LEVVEL

INNOVATION IN HOUSING & PLANNING

Affordable Housing Assessment of Viability

For Manchester City Council

by Levvel Ltd

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MANCHESTER CITY COUNCIL

www.levvel.co.uk

1.0 Executive Summary

1.1 In March 2009, Levvel Ltd was instructed by Manchester City Council to provide an Affordable Housing Assessment of Viability to inform the Council's policy position and form part of the evidence base to the Local Development Framework.

1.2 The project is intended to test the effect on land values of the targets and thresholds for affordable housing as set out in the Council's 2008 SPD "Providing for Housing Choice", specifically that 20% of development will be affordable housing in a tenure split of 25% social rented housing and 75% intermediate housing.

1.3 The assessment has been undertaken in the context of seeking an affordable housing contribution that does not jeopardise overall housing delivery and wider regeneration initiatives.

1.4 Since house prices have begun to decline, it is no longer appropriate to carry out a "snapshot" survey of viability. This assessment proposes a methodology by which the study can be "future proofed". In order to inform this future proofing methodology, a number of data sources were consulted and the empirical evidence and commentary has been included in the appendices to this document. The Council can therefore be confident that the policy can be placed within the range of scenarios tested in the study, now and in the future.

1.5 The toolkit used to test viability is a residual land methodology, which is similar to that used by the Homes and Communities Agency in assessing the requirements for public subsidy on section 106 schemes, and the 3 Dragons toolkit used by the Greater London Authority.

1.6 To account for geographical variations in house prices, the study has grouped similar wards into neighbourhoods, and similar neighbourhoods into Value Areas. To account for changes in house prices, the future proofing methodology has been applied to 4 scenarios for house price growth, ranging from the pessimistic to the optimistic (Downside to Upside).

1.7 In order to ensure robustness, this study has covered the range of likely future development across the whole City as evidenced by the Council's own studies into

land availability. 7 notional development types were identified, ranging in size, density and housing mix.

1.8 The notional schemes identified across the varying Value Areas have been appraised with the Levvel Development Viability Toolkit. This is a cash flow based analysis of development economics. The residual land values produced have then been compared to the necessary sum required to bring a site forward for development (both in terms of the alternative use value and a measure of land values compared to Gross Development Values), our definition of "a viable position".

1.9 The conditions have been described in the results section under which a viable position is reached. Where a viable position is exceeded, or indeed not reached, we have tested an alternative affordable housing requirement of 25% and 15% affordable housing respectively. Further variables include £5,000 per unit of section 106 costs, and a 100% intermediate tenure split.

1.10 Given the range of housing values seen across the City Council areas, we have found that a viable position can be reached in some areas when the policy target is required, and not in others. This is not unexpected given the diverse housing offer in the City area.

1.11 Over time, we have seen that viability is more difficult to ensure up to circa 2012, as increasing costs associated with the Government's sustainability agenda take hold and house prices rise from a low base. As time goes on, we have found that house price rises might outstrip cost increases and viability will become more readily achievable toward 2014 and beyond.

1.12 As the Core Strategy is to prevail to 2027, this study can not recommend policy targets based on the current economic difficulties experienced. Rather, with imaginative and flexible application, we recommend that the 20% target be set and that the Council be willing to consider viability as a reason why affordable housing may not be delivered in the short term. This will be proven by the use of a Development Control Toolkit which Levvel will provide to the Council and which will be used to assess viability of development in a fair and consistent manner through the application to individual sites by Development Control.

1.13 We have also found that the Council's policy on requirements for affordable housing below the national 15 unit minimum threshold should be especially flexible, since smaller schemes are by their very nature more sensitive to changes in costs and revenues.

1.14 The Council's commuted sum formula has been commented upon and a suggested wording provided such that smaller schemes may contribute to the affordable housing requirement in a fair and consistent way.

1.15 We recommend that the Council monitor the success of the affordable housing policy and its effect on land values to ensure it does not jeopardise housing delivery and regeneration. We also recommend that the Council ensures that the wider housing market is monitored so as to be able to place this study and the scenarios suggested within against future market conditions.

1.16 We have based our recommendations on the basis of a housing market cycle which performs to a similar degree as that of the past. However, should economic conditions deteriorate markedly and follow our Downside projection or worse, the Council must refer to the relative viability of their affordable housing policy at that point in time as allowed for in this study.

1.17 The main recommendations of the report are as follows;

1.18 That the targets and tenure splits contained within Providing for Housing Choice are sufficiently flexible and allow for the maximum likely level of affordable housing to be gained from s106 agreements whilst not overly depressing land values.

1.19 A 20% target to be implemented across the board, with flexibility to be implied in the period to 2018 in lower value areas. 25:75 tenure split to be implied in supporting text but to be flexibly applied where necessary to reflect viability concerns and housing need priorities in the local areas.

1.20 That this 20% target applies only to schemes of 15 units and above, this threshold to be revisited in the medium term. As things stand, only small scale development in the highest value areas can support an affordable housing imposition which would result in significant numbers of affordable housing.

1.21 That between 5 and 15 units, the Council seeks a financial contribution in lieu of on-site development, that figure to be derived through a Development Control Toolkit and to be the difference between the residual land value unencumbered with affordable housing and the enhanced existing/alternative use value. The residual unencumbered land value for the proposed project will be established through the Development Control Toolkit:

Example:

A site has an agreed existing or alternative use value[1] benchmark of £400,000.

The Development Control Toolkit, taking into account all receipts and costs calculates that the residual land value of the proposed project as £600,000

The Financial Contribution in lieu of on-site development = £600,000 - £400,000 = £200,000.

1.22 To ensure that on a scheme by scheme basis, the Council is aware of the relative effects of a change in tenure split, percentage of affordable housing sought and public subsidy across the City in order to maximise affordable housing and that this flexibility is allowed for in Providing for Housing Choice.

1.23 That the Council do not attempt to support high land values through overly flexible application of the policy.

1.24 That the Council monitor the provision of affordable housing in "real time" so as to be able to modify policy should economic conditions severely deteriorate or improve significantly over a short time period.

1.25 That any area or value point based target would be insufficiently implementable given the possibility of varying values within each of our assumed Value Areas.

1.26 That recognition is made in policy to the effect that contamination issues and abnormal costs have on viability.

[1] EUV or Alternative Use value is enhanced by an agreed margin to ensure land comes forward for development

1.27 That a Development Control Toolkit be implemented to ensure a fair and consistent approach in assessing viability on a site-by-site basis.

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2.0 Introduction

2.1 Levvel Ltd has been appointed to complete an Affordable Housing Assessment of Viability (AHAV) on behalf of Manchester City Council. The aim of the project is to test the target requirements for affordable housing delivered through the planning system against a measure of viability. That is to say, to ensure that the Council's policy approach to affordable housing is deliverable in the context of economic viability.

2.2 The Council invited qualified companies to submit tenders in Autumn 2008. The invitation to tender and tender brief is included as Appendix 1 of this study. The most relevant section of the tender brief is at paragraph 2.1, given below;

> 2.1: *Providing for Housing Choice – testing the policy*
>
> Using existing land values, building and other development costs along with house prices, develop a methodology to test the appropriateness of the following thresholds and targets contained within *Providing for Housing Choice:*
>
> the percentage of affordable housing provision (5.10);
> the balance of social to intermediate housing (5.11);
> the housing mix proposed (Table 5.1);

After Manchester CC – AHAV tender brief 2008

2.3 The final report will form part of the evidence base for the affordable housing planning policy covering the Manchester City Council area. In this regard, Levvel has approached the project in accordance with the requirements in PPS12 that cover the requirements for the evidence base.

2.4 Given the scope of the tender brief and the huge variations across the City area in respect of land values and property values, it has been essential to develop a methodology that measures viability on a consistent basis, but that is flexible enough to allow for the variables above.

2.5 Furthermore, given that the Manchester Core Strategy when adopted will prevail until 2027, we have also ensured that our methodology includes an element of "future proofing" to give the Council the confidence that the policy can be applied now and in years to come.

2.6 The study has been carried out against a backdrop of falling interest rates, property and land values, reduced build costs, difficulty of access to development finance, a global recession and generally unfavourable and uncertain conditions in the real estate market.

2.7 In a rising land and property market where values are increasing and where costs do not rise to the same extent, it can be assumed that if a development scheme is appraised and a viable position achieved, then viability will be achieved in the future, (all other variables remaining the same). Recently, the property market has not behaved in this manner and therefore the future is uncertain. Given this uncertainty in the market, it has been necessary to provide a "future proofed" methodology that makes a range of predictions about where the housing market may go in the future, ranging from pessimistic to optimistic scenarios, but based on past market trends. With this range set, the results of the development appraisals can be properly contextualised and the Council can set their policy accordingly.

2.8 This paper sets out the policy background of the study to place it in its proper context. A commentary on the past and present national, regional and local housing market experience and wider economic factors is given to inform the future proofing scenarios. Our methodology and assumptions are then explained, followed by an analysis of the results. Finally, conclusions and recommendations for policy are outlined.

3.0 Wider Context of the Study

National Policy and Guidance

3.1 Affordable housing policy is set out at national level in **PPS3**. The PPS identifies a number of specific requirements, but emphasises that policy should be applied flexibly[2].

3.2 Paragraph 29 of **PPS3** also refers to viability being important for the setting of overall affordable housing targets. This involves looking at the risks to delivery and the likely level of finance available including public funding and developer subsidy.

3.3 A companion document to **PPS3**, Delivering Affordable Housing, expands upon these principles of flexibility and details the arrangements necessary in policy to enable this[3], whilst also requiring that the viability of development is assessed.

3.4 The approach is therefore to identify the level of need and its nature, to consider the types of affordable housing that might best meet this need and then to consider the economics of delivery and how sources of uncertainty (such as the availability of public funds and economic changes over the lifetime of the development) can best be managed.

3.5 **PPS12** considers deliverability and flexibility of core strategies in paragraphs 4-44 to 4-46. This is within the context of overall infrastructure requirements but it is clear that if the infrastructure is to be delivered then the viability of policies, including affordable housing policies, should be tested and maintained. **PPS12** goes on (paragraph 4-46) to suggest a minimum 15 year consideration of the impact of policy and to consider how contingencies should be dealt with so that constraints and challenges to policy can be considered over the longer time frame.

[2] See PPS3 para 29 – extract included at Appendix 2

[3] Ibid

Adopted Regional Spatial Strategy (RSS)

3.6 The North West Regional Spatial Strategy was adopted in September 2008. With regard to Manchester, the RSS requires a minimum provision of 63,000 units 2003-2021. This equates to a figure of 3500 per year. At least 90% of this is to be developed on Brownfield land. This presents significant challenges to maintaining housing viability given likely land use values and remediation costs.

3.7 Local authorities are advised to maintain up to date strategic housing market assessments and strategic housing land availability assessments. The key challenges in ensuring an affordable supply are to encourage delivery to Code for Sustainable Homes and Lifetime Homes standards, whilst ensuring that proper infrastructure is provided. Regeneration is the central maxim of housing development to support the inner core and replace and renew in areas of housing market failure.

3.8 The specific Policy L5 Affordable Housing is included at appendix 2.

3.9 Policy L5 allows Councils to determine their own targets relevant to their needs. Furthermore, given the nature of need in the various districts in the region, the flexibility to deliver affordable housing where necessary is provided.

3.10 Clearly then, the crux of regional policy is that affordable housing provision should be made where it supports the principles of regeneration and sustainability.

3.11 With regard to the economy, the RSS seeks to build on the region's strengths. For Manchester these are identified as being in the advanced manufacturing and engineering, financial and professional services, media, creative and cultural industries, biomedical, ICT/digital, and communications. The overall housing offer should therefore support these economic aims by linking the housing offer with strategies which seek to reduce worklessness and encourage the growth of the Regional Centre.

North West Regional Housing Strategy 2005

3.12 The Regional Housing Strategy for the North West was published by the Regional Housing Board. The main vision contained therein is included at Appendix 2.

3.13 The RHB recognises the importance of the housing offer in driving the economy. This informs the Board's priorities of urban renaissance, balanced communities, decent homes and meeting community needs, and the RHS identifies how to deliver change and positive outcomes against each priority through identification of next steps.

3.14 The RHS identifies that in the Manchester City Region, there are a mix of characteristics including affordability problems south of the conurbation centre and unbalanced markets to the north and east. By identifying home ownership as a priority for affordable housing, the RHS sets out how this will be encouraged through the planning system, through effective public funding and strategic analysis of the section 106 system.

Local Planning Policy

3.15 Providing for Housing Choice is the pertinent document and was adopted in September 2008 as an SPD. The headline figures from the document include a 20% target for affordable housing to be delivered in a tenure split of 75:25 in favour of intermediate housing to social rented units. This AHAV study takes this target and tests its effect on the economic viability of housing development. In order to demonstrate to what extent affordable housing policy is a driver of viability, we have also tested other targets against which to compare the policy.

3.16 The Manchester City Council Core Strategy Document and proposed option document will include affordable housing policies (supported by this study). The refining options document was consulted on in April 2009 and the Core Strategy is to be submitted to the Secretary of State in 2010.

The Wider Economic Picture – Informing the Scenarios

3.17 For our analysis of viability to be dynamic it is important to understand past trends in order to assess how the housing market may perform in the future. While recent history shows specific characteristics which may be peculiar to the period in question, there are still fundamental principles that suggest medium and long term cyclical trends. This will not inform a single assessment of how the market will perform but will give us the main parameters within which we can test possible scenarios.

3.18 Included at Appendix 3 is a consideration of the housing market over the past 25 years, including the wider economic context. From this description, we can see that house prices have followed a cycle over the period with 2 distinct bubbles. When linking this back to incomes, it appears that a 3-3.5X income multiple is the long term trend for house prices. This particular idiosyncrasy informs our scenario testing.

3.19 Our analysis would suggest that there is a strong causal link between affordability and housing market prices. Other market conditions and particularly the cost and availability of finance are an important factor in driving house price inflation. Other macro economic factors are important but it would appear that the volatility of house prices may be somewhat independent of economic factors. If we are to return to our suggested 3.5 times income analysis then prices in the UK may have to fall a further 14%. As figure 1 of appendix 4 shows, first time buyers in the North West would perhaps require price falls of a greater magnitude to return to 3.5X income.

3.20 This is especially a problem for a number of further reasons:

a. Unemployment is currently increasing and the recession may continue;

b. There is downward pressure on incomes generally;

c. Finance is increasingly difficult to obtain, high loan-to-value (LTV) mortgages (especially for first-time buyers) are difficult to obtain and, despite low base

interest rates, finance is expensive (particularly for those wishing to enter the market for the first time);

d. Market confidence is low and households may expect further price falls.

3.21 Therefore, a number of factors have affected the housing market and the affordability of housing. These have included macro-economic influences and the worldwide recession. However, this analysis is useful in setting the context for our housing market scenarios. It is important to realise that we are assuming a structurally recurring cycle, intrinsic to the UK housing market. Responses to this structural cycle were aimed at controlling it. However, our housing market scenarios are founded on the basis that the patterns of the past will likely be repeated in the future. Our various scenarios attempt to ensure we cover all possible magnitudes of this cycle.

3.22 In our analysis of market trends we have highlighted some of the general characteristics of the housing market in the North West with regard to affordability especially of first-time buyers. This is a general assessment based on average incomes and house prices. In order for us to assess the regional and local situation and to inform our housing market scenarios, we need to have a more detailed picture of the economy and the housing market.

Employment and Income

3.23 Appendix 4 includes a consideration of 2 reports into the state of the Manchester economy and job market. These are the Local Government Association and PACEC report, “From Recession to Recovery: The Local Dimension” published in November 2008, and selected data from the 2008 Greater Manchester Forecasting Model report.

3.24 These show that employment is likely to fall 6.4% to 2010 with GVA (Gross Value Added) reducing by 1% in 2009 before growing by 0.8% in 2010 and then 2.75% per annum to 2018.

3.25 These figures also inform our economic model in that we have assumed an inflation rate of 3% per annum for costs of development past 2012 (in the short term a lower measure has been used).

House Prices

3.26 Appendix 4 shows that the North West has experienced a less dramatic property price curve over the last 25 years[4] than the UK average. Therefore, we have looked at historic property prices that relate as close as possible to the local situation. Using Land Registry data to assess the recent past and then using North West regional trends we have built up a picture of past performance in the housing market that is as reliably representative of the trend as possible.

3.27 Information on local areas may be unreliable statistically as the sample sizes are small and annual fluctuations can depend upon a small number of transactions with one or two high value sales during the year skewing results. Therefore we have looked at the average for both Manchester Council area and Greater Manchester since 1995 from Land Registry data and this has shown that average prices have progressively increased after a period of relative stagnation in 1995-1998. This can be seen in Figure 3 of Appendix 4 which shows house price inflation over the period since 1995.

3.28 From 2001 – 2008 property prices increased by large amounts year on year. This fits into the longer term trends shown earlier in this paper.

3.29 In order to assess the affordability of income to value we have used ASHE (Annual Survey of Household Earnings) information on local incomes since 1999[5]. This shows that average house prices have exceeded incomes by an increasing margin suggesting that the national analysis that we undertook earlier in this report is translated to the local scale.

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[4] See Figure 1 Appendix 4

[5] See Appendix 4 Figure 4 - NB For the City area, 1999-2001 figures refer to place of work, 2001-2008 refers to place of residence

3.30 This shows that housing affordability generally in the City is under extreme pressure. Although the general affordability of average house prices is becoming more acceptable, the 2008 average values for all houses exceeded income by over five times suggesting that house prices are more unaffordable in the District than the long term trend.

3.31 The implications of this are that house prices may have to fall significantly more in order to achieve the long term average of 3-3.5 time's income. Indeed, past performance of house prices during previous "bust" periods would suggest that houses price falls overshoot the long-term equilibrium position as the effects of unemployment and other adverse economic conditions make it more difficult, generally, for households to afford even the lower mortgage payments necessary to access the market. However, the Council's longer term strategic objective of achieving higher average incomes could improve the affordability of housing.

3.32 Generally, evidence shows that there is pressure on employment and salaries in the North West in the next two years due to the effects of the economic recession. It is not clear how this will precisely affect the City in particular but there are no indications that we are aware that would suggest that Manchester will be affected in a significantly different way to the rest of the UK. Therefore, while the pressures on affordability will be alleviated, the evidence would suggest that prices will still have to fall significantly before they reach an affordable position. This is taken into account in the 4 scenario positions for future house prices that we use in this study.

4.0 Methodology and Assumptions

Levvel Development Viability Model

4.1 Delivering Affordable Housing supports the use of a viability tool such as that advocated by the Greater London Authority (GLA), or that used by the Homes and Communities Agency for the assessment of whether schemes should be supported by Social Housing Grant. This tool is a residual land value assessment model which suggests that a site will only come forward with an affordable housing contribution where the resulting overall site value exceeds the existing or alternative use of that site. Residual land value assessment is a recognised practice within the development industry for evaluating costs and incomes associated with the

development. In essence, such appraisals consider the income from a development in terms of sales or rental returns and compare this with the costs associated with developing that scheme. The amount left over, or residual, is what is left for land acquisition, i.e. the residual land value.

4.2 This residual value is then compared to a number of baseline values to gauge the likelihood that the imposition of affordable housing might prevent the scheme from coming forward on a given parcel of land.

4.3 Levvel has developed a dynamic model to determine the residual land value that has been used in negotiation with over 100 local authorities and used at appeal on numerous occasions. From this, a toolkit to assess viability on a district wide level has been developed, this is known as the Levvel Development Viability Model (DVM).

4.4 Robust assumptions are then required to be inputted into this model. Costs to development such as build costs, planning gain requirements, profit and development finance are arrived at through our experience and through consultation with industry and Council Officers. Sensitivity testing of variables such as affordable housing percentage, tenure requirements, increased/decreased levels of planning obligations will ensure the validity of the study outputs and demonstrate the impact upon viability across the range of study scenarios.

4.5 For a policy to be robust and reliable throughout the plan period, we believe it is necessary to assess with a methodology that is “future proofed” as far as possible. As viability is reliant on the interaction between changing costs and revenues of housing over time, it follows that this relationship must be accounted for by future proof testing. It is simply not good enough to assess current costs against a range of property values as this provides only a “snapshot” view. The relationship between values and costs over time is not taken into account.

