Economic viability of affordable housing requirements

Study for Cheshire West and Chester Council

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Table of Contents

1. Introduction

1.1 This report has been prepared to advise Cheshire West and Chester Council on the economic viability of potential policies for affordable housing provision in the District. The last study was completed in 2009.

1.2 Since the last study was undertaken in 2009 there have been changes to the National Planning Policy Framework and guidance on undertaking viability assessments of this type.

1.3 The National Planning Policy Framework was published on 27th March 2012 and came into effect on the same day, revoking Planning Policy Statement 3 Housing, which had previously formed the basis for housing planning policy. As part of its commitment to economic growth, localism and decentralisation, the Government has used the Framework to streamline all existing national policy documents into one short Policy Framework.

1.4 The Framework stresses the need for councils to work with communities and businesses to seek opportunities for sustainable growth to rebuild the economy; helping to deliver the homes, jobs, and infrastructure needed for a growing population whilst protecting the environment. A presumption in favour of sustainable development means that proposals should be approved promptly unless they compromise the twelve sustainable development principles set out in the Framework. The Framework identifies three dimensions to sustainable development: economic, social and environmental. These three dimensions (or roles) are seen as mutually dependent. The Framework must be taken into account in the preparation of local and neighbourhood plans, and it is a material consideration in decision making.

1.5 The National Planning Policy Framework now recognises the importance of viability to ensuring that residential schemes come forward. This is especially important when development is under threat in times of economic hardship. We recognise that this means that underestimating the full burden of development requirements may mean that schemes do not come forward.

1.6 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 high level of need for affordable housing in the District.

1.7 The estimated annual requirement, using the recommended CLG methodology, is a net figure of 714 additional affordable homes per year. The main need for provision is for social rented housing but the report identifies that 32.7% of households in need would consider intermediate tenures. Whether they could afford this would depend on the affordability of the intermediate tenures. For example, 32.9% of households in need could afford to purchase an equity share of between £80,000 and £100,000, and this may be a helpful benchmark.

1.8 The delivery of housing in the current market represents a significant challenge, including the provision of additional affordable homes. Both the Sustainable Communities Strategy and the Council Plan prioritise the improvement of access to good quality and affordable homes in the Borough. The Local Plan seeks to provide additional housing and affordable homes needed in the Borough

1.9 Providing affordable housing directly supports the 'Council Plan' key priority for ‘housing which meets the needs of our residents'. The 'Cheshire Sub – Regional Housing strategy 2009-1012' has four priorities – the first of which is ‘to increase the supply of affordable housing to support economic growth and development’. The definition of affordable housing is set out in the NPPF and includes social rented housing, affordable rented and intermediate affordable housing.

1.10 The Policy takes into account the most up-to-date evidence of need from the latest 'Strategic Housing Market Assessment' (SHMA). It aims to give certainty to landowners, developers, local communities, and provide guidance with the preparation of Neighbourhood Plans. The policy will help create balanced and mixed communities, and help deliver much needed affordable housing. The policy needs to reflect changing market conditions over time. It is recognised that the quantity of new affordable housing development will often, in practice, be determined as much by the financial viability of new provision as by the level of needs. The policy is therefore considered flexible enough to take into account the viability of each site and not be so restrictive as to unnecessarily prevent development.

1.11 In seeking to negotiate the maximum level of affordable housing on each site, the Council will have regard to the economic viability of site development, likely costs, market conditions, and the availability of public subsidy and the aim of achieving a mixed and balanced community. Developers will be expected to demonstrate the validity of such viability factors, providing supporting evidence.

1.12 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. It does not take account 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.

1.13 The scope and approach of the study has been designed to meet the requirements of National Planning Policy Framework, as part of the evidence base for preparation of the Local Development Framework. 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.

2. Approach to the study

Using beacon sites and reflecting market conditions

2.1 The housing market conditions vary considerably between different parts of Cheshire West and Chester and to provide a balanced assessment it is important, therefore, to test the impact of policy in different parts of the market. For this reason, 16 beacons 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 Local Development Framework will apply.

2.3 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.

2.4 The scheme mix for each site is summarised in appendix 1

2.5 The beacon sites are listed in Table 1

Table 1: The Beacon Sites

Site	Report description	Green / Brown	Developable site area	No of dwellings
1	Chester Sub-Urban	Brownfield	17.11	295 units
2	Chester Sub-Urban	Brownfield	0.56	17 units
3	Ellesmere Port Urban	Brownfield	4.06	179 units
4	Ellesmere Port Sub-Urban	Greenfield	8.1	145 units
5	Ellesmere Port Urban	Brownfield	0.56	20 units
6	Winsford sub Urban	Greenfield	1.9	65 units
7	Winsford Urban	Brownfield	0.36	13 units
8	Northwich Urban	Brownfield	4.39	130 units
9	Northwich Sub Urban	Brownfield	0.46	14 units
10	Chester Rural	Greenfield	5.14	127 units
11	Market Town (Neston)	Greenfield	1.41	28 units
12	Chester Urban	Greenfield	0.29	40 units

13	Chester Urban	Greenfield	0.64	16 units
14	Rural	Greenfield	0.65	13 units
15	Chester Rural	Greenfield	1.86	30 units
16	Winsford Urban	Greenfield	1.07	28 units

Property Market Conditions

2.6 The study takes account of changing housing market conditions. We are currently in an economic downturn reflected in the housing market although there is some optimism about future economic growth and so we need to ensure that we reflect the potential forecasted growth in house prices. We have therefore used a series of assumptions as a base position and to future proof this viability assessment we have then considered what may happen to the market over the longer term and have considered the market assessment forecasts including from Acadametrics and Savill's. While we can use these projections of value growth we are aware that linking our assessment to a single index may be risky. Therefore we have established three scenarios for value growth using the forecast from Savill's five year market forecast. The three growth scenarios are therefore:

- HIGH value growth levels (levels higher than projected)
- MEDIUM Values growth levels (at Savill's projected levels)
- LOW value growth levels (below projections) value growth levels

2.7 We have taken these growth levels over the next 5 years in order to consider their effect on viability at different levels of affordable housing.

2.8 In this way the study future proofs our assessment and ensures that affordable housing targets can be set taking into account the range of potential future market outcomes in the District.

Affordable housing options and assessment criteria

2.9 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. The original study in 2009 considered affordable housing targets of between 20% and 40% and this range has been used again.

2.10 In the 2009 study, the ratio of social rent to intermediate affordable housing tenures was considered at 50:50 and 70:30 splits in favour of social rent. Since the time of the original study new models of affordable rent have been proposed and this study does not use the social rent model as this is not likely to be part of the new development programme going forward. Affordable rents will be based upon 80% of the local market rents and Arc4 has used a model that assumes capitalisation of rents although this will be cross referenced with affordable rent transfer values from local Registered Providers.

2.11 The base assumption is that, initially, there is no public capital subsidy available to support the affordable rent option in line with advice from the Housing and Communities Agency.

2.12 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 more than 10% above the expected land value, the scheme is considered likely to be viable;
- **AMBER**. If the gap is between 10% below the market expectation of value and 10% above that value, the scheme is considered marginally viable;
- **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.

2.13 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, set at a minimum of 20% of Gross Development Value (GDV).

Consultation

2.14 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 Registered Providers who regularly work in Cheshire West and Chester. The consultation has been undertaken through visits, emails and telephone conversations

2.15 We received spoke to:

- Four developing Registered Providers
- Four developers (we contacted 7 but 3 did not respond)
- Two specialist planning agencies
- Six estate agents across the District

2.16 The consultation has confirmed that our assumptions and approach to the viability study has been correct and this report provides the detailed responses we received are reported in the accompanying consultation document.

2.17 The Council and the consultants are grateful to those who responded for their time and attention, which has assisted this study.

3. Methodology

3.1 Individual development appraisals have been constructed for each of the 16 beacon sites. A consistent methodology and approach has been adopted for each site appraisal as follows:

3.2 Gross site hectarage provided by Cheshire West and Chester and assumed that 100% of all sites are developable.

3.3 Development densities, based on advice from the Council about density and mix, are applied to calculate the total number of dwellings that can be accommodated on each site (subject to mix of house types covered below).

3.4 Tenure mix in terms of private for sale, affordable rented and intermediate housing (as appropriate to each option) then apportioned as a percentage of the total on a site by site basis.

3.5 Mix of units (1 bed, 2 bed, etc) then apportioned by percentage to generate a schedule of accommodation.

3.6 Size of each house type complies with the standards in the HQI assessment based on the Housing Corporation's Design and Quality Standards. Open Market Property sales valuation advice for each house type and location provided by Fox Property Consultants at June 2013 levels.

3.7 Affordable housing disposals have been calculated using 80% of market rent levels and achieving 6% yields. Based on this the affordable housing disposal figures are as follows:

- 1-bed house £60,000
- 2-bed house £80,000
- 3-bed house £96,000
- 4-bed house £128,000
- 5-bed house £192,000
- 1 bed apartment £50,000
- 2 bed apartment £60,000

3.8 Intermediate housing market prices are valued at current values and it is assumed that 50% share is purchased with a rent of 2% of the un-owned share.

