



Final Report



# Shaping the Housing Future of Calderdale

Economic Viability Assessment

April 2011



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Appendix A: Stakeholder Consultation Summary

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For and on behalf of GVA Grimley Ltd

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## Executive Summary

GVA was commissioned in April 2010 by Calderdale Council to produce an economic viability assessment of land for housing (EVA) within the borough, taking into account the effect on viability of current and changing property market conditions and existing and policy-driven build costs and standards, alongside wider Section 106 contributions including affordable housing.

The key aims of the study are:

- To develop a robust, transparent and effective means of determining appropriate and justifiable affordable housing targets in Calderdale Borough;
- To further develop and test the housing need evidence base which will support the findings and conclusions of Calderdale's SHMA 2011;
- Provide robust evidence to develop and support the Council's future planning policies within the Core Strategy and other documents comprising the LDF on affordable housing; and inform the housing strategy and the Leeds City Region housing strategy;
- To examine the viability of the tenure splits recommended in the SHMA and to test the viability of variants of these recommendations.

The EVA provides Calderdale Council with a broad assessment of the economic viability of a range of sites included in the Calderdale Strategic Housing Land Availability Assessment (SHLAA) 2009.

It provides Calderdale Council, in line with Planning Policy Statement 3 (PPS 3), with a robust, defensible and updatable economic viability evidence base 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 Calderdale Council, through the preparation of the Local Development Framework in line with PPS 12.

To allow for the current uncertainty within the property market, and thereby enable planning policy for affordable housing provision to be set for the long-term within the emerging Core Strategy, this study has tested viability across a range of market conditions based around the 'current market' within Calderdale. These include 'rising' market and 'declining' market conditions. This grounds the study in present day reality whilst 'future-proofing' for future market cycles, in order to fully account for the impact on viability when setting policy and entering negotiations with developers<sup>1</sup>.

The study utilised a residual development appraisal model, which identifies Gross Development Value (incl. affordable housing) against which all development costs 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 seek to test the absolute viability of included sites<sup>2</sup>; rather the study provides a broad assessment of economic viability for a range of site classifications (based upon a sample of 50 sites from Calderdale's SHLAA 2009), within a set of housing market defined locations (sub-market areas) across Calderdale. The sub-market areas have been established through the Calderdale SHMA 2011<sup>3</sup>, including consultation with agents, developers and housing providers operating in the area. The first plan demonstrates the sub-market area boundaries, with the latter plan highlighting the location of key settlements.

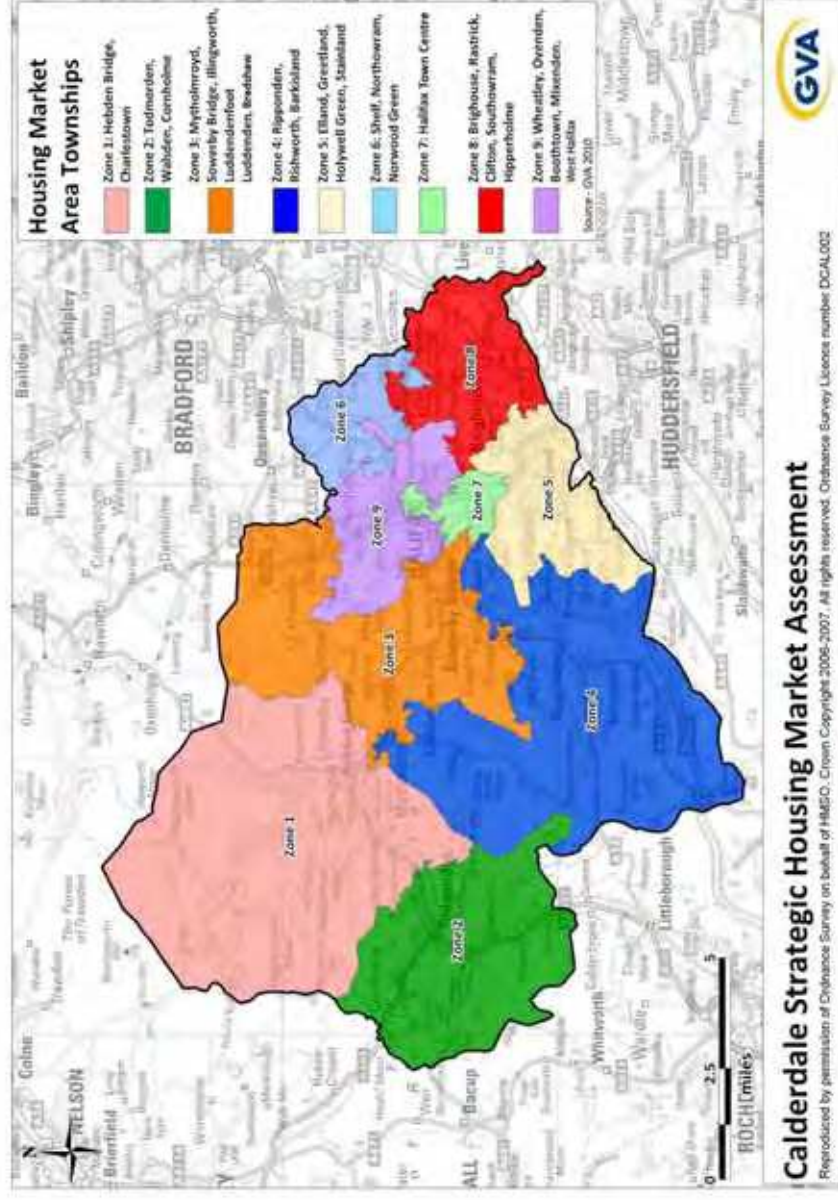
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<sup>1</sup> It is imperative that Calderdale Council monitor the relative health of the housing market across the Borough in taking forward the recommendations of the study.

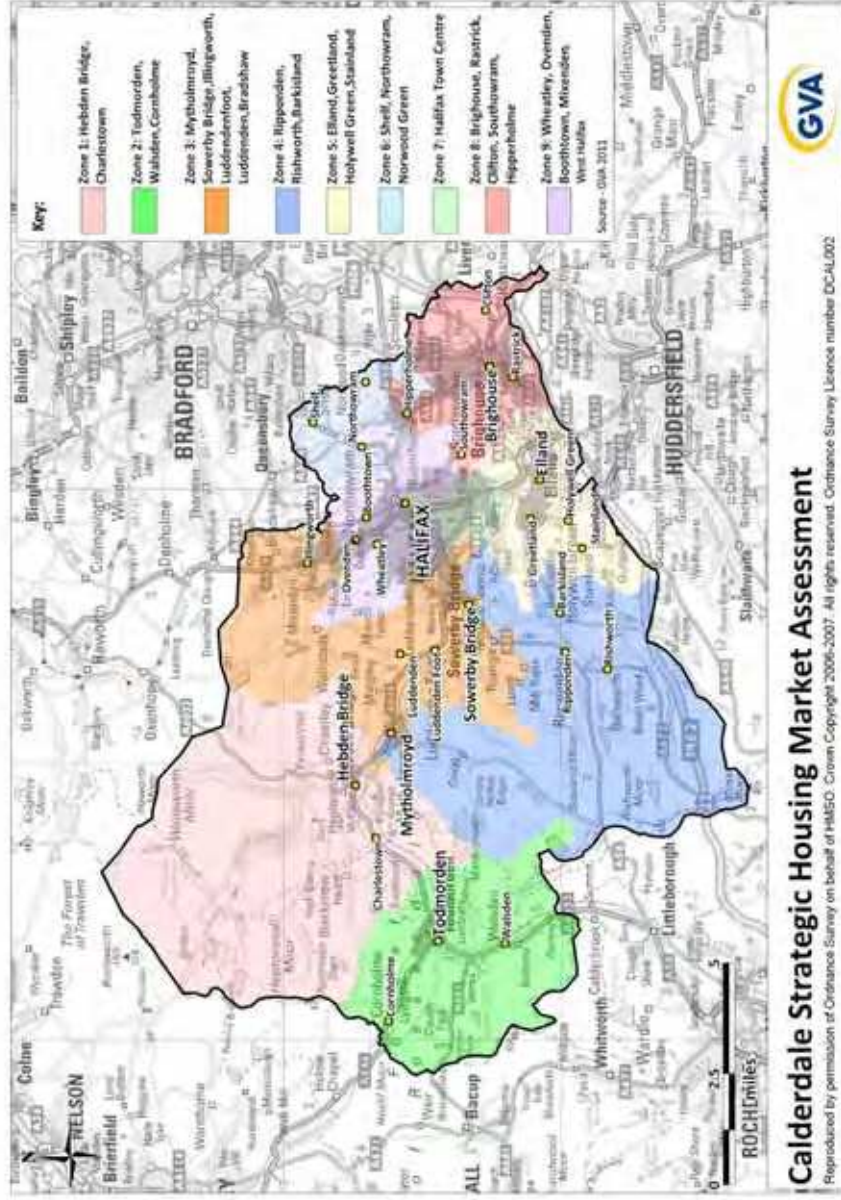
<sup>2</sup> It is necessary for site viability to be established, and each scheme to be considered, on an individual site basis through 'open-book' negotiation between the LPA and landowner/developer.

<sup>3</sup> Refer to section 3 (and supporting Appendix F) of the Calderdale SHMA 2011 for a detailed assessment of the housing sub-market areas

Figure ES1 – Calderdale Housing Sub-market areas







Source: GVA, 2010

The study has distinguished between the varied property market performance across Calderdale borough by separating the sub-areas into categories based on the sales receipts of houses and housing land from February 2008 to February 2010, and through consultation with industry stakeholders. On the basis of this market evaluation each sub-market has been classified under one of the following categories:

- 'very hot' – highest value sub-market locations
- 'hot' – well performing sub-markets with values (transactions) above the Calderdale (borough-wide) average
- 'moderate' – average performing sub-markets with values straddling the Calderdale average.
- 'cold' – least well performing sub-market locations.

In order to take account of the potential impact of changing property market conditions on the viability of housing sites, as noted earlier, the study utilised a set of scenarios to cover the spectrum of market conditions – 'current', 'declining' and 'rising'. This will ensure the future-proofing of the evidence base for policy reasons. In order to easily benchmark the relative position of the market in the future, these market scenarios (housing land and house price driven) should be considered as 'trigger' points for the application of variations in the approach of policy. The diagram below illustrates these trigger points:

Figure ES1 – Value 'Trigger Points' for Property Market Conditions



A full methodology is presented in Section 3, with the assumptions underpinning the study provided in Section 4.

The headline results of the study are summarised as follows:

- **Sub-market location** values of properties are a key influencing factor on site viability such that the economic viability of sites within Calderdale is most pronounced within the 'very hot' and 'hot' market locations, supported by higher achievable returns, and to a lesser extent in 'moderate' areas (notably upon higher density greenfield sites). Conversely, 'cold' market locations were found to have significant viability issues, with none of the sample sites in these areas classed as 'viable' (positive residual and not requiring gap funding), under the assumptions within the model, in the current market context.
- 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. 'Current' market conditions, and any further 'declining' market context, severely limits the viability of sites and therefore constrains their ability to contribute towards the supply of affordable dwellings across the borough.



- Raising build quality standards from the study's starting point of CfSH Level 2 to **CfSH Level 3 - 6** standards<sup>4</sup>: has a pronounced effect on the viability of sites. The impact is particularly acute on the more marginal sites in 'moderate' and 'cold' locations and notably under 'current' and 'declining' market conditions. Importantly, when market conditions are 'rising', those sites in stronger market areas (moderate, hot and very hot) show an improved capability to carry higher build quality standards, up to CfSH Level 6.
- **Varying the site size threshold** at which a requirement for affordable housing is triggered is a key issue within Calderdale. This is due to there being a high proportion of smaller sites (i.e. between 1 and 14 units) located in the better performing market areas, which have the capability to contribute to affordable housing supply when a site size threshold for contributions is lowered below 15 units.
- Alteration of the **affordable housing tenure split** between intermediate and social rented units has a positive impact on site viability. When the proportion of intermediate tenure is increased to either 75% or 100% of the total affordable housing contribution site viability is improved. This emphasises the difficulty in delivering high proportions of social rented housing on all but the most viable locations and site classifications across the borough.

The 2011 Calderdale SHMA found there to be a substantial level of new affordable housing need required within Calderdale over the next 5 years, in order to meet both the existing backlog and future anticipated household need for affordable dwellings<sup>5</sup>. Based on the findings of the EVA, meeting these requirements will be a significant challenge within Calderdale – particularly in the short-term given prevailing market conditions as at 2010/11.

The SHMA also found that almost 50% of households in housing need could afford a 50% equity stake within an intermediate tenure affordable property. This suggests that

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<sup>4</sup> At 50:50 affordable tenure split.

<sup>5</sup> Refer to Section 8 of the Calderdale SHMA (2011) for further detail

the delivery of intermediate affordable homes has the potential to meet a substantial element of housing need, as well as also accommodating other low-middle income households.

The study therefore recommends targets to inform Calderdale's future affordable housing policy that are recognised to be at the upper end (maximum) of the threshold of site viability as evidenced in Figure 6.20 - 6.22. **These targets should form an initial policy position from which to begin negotiation of contributions on a site-specific basis, allowing for flexibility** to recognise that even under 'rising' property market conditions there are still a proportion of sites that are unable to achieve the aforementioned targets.

The study therefore recommends the following considerations for developing affordable housing policy, assuming a forward looking approach, which conforms to PPS3 national policy expectations of Local Authorities<sup>6</sup>:

- Across Calderdale borough developers of all new housing developments should be required to contribute towards the provision of affordable housing in line with a clear policy that is informed by market location, site size threshold, practicality and financial viability (i.e. economic impact of housing market 'conditions').
- Targets set through policy should form a starting point for negotiation of affordable housing and other Section 106 contributions on qualifying new housing developments. Delivery of the targets will, however, be dependent on the economic viability of a scheme on an individual site-specific basis. In entering negotiations with the Council, proposing parties (developers/agents/landowners) are expected to undertake an open-book financial appraisal approach to demonstrate that the maximum reasonable and viable contribution to affordable housing is being provided.
- Policy should seek to negotiate a contribution to affordable housing on new housing developments using the following guidelines, which distinguish between

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<sup>6</sup> The development appraisal advice offered in this report does not constitute a valuation and cannot be regarded, or relied upon, as a valuation. It does provide a guide for feasibility in line with the purpose for which the assessment is required.

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market performance within different locations (sub-markets) across Calderdale borough:

- A target contribution of 35% affordable housing will apply to qualifying housing developments within Calderdale's 'very hot' sub-market locations.
- A target contribution of 30% affordable housing will apply to qualifying housing developments within Calderdale's 'hot' sub-market locations.
- A target contribution of 25% affordable housing will apply to qualifying housing developments within Calderdale's 'moderate' sub-market locations.
- A target contribution of 20% affordable housing will apply to qualifying housing developments within Calderdale's 'cold' sub-market locations.
- Policy should seek the target affordable housing contribution on new housing developments that meet, or exceed, the following size threshold:
  - a capacity of 5 units in Calderdale's 'very hot' and 'hot' sub-market locations;
  - a capacity of 15 units in Calderdale's 'moderate' sub-market locations; and
  - a capacity of 15 units in Calderdale's 'cold' sub-market locations.

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In considering the suitability of affordable housing the Council should require through policy that:

- Affordable housing sought through policy should target a tenure split of 25% social rented housing and 75% intermediate housing. Flexibility should be retained to facilitate variation to this tenure split where exceptional circumstances are demonstrable on a site-by-site basis and to take account of the current tenure mix within the area in which the site is located.
- The mix, size and type of affordable homes should contribute towards meeting the identified housing need of the borough as established by the Calderdale SHMA 2011, which established a need for a mix of affordable dwellings sized 1, 2 and 3 bedrooms.
- Section 106 contributions (other than affordable housing) should be sought on all qualifying new housing developments. Flexibility should be retained to enable Calderdale Council to consider the appropriate balance to be sought between the various S106 requirements, including affordable housing, where practical and viable.
- Policy should not seek to introduce a requirement to meet CfSH Level 4 build standards ahead of the nationally imposed Government deadline<sup>7</sup>. Flexibility should be retained to consider uplifting a requirement for CfSH Levels (3-6) build standards in 'rising' market conditions and for new housing developments within 'very hot' and 'hot' and market locations. Calderdale Council should also continue to monitor the legislative changes and build costs associated with CfSH, to take account of any movement in costs.
- Calderdale Council should continue to monitor the relative health of the housing market, and the implications for each of Calderdale's housing sub-markets, in taking forward the recommendations of the study for consideration in applying policy.

