Economic viability of affordable housing requirements

Study for Sunderland City Council

Final Report

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1. Introduction

1.1 This report has been prepared to advise Sunderland City Council on the economic viability of potential policies for affordable housing provision in the City Council area. The last study was completed in 2010.

1.2 Since the last study was undertaken in 2010 there have been changes to the National Planning Policy Framework and guidance on undertaking viability assessments of this type.

1.3 The National Planning Policy Framework was published on 27th March 2012 and came into effect on the same day, revoking Planning Policy Statement 3 Housing, which had previously formed the basis for housing planning policy. As part of its commitment to economic growth, localism and decentralisation, the Government has used the Framework to streamline all existing national policy documents into one short Policy Framework.

1.4 The Framework stresses the need for councils to work with communities and businesses to seek opportunities for sustainable growth to rebuild the economy; helping to deliver the homes, jobs, and infrastructure needed for a growing population whilst protecting the environment. A presumption in favour of sustainable development means that proposals should be approved promptly unless they compromise the twelve sustainable development principles set out in the Framework. The Framework identifies three dimensions to sustainable development: economic, social and environmental. These three dimensions (or roles) are seen as mutually dependent. The Framework must be taken into account in the preparation of local and neighbourhood plans, and it is a material consideration in decision making.

1.5 The National Planning Policy Framework now recognises the importance of viability to ensure that residential schemes come forward. This is especially important when development is under threat in times of economic hardship. We recognise that this means that underestimating the full burden of development requirements may mean that schemes do not come forward.

1.6 The requirements for affordable housing have been reviewed in the Strategic Housing Market Assessment 2013 (SHMA) that has been prepared with this viability assessment. The SHMA finding is that there is a strong level of need for affordable housing in Sunderland. The estimated annual requirement, using the recommended Department of Communities and Local Government (CLG) methodology, is a net figure of 514 additional affordable homes per year. The main need for provision is for social rented housing (77.3%) but the report identifies that 22.7% of households in need would consider intermediate tenures. Whether they could afford this would depend on the affordability of the intermediate tenures. For example, 31.2% of households in need could afford to purchase an equity share of up to £100,000.

1.7 This study takes into account the most up-to-date evidence of need from the latest SHMA. It aims to give certainty to landowners, developers and local communities, and provide guidance for the preparation of Neighbourhood Plans. The policy will help create balanced and mixed communities and help deliver much needed affordable housing.

1.8 It is recognised that the quantity of new affordable housing development will often, in practice, be determined as much by the financial viability of new provision as by the level of need. The study is therefore considered flexible enough to take into account the viability of each site and not be so restrictive as to unnecessarily prevent development.

1.9 In seeking to negotiate the maximum level of affordable housing on each site, the Council will have regard to the economic viability of site development, likely costs, market conditions, and the availability of public subsidy and the aim of achieving a mixed and balanced community. Developers will be expected to demonstrate the validity of such viability factors, providing supporting evidence.

1.10 This study therefore complements the SHMA by considering the viability of affordable housing provision as part of new housing developments, delivered through planning obligations within the framework. It does not take account of the availability of grant support for affordable housing provision, although if available, this will be an important element of the overall provision of affordable housing.

1.11 The scope and approach of the study has been designed to meet the requirements of the National Planning Policy Framework, as part of the evidence base for preparation of the Local Development Framework. It will also inform future versions of the Council's Housing Strategy.

1.12 The scope of the study is designed to help the Council assess the impact of the recent major changes in the housing market and the uncertainty about future market conditions, alongside the long-term implications of affordable housing requirements. By considering a range of housing market growth scenarios it is also future proofed to provide the Council with flexibility in the future.

2. Approach to the study

Using beacon sites and reflecting market conditions

2.1 As with many local authorities, the housing market conditions vary between different parts of Sunderland and to provide a balanced assessment it is important to test the impact of policy in different parts of the market. For this reason, 14 beacons were selected, drawing on the likely range of typical sites with development potential, to provide a mix of location, size and market appeal. The beacon locations are also informed by the likely land availability, so that the development opportunities being tested reflect the likely types of development over the period during which the Local Development Framework will apply.

2.2 The site information has been informed by actual opportunities and real-world market intelligence, but specific site issues have not been taken into account. The viability assessments are strategic; they are not designed to be specific site viability appraisals. They do not attempt to take account of detailed site conditions, design requirements or planning conditions. The study assumes that any exceptional or abnormal site conditions will be taken into account by way of reduced land values to reflect these specific costs; the sites should be taken as examples of a typical site rather than reflecting any particular site.

2.3 The scheme mix for each site is summarised in Appendix A.

2.4 The beacon sites are listed in Table 2.1

Table 2.1: The Beacon Sites

Site	Report description	Green / Brown	Developable site area (ha)	No of dwellings
1	Edge of urban area	Greenfield	4.7	95 units
2	Urban area	Brownfield	2.9	105 units
3	Edge of urban area	Brownfield	14	434 units
4	Urban area	Brownfield	1.1	21 units
5	Urban area	Brownfield	3.6	158 units
6	Urban area	Brownfield	2.9	149 units
7	Edge of urban area	Greenfield	14.2	240 units
8	Urban area	Brownfield	5	202 units
9	Urban area	Brownfield	6.2	285 units
10	Edge of urban area	Greenfield	7.3	110 units
11	Urban area	Brownfield	4	300 units
12	Urban area	Brownfield	0.67	38 units
13	Urban area	Brownfield	1.62	70 units
14	Edge of urban	Greenfield	8.9	142 units

Property Market Conditions

2.5 The study takes account of changing housing market conditions. We are currently beginning to come out of an economic downturn reflected in the housing market and there is some optimism about future economic growth and so we need to ensure that we reflect the potential forecasted growth in house prices. We have therefore used a series of assumptions as a base position and, to future proof this viability assessment, we have then considered what may happen to the market over the longer term and have considered several market assessment forecasts from both Acadametrics and Savill's. While we can use these projections of value growth we are aware that linking our assessment to a single index may be risky. Therefore we have established three scenarios for value growth using the forecast from Savill's five year market forecast. The three growth scenarios are therefore:

- HIGH value growth levels (levels higher than projected)
- MEDIUM value growth levels (at Savill's projected levels)
- LOW value growth levels (levels lower than projected)

2.6 We have taken these growth levels over the next five years in order to consider their effect on viability at different levels of affordable housing.

2.7 In this way the study future proofs our assessment and ensures that affordable housing targets can be set taking into account the range of potential future market outcomes in Sunderland.

Affordable housing options and assessment criteria

2.8 To provide a comprehensive view of the impact of different affordable housing requirements, the study considers the implications for each beacon site of a range of options for the provision of affordable housing as part of the planning obligations. The original study in 2010 considered affordable housing targets of between 5% and 25% and this range has been used again.

2.9 In the 2010 study, the ratio of social rent to intermediate affordable housing tenures was considered at 50:50 and 75:25 splits in favour of social rent. Since the time of the original study, new models of affordable rent have been proposed and this study does not use the social rent model as this is not likely to be part of the new development programme going forward. We have, however, modelled a selection of sites using social rent as part of the sensitivity testing in order to gauge the likely impact of developing social rather than affordable rent. Affordable rents will be based upon 80% of the local market rents and arc[4] has used a model that assumes capitalisation of rents.

2.10 The base assumption is that, initially, there is no public capital subsidy available to support the affordable rent option in line with advice from the Homes and Communities Agency (HCA).

2.11 The key results of each affordable housing option and each property price scenario are summarised by comparing the calculated residual land values with the market expectation for that value as defined for that scenario. The outcomes have been classified in RAG (Red Amber Green) format as follows:

- **GREEN**. If the residual value is more than 10% above the expected land value, the scheme is considered likely to be **viable**;
- **AMBER**. If the gap is between 10% below the market expectation of value and 10% above that value, the scheme is considered marginally **viable**;
- **RED**. Below this level, the option is considered as likely to be unviable at stated expectations of land value. It may be possible to improve the scheme performance, but at this level the assessment is that the development would probably not be able to proceed.

2.12 Using our appraisal model, the gross total costs of development are compared to the forecast gross income from the site, taking account of the costs of finance, cash flow and the requirement for a reasonable developers' profit, set at a minimum of 20% of Gross Development Value (GDV).

3. Methodology

3.1 Individual development appraisals have been constructed for each of the 14 beacon sites. A consistent methodology and approach has been adopted for each site appraisal as follows:

- Gross site hectarage and developable area provided by the Council;
- Development densities, based on advice from the Council about density and mix, are applied to calculate the total number of dwellings that can be accommodated on each site (subject to mix of house types covered below);
- Tenure mix in terms of private for sale, affordable rented and intermediate housing (as appropriate to each option) then apportioned as a percentage of the total on a site by site basis;
- Mix of units (1 bed, 2 bed, etc) then apportioned by percentage to generate a schedule of accommodation;
- Size of each house type complies with the standards in the HQI assessment based on the Home and Communities Agency's Design and Quality Standards; and
- Open market property sales valuation advice for each house type and location at September 2013 levels.

3.2 Affordable housing disposals have been calculated using 80% of market rent levels and achieving 6% yields. Based on this the affordable housing disposal figures are as follows:

- 1-bed house £56,000 to £70,000
- 2-bed house £64,000 to £78,000
- 3-bed house £72,000 to £86,000
- 4-bed house £106,000 to £120,000
- 5-bed house £120,000 to £150,000

3.3 Social housing disposals have been based on the following figures:

- 1-bed house £48,000
- 2-bed house £56,000
- 3-bed house £64,000
- 4-bed house £72,000
- 5-bed house £80,000

3.4 Intermediate housing market prices are valued at current values and it is assumed that a 50% share is purchased with a rent of 2% of the un-owned share.

3.5 Table 3.1 illustrates Building Cost Information Service (BCIS) cost information. These have been based upon the Building Cost Information Service all-in

tender prices rebased to Northern Region as at September 2013 and these are based on cost per square metre of internal floor space and are as follows:

Table 3.1: BCIS rebased to Northern Region

Housing Type	Generally	Public	Private
Estate Housing	783	783	783
Estate Housing (Single Storey)	855	855	855
Estate Housing Detached	806	806	806
Estate Housing Semi-det (1 Storey)	885	885	885
Estate Housing Semi-det (2 Storey)	751	751	751
Estate Housing Terraced	800	800	800
Estate Housing Terraced (1 Storey)	848	848	848
Flats (3 -5 storey)	876	876	876
Flats (6+ Storey)	1137	1137	1137
Flats (general)	892	892	892
Housing Mixed Developments	788	788	788
Sheltered Housing	850	850	850

3.6 As far as future proofing is concerned the BCIS have made forecasts for the next five years to 2017 and these have been included in our forecasting. These show that while construction costs have remained static for the last two to three years there is forecast to be a significant increase in costs and these have had an effect on future viability.

