



Eden District Council

Economic Viability Appraisal



October 2009

DTZ
No 1 Marsden Street
Manchester
M2 1HW



For Further Details Please Contact

Derek Nesbitt MRICS
No 1 Marsden Street
Manchester
M2 1HW
derek.nesbitt@dtz.com
0161 236 9595

Or

Jenny Purple MRICS
DTZ
St Paul's House
23 Park Square South
Leeds
LS1 2ND

jenny.purple@dtz.com

0113 2461161

Contents

	Page
EXECUTIVE SUMMARY	1
1.0 ABOUT THIS STUDY	5
2.0 POLICY CONTEXT.....	9
3.0 STUDY APPROACH AND ASSUMPTIONS	15
4.0 ECONOMIC VIABILITY CONSULTATION.....	33
5.0 RESULTS OF THE ECONOMIC VIABILITY MODEL	35
6.0 POLICY IMPLICATIONS	45

Appendices – provided as a separate document.

- 1 – Economic Viability Assumptions
- 2 – Dwelling Mix Assumptions
- 3 – House Price Assumptions
- 4 – Economic Viability Appraisal Results
- 5 – List of Stakeholder Consultees and Attendees
- 6 - Presentations from Consultation

Quality Assurance Record	
Checked By:	<i>purple</i>
Date:	26 th October 2009
Authorised By:	<i>J. R. Kibbett</i>
Date:	26 ^h October 2009
Ref: 09099951	

Disclaimer and confidentiality clause

This report should not be relied upon as a basis for entering into transactions without seeking specific, qualified, professional advice. Whilst facts have been rigorously checked, DTZ Debenham Tie Leung can take no responsibility for any damage or loss suffered as a result of any inadvertent inaccuracy within this report. Information contained herein should not, in whole or part, be published, reproduced or referred to without prior approval. Any such reproduction should be credited to DTZ.

Executive Summary

Introduction

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

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

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

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

Eden District Economic Viability Assessment

Following the exploratory meeting in the public examination into Eden District Council's Core Strategy, DTZ have been commissioned to undertake an Affordable Housing Economic Viability Assessment on behalf of the Council.

Eden's Core Strategy was submitted to the Secretary of State for examination in April 2009. At the Pre-Hearing meeting held on the 8th July 2009, the Council agreed with the Inspector to provide an Economic Viability Assessment in support of the Council's affordable housing policy (CS10) and reschedule the hearing session on this policy to 18th December 2009. The aim of the Affordable Housing Economic Viability Assessment is to assess the viability of the baseline affordable housing policy as drafted within the Core Strategy, and develop a robust, transparent and effective means of assessing an appropriate and justifiable affordable housing target in the district. In addition, the study is required in line with PPS3 to further develop and test the housing needs evidence base of the Eden District Strategic Housing Market Assessments (SHMA's) 2009. The completed study will form part of the examination evidence base and will be a primary consideration to both the Council and Inspector in support of the Council's affordable housing policy.

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

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

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

1. Penrith
2. Eden Valley North
3. Alston Moor
4. Eden Valley South

For the purposes of the Affordable Housing Viability Assessment, the areas which lie in the North Lakes housing market area have been merged into the adjoining areas as follows:

Greystoke – forms part of the Eden Valley North area

Shap and Lowther – form part of the Eden Valley South area

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

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

In all cases, the profitability and or land value of a site decreased as levels of affordable housing were increased. Sites in high value areas tended to have the capacity to deliver the highest levels of affordable housing whilst remaining profitable. Sites in low value areas experienced the greatest impact on profitability as quotas of affordable housing were increased.

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

At the baseline position of June 2009, it was demonstrated that, across the District, there was little scope to deliver the council's current affordable housing requirements as drafted, however it did demonstrate that 30% affordable housing was deliverable on circa 82% of the sites tested (further results and scenarios can be seen in section 4). In the prevailing market conditions, the delivery of any housing development is difficult and high numbers are unviable and unlikely to be brought forward due to extended build periods, uncertainty in the financial market, stagnant property values and land banking as a result of developers over paying for development land at the height of the market.

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

In order to assess appropriate affordable housing percentages to reflect changing market positions, analysis of different scenarios or market conditions was undertaken to determine at what point and level affordable housing delivery is viable. Scenarios to reflect the height of the recent market cycle in early 2007, show that 40% affordable housing could be viably delivered on 50% or over of the scenarios tested and indeed 50% affordable housing could also be delivered on 29% of the scenarios tested.

The Local Authority's current affordable housing target of 50% with the remaining 50% of units being delivered for Local Occupancy is ambitious in the current market and certainly in the short to medium term until the market recovers. Without social housing grant to contribute, affordable housing delivery at these levels will make schemes unviable for standard Section 106 sites. However, with grant and additional revenue in these scenarios, these levels may be deliverable. The results of our modelling work has determined that the percentage of affordable housing requested by the Local Authority over the coming years will have to be flexible and potentially alter to reflect prevailing market conditions in order to ensure that the optimum level of affordable housing is delivered across the plan period. The conclusion of this report provides ranges and indications of what market conditions would have to be in place to deliver higher percentages of affordable housing.

1.0 About this Study

- 1.1 DTZ was commissioned in July 2009 by Eden District Council (EDC) to examine the likely impact of a range of potential affordable housing percentages and tenure splits on development viability across a range of market scenarios
- 1.2 This study has been undertaken, following the exploratory meeting in the public examination into Eden District Council's Core Strategy, DTZ have been commissioned to undertake an Affordable Housing Economic Viability Assessment on behalf of the Council.
- 1.3 Eden's Core Strategy was submitted to the Secretary of State for examination in April 2009. At the Pre-Hearing meeting held on the 8th July 2009, the Council agreed with the Inspector to provide an Economic Viability Assessment in support of the Council's affordable housing policy (CS10) and reschedule the hearing session on this policy to 18th December 2009. The aim of the Affordable Housing Economic Viability Assessment is to assess the viability of the baseline affordable housing policy as drafted within the Core Strategy, and develop a robust, transparent and effective means of assessing an appropriate and justifiable affordable housing target in the district. In addition, the study is required in line with PPS3 to further develop and test the housing needs evidence base of the Eden District Strategic Housing Market Assessments (SHMA's) 2009. The completed study will form part of the examination evidence base and will be a primary consideration to both the Council and Inspector in support of the Council's affordable housing policy.

Study Purpose and Objectives

- 1.4 A growing proportion of affordable housing is delivered via Section 106 Agreements. It is increasingly important therefore that local authority housing policy is realistic and credible, taking into account the local housing market, house prices, supply, demand and need issues. Hence, this viability study sits alongside and is informed by the work of the SHMA's and forms part of the evidence base which will be used to test the affordable housing policies in EDC's Core Strategy.
- 1.5 The SHMA does not consider the impact of affordable housing policies on development viability. The purpose of this economic viability assessment work is therefore to ensure that the proposed policy for affordable housing is not so onerous that it prevents sites from coming forward and stifles development of, not only affordable, but also open market housing. The purpose is to ensure that a policy can be set which both meets the recognised needs for affordable housing as identified in the SHMA, but still delivers the development of new homes across the Eden District.

Study Approach

- 1.6 It has been important for the study to test viability of different site types in different locations, in order to understand how viability varies with site size, values, tenures and locations. It has, therefore, been necessary to develop a typology of the different types of sites that are likely to come forward for housing development in Eden and to test the viability of these hypothetical sites under a set of different development scenarios.
- 1.7 The typology of sites to be assessed was developed in conjunction with EDC and stakeholders to reflect the authority's current policies and their experience of the range, size, type and locations of sites which they would envisage would come forward through the planning system for the future provision of housing.
- 1.8 This approach allows different policy options to be tested in a consistent manner across the range of likely development scenarios. This would not be possible in the same way had the study focused on actual real life sites where the particular features of those sites would inevitably have made it difficult to generalise about viability and compare scheme results.
- 1.9 Central to the assessment of the viability of housing development is the concept of residual land value.¹ Residual land value is the value that can be attributed to land, when the total cost of development, including an allowance for profit, is deducted from the sales values of housing built on site. If there is a residual land value that is higher than the existing use value then the development can be deemed viable; if it is below, then the development will not be considered viable.
- 1.10 The majority of developers assess the viability of a prospective development by calculating residual land value. Having calculated its residual project value, developers use discounted cash flow² analysis to calculate the profitability for the project. The profitability calculation allows different investment options to be compared on a like for like basis. The higher a project's profitability, the more desirable it is to undertake.

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

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

- 1.11 For the purpose of this study, DTZ have assumed, through their experience of working in the residential development sector and stakeholder consultation for this study that a developer will require a minimum net return of 18% of GDV for larger sites (more than 10 dwellings) and 16% of GDV for smaller sites (10 units or less). The calculated return, is net of any finance cost or central overheads.
- 1.12 The higher level required for larger sites reflects the higher risks associated with larger developments as development takes place over a longer time period at more risk to the developer. Developments that would yield a return less than these levels are deemed to be marginally viable (if within 4%) or if under the 4% target range unviable since they do not generate the target profitability whilst maintaining an appropriate residual land value.
- 1.13 In summary, the key questions of the economic viability assessment are whether the level of affordable housing and the balance of tenures proposed are viable or, whether a particular level of affordable housing provision will inhibit development and, by implication, what level of affordable housing provision can be delivered without subsidy.

Report Structure

- 1.14 The rest of this report is structured as follows:

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

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

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

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

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

2.0 Policy Context

- 2.1 This section provides the context for the subsequent assessment of viability. It first examines national policy guidance on planning for affordable housing provision and the relevance of viability to policy making. The section then goes on to consider the current affordable housing policy for Eden District, which is subject to review under the Core Strategy Review.