4.6 Levvel has therefore addressed this issue by applying inflation rates for cost inputs throughout the study period. For values, it is difficult to predict where the housing market may be in even 1 year’s time, so long range predictions based on popular commentary are of little use. However, we have assessed value changes based on the historic performance of the housing market as described above. This gives us a view of where values may be in the future if the past housing market cycle was typical. However, this does not give us the necessary comfort or margin for error

should the cycle vary. We have therefore reasoned that by choosing scenarios, based on an upside, historic, middle downside and downside view of the housing market, we will have covered the range of positions to which the housing market may go. A detailed analysis of these scenarios is included at Appendix 5 to this document.

4.7 By then reporting on the viability of schemes were they delivered at different points within this range, we have come to a view of how this will affect the deliverability and effectiveness of proposed policy. For instance, should the housing market perform below past trends for the next five years before picking up again, we can assess whether the proposed policy might adversely affect the viability of schemes and therefore their delivery. Similar principles apply to a more optimistic view of where values may end up.

4.8 Levvel's methodology enables the effect of a range of delivery timescales, thus all development scenarios selected will be tested assuming development start dates of the date of modelling, date of modelling plus 1 year, plus 2 years, plus 4 years and plus 8 years. Given the size of some of the schemes and the projected development timetable, this is sufficient to cover the life of the plan it will inform.

4.9 The use of the Levvel methodology allows for variations in land value over time to be accounted for again ensuring 'future proofing' of the viability study. Valuation Office Agency (VOA) data on residential land prices in the district will be used as a check. We recognise that this data can be as much as a year out of date and not available at a sufficiently local level to enable for local variations in land values to be assessed. Furthermore, the imposition of affordable housing planning policy will necessarily reduce land values in certain schemes. Therefore it is not enough to assess the viability of a particular scheme purely against VOA data on residential land values since this may not have been calculated with the inclusion of affordable housing (since land may have been purchased prior to the imposition of affordable housing policy) and assumed higher residential sales values of up to 1 year ago.

4.10 Any affordable housing policy seeks to capture an element of the land value for the community benefit. We know that there is a minimum land value which schemes need to achieve in order to be brought forward, otherwise it becomes more economic for the site to continue in its existing (or alternative) use. Given that the Manchester City area has seen development rates on previously developed land in excess of 90%, it follows that in the majority of cases, that minimum value must

exceed the industrial use value of the particular parcel of land. In favourable market conditions, residential land has been able to compete at a much higher rate than these industrial values and landowners have enjoyed the benefits, hence the evidence from VOA that residential land has typically been sold at up to 5x the rate of industrial land over the period 2005 to present day. However, with falling residential values, land values have reduced accordingly.

4.11 The principle which we have used is that residual land values must first exceed industrial use values in order to be brought forward for development. However, this may not be enough given that the landowner may need further encouragement to bring forward his land. We have therefore developed a methodology that assesses how much landowners have been willing to accept for their land in the past, and expressed it in terms of the ratio between Gross Development Value and Residual Land Value (GDV:RLV). That is to say how much of the revenue from a scheme can be used to pay for the land.

4.12 Residential land rates have risen considerably in the last 5 years to in the region of 65% of GDV on small sites and 31-37% for flats and bulk land (See Appendix 6). Landowners have benefited from these rates as developers competed for scarce development land and were willing to pay the higher rates, often based on future expectations of property values.

4.13 However, looking at the period 2001-2005, rates range from 10-20% of GDV for the same site types. The effect can be seen that in a rising and somewhat overheated market, landowner expectations rise and the price that developers are willing to pay also increases. However, in a falling and “normal” market landowner expectations fall to more “reasonable” levels.

4.14 We have therefore taken a figure of 15% of Gross Development Value as a test for the level at which the Residual Land Value may need to reach in order to incentivise the landowner sufficiently to bring forward his parcel of land.

4.15 This is not a firm figure and some flexibility has been applied when reporting on this basis, especially given that some lower density schemes may need to reach a higher figure given the absolute land value derived.

4.16 Using the two baseline land value approaches above, it is possible to inform a policy position that has flexibility and looks over the life of the plan to ensure deliverability.

Site identification methodology

4.17 In order to have a degree of confidence in the results, viability assessment on a City wide scale should be carried out on the majority of scheme types that would typically come forward in the authority area. By this rationale, the results can be assumed to be applicable to most schemes coming forward in the District.

4.18 As a large urban local authority, Manchester covers a wide geographic area, which in turn contains a large number of neighbourhoods. Each neighbourhood has its own characteristics related to the housing stock, supply and demand of future housing.

4.19 As part of the Housing Land Availability Assessment, the Council, with consultants, drew up a list of sites in 2006. In 2009 a call for sites was issued as part of the Strategic Housing Land Availability Assessment with a limited number of sites being proposed. The Council collated the results of these exercises into a list which details site name and address, ward, unit numbers and likely timing of development. Some capacity sites have other details such as density. (This call for sites information is included as Appendix 7)

4.20 The aim of the site selection methodology is to determine through the SHLAA information whether there are typical types of future development in Manchester (in terms of density and form of development) and in which wards these are located. By extension, if a number of typical development types can be determined, these can be assessed in terms of their viability in the different value areas of the City and the results can be taken to apply for all similar future development in Manchester.

Wards

4.21 Manchester is covered by 32 wards. Clearly some of these wards will form parts of larger neighbourhoods. By narrowing down the range of wards into a number of neighbourhoods it makes the site selection process more effective.

4.22 The following table shows how the 32 wards have been grouped into the 17 neighbourhoods;

Ward	Neighbourhood
Ardwick	Ardwick
Baguley	Baguley & Northenden
Brooklands	
Northenden	
Higher Blackley	Blackley
Cheetham	Cheetham & Crumpsall
Crumpsall	
Chorlton	Chorlton-cum-Hardy
Chorlton Park	
City Centre	City Centre
Didsbury East	Didsbury
Didsbury West	
Ancoats & Clayton	East Manchester
Bradford	
Miles Platting & Newton Heath	
Fallowfield	Fallowfield & Whalley Range
Old Moat	
Whalley Range	
Gorton North	Gorton
Gorton South	
Harpurhey	Harpurhey
Hulme	Hulme
Levenshulme	Levenshulme & Longsight
Longsight	
Charlestown	Moston
Moston	
Moss Side	Rusholme & Moss Side
Rusholme	
Burnage	Withington & Burnage
Withington	
Sharston	Wythenshawe & Airport
Woodhouse Park	

Figure i – Wards to Neighbourhoods

Site Typologies

4.23 With these neighbourhoods defined, the next stage in the process was to narrow down the huge range of sites identified, to a more manageable number representative of the site sizes, typical densities, unit numbers and assumed development types in each neighbourhood.

4.24 As described Manchester City Council housing land availability data was used for this, and the result was a selection of 4-10 sites in each neighbourhood, representative of the range of development types found there.

4.25 In doing this, it became apparent that the range of development types in Manchester would be best covered by the following site typologies;

Fig ii – Site Typologies in Manchester

Unit Types	Density	Previous land use	Notional site size	Unit numbers
A Small site, townhouses or flats	50-100 dph	Residential/Brownfield	0.1 ha	5-10
B Flatted Development	100 dph	Residential/Brownfield	0.15 ha	15
C Flatted Development	200 dph	Residential/Brownfield/Conversion	1 ha	200
D Terraced Housing/Town Houses/Semi detached	40 dph	Residential/Brownfield	1.5 ha	60
E Semi/detached housing	30 dph	Residential/Brownfield	4 ha	120
F Mixed Developments (flatted/housing)	40-50 dph	Brownfield	6 ha	240-300
G Mixed Developments (flatted/housing)	110-130 dph	Brownfield	25 ha	2750-3250

4.26 It is not necessary to cover all site sizes since the density of schemes is more important. For instance, when assessing larger sites, of say 600 units, which are in the main at densities of 40-50 dph, or 110-130 dph. For very small sites and very large sites, this may not be the case, but these have been assessed separately within the study methodology. Hence the results of the sites assessed at these densities can be scaled up or down appropriately within a certain tolerance, barring any untested extra cost of development associated with the particular size of the site.

Value Areas

4.27 In order to further narrow down the number of economic viability appraisals carried out and produce more readily workable results, it was necessary to consider whether any of the 17 neighbourhood areas detailed in figure i can be roughly grouped together by the value of housing. Using data collected by the City Council relating to sales values of new build and second hand properties in each neighbourhood between February 2008 and February 2009 (see Appendix 8), it is possible to group the neighbourhoods into the value bands outlined in Figure iii. It is important to note that although these value bands are a useful guide there are exceptions in both low and high values – i.e. Moston, Hulme and Northenden Village. Because Table 4 also gives an indicator of general policy rather than specific results, individual site appraisals may be necessary within these locations.

Ward	Neighbourhood	Value Area
Higher Blackley	Blackley	1
Harpurhey	Harpurhey	
Baguley	Baguley & Northenden	2
Brooklands		
Northenden		
Cheetham	Cheetham & Crumpsall	
Crumpsall		
Charlestown	Moston	
Moston		
Sharston	Wythenshawe & Airport	
Woodhouse Park		
Ardwick	Ardwick	3
Ancoats & Clayton	East Manchester	
Bradford		
Miles Platting & Newton Heath		
Gorton North	Gorton	
Gorton South		
Hulme	Hulme	
Levenshulme	Levenshulme & Longsight	4
Longsight		
Moss Side	Rusholme & Moss Side	
Rusholme		
Fallowfield	Fallowfield & Whalley Range	5
Old Moat		
Whalley Range		
Burnage	Withington & Burnage	
Withington		
Chorlton	Chorlton-cum-Hardy	6
Chorlton Park		
Didsbury East	Didsbury	
Didsbury West		
City Centre	City Centre	7

Fig iii – Wards to Neighbourhoods to Value Areas

4.28 That is to say, if the housing in multiple neighbourhoods is of a similar value, then testing the viability of each of the sites applicable to that value band will ensure that the whole geography of Manchester is covered.

4.29 The values of each particular property type in the value areas are given as Appendix 9.

Site typologies in specific areas

4.30 Not all of the site typologies A-G will come forward in every value area. From the SHLAA data it is possible to show where the typologies are likely to be developed. The table below shows this;

Value Area	Development Typology
1	ABDEF
2	ABCDEF
3	ABCDEFG
4	ABDEF
5	ABDEF
6	ABCDEF
7	ABCG

Fig iv - Development Types by Value Area

4.31 The site selection methodology given above is a response to the number, range and complexity of development sites and schemes in Manchester. Clearly it would be a huge task to assess every scheme in the Manchester SHLAA. By adopting a value band approach, the aim is to cover typical development types which will come forward in the next 20 years in each area, to assess their viability on a geographic basis.

4.32 This process provides the range of sites to be tested, their location and the value of housing relative to other areas. The development types and value bands above should be assessed with regard to abnormal costs relating to contamination and other section 106 requirements, but this can be incorporated into the viability

modelling process. The result will be an output which indicates the viability of housing over 3 dimensions – place, time and development type. These results will be capable of application on the majority of schemes, thereby indicating the deliverability of the Council's housing policy and methods of dealing with short, medium and long term economic circumstances.

Study Variables

4.33 In order to demonstrate the relative viability of the 20% target and the effect of a number of variables on land values, it was necessary to test each scheme against the following;

- Affordable Housing at 15%, 20% and 25%;
- Affordable Housing tenure splits at 75:25 and 100:0 (intermediate to social rented housing);
- Other section 106 costs of £0 and £5000 per unit (derived through conversation with Development Control Officers at Manchester CC).

4.34 Build Costs

Derived from the latest Build Cost Information Service Figures as follows (£ per sq metre);

Estate Housing	688
Estate Housing Detached	771
Estate Housing Semi-detached	696
Estate Housing Terraced	636
Flats (apartments)	794
Housing Mixed Developments	723
Sheltered Housing	801

To these figures a further uplift was applied to account for the relevant Code for Sustainable Homes Standards (£ per sq metre);

Flats	**Houses**
50	43
103	101
208	191
360	335

This was then further uplifted by 15% to account for external works. A further 5% build contingency fund was added.

4.35 Other costs of development

- Charged Interest Rate - 6.50%

  This is the long term cost of development finance. Whilst the Bank of England Base Rate is currently at 0.5%, developers are not able to access finance at this level. Therefore a 6.5% figure has been used.

- Professional Fees – 10% of Build Costs

  Covering architects, consultants engineers fees etc. This is assessed as being 10% of the total build costs.

- Site Investigation - £5000
- Agents Acquisition Fees – 1.0% of Residual Land Value
- Marketing and Sales Fees – 3.0% of Gross Development Value
- Legal Fees on sales - £350 per unit
- Finance Arrangement Fee – 1.0% of build cost
- Internal Overheads – 1.0% of build plus on-costs
- Planning Fees – in line with Council defined rates
- Developer Profit – 17% of Gross Development Value

  In line with other appraisals of this type and a long term assumption as to the necessary profit to encourage development. For affordable housing this figure is 6% to reflect the contractor's return.

- Stamp Duty Land Tax – ranges between 0% and 4.0% depending on residual land value.
- That contamination costs have been assessed at a level of approximately £400,000 per hectare where appropriate (see Appendix 10 for details).

5.0 Results Analysis

Key Findings

5.1 The key conclusions emerging from the analysis are:

5.2 The effect of build cost increases, the imposition of the Code for Sustainable Homes standards and sluggish housing market performance assumptions mean the likelihood of reaching a viable position actually decreases to 2012 in most instances as cost rises outstrip revenue increases;

5.3 That the common factor which affects the extent of viability of schemes is the open market values/residual land values in different locations. Other factors have a lesser bearing. In some instances, viability is reliant on land being uncontaminated, in others it is the tenure split which is the determining factor. Some schemes may be sensitive to percentage requirements for affordable housing;

5.4 That land values in Value Areas 1 & 2 cannot support the imposition of affordable housing at any rate until later in the study period (post 2018);

5.5 That Value Area 3 has mixed viability positions. Some development at higher densities can support a 20% target and lower densities may not. If the housing market falls to below the Historic trend position then viability is severely impinged upon;

5.6 Schemes in Value Areas 4-7 appear increasingly viable across Historic scenario and above;

5.7 Increased density does not necessarily improve viability since some high density unit types command low values per square metre in varying Value Areas;

5.8 That where assessment is made against Alternative Use Value, the 20% target looks more deliverable than when assessed against our RLV: GDV test at 15%.

Recommendations for policy and guidance

5.9 That the targets and tenure splits contained within Providing for Housing Choice are sufficiently flexible and allow for the maximum likely level of affordable housing to be gained from s106 agreements whilst not overly depressing land values.

5.10 A 20% target to be implemented across the board, with flexibility to be implied in the period to 2018 in lower value areas. 25:75 tenure split to be implied in supporting text but to be flexibly applied where necessary to reflect viability concerns and housing need priorities in the local areas.

5.11 To recognise that whilst intermediate housing products require less developer subsidy and thus may produce more affordable housing on any particular site, in any event the affordable housing mix proposed for the site must still derive a residual land value for the site that is viable.

5.12 That this 20% target applies only to schemes of 15 units and above, this threshold to be revisited in the medium term. As things stand, only small scale development in the highest value areas can support an affordable housing imposition which would result in significant numbers of affordable housing.

5.13 That between 5 and 15 units, the Council seeks a financial contribution in lieu of on-site development. The contribution should be based upon the equivalence principle supported through Circular 05/05, PPS 3 and associated documents. Hence the contribution should equate to the amount of developer subsidy that would be provided by the developer to provide the affordable housing onsite. The contribution figure is thus derived through a Development Control Toolkit and is the difference between the residual land value unencumbered with affordable housing and the enhanced existing/alternative use value[6]. The residual unencumbered land

[6] [6] EUV or Alternative Use value is enhanced by an agreed margin to ensure land comes forward for development

value for the proposed project will be established through the Development Control Toolkit:

Example:

A site has an agreed existing or alternative use value[7] benchmark of £400,000.

The Development Control Toolkit, taking into account all receipts and costs calculates that the residual land value of the proposed project as £600,000

The Financial Contribution in lieu of on-site development = £600,000 - £400,000 = £200,000.

5.14 To ensure that on a scheme by scheme basis, the Council is aware of the relative effects of a change in tenure split, percentage of affordable housing sought and public subsidy across the City in order to maximise affordable housing and that this flexibility is allowed for in Providing for Housing Choice.

5.15 That some reference be made to the relationship between increasing costs and increasing revenue over time.

5.16 That the Council do not attempt to support high land values through overly flexible application of the policy. Landowners have been used to high returns on their land in the period 2004-2008. A more reasonable position is given prior to 2004 when land was being brought forward at circa 15% of GDV. If expectations reduce over time, the willingness to bring forward land at this level will likely increase.

5.17 That the Council monitor the provision of affordable housing in "real time" so as to be able to modify policy should economic conditions severely deteriorate or improve significantly over a short time period.

5.18 That any area or value point based target would be insufficiently implementable given the possibility of varying values within each of our assumed Value Areas.

[7] EUV or Alternative Use value is enhanced by an agreed margin to ensure land comes forward for development

5.19 That a reference be made in policy to the effect that contamination issues and abnormal costs have on viability.

5.20 To acknowledge that the imposition of a tariff or Community Infrastructure will erode the viability of schemes and may further reduce the amount of affordable housing provided.

5.21 That a Development Control Toolkit be implemented to ensure a fair and consistent approach in assessing viability on a site-by-site basis.

Approach to the Reporting of Results

5.22 Appendix 11 indicates the range and number of appraisals carried out in this study. With the large number of appraisals carried out, we have attempted to ensure all positions are assessed within the range of assumptions. Clearly then, any meaningful analysis of the results would be difficult were every single output detailed. The approach that follows here is to present each Value Area in turn, relating the effect of the Providing for Housing Choice policy requirement on the viability of each scheme type in turn via a general narrative.

5.23 Where the viability of the scheme is not compromised by the imposition of 20% affordable housing in a 25:75 tenure split, we have attempted to also show how a higher percentage target or less favourable tenure split might affect this position. The aim is to glean some comfort that the 20% is deliverable. Where 20% is shown to result in an unviable position, we have assessed a lower percentage target and more favourable tenure splits in order to present a reasoned view as to what degree the position may be “unviable”.

5.24 In this respect, what follows here is general commentary on the viability of the target in each area, scheme by scheme, illustrated with a number of figures intended to add weight to the narrative. The analysis by area indicates the general conclusion but does not affect the affordable targets since there will be instances where higher land values and house prices will sustain higher ratios of affordable housing.

A Viable Position

5.25 There is no definitive answer to the question "What is Viable?" although generally it can be considered to be whatever is necessary to bring forward a site for development. Therefore, it is important to ensure that a number of baselines are set against which the viability of development can be tested and then the results reported on in the round.

5.26 For the purpose of this study, we have attempted to demonstrate that where the residual land value of a residential scheme meets or beats the value of the existing or alternative use of the site, it is in principle, "viable" and the site will come forward. Landowners are not a homogenous group – each one has different incentives and circumstances – and therefore, for various reasons, landowners may need to be further incentivised to sell their land or it may be more economic to continue in its present use. Paying a sum that exceeds the existing use value for the land can overcome this inertia.

5.27 The incentive necessary to bring a site forward is difficult to quantify, however. We have therefore attempted to measure how much is needed to encourage landowners to bring their land forward by looking at historically achieved land values in the City. These are expressed in terms of the ratio of revenue to land value (or GDV:RLV as set above). We have assumed here that since landowners were willing to accept a minimum RLV:GDV of about 15% in the recent past, then as long as the residual land value exceeds the existing or alternative use value of the land **and** comes close to or exceeds this 15% measure, the landowner is sufficiently incentivised to bring his land forward for development.