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<sup>7</sup> Deadline yet to be set by Government – the *Code for Sustainable Homes - Technical Guide* (November 2010) produced by the CLG cites that the Government is currently considering the future role of the Code and timescales for implementation in order to rationalise regulation.

# 1. Introduction to the Study

- 1.1 GVA was commissioned in April 2010 by Calderdale Council to produce an economic viability study of land for housing (EVA) within the borough, taking into account the effect on viability of current and changing property market conditions and existing and policy-driven build costs and standards, alongside wider Section 106 contributions, including affordable housing.

## Key Aims

- 1.2 The key aims of the EVA are:
- To develop a robust, transparent and effective means of determining appropriate and justifiable affordable housing targets in Calderdale Borough.
  - To further develop and test the housing need evidence base which will support the findings and conclusions of Calderdale's SHMA 2010.
  - Provide robust evidence to develop and support the Council's future planning policies within the Core Strategy and other documents comprising the LDF on affordable housing; and inform the housing strategy and the Leeds City Region housing strategy.
  - To examine the viability of the tenure splits recommended in the SHMA and to test the viability of variants of these recommendations.

## Purpose

- 1.3 This study further develops and tests the Calderdale SHMA 2010, which examined housing availability and need across the local authority and established the borough's operational sub-market areas.
- 1.4 The core purpose of the study was therefore to test the impact on development viability of applying a number of sensitivity variables (% of affordable housing / site size threshold / social rented and intermediate split) to a sample of 50 housing sites included within the Calderdale SHLAA 2009 – ensuring analysis is representative of potential housing site supply across Calderdale. The 50 housing sites selected provide

a representative sample of 'real' housing sites across Calderdale, incorporating a range of different site conditions (constraint levels and greenfield/brownfield), densities, types of housing and land and sales values across Calderdale's sub-market areas. In order to ensure that the site sample was bespoke to Calderdale, 'real' sites were selected from the SHLAA database and utilised to establish a representative typology, taking into account their classification within a matrix of sites.

- 1.5 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 an environment of changing market conditions, a number of scenarios are used to reflect current, declining and improving (rising) market conditions.
- 1.6 The study will inform and support existing and future planning policies and housing strategy development for Calderdale Council, through the preparation of the Local Development Framework.

## Policy & Delivery Background

- 1.7 PPS 3 (Housing) (June 2010) sets out the former Government's policy on affordable housing, yet remains the authoritative policy position at present. This requires that affordable housing be delivered on sites above 15 dwellings, with local authority thresholds informed by housing market and economic viability assessments.
- 1.8 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.

- 1.9 However, volatile 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 and Code for Sustainable Homes (CfSH) - also add to the cost of development and place greater pressure on the successful delivery of mixed tenure developments.
- 1.10 It is clear that the levels of finance available to deliver affordable housing, including public subsidy and the level of developer contributions reasonably securable has diminished within the recent economic climate<sup>8</sup> and the former is not anticipated to increase significantly under the Coalition Government proposals within the Decentralisation and Localism Bill (2010). In addition the scale, mechanisms and speed of their implementation remains yet to be fully clarified.
- 1.11 As a result it is crucial for Calderdale Council to analyse what alternative sources of funding there are to help increase the potential pot of money that can be used to fund affordable housing and enabling/supporting infrastructure. Potential policy and delivery mechanisms that the Council may consider are therefore considered in the following sub-sections.

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<sup>8</sup> The EVA model tests the level of contribution towards affordable housing a developer could make within Calderdale based on a range of sensitivities and scenarios. The results are presented in Section 6, and the recommended implications for planning policy are presented in Section 7 of this report.

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### *The Emergence of the Community Infrastructure Levy*

- 1.12 The introduction of the Community Infrastructure Levy (CIL) in April 2010 provides Local Authorities with an optional further method for implementing a charge on development (alongside S106), to fund local and sub-regional infrastructure to support wider development or regeneration.
- 1.13 Due to the discretionary nature of implementing CIL, it will subsequently form a matter for consideration by the Local Authority as to whether to implement CIL powers. If in favour, authorities will then be able to go through the formal process of preparing CIL charging schedules, which will be subject to independent examination and ratification.
- 1.14 If implementing CIL, the Council is empowered to raise a levy on most types of development in their area. CIL is being used for significant infrastructure projects through a charging mechanism which sets a pre-determined level of charge on a rate per unit or rate per square foot. The level of charge will vary depending on the category of development proposed, but the charge applies to both large and small scale developments to ensure that the burden of funding infrastructure projects is more widely spread. CIL is therefore a scheme with strong potential for the funding of housing across the area. It should be noted that the provision of contributions towards “affordable housing” in all its guises, including the newly emerging “Affordable Rent” model, is still addressed through s106 rather than CIL but a combination of both has the potential to be a significant funding source for infrastructure and housing across the area.
- 1.15 The Council is required to ensure that the local development plan identifies what infrastructure will be needed to deliver the plan and also identifies the cost of providing that infrastructure. It is key that a fully costed infrastructure plan is developed and agreed to underpin the development of a local tariff strategy. This will be the key next step for the Authority in approaching CIL as a prospective funding stream.
- 1.16 Hence, it is not possible for this assessment to take into account CIL proposals at this time, due to the unknown nature of implementation by Calderdale Council and the unknown cost per developed unit associated with the future charging schedules. The assessment does, however, provide a key element of the evidence base to inform the

Council's decision-making if it chooses to implement CIL. It will, subsequently, be possible to retrofit future CIL charging schedules to future revisions of the model toolkit and assessment.

#### *Other New Funding Initiatives*

- **New Homes Bonus (NHB)** - More than £900 million has been earmarked for the New Homes Bonus scheme over the next four years, with £200 million allocated in the first year. The Bonus is the incentive created by the government to encourage local authorities to build new homes - every new home built will attract an annual financial bonus for the local authority for six years, equal to the annual council tax payable on that home. The money was announced as part of the chancellor's Comprehensive Spending Review. It is understood that the £900 million will be in addition to the central government grant to local authorities, but - as the amount of New Homes Bonus grows beyond this figure - the extra will be increasingly top sliced from the grant. This will be a key income stream for the Local Authority as it develops new housing across the borough. Whilst it is difficult to securitise the six year income stream, as any borrowing would need to be repaid over this period, it will provide additional funds to help develop new sites, fund alternative approaches and support the revenue account. A number of authorities have examined the potential to set up a small "fund" with these monies from which new housing development can be partially funded, although clearly as this scheme is in its infancy there are no tried and tested approaches in place yet. NHB may be particularly relevant for Calderdale Council as many of the new housing developments will be on a smaller scale and could be made significantly more viable by the utilisation of these funds.
- **Empty Homes Fund** - As part of the Comprehensive Spending Review the government announced the new Empty Homes Fund. This is a pot of £100m that forms part of the HCA's affordability programme, and is largely to be directed as a capital pot for renovation and bringing empty homes into affordable housing use. In addition, New Homes Bonus would also be eligible on those homes reclaimed through this route. Calderdale Council would be eligible to bid for a portion of this £100m fund, and it is a key approach that could be used to help-fund the renovation and reclamation of disused properties. The added incentive of a 6 year income stream coming with these properties make this a viable approach to new housing provision. Further details of the allocation of this

funding are awaited, but initial indications are that this would be utilised heavily in rural areas.

#### *The Localism Bill & Affordable Housing Reform*

- 1.17 The Coalition Government introduced the Localism Bill to parliament on 13<sup>th</sup> December 2010. The Bill contains a substantial package of reforms that devolve responsibility within the planning system for establishing housing targets, and for agreeing new development to local authorities, communities and neighbourhoods.
- 1.18 Moreover, the Bill will take forward radical reforms, including flexible tenancies and changes to the way social housing is allocated. A key element of this is the announcement of the 'Affordable Rent' model – forming a first step towards delivering wider reforms. The Coalition Government believes that this additional product, and mechanism, will provide greater flexibility for social landlords to respond to local housing needs whilst encouraging reinvestment in the existing, and new, affordable homes for both social and 'affordable' rent.
- 1.19 Utilising the Affordable Rent model, Housing Associations will be able to let an Affordable Rent property (whether a converted void or new build) at up to 80% of market rent for an equivalent property for that size and location. The Housing Association's calculation of the market rent would need to be based on a residential lettings estimate for a property of the equivalent size, condition and area.
- 1.20 At present, the proposals for introducing Affordable Rent are being developed by the Coalition Government and the Homes and Communities Agency (HCA), with a full framework document released in February 2011, which forms the basis for bids from providers who are interested in offering Affordable Rent<sup>9</sup>.
- 1.21 As a result, this assessment has not tested for an 'Affordable Rent' product, as the full details of its implementation are not yet known. However, the toolkit provided to Calderdale Council is flexible to allow the modification of values and costs such as to facilitate the future testing of Affordable Rent property across the borough.

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<sup>9</sup> 2011-2015 Affordable Homes Programme – Framework (February 2011) CLG / HCA

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## Study Methodology

- 1.22 The approach adopted for the research takes into accounts the points raised through the examination of best practice and case law, and reflects the aspirations of Calderdale Council in relation to the development of their evidence base. A summary of the approach is provided below with a more detailed methodology presented in Section 3 of this report.

### *Ascertaining Economic Viability*

- 1.23 The study utilised a residual development appraisal model developed by GVA, 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).
- 1.24 This model enabled the production of a matrix of representative sites, indicating their relative viability. This provides an easy to use look-up and comparison tool for Calderdale Council to update and utilise in future policy reviews and in the assessment of the viability of development proposals in planning applications submitted to the Council. The model is now retained by Calderdale Council.

### *Sensitivity Testing*

- 1.25 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.
  - Wider macro-economic conditions ('current', 'declining' and 'rising' market scenarios).

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### *High Level Representative Appraisal*

- 1.26 It was necessary that the study test the economic viability of sites across a range of typologies and locations within Calderdale, in order to robustly ascertain the impact on viability of value variations in land and housing development within Calderdale's active sub-market areas, development characteristics (including density and mix) and various development constraints (including costs for abnormals, site preparation and infrastructure).
- 1.27 A residential market review has been undertaken to establish sales values to inform all appraisals within the research. This has drawn evidence collated and analysed within the Calderdale SHMA 2010, as well as through consultation with local stakeholders, agents and developers and Calderdale Council.
- 1.28 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 cost and value assumptions have been used based upon this typology, and tested with key stakeholders, to inform the appraisal process.

### *Establishing Policy*

- 1.29 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.
- 1.30 Section 3 outlines the approach taken regarding the high level assessment of sites in more detail.

### *The Viability Model – Updating and Monitoring*

- 1.31 The viability model toolkit will allow Calderdale Council to continue to monitor and update the Study to assess the impact of different market conditions on development viability in Calderdale, in order to ensure policy remains flexible and responsive as appropriate. The toolkit further allows for appraisal details of individual sites to be entered, therefore aiding high-level assessment of the viability of development proposals in planning applications submitted to Calderdale Council.



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## Report Structure

1.32 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 methodology utilised 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 implications of the assessment findings and provides a concluding set of recommendations to Calderdale Council, to illustrate where policy should be directed with regard to balancing economic viability with housing need and policy objectives.
- **Section 8:** Glossary

## 2. Policy Context

- 2.1 This section sets out the planning policy context for the Calderdale EVA study.

### Strategic Level Policy

#### National Planning and Affordable Housing Policy Guidance

- 2.2 Planning Policy Statement 3: Housing (PPS3), published in June 2010, reinforces the former Government's policies for planning and affordable housing provision. This latest PPS3 supersedes previous national guidance on this issue and provides the latest authoritative 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 provision'<sup>10</sup>.*

- 2.3 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:

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<sup>10</sup> Planning Policy Statement 3: Housing (PPS3) (June 2010) – Communities and Local Government (CLG)

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

- 2.4 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.'*

- 2.5 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.
- 2.6 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.
- 2.7 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.

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- 2.8 Subsequent to the election of the Coalition Government in May 2010, no further formalised guidance on affordable housing has been issued and the PPS3 guidance remains relevant.

*Code for Sustainable Homes (CfSH)*

- 2.9 The Government has taken steps to implement higher design and space standards to be included as mandatory in all housing developments. The new building standards focus upon energy efficiency and the development of 'lifetime homes' (CfSH ranging from Levels 2-6), which will add to the cost of development and place greater pressure on the successful delivery of mixed tenure developments.
- 2.10 Government policy sets out that CfSH Level 3 becomes mandatory for all new dwellings built from 2010. This requires a 25% carbon emissions improvement relative to 2006 standards<sup>11</sup>. This is an important consideration, for units will not qualify for sale as affordable housing if they do not meet the higher standards set by the Government under CFSH and implemented from 1<sup>st</sup> May 2008. However, further guidance on the applicability of this target is awaited given the unprecedented market conditions and change of Government in May 2010. The *Code for Sustainable Homes - Technical Guide* (November 2010) produced by the CLG<sup>12</sup> cites that the Government is currently considering the future role of the Code and timescales for implementation in order to rationalise regulation.
- 2.11 This study allows for differences in CfSH design and space standards to be applied to viability assessment.

*Testing Viability in an uncertain market*

- 2.12 To undertake a 'point in time' study during the current unpredictable market would have a limited shelf-life. This is due to prevailing global financial uncertainty, which is presently 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

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<sup>11</sup> Building a Greener Future: Towards Zero Carbon Development (December 2006) - CLG

inherently alter in coming months and years rendering a single point in time study obsolete.

- 2.13 The Planning Inspectorate has recommended that a degree of flexibility is necessary within an assessment of economic viability, in order to ensure that policy for affordable housing provision can be adaptable to constantly changing market conditions. In line with these assertions this research has tested viability across a range of market conditions which present positive and negative trajectories from the 'current' baseline market conditions within Calderdale.
- 2.14 This approach ensures that Calderdale Council has a flexible evidence base in place to inform future policy, factoring in both affordable housing policies and the introduction of new policies such as that inferred through the Community Infrastructure Levy. Recommendations for these policies will be grounded in viability and delivery against the Government housing targets, Calderdale'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.
- 2.15 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.

### Regional Spatial Strategy for Yorkshire & the Humber

- 2.16 In June 2010 the regional policy tier was revoked, and then reinstated in November 2010 following the CALA decision. Statements from the Government clearly outline that the revocation of the regional planning tier is scheduled to occur in 2011 and that the decision to remove plans should be treated as a material consideration<sup>13</sup>.

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<sup>12</sup> Code for Sustainable Homes – Technical Guide (November 2010) - CLG

<sup>13</sup> Note: In a statement issued by the CLG Chief Planner it is noted that the Secretary of State wrote to Local Planning Authorities and to the Planning Inspectorate on 27 May 2010 informing them of the Government's intention to abolish

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- 2.17 This tier of policy includes the Regional Spatial Strategy for Yorkshire and Humber (RSS), Regional Economic Strategy (RES) and Regional Housing Strategy (RHS 2005-2021). The removal of this tier of planning will mean that previously defined housing targets set through RSS will no longer form part of the statutory evidence base. Subsequent publications from the CLG have identified that authorities are able to reach local decisions around suitable housing targets for inclusion in local plans.
- 2.18 The CALA decision has resulted in regional Strategies having their statutory status reintroduced, and they therefore temporarily provide an important context in the absence of the development of future national and local policy. The Government has, however, signalled its continuing intention to abolish regional strategy within the Decentralisation & Localism Bill (13th December 2010), which will provide the legislative framework to achieve this objective in 2011.
- 2.19 RSS Policy H1 (b) 'Housing' sets a target for Calderdale to provide 12,060 new homes for the period 2008 – 2026 (net of clearance replacement), which equates to an annual average rate of 670 dwellings. Policy H4 'Affordable Housing' recommends a target of up to 30% affordable housing on new developments. As noted above, whilst the authorities have the ability to set new targets it is understood that at the time of this research the RSS figures will continue to represent an important benchmark for policy development.

## Local Planning Policy

- 2.20 Calderdale Council undertook a Strategic Housing Land Availability Assessment in 2009 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.
- 2.21 Calderdale Council is currently preparing the Core Strategy. The timescale for preparation and adoption of the Strategy is set within the Calderdale LDF Local
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Regional Strategies in the Localism Bill and that he expected them to have regard to this as a material consideration in planning decisions

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Development Scheme (LDS)<sup>14</sup> as amended by the LDF Working Party (November 2010) as follows:

- Public participation on Core Strategy Issues & Options – undertaken 2008/09
- Preferred Options consultation: Autumn 2011
- Adoption of Core Strategy: April 2013

2.22 The local evidence base supporting the preparation of affordable housing policy in Calderdale includes:

- Calderdale Strategic Housing Market Assessment (SHMA) (2011)
- Calderdale Housing Strategy 2005-2010

### Affordable Housing Policy in Calderdale

2.23 The Calderdale Provision of Affordable Housing in New Housing Developments Supplementary Planning Document (SPD), adopted in February 2008, establishes the affordable housing target for the Calderdale borough.