National Planning Policy and Affordable Housing Provision

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

- *Meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and house prices.*
- *Include provision for the home to remain at an affordable price for the future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision.'*

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

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

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

- 2.6 This report was prepared in June to September 2009, during a time of market downturn which is causing substantial concerns around viability and housing development coming forward. DTZ's view is that it is inevitable that viability studies would be undertaken at a particular point in time (in this instance with a valuation date of June 2009), and reflect a particular set of market circumstances, but the information they yield on how viable affordable housing delivery is varies by site size, development context, etc. The range of scenarios tested is useful for policy making, even in the current market environment. Planning policies for affordable housing also need to be set for the long term, and should have sufficient flexibility to cope with short term changes in the market.
- 2.7 This implies that authorities need a degree of flexibility in the application of affordable housing policies. The existing system allows for developers to make the case to authorities where a policy requirement cannot be delivered on a particular site given the particular circumstances of that site. Some inherent flexibility into how policy requirements for affordable housing can be met is built into the system by options to change the tenure mix (between social rented and intermediate housing for sale) or deliver a percentage of square footage rather than a percentage of units which may have a lesser impact.
- 2.8 However, it is well known that developers, when acquiring sites in a competitive situation, do not always fully allow for the costs of affordable housing provision in accordance with policy. Similarly, developers will not immediately adjust their bid prices to reflect changes in affordable housing and/or planning policy. It should not be the role of the planning policy to compensate developers who have overpaid for land or misjudged aspects of development costs or revenues by simply adjusting the level of affordable housing that should be delivered on sites.
- 2.9 Local authorities need, therefore, to appreciate how development viability is assessed, in order to be in a position to negotiate where necessary over affordable housing requirements, whilst seeking to ensure that policies can be applied for the majority of developments. The balance between being sufficiently robust to ensure that not every application is the subject of negotiation, whilst being sufficiently flexible to recognise special circumstances is a difficult balance to strike, but it is in the interest of both the development industry and local authorities to find the right balance.

Regional Planning Policy

- 2.10 The Regional Spatial Strategy for North West England Policy L5, states that *plans and strategies should set out requirements for affordable housing, and the location, size and types of development to which these requirements apply. Evidence, including from Strategic Housing Market Assessments, should be used to support the setting of quotas and thresholds for affordable housing provision along with an indication of the type size and tenure of affordable housing required.*
- 2.11 *It is anticipated that the greatest need will be in areas of high demand where affordability issues are unbalancing local communities, due to high prices and low wages and/or the adverse effects of second homes, although affordability is an increasing concern in many parts of the region.*
- 2.12 *Plans and strategies should set out a range of delivery mechanisms to secure the provision of affordable housing. Local authorities should consider all or some of the following where appropriate:*
- *seeking a proportion of affordable housing on all development sites which are above the relevant thresholds;*
 - *allocating the development of sites solely (or primarily) for affordable housing use (i.e. up to 100% affordable in rural areas), where necessary;*
 - *using local occupancy criteria to support provision for local housing need so long as this need can be clearly demonstrated, to be implemented through the use of planning conditions and obligations;*
 - *actively promoting the rural exception site policy;*
 - *for all sites containing housing in rural settlements with populations of under 3,000 promote onsite affordable housing provision and where on site affordable housing provision is not possible, seeking developer contributions towards affordable housing;*
 - *making the most of publicly owned land;*
 - *making the most of existing housing stock;*

- *in line with Policy W4, permitting the conversion of buildings in sustainable locations to residential use (including as part of mixed use schemes), particularly where commercial premises which are vacant or under-used and offer no long term potential or viable contribution to the local economy;*
- *encouraging employers to provide housing for their key workers;*
- *ensuring that wherever possible (and subject to continuing evidence), that property remains affordable and available in perpetuity.*

Local Planning Policy and Affordable Housing Provision

- 2.13 According to EDC's Core Strategy submission, house prices in Eden are amongst the highest in Cumbria. At the end of 2008 the average house price was £218,575 well above the regional average of £148,382 across the North West. However, average incomes in Eden are below the regional average and estimates are that house prices are more than eight times greater than income making the requirement for affordable housing a key priority for EDC. The proximity to the M6 and the increasing appeal of the area for holiday and second homes is pushing up prices and making home ownership inaccessible to a large number of households across the District.
- 2.14 The Housing Needs Survey undertaken in 2006 established an overall requirement for affordable family accommodation for both rent and low cost home ownership, Where this is unavailable newly forming households are forced to remain in overcrowded conditions or struggle to meet high private rents.
- 2.15 The alteration to the Cumbrian and Lake District Joint Structure Plan 2001-2016 (2006) provides for a reduced amount of house building in the Eden District to compensate for the higher build rates since 1919, this amounts to an average of 170 dwellings per year, this is slightly below the RSS which suggests a target of 239 completions per year..
- 2.16 One of the Key Spatial Objectives for EDC is affordable housing and Objective 1 of section four in the core strategy submission outlines that;

'To meet the overall development requirement for the District consistent with the RSS- focusing the majority of development in or adjacent to Key and Local Service Centres, whilst also recognising the need for essential development for rural areas to maintain viable communities'

- 2.17 Indeed the Core Strategy submission identifies that one of the key requirements of sustainable communities are good quality affordable homes and therefore the Core Strategy proposes the following in relation to affordable housing delivery.

Eden District Council's Affordable Housing Policy

- 2.18 Core Strategy Policy 7 Principles for Housing identifies the following key priorities which EDC working with partners will seek to ensure on any new housing development

- ***Give priority to meeting local needs and affordable housing***
- ***Provide for a full range and choice of housing types to meet the needs of the whole community***
- ***Focus new build housing in Key and Local Service Centres whilst allowing for meeting essential needs in smaller settlements***
- ***All housing will be secured by planning condition or obligation for occupation only by people with a local connection to the area (including employment or a new business venture)***
- ***Provide for an manage the supply of housing to meet strategic requirements as set out in the RSS giving priority to the re-use of previously developed buildings and land***
- ***Development will be required to provide necessary services and infrastructure***
- ***Secure the provision of housing development to appropriate standards of accessibility, security and energy efficiency***
- ***Ensure appropriate distribution of new housing across the District.***

- 2.19 With regard to policy CS7 above and following extensive research including a Housing Needs Survey and Strategic Housing Market Assessments, EDC consider that the proportion of affordable housing sought will be dependant upon the assessment of the level of need at that time the particular area but will be expected to be between 33% and 100% of the proposed number of dwellings. Contributions for off site provision will also be accepted when considered acceptable or more beneficial than delivering on site. The detailed information with regard to this requirement will be set out in a Housing Development Plan Document, however with regard to the core strategy submission the following strategy relates to affordable housing;

CS10 Affordable Housing

On larger site i.e.10 or more units at least 50% affordable housing will be provided as a proportion of all new housing developments.

At least 33% affordable will be provided as a proportion of all new housing developments (2 or more units) in the District.

Developers will be required to commission a viability assessment by a consultant appointed by the Council at the developer's expense to objectively justify the proportion of affordable housing.

The Council will require developers of individual units to provide a financial contribution towards the provision of affordable housing in areas of highest need.

- 2.20 Both policies CS7 and CS10 will be considered and tested during this viability assessment. In particular the local occupancy statement (All housing will be secured by planning condition or obligation for occupation only by people with a local connection to the area (including employment or a new business venture) in CS7 will be tested – more details of this requirement are included in section 3.

3.0 Study Approach and Assumptions

- 3.1 The approach, which has been adopted to appraise viability within this study, is to use standard techniques of development appraisal which are commonplace in the development industry. This entails the use of Discounted Cash Flow (DCF) analysis to calculate the profitability for developments with particular characteristics.
- 3.2 This work calculates the profitability under a range of different development scenarios in terms of the location, sales value, density of hypothetical developments designed to be broadly representative of the type of sites that have come forward for development in the study areas. A scheme is deemed to be viable if it achieves defined profit targets.
- 3.3 DTZ has opted for a 3 stage process in assessing the financial impact of different affordable housing options.
- **Stage 1** involved market research to determine existing land values, unit sizes, unit mix and capital values of both private and affordable units. The selection of development scenarios to be examined was also informed by a policy review undertaken in its initial stage.
 - **Stage 2** DTZ agreed the assumptions regarding key variables with EDC and a range of stakeholders – which resulted in some assumptions changing from our original findings in Stage 2.
 - **Stage 3** involved financial modelling to test the viability of development on hypothetical sites, and how this would be affected by the application of different requirements for affordable housing requirements and in different market scenarios.
- 3.4 The study approach is tailored to the specific requirements and circumstances of Eden District. It takes account of a range of circumstances existing across the study areas but does not seek to capture analysis of the specific circumstances of individual housing sites in the study areas. To do this would have been impossible in practical terms and inappropriate to a strategic study which is designed to inform policy development.
- 3.5 Indeed, when focussing on the development of a range of hypothetical sites that capture much of the variety of the range of housing sites likely to come forward across the study areas, it is possible to analyse different sites on a consistent basis. This allows conclusions to be drawn in answer to questions such as “how does increasing the affordable housing requirement from 30% to 40% affect viability?”, and “does allowing higher proportion of shared ownership in the affordable housing mix improve viability?”, and “what is the impact of current market conditions on development viability”, and “what is the impact of the Local Occupancy requirement on the delivery of schemes and affordable housing” for example.

