sup>);
- The appropriate yield;
- The build cost per m<sup>2</sup>;
- The allowance for professional fees;
- The rate of return.

**15 - Contribution from Commercial Elements**

This page allows the user to input data relating to a commercial property element of a scheme. The user will need to complete the white boxes relating to size of scheme, rent, yield and capital value. In addition cost related data will need to be input.

[Clear Table](#)

Click to select->

Revenues	Industrial	Office	Retail	Hotel	Leisure/Community Services	Other
Size of scheme (gross sq m)						
Rent (£ per sq m)						
Yield (%)						
Capital value	£ -	£ -	£ -	£ -	£ -	£ -
Costs						
Build costs (£ per GIA sq m)						
Professional and other fees (% build costs)						
Return (% capital value)						
Total build costs	£ -	£ -	£ -	£ -	£ -	£ -
Professional and other fees	£ -	£ -	£ -	£ -	£ -	£ -
Return	£ -	£ -	£ -	£ -	£ -	£ -
Total development costs	£ -	£ -	£ -	£ -	£ -	£ -
Site value for commercial element	£ -	£ -	£ -	£ -	£ -	£ -
Total site value for commercial Elements	£ -					

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The Toolkit adds (or subtracts) the value of the commercial element to the residual value calculated for the residential.

The Toolkit does not provide default data for this page.

### D15 Comparisons with other site values

Where this is relevant, users can compare the residual site value generated by the Toolkit with a range of other values for the site. Five options are shown in the page called Comparisons with other site values. Users should enter information in the appropriate white boxes (noting for themselves what is meant by Alternative Use Value 1 etc).

## 16 - COMPARISON WITH OTHER SITE VALUES

You may enter a value that represents the site's alternative use value, its acquisition cost, or up to 3 other values

(The Toolkit cannot calculate these values - they are inputs made by the user)

Existing Use Value	
Acquisition Cost	
Alternative Use Value 1	
Alternative Use Value 2	
Alternative Use Value 3	

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The Toolkit does not calculate these other site values. However, it summarizes the differences between the Toolkit residual and any values entered in this page in the Results page which follows.

Press the 'Next Page' button to continue entering information in the Toolkit. If you need to go back to the 'previous page', press 'Previous Page'.

### **D16 Results**

When you have completed all the input pages of the Toolkit and pressed the 'Next Page' button, the Toolkit displays the results on the sheet called 'Scheme Results'. This shows the basic characteristics of the scheme in the top half of the page and financial information in the bottom half of the page.

### 17 - Scheme Results

Site Reference Details		Site Details	
Site Reference Number		Site	
Application Number		Address	
Site Location	Cairngorms	Site	1
Scheme Description		Details	

TOTAL NUMBER OF UNITS		DENSITY (per hectare)	
Dwellings	30	Dwellings	30.0
% Wheelchair Units			

REVENUE AND COSTS		RESIDUAL VALUE		AFFORDABLE UNITS		
Total scheme revenue	£ -	Whole scheme	£ -		Quantity	% of All Units
Total scheme costs	£ -	Per hectare (Net)	£ -	Total	30.0	100%
Contribution to revenue from:		Per hectare (Gross)	£ -	Social Rent		
Market housing	£ -	Per dwelling	£ -	Mid-Market Rent		
Affordable Housing	£ -	Per market dwelling	N/A	New Supply SE		
- Social Rent	£ -	PUBLIC SUBSIDY (GRANT)				
- Mid-Market Rent	£ -	Whole Scheme	£ -			
- New Supply Shared Equity	£ -	Per Social Rental dwelling	£ -			
Capital Contribution	£ -	Per Mid-Market Rent dwelling	£ -			
Commercial Elements	£ -	Per New Supply Shared Equity dwelling	£ -			
Contribution to costs from:		Alternative Site Values		Against residual		
Market housing	£ -	Existing Use Value	£ -	£ -		
Affordable Housing	£ -	Acquisition Cost	£ -	£ -		
- Social Rent	£ -	Alternative Use Value 1	£ -	£ -		
- Mid-Market Rent	£ -	Alternative Use Value 2	£ -	£ -		
- New Supply Shared Equity	£ -	Alternative Use Value 3	£ -	£ -		
Land Finance	£ -					
Planning Obligations	£ -					
Total Exceptional Costs	£ -					
Commercial Elements	£ -					

PUBLIC SUBSIDY (GRANT)	
Whole Scheme	£ -
Per Social Rental dwelling	£ -
Per Mid-Market Rent dwelling	£ -
Per New Supply Shared Equity dwelling	£ -

Alternative Site Values		Against residual	
Existing Use Value	£ -	£ -	
Acquisition Cost	£ -	£ -	
Alternative Use Value 1	£ -	£ -	
Alternative Use Value 2	£ -	£ -	
Alternative Use Value 3	£ -	£ -	

If you wish to print this page, or the next page (Summary Results Sheet), from the 'File' menu select a print option.

It is also possible to print all of the input pages for the entire scheme from the 'File' menu.

