Annex A

Executive summary

Introduction

S1 Fordham Research was commissioned by York City Council to carry out a study of affordable housing viability in the City. The viability study is intended to inform ongoing work on the preparation of Local Development Frameworks (LDF).

S2 Government Guidance in Planning Policy Statement 3: Housing (PPS3) (2006 paragraph 29) requires councils to set a *'plan-wide'* affordable housing target, and to test this for *'deliverability'* by means of the '*economic viability of land for housing within the area'*.

S3 The Homes and Communities Agency (HCA) has issued the first official guidance to reflect the downturn (Good Practice Note: *Investment and Planning Obligations: responding to the downturn*, July 2009). This says that affordable housing targets should not be set for the plan period based on the present poor market conditions.

S4 As a result Fordham Research's Dynamic Viability approach is proposed, as that is designed to take account of a range of possible future housing market outcomes through the use of a matrix approach.

The valuation process

S5 The study involved preparing financial appraisals for a representative range of sites to give a picture of the City-wide ability of such sites to afford given targets for affordable housing. The approach was to *'model'* viability using a range of variables and our bespoke spreadsheet software. The key features were:

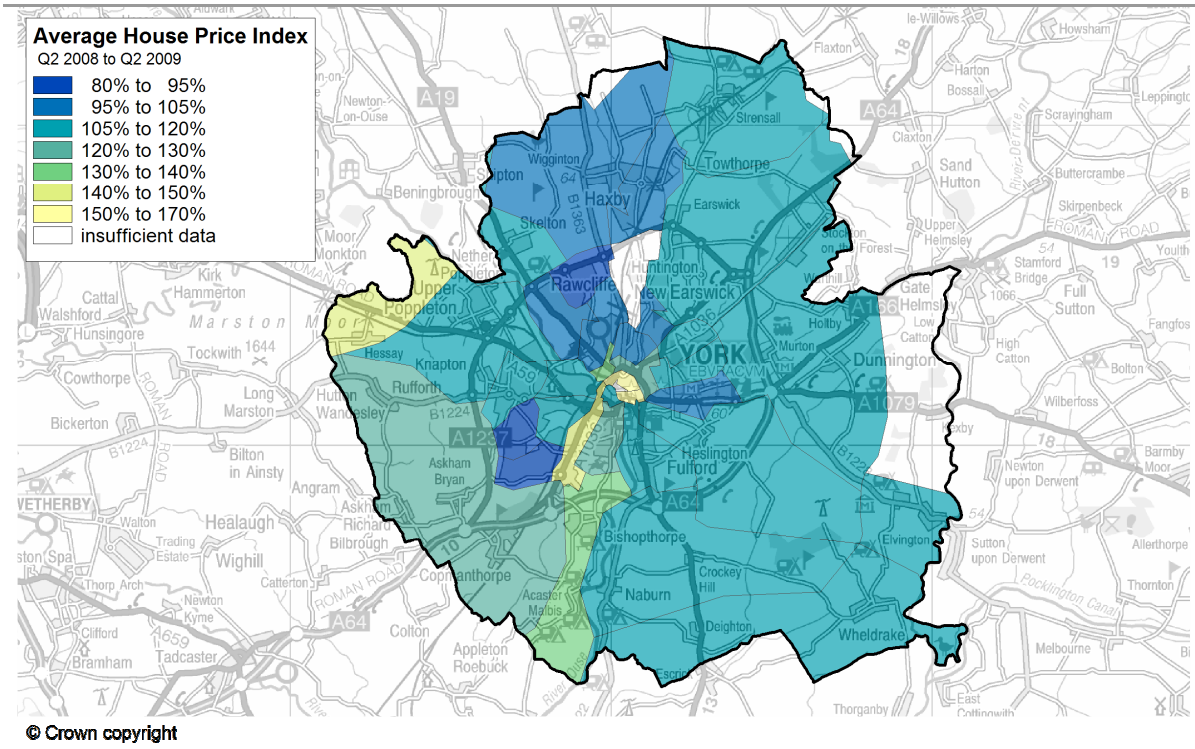
i) A set of 15 actual sites was selected, in discussion with the Council, from a longer list of possible sites. Taken together these were considered to be representative

ii) The sites covered a wide range of site size (ten dwellings to 235), at an average density of 46 dwellings per ha. All but four were 'brownfield'

iii) Whilst the majority of sites were SHLAA potential allocations, five were subject to planning permissions of which two had started construction

iv) A wide range of data was collected about housing in the City area; this included prices (second-hand, and newbuild, of which there is a reasonable supply locally), rents and values. The map below illustrates house price variations across the City area.