5.28 Each landowner may have different priorities and some may require a larger return than others due to their own personal circumstances. However, at the District wide, policy setting level, it is important to come to a view as to what is sufficient to ensure land is generally brought forward. The history of achieved land values from 2001 is that 15% of GDV is sufficient to bring land forward in the City in a "normal" land market, as long as this exceeds the value of the land in its current use. Recent experience suggests landowners have enjoyed higher returns for their land. However, this cannot be seen as the norm since with falling property values, these returns are very difficult to ensure even on sites unencumbered by affordable

housing. Furthermore, to attempt to protect these high land values would have the effect of reducing the amount left in the appraisal for affordable housing.

5.29 The 15% figure is one which stays constant over time. The absolute value of this figure is therefore increased as property values increase. In a rising housing market, this is sufficient to ensure that the land value rises also, further incentivising landowners.

5.30 Appendix 6 also shows the performance of the industrial land market since 2001. Compared to the residential land market, this has remained relatively flat. It follows, then, that if we use our 15% test, in a rising market the difference between the industrial use value of a site, and the residual land value for a residential scheme will increase, further incentivising landowners. As 90% if development in Manchester has recently occurred on previously developed land, this relationship is important. It provides increased comfort over time that higher land values will occur in a rising market so the attractiveness of residential use to landowners also increases, despite the imposition of affordable housing.

5.31 Therefore we have assessed the schemes below against these baselines and attempted to draw conclusions from the results.

VALUE AREA 1 – Harpurhey and Blackley

5.32 This area is characterised by lower relative values for smaller properties. The second hand market is more prevalent and new build premiums do not exist across the board for these units. Housing Team figures show that new build sales in 2008/09 were 23 units (of which 16 were detached properties), with only 1 new build flat, 2 new build semis and 4 new build terraced houses being sold.

5.33 This relates well to the evidence from our appraisal which shows that at each development start date and under every future scenario against each test of viability, smaller housing units will not be viable, even without affordable housing.

5.34 Therefore, we have taken all scheme mixes and applied larger units to them to assess the effect of a change in development mix toward family housing. This shows that this type of housing does result in a somewhat increased land value, but not to a level that would exceed the existing use value assuming industrial land. After 2018, some development scenarios result in positive residual land values and in some cases, this is sufficient to exceed existing industrial use values where contamination is not an issue.

5.35 The conclusions are that development in this value area will not support an affordable housing target. Even when assessing a 15% target with a 100% intermediate tenure split and no section 106 contributions, all schemes struggle to make a positive residual land value. Given also that values in the area may well already be affordable for market housing (2nd hand) affordable housing will not be sought where a financial viability assessment demonstrates that the scheme would be unviable..

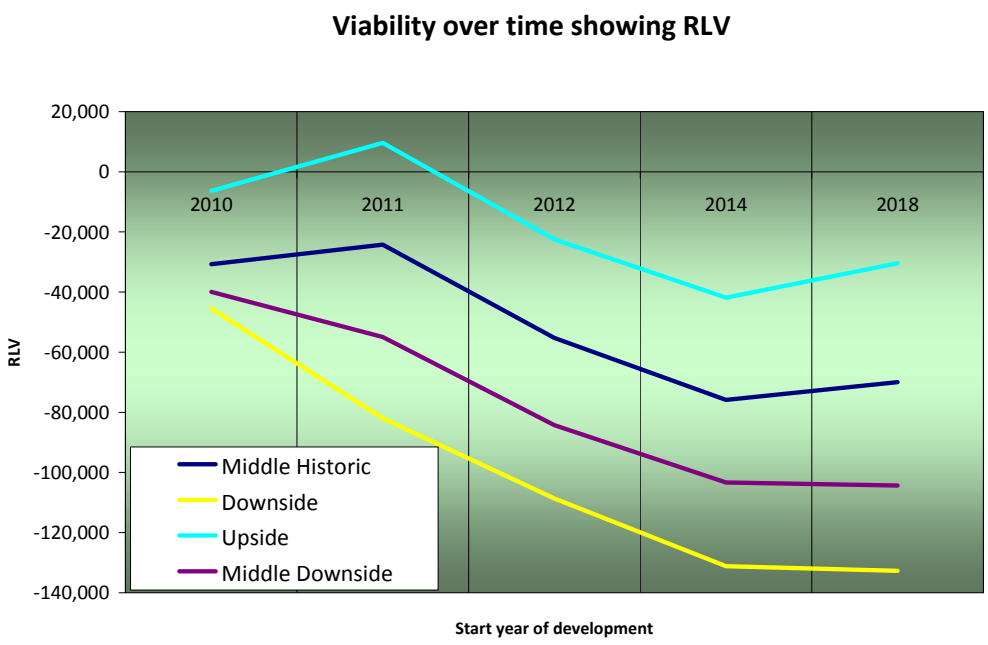
5.36 The appraisals identify very low, and in some cases, negative land values, so it is likely that it will be challenging to encourage any development to come forward in this area. However, individual schemes in some specific locations may derive higher than anticipated sales values and as such site specific viability assessments should be carried out to determine whether any affordable housing can be provided, (for instance, isolated areas on the boundary of other higher value areas)

VALUE AREA 2 – Baguley and Northenden, Cheetham and Crumpsall, Moston, Wythenshawe and Airport

SCHEME TYPE A - 5 unit housing scheme, 0.1 hectares, 50 dph

5.37 This was assessed at a 20% target firstly assuming one unit of shared ownership housing and secondly one unit of social rented housing. The results show that the former test requires significant levels of grant on Historic scenarios and below to reach a viable position against an alternative use value of uncontaminated industrial land. This pertains until 2018 when grant may not be required if the housing market performance is anywhere between the Historic and Upside scenarios. However, until then, a maximum of £40,000 per affordable unit would be required in 2012, falling to more reasonable levels afterwards. On contaminated schemes and on the Middle Downside and Downside scenarios, affordable housing is not viable at any point in the period.

Fig v – Scheme Type A



5.38 The above figure shows to what extent land values in each scenario at each development start date are affected by affordable housing. The £0 figure on the Y axis represents the industrial land use baseline (uncontaminated). As can be seen, the Upside scenario is sufficient that the residual land value of scheme type A exceeds the alternative use by approximately £9,000 in 2011. Under all other scenarios the alternative use value is not met.

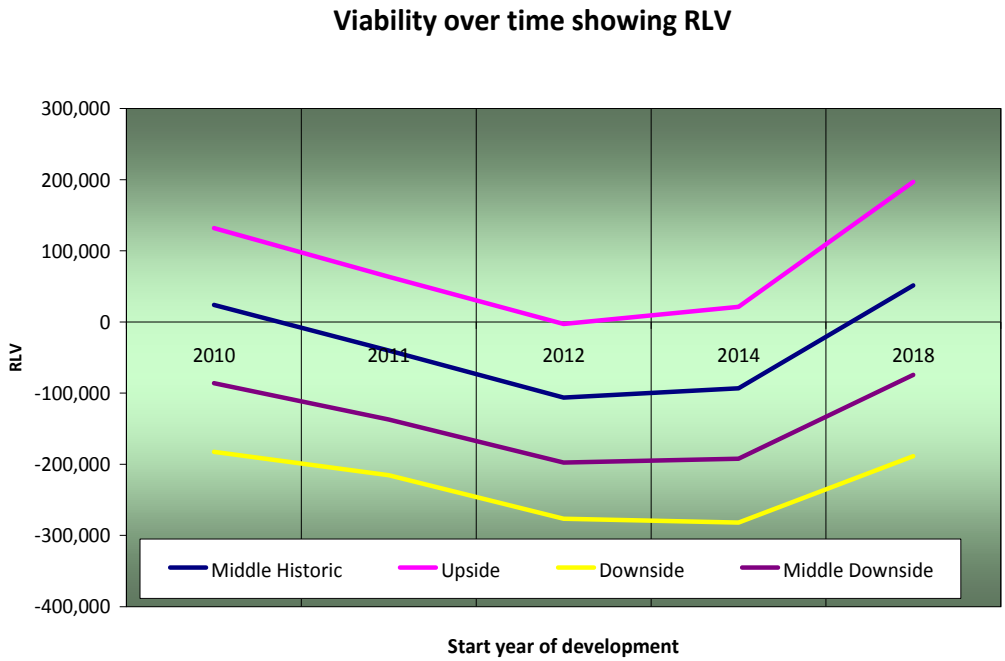
5.39 However, it is difficult to reach the 15% RLV:GDV baseline until later in the study period. This suggests that viability on these small schemes in this area will be extremely challenging on schemes with a low industrial value. Where contamination occurs, or if less favourable scenarios pertain, or if social rented housing is required, a viable position is difficult to achieve.

SCHEME TYPE B – 15 unit flatted development, 0.15ha, 100dph

5.40 With a 20% target, and a 33:67 tenure split in favour of intermediate housing, negative residual values occur on Historic scenarios and below post 2010. By 2014 a positive residual value is gained in the Historic scenario with the lower scenarios following suit later in the study period. Where contamination is an issue, a viable position is difficult to achieve until post 2018

5.41 Against an alternative use value, it is very difficult to achieve a viable position. This only occurs when no s106 contributions are applied, on uncontaminated schemes in the Upside scenario throughout the period, but only schemes beginning post 2014 reach a viable position on the Historic scenario as shown in figure vi.

Fig ii – Scheme Type B



5.42 The effect of increasing the intermediate affordable housing offer to a 0:100 tenure split is such that it brings forward the point in time at which schemes reach a viable position.

5.43 Any affordable housing policy here should be applied very carefully and only on development beginning post 2018 should the policy be considered without recourse to public subsidy. The results of the appraisal show that a viable position can be achieved on the Upside housing market scenario throughout in some circumstances but that on other scenarios, even a 15% target may reduce the possibility of a viable position being reached until 2016 and beyond.

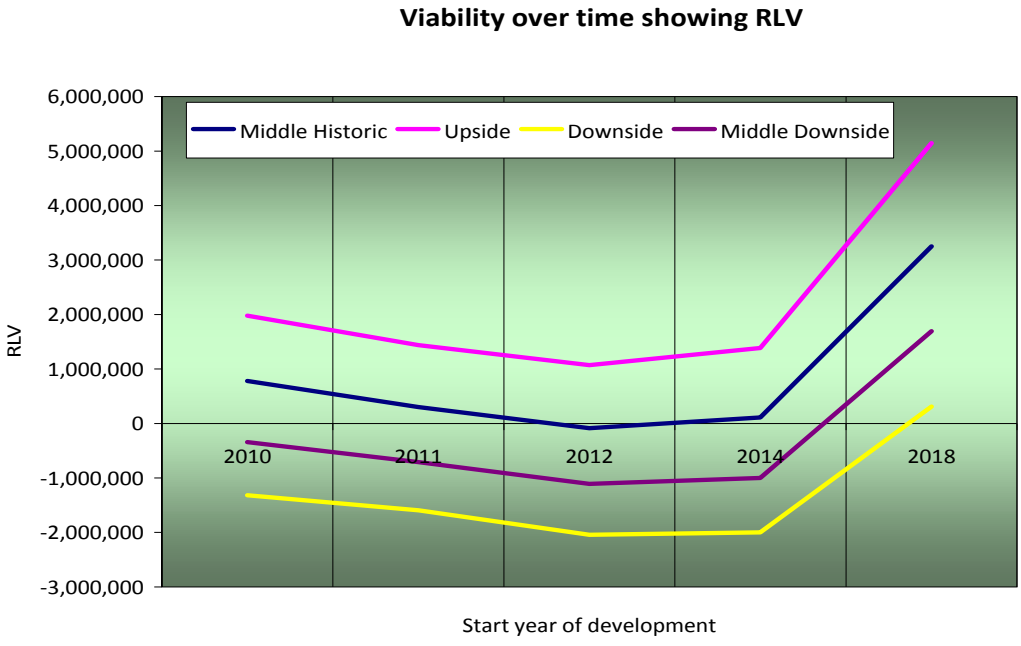
5.44 Flexibility can be built into policy but this must recognise that the 20% target will be challenging on these schemes in Value Area 2 and that the Council should monitor its effect on housing delivery through the Annual Monitoring Report.

SCHEME TYPE C – 200 unit flatted development, 1 hectare, 200dph

5.45 At a 20% target with 25:75 tenure split and s106 contributions of 5k per unit, this scheme type shows positive residual values on the Upside scenario throughout the study period, and on the Historic scenario for schemes starting before 2011 and after 2014. However, against our RLV:GDV test, it takes until 2018 before residual values come near to the 15% hurdle. The Upside scenario shows a viable position against an industrial land use value but in the Historic scenario, a scheme would have to start after 2018 to become viable.

5.46 Removing s106 obligations from the equation brings a scheme on the Historic scenario and above into viable territory pre 2012 and post 2014 and the middle Downside to be viable post 2018 against an industrial alternative use value as shown below in fig vii.

Fig vii - Scheme Type C against alternative use value assuming no contamination



5.47 The effect of applying more intermediate units to the tenure split at the expense of social rented units is to bring a scheme on uncontaminated land into a viable position throughout the development period when assessed against an Industrial AUV. However, this is marginal and does not clear our 15% RLV:GDV test. The effect of applying this baseline to the appraisal may mean affordable housing is viable post 2014 but this is sensitive to other s106 contributions being applied and the tenure of affordable housing.

5.48 Given that viability is at best marginal under most scenarios at a 20% target it is worth looking at a reduced target to determine whether viability is sensitive to a change in affordable housing percentage.

5.49 At 15% with an intermediate housing tenure mix the alternative use value is beaten throughout on an uncontaminated scheme on middle Historic scenario and above. However, this is sensitive to s106, contamination and tenure changes. Again, this does not get over the 15% RLV hurdle until post 2014.

5.50 The viability of a scheme of this type is mixed. It would appear that whilst on Historic scenarios and above, a scheme may exceed the Alternative Use Value, meaning it is in principle viable throughout, the RLV:GDV hurdle is more problematical. It remains to be seen if there is sufficient incentive for a landowner to bring forward his site until post 2014 at which point his return for land will approach more “normal” levels.

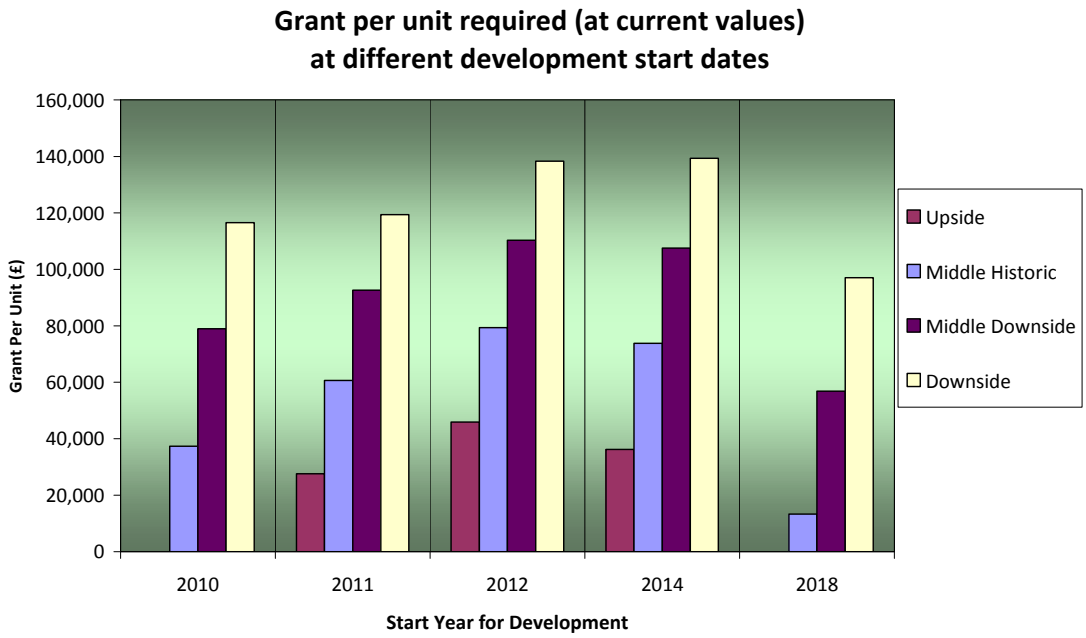
5.51 With regard to the 20% target, on this scheme type in this value area it would be a challenge on uncontaminated sites and where contamination is a problem viability would be impinged upon. Some schemes may reach a viable position, but some may not. Flexibility should be employed with regard to s106 contributions and tenure mix before public subsidy or a reduced quantum is sought. However, we have seen that if market conditions pick up above the long term trend, this site type may be deliverable with affordable housing at 20%.

SCHEME TYPE D – 60 unit estate housing, 1.5 hectares, 40dph

5.52 At a 20% position with £5k s106 contributions and a 25:75 tenure split, this scheme type produces positive residuals throughout the study period. However, these are insufficient to meet the 15% test of RLV:GDV until later in the period. Even on an uncontaminated site, this would be insufficient to exceed the alternative

use value and as such, unreasonable amounts of grant would be required in the middle years to deliver the target. Early in the period and Post 2018 the target is more deliverable but would still require some grant (13k per unit in 2018)

Figure viii – Approximate public subsidy required to exceed alternative use value.



5.53 The viability of this scheme type is not sensitive to s106 contributions or a tenure split change, as the combined effect of altering these is to increase land values, but these are still insufficient to exceed AUV on even uncontaminated sites. The amount of grant required does fall to a maximum of £50k per unit in 2012 on the Historic scenario for example, but this is still an unrealistic amount.

5.54 A 15% target follows a similar trend. Again residual land values are insufficient to bring land forward until post 2014 at the earliest on the Historic scenario.

5.55 Therefore, it is likely that little or no affordable housing is viable until 2014 and then only in an Upside scenario and with some public subsidy. Significant care should be taken here if introducing an affordable housing policy. It is likely that the combined effect of a relatively low density (40 dph) and lower values for this type of unit per sq metre are the determinant factors of viability here.

SCHEME TYPE E – 120 unit estate housing, 4 hectares, 30 dwellings per hectare

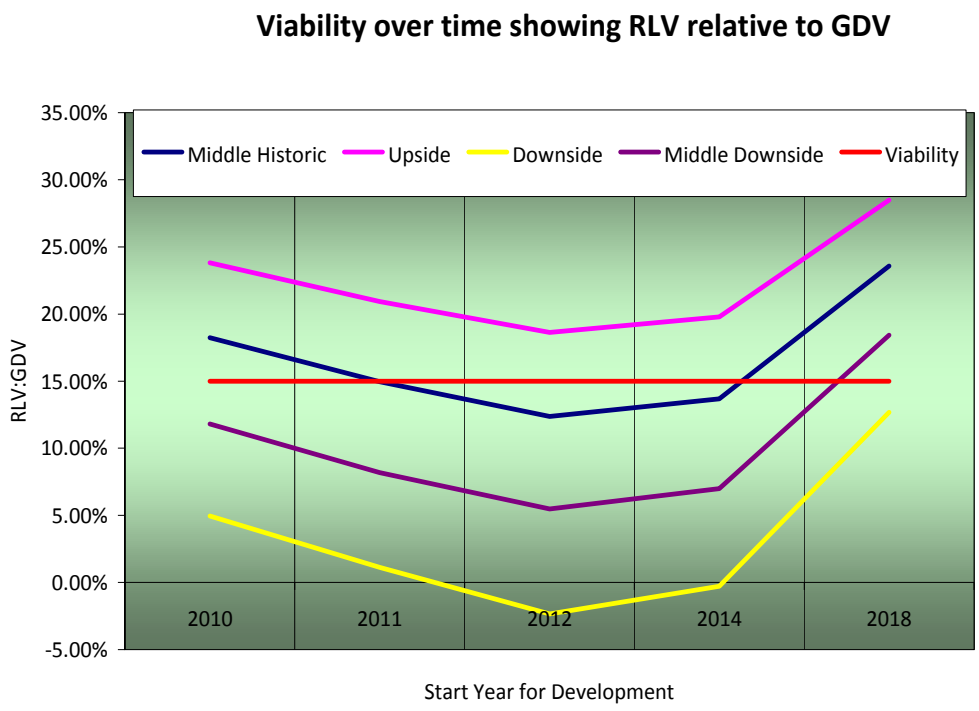
5.56 At a 20% target with s106 at £5k per unit and a 25:75 tenure split, positive residuals are enjoyed throughout in Middle Downside and above scenarios. However, only schemes based on the Upside scenario exceeds our RLV test throughout.