2.24 The Replacement Calderdale Unitary Development Plan (UDP) sets the objective that Calderdale Council will negotiate to achieve 20% of total dwellings as affordable housing on suitable sites, which is repeated within the Affordable Housing SPD.

2.25 Work is ongoing to ascertain the total supply of land and the spatial distribution of this supply through the Strategic Housing Land Availability Assessment (SHLAA), which is reviewed on an annual basis. This will continue to provide an indication of the capacity for housing development across the borough, and the potential balance between brownfield sites and greenfield sites. The outcome of this study will help to inform the ongoing development of subsequent iterations of the SHLAA, providing further evidence of site deliverability and therefore likely phasing.

2.26 It is important to note that although the emerging LDF Core Strategy will target an affordable housing contribution on all qualifying development sites, the exact

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<sup>14</sup> Calderdale Local Development Framework (LDF) Local Development Scheme (LDS) (November 2007 Revision) –

contribution to be made will be site-specific and subject to negotiation with the Local Authority at the time a planning application is lodged.

## Best Practice Guidance & Affordable Housing Case Law

2.27 The Homes and Communities Agency (HCA) has published a best practice guidance document entitled 'Investment and Planning Obligations – Responding to the Downturn'<sup>15</sup>. Importantly, the document sets out the criteria for a Local Authority to set a robust affordable housing policy for delivering affordable housing through the Core Strategy (and LDF), in line with PPS12 deliverability criterion, and PPS3 paragraph 29 financial viability criterion. This study follows this best practice guidance.

2.28 Furthermore, the risks to Core Strategy's associated with Local Planning Authorities' not having robust economic viability studies in place, as set out by the HCA above, are evidenced through recent national case law.

- [Blyth Valley Borough Council vs. Persimmon Homes \(North East\) Limited, Barratt Homes Limited and Millhouse Developments Limited](#)
- [Barratt Developments vs. Wakefield Metropolitan District Council \(WMDC\)](#)
- [Ashford Borough Council vs. Zed Homes Ltd](#)
- [Windsor & Maidenhead Council vs. Michael Shanly Homes](#)
- [Wycombe District Council vs. Fairview New Homes](#)
- [East Riding of Yorkshire vs. Developer \(DCS Number 100-061-857\)](#)
- [West Berkshire Council vs. Renaissance Habitat Ltd](#)

2.29 These recent cases re-state the importance of each Local Authority holding robust economic viability knowledge as an evidence-based tool, in order to maximise affordable housing and other planning obligations from development proposals and negotiations.

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- 2.30 Furthermore, a single-point-in-time viability study is clearly not sufficiently flexible to enable policy to account for external factors that impact on development viability- including Code for Sustainable Homes, land abnormalities (e.g. contamination) and property market changes.
- 2.31 It will therefore be a real challenge for a Local Authority to robustly justify and apply innovative approaches (e.g. in the East Riding case) through S106 agreements to capture future development value and ensure that it continues to address housing 'need' issues in the future by not allowing developers cut-price 'land bank' opportunities in the present.

## Summary

- 2.32 National policy clearly sets the context for undertaking this study, and the unprecedented market conditions experienced at present provide further justification for understanding the viability of development and the potential impact of policy, in order to safeguard sustainable housing supply.
- 2.33 The appropriate location and mix of affordable housing across the borough is clearly an important consideration. It is therefore key for Local Authorities that viability studies do take account of the HCA best practice guidance.
- 2.34 This research provides an important part of the informing evidence base for the development of policy in Calderdale. For, in its absence, providing counter-evidence to support affordable housing targets is extremely challenging during negotiations or at appeal – particularly given the weight of evidence provided by developers, and the current market and political conditions, which favour delivery to meet housing targets and needs.

### 3. Study Methodology

- 3.1 This section focuses on setting out clearly the approach taken to the series of 'high-level appraisals' (testing the 50 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, 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 test the absolute viability of specific sites. Rather it is a broad assessment of economic viability for a range of site classifications, within a set of policy defined locations across Calderdale, 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 Calderdale, whilst remaining flexible to update (through the viability toolkit) to take into account changes in the market context.

#### The Process

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

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3.5 **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, using evidence collated to produce the Calderdale SHMA (2010);
- creating a representative sample of sites using a matrix classifying sites included within the Calderdale SHLAA (2009) into a broad typology;
- conducting a residential market analysis utilising data from the Calderdale SHMA (2011) to determine capital values of existing and new build private and affordable housing products in the current market. This residential market assessment also enabled the separation of the Calderdale housing sub-markets by their relative market performance (into 'very hot', 'hot', 'moderate' and 'cold') and associated land values; and
- establishing development scenario's that move away from 'current' market conditions to assess 'declining' and 'rising' property market conditions.

3.6 **Stage 2** included:

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

3.7 **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.

## Creating a Representative Sample

### Site Typology Matrix

- 3.8 The study utilised a typology of sites to structure a sample of 50 sites contained within the Calderdale SHLAA (2009) for development appraisal and viability testing within the model.

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- 3.9 The starting point for this typology was the classification of sites identified within Figure 4 of the CLG SHLAA Guidance<sup>16</sup>. However, it was felt that a more detailed typology was 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 (remediation, infrastructure required etc...).
- 3.10 Through consultation with Calderdale Council, GVA produced a methodology for establishing a typology matrix of sites for viability assessment. To ensure that the matrix was representative of Calderdale, and the methodology transparent and robust it followed the following steps:
1. 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.
  2. Housing sub-markets were identified utilising the active sub-market locations identified through the Calderdale SHMA (2010), to ensure geographical criteria is consistent with the existing market context and emerging LDF. This ensured that the viability assessment and SHLAA remain consistently aligned, transparency was maintained, and that the relevant sub-markets were accounted for. A list of the sub-markets is provided for reference in Figure 3.1 overleaf.
  3. Where possible multiple sites per sub-market area were included for testing. Further, criteria in building a representative sample included:
    - Site Classifications (taken from the SHLAA and Guidance – relating to the existing/former site use(s) and proposed development )
    - Development constraints and abnormal costs (linked to the site classification) including remediation, demolition, on-site infrastructure, conversions)
- 

<sup>16</sup> Strategic Housing Land Availability Assessment (SHLAA) Practice Guidance (July 2007) – Communities and Local Government



- Number of dwellings proposed
- Proposed scheme mix (apartments, houses)
- Development Density

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

*Figure 3.1: Sample Site Selection Criteria*

<b>Sample Site Selection Criteria</b>	
<b>Sub-market Locations</b>	
Zone 1 - Hebden Bridge & Rural north west	
Zone 2 - Todmorden	
Zone 3 – Mytholmroyd & Sowerby Bridge	
Zone 4 – Ripponden & Rishworth	
Zone 5 - Elland	
Zone 6 – Northowram & Shelf	
Zone 7 - Halifax Town Centre & South	
Zone 8 - Brighouse, Southowram & Hipperholme	
Zone 9 – West Central & North Halifax	
<b>Site Category</b>	
Residential	
Minerals and landfill	
Disused / Vacant	
PDL – industrial / commercial / community buildings	
Public Open Space	
Woodland	
Greenfield – agricultural / grassland / heath land	
<b>Previously Developed Land (PDL)</b>	
PDL	
Greenfield	
Part PDL and Part Greenfield	
<b>Total Dwellings Proposed (Net Capacity)</b>	
<15	
15-99	
100-999	
<b>Development Density (dph)</b>	
<40	
41-99	
100+	
<b>Dwelling Mix</b>	
Houses	
Flats	

Source: GVA, 2010

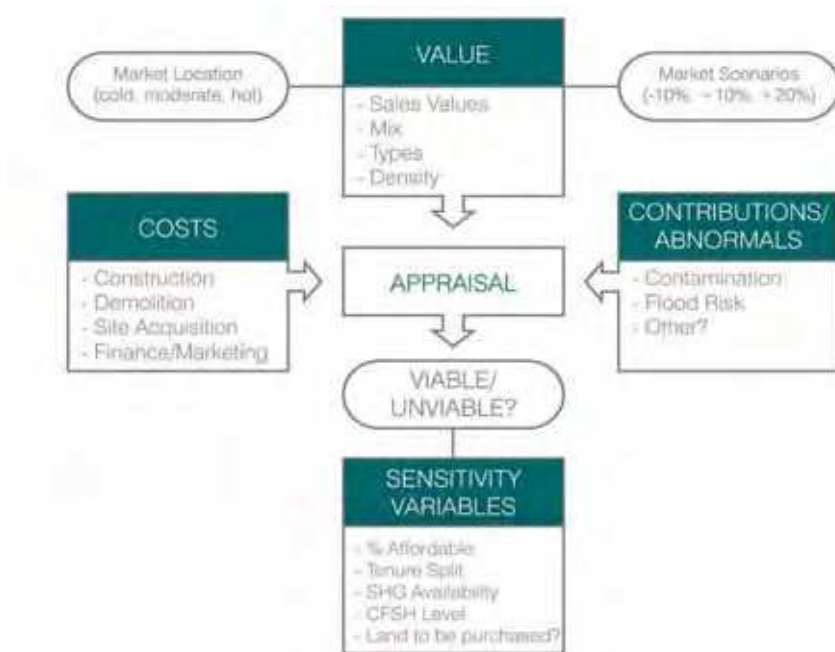
3.12 The sample therefore included sites which demonstrated a mix of characteristics and is deemed as representative for the following reasons:

- There is a broad representation of sites across all sub-markets within the Calderdale SHLAA (2009). This has been replicated within the sample to ensure that viability within each of these active sub-market locations is fully appraised in the assessment.
- The site classification of sites (linked to policy/guidance) defined within the sample is deemed representative of the typologies of sites within the SHLAA.

### Appraisal Model Process

- 3.13 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 Section 4.
- 3.14 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 3.2: Viability Assessment Model Diagram



Source: GVA, 2010

- 3.15 Initially, development values are established by sub-market area using the market characteristics (i.e. cold, moderate, hot and very 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.
- 3.16 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 HCA best practice examples and local developer/RSL guidance. Marketing fees are also applied (set against gross development value).
- 3.17 Further, the model then seeks to account for site-specific circumstances by establishing demolition/clearance costs (varied according to site classification to take

account of existing structures etc.) and abnormal costs (i.e. site conditions including contamination, on-site infrastructure, demolition and allowance for conversion), 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 estimating key cost lines. The percentage figures/assumptions applied in this regard have been based on consultation with key stakeholders<sup>17</sup>. The data feeding into this analysis is procured through evaluation undertaken as part of the SHLAA (2009) and subsequent information passed across by land owners/developers during the study process.

- 3.18 These construction-related costs are then combined (producing gross construction costs), against which professional fees and a construction contingency is applied.
- 3.19 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 (Stamp Duty Land Tax 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 sub-market area that the site is located within, and the site size.
- 3.20 The final 'core cost' applied to the appraisal is developer profit. It is accepted that the market has a variety of methods of accounting for this element of cost. For the purposes of this assessment, this is applied as a percentage of gross development value, and is established based on stakeholder consultation and previous and current market experience. These profit expectations also vary according to market conditions ('current', 'declining' and 'rising'), to reflect the change in development risk associated with a changing market (e.g. higher risk/margin applied in declining

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<sup>17</sup> Note: Section 5 provides details of the stakeholder consultation process and Appendix 1 presents amendments to the economic viability study that took place as a result of stakeholder comments.

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 larger undertakings.

3.21 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 infrastructure and public transport contributions and open space provision, and education. 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:

- [Developer Contributions Towards Meeting Education Needs SPD](#)
- [Developer Contributions Towards Open Space, Sport and Recreation Facilities SPD](#)
- [Highways and public transport contribution which is calculated on an occupancy per unit basis and include a maintenance charge \(calculated on site-by-site basis\)<sup>18</sup>.](#)

3.22 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. 'current', 'declining' or 'rising'). Finance costs are applied to all development costs on an 's-curve' basis across the delivery programme.

3.23 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](#)

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<sup>18</sup> Established through discussion with relevant Calderdale Council officers

- 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).

3.24 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).

3.25 The analysis in Section 6 focuses on the applications of these sensitivities to assess the impact on the viability of sites included within the sample.

## Summary

- The study utilised a residual development appraisal model developed by GVA, which identifies Gross Development Value (incl. affordable housing) against which all development costs are set, in order to calculate whether a scheme is viable. The model further allows for a number of key sensitivities and scenarios to be applied to key costs (incl. affordable housing obligations).
- The study utilised a typology of sites to structure a representative sample of 50 Calderdale SHLAA (2009) sites for development appraisal and viability testing within the model.
- 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.
- This study also takes account of similar analysis undertaken across the North of England, 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.

## 4. Baseline Assumptions & Sensitivity Scenarios

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:

- Establishing the base assumptions
- Sensitivities (e.g. site size, proportion of affordable housing, tenure mix)
- Market scenarios: future-proofing the study

### Establishing the Base Assumptions

#### Site Outputs

4.2 Each of the sites included within the sample has an identified 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 within the SHLAA (2009). However, in order to inform the appraisal process, the model also requires that a breakdown of different property types be ascertained.

4.3 A typical breakdown of property types on each site has been arrived at. This process has factored in the designation of each of the SHLAA (2009) sites into three broad classifications:

- housing scheme
- mixed apartment / housing scheme
- apartment scheme

Figure 4.1: Scheme Density &amp; Unit Mix

Proposed Scheme Type	% Mix			
	1/2 bed flats/apartments	2/3 bed terrace	3/4 bed semi detached	4/5 bed detached
Apartment scheme	100%	0%	0%	0%
Mixed apartment/housing scheme	0%	20%	40%	40%
Housing Scheme	0%	20%	40%	40%

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

### Sub-market Characteristics

- 4.4 Evidence gathered on house and land transaction prices in Calderdale through the SHMA (2010) analysis, and subsequently discussed with key stakeholders and Calderdale Council, confirmed that Calderdale does not perform as a single uniform property market. In fact, the Calderdale housing market contains a number of active sub-markets, with a number demonstrating distinct performance and offer differences.
- 4.5 The assessment therefore utilises the following sub-market locations – referenced by their main settlements<sup>19</sup>:
- Zone 1 - Hebden Bridge & Rural north west
  - Zone 2 - Todmorden
  - Zone 3 – Mytholmroyd & Sowerby Bridge
  - Zone 4 – Ripponden & Rishworth
  - Zone 5 - Elland
  - Zone 6 – Northowram & Shelf
  - Zone 7 - Halifax Town Centre & South
  - Zone 8 - Brighouse, Southowram & Hipperholme