- 3.6 By implication, this study does not analyse viability on specific housing sites that may come forward in the future. Whilst the hypothetical sites have been selected using the findings of the Strategic Housing Land Availability Assessment (SHLAA) and SHMA, specific sites have not been modelled. There will always be a wide range of specific circumstances that will affect viability on particular sites, and developers will assess these in determining whether to proceed. In addition, developers are not homogenous, they vary in their appetite for risk, and have different requirements in terms of returns in addition, and those requirements may change in different market contexts. The development appraisal technique developed for this study could, however, be readily applied to an individual site if required.
- 3.7 It is also important to note that the analysis undertaken for this study was prepared during June 2009, the data on land values, sales prices and number of other variables relates to this date. Some of these variables may have changed since the analysis was undertaken. Indeed, given the current evidence of stabilisation at the bottom of the housing market, the variables are likely to continue to change over the coming months and years and there is the possibility of market circumstances both improving and falling further. The housing market is dynamic, always changing and any study can only provide a snapshot of viability. This should remain an important consideration when reviewing this report. The current and unprecedented state of the housing market will have an impact on the viability of affordable housing, and indeed the agreed valuation date of June 2009, has a significant impact on the variables inputted to the model.
- 3.8 With this in mind, DTZ have modelled a range of other market scenarios, to enable EDC's to determine if their policy on affordable housing can react to changing circumstances across the life of the policy and to enable any changes or redrafting of the policy to have regard to the impact of delivering affordable housing across the market spectrum from the height of the market to the current unstable uncertain position.
- 3.9 The remainder of this section of the report sets out the assumptions on which the analysis is based and the sources of information that underpin those assumptions. In a strategic study such as this, it is necessary to generalise but where appropriate, we comment on how the specific circumstances of particular sites and the expectations of the developer, or the costs and revenues of the project may vary from the assumption and hence affect the viability of that particular development. This helps to eliminate some of the issues that will apply in the application of the policy as we move forward through changing market cycles.

General Assumptions

- 3.10 The valuation date for this study is June 2009. The study tests the viability on the basis of costs and revenues as applicable at the date of valuation. The model tests viability on the assumption that the sites tested have secured planning permission and that there are no abnormal costs associated with their development. It has been important to use this basis of analysis to allow like for like comparison of how different policy options affect viability. In reality, each site will be different and there are always elements of costs that are specific to developments of a particular site, but these can only be assessed on a site by site basis. Developer returns are also often a composite of the actual development of the residential component of the site, and returns on the process of securing land value enhancements through securing change of use permission on this site.
- 3.11 The generic assumption has been made that developers on sites generating 10 dwellings or less will require a minimum net return of 16% on GDV (net of any finance cost or central overheads) and those developing sites generating more than 10 dwellings will require a net return of 18% on GDV. These are the typical minimum rates of return currently being sought in the market, based on DTZ's knowledge confirmed through the Stakeholder Consultation. Schemes that fall below these target rates of return are deemed not to be viable, and those that meet or exceed the target rate of return are deemed to be viable. The higher level of return on larger schemes is required because of the higher risk involved in these sites over a longer time period.
- 3.12 It is important to acknowledge, however, that the returns sought by different developers and how they secure this through the whole development process, will vary. Developers will take into account a range of factors relating to the risk profile of the scheme, such as scheme size, time of delivery, location and other market factors, in determining what an acceptable rate of return is. As noted, developers may secure their return through a composite process of land assembly, securing permission for development, and the actual development process; and the target rates of return may differ as market conditions change. Such complexities cannot be modelled in a strategic study such as this. This is something that EDC need to be aware of when analysing the longevity of the proposed strategy.
- 3.13 Finally, it has been necessary as part of the appraisal to make assumptions about sales rates and interest rates. The sales rates and interest rates used in the model are those considered appropriate as at June 2009. At this point in time, sales rates on developments have fallen greatly compared to those seen at the height of the market in Q4 2006 and Q1 2007. The average time taken to sell a new home has increased in most areas and the average price achieved for these properties has also fallen. This has had a subsequent effect on development cash flows and developers' expected returns. As the focus of this study is on informing policy

that must endure through many different phases of the housing market, the baseline assumptions used in June 2009, have been varied under a range of scenarios and other market conditions in order to produce a percentage delivery for affordable housing which allows for different movements in the financial and housing markets across the term of the policy.

The Key Variables for Scenario Testing

3.14 The baseline assumptions for this study can be seen in Appendix 1. The focus of the study has been in testing viability for different levels of affordable housing provision (10%, 20%, 30%, 40% and 50%). These levels were tested because they test the existing policy requirement of 50% but also allow for consideration of lower percentages of affordable housing given the current market instabilities.

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

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

Site Size

3.16 The site sizes tested have varied dependent upon the areas, the following site sizes have been tested;

Penrith Sizes

Small	0.25ha
Medium	0.5 ha
Large	1 ha
Extra Large	2 ha
Urban Extension	5+ha

All Other Area Sizes

Small	0.25ha
Medium	0.5 ha
Large	1 ha
Extra Large	2+ ha

3.17 It is important to note here, that as Penrith has been removed from the Eden Valley North market area and will be analysed individually, extra large sites in the Eden Valley North area were not tested. The removal of Penrith leaves only local service centres in this market area and as such it was deemed unnecessary and inappropriate, in light of the findings of the SHLAA to test extra large sites.

Location

3.18 Key variables which affect viability, such as price paid for land, the sales value of new homes, unit mix, density and Section 106 costs vary with locations. In order to make a model as consistent with the SHMA as possible, DTZ have used the 4 areas identified in the Strategic Housing Assessment's. These are:

1. Eden Valley North – including Greystoke
2. Alston Moor
3. Eden Valley South – including Shap and Lowther
4. Penrith

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

Map 3.1 Eden Housing Market Sub-Areas



Source: Strategic Housing Market Assessment's – 2009

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

3.21 Testing in these areas in line with the SHMA's, is a principle benefit to EDC as it enables analysis to be compared across both documents. Particular attention will be given to the Principle Town of Penrith as according to the councils proposed development plans, a number of large scale developments will occur in this settlement and the viability of delivering affordable housing in Penrith will play an essential role in setting the affordable housing targets and the housing market moving forward. This is the main reason the town of Penrith has been removed from the Eden Valley North market area and assessed in its own right as the market dynamics in this area are considerably different to the surrounding areas.

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

Figure 3.2 Identification of Hypothetical Sites

Eden District EVA Site Identification.

	Small			Medium			Large		
	High Density	Medium Density	Low Density	High Density	Medium Density	Low Density	High Density	Medium Density	Low Density
Penrith	PSHD	PSMD	PSLD	PMHD	PMMD	PMLD	PLHD	PLMD	PLLD
Alston	n/a	ASMD	ASLD	n/a	AMMD	AMLD	n/a	ALMD	ALLD
Eden Valley North	n/a	EVNSMD	EVNSLD	n/a	EVNMMD	EVNMLD	n/a	EVNLMD	EVNLLD
Eden Valley South	n/a	EVSSMD	EVSSLD	n/a	EVSMMD	EVSMMLD	n/a	EVSLMD	EVSLLD

	Extra Large			Urban Extension		
	High Density	Medium Density	Low Density	High Density	Medium Density	Low Density
Penrith	PXLHD	PXLMD	PXLLD	n/a	PUEMD	PUELD
Alston	n/a	AXLMD	AXLLD	n/a	n/a	n/a
Eden Valley North	n/a	n/a	n/a	n/a	n/a	n/a
Eden Valley South	n/a	EVSXLMMD	EVSXLLD	n/a	n/a	n/a

Total 36 sites

Density and Dwelling Mix

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

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

3.25 Historically, developments across Eden, particularly in rural area have been delivered at densities significantly below the national guidelines of 30 dph. However, national guidance requires local authorities to aim to deliver a minimum of 30 dph on all schemes and consultation with EDC has shown that whilst they are aware not every development permitted will be over 30dph this is the starting point for negotiations in accordance with national policy. To vary this, EDC would be looking for strong justification from the applicant to permit below that threshold, such as topography, irregular shape of site and house types, and the viability of these abnormal site conditions would be assessed by the individual site viabilities to be submitted by the developer as part of Policy CS10. As we are considering hypothetical sites in this approach and removing abnormal concerns we are of the opinion an assumption of a minimum 30dph is justifiable.

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

Penrith	high density	40 dph
	medium density	35 dph
	low density	30 dph
All Other Areas	medium density	35 dph
	low density	30 dph

3.27 It was decided not to consider high density development outside of the Penrith market areas as the circumstances when developments will occur above 35 dph are likely to be few and far between and in service centres such as Alston and Kirby Stephen only and therefore not a relevant scenario to test in this strategic study.

3.28 Within each location and density, DTZ have made assumptions of unit mix based on experiences within the market and consultation with the Authority and key stakeholders. As the affordable provision stems directly from the overall mix of units, this has a significant effect on viability. These assumptions are included in Appendix 2.

Value Area

- 3.29 The study area is extensive covering the whole of the District. Values, in terms of both sales values of new homes and land values vary across the study area and this will have a significant effect on the viability of new housing developments in these areas. It was decided to identify 3 “value areas” defined simply as high, medium and low value areas, and for these areas to identify the relevant sales values and land values that should be applied in the viability testing (see below under headings land values and sales values of private and affordable housing).
- 3.30 Broadly, these value areas are aligned with the pattern of average house prices across the District. These are described in detail in the Strategic Housing Market Assessment. The table in Appendix 3 shows how house prices have been identified in higher, medium and low value areas by using key settlements within these areas in order to undertake market research. However, it should be noted that new development, particularly on larger schemes, can, under some circumstances, establish new value premiums that are not constrained by existing second hand house prices. The likelihood of this in the marketplace as at June 2009 is low; however, this should be an important consideration moving forward for the Local Authority in order to create a policy which is flexible with changing market cycles.
- 3.31 Data on land values and sales values was collected from actual, current developments and second hand sales and through contact with local agents. Information relates to June 2009, a recognised period of significant slowdown in the housing market. This has caused DTZ to be conservative in the attribution of values and will have an effect on viability. However, depending on the depth and duration of the housing market slowdown, these may worsen or, indeed, improve in future years.