3.7 It is assumed that properties are built to Code Level 4 and a per metre uplift has been allowed for.

3.8 No differential is applied between the build cost of private for sale dwellings and affordable dwellings.

3.9 Cost allowances for site works assume 30% of each site will be hard landscaped, 70% soft landscaped plus allowances for drainage and statutory service installations.

3.10 No allowance has been made for abnormal ground conditions or demolition costs (we have assumed that these costs should be netted off the price of land to produce a value that reflects the true value after dealing with ground conditions and other brownfield site costs. These would be calculated on a site-by-site basis). The site values therefore reflect the value of residential building land ready for development. Variations in this assumption are explored through sensitivity analysis.

3.11 An allowance of 5% for contingency is included (a standard allowance on building costs to cover unforeseen circumstances and cost risks).

3.12 Professional fees are included at 7% of build costs.

3.13 Allowances are also included for statutory planning fees, building regulation fees, surveys and site investigation, sale agent, sale legal, marketing costs, NHBC fees and non-recoverable VAT.

3.14 Allowance is made for other Section106 (S106) costs at an average of £701 per dwelling, based on data from the Council about the average cost of planning obligations in recent schemes. Any costs imposed here by the Council will directly reduce the residual land value of each site. However the Council will maintain a flexible approach to S106 contributions based on the viability of individual sites and so S106 contributions will vary.

3.15 Finance charges are calculated on a cashflow basis at 6.5% on debit balances, 0.5% on credit balances and with a 2% arrangement fee.

3.16 It is assumed that the rate of build will align with the rate of sale and that there will be a sales lag of 9 months between start on site and the completion of the first sale.

3.17 The appraisal of viability is then made as follows:

- Total development costs are deducted from total sales revenue to identify a development surplus;
- 20% Gross Development Value (GDV) is then deducted as a developers' profit;
- No allowance is made for Building Cost Inflation (BCI) or House Price Inflation (HPI) in the baseline assessment. In the baseline options, costs and values are at September 2013 levels. Costs are increased for development at later dates in the future proofing scenario;
- Deducting the developers' profit from the development surplus provides a residual land value.
- The key results of each affordable housing option and each property price scenario are summarised by comparing the calculated residual land values with the market expectation for that site at September 2013 levels. The outcomes have been classified in RAG (Red Amber Green) format as outlined in 2.11
- To be viable, current expectations of land value – on a site-by-site basis - would therefore need to be lowered to a point where, in residual terms, a developer is still able to take out a minimum development profit. Beyond this point (lower than nil value), developments are unlikely to come forward without some form of public subsidy. Alternatively, owners may defer a land sale in the expectation that values will recover when the market turns upward.

4. Scenarios for a changing housing market

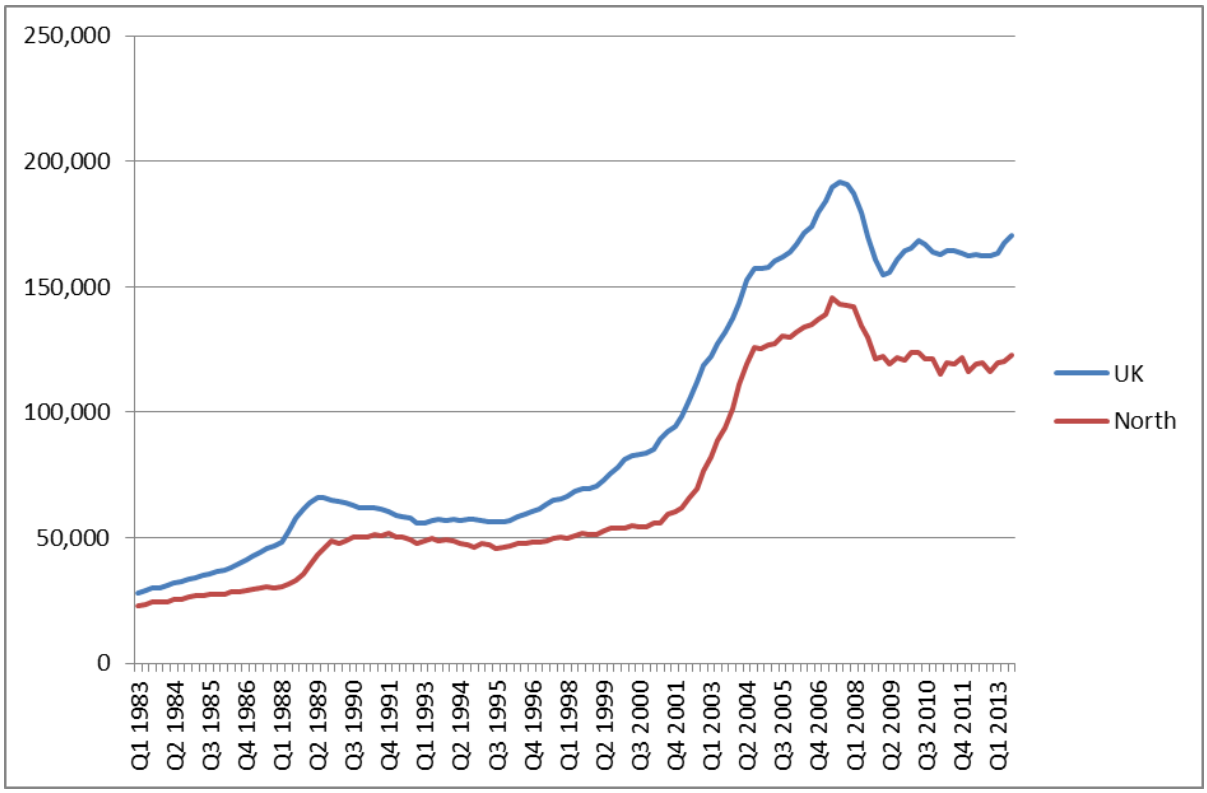
4.1 The previous viability study was undertaken in 2010 after the start of the recent downturn in the property market which took hold 18 months earlier. The report was prepared in mid 2010 when few transactions were taking place in the market. This has continued into 2013. While there was an immediate fall in prices as the market fell in 2008 and Graph 4.1 below shows that since that time, values have remained fairly static. This has been the case both nationally and regionally. Values in the North generally have shown little upward or downward trend since 2010, the time of the last study.

4.2 This position was recognised in the last study and advice at that time suggested that the market would see a period of "stabilisation" with prices remaining at, or near the level in 2010. As recognised by a number of commentators (Halifax, Nationwide, Acadametrics, Savill's) it would now appear that, nationally, this period of stagnation of prices may be coming to an end. There is optimism that the market will recover and reports in July 2013 have highlighted the rise in the number of house price transactions which is at its highest rate for the last 14 years (RICS, July 2013).

4.3 The Nationwide has also produced encouraging house price information; September 2013 data published at the time of this study has suggested a 0.9% monthly change and a positive 5% increase in the year. However, Nationwide has pointed to a marked difference between the North and the South of England and this gap is becoming wider. "The gap between house prices in the North and the South of England reached a new high in Q3, rising above £100,000 for the first time. The typical property price in the South of England is now 74% above its Northern equivalent." (Nationwide House price Index, September 2013). Market values in the North are still much lower than they were at the height of the boom in 2007.

4.4 Therefore, it is likely that development in the North will remain challenging as house values struggle to achieve the levels experienced during the height of the previous house price boom that ended in around 2007/2008. To illustrate this, Graph 4.1 below uses a blended average of the Nationwide and Halifax house price indices over the last 30 years and shows the extent of the boom and bust periods. It shows that the North East region has a similar house price profile to the national one. However, significantly for our purposes as we look at a snapshot of the market in September 2013, the latest trends nationally evidence a noticeable increase in values that does not yet appear to be seen to the same extent in the Northern region.

Graph 4.1: Blended average of the Nationwide and Halifax house price indices over the last 30 years (North Region and UK)



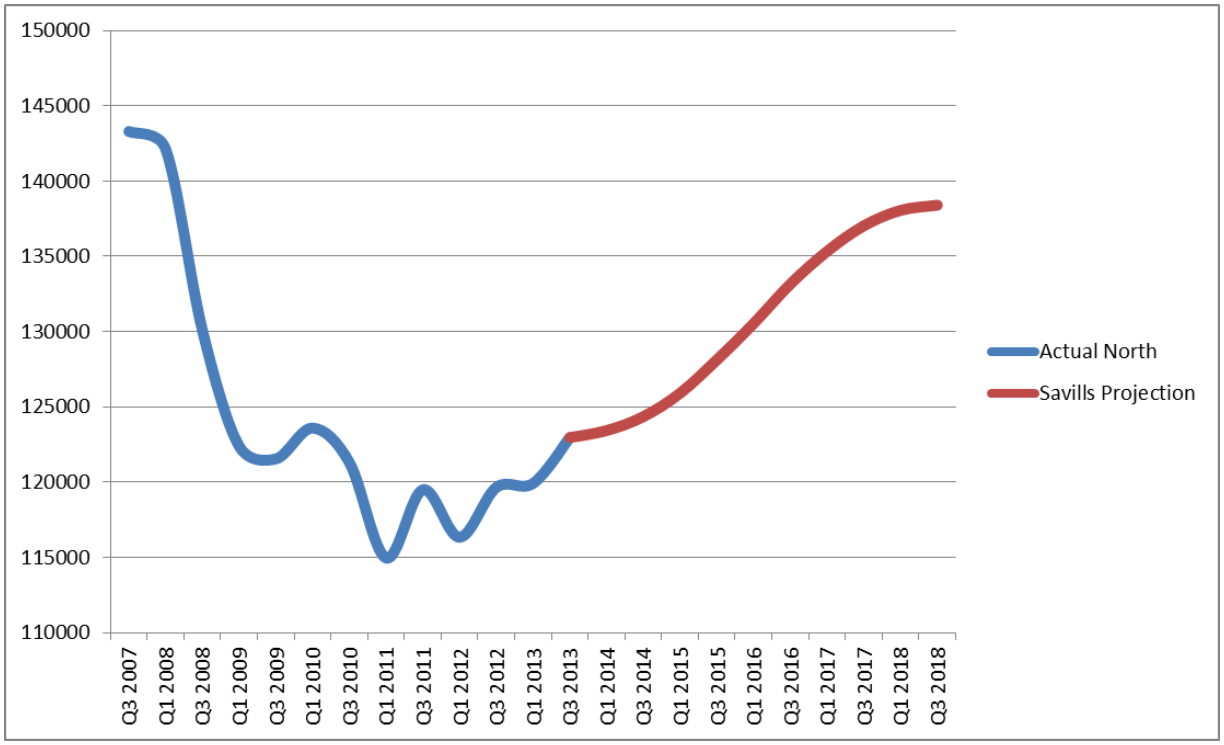
4.5 The relationship of land values, house prices and costs is crucial to the assessment. In times when values are rising generally, they are rising at a faster rate than costs, making development more viable. This will increase the propensity of development to be able to support higher percentages of affordable housing.

