

APPENDIX 14
TRAFFORD ECONOMIC VIABILITY STUDY MAY 2009

Trafford

Economic Viability Study

May 2009





Trafford Economic Viability Study

Trafford Council

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Executive Summary

GVA Grimley was commissioned in January 2009 by Trafford Council to produce an economic viability study of land for housing and employment within the Borough taking into account the effect on viability of Code for Sustainable Homes (CfSH) and wider Section 106 contributions.

The key objectives of the study were:

1. to assess the impact on development viability of planning-led affordable housing targets, thresholds, type and tenure splits for the Trafford authority;
2. to test the broad viability of 6 of Trafford's identified Strategic Sites, understanding the implications of varying key policy assumptions including affordable housing requirement and environmental standards; and
3. to provide Trafford Council with an updatable viability monitoring toolkit to enable the authority to establish site viability across the Borough under a range of market conditions on a bi-annual basis.

This study will inform and support existing and future planning policies and housing strategy development for Trafford Council through the preparation of the Local Development Framework in line with PPS 12.

Following an advisory visit, the Planning Inspectorate has recommended to Trafford Council that this study be reflective of 'normal' market conditions to allow for the current uncertainty within the property market by enabling planning policy for affordable housing provision to be set for the long-term within the emerging Core Strategy. In line with these assertions this study has tested viability across a range of market conditions (good, 'normal' and poor market) within Trafford. The methodology for developing the scenarios and other assumptions within the study was agreed with Trafford Council following consultation with key stakeholders.

It is recognised that market conditions at present are not 'normal' and in fact bear a closer relationship to the 'poor' market condition scenario established within the study. Furthermore, judging a likely point at which there will be a return to 'normal' housing market conditions is difficult. It is evident, however, that a return to 'normal' conditions is dependent on a number of interlinked factors including: increased stability in the macro-economy and financial markets; availability of mortgage credit and debt-driven development finance; an improvement in housing market confidence; and an increase in house building. Therefore, it is imperative

that Trafford Council monitor the relative health of the market in taking forward elements of the study for consideration in applying policy.

The study utilised a residual development appraisal (economic viability model) developed by GVA Grimley, which identifies Gross Development Value (incl. affordable housing) against which all development costs (incl. developer profit, land acquisition and all non-affordable housing planning obligations) are set, in order to calculate whether a scheme is viable (i.e. whether revenues exceed all costs). The model further allows for a number of key sensitivities to be applied to key costs (incl. affordable housing obligations).

Although taking account of a number of site specific sensitivities that will impact on economic viability, the viability study does not hold the objective of testing the absolute viability of specific sites; rather a broad assessment of economic viability for a range of site classifications, within a set of policy defined locations across Trafford, under a set of scenarios to cover the spectrum of market conditions.

Such a scope will enable an informed judgement when setting the policy of affordable housing within Trafford, whilst remaining flexible to update (through the viability toolkit) to take into account changes in the market context.

GVA Grimley has developed a three stage process in undertaking an assessment of the impact of adopting various different affordable housing policy options.

Stage 1 included:

- undertaking a research audit to ascertain the local policy context and gain an understanding of existing best practice within the sub-region and beyond;
- creating a representative sample of sites using a matrix classifying sites included within the SHLAA into a broad typology.
- conducting a residential market study to determine capital values of new build private and affordable housing products, establish the relative strength of the Trafford sub-markets (into 'hot', 'cold' and 'moderate') and associated land values; and
- establishing development scenario's based around 'normal', 'good' and 'poor' property market conditions.

Stage 2 included:

- engagement with key stakeholders alongside Trafford Council to agree the assumptions underpinning the viability model.

Stage 3 included:

- running the viability model 'high level appraisal' to ascertain the viability of the representative sample sites under a range of affordable housing policy requirements; and
- reviewing and refining the model to enable results to be written up and recommendations made

The economic viability model has been run to undertake the following:

- Assessment under 'Normal' Market Conditions
- Scenario 1: Assessment under 'Poor' Market Conditions
- Scenario 2: Assessment under 'Good' Market Conditions

Assessment under 'normal' market conditions and Scenario's 1 and 2 have been tested through alteration of a range of key sensitivities to ascertain a 'sliding scale' of economic viability across the range of market conditions. In line with the objectives of the study the sensitivities included:

- Varying the levels of affordable housing required on site (0% - 40% using 5% increments).
- Varying the percentage tenure split (social rented and intermediate) of affordable housing required (50:50, 35:65, 25:75, and 15:85).
- Varying the threshold at which an affordable housing requirement is triggered (5, 10 and 15 units)¹.

The headline results of the economic viability assessment can be summarised as follows:

- **Sub-market location**, driven by anticipated values of properties, is a key influencing factor on site viability such that the economic viability of sites within Trafford is most pronounced within the 'hot' market locations, supported by higher achievable returns, and to a lesser extent in 'moderate' areas. Conversely, 'cold' market locations have the least number of economically viable sites.

¹ Note: the model has been run to include a 5 unit threshold as standard. This has been varied where noted.

- Prevailing **property market conditions** dictate to a significant extent the economic viability of sites and should be considered in the ability of sites to deliver against affordable housing targets.
- Uplifting building costs to **CfSH Level 3** standards² sites has a pronounced effect on sites in cold market locations reducing the ability of these sites to make any affordable housing contribution. There is a negative, albeit limited impact on viability within hot and moderate locations.
- Varying the **site size threshold** at which a requirement for affordable housing is triggered is a key issue within Trafford. Reducing the site size threshold to 10 or even 5 units within the 'hot' and 'moderate' market locations in Trafford would maximise delivery against affordable housing targets by capitalising on the most viable smaller sites in the Borough. A threshold of 15 units in cold market locations should remain. The threshold should not be altered to reflect changing property market conditions.
- Alteration of the **affordable housing tenure split** between intermediate and social rented units has a low impact on economic viability – particularly in cold market locations. However, where applicable an increase in the proportion of intermediate units can result in a modest increase in site viability.
 - There is therefore a need to look to affordable housing tenure requirements as evidenced in the Trafford HMA and take account of the housing tenure needs of residents within the market area.

The results of the assessment provide a robust basis to apply flexible, and reasonable, affordable housing targets within Trafford. The study therefore recommends the following strategic considerations for developing affordable housing policy³. It is important to note that specific sites will need to be assessed individually to gauge their characteristics against the topologies used in the study:

- A 40% affordable housing target is recommended for application within 'hot' market locations. This should be flexible to wider market conditions to enable targets to be raised to a 45% requirement under 'good' conditions and maintained at 40%, or decreased as is deemed necessary on an individual site basis under 'poor' conditions.
- A 20% affordable housing target is recommended for application within 'moderate' market locations without adversely impacting development viability. This should be flexible to

² Under 'normal' market conditions and at 50:50 affordable tenure split.

³ Assuming 'normal' market conditions

wider market conditions to enable targets to be raised to a 25% requirement under 'good' conditions and decreased to 10% under 'poor' conditions.

- Based on the outputs of the assessment no more than a 5% affordable housing target could be applied within 'cold' market locations without inhibiting development. The target should be flexible to wider market conditions to enable targets to be raised to a 10% requirement under 'good' conditions and decreased as is deemed necessary on a site-by-site basis under 'poor' conditions.
- A reduced site size threshold for seeking affordable housing contributions should be introduced to sites located within the 'hot' and 'moderate' market locations of Trafford. It is recommended that the threshold is reduced to either 5 or 10 units in such locations to seek contributions from the large proportion of small viable sites located in the borough. A threshold of 15 units is, unless specific site information suggests otherwise, appropriate in 'cold' market locations. This threshold should be applicable across the range of market conditions (i.e. 'good', 'normal' and 'poor').
- Policy should target a tenure split of 50% social rented product and 50% intermediate product. The Council should, however, remain flexible to variation in the affordable housing tenure split where circumstances suggest it is appropriate and established on a site-by-site basis. For, by allowing for the inclusion of a higher proportion of intermediate affordable housing on certain marginal sites, this can 'tip the balance' on such sites into economic viability by decreasing the costs associated with delivering social rented units.
- Whilst the majority of analysis presented in Section 6 assumed that all Section 106 contributions were sought it is clear that in 'poor' market conditions and in particular within those parts of the Borough with 'cold' market characteristics consideration will need to be given on a site-by-site basis by the Council as to the appropriate balance to be sought between S106 requirements including affordable housing. This will need to be identified on a site-by-site basis.
- The introduction of a requirement for all new housing development to meet CfSH Level 3 standards would not have an unreasonable adverse effect on economic viability, and thus deliverability, in 'hot' and 'moderate' market locations. It would, however, have a more pronounced negative effect in 'cold' locations. Trafford Council will therefore need to take into account the impact of raised construction costs on a site by site basis when determining contributions.

A separate series of detailed development appraisals utilising industry standard Argus (formerly Circle) Developer software was undertaken for 6 of Trafford's Strategic Sites in recognition of the availability of further site-specific information (e.g. survey data) relating to

these sites. The approach taken to assess the viability of the Strategic Sites is included within Section 8 along with the findings of this analysis.

1. Introduction to the Study

Study Context

- 1.1 GVA Grimley was commissioned in January 2009 by Trafford Council to produce an economic viability study of land for housing and employment within the Borough taking into account the effect on viability of Code for Sustainable Homes (CfSH) and wider Section 106 contributions.
- 1.2 The delivery of affordable housing is a national priority as highlighted by the **Housing Green Paper - Homes for the future: more affordable, more sustainable**, which was published in July 2007. PPS 3 (Housing) and the companion paper Delivering Affordable Housing (November 2006) set out the Government's policy on affordable housing. The Government requires that affordable housing be delivered on sites above 15 dwellings with local authority thresholds informed by housing market and economic viability assessments. Furthermore, it is necessary that development of both housing and employment on Council identified Strategic sites are tested against their economic viability.
- 1.3 Yet changing market conditions, land prices and increasing infrastructure constraints represent obstacles for the successful delivery of sufficient numbers of affordable housing as well as the delivery of other Section 106 contributions. Alongside these elements new building standards focused upon energy efficiency and the development of 'lifetime homes' also add to the cost of development and place greater pressure on the successful delivery of mixed tenure developments.
- 1.4 This study has therefore been undertaken in light of several key national planning policy recommendations:
 - Planning policy guidance contained in Planning Policy Statement 3: Housing (PPS3) advises that Local Planning Authorities should, through Local Development Documents, set an overall target for the amount of affordable housing to be provided on development sites.
 - PPS3 highlights the importance of the need to undertake an assessment of the likely economic viability of land for housing within a Local Authority area, taking account of risks to delivery and drawing on informed assessments of the likely levels of finance available for affordable housing, including public subsidy and the level of developer contribution that can reasonably be secured.

- Planning Policy Statement 12: Local Spatial Planning (PPS12) sets out the central role of spatial planning in the delivery of land uses, associated activities and the shaping of places – facilitated through the creation of a Core Strategy. Importantly, spatial planning ensures that the necessary land is available at the right time and in the right place to deliver the new housing and employment land required and provides the basis for the private sector facilitating affordable housing. A Core Strategy should therefore show how the vision, objectives and strategy for a local authority area will be delivered and by whom, and when. Ensuring that key stakeholders such as landowners and developers are signed up to the Core Strategy is essential to the deliverability of the plan.
 - In the case of Blyth Valley Borough Council vs. Persimmon Homes (North East) Limited, Barratt Homes Limited and Millhouse Developments Limited the Court of Appeal handed down judgement on Policy H4 of the Core Strategy that set a target of 30% of affordable housing on all new development and reduced the threshold for developments requiring an affordable housing contribution from 15 to 10. The Court of Appeal upheld on 29 July 2008 that Policy H4 was unlawful as it failed to comply with paragraph 29 of PPS3 that requires affordable housing targets and thresholds to be determined through an assessment of economic viability. As this was absent, it was upheld that Policy H4 contravened national policy and was not predicated upon a robust and credible evidence base. The case has set a precedent with the implication that any affordable housing policy that has been predicated upon an evidence base that fails to consider economic viability is susceptible to legal challenge.
- 1.5 The importance of Trafford Council undertaking an economic viability study has also been recognised, and recommended, by the Planning Inspectorate.

Study Purpose and key Objective

Purpose

- 1.6 Trafford Council, in line with Planning Policy Statement 3 (PPS 3), require a viability assessment to be undertaken in order to enable the authority to confidently devise policy to facilitate a plan-led approach to establishing an appropriate quantum of affordable housing provision. This study will inform and support existing and future planning policies and housing strategy development for Trafford Council through the preparation of the Local Development Framework in line with PPS 12.

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- 1.7 This study builds upon the Trafford Housing Market Assessment (2006), which examined affordable housing availability and need across all areas of the Trafford local authority area, and the ongoing work being developed through the Trafford Strategic Housing Land Availability Assessment (SHLAA) and Strategic Sites assessment.
- 1.8 The core purpose of the study was therefore to test the impact of applying a number of sensitivity variables (% of affordable housing / site size threshold / social rented and intermediate split) to the viability of 6 Strategic Sites⁴ and a sample of approximately 100 housing sites. The 100 housing sites selected provide a representative sample of housing sites across Trafford incorporating a range of sites with different site conditions, densities, types of housing and land and sales values in Trafford. In order to ensure that the site sample was bespoke to Trafford, sites were selected from the SHLAA database of almost 600 sites taking into account their classification within a matrix of site typologies.
- 1.9 The research has been undertaken in a period of significant housing market uncertainty and in order to ensure that the analysis is both robust and applicable within these dynamic macro conditions a number of scenarios are used to reflect market conditions under poor, normal and good circumstances.

Key Objectives

- 1.10 The key objectives of the study were:
1. to assess the impact on development viability of planning-led affordable housing targets, thresholds, type and tenure splits for the Trafford area;
 2. to test the broad viability of 6 of Trafford's identified Strategic Sites, understanding the implications of varying key policy assumptions (affordable housing requirement, environmental standards etc...); and
 3. to provide Trafford Council with an updatable viability monitoring toolkit to enable the authority to establish site viability across the Borough under a range of market conditions on a bi-annual basis.

⁴ Note: The six Strategic Sites to be tested excludes Stretford Meadows. The six sites differ to those identified within the Trafford Council DPD1: Core Strategy Preferred Options (July 2008).

Approach to the Study

Ascertaining Economic Viability

- 1.11 The study utilised a residual development appraisal model developed by GVA Grimley, which identifies Gross Development Value (incl. affordable housing) against which all development costs (incl. developer profit, land acquisition and all non-affordable housing planning obligations) are set, in order to calculate whether a scheme is viable (i.e. whether revenues exceed all costs). The model further allows for a number of key sensitivities to be applied to key costs (incl. affordable housing obligations).
- 1.12 This model enabled the production of a matrix of representative sites indicating their relative viability providing an easy to use look-up and comparison tool for Trafford Council to update and utilise.

Sensitivity Testing

- 1.13 Using this appraisal approach the research has focussed on the application of a range of sensitivities in order to inform the development of future planning policy. This has focused on the following factors:
- Percentage of affordable housing delivered.
 - Application of site size thresholds to the requirement for affordable housing.
 - Social rented and shared ownership (intermediate) mix sensitivities.
 - Varying planning obligations / tariffs.
 - Wider macro-economic conditions (good, 'normal' and poor market scenarios).
 - The potential use of public sector subsidy including the recently announced Growth Fund⁵ allocation on specific sites.

High Level Representative Appraisal (Objective 1)

- 1.14 In order for the research to address the first objective listed above, it was necessary that the study test the economic viability of sites across a range of typologies and locations within Trafford in order to robustly ascertain the impact on viability of value variations in land and housing development within Trafford's active sub-markets, development characteristics

⁵ The Growth Fund 2008-2011 (July 2008) – Communities and Local Government (CLG)

(including density and mix) and various development constraints (including contamination, accessibility and flood risk).

- 1.15 This has therefore required the development of a typology of sites which facilitates the production of a comprehensive matrix of 'high level' appraisals to inform policy and also enable the authority to assess future planning applications and opportunities. A range of assumptions has been used based upon this typology, and tested with key stakeholders, to inform the appraisal process.
- 1.16 Using this high level appraisal process on the sample of sites provides a clear assessment of the levels of affordable housing requirements that can be supported through a range of policy options. The viability model therefore includes appraisal variables for sensitivity testing to understand the economic viability impact of different policy proposals on different areas.
- 1.17 Section 3 outlines the approach taken regarding the high level assessment of sites in more detail.

Strategic Sites Appraisal (Objective 2)

- 1.18 In assessing the Strategic Sites, and therefore responding to the second objective, this research has utilised information gathered by the Council as part of its work in relation to its Core Strategy. This information includes that submitted by stakeholders representing each of the sites. This has enabled the Strategic Sites to be examined separately in more detail through this study in order to assess their economic viability and the impact of the application of different affordable housing and S106 requirements on their deliverability based on a mix of housing and employment uses.
- 1.19 Where information has not been available within the timescales of this study the assumptions used within the high-level appraisal process have been adopted.

The Viability Model – Updating and Monitoring (Objective 3)

- 1.20 In line with objective 3 the developed model will allow the Council to continue to monitor and assess the impact of new information submitted regarding the Strategic Sites to test their viability as well as update and assess the impact of different 'real' market conditions on the selected sample sites used in the high level assessment.
- 1.21 A residential market review has been undertaken to establish sales values to inform all appraisals within the research. This has drawn on GVA Grimley's existing knowledge of the

Trafford, and sub-regional, markets as well as through consultation with local stakeholders, agents and developers and Trafford Council.

Report Structure

1.22 The report is structured as follows:

- **Section 2:** provides a summary of the policy context within which this study is positioned.
- **Section 3:** presents in more detail the approach taken within the study.
- **Section 4:** provides a detailed summary of the assumptions underpinning the economic viability model and appraisal process.
- **Section 5:** summarises the process and outcomes of the consultation undertaken with key stakeholders as part of the study.
- **Section 6:** gives the results of the economic viability analysis and concludes the viability of sites across a range of market scenarios and sensitivities.
- **Section 7:** explores the connotations of Section 6 and provides a concluding set of recommendations to Trafford Council to illustrate where policy should be directed with regard to balancing economic viability with housing need and policy goals.
- **Section 8:** directly responds to the second objective for this study and sets out the approach and findings of the viability testing of the Strategic Sites.

2. Policy Context

- 2.1 This section sets out the planning policy context for the Trafford Economic Viability study. It firstly addresses the strategic national policy context with respect to planning for affordable housing provision and needs and the influence of viability on robust policy development.
- 2.2 The section subsequently examines the current affordable housing policy context within Trafford, which is currently under revision to support emerging Core Strategy policy as Trafford Council continues the development of its Local Development Framework (LDF).

Strategic Level Policy

National Planning and Affordable Housing Policy Guidance

- 2.3 Planning Policy Statement 3: Housing (PPS3), published in November 2006, establishes the Government's policies for planning and affordable housing provision. PPS3 supersedes previous national guidance on this issue and provides the definition by which affordable housing can be classified:

'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 local house prices.*
- *Include provision for the home to remain at an affordable price for future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision⁶.*

- 2.4 Furthermore, in recognising that affordable housing includes both social rented and intermediate dwelling products, PPS3 provides definitions to support both tenures. Social housing can therefore be defined as:

'Rented housing owned and managed by local authorities and registered social landlords, for which guideline target rents are determined through the national rent regime. It may also include rented housing owned or managed by other persons and provided under equivalent

⁶ Planning Policy Statement 3: Housing (PPS3) (November 2006) – Communities and Local Government (CLG)

rental arrangements to the above, as agreed with the local authority or with the Housing Corporation as a condition of grant.'