Land Value

- 3.32 The study has been undertaken on the basis that the cost of land is used in the viability appraisal as both an input and an output. By fixing the cost of land as an input the calculation of profitability can be assessed and by fixing profit at the required level of return, the land value can be assessed in order to determine whether this is at an acceptable level to ensure land is brought forward for residential development. When fixing land as a constant, the cost of land has been based on a percentage of Gross Development Value for each of the schemes tested. Through market research and stakeholder consultation it was agreed that a value of 10% of GDV in rural areas and 20% of GDV in urban areas should be assumed as a value at which land will be brought forward and developed for residential as opposed to an alternative development use value or maintained as its existing agricultural use in areas outside of Penrith.

- 3.33 In reality, a developer may not have fully allowed for the provision of the level of affordable housing required in the current policy, believing that they can negotiate a lower level of provision on the basis of viability. Where land has been acquired historically and policy has moved on, often this will be compensated for by rising land values. Where a developer has acquired land, in a time of intense competition and not made full allowance for provision of affordable housing in the price they have paid, policy should not seek to compensate for this miscalculation. Nevertheless, this might result in reluctance on behalf of the developer to bring forward the site for development until unit values have increased significantly to offset their miscalculation. Taking all these factors into account, it was felt that a figure of 10% of GDV in rural areas and 20% of GDV in urban areas was appropriate and would reflect the market position at the date of valuation and moving forward. These figures have been increased following stakeholder consultation as they were originally proposed at 5% of GDV and 10% of GDV respectively for rural and urban areas.

Sales Values of New Market Homes

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

Table 3.1 Private Revenue Assumptions

Unit Type	Value	Area sq ft	Alston		Eden Valley North		Eden Valley South	
			Values	£psf	Values	£psf	Values	£psf
2 Bed House	High	900	£150,000	£167	£180,000	£200	£180,000	£200
	Mid		£135,000	£150	£165,000	£183	£150,000	£167
	Low		£120,000	£133	£155,000	£172	£120,000	£133
3 Bed House	High	1300	£210,000	£162	£250,000	£192	£255,000	£196
	Mid		£185,000	£142	£225,000	£173	£210,000	£162
	Low		£165,000	£127	£215,000	£165	£165,000	£127
4 Bed House	High	1850	£265,000	£143	£315,000	£170	£310,000	£168
	Mid		£245,000	£132	£290,000	£157	£250,000	£135
	Low		£210,000	£114	£270,000	£146	£200,000	£108
5 Bed House	High	2200	£300,000	£136	£400,000	£182	£355,000	£161
	Mid		£275,000	£125	£370,000	£168	£300,000	£136
	Low		£240,000	£109	£340,000	£155	£230,000	£105

Unit Type	Value	Area sq ft	Penrith	
			Values	£ psf
2 Bed Flat	High	650	£130,000	£200
	Mid		£115,000	£177
	Low		£97,000	£149
2 Bed House	High	750	£150,000	£200
	Mid		£130,000	£173
	Low		£115,000	£153
3 Bed House	High	950	£220,000	£232
	Mid		£190,000	£200
	Low		£165,000	£174
4 Bed House	High	1100	£240,000	£218
	Mid		£220,000	£200
	Low		£180,000	£164

Revenues for Affordable Housing Provision

- 3.35 A developer also generates revenues from the sale of affordable housing units to housing associations. DTZ have derived estimates of these revenues from both talking to housing associations, and liaising with the Authority's Strategic Housing Team.
- 3.36 The revenues generated from sales of affordable housing differ depending on whether the unit is for social rented or intermediate tenure. Table 3.2 below sets out the assumed revenues generated from the development of new social rented housing, estimated for different value areas, as well as location and dwelling types. Table 3.3 below sets out the same information regarding revenues generated from the sale of intermediate housing units.

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

3.38 Evidence provide by the Local Authority and Housing Associations has determined that 35% of market value is paid for social rented units and in the region of 50% of market value paid for intermediate tenure properties in all areas across the Eden District again these figures have been revised following stakeholder consultation and were originally proposed at 45% of market value for social rented and 65% of market value for intermediate.

Table 3.2 Revenues Generated from New Social Rented Homes

Unit Type	Value	Area sq ft	Alston		Eden Valley North		Eden Valley South	
			Values	£psf	Values	£psf	Values	£psf
2 Bed House	High	900	£52,500	£58	£63,000	£70	£63,000	£70
	Mid		£47,250	£53	£57,750	£64	£52,500	£58
	Low		£42,000	£47	£54,250	£60	£42,000	£47
3 Bed House	High	1300	£73,500	£57	£87,500	£67	£89,250	£69
	Mid		£64,750	£50	£78,750	£61	£73,500	£57
	Low		£57,750	£44	£75,250	£58	£57,750	£44
4 Bed House	High	1850	£92,750	£50	£110,250	£60	£108,500	£59
	Mid		£85,750	£46	£101,500	£55	£87,500	£47
	Low		£73,500	£40	£94,500	£51	£70,000	£38
5 Bed House	High	2200	£105,000	£48	£140,000	£64	£124,250	£56
	Mid		£96,250	£44	£129,500	£59	£105,000	£48
	Low		£84,000	£38	£119,000	£54	£80,500	£37

Unit Type	Value	Area sq ft	Penrith	
			Values	£ psf
2 Bed Flat	High	650	£45,500	£70
	Mid		£40,250	£62
	Low		£33,950	£52
2 Bed House	High	750	£52,500	£70
	Mid		£45,500	£61
	Low		£40,250	£54
3 Bed House	High	950	£77,000	£81
	Mid		£66,500	£70
	Low		£57,750	£61
4 Bed House	High	1100	£84,000	£76
	Mid		£77,000	£70
	Low		£63,000	£57

Table 3.3 Revenues Generated from New Intermediate Homes

Unit Type	Value	Area sq ft	Alston		Eden Valley North		Eden Valley South	
			Values	£psf	Values	£psf	Values	£psf
2 Bed House	High	900	£75,000	£83	£90,000	£100	£90,000	£100
	Mid		£67,500	£75	£82,500	£92	£75,000	£83
	Low		£60,000	£67	£77,500	£86	£60,000	£67
3 Bed House	High	1300	£105,000	£81	£125,000	£96	£127,500	£98
	Mid		£92,500	£71	£112,500	£87	£105,000	£81
	Low		£82,500	£63	£107,500	£83	£82,500	£63
4 Bed House	High	1850	£132,500	£72	£157,500	£85	£155,000	£84
	Mid		£122,500	£66	£145,000	£78	£125,000	£68
	Low		£105,000	£57	£135,000	£73	£100,000	£54
5 Bed House	High	2200	£150,000	£68	£200,000	£91	£177,500	£81
	Mid		£137,500	£63	£185,000	£84	£150,000	£68
	Low		£120,000	£55	£170,000	£77	£115,000	£52

Unit Type	Value	Area sq ft	Penrith	
			Values	£ psf
2 Bed Flat	High	650	£65,000	£100
	Mid		£57,500	£88
	Low		£48,500	£75
2 Bed House	High	750	£75,000	£100
	Mid		£65,000	£87
	Low		£57,500	£77
3 Bed House	High	950	£110,000	£116
	Mid		£95,000	£100
	Low		£82,500	£87
4 Bed House	High	1100	£120,000	£109
	Mid		£110,000	£100
	Low		£90,000	£82

Affordable Housing Mix

- 3.39 The base assumption for the modelling exercise has been that 70% of the affordable housing built will be for social renting and 30% will be intermediate tenure, the reason for this is that it best reflects the average findings of the 2006 Housing Needs Survey. However, consideration has been given to the impact on viability of changing this proportion with options of 50% social rented/50% intermediate and 30% social rented/70% intermediate being tested.

Homes and Communities Agency Grant Funding

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

Build Costs

- 3.41 The build costs used in the viability model are taken from the average residential costs from BCIS³, re based using the local index for the Eden area. The assessment uses the build costs per square foot of net sales area. These were correct as at June 2009, and have been tested through stakeholder consultation to ensure they are in line with the current market expectations. Ordinarily, build costs for affordable housing would be presumed to be higher than those for market sale units in order for them to meet the current design and space standards required by the HCA including the code for Sustainable Homes Level 4 and Lifetime Homes Standards. However, as this modelling assumes no grant is provided to the Section 106, and in line with evidence provided by the Local Authority, standard build products have been accepted on all Section 106 sites. As at June 2009, any application for a Section 106 site would not have incurred additional costs associated to the standards above, as no grant would have been provided for these schemes. Therefore, for the basis of this valuation, the build costs are uniform across both private and affordable dwellings and it is assumed that all units will be delivered to Code for Sustainable Homes Level 3.

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

Penrith

Flat - £89 psf

House - £78 psf

Other Areas

Flat - £94 psf

House - £83 psf

3.43 There is a variance for areas outside of Penrith as many of these sites may be in conservation areas which will have requirements for build quality design and a greater restriction on materials used. Sites in other areas also have additional transportation and servicing costs as they are away from the main town centres and road networks. This is reflective of the information provided by Stakeholder consultation.