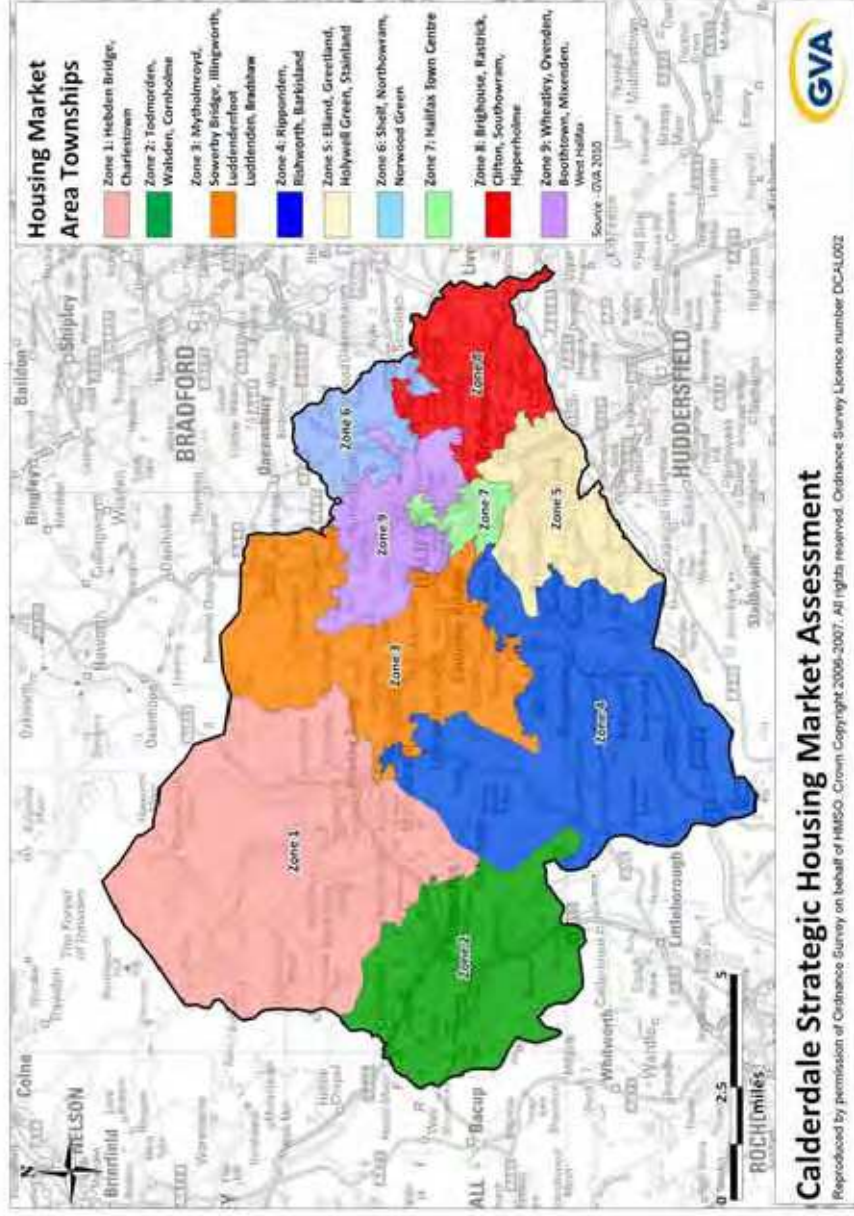
- Zone 9 – West Central & North Halifax

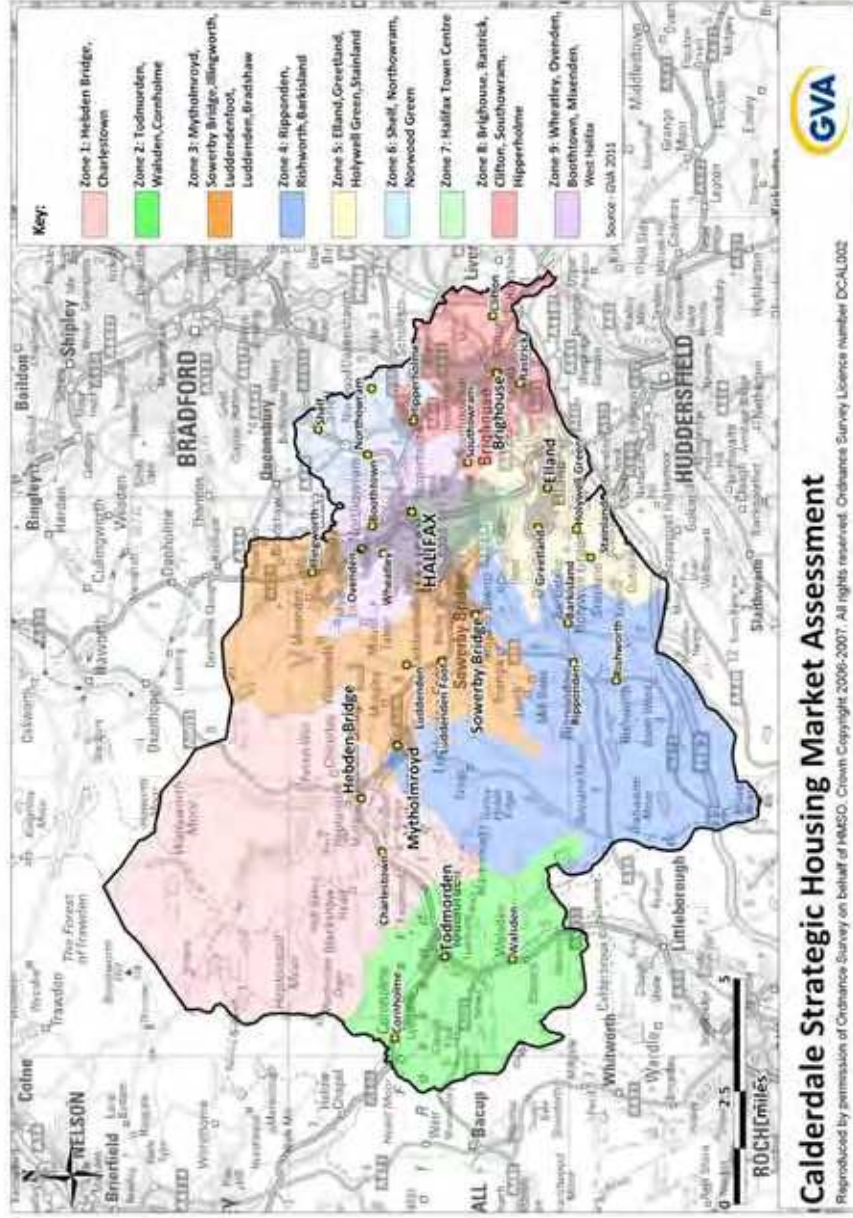
4.6 The sub-market locations are presented on the following plans, with additional detail regarding the settlements within each sub-market referenced within the key and highlighted in the latter plan:

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<sup>19</sup> As established within the Calderdale SHMA (2011).

Figure 4.2: Calderdale Sub-market Areas

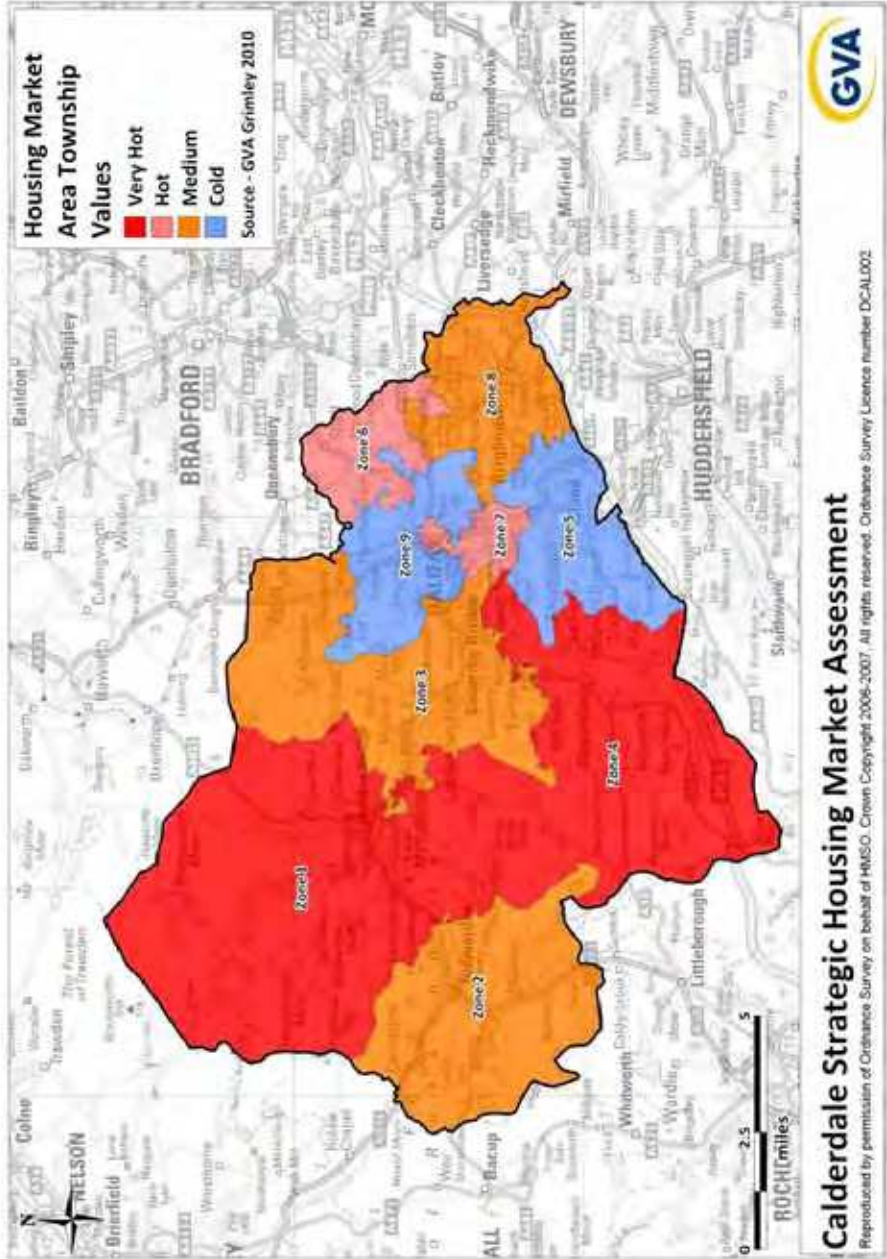




Source: GVA, 2010

- 4.7 Utilising the modelling markets analysis of the Calderdale SHMA (2010), sub-markets were then linked where they shared similar market performance characteristics. Housing market performance across Calderdale's sub-market areas were assessed using Land Registry six-digit postcode level data from February 2008 to February 2010. This time period allowed for a sufficient volume of transactions to have occurred, within a subdued market, to be able to draw meaningful analysis. Analysing the data and comparable average house price values for each sub-market allowed them to be categorised by either being 'very hot', 'hot', 'moderate' or 'cold' markets. The values were tested with stakeholders and local agents.
- 4.8 This process therefore benchmarks relative sub-market performance in relation to the average property values at the Calderdale borough level. This is reflected in the following plan.

Figure 4.3: Calderdale Sub-market Performance Characteristics



Source: GVA, 2010



- 4.9 The open market (private sector) value assumptions under 'current' market conditions are presented in the following table.

*Figure 4.4: Open Market Property Values & Spatial Distinctions under 'Current' Market Conditions*

Property values identified in "cold sub-markets"	Unit type	Sales Receipt (£)
	1/2 bed flats/apartments	£60,000
	2/3 bed terrace	£100,000
	3/4 bed semi detached	£125,000
	4/5 bed detached	£140,000

Property values identified in "moderate sub-markets"	Unit type	Sales Receipt (£)
	1/2 bed flats/apartments	£75,000
	2/3 bed terrace	£125,000
	3/4 bed semi detached	£145,000
	4/5 bed detached	£155,000

Property values identified in "hot sub-markets"	Unit type	Sales Receipt (£)
	1/2 bed flats/apartments	£85,000
	2/3 bed terrace	£150,000
	3/4 bed semi detached	£170,000
	4/5 bed detached	£200,000

Property values identified in "very hot sub-markets"	Unit type	Sales Receipt (£)
	1/2 bed flats/apartments	£100,000
	2/3 bed terrace	£165,000
	3/4 bed semi detached	£195,000
	4/5 bed detached	£250,000

Source: GVA, 2010

- 4.10 The study calculates average values based upon both new build and re-sale properties. This was considered an appropriate methodology by industry stakeholders active locally who confirmed that, at present, banks funding development (and mortgages) were not allowing valuations of new-build property to incorporate a premium over re-sale comparators. Hence, due to this alignment, utilising both re-sale and new-build transactions forms a representative picture of property values with the 'current' market.

## Values – Land Sales

- 4.11 Land values were assessed utilising sales data from residential land transaction sourced from a number of data bases; Essential Information Group (auction result website) Focus and Estates Gazette Interactive. The varying land values were then subsequently applied across the different sub-markets.
- 4.12 The values were tested with stakeholders and local agents and they indicated that very small sites (i.e. less than 0.5ha) were disproportionately inflating average land values across all sub-markets, therefore the different site sizes had to be accounted for within the model. The updated analysis resulted in reducing the average land value for the larger sites (i.e. greater than 0.5ha).

*Figure 4.5: Calderdale Land Values within Sub-Market*

Small Sites (i.e. less than 0.5ha)		
Very Hot	£1,900,000	per hectare
Hot	£1,700,000	per hectare
Moderate	£1,500,000	per hectare
Cold	£1,250,000	per hectare
Large Sites (i.e. greater than 0.5ha)		
Very Hot	£1,000,000	per hectare
Hot	£800,000	per hectare
Moderate	£650,000	per hectare
Cold	£500,000	per hectare

Source: GVA, 2010

- 4.13 The appraisals assume that land values for each sample site increase and decrease (in percentage terms) in line with changing market condition scenarios (sale values of properties).

## Revenue Generated from Affordable Housing without Grant Funding

- 4.14 Developers will generate revenue through the sale of completed dwellings to RSLs 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.
- 4.15 For the purposes of the viability model, the values (per unit) for social rented are uniform across Calderdale. The social rented values were provided by Jephson Housing, which is based upon their experience on schemes within the borough. The values were moderated through the consultation with local stakeholders.

Figure 4.6: Social Rented Unit 'Ceiling' Values under 'Current' Market Conditions

Social Rented Value Ceiling	Price (£)
1/2 bed flats/apartments	£40,000
2/3 bed terrace	£45,000
3/4 bed semi detached	£50,000
4/5 bed detached	£55,000

Source: Jephson Housing, 2010

- 4.16 The viability model incorporates a 'Policy On' approach in order to establish the values generated from intermediate housing development per unit on each site within the sample. This utilises the threshold set for new intermediate unit sales within Calderdale, which is referenced within the Calderdale Affordable Housing SPD (2008)<sup>20</sup>. The SPD explains how policy H13 (Affordable Housing) in the Replacement Calderdale Unitary Development Plan (RCUDP) (2008) will be implemented.

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<sup>20</sup> The Provision of Affordable Housing in New Housing Developments Supplementary Planning Document Adopted February 2008



Figure 4.7: 'Policy On' Intermediate Unit Values under 'Current' Market Conditions

Property values identified in "cold sub-markets"	Unit type	Sales Receipt (£)
	1/2 bed flats/apartments	£48,000
	2/3 bed terrace	£80,000
	3/4 bed semi detached	£100,000
	4/5 bed detached	£112,000

Property values identified in "moderate sub-markets"	Unit type	Sales Receipt (£)
	1/2 bed flats/apartments	£60,000
	2/3 bed terrace	£100,000
	3/4 bed semi detached	£116,000
	4/5 bed detached	£124,000

Property values identified in "hot sub-markets"	Unit type	Sales Receipt (£)
	1/2 bed flats/apartments	£68,000
	2/3 bed terrace	£120,000
	3/4 bed semi detached	£136,000
	4/5 bed detached	£160,000

Property values identified in "very hot sub-markets"	Unit type	Sales Receipt (£)
	1/2 bed flats/apartments	£80,000
	2/3 bed terrace	£132,000
	3/4 bed semi detached	£156,000
	4/5 bed detached	£200,000

Source: GVA, 2010

## Cost Assumptions

- 4.17 This sub-section sets out the assumptions made against the various cost elements incorporated within the model, including<sup>21</sup>:

<sup>21</sup> The impact of the cost of the introduction of Community Infrastructure Levy (CIL) has not been included in the model as the tariff level at which the Calderdale 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.

- Type of site e.g. Greenfield, conversion etc... as defined by the Site Classification
- Build costs (including prelims, substructures and superstructures)
- Development Abnormals (including contamination/remediation, site infrastructure, conversion allowance)
- Section 106 Contributions (excluding affordable housing)
- Other costs (including finance, professional fees, disposal)
- Site Type – Category Classification

4.18 The range of site category classifications utilised included the following:

- Disused/Vacant
- Residential - assumes some demolition
- PDL – assumes industrial / commercial /community building on site requiring demolition
- Public Open Space
- Woodland
- Other Greenfield - includes agricultural and grassland/heathland
- Minerals and landfill

4.19 Based upon the above classifications site preparation costs are varied against a number of elements (e.g. demolition costs not appropriate to all site types.) The varying site costs for each category are presented within Figure 4.14.

#### *Build Costs*

4.20 The build costs utilised within the viability model have been generated through using Quarter 2 2010 Build Cost Information Service (BCIS) costs figures, re-based for West Yorkshire.

4.21 Build costs have been based on the cost per square metre of the development's gross internal area (GIA) and include preliminary costs (site set-up etc.), substructures and superstructures.

- 4.22 They are exclusive of external works, development abnormalities, professional fees and contingencies which are accounted for separately. Differing build costs have been utilised for each dwelling type considered within the dwelling mix.
- 4.23 The viability model runs as a baseline with costs based upon CfSH Level 2 cost inputs as shown below. The model takes into account an uplifted set of costs associated with building Social Rented affordable housing and does not consider the availability of Social Housing Grant funding.
- 4.24 Baseline build costs input into the model are as follows:

*Figure 4.8: Build Costs £ per m<sup>2</sup> (GIA) <sup>22</sup>*

Unit Type	Cost per sq m – Gross Internal Area (GIA)		
	Private Housing	Social Rent	Intermediate
1/2 bed apartments	£818	£847	£818
2/3 bed townhouse	£634	£649	£634
3/4 bed townhouse / semi	£628	£646	£628
4/5 bed detached	£680	£696	£680

*Source: BCIS Quarter 2 Rebased West Yorkshire, 2010*

- 4.25 It is recognised that sustainable development aspirations under Code for Sustainable Homes (CfSH) Levels 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 qualify for sale as affordable housing if they do not meet the higher standards set by the Government under CfSH and implemented from 1<sup>st</sup> May 2008.
- 4.26 The model has been developed, and run for this study, to test differences in design and space standards (CfSH Levels 3 – 6) and the effect on development viability. Moreover, the accompanying toolkit allows the costs to be applied to future viability assessment by Calderdale Council, with the following assumptions made based on the Cost Analysis of the Code for Sustainable Homes: A Cost Review (March 2010) report produced by CLG.