3.9 Ground rents of £150 per property applied (assuming freehold is retained by the land-owner) and capitalised at a 5% yield for flats.

3.10 Build costs applied at current BCIS for flats/apartments, using North West regionally adjusted BCIS data as at June 2013 levels (including preliminaries, but excluding contingency and site works).

3.11 It is assumed that properties are built to Code level 4 and a per metre uplift has been allowed for

3.12 No differential is applied between the build cost of private for sale dwellings and affordable dwellings.

3.13 Cost allowances for site works assume 30% of site will be hard landscaped, 70% soft landscaped plus allowances for drainage and statutory service installations.

3.14 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 building land ready for development. Variations in this assumption are explored under sensitivities section.

3.15 An allowance of 5% for contingency is included.

3.16 Professional fees are included at 7% of build costs.

3.17 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.

3.18 Allowance is made for other S.106 costs at an average of £1,000 per dwelling, based on data from the Council about the average cost of planning obligations in recent schemes. Any costs imposed here by the Council will directly reduce the residual land value of each site.

3.19 Finance charges are calculated on a cashflow basis at 5.5% on debit balances, 2.5% on credit balances and with a 2% arrangement fee. Rate of sales assumptions are variable based upon the advice of the local authority. We have tested the sensitivity of the appraisal for variations in the rates of sale (see section 5).

3.20 It is assumed that the rate of build will align with the rate of sale and that there will be a sales lag of 9 months between start on site and the completion of the first sale.

3.21 The appraisal of viability is then made as follows:

- Total development costs are deducted from total sales revenue to identify a development surplus.
- 20% (of development costs, including the residual land values) is then deducted as a developers profit
- No allowance is made for Building Cost Inflation (BCI) or House Price Inflation (HPI) in the baseline. In the baseline options, costs and values are at June 2013 levels. But costs are increased for development at later dates in the future proofing scenario
- Deducting the developers profit from the development surplus thus leaves a residual land value.
- 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 June 2013 levels. The outcomes have been classified in RAG (Red Amber Green) format as outlined above.
- To become viable, current expectations of land value – on a site-by-site basis would therefore 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 (lower than nil value), developments are unlikely to come forward without some form of public subsidy. Alternatively, owners may defer a land sale in the expectation that values will recover when the market turns upward.

- The land and property values used in the assessment (June 2013) are given at Appendix 2

4. Scenarios for a changing housing market

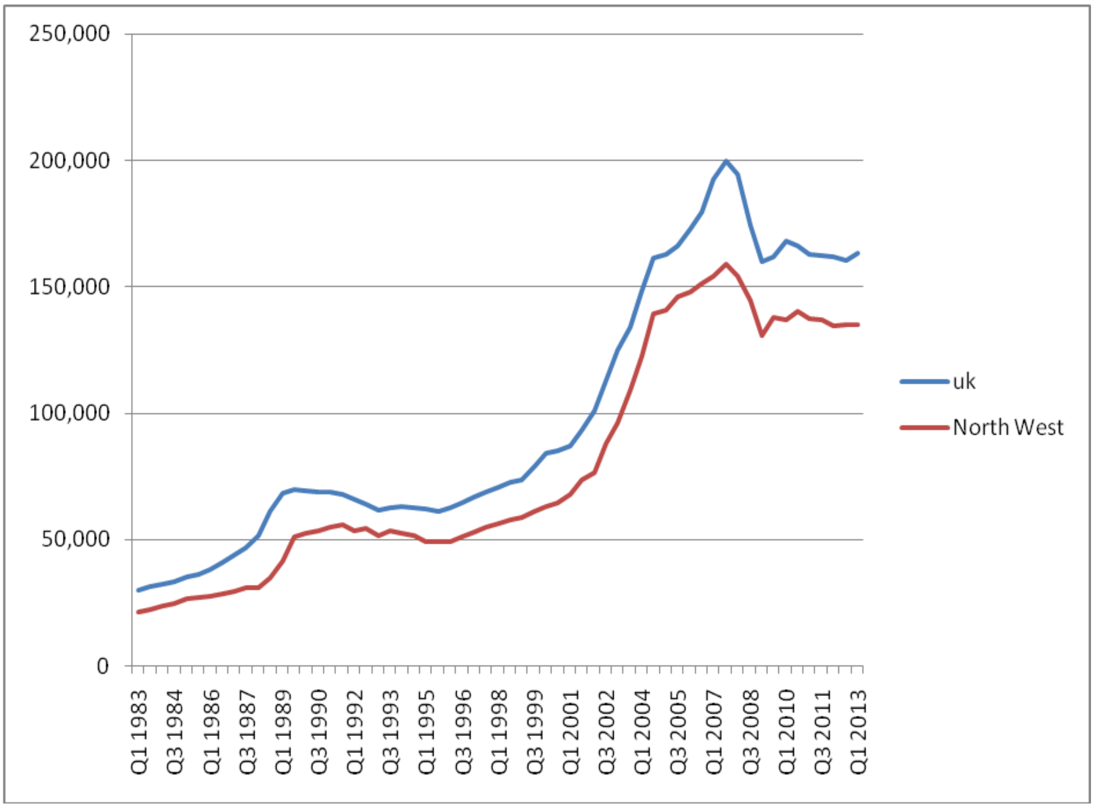
4.1 The previous viability study was undertaken in 2009 after the start of the recent downturn in the property market which commenced 18 months earlier. The report was prepared in mid 2009 when few transactions were taking place in the market. This "hiatus" has continued into 2013. While there was an immediate fall in prices as the market fell in 2008 graph 1 below shows that since that time, values have remained fairly static. This has been the case both nationally and regionally. Values in the North West generally have shown little upward or downward trend since 2009, the time of our last study.

4.2 This position was recognised in the last study and advice at that time suggested that the market would see a period of "stabilisation" with prices remaining at, or near the level in 2009. As recognised by a number of commentators (Halifax, Nationwide, Academetrics, Savills) it would now appear that, nationally, this period of stagnation of prices may be coming to an end. There is optimism that the market will recover and reports in July 2013 have highlighted the rise in number of house price transactions is at its highest rate for the last fourteen years (RICS, July 2013).

4.3 Halifax has also produced encouraging house price information. July 2013 data published at the time of this study has suggested a 1.2% quarterly change and a positive 1.1% increase in the year. In the North West, Halifax has pointed to a marked increase in values in the quarter (2.5%) but this has not been sufficient to push house price inflation into a positive position (-0.7%). The market in the North West is still lower than it was at the height of the boom in 2007. Nationwide (June 2013) suggests that the North West is one of the poorer performing regions in this regard with prices nearly 15% below their 2007 level.

4.4 Graph 1 below uses a blended average of the Nationwide and Halifax house price indices over the last 30 years and shows the extent of the boom and bust periods. It shows that the North West region has a similar house price profile to the national one.

Graph 1: Blended average of the Nationwide and Halifax house price indices over the last 30 years



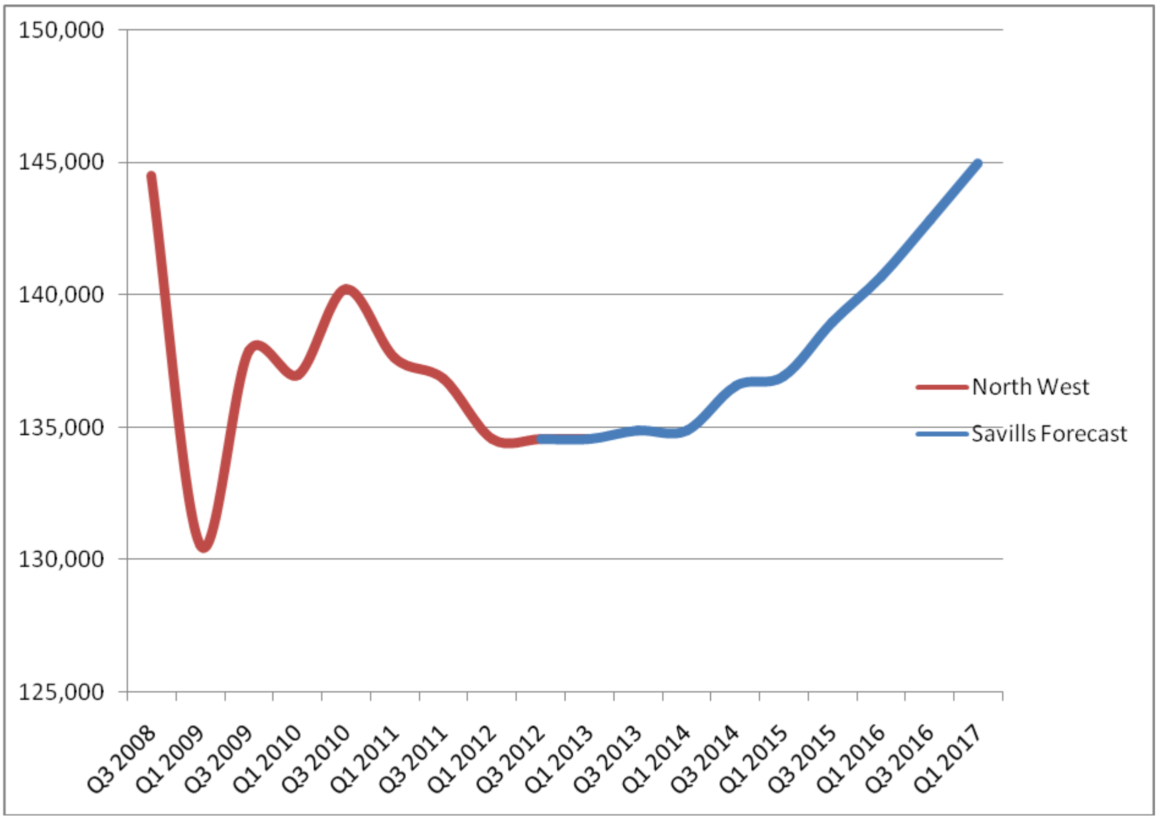
4.5 The relationship of land values, house prices and costs is crucial to the assessment. In times when values are rising they are rising, generally, at a faster rate than costs making development more viable. This will increase the propensity of development to be able to support higher percentages of affordable housing.