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

Other Assumptions

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

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

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

- Cost of finance of 7.55% per annum has been assumed
- Disposal costs including marketing and sales expenses for private units assumed at 3% of gross development value
- Site acquisition costs of 5.75% of land value (to include stamp duty)

³ The Building Cost Information Services (BCIS) is the UK property market's leading provider of construction cost and price information.

- 3.48 **Local Occupancy** – as explained in section 2 above, Eden District Council current policy requirement is for 50% of units delivered to be for local occupancy and for the remaining 50% to be affordable housing. In accordance with previous Section 106/Planning Conditions, Local Occupancy is defined as follows:

“Local Connection” a person shall have a Local Connection if immediately before taking up occupation of a dwelling he or a member of his household

a) currently lives in the District of Eden and has done so for a continuous period of at least three years; or

b) currently works in the District of Eden and has done so for a continuous period of at least three years; or

c) has moved away from the District of Eden but has strong established and continuous links with the District of Eden by reason of birth or long term immediate family connections; or

d) has an essential need through old age or disability to live close to a relative who has lived in the District of Eden for a continuous and continuing period of at least three years.

If after a reasonable period off active marketing no purchaser is found, the Local Connection will extend to the County. Following a further reasonable period of marketing still no purchaser has been found the property may be sold on the open market”

- 3.49 As part of this study, EDC have asked DTZ to look at the impact of the Local Occupancy requirement on scheme delivery and its impact on affordable housing viability. Following a lot of consultation and research with stakeholders it was felt that any figure between 5% and 40% could be attributed to the discount to market value which occurs as a result of the local occupancy requirement. However, most consultees felt this to be in the region of 10 to 20% and therefore a figure of 15% reduction in value has been modelled to determine the impact of local occupancy. The baseline position has been tested both with and without the local occupancy requirement to determine the impact of this section of the policy on viability and delivery.

The Scope of the Study

- 3.50 It is important to appreciate that any strategic viability model, such as that developed for the purpose of this assessment, is not designed to test the viability of specific sites. One of the features of residential development is that the character of sites is varied and the level of costs and revenues that apply to development on a specific site will vary. This should, however, be reflected in the price that is paid for the land. Even so, costs and revenues are often not

predictable, and of course assumptions about the future change in costs and revenues may be proved wrong, delivering returns which are above or below expectations.

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

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

3.53 The scenarios tested are as follows:

1. **Baseline Position** – valuation date June 2009 – no local occupancy
 2. **Baseline Position** – valuation date June 2009 – with local occupancy
- N:B from this point on all scenarios have been tested with the removal of the requirement for local occupancy in order to truly understand that variables impact on viability.
3. Varying levels of additional contributions
 4. Changes in build costs
 5. Changes in revenues
 6. Conditions at the height of the market – Quarter 1 2007.

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

- 3.55 The results of each scenario can be seen in Section 5. The tables presented in the main body of this report show the summary analysis undertaken on the results of the modelling. Analysis of the individual areas across the densities and the outputs from every scenario tested can be seen in Appendix 4.

4.0 Economic Viability Consultation

- 4.1 Consultation has been a core element of this commission. A list of consultees is provided in Appendix 5. This consultation involved an initial workshop and a range of feedback telephone interviews and emails and will conclude with sharing a copy of the draft report with consultees for information and comment prior to finalising.
- 4.2 The first round of consultation was a workshop held on the 25th August 2009, to consult stakeholders on the Economic Viability Testing methodology and core assumptions for the baseline position. This event was followed up with individual stakeholder meetings and telephone interviews to provide feedback and ongoing dialogue regarding the changes to assumptions. In total 1 face to face meeting and 5 telephone interviews were conducted (at the request of stakeholders who attended or could not make the meeting) at which they wished to provide feedback and discuss areas of particular concern/interest further.
- 4.3 Approximately 30 stakeholders were invited to attend the stakeholder event and in the region of 15 attended. The attendees included representatives from housebuilders, planning agencies, land owners, developers, RSLs, EDC Officers and EDC Councillors.
- 4.4 The event included a presentation on the methodology and key appraisal inputs and a workshop to discuss the approach set out to consider the assumptions and methodology for the economic viability assessment. A copy of the presentations given can be found at Appendix 6.
- 4.5 The feedback from this workshop showed that, there was broad agreement with the approach and methodology. However, the feedback in the session itself was relatively limited and the majority of the feedback was provided in the two weeks following the workshop during which stakeholders had time to consider the presentation and provide their comments.
- 4.6 Where invitees had been unable to attend the meeting, a copy of the presentation and the assumptions was sent to Stakeholders on email and they were asked to provide feedback. All stakeholders were asked to indicate where they both agreed and disagreed with the economic viability assumptions and were provided with an explanation of the process DTZ would follow in terms of altering the assumptions – a list of the final assumptions and comments on how these have varied as a result of the feedback can be found in Appendix 1.
- 4.7 The opportunity was offered to all attendees and invitees to feedback individually to DTZ on this element. This took the form of an email notification, including a copy of the presentation, followed up by individual telephone calls and the ability for all stakeholder (both those who

had attended and not attended the event) to provide written feedback on the development assumptions.

- 4.8 The feedback from stakeholders was used to develop a final set of assumptions for the viability modelling. The main areas of change between the presentation and the final set of assumptions were focussed on:
- Density
 - Scheme mix
 - Revenues and Build Costs
- 4.9 The draft report was shared with Stakeholders on the 19th October 2009 shortly after it was issued to the Council in draft. As such, the Council considered if any changes to draft Policy CS10 are required as a result of the findings. The findings of this report were presented to the council's Corporate Housing Group on the 23rd October 2009. At the Housing and Planning Policy Portfolio Meeting also on the 23rd October 2009 authorisation was given to consult on changes to policies CS7 (4) and CS10 on the basis of the report's findings.
- 4.10 In addition, DTZ have offered to discuss any aspect of this report with stakeholders but due to the extremely tight timescales the Council has asked the stakeholders to provide any comments via the formal consultation exercise which will commence on the 26th October 2009 – 4th December 2009. Any responses on this report will therefore feed straight into the examination process.

5.0 Results of the Economic Viability Model

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

5.2 It was agreed at the outset of the project that the baseline position for Eden would be modelled based on market conditions in June 2009. Unsurprisingly, given the current abnormal market conditions, the results of this scenario demonstrated that in the current market it is extremely difficult to viably deliver the councils current affordable housing policy. The problem is exacerbated when the requirement to deliver homes for Local Occupancy is introduced. Giving consideration to the fact that Eden DC's affordable housing policy will form part of the Core Strategy (15 years), it is unrealistic to base policy sole on the results of the present day market and as such a number of alternative scenarios have been modelled. The scenarios modelled include:

1. **Baseline Position** – valuation date June 2009 – no local occupancy
 2. **Baseline Position** – valuation date June 2009 – with local occupancy
- N:B from this point on all scenarios have been tested with the removal of the requirement for local occupancy in order to truly understand that variables impact on viability.
3. Varying levels of additional contributions
 4. Changes in build costs
 5. Changes in revenues
 6. Conditions at the height of the market – Quarter 1 2007.

Scenario One: The Baseline Position with No Local Occupancy Requirements

5.3 In order to determine what the impact of the Local Authority's Local Occupancy Requirement has on viability we must first look at the baseline position without this requirement. Scenario 1 focuses on the viability of delivering affordable housing at the baseline position of June 2009. The scenario tests how changing the affordable housing requirement and tenure split affects viability. The results for all of the percentages tested are presented in Appendix 4 however, the headline results are presented below. Through the analysis, a series of 'traffic light' colour codes are used to indicate if the schemes are clearly viable, marginally viable or not viable. These colour codes are as follows:

- **Green**, the scheme is comfortably viable – where the percentage return meets or exceed the target rate of return.
- **Amber**, the scheme is marginally viable – where the percentage return is within 4% of the target return. These schemes are close to the margins of viability and hence particular features of an individual site and scheme are likely to be important in determining whether the scheme is progressed.
- **Red**, the scheme is clearly not viable – where the percentage return is more than 4% below the target rate of return

5.4 The summary results for this Scenario can be seen below:

70% Social Rented 30% Intermediate

Affordable Housing	Green	Amber	Total
0%	100%	0%	100%
10%	100%	0%	100%
20%	94%	3%	97%
30%	75%	5%	80%
40%	15%	23%	38%
50%	9%	4%	13%

50% Social Rented 50% Intermediate

Affordable Housing	Green	Amber	Total
0%	100%	0%	100%
10%	100%	0%	100%
20%	89%	9%	98%
30%	75%	9%	84%
40%	25%	14%	39%
50%	9%	4%	13%

30% Social Rented 70% Intermediate

Affordable Housing	Green	Amber	Total
0%	100%	0%	100%
10%	100%	0%	100%
20%	89%	9%	98%
30%	75%	9%	84%
40%	19%	22%	41%
50%	9%	4%	13%

5.5 These results show that in the current market conditions, it is extremely difficult to deliver schemes which have high levels of affordable housing. On average across the tenure splits a figure of 30% affordable housing seems sustainable in the current market conditions as this is deliverable on more than 50% of the schemes tested. The difference between 30% and 40% affordable housing is significant (circa 43% decline in viability) and therefore it is clear that this is the tipping point for the delivery of affordable housing.

5.6 Upon further review it is clear that the tipping point for viability lies at 34%, any percentage above that is viable on less than 50% of sites.