#### D17 Saving the Results

Accessed from the Toolkit's Results page, the user can store a number of different results for the same scheme and compare the impact on scheme finances of different sets of assumptions. To store results in the Summary Results Sheet, press the Save Results button on the 'Scheme Results' sheet.

The Summary Results Sheet can store over 200 different sets of results within the Toolkit. The Summary Results sheet provides scheme reference information at the top, key financial and other information and a review of the main assumptions which have been used. This information is automatically saved upon exiting the Toolkit via the "File" menu, and is recalled when the user next accesses the Toolkit.

If the user wants to remove saved results from the Summary Results Sheet, press the "Clear Results" button.

By using the menu button “File” and selecting “Save Summary Results” you can create a file of results only. The user will be prompted to enter a name for this Results File, which is then created in the same directory as the Toolkit.

<a href="#">Back to Results</a>	<h2 style="margin: 0;">Summary Results Sheet</h2>	<a href="#">Clear Results</a>
---------------------------------	---	-------------------------------

<b>Site Reference Details</b>	
Site Reference Number	
Application Number	

<b>Site Details</b>	
Site Address	
Scheme Description	

*This Toolkit is only for use within the CNPA*

Result number	1
<b>Basic Site Information</b>	
Size of site in Hectares (gross)	1
Total Number of Dwellings	30.0
<b>Site Notes</b>	<Enter notes>
<b>Key Assumptions</b>	
<b>Tenure %</b>	
Social Rent	
Mid-Market Rent	
New Supply Shared Equity	
Total affordable	
<b>Other</b>	
Capital Contributions	
Density dwellings per hectare	30.00
Density: plus/minus X%	
<b>Key Results</b>	
<b>Economics</b>	
Scheme revenue	
Scheme costs	
Residual - Whole scheme	
Residual - Per hectare	
Residual - Per dwelling	
Residual - Per market dwelling	N/A
<b>Subsidy</b>	
Total for scheme	
Per SR unit	N/A
Per MMR unit	N/A
<b>Other Assumptions</b>	
% purchased NSSE	
% wheelchair housing	
<b>Planning Obligations</b>	
Whole Scheme	
per hectare	
per dwelling	
<b>Exceptional Costs</b>	
Whole scheme	
per hectare	
per dwelling	

## E Additional features of the Toolkit

The Toolkit has two additional features which are both accessed from the Results page, notably the Costs Components break down and the Discounted Cash Flow.

### E1 Cost Components

The Toolkit provides more detailed information about the way in which development costs for individual tenures have been built up. To review individual components of costs, press the Cost Components button on the Scheme Results page.

**18 - Costs Components**

	Market	Social Rent	Mid-Market Rent	New Supply Shared Equity
Build Costs	£ -	£ -	£ -	£ -
Finance Costs	£ -	£ -	£ -	£ -
Developer's Return	£ -			
Contractor's Return		£ -	£ -	£ -
Professional Fees	£ -	£ -	£ -	£ -
Internal Overheads	£ -			
Marketing Fees	£ -			
<b>Total</b>	£ -	£ -	£ -	£ -

*All values in the above table are rounded to the nearest £1000*

[Return to Results](#)

This page allows the user to cross check specific components of the appraisal with information submitted by the developer; for example cost estimates from quantity surveyors.

The table breaks down 'other development costs' into component parts for ease of comparison. These costs are calculated based on information entered on page 9 of the toolkit under 'Other Development Costs'.

- Build costs in this summary include all development costs, excluding exceptional costs. These are shown on the Results sheet.

Because of rounding, column totals may appear to vary from the sum of the individual cost components.

## E2 The Discount Cash Flow Tool

### E2.1 Purpose of the DCF

The discounted cash flow (DCF) model helps users take account of schemes that might run over several years.

The main objectives of the DCF are to:

- Allow users to better understand the relationship between residual value and development rate and to reflect these assumptions in appraisals;

- Allow users to evaluate the impact of upfront site infrastructure costs upon development economics.
- Allow users to evaluate how changes in prices, costs and other variables impact on residual value;
- Allow users to reflect the 'time value of money' and in particular, where relevant, to reflect potential site holding costs.

## **E2.2 Principles for use**

**The DCF function is intended not as a replacement for the main Toolkit model, but as an additional tool to help users forward plan and to negotiate sites.**

The DCF function can be used alongside the main model. It is directly comparable provided that the assumptions are consistent. For example, if there are 100 units in a scheme being built over 5 years, and 20 units are apportioned to each year, then a similar (residual) result should be found provided that all other assumptions are consistent.

**The DCF works from the main Toolkit, and users must enter a scheme in the main model first before the DCF can be used.** This approach allows local authorities, when appraising schemes, to see comparable results from the different approaches.

In the main model (previous versions of the Toolkit) if price or cost growth was anticipated, this was built into the data assumptions on the Market Prices and Development Costs pages. With the DCF it will be possible to make revenue and cost items more explicit on a year by year basis.

The DCF function will help to make the appraisal more sensitive for example to situations where abnormal development costs, or infrastructure provision have to be dealt with 'up front'. It will also help to deal with situations where costs or values need to be projected forward.

