

# **Economic Viability of Affordable Housing Requirements**

**Final Report for Rochdale Metropolitan Borough Council**

**November 2010**



RLB | Rider Levett Bucknall

**Date of issue: November 2010**

arc<sup>4</sup> Ltd  
Beehive Mill  
Jersey Street  
Ancoats  
Manchester  
M4 6JG  
T: 0161 228 1689  
M: 07714 099608  
F: 0161 228 6514  
Email: [michael.bullock@arc4.co.uk](mailto:michael.bullock@arc4.co.uk)  
Website: [www.arc4.co.uk](http://www.arc4.co.uk)

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## Economic Viability of Affordable Housing Requirements

### 1. Background and Purpose

- 1.1 This report has been prepared to advise Rochdale Metropolitan Borough Council on the economic viability of affordable housing provision in the District.
- 1.2 The requirements for affordable housing have been reviewed in the Strategic Housing Market Assessment (SHMA) that has been prepared in parallel with this Viability assessment. The SHMA finding is that there is a significant level of need for affordable housing in the District.
- 1.3 The estimated annual requirement, using the recommended CLG methodology, is a net figure of 128 additional affordable homes per year. This figure, however, masks considerable mismatches between supply and demand, at a township level, between the property sizes required and available supply. The main need for provision is for social rented housing but the report identifies that 25% of households in need would consider intermediate tenures. Whether they could afford this would depend on the affordability of the intermediate tenures. For example, 60.6% of existing and newly forming households in need could afford to purchase an equity share of £50,000, and this may be a helpful benchmark. Similarly 38.3% of existing and newly forming households can afford a £80,000 equity share.
- 1.4 Given that the target set in the emerging Core Strategy for total new net housing provision in Rochdale, is 400 per year, fully meeting this need would require a target of 32% of all new provision to be affordable. The provision of sufficient additional new market housing is important. The target for the proportion of new affordable housing development will, in practice, be determined as much by the financial viability of new affordable housing provision as by the level of needs.
- 1.5 This study therefore complements the SHMA by considering the viability of affordable housing provision as part new housing developments, delivered through planning obligations within the framework of the national policy set out in Planning Policy Statement 3 (PPS3). It does not take detailed account of the availability of grant support for affordable housing provision, although this will, of course, be an important element of the overall provision of affordable housing.
- 1.6 The scope and approach of the study has been designed to meet the requirements of PPS3. The study provides key evidence for the Council's Local Development Framework, notably the emerging Core Strategy and Affordable Housing Supplementary Planning Document (SPD). It will also inform the Housing Strategy of the Council. The scope of the study is designed to help the Council assess the impact of the recent major changes in the housing market and the uncertainty about future market conditions, alongside the long-term

implications of affordable housing requirements. arc<sup>4</sup> Ltd and Rider Levett Bucknall Ltd have prepared this report jointly.

## 2. Approach of the Study

### Using beacon sites and reflecting market conditions

- 2.1 Rochdale MBC comprises of four distinct townships or localities; Rochdale, Middleton, Heywood and Pennines. The market conditions vary between them and therefore, to provide a balanced assessment, it is important to test the impact of policy in different parts of the market. For this reason, 14 beacon sites were selected, drawing on the likely range of typical sites with development potential, to provide a mix of location, size and market appeal. The site information has been informed by actual opportunities and real-world market intelligence, but specific site issues have not been taken into account, and the sites should be taken as examples of a typical site rather than reflecting any particular site.
- 2.2 The beacon locations are also informed by the likely land availability, so that the development opportunities being tested reflect the likely types of development over the period during which the LDF will apply.
- 2.3 The beacon sites are listed in Table 1 on the next page.
- 2.4 The viability assessments are strategic; they are not designed to be specific site viability appraisals. They do not attempt to take account of detailed site conditions, design requirements or planning conditions. The study assumes that any exceptional or abnormal site conditions will be taken into account by way of reduced land values to reflect these specific costs.

### Property Market Conditions

- 2.5 The study takes account of changing housing market conditions for different valuation dates. The scenarios for house prices and land values take account of the volatility and uncertainty in the recent housing market by adopting 3 main scenarios, as follows:
  - The **base scenario** should reflect the recent position in Q4 2009 (October – December), for which comprehensive house price data is available. This was a position when the market became reasonably stable after the “credit crunch” had a major impact, and building costs had also fallen substantially as a result of the recession. Note that up to Q1 2010, house prices in Rochdale remained at a level very similar to that in Q3 2009.<sup>1</sup>

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<sup>1</sup> Index Q4 was 184.0. In Q1 2010 it was 184.9.

- A position which assumes a return to house prices at **the level applying in late 2007**. This is an approximate 17% increase from current levels<sup>2</sup>, with associated changes in land values, construction costs and the cost of finance. Although an early return to these levels is not anticipated, it seems reasonable to anticipate that it may occur well within the plan period, and it is a scenario that should be considered. From our very recent experience, the Planning Inspectorate appears to accept that this is a reasonable position to consider in assessing targets against economic viability.
- A further position that may reflect a **mid-point** in a recovering market. This modelling would take account of the extent to which land values and building costs are likely to change if the markets then stabilise at these levels.

2.6 We have explored in some detail the relationship between house price changes, land values and building costs to inform this study, and the conclusions, which form the basis of that aspect of the assessment, are set out in section 4.

**Table 1: The Beacon Sites**

Site	Site location and character	Developable Site Area (Ha)	No. of dwellings	Density per Ha
1	Heywood; suburban	8.2	246	30
2	Heywood; inner urban	1.1	43	40
3	Heywood; suburban	1.2	43	35
4	Middleton; inner urban	0.5	20	40
5	Middleton; suburban	3.0	121	40
6	Middleton; infill	0.3	10	30
7	Middleton; suburban	0.7	29	40
8	Pennines; suburban	1.3	46	35
9	Pennines; inner urban	0.2	10	53

<sup>2</sup> Based on Average price in Rochdale £102,886 (October 2009) and £120,628 (October 2007). Return to 2007 levels requires increase of 17%. Land Registry data

Site	Site location and character	Developable Site Area (Ha)	No. of dwellings	Density per Ha
10	Pennines; rural	6.4	193	30
11	Rochdale; inner urban	1.7	90	54
12	Rochdale; inner urban	0.7	30	41
13	Rochdale; suburban	4.2	152	36
14	Rochdale; suburban infill	1.0	24	24

## Affordable housing options and assessment criteria

- 2.7 To provide a comprehensive view of the impact of different affordable housing requirements, the study considers the implications for each beacon site of a range of options for the provision of affordable housing as part of the planning obligations. This includes a range of affordable housing requirements ranging from 5% to 25%, a tenure mix of 75/25 social rent/intermediate (approximately the preferred mix arising from the SHMA findings), and also a 50/50 tenure split. These options enable subsequent testing of the Council's current approach to affordable housing contributions, which is based on a percentage of the Gross Development Value (GDV) of the scheme.
- 2.8 Using our appraisal model, the gross total costs of development are compared to the forecast gross income from the site, taking account of the costs of finance, cash flow and the requirement for a reasonable developers' profit, at a minimum of 15% of gross development value - with a higher 20% level tested.
- 2.9 The key results of each affordable housing option and each property price scenario is summarised by comparing the calculated residual land values with the market expectation for that value as defined for that scenario. The outcomes have been classified in RAG (Red Amber Green) format as follows:
- **GREEN.** If the residual value is above or not more than 10% below the expected land value, the scheme is considered to be likely to be viable, as there are most likely to be opportunities for "value engineering" to resolve a small gap.
  - **AMBER.** If the gap is between 10-30% below the market expectation of value, the scheme is considered marginal as more significant scheme changes are needed, or a significant revision of market land value expectations. In most cases, it is likely that it will be possible to close this gap but an amber "marginal" rating flags that a scheme is on the edge of viability.
  - **RED.** Below this level, the option is considered as likely to be unviable at stated expectations of land value. It may be possible to improve the scheme

performance, but at this level the assessment is that the development would probably not be able to proceed.

## Consultation

- 2.10 The approach adopted for this study, the definition of beacon sites and all the key data and assumptions applied have been the subject of consultation with development partners comprising all the developers and RSLs who regularly work in Rochdale. A consultation event was held on 12<sup>th</sup> May 2010 and a briefing paper on the approach and assumptions was circulated to all the relevant stakeholders. We received comments at the meeting, and subsequent comments from seven members. The comments received and the responses to them are set out in Appendix F accompanying this paper. The content of the work has been developed, and modified in some cases, in response to these comments. The Council and the consultants are grateful to those who responded for their time and attention, which has assisted this study.

### 3. Methodology of the Study

3.1 Individual development appraisals have been constructed for each of the 14 beacon sites. A consistent methodology and approach has been adopted for each site appraisal as follows: -

- Gross site hectareage provided by the Council and adjusted to accommodate the proportion of the site that is developable – to give a net developable site area.
- Calculations have been based on the net developable area for each site.
- The Council has provided details of notional residential developments for each site. The information provided by the Council extended to the respective numbers of houses (2 bed, 3 bed, 4 bed) and the number of apartments (1 bed, 2 bed).
- Tenure mix in terms of private for sale, social rented and intermediate housing (as appropriate to each option) then apportioned as a percentage of the total on a site by site basis.
- Size of each house type is based on comparable dwellings identified in current nearby new housing schemes in Rochdale. In each type of property, apart from 3 bedroom units, the property size conforms or exceeds the HCA HQI minimum size standard. 3 bedroom affordable homes are included in the study at the HCA minimum size requirement. This has been changed as a result of the consultation process.
- Open Market Property sales valuation advice for each house type and location sourced by arc<sup>4</sup> at Q4 2009 levels. Property values are assessed on a sales £value/m<sup>2</sup> basis multiplied by the size of each unit to give a sales value per property.
- Social rented housing disposals have been calculated at fixed sums across all sites, as follows:

2-bed house	£60,000
3-bed house	£65,000
4-bed house	£75,000
1 bed apartment	£50,000
2 bed apartment	£55,000
3 bed apartment	£60,000

- The values for Intermediate housing, at the point of sale from a developer to an RSL, or alternative housing provider for onward sale to an approved applicant are based on the mid-point between the prices estimated for market sales and the social rented price.
- Ground rents of £150 per property applied (assuming freehold is retained by the land-owner) and capitalised at a 5% yield.
- Build costs for estate housing units, including detached, semi-detached and terrace housing, applied at £710/m<sup>2</sup> (£66/sf) and £872/m<sup>2</sup> (£81/sf) for

flats/apartments, using regionally adjusted BCIS data as at Q4 2009 levels (including preliminaries, but excluding contingency and site works). These build costs reflect a substantial reduction over the past 2 years<sup>3</sup> and are varied in the other market scenarios, as detailed.

- Uplift applied to allow for “Code for Sustainable Homes” level 3 in main scenario costings and subsequently tested for level 4, which is required after 2013 (see further explanation of the costs in section 5).
- No differential is applied between the build cost of private for sale dwellings and affordable dwellings.
- Cost allowances for site works assume 46% of site will be hard landscaped, 54% soft landscaped plus allowances for drainage and statutory service installations.
- The analysis below demonstrates how the total construction costs are accounted for in the model:

### £/sf Construction Cost Analysis

	<u>base</u>	<u>csH3</u>	<u>total</u>
House Build			
houses	67	3.35	70.35
apartments	83	4.15	87.15

### Typical Site with 100% houses

	<u>average</u>
Housebuild	70.35
Siteworks / infrastructure	19.00
Contingency	4.50
<b>Total (£/sf)</b>	<b>93.85</b>

**Total (£/m<sup>2</sup>) 1,010.00**

- No allowance made for abnormal ground conditions or demolition costs (we have assumed that these costs should be netted off the price of land to produce a value that reflects the true value after dealing with ground conditions and other brownfield site costs. These would be calculated on a site-by-site basis). The site values therefore reflect the value of residential

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<sup>3</sup> The BCIS tender cost index fell to 4Q2009 Index = 216 from 4Q2007 Index = 251; this is a reduction of 15%

building land ready for development. Variations in this assumption are explored in section 5.

- An allowance of 5% for contingency is included.
- Professional fees are included at 7% of build costs.
- Stamp duty on the purchase of the land.
- Site acquisition costs are included at 1.5% of the land cost. These have now been included following the consultation process.
- Allowances are also included for statutory planning fees, building regulation fees, surveys & site investigation, sale agent, sale legal, marketing costs, NHBC fees and non-recoverable VAT.
- Allowance is made for S106 contributions to meet the Council's requirements for the provision and maintenance of public open space. For clarity the following provisions have been made:

1 bed	£662
2 bed	£1,323
3 bed	£1,985
4 bed	£2,646
5 bed	£3,308

It is acknowledged that other S106 costs may arise of specific developments but these will have to be considered and quantified on a site-by-site basis.

- Finance charges are calculated on a cash flow basis at 7.5% on debit balances, 2.5% on credit balances and with a 2% arrangement fee.
- Rate of sales assumptions are variable have been based on the size of site (potential for multiple points of sale) and the type of accommodation provided. These have been applied to each site as follows:
  - 3 sales per month for developments with less than 100 units
  - 6 sales per month for developments with more than 100 units (based on 2 developers selling at the same time).
- It is assumed that the rate of build will align with the rate of sale and that there will be a sales lag of 6 months between start on site and the completion of the first sale.
- Deposits assumed to be paid by the purchaser at exchange of contracts have not been included in the viability model. The assertion being that such deposits would be held in trust in an escrow account and therefore cannot be used to offset financial charges associated with cash flow deficits. This is a change to the original assumptions include in the consultation paper.