<sup>22</sup> The flexible nature of the toolkit provided to Calderdale Council allows for changes in build costs to be applied to reflect the market if necessary.

- 4.27 The recommendations of the assessment, in respect to the impact of introducing CfSH Levels 3-6 on development viability, will inform Calderdale's future decision-making when preparing policy to consider the application of Code for Sustainable Homes standards on new residential development.
- 4.28 The costs for CfSH Levels 3 – 6 utilised within this study are presented in the following figure.

*Figure 4.9: Build Costs £ per m<sup>2</sup> (GIA) for Code for Sustainable Homes Levels 3 – 6*

Unit Type	Gross Internal Area (GIA) m <sup>2</sup>			
	CfSH 3	CfSH 4	CfSH 5	CfSH 6
1/2 bed flats/apartments	£847	£890	£1,054	£1,198
2/3 bed terrace	£649	£686	£831	£888
3/4 bed semi detached	£646	£680	£823	£876
4/5 bed detached	£696	£726	£899	£959

*Source: Cost Analysis of the Code for Sustainable Homes: A Cost Review, March 2010*

#### *Section 106 (Planning Obligations) Requirements*

- 4.29 The analysis in Section 6 assumes that all Section 106 requirements are sought alongside affordable housing provision. These relate to:
- Education SPD – Developer Contribution Towards Meeting Education Needs (February 2008)
  - Open Space Sport and Recreation SPD – Developer Contributions Towards Meeting Open Space, Sport and Recreation Facilities (April 2008)
  - Highways & Public Transport Contributions

#### *S106 Education*

- 4.30 Education contributions have been calculated a per the SPD, therefore it assumes that primary school contributions will be sought for developments that yield:
- 5 or more houses or 20 or more apartments; and
  - 7 or more houses or 25 apartments or more for secondary school contributions.

Figure 4.10: S106 Education Payment (per qualifying unit)

Cost per Dwelling Type	Primary	Secondary
1/2 bed flats/apartments	£517.30	£632.34
2/3 bed terrace	£2,482.06	£2,687.42
3/4 bed semi detached	£2,482.06	£2,687.42
4/5 bed detached	£2,482.06	£2,687.42

Source: Calderdale Education SPD

- 4.31 No allowance has been made to reflect the capacity of potential neighbouring schools.

#### S106 Open Space

- 4.32 Similarly to education contributions, the requirement to provide a contribution for open space is assessed on an individual site basis as set out in the relevant SPD. For the purposes of the model it is assumed that a full contribution is required, calculated as follows:

Figure 4.11: Developer's Open Space per Unit

Unit Type	Cost per unit
	Private Housing
1/2 bed apartments	£431
2/3 bed townhouse	£1,043
3/4 bed townhouse / semi	£1,564
4/5 bed detached	£2,085

Source: Calderdale Open Space and Recreation SPD

#### Highways & Public Transport Contributions

- 4.33 The standard approach the Council takes when assessing highways and public transport contribution for a proposed development is on a site-by-site basis i.e. if there is a particularly need for a contribution in the locality the Council will seek a contribution. For the purpose of the model costs are also assumed for off-site infrastructure and public transport obligations. Where applicable they are calculated on an occupancy per unit basis and include a maintenance charge.
- 4.34 The following rate per unit has been applied:

Figure 4.12: Highways &amp; Public Transport Contribution (per unit)

Unit type	Cost per unit		
	Private Housing	Social Rented	Intermediate
1/2 bed flats/apartments	£458	£583	£458
2/3 bed townhouse	£600	£700	£600
3/4 bed townhouse / semi	£791	£833	£791
4/5 bed detached	£875	£916	£875

Source: GVA, 2010

4.35 The costs were fully tested with stakeholders during consultation in July 2010.

#### Other Costs

4.36 These include the cost of securing finance (interest payments on debt), professional fees (as a proportion of total construction cost), developer profit, marketing, sales and other contingency costs.

4.37 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 Development Costs

Cost Element	% Cost		Change according to site size? (say >50 units)	Site Size (units)	
				<50	50>
<b>Professional Fees</b>	5.00%	of gross construction costs	Yes	10%	5%
<b>Overheads &amp; Profit</b>	20.00%	of gross development value	Yes	0	2.50%
<b>Interest Rate (Debt)</b>	6.50%	on costs (S-Curve)	No	n/a	n/a
<b>Marketing fees</b>	3.50%	of gross development value	No	n/a	n/a
<b>Sales Agent Fees</b>	1.50%	of gross development value	No	n/a	n/a
<b>Sales Legal Fees</b>	0.50%	of gross development value	No	n/a	n/a
<b>Construction Contingency (Greenfield/ Mix of Brownfield &amp; Greenfield)</b>	3.00%	of gross construction costs	No	n/a	n/a
<b>Construction Contingency (Brownfield)</b>	5.00%	of gross construction costs	No	n/a	n/a
<b>Purchasers Cost (stamp duty, land value &lt;£125,000)</b>	0.00%	of gross land acquisition cost	No	n/a	n/a
<b>Purchasers Cost (stamp duty, land value &gt;£125,000 &lt;£250,000)</b>	1.00%	of gross land acquisition cost	No	n/a	n/a
<b>Purchasers Cost (stamp duty, and value &gt;£250,000 &lt;£500,000)</b>	3.00%	of gross land acquisition cost	No	n/a	n/a
<b>Purchasers Cost (stamp duty, and value &gt;£500,000)</b>	4.00%	of gross land acquisition cost	No	n/a	n/a
<b>Purchasers Cost (legals &amp; Surveyors)</b>	1.75%	of gross land acquisition cost	No	n/a	n/a

Source: GVA / HM Revenue &amp; Customs, 2010

- 4.38 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 Calderdale Council.
- 4.39 The model assumes that professional fees are increased from 5% to 10% on sites sized less than 50 units. Professional fees are increased on the smaller sites as it assumes that the larger sites will, in the majority of cases, be developed by volume house builders. These will have in-house teams and standard unit designs and therefore they will be able to exercise cost savings. Developers profit is assumed to increase from 20% to 22.5% on sites of 50 units or more, in order to reflect escalating risk associated with developing larger sites.
- 4.40 The model also assumes that a higher contingency is applied to Brownfield sites (5%) over Greenfield, Brownfield/Greenfield sites (3%), this is to reflect the additional 'unknown' and potentially 'abnormal' development costs associated with this type of development.
- 4.41 The model allows for additional abnormal costs to be accounted for, it also accounts for the reduced build costs associated with the conversion of existing dwellings and small scale commercial premises. These costs were altered following stakeholder feedback, as part of this process a number of parties submitted development appraisals the analysis of which has influenced the following costs allowances:

*Figure 4.14: Demolition and Site Preparation Cost Uplift*

Site Category (linked assumptions regarding abnormal costs e.g. demolition/contamination)	Site Preparation Costs		Additional Development Costs	
	Contamination / Remediation	Demolition/ Clearance	On-site Infrastructure Costs	Allowance for Building Conversion
	% on Build Cost	% on Build Cost	% on Build Cost	% Uplift/ Discount on Build Cost
Disused/Vacant	2.00%	0.50%	12.00%	0.00%
Residential - assumes some demolition	2.00%	1.00%	20.00%	0.00%
PDL – assumes industrial / commercial /community building on site requiring demolition	3.50%	1.50%	20.00%	0.00%
Public Open Space	0.00%	0.00%	12.00%	0.00%
Woodland	0.00%	0.50%	12.00%	0.00%
Other Greenfield - includes agricultural and grassland/heathland	0.00%	0.00%	12.00%	0.00%
Minerals and landfill	5.00%	0.00%	20.00%	0.00%

Source: GVA, 2010

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## Sensitivity Testing

4.42 Sensitivities have been applied to key variables. 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
- Lifting the Code for Sustainable Homes (CfSH) build quality standards

### Varying Required Proportion of Affordable Housing

4.43 In order to test and demonstrate development viability to robustly inform affordable housing policy within Calderdale, it was necessary to consider the proportion of affordable housing required through site development across an appropriate range.

4.44 This has been informed by the Regional Spatial Strategy (RSS) for Yorkshire & Humber and Calderdale Council's Affordable Housing SPD. Policy H4 in the RSS estimates that a target up to 30% affordable housing is required in the Calderdale area, with the SPD seeking a contribution of 20%.

4.45 The study therefore looked at applying a proportion of affordable housing ranging from 50% to 0% (in 5% increments).

### Varying the Tenure Split

4.46 The SPD states that the type of provision will be determined by the 'needs for affordable housing in the District as identified by the Housing Requirements Study and presented in the Annual Statement of Housing Needs<sup>23</sup>. Therefore, the model has been run to test the following range:

- 50% social rented to 50% intermediate



- 25% social rented to 75% intermediate
- 0% social rented to 100% intermediate

4.47 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

4.48 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 15 unit threshold in order to assess all relevant sites for viability in line with PPS3. Where noted, the model has been run to test the following range:

- 1 unit
- 5 units
- 10 units
- 15 units

4.49 Furthermore, the sensitivities have been tested across the range of 'current', 'declining' and 'rising' market conditions to facilitate an understanding of the impact of the market context on the 'sliding scale' of viability.

### Code for Sustainable Homes (CfSH) Build Quality Standards

4.50 The Government set its aspirations sustainable development under its Code for Sustainable Homes (CfSH) design and space standards implemented from 1<sup>st</sup> May 2008.

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<sup>23</sup> Affordable Housing Requirements - Objective 3

4.51 Unless noted the model has been run with build costs equivalent to CfSH Level 2 in order to assess all relevant sites for viability. Where noted the model has been run to test viability across the following range:

- CfSH Level 3
- CfSH Level 4
- CfSH Level 5
- CfSH Level 6

## Market Condition Scenarios

4.52 The model allows for changing housing market conditions in accordance with good practice and advice from the Planning Inspectorate. The baseline position for the study is the period February 2008 to February 2010.

4.53 In order to future-proof the study against changing market conditions, going forward, the study utilises a range of market condition 'scenarios' looking at 'current', to 'declining' and 'rising' market against which the sample typology of sites are appraised. Under a 'declining' market, the economic viability of housing development is assessed with property values at 10% and 5% below 'current' market conditions. Conversely, to test site viability within a 'rising' market, property values achievable are elevated 5%, 10%, 15% and 20% above 'current' achievable average transaction values.

4.54 It is also important that land values are factored into the analysis in a similar fashion to benchmark comparative 'current market' conditions. Land values have been assessed utilising comparable evidence sourced from; Essential Information Group (auction result website) Focus and Estates Gazette Interactive adjusted following Stakeholder consultation.

4.55 Further, the approach taken has been to adopt consistent land values (albeit varied by sub-market area) independent of wider market conditions, 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).

- 4.56 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 Calderdale market can be factored into base appraisals, considered in threshold variables for affordable housing and Section 106 Obligations.
- 4.57 Given the current instability in the housing market, it is necessary for Calderdale Council to continue to monitor the evolving market situation and update the study as required in order for policy to reflect the market conditions at a point in time. The EVA model toolkit provided to Calderdale Council includes technical advice and instruction on how to effectively monitor and update the study, including the recommended sources of data to be utilised to ensure consistency of approach. In particular it is important that actual property transaction values achieved across Calderdale's cold, moderate, hot and very hot sub-market locations are regularly monitored to ascertain where market conditions sit on the spectrum of 'current', 'declining' and 'rising' market scenarios at a given point in time. This is presented graphically in the following figure:

*Figure 4.15: Spectrum of Market Condition Scenarios*



Source: GVA, 2010

- 4.58 The model also assumes that the overheads and profit cost element displayed in Figure 4.13 is flexible to changing market conditions. The cost change sensitivities related to varying market conditions are displayed in Figure 4.15.

Figure 4.15: Other Cost Assumptions – Overheads &amp; Profit Sensitivity

Market Conditions (Change from 'Current')					
-10%	-5%	5%	10%	15%	20%
22.50%	21.50%	20.00%	18.50%	17.50%	15.00%

Source: GVA 2010

## Summary

- 4.59 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 Calderdale's housing market which are defined by the notable distinctions in the performance of the housing market in different locations within the borough.
- 4.60 Using research conducted into the housing market and analysis of market data by GVA 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.
- 4.61 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.

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## 5. Stakeholder Consultation

- 5.1 Consultation with key stakeholders has been at the heart of delivering the economic viability assessment. Those engaged in the process include private sector property developers, Registered Social Landlords (RSLs), Housing Associations, landowners, property consultancies and local market agents.
- 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
  - test the typology of 50 sites, the appraisal approach and the underpinning cost/value assumptions with a wider stakeholder group including major landowners (or their agents where applicable), developers and RSLs.
- 5.3 In total 44 key stakeholders were invited to attend the Calderdale Strategic Housing Market Assessment and Economic Viability Assessment Stakeholder Event held on 08 July 2010 at Elsie Whiteley Innovation Centre, Halifax.
- 5.4 The list of stakeholders was created from a list of contacts known to GVA, and was supplemented by the client team to form a combined and agreed list.
- 5.5 In total 20 persons attended the event representing 12 different stakeholder organisations alongside representatives from the GVA consultancy team and the Calderdale Council project team. A full list of consultees and those invited who chose not to attend, is provided at Appendix 1.
- 5.6 The event included a presentation on the assessment context, objectives and methodology followed by a workshop, which focused debate around a set of pre-determined questions, involved dividing the attendees into three groups, each including a broad mix of stakeholders/organisations.

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- 5.7 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 assessment was acceptable.
- 5.8 The opportunity was offered to all attending stakeholders to provide either verbal feedback on the day of the event or individual written feedback to GVA following the event. A deadline of a week was set to the consultees to respond within.
- 5.9 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 event. In particular:
- A revised set of build costs was produced.
  - The costs associated with purchasing land within the 'very hot', 'hot', 'moderate' and 'cold' locations were revised.
  - Sales values of apartments and 4/5 bed houses were revised.
- 5.10 Consequently, GVA and Calderdale 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 Calderdale.

## 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.

- The results section is structured as follows:
- Testing the Model – A Case Study Approach
- Assessment under 'Current' Market Conditions
- Market Scenario Testing:
  - Scenario 1: Assessment under 'Decreasing' Market Conditions
  - Scenario 2: Assessment under 'Rising' Market Conditions

6.2 Assessment under 'current' market conditions and Scenario's 1 and 2 are tested through alteration of the sensitivities identified in the previous section to ascertain a 'sliding scale' of economic viability.

### Testing the Model – A Case Study Approach

6.3 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 Calderdale's 'very hot', 'hot', 'moderate' and 'cold' sub-market locations.

6.4 Following this a number of key assertions are made which should be considered when examining the results of the viability testing of the 50 sites.

### Case Study 1: 'Very Hot' Market Location

6.5 The first case study presents a typical site located in a 'very hot' market area within the Calderdale. The site is small, at 0.75ha, to reflect the size of sites predominantly evidenced as available within the SHLAA for this location and is classified as Greenfield, this covers agricultural, grassland, heathland. A medium density of 35

units per her hectare for family housing is assumed, which will bring forward 26 units for development. The units are to be built to Code for Sustainable Homes Level 2.

- 6.6 The site is assessed under 'current' market conditions with all S106 obligations applied, including affordable housing. In line with the Calderdale SPD on affordable housing, a 15 unit threshold is applied before affordable housing is sought, with the quantum of affordable housing calculated on the basis of 20% of dwellings.
- 6.7 The site remains economically viable with a requirement for up to 50% affordable housing provision. Furthermore, the site remains economically viable, under 'current market' conditions, with a 20% affordable housing contribution, when additional costs are incurred for delivering up to and including CfSH Level 5 building standards. However, at CfSH Level 6 the site can only viable accommodate a 15% affordable housing contribution.
- 6.8 It is also important to consider the effect on viability of changing market conditions. When market conditions improve by 5% from the 'current market', site viability increases to allows for CfSH Level 6 at 20% affordable housing.
- 6.9 The site can still deliver affordable housing even if market conditions where to decline by 20%, however CfSH Level 4 could only be achieved before the scheme became unviable in this scenario.

