

Trafford

Economic Viability Study

Executive Summary

May 2009



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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.