Selby District Council

Economic Viability Appraisal

September 2009

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Executive Summary

Introduction

In such turbulent times it is imperative that Local Authorities make policy and property specific decisions that are up to date and responsive to market trends. Demonstrating that policy has been set according to what the market can realistically deliver is now an essential test of its soundness.

The Planning Inspectorate has made clear through its rulings on the Local Authorities of Blyth Valley, Poole and Slough its intention to take a hard line on Councils unable to evidence and demonstrate that their affordable housing policies are viable. In rulings on these cases the Inspectorate has stated that:

- In line with PPS3 it expects Councils to justify their affordable housing policies (for example, in their Core Strategy or relevant Development Plan Document) with a viability assessment.
- Any affordable housing target must have been tested – it is not acceptable to simply rely on clauses that promise flexibility. Authorities need to justify the maximum contribution they are seeking, even if in practice lower levels may be considered for schemes under particular circumstances. The same also applies to thresholds.
- The Inspectorate does not believe it is sensible to set affordable housing policy for the next 20 years based on the current 'abnormal' market, as this would artificially reduce thresholds and quotas below where they should be over the long term.

There is a clear need therefore to understand the impact of changing market conditions on levels of viability and how to set policy accordingly. In response to this, Selby District Council has commissioned DTZ to undertake an Affordable Housing Economic Viability Assessment for the District. DTZ has a detailed understanding of development viability and have undertaken viability assessment for a number of other Local Authorities. DTZ is also well equipped to advise on the impact of the changing market conditions on development viability and how this should inform policy. DTZ has recently completed a high profile study for the HCA analysing the likely consequences of future housing market scenarios for the delivery of affordable housing across the country. The sophisticated cash flow model developed for the study, a similar version of which has been used for this study, is able to examine the impact of future market over time on levels of viability. The cash flow based appraisal of viability used in this study is also critical, as in the current environment, viability is affected as much by the decline in sales rates (linked to the cost and availability of development finance) as by falling house prices.

Selby District Economic Viability Assessment

DTZ was commissioned in June 2009 by Selby District Council (SDC) to examine the likely impact of a range of potential affordable housing percentages and tenure splits on development viability across a range of market scenarios. This study has been undertaken following the Selby Strategic Housing Market Assessment, prepared by arc[4], commissioned by SDC and covering the same study areas as the analysis undertaken in this report.

The Economic Viability has been undertaken using a bespoke valuation model specifically designed for the purpose of testing affordable housing policies and scenarios to help a Local Authority assess the appropriateness and robustness of their affordable housing policy.

A range of valuation assumptions are drawn up to feed into this model following detailed market research. Prior to modelling and following the market research, DTZ undertake stakeholder consultation to determine whether stakeholders are in agreement with the assumptions made or whether they feel they require any amendments or alterations prior to the modelling being undertaken. Once all comments have been received a final set of assumptions is drawn up and circulated and the modelling is undertaken on this bases (more details of the approach and assumptions used in this study can be found in section 3).

The DTZ approach tests a number of hypothetical sites typical of those coming forward across the District. Sites were characterised as falling within one of the ten areas identified in the Strategic Housing Market Assessment which were;

1. Selby
2. Sherburn in Elmet
3. Tadcaster
4. Northern
5. North East
6. East
7. South East
8. Central
9. Southern
10. Western

In order to assess different affordable housing options, a number of key variables were selected and adjusted in isolation to test the impact different levels of affordable housing provision. The key variables were; location, value area (high medium and low), density (high, medium and low) and tenure split (70/30, 50/50 and 30/70 social rented/intermediate tenure respectively).

The basis for the study was to appraise a range of hypothetical sites using a model which calculates the cashflow of the hypothetical schemes and the internal rate of return (IRR), similar to that used by most house builders/developers. The study focused on new build residential developments, as these are the sites that will deliver affordable housing through Section 106 agreements.

In all cases, the profitability of a site decreased as levels of affordable housing were increased. Sites in high value areas tended to have the capacity to deliver the highest levels of affordable housing whilst remaining profitable. Sites in low value areas experienced the greatest impact on profitability as quotas of affordable housing were increased. Site size also plays an important role in viability with larger sites generally having a higher viabilities than smaller sites.

Generally, profitability (IRR) increased as the tenure split was adjusted to include a greater proportion of intermediate tenures. However, in real terms, this differential tended not to be significant enough to increase the level of affordable housing which could be provided.

At the baseline position of June 2009, it was demonstrated that, across the District, there was little scope to deliver the council's current affordable housing requirements as drafted, however it did demonstrate that 10% affordable housing was deliverable on 46% of the sites tested (further results and scenarios can be seen in section 4). In the prevailing market conditions, the delivery of any housing development is difficult and high numbers are unviable and unlikely to be brought forward due to extended build periods, uncertainty in the financial market, stagnant property values and land banking as a result of developers over paying for development land at the height of the market.

The impact of the unprecedented market conditions at the baseline date of valuation mean that if the affordable housing policy were formulated based solely on this analysis, any affordable housing requirement would be extremely low. However, over the course of the Core Strategy and the life of any affordable housing policy which is subsequently drafted as a result of this research, it is reasonable to expect, having regard to the cyclical nature of the housing market, that the market conditions will vary significantly. Therefore, Selby District Council (SDC) need to ensure that any policy they put in place is flexible enough to deal with these changes in market conditions.

In order to assess appropriate affordable housing percentages to reflect changing market positions, analysis of different scenarios or market conditions was undertaken to determine at what point and level affordable housing delivery is viable. Scenarios to reflect the height of the recent market cycle in early 2007, show that

40% affordable housing could be viably delivered at a 50/50 split between social rented and intermediate tenures on 81% of the scenarios tested and indeed 50% affordable housing split 50/50 social rented intermediate could also be delivered on 71% of the scenarios tested.

This report concludes that, in isolation, site density and tenure split have a limited effect on the level of affordable housing that was sustainable on the hypothetical sites tested. Land value, on the other hand is a very significant factor in determining affordable housing viability. Increases in build rates also have a significant positive impact on the viability of schemes as shortening the timeframes for a development de-risks and reduces costs.

The Local Authority's current affordable housing target of 40% is ambitious in the current market and certainly in the short to medium term until the market recovers. Without social housing grant to contribute, affordable housing delivery at these levels will make schemes unviable for standard Section 106 sites. However, with grant and additional revenue in these scenarios, these levels may be deliverable. The results of our modelling work has determined that the percentage of affordable housing requested by the Local Authority over the coming years will have to be flexible and potentially alter to reflect prevailing market conditions in order to ensure that the optimum level of affordable housing is delivered across the plan period. The conclusion of this report provides ranges and indications of what market conditions would have to be in place to deliver higher percentages of affordable housing.

1.0 About this Study

1.1 DTZ was commissioned in June 2009 by Selby District Council (SDC) to examine the likely impact of a range of potential affordable housing percentages and tenure splits on development viability across a range of market scenarios

1.2 This study has been undertaken following the Selby Strategic Housing Market Assessment, prepared by arc[4], commissioned by SDC and covering the same study areas as the analysis undertaken in this report.

Study Purpose and Objectives

1.3 A growing proportion of affordable housing is delivered via Section 106 Agreements. It is increasingly important therefore that local authority housing policy is realistic and credible, taking into account the local housing market, house prices, supply, demand and need issues. Hence, this viability study sits alongside and is informed by the work of the SHMA and forms part of the evidence base which will be used to draft the affordable housing policies in SDC's Core Strategy

1.4 The SHMA does not consider the impact of affordable housing policies on development viability. The purpose of this economic viability assessment work is therefore to ensure that the proposed policy for affordable housing is not so onerous that it prevents sites from coming forward and stifles development of, not only affordable, but also open market housing. The purpose is to ensure that a policy can be set which both meets the recognised needs for affordable housing as identified in the SHMA, but still delivers the development of new homes across the Selby District.

Study Approach

1.5 It has been important for the study to test viability of different site types in different locations, in order to understand how viability varies with site size, values, tenures and locations. It has, therefore, been necessary to develop a typology of the different types of sites that are likely to come forward for housing development in Selby and to test the viability of these hypothetical sites under a set of different development scenarios.

1.6 The typology of sites to be assessed was developed in conjunction with SDC and stakeholders to reflect the authority's current policies and their experience of the range, size, type and locations of sites which they would envisage would come forward through the planning system for the future provision of housing.

1.7 This approach allows different policy options to be tested in a consistent manner across the range of likely development scenarios. This would not be possible in the same way had the study focused on actual real life sites where the particular features of those sites would inevitably have made it difficult to generalise about viability and compare scheme results.

1.8 Central to the assessment of the viability of housing development is the concept of residual land value.[1] Residual land value is the value that can be attributed to land, when the total cost of development, including an allowance for profit, is deducted from the sales values of housing built on site. If there is a residual land value that is higher than the existing use value then the development can be deemed viable; if it is below, then the development will not be considered viable.

1.9 The majority of developers assess the viability of a prospective development by calculating residual land value. Having calculated its residual project value, developers use discounted cash flow[2] analysis to calculate the Internal Rate of Return (IRR)[3] for the project (see Appendix 1). The IRR calculation allows different investment options to be compared on a like for like basis. The higher a project's IRR, the more desirable it is to undertake.

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[1] To read this valuation approach is applied for property with development or redevelopment potential. This equation is: Completed Development Value less Planning and Construction cost less on cost and finance costs less Developers Profit = Residual Land Value.

[2] A Discounted Cash Flow (DCF) valuation approach is used to value a project using the concept of time value of money. All estimated future cash flows are discounted by a percentage value usually representing interest on finance to return the future cash flows to a present value.

[3] IRR – rate of interest at which future outflows and inflows of money are discounted to return a 0 net present value.

1.10 For the purpose of this study, DTZ have assumed, through their experience of working in the residential development sector, that a developer will require a minimum IRR of 25% if they are to proceed with the development of a small scheme, (less than 50 units); and that the developer will require an IRR of 20% when developing larger sites (more than 50 units). The higher level required for smaller sites reflects the higher risks associated with smaller developments as economies of scale are more likely on larger sites. Developments that would yield less than these IRR thresholds are deemed not to be viable since they do not generate the target rate of return whilst maintaining an appropriate residual land value.