3.2 The appraisal of viability is then made as follows:

- Total development costs are deducted from total sales revenue to identify a development surplus.
  - 15% (of gross development value) is then deducted as a developer's profit. A 20% profit level is also tested.
  - No allowance is made for Building Cost Inflation (BCI) or House Price Inflation (HPI). In the baseline options, costs and values are at Q4 2009 levels.
  - Deducting the developer's profit from the development surplus thus leaves a residual land value.
- 3.3 The key results of each affordable housing option and each property price scenario is summarised by comparing the calculated residual land values with the market expectation for that site at Q4 2009 levels. The outcomes have been classified in RAG (Red Amber Green) format as outlined above.
- 3.4 If a site does not appear to be fully viable at the assumed expectations of land value – on a site-by-site basis – this value would need to be lowered to a point where, in residual terms, a developer is still able to take out a minimum development profit. Beyond this point (and certainly if lower than existing use site values), developments are more unlikely to come forward without some form of intervention by the public sector. Owners are likely to defer a land sale in the expectation that values will recover when the market turns upward – or that planning policies may change and allow an increased value.
- 3.5 The land values used in the assessment (market expectations at Q4 2009) are considered further below.

## 4. Land Values and a changing housing market

- 4.1 One of the most difficult aspects of this study is to assess the likely effect of the recession and lower house prices, on the viability of affordable housing provision, given the scale of the changes in the market over the past 2 years and the considerable uncertainty about future market prospects. This section summarises how the study tackles this issue and sets out the key assumptions.
- 4.2 The position in the 2 year period up to the time of preparing this report is that there were few transactions in the residential land market. This reflects the hiatus in new housing development, the lack of development finance and great uncertainty about market prospects. However, the market seems to be stabilising and most commentators now expect that house prices will remain at, or near, current levels for a period of some time, matching the experience in the mid-1990's. Significant numbers of land transactions will resume and land price levels will reflect these expectations about house prices and current development costs.

### Expected Land Values

- 4.3 The land values were provided by the Impact Partnership at the Council. They are based on comparable evidence of land sales and District Valuer's recent valuations. These values are also informed by discussions with local agents and by feedback from the consultation.
- 4.4 These current land values determined for each beacon site are shown in Appendix A.
- 4.5 There is a debate as to whether the viability of meeting policy objectives for the provision of affordable housing (or other aspects of planning gain) should take account of current expectations of land value or be based on existing use land values, which are sometimes considerably lower. This report is based on comparison with current expectations of value.
- 4.6 This approach is based primarily on the market's experience that if the impact of planning requirements substantially reduces values from the levels that informed owners have expected to achieve, then owners will frequently not proceed with development; they will "sit on their hands". Their position may change in the medium to longer-term, if owners see no prospect of the values improving.
- 4.7 We were mindful in developing the methodology, of the requirement in PPS3 (para 29) that Local Planning Authorities should consider the likely impact of affordable housing targets on the overall levels of housing delivery. There is a strong focus in guidance and government policy on delivery in the short-medium term. The PPS3 requirement does not seem to be consistent with assuming there will be a lengthy period of reflection whilst owners revise their expectations of value due to planning requirements.
- 4.8 We recognise the validity of the view that owners' expectations of land value have to adjust, to some extent, to planning policy. We allow for this adjustment

in the methodology by categorising sites that have a Residual Land Value of 70%-90% of the Expected Land Value as “marginal”. One of the main factors in this rating is that we recognise there may be a significant revision of the owner’s expectations of market value in response to the planning requirements.

### *Land value changes 2007-2009*

- 4.9 The study takes account of the major changes, in recent years, in house prices and land values by constructing different scenarios, as described in section 2. The approach on land values and house prices is now described.
- 4.10 One standard reference point for overall changes in land values are the figures reported by the Valuation Office Agency (VOA). Based on latest average regional figures provided by the District Valuations Office, average land values have recorded price falls of between 30% for large sites in excess of two hectares and 43% on land for flats over the last two year period from the peak of Q2 2007 (VOA, Q2 2009).
- 4.11 The bi-annual VOA residential building land figures identify Rochdale within the North West regional figures and it is on this basis that the figures stated above have been quoted. There have been larger falls elsewhere, for example one commentator from the property sector considers average urban land values had reduced by approximately 50% between the peak of Q4 2007 to Q2 2009 (Savills, Knight Frank Residential Land Indices).
- 4.12 To illustrate the effect of these different levels of house prices and land values we have modelled and presented the impact in the Rochdale area of house prices returning to the Q3 2007 levels in the “stronger market” scenario. This is assessed to be an increase of 17% in average house prices accompanied by an increase of 21% in land values from Q3 2009 levels. This level of increase in expected land values does not achieve a return to the values being achieved in Q3 2007, and we have adopted this assumption because:
- The feedback is that the purchasers are likely to be more prudent, as many “fingers were burnt” in the property price boom.
  - The banking sector and other lenders are likely to reinforce a more cautious view.
  - Values are likely to be constrained by increasing building costs, with the introduction of Code Level 3 (factored into our projected build costs) and serious pressure on costs as capacity constraints arise in a growing market.
- 4.13 We have also modelled a possible intermediate future scenario where prices then increase from current levels by 8.5% and the equivalent land values rise by 10.5%.

### **House prices and changes 2007-9**

- 4.14 In terms of ascertaining current property prices for the assessment, we have adopted a triangulated approach involving desk-top research and consultation with local agents and valuers. The desk-top research involved analysis of

comparative historic and current house price trends, new build and re-sales guide and transaction prices, utilising acknowledged sources including Land Registry, Rightmove, CLG and new house offer prices. A schedule of data sources is highlighted in Appendix E.

- 4.15 Consultation with a number of estate agents throughout the local authority area has yielded significant disparity in views on the current market and expectations of price. This reflects continuing uncertainty about the state of the market. As a result of constrained mortgage lending and historically low starts and completion rates, transaction activity is far lower than levels recorded during 2006 and 2007. Therefore in terms of outlook for the market, an extended recovery is anticipated as despite the exuberance caused by recent price rises, the longer-term outlook would appear more sober. Two of the causes of recent slight price rises appear to be the low level of available stock and the reduced level of transactions.
- 4.16 The new build market currently provides a relatively limited pool for comparables, as a consequence considerable care has been taken to obtain 'best fit' comparators. New build comparables for certain beacon sites have been taken from up to a half mile radius in relation to an assumed beacon site (see schedule in Appendix E). Unsurprisingly new build agents remain bullish and report higher prices for good specification new build schemes. Furthermore, though property types have been standardised for the purpose of modelling, comparable properties varied in terms of square footage within a property size category. The highest comparable prices were recorded for large, high specification new build stock in the popular areas of the authority, as identified in the accompanying Strategic Housing Market Assessment. The conclusions about property values, which form the basis of this aspect of the assessment, are set out in Appendix E.

## Apartments

- 4.17 A couple of the beacon sites selected have a high proportion of apartments on them and this seems to be appropriate, especially for locations close to town centres where higher density is desirable, and where demand for such property is likely to be stronger. It has been difficult, however, to establish a robust value for apartment property as confidence in this sector of the market has been particularly badly hit. Lenders have tightened mortgage terms for such property and the values of resale properties have often fallen substantially. This has all had a significant impact on the viability of the sites and developers have recently been very reluctant to consider apartment schemes.
- 4.18 However, it seems unlikely this difficult market for apartments will continue long-term so we have included appropriate apartment schemes in the assessment. We have established values based on the best available comparative data and assumed that the properties are sold at these prices. The beacon sites with a high proportion of apartments are:
- Site 5; Middleton; Suburban brownfield with 24 apartments in a scheme of 121 dwellings (20%)

- Site 13; Rochdale; Suburban brownfield with 15 apartments in a scheme of 152 dwellings (10%)

4.19 The results for these sites need interpretation with care in view of the uncertainties about the future prospects for apartment-type development. It may be that the viability results will overstate the feasibility of such schemes as developers will, in practice, consider them to be too risky until this part of the market strengthens.

## 5. Key findings

- 5.1 This section now sets out the main results of applying the scenarios about values and varying levels of affordable housing requirements. For all the summaries of the results, the beacon sites are numbered as shown in Table 1. The results are also set out in tabular form, with more detail, in Appendix C. The colour coding for the viability assessment of each site is as shown on the box below. An explanation of these viability ratings is given at 2.9 above.

Viable at expectations of land value at specified date

Marginal at expectations of land values at specified date

Non-viable expectations of land values at specified date

### A: The baseline position at Q4 2009 values

- 5.2 To confirm the viability of development for the beacon sites, the first task in the modelling is to test the results using the assumptions detailed in section 3, using Q4 2009 baseline prices and values, but with no affordable housing provision.
- 5.3 Under this scenario, **all sites were seen to be viable**.

### B: Scenarios based on Q4 2009 values with varying affordability targets

*Based on a tenure split of 75/25 (social rent/shared ownership)*

- 5.4 We now examine the effect of increasing levels of affordable housing target, assuming this applies across all the beacon sites. The affordable housing provision is applied as 75% social rented housing and 25% shared ownership (with 50% initial tranche sale). All the other assumptions remain as set out in section 3.

- 5.5 The Figure A below shows the viability of each site for each target level of affordable housing provision:

*Figure A – Affordability Provision with 75:25 Split*

Site	Affordability Provision - 75:25 Split				
	5%	10%	15%	20%	25%
Site 1	116%	98%	79%	60%	41%
Site 2	100%	82%	64%	46%	28%
Site 3	91%	74%	58%	41%	24%
Site 4	86%	66%	47%	27%	7%
Site 5	141%	121%	100%	80%	60%
Site 6	137%	120%	102%	84%	66%
Site 7	185%	163%	140%	117%	95%
Site 8	168%	149%	130%	111%	92%
Site 9	105%	84%	62%	40%	19%
Site 10	164%	146%	127%	108%	90%
Site 11	156%	129%	102%	75%	47%
Site 12	78%	59%	39%	19%	0%
Site 13	158%	137%	116%	95%	74%
Site 14	132%	116%	101%	85%	70%

- 5.6 This shows that with a 15% overall affordable housing provision, 8 out of the 14 sites remain viable, with 1 becoming marginal and 5 becoming non-viable. Where the affordable housing provision is at 20%, only 4 of the sites still remains viable, with 4 sites being marginal at 6 being non-viable. The “tipping point” therefore appears to be around the 15% level.
- 5.7 The 15% level as noted above when represented as a % of GDV can be illustrated as follows:

Site	Affordable Cost (% of GDV)
Site 1	8.23%
Site 2	7.52%
Site 3	7.73%
Site 4	7.24%
Site 5	7.92%
Site 6	8.41%
Site 7	8.21%
Site 8	8.56%
Site 9	7.12%
Site 10	8.86%
Site 11	7.32%
Site 12	7.32%
Site 13	8.21%
Site 14	8.92%

*Based on an alternative tenure split of 50/50 social rent/shared ownership*

- 5.8 The assessment was repeated, but with an alternative 50/50 tenure split for the affordable housing provision. Figure B, below, shows the viability of each site for each target level of affordable housing on this revised 50/50 basis of provision, increasing the affordability provision

*Figure B – Affordability Provision with 50:50 Split*

Site	Affordability Provision - 50:50 Split				
	5%	10%	15%	20%	25%
Site 1	119%	103%	86%	70%	54%
Site 2	103%	87%	71%	55%	39%
Site 3	93%	79%	64%	50%	36%
Site 4	89%	72%	54%	37%	20%
Site 5	143%	126%	109%	91%	74%
Site 6	140%	124%	109%	94%	78%
Site 7	188%	169%	149%	129%	110%
Site 8	171%	154%	138%	121%	105%
Site 9	108%	89%	70%	51%	32%
Site 10	166%	151%	135%	119%	103%
Site 11	160%	136%	113%	89%	65%
Site 12	81%	64%	47%	30%	13%
Site 13	160%	142%	124%	106%	88%
Site 14	134%	120%	107%	94%	80%

- 5.9 This table shows that a marginal difference exists between a 50/50 split and the preferred 75/25 split. The following comments apply:

- At 15% affordable housing provision, 8 of the sites are seen to be viable, 3 marginally viable and only 3 non-viable, however at 20% affordable housing provision 7 of the sites still remain viable, with 2 marginal and 5 non-viable.
- The “tipping point” could, therefore, arguably be increased to 20%, if a 50/50 split between rented and intermediate housing was to be considered.