2.5 Intermediate housing products can be defined as:

'Housing at prices and rents above those of social rent, but below market price or rents, and which meet the criteria set out above. These can include shared equity products (e.g. HomeBuy), other low cost homes for sale and intermediate rent.'

2.6 PPS3 requires that Local Authorities establish an overall 'Plan-wide' target for the delivery of affordable housing on development sites through Local Development Documents. Reflecting on the levels of existing and projected need established within Strategic Housing Market Assessments, PPS3 necessitates the requirement for Local Authorities to undertake an assessment of the likely economic viability of land for housing within the area, to ensure that affordable housing policy is underpinned by a robust evidence base and is therefore deliverable.

2.7 PPS3 sets a national indicative minimum size threshold of 15 dwellings to trigger the requirement of affordable housing on a site. However, the guidance does allow for Local Authorities to establish lower minimum thresholds where viable and includes setting different proportions of affordable housing requirement by spatial area and across a series of site-size thresholds.

2.8 PPS3 states that it is necessary for Local Authorities to utilise economic viability studies to enable an *informed assessment* when negotiating affordable housing requirements and developer contributions to both strike a balance between delivering an appropriate level of affordable housing to meet housing needs (as established within Strategic Housing Market Assessments) and satisfy RSS delivery requirements, whilst not unreasonably overburdening developers to reduce residual land values to the point where land is not deemed economically viable to deliver.

2.9 It is important to recognise that PPS3 was arguably published at the peak of the current market cycle. Therefore, the guidance does not fully recommend to Local Authorities the approach that should now be taken to reflect the changing market context when this report was prepared (spring 2009) and in order to effectively 'future-proof' the viability study against further market fluctuation.

Testing Viability in an uncertain market

- 2.10 GVA Grimley believe that to undertake a 'point in time' study during the current unpredictable market would have a limited shelf-life due to prevailing global financial uncertainty, which is presently inextricably linked to the constraining of demand for housing products and limiting the availability of debt-driven finance to back delivery. Such conditions are expected to continue in the near term. As a result, the current set of market circumstances could inherently alter in coming months, making projections impossible to accurately apply.
- 2.11 Following an advisory visit, the Planning Inspectorate has recommended to Trafford Council that this study be reflective of 'normal' market conditions to allow for the current uncertainty within the property market by enabling planning policy for affordable housing provision to be set for the long-term within the emerging Core Strategy.
- 2.12 This implies a degree of flexibility is necessary within an assessment of economic viability in order to ensure that policy can be adaptable to constantly changing market conditions. GVA Grimley is confident that this adaptability should be applied, thus increasing the rigour and robustness of the analysis and the ease with which the study can be updated.
- 2.13 In line with these assertions this research has tested viability across a range of market conditions (good, 'normal' and poor market) within Trafford. The methodology for developing the scenarios was agreed with Trafford Council following consultation with key stakeholders and is presented in greater detail in Section 3 of this study. This approach ensures that the requirements put in place through Planning Obligations tariffs and affordable housing provision enable delivery against the Government housing targets, Trafford's housing trajectory within the forthcoming LDF and the requirement for a 5-year supply of housing land within the authority across a range of market conditions.
- 2.14 Such flexibility in the development of policy should not be misconstrued as an opportunity for the development industry to influence the setting of effective planning policy to compensate for overpayment for land, or underestimating the costs associated with affordable housing requirements within a competitive and overheated market or otherwise.

North West of England Plan - Regional Spatial Strategy to 2021

- 2.15 The North West of England Plan - Regional Spatial Strategy to 2021⁷ published in September 2008 establishes the housing delivery requirements across the North West region. Policy L4 – Regional Housing Provision proposes a net average annual requirement of 578 dwellings per

annum for Trafford, for the years up to 2021. Local authorities are required to ensure that there is sufficient housing land to meet the RSS requirements over the plan period.

- 2.16 Trafford Council is presently undertaking a Strategic Housing Land Availability Assessment to identify sites within the Borough with housing potential to ensure that sufficient housing land is available to meet both the short term five-year requirement and the longer term 15-year supply of housing land for the LDF.
- 2.17 The Council is currently preparing the next version of the Core Strategy. Part of this work includes gathering additional evidence and carrying out Sustainability Appraisals for each of the sites in order to demonstrate their role in delivering key Plan objectives,

Local Planning Policy

- 2.18 The local evidence base supporting the preparation of affordable housing policy in Trafford includes:
- Trafford Housing Market Assessment (HMA) undertaken by Fordham Research and published in September 2006;
 - Greater Manchester Strategic Housing Market Assessment (SHMA) undertaken by GVA Grimley and Deloitte and published in December 2008; and
 - Trafford Housing Strategy 2009-2012 (draft April 2009) undertaken by GVA Grimley.
- 2.19 The Trafford Housing Market Assessment (2006)⁸ estimates the overall shortfall or surplus of affordable housing and indicates that over the next five years there is expected to be a shortfall of affordable housing of 541 units per annum.
- 2.20 There is also shown to be a spatial distinction for affordable housing need within Trafford, with the HMA suggesting that there is a greater requirement for affordable housing in the south of the Borough (371 units per annum) although the estimated net need level in the North is still significant (169 units per annum).
- 2.21 The HMA also advises on providing a balanced affordable housing offer and recommends a mix is delivered equating to 50% intermediate and 50% social rented products. The HMA concludes by recommending an overall target of 50% affordable on qualifying sites.

⁷ North West of England Plan – Regional Spatial Strategy to 2021 (September 2008) - GONW

⁸ Trafford Housing Market Assessment (HMA) (September 2006) – Fordham Research

- 2.22 The Greater Manchester SHMA (December 2008)⁹ undertook a detailed assessment of affordable 'housing needs' within each of the Districts comprising Greater Manchester inclusive of Trafford. Following the Communities and Local Government (CLG) SHMA Best Practice Guidance released in August 2007, the analysis found that Trafford is likely to face a significant pressure on its affordable stock over the next five years.
- 2.23 The emerging Trafford Housing Strategy 2009-2012 (draft April 2009)¹⁰ highlights that the relative affordability of housing has become a serious concern within the Borough, reflecting the rapid uplift in house prices which have not been accompanied by a comparable rise in income levels. This has meant that Trafford has the most acute affordability problems within Greater Manchester¹¹.
- 2.24 The Strategy has therefore set Objective 1a I. to:
- 'Develop an affordable housing target through the LDF which addresses affordable housing need (annual affordable shortfall of 541 units¹²) while taking account of development viability issues'.*
- 2.25 Achieving this Objective is necessary to increase the delivery of affordable homes within the Borough whilst meeting national policy requirements to ensure the target is predicated upon a robust and credible evidence base.

Affordable Housing Policy in Trafford

- 2.26 Trafford's Revised Unitary Development Plan (UDP) was adopted in June 2006 and will remain the development plan for the Borough until it is replaced by the Local Development Framework (LDF).
- 2.27 Policy H8 of the Trafford UDP seeks to negotiate an element of low cost housing for all urban sites above a threshold of 1.0 hectare or 25 dwellings. In terms of the target contributions the Borough is split into five areas (Old Trafford, Stretford, Urmston, Sale and Altrincham) and the contributions range between 25% and 35%. This policy is currently supported by Supplementary Planning Guidance (SPG) PG27: Provision for New Affordable Housing¹³. The

⁹ Greater Manchester Strategic Housing market Assessment (SHMA) (December 2008) – GVA Grimley & Deloitte

¹⁰ Trafford Housing Strategy 2009-2012 (draft April 2009) – GVA Grimley

¹¹ Greater Manchester Strategic Housing Market Assessment (2008) – Association of Greater Manchester Authorities (AGMA)

¹² Trafford HMA (2006), Trafford MBC

¹³ Supplementary Planning Guidance (SPG) PG27: Provision for New Affordable Housing Development (September 2004) – Trafford Council

SPG and UPD policy will be replaced by new policy emerging through the Trafford Core Strategy and associated Supplementary Planning Document: Affordable Housing Guidelines, which are currently being prepared by the Local Authority.

- 2.28 The Core Strategy: Preferred Options Development Plan Document (DPD) 1 (July 2008)¹⁴ sets out a number of proposed policy directions. Development Management Policy Direction DM5 -set out a proposed revision to the Council's affordable housing policy, looking to establish a 40% affordable housing target. The policy direction is presented as follows:

DEVELOPMENT MANAGEMENT POLICY DIRECTION DM5:

The Council intends to develop policy that will:

- Set a threshold to which affordable housing contributions will be applicable of 15 dwellings or more.
- Where appropriate, and in accordance with PPS3, set lower thresholds to which affordable housing contributions will be applicable for example in rural areas.
- Seek on site provision of affordable housing as the preferred option.
- Require applicants to demonstrate exceptional circumstances for off site provision or the payment of a commuted sum. In the case of rural communities, this could include purchasing properties that would be ring fenced for social rent or low cost home ownership to meet specific local affordable housing need.
- Promote the use of Housing Corporation, National Affordable Housing Programme grant funding where appropriate.
- Establish a target contribution for affordable housing of 40% on all qualifying sites, reducing to a minimum of 30% in exceptional circumstances.
- The Council will seek to achieve an overall mix of affordable housing provision of 50% low cost home ownership and 50% social rented housing as identified in Housing Market Assessment. However this split may vary where particular local need can be demonstrated.
- Enable other strategies and documents including Supplementary Planning Documents to provide further guidance on the implementation of this policy, including specifying the calculation for commuted sums and defining the exceptional circumstances that could result in the target contribution of 40% being reduced down to the absolute minimum of 30%.

- 2.29 The emerging Core Strategy: Preferred Options DPD1 (July 2008) also identified 10 possible Strategic sites for development. However, since that time the Council has carried out additional work in relation to these sites, including a further round of consultation with key stakeholders. The outcome of this additional work, particularly in relation to the level of evidence and detail, is likely to result in the Strategic Sites identified in the Preferred Options

¹⁴ Trafford Council DPD1: Core Strategy Preferred Options (July 2008) – Trafford Council

DPD (July 2008) being recast as a combination of Strategic Locations and Strategic Sites in the next iteration of the Core Strategy¹⁵.

- 2.30 It is envisaged therefore that the Strategic Locations will provide a high level spatial guide to physical change in the Core Strategy, whereas the Strategic Sites will form specific allocations for development.
- 2.31 As part of Trafford Council's ongoing work on the Strategic Sites and Strategic Locations, the Council initially requested that GVA Grimley include ten sites within this economic viability assessment in order to demonstrate the deliverability, or otherwise, of the sites. However, as evidence emerged from key stakeholder consultation it became apparent that sufficient information to undertake such an assessment was only available for certain sites.
- 2.32 The viability study has therefore tested the deliverability of 6 of the Strategic Sites¹⁶ for a variety of employment uses and housing taking into account existing requirements for S106 contributions and different requirements for the percentage of affordable housing. This is based on the basis of available data collated through Trafford Council's Key Strategic Sites process to facilitate detailed site appraisal.
- 2.33 It is important to note that although the Core Strategy will target an affordable housing contribution on all qualifying development sites, the exact contribution to be made will be site specific and subject to negotiation with the Local Authority at the time a planning application is lodged.

Summary

- 2.34 National policy clearly sets the context for undertaking this study but as noted within this section the unprecedented market conditions provide a further clear indication of the importance of understanding the viability of development and the impact of policy.
- 2.35 Trafford, through both its allocation within the RSS and its subsequent successful inclusion within the Greater Manchester Growth Point has clearly moved towards a new policy direction oriented towards the sustainable delivery of market and affordable housing within the Borough. The emerging Core Strategy and other strategies produced by the Council, including

¹⁵ Note: The recast combination of Strategic Locations and Strategic Sites are also likely to be taken through a Land Allocations DPD.

¹⁶ Excluding Stretford Meadows which is reserved for recreational purposes.

the new Housing Strategy¹⁷, emphasise sustainable management of this growth will be a primary objective of policy over the plan period.

- 2.36 The appropriate location and mix of affordable housing across the Borough is clearly an important consideration, with this research providing an important part of the informing evidence base for the development of policy.

¹⁷ The Housing Strategy for 2009-2012 has been published in Draft form and will be formally adopted in 2009.

3. Study Approach

- 3.1 This section focuses on setting out clearly the approach taken to the series of 'high-level appraisals' (testing the 100 sample sites). In breaking down the approach adopted within this research the following areas are examined within this section:
- Overview of the process
 - Benchmarking the approach against other research
 - Creating a representative sample of sites
- 3.2 The study utilised a residual development appraisal model developed by GVA Grimley, which identifies Gross Development Value (incl. affordable housing) against which all development costs (incl. developer profit, land acquisition and all non-affordable housing planning obligations) are set, in order to calculate whether a scheme is viable (i.e. whether revenues exceed all costs). The model further allows for a number of key sensitivities to be applied to key costs (incl. affordable housing obligations).
- 3.3 Although taking account of a number of site specific sensitivities that will impact on economic viability, the viability study does not hold the objective of testing the absolute viability of specific sites; rather a broad assessment of economic viability for a range of site classifications, within a set of policy defined locations across Trafford, under a set of scenarios to cover the spectrum of market conditions. Such a scope will enable an informed judgement when setting the policy of affordable housing within Trafford, whilst remaining flexible to update (through the viability toolkit) to take into account changes in the market context.
- 3.4 A separate series of detailed development appraisals utilising industry standard Circle Developer software was undertaken for 6 of Trafford's key Strategic Sites in recognition of the availability of further site-specific information (e.g. survey data) relating to these sites. The approach taken to assess the viability of the Strategic Sites is included within Section 8 along with the findings of the analysis.

The Process

- 3.5 GVA Grimley has developed a three stage process in undertaking an assessment of the impact of adopting various different affordable housing policy options.
- 3.6 **Stage 1** included:

- undertaking a research audit to ascertain the local policy context and gain an understanding of existing best practice within the sub-region and beyond;
- creating a representative sample of sites using a matrix classifying sites included within the SHLAA into a broad typology.
- conducting a residential market study to determine capital values of new build private and affordable housing products, establish the relative strength of the Trafford sub-markets (into 'hot', 'moderate' and 'cold') and associated land values; and
- establishing development scenario's based around 'good', 'normal' and 'poor' property market conditions.

3.7 **Stage 2** included:

- engagement with key stakeholders alongside Trafford Council to agree the assumptions underpinning the viability model.

3.8 **Stage 3** included:

- running the viability model 'high level appraisal' to ascertain the viability of the representative sample sites under a range of affordable housing policy requirements; and
- reviewing and refining the model to enable results to be written up and recommendations made

Previous Assessments

3.9 This economic viability assessment takes account of similar analysis undertaken at the local, sub-regional and regional scale in order to develop an assessment from which recommendations can enable for subsequent policy development to successfully align with the existing and emerging strategic context.

3.10 At the regional scale DTZ have been commissioned by 4NW to assess the economic viability of affordable housing delivery within the North West region. This work has not yet been completed, although a working paper has been produced¹⁸. The study will use a cash-flow based viability model for the study that takes account of costs, revenues and land values (input or residual), which is broadly consistent to the approach taken within this assessment for Trafford.

¹⁸ Assessing the Viability of Affordable Housing Delivery in the North West: Establishing the Principles – a working paper for discussion (February 2009) - DTZ / 4NW

-
- 3.11 As an element of Greater Manchester's sub-regional partnership arrangements it will be important that collaboration continues to occur between local authorities to ensure that emerging affordable housing policy is suitably aligned across boundaries where applicable.
- 3.12 The approach taken to economic viability assessment differs across Greater Manchester with authorities at various stages of developing evidence to support the production of their Core Strategies. The following paragraphs summarise known progress:
- **Bolton MBC:** The Council is presently considering undertaking an in-house Economic Viability Assessment and have yet to establish a final methodological approach.
 - **Bury MBC:** Consultants LSH were appointed to undertake an Affordable Housing Viability Study. The Study utilises a residual development appraisal methodology focusing on a single hypothetical site of 1ha in size. Cost and value (based on Bury as a whole, and the Bury and Radcliffe regeneration areas) assumptions were then introduced for two scenarios based on dwelling density at 40 dwellings per hectare (dph) and 60dph. Site size threshold is assessed at 5, 10 and 15 units for a site in each location as are a range of affordable housing tenure splits. The study utilised 'current' market data. It recommends a 25% affordable housing requirement across Bury, with a lower requirement of 20% and 15% respectively in Bury and Radcliffe's regeneration areas. The site size threshold is recommended to be 15 units due to an adverse impact on viability when an affordable housing contribution is imposed on sites below this size.
 - **Manchester City Council:** Consultants Levvel have recently been appointed to undertake an Affordable Housing Viability Assessment for the City to test the suitability of the Council's affordable housing targets in their current SPD and Planning Guidance. The consultants have been tasked with developing a methodology to assess the viability of individual sites and the impact of affordable housing requirements and other policy requirements on viability. 15 sites will be assessed as a baseline. This methodology will be utilised to undertake Stage 7c of the CLG SHLAA Guidance within the Council's SHLAA process.
 - **Oldham MBC:** The Council is producing a viability assessment in-house at present to inform preparation of the LDF and Housing Strategy. The assessment will consider variation of the site size threshold to trigger an affordable housing requirement (5,10,15 units) and takes a different approach to the regional assessment by testing the viability of a site to provide an affordable housing contribution (5-20%) as a proportion of the total development sales value.

-
- **Rochdale MBC:** The Council has recently completed the Issues and Options Stage of the LDF Core Strategy document. The Council will consider an appropriate approach to undertake an Economic Viability Assessment in the near future as the LDF preparation proceeds.
- 3.13 There are also differing approaches taken to economic viability studies outside Greater Manchester. The following bullets summarise several such examples nationally:
- **Burnley & Pendle Borough Councils:** The Councils jointly commissioned consultants Fordham Research to undertake an Affordable Housing Site Viability Study, which was published as a final draft in March 2009. Differing to the Trafford Study, this study took a smaller sample of sixteen sites across both authorities and developed assumptions on development mix from policy and comparative assessment. Sites were tested at 0%-40% affordable housing requirement, with a fixed tenure split of 90% social rented and 10% intermediate homes in Burnley, and 80% to 20% for Pendle. The study utilised 'current' market data, although caveats that current conditions may not remain representative. Instead of producing a more detailed analysis under a 'sliding scale' of market scenarios, the study recommended that the Council's monitor values. Similarly, to the Trafford Study, a residual development appraisal model in which social housing grant was not included.
 - **Purbeck District Council:** The Council commissioned consultants Three Dragons to undertake an Affordable Housing Viability Study, which was published in August 2008. Similarly to this (Trafford) study, the Purbeck assessment utilised a residual development model with value distinction defined geographically at the sub-market level. The study does not however, include a sample of SHLAA sites and instead creates 'notional' sites sized at 0.5 ha with assumptions based around development density. Scenario testing was undertaken across a range of affordable housing contributions (30%-60%) although utilising a fixed tenure split. Site size thresholds were considered due to the high level of permissions/completions on developments fewer than 15 units. The study included a short case study assessment of the impact of Code for Sustainable Homes (CfSH) Level 3 build costs on one sub-market and furthermore, utilised 'current' market conditions at the time of writing and did not introduce any flexibilities around changing, or 'normal' market conditions.