5.57 In an Upside scenario, the alternative use value is exceeded throughout when uncontaminated sites are considered, and on the Historic scenario the policy requires a maximum public subsidy of £40k per unit to beat the AUV. However, when contaminated land is taken into account, this scheme is unviable throughout the study period.

5.58 Removing s106 requirements reduces the public subsidy needed to £26k per unit as a maximum on Historic scenarios. Post 2014 the Historic scenario does not require subsidy to deliver policy. With contamination an unreasonable amount of subsidy is still required however.

5.59 The intermediate tenure split without s106 contributions helps to reduce required subsidy levels on non contaminated land to negligible levels, and means an Upside and Historic scenario lead to schemes being able to exceed our RLV test in the majority of cases, as illustrated in Figure v below.

Figure ix – RLV:GDV of Scheme type E, Value area 2



5.60 This scheme type appears to be on the tipping point of viability. Contamination can render the scheme unviable, but on balance a 20% target can be seen as viable, if not a little challenging, if market conditions are favourable or follow long term trend. S106 contributions should not be expected alongside a full affordable housing provision, but in any instance, a viable position is more readily reached post 2018 as the figure above shows.

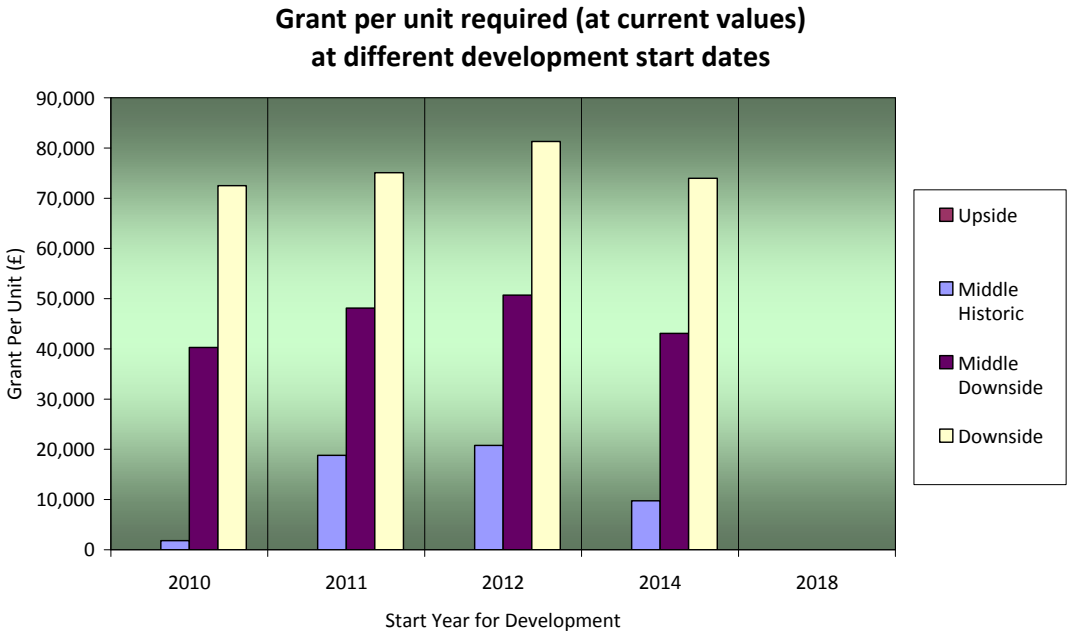
SCHEME TYPE F – 300 unit mixed development, 6 hectares, 50dph

5.61 At a 20% target with £5k per unit s106 contributions and a tenure split of 25:75, positive residual land values occur throughout on schemes assuming a middle down scenario and above prevails. However, until 2014 this residual land value does not

exceed the AUV of the scheme, and does not approach our RLV:GDV test. Public subsidy would be required even on uncontaminated sites at a maximum of £48k per unit based on the Historic scenario. This figure seems somewhat unachievable given the tenure split provided and current expectations of subsidy coming from the HCA.

5.62 The effect of changing the tenure split and relaxing s106 requirements leads to a viable position being more readily achieved. Indeed, on the Upside scenario our RLV:GDV test is exceeded throughout. Public subsidy would be required to deliver the 100% intermediate split at 20k per unit assuming an Historic scenario. However, this is a maximum and occurs only on schemes starting in 2012.

Figure x – Public subsidy required to bring forward 20% target with 100% intermediate housing and no S106 on an uncontaminated scheme (type F)



5.63 Contaminated sites cannot be made viable without unrealistic levels of public subsidy at a 20% target.

5.64 At a 15% affordable housing target, positive residual values occur on all scenarios bar the Downside throughout the study period, but only in an Upside housing market would a scheme meet our RLV:GDV test, until after 2014 when the Historic scenario and above lead to this test being met. Non contaminated sites can be made viable at £20k+ per unit subsidy approximately on middle Historic in 2011-2013 and nil subsidies at other times on this scenario.

5.65 It appears that some affordable housing might be justifiable on this scheme type in Historic scenarios and above, but this is later in the study period and may require public subsidy. Contaminated land may not be viable at all. An affordable housing policy would be more effective at lower percentages and requiring higher levels of intermediate housing, as well as being flexibly applied in the early period.

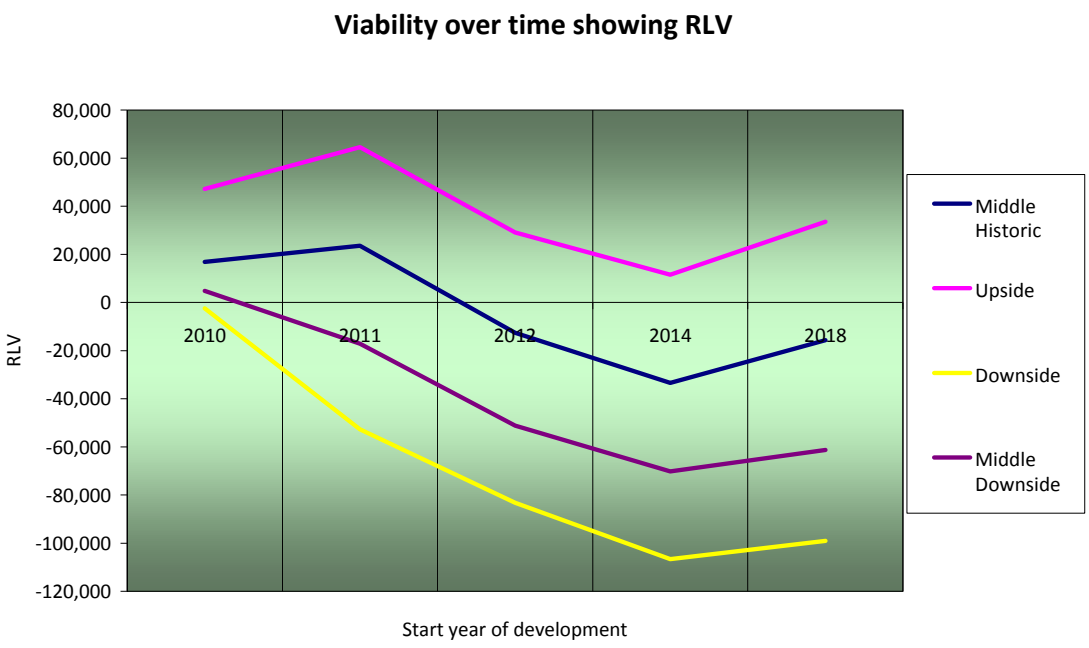
VALUE AREA 3 – Ardwick, East Manchester, Gorton, Hulme

SCHEME TYPE A - 5 unit housing scheme, 0.1 hectares, 50 dph

5.66 At a 20% target, these schemes show a residual land value which exceeds our 15% RLV:GDV test in the early period when assessed against a Historic scenario and above. After 2012, all scenarios except Upside fall below the 15% test. This is assuming no s106 costs and an intermediate housing mix. Viability decreases over the next 5 years given the increase in build cost over the period outweighing the increases assumed in revenues. However, due to this effect, the middle Historic scenario may require some public subsidy. This is at the upper end of likely levels.

5.67 The shared ownership tenure split is viable against industrial values throughout the period in an Upside scenario, although in Historic conditions, the alternative use value will be difficult to exceed past 2012 until 2018.

Figure xi – Viability shown against alternative use value on uncontaminated land



5.68 Such a scheme would likely be viable or marginally viable on uncontaminated land for the whole period unless Downside scenarios prevail. On contaminated land however, this position is less viable and Upside conditions need to prevail to get there.

5.69 This position becomes exacerbated when section 106 costs are applied and a unit of social rented housing is required. In the worst case, social rented housing would render the scheme unviable in mid to later years of the period on all but Upside scenarios. However, unencumbered values are also very low and it is unlikely that a scheme of this nature would come forward past 2014 unless a significant increase in house prices occurs to outweigh cost increases in the interim.

5.70 The imposition of affordable housing policy may mean viability is a challenge, but our results suggest that there should be some room for affordable housing in the appraisal, albeit that this may require a commuted sum where a full unit is not be deliverable. In Historic and Upside scenarios, this position prevails but should a Downside scenario occur viability will become a key issue, even when no affordable housing is required.

5.71 We have not assessed a 15% position given that the site is for 5 units and a 15% target would result in 0.75 units of affordable housing being required, which would be rounded up to 1 unit in any case.

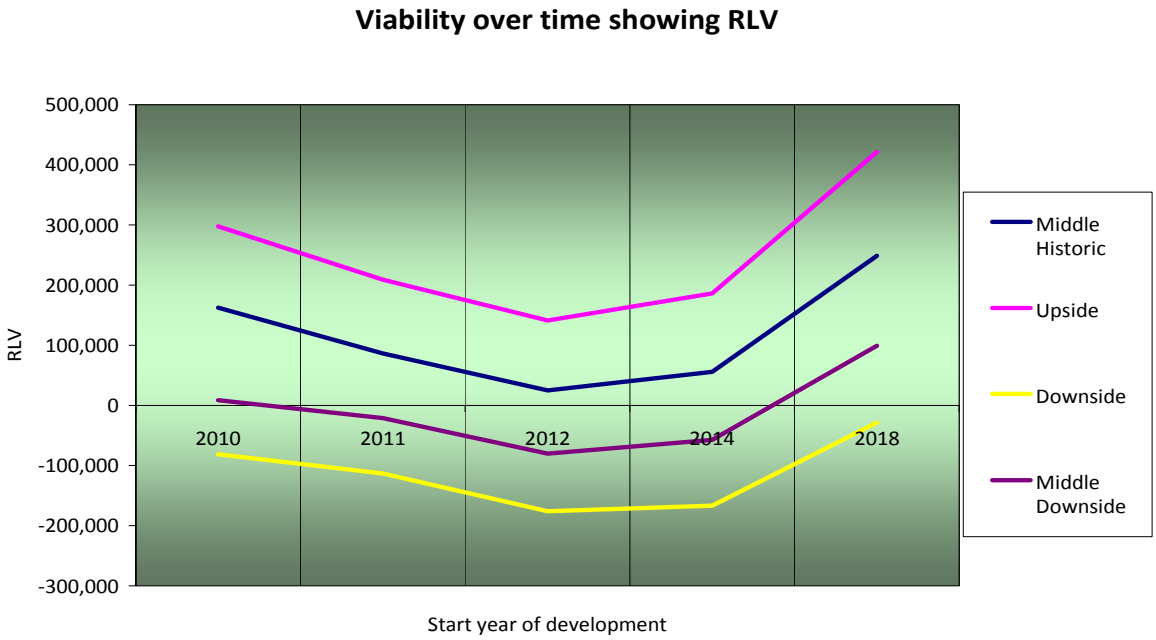
SCHEME TYPE B – 15 unit flatted development, 0.15ha, 100dph

5.72 Due to the unit numbers and the need to produce complete units, the tenure splits tested were 0:100, 50:50 (15%) and 0:100, 33:67 (20% and 25%)

5.73 At a 20% test, positive residual land values abound on all but Downside scenarios later in the period (past 2012). Under Historic and Upside conditions, residual land values get close to or exceed our 15% test.

5.74 In the best case of 100% intermediate housing, against industrial use values, even with contamination costs, Upside and Historic scenarios show strong viability throughout the period. Even middle Downside scenarios are only marginally unviable between 2012-2014. No public subsidy is required for this scheme at intermediate tenures unless in a Downside scenario.

Figure xii – Viability against alternative use value on contaminated scheme.



5.75 With a unit of social rented housing, on industrial land, contamination is likely to affect the viability of the scheme and lead to a requirement for grant on middle scenarios and below. However, this level of grant is a maximum of £15k to £32k without and with contamination respectively in 2012. In this instance, whilst a 20% target is challenging for a short period on middle scenarios and above, 20% can still be delivered using public subsidy on contaminated land and marginal viability is assured without grant unless Downsides prevail.

5.76 Even at a 25% target with favourable conditions relating to tenure, economics and contamination, viability can be maintained. More subsidy will be needed in order to deliver this in the middle years of the study (2012-2014) but following this point viability improves significantly.

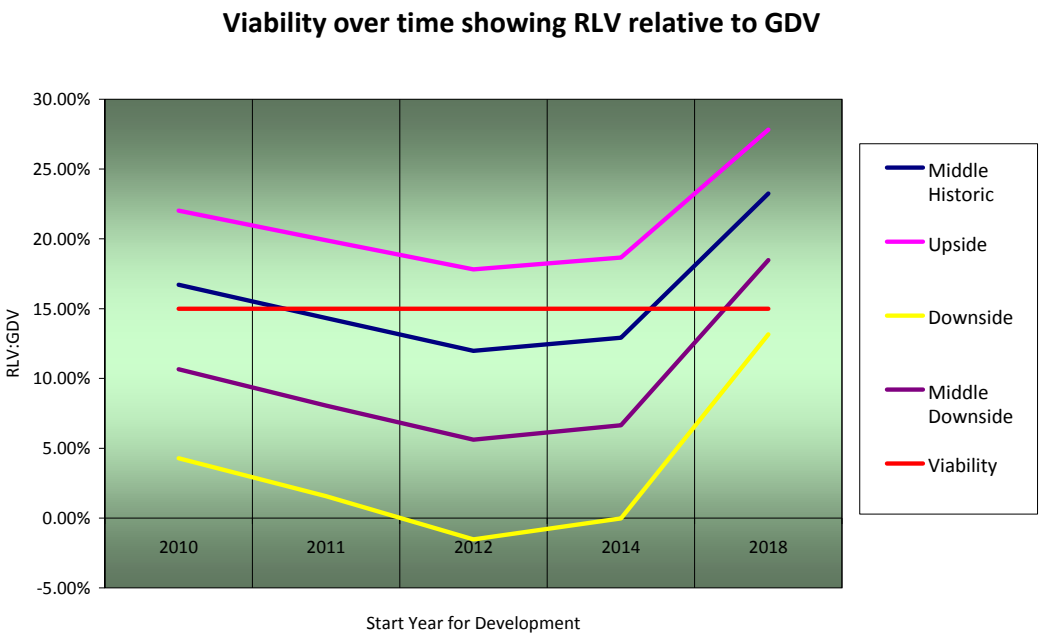
5.77 On such a small scheme the difference between 20 and 25% is minimal (3 to 3.75 units) and as such tenure splits have a significant effect on viability.

SCHEME TYPE C – 200 unit flatted development, 1 hectare, 200dph

5.78 At a 20% target with a 0:100 tenure split and £0k s106 contributions, a viable position is maintained throughout the piece against industrial value, on all but Downside scenarios. Therefore this scheme is viable without public subsidy on the basis of beating alternative use values throughout the period.

5.79 Based on past RLV:GDV trends, the middle and Upside are around the right level to bring land forward, and by 2018 it is likely that all scenarios would support this value.

Figure xiii – RLV:GDV test, Scheme type C



5.80 Imposing a 25% target means this position does not significantly change against industrial land use values, albeit that the imposition of social rented housing may require grant on Downside scenarios (£25-£50k max in 2012).

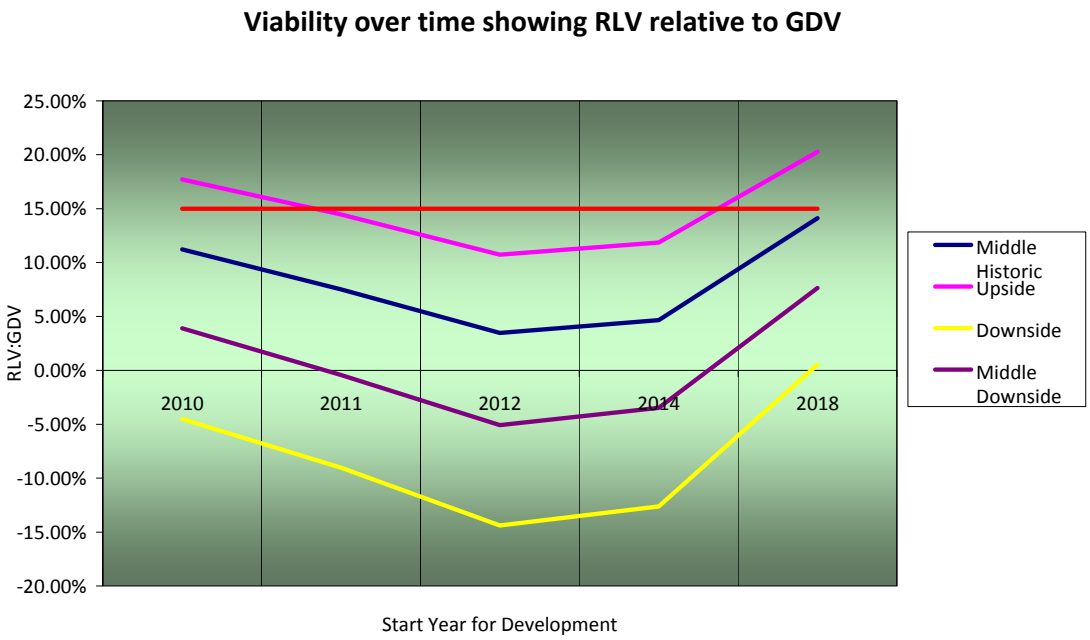
5.81 RLV:GDV tests show that this may not be enough to bring forward land on residential VOA values given except in an Upside scenario however.

5.82 On balance the 20% target is deliverable without grant on most scenarios even assuming social rented units and s106 contributions. By 2018 land values come back up to a level seen in the "boom" cycle and as such, whilst costs have also increased, a viable position is assured.

SCHEME TYPE D – 60 unit estate housing, 1.5 hectares, 40dph

5.83 At a 20% target, positive residual land values are maintained except on Middle Downside and Downside scenarios in the years 2011 – 2014. However, these are not significantly positive so there may be issues with bringing land forward when considering our RLV:GDV test if landowner expectations are set high.

Figure xiv – RLV:GDV test, Scheme Type D



5.84 Notwithstanding this, our notional scheme does not clear existing industrial use value even when uncontaminated. On middle scenarios an unrealistic level of public subsidy would therefore be required to get near to the affordable housing target.