4.6 Therefore, not only should a viability assessment take into account current values and costs but should also take into account a reasonable assessment of potential future value growth.

4.7 Appendix 2 shows growth projections from Savill's and we have used these projections from 2013 to 2017 for the North West region. We have also used cost inflation forecasts from BCIS for construction costs over the same period. Other costs, where appropriate, have been increased assuming RPI at 2% per annum.

4.8 The profile of future values according to the Savill's projections is as follows:

Graph 2: Future property values



4.9 Finally, we need to ensure that we allow for the possibility for higher and lower growth projections. Therefore we have taken a "high" projection with higher annual percentage value inflation, a "medium" projection equal to the Savill's forecast and a "low" projection with house price growth below the Savill's projection. The high projection starts at 0.5% above the Savill's forecast and continues at twice the rate for the following four years. The low projection at a rate 40% below the Savill's base projection.

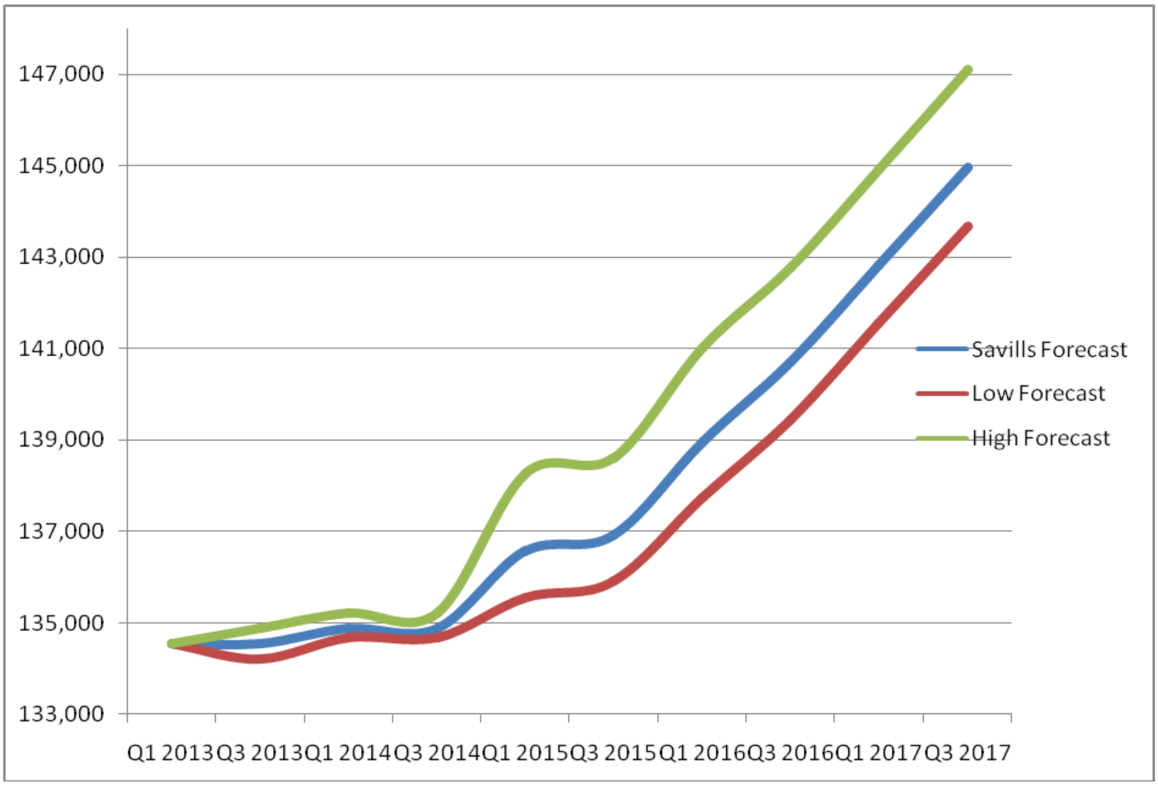
4.10 The percentage value growth for each scenario is in the following table:

Table 2: Percentage value growth assumptions

YEAR	LOW	MEDIUM	HIGH
2013	-0.50%	0.00%	0.50%
2014	0.20%	0.50%	1.00%
2015	1.00%	2.50%	5.00%
2016	1.20%	3.00%	6.00%
2017	1.20%	3.00%	6.00%

4.11 The assessment for each scenario assumes start dates for each of these years taking into account these growth assumptions. The profile for the three projections from 2013 is illustrated in graph 3:

Graph 3: Forecasted growth assumptions



4.12 Taking the affordable housing assumptions and the housing growth scenarios, we have developed a consistent approach to each site using the following scenarios:

Table 3: Affordable Housing Scenarios

Scenario	Modelling assumtpions
1	Assumes no discount for affordable housing and is based on June 2013 costs and values. The baseline position
Scenarios 2-5 Assumes a split of affordable housing provision in the ratio of 70% rented and 30% Intermediate tenure (shared ownership on a 50% initial share purchase):	
2	20% affordable housing provision
3	30% affordable housing provision
4	35% affordable housing provision
5	40% affordable housing provision
Scenarios 6-9 Assumes a split of affordable housing provision in the ratio of 50% rented and 50% Intermediate tenure (shared ownership on a 50% initial share purchase):	
6	20% affordable housing provision
7	30% affordable housing provision
8	35% affordable housing provision
9	40% affordable housing provision
Scenarios 10-13 Assess the impact of the current housing market varying according to Savill's forecast of price growth (here called medium forecast). Assumes a split of affordable housing provision in the ratio of 70% rented and 30% Intermediate tenure (shared ownership on a 50% initial share purchase):	
10	20% affordable housing provision
11	30% affordable housing provision

12	35% affordable housing provision
13	40% affordable housing provision
Scenarios 14-17 Assess the impact of the current housing market varying according to a higher forecast of price growth (here called "high forecast"). Assumes a split of affordable housing provision in the ratio of 70% rented and 30% Intermediate tenure (shared ownership on a 50% initial share purchase):	
14	20% affordable housing provision
15	30% affordable housing provision
16	35% affordable housing provision
17	40% affordable housing provision
Scenarios 17-20 Assess the impact of the current housing market varying according to a lower forecast of price growth (here called "low forecast"). Assumes a split of affordable housing provision in the ratio of 70% rented and 30% Intermediate tenure (shared ownership on a 50% initial share purchase):	
18	20% affordable housing provision
19	30% affordable housing provision
20	35% affordable housing provision
21	40% affordable housing provision

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 the accompanying financial modelling document. The colour coding for the viability assessment of each site is as shown below. An explanation of these viability ratings is given at 2.12 above.

Viable at expectations of land value at specified date (G)

Marginal at expectations of land values at specified date (A)

Non-viable expectations of land values at specified date (R)

A: The Baseline position at June 2013 costs and 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 June 2013 baseline prices and values, but with no affordable housing provision. This modelling shows the following viability results:

1.Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
RLV:EUV (%)	**141**	**156**	**129**	**128**	**120**	**128**	**123**	**140**	**122**	**131**	**122**	**131**	**147**	**118**	**117**	**125**
Viability position	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**

5.3 This initial baseline scenario shows, as we would expect, that all of the proposed sites would be viable in the event that no affordable housing was to be required.

B: Scenarios based on June 2013 values with varying affordability targets

5.4 We now examine the effect of increasing levels of affordable housing target, assuming this applies across all the beacon sites. Each of the initial scenarios (2-5) assumes a split of affordable housing provision **in the ratio of 70% affordable rented and 30**% Intermediate tenure (shared ownership on a 50% initial share purchase): (50% initial tranche sale). All the other assumptions remain as set out in section 3.