Creating a Representative Sample

Site Typology Matrix

- 3.14 The study utilised a typology of sites to structure a sample of 100 SHLAA sites for development appraisal and viability testing within the model.
- 3.15 The starting point for this typology was the classification of sites identified within Figure 4 of the CLG SHLAA Guidance¹⁹. However, we felt that a more detailed typology to be required factoring in a range of variants including; spatial location (sub-markets), policy definitions (in line with SHLAA Guidance, development characteristics (density, mix etc...) and development constraints (scale of known contamination, infrastructure required etc...).
- 3.16 Through consultation with Trafford Council, GVA Grimley produced a methodology for establishing a typology matrix of sites for viability assessment. To ensure that the matrix was representative of Trafford and the methodology transparent and robust it followed the following steps:
- 1. All Strategically Significant Sites were extracted from the full SHLAA database of approximately 600 sites in total. These sites were subject to separate analysis²⁰.
 - 2. All sites with implemented planning permission (i.e. development had commenced on site) were extracted from the SHLAA database. Sites without planning permission and with unimplemented planning permission (i.e. on site development had not commenced) were retained.
 - 3. Housing sub-markets were identified utilising the sub-market locations presented within the Core Strategy: Preferred Options DPD1 (July 2008) to ensure geographical criteria is consistent with the SHLAA and emerging LDF. This ensured that the Viability Study and SHLAA remain consistently aligned, transparency was maintained, and that the relevant sub-markets were fully accounted for.
 - 4. Where possible at least 10 sites per geographical area were retained to provide a full/appropriate range of typologies to form a representative sample of 100 sites that ensured that consideration is given across Trafford's sub-markets. Criteria in establishing the retained sites included:
 - Site Size

¹⁹ Strategic Housing Land Availability Assessment (SHLAA) Practice Guidance (July 2007) – Communities and Local Government

- Policy Classifications (taken from the SHLAA)
- Development Constraints (Accessibility, Contamination, Flood Risk)
- Number of dwellings proposed
- Development Density

3.17 The criteria for site sample selection is summarised within the following figure:

Figure 3.1: Sample Site Selection Criteria

Site Policy Classification	% Sites	Market Area	% Sites
PDL - Vacant/Derelict	13	Hot	40
Infill and Car Parks	10	Moderate	38
Redevelopment - Commercial	1	Cold	22
Vacant - Greenfield	16	Abnormals -Contamination	% Sites
PDL - Occupied	18	Low	29
Unknown	42	Moderate/Uncertain	1
Site Area	% Sites	High	3
Less than 0.8 Ha	76	Unknown	67
0.8 - 2.5 Ha	21	Abnormals - Flood Risk	% Sites
More than 2.5 Ha	3	Low	95
Site Scheme Mix	% Sites	High	4
Apartment scheme	7	Medium	1
Mixed apartment/housing Scheme	58	Unknown	0
Housing Scheme	35	Abnormals - Accessibility	% Sites
Units Deliverable	% Sites	Poor	9
<5	20	Moderate	0
05-10	15	Good	41
11-20	23	Unknown	50
20-50	24		
50>	18		

Source: GVA Grimley, 2009

3.18 The sample is not perfectly balanced, however it provides a robust representation of sites across Trafford at the time of writing this assessment. The above sample was deemed as representative for the following reasons:

- The Trafford SHLAA contains fewer sites located in 'cold' market locations than in both 'moderate' and 'hot' locations, hence the inclusion in the sample of a greater proportion of sites from within the latter locations.

²⁰ See Section 8 of this Study report.

- Approximately 80% of sites within the Trafford SHLAA are considered small sites under 0.8ha in area. Approximately 18% of SHLAA sites are sized 0.8ha to 2.5ha, with the remaining sites considered larger development opportunities sized in excess of 2.5ha. This was therefore replicated within the sample of sites in the study²¹.
 - The site policy classification of sites defined within the sample is deemed representative of the typologies of sites within the SHLAA.
 - The sample contains a substantial proportion of sites that include apartment development. Whilst it is understood that the delivery of flatted development has lessened at present, the model takes a 'pure' appraisal and thus does not take account of market demand elements. Under such conditions, this is representative of the development coming forward in Trafford and is representative of the site densities recorded in the Trafford SHLAA.
 - The high proportion of sites with 'unknown' levels of contamination is representative of the Trafford SHLAA and is indicative of the lack of available information provided to Trafford Council to date.
- 3.19 The proceeding sub-sections outline how the model applies a series of assumptions, including costs and values within an appraisal process to reflect the defined criteria of sites outlined in the sample methodology.

Market Condition Scenarios

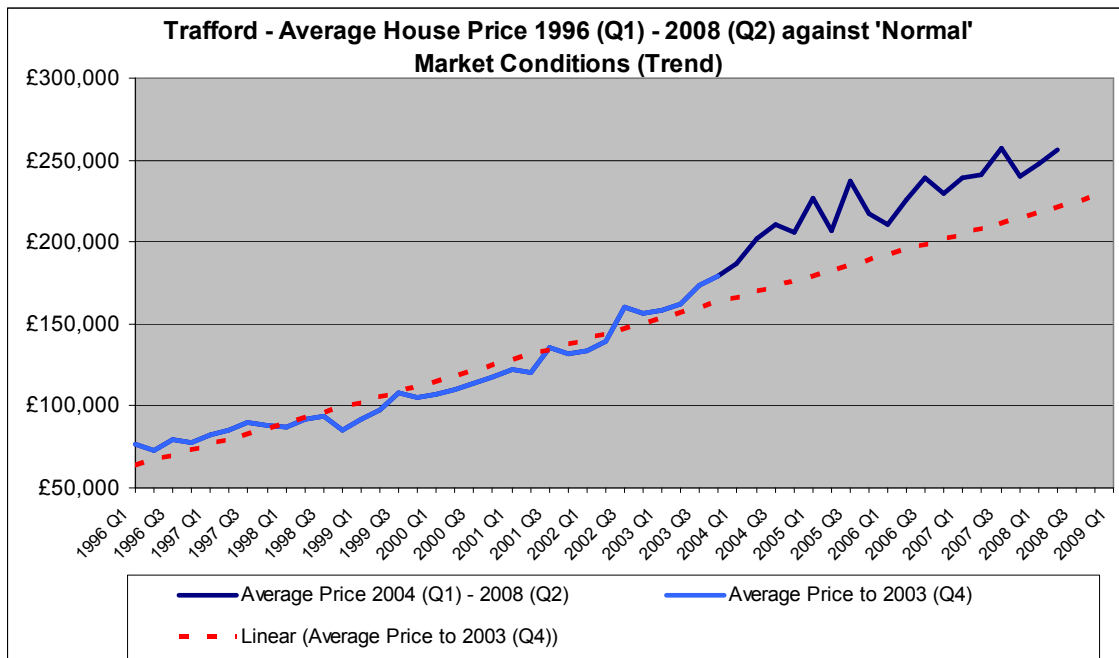
- 3.20 Understanding the viability of schemes based upon current market assumptions could lead to a skewed assessment with a limited shelf-life as any assessment undertaken at single point in time potentially lacks the capability to recognise the cyclical nature of the property market operating within the UK. This was particularly poignant at the time of writing this report (March 2009), where property prices and land values are falling in what can be described as a substantially depressed market on an international scale.
- 3.21 Following an advisory visit, the Planning Inspectorate has advised Trafford Council on the importance of reflecting the aforementioned issue within the economic viability study, and recommended the use of 'normal' market conditions as a base for undertaking viability appraisal.

²¹ Note: The site size classification thresholds (<0.8ha / 0.8ha – 2.5ha / >2.5ha) are in conformity with the thresholds established in the Trafford SHLAA.

- 3.22 Trafford Council tasked GVA Grimley with producing an updatable model, which can be flexible to changing market conditions going forward and this has involved providing a steer regarding what can be considered as 'normal' market conditions.
- 3.23 In order to provide an indication of 'normal' market conditions the research includes the analysis of average annual house price growth, over the last 30 years regionally, and over the last 13 years at the district level in Trafford. This provided an evidenced 'normal' rate of annual house price growth²². This approach allows focus to be placed on the long-term trends removing the impact of the cyclical nature of the market and the position within short-term 'peaks and troughs' of boom and bust at any point in time.
- 3.24 Data on property values was collected from Land Registry and has been assessed over the period 1996 to Q4 2008. Price growth illustrates that property prices in Trafford grew at a steady rate until 2003 (Q4) at which point price growth accelerated away from the trend. By estimating the continued trend from the point at which price growth exceeded anticipated trends it is possible to ascertain a theoretical understanding of what would be considered a 'normal' trajectory of house price growth. In Trafford, this equates to an average dwelling price of £240,000 if projected forward to Q1 2009. This approach is evidenced on the following graph.

²² Note: Timescale applied to assessment reflects the availability of data for analysis.

Figure 3.2: Trafford Average House Price (1996 – 2008) against 'Normal' Market Trend



Source: GVA Grimley, 2009

- 3.25 GVA Grimley has therefore established a range of market condition 'scenarios' ranging from a 'good', to 'normal' and 'poor' market. To develop price estimates for a rapidly rising 'good' market, 7% was added to the value for 'normal' conditions and reflecting the situation achieved by Autumn 2007. To estimate values in a 'poor' market a figure 10% below normal conditions was taken reflecting a continued fall in achievable average transaction values.
- 3.26 These broad scenarios and the application of the moderate or 'normal' conditions are considered to represent a robust level of sensitivity to apply to the tests of viability and upon which longer term policy can be considered.
- 3.27 Further to this it was important that land values are factored into the analysis in a similar fashion to benchmark comparative 'normal' conditions. Historical transactions recorded by the Valuation Office Agency (VOA) have therefore been assessed to gain an understanding of annual rises in land values over the long-term within Trafford, therefore allowing distinctions in annual average values to be understood across Trafford's sub-markets.
- 3.28 The flexibilities proposed through scenarios have assisted in illustrating the impact of a varying market to allow policy to adopt a flexible approach. For each scenario takes account

of property and land sales values achieved to ensure that fluctuations within the Trafford market can be factored into base appraisals, considered in threshold variables for affordable housing and Section 106 Obligations.

- 3.29 In order for policy to reflect the market conditions at a point in time more accurately it will be inputted as part of an ongoing monitoring process for Trafford, to update the viability study on a bi-annual basis in line with changing housing market conditions and land values.

4. The Viability Model & Underlying Assumptions

4.1 This section focuses on setting out clearly the approach taken to developing the economic viability model including the underlying cost and value assumptions and the sensitivity factors around affordable housing requirements to be tested. In breaking down the approach adopted within this research the following areas are examined within this section:

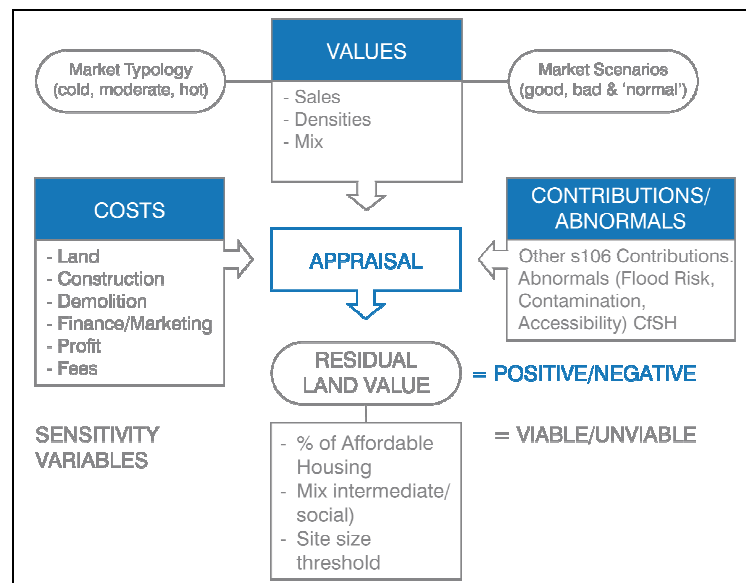
- The Appraisal Model – Using different market scenarios
- Establishing the base assumptions
- Sensitivity Testing

Process

4.2 The viability model follows the industry standard residual appraisal approach to appraise sites taking into account all costs (incl. developer profit and land acquisition) and values (incl. open market and affordable housing) to establish broad development viability. For reference purposes a diagram illustrating the broad structure of the model is provided below, followed by a brief overview of the model structure/approach. Further detail on specific assumptions input into the model is provided within the remainder of this section.

4.3 In order to ensure that values and costs associated with development included within the model were accurate and robust key stakeholders within the development industry were consulted on the assumptions. Details of the stakeholder engagement process are provided in Section 5.

Figure 4.1: Viability Assessment Model Diagram



Source: GVA Grimley, 2009

- 4.4 Initially, development values are established by sub-market area using the market characteristics (i.e. cold, moderate & hot) which dictate dwelling sales values. These are then applied to the development outputs, which relate principally to the proposed scheme type (i.e. apartment scheme, mixed apartment/housing scheme or housing scheme) in terms of density, dwelling typology mix and dwelling tenure mix (i.e. social rented and intermediate). To account for costs associated with selling homes, the gross development value generated from this analysis is then subject to agents and legal fees.
- 4.5 Against development values all costs in the appraisal are applied. Initially these include construction costs (incl. prelims, substructures & superstructures). Within this, the Code for Sustainable Homes Level assumed on site dictates these initial construction costs, with the model linking in with English Partnership best practice examples. Marketing fees are also applied (set against gross development value).
- 4.6 Further, the model then seeks to account for site specific circumstances by establishing demolition/clearance costs (varied according to policy classification to take account of existing structures etc.), abnormal costs (i.e. site conditions incl. contamination, flood risk and accessibility), all applied as a percentage of construction costs. Whilst it is recognised that this approach will not provide wholly accurate abnormal costs; the lack of available detailed information/data in this respect (e.g. intrusive site survey information) means that this is an

'optimum' approach for what are key cost lines. The percentage figures/assumptions applied in this regard have been based on consultation with key stakeholders²³. The data feeding into this analysis is procured through evaluation undertaken as part of the SHLAA and subsequent information passed across by land owners/developers during the study process.

- 4.7 These construction related costs are then combined (producing gross construction costs), against which professional fees and a construction contingency is applied.
- 4.8 A cost for land acquisition is also included at this stage, by way of accounting for the cost already incurred by the landowner, including all acquisition fees (SLDT etc.). Whilst we recognise that it is impossible to account for site/deal specific circumstances here (i.e. principally when the land was bought and for what price), it is important to establish a cost line here to reflect the cost incurred at some point. It is also important to include this cost at this stage so that an appropriate finance charge can be applied against it (i.e. assuming that the land is purchased at the beginning of the development period). These land acquisition costs vary according to the market area that the site is located within.
- 4.9 The final 'core cost' applied to the appraisal is developer profit. These are applied as a percentage of gross development value, and are established based on stakeholder consultation (incl. residential land agency) and previous and current market experience. These profit expectations also vary according to market conditions (good, 'normal' and poor), to reflect the change in development risk associated with a changing market (e.g. higher risk/margin applied in poor market climate). The profit expectations are also varied according to the size of the sites, where sites of over 50 units have been attributed a percentage profit uplift to reflect the increased developer risk associated with such larger undertakings.
- 4.10 Finally the model seeks to account for planning obligations, including affordable housing (central to the study) alongside a set of Section 106 requirements exclusive of affordable housing. These include open space contributions, informal / children's playing space, outdoor sports facility contributions and commuted sums, highway network provision, public transport provision and tree planting. The analysis in Section 5 assumes, except where noted, that all Section 106 requirements are sought alongside affordable housing provision. These relate to policies presented in:

- [SPD1: Developer Contributions to Highway and Public Transport Schemes](#)

²³ Note: Section 5 provides details of the stakeholder consultation process and Appendix 1 presents amendments to the economic viability assessment that took place as a result of stakeholder comments.

- SPG: Informal / Children's Playing Space and Outdoor Sports Facilities Provision and Commuted Sums
 - SPG: Developer Contributions towards Red Rose Forest
- 4.11 Given that contributions to the Red Rose Forest relates to the number of trees to be delivered on site, the cost input associated with this is worked out externally to the model at present given that it cannot be informed by the detail behind the SHLAA sample sites.
- 4.12 The programme for delivery is established according to the sales rate applied (i.e. number of sales per month). Within this, the model assumes that development is constructed according to the pace of sales. The pace of sale is varied according to the proposed scheme type (i.e. apartment scheme, mixed apartment/housing scheme and housing scheme) and the market conditions assumed (i.e. good, normal or poor). Finally, finance costs are applied to all development costs on an 's-curve' basis across the delivery programme.
- 4.13 The model further includes a 'viability tolerance' of 5% of developers profit (i.e. of the capital equivalent) to reflect that:
- The residual balance produced is not a finite sum; and
 - Developers' decisions are not absolute (i.e. they may allow for some leeway if the site falls slightly short of making the required profit) due to wider factors for consideration (e.g. corporate objectives).
- 4.14 Finally the model allows for a range of development sensitivities to be applied. Principally these relate to the level of affordable housing required (as percentage of total dwellings delivered), the threshold after which affordable housing requirements are obligated (i.e. number of units), and the mix of affordable housing assumed (in terms of social rented as against intermediate).
- 4.15 The analysis in Section 5 focuses on the applications of these sensitivities to assess the impact on the viability of sites included within the sample.

Establishing the Base Assumptions

Site Outputs

- 4.16 Whilst each of the sites included within the sample identified the number of properties anticipated to be delivered on site, either as a result of a planning application or the application

of an assumed density of development the model also requires that a breakdown of different property types be ascertained.

4.17 For those sites without planning permission a generic breakdown of property types on each site has been arrived at. This process has factored in the designation of each of the SHLAA sites by the Council into three broad classifications:

- 40 dph – housing scheme
- 50 dph – mixed apartment / housing scheme
- 140 dph – apartment scheme

Figure 4.2: Scheme Density & Unit Mix

Proposed Scheme Type	SHLAA Density (dwelling per Ha)	% Mix			
		1/2 bed flats/apartments	2/3 bed terrace	3/4 bed semi detached	4/5 bed detached
Apartment scheme	140	100%	0%	0%	0%
Mixed apartment/housing scheme	50	20%	30%	30%	20%
Housing Scheme	40	0%	20%	40%	40%

Source: GVA Grimley, 2009

Sales Values / Land Values - Reflecting Spatial Sub-market Distinctions

Sub-market Characteristics

4.18 Evidence gathered on house price growth in Trafford through the residential market review undertaken in Stage 1 of the study, and subsequently discussed with key stakeholders and Trafford Council, confirmed that Trafford does not perform as a single uniform property market. In fact, the Trafford housing market contains a number of sub-markets, each distinct from the other in terms of performance and offer.