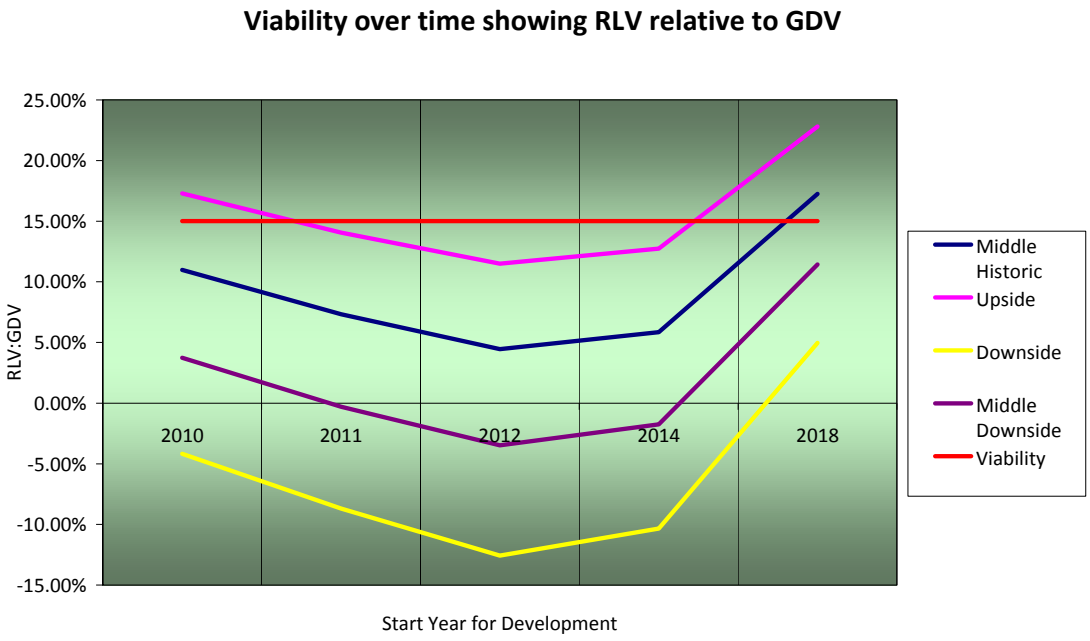
5.85 There is a positive residual value produced on most scenarios so some affordable housing could be required. Given the priorities in this area, it may be prudent to require reduced or zero levels of affordable housing to encourage regeneration, certainly in the early years. Past 2018 on Historic and Upside scenarios, some affordable housing may be delivered with lower grant levels if required.

5.86 At a 15% target, a very similar position is produced and again, it appears that post-2018, viability becomes more achievable. However, this is still not within the acceptable range of produced land values and as such would appear unlikely.

SCHEME TYPE E – 120 unit estate housing, 4 hectares, 30dph

5.87 Viability is a significant concern on this type of scheme at 20% affordable housing, even in more favourable tenure splits. Historic and Upside scenarios ensure positive residual land values throughout the period, albeit at a level below the 15% required to bring the land forward (until 2018). The Historic scenario troughs at circa 6% of GDV as a Residual Land Value.

Figure xv – RLV:GDV, Scheme Type E



5.88 When looking at these against current industrial use values, even without contamination, there is insufficient value to bring the land forward for development, except with levels of grant which peak at £60k per unit in 2012-2014. Post 2018 a viable position becomes more achievable in an Upside and Historic Scenario.

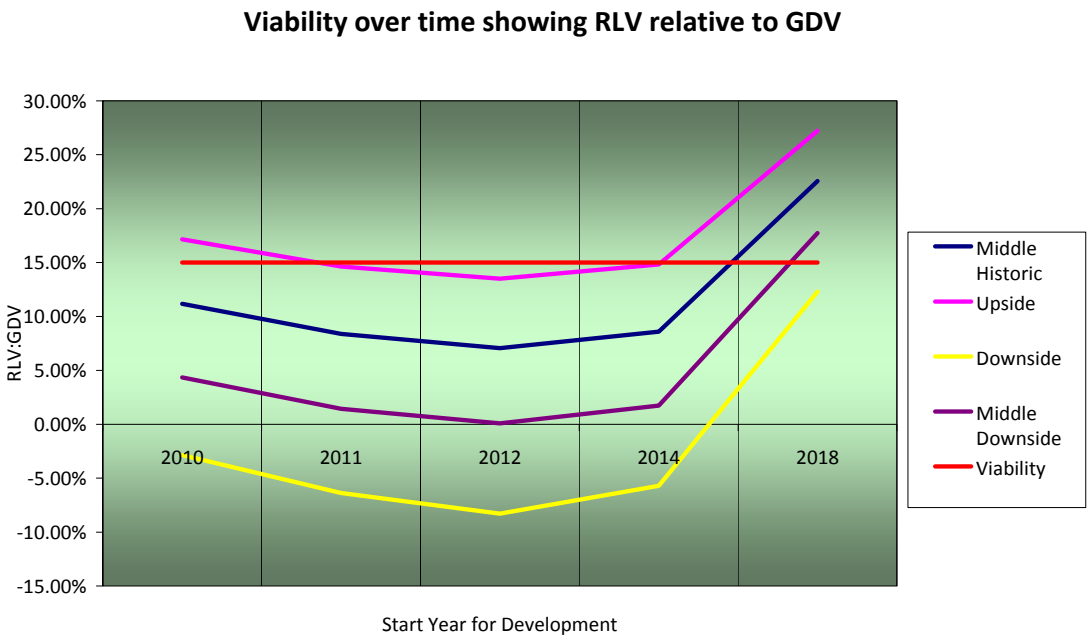
5.89 A 15% affordable housing target does not result in significantly higher land values to become viable.

5.90 Where sites of this nature are brought forward it is a balancing act between affordable housing provision and the need to encourage housing delivery and regeneration. Unencumbered schemes may be acceptable to landowners and developers alike but affordable housing in any significant percentage is enough to reduce land values below acceptable levels. It may be more productive to require a larger contribution to other section 106 requirements for the benefit of the whole community at the expense of affordable housing. This scheme type in this value area does not support the 20% target for affordable housing.

SCHEME TYPE F – 300 unit mixed development, 6 hectares, 50dph

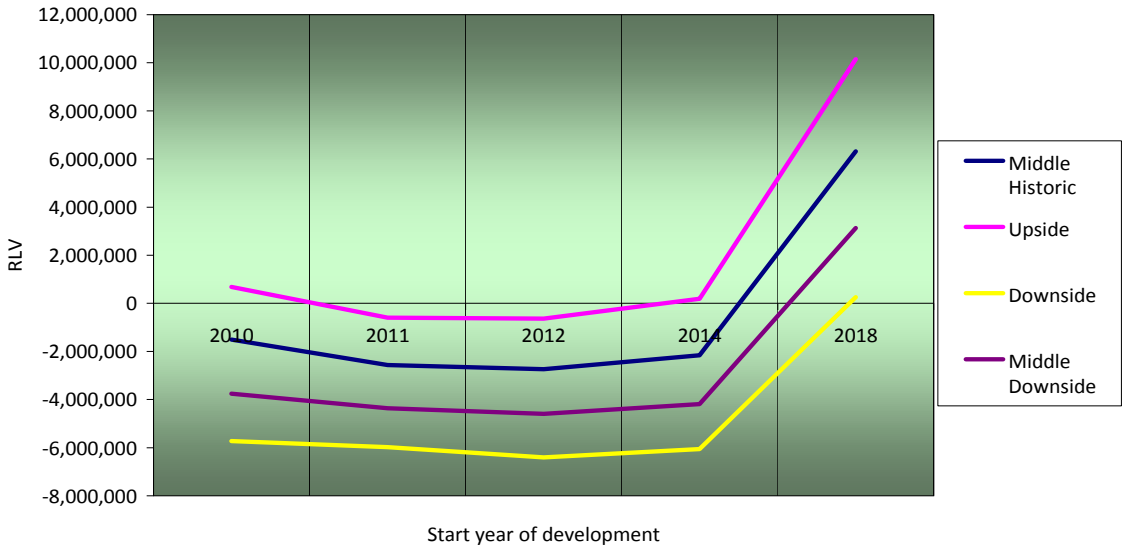
5.91 Once more, positive residual land values are maintained in Middle Downside scenarios and above, although this is not at a level which exceeds our 15% hurdle. In an Upside scenario we are seeing land values close to the 15% of GDV level which may be sufficient to bring the land forward.

Figure xvi – RLV:GDV, Scheme Type F



5.92 This would also be sufficient if our assumed existing industrial use value is considered. The Upside scenario here exceeds the industrial value when contamination is not an issue. However, this is very sensitive to all variables. The imposition of s106 costs, shown below, is sufficient to ensure that no scenario meets the industrial use value until approximately 2018.

Figure xvii – Viability of uncontaminated scheme against industrial land use



5.93 It remains that without s106 costs and on uncontaminated sites in optimistic scenarios, a viable position can be maintained without public subsidy. Where Historic scenarios and below abound, public subsidy can make up the shortfall to the tune of £22k per unit on non contaminated schemes between 2012 and 2014. Post 2018 viability is less concerning. The only scenarios where an unrealistic level of public subsidy is required are the Middle Downside and Downsides on contaminated schemes.

5.94 20% is a challenging target but one which may be deliverable given some application of public subsidy, relaxation of s106 costs and in Historic market conditions and above. However, this is sensitive to contamination costs.

SCHEME TYPE G – 3000 unit Large Mixed Development scheme, 25 hectares, 120dph

5.95 On a large scale development of 3,000 units, positive residuals are produced throughout the period although the Upside is the only condition under which the 15% RLV:GDV test is cleared. The scheme beats the alternative use value on both contaminated and non-contaminated sites. The effects of long build and sales period are smoothed out and these schemes are affected post 2026 should there be another property market cycle such that overall viability reduces. However, on a phased basis, phases to 2026 become increasingly viable. It may be that affordable housing should be delivered in increasing numbers over the period, to average out at 20% of the whole scheme. The flexibility afforded by the long development period allows for this.

5.96 It would appear that maintaining a viable position in this Value Area will be a challenge at a 20% target until at least 2014 assuming a housing market which performs at Historical trends or below. Given also that contamination of sites may be an issue, and that the priority in East Manchester and environs is for regeneration, it may be detrimental to this aim to require too much affordable housing.

5.97 That said, there are a significant number of site types in certain market conditions where a viable position can be maintained at a 20% target, albeit assuming no contamination and some public subsidy in the middle years of the study on Historic scenarios and above.

5.98 Therefore, any policy implementation should be done flexibly and monitored to ensure the effects on delivery and regeneration are not negative and damage what was already a fragile local housing market prior to current economic woes.

VALUE AREA 4 – Levenshulme and Longsight, Rusholme and Moss Side

5.99 Sales in this area have been typified by higher values for flats and larger family housing per square metre and low values for smaller housing.

SCHEME TYPE A - 5 unit housing scheme, 0.1 hectares, 50 dph

5.100 With one unit of intermediate housing, this scheme type shows a positive residual value on Historic and Upside scenarios throughout, but a Downside position would be enough to drive land value into negative territory from 2011-2018.

5.101 Against industrial land values on uncontaminated land, only an Upside scenario produces a land value sufficient to exceed that of an industrial use, and then only until 2012. However, due to the size of the scheme and relatively low value nature of the housing to be delivered, it is interesting to note that land values appear to decrease after 2011, partly in response to the imposition of Code for Sustainable Homes standards, and partly due to our assumed rebalancing of build costs.

5.102 This small type of scheme may come forward on a greater range of sites than we have tested. For instance it may be that a developer purchases a large detached house and demolishes it to make way for a number of smaller units. The same developer might purchase backland or garden land and develop on this. However, the evidence from the area suggests that this will require higher land values than industrial values so we have not assessed the effect here. However, it is apparent that even on industrial land, the resultant value from this scheme type would be insufficient to bring it forward for development with any affordable housing.

5.103 In this instance, there is little indication that an affordable housing imposition on this scheme type would be viable at the level suggested.

5.104 This is further borne out by the assessment of a scheme incorporating one unit of social rented housing. In this instance, a negative residual land value is produced throughout on Historic scenarios and below. Therefore the likelihood of this scheme coming forward with a unit of social rented housing is minimal, and there is nothing left in the land to contribute a commuted sum. The effect of a s106 contribution has exacerbated viability but even without this, viability is looking unlikely from 2011 to 2018 on Historic scenarios and below as values increase slowly compared to costs.

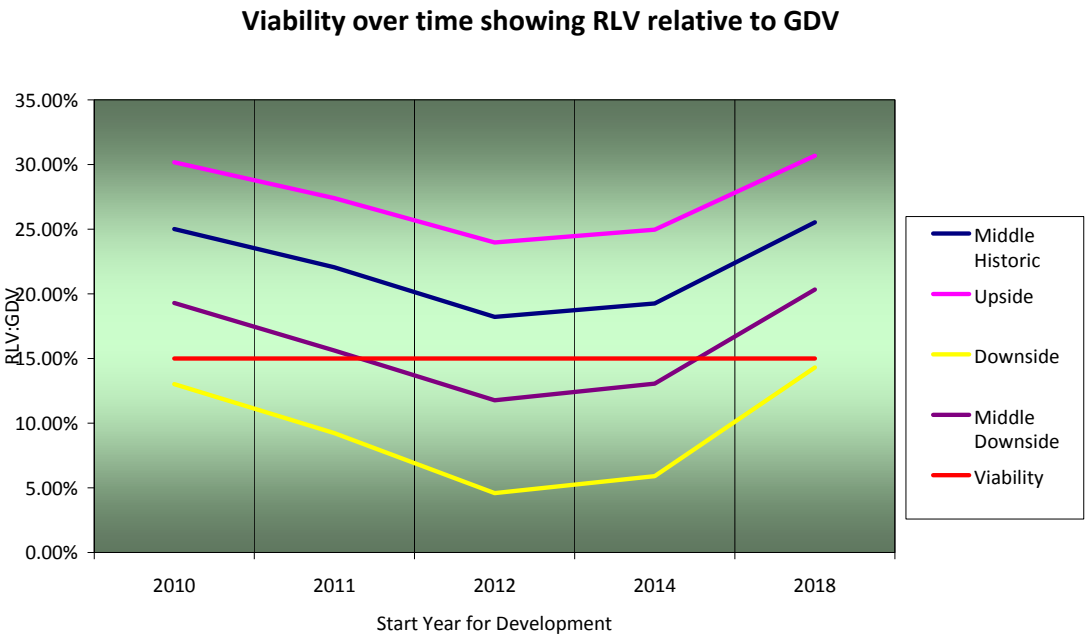
5.105 Where this scheme type given over for larger housing units which command a higher value per square metre, (which has not been tested), it would appear that land values would improve. However, the level at which this would occur has not been assessed due to the evidence from the SHLAA being that very small sites are more common.

5.106 The difference in land values generated on an encumbered scheme and a scheme unencumbered by affordable housing on this assumed site is minimal where shared ownership housing is taken into account (6%). Intermediate units in this respect make roughly 85-90% of the unencumbered value. This means that any analysis of this type is very sensitive to value fluctuations and the type of affordable housing i.e. capital share purchased, percentage rent on unsold equity etc. Considerable care should be taken should a policy be introduced with different assumptions in this respect for the intermediate housing.

SCHEME TYPE B – 15 unit flatted development, 0.15ha, 100dph

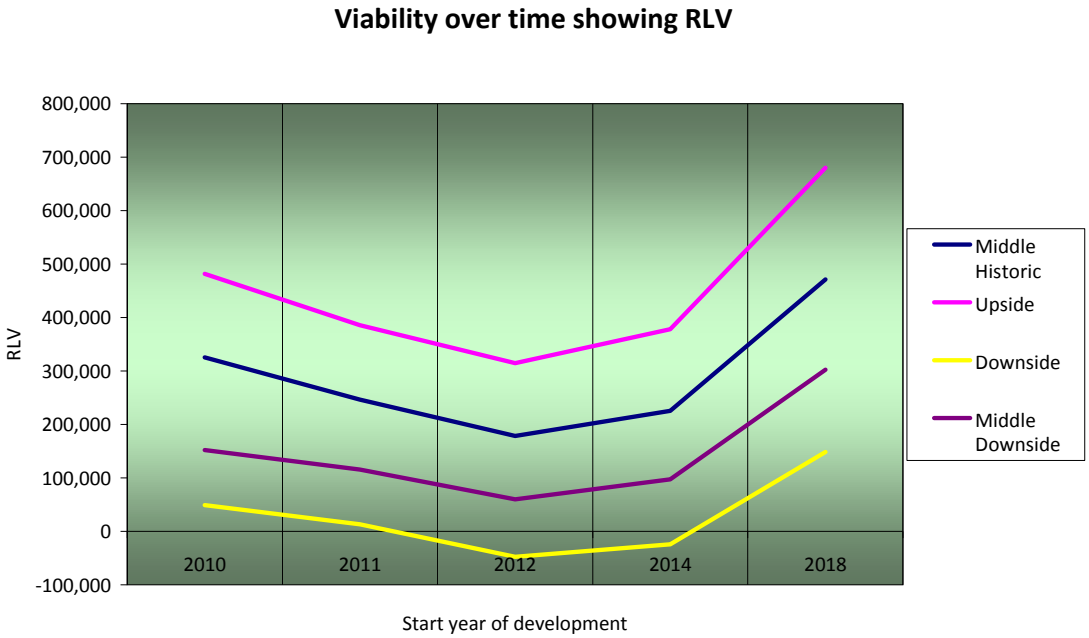
5.107 On a scheme incorporating 20% affordable housing in a 0:100 tenure split without s106 assumptions, positive residual land values are produced throughout the development period on all scenarios. On our RLV:GDV test the Upside, Historic and Middle Downside scenarios are viable throughout.

Figure xviii – RLV:GDV, Scheme Type B



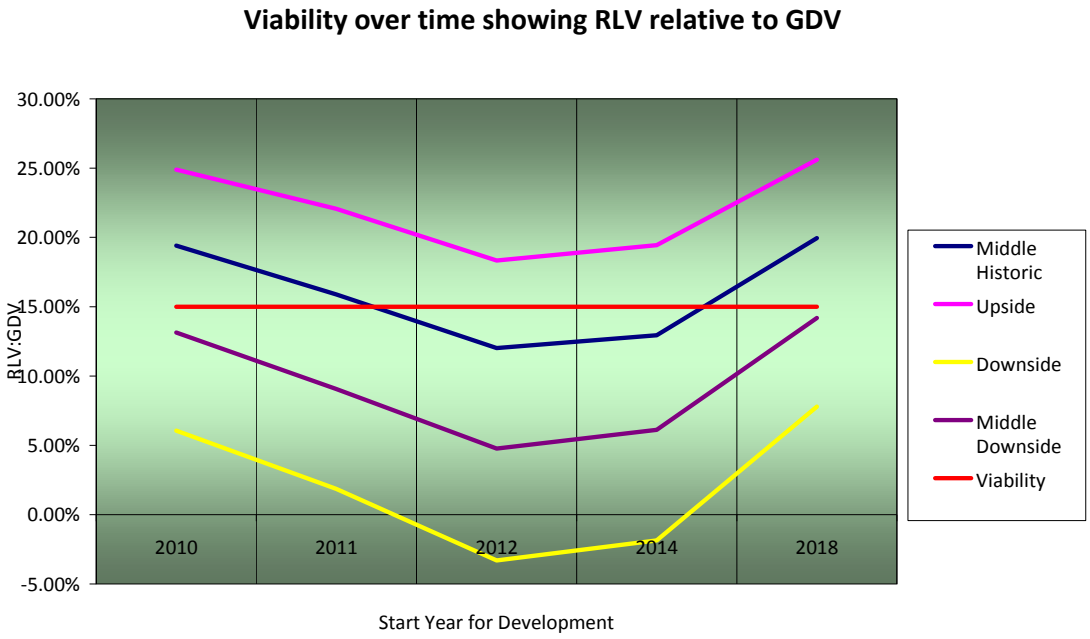
5.108 Against an industrial land value all scenarios exceed this level throughout the period, except for 2 years on the Downside scenario in the middle of the period.

Figure xix – RLV against industrial land value



5.109 Where the 25:75 tenure split is considered, and even with the assumption of s106 costs at £5k per unit, positive residuals are produced throughout on Middle Downside scenarios and above. The Historic scenario and above produces land values in the 12.5-17.5% RLV:GDV range which suggests a viable position can be reached. Even a middle Downside scenario would lead to land values in the acceptable range at the beginning and end of the period.

Figure xx – RLV:GDV Scheme Type B at policy target



5.110 The Historic and Upside scenarios clear industrial land values throughout the period even when contaminated. The Downside appears to lead to unviable land values however.