4.6 Therefore, not only should a viability assessment take into account current values and costs but it should also take into account a reasonable assessment of potential future value growth.

4.7 Table 4.1 shows growth projections from Savill's and we have used these projections from 2013 to 2017 for the North East region. We have also used cost inflation forecasts from BCIS for construction costs over the same period. Other costs, where appropriate, have been increased assuming RPI at 2% per annum.

4.8 The profile of future values according to the Savill's projections is in Graph 4.2 as follows:

Graph 4.2: Future property values



4.9 In terms of value inflation, whilst we have consulted a number of different sources including Halifax, Nationwide and Acadametrics, we have used the Savill's mainstream location forecast as the Medium forecast for the next five years. The 'High' growth scenario takes a very optimistic view of house price inflation and effectively doubles the assumptions. The 'Low' growth scenario takes a pessimistic view of value inflation representing an effective halving of the annual increase in values assumed for the 'Medium' growth scenario. The percentage value growth for each scenario is in the following table:

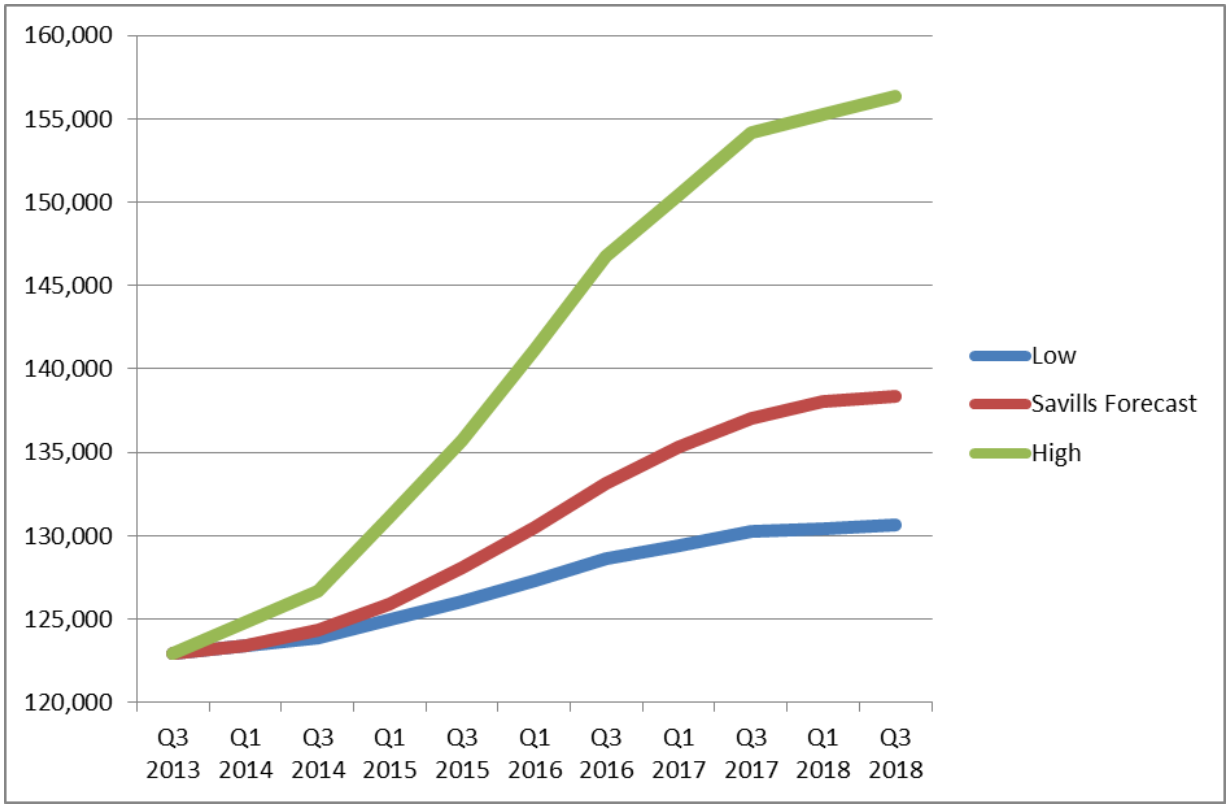
Table 4.1: Value inflation forecast

Year	Low	Medium	High
2013[1]	0%	0%	0%
2014	1.75%	3.50%	7.00%
2015	2.0%	4.00%	8.00%
2016	1.25%	2.5%	5.00%
2017	0.25%	0.5%	1.00%

[1] It is assumed that the 2013 increase has already taken place

4.10 The assessment for each scenario assumes start dates for each of these years taking into account these growth assumptions. The profile for the three projections from 2013 is illustrated in Graph 4.3:

Graph 4.3: Forecasted growth assumptions



4.11 Taking the affordable housing assumptions and the housing growth scenarios, we have developed a consistent approach to each site using the following scenarios:

Table 4.2: Modelling assumptions by scenario

Scenario	Modelling assumptions
1	Assumes no discount for affordable housing and is based on September 2013 costs and values. The baseline position.
Scenarios 2-6 Assumes a split of affordable housing provision in the ratio of 75% rented and 25% Intermediate tenure (shared ownership on a 50% initial share purchase):	
2	5% affordable housing provision
3	10% affordable housing provision
4	15% affordable housing provision
5	20% affordable housing provision
6	25% affordable housing provision
Scenarios 7-11 Assumes a split of affordable housing provision in the ratio of 50% rented and 50% Intermediate tenure (shared ownership on a 50% initial share purchase):	
7	5% affordable housing provision
8	10% affordable housing provision
9	15% affordable housing provision
10	20% affordable housing provision
11	25% affordable housing provision
Scenarios 12-16 Assess the impact of the current housing market varying according to Savill's forecast of price growth (here called Medium forecast) between 2013 and 2017. Assumes a split of affordable housing provision in the ratio of 75% rented and 25% Intermediate tenure (shared ownership on a 50% initial share purchase):	
12	5% affordable housing provision
13	10% affordable housing provision
14	15% affordable housing provision
15	20% affordable housing provision
16	25% affordable housing provision
Scenarios 17-21 Assess the impact of the current housing market varying according to a higher forecast of price growth (here called "High forecast"). Assumes a split of affordable housing provision in the ratio of 75% rented and 25% Intermediate tenure (shared ownership on a 50% initial share purchase):	
17	5% affordable housing provision
18	10% affordable housing provision
19	15% affordable housing provision
20	20% affordable housing provision
21	25% affordable housing provision
Scenarios 22-26 Assess the impact of the current housing market varying according to a lower forecast of price growth (here called "Low forecast"). Assumes a split of affordable housing provision in the ratio of 70% rented and 30% Intermediate tenure (shared ownership on a 50% initial share purchase):	
22	5% affordable housing provision
23	10% affordable housing provision
24	15% affordable housing provision
25	20% affordable housing provision
26	25% affordable housing provision

5. Key findings

5.1 This section now sets out the main results of applying the scenarios about values and varying levels of affordable housing requirements. For all of the results summaries, the beacon sites are numbered as shown in Table 5.1. The results are also set out in tabular form, with more detail, in the accompanying financial modelling document. The colour coding for the viability assessment of each site is as shown below. An explanation of these viability ratings is given at 2.11.

Viable at expectations of land value at specified date (G)

Marginal at expectations of land values at specified date, but viable (A)

Non-viable expectations of land values at specified date (R)

The Baseline position at September 2013 costs and values

5.2 To confirm the viability of development for the beacon sites, the sites are modelled to test the results using the assumptions detailed in Section 3, using September 2013 baseline prices and values, but with no affordable housing provision. This modelling shows the following viability results:

Table 5.1: No affordable housing

Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14
RLV: EUV (%)	135	171	162	132	236	363	222	145	195	148	242	206	181	143
Viability position	G	G	G	G	G	G	G	G	G	G	G	G	G	G

5.3 This initial baseline scenario shows, as we would expect, that all of the proposed sites would be viable in the event that no affordable housing was required.

Scenarios based on September 2013 values with varying affordability targets

5.4 We now examine the effect of increasing levels of affordable housing, assuming this applies across all the beacon sites. Each of the initial scenarios (2-6) assumes a split of affordable housing provision in the ratio of **75% affordable rented and 25% intermediate tenure** (shared ownership on a 50% initial share purchase): (50% initial tranche sale). All the other assumptions remain as set out in Section 3.