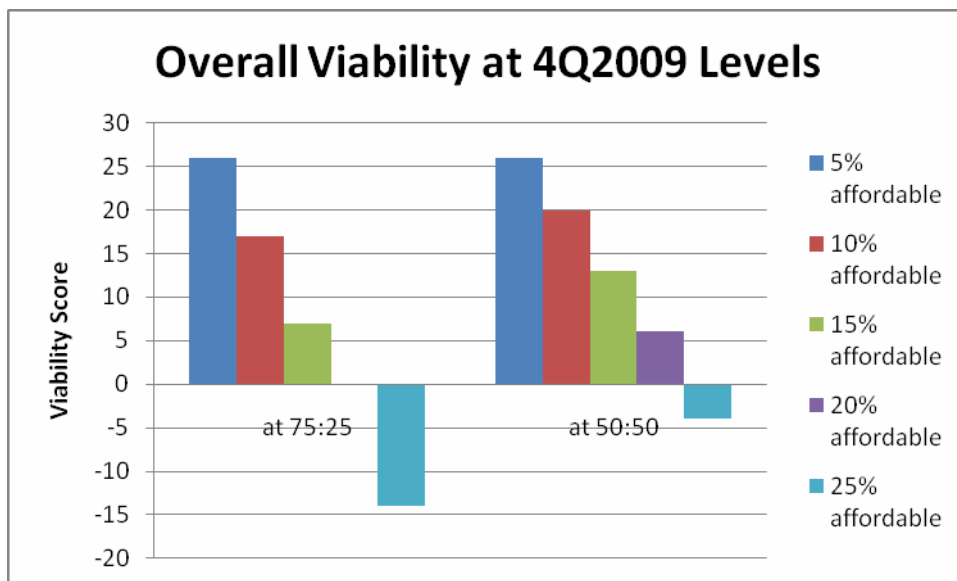
- 5.10 The pattern of the results for both tenure splits, on Q4 2009 values, is summarised in the table below (Figure C), using a simple scoring system. This applies a viability score to each beacon site as follows

Viable at expectations of land value	2 points
Marginal at expectations of land values	1 point
Non-viable expectations of land values	-2 points

- 5.11 This results in an overall viability score for each level of affordable housing provision, for both of the tenure options. This demonstrates visually the concept of a “tipping point”.

- 5.12 It shows that for 75/25 tenure split, that the overall balance tips from being viable to non-viable at a point between 15% and 20% provision. For a 50/50 tenure split, that the overall balance tips from being viable to non-viable at a point between 20% and 25% provision.
- 5.13 Although the cost to the developer (in terms of sale receipts lost) of providing a social rented property is approximately twice as much as for an intermediate tenure property, the low incidence means that the overall impact is not that great.

Figure C – Overall Viability Scores



Note: The chart shows an overall viability score for each level of affordable housing provision. The scoring basis is described at para 5.9. If the overall score is above 0, the weighted majority of sites are viable.

## C: Sensitivity testing

- 5.14 A series of alternative assumptions are now tested to explore how sensitive the results are to possible or likely variations. The variations are all tested at the Q4 2009 price level baseline, but the impact would be similar at different market conditions. These include testing the effects of:
- Changing the level of application of the **Code for Sustainable Homes**, showing the project position when CSH 4 is required from 2013.
  - A different assumption for **brownfield land/abnormal costs**. The baseline scenario assumes that any abnormal brownfield costs will be netted-off the purchase price of the site. This model considers a scenario where such a cost is incurred (at an assumed £100,000 per acre), but does not result in such a reduction in the purchase price of the site.
  - **Deferred payments** for land purchase

The key findings on each of these issues is summarised below. Each of these variations has been modelled compared to the **base** scenario of 15% affordable

housing provision with a 75/25 tenure split. Figure D, below, shows how much the results change in response to these specific variations:

*Figure D- Sensitivity Testing*

Site	Baseline Scenario (15% affordable 75:25 split) +			
	Baseline	CSH4	£100k abnormal	pay at end
Site 1	79%	52%	57%	111%
Site 2	64%	33%	40%	82%
Site 3	58%	29%	31%	76%
Site 4	47%	9%	6%	60%
Site 5	100%	68%	92%	122%
Site 6	102%	76%	101%	113%
Site 7	140%	107%	157%	155%
Site 8	130%	105%	137%	148%
Site 9	62%	21%	37%	73%
Site 10	127%	105%	129%	153%
Site 11	102%	50%	94%	129%
Site 12	39%	1%	2%	54%
Site 13	116%	86%	116%	140%
Site 14	101%	82%	101%	114%

*Code for sustainable homes, levels 3 and 4*

- 5.15 Level 4 of the Code for Sustainable Homes is due to be introduced in 2013. Research undertaken on behalf of the Homes and Communities Agency suggests that this is likely to add a premium to construction costs of around 13% above current building regulation compliance. Code 3 (which forms the datum in our “base scenario”) represents a 5% increase above current building regulation compliance. In other words the move from Code 3 to Code 4 corresponds to an 8% increase in build costs. Market feedback suggests this is unlikely to result in an increase in “for sale” values.
- 5.16 The move to Code 4 could cause a significant change - with all but 3 of the sites becoming either marginal or non-viable if policy required 15% affordable housing. It indicates that the introduction of these more demanding requirements, in Code 4, could impact significantly on the viability of development. In the absence of any other compensatory changes, such as higher sale values or greater build efficiency (to reduce the development cost), it suggests that either the affordable housing requirements would need to be reduced, or land values would have to fall to compensate for this change.
- 5.17 We do not consider it would be appropriate at this stage to set a planning policy for changes in the CSH anticipated in 2013 and beyond. This forecast of the possible impact is subject to a number of uncertainties. Assuming that the introduction of Code 4 still occurs as planned, there might be a number of market responses in anticipation of this change. For example:
- Some commentators suggest that the costs will decrease as the necessary products and methods are adopted as standard practice, and economies are achieved;

- There may be an overall adjustment in land value expectations in response to the Code requirement;
  - Changes in public attitudes may persuade purchasers to pay a premium for more sustainable dwellings.
- 5.18 We therefore suggest that the Council should review the position and possible implications for affordable housing nearer to the date of introduction.

### *Brownfield land*

- 5.19 Most of the beacon sites are identified as “brownfield” and are therefore likely to require some form of remediation. As set out in the methodology, we have carried out the baseline assessments on the basis that the site values reflect the value of residential building land ready for development. The costs of works required to brownfield sites would be deducted from these values.
- 5.20 We have no details at this stage of the likely degree of contamination or therefore the likely costs of dealing with each of the sites. Even if these details were available, such costs should be regarded as hypothetical as it is likely that different developers will have different solutions to addressing site remediation works and are also likely to adopt differing site densities, and mix of dwellings. To test the sensitivity of the assessments to this issue, we have attempted to demonstrate the impact on residual land values, if £100,000 was spent per acre in remediating each *brownfield* site. This approach generates a similarly reduced residual value, but the model also generates corresponding increases in professional fees, survey costs, finance charges and the developers’ expectation of profit to cover this additional work.
- 5.21 The average residual site value in the base scenario across the brownfield sites equates to £280,000 per acre. After allowing for remediation costs at £100,000 per acre for all sites, the average residual value falls to £170,000 per acre (around £110,000 per acre reduction). This is a result of the compounded effect of professional fees, additional site investigation works, finance charges and allowances for profit on net cost.
- 5.22 The purpose of the exercise here is to demonstrate the sensitivity of the financial modelling to abnormal/remediation costs that are not fully taken into account in the negotiation of land acquisition. This is to alert the Council and development partners to initial expectations of land values. Site abnormalities and remediation costs should be netted off both Q4 2009 expectations of land value and any residual land values.
- 5.23 The additional costs on brownfield sites can have a significant and negative impact on viability, and experience is that this will occur in some cases. But we underline that these should be taken into account in setting land acquisition prices, however where this is not feasible, it is likely that some flexibility will need to be provided in terms of the level of affordable housing provision.

### *Deferred payments for land purchase*

- 5.24 In keeping with current trends in a number of financial transactions conducted recently, there appears to be a growing trend (in an attempt to combat the current economic climate) in deferring payments for land to the back end of the development programme in order to optimise cash flow, reduce borrowing requirements, enhance profitability and ultimately allow projects to proceed. This is particularly relevant where the owner of the land is a public sector organisation.
- 5.25 We have modelled this scenario to demonstrate the sensitivity in economic terms. It may be particularly applicable in the context of sites that are in the Council's ownership, where they are prepared to take a deferred receipt.
- 5.26 The average residual site value in the base scenario across all 14 sites, in the base scenario, equates to £320,000 per acre. After allowing for a deferral in the land sale payment across all sites, the average residual value rises to £380,000 per acre (around £60,000 per acre increase).
- 5.27 The Figure D, above, shows the effect in terms of the viability of the beacon sites. This has significant impact on the economic viability of residential development sites and demonstrates the potential for changes in the terms of the development.
- 5.28 This change in the timing of payments has a dramatic effect in improving the viability of schemes. 9 of the 14 sites become viable. This demonstrates that financial options for development can be very important to the viability of schemes, and that there may be creative ways of achieving viability for difficult sites, or in difficult market conditions. In particular, if the Council owns a site, or has influence over the owners, the timing of payments in respect of the land is a major factor to be considered in assisting developers to meet affordable housing targets.

### *Amounts of other S106 payments*

- 5.29 The calculations supporting a 15% affordable housing provision have been based on the assumption of Section 106 Agreement costs as per the assumptions in Section 3.1 above. It is understood that these costs relate solely to open space contributions. It is important therefore to recognise that any further Section 106 Agreement costs imposed on developers would have a limiting affect on the amount of affordable housing that could be delivered.

### *Commentary on sensitivities*

- 5.30 This analysis shows that the viability of development and the affordable housing targets are sensitive to changes that would increase development costs, such as the introduction of CSH Code 4. Reductions in development costs would, of course, have a positive effect. Perhaps less immediately obvious is the very significant impact on economic viability of changes in the timing of payments for land, showing how important the financial arrangements are for schemes financial performance.



## D: Impact of increases in house prices and land values

- 5.31 In the current market conditions, there have been significant reductions in house prices and the consequent level of land values as compared to those prevailing in 2007. We now examine the potential impact on the viability of affordable housing provision of a recovery in the market towards 2007 price/value levels. The basis of the scenarios we test is set out in paragraph 2.5 above.
- 5.32 The following increases have been modelled as necessary to create these conditions:
- Increase in house prices = 17.0%
  - Increase in residential land values = 21.0%
  - Increase in construction tender levels = 15.0%

The extent of reductions since 2007 in construction tender levels has been striking, and is a major factor in the viability of schemes in current market conditions. Our assumptions for the future are that the reductions of the past 2 years will be reversed with costs returning to the Q4 2007 levels.

### *A “stronger market” scenario: Costs and Revenues at 4Q2007 Levels*

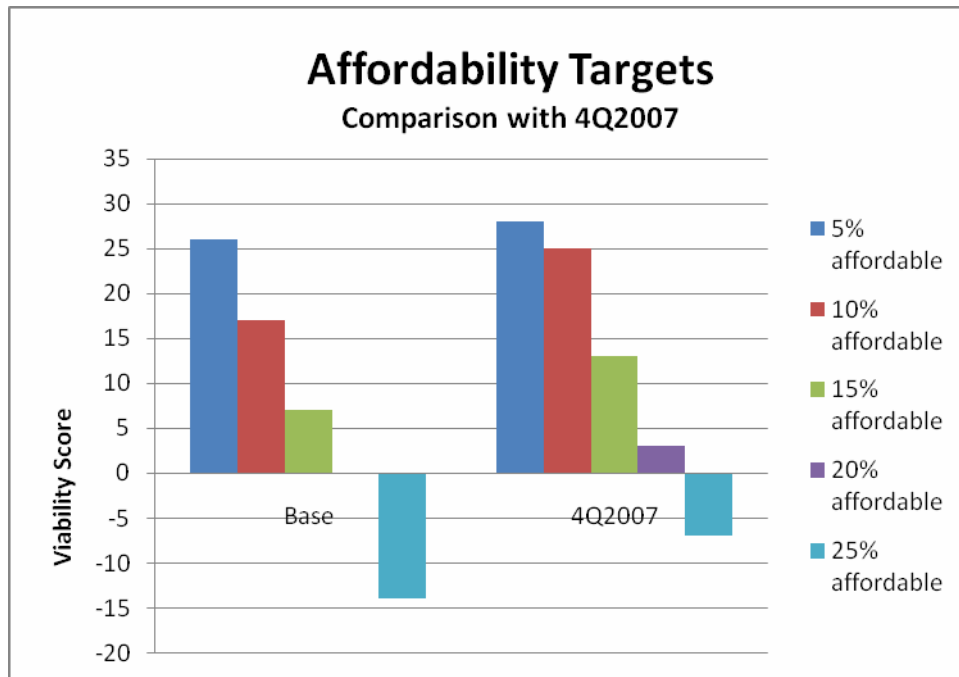
- 5.33 The effect on the viability of a stronger market, as set out above, on the viability of a 15% affordable housing target is shown in the table below. Figure E, below, shows that there is an improvement in viability for most sites as a result of this scenario. The 2 sites which had not shown as viable become marginal. Note the figures are illustrated below at a 15% affordability policy, with a 75/25 split, this being the tipping point identified for current market conditions. A fuller set of results at different affordability levels is shown in Appendix C.

*Figure E- Effect of a Stronger Market*

Site	15% Affordable 75:25 Split	
	Base	4Q2007
Site 1	79%	86%
Site 2	64%	72%
Site 3	58%	65%
Site 4	47%	58%
Site 5	100%	107%
Site 6	102%	108%
Site 7	140%	146%
Site 8	130%	134%
Site 9	62%	74%
Site 10	127%	131%
Site 11	102%	113%
Site 12	39%	50%
Site 13	116%	122%
Site 14	101%	104%

5.34 This shows an improvement in the viability of all the sites against the base position. The following chart (figure F) maps out the extent of the improvement in the **viability** score (methodology discussed in Section 5.12 above):

*Figure F – Overall Viability Score in a Stronger Market*



Note: The chart shows an overall viability score for each level of affordable housing provision in the two scenarios. The scoring basis is described at para 5.9. If the overall score is above 0, the weighted majority of sites are viable.