5.111 The evidence suggests that a 20% target at a 25:75 tenure split is achievable.

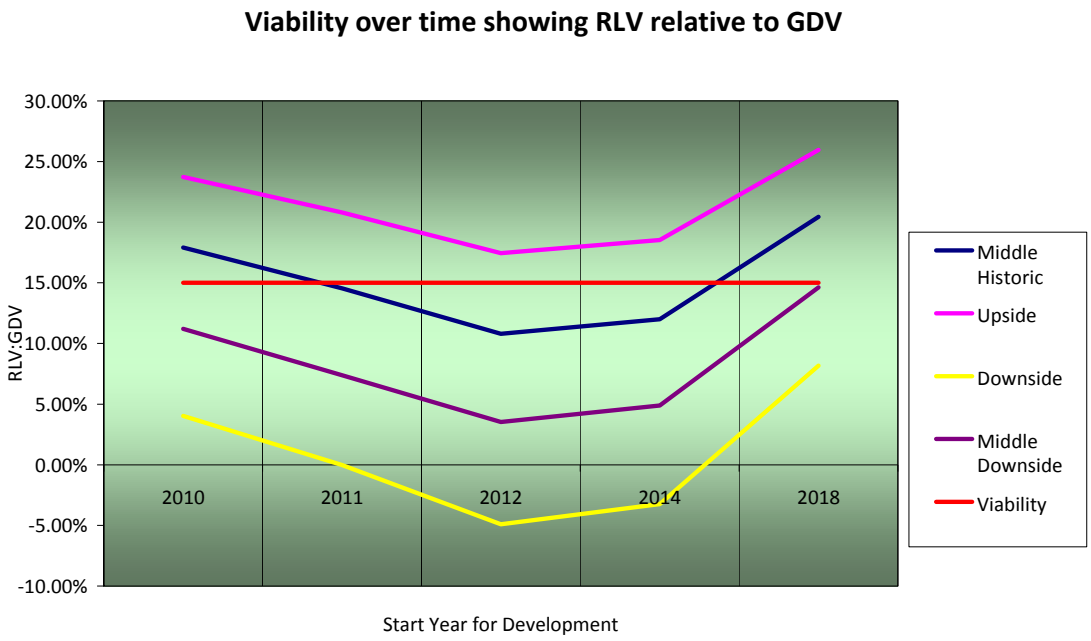
5.112 By assessing the 25% target at a 25:75 tenure split, it is apparent that positive residuals are again produced throughout on the top 3 scenarios. The Historic and Upside are viable against industrial land values on contaminated land.

5.113 This suggests that a 20% target should not be a problem in the short, medium or long term at a 25:75 tenure split and there may be room to require increased s106 or CIL contributions throughout the period.

SCHEME TYPE D – 60 unit estate housing, 1.5 hectares, 40dph

5.114 On a scheme with 20% intermediate affordable housing and no s106 contributions, this scheme shows positive residual values in all scenarios bar the Downside throughout the period. In an Historic scenario and above the land values produced are within a viable range based on the RLV:GDV test.

Figure xxi – RLV:GDV, Scheme Type D

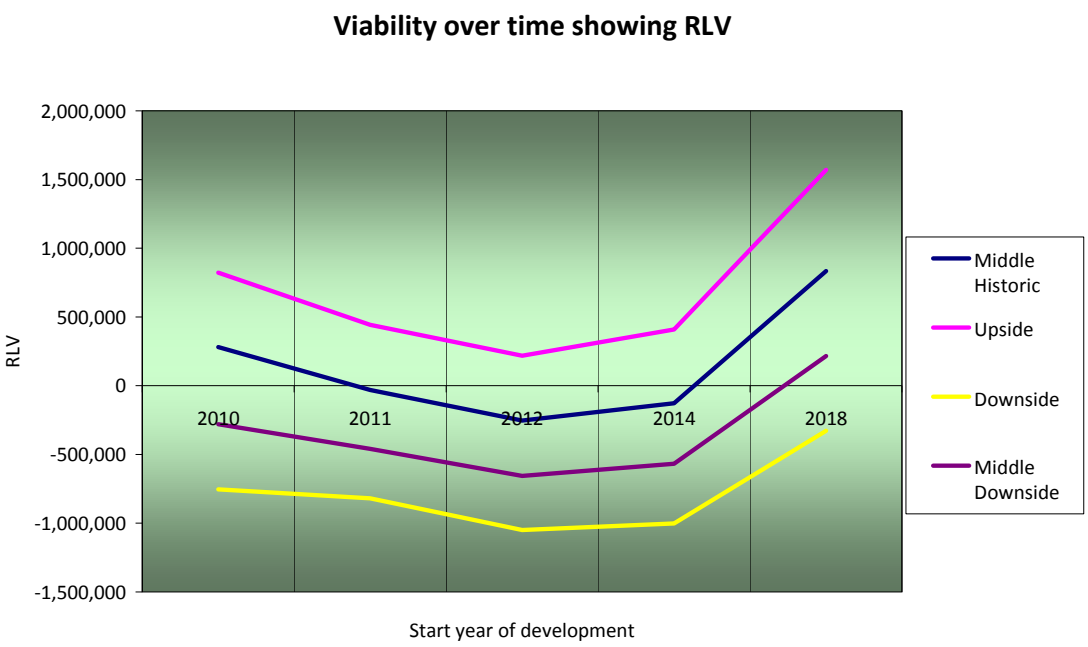


5.115 Against an industrial land value when contamination is not an issue, Historic and Upside scenarios exceed the land value required to bring the site forward except for a short period in the middle years. With contamination however, viability is significantly impinged upon throughout the period in an Historic scenario and below.

5.116 With 20% affordable housing in a 25:75 tenure split and s106 contributions at £5k per unit, an Historic scenario or above leads to positive residual values throughout. However, the Historic scenario only reaches a 10% RLV:GDV value, dipping significantly in the 2011-2014 period and as such it is not guaranteed that this will be sufficient to bring the land forward for development given landowner expectations.

5.117 Against industrial use values, even on uncontaminated land, the majority of scenarios lead to an insufficient land value being produced. Comparing this to when s106 contributions are set at nil, which maintains a land value above industrial use value on uncontaminated land in the Historic Scenario and above the majority of time, it is clear that a s106 cost per unit may lead to the 20% target being unviable.

5.118 Figure xxii – Residual land value against alternative use value, Scheme Type C assuming 5k per unit s106 contributions and no contamination costs

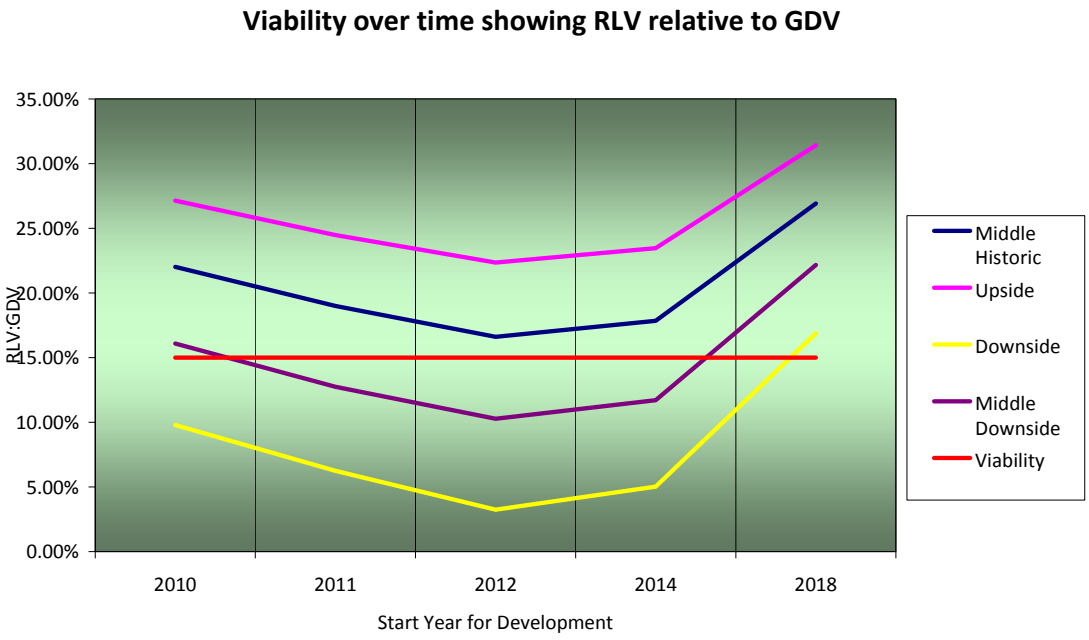


5.119 This suggests that a 20% target on uncontaminated land could be supported, albeit some grant may be required to 2014 on Historic scenarios and below. Reducing s106 requirements and modifying tenure would ensure less public subsidy is relied on to deliver the 20% target. On balance, the 20% target therefore has a reasonable chance of being delivered.

SCHEME TYPE E – 120 unit estate housing, 4 hectares, 30dph

5.120 At a 20% target with minimal s106 and 100% intermediate housing, positive residuals are assured throughout in all scenarios. Middle Downside and above exceed a figure of 10% RLV:GDV throughout, albeit that the minimum level comes in 2012.

Figure xxiii – RLV:GDV, Scheme Type E



5.121 In an Historic and Upside scenario, land values produced are sufficient to exceed the value of the alternative use throughout, but contamination may mean that grant is required in 2014 (in Historic scenario at £34k per unit maximum). Past 2014 viability improves and grant is not required in a Middle Downside scenario and above.

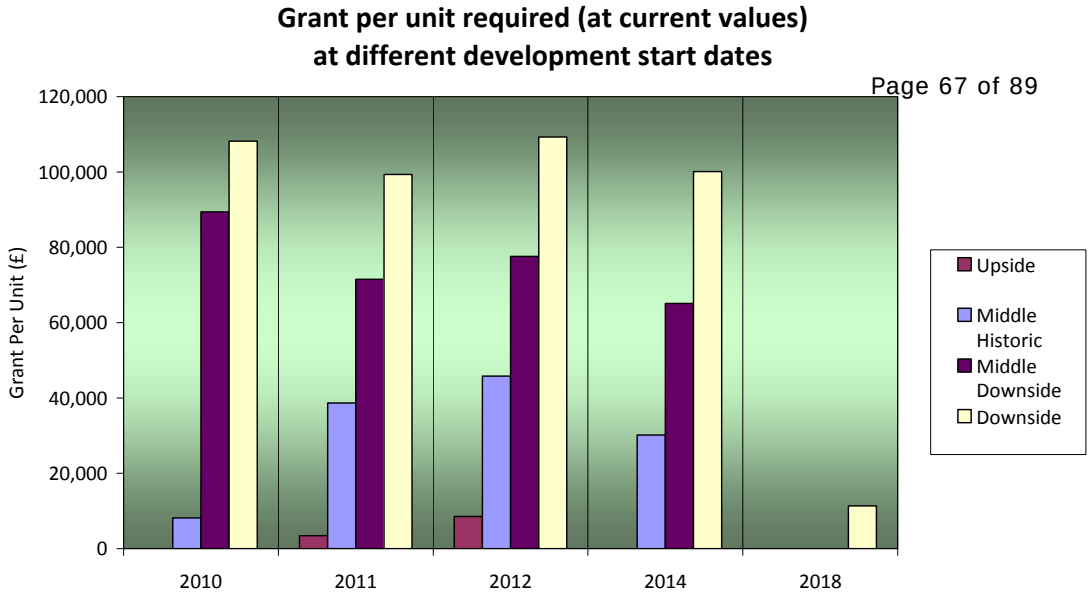
5.122 The effect of section 106 obligations at £5k per unit, and a 25:75 tenure split is not marked. Positive residual land values are experienced throughout on all scenarios barring the middle period of a Downside scenario. Historic and Upside conditions result in the land value exceeding or coming near to the 15% RLV:GDV test throughout.

5.123 However, against the alternative use value only in Upside and Historic markets is the scheme viable, and even then the Historic conditions require small amounts of public subsidy in the middle period. If contamination is an issue it is enough to challenge viability and require grant of max £68k in a Historic scenario in 2012.

5.124 Where the proposed policy position is delivered without s106 contributions, a viable position can be ensured in Historic scenarios and above on uncontaminated land against both alternative use values and our RLV:GDV test. On contaminated land, grant may be required in the middle period. In a less robust market, a viable position would require public subsidy up to £30k per unit in 2012 on a Middle Downside scenario. On contaminated land on Middle Downside and below, viability is challenging and therefore a viability assessment should be carried out on individual sites.

5.125 20% can work but may require the use of grant on some schemes where contamination is an issue and assuming an Historic position or worse. A tenure split of 25:75 can work in Historic conditions and above. Positive residuals throughout the period mean alternative use value is the key to unlocking development. Therefore, contamination should also be looked at carefully and any costs above our assumptions would severely limit land values

Figure xxiv – Public Subsidy required to meet AUV if land is contaminated, 20% Affordable Housing, 25:75 tenure split and £0k per unit s106 costs



5.126 On balance, an increase to 25% would push middle scenarios and below into requiring grant on uncontaminated land, and would not clear an indicative test of 15% RLV:GDV.

5.127 Therefore, 20% appears the best alternative in this instance.

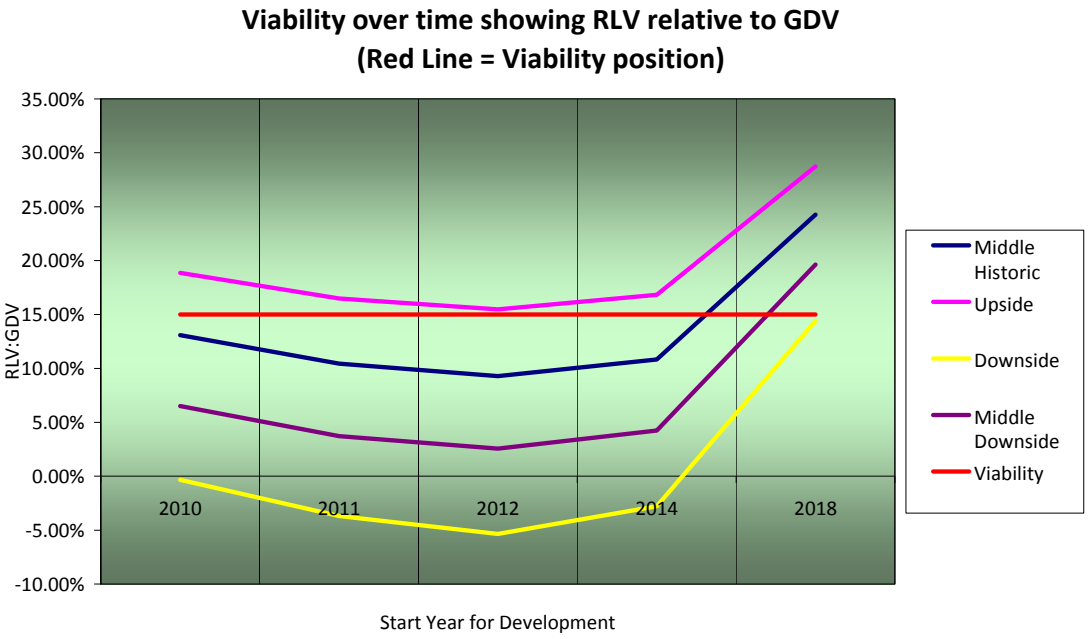
SCHEME TYPE F – 300 unit mixed development, 6 hectares, 50dph

5.128 With the proposed policy target and assuming s106 at £5k per unit, this scheme enjoys positive residual values throughout the period, except where Downside conditions prevail. However, only in Upside conditions can the 15% RLV target be exceeded until 2014 as Figure xxv shows below.

5.129 Contamination may be an issue however given that it pushes the land value below the alternative use value in Historic conditions and below. On uncontaminated land the alternative use value is reached in Upside and Historic conditions. Below this viability can be maintained with public subsidy, although this reaches high levels in the middle period of circa £40k per unit in Middle Downside conditions.

5.130 Without s106 contributions, a viable position on both RLV:GDV test and against alternative use value can be reached in Historic and Upside conditions, although on contaminated land, the Historic scenario would require up to £20k of public subsidy.

Figure xxv – RLV:GDV Scheme Type F



5.131 If market conditions fall below our assumed Historic curve, it will be more challenging to deliver the headline policy percentage target, although by reducing s106 requirements and increasing the numbers of intermediate units on the scheme, a viable position may be assured, albeit with small levels of public subsidy on uncontaminated land. Where Middle Downside conditions prevail, contaminated land will be difficult to deliver at a 20% target at all.

5.132 Therefore, we are assuming that schemes are viable in an Historic market when uncontaminated. Even with contamination in Historic conditions, reasonable levels of subsidy would ensure viability. Long term viability improves past 2014 and on

balance, public subsidy should only be required where economic conditions are least favourable.

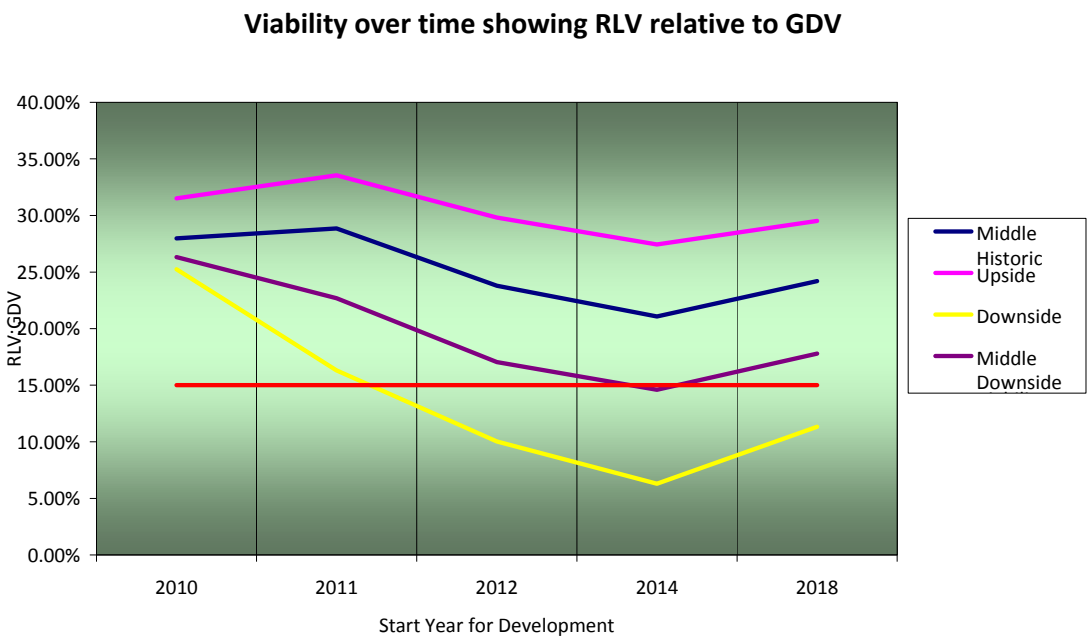
VALUE AREA 5 – Withington & Burnage, Fallowfield & Whalley Range

SCHEME TYPE A - 5 unit housing scheme, 0.1 hectares, 50 dph

5.133 At the proposed policy target (and assuming one unit of intermediate housing is delivered), even with 5k s106 contributions per unit, this scheme type reaches a

viable position against both RLV:GDV test and alternative use values on contaminated land in Historic conditions and above. Past 2011, the Middle Downside scenario and below render the scheme unviable against the alternative use. However, positive residual land values exceeding the RLV:GDV test are enjoyed throughout. Therefore the 20% target at 25:75 is deliverable.