70% Social Rented 30% Intermediate

Affordable Housing	Green	Amber	Total
32%	43%	27%	70%
34%	37%	25%	62%
36%	29%	19%	48%
38%	27%	14%	41%
40%	15%	23%	38%

50% Social Rented 50% Intermediate

Affordable Housing	Green	Amber	Total
32%	53%	17%	70%
34%	40%	26%	66%
36%	28%	21%	49%
38%	27%	14%	41%
40%	25%	14%	39%

30% Social Rented 70% Intermediate

Affordable Housing	Green	Amber	Total
32%	53%	18%	71%
34%	40%	26%	66%
36%	27%	23%	50%
38%	27%	19%	46%
40%	29%	12%	41%

- 5.7 EDC's policy requirement of 50% affordable housing is only deliverable on 13% of the sites tested. As the requirement for affordable housing percentages increases, the viability decreased. It is difficult for local authorities to assess what percentages of overall viability should be considered appropriate and acceptable when testing affordable housing policy. DTZ's experience shows a varied approach, with some authorities feeling anything over 50% is justifiable basis for setting a target to other authorities who consider that any possibility of delivering affordable housing should be taken as viable and only when the percentage drops to 0% across all the schemes should that requirement for affordable housing be deemed too high.

Scenario Two: Baseline including Local Occupancy Requirements

- 5.8 EDC's current affordable housing policy, stipulates a requirement for all homes delivered on site to be for local occupation with a requirement for 50% to be affordable housing on sites over ten units and 33% affordable housing on sites of 2-9 units. In the current market conditions this stipulation will place significant pressure on the viability of scheme delivery.
- 5.9 In order to measure this impact, DTZ consulted with Stakeholders to determine what the impact of local occupancy can have on market values for the schemes. Feedback showed that it is very difficult to place a figure on this impact but there was a definite negative impact on the sale value and occasionally the ability to obtain mortgage finance on a property which has these stipulations. Some stakeholders noted that mortgage providers were reluctant to provide finance for properties with such restriction. Solicitors acting on behalf of the mortgage provider in some cases have advised the funder against lending on the property due to the local occupancy restriction running with the property despite the ability to offer the property for sale to a wider market in the event of low local interest after a predetermined marketing period. Due to the above issues achievable values for such units have been noted to be lower, with sales periods longer than what would be experienced for non local occupancy restricted dwelling.

5.10 The evidence provided to DTZ suggested anything from a 5% to 60% discount on MV has been experienced but most common experienced tends to result in 10-20% discounts from MV for these properties. The additional length of time involved in selling a property which has a local occupancy requirement was also difficult to determine with Stakeholders stating that in popular more affordable areas such as Penrith the reduction in sales time is minimal and others stating it can double the length of time it takes to sell a unit due to the aforementioned complications with mortgage finance as a results of the Local Occupancy clauses.

5.11 Based on this evidence and evaluation of previously sold properties, DTZ have suggested and modelled a figure of 15% reduction in MV for those units which have a local occupancy requirement and an extended sales period (on larger sites only due to the quantum of numbers of 1.75 units per month) and as such the following summary results can be seen:

70% Social Rented 30% Intermediate

Affordable Housing	Green	Amber	Total
0%	82%	18%	100%
10%	82%	6%	88%
20%	62%	12%	74%
30%	20%	8%	28%
40%	6%	0%	6%
50%	0%	0%	0%

50% Social Rented 50% Intermediate

Affordable Housing	Green	Amber	Total
0%	82%	18%	100%
10%	82%	6%	88%
20%	67%	7%	74%
30%	15%	25%	40%
40%	3%	6%	9%
50%	0%	0%	0%

30% Social Rented 70% Intermediate

Affordable Housing	Green	Amber	Total
0%	82%	18%	100%
10%	82%	9%	91%
20%	62%	17%	79%
30%	20%	20%	40%
40%	9%	3%	12%
50%	3%	0%	3%

5.12 During this modelling affordable housing was tested at 0-50% with the assumption that all remaining units on site will have the local occupancy requirement. The sales period has not been significantly increased due to the cascade mechanism in the local occupancy definition.

5.13 This demonstrates that the local occupancy requirement is having an impact on scheme viability. Based on the results above in order to ensure all the remaining properties outside of the affordable units are for local occupancy then only 20% of the units on site could be viably delivered as affordable. This is 10% lower than the figures for the baseline figures without this occupation restriction.

5.14 The variance in difference between the baseline position without local occupancy and the baseline with local occupancy ranges from 3% to 35%. However, the average reduction in viability is 11% based on the results of the viability modelling, assuming Local Occupancy has the effect of reducing house prices by 15%. If the impact on house price reduction is significantly more than this, then the reduction in viability would be far greater. The council's current policy requirement of 50% Local Occupancy 50% Affordable Housing is only deliverable on between 3% of schemes tested assuming a tenure mix of 30% Social Rented, 70% Intermediate tenure.

Scenario 3 – Additional Contributions

5.15 This scenario assesses the impact of additional local authority requirements and contributions on scheme viability. At the baseline position no additional allowance has been made for additional section 106 contributions (outside of affordable housing) or section 278 costs and as such this scenario tests whether additional requirement will significantly affect viability. The option will also assess what impact policy EM18 which requires 10% of all energy on new build development sites may have on viability.

5.16 Section 106 requirements of £1,000, £2,500, £5,000 and £7,500 a unit have been tested and the summary results can be seen below:

Additional Contribution = £1,000

70% Social Rented 30% Intermediate

Affordable Housing	Green	Amber	Total
0%	100%	0%	100%
10%	94%	6%	100%
20%	79%	3%	82%
30%	40%	23%	63%
40%	9%	6%	15%
50%	9%	0%	9%

50% Social Rented 50% Intermediate

Affordable Housing	Green	Amber	Total
0%	100%	0%	100%
10%	97%	3%	100%
20%	82%	0%	82%
30%	46%	21%	67%
40%	12%	6%	18%
50%	6%	3%	9%

30% Social Rented 70% Intermediate

Affordable Housing	Green	Amber	Total
0%	100%	0%	100%
10%	97%	3%	100%
20%	79%	3%	82%
30%	42%	26%	68%
40%	12%	8%	20%
50%	9%	0%	9%

Additional Contribution = £2,500

70% Social Rented 30% Intermediate

Affordable Housing	Green	Amber	Total
0%	100%	0%	100%
10%	90%	8%	98%
20%	71%	5%	76%
30%	36%	23%	59%
40%	7%	8%	15%
50%	6%	3%	9%

50% Social Rented 50% Intermediate

Affordable Housing	Green	Amber	Total
0%	100%	0%	100%
10%	90%	10%	100%
20%	71%	8%	79%
30%	36%	25%	61%
40%	7%	8%	15%
50%	6%	3%	9%

30% Social Rented 70% Intermediate

Affordable Housing	Green	Amber	Total
0%	100%	0%	100%
10%	92%	8%	100%
20%	71%	8%	79%
30%	38%	23%	61%
40%	7%	8%	15%
50%	6%	3%	9%

Additional Contribution = £5,000

70% Social Rented 30% Intermediate

Affordable Housing	Green	Amber	Total
0%	96%	0%	96%
10%	82%	4%	86%
20%	63%	5%	68%
30%	28%	20%	48%
40%	6%	6%	12%
50%	3%	0%	3%

50% Social Rented 50% Intermediate

Affordable Housing	Green	Amber	Total
0%	96%	0%	96%
10%	82%	6%	88%
20%	63%	6%	69%
30%	26%	26%	52%
40%	6%	6%	12%
50%	3%	0%	3%

30% Social Rented 70% Intermediate

Affordable Housing	Green	Amber	Total
0%	96%	0%	96%
10%	84%	4%	88%
20%	65%	6%	71%
30%	28%	24%	52%
40%	6%	6%	12%
50%	3%	0%	3%

Additional Contribution = £7,500

70% Social Rented 30% Intermediate

Affordable Housing	Green	Amber	Total
0%	96%	0%	96%
10%	80%	4%	84%
20%	57%	2%	59%
30%	20%	11%	31%
40%	4%	2%	6%
50%	0%	0%	0%

50% Social Rented 50% Intermediate

Affordable Housing	Green	Amber	Total
0%	96%	0%	96%
10%	80%	6%	86%
20%	58%	2%	60%
30%	22%	11%	33%
40%	4%	2%	6%
50%	0%	0%	0%

30% Social Rented 70% Intermediate

Affordable Housing	Green	Amber	Total
0%	96%	0%	96%
10%	82%	4%	86%
20%	58%	4%	62%
30%	22%	13%	35%
40%	4%	2%	6%
50%	0%	0%	0%

- 5.17 This demonstrates that additional contributions are clearly having a significant impact on scheme viability and the local authority will have to consider what a requirement for additional s106 contributions over and above affordable housing has on scheme delivery especially in the current financial climate. EDC's DPD on Developer Contributions should be assessed to see where this falls in relation to addition contribution costs per unit and the implementation of this considered alongside the priority requirement for the delivery of affordable housing.
- 5.18 As current market conditions are difficult, an additional requirement has a significant impact on deliverability. In a rising or better performing market the additionality of s106 payments can be viability absorbed into a development scheme but at present an important consideration will need to be given to the whole s106 requirement 'pot' and what the authorities priorities are.