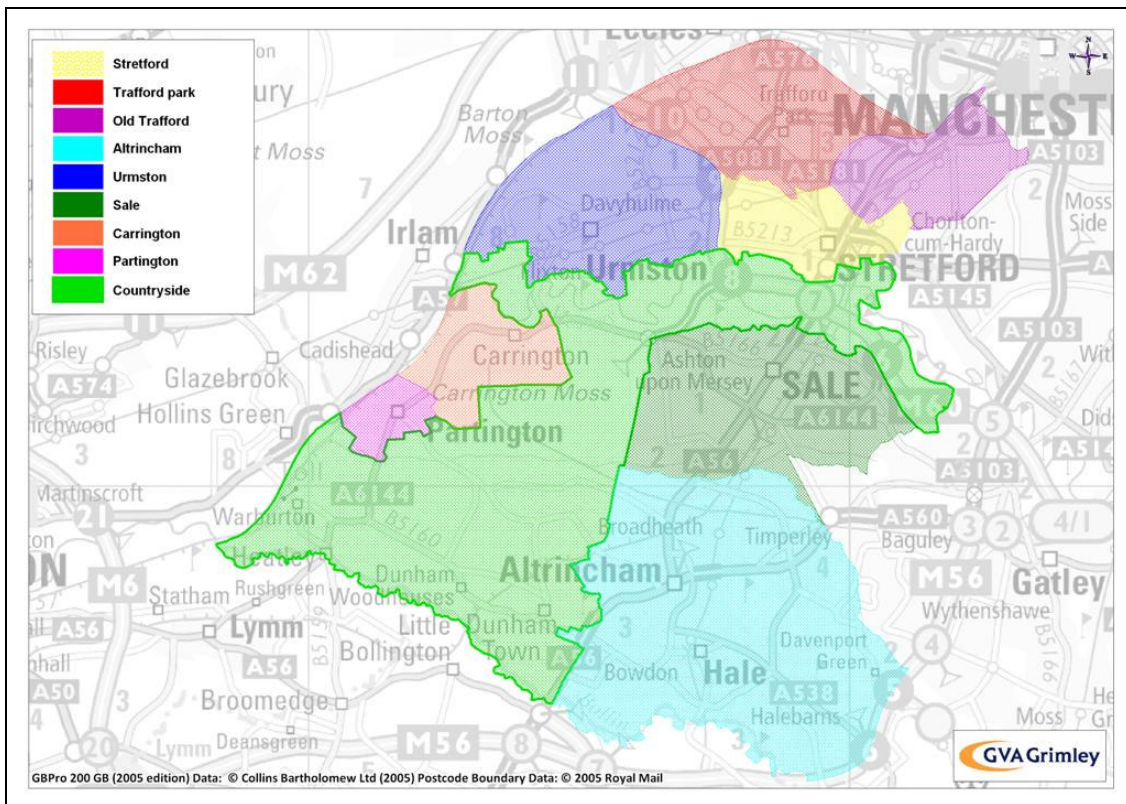
4.19 It was therefore seen as necessary for performance variants related to spatial location to be addressed through the viability assessment. The study therefore distinguished sub-markets based upon the locations presented within the Core Strategy: Preferred Options DPD1 (July 2008). These are as follows:

- Altrincham

- Carrington
- Old Trafford
- Partington
- Rural Countryside
- Sale
- Stretford
- Urmston

4.20 The sub-market locations are presented on the following plan:

Figure 4.3: Trafford Sub-market Locations



Source: GVA Grimley, 2009

4.21 Sub-markets were then linked where they shared similar market performance characteristics. Decisions on linkage were based on GVA Grimley’s working knowledge of Trafford’s sub-markets and relationship with the wider Greater Manchester and Cheshire markets through

work undertaken on the Greater Manchester SHMA²⁴, the emerging Trafford Housing Strategy (2009-12)²⁵ and the Trafford HMA (2006)²⁶.

- 4.22 Substantial distinctions in property values achievable within the sub-markets active in Trafford was taken as a consideration, with the methodology outlined below. This understanding of market dynamics was augmented by GVA Grimley's residential land team.

Values – Property Sales

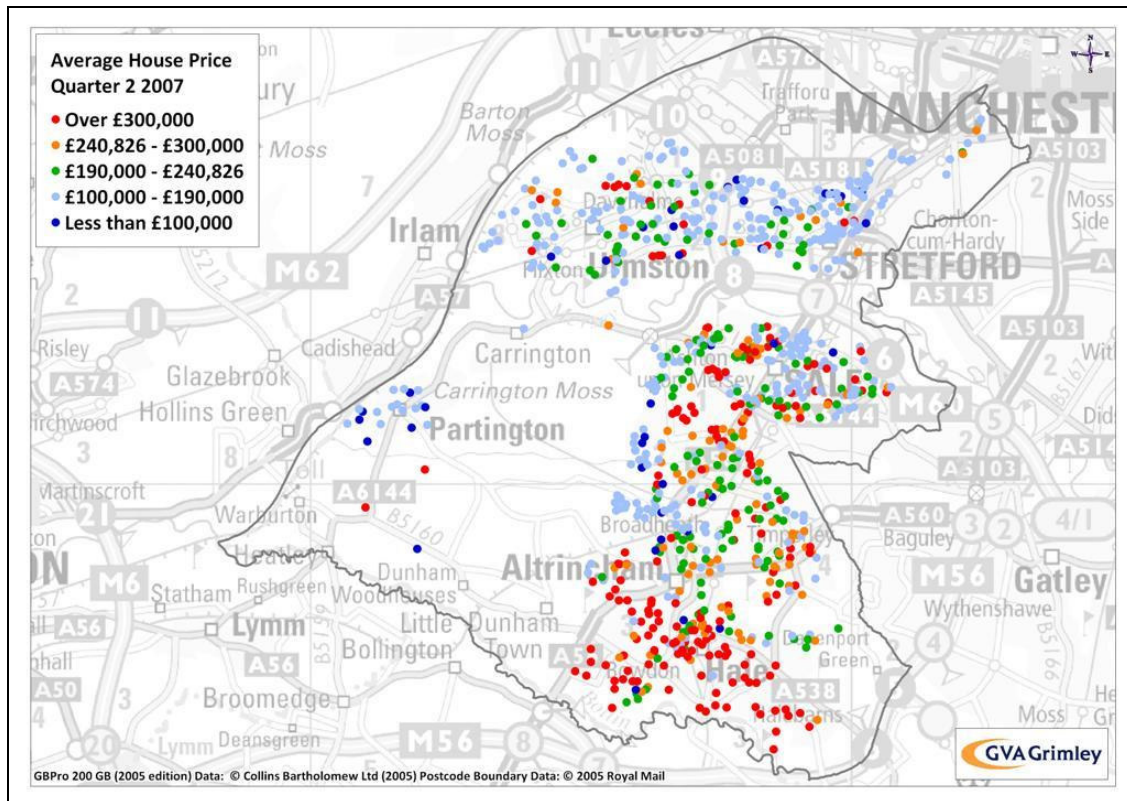
- 4.23 To ensure that spatial sub-market distinctions were accurately reflected in the economic viability assessment locations are categorised by market performance. The authority is therefore divided into 'hot', 'moderate' and 'cold' markets to reflect these spatial market performance distinctions. It is important to recognise that whilst this approach provides a sufficiently robust method for testing viability through the sample sites, when testing sites individually other factors, such as the type and quality of development planned, should be considered in more detail and values altered accordingly.
- 4.24 Value distinctions across Trafford's key sub-markets were assessed using Land Registry six-digit postcode level data over the past 2 years to reflect the functional markets operational at the sub-market scale and segregated into 'hot', 'moderate' and 'cold' markets by benchmarking achievable values against comparable developments across the Greater Manchester sub-region. The variance in achievable residential property values within Trafford is presented in the following plans.

²⁴ Greater Manchester Strategic Housing market Assessment (SHMA) (May 2008) – GVA Grimley & Deloitte

²⁵ Trafford Housing Strategy 2009-2012 (draft – March 2009) – GVA Grimley

²⁶ Trafford HMA (2006) – Fordham Research

Figure 4.4: House Price Transactions in Trafford – Q2 2007



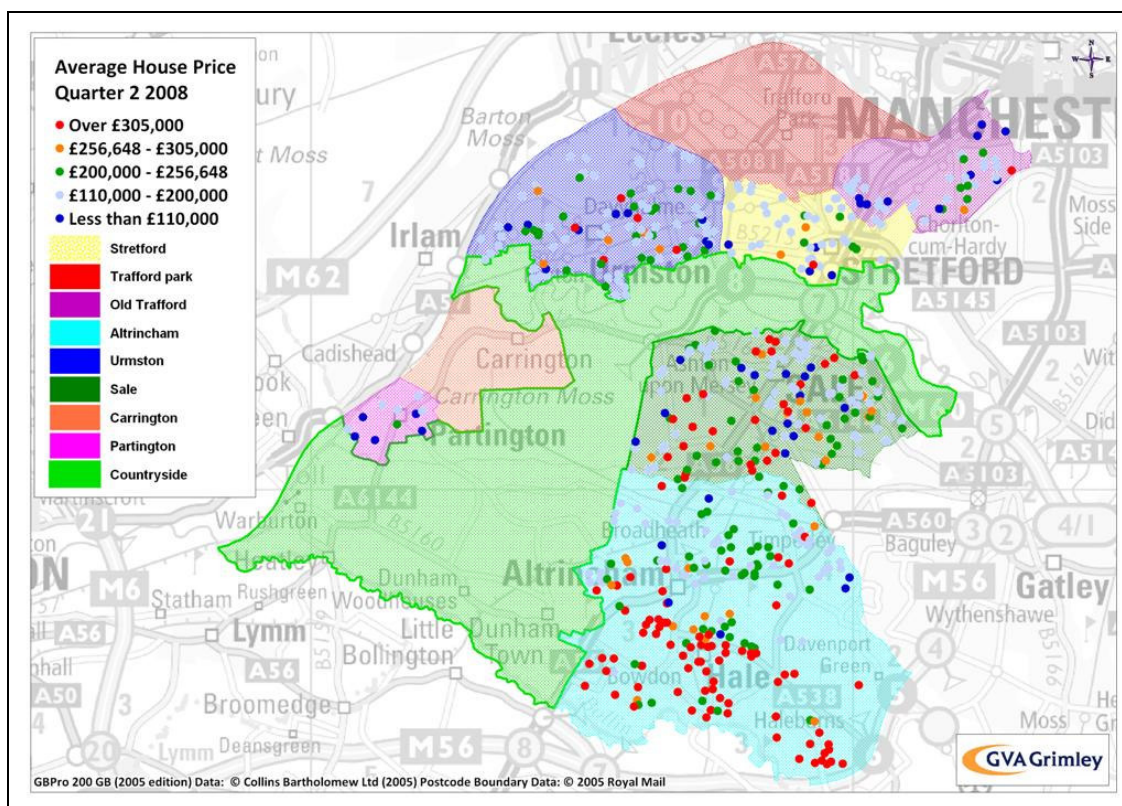
Source: GVA Grimley

- 4.25 The plan above clearly illustrates the high volume of sales within Trafford during Q2 2007 – a period which represented the onset of the peak in the current market cycle. Furthermore, it demonstrates the north-south distinction in achievable values within the Borough, with the majority of prices above the average (£240,826) located to the south in Altrincham, Hale, Timperley and to some extent in Sale. In contrast the North of the Borough sees a concentration of transactions below the average sales value for Q2 2007.
- 4.26 The following plan illustrates residential transactions within Trafford at Q2 2008 – representing a period where the market is declining and therefore is a closer representation market conditions at the time of writing.
- 4.27 The position at Q2 2008 reflects a substantial decline in the number of property transactions from the position a year earlier – particularly in those properties in the higher value price brackets.

4.28 Nevertheless, the spatial trend in achievable values represented in a buoyant market is still clearly present. Lower values are focused within the North of Trafford, with notable ‘cold spots’ in Partington, Old Trafford and Stretford.

4.29 This trend becomes more apparent when the designated sub-market locations are spatially overlaid.

Figure 4.5: House Price Transactions in Trafford – Q2 2008

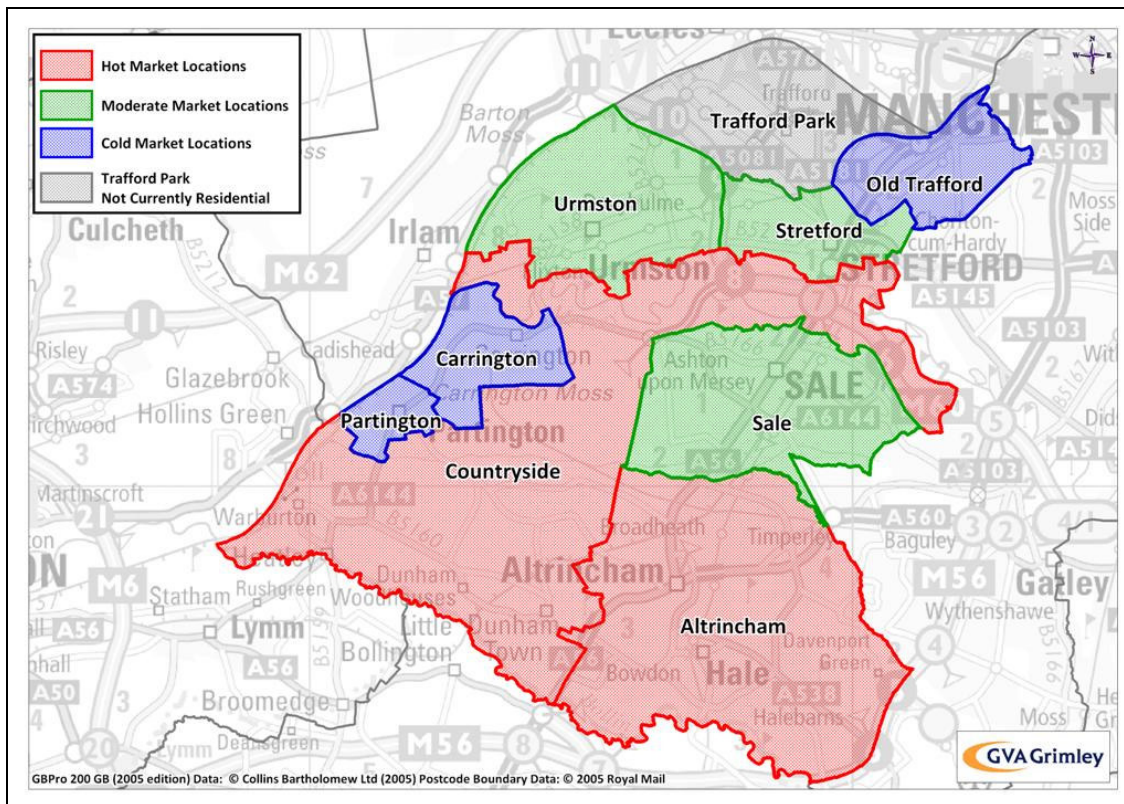


Source: GVA Grimley

4.30 Further to this, actual transactions were sourced from Rightmove.co.uk for each sub-market location within Trafford to cross-reference achievable values by property type and to distinguish between values achieved for newly built property and resale property. Following this process it was considered necessary to apply an uplift to values in recognition the premium applied to new-build residential property. This was corroborated as accurate and appropriate by GVA Grimley’s residential land team.

4.31 Trafford’s locations are categorised by market performance (divided into ‘hot’, ‘moderate’ and ‘cold’ markets) to reflect these spatial market performance distinctions in the following plan.

Figure 4.6: Trafford Sub-market Performance Characteristics



Source: GVA Grimley

4.32 The values achievable under the segregated ‘hot’, ‘moderate’ and ‘cold’ sub-market characteristics were then applied to the market condition scenarios under ‘normal’, ‘good’ and ‘poor’ conditions (in line with the assumptions noted in paragraphs 3.19 – 3.28).

4.33 The value assumptions are presented in the following table.

Figure 4.7: Property Market Values & Spatial Distinctions under 'Normal' Market Conditions

Cold		0%	
Property values identified in "cold spots"	Unit type	Sales Receipt (£)	
	1/2 bed flats/apartments	£105,000	
	2/3 bed terrace	£125,000	
	3/4 bed semi detached	£120,000	
	4/5 bed detached	£270,000	

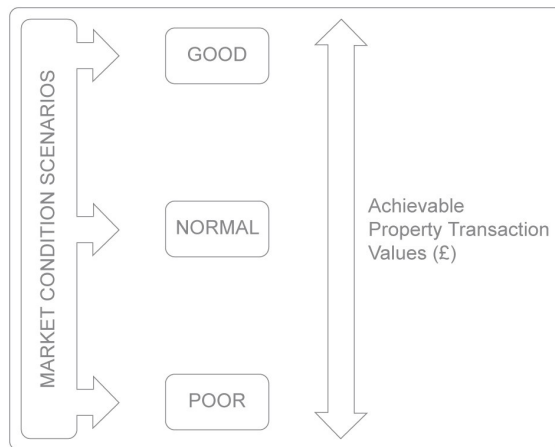
Moderate		0%	
Property values identified in "moderate" areas	Unit type	Sales Receipt (£)	
	1/2 bed flats/apartments	£150,000	
	2/3 bed terrace	£170,000	
	3/4 bed semi detached	£200,000	
	4/5 bed detached	£320,000	

Hot		0%	
Property values identified in "hot spots"	Unit type	Sales Receipt (£)	
	1/2 bed flats/apartments	£250,000	
	2/3 bed terrace	£250,000	
	3/4 bed semi detached	£290,000	
	4/5 bed detached	£500,000	

Source: GVA Grimley, 2009

- 4.34 Given the current instability in the housing market it is necessary for Trafford Council to continue monitor the evolving market situation and update the study as required. In particular it is important that actual property transaction values achieved across Trafford's cold, moderate and hot sub-market locations are continually monitored to ascertain where market conditions sit on the spectrum of poor, 'normal' and good market scenarios at a given point in time. This is presented graphically below:

Figure 4.8: Spectrum of Market Condition Scenarios



Source: GVA Grimley, 2009

Values – Land Sales

- 4.35 Land values were assessed utilising base data on actual residential land transactions sourced from the Valuation Office Agency Property Market Report (VOA)²⁷. This was moderated utilising the perspective of local agents and variance in prices and values outlined above to incorporate differences between Trafford's sub-markets.
- 4.36 Further, the approach taken has been to adopt consistent land values (albeit varied by sub-market characteristics) independent of wider market conditions (i.e. good, 'normal', poor), recognising that land value is not directly linked in with one particular cost/value variable (e.g. sales values or affordable housing obligations), and is instead a by-product of a range of site-related and non-site related variables (e.g. landowner sentiment, timing of acquisition etc.).
- 4.37 The land values assumed in the appraisals were:
- Hot Market Area - £3,500,000 per hectare
 - Moderate Market Area - £1,600,000 per hectare
 - Cold Market Area - £750,000 per hectare

²⁷ www.voa.gov.uk/publications/property_market_report/

Revenue Generated from Affordable Housing

- 4.38 Developers will generate revenue through the sale of completed dwellings to RSL's for utilisation as affordable housing stock. Revenues achievable will differ depending on whether the sold dwelling is for use as intermediate or social rented stock.
- 4.39 The viability model assumes that values generated will equate to the following discount on the achievable values indicated above:
- Intermediate housing: 40% OMV
 - Social rented housing: 65% OMV

Cost Assumptions

- 4.40 This sub-section sets out the assumptions made against the various cost elements incorporated within the model, including²⁸:
- Type of site e.g. Greenfield, conversion etc... as defined by Policy Classification
 - Build costs (including prelims, substructures and superstructures)
 - Development Abnormals (including contamination risk, flood risk and accessibility)
 - Section 106 Contributions (excluding affordable housing)
 - Other costs (including finance, professional fees, disposal)

Site Type - Policy Classification

- 4.41 The range of policy classifications utilised included the following:
- Car park
 - Infill
 - Previously developed land (PDL) that is presently occupied
 - PDL that is vacant and/or derelict
 - Redevelopment – commercial
 - Greenfield that is vacant

²⁸ The potential impact of the cost of the introduction of Community Infrastructure Levy (CIL) has not been included in the model as the level at which Local Authorities will introduce CIL is unknown at present. This could be added to the model as an additional cost per unit, per sq.m. through the monitoring/updating process when known.