Both the residential and commercial scheme elements are 'cash flowed'.

The user can select whatever time period is appropriate to the development.

## **E2.3 DCF sections**

The DCF has several sections which must be completed by the user in order to generate a residual site value.

The user must complete the white cells of the DCF.

## **E2.4 DCF - Market Tenures Revenue sheet**

When the DCF option is selected from the Results sheet of the main model, the sheet comes up as shown in the screenshot below.

**Discounting Function**

Previous Page

Years to run DF (1 to 20): 5

Print Tables

**Revenue Sections**

Market Tenures\*  
 Affordable Tenures\*  
 Contributions to Revenue\*  
 Scheme Revenue  
 Finance, Discount Rate and NPV \*

**Cost Sections**

Market Tenures\*  
 Affordable Tenures\*  
 Developer Returns\*  
 Planning and Commercial\*  
 Scheme Costs

\* indicates sections requiring user values

User entered values  
 Toolkit calculated values

Market Tenures' Revenue		Time span (years)				
Inflation		1	2	3	4	5
House price inflation	- Expected annual house price inflation rate (%) (All market tenures)					
	- Compound house price inflation rate	100.00%	100.00%	100.00%	100.00%	100.00%
Annual Build Rate and Revenue		Total Entered	Total Expected			
Sale	- Annual sale completion	0 of				
	- Annual build percentage		100%			
	- Revenue for that year		£ -	£ -	£ -	£ -
	- Revenue with inflation		£ -	£ -	£ -	£ -
	- Annual sale completion	0 of				
	- Annual build percentage		100%			
	- Revenue for that year		£ -	£ -	£ -	£ -
	- Revenue with inflation		£ -	£ -	£ -	£ -
New Supply Shared Equity	- Annual sale completion	0 of				
	- Annual build percentage		100%			
	- Revenue for that year		£ -	£ -	£ -	£ -
	- Revenue with inflation		£ -	£ -	£ -	£ -
<b>Total Revenue with Inflation for these Market Tenures</b>			£ -	£ -	£ -	£ -
	per ha.		£ -			

In the grey box at the top of the page entitled ‘Revenue Sections’ and ‘Cost Sections’ (which is replicated throughout the DCF), the user can toggle between the different revenue and cost elements. The user makes inputs at those pages only marked with an asterisk on this sheet. The summary box is split into two main components – Revenue and Cost sections.

In the Revenue section, the user must complete the Market Tenures, Affordable Tenures and Contributions to Revenue sections.

In the Cost section, the user must complete the Market Tenures, Affordable Tenures, Developer Returns and the Planning and Commercial sections.

The Finance, discount rate and NPV section must also be completed.

**It is important that once the data has been imputed to all 8 sections, that the user goes back through the sections, beginning at the Market Tenures section, clicking each section to ensure that the inputs have been fully recognised by the model.**

## E2.5 DCF - Market Tenures Revenue

When the DCF is opened it will open to show inputs for this sheet (see above screenshot).

The user must complete the white cells. The total number of sale units (data transferred from the main model) must be apportioned according to the anticipated build rate. The same applies to the other tenures – Discount Market and New Supply Shared Equity.

The user has, throughout the DCF appraisal, the facility to project forward revenue through anticipated price and cost increases. In the second row down (see screenshot above) the user can estimate house price inflation on an annual basis.

When the Market Tenures Revenue sheet is complete, press the toggle button for the Affordable Tenures Revenue sheet.

## E2.6 DCF - Affordable Tenures Revenue

This sheet works to exactly the same principles as the Market Tenures Revenue sheet. The user apportions the build rate across the relevant tenures. The DCF will then calculate the anticipated revenue for each period.

**Discounting Function**

Previous Page

Years to run DF (1 to 20): 5

Print Tables

Revenue Sections:  Market Tenures\*  Affordable Tenures\*  Contributions to Revenue\*  Scheme Revenue

Cost Sections:  Market Tenures\*  Affordable Tenures\*  Developer Returns\*  Planning and Commercial\*  Scheme Costs

Finance, Discount Rate and NPV \*

\* Indicates sections requiring user values

Legend:  User entered values;  Toolkit calculated values

Affordable Tenures' Revenue		Time span (years)				
		1	2	3	4	5
<b>Inflation</b>						
Social Rent	- Expected annual house price inflation rate (%)					
	- Compound house price inflation rate (%)	100.00%	100.00%	100.00%	100.00%	100.00%
Mid-Market Rent	- Expected annual house price inflation rate (%)					
	- Compound house price inflation rate (%)	100.00%	100.00%	100.00%	100.00%	100.00%
		100.00%	100.00%	100.00%	100.00%	100.00%
<b>Build Rate and Revenue</b>						
	Total Entered	0				
	Total Expected	100%				
Social Rent	- Annual transfer completion	0 of				
	- Annual transfer percentage					
	- Revenue for that year		£ -	£ -	£ -	£ -
	- Revenue with inflation		£ -	£ -	£ -	£ -
Mid-Market Rent	- Annual transfer completion	0 of				
	- Annual transfer percentage					
	- Revenue for that year		£ -	£ -	£ -	£ -
	- Revenue with inflation		£ -	£ -	£ -	£ -
			£ -	£ -	£ -	£ -
			£ -	£ -	£ -	£ -
			£ -	£ -	£ -	£ -
<b>Total Revenue with Inflation for these Affordable Tenures</b>			£ -	£ -	£ -	£ -
	per ha.		£ -			

The Affordable Tenures revenue page, it will be noted, allows the users to project inflation (or deflation if relevant) for each of the affordable tenures.