Scenario Four: Change in Revenues

5.19 Under this scenario, revenues have been altered as follows;

1. 5% increase in revenue
2. 10% increase in revenue
3. 15% increase in revenue
4. 20% increase in revenue
5. 5% decrease in revenue
6. 10% decrease in revenue
7. 15% decrease in revenue
8. 20% decrease in revenue

5.20 For each of these percentage changes affordable housing has been tested at 10%, 20%, 30%, 40% and 50% with a variance in tenure type under each of these percentages:

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

5.21 The following summary results can be seen:

70% Social Rented 30% Intermediate

Change in Revenue	Level of Affordable Housing														
	10%			20%			30%			40%			50%		
	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total
5% Increase	100%	0%	100%	94%	0%	94%	80%	9%	89%	54%	5%	59%	24%	14%	38%
10% Increase	100%	0%	100%	100%	0%	100%	88%	6%	94%	59%	18%	77%	30%	19%	49%
15% Increase	100%	0%	100%	100%	0%	100%	91%	6%	97%	68%	15%	83%	38%	11%	49%
20% Increase	100%	0%	100%	100%	0%	100%	97%	3%	100%	79%	12%	91%	49%	22%	71%
5% Decrease	100%	0%	100%	84%	6%	90%	60%	20%	80%	15%	21%	36%	9%	4%	13%
10% Decrease	94%	6%	100%	84%	0%	84%	34%	24%	58%	15%	4%	19%	7%	4%	11%
15% Decrease	82%	6%	88%	62%	12%	74%	20%	8%	28%	6%	0%	6%	0%	0%	0%
20% Decrease	84%	0%	84%	31%	32%	63%	8%	8%	16%	0%	0%	0%	0%	0%	0%

50% Social Rented 50% Intermediate

Change in Revenue	Level of Affordable Housing														
	10%			20%			30%			40%			50%		
	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total
5% Increase	100%	0%	100%	100%	0%	100%	71%	18%	89%	42%	13%	55%	30%	8%	38%
10% Increase	100%	0%	100%	100%	0%	100%	85%	6%	91%	59%	9%	68%	36%	4%	40%
15% Increase	100%	0%	100%	100%	0%	100%	88%	6%	94%	59%	27%	86%	41%	5%	46%
20% Increase	100%	0%	100%	100%	0%	100%	94%	8%	102%	82%	6%	88%	46%	2%	48%
5% Decrease	100%	0%	100%	79%	6%	85%	60%	15%	75%	22%	14%	36%	6%	4%	10%
10% Decrease	88%	12%	100%	47%	3%	50%	42%	20%	62%	22%	9%	31%	0%	6%	6%
15% Decrease	82%	6%	88%	67%	7%	74%	15%	25%	40%	3%	6%	9%	0%	0%	0%
20% Decrease	82%	0%	82%	26%	35%	61%	17%	0%	17%	0%	6%	6%	0%	0%	0%

30% Social Rented 70% Intermediate

Change in Revenue	Level of Affordable Housing														
	10%			20%			30%			40%			50%		
	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total
5% Increase	100%	0%	100%	94%	6%	100%	74%	11%	85%	55%	8%	63%	36%	2%	38%
10% Increase	100%	0%	100%	100%	0%	100%	88%	6%	94%	62%	19%	81%	42%	13%	55%
15% Increase	100%	0%	100%	100%	0%	100%	91%	6%	97%	68%	15%	83%	50%	5%	55%
20% Increase	100%	0%	100%	100%	0%	100%	97%	3%	100%	84%	12%	96%	56%	3%	59%
5% Decrease	100%	0%	100%	82%	9%	91%	63%	15%	78%	21%	7%	28%	9%	0%	9%
10% Decrease	91%	0%	91%	82%	0%	82%	41%	19%	60%	16%	6%	22%	7%	2%	9%
15% Decrease	82%	9%	91%	62%	17%	79%	20%	20%	40%	9%	3%	12%	3%	0%	3%
20% Decrease	82%	0%	82%	32%	31%	63%	26%	2%	28%	18%	0%	18%	0%	0%	0%

5.22 As expected, where revenues are increased a greater delivery of affordable housing can be sustained. Convexly as revenues decrease the delivery of affordable housing is put under pressure and it is difficult to sustain anything over 20% affordable housing on the majority of sites tested.

Scenario 5: Change in Build Cost

5.23 Under this scenario, revenues have been altered as follows;

9. 5% increase in revenue
10. 10% increase in revenue
11. 15% increase in revenue
12. 20% increase in revenue
13. 5% decrease in revenue
14. 10% decrease in revenue
15. 15% decrease in revenue
16. 20% decrease in revenue

5.24 For each of these percentage changes affordable housing has been tested at 10%, 20%, 30%, 40% and 50% with a variance in tenure type under each of these percentages:

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

5.25 The following summary results can be seen:

70% Social Rented 30% Intermediate

Change in Build Cost	Level of Affordable Housing														
	10%			20%			30%			40%			50%		
	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total
5% Increase	100%	0%	100%	82%	9%	91%	57%	20%	77%	28%	6%	34%	7%	4%	11%
10% Increase	91%	9%	100%	82%	0%	82%	40%	23%	63%	16%	6%	22%	0%	4%	4%
15% Increase	88%	9%	97%	76%	6%	82%	28%	24%	52%	7%	7%	14%	0%	0%	0%
20% Increase	82%	6%	88%	45%	31%	76%	26%	8%	34%	0%	0%	0%	0%	0%	0%
5% Decrease	100%	0%	100%	94%	6%	100%	79%	9%	88%	54%	5%	59%	30%	8%	38%
10% Decrease	100%	0%	100%	100%	0%	100%	88%	6%	94%	59%	18%	77%	38%	14%	52%
15% Decrease	100%	0%	100%	100%	0%	100%	84%	3%	87%	76%	9%	85%	52%	5%	57%
20% Decrease	100%	0%	100%	94%	6%	100%	94%	6%	100%	85%	9%	94%	62%	15%	77%

50% Social Rented 50% Intermediate

Change in Build Cost	Level of Affordable Housing														
	10%			20%			30%			40%			50%		
	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total
5% Increase	100%	0%	100%	76%	9%	85%	57%	9%	66%	30%	4%	34%	9%	0%	9%
10% Increase	97%	3%	100%	82%	0%	82%	49%	18%	67%	21%	12%	33%	9%	0%	9%
15% Increase	88%	12%	100%	76%	8%	84%	31%	27%	58%	21%	9%	30%	0%	0%	0%
20% Increase	82%	8%	90%	45%	32%	77%	26%	8%	34%	7%	18%	25%	0%	0%	0%
5% Decrease	100%	0%	100%	97%	3%	100%	74%	15%	89%	51%	8%	59%	30%	8%	38%
10% Decrease	100%	0%	100%	100%	0%	100%	88%	9%	97%	60%	18%	78%	38%	15%	53%
15% Decrease	100%	0%	100%	100%	0%	100%	91%	3%	94%	68%	21%	89%	43%	16%	59%
20% Decrease	100%	0%	100%	100%	0%	100%	94%	6%	100%	82%	12%	94%	62%	15%	77%

30% Social Rented 70% Intermediate

Change in Build Cost	Level of Affordable Housing														
	10%			20%			30%			40%			50%		
	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total	Green	Amber	Total
5% Increase	100%	0%	100%	82%	10%	92%	60%	19%	79%	26%	11%	37%	9%	3%	12%
10% Increase	97%	3%	100%	82%	2%	84%	49%	18%	67%	26%	8%	34%	9%	0%	9%
15% Increase	88%	12%	100%	76%	9%	85%	31%	27%	58%	26%	2%	28%	0%	0%	0%
20% Increase	82%	9%	91%	45%	33%	78%	26%	8%	34%	26%	0%	26%	0%	0%	0%
5% Decrease	100%	0%	100%	97%	3%	100%	74%	15%	89%	51%	8%	59%	30%	8%	38%
10% Decrease	100%	0%	100%	100%	0%	100%	88%	9%	97%	60%	18%	78%	38%	15%	53%
15% Decrease	100%	0%	100%	100%	0%	100%	91%	3%	94%	68%	21%	89%	43%	16%	59%
20% Decrease	100%	0%	100%	100%	0%	100%	94%	6%	100%	82%	12%	94%	62%	15%	77%

5.26 As can be seen from the results above, relatively small changes in build cost can result in significant changes in viability. For the councils current policy of 50% affordable housing if build costs were to decrease by anything more that 10% percent this would be a viable policy position and a 20% decrease in build costs will result in a significant increase in the level of affordable housing which would be wholly viable. For this scenario only build costs have been altered all other assumptions remain constant.

Scenario 6: Market Conditions at the Height of the Market Q1 2007.

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

5.28 The change to assumptions from the baseline position are as follows:

- Build costs increased by 5% - build costs have fallen recently with tender prices coming down as competition has increased
- Revenues increased by 10% - prices have fallen by this percentage since the height of the market.
- Build rates doubled
- Section 106 contributions remain at baseline positions

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

70% Social Rented 30% Intermediate

Affordable Housing	Green	Amber	Total
0%	100%	0%	100%
10%	100%	0%	100%
20%	94%	6%	100%
30%	68%	10%	78%
40%	32%	18%	50%
50%	15%	14%	29%

50% Social Rented 50% Intermediate

Affordable Housing	Green	Amber	Total
0%	100%	0%	100%
10%	100%	0%	100%
20%	93%	7%	100%
30%	68%	12%	80%
40%	50%	9%	59%
50%	14%	15%	29%

30% Social Rented 70% Intermediate

Affordable Housing	Green	Amber	Total
0%	100%	0%	100%
10%	100%	0%	100%
20%	94%	6%	100%
30%	74%	15%	89%
40%	55%	21%	76%
50%	19%	10%	29%

5.30 The results show that at the height of the market affordable housing was more deliverable on a high number of schemes. Indeed all tenure splits exceeded the target level for 40% affordable housing and 50% affordable housing is deliverable on almost 30% of the sites tested.