5.5 The table below show the viability of each site for each target level of affordable housing provision.

20% affordable housing provision

2. Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
RLV:EUV (%)	122	144	114	113	102	115	102	123	105	114	108	103	122	105	103	109
Viability position	G	G	G	G	A	G	A	G	A	G	A	A	G	A	A	A

30% affordable housing provision

3. Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
RLV:EUV (%)	112	135	107	105	95	105	94	114	97	105	101	86	107	99	91	102
Viability position	G	G	A	A	A	A	A	G	A	A	A	R	A	A	A	A

35% affordable housing provision

4. Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
RLV:EUV (%)	107	131	104	100	91	102	90	109	94	101	98	79	103	96	88	97
Viability position	A	G	A	A	A	A	R	A	A	A	A	R	A	A	R	A

40% affordable housing provision

5. Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
RLV:EUV (%)	103	128	100	96	86	99	85	104	91	97	94	72	98	94	85	92
Viability position	A	G	A	A	R	A	R	A	A	A	A	R	A	A	R	A

5.6 This shows that with a 20% overall affordable housing provision, eight out of the sixteen sites remain viable, with the remainder becoming marginal. Where the affordable housing provision is at 30% fifteen sites remain viable; although twelve are marginal and site 12 unviable. For affordable housing requirements at 35% three sites are unviable and at 40% four sites unviable. For the 70/30 tenure split, it is possible to achieve up to 40% affordable housing on many sites although only marginally. The balance tips from viable to mainly marginal or unviable at around 30% but some schemes will be deliverable with 35% and 40% affordable requirements. It should also be noted that at 40% affordable housing some of the schemes that are nominally marginal are close to being unviable.

Based on the alternative tenure split of 50% affordable rent and 50% Intermediate tenure (shared ownership on a 50% initial share purchase):

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

20% affordable housing provision

6. Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
RLV:EUV (%)	125	147	116	113	99	116	107	124	109	117	111	109	127	113	105	109
Viability position	G	G	G	G	A	G	A	G	A	G	G	A	G	G	A	A

30% affordable housing provision

7. Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
RLV:EUV (%)	116	138	110	105	90	108	98	119	105	110	106	96	112	108	102	102
Viability position	G	G	A	A	R	A	A	G	A	A	A	A	G	A	A	A

35% affordable housing provision

8. Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
RLV:EUV (%)	112	134	107	101	84	105	96	115	103	107	103	90	109	106	98	98
Viability position	G	G	A	A	R	A	A	G	A	A	A	A	A	A	A	A

40% affordable housing provision

9. Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
RLV:EUV (%)	108	129	103	97	78	103	94	111	99	104	101	84	106	104	94	93
Viability position	A	G	A	A	R	A	A	G	A	A	A	R	A	A	A	A

5.8 This shows slightly less impact on viability, with no site unviable at 20%; ten sites are viable the remainder marginal. At 30%, fifteen of the sites remain viable; eleven only marginally. With a 35% affordable housing provision three sites remain viable, twelve marginal and one unviable. At levels of 40% two sites are unviable This suggests that, for the 50/50% tenure split, many sites are able to deliver between 35% and 40% affordable housing.

5.9 For the 50/50 tenure split, it is possible to achieve a higher level of affordable provision. The balance tips from viable to mainly marginal or unviable at around 30-35%.

By geography

5.10 There is no significantly strong pattern in the results across the 16 beacon sites and their geography although a number of sites in Chester are viable at higher levels of affordable housing than in other geographies. The tables below show the sites by geography using a 70:30 (affordable rent/intermediate) split.

5.11 All geographies are viable at 20% affordable housing although some only marginally so. Chester delivers the most viable sites at this level which is not unsurprising given the values in the City.

5.12 At 30% only Chester has viable sites, the other three geographies are all marginal although Chester also has one unviable scheme. A similar picture emerges for 35% affordable housing provision and all geographies are capable of delivering 40% affordable housing on some sites although there are sites that will be unable to deliver this percentage.

Chester Schemes

	Site 1	Site 2	Site 12	Site 13	
RLV:EUV	122%	144%	103%	122%	20% Affordable Housing
Viability position	G	G	A	G	
RLV:EUV	112%	135%	86%	107%	30% Affordable Housing
Viability position	G	G	R	A	
RLV:EUV	107%	131%	79%	103%	35% Affordable Housing
Viability position	A	G	R	A	
RLV:EUV	103%	128%	72%	98%	40% Affordable Housing
Viability position	A	G	R	A	

Ellesmere Port and Neston schemes

	Site 3	Site 4	Site 5	
RLV:EUV	114%	113%	102%	20% Affordable Housing
Viability position	G	G	A	
RLV:EUV	107%	105%	95%	30% Affordable Housing
Viability position	A	A	A	
RLV:EUV	104%	100%	91%	35% Affordable Housing
Viability position	A	A	A	
RLV:EUV	100%	96	86%	40% Affordable Housing
Viability position	A	A	R	

Winsford schemes

	Site 6	Site 7	Site 16	
RLV:EUV	116%	107%	109%	20% Affordable Housing
Viability position	G	A	A	
RLV:EUV	108%	98%	102%	30% Affordable Housing
Viability position	A	A	A	
RLV:EUV	105%	96%	98%	35% Affordable Housing
Viability position	A	A	A	
RLV:EUV	103%	94%	93%	40% Affordable Housing
Viability position	A	A	A	

Rural Schemes

	Site 10	Site 14	Site 15	
RLV:EUV	117%	113%	105%	20% Affordable Housing
Viability position	G	G	A	
RLV:EUV	110%	108%	102%	30% Affordable Housing
Viability position	A	A	A	
RLV:EUV	107%	106%	98%	35% Affordable Housing
Viability position	A	A	A	
RLV:EUV	104%	104%	94%	40% Affordable Housing
Viability position	A	A	A	

5.13 The sites of a mainly rural character are sites 10, 14, and 15. The findings for these sites do not show any distinct pattern, and give no indication that the delivery of affordable housing is any more difficult, or easier, for these sites than others.

C: Sensitivities

Brownfield sites

5.14 A number of the beacon sites are identified as "brownfield" and are therefore likely to require some form of remediation. As set out in the methodology, 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 building land ready for development.

5.15 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.

5.16 To test the sensitivity of the assessments to this issue, we have attempted to demonstrate the impact on residual land values by adding an additional 5% and 10% to build costs to allow for abnormals on brownfield sites. We have only considered this on brownfield sites which are: site 1,2,3,5,7,8, and 9

5.17 The purpose of the exercise here is to demonstrate the sensitivity of the financial modeling 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 abnormals and remediation costs should be netted off both June 2013 expectations of land value and any residual land values.

5.18 The effect on the baseline viability on the brownfield beacon sites, using a mid point of 30% affordable housing using a 70/30% split (affordable housing: intermediate housing)

At 5% increased build costs

30% affordable using	Site No	1	2	3	5	7	8	9
BASE	RLV:EUV (%)	**112**	**135**	**107**	**95**	**94**	**114**	**97**
BASE	Viability position	**G**	**G**	**A**	**A**	**A**	**G**	**A**

30% affordable housing	Site No	1	2	3	5	7	8	9
5% additional build costs	RLV:EUV (%)	105	121	78	72	72	100	85
5% additional build costs	Viability position	A	G	A	R	R	A	A

5.19 At 5% additional costs there are two unviable schemes that were previously marginal and only one viable scheme compared to three without the additional build costs.

At 10% increased build costs

30% affordable housing	Site No	1	2	3	5	7	8	9
BASE	RLV:EUV (%)	112	135	107	95	94	114	97
BASE	Viability position	G	G	A	A	A	G	A

30% affordable housing	Site No	1	2	3	5	7	8	9
10% additional build costs	RLV:EUV (%)	105	121	78	72	72	100	85
10% additional build costs	Viability position	A	G	R	R	R	A	R

5.20 At 10% additional costs there are four unviable schemes that were previously marginal and only one viable scheme compared to three without the additional build costs

5.21 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.

Code for Sustainable homes

5.22 The assumptions have included to build at Code level 4 but we considered building at code level 6 to compare the impact. With the exception of site 1 and 2 at 20% affordable housing requirement, all sites were unviable at any level of affordable housing. At Code 3, all sites were viable at all levels of affordable housing. It is therefore incredibly important to ensure that all schemes going forward can benefit from the most effective economies of scale and the Council may wish to consider how it could support developers to achieve this.

Increasing Planning Obligations

5.23 The analysis below show the impact in increasing proposed Section 106 Agreement payments from the benchmark allowance of £1,000 per dwelling to an enhanced contribution of £1,600 per dwelling and then to £2,000 per dwelling

5.24 The analysis below show the effect in terms of the viability of the beacon sites from the base position of 70/30% (affordable housing: intermediate housing)

5.25 This is of significant impact on the economic viability of residential development sites and demonstrates the potential for changes in the terms of the development.