When the Affordable Tenures Revenue sheet is complete, press the toggle button for the Contributions to Revenue page.

## E2.7 DCF - Contributions to Revenue

This sheet (see screenshot below) picks up the lump sum revenue payments into the scheme that have been input in the main model.

The user should apportion these payments as they believe the payments will come into the scheme.

This screen allows the user to phase the commercial development in a different way to the residential which may well be the case in practice.

**Discounting Function**

Previous Page

Years to run DF (1 to 20): 5

Print Tables

**Revenue Sections**

- Market Tenures\*
- Affordable Tenures\*
- Contributions to Revenue\*
- Scheme Revenue

**Cost Sections**

- Market Tenures\*
- Affordable Tenures\*
- Developer Returns\*
- Planning and Commercial\*
- Scheme Costs

Finance, Discount Rate and NPV \*

\* indicates sections requiring user values

Legend:  User entered values  
 Toolkit calculated values

**Capital and Commercial Contributions to Revenue**

				Time span (years)					
		Total Entered	Total Expected	1	2	3	4	5	
Capital Contributions	- Expected annual contribution	£ -	of £ -						£ -
	- Expected annual inflation rate (%)								
	- Compound Capital Contributions Inflation Rate			100.00%	100.00%	100.00%	100.00%	100.00%	
	- Revenue with Inflation	£ -		£ -	£ -	£ -	£ -	£ -	£ -
Commercial Elements	- Expected annual contribution	Total Entered	Total Expected						£ -
	Industrial	£ -	of £ -						£ -
	Office	£ -	of £ -						£ -
	Retail	£ -	of £ -						£ -
	Hotel	£ -	of £ -						£ -
	Leisure/Community Services	£ -	of £ -						£ -
	Other	£ -	of £ -						£ -
	- Expected Commercial Element annual inflation rate (%)								
- Compound Commercial Element inflation rate			100.00%	100.00%	100.00%	100.00%	100.00%		
- Revenue with inflation	£ -		£ -	£ -	£ -	£ -	£ -	£ -	
		per ha.	£ -						

As with previous screens, inflation assumptions can be made for the capital contributions as well as for the commercial elements.

When the Capital and Commercial Revenue sheet is complete, press the toggle button for the Market Tenures Cost sheet.

### E2.8 DCF - Market Tenures Costs

This sheet allows the user to input anticipated build cost increases (build cost inflation) and to vary the build rate.

**Discounting Function**

Previous Page

Years to run DF (1 to 20): 5

Print Tables

Revenue Sections:
 

- Market Tenures\*
- Affordable Tenures\*
- Contributions to Revenue\*
- Scheme Revenue

Cost Sections:
 

- Market Tenures\*
- Affordable Tenures\*
- Developer Returns\*
- Planning and Commercial\*
- Scheme Costs

Finance, Discount Rate and NPV \*

\* indicates sections requiring user values

Legend:
 

- User entered values
- Toolkit calculated values

**Market Tenures' Development Costs**

Build Rate and Revenue		Total Entered	Total Expected	Time span (years)					
				1	2	3	4	5	
Inflation				1	2	3	4	5	
Development costs									
- Expected build cost inflation rate (%)									
- Annual Compound Costs inflation rate				100.00%	100.00%	100.00%	100.00%	100.00%	
Development Costs				1	2	3	4	5	
Sale	- Total Costs (without inflation)	£	-						
	- Total Costs less Returns (without inflation)	£	-						
	- Annual build	0 of							
	- Annual build percentage								
	- Annual Costs	£	-	£	-	£	-	£	-
	- Annual Costs with inflation	£	-	£	-	£	-	£	-
New Supply Shared Equity	- Total Costs (without inflation)	£	-						
	- Total Costs less Returns (without inflation)	£	-						
	- Annual build	0 of							
	- Annual build percentage								
	- Annual Costs	£	-	£	-	£	-	£	-
	- Annual Costs with inflation	£	-	£	-	£	-	£	-
Total Costs with inflation for these Market Tenures				£	-	£	-	£	-
		per ha.		£	-				

Three Dragons does not provide default data for projected increases. Users are referred, in the absence of bespoke advice, to the RICS's Building Cost Information Service.

When the Market Tenures Cost sheet is complete, press the toggle button for the Affordable Tenures Cost sheet.

### E2.9 DCF - Affordable Tenures Costs

This sheet allows the user to input anticipated build cost increases and to vary the build rate as for the Market Tenures Costs.