5.5 The tables below show the viability of each site for each target level of affordable housing provision.

Table 5.2: 5% affordable housing provision

Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14
RLV: EUV (%)	121	154	146	116	197	187	109	122	166	135	201	165	149	128
Viability position	G	G	G	G	G	G	A	G	G	G	G	G	G	G

Table 5.3: 10% affordable housing provision

Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14
RLV:EUV (%)	107	136	130	100	158	151	94	98	136	122	161	124	117	112
Viability position	A	G	G	A	G	G	A	A	G	G	G	G	G	G

Table 5.4: 15% affordable housing provision

Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14
RLV:EUV (%)	96	119	114	83	119	115	79	75	107	109	120	83	84	97
Viability position	A	G	G	R	G	G	R	R	A	A	G	R	R	A

Table 5.5: 20% affordable housing provision

Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14
RLV:EUV (%)	81	101	98	67	79	79	64	51	77	97	78	42	52	81
Viability position	R	A	A	R	R	R	R	R	R	A	R	R	R	R

Table 5.6: 25% affordable housing provision

Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14
RLV:EUV (%)	66	84	82	51	38	41	49	28	48	84	36	1	19	66
Viability position	R	R	R	R	R	R	R	R	R	R	R	R	R	R

5.6 This shows that with a 5% overall affordable housing provision, all but one of the 14 sites were viable with the other one being marginal. Where the affordable housing provision is at 10%, ten sites remain viable with the remaining four being marginal. For affordable housing requirements at 15%, five sites are unviable, five sites are viable and four marginal. At 20% affordable housing eleven sites become unviable with the remaining three being marginal whilst at 25% affordable housing none of the sites are viable.

The balance tips from viable to mainly marginal or unviable at between 10% and 15% although a number of sites are viable at 15%

Based on the alternative tenure split of 50% affordable rent and 50% Intermediate tenure (shared ownership on a 50% initial share purchase)

5.7 The assessment was repeated, but with an alternative 50/50 tenure split. The diagrams below show the viability of each site for each target level of affordable housing on this revised 50/50 basis of provision, increasing the affordability provision.

Table 5.7: 5% affordable housing provision

Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14
RLV:EUV (%)	123	156	148	117	203	191	110	127	170	137	206	172	154	130
Viability position	G	G	G	G	G	G	A	G	G	G	G	G	G	G

Table 5.8: 10% affordable housing provision

Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14
RLV:EUV (%)	97	125	119	86	136	159	83	91	120	115	135	105	101	102
Viability position	A	G	G	R	G	G	R	A	G	G	G	A	A	A

Table 5.9: 15% affordable housing provision

Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14
RLV:EUV (%)	97	125	119	86	136	127	83	91	120	115	135	105	101	102
Viability position	A	G	G	R	G	G	R	A	G	G	G	A	A	A

Table 5.10: 20% affordable housing provision

Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14
RLV:EUV (%)	85	110	105	71	102	95	69	72	95	104	99	71	74	89
Viability position	R	A	A	R	A	A	R	R	A	A	A	R	R	R

Table 5.11: 25% affordable housing provision

Site No	1	2	3	4	5	6	7	8	9	10	11	12	13	14
RLV:EUV (%)	70	95	91	55	68	62	55	53	70	93	62	37	47	75
Viability position	R	A	A	R	R	R	R	R	R	A	R	R	R	R

5.8 At an affordable housing split at 50/50 there is slightly less impact on viability. At 25% affordable housing, three sites are marginal whereas all were unviable at the 75/25 split. At 20% affordable housing, half the sites are marginal whereas only three were at 75/25. At 15% only two sites are unviable with five being marginal and seven, or half of the sites, being viable. At 5% and 10% levels the viability results are very similar.

5.9 For the 50/50 tenure split, it is possible to achieve a slightly higher level of affordable provision. The balance tips from viable to mainly marginal or unviable at around 15-20%.

By Location

5.10 The following tables show the viability of the sites by location within Sunderland.

Table 5.12: Washington Sites

Site No	Affordable Housing Target					
	Base	5%	10%	15%	20%	25%
Site 1	135%	121%	107%	96%	81%	66%
	G	G	A	A	R	R
Site 2	171%	154%	136%	119%	101%	84%
	G	G	G	G	A	R

Table 5.13: Northern Coalfield Sites

Site No	Affordable Housing Target					
	Base	5%	10%	15%	20%	25%
Site 3	162%	146%	130%	114%	98%	82%
	G	G	G	G	A	R
Site 4	132%	116%	100%	83%	67%	51%
	G	G	A	R	R	R
Site 5	236%	197%	158%	119%	79%	38%
	G	G	G	G	R	R

Table 5.14: Southern Coalfield Sites

Site No	Affordable Housing Target					
	Base	**5%**	**10%**	**15%**	**20%**	**25%**
Site 6	222%	187%	151%	115%	79%	28%
	G	**G**	**G**	**G**	**R**	**R**
Site 7	124%	109%	94%	79%	64%	49%
	G	**A**	**A**	**R**	**R**	**R**

Table 5.15: South Sunderland Sites

Site No	Affordable Housing Target					
	Base	**5%**	**10%**	**15%**	**20%**	**25%**
Site 8	145%	122%	98%	75%	51%	28%
	G	**G**	**A**	**R**	**R**	**R**
Site 9	195%	166%	136%	107%	77%	48%
	G	**G**	**G**	**A**	**R**	**R**
Site 10	148%	135%	122%	109%	97%	84%
	G	**G**	**G**	**A**	**A**	**R**
Site 11	242%	201%	161%	120%	78%	36%
	G	**G**	**G**	**G**	**R**	**R**

Table 5.16: North Sunderland Sites

Site No	Affordable Housing Target					
	Base	**5%**	**10%**	**15%**	**20%**	**25%**
Site 12	206%	165%	124%	83%	42%	1%
	G	**G**	**G**	**R**	**R**	**R**
Site 13	181%	149%	117%	84%	52%	19%
	G	**G**	**G**	**R**	**R**	**R**
Site 14	143%	128%	112%	97%	81%	66%
	G	**G**	**G**	**A**	**R**	**R**

Sensitivities

Brownfield Sites

5.11 A number of the beacon sites are identified as “brownfield” and are therefore likely to require some form of remediation. As set out in the methodology, no allowance is made for abnormal ground conditions or demolition costs (we have assumed that these costs should be netted off the price of land to produce a value that reflects the true value after dealing with ground conditions and other brownfield site costs. These would be calculated on a site-by-site basis). The site values therefore reflect the value of residential building land ready for development.

5.12 We have no details at this stage of the likely degree of contamination or therefore the likely costs of dealing with each of the sites. Even if these details were available, such costs should be regarded as hypothetical as it is likely that different developers will have different solutions to addressing site

remediation works and are also likely to adopt differing site densities, and mix of dwellings.

5.13 However, to test the sensitivity of the assessments to this issue, we have attempted to demonstrate the impact on residual land values by adding an additional 5% and 10% to build costs to allow for abnormals on brownfield sites. We have only considered this on brownfield sites, which are Sites: 2, 8, 9, 11, 12 and 13.

5.14 The purpose of the exercise here is to demonstrate the sensitivity of the financial modeling to abnormal / remediation costs that are not fully taken into account in the negotiation of land acquisition. This is to alert the Council and development partners to initial expectations of land values. Site abnormals and remediation costs should be netted off both September 2013 expectations of land value and any residual land values.

5.15 The effect on the baseline viability on the brownfield beacon sites, using 10% affordable housing using a 75/25% split (affordable housing: intermediate housing) is show in Table 5.17.

Table 5.17: Build cost viability

	At 10% AH (75:25)					
Site	**2**	**8**	**9**	**11**	**12**	**13**
Base	136%	98%	136%	161%	124%	117%
	G	**A**	**G**	**G**	**G**	**G**
5% Increased Build Cost	126%	94%	125%	136%	93%	104%
	G	**A**	**G**	**G**	**A**	**A**
10% Increased Build Cost	116%	79%	105%	112%	62%	80%
	G	**R**	**A**	**G**	**R**	**R**

5.16 As can been seen from the above table, an increase in build costs of 5% means that the number of brownfield sites considered to be marginal increases from one at the base position to three. An increase in build costs of 10% results in only two of the sites remaining viable with one marginal and three becoming unviable.

5.17 The additional costs on brownfield sites can have a significant and negative impact on viability and experience is that this will occur in some cases. However, we reiterate that these should be taken into account in setting land acquisition prices.

Social Rent

5.18 We have undertaken further testing of a selected number of sites with social rent instead of affordable rent at 80%. Although there is a small difference in rents between areas, these are relatively minor and the receipts from social rent are very close to the affordable rental levels. The effect on viability is

negligible, certainly in current economic conditions. Table 5.18 shows the results of the selected testing.

Table 5.18: Selected Testing with Social Rent instead of Affordable Rent

Site		75:25 SR:SO				
		5% AH	10% AH	15% AH	20% AH	25% AH
Site 2	Affordable Rent	154%	136%	119%	101%	84%
	Social Rent	154%	135%	119%	100%	84%
Site 8	Affordable Rent	122%	98%	75%	51%	28%
	Social Rent	122%	98%	75%	51%	27%
Site 11	Affordable Rent	201%	161%	120%	78%	36%
	Social Rent	201%	161%	119%	77%	35%
Site 12	Affordable Rent	165%	124%	83%	42%	1%
	Social Rent	165%	124%	83%	42%	1%
Site 13	Affordable Rent	149%	117%	84%	52%	19%
	Social Rent	149%	116%	84%	51%	19%

Impact of increased professional fees

5.19 In consultation with Council officers we have undertaken further sensitivities with increased professional fees equivalent to 8% of construction costs instead of the 7% rate used in the main study. We have tested all of the sites at base line (no affordable housing) and at target levels of 15% and 20% affordable housing with both 75:25 and 50:50 splits of rent to intermediate housing.

5.20 As might be expected, the results show that increasing professional fees by 1% has a moderately negative effect with the decrease in viability ranging from just over 1% to a maximum of 7% in a limited number of cases. On average, viability decreases by about 4% across the range of sites tested. This is enough to mean that a minority of schemes that are viable become marginally viable and schemes that are marginally viable become unviable. Generally, however, the increase in professional fees of the magnitude tested do not affect the fundamental conclusions of this study.