### Case Study 2: 'Hot' Market Location

- 6.10 The second case study presents a typical site located in a 'hot' market area within Calderdale.
- 6.11 The site 1ha ha in size, and is classified as disused/vacant, and is considered part Greenfield and Brownfield. The site has a medium density development of 35 units per hectare for family housing, built to Code for Sustainable Homes Level 2 standard.
- 6.12 The site is assessed under 'current' market conditions with all S106 obligations applied, including affordable housing. In line with the Calderdale SPD on affordable housing, a 15 unit threshold is applied before affordable housing is sought, with the quantum of affordable housing calculated on the basis of 20% of dwellings.



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- 6.13 The scheme can support CfSH Level 4 with a 20% affordable housing provision. Furthermore, the scheme remains economically viable for up to a 35% affordable housing provision.
- 6.14 CfSH Level 6 build standards cannot, however, be achieved in this scenario even when nil affordable housing is applied. However, should market conditions improve by 10% then CfSH Level 6 can then be achieved.
- 6.15 Should market conditions decrease by 10% then it is only economically viable to deliver 10% affordable housing and should market conditions deteriorate further to - 20% then no affordable housing can be supported, otherwise the site becomes unviable for development.

### Case Study 3: 'Moderate' Market Location

- 6.16 The third case presents a typical site located in a 'moderate' market area within Calderdale.
- 6.17 The site is small, at 0.4ha, and is classified as previously developed land, which is currently occupied for commercial use. The site is a medium density housing scheme, 40 units per hectare that will bring forward 16 units for development, built to Code for Sustainable Homes Level 2 standard.
- 6.18 The site is assessed under 'current' market conditions with all S106 obligations applied, including affordable housing. In line with the Calderdale SPD on affordable housing, a 15 unit threshold is applied before affordable housing is sought, with the quantum of affordable housing calculated on the basis of 20% of dwellings.
- 6.19 Under 'current' market conditions the scheme is only viable when all S106 obligations (including affordable housing) are deducted from the scheme. Market conditions would need to improve by 5% to be able to support all S106 Obligations, excluding affordable housing. However, to enable any affordable housing to be also delivered then market conditions would need to improve by 10%.

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### Case Study 4: 'Cold' Market Location

- 6.20 The final case study presents a typical generic site located in a 'cold' market area within Calderdale. The site is small, at 0.4ha, and is classified as 'residential', which assumes a degree of some demolition and site remediation.
- 6.21 The site is a medium density housing scheme that will bring forward 16 units for development, built to Code for Sustainable Homes Level 2 standard. It is considered firstly under 'current' market conditions.
- 6.22 The site is assessed under 'current' market conditions with all S106 obligations applied, including affordable housing. In line with the Calderdale SPD on affordable housing, a 15 unit threshold is applied before affordable housing is sought, with the quantum of affordable housing calculated on the basis of 20% of dwellings.
- 6.23 The site is not viable under 'current' market conditions, even when all S106 obligations (including affordable housing) are deducted. The scheme is viable if market conditions were to improve by 10%, however, all S106 Obligations could still not be met. Market conditions would need to improve by 20% to enable this to happen.

### Conclusions of Headline Testing

- 6.24 Case studies three and four indicate that a typical site in a 'moderate' or 'cold' market location will not be economically viable when considered under 'current' market conditions, even if no deductions are made for S106 Obligations, including affordable housing. Unless the density of the scheme is increased substantially and/or the land is provided at nil cost there is likely to be a requirement for gap funding to bring forward development.
- 6.25 In contrast a typical 'generic' site location in one of Calderdale's 'very hot' market locations remains economically viable even if wider market conditions are reduced by 20%. In such circumstances a 20% affordable housing contribution can still be accommodated and CfSH Level 4 can be achieved.
- 6.26 A typical site in one of Calderdale's 'hot' market locations is also economically viable in current market conditions, and can support CfSH Level 4.

- 6.27 In summary, headline analysis suggests it is vital for Calderdale Council to capitalise on increased economic viability on sites in its higher value 'very hot' and 'hot' locations by applying higher affordable housing contribution targets in these areas. This will serve to offset the limited level of affordable housing likely to be deliverable on sites in 'cold' and 'moderate' spatial market locations without public sector funding support.
- 6.28 Such an approach would lay the policy foundations for Calderdale Council sustaining levels of affordable housing provision required to meet rising need across the borough as a whole.
- 6.29 The following sections proceed to test a representative sample of 50 'typical' sites taken from the Calderdale SHLAA (2009) utilising the economic viability model.

### **Assessment under 'Current' Market Conditions**

- 6.30 Testing firstly focused on establishing the viability of delivering affordable housing under 'current' market conditions (subsequently followed by variant scenarios).
- 6.31 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 50% contribution. Assessment was run at a 15 unit site size threshold (in line with PPS 3) therefore excluding those sites falling below this size from the analysis of supply unless otherwise stated.
- 6.32 The site is assessed under 'current' market conditions with all S106 obligations applied excluding affordable housing. The using a sliding scale between 5% - 50% affordable housing applied at the 15 unit threshold.
- 6.33 The table below illustrates the proportion of sites which are viable in different market locations when different proportions of affordable housing are required. It is important to recognise that the proportions shown relate to the sample of sites run through the model, which change depending upon the site size threshold adopted.

Figure 6.1: Viability of affordable housing under 'current' market conditions at 50:50 tenure split and 15 unit Site Size Threshold

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	43%	43%	29%	14%	0%	0%	0%	0%	0%	0%	0%
	Hot	67%	67%	67%	0%	0%	0%	0%	0%	0%	0%	0%
	Very Hot	50%	50%	50%	0%	0%	0%	0%	0%	0%	0%	0%

Source: GVA, 2010

- 6.34 The results of the analysis indicate that there is no viability amongst sites within 'cold' locations under 'current' market conditions even when an affordable housing contribution is set at nil.
- 6.35 Just under half (43%) of all sites in 'moderate' market locations are viable when nil affordable housing contribution is made. However, the viability of these sites soon deteriorate when affordable contribution of 10% is sought, with nil sites viable when the current policy of 20% is applied.
- 6.36 In 'moderate' market locations the specific characteristics of sites are particularly important in defining their viability – with higher density housing schemes on greenfield sites demonstrating greater viability than the majority of supply across 'moderate' areas due to low infrastructure and remediation costs and high returns. It is these sites that account for the 14% of sites that are able to provide up to a 15% affordable housing contribution. This reinforces the importance of site-specific negotiations in establishing affordable housing contributions – using policy as a starting point.
- 6.37 As to be expected sites within 'very hot' and 'hot' market locations prove to be substantially more economically viable under 'current' market conditions than in those in both 'cold' and 'moderate' locations, with half and 2/3<sup>rd</sup> of all respective sites viable, however these sites can only deliver 10% before viability is impacted.
- 6.38 This analysis indicates that site viability, and thus delivery of housing (market and affordable) is severely restricted under 'current' market conditions with a 15 unit threshold.

## Varying the Affordable Housing Tenure Split

- 6.39 This section of the analysis assesses the economic viability of delivering the sites with, firstly, a 25:75 percentage split between social rented and intermediate tenure products and, secondly, a 0:100 percentage split between social rented and intermediate tenure products.
- 6.40 The results of the analysis are presented in the following figures.

*Figure 6.2: Viability of affordable housing under 'current' market conditions at 25:75 tenure split and 15 unit Site Size Threshold*

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	43%	43%	29%	29%	14%	0%	0%	0%	0%	0%	0%
	Hot	67%	67%	67%	67%	0%	0%	0%	0%	0%	0%	0%
	Very Hot	50%	50%	50%	0%	0%	0%	0%	0%	0%	0%	0%

Source: GVA, 2010

*Figure 6.3: Viability of affordable housing under 'current' market conditions at 0:100 tenure split and 15 unit Site Size Threshold*

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	43%	43%	43%	29%	29%	29%	14%	14%	0%	0%	0%
	Hot	67%	67%	67%	67%	67%	67%	67%	0%	0%	0%	0%
	Very Hot	50%	50%	50%	50%	50%	50%	0%	0%	0%	0%	0%

Source: GVA, 2010

- 6.41 Varying the tenure split to 25:75 only has a marginal impact in improving viability, with the 'moderate' market areas seeing double the number of sites (29%) delivering 15% affordable and generating a small percentage (14%) of viable sites with 20% affordable housing provision.

- 6.42 This change of tenure split also marginally improves the viability of sites in 'hot' market areas, with 67% of sites able to deliver 15% affordable before viability is impacted – all other sub areas remain unchanged.
- 6.43 As expected, varying the tenure split to 0:100 has a more significant impact on improving viability under 'current' market conditions with 50% of sites in 'very hot' market areas being able to deliver 25% affordable housing. In addition, 67% of sites in 'hot' market areas are able to deliver up to 30%, an increase from 10% under a 50:50 tenure split. Varying the tenure split to 0:100 has nil impact on the 'cold' market areas.

### Increasing Code for Sustainable Homes (CfSH) Build Standards

- 6.44 This sub-section assesses the impact on the economic viability of sites providing affordable housing of lifting CfSH build standards to Levels 3 - 6 under 'current' market conditions and with an affordable housing tenure split of 50% social rented and 50% intermediate products and a 15 unit site size threshold.
- 6.45 The results indicate that lifting the CfSH build standards to Level 3 during 'current' market conditions has had marginally negative impact on site viability in all market locations across Calderdale, as would be expected from the heightened build costs incurred. However, the biggest impact occurs when build standards are lifted to CfSH Level 4. When CfSH Level 4 costs are applied 14% of sites in 'moderate', 67% in 'hot' and 50% in 'very hot' sub areas are viable, when the additional burden of affordable housing is applied all these sites in each of the sub areas are no longer viable.
- 6.46 Under 'current' market conditions none of the sub areas can support CfSH Level 5 or 6.
- 6.47 This analysis raises concerns as to the viability of sites in 'current' market conditions, especially in light of the additional requirements to building regulations going forward which places a further burden on build costs, as such development within the borough could be stagnated.

### Varying the Affordable Housing (Site Size) Threshold

- 6.48 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.

- 6.49 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 15 units or more in line with PPS3.
- 6.50 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 lower threshold under 'current' conditions.
- 6.51 This is deemed necessary given that Calderdale has a significantly high (81%) proportion of small sites i.e. yielding less than 15 identified in the SHLAA (2009). As such these small sites make a considerable contribution to the housing supply.
- 6.52 Firstly, viability is tested under 'current' market conditions with a 50:50 affordable tenure split and when the site size threshold is reduced to 10 units therefore incorporating additional sites from the sample of 50 introduced in Section 3. This is presented in the following figure:

*Figure 6.4: Viability of affordable housing with a 10 unit site size threshold*

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	33%	25%	17%	8%	0%	0%	0%	0%	0%	0%	0%
	Hot	40%	40%	40%	0%	0%	0%	0%	0%	0%	0%	0%
	Very Hot	75%	50%	50%	25%	25%	25%	25%	25%	0%	0%	0%

Source: GVA, 2010

- 6.53 Analysis of reducing the threshold to 10 units under 'current' market conditions reveals a positive effect on the number of sites that are viable in 'very hot' market areas, with 25% of sites able to deliver 35% affordable housing.
- 6.54 However, reducing the affordable housing threshold to 10 units under 'current' market conditions has a slightly negative impact on viability on sites located in 'moderate'

and 'hot' sub areas – demonstrating the marginality of viability in these locations under such conditions.

Figure 6.5: Viability of affordable housing with a 5 unit site size threshold

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	25%	19%	13%	6%	0%	0%	0%	0%	0%	0%	0%
	Hot	50%	50%	33%	0%	0%	0%	0%	0%	0%	0%	0%
	Very Hot	71%	57%	57%	43%	43%	29%	29%	29%	0%	0%	0%

Source: GVA, 2010

- 6.55 Reducing the site threshold further to 5 units under 'current' market conditions does not generate any additional viable sites in the 'cold', 'moderate' and 'hot' sub areas when compared to the 10 unit affordable threshold.
- 6.56 The following figure tests viability at 'current' market conditions with a 50:50 affordable tenure split and when the site size threshold is reduced to 1 unit. This therefore includes all 50 sites from the sample.

Figure 6.6: Viability of affordable housing with a 1 unit site size threshold

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	23%	14%	9%	5%	0%	0%	0%	0%	0%	0%	0%
	Hot	43%	43%	29%	0%	0%	0%	0%	0%	0%	0%	0%
	Very Hot	63%	50%	50%	38%	38%	25%	25%	25%	0%	0%	0%

Source: GVA, 2010

- 6.57 Overall, the analysis therefore indicates that by lowering the site size threshold for applying an affordable housing contribution from the Government's recommended level of 15 units, there is an associated uplift in the proportion of sites which could potentially viably contribute affordable housing. The analysis of the affordable housing threshold indicates that within 'current' market conditions, a threshold of 10



units creates the optimum environment to deliver additional affordable housing numbers.

- 6.58 Reducing the affordable housing trigger further down from 5 units to 1 unit has limited additional benefit on the number of viable sites delivering affordable housing across all the sub market areas and actually serves to reduce the overall proportion of viable sites.
- 6.59 This analysis therefore underpins the important contribution to the delivery of affordable housing that potentially could be made by Calderdale's smaller sites in the 10-15 unit range. This has significant implications for setting affordable housing policy within the authority. For, by reducing site size thresholds to include smaller sites of 10+ units, Calderdale would increase delivery against affordable housing targets and capitalise on the most viable smaller sites in the borough.
- 6.60 It is clear, however, that lowering the threshold in 'cold', 'moderate' and 'hot' market locations would make only a very limited difference to the delivery of affordable housing under 'current' market conditions.
- 6.61 Affordable housing policy could reasonably, under 'current' market conditions be amended to include sites below 15 units within 'very hot' market locations and it would not be unreasonable for policy to require an affordable housing contribution in these locations for sites above 10 units.
- 6.62 However, in line with the overall approach taken within the study to provide forward looking policy recommendations, consideration of the impact of lowering the affordable threshold (below 15 units) under 'declining' and 'rising' market conditions will allow a more comprehensive and balanced judgement to be reached. This is considered in subsequent sections.
- 6.63 Critically, it is important to recognise that lowering the site size threshold for applying an affordable housing contribution does not result in blanket uplift in viability across all locations. This analysis is based on a set of generalised assumptions within the model. Viability should be assessed on a site-by-site basis by Calderdale Council, and judgements made regarding exact contributions in light of more detailed cost and value information being provided at the time of application.

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## Summary – ‘Current’ Market Conditions

- 6.64 The delivery of affordable housing is severely constrained in ‘current’ market conditions with the imposition of a 15 unit threshold on sites before an affordable housing contribution is sought. In particular, the sensitivity of marginal returns on sites located in ‘cold’ and ‘moderate’ market locations within Calderdale under ‘current’ market conditions are made apparent by the limited levels of economically viable sites.
- 6.65 Conversely, there is more scope to extract affordable housing contributions from sites located within ‘very hot’ and ‘hot’ market locations within Calderdale, although this too is limited in the ‘current’ market.
- 6.66 Furthermore, an uplift in CfSH build quality standards to Level 3 has a marginal impact on those sites that are viable under ‘current’ market conditions, as the additional build cost burden plus the need for affordable housing results in a 5% affordable housing contribution made instead of 10% in ‘hot’ and ‘very hot’ sub areas, with the affordable housing contribution achievable falling from 15% to 10% on those viable sites in ‘moderate’ sub areas.
- 6.67 Increasing the build cost to CfSH Level 4 has a greater impact none of the viable sites are able to deliver this additional build costs burden plus deliver affordable housing.
- 6.68 No sites, across any market areas in Calderdale were viable when appraised for viability when CfSH Level 5 to 6 build costs were introduced as a requirement.
- 6.69 Varying the affordable housing tenure split to increase the proportion of intermediate housing and reduce the proportion of social rented units has positive effect on delivering more viable sites delivering affordable housing, but only when a 0:100 split is applied.
- 6.70 The application of a reduced site size threshold below 15 units has potential to result in a positive impact on affordable housing delivery by increasing the proportion of economically viable sites able to contribute to affordable housing supply within Calderdale. The SHLAA (2009) indicates that Calderdale has a substantial forward supply of smaller sites, particularly in the ‘very hot’ and ‘hot’ 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.

- 6.71 By reducing site size thresholds to 10 units in the 'very hot' market locations (and retaining a 15 unit threshold in 'cold', 'moderate' and 'hot' market locations) in 'current' market conditions Calderdale could increase delivery against affordable housing targets at a difficult point in the property cycle and capitalise on the most viable smaller sites sized over 10 units in the borough.