1.11 In summary, the key questions of the economic viability assessment are whether the level of affordable housing and the balance of tenures proposed are viable, or, whether a particular level of affordable housing provision will inhibit development and, by implication, what level of affordable housing provision can be delivered without subsidy.

Report Structure

1.12 The rest of this report is structured as follows:

Section 2 presents information on the policy context for this study, in terms of national policy on affordable housing provision, focusing on the assessment of viability; and the current affordable housing policy of the local authority.

Section 3 sets out in more detail the study approach and the assumptions that underpin the viability analysis.

Section 4 sets out the consultation which has been undertaken as part of the viability appraisal work.

Section 5 presents the results of the analysis and the viability of delivering affordable housing across the range of scenarios.

Section 6 draws out the implications of the results of the viability testing exercise and makes recommendations to the Local Authority for their consideration.

2.0 Policy Context

2.1 This section provides the context for the subsequent assessment of viability. It first examines national policy guidance on planning for affordable housing provision and the relevance of viability to policy making. The section then goes on to consider the current affordable housing policy for Selby District, which will be subject to review following this work and the work undertaken as part of the SHMA as the authority move towards drafting the Core Strategy affordable housing policies to give guidance on the requirement for and delivery of affordable housing across the District.

National Planning Policy and Affordable Housing Provision

2.2 The key statement of the Government's policies for planning and affordable housing provision is Planning Policy Statement 3: Housing (PPS3), published in November 2006. PPS3 defines affordable housing as follows: '*Affordable housing includes social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market. Affordable housing should:*

- *Meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and house prices.*

- *Include provision for the home to remain at an affordable price for the future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision.'*

2.3 PPS3 makes it clear that the Government aims to ensure through the planning system that enough land is identified and brought forward for development of new housing in line with targets established by government and determined through the Regional Spatial Planning process, whilst recognising that land values must be high enough to encourage landowners to sell land for housing.

2.4 This is reflected in PPS3, paragraph 29, which places the requirement on local authorities to set a target for affordable housing provision to be delivered through Section 106 policies, that take into account the need for development to be viable, once allowance is made for factors such as the availability of grant funding.

2.5 PPS3 indicates that local authority affordable housing policies need to be developed on the basis of a robust evidence base. Policy must be deliverable, not merely aspirational. However, although detailed guidance is available on the assessment of housing need and demand, there is no formal guidance on how viability should be tested. PPS3 was prepared before the current slowdown in the housing market and the government has not advised local authorities on how they should respond to changes in market context as they develop their policies.

2.6 This report was prepared in June to September 2009, during a time of market downturn which is causing substantial concerns around viability and housing development coming forward. DTZ's view is that it is inevitable that viability studies would be undertaken at a particular point in time (in this instance with a valuation date of June 2009), and reflect a particular set of market circumstances, but the information they yield on how viable affordable housing delivery is varies by site size, development context, etc. The range of scenarios tested is useful for policy making, even in the current market environment. Planning policies for affordable housing also need to be set for the long term, and should have sufficient flexibility to cope with short term changes in the market.

2.7 This implies that authorities need a degree of flexibility in the application of affordable housing policies. The existing system allows for developers to make the case to authorities where a policy requirement cannot be delivered on a particular site given the particular circumstances of that site. Some inherent flexibility into how policy requirements for affordable housing can be met is built into the system by options to change the tenure mix (between social rented and intermediate housing for sale) or deliver a percentage of square footage rather than a percentage of units which may have a lesser impact.

2.8 However, it is well known that developers, when acquiring sites in a competitive situation, do not always fully allow for the costs of affordable housing provision in accordance with policy. Similarly, developers will not immediately adjust their bid prices to reflect changes in affordable housing and/or planning policy. It should not be the role of the planning policy to compensate developers who have overpaid for land or misjudged aspects of development costs or revenues by simply adjusting the level of affordable housing that should be delivered on sites.

2.9 Local authorities need, therefore, to appreciate how development viability is assessed, in order to be in a position to negotiate where necessary over affordable housing requirements, whilst seeking to ensure that policies can be applied for the majority of developments. The balance between being sufficiently robust to ensure that not every application is the subject of negotiation, whilst being sufficiently flexible to recognise special circumstances is a difficult balance to strike, but it is in the interest of both the development industry and local authorities to find the right balance.

2.10 Policy H4 of the Regional Spatial Strategy, states that the Yorkshire and Humber region needs to increase its provision of affordable housing and LDFs should set targets for the amount of affordable housing to be delivered. For North Yorkshire districts, the provisional estimate of the proportion of new housing that may need to be affordable is over 40%. The conclusions of this policy have acted as the benchmark for determining an affordable housing target in Selby and the current affordable housing policy stands at a 40% target in line with the RSS. However, in accordance with the guidance presented in PPS3, this policy has to be tested based on the findings of both the SHMA and EVA and this may result in an alteration to the Affordable Housing Policy.

Local Planning Policy and Affordable Housing Provision

2.11 The Strategic Housing Market Assessment (SHMA) completed by arc4 ltd in June 2009, will form the first piece of evidence to equip Selby District Council (SDC) with a robust, defensible and transparent evidence base to help inform strategic decision making and formulation of appropriate housing and planning policies.

2.12 The SHMA outlines the importance of having strong planning policies to help meet affordable housing needs, balanced with the need to provide a diverse range of open market housing to satisfy the demand from the wider population and City Region. The SHMA informs SDC of the type and quantum of affordable housing need in the District. The purpose of the EVA has been to test these conclusions to demonstrate what the impact of delivering these requirements has on viability.

2.13 The SHMA identifies a need to provide a variety of affordable housing with a particular emphasis on delivering affordable housing for general needs households (i.e. singles under 60, couples under 60 and families). The SHMA also identifies that a range of open market properties are required to reflect the diverse range of household aspirations which are not currently provided for by the existing supply.

2.14 The SHMA concludes that on an annual basis, there is an overall requirement across Selby District for 1,119 dwelling of which 710 (63.4%) is for market housing and 409 (36.6%) for affordable. There is strong demand for open market housing from households within Selby District and in-migrants, who account for around one-third of market demand according to the results of the SHMA. Demand exceeds supply at present across the whole of the market, which is not surprising given the current market conditions. Demand is highest by households under the age of 60 including couples, singles and families with children.

2.15 In terms of the type of affordable housing to be provided in future, it is considered that a range is required across the whole District, in order to help offset housing need. This includes a range of property types, sizes and tenures and the evidence from the SHMA suggests a strong interest and an ability to afford intermediate products such as shared ownership, shared equity and discount for sale. This demonstrates the need for this EVA to test a range of tenure splits and housing mixes when assessing viability.

2.16 The findings of the SHMA suggest a tenure split in the range 50 to 70% social rented (and the balance of 30 to 50% to be intermediate tenure) across the District is appropriate. This has been determined based on the stated preferences of households and an analysis of the relative affordability to intermediate tenure products. The SHMA concludes by stating *'The target for* *delivering affordable housing needs to be realistic and take into account the economic viability of delivery. Increasing the percentage of affordable housing to be provided would require a considerable step-change in delivery, particularly in the urban areas of Tadcaster and Sherburn- in-Elmet and rural sub areas in general. Given the low level of affordable housing being delivering in rural areas, site thresholds may need to be reduced to maximise development opportunities in the future'.*

2.17 All of these conclusions have been tested with stakeholders throughout the preparation of the EVA and the implication of the proposed tenure splits, thresholds and targets have been assessed to determine their impact on development viability.

Selby District Council's Affordable Housing Policy

2.18 The Council's affordable housing policy is set out in the 'Developer Contributions Supplementary Planning Document' adopted in March 2007. It states the following;

2.19 '*The Council will seek to negotiate a target of 40% of homes on residential schemes (or mixed schemes with a residential element) of 15 dwellings or more or 0.5ha or more, regardless of the number of dwellings as local needs affordable housing'.*

2.20 This policy is currently being reviewed as part of the draft Core Strategy.

3.0 Study Approach and Assumptions

3.1 The approach, which has been adopted to appraise viability within this study, is to use standard techniques of development appraisal which are commonplace in the development industry. This entails the use of Discounted Cash Flow (DCF) analysis to calculate the Internal Rate of Return (IRR) for developments with particular characteristics (see Appendix 1 for a more detailed explanation of the IRR calculation and DCF analysis).

3.2 This work calculates the IRR under a range of different development scenarios in terms of the location, sales value, density of hypothetical developments designed to be broadly representative of the type of sites that have come forward for development in the study areas. A scheme is deemed to be viable if it achieves a defined IRR.

3.3 DTZ has opted for a 3 stage process in assessing the financial impact of different affordable housing options.

- **Stage 1** involved market research to determine land values, unit sizes, unit mix and capital values of both private and affordable units. The selection of development scenarios to be examined was also informed by a policy review undertaken in its initial stage.
- **Stage 2** DTZ agreed the assumptions regarding key variables with SDC and a range of stakeholders – which resulted in some assumptions changing from our original findings in Stage 2.
- **Stage 3** involved financial modelling to test the viability of development on hypothetical sites, and how this would be affected by the application of different requirements for affordable housing requirements and in different market scenarios.

3.4 The study approach is tailored to the specific requirements and circumstances of the Selby District. It takes account of a range of circumstances existing across the study areas but does not seek to capture analysis of the specific circumstances of individual housing sites in the study areas. To do this would have been impossible in practical terms and inappropriate to a strategic study which is designed to inform policy development.

3.5 Indeed, when focussing on the development of a range of hypothetical sites that capture much of the variety of the range of housing sites likely to come forward across the study areas, it is possible to analyse different sites on a consistent basis. This allows conclusions to be drawn in answer to questions such as "how does increasing the affordable housing requirement from 30% to 40% affect viability?", and "does allowing higher proportion of shared ownership in the affordable housing mix improve viability?", and "what is the impact of current market conditions on development viability", for example.