Figure S1 Postcode price indices



Indices compare prices to value for median postcode sector in England & Wales

Testing the sites

S6 In order to provide reliable evidence on deliverability, the sites were examined under a range of assumptions about the key factors affecting viability:

i) Affordable housing target levels of 20%, 30% and 40% (although a 50% target level would have been relevant at the market peak, it is not worth examining at present, though it is taken into account in the future Dynamic Viability context)

ii) Affordable housing split 60% social rented and 40% intermediate

iii) Land values for alternative uses for the sites: clearly the site viability cannot plausibly fall below the level of alternative use, and so this must be established

iv) Affordable housing income assumes no grant contribution is forthcoming

v) The calculations assume planning gain contributions at £8k per dwelling

vi) Level 3 of the Code for Sustainable Homes was assumed as well as the Regional Spatial Strategy (RSS) requirement for 10% renewable energy.

vii) Abnormal costs were taken into account where the sites indicated they were likely.

S7 Clearly this range of elements generated a large range of possible outcomes. These were assessed through our bespoke valuation methodology to indicate 'residual land values'. This is the standard approach, and assumes that all costs and returns are measured, except for the land value outcome. The latter is the key variable. It can then be compared with other scenarios, and with alternative use values. The latter are most commonly agricultural in rural areas, and industrial in urban ones.

Appraisal outcomes

S8 To assess viability, the value of the land for the particular residential scheme adopted needs to be compared to the alternative use value, to determine if there is another use which would derive more revenue for the landowner. If the assessed value does not exceed the alternative use value, then the development is not viable.

S9 For the purpose of a strategic study like the present one, it is necessary to take a comparatively simplistic approach to determining the alternative use value. In practice a wide range of considerations could influence the precise value that should apply in each case, and at the end of extensive analysis the outcome might still be contentious.

S10 An important step in valuations of this kind is 'alternative use value'. This is the 'next best use' to the existing or proposed one. For example if the site were not used for housing what would the best alternative be? It could be agriculture or some other urban use. Our 'model' approach to alternative use value is outlined below:

viii) For sites previously in agricultural use, agricultural land represents the existing use value

ix) Where the development is on former industrial, warehousing or similar land, then the alternative use value is considered to be industrial

x) Where an existing building remained, broadly capable of beneficial use, we took its estimated value

xi) Open space and unused garden land are taken to have a more substantial value than agricultural, though falling short of the industrial 'benchmark'.

S11 If the residual value produces a surplus over the alternative use value benchmark, it does not follow automatically that the site is viable. There needs to be a sufficiently large surplus ('cushion') to provide an incentive to the landowner to release the site. We decided that the cushion should be a minimum of £40k per acre (£100k per ha), except for agricultural land where it increased to £80k per acre (£200k per ha). The agricultural land cushion is larger due to the element of 'hope' value which attaches to such land when it is in locations likely to

experience future housing development. They acquire a value that reflects the expectation that there will be a future jump in value when planning permission is achieved.

S12 Applying this approach, the results for the 15 sites are shown in the figure below:

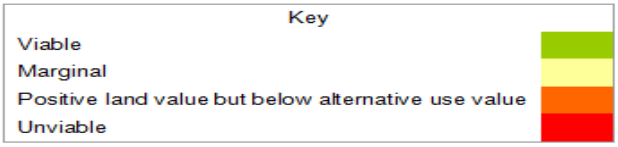
Table S1 Appraisal outcomes: zero grant

No	*Site*	*Value £k per acre*				
		*Viability threshold**	*No aff*	*20%*	*30%*	*40%*
1	Germany Beck	10+80	744	483	350	218
		90	VIABLE	VIABLE	VIABLE	VIABLE
2	Lowfield Sec. School	115+40	437	215	102	-11
		155	VIABLE	VIABLE	NOT VIAB	NOT VIAB
3	Metcalfe Lane Osbaldwick	10+80	535	305	190	73
		90	VIABLE	VIABLE	VIABLE	MARGINAL
4	Hungate	165+40	2,694	832	-121	-1,110
		205	VIABLE	VIABLE	NOT VIAB	NOT VIAB
5	Manor School	115+40	579	324	195	67
		155	VIABLE	VIABLE	VIABLE	NOT VIAB
6	The Brecks, Strensall	10+80	537	325	219	111
		90	VIABLE	VIABLE	VIABLE	VIABLE
7	Askham Bar Park & Ride	165+40	781	491	342	195
		205	VIABLE	VIABLE	VIABLE	MARGINAL
8	Discus Bungalows	50+40	272	13	-123	-260
		90	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB
10	Delivery Office, Birch Park	165+40	501	85	-136	-357
		205	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB
12	Burdike Avenue	100+40	367	156	46	-67
		140	VIABLE	VIABLE	NOT VIAB	NOT VIAB
13	Burnholme WMC	100+40	503	255	125	-8
		140	VIABLE	VIABLE	MARGINAL	NOT VIAB
14	Water Lane, Clifton	165+40	-41	-345	-498	-654
		205	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
15	22 Princess Rd Strensall	293+40	581	333	208	-77
		333	VIABLE	MARGINAL	NOT VIAB	NOT VIAB
16	Reynards Garage	165+40	2,332	1,485	1,043	612
		205	VIABLE	VIABLE	VIABLE	VIABLE
17	62 Mill Lane	100+40	297	63	-58	-180
		140	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB

Please note that sites numbered 9 and 11 do not appear in this assessment: the total number of sites is 15.

* Viability threshold is made up of the alternative use value plus 'cushion' to reflect the additional price required to induce sale

As Table 6.3 of main Report.



Implications for affordable targets

S13 PPS3 (paragraph 29) requires a 'plan-wide' target and also wants to see deliverability and grant expectations factored in. This poses some difficulty, as nobody has any idea what HCA grant levels may be over the decades to come. The best solution is to create two separate types of target:

> Target 1: viability tested with zero grant and deliverable on market housing sites
>
> Target 2: a plan-long aspiration including the expected yield of affordable housing from Target 1 and whatever grant expectations the City may consider reasonable

S14 PPS3 does not prohibit sub-targets within the plan-wide target. Given that York has a number of large greenfield sites which can support much higher targets than the broad-brush city-wide one, we suggest that there is a greenfield sub-target.

S15 The SHMA suggests, based on housing need, that a target of 50% is reasonable. We would suggest that this is both a ceiling for the Target 1 figure, and an appropriate level for Target 2. The latter, however, is very much a policy consideration for the Council.

S16 On sites with less than 15 dwellings we found that there is a reasonable basis for setting targets for sites of five dwellings and above (as shown in Table S2), but not for smaller sites below 5 dwellings. We have therefore proposed a cash in lieu (commuting off) figure for these based on the prices which are paid to developers for RSL purposes.

Table S2 Summary of target proposals

Nature of target	*Target*	*Comment*
Target 1: Broad-brush PPS3 target	25%	Used as the basis for Dynamic Viability in Chapter 9 and therefore variable as market circumstances change. Applies up to 50% on sites of 15 dwellings and above.
Greenfield target	40%	Linked by being 15% above the broad-brush one. Upper limit of 50% as with Target 1.
Sites 11-14 dwellings	25%	These targets would vary in step with the 25% broad-brush target, like the rural 40% one.
Sites 5-10 dwellings	20%	
Sites of 2-4 dwellings	n/a	No target, but cash in lieu as negotiated on the basis of site viability.
Target 2: Plan long and including grant expectations	50%	Target 2 is intended to include the proceeds of Target 1 plus the unknown future product of HCA grant over the plan period. This target is designed to inform policy but not to be applied in site negotiation. It is set at the limit of what the SHMA indicates as a target and could be set lower if the City feels that grant expectations would not permit it to be as high.

Source: Table 8.1

S17 As mentioned in Table S2, only the broad-brush 25% target goes forward into the Dynamic Viability process. The other targets are linked to it, and subject to the 50% ceiling derived from the SHMA.

Dynamic Viability

S18 This is designed to overcome a dilemma created by the Credit Crunch and subsequent market recession. During the history of affordable housing targets since their creation in 1991 there had been a broadly rising market. This meant that targets could rise also, and reach their current level of around 40-50%. The downturn following the Credit Crunch meant that targets needed to be lowered. It was always a condition of such targets that they should not remove viability from the market housing developments of which they were a part (such targets only apply to market housing developments, not to ones that are fully funded by public grants).

S19 Fordham Research has devised a system which permits deliverable targets to be set, regardless of future fluctuations in the market, using sets of price and cost indices. It means that the Core Strategy Inquiry can be presented with the full range of possible target outcomes, and once approved (in whatever form) no new policy change is required to alter the target. It is changed only by the movement of published indexes. The intervals at which it is changed must be infrequent enough to permit an orderly land market, thus perhaps annually.