Single Dwelling Development Contributions.

5.31 According to Policy CS10 of the Core Strategy Development Plan Document;

'The Council will require developers of individual units to provide a financial contribution towards the provision of affordable housing in areas of highest need'

5.32 In order to test this, following the results of the scenario testing, DTZ considered a range of options as to how this could be delivered by the Local Authority. These options included;

- A value contribution related to the size of the property to be developed;
- A percentage contribution related to the Market Value of the completed unit;
- A value contribution for each hectare of land developed;
- A contribution based on the enhance land value received through securing a residential planning consent; and
- A contribution based on the value of affordable housing in the proximity of the site and the identified need for provision

5.33 However, in order to relate the contribution suggestion to the results of the viability testing and to produce a calculation which is easily manageable and transparent to all, DTZ has undertaken analysis of the land value loss as a result of delivering affordable housing on site, which can be calculated on a per unit basis.

5.34 In order to calculate this contribution, DTZ has looked at the resultant impact of delivering affordable housing on land value at the Baseline Position for this study. Considering viability and the requirement to ensure that any contribution does not prevent land owners from releasing land for residential development, we have considered to position at 30% affordable housing as at this level over half of the sites (63-68%) can deliver 30% affordable at a range of tenure splits.

5.35 Using the assumption that affordable housing will be delivered at 70% Social Rented 30% Intermediate, as this has the highest impact on land receipt and is in line with the councils expected tenure mix for affordable housing, the land value without affordable housing and the land values including affordable housing can be calculate as follows:

Number of Plots to be Developed	Land Before Affordable	Per Plot	Land After Affordable	Per Plot	Difference
18	£388,000	£21,556	£304,625	£16,924	-£4,632
15	£322,000	£21,467	£238,615	£15,908	-£5,559
35	£505,000	£14,429	£346,233	£9,892	-£4,536
30	£646,000	£21,533	£461,893	£15,396	-£6,137
70	£1,509,000	£21,557	£1,146,834	£16,383	-£5,174
60	£1,307,000	£21,783	£1,022,624	£17,044	-£4,740

5.36 This is just an example of the results which have been analysed which is for larger sites in Alston, both smaller and larger sites in all areas have been analysed with a range of differences calculated as follows:

Alston Small Sites – Reduction in land value ranged from circa £2,350 to £2,600 per plot

Alston Large Sites – Reduction in land value ranged from circa £4,500 to £6,000 per plot

Eden Valley North Small Sites – Reduction in land value ranged from circa £2,700 to £3,100 per plot

Eden Valley North Large Sites – Reduction in land value ranged from circa £5,500 to £7,400 per plot

Eden Valley South Small Sites – Reduction in land value ranged from circa £2,800 to £3,100 per plot

Eden Valley South Large Sites – Reduction in land value ranged from circa £5,600 to £7,100 per plot

Penrith Small Sites – Reduction in land value ranged from circa £6,000 to £9,200 per plot

Penrith Large Sites – Reduction in land value ranged from circa £8,000 to £13,600 per plot

5.37 The ranges above show the reduction in land value per plot for the delivery of onsite affordable housing (up to a point where delivery is still viable). These ranges can be applied to the delivery of single units in order to determine what contribution should be paid for a development of this type.

5.38 If we were to use this gap analysis to assess viability of single scheme developments it is clear the level of contribution which could be sought by the Local Authority for a single unit development will be dependent upon location (Market Area) and also the value area within which the site lies. The ranges above include values from high, medium and low value areas within each of the market areas.

- 5.39 Through all the analysis undertaken the average value reduction was circa £5,000 per plot however a more accurate approach for the local authority to take would be to provide a range of contribution requirements to be tested as part of the scheme viability. A range of £2,000 to £13,500 would be acceptable based on the findings of this study, dependent upon the location and value of the single unit development.

6.0 Policy Implications

- 6.1 The purpose of this study is to test the robustness and creditability of the Core Strategy Development Policies by assessing the viability of delivering affordable housing. The final section of the report addresses the impact of the results of the study on the existing affordable housing policies. In doing so, DTZ draw upon the findings of the study, the analysis contained in the Strategic Housing Market Assessment, and wider experience of the operation of affordable housing policies.

Policy Implication for Affordable Housing Quotas

- 6.2 The current recession has made it difficult to secure significant affordable housing provision in association with market housing. It has underlined the potential for rapid change within the housing market and consequently in the viability of providing affordable housing. The report highlights the difficult balance between a policy being significantly robust to ensure that not every application is the subject of negotiation, whilst being flexible enough to recognise special circumstances.
- 6.3 The results presented in section 5 above show that the viability of sites will vary over time with external economic circumstances. Viability will vary dependent upon location across the District, site size and the development mix and layout. There is therefore, a significant number of factors to consider when drafting an affordable housing policy and how far variations to the existing policies should be taken to reflect the current viability concerns but still provide 'up front' general guidance to development, without viability becoming a case by case issue for all applications. Therefore as part of the policy implications review DTZ would suggest that EDC consider the following key topics.
- 6.4 **What level of viability is acceptable** – the results presented in section 5 show what percentages of schemes are viable (green or amber) based on the findings from the modelling. From work undertaken with other Local Authorities and their stakeholders, DTZ would suggest that a figure of 50% or more is an equitable starting point for declaring a percentage of affordable housing is deliverable. However, in considering this EDC must be aware that the potential for a loss of affordable housing on 49% and less of schemes where a higher affordable housing percentage may be viable could result in a significant number of affordable housing units and therefore the approach needs to be carefully and clearly considered. DTZ's experience shows that some Local Authorities see 50% as equitable, some see it as too low and others see it as too high. Some authorities take the view that only when the percentage requirement generates a result of 0% should it be deemed unviable to prevent missing out on any potential affordable housing as their housing need is significant.

- 6.5 **Percentage Requirement** – currently levels of viability, as indicated by the baseline figures in section 5, clearly indicated that the 50% requirement for affordable housing on schemes over 10 units is, in the majority of cases, unrealistic in the current market conditions. However, this could change if the housing market returns nearer to the peak values seen in quarter one 2007. Given the long period of time over which the policy will run, EDC may wish to consider a more flexible approach to setting an affordable housing requirement which reflects changes in market conditions throughout the life of the core policy.
- 6.6 **Threshold Target** – it is clear from the individual area analysis that in the current market small sites are less affected by an increase in affordable housing than larger sites. This reflects the longer build period associated with large scale developments. At present the policy requires a larger requirement on sites over 10 units where in essence the results of the baseline modelling are suggesting that in current market conditions a uniform single requirement across the district could be appropriate.
- 6.7 **Tenure split** – currently the Core Strategy Policies do not stipulate a tenure split requirement for affordable housing on new developments. The results of this report show that affordable housing is more viable on schemes where higher percentages of intermediate product and lower percentages of social rented are deliverable. This is due to the fact that the model attributes higher end values to intermediate units. However, the housing needs information and conversations with RSLs is demonstrating that social rented stock is easier to develop and let in the current market conditions compared to intermediate stock and as such may be preferred. EDC may wish to consider whether they include a desired tenure split for affordable housing within the Core Strategy Policy.
- 6.8 **Market Areas** – it is clear from the results of this study that the different values attributed to different market areas affects viability. The lower value area of Alston is the most severely affected by increasing affordable housing requirements and the higher value areas of the district less so. EDC may wish to consider if it is appropriate to change the wording of the policy to reflect these locational pressures or whether the section in CS10 which requires developers to commission a viability assessment is flexible enough to deal with these variances.
- 6.9 **Local Occupancy** – the results of the study show that the local occupancy requirement in policy CS7 is having a significant impact on the delivery of affordable housing. Without this policy requirement 30% affordable housing can be delivered on the majority of sites in current market conditions. With this requirement, this figure drops to 20%. EDC will need to consider its priorities and requirements in relation to local occupancy and affordable housing.

- 6.10 **Single Unit Contributions** – through analysis of the scenario testing, ranges of figures have been produced to demonstrate what should be viably deliverable as a contribution for single dwellings. EDC now have to consider if a mechanism for this calculation and an indication of the range is included within Core Strategy Policy 10.
- 6.11 **Developer Contributions** – Core Strategy Policy 6 outlines the planning obligations that will be sought where implementation of a development would create a need to provide additional infrastructure, amenities or facilities. The results of scenario 3 show the impact OF additional section 106 contributions on affordable housing viability. The results of this scenario should be considered in relation to this policy to determine if the requirements will be so onerous that they will prevent land coming forward for development.
- 6.12 The aim of all the core strategy policies is to provide the basis for negotiations between developers and the local authority. It is in both parties' interests that a majority of negotiations are satisfactorily completed with the minimum of resource and expense. Robust policies, linked with more flexible supplementary guidance which reflects viability circumstances at the time of negotiation may be the most appropriate solution.

Conclusion

- 6.13 This study has, as previously explained and examined the viability of affordable housing delivery at a strategic level, looking at sites on a hypothetical basis across the district, using a consistent basis of assumptions tailored to different sites and locational characteristics. It does not seek to establish viability on particular sites.
- 6.14 In summary, the key questions addressed by the economic viability assessment are whether the level of affordable housing and the threshold variances are deliverable, whether a particular level of affordable housing provision will inhibit development generally and, by implication, what level of affordable housing provision can be delivered without subsidy. Determining the appropriate affordable housing percentage is difficult in the current market conditions. The economic viability assessment undertaken has demonstrated that a range of between 0% and 50% affordable housing can be delivered across the district, depending on market cycles/variables and affordable housing tenure splits.