3.6 By implication, this study does not analyse viability on specific housing sites that may come forward in the future. Whilst the hypothetical sites have been selected using the findings of the Strategic Housing Land Availability Assessment (SHLAA) and SHMA, specific sites have not been modelled. There will always be a wide range of specific circumstances that will affect viability on particular sites, and developers will assess these in determining whether to proceed. In addition, developers are not homogenous. They vary in their appetite for risk, and have different requirements in terms of returns. In addition, those requirements may change in different market contexts. The development appraisal technique developed for this study could, however, be readily applied to an individual site if required.

3.7 It is also important to note that the analysis undertaken for this study was prepared during June 2009, and data on land values, sales prices and number of other variables relates to this date. Some of these variables may have changed since the analysis was undertaken. Indeed, given the current evidence of stabilisation at the bottom of the housing market, the variables are likely to continue to change over the coming months and years and there is the possibility of market circumstances both improving and falling further. The housing market is dynamic, always changing and any study can only provide a snapshot of viability. This should remain an important consideration when reviewing this report. The current and unprecedented state of the housing market will have an impact on the viability of affordable housing, and indeed the agreed valuation date of June 2009, has a significant impact on the variables inputted to the model.

3.8 With this in mind, DTZ have modelled a range of other market scenarios, to enable SDC's policy on affordable housing to react to changing circumstances across the life of the policy and to enable any changes or redrafting of the policy to have regard to the impact of delivering affordable housing across the market spectrum from the height of the market to the current unstable uncertain position.

3.9 The remainder of this section of the report sets out the assumptions on which the analysis is based and the sources of information that underpin those assumptions. In a strategic study such as this, it is necessary to generalise but where appropriate, we comment on how the specific circumstances of particular sites and the expectations of the developer, or the costs and revenues of the project may vary from the assumption and hence affect the viability of that particular development. This helps to eliminate some of the issues that will apply in the application of the policy as we move forward through changing market cycles.

General Assumptions

3.10 The valuation date for this study is June 2009. The study tests the viability on the basis of costs and revenues as applicable at the date of valuation. The model tests viability on the assumption that the sites tested have secured planning permission and that there are no abnormal costs associated with their development. It has been important to use this basis of analysis to allow like for like comparison of how different policy options affect viability. In reality, each site will be different and there are always elements of costs that are specific to developments of a particular site, but these can only be assessed on a site by site basis. Developer returns are also often a composite of the actual development of the residential component of the site, and returns on the process of securing land value enhancements through securing change of use permission on this site.

3.11 The generic assumption has been made that developers on sites generating less than 50 dwellings will require a minimum return (IRR) of 25% and those developing sites generating 50 or more dwellings will require a return (IRR) of 20%. These are the typical minimum rates of return currently being sought in the market, based on DTZ's knowledge confirmed through the Stakeholder Consultation. Schemes that fall below these target rates of return are deemed not to be viable, and those that meet or exceed the target rate of return are deemed to be viable. The higher level of return on smaller schemes is required because of the higher risk involved in these sites and the inability of developers to achieve economies of scale in these developments.

3.12 It is important to acknowledge, however, that the returns sought by different developers and how they secure this through the whole development process, will vary. Developers will take into account a range of factors relating to the risk profile of the scheme, such as scheme size, time of delivery, location and other market factors, in determining what is an acceptable rate of return. As noted, developers may secure their return through a composite process of land assembly, securing permission for development, and the actual development process; and the target rates of return may differ as market conditions change. Such complexities cannot be modelled in a strategic study such as this. This is something that SDC need to be aware of when analysing the longevity of the proposed strategy.

3.13 Finally, it has been necessary as part of the appraisal to make assumptions about sales rates and interest rates. The sales rates and interest rates used in the model are those considered appropriate as at June 2009. At this point in time, sales rates on developments have fallen greatly compared to those seen at the height of the market in Q4 2006 and Q1 2007. The average time taken to sell a new home has increased in most areas and the average price achieved for these properties has also fallen. This has had a subsequent effect on development cash flows and developers' expected returns. As the focus of this study is on informing policy that must endure through many different phases of the housing market, the baseline assumptions used in June 2009, have been varied under a range of scenarios and other market conditions in order to produce a percentage delivery for affordable housing which allows for different movements in the financial and housing markets across the term of the policy.

The Key Variables for Scenario Testing

3.14 The baseline assumptions for this study can be seen in Appendix 2. The focus of the study has been in testing viability for different levels of affordable housing provision (10%, 20%, 30% and 40%). These levels were tested because they test the existing policy requirement of 40% but also allow for consideration of lower percentages of affordable housing given the current market instabilities.

3.15 The key variables that have been used for testing the core elements for viability model are as follows:

- Site size
- Location
- Density and dwelling mix
- Value areas
    1. Land values
    2. Sales values, revenue, market homes
    3. Sales values of new affordable housing units
    4. Affordable housing mix

Site Size

3.16 The main analysis has focused on assessing viability on sites of 0.25 hectare, 2 hectares and 3.5 hectares. The number of units that these sites yield depends on the application of appropriate density assumptions. Density assumptions vary across areas, an analysis of which can be seen in Appendix 2.

Location

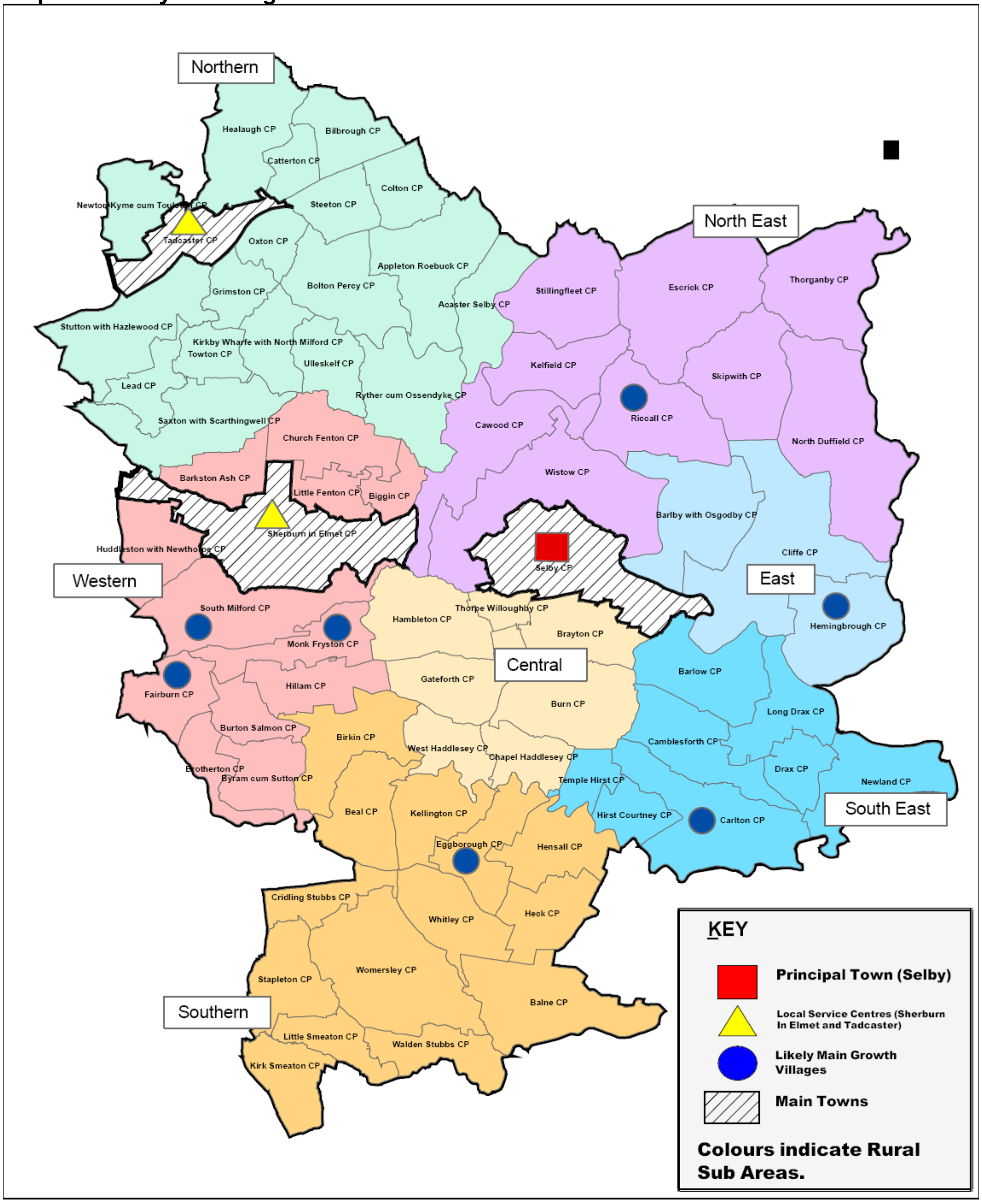
3.17 Key variables which affect viability, such as price paid for land, the sales value of new homes, unit mix, density and Section 106 costs vary with locations. In order to make a model as consistent with the SHMA as possible, DTZ have used the 10 areas identified in the Strategic Housing Assessment. These are:

1. Selby
2. Sherburn in Elmet
3. Tadcaster
4. Northern
5. North East
6. East
7. South East
8. Central
9. Southern

10. Western

3.18 A map of these sub market areas is shown below.

Map 3.1 Selby Housing Market Sub-Areas



Source: Strategic Housing Market Assessment – 2009

3.19 Site testing has been undertaken in all of these areas on a range of sites varying in both size and density. This categorisation ensured that the economic viability testing encompassed the systematic differences in key variables by location.

3.20 Testing in these areas in line with the SHMA, is a principle benefit to SDC as it enables analysis to be compared across both documents. Particular attention will be given to the Principle Town of Selby and the Local Service Centres of Tadcaster and Sherburn in Elmet, as the Council's proposals in the draft Core Strategy indicate that three quarters of future planned housing will be located in these settlements and the viability of delivering affordable housing in these areas will play an essential role in setting the affordable housing targets and the housing market moving forward.