## Market Scenario Testing

### Scenario 1: Assessment under 'Declining' Market Conditions

- 6.72 Scenario 1 focuses on establishing the effect on viability of delivering affordable housing under 'declining' market conditions across Calderdale in order to address the potential impact of further volatility in the housing market.
- 6.73 To estimate values in a 'declining' market, achievable residential transaction values at both 5% and 10% below the 'current' market conditions have been taken to reflect a continued fall from today's (mid 2010) market.

### Assuming a 5% Decrease from the 'Current Market

- 6.74 This section 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 50% contribution.
- 6.75 Assessment is run at a 15 unit site size threshold (in line with PPS 3) therefore excluding those sites falling below this size from the analysis of supply unless otherwise stated. The assessment is run at CfSH Level 2 build costs unless otherwise stated.
- 6.76 The assessment is run to include S106 contributions (other than affordable housing) and the application of the Calderdale Affordable Housing SPD intermediate housing receipt threshold values unless otherwise stated.

- 6.77 The impact on viability across the sub-areas if market conditions were to deteriorate by 5% is outlined below.

*Figure 6.7: Viability of affordable housing with a 15 unit site size threshold at '-5%' market conditions with a 50:50 affordable tenure split*

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	14%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Hot	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Very Hot	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Source: GVA, 2010

- 6.78 If values were to decrease '5%' it would have a significant impact on the number of viable sites that could be delivered, resulting in just 14% of sites in 'moderate' sub areas being viable although this can only be achieved with nil affordable housing contribution.
- 6.79 This analysis illustrates that a relatively marginal decrease<sup>24</sup> has a significant impact on the number of viable sites across the sub areas, and in turn the number of affordable units that are delivered.

### Increasing Code for Sustainable Homes (CfSH) Build Standards

- 6.80 Once build standards increase to CfSH Level 3 this results in the small number of sites that were viable in the 'moderate' sub areas becoming unviable. Therefore, the increase in build costs has a further detrimental impact on development viability.

<sup>24</sup> Nationwide largest annual recorded average house price decrease, during the current economic downturn, was 16.6% for the 12 months up to January 2009.

### Varying the Affordable Housing (Site Size) Threshold

- 6.81 Varying the affordable housing site threshold from 15 to 10 units has nil impact on 'cold', 'moderate' and 'hot' sub areas, but does result in a quarter of sites in the 'very hot' sub areas becoming viable, with the ability to deliver 25% affordable housing.
- 6.82 However, a more significant impact occurs when the unit threshold is lowered to 5 units, as although it does not positively impact the 'cold', 'moderate' and 'hot' sub areas, it does result in nearly a half (43%) of all sites in 'very hot' areas being viable i.e. the smaller sites are able to withstand the market downturn better than larger sites, with these able to deliver 10% affordable housing contribution.

*Figure 6.8: Viability of affordable housing with a 5 unit site size threshold at '-5%' market conditions with a 50:50 affordable tenure split*

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	6%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Hot	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Very Hot	43%	43%	43%	29%	29%	14%	0%	0%	0%	0%	0%
	Very Hot	43%	43%	43%	29%	29%	14%	0%	0%	0%	0%	0%

Source: GVA, 2010

- 6.83 In summary, if the 'current' market conditions were to fall relatively marginally (based upon recent trends) this could have a dramatic impact on any sites being delivered, and thus affordable numbers. In declining market conditions the most prudent way to try and maintain a degree of development output is to lower the affordable housing threshold below 15 units, which then captures the smaller sites, of which there is a high proportion in Calderdale.

### Assuming a 10% Decrease from the 'Current Market

- 6.84 To estimate values in a further 'declining' market, achievable residential transaction values at '10%' below the 'current' market conditions have been tested within this section to reflect a continued fall from today's (mid-2010) market.

- 6.85 The results of this analysis indicate if current market conditions were to deteriorate by '-10%' it renders the remaining sites, that were viable under the previous scenario '-5%', unviable i.e. no viable sites in any of the sub areas.

*Figure 6.9: Viability of affordable housing with a 15 unit site size threshold at '-10%' market conditions with a 50:50 affordable tenure split*

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Hot	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Very Hot	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Source: GVA, 2010

### Varying the Affordable Housing (Site Size) Threshold

- 6.86 To facilitate any viable sites when market conditions deteriorate by -10% then the affordable housing threshold needs to be reduced from 15 units to 5 units, there is no additional benefit in reducing lower. However, even in this scenario (see figure 6.10 below) it is only the 'very hot' sub areas that are able to deliver viable sites.

*Figure 6.10: Viability of affordable housing with a 5 unit site size threshold at '-10%' market conditions with a 50:50 affordable tenure split*

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Hot	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Very Hot	29%	29%	29%	0%	0%	0%	0%	0%	0%	0%	0%

Source: GVA, 2010

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## Summary – ‘Declining’ Market Conditions

- 6.87 Analysis of the sample sites for ‘declining’ market conditions (‘-5%’ and ‘-10%’ from ‘current’ market) indicate only a relatively small proportion are shown to be viable, mainly in the ‘very hot’ sub areas.
- 6.88 To facilitate site viability when market conditions decline the affordable housing threshold could to be lowered from 15 units to 5 units, although it is only the ‘very hot’ sub areas that can deliver this and viability remains limited to a maximum of 10% affordable housing.

## Scenario 2: Assessment under ‘Rising’ Market Conditions

- 6.89 Scenario 2 focuses on establishing the viability of delivering affordable housing under ‘rising’ 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).
- 6.90 To develop price estimates for a ‘rising’ market, ‘5%’, ‘10%’, ‘15%’ and ‘20%’ was added to the achievable residential property values at ‘current’ market conditions reflecting the situation experienced to the peak of the last property cycle.
- 6.91 This section 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 50% contribution (unless specified). Assessment is run at a 15 unit site size threshold (in line with PPS 3) therefore excluding those sites falling below this size from the analysis of supply unless otherwise stated. The assessment is run at CfSH Level 2 build costs unless otherwise stated.
- 6.92 The assessment is run to include S106 contributions (other than affordable housing) and the application of the Calderdale Affordable Housing SPD intermediate housing receipt threshold values unless otherwise stated.

### Assuming a 5% Increase from the 'Current Market

- 6.93 The following table in figure 6.11 illustrates the proportion of sites which are viable when market conditions are raised by '5%' from the 'current' market.

*Figure 6.11: Viability of affordable housing at '5%' rising market conditions and 50:50 tenure split and 15 unit Site Size Threshold*

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	17%	17%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	71%	57%	57%	43%	29%	14%	0%	0%	0%	0%	0%
	Hot	67%	67%	67%	67%	67%	67%	0%	0%	0%	0%	0%
	Very Hot	50%	50%	50%	50%	50%	0%	0%	0%	0%	0%	0%

Source: GVA, 2010

- 6.94 If market conditions improve by '5%' it has a positive impact on the number of viable sites, most notably in the 'cold' and 'moderate' sub areas. The 5% increase results a small percentage (17%) of sites now viable in 'cold' sub areas, although once 10% affordable housing is applied these small number of sites once again become unviable. The '5%' increase in market conditions also results in the number of viable sites in the 'moderate' sub-market areas increasing from 43% to 71%, although the affordable housing requirement once again significantly impacts viability with a 20% provision resulting just 29% sites being viable.

### Varying the Affordable Housing Tenure

- 6.95 Varying the tenure mix also has a positive impact on the delivery of affordable housing in the scenario of market conditions rising by '5%' – particularly when 100% intermediate dwelling provision is sought.
- 6.96 This enables the 'hot' and 'very hot' sub areas to deliver 50% affordable housing without compromising viability. Varying the affordable housing tenure split also facilitates viable sites in 'moderate' sub areas to deliver a much higher proportion of affordable units. This is illustrated in Figure 6.12 below:



Figure 6.12: Viability of affordable housing at '5%' rising market conditions and 0:100 tenure split and 15 unit Site Size Threshold

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	17%	17%	17%	17%	17%	0%	0%	0%	0%	0%	0%
	Moderate	71%	57%	57%	57%	57%	43%	43%	43%	43%	29%	29%
	Hot	67%	67%	67%	67%	67%	67%	67%	67%	67%	67%	67%
	Very Hot	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%

Source: GVA, 2010

#### Increasing Code for Sustainable Homes (CfSH) Build Standards

- 6.97 CfSH Level 4 (illustrated in Figure 6.13 below) appears to be the tipping point, when market conditions improve by '5%', to enable a relatively significant number of sites to still be delivered before the costs of delivering higher build standards becomes prohibitive. Beyond CfSH Level 4 (i.e. Levels 5-6), few sites are viable at '5%' rising market conditions.

Figure 6.13: Viability of affordable housing at '5%' rising market conditions, CfSH Level 4 and 50:50 tenure split and 15 unit Site Size Threshold

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	43%	43%	29%	14%	0%	0%	0%	0%	0%	0%	0%
	Hot	67%	67%	67%	67%	0%	0%	0%	0%	0%	0%	0%
	Very Hot	50%	50%	50%	0%	0%	0%	0%	0%	0%	0%	0%

Source: GVA, 2010

#### Varying the Affordable Housing (Site Size) Threshold

- 6.98 This sub-section tests the impact on site viability of reducing the site size threshold for triggering an affordable housing requirement from the 15 unit site size threshold

recommended within PPS 3. The assessment is run at CfSH Level 2, with market conditions improving by '5%' from the 'current market'.

- 6.99 If market conditions were to increase by '5%', reducing the affordable housing threshold to 5 units appears to have the greatest impact on generating more viable sites, with 'very hot' and 'hot' sub areas seeing the greatest benefit – illustrated by figure 6.14 below:

*Figure 6.14: Viability of affordable housing at '5%' rising market conditions, and 50:50 tenure split and 5 unit Site Size Threshold*

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	8%	8%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	41%	36%	27%	14%	9%	5%	0%	0%	0%	0%	0%
	Hot	57%	57%	43%	43%	43%	29%	0%	0%	0%	0%	0%
	Very Hot	63%	63%	63%	63%	50%	38%	38%	25%	25%	25%	0%

Source: GVA, 2010

- 6.100 Reducing the affordable housing threshold to just 1 unit does not result in any further benefit in increasing the proportion of sites across the sub-market areas.

### Assuming a 10% Increase from the 'Current Market

- 6.101 Figure 6.15 illustrates the proportion of sites which are viable when market conditions are raised by 10% from the 'current' market.

*Figure 6.15: Viability of affordable housing at '10%' rising market conditions and 50:50 tenure split and 15 unit Site Size Threshold*

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	50%	33%	33%	17%	17%	0%	0%	0%	0%	0%	0%
	Moderate	86%	86%	71%	71%	57%	43%	43%	29%	14%	0%	0%
	Hot	67%	67%	67%	67%	67%	67%	67%	67%	0%	0%	0%
	Very Hot	100%	100%	50%	50%	50%	50%	50%	0%	0%	0%	0%

Source: GVA, 2010

- 6.102 A rise in market conditions by '10%' results in a high proportion of sites across all sub-market areas now being viable, with 'cold' and 'moderate' sub areas seeing the greatest benefits. However, when the affordable housing contribution exceeds 20%, the viability of sites in 'cold' and 'moderate' sub-market areas is significantly impacted.

#### *Increasing Code for Sustainable Homes (CfSH) Build Standards*

- 6.103 As when increasing market conditions by '5%', CfSH Level 4 is again the tipping point when conditions are at '10%'. At this point build costs can still support a relatively high proportion of viable sites, however, once the build cost increases further (i.e. CfSH Levels 5-6), then viability is adversely affected.
- 6.104 At CfSH Level 4, 29% of sites in 'moderate' locations can deliver up to a 25% affordable housing contribution, 67% of sites in 'hot' locations can deliver 25% affordable housing and 50% of sites in 'very hot' locations can deliver 25% affordable housing.

Figure 6.16: Viability of affordable housing at '10%' rising market conditions, CfSH Level 4, and 50:50 tenure split and 15 unit Site Size Threshold

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	17%	17%	17%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	71%	57%	57%	43%	43%	29%	14%	0%	0%	0%	0%
	Hot	67%	67%	67%	67%	67%	67%	0%	0%	0%	0%	0%
	Very Hot	50%	50%	50%	50%	50%	50%	0%	0%	0%	0%	0%

Source: GVA, 2010

#### *Varying the Affordable Housing (Site Size) Threshold*

- 6.105 If market conditions were to increase by '10%' reducing the affordable housing threshold to 5 units has the greatest impact on viability – illustrated in figure 6.17 below.

Figure 6.17: Viability of affordable housing at '10%' rising market conditions and 50:50 tenure split and 5 unit Site Size Threshold

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	33%	22%	22%	11%	11%	0%	0%	0%	0%	0%	0%
	Moderate	63%	56%	50%	50%	38%	25%	19%	13%	6%	0%	0%
	Hot	67%	50%	50%	50%	50%	50%	50%	33%	0%	0%	0%
	Very Hot	86%	86%	71%	71%	71%	71%	57%	43%	43%	29%	29%

Source: GVA, 2010

- 6.106 Reducing the affordable housing threshold does little to increase the number of viable sites in 'cold' sub areas. However, it does result in uplift in viability across all other in all other sub-market areas by at least 25%. The result is a much higher number of sites in 'very hot' sub areas delivering affordable housing – in this case 29% of sites can deliver a contribution of 50% affordable housing whilst remaining viable.

#### Assuming a 15% Increase from the 'Current Market'

- 6.107 When market conditions improve by 15%, it results in a marginal positive additional impact on the proportion of viable sites over and above a 10% increase. This is demonstrated in the following figure.

Figure 6.18: Viability of affordable housing at '15%' rising market conditions and 50:50 tenure split and 15 unit Site Size Threshold

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	50%	50%	50%	33%	33%	17%	17%	0%	0%	0%	0%
	Moderate	86%	86%	86%	86%	86%	71%	57%	43%	43%	29%	14%
	Hot	67%	67%	67%	67%	67%	67%	67%	67%	67%	67%	0%
	Very Hot	100%	100%	100%	100%	50%	50%	50%	50%	50%	0%	0%

Source: GVA, 2010

### *Increasing Code for Sustainable Homes (CfSH) Build Standards*

- 6.108 An increase in market conditions by 15% does start to see sites in 'moderate', 'hot' and 'very hot' sub-market areas become viable once CfSH Level 5 is applied, with a significant proportion of sites in the 'hot' and 'very hot' sub-market areas able to deliver 30% affordable housing – see figure 6.19 below:

*Figure 6.19: Viability of affordable housing at '15%' rising market conditions, CfSH Level 5 and 0:100 tenure split and 15 unit Site Size Threshold*

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	29%	29%	14%	14%	0%	0%	0%	0%	0%	0%	0%
	Hot	67%	67%	67%	67%	67%	33%	33%	0%	0%	0%	0%
	Very Hot	50%	50%	50%	50%	50%	50%	50%	0%	0%	0%	0%

Source: GVA, 2010

### *Assuming a 20% Increase from the 'Current Market'*

- 6.109 This broadly represents the peak market conditions experienced in the market boom which proceeded the current period of market instability. An increase in market conditions by '20%' results in a further significant uplift in the proportion of sites across Calderdale able to deliver affordable housing when compared to a '15%' increase in market conditions.
- 6.110 This is most notable in 'cold' sub-market areas, where 33% of sites can now deliver a 30% affordable housing contribution. In 'very hot' and 'hot' sub-market areas 50% and 67% of respective sites can now deliver up to a 50% affordable housing contribution.

Figure 6.20: Viability of affordable housing at '20%' rising market conditions and 50:50 tenure split and 15 unit Site Size Threshold

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	50%	50%	50%	50%	50%	50%	33%	33%	17%	17%	0%
	Moderate	86%	86%	86%	86%	86%	86%	86%	71%	57%	43%	43%
	Hot	100%	67%	67%	67%	67%	67%	67%	67%	67%	67%	67%
	Very Hot	100%	100%	100%	100%	100%	100%	50%	50%	50%	50%	50%

Source: GVA, 2010

#### Increasing Code for Sustainable Homes (CfSH) Build Standards

- 6.111 A '20%' increase in market conditions also starts to result in a small number of sites being viable to deliver CfSH Level 6 alongside a small element of affordable housing, albeit in mainly in the 'very hot' and 'hot' sub areas.