Table 5.19: Testing with increased professional fees

Site		75:25 split		50:50 split	
	Base (0% AH)	15% AH	20% AH	15% AH	20% AH
Site 1	133%	94%	79%	96%	83%
	G	A	R	A	R
Site 2	169%	117%	99%	123%	108%
	G	G	A	G	A
Site 3	160%	112%	96%	117%	103%
	G	G	A	G	A
Site 4	130%	81%	65%	84%	69%
	G	R	R	R	R
Site 5	231%	113%	73%	130%	97%
	G	G	R	G	A
Site 6	216%	108%	72%	120%	88%
	G	A	R	G	R
Site 7	121%	76%	61%	80%	67%
	G	R	R	R	R
Site 8	142%	71%	48%	87%	68%
	G	R	R	R	R
Site 9	191%	102%	73%	115%	90%
	G	A	R	G	A
Site 10	146%	108%	95%	113%	103%
	G	A	A	G	A
Site 11	237%	114%	72%	129%	93%
	G	G	R	G	A
Site 12	199%	76%	35%	98%	64%
	G	R	R	A	R
Site 13	176%	79%	46%	95%	68%
	G	R	R	A	R
Site 14	141%	95%	79%	99%	85%
	G	A	R	A	R

Table 5.20: Percentage reductions with increased professional fees

Site	Percentage Reductions				
		75:25 split		50:50 split	
	Base (0% AH)	15% AH	20% AH	15% AH	20% AH
Site 1	-2%	-2%	-2%	-1%	-2%
Site 2	-2%	-2%	-2%	-2%	-2%
Site 3	-2%	-2%	-2%	-2%	-2%
Site 4	-2%	-2%	-2%	-2%	-2%
Site 5	-5%	-6%	-6%	-6%	-5%
Site 6	-6%	-7%	-7%	-7%	-7%
Site 7	-3%	-3%	-3%	-3%	-2%
Site 8	-3%	-4%	-3%	-4%	-4%
Site 9	-4%	-5%	-4%	-5%	-5%
Site 10	-2%	-1%	-2%	-2%	-1%
Site 11	-5%	-6%	-6%	-6%	-6%
Site 12	-7%	-7%	-7%	-7%	-7%
Site 13	-5%	-5%	-6%	-6%	-6%
Site 14	-2%	-2%	-2%	-3%	-4%
Average	-4%	-4%	-4%	-4%	-4%

Impact of current lower or higher property values

5.21 In recent market conditions, there was a significant reduction in house prices in 2007 and 2008. Since 2008, values have remained fairly static and values in the North East generally have shown little upward or downward trend since 2010, the time of the last study. However, given the more optimistic forecasts that are being made we now examine the effect of these potential market changes in more detail and take account of the fact that house prices may grow at different rates to that forecasted which will impact on the viability of sites, depending on when they are developed.

5.22 A series of alternative assumptions have been tested to explore how sensitive the results of the September 2013 baseline are to possible or likely changes in house price values. These include testing the effects of:

- The current housing market varying according to Savill's forecast of price growth (here called Medium forecast).

- The current housing market varying according to a higher forecast of price growth than Savill's forecast price growth (here called High forecast).
- The current housing market varying according to a lower forecast of price growth than Savill's forecast of price growth (here called Low forecast).

We have tested these growth scenarios from 2013 to 2017 and the results are outlined below. The analysis assumes a 75/25% (affordable rent/intermediate) split. The numbers in the table are RLV:EUV (Residual Land Value: Existing Use Value). The different levels of growth linked to Low, Medium and High scenarios are detailed in Table 3.1.

Medium Growth Forecast

Table 5.21: Medium Growth Forecast at 5%, 10% and 15% levels of affordable housing

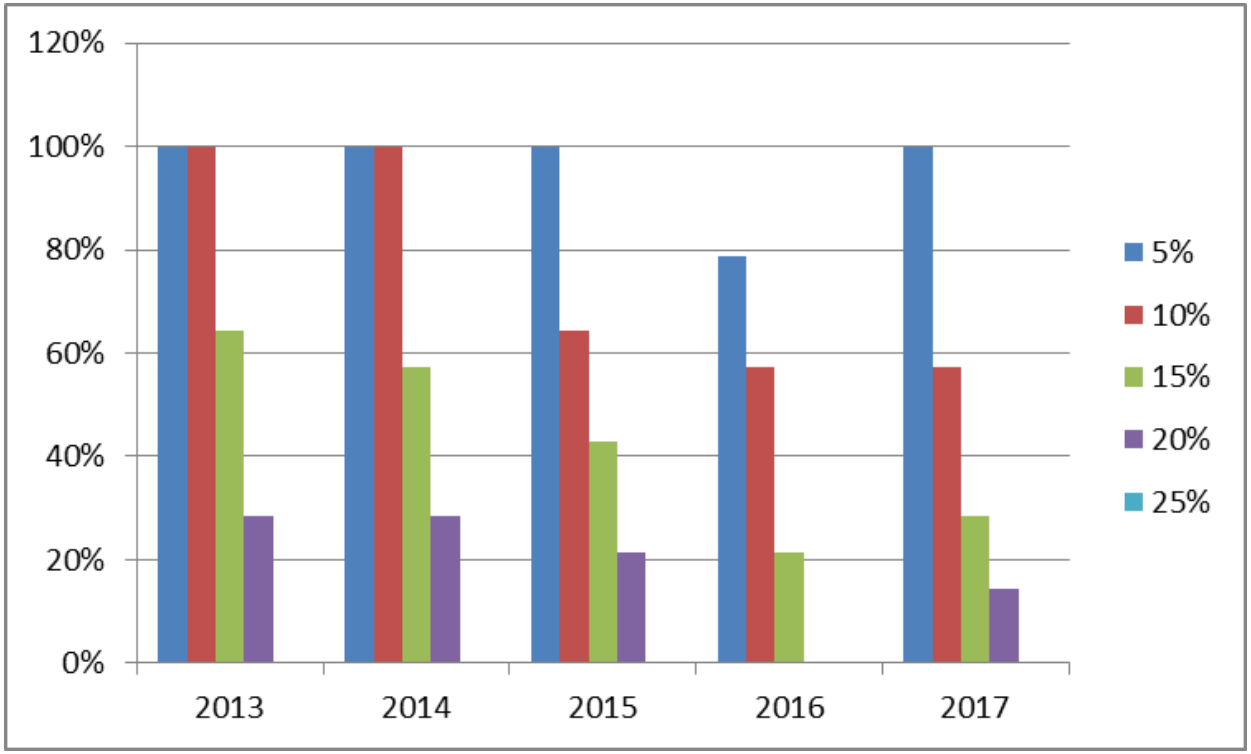
Scenario Summary	12					13					14				
	5% AH 75:25 split Medium Growth Projection	5% AH 75:25 split Medium Growth Projection	5% AH 75:25 split Medium Growth Projection	5% AH 75:25 split Medium Growth Projection	5% AH 75:25 split Medium Growth Projection	10% AH 75:25 split Medium Growth Projection	10% AH 75:25 split Medium Growth Projection	10% AH 75:25 split Medium Growth Projection	10% AH 75:25 split Medium Growth Projection	10% AH 75:25 split Medium Growth Projection	15% AH 75:25 split Medium Growth Projection	15% AH 75:25 split Medium Growth Projection	15% AH 75:25 split Medium Growth Projection	15% AH 75:25 split Medium Growth Projection	15% AH 75:25 split Medium Growth Projection
Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**
Site 1	G	G	A	A	A	A	A	A	R	R	A	R	R	R	R
Site 2	G	G	G	G	G	G	G	G	G	G	G	G	A	A	A
Site 3	G	G	G	G	G	G	G	G	G	G	G	G	A	A	A
Site 4	G	G	A	A	A	A	A	R	R	R	R	R	R	R	R
Site 5	G	G	G	G	G	G	G	G	A	G	G	G	A	R	R
Site 6	G	G	G	G	G	G	G	G	R	A	G	A	R	R	R
Site 7	A	A	A	R	A	A	A	R	R	R	R	R	R	R	R
Site 8	G	G	A	A	A	A	A	R	R	R	R	R	R	R	R
Site 9	G	G	G	G	G	G	G	G	A	A	A	A		R	R
Site 10	G	G	G	G	G	G	G	G	G	G	A	A	A	A	A
Site 11	G	G	G	G	G	G	G	G	A	G	G	G	A	R	R
Site 12	G	G	G	R	A	G	G	R	R	R	R	R	R	R	R
Site 13	G	G	G	R	A	G	A	R	R	R	R	R	R	R	R
Site 14	G	G	G	A	G	G	G	A	A	A	A	A	R	R	R

Table 5.22: Medium Growth Forecast at 20% and 25% affordable housing

Scenario Summary	15					16				
	20% AH 75:25 split Medium Growth Projection	20% AH 75:25 split Medium Growth Projection	20% AH 75:25 split Medium Growth Projection	20% AH 75:25 split Medium Growth Projection	20% AH 75:25 split Medium Growth Projection	25% AH 75:25 split Medium Growth Projection	25% AH 75:25 split Medium Growth Projection	25% AH 75:25 split Medium Growth Projection	25% AH 75:25 split Medium Growth Projection	25% AH 75:25 split Medium Growth Projection
Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**
Site 1	R	R	R	R	R	R	R	R	R	R
Site 2	A	A	A	R	R	R	R	R	R	R
Site 3	A	A	A	R	A	R	R	R	R	R
Site 4	R	R	R	R	R	R	R	R	R	R
Site 5	R	R	R	R	R	R	R	R	R	R
Site 6	R	R	R	R	R	R	R	R	R	R
Site 7	R	R	R	R	R	R	R	R	R	R
Site 8	R	R	R	R	R	R	R	R	R	R
Site 9	R	R	R	R	R	R	R	R	R	R
Site 10	A	A	A	R	A	R	R	R	R	R
Site 11	R	R	R	R	R	R	R	R	R	R
Site 12	R	R	R	R	R	R	R	R	R	R
Site 13	R	R	R	R	R	R	R	R	R	R
Site 14	R	R	R	R	R	R	R	R	R	R

5.23 The results are summarised in the graph below which shows the percentage of schemes that remain viable (either viable or marginal) in a Medium growth scenario over the next five years. Overall, should the housing market perform according to the Medium forecast then at 5% affordable housing provision all sites remain viable or marginal until 2016 were there is a dip to 79% before recovering back to 100% in 2017. At 10% affordable housing all sites are viable or marginal during 2013 and 2014 with just over half the sites remaining viable between 2015 and 2017 and at 15% affordable housing, over half the sites are viable in 2013 and 2014 whereas from 2015 onwards under half of the sites remain viable. At 20% affordable housing 21% of sites are viable or marginal during 2013-2015 and this figure drops to 0% in 2016 and rises again to 14% in 2017. At 25% affordable none of the sites are viable across the five year Medium growth forecast.