3.21 A list of each of the sites tested can be seen overleaf:

	Small			Medium			Large		
	High Density	Medium Density	Low Density	High Density	Medium Density	Low Density	High Density	Medium Density	Low Density
Selby	SSHD	SSMD	SSLD	SMHD	SMMD	SMLD	SLHD	SLMD	SLLD
Sherburn	SHSHM	SHSMD	SHSLD	SHMHD	SHMMD	SHMLD	SHLHD	SHLMD	SHLLD
Tadcaster	TSHD	TSMD	TSLD	TMHD	TMMD	TMLD	TLHD	TLMD	TLLD
Northern	NSHD	NSMD	NSLD	NMHD	NMMD	NMLD	NLHD	NLMD	NLLD
North East	NESHD	NESMD	NESLD	NEMHD	NEMMD	NEMLD	NELHD	NELMD	NELLD
East	ESHD	ESMD	ESLD	EMHD	EMMD	EMLD	ELHD	ELMD	ELLD
South East	SESHD	SESMD	SESLD	SEMHD	SEMMD	SEMLD	SELHD	SELMD	SELLD
Central	CSHD	CSMD	CSLD	CMHD	CMMD	CMLD	CLHD	CLMD	CLLD
Southern	StSHD	StSMD	StSLD	StMHD	StMMD	StMLD	StLHD	StLMD	StLLD
Western	WSHD	WSMD	WSLD	WMHD	WMMD	WMLD	WLHD	WLMD	WLLD

Figure 3.2 Identification of Hypothetical Sites

Density and Dwelling Mix

3.22 The density of development affects the overall number of units provided on a given land area and hence is a key factor determining the sales value to be derived from a particular plot of land. The overall number of affordable units provided, whatever the quota, is also determined by the overall number of units to be built, and hence is also affected by the density of development.

3.23 The density of development varies systematically with site location and DTZ have, therefore, identified the development densities that should be applied to sites in each of the ten market areas. The figures used are based on typical densities of recent developments in each type of location, with high, medium and low density figures identified so as to enable testing of the degree to which changes in density affect viability. The density assumptions were tested with the Local Authority and Stakeholders.

3.24 The density assumptions, expressed as dwellings per hectare (dph), are as follows:

Selby	high density	60 dph
	medium density	50 dph
	low density	40 dph
Sherburn in Elmet	high density	55 dph
	medium density	45 dph
	low density	35 dph
Tadcaster	high density	55 dph
	medium density	45 dph
	low density	35 dph
Northern	high density	40 dph
	medium density	35 dph
	low density	30 dph
North East	high density	40 dph
	medium density	35 dph
	low density	30 dph
East	high density	40 dph
	medium density	35 dph
	low density	30 dph

South East	high density	40 dph
	medium density	35 dph
	low density	30 dph
Central	high density	40 dph
	medium density	35 dph
	low density	30 dph
Southern	high density	40 dph
	medium density	35 dph
	low density	30 dph
Western	high density	40 dph
	medium density	35 dph
	low density	30 dph

3.25 Within each location and density, DTZ have made assumptions of unit mix based on experiences within the market and consultation with the Authority and key stakeholders. As the affordable provision stems directly from the overall mix of units, this has a significant effect on viability. These assumptions are included in Appendix 3.

Value Area

3.26 The study area is extensive covering the whole of the District. Values, in terms of both sales values of new homes and land values vary across the study area and this will have a significant effect on the viability of new housing developments in these areas. It was decided to identify 3 "value areas" defined simply as high, medium and low value areas, and for these areas to identify the relevant sales values and land values that should be applied in the viability testing (see below under headings land values and sales values of private and affordable housing).

3.27 Broadly, these value areas are aligned with the pattern of average house prices across the District. These are described in detail in the Strategic Housing Market Assessment. The table in Appendix 4 shows how house prices have been identified in higher, medium and low value areas by using key settlements within these areas in order to undertake market research. However, it should be noted that new development, particularly on larger schemes, can, under some circumstances, establish new value premiums that are not constrained by existing second hand house prices. The likelihood of this in the marketplace as at June 2009 is low; however, this should be an important consideration moving forward for the Local Authority in order to create a policy which is flexible with changing market cycles.

3.28 Data on land values and sales values was collected from actual, current developments and second hand sales and through contact with local agents. Information relates to June 2009, a recognised period of significant slowdown in the housing market. This has caused DTZ to be conservative in the attribution of values and will have an effect on viability. However, depending on the depth and duration of the housing market slowdown, these may worsen or, indeed, improve in future years.

Land Value

3.29 The study has been undertaken on the basis that the cost of land is used in the viability appraisal as both and input and an output. By fixing the cost of land as an input the calculation of IRR can be assessed and by fixing IRR at the required level of return, the land value can be assessed in order to determine whether this is at an acceptable level to ensure land is brought forward for residential development. When fixing land as a constant, the cost of land has, been based on a percentage of Gross Development Value for each of the schemes tested. Through market research and stakeholder consultation it was agreed that a value of 25% of GDV should be assumed as a value at which land will be brought forward and developed for residential as opposed to an alternative development use value.

3.30 A developer buying residential land will have to take into account development costs, including affordable housing, when preparing their residual valuation of the land. This valuation will inform the bid price for the land. Land prices therefore, incorporate a discount based on the developer's expectation of how much affordable housing they will have to provide.

3.31 In reality, a developer may not have fully allowed for the provision of the level of affordable housing required in the current policy, believing that they can negotiate a lower level of provision on the basis of viability. Where land has been acquired historically and policy has moved on, often this will be compensated for by rising land values. Where a developer has acquired land, in a time of intense competition and not made full allowance for provision of affordable housing in the price they have paid, policy should not seek to compensate for this miscalculation. Nevertheless, this might result in reluctance on behalf of the developer to bring forward the site for development until land values have increased significantly to offset their miscalculation. Taking all these factors into account, it was felt that a figure of 25% GDV was appropriate and would reflect the market position at the date of valuation and moving forward.

Sales Values of New Market Homes

3.32 Average sales values of new market homes (expressed on a £s per sqft basis) are based on data for new housing developments across the study area. The sales values assumed are set out in table 3.1 below for different size units, in high, medium and low value areas across the ten study areas.

Table 3.1 Private Revenue Assumptions

			Selby		Sherburn		Tadcaster		Northern		North East		East		South East		Central		Southern		Western	
Unit Type	Value	Area sq ft	Values	£ psf	Values	£psf	Values	£psf	Values	£psf	Values	£psf	Values	£ psf	Values	£psf	Values	£psf	Values	£psf	Values	£psf
1 Bed Flat	High	500	£90,000	£180	£85,000	£170	£90,000	£180	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
	Mid		£80,000	£160	£75,000	£150	£80,000	£160	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
	Low		£65,000	£130	£60,000	£120	£65,000	£130	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
2 Bed Flat	High	650	£110,000	£169	£110,000	£169	£110,000	£169	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
	Mid		£100,000	£154	£100,000	£154	£100,000	£154	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
	Low		£75,000	£115	£75,000	£115	£75,000	£115	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
2 Bed Bungalow	High	700	£170,100	£243	£154,700	£221	£154,700	£221	£179,900	£257	£165,200	£236	£165,200	£236	£144,900	£207	£165,200	£236	£149,800	£214	£168,000	£240
	Mid		£149,800	£214	£130,200	£186	£130,200	£186	£174,300	£249	£154,700	£221	£154,700	£221	£135,100	£193	£154,700	£221	£140,000	£200	£140,000	£200
	Low		£135,100	£193	£119,700	£171	£119,700	£171	£140,000	£200	£144,900	£207	£144,900	£207	£125,300	£179	£144,900	£207	£130,200	£186	£143,500	£205
2 Bed House	High	700	£110,000	£157	£110,000	£157	£110,000	£157	£110,000	£186	£110,000	£200	£110,000	£179	£110,000	£143	£110,000	£179	£110,000	£150	£110,000	£186
	Mid		£95,000	£136	£95,000	£136	£95,000	£136	£95,000	£171	£95,000	£186	£95,000	£164	£95,000	£129	£95,000	£164	£95,000	£136	£95,000	£171
	Low		£80,000	£114	£80,000	£114	£80,000	£114	£80,000	£150	£80,000	£157	£80,000	£143	£80,000	£114	£80,000	£143	£80,000	£121	£80,000	£150
3 Bed House	High	950	£194,750	£205	£185,250	£195	£194,750	£205	£177,650	£187	£192,850	£203	£185,250	£195	£155,800	£164	£185,250	£195	£160,550	£169	£185,250	£195
	Mid		£178,600	£188	£170,050	£179	£178,600	£188	£172,900	£182	£175,750	£185	£170,050	£179	£146,300	£154	£170,050	£179	£151,050	£159	£168,150	£177
	Low		£160,550	£169	£155,800	£164	£160,550	£169	£163,400	£172	£165,300	£174	£160,550	£169	£136,800	£144	£160,550	£169	£141,550	£149	£158,650	£167
4 Bed House	High	1100	£232,100	£211	£239,800	£218	£222,200	£202	£210,100	£191	£226,600	£206	£205,700	£187	£166,100	£151	£205,700	£187	£170,500	£155	£205,700	£187
	Mid		£207,900	£189	£225,500	£205	£203,500	£185	£191,400	£174	£205,700	£187	£187,000	£170	£154,000	£140	£187,000	£170	£159,500	£145	£189,200	£172
	Low		£172,700	£157	£214,500	£195	£187,000	£170	£172,700	£157	£187,000	£170	£168,300	£153	£140,800	£128	£168,300	£153	£145,200	£132	£170,500	£155
5 Bed House	High	1450	£307,400	£212	£287,100	£198	£281,300	£194	£253,750	£175	£265,350	£183	£253,750	£175	£197,200	£136	£255,200	£176	£201,550	£139	£246,500	£170
	Mid		£279,850	£193	£265,350	£183	£261,000	£180	£226,200	£156	£236,350	£163	£223,300	£154	£187,050	£129	£223,300	£154	£191,400	£132	£221,850	£153
	Low		£226,200	£156	£226,200	£156	£221,850	£153	£208,800	£144	£216,050	£149	£208,800	£144	£176,900	£122	£208,800	£144	£181,250	£125	£207,350	£143

Revenues for Affordable Housing Provision

3.33 A developer also generates revenues from the sale of affordable housing units to housing associations. DTZ have derived estimates of these revenues from both talking to housing associations, and liaising with the Authority's Strategic Housing Team.