5.26 The analysis below show the viability of each site for 30% of affordable housing provision.

Base line position 30% affordable housing provision

2. Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
RLV:EUV (%)	122	144	114	113	102	115	102	123	105	114	108	103	122	105	103	109
Viability position	G	G	G	G	A	G	A	G	A	G	A	A	G	A	A	A

S106 Planning Obligations £1,600 30% affordable housing provision

2. Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
RLV:EUV (%)	111	129	103	103	92	103	91	112	92	104	99	81	107	95	90	98
Viability position																

S106 Planning Obligations £2,000 30% affordable housing provision

2. Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
RLV:EUV (%)	110	128	101	102	90	101	89	111	91	103	98	77	106	94	90	97
Viability position																

5.27 It can be seen that any requests for enhanced Section 106 contributions have a detrimental impact on the viability of sites

Changing thresholds

5.28 At present, in urban areas the Council requires affordable housing to be provided (depending on viability) on sites that deliver 15 or more units or are on a site of 0.5 hectares or above. There are two sites in urban areas being considered within this analysis that would not have an affordable housing requirement; site 7 and 9 given their size.

5.29 The Council is considering changing the threshold criteria to require affordable housing on sites delivering 10 or more units and /or equivalent or larger than 15 units. Under this policy, sites 7 and 9 would have an affordable housing requirement.

	Site 7	Site 9	
RLV:EUV	**102**	**105**	20% Affordable Housing
Viability position	**A**	**A**	
RLV:EUV	**94**	**97**	30% Affordable Housing
Viability position	**A**	**A**	
RLV:EUV	**90**	**94**	35% Affordable Housing
Viability position	**R**	**A**	
RLV:EUV	**85**	**91**	40% Affordable Housing
Viability position	**R**	**A**	

5.30 The sites are marginal but viable for 20% and 30% affordable housing delivery but at 35%+ site 7 is not viable. However, given that there is viability to deliver affordable housing, the Council should consider reducing the thresholds for affordable housing delivery.

D: Impact of current lower or higher property values

5.31 In recent market conditions, there was a significant reduction in house prices in 2007 and 2008. Since 2008, values have remained fairly static and values in the North West generally have shown little upward or downward trend since 2009, the time of our last study. However, given the more optimistic forecasts that are being made we now examine the effect of these potential market changes in more detail and take account of the fact that house prices may grow at different rates to that forecasted which will impact on the viability of sites, depending on when they are developed.

5.32 A series of alternative assumptions have been tested to explore how sensitive the results of the June 2013 baseline to possible or likely changes in house price values. These include testing the effects of:

- The current housing market varying according to Savill's forecast of price growth (here called medium forecast).
- The current housing market varying according to a higher forecast of price growth than Savill's forecast price growth (here called high forecast).
- The current housing market varying according to a lower forecast of price growth than Savill's forecast of price growth (here called low forecast).

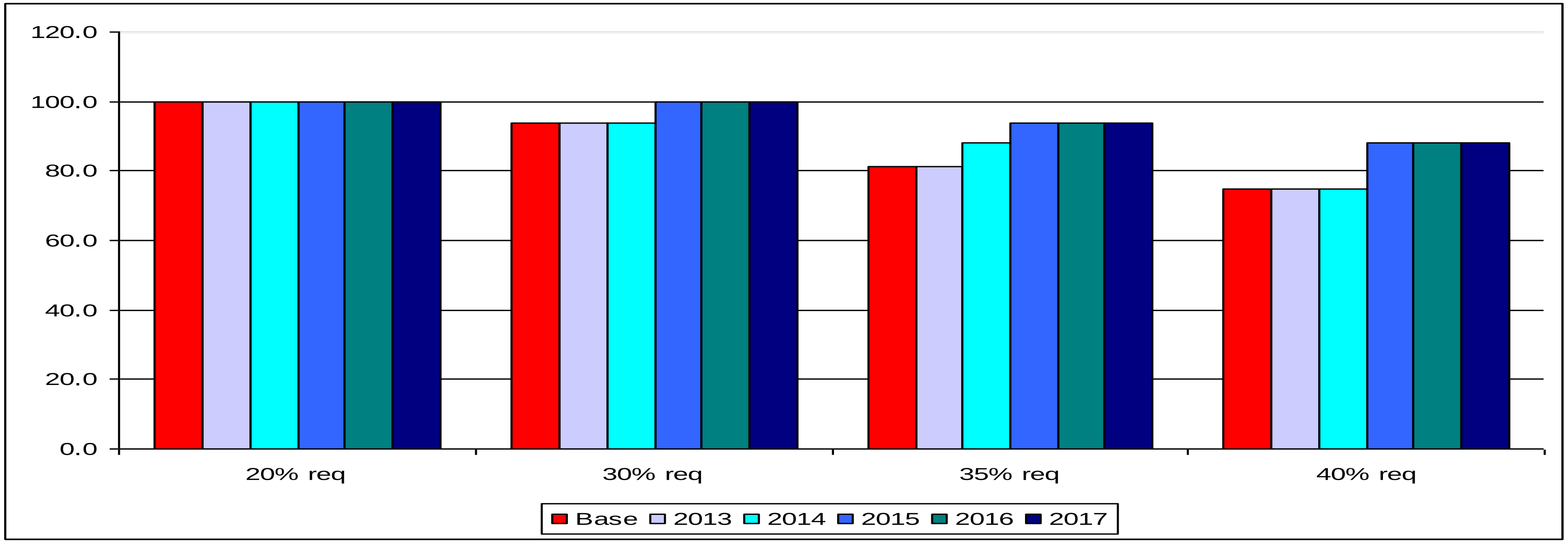
5.33 We have tested these growth scenarios from 2013 to 2017 and the results are outlined below. The analysis assumes a 70/30% (affordable rent/intermediate) split. The numbers in the table are RLV:EUV (Residual Land Value: Existing Use Value). The different levels of growth linked to low, medium and high scenarios are detailed in Table 2.

Medium forecast

	20% affordable housing (10)					30% affordable housing (11)					35% affordable housing (12)					40% affordable housing (13)				
Site	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**
1	122%	126%	130%	131%	131%	112%	116%	119%	120%	120%	107%	111%	115%	115%	116%	103%	107%	110%	111%	111%
	G	G	G	G	G	G	G	G	G	G	A	G	G	G	G	A	A	G	G	G
2	144%	144%	148%	149%	150%	135%	136%	136%	137%	138%	131%	129%	133%	134%	135%	128%	129%	130%	131%	131%
	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G
3	114%	120%	126%	127%	128%	107%	112%	118%	119%	120%	104%	109%	114%	115%	116%	100%	105%	110%	111%	113%
	G	G	G	G	G	A	G	G	G	G	A	A	G	G	G	A	A	G	G	G
4	113%	117%	121%	122%	123%	105%	109%	113%	114%	114%	100%	105%	108%	109%	110%	96%	101%	104%	105%	106%
	G	G	G	G	G	A	A	G	G	G	A	A	A	A	A	A	A	A	A	A
5	102%	103%	107%	109%	110%	95%	96%	100%	101%	102%	91%	92%	96%	97%	98%	86%	88%	92%	93%	94%
	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	R	R	A	A	A
6	115%	119%	123%	124%	125%	105%	110%	114%	115%	116%	102%	106%	110%	111%	112%	99%	103%	107%	108%	109%
	G	G	G	G	G	A	A	G	G	G	A	A	G	G	G	A	A	A	A	A
7	102%	104%	108%	109%	110%	94%	95%	99%	98%	101%	90%	91%	95%	95%	97%	85%	87%	91%	92%	93%
	A	A	A	A	A	A	A	A	A	A	R	A	A	A	A	R	R	A	A	A
8	123%	128%	133%	134%	134%	114%	119%	123%	124%	124%	109%	114%	118%	119%	119%	104%	109%	112%	113%	114%
	G	G	G	G	G	G	G	G	G	G	A	A	A	A	A	A	A	G	G	G
9	105%	106%	109%	110%	111%	97%	97%	98%	100%	100%	94%	95%	97%	98%	98%	91%	92%	95%	96%	97%
	A	A	A	G	G	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
10	114%	119%	123%	126%	128%	105%	110%	113%	116%	118%	101%	105%	109%	112%	114%	97%	101%	105%	107%	110%
	G	G	G	G	G	A	A	G	G	G	A	A	A	A	A	A	A	A	A	A
11	108%	111%	114%	115%	116%	101%	104%	107%	108%	108%	98%	101%	104%	105%	106%	94%	99%	102%	103%	103%
	A	G	G	G	G	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
12	103%	104%	109%	111%	112%	86%	88%	93%	95%	96%	79%	81%	86%	87%	89%	72%	74%	79%	80%	82%
	A	G	G	G	G	R	R	A	A	A	R	R	R	R	R	R	R	R	R	R
13	122%	124%	127%	128%	128%	107%	110%	113%	114%	114%	103%	106%	109%	110%	110%	98%	102%	105%	106%	106%
	G	G	G	G	G	A	A	G	G	G	A	A	A	A	A	A	A	A	A	A
14	105%	107%	109%	113%	111%	99%	102%	105%	108%	106%	96%	98%	101%	104%	102%	94%	95%	97%	100%	98%
	A	A	A	G	G	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
15	103%	106%	109%	110%	110%	91%	93%	96%	97%	97%	88%	90%	93%	93%	94%	85%	87%	89%	90%	90%
	A	A	A	A	A	A	A	A	A	A	R	R	A	A	A	R	R	R	R	R
16	109%	111%	115%	116%	117%	102%	103%	107%	108%	109%	97%	99%	102%	103%	104%	92%	94%	97%	98%	99%
	A	G	G	G	G	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A

5.34 The results are summarised in the graph below which shows the percentage of schemes that remain viable in a medium growth scenario over the next 5 years compared to the current base line position. With a 20% affordable housing requirement all schemes continue to be viable (or marginal) under a medium growth forecast. For 30%, 2015 sees an increase to 100% of schemes being viable as house prices increase. A similar trend emerges for 35% and 40% where by 2015 93.8% and 88% of schemes remain viable respectively from 2015. If the housing market grows at the level of forecast, then it will have a positive impact on the delivery of affordable housing in the future and particularly after 2015.