S20 In order to generate the data below it is necessary to agree a Benchmark Site. This is necessary to permit a reasonably simple outcome. In the case of York that is site 5 (Manor School). It is judged to be typical of the City area, and will remain so for the plan period. This is immaterial of whether the site itself is built. Sites of this character will remain typical: this is the assumption.

S21 The mechanism for producing the target ranges is quite complex. It builds on the viability analysis for site 5 (Manor School) set out in the summary above. In terms of the target indications set out above, it would therefore attract a 25% target. The results of the analysis will therefore relate directly to brownfield sites, and by an automatic uplift of 15%, to greenfield sites. There is therefore only one Dynamic Viability analysis.

S22 It then examines the full range of possible cost and price changes and generates a *Coarse* and *Fine Matrix* of targets. The need for two levels of target arises from the major size of the matrix if the whole set were presented as one. At the same time target changes must not be too radical (e.g. from 20-35% would seem too great for a one step change). Hence *the Fine Matrix* is essentially a close-up of part of the *Coarse Matrix*, such that the steps between targets are reasonably small. The full set of tables for both matrices and all the alternative use values will be found in Appendix 4.

S23 The following are illustrations, using the actual data for the Manor School Benchmark site. It is a brownfield site attracting a 25% target in the sense of the above discussion, and the resultant target can be directly linked to greenfield targets by a 15% uplift. The *Coarse Matrix* is:

Figure S2 York City Coarse Matrix with base alternative use value

			Price Change HPI								
	%		*-20%*	*-10%*	*0%*	*10%*	*20%*	*30%*	*40%*	*50%*	*60%*
			434.1	488.3	542.6	596.9	651.1	705.4	759.6	813.9	868.2
Cost Change BCIS Index	*-20%*	229.8	25%	40%	50%	55%	55%	55%	55%	55%	55%
	-10%	258.6	5%	25%	35%	45%	50%	55%	55%	55%	55%
	0%	287.3	0%	10%	25%	35%	40%	50%	55%	55%	55%
	10%	316.0	0%	0%	10%	25%	35%	40%	45%	50%	55%
	20%	344.8	0%	0%	0%	15%	25%	30%	40%	45%	50%
	30%	373.5	0%	0%	0%	5%	15%	25%	30%	35%	40%
	40%	402.2	0%	0%	0%	0%	5%	15%	25%	30%	35%
	50%	431.0	0%	0%	0%	0%	0%	5%	15%	25%	30%

Figure 9.1 of main Report

S24 There are in fact eight versions of both this and the *Fine Matrix* tables, because there is a third dimension in addition to cost and price which must be taken into account: alternative use value. It is possible that due to market changes the land use that is alternative to newbuild housing may become more profitable than housing with the stated affordable target. The figure above shows the base alternative use value, but in future it may be necessary to switch to others, depending on how the index moves.

S25 The figure shows the range of targets that are produced by the sets of price and cost. The figure below shows the close up of the *Fine Matrix*. As can be seen, 25% is again highlighted as the base target level, but the target intervals around it are much more closely spaced: providing more realistic changes of target level.

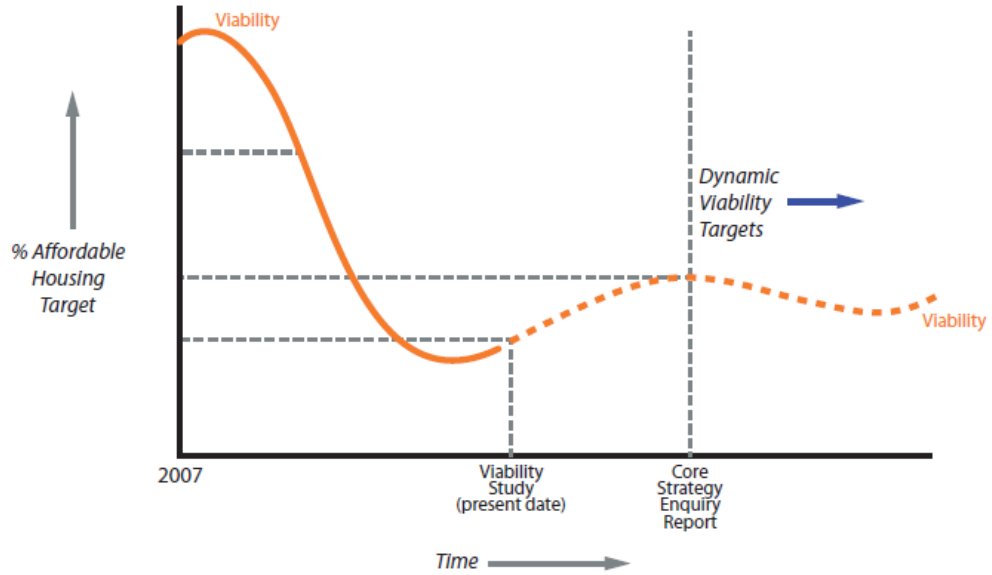
Figure S3 York City Fine Matrix with base alternative use value