3.34 The revenues generated from sales of affordable housing differ depending on whether the unit is for social rented or intermediate tenure. Table 3.2 below sets out the assumed revenues generated from the development of new social rented housing, estimated for different value areas, as well as location and dwelling types. Table 3.3 below sets out the same information regarding revenues generated from the sale of intermediate housing units.

3.35 It has been assumed that all affordable homes will be bought by a housing association. For the purpose of the viability assessment, DTZ have assumed all the units are built on site, however where required, the Council may wish to consider commuted sums on small schemes or off site provision and this could be incorporated into a revised policy.

3.36 Evidence provide by the Local Authority and Housing Associations has determined that 35% of market value is paid for social rented units and in the region of 50% of market value paid for intermediate tenure properties in all areas across the Selby District.

Table 3.2 Revenues Generated from New Social Rented Homes

			Selby		Sherburn		Tadcaster		Northern		North East		East		South East		Central		Southern		Western	
Unit Type	Value	Area sq ft	Values	£ psf	Values	£psf	Values	£psf	Values	£psf	Values	£psf	Values	£ psf	Values	£psf	Values	£psf	Values	£psf	Values	£psf
1 Bed Flat	High	500	£31,500	£63	£29,750	£60	£31,500	£63	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
	Mid		£28,000	£56	£26,250	£53	£28,000	£56	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
	Low		£22,750	£46	£21,000	£42	£22,750	£46	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
2 Bed Flat	High	650	£38,500	£59	£38,500	£59	£38,500	£59	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
	Mid		£35,000	£54	£35,000	£54	£35,000	£54	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
	Low		£26,250	£40	£26,250	£40	£26,250	£40	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
2 Bed Bungalow	High	700	£59,535	£85	£54,145	£77	£54,145	£77	£62,965	£90	£57,820	£83	£57,820	£83	£50,715	£72	£57,820	£83	£52,430	£75	£58,800	£84
	Mid		£52,430	£75	£45,570	£65	£45,570	£65	£61,005	£87	£54,145	£77	£54,145	£77	£47,285	£68	£54,145	£77	£49,000	£70	£49,000	£70
	Low		£47,285	£68	£41,895	£60	£41,895	£60	£49,000	£70	£50,715	£72	£50,715	£72	£43,855	£63	£50,715	£72	£45,570	£65	£50,225	£72
2 Bed House	High	700	£38,500	£55	£38,500	£55	£38,500	£55	£38,500	£55	£38,500	£55	£38,500	£55	£38,500	£55	£38,500	£55	£38,500	£55	£38,500	£55
	Mid		£33,250	£48	£33,250	£48	£33,250	£48	£33,250	£48	£33,250	£48	£33,250	£48	£33,250	£48	£33,250	£48	£33,250	£48	£33,250	£48
	Low		£28,000	£40	£28,000	£40	£28,000	£40	£28,000	£40	£28,000	£40	£28,000	£40	£28,000	£40	£28,000	£40	£28,000	£40	£28,000	£40
3 Bed House	High	950	£68,163	£72	£64,838	£68	£68,163	£72	£62,178	£65	£67,498	£71	£64,838	£68	£54,530	£57	£64,838	£68	£56,193	£59	£64,838	£68
	Mid		£62,510	£66	£59,518	£63	£62,510	£66	£60,515	£64	£61,513	£65	£59,518	£63	£51,205	£54	£59,518	£63	£52,868	£56	£58,853	£62
	Low		£56,193	£59	£54,530	£57	£56,193	£59	£57,190	£60	£57,855	£61	£56,193	£59	£47,880	£50	£56,193	£59	£49,543	£52	£55,528	£58
4 Bed House	High	1100	£81,235	£74	£83,930	£76	£77,770	£71	£73,535	£67	£79,310	£72	£71,995	£65	£58,135	£53	£71,995	£65	£59,675	£54	£71,995	£65
	Mid		£72,765	£66	£78,925	£72	£71,225	£65	£66,990	£61	£71,995	£65	£65,450	£60	£53,900	£49	£65,450	£60	£55,825	£51	£66,220	£60
	Low		£60,445	£55	£75,075	£68	£65,450	£60	£60,445	£55	£65,450	£60	£58,905	£54	£49,280	£45	£58,905	£54	£50,820	£46	£59,675	£54
5 Bed House	High	1450	£107,590	£74	£100,485	£69	£98,455	£68	£88,813	£61	£92,873	£64	£88,813	£61	£69,020	£48	£89,320	£62	£70,543	£49	£86,275	£60
	Mid		£97,948	£68	£92,873	£64	£91,350	£63	£79,170	£55	£82,723	£57	£78,155	£54	£65,468	£45	£78,155	£54	£66,990	£46	£77,648	£54
	Low		£79,170	£55	£79,170	£55	£77,648	£54	£73,080	£50	£75,618	£52	£73,080	£50	£61,915	£43	£73,080	£50	£63,438	£44	£72,573	£50

Table 3.3 Revenues Generated from New Intermediate Homes

			Selby		Sherburn		Tadcaster		Northern		North East		East		South East		Central		Southern		Western	
Unit Type	Value	Area sq ft	Values	£ psf	Values	£psf	Values	£psf	Values	£psf	Values	£psf	Values	£ psf	Values	£psf	Values	£psf	Values	£psf	Values	£psf
1 Bed Flat	High	500	£45,000	£90	£42,500	£85	£45,000	£90	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
	Mid		£40,000	£80	£37,500	£75	£40,000	£80	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
	Low		£32,500	£65	£30,000	£60	£32,500	£65	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
2 Bed Flat	High	650	£55,000	£85	£55,000	£85	£55,000	£85	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
	Mid		£50,000	£77	£50,000	£77	£50,000	£77	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
	Low		£37,500	£58	£37,500	£58	£37,500	£58	n/a		n/a		n/a		n/a		n/a		n/a		n/a	
2 Bed Bungalow	High	700	£85,050	£122	£77,350	£111	£77,350	£111	£179,900	£257	£82,600	£118	£82,600	£118	£72,450	£104	£82,600	£118	£74,900	£107	£84,000	£120
	Mid		£74,900	£107	£65,100	£93	£65,100	£93	£174,300	£249	£77,350	£111	£77,350	£111	£67,550	£97	£77,350	£111	£70,000	£100	£70,000	£100
	Low		£67,550	£97	£59,850	£86	£59,850	£86	£140,000	£200	£72,450	£104	£72,450	£104	£62,650	£90	£72,450	£104	£65,100	£93	£71,750	£103
2 Bed House	High	700	£55,000	£79	£55,000	£79	£55,000	£79	£110,000	£157	£55,000	£79	£55,000	£79	£55,000	£79	£55,000	£79	£55,000	£79	£55,000	£79
	Mid		£47,500	£68	£47,500	£68	£47,500	£68	£95,000	£136	£47,500	£68	£47,500	£68	£47,500	£68	£47,500	£68	£47,500	£68	£47,500	£68
	Low		£40,000	£57	£40,000	£57	£40,000	£57	£80,000	£114	£40,000	£57	£40,000	£57	£40,000	£57	£40,000	£57	£40,000	£57	£40,000	£57
3 Bed House	High	950	£97,375	£103	£92,625	£98	£97,375	£103	£177,650	£187	£96,425	£102	£92,625	£98	£77,900	£82	£92,625	£98	£80,275	£85	£92,625	£98
	Mid		£89,300	£94	£85,025	£90	£89,300	£94	£172,900	£182	£87,875	£93	£85,025	£90	£73,150	£77	£85,025	£90	£75,525	£80	£84,075	£89
	Low		£80,275	£85	£77,900	£82	£80,275	£85	£163,400	£172	£82,650	£87	£80,275	£85	£68,400	£72	£80,275	£85	£70,775	£75	£79,325	£84
4 Bed House	High	1100	£116,050	£106	£119,900	£109	£111,100	£101	£210,100	£191	£113,300	£103	£102,850	£94	£83,050	£76	£102,850	£94	£85,250	£78	£102,850	£94
	Mid		£103,950	£95	£112,750	£103	£101,750	£93	£191,400	£174	£102,850	£94	£93,500	£85	£77,000	£70	£93,500	£85	£79,750	£73	£94,600	£86
	Low		£86,350	£79	£107,250	£98	£93,500	£85	£172,700	£157	£93,500	£85	£84,150	£77	£70,400	£64	£84,150	£77	£72,600	£66	£85,250	£78
5 Bed House	High	1450	£153,700	£106	£143,550	£99	£140,650	£97	£253,750	£175	£132,675	£92	£126,875	£88	£98,600	£68	£127,600	£88	£100,775	£70	£123,250	£85
	Mid		£139,925	£97	£132,675	£92	£130,500	£90	£226,200	£156	£118,175	£82	£111,650	£77	£93,525	£65	£111,650	£77	£95,700	£66	£110,925	£77
	Low		£113,100	£78	£113,100	£78	£110,925	£77	£208,800	£144	£108,025	£75	£104,400	£72	£88,450	£61	£104,400	£72	£90,625	£63	£103,675	£72

Affordable Housing Mix

3.37 The base assumption for the modelling exercise has been that 50% of the affordable housing built will be for social renting and 50% will be intermediate tenure. However, consideration has been given to the impact on viability of changing this proportion with options of 70% social rented/30% intermediate and 30% social rented/70% intermediate being tested.

Homes and Communities Agency Grant Funding

3.38 The base assumption for the modelling is that social housing grant is not available for affordable housing provision through Section 106 Agreements. However, it is important to understand the extent to which grant can enhance viability. In order to justify a higher percentage of affordable housing, SDC may have to approach the Homes and Communities Agency (HCA) to request additional grant funding for Section 106 Agreements. Generally, the HCA only fund Section 106 schemes where there is evidence of additionality and whilst there maybe some limited opportunities to access social housing grant, this has not been taken into account during the modelling process.