Graph 4: The percentage of schemes that remain viable (either viable or marginal) in a medium growth scenario compared to the base position of June 2013 values

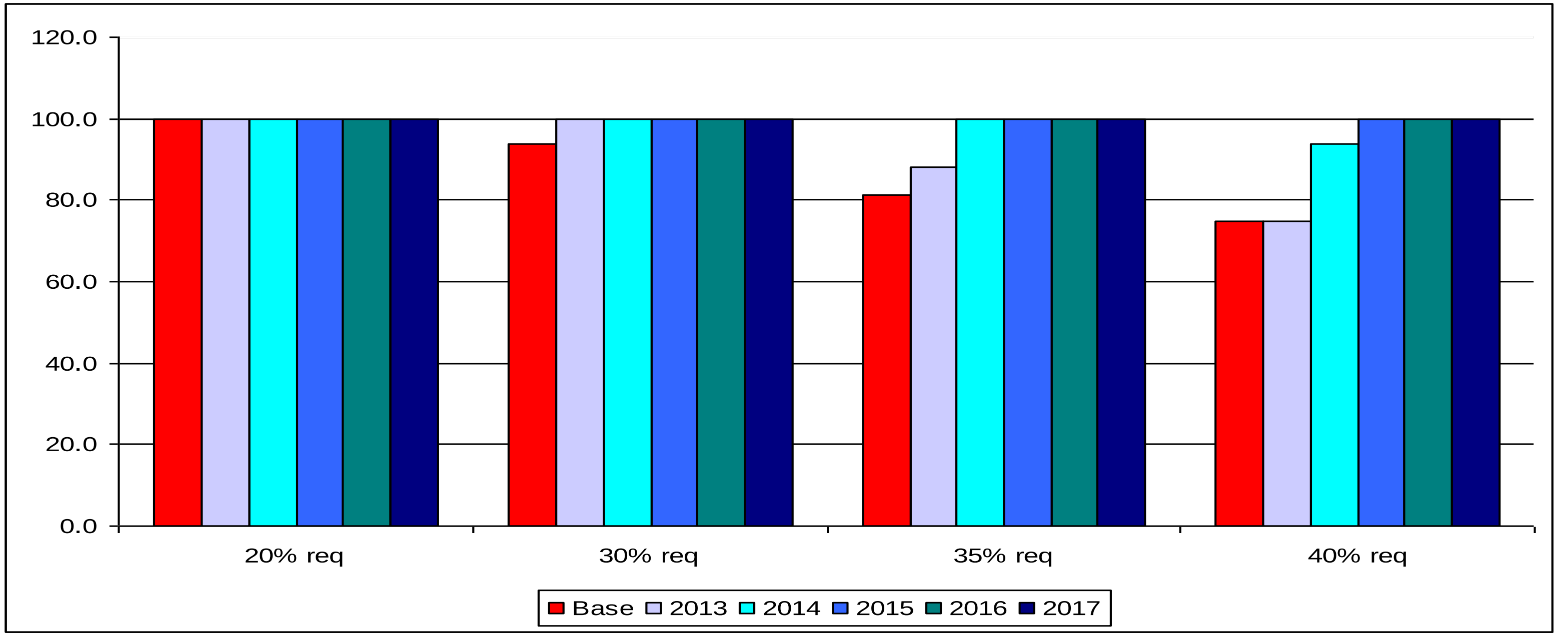


High forecast

	20% affordable housing (14)					30% affordable housing (15)					35% affordable housing (16)					40% affordable housing (17)				
Site	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**
1	135%	146%	157%	161%	165%	123%	133%	142%	147%	149%	118%	127%	137%	140%	143%	113%	122%	131%	134%	137%
	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G
2	142%	149%	161%	167%	172%	130%	137%	147%	153%	157%	127%	134%	145%	150%	153%	125%	132%	142%	146%	149%
	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G
3	138%	159%	182%	198%	213%	127%	146%	168%	182%	195%	123%	141%	161%	175%	187%	118%	135%	154%	167%	179%
	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G
4	123%	136%	150%	158%	164%	114%	126%	138%	145%	151%	109%	121%	132%	139%	144%	105%	115%	127%	133%	138%
	G	G	G	G	G	G	G	G	G	G	A	G	G	G	G	A	G	G	G	G
5	106%	116%	133%	145%	157%	98%	108%	124%	135%	145%	94%	103%	118%	129%	138%	89%	98%	112%	122%	131%
	A	G	G	G	G	A	A	G	G	G	A	A	G	G	G	R	A	G	G	G
6	129%	143%	159%	168%	176%	118%	132%	146%	154%	161%	114%	128%	141%	149%	155%	111%	123%	137%	144%	150%
	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G
7	106%	115%	132%	145%	156%	97%	106%	121%	133%	143%	93%	101%	116%	127%	136%	88%	97%	111%	121%	130%
	A	G	G	G	G	A	A	G	G	G	A	A	G	G	G	R	A	G	G	G
8	139%	154%	169%	177%	184%	129%	142%	156%	164%	170%	123%	136%	150%	157%	163%	118%	130%	143%	150%	156%
	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G
9	107%	113%	125%	133%	139%	100%	106%	116%	123%	129%	96%	102%	113%	119%	124%	93%	98%	109%	115%	120%
	A	G	G	G	G	G	G	G	G	G	A	A	G	G	G	A	A	A	G	G
10	124%	134%	145%	150%	154%	114%	123%	133%	137%	140%	109%	118%	128%	132%	135%	105%	114%	123%	127%	129%
	G	G	G	G	G	G	G	G	G	G	A	G	G	G	G	A	G	G	G	G
11	111%	119%	131%	138%	143%	105%	112%	123%	129%	134%	101%	109%	119%	125%	129%	98%	105%	115%	121%	125%
	G	G	G	G	G	G	G	G	G	G	A	A	G	G	G	A	A	G	G	G
12	109%	122%	148%	168%	187%	91%	104%	127%	144%	161%	84%	96%	117%	133%	149%	76%	88%	107%	123%	137%
	A	G	G	G	G	A	A	G	G	G	R	A	G	G	G	R	R	A	G	G
13	124%	129%	139%	144%	148%	109%	115%	123%	128%	131%	105%	110%	119%	123%	126%	102%	106%	115%	119%	122%
	G	G	G	G	G	A	G	G	G	G	A	G	G	G	G	A	A	G	G	G
14	106%	112%	120%	124%	128%	102%	107%	115%	118%	121%	100%	103%	110%	114%	116%	97%	99%	106%	109%	112%
	A	G	G	G	G	A	A	G	G	G	A	A	G	G	G	A	A	A	A	G
15	106%	112%	120%	124%	127%	93%	98%	105%	109%	111%	89%	95%	102%	105%	107%	86%	91%	98%	101%	103%
	A	G	G	G	G	A	A	A	A	G	R	A	A	A	A	R	A	A	A	A
16	112%	122%	137%	146%	154%	103%	113%	126%	135%	142%	98%	108%	120%	128%	135%	93%	102%	114%	121%	127%
	G	G	G	G	G	A	G	G	G	G	G	G	G	G	G	A	A	G	G	G

5.35 The results are summarised in the graph below which shows the percentage of schemes that remain viable in a high growth scenario over the next 5 years compared to the current base line position. The high growth scenario significantly increases viability and by 2015 all schemes are viable (some marginal) at all levels of affordable housing requirements. If the housing market grows at a higher rate of growth than that forecast, then it will have a very positive impact on the percentage of affordable housing that can be delivered.