Figure 6.21: Viability of affordable housing at '20%' rising market conditions, CfSH Level 6 and 50:50 tenure split and 15 unit Site Size Threshold

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Moderate	29%	14%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Hot	67%	67%	67%	33%	0%	0%	0%	0%	0%	0%	0%
	Very Hot	50%	50%	50%	50%	0%	0%	0%	0%	0%	0%	0%

Source: GVA, 2010

#### Varying the Affordable Housing (Site Size) Threshold

- 6.112 Lowering the site threshold to 1 unit for an affordable housing contribution results in a high percentage of sites being able to up 25% affordable housing across all sub-market areas before viability is significantly impeded. In fact, 50% of sites in 'very hot' locations, 43% of sites in 'hot' locations and 14% of sites in 'moderate' locations can

deliver up to a 50% affordable housing contribution whilst remaining economically viable for development.

- 6.113 Nevertheless, what this scenario does also illustrate is the significant percentage (circa 62%) of sites that remain unviable in 'cold' market locations, before an affordable housing contribution is even sought, despite the prolific market conditions.

*Figure 6.22: Viability of affordable housing at '20%' rising market conditions and 50:50 tenure split and 1 unit Site Size Threshold*

		Affordable Housing Provision										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
		Number of Sites Economically Viable										
Market Location	Cold	38%	38%	38%	31%	23%	23%	15%	15%	8%	8%	0%
	Moderate	73%	64%	64%	59%	59%	59%	50%	41%	32%	23%	14%
	Hot	100%	86%	86%	86%	71%	71%	57%	57%	57%	43%	43%
	Very Hot	88%	75%	75%	75%	75%	75%	63%	63%	63%	63%	50%

Source: GVA, 2010

### Summary – 'Increasing' Market Conditions

- 6.114 Within the 'rising' market scenario 5%, 10%, 15% and 20% was added to the achievable residential property values at 'current' market conditions reflecting the situation experienced to the peak of the last property cycle.
- 6.115 The results demonstrate a substantially improved level of site viability when compared to 'current' or 'declining' market circumstances. This improves incrementally as each percentage uplift is applied to market performance. Hence, the altering of market conditions can be singled-out as a primary influence on the capability of sites to provide affordable housing.
- 6.116 The analysis shows that the majority of sites located within 'cold' sub-market areas struggle to deliver a significant affordable housing contribution despite testing the uplift in market conditions. Conversely, the 'very hot' and 'hot' sub-market areas and, to a smaller degree, the 'moderate' sub-market areas demonstrate strong potential for affordable housing delivery within Calderdale – particularly if market conditions increase above the 'current' situation.

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- 6.117 Nevertheless, if market conditions were to improve by '20%', as many as 33% of sites in 'cold' locations could deliver up to a 30% affordable housing requirement (at a 15 unit site size threshold).
- 6.118 The results indicate that lifting build quality standards to CfSH Level 3 - 6 has a negative impact on site viability – as expected this is most punitive to sites in 'moderate' and 'cold' market locations given the comparably reduced value of units in these areas. However, when market conditions improve by '5%' and '10%' only CfSH Level 4 can be supported before build costs become prohibitive across all the sub areas. Once market conditions improve by '15%' a significant number of sites in 'hot' and 'very hot' sub-market areas can then support CfSH Level 5 but no sites in 'cold' sub areas can. Once market conditions improve by '20%' it is only the 'hot' and 'very hot' sub-market areas that can support CfSH Level 6, however once a 20% affordable housing contribution is sought in these sub-market areas, then such sites also become unviable.
- 6.119 As firstly recognised through analysis of 'current' and 'declining' market conditions (which suggested a threshold of 10 units), reducing the site size threshold of introducing a requirement for an affordable housing contribution to include sites sized 5 units and above had a positive effect on the proportion of sites which were viable and their overall potential contribution to affordable housing under improving market conditions. This was particularly evident in 'hot' and 'very hot' sub-market locations.
- 6.120 Limited additional uplift in the proportion of viable sites was experienced when the threshold was dropped below 5 units, which suggests that the smallest sites included within the sample, sized below 5 units, are marginal in their viability and therefore questions the inclusion of those sites within affordable housing policy requiring affordable housing contributions.
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## 7. Conclusion

- 7.1 This final section of the assessment presents a brief summarising overview of the commission, followed by highlighting the implications for policy of the assessment findings. Lastly, the section concludes by presenting a set of recommendations for consideration when developing affordable housing policy within Calderdale.

### Overview

- 7.2 The aims of this assessment are:
- To develop a robust, transparent and effective means of determining appropriate and justifiable affordable housing targets in Calderdale Borough.
  - To further develop and test the housing need evidence base which will support the findings and conclusions of Calderdale's SHMA 2010.
  - Provide robust evidence to develop and support the Council's future planning policies within the Core Strategy and other documents comprising the LDF on affordable housing; and inform the housing strategy and the Leeds City Region housing strategy.
  - To examine the viability of the tenure splits recommended in the SHMA and to test the viability of variants of these recommendations.
- 7.3 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 50 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 Calderdale.
- 7.4 It is important to note that this high level assessment of sample sites assumes and applies a number of generalised assumptions. The model toolkit will allow Calderdale 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.
- 7.5 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.
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## Policy Implications

- 7.6 The results of the economic viability analysis reveal that the spatial location within which a site is situated is a key influencing factor on scheme viability within Calderdale borough and hence on the proportion of affordable housing a site can provide whilst remaining economically viable.
- 7.7 The economic viability of sites within Calderdale is most pronounced within the sub-markets categorised as 'very hot' and 'hot' market locations, supported by higher achievable returns, and to a more limited extent in 'moderate' sub-market areas.
- 7.8 In 'moderate' market locations the specific characteristics of sites are particularly important in defining their viability – with higher density housing schemes on greenfield sites demonstrating greater viability than the majority of supply across 'moderate' areas due to low infrastructure and remediation costs and high returns.
- 7.9 Conversely, sub-markets categorised as 'cold' locations have no economically viable sites in the 'current' market and are therefore likely to require public sector intervention (in gap funding terms) to deliver affordable housing.
- 7.10 Overall, analysis indicates that the delivery of affordable housing is severely constrained in 'current' market conditions within Calderdale borough, as demonstrated in Figure 6.1 – with supply unlikely to achieve the current local policy requirements (i.e. 30% affordable housing contribution on sites delivering 15 or more units). This is likely to inhibit the supply of affordable housing developed across the borough in the short-term, until market conditions improve.
- 7.11 Through scenario testing the assessment reveals that variation in property market conditions from those experienced in the 'current' market to 'rising' or 'declining' conditions has a significant impact on the viability of sites. As noted previously, during the 'current' market site viability across all sub-market locations is severely constrained - this position is worsened further within a 'declining' market context.
- 7.12 With an improvement to 'rising' market conditions site viability is dramatically improved across the borough – this suggests greater potential for the delivery of affordable housing supply. Sites in both Calderdale's 'very hot', 'hot' and 'moderate' (to a lesser extent) sub-markets require only a limited (+5%) improvement in conditions to increase viability.
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- 7.13 However, sites located in Calderdale's 'cold' market locations require a proportionately greater improvement in market conditions to achieve a significant level of viability.
- 7.14 Hence, the altering of market conditions can be singled-out as a primary influence on the capability of sites to provide affordable housing. Under 'rising' market conditions it would therefore be appropriate to apply a sliding scale of affordable housing targets across the borough, with higher affordable housing targets within 'very hot' and 'hot' market locations than in the 'moderate' and 'cold' locations. It will therefore be necessary for Calderdale Council to continue to monitor achievable transaction values to establish market conditions at a particular point in time.
- 7.15 In addition, the application of a site size threshold has a further impact on the affordable housing delivery of economically viable sites within Calderdale. A substantial proportion (81%) of Calderdale borough's (approx. 1,800) SHLAA sites are small (delivering under 15 units). 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.
- 7.16 By reducing site size thresholds to 5 units in 'very hot' and 'hot' market locations, Calderdale Council could maximise delivery against affordable housing targets and needs 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. 'current', 'rising' and 'declining').
- 7.17 Therefore, the delivery of smaller sites (below 15 units) in 'very hot' and 'hot' locations could be utilised by policy to sustain some affordable housing out-turn in Calderdale during periods of market 'decline'. A threshold of 15 units in 'cold' and 'moderate' market locations should remain.
- 7.18 The alteration of the affordable housing tenure split between intermediate and social rented units has been found to have a positive impact on economic viability, whereby an increase in the proportion of intermediate units (to contribute 75% or 100% of the total affordable housing provision) can result in an increase in site viability. This emphasises the difficulty in delivering high proportions of social rented housing on all but the most viable locations and site classifications across the borough. Subsequently, policy should remain flexible to alter the tenure split on a site-specific basis and/or under exceptional circumstances, being a useful tool to 'tip the balance' of viability on marginally unviable
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sites. It must also be recognised that there must be a demonstrable need for affordable housing within the area when approaching negotiations.

- 7.19 Other additional costs also introduce further pressures on site viability. For example, the analysis reveals that raising the building quality standard to CfSH Level 3 - 6<sup>25</sup> has a pronounced impact on the viability of sites, with Code Level 4 acting as a 'tipping point' beyond which viability significantly deteriorates. The impact is particularly acute on the more marginal sites in 'moderate' and 'cold' locations and notably within 'current' and 'declining' market conditions. Importantly, when market conditions are 'rising', there is an improved capability to deliver sites viably alongside lifting build quality standards – particularly in 'very hot' and 'hot' locations. In the longer term there is potential for CfSH build costs (Level 3 – 6) to be reduced over time as methods and materials for construction become more mainstream and technology advances. This may have an impact on site viability by mitigating or off-setting code level uplifts. This, therefore, requires ongoing monitoring by Calderdale Council.
- 7.20 To conclude, it is also clear that the levels of finance available to deliver affordable housing, including public subsidy and the level of developer contributions reasonably securable has diminished within the recent economic climate<sup>26</sup> and the former is not anticipated to increase significantly under the Coalition Government proposals within the Decentralisation and Localism Bill (2010) – and the scale, mechanisms and speed of their implementation remains yet to be fully clarified.
- 7.21 When considered in conjunction with the challenging viability environment for delivering affordable housing, as demonstrated through the EVA, it is crucial for Calderdale Council to analyse what alternative sources of funding there are to help increase the potential pot of money that can be used to fund affordable housing and enabling/supporting infrastructure. Potential policy and delivery mechanisms that the Council may consider are explored in section 2 of this report and include CIL, the New Homes Bonus, Empty Homes Fund and emerging 'affordable rent' model.

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25 At 50:50 affordable tenure split.

26 The EVA model tests the level of contribution towards affordable housing a developer could make within Calderdale based on a range of sensitivities and scenarios. The results are presented in Section 6, and the recommended implications for planning policy are presented in Section 7 of this report.

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## Recommendations

- 7.22 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 Calderdale when considered alongside the affordable housing needs analysis within the 2011 Calderdale SHMA..
- 7.23 The 2011 Calderdale SHMA found there to be a substantial level of new affordable housing need required within Calderdale over the next 5 years in order to meet both the existing backlog and future anticipated household need for affordable dwellings<sup>27</sup>. Based on the findings of the EVA , meeting these requirements will be a significant challenge within Calderdale – particularly in the short-term given prevailing market conditions as at 2010/11. The SHMA also found that almost 50% of households in housing need could afford an equity stake within an intermediate tenure affordable property. This suggests that the delivery of intermediate affordable homes has the potential to meet a substantial element of housing need, as well as also accommodating other low-middle income households.
- 7.24 The assessment makes recommendations to inform Calderdale's future affordable housing policy that are recognised to be **at the upper end of the threshold of site** viability as evidenced in Figure 6.20 to 6.22. **These targets should form an initial policy position from which to begin negotiation of contributions on a site-specific basis, allowing for flexibility within policy** to recognise that even under 'rising' property market conditions there are still a proportion of sites that are unable to achieve the aforementioned targets.
- 7.25 The assessment therefore recommends the following considerations for developing affordable housing policy assuming a forward looking approach, which conforms to PPS3 national policy expectations of Local Authorities:
- Across Calderdale borough developers of all new housing developments should be required to contribute towards the provision of affordable housing in line with a clear policy that is informed by market location, site size threshold, practicality and financial viability (i.e. economic impact of housing market 'conditions').

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<sup>27</sup> Refer to Section 8 of the Calderdale SHMA (2011) for further detail

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- Target contributions through policy should form a starting point for negotiation of affordable housing and other Section 106 contributions on qualifying new housing developments. Delivery of the targets will, however, be dependent on the economic viability of a scheme on an individual site-specific basis. In entering negotiations with the Council, proposing parties (developers/agents/landowners) are expected to undertake an open-book financial appraisal approach to demonstrate that the maximum reasonable and viable contribution to affordable housing is being provided.
  - Policy should seek to negotiate a contribution to affordable housing on new housing developments using the following guidelines, which distinguish between market performance within different sub-market locations across Calderdale borough:
    - A target contribution of 35% affordable housing will apply to qualifying housing developments within Calderdale's 'very hot' sub-market locations.
    - A target contribution of 30% affordable housing will apply to qualifying housing developments within Calderdale's 'hot' sub-market locations.
    - A target contribution of 25% affordable housing will apply to qualifying housing developments within Calderdale's 'moderate' sub-market locations.
    - A target contribution of 20% affordable housing will apply to qualifying housing developments within Calderdale's 'cold' sub-market locations.
  - Policy should seek the target affordable housing contribution on new housing developments that meet, or exceed, the following size threshold:
    - a capacity of 5 units in Calderdale's 'very hot' and 'hot' sub-market locations;
    - a capacity of 15 units in Calderdale's 'moderate' sub-market locations; and
    - a capacity of 15 units in Calderdale's 'cold' sub-market locations.
  - In considering the suitability of affordable housing the Council should require through policy that:
    - Affordable housing sought through policy should target a tenure split of 25% social rented housing and 75% intermediate housing. Flexibility should be retained to facilitate variation to this tenure split where exceptional circumstances are demonstrable on a site-by-site basis.
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- The mix, size and type of affordable homes should contribute towards meeting the identified housing need of the borough as established by the Calderdale SHMA (2010), which established a need for a mix of affordable dwellings sized 1, 2 and 3 bedrooms.
  - Section 106 contributions (other than affordable housing) should be sought on all qualifying new housing developments. Flexibility should be retained to enable Calderdale Council to consider the appropriate balance to be sought between the various S106 requirements, including affordable housing, where practical and viable.
  - Policy should not seek to introduce a requirement to meet CfSH Level 4 build standards ahead of the nationally imposed Government deadline<sup>28</sup>. Flexibility should be retained to consider uplifting a requirement for CfSH Levels (3-6) build standards in 'rising' market conditions and for new housing developments within 'very hot' and 'hot' and market locations. Calderdale Council should also continue to monitor the build costs associated with CfSH to take account of any movement in costs.
  - Calderdale Council should continue to monitor the relative health of the housing market, and the implications for each of Calderdale's sub-markets, in taking forward the recommendations of the assessment for consideration in applying policy<sup>29</sup>.

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<sup>28</sup> Deadline yet to be set by Government across all new housing developments.

<sup>29</sup> The EVA model toolkit provided to Calderdale Council includes technical advice and instruction on how to effectively monitor and update the study including the recommended sources of data to be utilised to ensure consistency of approach.

## 8. Glossary

BCIS	Building Cost Information Service
CfSH	Code for Sustainable Homes
CIL	Community Infrastructure Levy
CLG	Department for Communities and Local Government
CML	Council of Mortgage Lenders
CSR	Comprehensive Spending Review
CT	Council Tax
DPD	Development Plan Document
DPH	Dwellings per hectare
EVA	Economic Viability Assessment
FSA	Financial Services Authority
FTB	First Time Buyer
GIS	Geographical Information Systems
HA	Housing Association
HB	Housing Benefit
HCA	Homes and Communities Agency
HHSRS	Housing Health and Safety Rating System
HMA	Housing Market Area
HNA	Housing Needs Assessment
HNS	Housing Needs Survey
HSSA	Housing Strategy Statistical Appendix
IS	Income Support
JSA	Job Seekers Allowance
LDF	Local Development Framework
LHA	Local Housing Allowance
NGP	New Growth Point
NHB	New Homes Bonus
ONS	Office for National Statistics
PDL	Previously Developed Land
PHASE	Population, Housing and Strategic Evidence



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PPS	Planning Policy Statement
PSHCS	Private Sector House Condition Survey
RES	Regional Economic Strategy
RHS	Regional Housing Strategy
RSL	Registered Social Landlord
RSS	Regional Spatial Strategy
SCS	Sustainable Community Strategy
SDLT	Stamp Duty Land Tax
SEH	Survey of English Housing
SHG	Social Housing Grant
SHLAA	Strategic Housing Land Availability Assessment
SHMA	Strategic Housing Market Assessment
SMR	Standardised Mortality Ratio
SPD	Supplementary Planning Document
TFR	Total Fertility Rate
TSA	Tenant Services Authority
TTW	Travel to Work