- 5.35 In the current market (Q4 2009) scenario, affordable provision at 15% with a 75% social rented / 25% intermediate tenure mix, is considered to be achievable for most sites. The projected view of an improved market (at higher Q4 2007 house price levels) would suggest that an affordable housing provision of up to 20% could be achieved in a that stronger market.
- 5.36 An important issue, within this scenario, is about the likely level of increases in land values. We have assumed a 21% increase, but it could be greater, or less. The 21% increase (as explained in section 4) is not as great as the fall that occurred from 2007-2009.
- 5.37 The policy that the Council adopts in respect of affordable housing could, itself, have an important influence on land values. If the Council were to decide that the affordable housing requirement were to increase from 15% to 20% if house prices increased by more than a certain amount, this should limit the amount that purchasers would be prepared to pay for land. To explore the appropriate trigger point, the report now examines the impact of a further scenario, with lower increase in house prices.

### Mid-point Analysis

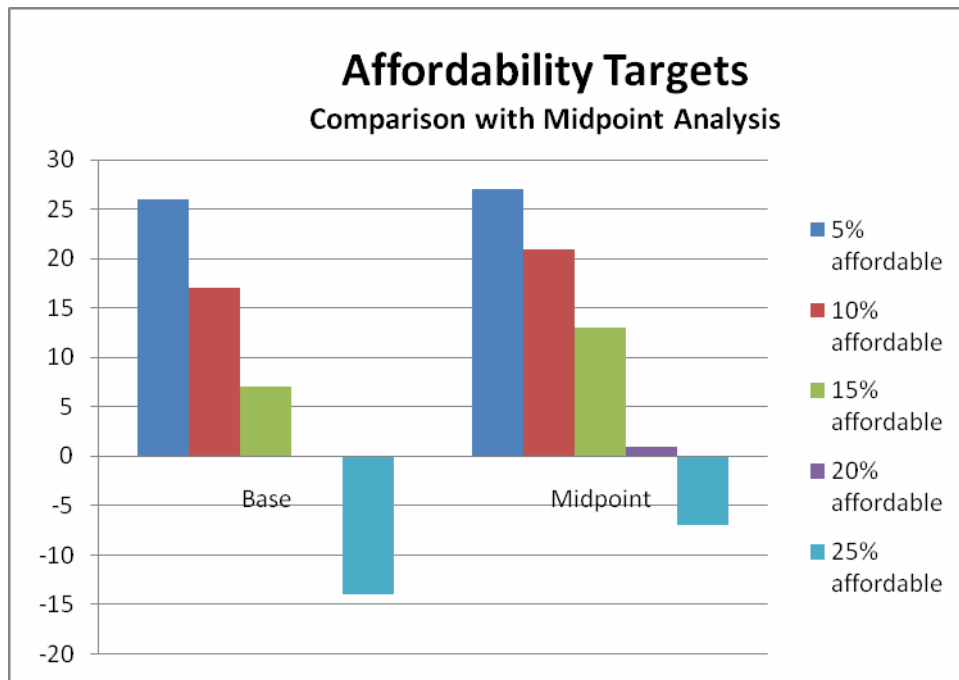
- 5.38 The further sensitivity analysis undertaken assesses the impact of a movement to the mid-point between the base scenario and the Q4 2007 scenario.
- 5.39 This scenario comprises the following adjustments:
- Increase in house prices = 8.5%
  - Increase in residential land values = 10.5%
  - Increase in construction tender levels = 7.5%
- 5.40 The effect on the viability of affordability targets at this level is shown in the table below (figure G). Again this shows the impact on viability at a 15% affordability level. These results below show varied, but significant changes from the baseline assessment, although the status of the sites (viable/marginal/non/viable) has not varied in any way as a result of the change in assumptions.

*Figure G – Mid Point Analysis*

Site	15% Affordable 75:25 Split	
	Base	Mid-point
Site 1	79%	85%
Site 2	64%	70%
Site 3	58%	64%
Site 4	47%	55%
Site 5	100%	106%
Site 6	102%	107%
Site 7	140%	145%
Site 8	130%	134%
Site 9	62%	71%
Site 10	127%	131%
Site 11	102%	111%
Site 12	39%	47%
Site 13	116%	121%
Site 14	101%	104%

- 5.41 The finding of this mid-point scenario is that an increase in house prices of 8.5% from the current base (Q4 2009) levels, would not change the overall position of what affordable housing provision could be afforded. 15% still appears to be the appropriate level.
- 5.42 The following chart (figure H) maps out the extent of the improvement in the **viability** score (methodology discussed in Section 5.12 above):

*Figure H – Overall Viability Score in a Mid-Point Market*



Note: The chart shows an overall viability score for each level of affordable housing provision in the two scenarios. The scoring basis is described at para 5.9. If the overall score is above 0, the weighted majority of sites are viable.

- 5.43 In the current market (Q4 2009) scenario, affordable provision at 15% with a 75% social rented / 25% intermediate tenure mix, is considered to be achievable for most sites. The projected view of a “mid-point” market (at higher Q4 2007 house price levels) would suggest that an affordable housing provision of up to 20% could possibly be achieved.

### Pressures on developer profit

- 5.44 However, it has to be recognised that at present there is an issue which is likely to make the delivery of 15% affordable housing difficult in the immediate future. It has been highlighted during the consultation that many developers report that they are not able to proceed with development with schemes that have a projected profit of only 15%, as we have assumed so far in this assessment. The adoption of this profit assumption for our appraisals is based on past experience that developers seek to achieve 15-20% profit on sales income from commercial housing development.
- 5.45 The reported concern is that banks and other lenders – adopting a risk-averse position - are now wishing to see projected profit levels of 20-25% before they are prepared to provide development finance. This is consistent with the widely reported actions of banks in taking a much more cautious view towards lending and similar experience with lenders has been seen elsewhere.
- 5.46 Therefore we have assessed the impact of a 20% profit requirement on the delivery of affordable housing, compared with the base position of 15% profit margin. The viability at a 20% profit margin of the sites at levels of affordable housing provision from 5%-20% is set out in the table below. This applies the baseline scenario (ie. Q4 2009 prices) and the 75/25 tenure split. The results

should be compared with the table at paragraph 5.5 (figure A) that shows the performance of sites at a 15% profit margin.

*Figure I – Affordability Analysis with 20% Profit*

Site	Affordability Provision - 75:25 Split with 20% Profit			
	5%	10%	15%	20%
Site 1	82%	65%	47%	29%
Site 2	63%	45%	28%	11%
Site 3	56%	40%	24%	9%
Site 4	41%	22%	4%	-15%
Site 5	100%	81%	62%	43%
Site 6	102%	85%	68%	51%
Site 7	141%	119%	98%	76%
Site 8	132%	114%	96%	78%
Site 9	58%	38%	17%	-3%
Site 10	131%	114%	96%	79%
Site 11	100%	74%	48%	22%
Site 12	35%	17%	-2%	-20%
Site 13	118%	98%	78%	58%
Site 14	103%	88%	74%	59%

- 5.47 The results show a significant deterioration in the performance of the sites. At a 15% profit target, 9 of the 14 sites are viable or marginal with 15% affordable housing provision. When the profit margin is increased to 20% only 5 of the sites are viable or marginal.
- 5.48 Even at a reduced affordable provision of 10%, only 8 out of the 14 sites are viable or marginal.
- 5.49 The impact of developer requirements to demonstrate a higher 20% profit margin does, therefore, have a significant impact on the level of affordable housing that could be delivered. If this 20% profit level were accepted as a reasonable basis for assessment, it would seem to demonstrate that the market can currently sustain affordable housing provision only on a minority of sites, and only then at a level of 10%.
- 5.50 The factors to take into account in considering this issue are that:
- Home builder companies do prefer to aim for 20% profit margin and lenders are currently looking for this margin, or more, to reduce their exposure to risks.
  - But we are also aware that margins in the construction sector generally are under great pressure at present, and, if they can provide the necessary development funding, many developers are prepared to operate on much lower profit margins in order to keep the cash flowing and their teams together.
  - The position of the public sector in negotiating for community benefit (such as affordable housing) has to be that the developers should achieve adequate profit rather than necessarily their target profit. A 15% profit margin is frequently used in appraisals of public sector supported projects.

- The appraisal model provides for a 5% contingency within the build costs, and the development and sale of the affordable housing (usually to a Registered Provider, such as a HA) is a low risk part of the business.
- 5.51 We conclude that it is reasonable to base the long-term policy on an assumed 15% developer profit margin, given the factors in the appraisal that reduce the developer risk, and that the public sector should have a negotiating position that seeks to obtain a “good deal”.
- 5.52 However, in difficult market conditions, such as those prevailing, it will be desirable to be flexible and recognise the practical financial constraints on developers, if you wish to enable housing development to proceed. This may involve accepting lower levels of affordable housing provision for the immediate future.

## 6. Conclusions

### Scope of the Study

- 6.1 This study aims to present a rounded view of the economic viability of affordable housing targets as part of the requirements of the statutory planning system in Rochdale. The assessment addresses the uncertainties arising from the recently volatile housing market and other changes that may arise. It aims to provide evidence that will underpin long-term planning policies.
- 6.2 The assessment shows that viability varies considerably between the beacon sites and can be strongly influenced by changing market conditions, the standards of building required (e.g. Code 4 upwards of the CSH), other LA planning requirements relating to open space contributions, the costs arising from brownfield land and the arrangements for financing the development. In current financial conditions, pressures from lenders on many developers to achieve higher profits may also be a serious constraint. Therefore, the application of affordable housing policies will need to be responsive to the market conditions anticipated, and the site specific issues presented at the time of development.
- 6.3 A baseline of the market conditions has been taken at Q4 2009 as these were the latest figures available at the time the study was started. Our main conclusions are based on assessment of viability in these conditions (which remained similar in Q1 2010), but we also look ahead to how this may change.

### Affordable housing targets: economic viability

- 6.4 The modelling has considered the levels of affordable housing provision that are economically viable at these various price levels. It has examined the impact of affordable housing provision on the 14 beacon sites, and has considered the overall pattern of results to establish the level at which affordable housing requirements would result in viability problems for a significant number of these beacon sites. The findings refer to this as a “tipping point”, and this is an indication of the maximum levels of provision that can realistically be expected to be achievable for most sites. This provides a basis for establishing deliverable affordable housing requirements.
- 6.5 It is important to note that the viability of affordable housing provision will inevitably vary depending upon the circumstances of each actual site. A few sites will be able to deliver more than this indicative maximum, whilst other sites, in less favoured locations or with specific development constraints, will not be viable at this indicative level.
- 6.6 The study has considered two main options for the tenure mix, viz:-

- A preferred tenure split, based on the housing needs assessment, of 75% social rent and 25% shared ownership (or similar intermediate market products): and
- An alternative tenure split of 50/50, which is commonly considered or proposed by developers.

## Main findings

- 6.7 At the preferred 75/25 tenure mix, the indicative maximum levels of affordable housing provision at each price level are found to be
- At Q4 2009 house prices, affordable provision at 15%;
  - In a stronger housing market position with Q4 2009 house prices plus 17% (a position similar to that of late 2007, when house prices were at their peak), affordable provision is assessed to be viable at up to 20%. This provides for an increase in land values of 21%.
  - In a possible mid-point future market position where prices recover to a 8.5% increase from Q4 2009 levels, the affordable housing provision is again at 15%.
- 6.8 A change to 50/50 tenure split results in only a marginal change to the base case, and at Q4 2009 house price levels, affordable housing provision of 20% is the indicative maximum.
- 6.9 There is some geographical variation across Rochdale, but no strong geographical pattern. There is not therefore a justification for adopting a different policy approach for different market areas within Rochdale. It would, in practice, be very difficult to define the market areas that would merit different policy approaches. The circumstances and property values associated with individual sites and locations are as great as the overall impact of different market areas.

## Impact of potential changes in development requirements/conditions

- 6.10 A review of the sensitivity of these targets to other potential factors shows that
- The introduction of Level 4 of the Code for Sustainable Homes seems likely, on present estimates, to reduce significantly the viability of residential development. This could impact on the viability of affordable housing provision, but we do not consider it would be appropriate at this stage to take account of this proposal in setting a planning policy for 2013 and beyond. There is a great deal that could change that would affect the position.
  - The costs associated with brownfield land development could significantly affect viability. This arises because the full costs of remediation are frequently not taken fully in account when land prices are being negotiated. The policy should, however, assume that additional costs arising from brownfield sites

are correctly taken into account in determining land prices. Nonetheless, there may need to be some flexibility on sites with high remediation costs.

- A delay in the phasing of payments for land purchase can significantly improve the economic viability of schemes. This highlights the potential for positive as well as negative impacts on viability. This may be especially important if the Council is in a position to influence the financial structure of the development scheme (e.g. through land ownership).
- An increase in the costs of other S106 obligations would inevitably impact on the viability of affordable housing provision. The baseline findings do take account of the Council's current requirements for the provision and maintenance of public open space. These contributions per dwelling are as follows:

1 bed	£662
2 bed	£1,323
3 bed	£1,985
4 bed	£2,646
5 bed	£3,308

- 6.11 The restrictive current requirements of lenders means that many developers are now seeking to make 20%-25% rather than 15% profit on turnover, so that they can secure the necessary development finance. The study has assessed the impact of a higher 20% profit margin and this does have a significant impact on the level of affordable housing that could be delivered. If this 20% profit level were accepted as a reasonable basis for assessment, it would seem to demonstrate that the market can currently sustain affordable housing provision only on a minority of sites, and then only at a 10% level.
- 6.12 Having reviewed the factors influencing the assumptions about developer profit, we consider it is reasonable to base the long-term policy on an assumed 15% developer profit margin, and therefore to seek the levels of affordable housing provision set out in para 6.7-6.8 above i.e. at a 15%-20% level of provision.
- 6.13 The higher level of affordable provision would be an appropriate target if the Council wish to set a target that will be robust and maximise affordable housing provision in the longer-term. But a shorter-term perspective would be that a 15% target is all that is likely to be achievable until house prices increase by up to 10%.
- 6.14 The Council may wish to consider providing for an initial 15% target, and specifying that a review would take place if house prices increase by 10% or more from the Q4 2009 levels. The review would consider whether an increase in the target to 20% would be appropriate and economically viable.
- 6.15 However in difficult market conditions, such as those still prevailing, it will be difficult for many developers to take forward schemes providing even 10%

affordable housing due to the requirements of their funders. To facilitate progress on housing development, the council will need to be flexible and recognise the practical financial constraints on developers, if they wish to enable many schemes to proceed. This would involve accepting low levels of affordable housing provision, and in some cases no such provision for the immediate future.