Graph 5: The percentage of schemes that remain viable (either viable or marginal) in a high growth scenario compared to the base position of June 2013 values

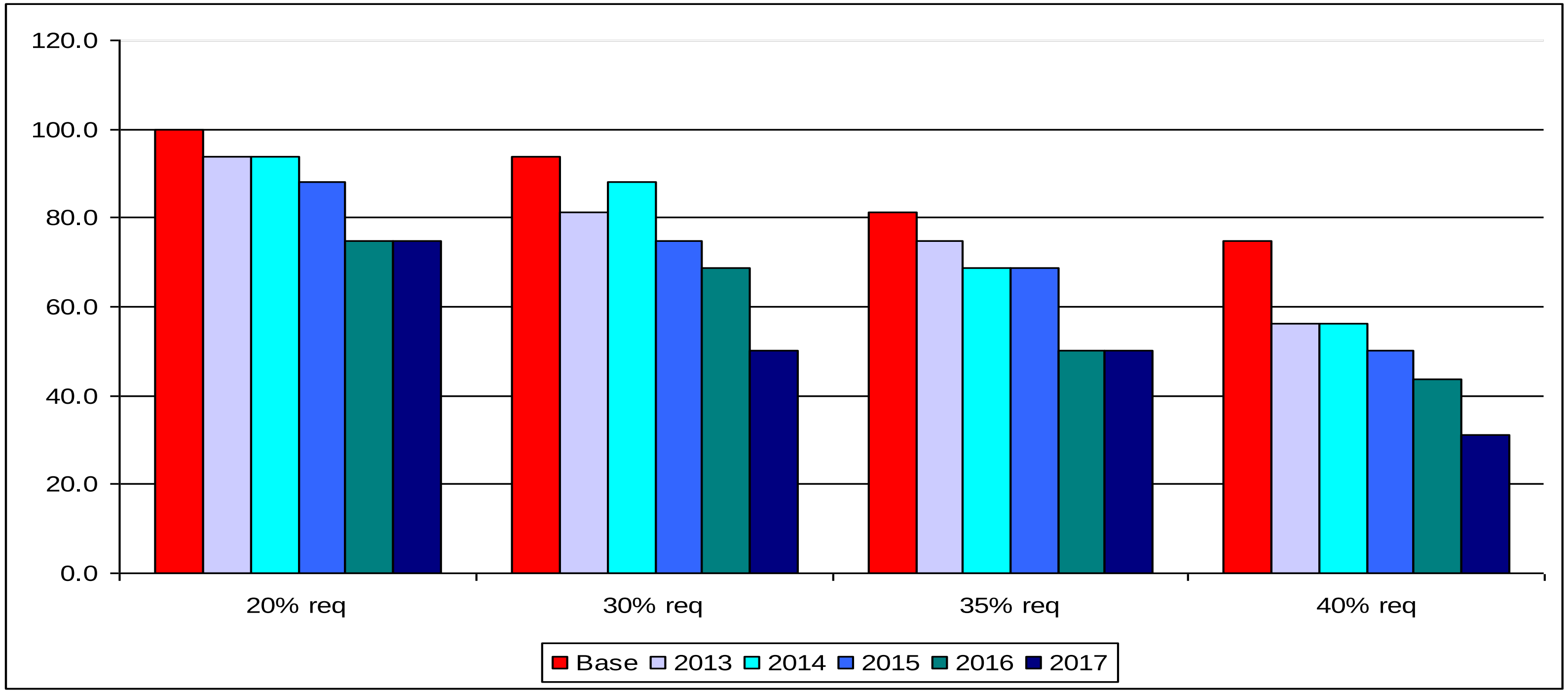


Low forecast

	20% affordable housing (18)					30% affordable housing (19)					35% affordable housing (20)					40% affordable housing (21)				
Site	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
1	114%	115%	115%	114%	112%	105%	106%	106%	105%	103%	101%	102%	102%	101%	100%	97%	98%	99%	97%	96%
	G	G	G	G	G	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
2	139%	139%	139%	137%	135%	129%	129%	130%	128%	126%	125%	126%	126%	125%	123%	122%	123%	123%	121%	120%
	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G
3	100%	97%	92%	84%	77%	94%	92%	88%	81%	74%	92%	90%	86%	80%	73%	89%	88%	84%	78%	72%
	A	A	A	R	R	A	A	R	R	R	A	R	R	R	R	R	R	R	R	R
4	106%	106%	105%	101%	98%	99%	99%	98%	95%	92%	95%	95%	94%	91%	89%	91%	91%	91%	88%	86%
	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	R	R
5	99%	95%	92%	85%	80%	92%	89%	86%	80%	75%	88%	86%	83%	78%	73%	84%	82%	79%	75%	70%
	A	A	A	R	R	A	A	R	R	R	R	R	R	R	R	R	R	R	R	R
6	105%	104%	102%	98%	95%	97%	97%	95%	92%	88%	94%	94%	92%	89%	86%	91%	91%	90%	87%	83%
	A	A	A	A	A	A	A	A	A	R	A	A	A	R	R	A	A	R	R	R
7	68%	65%	63%	59%	55%	62%	60%	58%	55%	51%	59%	58%	56%	52%	49%	56%	55%	53%	50%	47%
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
8	113%	113%	117%	108%	105%	104%	105%	103%	100%	97%	100%	100%	99%	96%	93%	95%	96%	94%	92%	89%
	G	G	G	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	R
9	103%	101%	100%	97%	93%	95%	95%	93%	90%	88%	92%	91%	90%	88%	85%	89%	88%	87%	85%	82%
	A	A	A	A	A	A	A	A	A	R	A	A	A	R	R	R	R	R	R	R
10	108%	109%	109%	107%	105%	100%	101%	101%	99%	97%	96%	97%	97%	96%	94%	92%	93%	93%	92%	91%
	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
11	107%	106%	105%	102%	100%	101%	100%	100%	97%	95%	97%	97%	97%	95%	92%	94%	94%	94%	92%	90%
	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	R
12	98%	92%	85%	75%	65%	82%	78%	72%	64%	55%	75%	71%	66%	59%	51%	68%	65%	61%	54%	47%
	A	A	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
13	120%	120%	120%	118%	116%	106%	106%	106%	105%	103%	102%	103%	102%	101%	100%	99%	99%	99%	97%	96%
	G	G	G	G	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
14	103%	103%	103%	101%	100%	99%	99%	99%	98%	97%	95%	96%	96%	95%	93%	91%	92%	92%	91%	90%
	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
15	102%	102%	102%	101%	99%	89%	90%	90%	89%	88%	86%	87%	87%	86%	85%	83%	84%	84%	83%	83%
	A	A	A	A	A	R	A	A	R	R	R	R	R	R	R	R	R	R	R	R
16	106%	104%	102%	98%	94%	98%	97%	96%	92%	89%	93%	93%	92%	88%	85%	89%	88%	87%	85%	82%
	A	A	A	A	A	A	A	A	A	R	A	A	A	R	R	R	R	R	R	R

5.36 The results are summarised in the graph below which shows the percentage of schemes that remain viable in a low growth scenario over the next 5 years compared to the current base position. By 2017, only 50% of schemes remain viable to deliver 30% affordable housing requirements, 43.8% for 35% and 31.3% for 40%. If the housing market does not grow as anticipated it will be much more difficult to deliver affordable housing in Cheshire West and Chester.

Graph 6: The percentage of schemes that remain viable (either viable or marginal) in a low growth scenario compared to the base position of June 2013 values



6. Conclusions

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 Cheshire West and Chester. It aims to provide evidence that will underpin long-term planning policies. There can be no doubt that the application of affordable housing policies will need to be responsive to the market conditions anticipated at the time of development.

6.2 We have taken a baseline of the market conditions at June 2013 to reflect the current position in the housing market. To reflect the potential for the housing market to grow we have taken into account external expert opinion on housing market growth forecasts but have used those forecasts as a medium growth figure, reflecting that whilst markets may grow at a faster rate, they may also grow at a slower pace, particularly compared to southern markets

Affordable housing targets: economic viability

6.3 The modeling 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 16 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. 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.

6.4 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.

6.5 The study has considered two options for the tenure mix, viz:

- A preferred tenure split, based on the housing needs assessment, of 70% social rent and 30% shared ownership (or similar intermediate market products): and
- An alternative tenure split of 50/50.

Main findings

6.6 At the preferred 70/30 tenure mix, the indicative maximum levels of affordable housing provision at each price level are found to be

- At June 2013, affordable provision at 35%;
- In a possible future market with medium growth scenarios affordable provision at 35%
- At low growth scenarios affordable provision at 20-30%

- At high growth scenarios affordable provision at 40%

6.7 A change to 50/50 tenure split results in being able to achieve an overall level of provision that will be about 5% higher. So at June 2013 values, affordable housing provision of 35%-40% is the indicative maximum.

6.8 The main variation in the geographical pattern of the viability of affordable housing provision is that it appears more difficult to achieve these indicative maxima for sites in the former Ellesmere Port and Neston District (sites 3,4 and 5) and Winsford (6,7 and 8). Whilst sites here are viable for lower percentages of affordable housing, at higher levels they are mainly marginal. This is also reflective of rural sites. The study has not found any overall difference in the viability of rural schemes as compared to other more urban developments, based on the beacon sites examined.

Impact of potential changes in development requirements/conditions

6.9 A review of the sensitivity of these targets to other potential factors shows that

6.10 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. At a 5% increase, viability is affected and significantly so as build costs are increased by 10%.

6.11 The introduction of Code for Sustainable Homes to Code 6 would have a significant impact of the viability of residential development and further demonstrates how sensitive the viability position is to increasing costs, particularly for marginal sites.