			Price Change HPI								
	%		*-8%*	*-4%*	*0%*	*4%*	*8%*	*12%*	*16%*	*20%*	*24%*
			499.2	520.9	542.6	564.3	586.0	607.7	629.4	651.1	672.8
Cost Change BCIS Index	*-8%*	264.3	25%	30%	35%	40%	40%	45%	45%	50%	50%
	-4%	275.8	20%	25%	30%	35%	35%	40%	45%	45%	50%
	0%	287.3	15%	20%	25%	30%	35%	35%	40%	40%	45%
	4%	298.8	10%	15%	20%	25%	30%	30%	35%	40%	40%
	8%	310.3	0%	10%	15%	20%	25%	30%	30%	35%	40%
	12%	321.8	0%	5%	10%	15%	20%	25%	30%	30%	35%
	16%	333.3	0%	0%	5%	10%	15%	20%	25%	30%	30%
	20%	344.8	0%	0%	0%	5%	10%	15%	20%	25%	25%

Figure 9.2 of main Report

S26 Since the automatic target varying procedure cannot begin until approved by the Inspector's Report, it is desirable to have it as up to date as possible. Figure S4 indicates this process schematically.

Figure S4 Implementing Dynamic Viability



Note: This diagram is schematic and does not apply to York

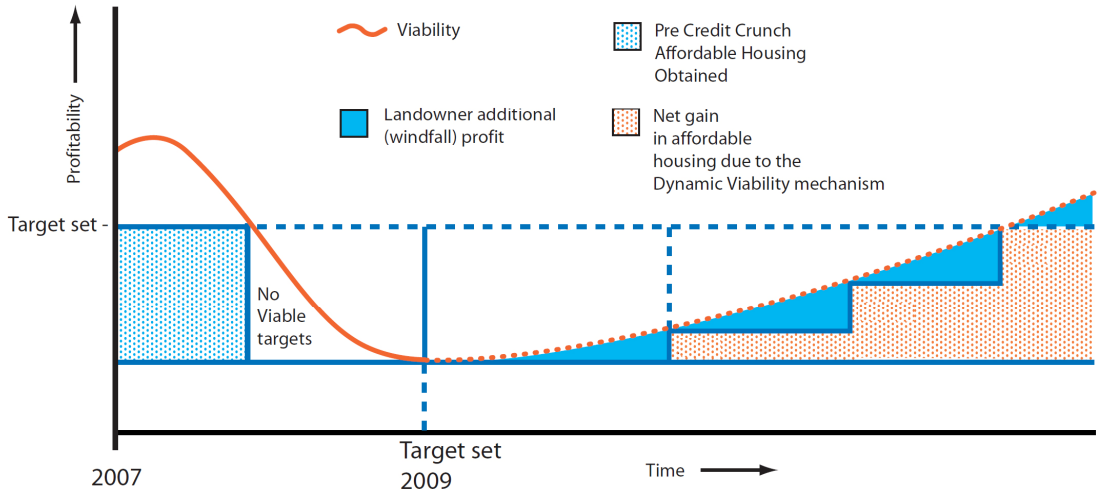
S27 The diagram illustrates the possible change in viability between completion of the viability study and Core Strategy Inquiry. After that, of course, the Dynamic Viability matrix will take account of future variations in viability. As the diagram suggests, these could be downward as well as upward. The future course of the market is uncertain.

S28 The base target at the date of this report's analysis is 25%. As pointed out this contains within it a 40% greenfield target. As the 25% target is updated and moves up or down, the greenfield target is simply 15% more than whatever the main target is.

Conclusion

S29 The main point is that the Dynamic Viability matrices will ensure that all future changes in the housing market are tracked by deliverable affordable housing targets.

Figure S5 Gain of Affordable Housing from Dynamic Viability



Note: This diagram is schematic and does not apply to York

S30 This figure also shows that the landowners and developers will gain from any uplift in the market. The basic viability assessment assures the landowner and the developer of a reasonable return. When the market goes up, the private sector will gain a windfall profit (shown by the blue areas under the viability curve) and the public interest will gain affordable housing as the targets are periodically altered.

S31 The Dynamic Viability procedure ensures that the maximum of deliverable affordable housing is achieved.