## Overall policy advice

### *Affordable housing targets*

- 6.16 The SHMA has identified an annual net requirement of 128 additional affordable homes. This figure, however, masks considerable mismatches between supply and demand, at a township level, between the property sizes required and available supply. The assessment also suggests a considerable pent-up demand for market housing. In developing future policy, a balance clearly needs to be struck between the delivery of market and affordable housing to meet the level of identified need and the economic viability of such provision. The balance of affordable and market housing on individual sites also needs to promote a broad socio-economic mix that will promote a sustainable community.
- 6.17 This study provides Rochdale Metropolitan Borough Council with a robust evidence base from which to develop and implement effective planning policy for the provision of affordable housing. In terms of the interpretation of this evidence, it has to be viewed in the longer term strategic context of the development plan period. The viability of development, including provision of affordable housing, is currently limited by market conditions but it can reasonably be expected to improve during the plan period. The policy aims to provide clarity to landowners and developers about the targets for affordable housing and to influence land values accordingly.
- 6.18 The policies are proposed on the basis that market conditions may stabilise, or may improve to levels similar to those existing in late 2007, which would probably have a modest positive impact on viability levels for affordable housing provision through planning gain.
- 6.19 Flexibility in the application of policy targets will be required to accommodate changing market conditions and the circumstances of particular sites, especially those in lower-value regeneration locations, or those with high remediation/infrastructure costs. The Council will need to develop its capacity to review the economic viability of individual schemes in order to assess where a relaxation of the policy would be reasonable.

### *Recommendations*

- 6.20 With the above in mind, **we recommend the following:**
- 6.21 An initial target of up to 15% provision of affordable housing on all sites, applied borough-wide. The affordable housing provision at this target level would be

75% social rent and 25% intermediate (e.g. shared ownership). This tenure split is based on the findings of the SHMA and the expectation that the feasible sale prices of shared ownership or shared equity intermediate housing will be £55k-£80k, depending on type.

6.22 In order to assess the viability of the current approach to the provision of affordable housing within the adopted Affordable Housing Supplementary Planning Document (SPD) and emerging Core Strategy, this recommendation need to be considered as a percentage of the gross development sales value. The table contained in Section 5.7 of this report relating to the baseline scenario is represented alongside, indicating the percentage of gross development sales value for each site under the 15% recommended provision with a 75% social rent and 25% intermediate split.

Site	Affordable Cost (% of GDV)
Site 1	8.23%
Site 2	7.52%
Site 3	7.73%
Site 4	7.24%
Site 5	7.92%
Site 6	8.41%
Site 7	8.21%
Site 8	8.56%
Site 9	7.12%
Site 10	8.86%
Site 11	7.32%
Site 12	7.32%
Site 13	8.21%
Site 14	8.92%

6.23 The range of %GDV of all the sites is from 7.12% to 8.92%, with the mean average being 7.97%. On this basis, it seems reasonable to suggest that the proposed 7.5% of gross development value stated in the SPD is fully supported by our approach for the base case.

6.24 If the affordable tenure mix changes to 50/50 (social rent/intermediate) a modest increase in the affordable housing target provision may be possible.

6.25 If there are significant house price rises of 10% or more, from the Q4 2009 baseline of this assessment, the Council should make provision to review its policy with a view to increasing the target for affordable housing to 20%.

6.26 It is recognised that these targets may not be achievable on all developments due to overall market conditions, or due to specific site viability issues. A particular concern is that there is at present much uncertainty about future market prospects and a specific issue about the profit levels needed for developers to finance new housing development. We recommend the Council should adopt a flexible approach and be prepared to review the viability of affordable housing provision for sites where the developer submits evidence that the target is not deliverable.

6.27 This market weakness may make it difficult to reach an agreed assessment of the likely ability to deliver affordable housing on larger sites that have a development timescale stretching over several years. For larger sites where development can be phased, there should be provision for a review of the scheme viability, prior to the commencement of future phases of development. This may take the form of a phasing or cascade agreement, or a deferred obligations clause in respect of commuted sum payments. Lower levels of affordable housing provision may be more readily agreed in the first phase of a development if there is the potential to increase provision as sale prices, or the availability of development finance increases.

- 6.28 The Council should also consider time-limiting planning obligations for any schemes that allow substantial reductions from the targets. The HCA guidance in *“Investment and Planning obligations; Responding to the downturn”* provides more detailed advice on both of these matters.
- 6.29 The targets should be applied consistently across the District, including urban and rural areas. There may be difference in thresholds, but this will reflect land supply rather than overall variations in viability.

# APPENDICES

## Appendix A - Site development assumptions and Q4 2009 land values

Site no	Sub Area	Report Description	Area (ha)	Developable Area %	Developable Area (ha)	Density (per ha)	Proposed Yield	Land Value per ha	Housing mix		2 bed (semi / detach / townhouse)	3 bed (semi / detach / townhouse)	4 bed (semi / detach / townhouse)	2 bed apartment
1	Heywood	Suburban, brownfield site on the edge of the urban area.	8.19	100%	8.19	30	246	750,000	Houses - semis & detached units		25 (semi-detached £130,000)	147 (semi-detached £150,000; detached £180,000)	74 (detached £200,000)	
2	Heywood	Inner urban, brownfield	1.08	100%	1.08	40	43	750,000	Houses - semis and townhouses		9 (£123,000)	34 (semi-detached £145,000; townhouses £150,000)		
3	Heywood	Suburban, brownfield site north of town centre.	1.24	100%	1.24	35	43	750,000	Houses - semis, detached and townhouses		12 (£125,000)	21 (semi-detached £150,000, townhouse £160,000)	10 (£180,000)	
4	Middleton	Inner urban, brownfield.	0.49	100%	0.49	40	20	600,000	Townhouses		10 (£120,000)	10 (£145,000)		
5	Middleton	Suburban, brownfield	3.02	100%	3.02	40	121	750,000	Houses and apartments - semis and detached units		12 (£125,000)	67 (semi-detached £160,000; detached £175,000)	18 (£190,000)	24 (£100,000)
6	Middleton	Suburban, brownfield infill site.	0.30	100%	0.3	30	10	850,000	Houses - semis			5 (£175,000)	5 (£195,000)	
7	Middleton	Suburban, brownfield site on edge of urban area.	0.73	100%	0.73	40	29	750,000	Houses - semis & detached units			11 semis (£155,000), 11 detached (£175,000)	7 (£190,000)	

Site no	Sub Area	Report Description	Area (ha)	Developable Area %	Developable Area (ha)	Density (per ha)	Proposed Yield	Land Value per ha	Housing mix		2 bed (semi / detach / townhouse)	3 bed (semi / detach / townhouse)	4 bed (semi / detach / townhouse)	2 bed apartment
8	Pennines	Suburban brownfield site in Pennine edge settlement.	1.30	100%	1.3	35	46	900,000	Houses - semis & detached units			32 (semi-detached £165,000; detached £185,000)	14 (£210,000)	
9	Pennines	Inner urban brownfield site.	0.19	100%	0.19	53	10	750,000	Townhouses			10 (£135,000)		
10	Pennines	Brownfield, rural site to some extent, brownfield.	9.19	70%	6.433	30	193	900,000	Houses and apartments - semis and detached units			116 (semi-detached £175,000; detached £200,000)	67 (£230,000)	10 (£120,000)
11	Rochdale	Inner urban, brownfield site.	1.66	100%	1.66	54	90	700,000	Townhouses			59 (£140,000)	31 (£160,000)	
12	Rochdale	Inner urban, brownfield site.	0.73	100%	0.73	41	30	700,000	Townhouses			20 (£140,000)	10 (£160,000)	
13	Rochdale	Suburban brownfield site.	7.04	60%	4.224	36	152	750,000	Houses and apartments - semis and detached units			106 (semi-detached £155,000; detached £180,000)	31 (£195,000)	15 (£110,000)
14	Rochdale	Suburban infill greenfield site.	1.00	100%	1	24	24	900,000	Houses - semis & detached units			14 (semi-detached £175,000; detached £200,000)	10 (£230,000)	

## Appendix B - Summary of Scenario Data

A number of “what if” sensitivity scenarios have been modelled to assess their impact on economic viability. All scenarios compare the residual land value (RLV) as a consequence of the various changing sensitivities with the expected site value (ESV) as at Q4 2009.

We have adopted a Red Amber Green (RAG) coding methodology as follows:-

- Green:** Where the RLV is 90% or higher than the ESV
- Amber:** Where RLV is between 70% - 90% of ESV
- Red:** Where RLV is lower than 70% of ESV

### Key Sensitivities

The following assumptions have been made in each of the scenarios:-

1. Increase in sales values +/-% – a plus or minus % adjustment is made here whereby the sales price per dwelling is capable of being adjusted by, say, a 10% increase or a 25% decrease.
2. Rate of Sales per month – all scenarios contain the same assumption for rates of sale for each site.
3. Base house build costs (excluding site works and contingency) – a default position of £66/sf / £710/m<sup>2</sup> is adopted. This figure can be varied up or down.
4. Base apartment build costs (excluding site works and contingency) – a default position of £81/sf / £872/m<sup>2</sup> is adopted. This figure can be varied up or down.
5. Abnormals per acre – the default scenario is £0 (nil). However, this figure can be varied incrementally to demonstrate the resultant impact on economic viability and residual site values.
6. Contingency % - a default position of 5% of build costs is adopted.
7. Professional fees % - a default position of 7% is adopted.
8. Site acquisition costs - a default position of 1.5% of the land cost has been adopted.
9. Code for Sustainable Homes – code level 3 is adopted as a default position. The impact on economic viability of increases to codes 4, 5 and 6 can be assessed. Source data is from CLG’s “Cost Analysis of the Code for Sustainable Homes – Final Report”, July 2008.
10. Finance rate % - a default rate of 7.5% is assumed for debit balances and 2.5% for credit balance. A 2% finance arrangement fee has also been included.
11. Developer’s profit on value % - a default position of 15% is assumed.
12. Expected Site Value at Q4 2009 – the default position is based on valuation advice provided by the Council’s Impact Department. Land value is a function of expected sales values and we have incorporated the ability to vary the values by plus or minus a % adjustment.

13. Pay for site at Start or End – by default, it is expected that the land sale transaction will take place at the beginning of each development phase. The option to pay at Practical Completion is also modelled.
14. Affordable % - This allows the key variable of the % of affordable units to be delivered on a site by site basis to be varied. We have adopted 5% increments from 0% to 25%, including the preferred 15% option.
15. Shared ownership % / Rented % - it is assumed that the affordable units will be made available either for rent or for shared ownership. This allows the mix to be varied. The default position is 75% rented and 25% shared.
16. Where a property is assumed to be for the rental market, an assumed disposal price has been assumed, for sale to an RSL, as follows:
 

1-bed house	£55,000
2-bed house	£60,000
3-bed house	£65,000
4-bed house	£75,000
5-bed house	£80,000
1 bed apartment	£50,000
2 bed apartment	£55,000
3 bed apartment	£60,000
17. Where a property is assumed to be for the shared equity market, the assumed disposal price is the mid-point between the market value and the assumed RSL sale price.
18. Adopt “blanket” density per acre – this is a yes/no toggle and allows a single development density to be applied across all sites. The default is “no” with site specific densities pre-established by SCC.
19. Adopt “blanket” rate of sale – this is a yes/no toggle which allows a blanket rate of sale across all sites. The default is “yes”.
20. Adopt blanket affordability % - this again is a yes/no toggle which allows the application of a single affordability % (or not) across each site uniformly. The default is “yes”

### Scenario 1

Assumes no discount for affordable housing and is based on Q4 2009 costs and values.

### Scenarios 2-6

Assumes a split of affordable housing provision in the ratio of 75% rented and 25% shared ownership:

- Scenario 2 – 5% affordable housing provision;
- Scenario 3 – 10% affordable housing provision;
- Scenario 4 – 15% affordable housing provision; **[baseline]**
- Scenario 5 – 20% affordable housing provision;
- Scenario 6– 25% affordable housing provision;

### Scenarios 7-11

Assumes a split of affordable housing provision in the ratio of 50% rented and 50% shared ownership:

- Scenario 7 – 5% affordable housing provision;
- Scenario 8 – 10% affordable housing provision;
- Scenario 9 – 15% affordable housing provision;
- Scenario 10 – 20% affordable housing provision;
- Scenario 11 – 25% affordable housing provision;

### Scenarios 12-16

Assess the impact of the current housing market and the falls, to establish an assumed improved market condition – based on 4Q2007 levels.

Key changes made are sale prices (+17%), land values (+21%) and tender prices (+15%).

Assumes a split of affordable housing provision in the ratio of 75% rented and 25% shared ownership:

- Scenario 12 – 5% affordable housing provision;
- Scenario 13 – 10% affordable housing provision;
- Scenario 14 – 15% affordable housing provision;
- Scenario 15 – 20% affordable housing provision;
- Scenario 16 – 25% affordable housing provision.