- Unknown

4.42 The cost implications for each policy classification are presented within Figure 4.14.

Build Costs

4.43 The build costs utilised within the viability model have been generated through consultation with GVA Grimley's in-house Quantity Surveyors and local market knowledge. Build costs have been based on the cost associated per square metre of the development's gross internal area (GIA) and have been taken account of preliminary costs (site set-up etc.), substructures, superstructures. They are therefore exclusive of external works, development abnormalities, professional fees and contingencies. Build costs have been utilised for each dwelling type considered within the dwelling mix.

4.44 The build costs have been agreed with Trafford Council following consultation with key stakeholders and are considered correct as at March 2009. Costs are based upon CfSH Level 2 cost inputs as shown below. The model takes into account an uplifted set of costs associated with building affordable housing (as shown below) and does not consider the availability of Social Housing Grant funding. This is in line with current requirements²⁹.

4.45 Build costs input into the model were as follows³⁰:

Figure 4.9: Build Costs £ per m² (GIA)

Unit type	Gross Internal Area (GIA) m2		
	Private Housing	Social Rented	Intermediate
1/2 bed flats/apartments	£1,092	£1,201	£1,092
2/3 bed terrace	£942	£1,036	£942
3/4 bed semi detached	£1,050	£1,155	£1,050
4/5 bed detached	£1,105	£1,216	£1,105

Source: GVA Grimley, 2009

4.46 It is recognised that sustainable development aspirations under Code for Sustainable Homes (CfSH) (Level 3-6) require higher design and space standards to be implemented in developments, which will uplift build costs. This is an important consideration, for units will not

²⁹ Conducting the base analysis at CfSH Level 3 could therefore potentially overestimate the cost of social rented and intermediate dwellings delivered by developers, where they are not required to meet CfSH Level 3.

³⁰ The flexible nature of the toolkit provided to Trafford Council allows for changes in build costs to be applied to reflect the market if necessary.

qualify for sale as affordable housing if they do not meet the higher standards set by the Government under CFSH and implemented from 1st May 2008.

- 4.47 The model has been developed to be adaptable to enable differences in design and space standards to be applied to future viability assessment by Trafford Council, with the following assumptions made based on the Cost Analysis of the Code for Sustainable Homes (July 2008) report produced by CLG.
- 4.48 Trafford Council will be seeking to apply Code for Sustainable Homes standards on new residential development as an objective of the emerging Trafford Housing Strategy (2009-2012). This will conform to the national Government objectives³¹.

Figure 4.10: Build Costs £ per m² (GIA) for Code for Sustainable Homes Levels 3 – 6

Unit Type	CfSH 3	CfSH 4	CfSH 5	CfSH 6
1/2 bed flats/apartments	£1,136	£1,179	£1,256	£1,387
2/3 bed terrace	£1,008	£1,064	£1,177	£1,338
3/4 bed semi detached	£1,106	£1,169	£1,274	£1,442
4/5 bed detached	£1,160	£1,249	£1,370	£1,580

Source: GVA Grimley, 2009 (based on Cost Analysis of the Code for Sustainable Homes ((July 2008)) – CLG)

Development Abnormals

- 4.49 Additional costs related to the risk of flooding, site conditions including contamination and resolving accessibility issues will undoubtedly impact of the viability of sites, given that in many cases these account for a significant proportion of development costs.
- 4.50 It is therefore important to assume a proportional uplift on build costs associated with the risk of development abnormals on sites, particularly where this information has been made available through the Trafford SHLAA, to ensure that the study of viability is comprehensive and robust.
- 4.51 The study assumed the following cost treatment for abnormals as a proportionate uplift on the build costs. These were agreed with Trafford Council following consultation with key stakeholders.

³¹ Code for Sustainable Homes – Technical Guide (October 2008) – Communities & Local Government

Figure 4.11: Abnormals –Treatment Costs:

Category	Risk	Cost Implication (% addition on build costs)
Flood Risk	Low	0.00%
	Medium	2.00%
	High	5.00%
	Unknown	1.00%
Site Conditions incl. Contamination	Low	0.25%
	Moderate/uncertain	3.00%
	High	6.00%
	Unknown	2.00%
Accessibility	Poor	5.00%
	Moderate	3.00%
	Good	0.25%
	Unknown	2.00%

Source: GVA Grimley, 2009

Section 106 (Planning Obligations) Requirements

4.52 As previously noted, the analysis in Section 5 assumes that all Section 106 requirements are sought alongside affordable housing provision. These relate to policies presented in:

- SPD1: Developer Contributions to Highway and Public Transport Schemes
- SPG: Informal / Children's Playing Space and Outdoor Sports Facilities Provision and Commuted Sums

4.53 The costs associated with the Section 106 requirements above vary by location³². Where applicable they are calculated on an occupancy per unit basis and include a maintenance charge.

³² Note: These locations do not directly correspond with the locations defined within the Trafford SHLAA and are therefore different to the sub-market locations utilised within this study.

Figure 4.12: Section 106 Costs

S106 Public Transport Contributions - SPD1

Development Type	Accessibility	Standard for Public Transport
Apartments	Most	£269
Houses	Most	£418
Apartments	Accessible	£323
Houses	Accessible	£501
Apartments	Least	£215
Houses	Least	£334

S106 Highways Contributions - SPD1

Development Type	Standard for Highways Network Provision
Apartments	£73
Houses	£218

S106 Outdoor & Open Space Contributions - SPG4

	Average
Open space provision	
Open space cost per person	£597.17
Maintenance charge per person	£68.90
Sub-Total	£666.07
Outdoor sports facilities provision	
Cost per person	£198.39
maintenance cost per person	£103.63
Sub-Total	£302.02

Source: Trafford Council / GVA Grimley

4.54 Further Section 106 requirements relate to policy presented in SPG: Developer Contributions towards Red Rose Forest. The costs associated with developer contributions to the Red Rose Forest are related to trees to be delivered. The cost per tree is £235 in line with the SPG. The required contribution varies by dwelling type delivered on site:

- Dwelling House = 3 trees per unit developed
- Apartment = 1 tree per unit developed

-
- 4.55 In addition, work is currently being undertaken by URBED (due for completion May 2009) focussing on the potential to deliver RSS Policy EM18 'Decentralized Energy Supply' within Trafford.
- 4.56 The principal focus of the URBED study is to establish whether the policy might enable local authorities (as policy 'enablers') to facilitate carbon neutral development (equivalent to CfSH Level 6) through a decentralised energy approach. Within this, the study has developed a number of costed up case-studies across the Greater Manchester area, one being a masterplan based in the Trafford Borough.
- 4.57 To achieve decentralised energy the study focuses on a mix of technologies that might be incorporated within development proposals across a hierarchy of geographical centres (e.g. Manchester City Centre down to Altrincham Town Centre). Further, the study also looks at how such technologies might be incorporated within policy, this being either through; a target based flexible approach whereby 'allowable solutions' might include contributions towards off-site wind-farms (these being more applicable to smaller development projects where economies of scale may not be available); or through a purely site-based infrastructure approach (this being more applicable to larger-scale development projects).
- 4.58 The emerging conclusions of the study are that carbon neutral development (CfSH Level 6) may be achievable (through decentralised energy approaches) at significantly lower costs than predicted currently by Central Government³³
- 4.59 It should be recognised therefore, that based on these early conclusions, it may be that site viability at higher CfSH Levels may be improved (i.e. due to lower unit costs) over and above that predicted in the Viability Model, through a robust and coordinated decentralised energy policy/programme across the Trafford Borough.
- 4.60 However, the cost assumptions produced by URBED are incomplete and as such are not considered sufficiently robust for inclusion within this assessment at present. As such, the findings of this assessment should be monitored by Trafford Council with cost conclusions incorporated within the updateable Viability Study if and when appropriate.

Other Costs

- 4.61 There are a number of other financial costs associated with the delivery of sites for residential or commercial purposes. These include the cost of securing finance (interest payments on

³³ Cost Analysis of the Code for Sustainable Homes (July 2008) – CLG

debt), professional fees (as a proportion of total construction cost), developer profit, marketing, sales and other contingency costs.

- 4.62 The following assumptions have been made within the model for the purposes of this study and were tested with key stakeholders:

Figure 4.13: Other Cost Assumptions

Cost Element	% Cost	
Professional Fees	10.00%	of gross construction costs
Overheads & Profit	20.00%	of gross development value
Interest Rate (Debt)	7.00%	on cumulative cash flow balance
Marketing fees	0.50%	of gross development value
Sales Agent Fees	1.50%	of gross development value
Sales Legal Fees	0.50%	of gross development value
Construction Contingency	5.00%	of gross construction costs
Purchasers Cost (land)	5.75%	of gross land acquisition cost

Source: GVA Grimley, 2009

- 4.63 It is important to note that the financial cost associated with securing finance has been included as a flexible variable to allow for adaptation to market circumstances in future viability assessment undertaken by Trafford Council.
- 4.64 The viability model has also allowed for demolition and site preparation costs as a proportionate uplift on build costs assumed within the viability model. These are presented in the following figure.

Figure 4.14: Demolition and Site Preparation Cost Uplift

Policy Classification	Cost Implication (% addition on build costs)
PDL/Vacant/Derelict	1.50%
Infill & car parks	1.00%
Redevelopment of commercial buildings	2.00%
Vacant	0.00%
PDL (Occupied)	2.50%
Unknown	1.50%

Source: GVA Grimley, 2009

Sensitivity Testing

4.65 In order to comprehensively and robustly assess the viability of the representative sample of sites it was necessary to apply a range of sensitivities to a set of key variables within the viability model. This will enable the determination of a 'sliding scale' of viability. The key sensitivities included:

- Varying the required proportion of affordable housing
- Varying the tenure split of affordable housing (i.e. intermediate and social rented units)
- Altering the site size threshold to trigger a requirement for affordable housing

4.66 Furthermore, the sensitivities have been tested across the range of 'normal', 'good' and 'poor' market conditions to facilitate an understanding of the impact of the market context on the 'sliding scale' of viability.

Varying Required Proportion of Affordable Housing

4.67 In order to test and demonstrate development viability to robustly inform affordable housing policy within Trafford it was necessary to consider the proportion of affordable housing required through site development across an appropriate range. This has been informed by the emerging Trafford Core Strategy Development Management Policy Direction DM5, which seeks to recover a contribution of 40% affordable housing on qualifying sites, and reflects the minimum requirement of 30% in exceptional circumstances. The Trafford HMA³⁴ provides the evidence base to support the requirement for an increased provision of affordable housing within the Borough to meet affordable housing needs. The study therefore looked at applying a proportion of affordable housing ranging from 40% to 0% (in 5% increments).

Varying the Tenure Split

4.68 The study also considers the impact on viability of altering the proportional split of affordable housing built between social rented and intermediate tenures due to the cost implications on the IRR of a development (as described above)³⁵. Therefore, the model has been run to test the following range:

³⁴ Trafford Housing Market Assessment (September 2006) – Fordham Research

³⁵ Whilst it is appreciated that in the current market climate there are significant constraints to delivering intermediate housing (principally around mortgage finance), the model assumes 'normal' market conditions

- 50% social rented to 50% intermediate
 - 35% social rented to 65% intermediate
 - 25% social rented to 75% intermediate
 - 15% social rented to 85% intermediate
- 4.69 The range takes account of the policy aspiration set in the emerging Trafford Core Strategy Development Management Policy Direction DM5 (of 50% social rented to 50% intermediate), and evidenced within the Trafford HMA. Introducing a 'sliding scale' approach facilitated an understanding of the effect on economic viability in the event that a requirement for an alternative tenure split can be demonstrated.

Site Size Thresholds

- 4.70 National policy guidelines for the site size threshold to trigger a requirement for affordable housing are presented in PPS3. The guideline recommends that qualifying sites will be those where development on site consists of a minimum of 15 dwellings or more. Testing of this sensitivity allows the study to inform an appropriate threshold to trigger the requirement for affordable housing. Unless noted the model has been run with a 5 unit threshold in order to assess all relevant sites for viability. Where noted, the model has been run to test the following range:

- 5 units
- 10 units
- 15 units

Summary

- 4.71 In order to ensure that the research into site viability is robust a methodology for identifying a representative sample of sites has been presented. This uses the sites included within the SHLAA (approximately 600 sites in total) to develop this representative sample through a matrix of site typologies.

whereby such problems are less evident. On this basis 50:50 split between social rented/intermediate housing is adopted unless where noted. Furthermore, the toolkit allows for a changing distribution of affordable housing and a varying discount on market value to be applied within Trafford Council's future monitoring process to reflect future circumstances and through this to aid site specific negotiations.

- 4.72 A bespoke model using a range of assumptions around costs and values has been developed as part of this research. The model is designed to reflect the characteristics of the Trafford housing market which are defined by the notable distinctions in the performance of the housing market in different parts of the Borough.
- 4.73 Using research conducted into the housing market and the advice of GVA Grimley's Quantity Surveyors values have been defined against each of the variables to enable the viability model to be run. In line with the study objectives a set of sensitivities have been defined through which the model will test the implication on site viability of different elements which could be used within policy.
- 4.74 As this section outlines the model applies broad assumptions to the characteristics of sites in order to test their viability and establish an evidence base for policy to utilise. The model allows for future, more detailed testing on a site by site basis factoring in specific information rather than the generalised assumptions used through testing of the sample sites.

5. Economic Viability Stakeholder Consultation

- 5.1 Consultation with key stakeholders has been at the heart of delivering the economic viability study. Those engaged in the process include private sector property developers, Registered Social Landlords (RSL's), Housing Associations, landowners, property consultancies and local market agents. As the previous Section notes the core assumptions and the approach to the research was tested through consultation with stakeholders.
- 5.2 The stakeholder consultation took the form of a workshop event to:
- maximise the opportunity for stakeholders to input into the study process and the assumptions underpinning the work;
 - obtain perspectives on issues faced in the delivery of affordable housing, Section 106 Obligations and Trafford's key Strategic Sites; and
 - test the typology of 100 sites and the appraisal approach with a wider stakeholder group including major landowners (and their agents where applicable), developers and RSL's.
- 5.3 In total 40 key stakeholders were invited to attend the Trafford Economic Viability Consultation Event held on Thursday 26th February 2009 at GVA Grimley's Manchester offices. These stakeholders were taken from a list provided by Trafford Council of stakeholders currently engaged through the council's SHLAA or Strategic Sites process as well as a list of developer and RSL contacts held by GVA Grimley. In total 20 persons attended the event representing 17 different stakeholder organisations. A full list of consultees is provided at Appendix 1.
- 5.4 The event included a presentation on the study context, objectives and methodology followed by a workshop, which focused debate around a set of pre-determined questions, involved dividing the attendees into two groups. The first group was dedicated to those attendees with an interest in Trafford Council's Key Strategic Sites and the second group predominantly included RSL's alongside landowners and property agents.
- 5.5 The questions for discussion centred upon consideration of the methodology and assumptions utilised within the economic viability study. There was broad agreement from consultees that the methodology utilised within the study was acceptable, although consultees requested further detail to be provided upon the assumptions behind the economic viability model.
- 5.6 The opportunity was therefore offered to all attending stakeholders to provide individual written feedback to GVA Grimley following the event, with an additional Assumptions Note

electronically distributed on 9th March 2009 to assist in informing their decisions. The feedback received from stakeholders is provided at Appendix 1.

5.7 The feedback received from stakeholders was utilised to establish a finalised set of assumptions to inform the economic viability model. To elaborate, this involved the amendment of several key assumptions to reflect the comments received at, and following, the event³⁶. In particular:

- A revised set of build costs was produced.
- Achievable open market property values were amended to reflect the premium paid for new-build properties.
- The costs associated with purchasing land within the 'hot', 'moderate' and 'cold' locations were revised.

5.8 Consequently, GVA Grimley and Trafford Council have comprehensively considered all feedback received from stakeholders and are confident that the final set of assumptions utilised within the study are fully representative of a range of market conditions, sensitivities site typologies, building and abnormal costs within Trafford.

³⁶ Provided in more detail within Appendix 1.

6. Results of the Economic Viability Model

- 6.1 This section presents the results of the viability assessment model. The results are presented to illustrate the outputs of the research to assess economic viability across a number of different sensitivities traversing a range of market scenarios.
- 6.2 The results section is structured as follows:
- Testing the Model – A Case Study Approach
 - Assessment under ‘Normal’ Market Conditions
 - Scenario 1: Assessment under ‘Poor’ Market Conditions
 - Scenario 2: Assessment under ‘Good’ Market Conditions
- 6.3 Assessment under ‘normal’ market conditions and Scenario’s 1 and 2 are tested through alteration of a range of key sensitivities to ascertain a ‘sliding scale’ of economic viability across the range of market conditions. The sensitivities include:
- Varying the levels of affordable housing required on site (0% - 40% using 5% increments)
 - Varying the percentage tenure split (social rented and intermediate) of affordable housing required (50:50, 35:65, 25:75, and 15:85).
 - Varying the threshold at which an affordable housing requirement is triggered (5, 10 and 15 units)³⁷.
- 6.4 This is preceded by establishing a ‘baseline’ position of viability with no affordable housing requirement.

Testing the Model – A Case Study Approach

- 6.5 In order to demonstrate the model a number of case studies are used. These illustrate the impact of changing key variables and sensitivities on the economic viability of a site. A set of generic sites are therefore used to generate a clear understanding of how the costs and sensitivities within the model influence the viability of sites across Trafford’s ‘hot’, ‘moderate’ and ‘cold’ market locations.

³⁷ Note: the model has been run to include a 5 unit threshold as standard. This has been varied where noted.

- 6.6 Following this a number of key assertions are made which should be considered when examining the results of the viability testing of the 100 sites.

Case Study 1: 'Hot' Market Location

- 6.7 The first case study presents a typical generic site located in the 'hot' market area of Altrincham in Trafford. The site is small, at 0.5ha, to reflect the size of sites predominantly evidenced as available within the SHLAA for this location and is classified as previously developed land (PDL). The site is an apartment scheme that will bring forward 70 units for development, built to Code for Sustainable Homes Level 2 standard. It is considered under 'normal' market conditions.
- 6.8 By increasing abnormal development costs to moderate or high levels of exposure this decreases the economic viability of the site. However, the site remains economically viable with a requirement for 45% affordable housing provision and this remains the case when the tenure split of social rented to intermediate affordable housing provision is altered to up to 15:85 (social rented to intermediate units)³⁸.
- 6.9 It is also important to consider the effect on viability of both 'good' and 'poor' market conditions. Site viability increases substantially under 'good' market conditions. Under 'poor' market conditions, and with high abnormal costs, the site remains economically viable with a requirement for 45% affordable housing provision and this remains the case when the tenure split of social rented to intermediate affordable housing provision is altered to 35% : 65%, 25% : 75% and 15%: 85%.
- 6.10 Furthermore, the site remains economically viable, inclusive of all of the above sensitivities when additional costs are incurred for delivering CfSH Level 5 building standards. CfSH Level 6 can only be accommodated however (with a 45% affordable housing requirement) if market conditions are good or abnormal costs are moderate/minimal.

Case Study 2: 'Moderate' Market Location

- 6.11 The second case study utilises a typical generic site located in the 'moderate' market area of Stretford in Trafford. The site is small, at 0.5ha, to reflect the size of sites predominantly evidenced as available within the SHLAA for this location and is classified as PDL. The site is a mixed housing and apartment scheme that will bring forward 5 apartment units and 21

³⁸ It is important to note that the model takes a 'pure' approach to appraisal and does not factor in market demand elements for different products.

housing units for development, built to Code for Sustainable Homes Level 2 standard. It is considered under 'normal' market conditions.