Graph 5.1: Medium growth scenario



High Growth Forecast

Table 5.23: High growth forecast at 5%, 10% and 15% affordable housing

Scenario Summary	17					18					19				
	5% AH 75:25 split High Growth Projection	5% AH 75:25 split High Growth Projection	5% AH 75:25 split High Growth Projection	5% AH 75:25 split High Growth Projection	5% AH 75:25 split High Growth Projection	10% AH 75:25 split High Growth Projection	10% AH 75:25 split High Growth Projection	10% AH 75:25 split High Growth Projection	10% AH 75:25 split High Growth Projection	10% AH 75:25 split High Growth Projection	15% AH 75:25 split High Growth Projection	15% AH 75:25 split High Growth Projection	15% AH 75:25 split High Growth Projection	15% AH 75:25 split High Growth Projection	15% AH 75:25 split High Growth Projection
Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**
Site 1	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**A**	**A**	**A**
Site 2	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**
Site 3	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**
Site 4	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**A**	**A**	**A**
Site 5	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**
Site 6	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**
Site 7	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**A**	**A**	**A**
Site 8	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**A**	**A**	**A**
Site 9	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**
Site 10	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**
Site 11	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**
Site 12	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**A**	**G**
Site 13	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**A**	**G**
Site 14	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**	**G**

Table 5.24: High growth forecast at 20%and 25% affordable housing

Scenario Summary	20					21				
	20% AH 75:25 split High Growth Projection	20% AH 75:25 split High Growth Projection	20% AH 75:25 split High Growth Projection	20% AH 75:25 split High Growth Projection	20% AH 75:25 split High Growth Projection	25% AH 75:25 split High Growth Projection	25% AH 75:25 split High Growth Projection	25% AH 75:25 split High Growth Projection	25% AH 75:25 split High Growth Projection	25% AH 75:25 split High Growth Projection
Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**
Site 1	A	A	A	R	R	R	R	R	R	R
Site 2	G	G	G	G	G	G	G	G	A	A
Site 3	G	G	G	G	G	G	G	G	A	A
Site 4	R	A	R	R	R	R	R	R	R	R
Site 5	G	G	G	A	G	A	A	R	R	R
Site 6	G	G	G	G	G	G	G	A	R	R
Site 7	A	A	A	R	R	R	R	R	R	R
Site 8	A	A	R	R	R	R	R	R	R	R
Site 9	G	G	G	A	G	A	A	R	R	R
Site 10	G	G	G	G	G	A	A	A	A	A
Site 11	G	G	G	A	G	A	A	R	R	R
Site 12	A	G	R	R	R	R	R	R	R	R
Site 13	A	A	R	R	R	R	R	R	R	R
Site 14	G	G	A	A	A	A	A	A	R	R

5.24 The graph below summarises the viability results within a High growth forecast. Clearly higher property values have a positive impact on viability with all sites remaining viable or marginal up to a level of 15% affordable housing between 2013-2017. At 20% affordable housing, all but one site is viable or marginal in 2013 with all sites becoming viable during 2014. The viability then begins to decrease with 71% viability in 2015 and 57% in both 2016 and 2017. Even at an affordable housing level of 25%, during 2013 and 2014 over half of the sites are viable or marginal before dropping to 36% in 2015 and 21% in 2016-2017.

Graph 5.2: High growth forecast

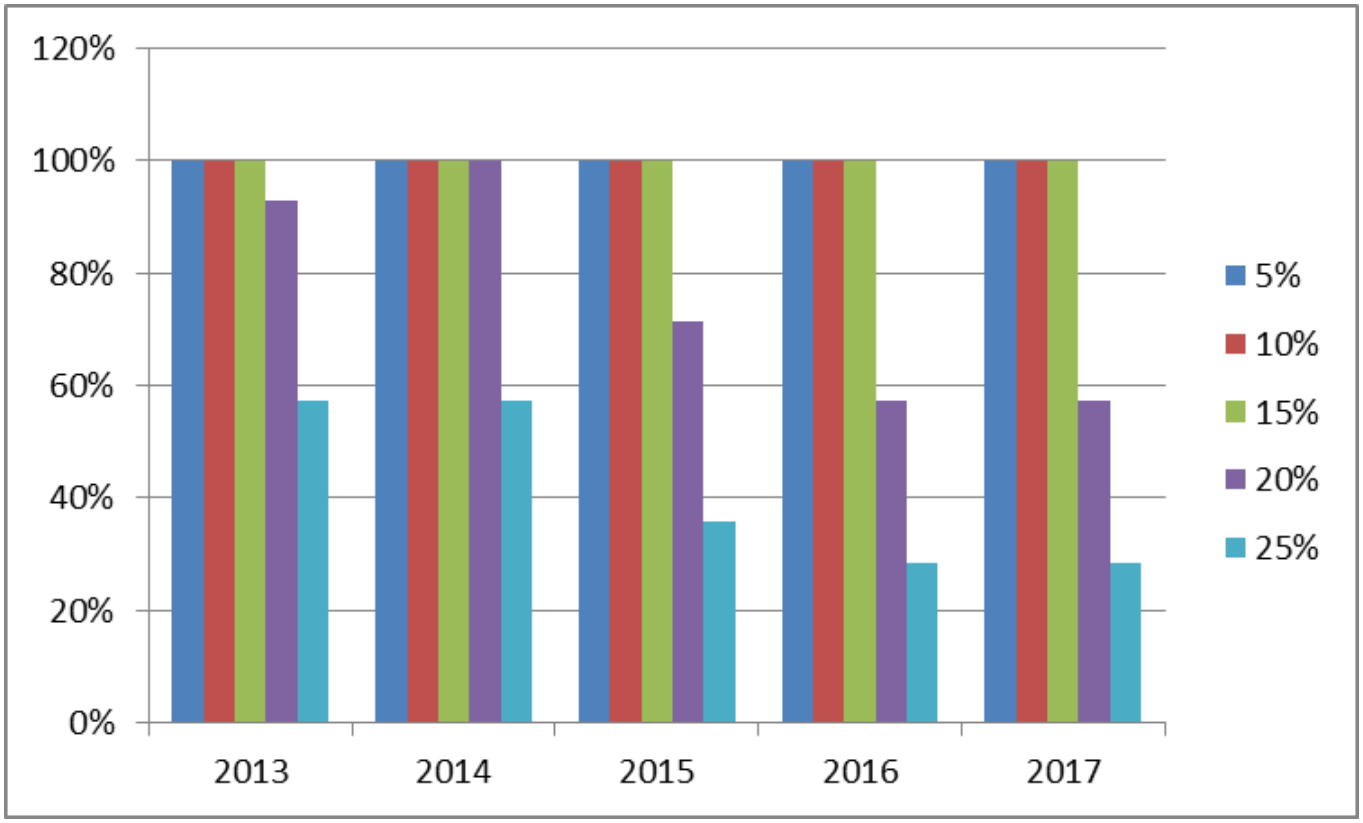


Table 5.25: Low Growth Forecast at 5%, 10% and 15% affordable housing

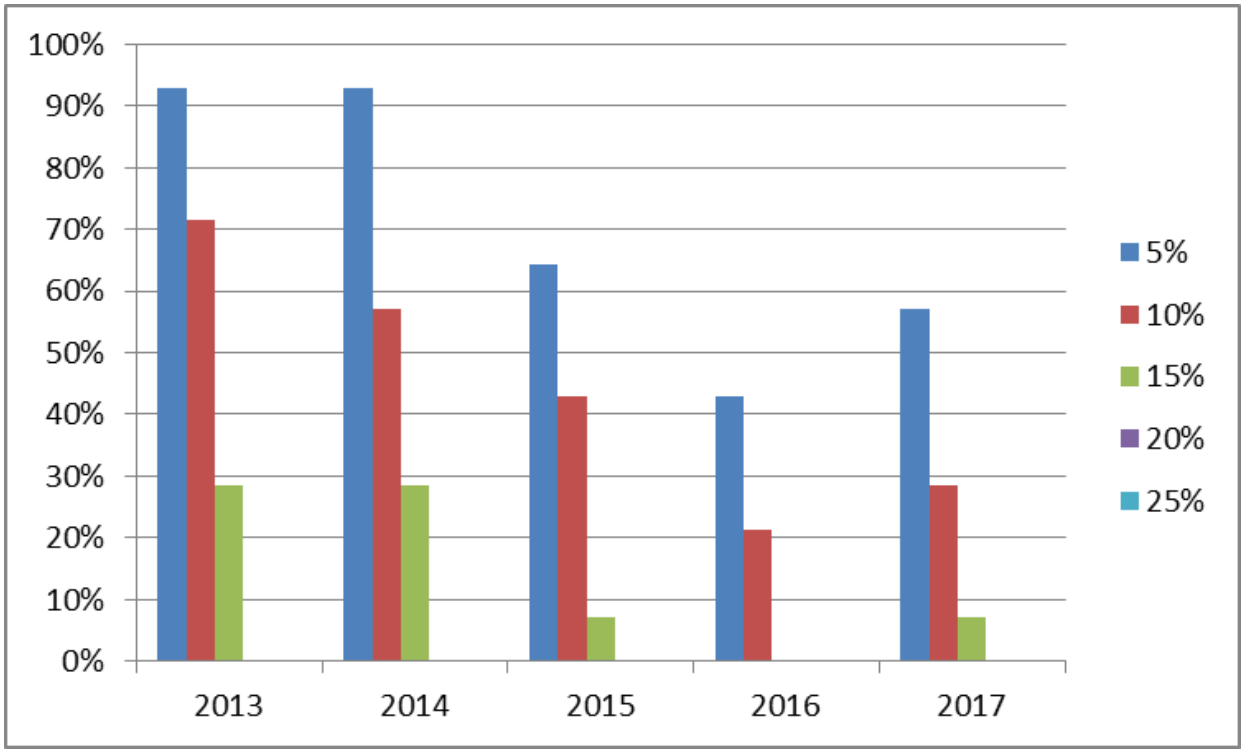
Scenario Summary	22					23					24				
	5% AH 75:25 split Low Growth Projection	5% AH 75:25 split Low Growth Projection	5% AH 75:25 split Low Growth Projection	5% AH 75:25 split Low Growth Projection	5% AH 75:25 split Low Growth Projection	10% AH 75:25 split Low Growth Projection	10% AH 75:25 split Low Growth Projection	10% AH 75:25 split Low Growth Projection	10% AH 75:25 split Low Growth Projection	10% AH 75:25 split Low Growth Projection	15% AH 75:25 split Low Growth Projection	15% AH 75:25 split Low Growth Projection	15% AH 75:25 split Low Growth Projection	15% AH 75:25 split Low Growth Projection	15% AH 75:25 split Low Growth Projection
Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**
Site 1	A	A	A	R	R	A	R	R	R	R	R	R	R	R	R
Site 2	G	G	G	G	G	G	G	A	A	A	A	A	R	R	R
Site 3	G	G	G	G	G	G	G	A	A	A	A	A	R	R	R
Site 4	A	A	R	R	R	R	R	R	R	R	R	R	R	R	R
Site 5	G	G	G	A	G	G	G	A	R	R	R	R	R	R	R
Site 6	G	G	A	R	R	G	A	R	R	R	R	R	R	R	R
Site 7	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Site 8	A	A	R	R	R	R	R	R	R	R	R	R	R	R	R
Site 9	G	G	G	R	A	A	A	R	R	R	R	R	R	R	R
Site 10	G	G	G	G	G	A	A	A	A	A	A	A	A	R	A
Site 11	G	G	G	A	G	G	G	A	R	R	R	R	R	R	R
Site 12	G	G	R	R	R	A	R	R	R	R	R	R	R	R	R
Site 13	G	A	R	R	R	R	R	R	R	R	R	R	R	R	R
Site 14	A	A	A	R	A	A	A	R	R	R	R	R	R	R	R