**Discounting Function**

Previous Page

Years to run DF (1 to 20): 5

Print Tables

Revenue Sections:
 

- Market Tenures\*
- Affordable Tenures\*
- Contributions to Revenue\*
- Scheme Revenue

Cost Sections:
 

- Market Tenures\*
- Affordable Tenures\*
- Developer Returns\*
- Planning and Commercial\*
- Scheme Costs

Finance, Discount Rate and NPV \*

\* indicates sections requiring user values

Legend:  User entered values;  Toolkit calculated values

**Developer Returns**

		Time span (years)							
<b>Market Housing</b>	Annual Return assumed (benchmark 15%)	Apply Benchmark	15%	15%	15%	15%	15%		
Sale	- Annual Revenue (with inflation)	£	-	£	-	£	-	£	-
	- Annual Return	£	-	£	-	£	-	£	-
		£	-	£	-	£	-	£	-
<b>NS' Shared Equity</b>	- Annual Return	£	-	£	-	£	-	£	-
<b>Affordable Housing</b>	Annual Return assumed (benchmark 6%)	Apply Benchmark	6%	6%	6%	6%	6%		
Social Rent	Annual Housing Costs (with inflation)	£	-	£	-	£	-	£	-
	Annual Return	£	-	£	-	£	-	£	-
Mid-Market Rent	Annual Housing Costs (with inflation)	£	-	£	-	£	-	£	-
	Annual Return	£	-	£	-	£	-	£	-
		£	-	£	-	£	-	£	-
<b>Total Returns with inflation for all Tenures</b>		£	-	£	-	£	-	£	-
per ha.		£	-						

When the Developer Returns sheet is complete, press the toggle button for the Planning and Commercial Costs sheet.

### E2.11 DCF - Planning and Commercial Costs

The next sheet allows the user to apportion exceptional costs, planning obligations and commercial property development costs over time.

**Discounting Function**

Previous Page

Years to run DF (1 to 20): 5

Print Tables

Revenue Sections:
 

- Market Tenures\*
- Affordable Tenures\*
- Contributions to Revenue\*
- Scheme Revenue

Cost Sections:
 

- Market Tenures\*
- Affordable Tenures\*
- Developer Returns\*
- Planning and Commercial\*
- Scheme Costs

Finance, Discount Rate and NPV \*

\* indicates sections requiring user values

Legend:  User entered values;  Toolkit calculated values

**Exceptional Costs, Planning Obligations and Commercial Costs**

				Time span (years)				
		Total Entered	Total Expected	1	2	3	4	5
<b>Exceptional Costs and Sustainable Homes</b>	- Expected annual cost	£	- of £					
	- Expected annual inflation rate (Exceptional and Sustainable Homes)							
	- Compound Costs inflation rate			100.00%	100.00%	100.00%	100.00%	100.00%
	- Exceptional and Sustainable Homes Costs with Inflation	£	-	£	-	£	-	£
<b>Planning Obligations</b>	- Expected annual cost	£	- of £					
	- Expected Planning Obligations annual inflation							
	- Compound Obligations annual inflation rate			100.00%	100.00%	100.00%	100.00%	100.00%
	- Obligations with inflation	£	-	£	-	£	-	£
<b>Commercial Element Costs</b>	- Expected annual costs	Total Entered	Total Expected					
	Click to select->	£	- of £					
	Industrial	£	- of £					
	Office	£	- of £					
	Retail	£	- of £					
	Hotel	£	- of £					
	Leisure/Community Services	£	- of £					
	- Expected Commercial Element Costs inflation rate			100.00%	100.00%	100.00%	100.00%	100.00%
- Compound Commercial Element Costs inflation rate			100.00%	100.00%	100.00%	100.00%	100.00%	
per ha.		£	-					

The sheet also allows the user to make inflation assumptions for all key elements – exceptional costs, planning obligations and commercial development build costs.

When the Planning and Commercial Costs sheet is complete, press the toggle button for the Finance, Discount and Net Present Value (NPV) sheet.

## E2.12 DCF - Finance, discount rate and NPV

The final sheet (see screenshot below) allows the user to specify their assumptions in relation to the financing of the development at an appropriate discount rate.

**Discounting Function**

Previous Page

Years to run DF (1 to 20): 5

Print Tables

**Revenue Sections**

- Market Tenures\*
- Affordable Tenures\*
- Contributions to Revenue\*
- Scheme Revenue

**Cost Sections**

- Market Tenures\*
- Affordable Tenures\*
- Developer Returns\*
- Planning and Commercial\*
- Scheme Costs

**Finance, Discount Rate and NPV \***

\* indicates sections requiring user values

		Time span (years)					
		1	2	3	4	5	
Residual (Total inflated revenue less total inflated costs)		£ -	£ -	£ -	£ -	£ -	
Interest Rate	- Debit Interest rate (Benchmark 6.5%)	6.50%	6.50%	6.50%	6.50%	6.50%	
	- Credit Interest Rate (Benchmark 4.5%)	4.50%	4.50%	4.50%	4.50%	4.50%	
	- Debit Interest Costs	£ -	£ -	£ -	£ -	£ -	
	- Credit Interest Costs	£ -	£ -	£ -	£ -	£ -	
	- Resulting Interest Costs	£ -	£ -	£ -	£ -	£ -	
- Cumulative Residual / Balance		£ -	£ -	£ -	£ -	£ -	
Discount Rate	- Annual Discount rate						
	- Cumulative discount rate	100.00%	100.00%	100.00%	100.00%	100.00%	
Discounted Residual							
		Year	1	2	3	4	5
			-	-	-	-	-

**Measures Of Return**

Net Present Value	£ -
per ha.	£ -

The user can either select the defaults for credit or debit interest or select his/her own interest rate.