- 6.12 When the site is deemed to have low exposure to abnormal development costs (contamination, flood risk, accessibility) the site can viably deliver up to 25% affordable housing with a tenure split of 50% intermediate and 50% social rented accommodation.
- 6.13 The site continues to remain economically viable with a 25% affordable housing requirement when the tenure split is altered to 35% : 65%. However, when the proportion of intermediate affordable housing is increased to 25% : 75% the site is able to deliver 30% affordable housing whilst remaining viable. This is increased further to 35% affordable housing when the proportion of intermediate units is raised to 85% (with only 15% social rented).
- 6.14 When abnormal development costs are increased to a moderate level the site is only able to deliver 10% affordable housing provision whilst remaining economically viable. Again, however, altering the tenure split of social rented to intermediate affordable housing provision has a positive effect on viability. When the proportion of intermediate housing is increased to 65% the site is able to deliver 15% affordable housing. When increased to 75% intermediate housing the site remains viable when delivering 20% affordable housing and this rises to 25% affordable housing when it consists of 85% intermediate units.
- 6.15 When abnormal development costs are increased to a high level of cost exposure this decreases the economic viability of the site further. However, the site remains able to deliver 10% affordable housing provision and this remains the case when the tenure split of social rented to intermediate affordable housing provision is altered to 35% : 65%, 25% : 75% and 15%: 85%.
- 6.16 Site viability increases substantially under 'good' market conditions and the site is therefore able to deliver 15% affordable housing whilst accommodating high abnormal costs and a 50% ; 50% tenure split of social rented to intermediate affordable housing provision. When the proportion of intermediate units is increased to 85%, the site is able to deliver up to 30% affordable housing.
- 6.17 When abnormal costs are minimised the site can deliver up to 35% affordable housing at a 50%: 50% tenure split whilst remaining economically viable. When the proportion of intermediate units is increased to 85%, the site is able to deliver in excess of 45% affordable housing.

- 6.18 Under 'poor' market conditions, and with high abnormal costs, the site is not economically viable – even with a 0% affordable housing requirement. However, when abnormal costs are minimised the site is able to provide up to 10% affordable housing with a 50% : 50% tenure split whilst remaining viable. Increasing the proportion of intermediate housing does not, in this case, improve the viability of the site.

Case Study 3: 'Cold' Market Location

- 6.19 The final case study will utilise a typical generic site located in the 'cold' market area of Partington in Trafford. The site is small, at 0.5ha, to reflect the size of sites predominantly evidenced as available within the SHLAA for this location and is classified as vacant land. The site is a housing scheme that will bring forward 20 units for development, built to Code for Sustainable Homes Level 2 standard. It is considered under 'normal' market conditions.
- 6.20 When the site is deemed to have low exposure to abnormal development costs (contamination, flood risk, accessibility) the site can viably deliver up to only 5% affordable housing with a tenure split of 50% intermediate and 50% social rented accommodation. The site continues to remain economically viable with a 5% affordable housing requirement despite increasing the proportion of intermediate housing (and reducing the social rented contribution).
- 6.21 When abnormal development costs are increased to a moderate level the site is not deemed economically viable, even when the affordable housing requirement is set to 0%.
- 6.22 Site viability increases under 'good' market conditions although the site remains unviable with abnormal development costs increased to a high level. When abnormal costs are minimised the site can deliver up to 10% affordable housing with a 50% : 50% tenure split and CfSH Level 3 building standards whilst remaining viable. When the proportion of intermediate tenure affordable housing is increased to 85%, the site is able to accommodate 30% affordable housing at CfSH Level 2.
- 6.23 Under 'poor' market conditions, and with minimised abnormal costs, the site is not economically viable – even with a 0% affordable housing requirement.

Headline Conclusions

- 6.24 Case study 3 demonstrates that a typical 'generic' site located in a 'cold' market location can be economically viable when considered under 'normal' market conditions, and when abnormal costs are low can deliver up to 5% affordable housing. When abnormal costs are increased to moderate level this has the significant implication of making the site economically

unviable even when a 0% affordable housing requirement is applied. Critically, only in the most favourable market conditions can such a site deliver above 5% affordable housing and in such situations even this is limited to 10% to facilitate economic viability and thus deliverability.

- 6.25 In contrast, a typical 'generic' site located in one of Trafford's 'hot' market locations remains economically viable even if wider market conditions are poor and abnormals are raised to high levels. In such circumstances a 45% affordable housing requirement can still be accommodated and a requirement for CfSH Level 5 standards implemented with the site remaining economically viable.
- 6.26 Moderate sites occupy a middle ground, in economic viability terms, between the generic 'hot' and 'cold' sites. Under 'normal' conditions such sites can provide between 10% and 35% affordable housing whilst remaining viable and can even provide up to 10% affordable housing in 'poor' market conditions if abnormal costs are favourable. Moderate sites therefore have an important contribution to make to the overall affordable housing targets.
- 6.27 Overall, however, analysis suggests it is vital for Trafford to capitalise on increased economic viability on sites in its higher value 'hot' locations by applying higher affordable housing targets to offset the low proportions of affordable housing likely to be deliverable on sites in 'cold' spatial locations. Such an approach would assist in Trafford sustaining, and increasing, levels of affordable housing provision required to meet rising need across the Borough as a whole.
- 6.28 The following sections proceed to test a representative sample of 100 sites taken from the Trafford SHLAA utilising the economic viability model.

Assessment under 'Normal' Market Conditions

- 6.29 Testing focuses on establishing the viability of delivering affordable housing under 'normal' market conditions. As Section 3 identifies, such an approach has been recommended by the Planning Inspectorate as key to avoiding quickly outdated point-in-time studies, whilst future-proofing viability assessments so that such studies have the capability to recognise the cyclical nature of the property market operating within the UK.

Viability of Affordable Housing at 50:50 Tenure Split

- 6.30 This assesses the economic viability of delivering sites with a requirement for affordable housing and a 50:50 percentage split between social rented and intermediate tenure products ranging from a 0% contribution of affordable housing to a 45% contribution. The table below

illustrates the proportion of sites which are viable in different market locations when different proportions of affordable housing are required.

Figure 6.1: Viability of affordable housing under 'normal' market conditions at 50:50 tenure split

		Affordable Housing Provision										Total Sites
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	
		Number of Sites Economically Viable										
Market Location	Cold	9%	5%	0%	0%	0%	0%	0%	0%	0%	0%	22
	Moderate	84%	82%	79%	71%	61%	37%	32%	29%	26%	18%	38
	Hot	93%	93%	93%	93%	93%	93%	90%	88%	80%	60%	40

Source: GVA Grimley, 2009

- 6.31 The results of the analysis indicate that only 9% sites from a total of 22 sample sites located in cold market locations are economically viable without any affordable housing requirement imposed. This is reduced to 5% of sites in cold locations when a 5% affordable housing requirement is incurred and declines to 0% of sites when 10% or more affordable housing provision is required.
- 6.32 This infers the marginal nature of returns achievable on such sites in 'normal' conditions. However, a high number of sample sites within Trafford's 'cold' locations are typified by high levels of abnormal costs associated with brownfield land. Importantly, as was demonstrated in Case Study 3, it is feasible that sites in 'cold' market locations deliver affordable housing of up to 5% when abnormal costs are not identified/ limited on site and the affordable housing split is 50% social rented and 50% intermediate product.
- 6.33 Sites located in 'moderate' market locations prove to be substantially more economically viable under 'normal' market conditions than in those in 'cold' locations, with 84% of 38 sites viable prior to incurring any affordable housing requirement. Furthermore, a substantial proportion of sites are capable of delivering against varying affordable housing requirements, with 18% of sites capable of providing a contribution of up to 45% affordable units.
- 6.34 Those sites located in 'hot' market locations are shown to be most capable of delivering against affordable housing requirements under 'normal' market conditions. In total 93% of 40 sites were found to be viable at a 0% affordable housing requirement. This was sustained up

to a 25% contribution. Furthermore, 60% of sites in these locations proved capable of delivering up to 45% affordable housing whilst remaining economically viable.

- 6.35 The proceeding sub-sections assess how altering the affordable housing tenure split, to increase the proportion of intermediate units and reduce the proportion of social rented accommodation, affects the viability of the representative sample of 100 sites across Trafford under 'normal' market conditions.

Viability of Affordable Housing at 35:65 Tenure Split

- 6.36 This section of the analysis assesses the economic viability of delivering the sites with a 35:65 percentage split between social rented and intermediate tenure products.
- 6.37 The results of the analysis are presented in the following figure.

Figure 6.2: Viability of affordable housing under 'normal' market conditions at 35:65 tenure split

		Affordable Housing Provision										Total Sites
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	
		Number of Sites Economically Viable										
Market Location	Cold	9%	5%	0%	0%	0%	0%	0%	0%	0%	0%	22
	Moderate	84%	82%	79%	74%	68%	47%	32%	26%	26%	26%	38
	Hot	93%	93%	93%	93%	93%	93%	90%	88%	85%	75%	40

Source: GVA Grimley, 2009

- 6.38 The results of the analysis indicate that increasing the proportion of intermediate units to 65% has no significant impact on the economic viability of sites in 'cold' market locations.
- 6.39 However, such a change does result in an increase in the viability of sites located in 'moderate' and 'hot' locations enabling an uplift in the proportion of sites capable of providing affordable housing.
- 6.40 Importantly, this suggests that adopting a flexible approach to the required split between social rented and intermediate housing can facilitate the procurement of an increased overall affordable housing contribution on sites under prevailing circumstances.

Viability of Affordable Housing at 25:75 Tenure Split

- 6.41 This assesses the economic viability of delivering sites with a 25:75 percentage split between social rented and intermediate tenure products. The results of the analysis are presented in the following figure.

Figure 6.3: Viability of affordable housing under 'normal' market conditions at 25:75 tenure split

		Affordable Housing Provision										Total Sites
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	
		Number of Sites Economically Viable										
Market Location	Cold	9%	5%	0%	0%	0%	0%	0%	0%	0%	0%	22
	Moderate	84%	84%	79%	79%	71%	61%	45%	42%	34%	26%	38
	Hot	93%	93%	93%	93%	93%	93%	93%	90%	88%	88%	40

Source: GVA Grimley, 2009

- 6.42 The results of the analysis again indicate that a further increase to 75% intermediate tenure units as part of the affordable housing contribution again fails to have any significant impact on sites located in 'cold' market locations.
- 6.43 It does however result in further increases in the number of sites capable of delivering affordable housing located within the 'moderate' and 'hot' market locations. This is particularly pronounced in 'hot' locations where, under such conditions, 88% of a total of 40 sites can offer 45% affordable housing whilst retaining economic viability.

Viability of Affordable Housing at 15:85 Tenure Split

- 6.44 This tests the economic viability of delivering sites with a requirement for a 15:85 percentage split between social rented and intermediate tenure products. The results of the analysis are presented in the following figure.

Figure 6.4: Viability of affordable housing under 'normal' market conditions at 15:85 tenure split

		Affordable Housing Provision										Total Sites
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	
		Number of Sites Economically Viable										
Market Location	Cold	9%	5%	0%	0%	0%	0%	0%	0%	0%	0%	22
	Moderate	84%	84%	82%	82%	76%	63%	53%	47%	34%	26%	38
	Hot	93%	93%	93%	93%	93%	93%	93%	93%	90%	90%	40

Source: GVA Grimley, 2009

- 6.45 The results of the analysis indicate that a further marginal increase in the number of viable sites in 'hot' and 'moderate' locations able to provide an affordable housing contribution is achieved when the affordable housing requirement consists of 85% intermediate tenure units.

Assessing Viability when Section 106 Contributions are Not Sought

- 6.46 This sub-section will consider the impact on economic viability on when all non-affordable housing related Section 106 contributions are not sought³⁹.
- 6.47 This is assessed under 'normal' market conditions and with an affordable housing tenure split of 50% social rented and 50% intermediate products. The results of the analysis are presented in the following figure.

Figure 6.5: Viability of affordable housing under 'normal' market conditions with other S106 requirements not sought

		Affordable Housing Provision										Total Sites
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	
		Number of Sites Economically Viable										
Market Location	Cold	32%	23%	14%	5%	5%	5%	0%	0%	0%	0%	22
	Moderate	92%	87%	82%	79%	76%	53%	45%	29%	26%	21%	38
	Hot	93%	93%	93%	93%	93%	93%	93%	88%	85%	70%	40

Source: GVA Grimley, 2009

³⁹ See Section 4 for details of all Section 106 requirements.

- 6.48 The results demonstrate that waiving Section 106 contributions (excluding affordable housing) has a positive effect on economic viability (compared to when sought) and therefore on the ability of sites across cold, moderate and hot locations to provide an affordable housing contribution.
- 6.49 This effect is particularly pronounced on sites in cold market locations. Figure 6.1 demonstrates that when S106 contributions are sought (in the same circumstances) only 5% of sites can viably make a 5% affordable housing contribution and 0% of sites can make a 10% affordable housing contribution. Figure 6.5 illustrates that when S106 contributions are waived nearly a quarter of sites in cold locations can make a 5% affordable housing contribution, 14% can make a 10% contribution and 5% of sites can viably make up to a 25% affordable housing contribution.

Increasing Code for Sustainable Homes (CfSH) Build Standards to Level 3

- 6.50 National Government targets that CfSH Level 3 becomes mandatory for all new dwellings built from 2010. This requires a 25% carbon emissions improvement relative to 2006 standards⁴⁰. This sub-section assesses the impact on the economic viability providing affordable housing of lifting CfSH build standards to Level 3 under 'normal' market conditions and with an affordable housing tenure split of 50% social rented and 50% intermediate products. The results of the analysis are presented in the following figure.

Figure 6.6: Viability of affordable housing under 'normal' market conditions with CfSH Level 3

		Affordable Housing Provision										Total Sites
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	
		Number of Sites Economically Viable										
Market Location	Cold	5%	0%	0%	0%	0%	0%	0%	0%	0%	0%	22
	Moderate	82%	79%	68%	61%	47%	29%	26%	26%	26%	16%	38
	Hot	93%	93%	93%	93%	93%	90%	83%	78%	75%	50%	40

Source: GVA Grimley, 2009

- 6.51 The results indicate that the impact of lifting building standards to CfSH Level 3 (from Level 2) does decrease the ability of sites across hot, moderate and cold locations to deliver affordable housing. The viability of sites in cold market locations is seriously questioned in particular, even without an affordable housing contribution sought.

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- 6.52 The impact is also notable on sites in moderate market locations, although 26% of sites remain capable of delivering a 40% affordable housing contribution (as at CfSH Level 2).
- 6.53 However, the proportionate reduction in site viability is modest in hot market locations where 93% of sites remain viable with up to a 20% affordable housing contribution and 75% of sites can still provide a 40% contribution whilst remaining viable.
- 6.54 In summary, the results infer that those sites within hot and moderate locations will be sufficiently above the threshold of economic viability to withstand an increase in building standards requirements to CfSH Level 3 (under 'normal' market conditions and at 50:50 affordable tenure split) without an unreasonable level of negative impact. However, at CfSH Level 3 some sites may only be viable when providing a lower contribution to affordable housing than when developed to CfSH Level 2 standards.
- 6.55 The effect on sites in cold market locations is more pronounced, reducing the ability of these sites to make any affordable housing contribution. This, however, will need to be assessed on a site-by-site basis at the time of application.

Varying the Affordable Housing (Site Size) Threshold

- 6.56 National policy guidelines for the site size threshold to trigger a requirement for affordable housing are presented in PPS3. The National indicative minimum site size threshold is 15 dwellings, although PPS3 notes that authorities can set lower thresholds where viable and practicable.
- 6.57 The analysis throughout this section to this point has applied an objective assessment of a sites ability to deliver affordable housing, applying a requirement on all sites of 5 units or more. The testing of the unit threshold at which affordable housing is required allows the study to inform an appropriate threshold to trigger the requirement for affordable housing and provides a greater understanding of the impact of applying a threshold under 'normal' conditions⁴¹.
- 6.58 Testing also facilitates an understanding of how imposing a lower site size threshold in certain sub-market locations can, in the right locations, ensure that Trafford gains the maximum affordable housing provision required to meet need without prejudicing site viability.
- 6.59 Such an approach has been deemed necessary through the evidence gathered during Trafford Council's development of the evidence base, based on both the level of need in the

⁴⁰ Building a Greener Future: Towards Zero Carbon Development (December 2006) - CLG

Borough and the distribution of sites by size. The SHLAA (full – approx 600 sites) indicates that Trafford comprises predominantly of smaller sites of less than 15 units (69%), and of these 60% are situated within hot market locations within the south of the Borough. Without investigating the effect of altering the site size threshold for applying affordable housing contributions to include a greater proportion of the more economically viable sites located in the south of the Borough, Trafford may find it difficult to meet the affordable housing needs across the borough in its entirety as evidenced in the Trafford HMA.

6.60 In total 45 sites of the 100 sample sites have capacity to deliver less than 15 (i.e. 0-14) dwellings, making a combined contribution of 291 units to housing supply. Of these:

- 21 sites are in hot market locations;
- 16 sites are in moderate market locations; and
- 8 sites are in cold market locations.

6.61 It is important to understand this break down by sub-market conditions given the conclusions in the analysis above illustrating the varying viability of affordable housing delivery. Applying 40% affordable housing is the aspiration in the emerging Trafford Core Strategy⁴² (50:50 tenure split) under 'normal' market conditions whilst remaining economically viable. In these conditions with a 15 unit affordable housing site size threshold:

- 18 of the 21 sites in hot market locations are economically viable;
- 15 of the 16 sites in moderate market locations are economically viable; and
- 1 of the 8 sites in cold market locations is economically viable.

6.62 When the site size threshold is reduced to 5 units:

- 18 of the 21 sites in hot market locations remain economically viable;
- 8 of the 16 sites in moderate market locations are economically viable; and
- 0 of the 8 sites in cold market locations are economically viable.

6.63 Importantly the breakdowns closely relate to the wider analysis of all 100 sites, illustrating through the model, that based on its assumptions, the size of the site does not necessarily directly impact on its relative viability. This analysis therefore underpins the important contribution to the delivery of affordable housing that potentially could be made by Trafford's

⁴¹ Whereas the Study thus far has classified sites on a size (ha) basis, this section considers site classification based on development capacity (units) to enable alignment with definitions utilised in PPS3.

⁴² Trafford Council DPDI: Core Strategy Preferred Options (July 2008) – Trafford Council

smaller sites. This has significant implications for setting affordable housing policy within the authority. For, by reducing site size thresholds to include smaller sites Trafford would maximise delivery against affordable housing targets⁴³ and capitalise on the most viable smaller sites in the Borough.

- 6.64 In particular, a substantial number of smaller sites (sized 1-14 units) in hot and moderate market locations are capable of delivering a significant affordable housing contribution (40%) whilst remaining economically viable under 'normal' market conditions. It is clear that lowering the threshold in cold market locations would make little difference to the delivery of affordable housing.
- 6.65 Therefore, it is recommended that affordable housing policy is amended to include sites below 15 units within both hot and moderate market locations. It would not be unreasonable for policy to require an affordable housing contribution in these locations for sites above 5 units.
- 6.66 However, it is noted that this analysis is based on a set of generalised assumptions within the model. Viability should be assessed on a site-by-site basis by Trafford Council, and judgements made regarding exact contributions in light of more detailed cost and value information being provided at the time of application.