Build Costs

3.39 The build costs used in the viability model are taken from the average residential costs from BCIS[4], re based using the local index for the Selby area. The assessment uses the build costs per square foot of gross internal area excluding external works and contingencies and with preliminaries is proportioned by cost. These were correct as at June 2009, and have been tested through stakeholder consultation to ensure they are in line with the current market expectations. Ordinarily, build costs for affordable housing would be presumed to be higher than those for market sale units in order for them to meet the current design and space standards required by the HCA including the code for Sustainable Homes Level 4 and Lifetime Homes Standards. However, as this modelling assumes no grant is provided to the Section 106, and in line with evidence provided by the Local Authority, standard build products have been accepted on all Section 106 sites. As at June 2009, any application for a Section 106 site would not have incurred additional costs associated to the standards above, as no grant would have been provided for these schemes. Therefore, for the basis of this valuation, the build costs are uniform across both private and affordable dwellings and it is assumed that all units will be delivered to Code for Sustainable Homes Level 3.

3.40 On the basis set out above, build costs in the model are as follows:

Flat - £95 psf
House - £85 psf

[4] The Building Cost Information Services (BCIS) is the UK property market's leading provider of construction cost and price information.

3.41 It is acknowledged that for any particular scheme, build costs will be affected by site conditions, the configuration of the scheme and the target market at which it is aimed. Large schemes may be able to achieve significant economies of scale. Building costs will also be affected by costs of materials and fuel and are also likely to reflect the level of the activity in the construction sector. However, for the purposes of this strategic study, it is necessary to use typical build costs.

Other Assumptions

3.42 The model incorporates a number of other assumptions which have been held constant for all aspects of the viability, these are as follows:

3.43 **Section 106 costs other than affordable housing:** most residential developments are not only expected to provide affordable housing as part of the Section 106 Agreement, but to also contribute to other costs imposed by the public sector on the development, such as highway works, provision of community facilities, education payments, etc. These represent an additional development cost imposed on the development and, therefore, need to be taken into account.

3.44 Based on consultation with the Local Authority and Stakeholders and an analysis of planning applications granted during 2008-2009, additional costs occurred in connection with Section 106 Agreements, are estimated to be in the region of £2,000 per unit.

3.45 **Other costs:** other standard balances and costs made in the modelling exercise are as follows

- Cost of finance of 6.25% per annum has been assumed
- Professional fees assumed at 6% of construction cost
- Contingency is assumed at 5% of construction cost
- Disposal costs including marketing and sales expenses for private units assumed at 3% of gross development value
- Site acquisition costs of 5.75% of land value (to include stamp duty)

The Scope of the Study

3.46 It is important to appreciate that a strategic viability model, such as that developed for the purpose of this assessment, is not designed to test the viability of specific sites. One of the features of residential development is that the character of sites is varied and the level of costs and revenues that apply to development on a specific site will vary. This should, however, be reflected in the price that is paid for the land. Even so, costs and revenues are often not predictable, and of course assumptions about the future change in costs and revenues may be proved wrong, delivering returns which are above are below expectations.

3.47 This study cannot seek to encompass all the potential differences in individual site circumstances that affect viability. What it can and does do, is provide a broad assessment of viability in the study areas. This is what is needed to inform the setting of affordable housing and other policies. Those policies will, however, need to be sufficiently flexible to take into consideration, changes in market context, especially if they are long lived; but also changes in national policy relating to planning and affordable housing provision.

3.48 The agreed valuation date of June 2009 is significant to the viability assessment. The property market is currently experiencing unprecedented decline and turmoil due to difficulties with financial liquidity and a down turn in global economies due to the effects of the credit crunch. As a result, residual land values have fallen significantly from their peak in early 2007 which places substantial pressure on the viability of residential developments. There is an expectation that the market will recover in the longer term but the timescale for any recovery remains uncertain. This downturn in residual land value will obviously have a considerable impact on the viability of the proposed affordable housing policy. Therefore, as part of the viability modelling, different scenarios have been modelled around the baseline position to take account of peaks and troughs in the market which will occur over the life of the policy and core strategy.

3.49 The scenarios tested are as follows:

1. **Baseline Position** – valuation date June 2009
2. Varying levels of Section 106 payments
3. Changes in build costs
4. Changes in revenues
5. Conditions at the height of the market – Quarter 1 2007.

3.50 For each of these scenarios, various percentages of affordable housing and a range of tenure splits were tested.

3.51 The results of each scenario can be seen in Section 5. The tables presented in the main body of this report show the summary analysis undertaken on the results of the modelling. Analysis of the individual areas across the densities and the outputs from every scenario tested can be seen in Appendix 5.

4.0 Economic Viability Consultation

4.1 Consultation has been a core element of this commission. A list of consultees is provided in Appendix 6. This consultation involved two workshops and a range of feedback telephone interviews and emails.

4.2 The first workshop was held on the 24th June 2009, to consult stakeholders on the Economic Viability Testing methodology and core assumptions for the baseline position. A further workshop on the 27th August 2009 to present the preliminary modelling findings.

4.3 Approximately 40 stakeholders were invited to attend both events and in the region of 20 attended each session. The attendees included representatives from housebuilders, planning agencies, land owners, developers, RSLs, SDC Officer and Councillors and representatives from other local authorities. We had hoped that the Homebuilders Federation (HBF) would provide a central view from house builders in the region, however, due to the downturn in the housing market, the local office of the HBF is closed and the national team was unavailable for comment.

4.4 The first session included a presentation on the methodology and key appraisal inputs and a workshop to discuss the approach set out to consider the assumptions and methodology for the economic viability assessment. A copy of the presentations given can be found at Appendix 7.

4.5 The feedback from this workshop showed that, there was broad agreement with the approach and methodology. However, the feedback in the session itself was relatively limited and the majority of the feedback was provided in the two weeks following the workshop during which stakeholders had time to consider the presentation and provide their comments.

4.6 Where invitees had been unable to attend the meeting, a copy of the presentation and the assumptions was sent to Stakeholders on email and they were asked to provide feedback. All stakeholders were asked to indicate where they both agreed and disagreed with the economic viability assumptions and were provided with an explanation of the process DTZ would follow in terms of altering the assumptions – a list of the final assumptions and comments on how these have varied as a result of the feedback can be found in appendix 2.

4.7 The opportunity was offered to all attendees and invitees to feedback individually to DTZ on this element. This took the form of an email notification, including a copy of the presentation, followed up by individual telephone calls and the ability for all stakeholder (both those who had attended and not attended the event) to provide written feedback on the development assumptions.

4.8 The feedback from stakeholders was used to develop a final set of assumptions for the viability modelling. The main areas of change between the presentation and the final set of assumptions were focussed on:

- Density
- Scheme mix
- The levels of Section 106 contributions (outside Affordable Housing)
- Revenues and Build Costs

4.9 The second consultation event provided stakeholders with a presentation of the interim modelling results and an analysis of the levels of affordable housing are which could viably be delivered for each of the sites and scenarios tested. Feedback from stakeholders at this session indicated they were appreciative of the opportunity to be engaged with the council officers as to what the impacts of the results will be on the affordable housing policies drafted moving forward.

4.10 At this session, SDC took the opportunity to discuss with stakeholders how they thought any further affordable housing policies should be drafted specifically, and whether the appropriateness of annual reviews, minimum and maximum targets and whether the policies should have fixed requirements or targets. The problems and benefits of requiring a site specific economic viability for each development application was also discussed.

4.11 SDC requested feedback on a series of questions (as can be seen in Appendix 8) and this feedback alongside the result of the EVA and the SHMA will be considered when drafting the Core Strategy affordable housing policy.

5.0 Results of the Economic Viability Model

5.1 This section focuses on the results of the viability modelling. The findings are presented for a number of different scenarios and designed to test a number of different market scenarios.

5.2 It was agreed at the outset of the project that the baseline position for Selby would be modelled based on market conditions in June 2009. Unsurprisingly, given the current abnormal market conditions, the results of this scenario demonstrated that in the current market it is extremely difficult to viably deliver any housing. The problem is exacerbated when the requirement to deliver affordable housing is introduced. Giving consideration to the fact that Selby DC's affordable housing policy is to last the duration of the development plan, core strategy period (20 years), it is unrealistic to base policy solely on the results of the present day market and as such a number of alternative scenarios have been modelled. The scenarios modelled are as follows:

1. Baseline Position – Current market conditions
2. Current market conditions – with variance in the level of additional s106 requirements
3. Current market conditions – increased and decreased build cost
4. Current market conditions – increased and decreased revenues
5. Market conditions at the height of the market – to determine the range of affordable housing which may be deliverable across the market cycle

Scenario One: The Baseline Position

5.3 Scenario 1 focuses on the viability of delivering affordable housing at the baseline position of June 2009. This scenario tests how changing the affordable housing requirement and tenure split affects viability. The results for all of the percentages tested are presented in the Appendix of the EVA report, however, the headline results are incorporated below. Through the analysis, a series of 'traffic light' colour codes are used to indicate if schemes are clearly viable, clearly not viable or close to the viability target. These colour codes are as follows:

- **Green**, the scheme is comfortably viable – where the IRR meets or exceeds the target IRR figures and rates of return.

- **Amber**, the scheme is marginally viable – where the IRR is within 5% of the IRR target. These schemes are close to the margins of viability and hence particular features of an individual site and scheme are likely to be important in determining whether the scheme is progressed.