### Scenarios 17-21

Assess the impact of the current housing market and the falls, to establish an assumed improved market condition – based on the mid-point between 4Q2009 levels and 4Q2007 levels.

Key changes made are sale prices (+8.5%), land values (+10.5%) and tender prices (+7.5%).

Assumes a split of affordable housing provision in the ratio of 75% rented and 25% shared ownership:

- Scenario 17 – 5% affordable housing provision;
- Scenario 18 – 10% affordable housing provision;
- Scenario 19 – 15% affordable housing provision;
- Scenario 20 – 20% affordable housing provision;
- Scenario 21 – 25% affordable housing provision.

### **Scenarios 22-24**

Assess the impact of increasing the level of developer's profit to 20% of gross development value:

- Scenario 22 – 20% profit, at 5% affordable; 75-25 mix;
- Scenario 22a – 20% profit, at 10% affordable; 75-25 mix;
- Scenario 23 – 20% profit, at 15% affordable; 75-25 mix;
- Scenario 24 – 20% profit, at 20% affordable; 75-25 mix

### **Scenarios 25-26**

Assess the impact of varying Code for Sustainable Homes assumptions (modelled against the baseline):

- Scenario 25 – Code for Sustainable Homes – Level 2;
- Scenario 26 – Code for Sustainable Homes – Level 4

### **Scenarios 27-29**

Assess the impact of key variables against the baseline scenario:

- Scenario 27 – Provision for £100,000 of abnormal costs across all sites;
- Scenario 28 – Deferred payment for site acquisition until the end of the programme.

## Appendix C - Affordable Housing / Financial Viability – Summary

Scenario Summary	S1 0%	S2 5% 75-25	S3 10% 75-25	S4 15% 75-25	S5 20% 75-25	S6 25% 75-25	S7 5% 50-50	S8 10% 50-50	S9 15% 50-50	S10 20% 50-50	S11 25% 50-50	S12 5% 75-25; p+17%;v+21%;c+15%;fin 6.5%	S13 10% 75-25; p+17%;v+21%;c+15%;fin 6.5%	S14 15% 75-25; p+17%;v+21%;c+15%;fin 6.5%	S15 20% 75-25; p+17%;v+21%;c+15%;fin 6.5%	S16 25% 75-25; p+17%;v+21%;c+15%;fin 6.5%
<b>Changing Cells:</b>																
Increase_on_sales_values	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Rate_of_sale_adj	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Deposits	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost_adj_house	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Cost_adj_flat	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Abnormals	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Contingency	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Prof_Fees	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
CSH_Level	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Finance_Rate (cash out)	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Finance_Rate (cash in)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Incentives	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Profit	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Profit_On	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value
ESV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Pay_for_Site	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
percentage_affordable	0.0%	5.0%	10.0%	15.0%	20.0%	25.0%	5.0%	10.0%	15.0%	20.0%	25.0%	5.0%	10.0%	15.0%	20.0%	25.0%
shared_ownership	50%	25%	25%	25%	25%	25%	50%	50%	50%	50%	50%	25%	25%	25%	25%	25%
Blanket rate of sale	n	n	n	n	n	n	n	n	n	n	n	n	n	n	n	n
Blanket affordability	y	y	y	y	y	y	y	y	y	y	y	y	y	y	y	y
<b>Result Cells:</b>																
Site 1	135%	116%	98%	79%	60%	41%	119%	103%	86%	70%	54%	125%	105%	86%	70%	47%
Site 2	118%	100%	82%	64%	46%	28%	103%	87%	71%	55%	39%	110%	91%	72%	53%	34%
Site 3	108%	91%	74%	58%	41%	24%	93%	79%	64%	50%	36%	100%	83%	65%	48%	30%
Site 4	106%	86%	66%	47%	27%	7%	89%	72%	54%	37%	20%	100%	79%	58%	36%	15%
Site 5	161%	141%	121%	100%	80%	60%	143%	126%	109%	91%	74%	149%	128%	107%	86%	65%
Site 6	155%	137%	120%	102%	84%	66%	140%	124%	109%	94%	78%	145%	126%	108%	89%	71%
Site 7	208%	185%	163%	140%	117%	95%	188%	169%	149%	129%	110%	193%	170%	146%	122%	99%
Site 8	187%	168%	149%	130%	111%	92%	171%	154%	138%	121%	105%	173%	154%	134%	114%	95%
Site 9	127%	105%	84%	62%	40%	19%	108%	89%	70%	51%	32%	120%	97%	74%	51%	28%
Site 10	182%	164%	146%	127%	108%	90%	166%	151%	135%	119%	103%	168%	149%	131%	112%	93%
Site 11	183%	156%	129%	102%	75%	47%	160%	136%	113%	89%	65%	171%	142%	113%	85%	56%
Site 12	97%	78%	59%	39%	19%	0%	81%	64%	47%	30%	13%	91%	71%	50%	29%	8%
Site 13	179%	158%	137%	116%	95%	74%	160%	142%	124%	106%	88%	165%	144%	122%	100%	78%
Site 14	147%	132%	116%	101%	85%	70%	134%	120%	107%	94%	80%	136%	120%	104%	90%	73%

Scenario Summary	S17 5% 75-25; p+8.5% v+10.5% c+7.5%; fin 6.5%	S18 10% 75-25; p+8.5% v+10.5% c+7.5%; fin 6.5%	S19 15% 75-25; p+8.5% v+10.5% c+7.5%; fin 6.5%	S20 20% 75-25; p+8.5% v+10.5% c+7.5%; fin 6.5%	S21 25% 75-25; p+8.5% v+10.5% c+7.5%; fin 6.5%	S22 5% 75-25 20% profit	S22a 10% 75-25; 20% profit	S23 15% 75-25; 20% profit	S24 20% 75-25; 20% profit	S25 10% 75-25; CSH2	S26 10% 75-25; CSH4	S27 +£100k abnormals	S28 10% 75-25; pay at end
<b>Changing Cells:</b>													
Increase_on_sales_values	8.5%	8.5%	8.5%	8.5%	8.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rate_of_sale_adj	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Deposits	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost_adj_house	7.5%	7.5%	7.5%	7.5%	7.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost_adj_flat	7.5%	7.5%	7.5%	7.5%	7.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Abnormals	0	0	0	0	0	0	0	0	0	0	0	100000	0
Contingency	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Prof_Fees	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
CSH_Level	3	3	3	3	3	3	3	3	3	2	4	3	3
Finance_Rate (cash out)	6.50%	6.50%	6.50%	6.50%	6.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Finance_Rate (cash in)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Incentives	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Profit	15.00%	15.00%	15.00%	15.00%	15.00%	20.00%	20.00%	20.00%	20.00%	15.00%	15.00%	15.00%	15.00%
Profit_On	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value
ESV	10.5%	10.5%	10.5%	10.5%	10.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pay_for_Site	S	S	S	S	S	S	S	S	S	S	S	S	e
percentage_affordable	5.0%	10.0%	15.0%	20.0%	25.0%	5.0%	10.0%	15.0%	20.0%	15.0%	15.0%	15.0%	15.0%
shared_ownership	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Blanket rate of sale	n	n	n	n	n	n	n	n	n	n	n	n	n
Blanket affordability	y	y	y	y	y	y	y	y	y	y	y	y	y
<b>Result Cells:</b>													
Site 1	123%	104%	85%	69%	47%	82%	65%	47%	29%	89%	52%	57%	111%
Site 2	107%	89%	70%	52%	33%	63%	45%	28%	11%	75%	33%	40%	82%
Site 3	98%	81%	64%	47%	29%	56%	40%	24%	9%	68%	29%	31%	76%
Site 4	96%	75%	55%	34%	14%	41%	22%	4%	-15%	61%	9%	6%	60%
Site 5	147%	127%	106%	85%	65%	100%	81%	62%	43%	112%	68%	92%	122%
Site 6	143%	125%	107%	88%	70%	102%	85%	68%	51%	112%	76%	101%	113%
Site 7	191%	168%	145%	122%	99%	141%	119%	98%	76%	153%	107%	157%	155%
Site 8	173%	153%	134%	114%	95%	132%	114%	96%	78%	140%	105%	137%	148%
Site 9	115%	93%	71%	48%	26%	58%	38%	17%	-3%	78%	21%	37%	73%
Site 10	168%	149%	131%	112%	93%	131%	114%	96%	79%	135%	105%	129%	153%
Site 11	166%	139%	111%	83%	55%	100%	74%	48%	22%	121%	50%	94%	129%
Site 12	87%	67%	47%	27%	7%	35%	17%	-2%	-20%	53%	1%	2%	54%
Site 13	163%	142%	121%	100%	78%	118%	98%	78%	58%	127%	86%	116%	140%
Site 14	135%	120%	104%	90%	73%	103%	88%	74%	59%	108%	82%	97%	114%

## Appendix D – Residential Building Land Values

### North West residential building land values Q2 2007 – Q2 2009

Jul-07	Small sites	Bulk land	Land for Flats	Small sites	Bulk land	Land for Flats
	£s / Ha	£s / Ha	£s / Ha	£s / acre	£s / acre	£s / acre
Bolton	£2,350,000	£2,350,000	£2,500,000	£951,417	£951,417	£1,012,146
Manchester	£5,750,000	£5,750,000	£5,750,000	£2,327,936	£2,327,936	£2,327,936
Rochdale	£1,850,000	£1,850,000	£2,300,000	£748,988	£748,988	£931,174
Trafford (Altrincham)	£3,700,000	£3,700,000	£3,700,000	£1,497,976	£1,497,976	£1,497,976
Stockport	£5,450,000	£5,450,000	£5,450,000	£2,206,479	£2,206,479	£2,206,479
Blackburn	£2,000,000	£1,700,000	£2,000,000	£809,717	£688,259	£809,717
Lancaster	£2,600,000	£2,400,000	**	£1,052,632	£971,660	**
Preston	£2,600,000	£2,400,000	£2,600,000	£1,052,632	£971,660	£1,052,632
Chester	£3,500,000	£3,000,000	£5,000,000	£1,417,005	£1,214,575	£2,024,292
Crewe/Nantwich	£2,075,000	£2,225,000	£2,150,000	£840,081	£900,810	£870,446
Warrington (South Warrington)	£3,350,000	£3,350,000	£3,350,000	£1,356,276	£1,356,276	£1,356,276
Wigan	£2,100,000	£2,100,000	£2,100,000	£850,203	£850,203	£850,203
Carlisle	£2,200,000	£2,000,000	**	£890,689	£809,717	**
South Lakeland (Ambleside)	£2,000,000	£2,000,000	**	£809,717	£809,717	**
<b>Average</b>	<b>2,966,071</b>	<b>2,876,786</b>	<b>3,354,545</b>	<b>1,200,839</b>	<b>1,164,691</b>	<b>1,358,116</b>

Jul-09	Small sites	Bulk land	Land for Flats	Small sites	Bulk land	Land for Flats
	£s / Ha	£s / Ha	£s / Ha	£s / acre	£s / acre	£s / acre
Bolton	£1,600,000	£1,485,000	£1,485,000	£647,774	£601,215	£601,215
Manchester	£3,500,000	£3,200,000	£3,200,000	£1,417,005	£1,295,547	£1,295,547
Rochdale	£1,450,000	£1,300,000	£1,300,000	£587,045	£526,316	£526,316
Trafford (Altrincham)	£2,300,000	£2,100,000	£2,100,000	£931,174	£850,203	£850,203
Stockport	£3,200,000	£2,950,000	£2,950,000	£1,295,547	£1,194,332	£1,194,332

Blackburn	£1,300,000	£1,100,000	£1,100,000	£526,316	£445,344	£445,344
Lancaster	£1,700,000	£1,550,000	**	£688,259	£627,531	**
Preston	£1,650,000	£1,560,000	£1,560,000	£668,016	£631,579	£631,579
Chester	£2,100,000	£1,900,000	£2,800,000	£850,203	£769,231	£1,133,604
Crewe/Nantwich Warrington (South Warrington)	£1,575,000	£1,550,000	£1,600,000	£637,652	£627,531	£647,774
Wigan	£1,550,000	£1,400,000	£1,400,000	£627,531	£566,802	£566,802
Carlisle	£1,650,000	£1,650,000	**	£668,016	£668,016	**
South Lakeland (Ambleside)	£1,650,000	£1,650,000	**	£668,016	£668,016	**
<b>Average</b>	<b>1,923,214</b>	<b>1,788,929</b>	<b>1,926,818</b>	<b>778,630</b>	<b>724,263</b>	<b>780,089</b>
<b>Regional % difference July 2007 - July 2009</b>				<b>down 35.2%</b>	<b>down 37.8%</b>	<b>down 42.6%</b>
<b>Rochdale % difference July 2007 - July 2009</b>				<b>down 21.6%</b>	<b>down 29.7%</b>	<b>down 43.5%</b>

\*\* no evidence to indicate a separate market for this category of land.