Varying Market Conditions

- 6.67 This section tests the impact of 'good' and 'poor' market conditions on economic viability on sites with a capacity of less than 15 dwellings (1-14).
- 6.68 Under 'good' market conditions with a 40% affordable housing requirement (at 50:50 tenure split) and with a site size threshold of 5 units:
- 19 of the 21 sites in hot market locations are economically viable;
 - 9 of the 16 sites in moderate market locations are economically viable; and
 - 2 of the 8 sites in cold market locations are economically viable.
- 6.69 Under 'poor' market conditions:
- 14 of the 21 sites in hot market locations are economically viable;
 - 5 of the 16 sites in moderate market locations are economically viable; and
 - 0 of the 8 sites in cold market locations are economically viable.

⁴³ 541 units per annum to meet affordable housing need specified in the Trafford HMA (2006)

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- 6.70 Analysis of the two market condition scenarios indicates that there is only a modest variance in site viability on the smaller sites (1-14 units) within the sample. This therefore, supports the policy recommendations made above and does not suggest that the site size threshold to trigger an affordable housing requirement should be altered to reflect market conditions.

Summary – ‘Normal’ Market Conditions

- 6.71 The sensitivity of marginal returns on sites located in ‘cold’ market locations within Trafford under ‘normal’ market conditions are made apparent by the limited number of sites that are economically viable. It is envisaged however that sites in ‘cold’ locations could provide a limited contribution to affordable housing provision where abnormal costs are minimal.
- 6.72 Conversely, there is more scope to extract affordable housing contributions from sites located within ‘moderate’ market locations within Trafford, with nearly half of such sites able to viably deliver up to 20% affordable housing and on several sites up to a 45% contribution.
- 6.73 Sites located in ‘hot’ market locations are able to deliver the highest proportions of affordable housing under ‘normal’ market conditions. In fact, almost 90% of such sites are capable of delivering an affordable housing requirement of up to 45% whilst remaining economically viable.
- 6.74 When testing the viability of sites to withstand an uplift in building costs associated with CfSH Level 3 (under ‘normal’ market conditions and at 50:50 affordable tenure split) sites within hot and moderate locations experience a low level of negative impact, although the ability to provide a similar contribution to affordable housing as under CfSH Level 2 may be reduced on some sites. The effect on sites in cold market locations is more pronounced, reducing the ability of these sites to make any affordable housing contribution.
- 6.75 Varying the affordable housing tenure split to increase the proportion of intermediate housing and reduce the proportion of social rented units has a further effect on site viability and concurrently the ability of sites to deliver affordable homes. The impact is modest, but more greatly pronounced in the hot and moderate market areas, where an increased proportion of intermediate units can allow for a greater overall affordable housing contribution.
- 6.76 The application of a site size threshold has a substantial impact on affordable housing delivery on economically viable sites within Trafford. The SHLAA indicates that Trafford comprises predominantly of smaller sites, particularly in the ‘hot’ and ‘moderate’ market locations within the Borough. By applying a standard threshold of 15 units, as recommended by PPS3, this

discounts a substantial proportion of the most economically viable smaller sites from triggering an affordable housing requirement.

- 6.77 By reducing site size thresholds to 10 or even 5 units in both the hot and moderate market locations (and retaining a 15 unit threshold in cold market locations) Trafford would maximise delivery against affordable housing targets and capitalise on the most viable smaller sites in the Borough. Applying a sensitivity to market conditions ('good' and 'poor') indicated that this lower threshold should be applicable across the range of market conditions.

Sensitivity Testing

Scenario 1: Assessment under 'Poor' Market Conditions

- 6.78 Scenario 1 focuses on establishing the effect on viability of delivering affordable housing under 'poor' market conditions in Trafford due to these market conditions being more closely reflective of the current circumstances at the time of writing.
- 6.79 To estimate values in a 'poor' market, achievable residential transaction values at 10% below the 'normal' market conditions have been taken to reflect a continued fall from today's (March 2009) market⁴⁴.

Viability of Affordable Housing at 50:50 Tenure Split

- 6.80 This section tests the economic viability of the sample sites under 'poor' market conditions, alongside examining the impact on viability of varying the required proportion of affordable housing from 0% to 45%.
- 6.81 The following figure presents the analysis for testing site viability under 'good' market conditions across a range of affordable housing requirements reaching from 0% to 45%.

Figure 6.7: Viability of affordable housing under 'poor' market conditions at 50:50 tenure split

		Affordable Housing Provision										Total Sites	
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%		
		Number of Sites Economically Viable											
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	22
	Moderate	58%	42%	32%	21%	21%	21%	13%	13%	13%	13%	13%	38
	Hot	88%	85%	85%	83%	75%	60%	53%	43%	38%	38%	38%	40

⁴⁴ See Section 4 for methodology and Figure 4.7 for specific value assumptions included in the study.

Source: GVA Grimley, 2009

- 6.82 The results of the analysis indicate that the number of economically viable sites is substantially reduced from that witnessed under 'normal' and, in particular, 'good' market conditions (See Scenario 2).
- 6.83 Subsequently, no sites located within 'cold' locations are found to be economically viable despite a 0% requirement for affordable housing provision.
- 6.84 The effect is, however, most pronounced on the sites in 'moderate' locations with only 58% of sites now viable before an affordable housing requirement is introduced. As a result this has a 'domino effect' across the spectrum of affordable housing provision with the outcome that only 13% of sites in 'moderate' locations can offer 30% or more affordable housing.
- 6.85 The impact of 'poor' market conditions has the most minimal negative impact on those sites situated in Trafford's 'hot' market locations. Hence, 53% of such sites can provide a 30% affordable housing contribution, and 38% of sites can deliver a 45% affordable housing contribution whilst remaining viable.

Varying the Affordable Housing Tenure Split

- 6.86 The effect on site viability of increasing the proportion of intermediate housing as a component of the overall affordable housing requirement has been assessed under 'poor' market conditions.
- 6.87 The analysis reveals that increasing the proportion of intermediate units (and reducing the proportion of social rented units) under 'poor' market conditions results in similar outcome as evidenced under both 'normal' and 'good' markets.
- 6.88 In summary, a marginal increase is achieved in the number of viable sites with the ability to provide an affordable housing contribution.
- 6.89 Nevertheless, such uplift in viability is not achieved by those sites in 'cold' market locations as is indicated to be the case under the proceeding analysis of 'good' market conditions⁴⁵.

Summary – Scenario 1 'Poor' Market Conditions

⁴⁵ The summary tables for this analysis are presented in Appendix 2.

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- 6.90 'Poor' market conditions are found to have a significant and adverse effect on the number of economically viable sites in Trafford when contrasted against 'normal' and 'good' markets.
- 6.91 Consequently, no sites located in Trafford's 'cold' market locations are deemed economically viable under 'poor' market conditions and the ability of sites in 'moderate' locations to provide affordable housing is also impeded.
- 6.92 Importantly, the impact of 'poor' market conditions has the most minimal negative impact on those sites situated in Trafford's 'hot' market locations. This indicates towards the important role to be played by the delivery of sites in 'hot' locations in sustaining affordable housing out-turn in Trafford throughout periods when the market is less buoyant.
- 6.93 A marginal increase in site viability is achievable through increasing the proportion of intermediate units required through affordable housing targets although this does not increase returns substantially enough to generate economically viable sites in 'cold' locations.

Scenario 2: Assessment under 'Good' Market Conditions

- 6.94 Scenario 2 focuses on establishing the viability of delivering affordable housing under 'good' market conditions. This scenario has been examined in recognition that affordable housing policy takes a longer-term perspective. Gaining an understanding of the impact of a rapidly rising market on site viability is therefore vitally important if affordable housing and planning policy is to be geared to remain flexible to the peaks and troughs that have characterised the market in the past and that are projected to continue.
- 6.95 To develop price estimates for a rising 'good market, 7% was added to the achievable residential property values under 'normal' market conditions reflecting the situation achieved at the peak of the current property market cycle at Q3 2007.

Viability of Affordable Housing at 50:50 Tenure Split

- 6.96 This section tests the economic viability of the delivery of affordable housing across the 100 sample sites in Trafford under 'good' market conditions, alongside examining the financial impact of varying the affordable housing tenure sensitivity on viability.
- 6.97 The following figure presents the analysis for testing site viability under 'good' market conditions across a range of affordable housing requirements reaching from 0% to 45%.

Figure 6.8: Viability of affordable housing under 'good' market conditions at 50:50 tenure split

		Affordable Housing Provision										Total Sites
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	
		Number of Sites Economically Viable										
Market Location	Cold	86%	86%	64%	41%	36%	18%	9%	9%	9%	5%	22
	Moderate	95%	95%	95%	92%	89%	82%	74%	47%	34%	26%	38
	Hot	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	40

Source: GVA Grimley, 2009

- 6.98 The results of the analysis indicate that improvement from 'poor' and 'normal' to 'good' market conditions has a pronounced effect on the economic viability of sites across all market locations in Trafford and provides a substantial uplift in the proportion of sites able to provide an affordable housing contribution when compared to sites when considered under 'normal' market conditions.
- 6.99 The improvement in market conditions has seen the greatest effect on Trafford's sites in 'cold' market locations. As a result 86% of the 22 sites are now able to provide up to 5% affordable housing, 36% of sites up to 20% and 5% of sites up to a 45% contribution.
- 6.100 This indicates the important role of altering market conditions as a primary influence on the capability of sites to provide affordable housing. As a direct consequence, sites have the ability to provide a greater proportion of affordable housing in a 'good' market – particularly those in 'cold' locations.

Varying the Affordable Housing Tenure Split

- 6.101 The effect on site viability of increasing the proportion of intermediate housing as a component of the overall affordable housing requirement has been assessed under 'good' market conditions.
- 6.102 It is evident that an increase in the proportion of intermediate units under 'good' market conditions results in similar outcome as evidenced in a 'normal' market. In summary, a marginal increase is achieved in the number of viable sites with the ability to provide an

affordable housing contribution. Importantly, however, such uplift in viability is also represented, albeit to a lesser degree, in those sites located in 'cold' market locations⁴⁶.

Summary – Scenario 2 'Good' Market Conditions

- 6.103 Under 'good' market conditions site viability is dramatically improved with this effect being particularly acute within Trafford's 'cold' market locations.
- 6.104 Hence, the altering of market conditions can be singled-out as a primary influence on the capability of sites to provide affordable housing. Under such conditions it would therefore be appropriate to apply a higher affordable housing target – even within 'cold' market locations. It will be necessary for the Council to regularly monitor market performance to enable the implementation of policy to reflect market conditions at a given point in time⁴⁷.
- 6.105 Varying the affordable housing tenure split under 'good' market conditions results in a similar outcome as evidenced in a 'normal' market.

Summary of Results

- 6.106 The headline results of the economic viability assessment can be summarised as follows:
- **Sub-market location**, driven by anticipated values of properties are a key influencing factor on site viability such that the economic viability of sites within Trafford is most pronounced within the 'hot' market locations, supported by higher achievable returns, and to a lesser extent in 'moderate' areas. Conversely, 'cold' market locations have the least number of economically viable sites.
 - Prevailing **property market conditions** dictate to a significant extent the economic viability of sites and should be considered in the ability of sites to deliver against affordable housing targets.
 - Uplifting building costs to **CfSH Level 3** standards⁴⁸ sites has a pronounced effect on sites in cold market locations reducing the ability of these sites to make any affordable housing contribution. There is a negative, albeit limited impact on viability within hot and moderate locations.
 - Varying the **site size threshold** at which a requirement for affordable housing is triggered is a key issue within Trafford. Reducing the site size threshold to 10 or even 5 units within

⁴⁶ The summary tables for this analysis are presented in Appendix 2.

⁴⁷ Refer to paragraph 4.33 for monitoring details.

the 'hot' and 'moderate' market locations in Trafford would maximise delivery against affordable housing targets by capitalising on the most viable smaller sites in the Borough. A threshold of 15 units in cold market locations should remain. The threshold should not be altered to reflect changing property market conditions.

- Alteration of the **affordable housing tenure split** between intermediate and social rented units has a low impact on economic viability – particularly in cold market locations. However, where applicable an increase in the proportion of intermediate units can result in a modest increase in site viability.

⁴⁸ Under 'normal' market conditions and at 50:50 affordable tenure split.

7. Concluding Recommendations

Overview

- 7.1 The primary purpose of this study is to provide an assessment of the impact on development viability of planning-led affordable housing targets, thresholds, type and tenure splits within Trafford.
- 7.2 This has been achieved through the development of a typology of sites which facilitated the production of a comprehensive matrix of 'high level' appraisals of a sample of 100 sites across the Borough. The results of high level appraisal within the economic viability model are to be utilised to inform the development of affordable housing policy within Trafford.
- 7.3 It is important to note that this high level assessment of sample sites assumes and applies a number of generalised assumptions. The model will allow Trafford Council to assess future planning applications and opportunities on a site by site basis using more specific and detailed cost and value information where available.
- 7.4 This will be particularly important when considering major new developments across the Borough which will clearly have their own important factors impacting on delivery. For example, it is feasible for a large development in a 'cold' market area to fundamentally alter its surround micro-market and create an uplift in values achievable for properties. Therefore, this would impact on its viability and the proportion of affordable housing that could be sought.
- 7.5 The final section of the report draws upon the findings to highlight the policy implications arising from this assessment and establishes a set of recommendations to inform future decisions on the introduction of policy.

Policy Implications

- 7.6 The results of the economic viability assessment reveal currently that the spatial location within which a site is situated has a substantial impact on scheme profitability within Trafford and hence on the proportion of affordable housing a site can provide whilst remaining economically viable.
- 7.7 Trafford's sub-markets have distinct variations in achievable values for the transaction of open market property as is defined within the study by their separation into 'hot', 'moderate' and

'cold' market locations⁴⁹. A substantial proportion (68.5%) of Trafford's (approx. 600) SHLAA sites are small (delivering under 15 units), with over 60% of these situated within the 'hot' and 'moderate' market locations principally found within the south of the borough. Comparatively fewer sites are located in the 'cold' market locations to the north of the borough.

- 7.8 Under 'normal' market conditions the viability testing indicates that sites located in 'hot' market locations towards the south of Trafford are the most capable of viably delivering up to 45% affordable housing contributions. Sites located in 'moderate' locations demonstrate are capable of delivering affordable housing, yet to a lesser extent. In contrast, few sites proved to be economically viable in 'cold' market locations due principally to achievable values, although this is influenced by the high levels of abnormal costs associated with sites in these locations⁵⁰.
- 7.9 Through scenario testing the assessment reveals that variation in property market conditions from 'normal' to 'good' or 'poor' has a significant impact on the viability of sites. Under 'good' market conditions site viability is dramatically improved with this effect being particularly acute within Trafford's 'cold' market locations.
- 7.10 In contrast, in a 'poor' market the number of economically viable sites is substantially reduced from that witnessed under 'normal' and, in particular, 'good' market conditions. As a result no sites located within 'cold' locations are found to be economically viable despite a 0% requirement for affordable housing provision. Importantly, the impact of 'poor' market conditions has the most minimal negative impact on those sites situated in Trafford's 'hot' market locations.
- 7.11 Hence, the altering of market conditions can be singled-out as a primary influence on the capability of sites to provide affordable housing. Under 'good' market conditions it would therefore be appropriate to apply a higher affordable housing target – even within 'cold' market locations. In addition, the delivery of sites in 'hot' locations could be utilised by policy to sustain affordable housing out-turn in Trafford during periods of market decline. It will therefore be necessary for the Council to monitor achievable transaction values to establish market conditions at a particular point in time.
- 7.12 The application of a site size threshold has a further substantial impact on the affordable housing delivery of economically viable sites within Trafford. As noted, the Trafford SHLAA indicates that Trafford comprises predominantly of smaller sites, situated principally within the

⁴⁹ See section 3 for a full breakdown of the methodology.

⁵⁰ It is envisaged that sites in 'cold' market locations could provide a limited contribution to affordable housing targets where abnormal costs are found to be minimal.

'hot' and, to a lesser extent, 'moderate' market locations within the Borough. By applying a standard threshold of 15 units, as recommended by PPS3, this discounts a substantial proportion of the most economically viable smaller sites in these locations from triggering an affordable housing requirement.

- 7.13 By reducing site size thresholds to 10 or even 5 units in 'hot' and 'moderate' market locations Trafford would maximise delivery against affordable housing targets and needs (established within the Trafford HMA) through capitalising on the most economically viable smaller sites in the Borough. This was found to be applicable across all property market conditions (i.e. 'good', 'normal' and 'poor').
- 7.14 The alteration of the affordable housing tenure split between intermediate and social rented units has been found to have an impact on economic viability, whereby an increase in the proportion of intermediate units can result in a modest increase in site viability. Subsequently, policy should remain flexible to alter the tenure split on a site specific basis and/or under exceptional circumstances.
- 7.15 It is however, necessary for viability to be established on an individual site basis. For, as explained previously in this report, this economic viability assessment examines viability across a representative sample of sites within Trafford and, as such, is not designed to establish economic viability on particular individual sites. The role of this assessment will be to inform future policy decisions and will provide Trafford with a tool to aid site specific negotiations with developers regarding the contributions of affordable housing required by policy.
- 7.16 To conclude, the results of the assessment, and those implications outlined above, provide a robust basis to apply flexible, and reasonable, affordable housing targets within Trafford. The study therefore recommends the following considerations for developing affordable housing policy assuming 'normal' market conditions:
- A 40% affordable housing target is recommended for application within 'hot' market locations. This should be flexible to wider market conditions to enable targets to be raised to a 45% requirement under 'good' conditions and maintained at 40%, or decreased as is deemed necessary on an individual site basis under 'poor' conditions.
 - A 20% affordable housing target is recommended for application within 'moderate' market locations without adversely impacting development viability. This should be flexible to wider market conditions to enable targets to be raised to a 25% requirement under 'good' conditions and decreased to 10% under 'poor' conditions.

- Based on the outputs of the assessment no more than a 5% affordable housing target could be applied within 'cold' market locations without inhibiting development. The target should be flexible to wider market conditions to enable targets to be raised to a 10% requirement under 'good' conditions and decreased as is deemed necessary on a site-by-site basis under 'poor' conditions.
- A reduced site size threshold for seeking affordable housing contributions should be introduced to sites located within the 'hot' and 'moderate' market locations of Trafford. It is recommended that the threshold is reduced to either 5 or 10 units in such locations to seek contributions from the large proportion of small viable sites located in the borough. A threshold of 15 units is appropriate in 'cold' market locations. This should be applicable across the range of market conditions (i.e. 'good', 'normal' and 'poor').
- Policy should target a tenure split of 50% social rented product and 50% intermediate product. The Council should, however, remain flexible to variation in the affordable housing tenure split in exceptional circumstances and on a site-by-site basis. For, by allowing for the inclusion of a higher proportion of intermediate affordable housing on certain marginal sites, this can 'tip the balance' on such sites into economic viability by decreasing the costs associated with delivering social rented units.
- Whilst the majority of analysis presented in Section 6 assumed that all Section 106 contributions were sought it is clear that in 'poor' market conditions and in particular within those parts of the Borough with 'cold' market characteristics consideration will need to be given on a site-by-site basis by the Council as to the appropriate balance to be sought between S106 requirements including affordable housing.
- The introduction of a requirement for all new housing development to meet CfSH Level 3 standards would not have an unreasonable adverse effect on economic viability, and thus deliverability, in 'hot' and 'moderate' market locations. It would, however, have a more pronounced negative effect in 'cold' locations. This should be taken into consideration by the Council when setting future policy targets.