The interest rate selected 'credits' or 'debits' the annual residual site value. Where the scheme is in debit (i.e. the costs exceed the revenue and hence the site value at a particular point in time is negative), then debit interest accumulates. Where the site value is positive, it accumulates credit interest.

The user can also specify a discount rate. This rate is meant to reflect the opportunity cost of site holding, and it is recommended that for most developments this should be set at the prevailing rate of inflation (RPI)

A debit interest rate of 6.5% and a credit interest rate of 4.5% will be called up if the toolkit benchmarks are applied. See HIGN 2010/04 for key financial assumptions

In appraising schemes for Housing Association Grant, Scottish Government makes the following assumptions about inflation rates per annum (from HIGN 2010/04, p.4):

Retail Price Inflation (RPI)	2.75%	
Rents	3.75%	RPI plus 1%
General Costs	2.75%	Consistent with RPI

Management and Maintenance Costs	2.75%	Consistent with RPI
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The interpretation of this page is important and further guidance on the interpretation of results is given in Advisory Note AN 4 (page 52).

## ADVISORY NOTES

### AN 1 House prices

The default house prices in the Toolkit are based on those derived by Heriot-Watt University for use in the 2008 study, *Planning for Affordable Housing in the Cairngorms National Park*. The house prices in that report are an approximation of lower quartile values for 2006. Prices for different sized dwellings were derived using the lower quartile values and average price differentiations for Scotland.

These house prices have been updated by reference to published data on house price inflation in Scotland taken from Registers of Scotland data on house prices at local authority level<sup>2</sup> from 2006 to 2010 which suggests that house prices rose by an average of 6% in Highland, 10.5% in Moray and by 34% in Aberdeenshire. House prices in Aberdeenshire are much influenced by the Aberdeen market (where prices rose by 38% over the same period) whereas house prices in that part of the district which is within the Cairngorms National Park are less likely to have been affected by the Aberdeen market. House prices for Aviemore, Grantoun, Kingussie, Tomintoul and Upper Deeside have therefore been inflated by an average of 7% from those quoted in *Planning for Affordable Housing in the Cairngorms National Park*. The 7% figure being a weighted average of the 6% house price change in Highland (3 housing submarkets) and the 10.5% change in Moray (1 housing submarket).

**House prices in Perth and Kinross:** A section of land in Perth and Kinross was incorporated into the Cairngorms National Park in October 2010. *Planning for Affordable Housing in the Cairngorms National Park* did not provide house price data for this area. Registers of Scotland was not able to provide specific data on house prices on the part of Perth and Kinross which falls within the Cairngorms National Park. However Registers of Scotland data on house prices at district level suggests that in the period from April-Sept 2010 house prices in Perth and Kinross were on average 6.7% higher than in Highland. House prices in those parts of Perth and Kinross which fall within the Cairngorm National Park have therefore been derived by applying a 6.7% uplift to the average of house prices of those parts of Highland which are within the Cairngorms National Park (specified as Aviemore, Grantown and Kingussie within the toolkit).

Users should, wherever possible, obtain independent advice about house prices at a scheme specific level. House prices will vary depending on location, housing mix and the state of the market. The toolkit default house prices exist to provide a fallback position for analysis where no definitive information on housing mix or anticipated house prices is available, but even in these circumstances it will be appropriate to seek independent advice on anticipated house prices in the area and to sensitivity test through the model the impact of variation in house prices. Developers (and landowners) should always be asked to provide information about anticipated house

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<sup>2</sup> [http://www.ros.gov.uk/public/news/quarterly\\_statistics\\_time\\_series.html](http://www.ros.gov.uk/public/news/quarterly_statistics_time_series.html)

prices by unit type and this information also should be sensitivity tested and subject to independent appraisal.

## **AN 2 Social and Mid-Market Rent Assumptions**

### **AN 2.1 Origin of Default Values and Assumptions**

The toolkit default values for social and mid-market rent are standard values used by grant providers in Scotland to evaluate schemes. These values are drawn from Scottish Government guidance notes HIGN 2010/04 and HIGN 2010/07.

### **AN 2.2 Calculating Gross Rental Income and Net Income**

A standard social rent per unit of £3,266 per annum for 2010/11 (based on a 3 person equivalent dwelling) is set out in HIGN 2010/04 (paragraph 3.1, p.5). The default weekly social rents in the toolkit reflect that value. Weekly social rents for properties with more or less than 3 bedrooms have been calculated using the 3 person equivalency conversions tables in HIGN 2009/14. Copies of these tables are shown on page 16 of toolkit. They can be viewed by selecting 'yes – grant is available and is a known value' and scrolling down.