Table 5.26: Low growth forecast at 20% and 25% affordable housing

Scenario Summary	25					26				
	20% AH 75:25 split Low Growth Projection	20% AH 75:25 split Low Growth Projection	20% AH 75:25 split Low Growth Projection	20% AH 75:25 split Low Growth Projection	20% AH 75:25 split Low Growth Projection	25% AH 75:25 split Low Growth Projection	25% AH 75:25 split Low Growth Projection	25% AH 75:25 split Low Growth Projection	25% AH 75:25 split Low Growth Projection	25% AH 75:25 split Low Growth Projection
Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**
Site 1	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 2	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 3	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 4	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 5	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 6	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 7	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 8	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 9	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 10	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 11	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 12	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 13	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Site 14	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**

5.25 The graph below summarises the results within the Low forecast scenario. Understandably, if the housing market does not grow as anticipated it will be much more difficult to deliver affordable housing in Sunderland. The impact of low growth affects viability even at a level of 5% affordable housing with not one year in the forecast having 100% viability. At 10% affordable housing over half the sites are viable or marginal during 2013-2014 before dropping to below half for the remainder of the forecast period. At 15% affordable there are low levels of viability (21%) during 2013 and 2014 with almost no viability for 2015-2017. At affordable housing levels of 20% and 25% there are no sites that are viable.

Graph 5.3: Low growth forecast



6. Consultation

6.1 In terms of our consultation with housebuilder, Registered Providers and Agents, there was general support for the assumptions that were made around the financial modelling. However, there were a number of concerns that housebuilders had on the assumptions of the study, namely around professional fee levels, contingency being based on all costs, not just construction costs, and the percentage level for sales and marketing. These assumptions were then altered and tested in order to gauge the impact they would have compared to the assumptions that have been used in the main part of the report.

6.2 The following changes were tested:

- revised professional fees at 10%, originally 7%;
- 5% contingency on all costs, originally 5% on construction costs only; and
- 6% sales and marketing, originally 5%.

6.3 The financial modelling was then reviewed with the following results:

Table 6.1: Modelling after RP and Agent input

Site 2	Base	5%	10%	15%	20%	25%	5%	10%	15%	20%	25%
Original	171%	154%	136%	119%	101%	84%	156%	141%	125%	110%	95%
	G	G	G	G	A	R	G	G	G	A	A
Revised	160%	143%	126%	108%	91%	73%	145%	129%	114%	99%	83%
	G	G	G	A	A	R	G	G	G	A	R
Site 5	**Base**	**5%**	**10%**	**15%**	**20%**	**25%**	**5%**	**10%**	**15%**	**20%**	**25%**
Original	236%	197%	158%	119%	79%	38%	203%	169%	136%	102%	68%
	G	G	G	G	R	R	G	G	G	A	R
Revised	211%	173%	134%	95%	55%	14%	178%	145%	112%	78%	44%
	G	G	G	A	R	R	G	G	G	R	R
Site 6	**Base**	**5%**	**10%**	**15%**	**20%**	**25%**	**5%**	**10%**	**15%**	**20%**	**25%**
Original	222%	187%	151%	115%	79%	41%	191%	159%	127%	95%	62%
	G	G	G	G	R	R	G	G	G	A	R
Revised	193%	158%	122%	86%	49%	12%	161%	130%	98%	65%	32%
	G	G	G	R	R	R	G	G	A	R	R
Site 9	**Base**	**5%**	**10%**	**15%**	**20%**	**25%**	**5%**	**10%**	**15%**	**20%**	**25%**
Original	195%	166%	136%	107%	77%	48%	170%	145%	120%	95%	70%
	G	G	G	A	R	R	G	G	G	A	R
Revised	174%	145%	116%	87%	57%	28%	150%	125%	100%	75%	50%
	G	G	G	R	R	R	G	G	A	R	R
Site 11	**Base**	**5%**	**10%**	**15%**	**20%**	**25%**	**5%**	**10%**	**15%**	**20%**	**25%**
Original	242%	201%	161%	120%	78%	36%	206%	171%	135%	99%	62%
	G	G	G	G	R	R	G	G	G	A	R
Revised	218%	177%	136%	95%	53%	10%	182%	146%	110%	74%	36%
	G	G	G	A	R	R	G	G	A	R	R
Site 12	**Base**	**5%**	**10%**	**15%**	**20%**	**25%**	**5%**	**10%**	**15%**	**20%**	**25%**
Original	206%	165%	124%	83%	42%	1%	172%	138%	105%	71%	37%
	G	G	G	R	R	R	G	G	A	R	R
Revised	176%	135%	95%	54%	14%	-27%	142%	109%	76%	42%	8%
	G	G	A	R	R	R	G	A	R	R	R

6.4 The table above shows the results from applying different assumptions following consultation with housebuilders. Six sites were tested and the changes between the original results and the revised results are highlighted in grey. As can be seen, the altered assumptions have an adverse impact on the viability of affordable housing. At the preferred 75/25 mix of affordable rent/intermediate tenure there are five instances at 15% affordable housing where the viability has worsened and in the case of Site 12 this becomes marginal from viable at 10% affordable housing provision.

6.5 In addition, Persimmon Homes felt that the Sustainable Homes Code Level 4 was not necessary and should not be considered until the conclusion of the Study. However the Study assumes Code 4 and an allowance for this is made within the build cost so that the viability assessment has been carried out with this higher build cost incorporated.

6.6 Both Persimmon and Barratt thought that there should be a viability cushion above the land value. This has effectively been addressed in the Study with changes to the banding of viable (Green), marginal (Amber) and non-viable (Red) compared to the Study that was carried out in 2010.

6.7 In addition to the housebuilders we also spoke with Registered Provider Gentoo. They agreed with the assumptions used in the study with the only suggested change being that professional fees should be 8% rather than 7%: a marginal difference that would not alter the overall results of the viability assessment.

7. Conclusions

7.1 This study aims to present a rounded view of the economic viability of affordable housing targets as part of the requirements of the statutory planning system in Sunderland. It aims to provide evidence that will underpin long-term planning policies. There can be no doubt that the application of affordable housing policies will need to be responsive to the market conditions anticipated at the time of development.

7.2 We have taken a baseline of the market conditions at September 2013 to reflect the current position in the housing market. To reflect the potential for the housing market to grow we have taken into account external expert opinion on housing market growth forecasts but have used those forecasts as a Medium growth figure, reflecting that whilst markets may grow at a faster rate, they may also grow at a slower pace, particularly compared to markets in Southern England.

Affordable housing targets: economic viability

7.3 The modeling has considered the levels of affordable housing provision that are economically viable at these various price levels. It has examined the impact of affordable housing provision on the 14 beacon sites, and has considered the overall pattern of results to establish the level at which affordable housing requirements would result in viability problems for a significant number of these beacon sites. This is an indication of the maximum levels of provision that can realistically be expected to be achievable for most sites. This provides a basis for establishing deliverable affordable housing requirements.

7.4 It is important to note that the viability of affordable housing provision will inevitably vary depending upon the circumstances of each actual site. A few sites will be able to deliver more than this indicative maximum, whilst other sites, in less favoured locations or with specific development constraints, will not be viable at this indicative level.

7.5 The study has considered two options for the tenure mix, viz:

- A preferred tenure split, based on the housing needs assessment, of 75% social rent and 25% shared ownership (or similar intermediate market products): and
- An alternative tenure split of 50/50.

Main findings

7.6 At the preferred 75/25 tenure mix, the indicative maximum levels of affordable housing provision at each price level are found to be:

- At September 2013, affordable provision at between 10%-15%;
- In a possible future market with Medium growth scenarios affordable provision at 10%-15%;

- At High growth scenarios affordable provision at 20%; and
- At Low growth scenarios affordable provision at 5%.

7.7 A change to 50/50 tenure split has a positive effect on overall viability with affordable housing levels achievable at about 5% higher. So at September 2013 values, affordable housing of 15%-20% is the indicative maximum.

7.8 The location analysis of the sites overall shows little variation across the five geographic areas that the 14 sites fall within. There can be, in fact, as much variation in viability of sites within the same geographic area as there are comparing sites within different geographic areas. For instance, for the two sites located within the Southern Coalfield area, one remains viable with an affordable housing provision of between 15%-20% whereas the other is marginal even at a 5% level of affordable housing.

Impact of potential changes in development conditions/ requirements

7.9 The costs associated with brownfield land development could significantly affect viability. This arises because the full costs of remediation are frequently not taken fully in account when land prices are being negotiated. The policy should, however, assume that additional costs arising from brownfield sites are correctly taken into account in determining land prices. Nonetheless, there may need to be some flexibility on sites with high remediation costs. At a 5% increase in costs, viability is largely unaffected whereas at 10% increased build costs viability is significantly affected.

7.10 The impact of switching the affordable rent part of the affordable housing provision from affordable rent at 80% of market value to a social rent was negligible.