Figure xxvi – RLV:GDV, Scheme Type A



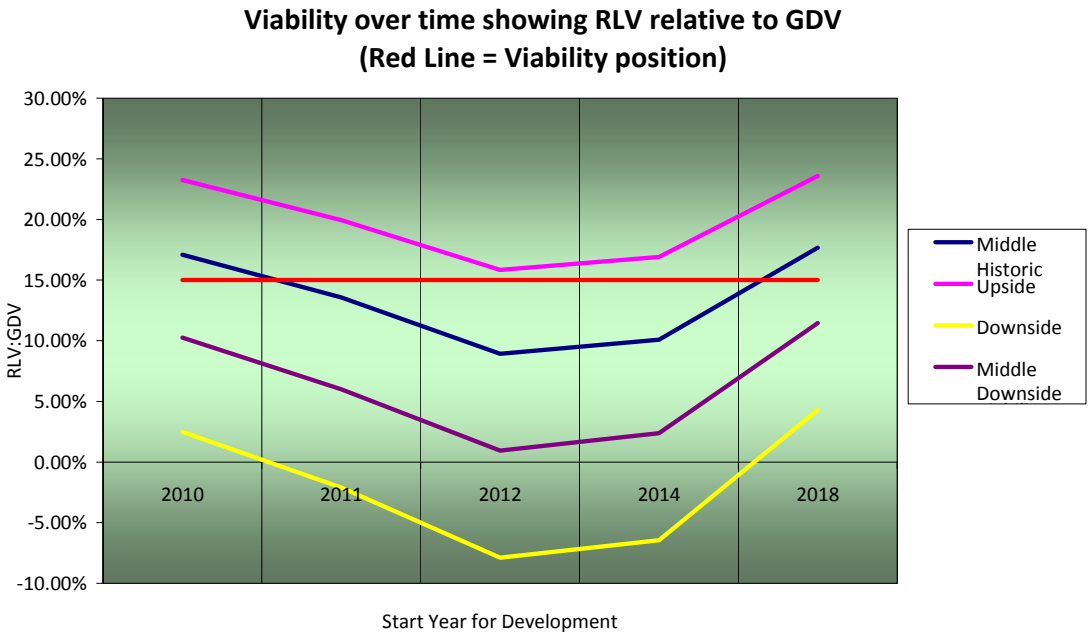
5.134 To provide further comfort, when s106 costs are taken out of the appraisal, the 15% RLV:GDV target is exceeded in all scenarios but the Downside. On uncontaminated land every scenario leads to a viable position against the alternative use value, and only under Downside conditions would a scheme be unviable and then only on contaminated land.

5.135 We are therefore confident that the proposed policy is deliverable under all but the most severe economic conditions in Value Area 5 on small schemes of this type.

SCHEME TYPE B – 15 unit flatted development, 0.15ha, 100dph

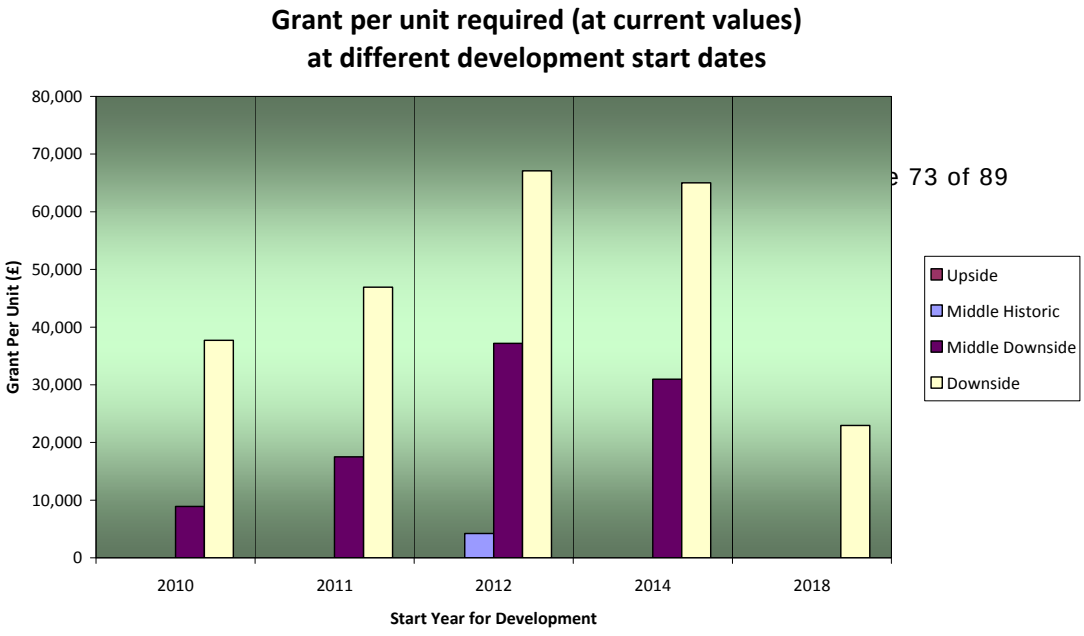
5.136 Where a 20% target is delivered without s106 contributions and at a 100% intermediate tenure split, positive residuals are experienced throughout except in the worst market conditions. However, only in an Upside scenario does the land value exceed our RLV:GDV test of 15% throughout the period. The Historic scenario leads to middle period land values dipping below the 15% test.

Figure xxvii RLV:GDV, Scheme Type B



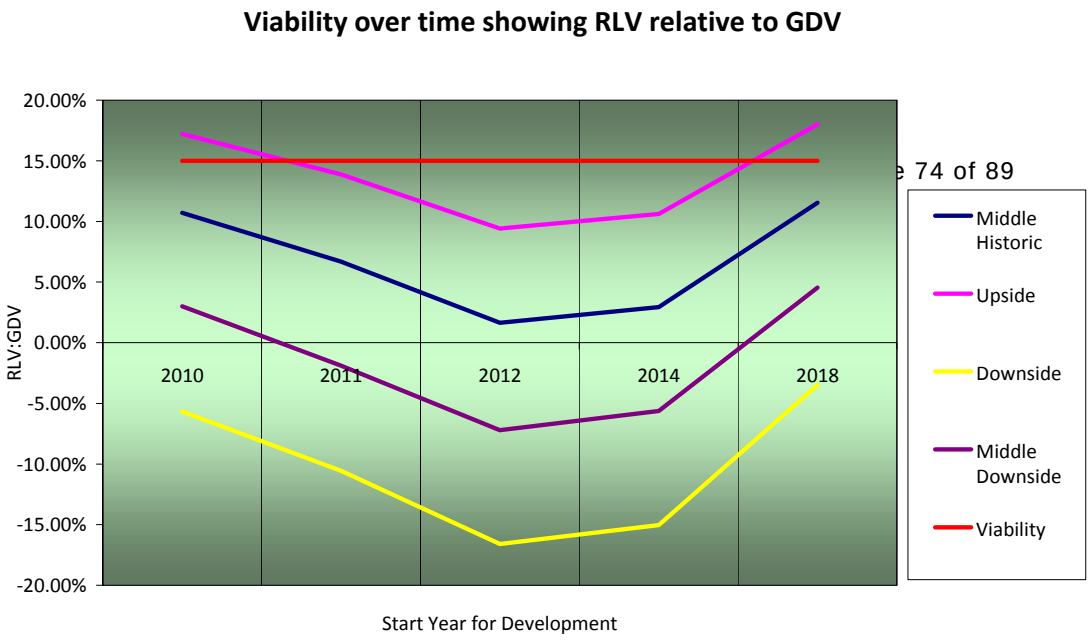
5.137 Against the alternative use value, this scheme exceeds the value of an industrial site when uncontaminated and in Historic conditions and above throughout the period. However, the effect of contamination is enough to reduce land values in the Historic scenario into slightly unviable territory for a brief period but this can be made viable with a small amount of extra subsidy Post 2018 Middle Downsides and above all appear viable without public subsidy.

Figure xxviii – Public Subsidy required to meet AUV on contaminated scheme, 20% Affordable Housing, 0k s106



5.138 Because of the unit numbers a 25:75 tenure split is not possible and would result in part units. Therefore, the test has been modified to a split of 33:67. This scheme mix (with s106 contributions at £5k per unit) produces positive residual values on Historic and Upside scenarios throughout the period, but only after 2018 under Middle and Downsides conditions. However, the RLV:GDV test is not met except very early and very late in the period in Upside conditions.

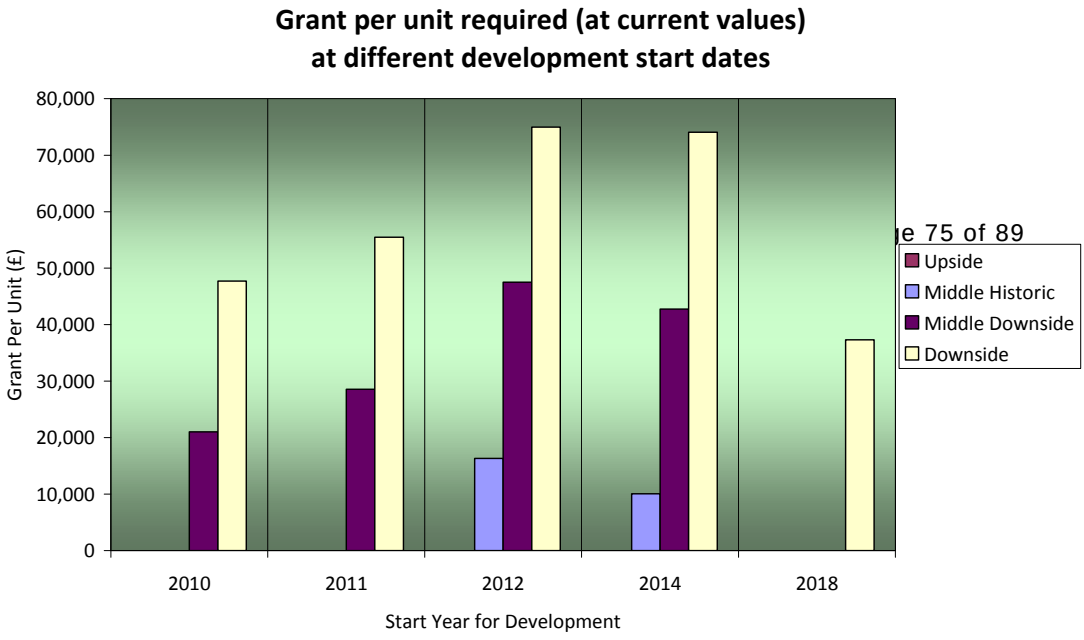
Figure xxix – RLV:GDV test, Scheme Type B



5.139 Against the alternative use value an uncontaminated site is viable under Upside and Historic conditions, albeit that the Historic scenario would ensure some subsidy at £22k per unit is required in the middle period. However, the Downside scenarios are not viable throughout.

5.140 When s106 costs are removed, the 33:67 test becomes more deliverable against industrial land values. In Historic scenarios and above, schemes are viable without further subsidy when uncontaminated. With contamination further subsidy is required in the middle years at levels of £16k per unit max assuming Historic market conditions.

Figure xxx – Public Subsidy required at 20% affordable housing in 33:67 tenure split, 0k s106 on contaminated land



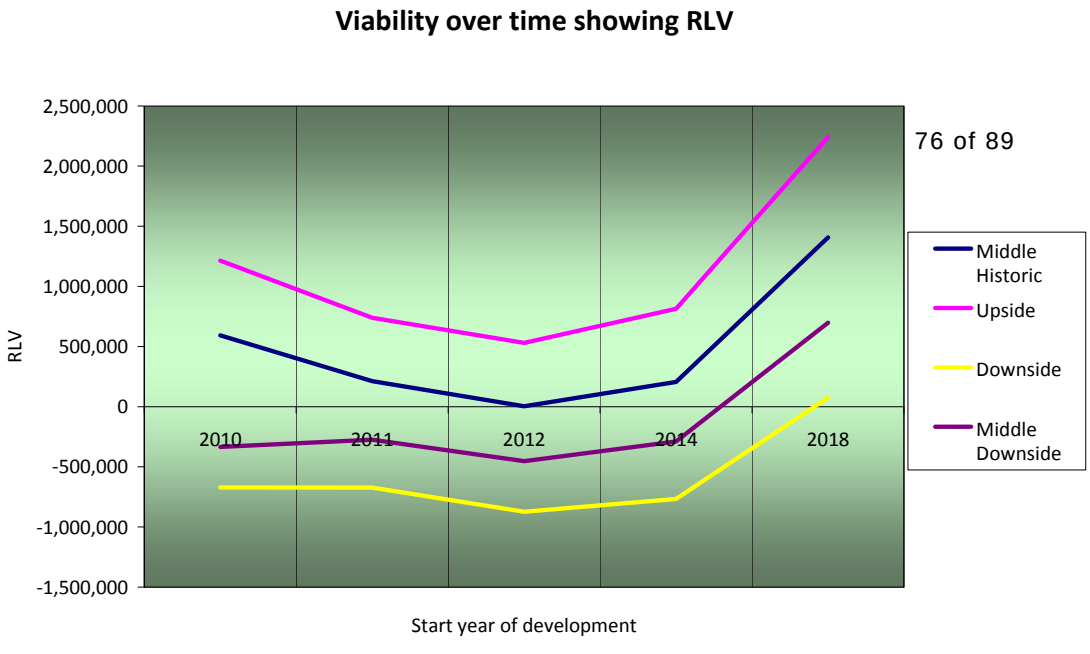
5.141 On this scheme type it appears that the policy can be made to work, but that s106 costs put this deliverability in jeopardy, and contamination is a further issue which would require some flexibility in approach. However, the 20% target, although challenging in a difficult market, is appropriate on this scheme type. Some monitoring will be required to ensure that the RLV:GDV test implications are not the determining factor in bringing forward land.

SCHEME TYPE D – 60 unit estate housing, 1.5 hectares, 40dph

5.142 With a target of 20% and tenure split of 25:75, even when s106 costs are taken into account, positive residual land values are experienced under all scenarios throughout the study period. Only in Historic conditions and better can the 15% RLV:GDV test be exceeded throughout. In a Middle Downside, this test is challenging in the middle period 2011 – 2015.

5.143 An uncontaminated scheme exceeds the alternative use value in all but Downside conditions throughout. However, even then, the Downside conditions are sufficient to ensure land values exceed Alternative Values post 2015.

Figure xxxi – RLV against industrial use value, contaminated scheme.



5.144 The 20% target is therefore supportable here under Historic conditions and above. In less robust economic circumstances, schemes can be made viable on uncontaminated sites with the application of public subsidy, a relaxing of the tenure requirements or both.

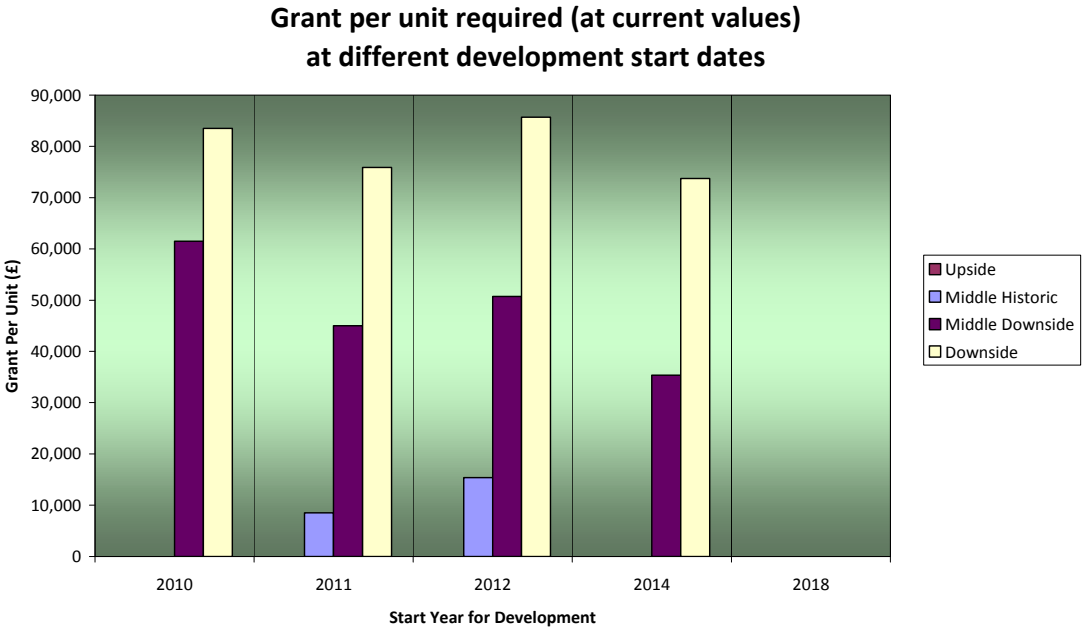
SCHEME TYPE E – 120 unit estate housing, 4 hectares, 30dph

5.145 At a 20% target and 25:75 tenure split with £5k s106, this scheme type enjoys positive residual values throughout under all scenarios with both Historic and Upside conditions sufficient to exceed the 15% RLV:GDV test throughout.

5.146 Against the alternative use value, on uncontaminated land in Historic and Upside scenarios a viable position is maintained, but the Middle Downside would require a maximum of £22k per unit subsidy in the middle period.

5.147 Contamination is a significant determinant in viability. On contaminated sites, it may be possible to deliver affordable housing with public subsidy. However, by relaxing the s106 requirements, a viable position can be maintained with less reliance on this, although as the figure below shows, unrealistic levels are required on Middle Downside scenarios and below.

Figure xxxii – Public Subsidy required on a contaminated scheme at 20% affordable housing in a 25:75 tenure split, 0k £s106



5.148 By relaxing both tenure requirements and s106 contributions, under all scenarios bar the Downside, the 15% RLV:GDV test is exceeded except for a short period in the middle years in Middle Downside conditions.

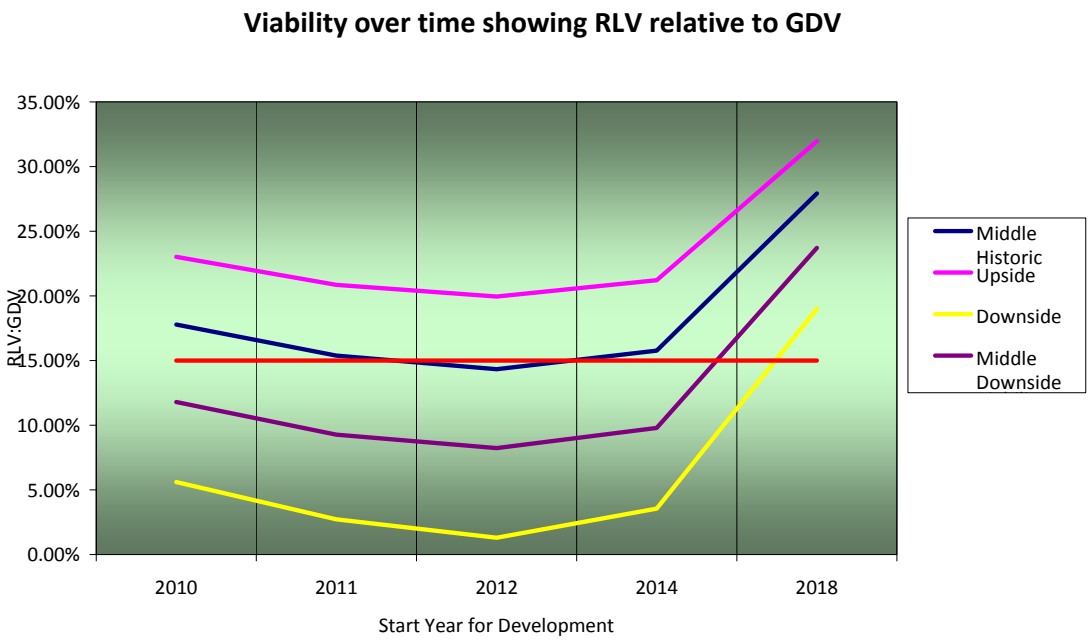
5.149 However, on contaminated land, only Historic conditions and above are sufficient to see the land value exceed the alternative use value.

5.150 It is clear therefore that in favourable market conditions on uncontaminated land, the policy target is deliverable alongside s106 contributions. Where contamination and less favourable conditions prevail, a 20% target can be met through relaxation of the tenure target, s106 obligations and the application of reasonable levels of public subsidy. This therefore supports the target policy.

SCHEME TYPE F – 300 unit mixed development, 6 hectares, 50dph

5.151 At the policy target with s106 contributions required, this scheme type produces positive residuals throughout the period whilst Historic and Upside conditions are sufficient to ensure the 15% notional test is met throughout. The Middle Downside begins to exceed the test after 2014. After 2018 viability is assured against this measure under all scenarios.

Figure xxxiii – RLV:GDV on Scheme Type F at policy position plus 5k s106



5.152 Against alternative use values on uncontaminated land, the Middle Downside scenario and above are sufficient to bring land forward throughout the period and post 2015 all scenarios viable. Contamination issues mean that to ensure a viable position, subsidy at between £3k and £35k max is required dependant on which of the Historic and Middle Downside conditions prevail.