Scottish Government's assumes that social rents are 5% lower than the £3,266 per annum standard rent in remote rural areas and remote towns. This assumption is also set out in HIGN 2010/04 (paragraph 3.2, p.5). If on the 'Site Location' page of the toolkit, the box is ticked to indicate that a development is in a rural location, the default social rents called up by the toolkit will be 5% lower than the standard rents. Appendix 1 of HIGN 2010/04 provides guidance on how to check whether a development location is considered 'remote' for the purposes of Housing Association Grant appraisal.

Mid-market rents are defined by Scottish Government in HIGN 2010/07 (paragraph 3.13, p.11) as up to 80% of Local Housing Allowance. The toolkit does not provide default values for mid-market rents. However, Local Housing Allowance for different Broad Rental Market Areas is set out on page 7 of the toolkit, 'Social and Mid Market Rents'. Mid market rents must be calculated by the user and input in the column headed 'User Rents'.

Gross annual rent from social rented and mid market properties is calculated based on these default weekly rents or the weekly rents entered by the user.

The toolkit calculates net rental income by first deducting annual costs for voids. That net rental income value is then subjected to an income multiplier. Costs for major repairs (sinking fund) and for management and maintenance are subjected to a cost multiplier and then deducted from the net income (HIGN 2010/04, Appendix 6). The net income is the annual sum which will service a loan on the basis of which an RSL can make a capital payment to a developer. The default factor used to 'capitalise' the net annual rental payment is 6.5%. Users can insert an alternative value if required.

### **AN 2.3 Revenue and Costs on Individual Schemes**

For different housing associations and for individual schemes, these values may vary and Toolkit users are advised to consult with their local housing association on the most appropriate values to use in the Toolkit.

### **AN 3 Development Costs**

#### **AN 3.1 Terminology: 'Development' and 'Build' costs**

The Toolkit provides an estimate of total 'development costs'. These are established from 'base build' costs (derived from BCIS data). To arrive at total 'development costs' a further series of costs are added known as 'Other Development Costs'.

#### **AN 3.2 Definition of 'build costs'**

'Build costs' are taken directly from secondary data sources, namely the BCIS Quarterly Review. These 'costs' are based on tender price/m<sup>2</sup>.

The BCIS base costs do not include an element for external infrastructure/special landscaping; they do not include an allowance for professional fees (these are usually paid separately by the client to the contractor); and although there is an element of 'profit' for the contractor, this is a minimal working profit, and not one which reflects a reasonable return to a developer engaged in speculative housing production (where there is a special risk of not selling the housing units).

The Toolkit default build costs have been adjusted in discussions with BCIS to reflect base costs including external works.

#### **AN 3.3 Adjustment at the local level**

The BCIS tender price data is drawn from schemes across the UK. Data is then adjusted to an index at the district level to reflect the differences between particular areas and the national average. These adjustments are included in the default data that has been used.

Authorities should collate development cost data so that the best local data is available with which to appraise schemes.

### **AN 3.4 Exceptional or 'abnormal' costs**

Schemes will inevitably incur exceptional development costs. These are costs over and above basic build costs and external works. Users should not, however, automatically assume that because a site is previously used, and site clearance/decontamination is required for development to proceed, that these costs are exceptional.

The question the user must ask is 'are the development costs associated with this site significantly more onerous than are found on most sites in the district?' If the answer is yes then allowance can be made for this, although from the perspective of a local authority trying to maximise a Section 75 contribution, it is always sensible and good practice to require the applicant to provide a full break down of the costs, showing how base build costs, external works and abnormal costs are made up.

### **AN 3.5 Conversions**

The BCIS data relating to the conversion of buildings to residential shows a very wide range of build costs associated with different schemes.

In principle, conversion schemes can be assessed for viability in the same way as new build scheme (although underpinning data for conversion schemes is more difficult to come by). In order to assess conversion schemes, the Toolkit requires the user to provide per square metre build costs which are relevant to the site. In estimating appropriate build costs, information can be taken directly from the developer, or the user can rely on previous similar cases and/or seek advice from their own experts, for instance, from their own estates and valuation colleagues.

### **AN 4.6 Use of development cost data and the measurement of buildings incorporating residential units**

It is important that Toolkit users understand the relationship between the default build costs and the size of units.

The calculation made by the Toolkit is to multiply the unit size entered on the 'Characteristics of Development' page either by the default build cost (cost per m<sup>2</sup>) or by the bespoke build cost entered by the user in the white cells. As an example:

A unit of size 60m<sup>2</sup> with a build cost of £1000 per m<sup>2</sup> will have a total cost of £60,000, to which is then added the other relevant development costs.

The default base build costs in the Toolkit are based on the gross internal area (of the building) – GIA basis. This matches the BCIS basis and is an appropriate starting point given that many developments in the area are lower rise and will include a significant proportion of houses.