7.17 It is recognised that market conditions at present are not 'normal' and in fact bear a closer relationship to the 'poor' market condition scenario established within the study. Furthermore, the macro-economic recessionary climate coupled with instability in the financial markets, tightening of mortgage credit and debt-driven development finance and the subsequent decline in house building conspire to make judging a likely point at which there will be a return to 'normal' housing market conditions difficult. Therefore, **it is imperative that Trafford Council monitor the relative health of the market in taking forward elements of the study for consideration in applying policy.**

8. Strategic Sites Viability Testing

- 8.1 The second core objective of the viability assessment is to test the broad viability of a number of potential Strategic Sites to inform the next iteration of the Trafford Core Strategy by gaining an understanding of the implications of varying key policy assumptions including affordable housing requirements and environmental standards.
- 8.2 The Strategic Sites differ to the Strategic Locations as they have quantifiable development proposals (at the present time) and therefore can be tested for economic viability unlike the broader development locations that appear in the Core Strategy.
- 8.3 On this basis, however, they do represent components of larger development opportunities and it is in this way that they should be interpreted. For example, it may be that other sites within the Strategic Locations will come forward during or beyond the plan period, and these may be more or less viable than the sites appraised within this report. As a result, the Strategic Locations as larger development opportunities may be more or less viable than the Strategic Sites analysed here; based on certain sites cross-subsidising others (assuming single-delivery).

Approach

- 8.4 In assessing the Strategic Sites, and therefore responding to the second core objective, this viability assessment has utilised information gathered by the Council as part of its ongoing evidence gathering in relation to its Core Strategy. This information includes that submitted by stakeholders representing each of the sites.
- 8.5 This has enabled the Strategic Sites to be examined separately from the representative sample of 100 sites considered through sections 5 -7 of this report. Instead, the Strategic Sites have been considered in more detail through this study in order to assess their economic viability under 'normal market conditions', and the impact of the application of different affordable housing and S106 requirements on their deliverability based on the predicted mix of housing and employment uses.
- 8.6 The assessment utilises industry standard Argus (formerly Circle) Developer software to undertake detailed (albeit at feasibility level) development appraisal of each Strategic Sites identifying cash-flows, developer profit and potential residual land values.

8.7 The following factors have been incorporated:

- Development values;
- Site preparation costs;
- Construction costs;
- Planning Contributions;
- Professional Fees;
- Legal and marketing costs
- Timing of development;
- Financing and funding requirements;
- Affordable housing obligations;
- Shared ownership/Intermediate housing ratio split.

8.8 The feasibility appraisals identify under a set of fixed assumptions whether or not a site is able to be classed as viable. They have been produced for feasibility purposes and as such should be used for indicative purposes only⁵¹.

8.9 In the first instance, where detailed information has not been made available within the timescales of this study, the assumptions used within the high-level appraisal process have been adopted. Where these are not available or applicable (e.g. commercial outputs), costs and values assumed have been estimated based upon scheme descriptions set against broad market and location-specific experience.

Overview of the Strategic Sites

8.10 The Trafford Core Strategy: Preferred Options DPD1 (July 2008) identified 11 Strategic sites including Stretford Meadows – a proposed strategic informal recreational facility.

8.11 In light of the comments made during the consultation period; the further evidence gathered by Trafford Council and; the information obtained by GVA Grimley through the stakeholder engagement process, it became apparent that these 'sites' needed to be reviewed prior to the next iteration of the Plan.

⁵¹The appraisals do not constitute a formal valuation and have not been prepared in accordance with the current RICS Appraisal and Valuation Standards (Red Book).

- 8.12 As part of this ongoing work, Trafford Council has recognised a distinction between 'locations for change' and 'specific sites' from those identified in July 2008. For, the 'locations for change' it is not possible to predict, with sufficient accuracy, the quantum, type and phasing of development necessary to carry out a detailed viability appraisal utilising the Argus software. It has therefore been agreed with Trafford Council that this appraisal work should be limited to key sites within these locations that are sufficiently advanced to be able to accurately predict the quantum, mix and phasing of development. Additionally it was agreed that a viability assessment should be carried out in respect of a strategic site submitted to Trafford Council during the Preferred Options consultation stage, Davenport Green, in order to inform the Council's consideration of this site.
- 8.13 In view of the above a detailed appraisal has been carried out in relation to six sites⁵²:
- Victoria Warehouse: A high density, mixed-use development comprising hotels, residential, offices and ancillary retail accommodation.
 - Lancashire County Cricket Club (LCCC) core: Redevelopment of LCCC stadium plus a food retail outlet on Chester Road with public realm linkage.
 - Trafford Quays: Residential led mixed use development.
 - Partington Canalside: Residential development of up to 550 units comprising a mix of houses and apartments.
 - Altair: Comprehensive mixed use development including: new ice rink; retail (food and non-food); health / leisure; hotel; offices; residential accommodation and café / bar / restaurants, climbing wall, car parking, associated plant and service areas, improvements to highway arrangements and creation of new areas of public realm.
 - Davenport Green: Site for regionally significant economic development.
- 8.14 Trafford Council has engaged with key stakeholders to obtain information on Trafford's Strategic Sites through the ongoing preparation of the Core Strategy.
- 8.15 It was also important that those key stakeholders engaged in Trafford Council's Strategic Sites process were fully engaged with the economic viability assessment process to ratify assumptions within the assessment and provide additional site specific information to input into the appraisals.

⁵² Stretford Meadows has not been tested as it is an informal recreational facility, including no residential or commercial development.

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- 8.16 Therefore, Key stakeholders and landowners, currently engaged through the council's Strategic Sites process, were invited to attend a Trafford Economic Viability Consultation Event held on Thursday 26th February 2009 at GVA Grimley's Manchester offices. The key issues arising from discussion are summarised in Appendix 1.

Analysis

Key Assumptions

- 8.17 Further to the above, in undertaking the strategic site feasibility appraisals, the following key assumptions were utilised:
- The appraisals assume 'normal' market conditions;
 - No allowance has been made for land acquisition costs, principally on the basis that all subject sites have been acquired for varying residential, commercial and community uses. This varying use profile, combined with the fact that these are long-term sites which are likely to have been bought historically in different policy (i.e. planning allocation) contexts, means that it is impossible to apply a consistent and robust assumption in this regard. Further, for a number of sites it is not known at this stage the precise size of the development areas against which the development outputs are established, due to proportions falling outside the Plan period.
 - The development outputs assumed have been obtained either directly through stakeholder engagement as part of the report process, or through assumptions provided by Trafford Council based upon discussions had to date with site stakeholders.
 - Where residential outputs (in terms of dwelling type) are unknown, the split between apartments and houses has been made based upon assumptions relating to development type and location.
 - Where housing outputs are evident, the appraisals have assumed generic house type, established through average construction costs and sales values for terraced, semi-detached and detached dwelling types (i.e. as established in the Economic Viability Model).

- Both residential and commercial market values and construction costs have been estimated based upon scheme descriptions set against broad market (e.g. BCIS) and location-specific (e.g. comparable) data and experience⁵³.
- In all applicable cases, commercial rents and yields applied have been estimated based upon location-specific market analysis and agency consultation.
- In the absence of more specific data, construction/market capacity estimates have been applied to establish broad development time periods. For residential schemes these assumptions are linked in with the wider Economic Viability Model, whilst for commercial schemes these are based upon broader market experience (linked in with 'normal' market conditions).
- All non-construction development related costs have been estimated based upon site stakeholder feedback, where sites have been scored by stakeholders in relation to the degree of constraint prevalent in each constraint category, including ownership⁵⁴, accessibility, physical, infrastructure, flood risk and planning status.
- All developments are subject to all non-housing related planning obligations as set out in SPD1: Developer Contributions, PG29: Developer Contributions Towards Red Rose Forest, and SPG 4: Informal/Children's Playing Space and Outdoor Sports Facilities Provision and Commuted Sums.
- All developments are subject to varying levels of affordable housing (as set out below), split 50:50 between social rented and intermediate (i.e. as per Economic Viability Model).
- No further S106 contributions are assumed beyond those currently sought by Trafford MBC and noted above.

Site Specific Assumptions

- 8.18 Although **Victoria Warehouse** is located in the Old Trafford sub-market area, the appraisals assume that residential dwellings on the site are able to achieve 'moderate' sub-market area values (see Economic Viability Model assumptions). The majority of the development outputs within the appraisals have been obtained directly through stakeholder engagement, although the 320 hotel bedrooms have been estimated based upon the 12,729m² of leisure space envisaged.

⁵³ This contrasts with the approach taken within the Economic Viability Model (i.e. to link each site with sub-market area) but is realistic in this instance given that the quantum/critical mass of development on each strategic site is likely to enable market values to be improved over and above that achievable on 'regular' smaller sites.

⁵⁴ This relates to remaining ownership constraints (i.e. degree of land assembly still required), rather than site assembly costs already incurred.

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- 8.19 The only output provided for within the **LCCC Core** proposals is the 13,935m² of new retail space located within the planned new retail superstore (convenience & comparison goods).
- 8.20 As there are no set outputs for the 'potential hotel and leisure facilities associated with redeveloped cricket stadium' on the LCCC Core site, the appraisals have assumed no development outputs in this regard. Further, no residential outputs have been provided by Trafford MBC or site stakeholders for this site, therefore these are also excluded from the appraisals.
- 8.21 Development outputs for the **Trafford Quays** site have been estimated based upon a mixture of direct stakeholder feedback, Trafford Council estimates and GVA Grimley estimates. Within this, an even split between apartments and houses has been assumed based on TMBC estimates, whilst the residential dwellings are able to achieve improved capital values as against market comparators in the Trafford sub-market area (i.e. over & above the values assumed as part of the Economic Viability Model)⁵⁵. No other uses are assumed within the development mix for Trafford Quays based on there being insufficient information available to support appraisals in this regard.
- 8.22 Current proposals for **Stretford Meadows** assume 100% recreation space. On this basis no appraisals have been carried out.
- 8.23 The 550 residential dwellings created as part of the **Partington Canalside** proposals have been split 1/5 as houses and 4/5 as apartments, based upon location and site specific analysis, this being due to there being no dwelling mix details specified in the outline planning application⁵⁶. Although located in a 'cold' sub-market location (Partington), the appraisals assume that residential dwellings on the site are able to achieve 'moderate' sub-market location values (see Economic Viability Model assumptions), given the quantum of units proposed.
- 8.24 All development outputs in the **Altair** proposals have been established through stakeholder engagement (incl. existing outline planning consent).
- 8.25 Similarly development outputs for the **Davenport Green** proposals have been established through stakeholder engagement. Given the scale of office development proposed it is assumed that the new space at Davenport Green will be Grade A, seeking to match prime rental levels for the area.

⁵⁵ Trafford Quays area may eventually gain its own 'sub-market' status, given aspirations for the site suggest that it is likely to display markedly different market characteristics from the Trafford sub-market area.

⁵⁶ These dwelling outputs are therefore subject to change at detailed planning stage.

Testing the Viability of the Strategic Sites

- 8.26 In the analysis sites have been split between those sites that contain housing outputs and those with no housing outputs; the reason for this being that affordable housing policy is not applicable to non-residential sites.
- 8.27 In this way the scenarios used to test Strategic Sites (those that currently contain housing outputs) establish the extent of affordable housing that may be viably sought taking into account the CfSH level required of the developments at point of delivery (see Figure 8.1).
- 8.28 In this way, the scenarios work down from an affordable housing requirement of 40% until development becomes viable (i.e. after which sites will become more viable) as per the analysis of the 100 sample sites. This reflects the need to deliver a greater proportion of affordable housing in line with the Trafford Housing Strategy and to meet the Borough's acute affordable housing need identified in the Trafford HMA (2006).
- 8.29 Two variations are applied to this affordable housing scenario range (see Figures 8.1 and 8.2), whereby CfSH Levels 3 & 6 are applied to establish the broad 'sustainability' parameters across the scenarios. This follows the Government's 10-year timetable towards zero carbon homes, whereby CfSH Level 6 will become mandatory for all new homes by 2016, whilst CfSH Level 3 is already obligatory for HCA funded affordable housing and is likely to become obligatory for all new housing by 2010⁵⁷.
- 8.30 Those sites with non-residential outputs only are assessed for viability based on current proposals taking into account all other planning contributions required (see Figure 8.2).
- 8.31 All other costs associated with finance, marketing, legal, contingency and professional fees, along with developer profit expectations, are consistent with the Economic Viability Model. Further, the 'viability tolerance' of 5% of the capital profit level, as used in the Economic Viability Model, is also applied.

⁵⁷ Although part of policy the Government has not yet confirmed whether the increased CfSH targets will become legal requirements.

Results

- 8.32 The results of the Strategic Sites sensitivity analysis are illustrated below, along with key development output assumptions and assumed planning contributions outside of affordable housing obligations:

Figure 8.1: Strategic Sites Sensitivity Analysis – Housing Output Sites

Name	Proposed Development Mix									CfSH3		CfSH6			Total Planning Contributions (net of affordable housing)
	Housing - No of Units			Employment - m2			Leisure - m2			40% affordable	30% affordable	40% affordable	30% affordable	20% affordable	
	Total	Houses	Flats	Office	Retail Food	Retail Non Food	Health/Leisure	Other	Hotel Rooms Assumed	Viable?	Viable?	Viable?	Viable?	Viable?	
Victoria Warehouse	600	0	600	6,402	0	287	0	12,792	320	Yes	Yes	Yes	Yes	Yes	£1,445,333
Trafford Quays	880	440	440	58,000	500	1,000	0	3,870	0	No	Yes	No	No	Yes	£4,048,312
Partington Canalside	550	110	440	0	0	0	0	0	0	Yes	Yes	No	Yes	Yes	£1,395,665
Altair	150	0	150	8,471	1,583	10,536	11,634	2,040	135	Yes	Yes	Yes	Yes	Yes	£1,694,910
	2,180	550	1,630	72,873	1,583	11,536	11,634	18,702	455						

Figure 8.2: Strategic Sites Sensitivity Analysis – Non-Residential Sites

Name	Proposed Development Mix									Viable?
	Housing - No of Units			Employment - m2			Leisure - m2			
	Total	Houses	Flats	Office	Retail Food	Retail Non Food	Health/Leisure	Other	Hotel Rooms Assumed	
LCCC Core	0	0	0	0	13,935	0	Unknown	Unknown	0	Yes
Stretford Meadows	0	0	0	0	0	0	0	0	0	n/a
Davenport Green	0	0	0	98,000	0	0	0	0	0	No
	0	0	0	98,000	13,935	0	0	0	0	

Housing Sites

- 8.33 Both **Altair (SS6)** and **Victoria Warehouse** appear to be viable across all of the scenarios tested, even accounting for all other planning contributions (incl. Highways, Open Space, Outdoor Facilities, Red Rose Forrest and Transport).
- 8.34 Based upon current assumptions it would appear that **Trafford Quays** is viable with between 30% and 40% affordable housing being required from it at CfSH Level 3. Looking to the future, although such viability is reduced at CfSH Level 6, it still appears that the site can absorb between 20% and 30% affordable housing at this sustainability level. In both cases site viability is reduced by the significant quantum of office space being proposed (this being inherently unviable based on current assumptions).
- 8.35 Finally **Partington Canalside** performs well in that it appears to be viable in all scenarios apart from where 40% affordable housing is sought at CfSH Level 6. This allows for provision for all other planning contributions (incl. Highways, Open Space, Outdoor Facilities, Red Rose Forrest and Public Transport Accessibility) amounting to circa £1.3m.
- 8.36 These conclusions are based on current assumptions. Further cost mitigating factors (e.g. see 1.39) have been noted below which may impact on development viability and through this alter the level of affordable housing which may reasonably be sought from the sites.

Non-Residential Sites

- 8.37 Clearly for the **LCCC Core** and **Davenport Green**, where there are no residential outputs included, there is no viability impact of increasing/decreasing the requirement for affordable housing or CfSH level.
- 8.38 However, it may be seen that independent of these variables the **LCCC Core** proposals appear to be viable based upon 'normal' market conditions and absorbing circa £2.7m of planning contributions (incl. Highways, Red Rose Forrest and Transport).
- 8.39 In contrast, current proposals at **Davenport Green** appear to be unviable. Indeed, even if the additional planning contributions of £1.6m were to be removed the site would still be unviable based upon current development assumptions.

Conclusions

- 8.40 Overall it may be seen that a number of the Strategic Sites (based upon the output assumptions as described above) appear to be able to deliver significant proportions of affordable housing, even at future CfSH levels. It is important to note that this takes account of other planning contributions required under existing policy.
- 8.41 Emerging evidence from the Policy EM18 (Decentralized Energy) work by Urbed further suggests there may be cost savings available when seeking to achieve CfSH Level 6. Should this be the case, and assuming that the policy recommendations within the report are carried through, site viability may well be enhanced further. This raises the possibility of requiring further planning contributions over and above existing tolerances on certain sites (i.e. results as demonstrated above).
- 8.42 Given that the discount off market value for social rented housing is significantly above intermediate housing (65% as against 40%), it should also be noted that there will be capacity to increase site viability by reducing the number of social rented homes as against intermediate as components of affordable housing.
- 8.43 Where additional significant non-construction related costs have been applied (based upon site stakeholder feedback) which have a significant impact on development viability under current assumptions; it may be necessary to seek external funding to enable development in these locations, for example from the HCA. Further discussions with site stakeholders will be necessary to clarify and demonstrate the extent of subsidy required on site in this respect. This will have implications for the levels of other outputs, including affordable housing, which can be sought on site.
- 8.44 In terms of non-housing sites, it would appear that where proposals incorporate a large proportion of new office space (i.e. Trafford Quays and Davenport Green), this works against site viability. Indeed, even though the appraisals have assumed high specification development in these locations, such space is generally expensive to develop by comparison with other uses such as residential and retail. Careful consideration will be required of changing market conditions (i.e. levels of rents and yields) regarding these sites in the future.

Factors to Consider

- 8.45 Whilst the strategic sites analysis serves as a useful snapshot to viability and the potential procure affordable housing across the six sites (along with other S106 monies), the following considerations should be taken into account when translating the analysis into policy:

- It must be stressed that in the absence of detailed site information these feasibility assessments are based on broad development (cost & value) assumptions, albeit the data underpinning these assumptions has been passed across by the stakeholders concerned. Therefore, it is recommended that all sites are reappraised by the Council based upon further detailed site specific information prior to negotiating S106 affordable housing and other contributions.
- The analysis evaluates site viability based purely using financial development appraisal techniques in order to aid policy formulation. As a result it should be recognised that other factors may drive development viability and deliverability site by site. These may be macro (e.g. international 'credit crunch' constraining access to development debt finance) or micro (e.g. individual developer corporate strategy focussing elsewhere) conditions. Some sites may be financially viable but be deemed undeliverable by site stakeholders due to such macro and micro constraints.
- Given the difficulties in ring-fencing development outputs site by site, it may be that sites that appear viable at this stage do in fact form part of wider proposals, whereby seemingly viable elements of the proposals are in fact subsidising other less-viable elements. This supports the concept of establishing these sites as being 'locations for change' rather than viable Strategic Sites in their own right.
- Finally it is important to recognise that the study is only one piece of evidence to be taken into consideration by the local planning authority when determining the next version of the Core Strategy.