- **Red**, the scheme is clearly not viable – where the IRR is more than 5% below the target rate of return

5.4 The summary results for this Scenario can be seen below (all the traffic light tables for individual analysis are contained in appendix 5)

Baseline Position

70% Social Rented 30% Intermediate

Affordable Housing Percentage	Green	Amber	Total
0%	30%	25%	55%
10%	22%	24%	46%
20%	7%	19%	26%
30%	8%	16%	24%
40%	5%	14%	19%
50%	3%	3%	6%

50% Social Rented 50% Intermediate

Affordable Housing Percentage	Green	Amber	Total
0%	30%	25%	55%
10%	24%	24%	48%
20%	16%	13%	29%
30%	8%	18%	26%
40%	4%	16%	20%
50%	3%	3%	6%

30% Social Rented 70% Intermediate

Affordable Housing Percentage	Green	Amber	Total
0%	30%	25%	55%
10%	26%	24%	50%
20%	13%	27%	40%
30%	9%	18%	27%
40%	6%	18%	24%
50%	3%	4%	7%

5.5 This shows that in current market conditions, it is extremely difficult to deliver any residential development before affordable housing contributions occur. Across all the three tenure splits tested, only 55% of sites tested were viable in current market conditions with 0% affordable housing. This is an important consideration when looking at likely future housing supply across the District as at present 45% of schemes are deemed to be unviable and will not come forward for residential development.

5.6 As the requirement for affordable housing percentages increases, the viability decreases. SDC's current affordable housing policy requirement of 40% affordable housing split 50% Social Rented and 50% Intermediate tenure would only be wholly viable on 4% of the sites tested and marginally viable on 16% giving an overall viability level of 20%.

5.7 If the tenure requirement was altered to 70% Intermediate and 30% Social Rented, viability would improve to 24%.

5.8 It is difficult for local authorities to assess what percentage of overall viability should be considered appropriate and acceptable when creating and affordable housing policy. DTZ's experience shows a varied approach, with some authorities feeling anything over 50% is a justifiable basis for setting a target to other authorities views who consider that any possibility of delivering affordable housing should be taken as viable and only when the percentage drops to 0% across all the schemes should that requirement for affordable housing be deemed too high.

5.9 Consultation with SDC and its stakeholders suggest that a figure of 50% or above was a fair and robust approach to take (although this has not been widely tested and confirmed). Based on this approach, 10% affordable housing with a 70% Intermediate 30% Social Rented split would be the maximum requirement the local authority could seek at the baseline position. It is however, essential to consider that this is to be a long term policy which will need to have longevity beyond the current market cycle and occupy a position which is fair and robust across all current and future changes in market circumstances.

Scenario Two: Change in S106 Payments

5.10 This scenario assesses the impact in changing additional section 106 payments on the viability of affordable housing delivery. For the purpose of this report, we have focused solely on Selby's policy position of 40% affordable housing. However, this scenario has been modelled at 0%, 10%, 20%, 30% and 40% affordable housing in a range of tenure splits and these results are available upon request. We know from the results of the baseline, that the viable delivery of 40% affordable housing is extremely difficult in the current market. This scenario tests whether varying the additional section 106 payments makes any improvement to the delivery or if this is an insignificant factor.

5.11 The summary results for this scenario can be seen below

Section 106 Contributions = £0 per unit

Section 106 = £0

70% Social Rented 30% Intermediate

Affordable Housing	Green	Amber	Total
0%	37%	23%	60%
10%	26%	27%	52%
20%	19%	29%	48%
30%	9%	28%	37%
40%	7%	17%	24%

50% Social Rented 50% Intermediate

Affordable Housing	Green	Amber	Total
0%	37%	23%	60%
10%	23%	26%	49%
20%	21%	29%	50%
30%	11%	27%	38%
40%	7%	20%	27%

30% Social Rented 70% Intermediate

Affordable Housing	Green	Amber	Total
0%	37%	23%	60%
10%	29%	23%	52%
20%	14%	27%	41%
30%	14%	28%	42%
40%	7%	26%	32%

5.12 The baseline position makes an allowance for an additional £2,000 per unit over and above the affordable housing requirement for section 106 contributions. If this is removed, the Councils current affordable housing policy can be delivered on 27% of the sites tested which is 7% higher than at the baseline position. Please note all other variables (assumptions) have remained the same for this scenario.

Section 106 Contributions = £1,000 per unit

Section 106 = £1,000

70% Social Rented 30% Intermediate

Affordable Housing	Green	Amber	Total
0%	35%	21%	56%
10%	24%	26%	50%
20%	16%	30%	46%
30%	6%	26%	32%
40%	4%	17%	21%

50% Social Rented 50% Intermediate

Affordable Housing	Green	Amber	Total
0%	36%	21%	57%
10%	24%	26%	50%
20%	17%	29%	46%
30%	10%	24%	34%
40%	6%	17%	23%

30% Social Rented 70% Intermediate

Affordable Housing	Green	Amber	Total
0%	36%	21%	57%
10%	28%	26%	54%
20%	12%	28%	40%
30%	12%	26%	38%
40%	7%	22%	29%

5.13 If we halve the section 106 requirement from the baseline position, the Council's current affordable housing policy is deliverable on 23% of sites tested which is 3% higher than the baseline. Please note all other assumptions have remained constant.

Section 106 Contributions = £5.000 per unit

Section 106 = £5,000

70% Social Rented 30% Intermediate

Affordable Housing	Green	Amber	Total
0%	22%	21%	43%
10%	17%	22%	39%
20%	6%	20%	26%
30%	3%	10%	13%
40%	3%	6%	9%

50% Social Rented 50% Intermediate

Affordable Housing	Green	Amber	Total
0%	22%	21%	43%
10%	17%	23%	40%
20%	6%	21%	27%
30%	6%	14%	20%
40%	3%	6%	9%

30% Social Rented 70% Intermediate

Affordable Housing	Green	Amber	Total
0%	22%	21%	43%
10%	17%	23%	40%
20%	6%	22%	28%
30%	6%	14%	20%
40%	3%	6%	9%

5.14 If we increase the contributions from the baseline position to £5,000 per unit, it is clear that viability is significantly affected. The council's current policy position is now only deliverable in 9% of sites tested, a fall of 11% from the baseline position.

5.15 It is clear therefore that the payment of additional section 106 requirements over and above affordable housing contributions plays an important part in scheme viability. As explained in Appendix 4, the figure of £2,000 per unit was derived by undertaking an analysis of the previous sites which have been granted planning permission for residential development and calculating the additional expenditure provide for section 106 elements.

Scenario Three: Change in Build Cost

5.16 Under this scenario, build cost has been altered as follows:

1. 5% increase in build cost
2. 5% decrease in build cost
3. 15% increase in build cost
4. 15% decrease in build cost
5. 25% increase in build cost
6. 25% decrease in build cost

5.17 For each of these percentage changes, affordable housing has been tested at 0%, 10%, 20%, 30% and 40% with a variance in tenure type under each of these percentages of:

1. 30% Social Rented 70% Intermediate
2. 50% Social Rented 50% Intermediate
3. 70% Social Rented 30% Intermediate.

Change in Build Cost 70% Social Rented 30% Intermediate

Change in Build Cost	Level of Affordable Housing											
	10%			20%			30%			40%		
	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total
5% Increase	19%	23%	42%	8%	20%	28%	0%	0%	0%	0%	0%	0%
15% Increase	2%	17%	19%	16%	19%	35%	0%	0%	0%	0%	0%	0%
25% Increase	2%	0%	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%
5% Decrease	38%	24%	62%	27%	28%	55%	13%	20%	33%	9%	28%	37%
15% Decrease	58%	21%	79%	30%	20%	50%	33%	22%	55%	50%	20%	70%
25% Decrease	85%	10%	95%	80%	16%	96%	69%	22%	91%	62%	21%	83%

5.18 As can be seen from the results above, relatively small changes in build cost can result in a significant change in viability. For the Council's current policy position of 40% affordable housing, a 5% increase in build cost renders all schemes completely unviable and this is the same for 30% affordable housing requirement. However, a 5% decrease in build costs increases viability to 37%, which is 18% higher than the baseline position and indeed if build costs were to fall by 25%, 83% of schemes could viably deliver 40% affordable housing. Again for this scenario only build costs have been altered all other assumptions remain constant.

5.19 If we look at a changes in tenure the results are further improved as can be seen below;

Change in Build Cost – 50% Social Rented 50% Intermediate.

Change in Build Cost	Level of Affordable Housing											
	10%			20%			30%			40%		
	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total
5% Increase	17%	24%	41%	7%	20%	27%	6%	13%	19%	3%	7%	10%
15% Increase	2%	18%	20%	0%	9%	9%	0%	4%	4%	0%	4%	4%
25% Increase	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
5% Decrease	38%	26%	64%	27%	29%	56%	20%	32%	52%	13%	27%	40%
15% Decrease	60%	24%	84%	57%	21%	78%	52%	16%	68%	40%	21%	61%
25% Decrease	86%	10%	96%	83%	12%	95%	71%	21%	92%	63%	26%	89%

Change in Build Cost – 30% Social Rented 70% intermediate.

Change in Build Cost	Level of Affordable Housing											
	10%			20%			30%			40%		
	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total
5% Increase	19%	22%	41%	9%	20%	29%	5%	14%	19%	3%	9%	12%
15% Increase	2%	19%	21%	0%	11%	11%	0%	6%	6%	0%	4%	4%
25% Increase	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
5% Decrease	40%	26%	66%	29%	29%	58%	21%	32%	53%	16%	29%	45%
15% Decrease	60%	24%	84%	56%	22%	78%	54%	19%	73%	44%	19%	63%
25% Decrease	86%	10%	96%	83%	12%	95%	76%	19%	95%	67%	24%	91%

Scenario Four: Change in Revenue

5.20 Under this scenario, revenues have been altered as follows:

1. 5% increase in revenue
2. 5% decrease in revenue
3. 15% increase in revenue
4. 15% decrease in revenue
5. 25% increase in revenue
6. 25% decrease in revenue

5.21 For each of these percentage changes, affordable housing has been tested at 0%, 10%, 20%, 30% and 40% with a variance in tenure type under each of these percentages of:

1. 30% Social Rented 70% Intermediate

2. 50% Social Rented 50% Intermediate

3. 70% Social Rented 30% Intermediate.