5.153 When s106 contributions are not required, and a more favourable tenure split is allowed, this ensures that land values on Historic and Upside scenarios exceed both the 15% RLV:GDV test and the alternative use value, even on contaminated sites.

Middle Downside conditions mean that on contaminated schemes, a viable position could be obtained with a maximum of £17k per unit subsidy.

5.154 It is therefore apparent that the policy target is deliverable and only under the worst economic conditions would this be a challenge, albeit it that some flexibility will be required if conditions fall below the Historic trend.

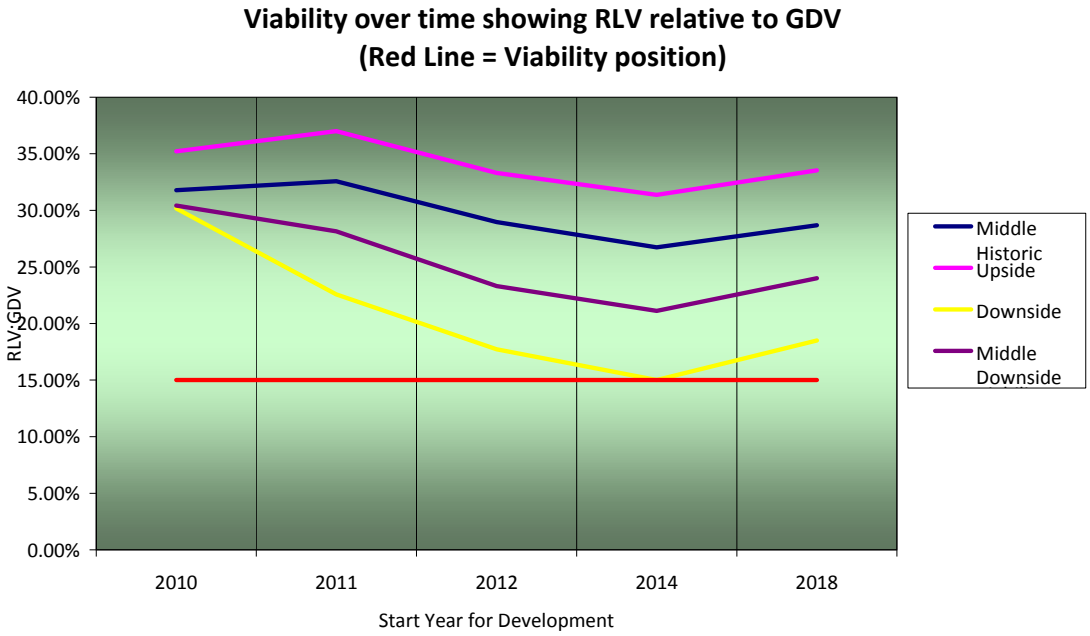
VALUE AREA 6 – Chorlton-cum-Hardy and Didsbury

5.155 This area is characterised by relatively high and consistent values for small and mid sized properties, with larger properties commanding a higher sales price per square metre.

SCHEME TYPE A - 5 unit housing scheme, 0.1 hectares, 50 dph

5.156 At the policy target with s106 contributions, positive residuals are assured throughout under all conditions and every scenario is sufficient for land values to exceed our notional 15% test.

Figure xxxiv – RLV:GDV 20% affordable housing, 25:75 tenure split, £5k s106



5.157 Furthermore, under all scenarios the alternative use value is exceeded throughout the period on both contaminated and uncontaminated land.

5.158 20% is therefore supportable, as would be a 25% target from our evidence, which shows the policy is not going to be the difference between viable and not viable development.

SCHEME TYPE B – 15 unit flatted development, 0.15ha, 100dph

5.159 At the policy target and assuming s106 contributions, positive residual values are assured throughout, although only the Historic scenario and above are sufficient for this scheme type to exceed our notional RLV:GDV test throughout. The Middle

Downside does ensure land values rise to meet the test after 2014 and in the early period.

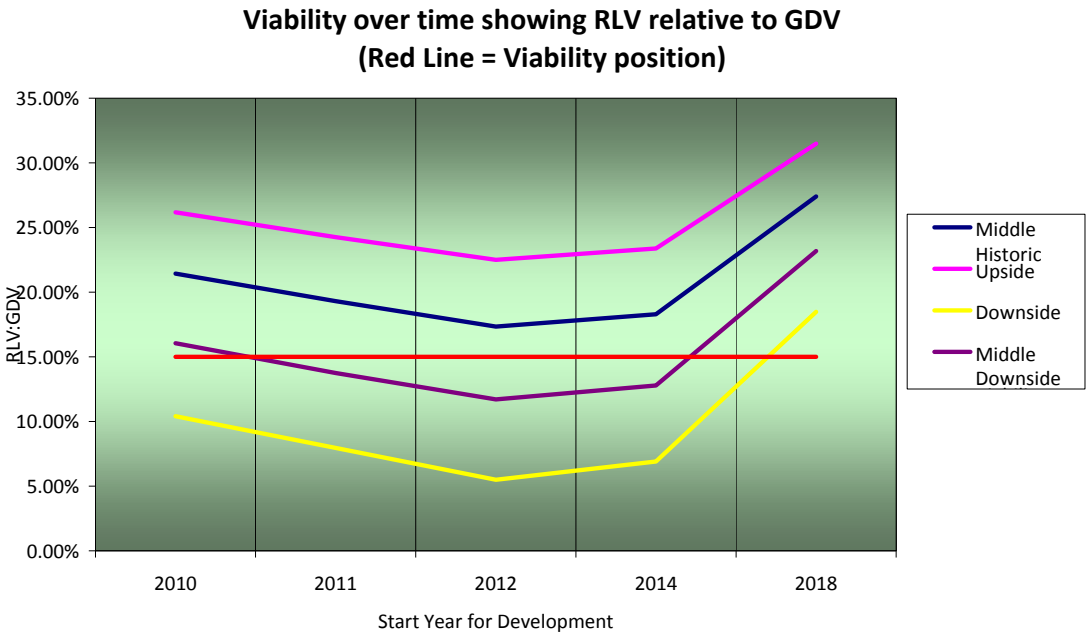
5.160 Against the alternative use value, viability is assured even when contaminated unless Downside conditions prevail when a maximum of 23k per unit is needed in public subsidy to maintain viability.

5.161 However, the majority of development scenarios are viable which supports a 20% target.

SCHEME TYPE C – 200 unit flatted development, 1 hectare, 200dph

5.162 With s106 contributions and at the policy target, positive residuals are assured throughout, and both Historic and Upside conditions are sufficient that land values clear the 15% RLV:GDV hurdle throughout. The Middle Downside exceeds 10% throughout but doesn't get to 15% until 2014 and after.

Figure xxxv – RLV:GDV, Scheme Type C 20% Affordable Housing, 25:75 tenure split and 5k per unit s106



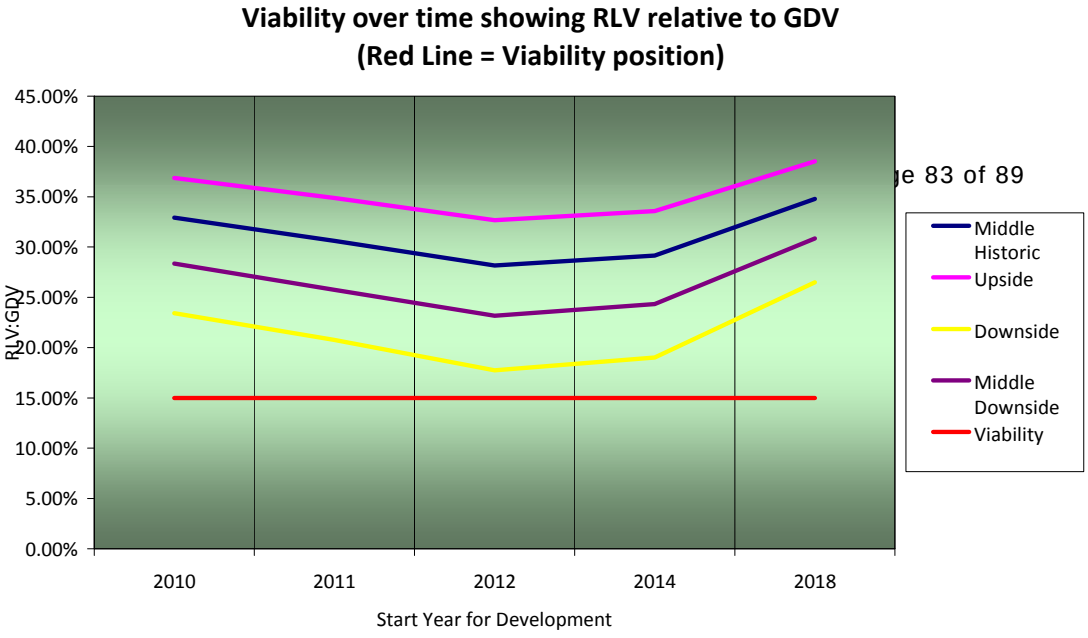
5.163 Residual land values are significantly higher than the assumed alternative use value in all scenarios throughout the period even when contamination is accounted for.

5.164 A 25% target is similarly deliverable against all scenarios on industrial land and therefore adds weight to the deliverability of a 20% target.

SCHEME TYPE D – 60 unit estate housing, 1.5 hectares, 40dph

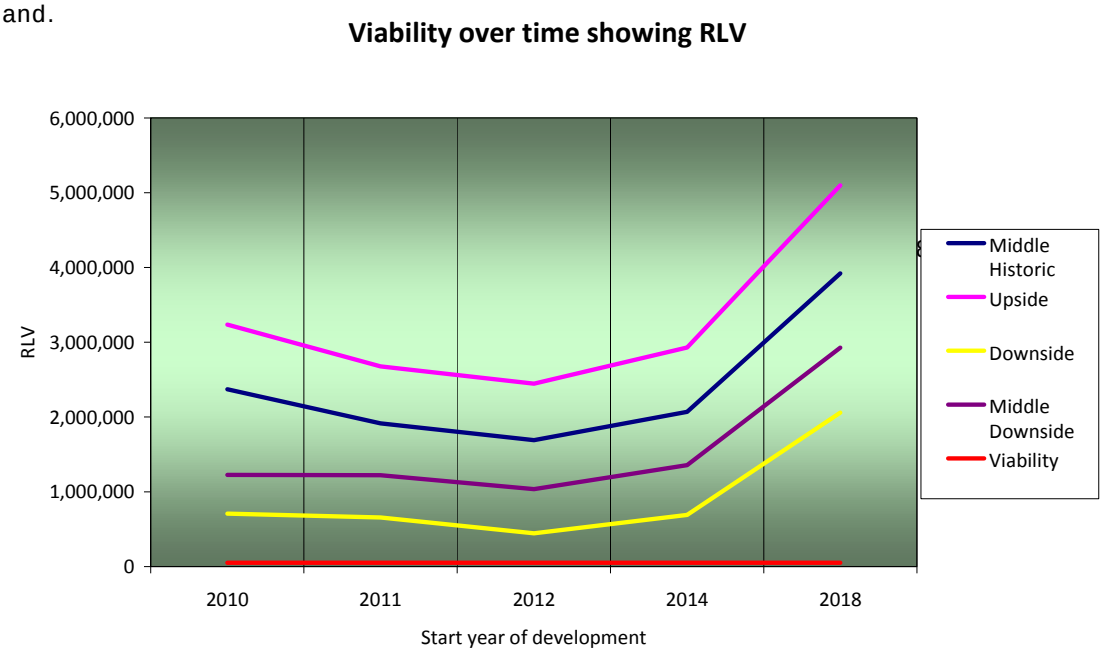
5.165 At the required target and with s106 contributions, positive residuals are gained in all scenarios throughout the period, clearing our 15% notional test. Indeed, the Middle Downside scenario and above ensure land values clear even a 25% GDV:RLV level.

Figure xxxvi – RLV:GDV, Scheme Type D, 20% affordable housing, 25:75 tenure split, 5k per unit s106.



5.166 Against alternative use values, a similar pattern is followed and the target is deliverable in all scenarios throughout the period even when contaminated.

Figure xxxvii – Residual Land Value against Industrial land values, assuming 20% affordable housing in 25:75 tenure split, 5k s106 contributions and contaminated land.



5.167 There could be a case for above 25% targets which have not been tested, as a 25% target is viable in these areas against industrial land values. However, land owners would not receive the returns they have enjoyed in recent years (in accordance with VOA figures). The policy implication is that 20% should be viable in all circumstances, barring a collapse in values larger than our worst assumption, or an increase in costs significantly above our inputs.

SCHEME TYPE E – 120 unit estate housing, 4 hectares, 30dph

5.168 In this instance, under all scenarios a 20% RLV:GDV target would be cleared throughout. Significant positive residual land values over and above alternative use value are produced throughout the period in all scenarios.

5.169 25% could also be supportable on this scheme type in these areas, as might a higher target that has not yet been assessed.

5.170 Again this lends weight to the deliverability of the 20% target

SCHEME TYPE F – 300 unit mixed development, 6 hectares, 50dph

5.171 Very similar results to the above scheme are produced, with Middle Downside scenarios and above being sufficient to derive land values above 20% of GDV. All scenarios are sufficient for the alternative use value to be exceeded throughout the period even where contamination is taken into account.

5.172 A 20% target is therefore easily deliverable in all scenarios. Indeed, a higher target could be justified and our appraisals of the 25% target indicate this would not have too detrimental an effect on land values

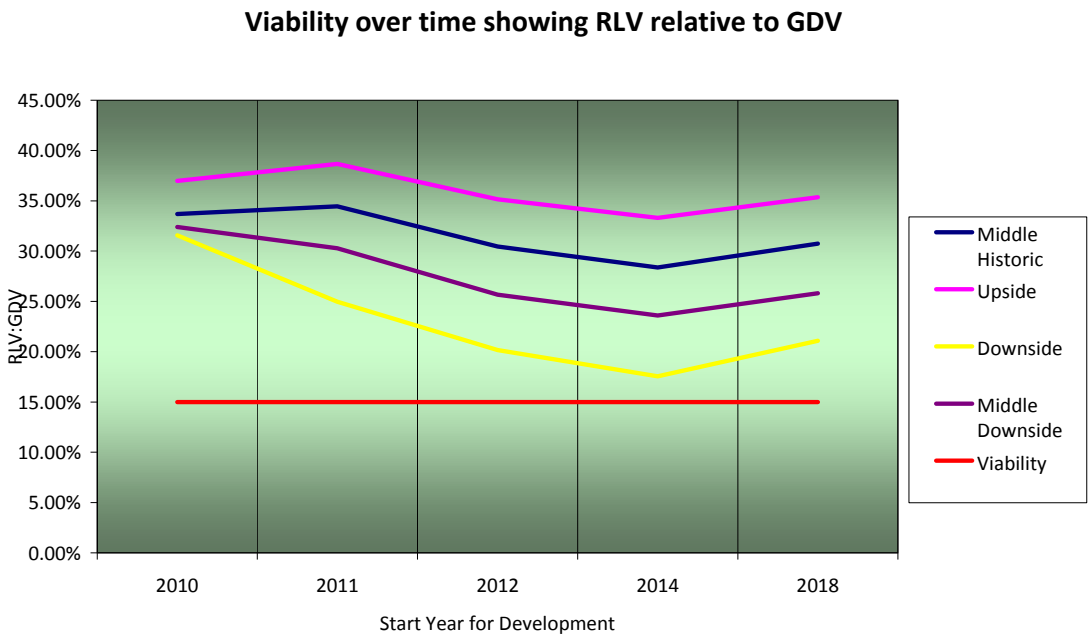
VALUE AREA 7 – City Centre

5.173 The City Centre is somewhat of an anomaly in terms of the majority of development being flatted units. However, we have assessed a range of scheme types as City Centre values may prevail in the immediate surrounding environs and SHLAA evidence suggests this is a robust assumption to make. Values are consistently higher for all unit types in the City Centre than any other locality, save for those of larger units which lag slightly behind Value Area 6.

SCHEME TYPE A - 5 unit housing scheme, 0.1 hectares, 50 dph

5.174 The high values here lead to conditions under each scenario to be sufficient to ensure that the RLV:GDV test is met throughout the period at the policy target and with s106 contributions.

Figure xxxviii – RLV:GDV assuming 20% affordable housing, 25:75 tenure split and 5k per unit s106 costs

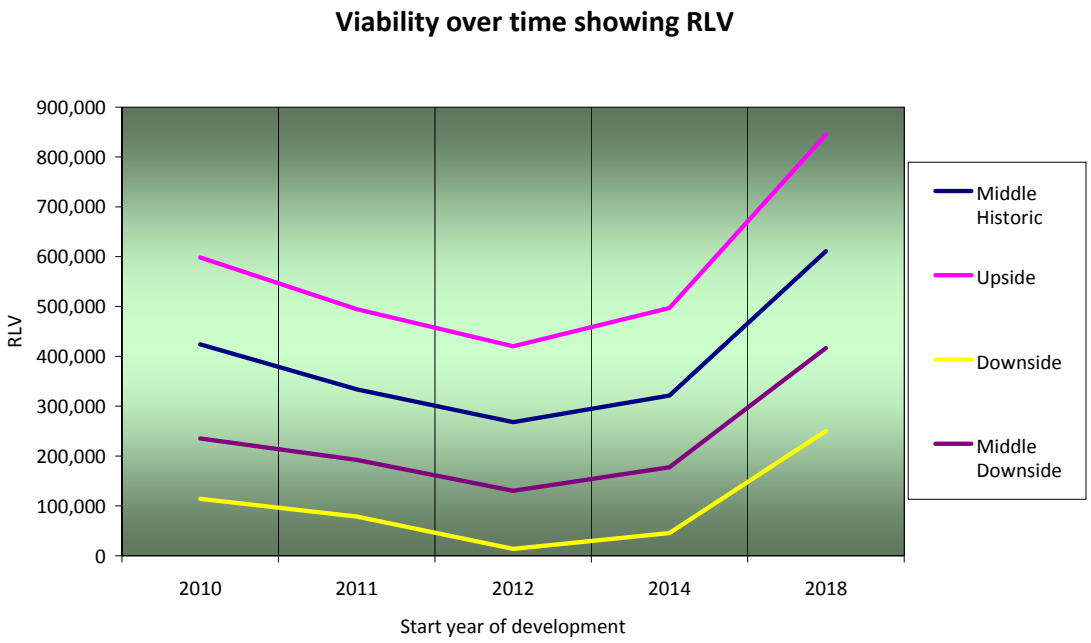


5.175 Furthermore, land values consistently exceed the alternative use value, even when contaminated, in all scenarios. Therefore there remains a significant amount in the appraisal above Industrial Use Values to encourage a landowner to bring forward his land for development.

SCHEME TYPE B – 15 unit flatted development, 0.15ha, 100dph

5.176 The Middle Downside and above scenarios are sufficient to ensure the 15% RLV:GDV test is met throughout the period. Regardless of contamination issues, all scenarios are viable against the Alternative Use Value throughout the period.

Figure xxxix – Residual Land Value against alternative use value assuming 20% affordable housing, 25:75 tenure split, 5k s106 and contamination costs.



5.177 At 25%, very similar effects are shown. This scheme type would appear to be viable at a 25% level which adds further weight behind a 20% target as a minimum in this area.

SCHEME TYPE C – 200 unit flatted development, 1 hectare, 200dph

5.178 Similarly, positive residuals are produced in all scenarios throughout the period and all but the Downside scenario clear the 15% GDV:RLV test, Historic and Upside scenarios clearing 20% throughout the period.

SCHEME TYPE G – 3000 unit Large Mixed Development scheme, 25 hectares, 120dph

5.179 Positive residuals produced throughout and the land value produced exceeds our notional 15% test. The Alternative Use Value is exceeded throughout the period in all scenarios.

5.180 The implications for this development are that affordable housing should not be a significant problem at the levels assessed. Due to the multi phase nature of development, it may be worthwhile assessing local priorities to ensure that regeneration initiatives are delivered and infrastructure is provided prior to affordable housing. If this is the case, then affordable housing can be delivered in the later phases, perhaps at even greater levels than assessed here.