Source - Valuation Office Statistics

## Appendix E – Average Property Prices

### Rochdale average property prices Q1 – Q4 2009

Postcode	Ave Detach	Total sales	Ave semi	Total sales	Ave terrace	Total sales	Ave flats	Total sales	Ave overall	Total sales
OL10 1	£0	0	£0	0	£111,944	20	£0	0	£111,944	20
OL10 2	£229,000	11	£129,302	18	£89,658	18	£130,166	6	£136,628	53

Postcode	Ave Detach	Total sales	Ave semi	Total sales	Ave terrace	Total sales	Ave flats	Total sales	Ave overall	Total sales
OL10 3	£0	0	£135,299	15	£79,281	26	£0	0	<b>£99,775</b>	<b>41</b>
OL10 4	£168,131	11	£115,802	24	£76,632	39	£0	0	<b>£102,937</b>	<b>74</b>
OL11 1	£0	0	£116,277	9	£83,442	28	£0	0	<b>£91,429</b>	<b>37</b>
OL11 2	£172,278	7	£118,120	17	£75,800	21	£0	0	<b>£106,795</b>	<b>45</b>
OL11 3	£0	0	£115,440	21	£80,968	36	£0	0	<b>£93,668</b>	<b>57</b>
OL11 4	£312,960	14	£170,329	12	£87,396	15	£83,800	5	<b>£177,290</b>	<b>46</b>
OL11 5	£242,954	47	£145,239	38	£125,156	41	£130,145	12	<b>£171,240</b>	<b>138</b>
OL12 0	£0	0	£0	0	£72,526	30	£0	0	<b>£72,526</b>	<b>30</b>
OL12 6	£178,214	14	£140,806	26	£99,391	30	£0	0	<b>£130,538</b>	<b>70</b>
OL12 7	£217,084	26	£129,531	29	£89,710	25	£124,309	11	<b>£142,975</b>	<b>91</b>
OL12 8	£189,974	8	£118,414	21	£89,797	37	£0	0	<b>£111,045</b>	<b>66</b>
OL12 9	£202,135	7	£107,263	19	£82,218	32	£85,241	6	<b>£103,053</b>	<b>64</b>
OL15 0	£301,181	11	£155,419	13	£101,765	13	£0	0	<b>£179,902</b>	<b>37</b>
OL15 8	£213,342	13	£132,896	15	£107,104	31	£127,747	4	<b>£136,478</b>	<b>63</b>
OL15 9	£0	0	£134,996	16	£101,952	17	£0	0	<b>£117,973</b>	<b>33</b>
OL16 1	£0	0	£0	0	£148,428	7	£0	0	<b>£148,428</b>	<b>7</b>
OL16 2	£164,500	5	£106,020	10	£84,265	38	£0	0	<b>£95,939</b>	<b>53</b>
OL16 3	£194,390	17	£137,989	41	£114,046	39	£0	0	<b>£138,247</b>	<b>97</b>
OL16 4	£184,793	15	£120,831	35	£93,514	24	£0	0	<b>£124,937</b>	<b>74</b>
OL16 5	£0	0	£110,022	11	£75,191	18	£0	0	<b>£88,403</b>	<b>29</b>

Postcode	Ave Detach	Total sales	Ave semi	Total sales	Ave terrace	Total sales	Ave flats	Total sales	Ave overall	Total sales
M24 1	£224,761	16	£143,585	60	£99,321	19	£88,566	26	<b>£135,546</b>	<b>121</b>
M24 2	£219,500	5	£107,262	42	£90,677	44	£72,125	16	<b>£100,433</b>	<b>107</b>
M24 4	£146,106	8	£136,444	19	£73,161	21	£63,357	7	<b>£104,385</b>	<b>55</b>
M24 5	£159,199	5	£101,326	21	£74,209	23	£69,550	10	<b>£90,274</b>	<b>59</b>
M24 6	£190,000	3	£83,554	14	£71,882	17	£0	0	<b>£87,110</b>	<b>34</b>

Source: Land Registry Jan 2010

### Rochdale new build comparables Q1 2010

Price	sqft	Description bedrooms	Address	Marketed by	Location
£695,000	3,200	5 bedroom detached	Bury and Rochdale Old Road, Heywood	Fine and Country	Rural aspect on Bury and Rochdale Old Road, close to Springfield Park Golf Club
£549,950	2,987	6 bedroom detached	Sunningdale, Norden Chimney View, 8, Heap Road, Norden	Ryder and Dutton	Located in small private development in centre of Norden
£379,950	1,500	4 bedroom detached	Holt House at Bury Road, Bamford, Rochdale, OL11	Arley Homes	Byron Grove located on Bury and Rochdale Old Road, close to Springfield Park Golf Club with rural aspect
£330,000	1,500	4 bedroom detached	Ellis Fold, Norden	Barton Kendal Residential	Rural aspect to north off A680
£194,995 (powermove price of £165,745, 85% market value)	1,000	4 bedroom, three storey townhouse	Toulon at Shawclough Road, Rochdale, OL12	Rowland Homes	Three storey townhouse within development of three and four bedroom houses and two bedroom apartments, in Shawclough village
£191,950 (offered at part exchange and Homebuy Direct at £104,965)	1,100	4 bedroom semi-detached three storey townhouse	The Lydgate at Coppy Bridge Drive, Belfield Lane, Milnrow, Rochdale, OL16	Bellway Homes	Lowfields, development of 2, 3 and 4 bedroom homes
£179,995 (powermove price of £165,745, 85% market value)	1,000	4 bedroom, three storey townhouse	Rocheport at Shawclough Road, Rochdale, OL12	Rowland Homes	Three storey townhouse within development of three and four bedroom houses and two bedroom apartments, in Shawclough village
£191,950 (offered at part exchange and	1,100	4 bedroom semi-detached three storey townhouse	The Fowley at Coppy Bridge Drive, Belfield Lane, Milnrow, Rochdale, OL16	Bellway Homes	Lowfields, development of 2, 3 and 4 bedroom homes

Price	sqft	Description bedrooms	Address	Marketed by	Location
Homebuy Direct at (£104,965)					
£165,745, (85% market value, Powermove price)	1,000	4 bedroom, three storey townhouse	Toulon at Shawclough Road, Rochdale, OL12	Rowland Homes	Three storey townhouse within development of three and four bedroom houses and two bedroom apartments, in Shawclough village
£164,995, 85% market value, £140,245 Powermove price)	850	3 bedroom mewshouse	Brittany at Shawclough Road, Rochdale, OL12	Rowland Homes	Development of three and four bedroom houses and two bedroom apartments, in Shawclough village
£159,995, 85% market value, £135,995 Powermove price)	850	3 bedroom mewshouse	Cherbourg at Shawclough Road, Rochdale, OL12	Rowland Homes	Development of three and four bedroom houses and two bedroom apartments, in Shawclough village
£152,995	1,000	4 bedroom, three storey townhouse	Rocheport at Shawclough Road, Rochdale, OL12	Rowland Homes	Development of three and four bedroom houses and two bedroom apartments, in Shawclough village
£149,950	710 (living space)	3 bedroom semi-detached	Balfour Road, Rochdale, OL12 7EH	Barton Kendal	Development of three bedroom semi-detached homes by Shiredale Homes in the Mean wood area of Rochdale
£140,950 (was £159,950, also available on Homebuy Direct scheme)	757 (living space)	3 bedroom mewshouse	The Tate at Coppy Bridge Drive, Belfield Lane, Milnrow, Rochdale, OL16	Bellway Homes	Lowfields, development of 2, 3 and 4 bedroom homes
£140,245	850	3 bedroom mewshouse	Brittany at Shawclough Road, Rochdale, OL12	Rowland Homes	Development of three and four bedroom houses and two bedroom apartments, in Shawclough village

Price	sqft	Description bedrooms	Address	Marketed by	Location
£135,995 (Powermove price)	850	3 bedroom mewshouse	Cherbourg at Shawclough Road, Rochdale, OL12	Rowland Homes	Development of three and four bedroom houses and two bedroom apartments, in Shawclough village
£133,000	700	2 bedroom flat	Avon 2 at Blackpits Road, Off Edenfield Road, Rochdale, OL11	Redrow	Naden Mill is a country development of 2, 3 & 4 bedrooms homes in Norden village
£132,000	700	2 bedroom flat	Avon 2 at Blackpits Road, Off Edenfield Road, Rochdale, OL11	Redrow	Naden Mill is a country development of 2, 3 & 4 bedrooms homes in Norden village
£131,000	700	2 bedroom flat	Avon 2 at Blackpits Road, Off Edenfield Road, Rochdale, OL11	Redrow	Naden Mill is a country development of 2, 3 & 4 bedrooms homes in Norden village
£130,000	700	2 bedroom flat	Avon 2 at Blackpits Road, Off Edenfield Road, Rochdale, OL11	Redrow	Naden Mill is a country development of 2, 3 & 4 bedrooms homes in Norden village
£128,500	650	2 bedroom flat	Avon 2 at Blackpits Road, Off Edenfield Road, Rochdale, OL11	Redrow	Naden Mill is a country development of 2, 3 & 4 bedrooms homes in Norden village
£119,950	550 (living space)	3 bedroom semi-detached	St Martins Street, Castleton	Barton Kendal	Development of three bedroom semi-detached homes in Castleton village
£119,950 (offered as Homebuy Direct price)	1,100	4 bedroom semi-detached three storey townhouse	The Fowley at Coppy Bridge Drive, Belfield Lane, Milnrow, Rochdale, OL16	Bellway Homes	Lowfields, development of 2, 3 and 4 bedroom homes
£114,495	500 (living space)	2 bedroom mewshouse	Rockley Mid at Newbold Hall Drive, Rochdale, OL16	Persimmon	Newlands development to the east of Rochdale near Hollingworth Lake near Littleborough
£99,000 (Homebuy Direct scheme price)	757 (living space)	3 bedroom mewshouse	The Tate at Coppy Bridge Drive, Belfield Lane, Milnrow, Rochdale, OL16	Bellway Homes	Lowfields, development of 2, 3 and 4 bedroom homes
£80,146	500 (living space)	2 bedroom mewshouse	Rockley Mid at Newbold Hall Drive,	Persimmon	Newlands development to the east of Rochdale near Hollingworth Lake near

Price	sqft space)	Description bedrooms	Address	Marketed by	Location
			Rochdale, OL16		Littleborough

Source: Rightmove

## Appendix F - Summary of Consultation Responses

Question	Consultation response	Response
<p>Do you agree with the approach of the study?</p>	<p>4 respondents agreed with the approach of the study and the following comments were made:</p> <ul style="list-style-type: none"> <li>• If the expected market value of the land does not include for remediation and residual land value does even Green will not necessarily be viable. Remediation can often cost £200k-£500k per hectare</li> <li>• Will the spreadsheet become a working model for the Council?</li> <li>• We note the traffic light system to indicate whether a scheme is likely to be viable. However, if a site is 10%, or even 5% or 2% below the market expectation, then the site is unviable (unless, of course, the Council takes other actions to ensure a viable scheme – i.e. to reduce the standard affordable housing percentage further, or to reduce any planning obligations that might typically be levied). This section must be adjusted so that a ‘Green’ site is one which records a positive development value – i.e. one that is above the expected land value.</li> </ul>	<ul style="list-style-type: none"> <li>• Remediation costs are not included in the expected land value or the residual land value.</li> <li>• The model is used for the study only; the Council will have their own viability tools.</li> <li>• This is defined as such since there are likely to be opportunities for "value engineering" to resolve a small gap.</li> </ul>

<p>Do you agree with the scenarios proposed for the dwelling and land values?</p>	<p>2 respondents agreed with the proposed scenarios and the following comments were made:</p> <ul style="list-style-type: none"> <li>• I do not believe that some of the land values are achievable – housing associations are paying no more than £15k-£20k per plot for land value and we only assess land value on a plot basis these days rather than hectare cost – we will only develop sites that do not have too much in the way of abnormal site conditions if they did we would look to pay zero land costs – in Bolton we are presently purchasing any LA owned sites at £5k per plot so would therefore not be in the market for other sites even at £20k per plot</li> <li>• The selling prices and mixes are more ppg3 and the there is more demand now for family housing. The prices seem to be asking prices rather than achieved prices.</li> <li>• Care should be taken with any land values calculated towards the end of the price peak in 2007. Developers may have reduced their normal profit margins in order to secure land and therefore artificially inflated land values in some areas. Also, the Council should take care to make sure that</li> </ul>	<ul style="list-style-type: none"> <li>• In view of reducing grant levels RSLs will not pay in most cases market prices as schemes will not be viable. These values, though have been reviewed in detail with the Council and the majority of sites have plot values in these ranges.</li> <li>• The mixes have been determined in conjunction with the Council and have been set to reflect current housing requirements. The prices have been researched in detail to reflect achieved prices rather than selling prices.</li> <li>• We agree with the assumption that land values will not return to 2007 levels and this is discussed in the report.</li> <li>• Council's are in a difficult position re securing Sec 106 agreements. If they seek affordable housing on marginal sites development may not occur and this</li> </ul>