70% Social Rented 30% Intermediate

Change in Revenue	Level of Affordable Housing											
	10%			20%			30%			40%		
	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total
5% Increase	37%	25%	62%	25%	30%	55%	18%	31%	49%	9%	27%	36%
15% Increase	52%	29%	81%	42%	22%	64%	41%	22%	63%	31%	27%	58%
25% Increase	73%	21%	94%	61%	29%	90%	57%	24%	81%	53%	13%	66%
5% Decrease	15%	25%	40%	6%	21%	27%	2%	12%	14%	2%	7%	9%
15% Decrease	0%	11%	11%	0%	4%	4%	0%	2%	2%	0%	2%	2%
25% Decrease	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

5.22 As was seen in the build cost scenario, a small change in revenue can result in a significant change in viability. At the council's current policy position of 40%, a five percent increase in revenue results in 36% of schemes being viable. This is a 17% increase from the baseline and if a 25% increase in revenue occurs this result in 66% of sites being viable at the existing policy levels.

5.23 Again, the tenure split has been varied to see what difference a change in tenure can have on development viability.

Change in Revenue – 50% Social Rented 50% Intermediate.

Change in Revenue	Level of Affordable Housing											
	10%			20%			30%			40%		
	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total
5% Increase	43%	20%	63%	32%	29%	61%	22%	34%	56%	13%	31%	44%
15% Increase	52%	31%	83%	51%	27%	78%	44%	20%	64%	34%	22%	56%
25% Increase	79%	16%	95%	71%	20%	91%	67%	23%	90%	59%	14%	73%
5% Decrease	14%	26%	40%	6%	21%	27%	2%	16%	18%	2%	8%	10%
15% Decrease	0%	11%	11%	0%	4%	4%	0%	2%	2%	0%	2%	2%
25% Decrease	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Change in Revenue – 30% Social Rented 70% Intermediate

Change in Revenue	Level of Affordable Housing											
	10%			20%			30%			40%		
	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total
5% Increase	43%	22%	65%	32%	29%	61%	24%	32%	56%	17%	30%	47%
15% Increase	52%	26%	78%	51%	27%	78%	47%	19%	66%	37%	22%	59%
25% Increase	81%	13%	94%	73%	19%	92%	68%	22%	90%	63%	21%	84%
5% Decrease	16%	24%	40%	7%	21%	28%	4%	16%	20%	2%	9%	11%
15% Decrease	0%	16%	16%	0%	4%	4%	0%	2%	2%	0%	2%	2%
25% Decrease	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Scenario 5 – Conditions at the Height of the Market

5.24 The final scenario considered market conditions at the height of the Market in Q1 2007 to determine what level of affordable housing would have been viable then compared to the baseline position (generally perceived to be at or near the bottom of the market) in order to determine the range of affordable housing viability which can be delivered across a market cycle.

- The changes to assumptions from the baseline position are as follows:
- Build costs reduced by £10psf – no allowance for CSH Level 3
- Revenues increased by 20%
- Build rate doubled
- Section 106 contributions remain at baseline position

5.25 The results for each of the three tenure splits can be seen below;

70% Social Rented 30% Intermediate

Affordable Housing Percentage	Green	Amber	Total
0%	82%	4%	86%
10%	80%	5%	85%
20%	77%	4%	81%
30%	59%	21%	80%
40%	57%	20%	77%
50%	42%	15%	57%

50% Social Rented 50% Intermediate

Affordable Housing Percentage	Green	Amber	Total
0%	91%	4%	95%
10%	87%	9%	96%
20%	88%	6%	94%
30%	71%	20%	91%
40%	61%	20%	81%
50%	50%	21%	71%

30% Social Rented 70% Intermediate

Affordable Housing Percentage	Green	Amber	Total
0%	91%	4%	95%
10%	90%	6%	96%
20%	88%	6%	94%
30%	50%	42%	92%
40%	62%	22%	84%
50%	59%	19%	78%

5.26 It is clear from these results, that at the height of the market a significant proportion of sites would have delivered the Councils current affordable housing requirements based on the development assumptions. At the base position of 50% Social Rented 50% Intermediate, 81% would have delivered 40% affordable housing; this is 61% higher than the current market baseline position. As the tenure split is varied to provide more intermediate housing and less social rented this percentage is further improved.

6.0 Policy Implications

6.1 This section is written in partnership with Selby District Council.

6.2 The purpose of this study is to inform the development of the affordable housing policy for Selby District Council. The final section of the report addresses the impact of the results of the study on the existing affordable housing policy. In doing so, DTZ draw upon the findings of the study, the analysis contained in the Strategic Housing Market Assessment, and wider experience of the operation of affordable housing policies.

Policy Implication for Affordable Housing Quotas

6.2 The current recession has made it difficult to secure significant affordable housing provision in association with market housing. It has underlined the potential for rapid change within the housing market and consequently in the viability of providing affordable housing.

6.3 This report indicates the *difficult "balance between sufficiently robust to ensure that not every application is the subject of negotiation, whilst being sufficiently flexible to recognise special circumstances"* when formulating operational planning policies. (Paragraph 2.9)

6.4 The results of this appraisal indicate that viability of sites will vary in the following ways:

- over time with changing external economic circumstances
- with location across the District
- with differing site size; and
- with different house type composition and density

6.5 There is therefore a significant issue for any future policy. Namely, how far it should attempt to accommodate these variations but still provide 'up front' general guidance to developers, without viability becoming a case by case issue for all proposals.

6.6 A further relevant issue in Selby District is the potential concentration of future new development in and around Selby itself, in accordance with the Regional Spatial Strategy. Over half of new planned development is likely to be in Selby and, if the two other towns of Tadcaster and Sherburn in Elmet are also included, this proportion increases to approximately three quarters of new housing allocations over the period 2009 to 2026. This concentration is therefore an important consideration for the future policy, as viability in these areas will be particularly critical.

6.7 Current levels of viability, as indicated by this appraisal, clearly indicate that the 40% affordable requirement in the majority of cases in the current climate is not a realistic expectation. However, this could change if the housing market returns nearer to levels experienced at the height of the market. In these circumstances, affordable quotas embedded within the policy can either be out of step with viability levels over lengthy periods or alternatively quickly become out of date. A more flexible approach to setting an affordable requirement is therefore desirable, subject to the need for developers to be made fully aware of any requirement set by the authority and further amendments to it.

6.8 This Assessment provides evidence on the potential range of average viability under current (June 2009) baseline circumstances and at the higher end of the range at the height of the market. This suggests that an appropriate average guidance figure (assuming at least half the site types tested are fully viable) could fall within the range of 10 – 50%, depending upon the market at the time. It will be a matter for the authority as to precisely where within the range it will establish a negotiating requirement, having regard to the emphasis placed on the development focus on the three towns, an assessment of the contemporary market conditions and the need to build in some allowance for any anticipated short-term (say up to 3 years) changes in market circumstances.

6.9 The aim of the policy should be to provide the basis for negotiations between developers and local authority. It is in both parties' interests that a majority of negotiations are satisfactorily completed with the minimum of recourse to the expense of further site viability assessments. A robust policy, linked with more flexible supplementary guidance which reflects viability circumstances at the time of negotiation, would seem to be a most appropriate solution.

6.10 It will also be a matter for the authority as to how much detail the policy and guidance includes in order to try to tailor it to varying levels of viability appropriate to geographical area or size of site, for example.

Establishing Viability on a Scheme by Scheme Basis

6.11 This study has, as previously explained, examined the viability of affordable housing delivery at a strategic level, looking at sites on a hypothetical basis across the district, using a consistent basis of assumptions tailored to different sites and locational characteristics. It does not seek to establish viability on particular sites. SDC can expect developers to seek reductions in the affordable housing they are expected to provide, arguing that their scheme is not viable with the level of affordable housing implied by policy. It is important that authorities are equipped to handle the resultant negotiations.

6.12 As part of this study, DTZ were asked to review and comment on existing models of individual site appraisals. In essence there are two tools available to assist in appraising the impact of affordable housing provision on site viability:

1. Argus Circle Developer - This is the industry standard development appraisal software. It allows for multi-phasing and in depth analysis of project make up. The output is a residual land value with a detailed cash flow and a resultant IRR. This method of calculation is the same as that used by the majority of housebuilders when undertaking financial appraisals

2. The Housing Corporation Economic Appraisal Tool – This newly launched tool has been updated and made more relevant to current market conditions and is something that is proposed by the HCA as a fair and equal playing field for all parties when assessing development viability and the delivery of affordable housing. For more marginal sites, this uses an economic assessment of the site to predict and agree the viability of proposed levels of affordable housing and to demonstrate the additionality the grant investment will deliver over and above on-site developer contributions

6.13 The two tool kits above have very similar outputs. The Local Authority will need to make a decision as to where they wish to undertake a viability appraisal of each scheme submitted for a planning application which deviates away from the required policy position at the time of application. This approach does have its advantages in that in ensures all developments maximise the delivery of affordable housing by providing detail on what is deliverable, but also has cost implications to the Local Authority due to the time involved in completing and negotiating appraisals on each development scheme. If it is decided that individual scheme analysis is a requirement where an application does not accord with the policy, then SDC will have to decide which method of appraisal best suits their needs and specific objectives.

6.14 The most accurate and widely used tool in the market is Argus Circle Developer. This, however, is costly to buy and requires a degree of specialist expertise to use it. At present, software also lacks a user guide which is overcome by a helpline, but often this is difficult to access so organisations rely on in house expertise. It may be that SDC wish to employ a consultant to undertake the viability appraisals on their behalf to overcome these concerns or maintain its current relationship with the local Valuation Office to enable the District valuer to continue to undertake shadow appraisals on the authority's behalf which can be used to enter into negotiations with developers.

Conclusion

6.15 In summary, the key questions addressed by the economic viability assessment are whether the level of affordable housing and the balance of tenure proposed are deliverable, whether a particular level of affordable housing provision will inhibit development generally and, by implication, what level of affordable housing provision can be delivered without subsidy. Determining the appropriate affordable housing percentage is difficult in the current market conditions. The economic viability assessment undertaken has demonstrated that a range of between 0% and 50% affordable housing can be delivered across the district, depending on market cycles/variables and affordable housing tenure splits.