7.11 The impact of different property growth forecasts inevitably has a big impact on the viability of affordable housing on development sites. However, in all cases (Low, Medium and High growth), viability decreases over the five year forecast period mainly because the forecasted increase in construction costs outweighs the growth in property prices in the North East over this period.

Overall policy advice

7.12 The SHMA identified a net figure of 514 additional affordable homes per year. The main need for provision is for social rented housing (77.3%) but the report identifies that 22.7% of households in need would consider intermediate tenures. Whether households could afford this would depend on the affordability of the intermediate tenures. In developing future policy, a balance clearly needs to be struck between the delivery of market and affordable housing to meet the high level of identified need and the economic viability of such provision. The balance of affordable and market housing on individual sites also needs to promote a broad socio economic mix that will encourage a sustainable community.

7.13 This study provides Sunderland Council with a robust evidence base from which to develop and implement effective planning policy for the provision of affordable housing. In terms of the interpretation of this evidence, it has to be viewed in the longer term strategic context of the Development Plan period. The viability of development, including provision of affordable housing, is currently limited by market conditions but it can reasonably be expected to improve during the Plan period. The policy aims to provide clarity to landowners and developers about the targets for affordable housing and to influence land values accordingly.

7.14 As far as S106 contributions are concerned, the Council will maintain a flexible approach to these. Additional S106 contributions may be sought on developments, for instance to help fund infrastructure or open space, but the exact level of contribution cannot be established and as this report demonstrates, the economic viability of development sites varies. Therefore the approach will be for the Council to further assess the individual viability of a site as it is being brought forward for development to ascertain the level of S106 contribution that will be requested and what it will contribute towards.

7.15 The policies are proposed on the basis that market conditions will improve on September 2013 values and this is most likely to be in line with the Medium growth forecasts but affordable housing requirements need to take into account the potential other elements that may increase costs, such as the cost of bringing brownfield sites forward and the future impact of introducing the Community Infrastructure Levy. It is also the case, of course, that flexibility will be required in the application of policy targets to accommodate market conditions and the circumstances of particular sites, especially those in lower-value regeneration locations. However, we are keen to enable the Council to achieve a higher percentage of affordable housing where it is achievable.

Affordable housing targets

7.16 We are mindful that there are very high levels of housing need in Sunderland and there is a need to maximise the provision of affordable housing delivery for the Council.

7.17 The viability study has confirmed that the majority of sites are viable at 15% albeit a number of these are marginal and the forecasted growth in the housing market would suggest that there is opportunity to be more optimistic than the previous viability study completed in 2010.

7.18 However, these outputs are achieved using our original assumptions not those suggested by house builders. We have further tested the professional fees level at 8%, which is based on viability assessments submitted with planning applications to the City Council, which have detailed fees at 6%, 6% 7.2%, 7.8%, 10% and 10%. The HCA guidance also suggests 8%.

7.19 However, we are also very keen to provide affordable housing targets that support new development coming forward and do not want the Council to miss out on much needed affordable housing if certain sites can provide it. With the above in mind, we recommend the following:

- A target of up to 15% provision of affordable housing on all sites applied across the City. The affordable housing provision at this target level would be 75% affordable rent and 25% intermediate (e.g. shared ownership)
- If the affordable tenure mix changes to 50/50 (affordable rent/intermediate) then the target level would remain at 20%.

7.20 It is recognised that these targets may not be achievable on all developments due to overall market conditions, or as a result of specific site viability issues. Therefore we recommend that these targets are considered on all sites and a flexible approach is taken by the Council where a developer submits an application that demonstrates that the target is not deliverable. In these cases, the Council will seek the maximum level of affordable housing that is deliverable within the viability parameter. We recommend the Council should adopt **a flexible approach** and review the viability of affordable housing provision for sites where the developer can demonstrate that they are unable to provide the 15% target. The Council has a positive track record in working with developers to maximize the delivery of affordable housing within a realistic range of parameters and regularly takes a flexible approach.

7.21 There is less uncertainty about future market prospects than in the 2010 study but it is by no means clear and it will be difficult to assess the likely ability to deliver affordable housing on larger sites that have a development timescale stretching over several years. For larger sites where development can be phased, there should be provision for a review of the scheme viability, or an overage clause in respect of commuted sum payments, prior to the commencement of future phases of development. Lower levels of affordable housing provision may be more readily agreed in the first phase if there is the potential to increase provision if sales prices increase. The Council should also consider time-limiting planning obligations that allow substantial reductions from the targets.

Appendix A: Scheme mix for each site

Site development assumptions															
		Site 1	Site 2	Site 3	Site 4	Site 5	Site 6	Site 7	Site 8	Site 9	Site 10	Site 11	Site 12	Site 13	Site 14
Site size (hectares)		**4.70**	**2.90**	**14.00**	**1.10**	**3.60**	**2.90**	**14.20**	**5.00**	**6.20**	**7.30**	**5.25**	**0.67**	**1.62**	**8.90**
Yield		**95**	**105**	**434**	**21**	**158**	**149**	**240**	**202**	**285**	**110**	**300**	**38**	**70**	**142**
Density		**20.21**	**36.21**	**31.00**	**19.09**	**43.89**	**51.38**	**16.90**	**40.40**	**45.97**	**15.07**	**57.14**	**56.72**	**43.21**	**15.96**
Site Location		**Washington**	**Washington**	**Northern Coalfield (Houghton-le-Spring)**	**Northern Coalfield (Houghton-le-Spring)**	**Northern Coalfield (Houghton-le-Spring)**	**Southern Coalfield (Hetton-le-Hole)**	**Southern Coalfield (Hetton-le-Hole)**	**Sunderland South**	**Sunderland South**	**Sunderland South**	**Sunderland South**	**Sunderland North**	**Sunderland North**	**Sunderland North**
1 bed studio flat	32m^2														
1 bed 2 person flat	48m^2														
2 bed 3 person flat	60m^2														
2 bed 4 person flat	67m^2														
1 bed 2 person mews	55m^2														
2 bed 3 person house	71m^2			109	3	5	28		14	68		120	16	10	
2 bed 4 person house	76m^2	3	4									80	12		
3 bed 4 person house	81m^2		33	30		25	26		70	140		25	8	33	25
3 bed 5 person house	86m^2	27	33	100	14	25	60		38	49		25	2	20	47
3 bed 6 person house - 2 storey	95m^2														
3 bed 6 person house - 3 storey	100m^2														
4 bed 6 person house - 2 storey	101m^2			109	4	53	26	140	40	28	30	50		7	45
4 bed 6 person house - 3 storey	107m^2														
4 bed 7 person house - 2 storey	108m^2	49	35			50	9		40		30				
4 bed 7 person house - 3 storey	115m^2														
5 bed 7 p house 2 storey	115m^2	16		86				100			50				25
6 bed 8 person house	125m^2														

Appendix B: Detailed financial modeling

Scenario Summary	1	2	3	4	5	6	7	8	9	10	11
	Base (0% AH)	5% AH 75:25 split	10% AH 75:25 split	15% AH 75:25 split	20% AH 75:25 split	25% AH 75:25 split	5% AH 50:50 split	10% AH 50:50 split	15% AH 50:50 split	20% AH 50:50 split	25% AH 50:50 split
Increase on Sales Values	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Increase on works costs	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Abnormals	0	0	0	0	0	0	0	0	0	0	0
Contingency	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Professional Fees	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
CSH Level	4	4	4	4	4	4	4	4	4	4	4
S106 payment	701	701	701	701	701	701	701	701	701	701	701
Finance Rate (charge)	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Finance Rate (Earn)	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Profit	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Profit on	GDV	GDV	GDV	GDV	GDV	GDV	GDV	GDV	GDV	GDV	GDV
%age affordable	0%	5%	10%	15%	20%	25%	5%	10%	15%	20%	25%
Shared Ownership Equity Rate	-	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%

Results Summary	1	2	3	4	5	6	7	8	9	10	11
	Base (0% AH)	5% AH 75:25 split	10% AH 75:25 split	15% AH 75:25 split	20% AH 75:25 split	25% AH 75:25 split	5% AH 50:50 split	10% AH 50:50 split	15% AH 50:50 split	20% AH 50:50 split	25% AH 50:50 split
Site 1	135%	121%	107%	96%	81%	66%	123%	109%	97%	85%	70%
	G	G	A	A	R	R	G	A	A	R	R
Site 2	171%	154%	136%	119%	101%	84%	156%	141%	125%	110%	95%
	G	G	G	G	A	R	G	G	G	A	A
Site 3	162%	146%	130%	114%	98%	82%	148%	133%	119%	105%	91%
	G	G	G	G	A	R	G	G	G	A	A
Site 4	132%	116%	100%	83%	67%	51%	117%	101%	86%	71%	55%
	G	G	A	R	R	R	G	A	R	R	R
Site 5	236%	197%	158%	119%	79%	38%	203%	169%	136%	102%	68%
	G	G	G	G	R	R	G	G	G	A	R
Site 6	222%	187%	151%	115%	79%	41%	191%	159%	127%	95%	62%
	G	G	G	G	R	R	G	G	G	A	R
Site 7	124%	109%	94%	79%	64%	49%	110%	97%	83%	69%	55%
	G	A	A	R	R	R	A	A	R	R	R
Site 8	145%	122%	98%	75%	51%	28%	127%	108%	91%	72%	53%
	G	G	A	R	R	R	G	A	A	R	R
Site 9	195%	166%	136%	107%	77%	48%	170%	145%	120%	95%	70%
	G	G	G	A	R	R	G	G	G	A	R
Site 10	148%	135%	122%	109%	97%	84%	137%	126%	115%	104%	93%
	G	G	G	A	A	R	G	G	G	A	A
Site 11	242%	201%	161%	120%	78%	36%	206%	171%	135%	99%	62%
	G	G	G	G	R	R	G	G	G	A	R
Site 12	206%	165%	124%	83%	42%	1%	172%	138%	105%	71%	37%
	G	G	G	R	R	R	G	G	A	R	R
Site 13	181%	149%	117%	84%	52%	19%	154%	127%	101%	74%	47%
	G	G	G	R	R	R	G	G	A	R	R
Site 14	143%	128%	112%	97%	81%	66%	130%	116%	102%	89%	75%
	G	G	G	A	R	R	G	G	A	R	R