This means that where an appraisal includes flats, the floor space entered on the 'Characteristics of Development page' (page 4) for flats should be increased if there are common areas to the flatted part of the development. Taking the example of a scheme of ten apartments with internal areas of 50 m<sup>2</sup> each that would mean a total net internal area (NIA) for the building of 500 m<sup>2</sup>. If the common areas (stairways/circulation space) amounted to say 15% of the total (i.e 75 m<sup>2</sup>), then the user should add 7.5m<sup>2</sup> (75m<sup>2</sup> divided by 10) to each apartment's net size.

## **AN 4 Finance, Interest Calculations and Discount Rate within the Toolkit (Main Model and DCF)**

The addition of the Discounted Cash Flow mechanism makes it possible within the Toolkit to deal with development finance in a more explicit manner.

### **AN 4.1 Traditional or 'static' Toolkit appraisal:**

The non phased 'static' Toolkit approach to finance bases interest costs on development costs. In the traditional or 'static' Toolkit, interest is calculated on all elements (market and affordable) on the basis of development costs.

If land financing costs are relevant, these should be added in the box below 'Other Development Costs' on the 'Development Costs' page of the main or static Toolkit model.

In completing appraisals, where land financing is relevant, users should complete the appraisal before filling in the Land Financing Costs box on the 'Development Costs' page. As a rule of thumb, where land has been purchased and is not still under option, interest will be paid by the developer on the residual site value at the market rate for a commercial loan.

For schemes running over periods longer than one year, users are recommended to run the scheme through the DCF in tandem with the main model as the financing assumptions are sensitive to the phasing approach.

### **AN 4.2 DCF**

The DCF takes the interest costs on the build (but not the land) directly from the main or static model. The costs of financing the land are made explicit by the calculations within the DCF (see section 'Finance, Discount Rate and NPV').

The DCF calculates land financing costs by working out how interest is debited and credited to the annual residual value. Interest is calculated on a cumulative basis such that a scheme in 'credit' will attract positive interest, and one which is in debit will attract negative interest. The user can vary the credit and debit interest assumptions.

### **AN 4.3 Balancing the static model and the DCF**

The user can 'balance' the two different approaches. If interest is taken out of both models and there is nothing entered to the land financing costs within the static model, then, provided that the build rate has been distributed evenly, and inflation assumptions set to zero, then the two models should 'balance' and provide a similar residual.

### **AN 4.4 Discount rate**

The DCF allows the user to apply a 'discount rate'. This is a percentage that is applied to the annual residual values. The higher the discount rate is set, the lower the site value will be.

The discount rate is there to calculate more precisely the present value (Net Present Value) of the site. It calculates the value of the site in today's terms, given the likely eventuality that the real value of money will have fallen with time.

The discount rate devalues the annual residual values to today's terms.

It is recommended that the discount rate is set to the annual rate of inflation or RPI, which is currently around 2.75% (see HIGN 2010/04 p. 4)

NB: Care is needed in understanding the relationship between price and cost inflation, and the discount rate, based on RPI.

In assessing appraisals, local authorities are advised to obtain substantiated evidence on house price inflation, projected costs and the likely levels of inflation. These factors can make a very significant difference to site value.

## APPENDICES

### Appendix 1                      Check list for development appraisals involving affordable housing and other Section 75 contributions:

#### Revenues

- Selling prices for market housing (should be supported by an independent chartered surveyor reports of expected selling prices, setting out scheme comparables used);
- Estimates of affordable housing value (what RSLs would be likely to pay for each of the affordable tenures);
- Any other potential revenues to the scheme – grant, ground rents, cross contribution from a commercial element.

#### Costs

- Quantity surveyor estimates of build costs. This will normally cover sub and super structure and any external works. The quote should ideally be based on a square metre Net Internal Area basis;
- Other development cost data. This should include:
  - Professional fees (expressed as % build costs);
  - Profit margin (and basis – on market value or on build cost);
  - Finance – cost;
  - Marketing and legal fees;
  - Any contractor return required if the scheme is contracted out;
  - Abnormal costs (these should always be substantiated by a specialist’s report);
  - Any other costs the applicant believes are relevant.

NB: Where costs are more than 5% over the appropriate default, a full scheme cost plan should be provided.

#### Site value

- An estimate of site value should be provided. If the scheme is of significant scale (eg over 20 units) the site value should be evidenced by a valuer’s report.

#### Phasing

- The anticipated build period should be stated. With this information should be provided an estimate of projected selling prices and projected development costs for the period of the build;
- The applicant should state whether s/he anticipates that the affordable housing or other Section 75 contributions have been front loaded in their appraisal.

### **Development process**

- The applicant should state how the development will be procured. Is the scheme being developed by a company that has its own building arm, or will the scheme be developed on a Design and Build basis.
- How is the affordable element being procured? Are on-costs to an RSL relevant?

### **Appendix 2                      Restore Excel Function**

In some instances users have found that having closed the toolkit they have lost the formula bar and the row and column headers on their normal Excel spreadsheets. The toolkit contains a separate software file called 'Restore.xls' which if run with macros should restore all the toolbars etc within Excel.

This problem can be avoided by using the File-> Exit option to close the Toolkit rather than the [x] button in the top right of the window