	<p>affordable housing levels requested in S106's do not suffer due to the developers paying over the odds for land some years ago.</p> <ul style="list-style-type: none"> <li>• Land values will be a bit overstated. Land values are currently more depressed than assumed due to market conditions. However house prices haven't reduced that much – it is the change in the unit type which has created a vast drop in land values – especially apartments and 3 storey town houses now being out of favour with customers and ultimately developers.</li> <li>• We must ask if these house prices are reflective of the current down valuations experience by Housing Associations by mortgage lenders, as in some instances down valuations have been as much as 10% in some areas. If not we would ask that some flexibility in the model is incorporated if sufficient evidence were to be produced by the developer/RSL in areas where this has been experienced.</li> <li>• The second scenario proposed to assess schemes based on a return to house prices at a level applying in late 2007 is in our opinion somewhat optimistic. We appreciate that in time the housing market will recover and house prices will increase but we feel it highly unlikely that the market will recover to this extreme during the plan period</li> <li>• The third scenario proposed to test at a mid point</li> </ul>	<p>will prevent much needed new homes being produced + new build targets in RSS being met. We are taking a flexible approach based on a site by site viability assessment</p> <ul style="list-style-type: none"> <li>• The Council and the Land Valuation are happy with the land values used and do not feel that they are overstated.</li> <li>• The housing mix tested reflects this fact.</li> <li>• We understand the point raised but this effects the valuation only for mortgage purposes but not the value the property is sold for.</li> <li>• We feel that there is merit in returning to 2007 values and building costs, but not the same land prices and we accept that some may feel that this is optimistic and we have explored this further in our testing and report.</li> </ul>
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	<p>position seems reasonable in the time period proposed.</p> <ul style="list-style-type: none"> <li>• Explain the use of expected land value as a benchmark</li> </ul>	<ul style="list-style-type: none"> <li>• We could take the approach of using existing use values but these are difficult to ascertain in Rochdale since the majority of sites are brownfield and not, for example, agricultural sites.</li> </ul>
<p>Do you agree with the options being explored for affordable housing provision?</p>	<p>4 respondents agreed with the options being explored and there were the following comments:</p> <ul style="list-style-type: none"> <li>• I think tenure should include discounted sale/ Homebuy (75% sale price) shared ownership in some areas. Intermediate rent can be difficult in lower value areas like Rochdale as the rent would be quite close to target rent but with less subsidy</li> <li>• I think there may be a case on some sites for zero affordable housing</li> <li>• I think they need to take into account the diversity in prices for social rented vis-à-vis shared equity</li> <li>• The model currently reflects the varying percentage options available for social rent, intermediate rent and shared ownership. It is acknowledged that as a percentage there is a lot more social housing in Rochdale in comparison to the North West and neighbouring towns. However, we need to be sure that the type of housing we have is appropriate for the communities in Rochdale and fit for purpose. The possibility of new innovative tenure models being</li> </ul>	<ul style="list-style-type: none"> <li>• The modelling approach for these is similar and therefore the impact on viability very much the same.</li> <li>• Agreed, the study shows this.</li> <li>• The study does this.</li> <li>• The model is able to do this by varying the % splits and types of tenure.</li> </ul>

	<p>produced in the short term is high due to the lack of mortgages being offered to first time buyers and increased deposits being requested. The affordable housing viability model needs to be flexible to allow these likely tenure changes to be incorporated as part of the development viability when they arise.</p>	
<p>Do you agree with the selection of beacon sites?</p>	<p>4 respondents agreed with the selection of sites and the following comments were received:</p> <ul style="list-style-type: none"> <li>• Yes it is always a good idea to schedule sites – but turning them into delivery is the main thing</li> <li>• Yes but as with all these things the real issue is with the abnormal costs. Section 106 costs have also been in our experience higher than quoted by the report</li> <li>• Will the sites be packaged in the study so that the profit on one site subsidises the loss on another?</li> <li>• There are a couple of small sites included in the study?</li> </ul>	<ul style="list-style-type: none"> <li>• The s106 costs include public open space, affordable housing and in some cases highway works. There have been "one-off" additional requirements but these have not been required on a regular basis.</li> <li>• The study is not attempting to do this as the aim is to assess what level of affordable homes can be supported on an individual site.</li> <li>• This is to help provide a discussion around threshold levels rather than assuming that it is not an issue. There is a great variability on small sites so it may not do this.</li> </ul>

<p>Do you agree with all the assumptions used for development costs?</p>	<p>4 respondents agreed with the assumptions and the following comments were received:</p> <ul style="list-style-type: none"> <li>• 2 respondent's commented that the build costs are somewhat low – housing association's are experiencing build costs more around the £1050 per sq meter mark – up to £1100 for Code 3 – on costs relate to all professional fees, internal fees and interest are more like 10-12% The build cost for affordable housing is higher – specification items are generally more expensive</li> <li>• My experience is that basic build costs for an RSL are higher than those quoted in the document but this is mainly because the standards for the RSL sector dictate larger, more energy efficient and robust units. These costs would need to be reviewed on a regular basis as new standards come into force for the private sector</li> <li>• Build costs have been assumed using BCIS data as at Q4 2009 levels. Tender prices have dramatically reduced over the last 18 months with contractors fighting to obtain work. Taking into account the likely reduction in funding in the future as well as increased specification requirements nationally and increased costs in the supply chain we feel some form of weighting needs to be incorporated into the model to take into account increased build prices in the future. The build prices per m2 quoted for houses and residential flats does not reflect Great Places recent experience of tender prices. Are we to presume that</li> </ul>	<ul style="list-style-type: none"> <li>• The definition of what has been included for build costs has now been clarified in the main body of the report.</li> <li>• Noted. For the purposes of the study average build costs are used.</li> <li>• The scenario for improved market conditions does take into account increased build costs. See the table above clarifying what is included in build costs. The average price used is based on all types of residential developments.</li> </ul>
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	<p>these prices have been based on large volume developments where a reduction in costs has been achieved with the use of supply chain reductions? If yes then surely this can not be assumed for Individual development opportunities.</p> <ul style="list-style-type: none"> <li>• Roads and sewer costs seem to have been omitted along with development abnormals. The build prices are competitive and certainly not overstated. No account for abnormals. No account seems to be taken of overheads</li> <li>• The future requirements of Code for Sustainable Homes and the revised Design &amp; Quality Standards may mean that RSLs will need to spend a considerable amount of money upgrading S106 housing units to meet these specifications. These standards may not technically apply to units which are not receiving HCA funding but money will still need to be spent on additions required to meet the RSL's standard specifications.</li> <li>• Code for sustainable homes level 3 has been incorporated within the model with an option to increase to level 4 after 2013. Again, the percentage of affordable homes estimated for each site is likely to require HCA funding and therefore will be subject to code for sustainable homes level 4 very soon. In additional developments in some areas may be subject to HMR funding. Just recently recommendations have been put forward for all HMR schemes to comply with code 4. This hasn't been approved as yet but is likely to be during the planned</li> </ul>	<ul style="list-style-type: none"> <li>• Abnormals are omitted as these are assumed to be netted off the land value. We can confirm that infrastructure costs are included in the model (see table above). Overheads are included within the profit margin.</li> <li>• We test Code level 4 as a sensitivity.</li> <li>• If Code level 4 is being achieved but the development is receiving HCA funding then the cost will be offset by the grant.</li> </ul>
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	<p>period. Our recommendations would be that a percentage of the development be assumed as Code for sustainable homes level 4 to enable a realistic approach to the viability of the development.</p> <ul style="list-style-type: none"> <li>• It is likely that the agreed percentage of affordable housing proposed for future developments will need some form of HCA grant funding to ensure the scheme is financially viable. To meet the Housing Quality indicators specified as part of the HCA funding requirements, property sizes are sometimes considerably larger than a private developer's standard house type. Does the current site appraisal model proposed use HCA HQI minimum size standards when calculating the number units to be accommodated on the site? If not, the model will need to be amended to calculate larger house types on the area of the site proposed for affordable housing.</li> <li>• Dwelling sales prices assessed on £value/m<sup>2</sup>. Will the sales values assumptions be based on current newbuild sales located within the area of development? Some mortgage lenders are basing current properties sales on second hand home valuations even for newbuild. Will some flexibility be given in the model to cover this?</li> <li>• We are pleased to see that you have acknowledged the significant variations on how RSL's calculate the capitalised value of target social rents. Could you confirm that when assessing the viability of a scheme that the Zoned RSL's assumptions for calculating</li> </ul>	<ul style="list-style-type: none"> <li>• The property sizes have been based on market properties in the area. In all cases, apart from 3 bed units, the sizes are the same as or more than the HCA minimum requirements. We have amended the model so that 3 bed affordable homes now conform to the minimum requirement.</li> <li>• Yes, we are relating to new build values where possible. Although the lending criteria may impact on valuations for mortgage purposes it does not affect the final price paid by the purchaser.</li> <li>• No we are just using averages.</li> </ul>
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	<p>rents are incorporated in to the viability model?</p> <ul style="list-style-type: none"> <li>• Intermediate housing market prices valued at a half-way point between social rented housing value and open market value is acceptable as long as the open market value is reasonable in the first place.</li> <li>• Ground rents assumed at £150 per property. The RSL would endeavour to obtain the freehold title of properties in the Associations management as such payments would not be housing benefit eligible and could deem the scheme unaffordable.</li> <li>• Professional fees have been included at 7%. In our experience this seems a little high with average fee percentages normally being around 5 or 6 percent.</li> <li>• The rate of sales for each development would be dependent on the requirements of the developer and RSL and will vary from organisations. The rate of sale would need to be agreed with all parties to ensure the final viability of the scheme is a true reflection of sales proposed. A standard approach to each development in our opinion would not work.</li> <li>• A 5% deposit has been included in the model and will be paid by the purchaser at the start of construction of each unit. A RSL has experienced mortgage lenders deposit requirements as being as high as 20%. This in itself is not affordable. An additional 5% on top of the mortgage deposit should not be included as this</li> </ul>	<ul style="list-style-type: none"> <li>• Noted.</li> <li>• Noted, although it has minor impact on the study.</li> <li>• Given other comments we will leave our assumption as 7%.</li> <li>• The modelling varies the rate of sale according to the site.</li> <li>• The deposit had been set as 5% as this is common practice; it is not additional to the 20% deposit. However in light of comments we have amended this and a comment is made in the main body of the report.</li> </ul>
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	<p>would only add to the affordability issues currently being observed.</p> <ul style="list-style-type: none"> <li>• Developers profit has been incorporated at 15% with the option to increase this to 20%. Surely this would be a baseline as we presume in the current housing market that some developers are also able to reduce the amount of profit required to ensure the viability of the development?</li> <li>• Is the intention to run the model with gap funding included?</li> <li>• It would be wrong for Arc 4 and the Council to assume that existing dwelling prices should provide an indication of sales revenue. Market affordability is a pressing concern, and there is a need to provide low cost market housing (as distinct from intermediate housing) in order to address people's housing needs and enable access to owner occupation.</li> <li>• The methodology unwisely makes no allowance for abnormal ground conditions or demolition costs. This would appear unreasonable and would fail to take into account unforeseen costs associated with the development at the time of negotiating the land purchase price, or subsequent changes in legislation that result in greater costs to the. It is wrong to assume that such costs will not be 'netted-off' the land price for the reasons we have outlined above – land owners know they have a scarce commodity and will not settle for less than the price stipulated.</li> </ul>	<ul style="list-style-type: none"> <li>• We have retained 15% as the baseline for the long-term. See main report.</li> <li>• There is a facility in the model to add grant but we look at what is viable without public finance.</li> <li>• Low cost market housing is hard to pin down as part of an EV appraisal and we are not aware of a study that has done so.</li> <li>• An explanation as to the approach to dealing with abnormal costs and also testing sensitivities is included in the main body of the report.</li> </ul>
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	<ul style="list-style-type: none"> <li>• We are unsure what rate of sale is being applied in the model. However, an average sales rate of between 5 and 12 units a month per site would be unrealistic. Rates of sales in apartment schemes will be very much slower than schemes of two storey homes. Furthermore in apartment blocks a sale can only occur once the whole block is completed. What is more, the rate of sale is something which would have relevance in a cash-flow model, but we do not understand why it is included here in what is essentially a residual valuation calculation model. The rate of sale should have no bearing upon the model's calculation of what amount of affordable housing can be sustained by the plan.</li> <li>• The model appears to assume that a 5% deposit will be secured at exchange even though no other viability toolkit builds this into its calculation. Securing a 5% deposit on commencement of construction to offset the borrowing costs is not a realistic assumption to make. Therefore it should not be counted towards reducing the developer's costs and improving the expected residual land value.</li> <li>• To reflect the far more cautious business environment in Rochdale, we recommend that the viability assessment sets a baseline of at least 20% GDV and also tests for 25 and 30% GDV. 15% GDV is the level of GDV that viability models tended to apply pre-</li> </ul>	<ul style="list-style-type: none"> <li>• The rates of sales used have been revised in light of this comment and are explained in the main body of the report. The rate of sale affects the calculation of the finance charges which are included in the residual land value calculation.</li> <li>• The original assumption regarding deposits has now been revised in light of this comment.</li> <li>• The report explores developer's profit in some detail and the issues surrounding it. A long term view of the baseline position has been taken with flexibility under current market conditions.</li> </ul>
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	<p>recession (as in the case of the Three Dragon's toolkit). This was when risk was far lower than it is now. In today's market lenders are demanding a much higher rate of profit to compensate for the increased risk associated with housing development. The latest evidence we have is that lenders are now seeking profit margins in the order of 20-30% of GDV.</p> <p>Furthermore the 15-20% GDV used by Arc4 assumes sales rates which are far too optimistic and will skew the appraisals.</p> <p>In terms of translating this into policy, the Council should refer to the basis of profit for developers as "a starting point" and that the council accepts that, in some cases, the figure will need to be varied from the default value of 20% (our preferred default figure) of gross development value.</p>	<ul style="list-style-type: none"> <li>The rate of sales used have now been changes to reflect this comment and are now defined in the methodology.</li> </ul>
Any other comments?	<ul style="list-style-type: none"> <li>Delivery of affordable homes is dependent on certainty of what financial burden it places on the site so the percentage of sales value previously adopted was a good guide. There are also other innovative delivery methods for affordable housing outside of RSL's that should also be considered such as equity share</li> <li>There needs to be some flexibility around the framework being developed</li> </ul>	<ul style="list-style-type: none"> <li>This will be explored for scheme specific appraisals.</li> <li>The Council would look at each site individually.</li> </ul>

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