6.12 There are other potential increases in costs. On the instruction of the Council, we have allowed for S.106 contributions of £1000 per unit and then increased this to £1,600 and then £2,000. Each of these had a detrimental impcat on viability However, we have not taken into account the potential costs that the introduction of a Community Infrastructure Levy (CIL) could bring to new development but this is currently planned to be introduced by the Council.

Overall policy advice

6.13 The estimated annual requirement, using the recommended CLG methodology, is a net figure of 714 additional affordable homes per year. The main need for provision is for social rented housing but the report identifies that 32.7% of households in need would consider intermediate tenures. Whether they could afford this would depend on the affordability of the intermediate tenures.

6.14 The SHMA has identified an annual net requirement of 714 additional affordable homes per year. The main need for provision is for social rented housing but the report identifies that 32.7% of households in need would consider intermediate tenures. 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 high 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.

6.15 This study provides Cheshire West and Chester 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.

6.16 The policies are proposed on the basis that market conditions will improve on June 2013 values and this is most likely to be in line with the medium growth forecasts but given the potential other elements that may increase costs such as the cost of bringing brown field sites forward and the future impact of introducing CIL the proposed affordable housing requirements need to take this into account and of course, flexibility will be required in the application of policy targets to accommodate market conditions and the circumstances of particular sites, especially those in lower-value regeneration locations. However, we are keen to enable the Council achieve a higher percentage of affordable housing where it is achievable.

Affordable housing targets

6.17 With the above in mind, we recommend the following:

- **A target of up to 30% provision of affordable housing on all sites, applied borough-wide. The affordable housing provision at this target level would be 70% social rent and 30% intermediate (e.g. shared ownership).**
- **If the affordable tenure mix changes to 50/50 (affordable rent/intermediate) then the target level would increase to up to 35%.**

6.18 It is recognised that these targets may not be achievable on all developments due to overall market conditions, or as a result of specific site viability issues. We recommend the council should adopt a flexible approach and review the viability of affordable housing provision for sites where the developer submits that the target is not deliverable.

6.19 There is less uncertainty about future market prospects than in the 2009 study but it is by no means clear and it will be difficult to assess 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, or an overage clause in respect of commuted sum payments, prior to the commencement of future phases of development. Lower levels of affordable housing provision may be more readily agreed in the first phase if there is the potential to increase provision as sales prices increase. The Council should also consider time-limiting planning obligations that allow substantial reductions from the targets.

6.20 The targets should be applied across the District, including urban and rural areas.

6.21 We would also recommend a policy change to reduce the thresholds in urban areas to 10 units or more or 0.3 hectares or more with the same caution regarding flexibility on delivery for certain sites.

Appendix 1 Scheme mix

			Site 1	Site 2	Site 3	Site 4	Site 5	Site 6	Site 7	Site 8	Site 9	Site 10	Site 11	Site 12	Site 13	Site 14	Site 15	Site 16
	Site size	Hec	17.11	0.56	4.06	8.10	0.56	1.90	0.36	4.39	0.46	5.14	1.41	0.29	0.64	0.65	1.86	1.07
		No	295	17	179	145	20	65	13	119	14	127	28	40	16	13	30	28
		Density	17.24	30.36	44.09	17.90	35.71	34.21	36.11	27.11	30.43	24.71	19.86	137.93	25.00	20.00	16.13	26.17
1 bed studio flat	$32m^2$																	
1 bed 2 person flat	$48m^2$													2				
2 bed 3 person flat	$60m^2$				26									19				
2 bed 4 person flat	$67m^2$													19				
1 bed 2 person mews	$55m^2$								5	2								
2 bed 3 person house	$71m^2$			3			8	13		18								
2 bed 4 person house	$76m^2$			3			7	13	4		5	12			6		6	5
3 bed 4 person house	$81m^2$			2	49			6		20		29	5					4
3 bed 5 person house	$86m^2$		50	3	48	21	5	7	4		5	50	5		8			12
3 bed 6 person house - 2 storey	$95m^2$		50	3		21		7		3								
3 bed 6 person house - 3 storey	$100m^2$		55		56	21												

4 bed 6 person house - 2 storey	101m^2		65	2		50		7		22	3	15	10		2	7	24	3
4 bed 6 person house - 3 storey	107m^2		25	1		12		6										
4 bed 7 person house - 2 storey	108m^2		25			11				47		15	4			6		4
4 bed 7 person house - 3 storey	115m^2																	
5 bed 7 p house 2 storey	115m^2		25			9		6		7		6	4					
6 bed 8 person house	125m^2																	
			295	17	179	145	20	65	13	119	13	127	28	40	16	13	30	28

Appendix 2 Land and property values

PRIME MARKETS
Five-year forecast values

	Actual	Forecast					
	2012	2013	2014	2015	2016	2017	5yrs to end 2017
Central London	5.3%	0.0%	3.5%	8.0%	6.5%	5.5%	25.6%
Outer Prime London	5.0%	0.0%	3.5%	6.5%	5.5%	5.0%	22.1%
Prime Suburbs	0.4%	1.0%	3.5%	5.5%	5.0%	5.5%	22.2%
Inner Commute	-0.1%	1.0%	3.5%	5.0%	5.0%	5.0%	21.0%
Outer Commute	-1.6%	0.0%	3.0%	4.5%	5.0%	5.5%	19.2%
Wider South of England	-2.3%	-1.0%	2.0%	3.5%	4.5%	5.0%	14.7%
Mids North & Wales	-2.6%	-2.0%	1.0%	2.0%	4.0%	5.0%	10.2%
Scotland	-4.8%	-2.0%	0.0%	2.0%	4.0%	5.0%	9.2%

Source: Savills Research

MAINSTREAM MARKETS
Five-year forecast values

	Actual	Forecast					
	2012	2013	2014	2015	2016	2017	5yrs to end 2017
UK	-1.1%	0.5%	1.5%	2.0%	3.5%	3.5%	11.5%
London	0.7%	1.5%	4.0%	4.5%	5.0%	4.5%	21.0%
South East	-0.2%	1.5%	3.5%	4.0%	4.5%	4.5%	19.5%
South West	0.2%	1.0%	2.5%	3.0%	4.0%	4.0%	15.5%
East	-1.9%	1.0%	3.0%	3.5%	4.5%	4.0%	17.0%
East Midlands	-0.8%	0.5%	2.0%	2.5%	4.0%	3.5%	13.0%
West Midlands	-0.8%	0.0%	0.5%	1.0%	3.0%	3.0%	7.5%
North East	-1.3%	-0.5%	-0.5%	0.0%	2.5%	3.0%	4.5%
North West	-1.6%	0.0%	0.0%	0.5%	2.5%	3.0%	6.0%
Yorks & Humber	-2.5%	0.0%	-0.5%	0.5%	2.5%	3.0%	5.5%
Wales	-2.7%	0.5%	1.5%	2.0%	3.5%	3.5%	11.3%
Scotland	-3.3%	0.0%	0.0%	0.5%	2.5%	3.0%	6.0%

Source: Savills Research forecasts based on Nationwide actuals

Annual house price growth key: Below 0% 0% to 2% 2% to 4% 4% to 6% 6% to 8% 8% and over
Five year house price growth key: 4% to 10% 10% to 15% 15% to 20% 20% to 25%

Halifax House Price Index - June 2013The annual rate is at its highest for nearly three years.

Commenting, Martin Ellis, housing economist, said:

"House prices continue to rise steadily. Prices in the three months to June were 2.1% higher than in the previous quarter, edging above the 1-2% range recorded throughout

the first five months of the year. The annual rate is at its highest for nearly three years with prices in the three months to June 3.7% higher than in the same three months last year.

"Activity has also improved in recent months. Both home sales and mortgage approvals for[*house purchase*]() *– a leading indicator of sales – increased in May.*

"Improved confidence in both the housing market and the economy, combined with a shortage of properties available for sale, appear to be pushing up house prices. The Funding for Lending Scheme is also likely to be boosting the market by helping to reduce [*mortgage rates*]()*. There are also early indications that the Help to Buy: equity loan scheme may be stimulating demand. Despite these signs of improvement in the market, the still subdued economic background and weak income growth are expected to remain significant constraints on housing demand and activity during the second half of 2013."*

Commenting on the figures, Robert Gardner, Nationwide's Chief Economist, said:

"UK house price growth continued to gather momentum in June, rising by 0.3% over the month. Indeed, the annual rate of house price growth increased to 1.9% in June - the fastest pace since September 2010. "A number of factors are likely to be contributing to the recent acceleration. Demand for homes has been supported by further modest gains in employment, as well as an improvement in the availability and a reduction in the cost of credit, partly as a result of policy measures, such as the Funding for Lending Scheme. Signs of a modest improvement in wider economic conditions may also be playing a role in boosting buyer sentiment. "At the same time, there are few signs that the supply of housing is improving significantly. Indeed, construction datapoint to a further decline in building activity in recent quarters from already depressed levels. For example, in Q1 2013 housing completions in England were down 8% compared to the same period of 2012 and around 40% below the average number of quarterly completions in 2007".