

Staffordshire Moorlands District Council

Development Capacity Study
Stage 3: Final Report
February 2009*

* Including July 2010 Addendum on Site Level Appraisals and
Sensitivity Analysis in March 2011

Halcrow Group Limited

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Contents Amendment Record

This report has been issued and amended as follows:

Issue	Revision	Description	Date	Signed
1		First Draft	24 th Dec 2008	KM
2		Second Draft	16 th Feb 2009	KM/PT
3		Addendum: Site Level Appraisals	20 th July 2010	KM/RH
4		Sensitivity Analysis	31 st March 2011	KM

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1 Introduction

1.1 *Purpose of the Study*

1.1.1 Halcrow Group Ltd was commissioned by Staffordshire Moorlands District Council in 2008/09 to appraise the potential impact of any changes to the affordable housing policy resulting from the Local Development Framework preparation process on development viability.

1.1.2 The current policy in the adopted Supplementary Planning Guidance requires residential development of 15 dwellings (0.5 hectares) or more to provide 33% affordable housing on-site from all sources. Building on the existing viability model developed as part of the Stage 2 work of the Development Capacity Study, the key purpose of the study is to test whether changes in the affordable housing contributions under varied conditions can either maintain or improve development viability of the District's housing land supply.

1.1.3 The remainder of this Chapter along with Chapters 2 and 3 present a brief synopsis of our approach, the findings of the analysis and recommendations for the District's future affordable housing policy. Additionally, details on the more recent site level appraisals, which were undertaken in 2010 and are based on the HCA's Economic Appraisal Tool Kit, are presented in Chapter 4.

1.2 *Study Approach*

1.2.1 The brief requires the study to investigate a range of scenarios in order to examine the effect of the following potential changes:

- Increasing the proportion of affordable housing on all sites from 33% to 50%
- Increasing the proportion of affordable housing on all sites from 33% to 100%
- Reducing the threshold from sites of 15 dwellings (0.5 hectares) or more to sites of 5 dwellings or more
- Reducing the threshold from sites of 15 dwellings (0.5 hectares) or more to any sites coming forward as a housing development
- Requiring all housing sites below the current, or any new thresholds, to make a financial contribution towards meeting the affordable housing needs of the local area.

1.2.2 Given the prevailing housing market slow down and projected short to medium term trends, it is likely that any upward shifts in affordable housing requirements

will deter development. Further, adhering to the limitations of the viability model prepared as part of Stage 2 of the Development Capacity Study¹, the adopted approach for this assignment, as agreed with the District Council, was to test the level of feasible affordable housing contribution in each of the residential settlements (by different types of developable land) under the six core different social infrastructure scenarios noted below:

- All tariffs are charged for any proposed housing developments
- No contribution is sought from the developer for education provision
- No contribution is sought from the developer for health facilities
- No contribution is sought from the developer for provision of emergency services
- No contribution is sought from the developer for public art
- Developer contribution is only sought for provision of leisure services / open space.

1.2.3

Analysis across the above scenarios will also provide evidence on viable economies of scale and consequences of changing the threshold levels. Such analysis will also inform conclusions for alternative mechanisms to seek developer contributions towards provision of affordable housing.

1.3

Structure of the Report

1.3.1

The layout of this report reflects the purpose of the study and adopted approach. Chapter 2 presents the findings of the analysis across the core developer contribution scenarios and the impact they have on the level of feasible affordable housing provision in each major residential settlement in the District. These results

¹ Stage 1 of the Development Capacity Study assessed the physical and social infrastructure conditions of the housing land supply for each key residential settlement in the District. The study also provides a disaggregation of housing land supply in terms of availability of brownfield, greenfield and mill conversion land by each residential settlement.

The viability model developed as part of the Stage 2 work of the Development Capacity Study incorporates the findings of the Stage 1 analysis to establish strategic cost assumptions by type of land and residential settlement. The value assumptions in the model are based on prevailing house prices (new build: typical family home or apartments) and land values (type of land: greenfield and brownfield) for each residential settlement in the District. The value assumptions were based on consultations carried out in August 2008 with property agents active in the District.

Also worth noting is that the model appraises viability at a strategic current prices level, rather than detailed net present value analysis incorporating detailed assumptions on development mix, site abnormalities, off site infrastructure requirement etc.

are synthesised and presented as guidance on the way forward for Staffordshire Moorlands' future affordable housing policy in Chapter 3.

1.3.2

Following the completion of the update on the Stage 2 Development Capacity Study in early 2010, which focussed of revisiting the strategic viability assessments o housing development in key towns within the District, Halcrow and Bridgehouse Property Consultants were commissioned by the Council to review the findings of the Stage 3 Development Capacity Study. Like the more recent analysis undertaken Stage 2 May 2010 Update report, this review of the Stage 3: Development Capacity Study entailed indicative viability appraisals for housing developments using the Homes and Communities Agency's new Economic Appraisal Tool Kit, incorporating the prevailing market conditions in 2010. Further details on the approach and findings of this update process are presented in Chapter 4 – 2010 Addendum: Site Level Appraisals.

2

Testing Affordable Housing Feasibility

2.1

Introduction

2.1.1

This Chapter presents a summary analysis on the level of feasible affordable housing contribution in each of the residential settlements (by different types of developable land) for the following six core different social infrastructure scenarios:

- All tariffs are charged for any proposed housing developments
- No contribution is sought from the developer for education provision
- No contribution is sought from the developer for health facilities
- No contribution is sought from the developer for provision of emergency services
- No contribution is sought from the developer for public art
- Developer contribution is only sought for provision of leisure services / open space.

2.1.2

As stated earlier in this document, the analysis presented in the remainder of this Chapter is based on the viability model prepared as part of Stage 2 of the Development Capacity Study.

2.2

Alton

2.2.1

With regards to the current provision of community facilities in Alton, developers could consider building up to 25% of the units as affordable on brownfield sites if the local authority only charged the leisure tariff for housing developments. The proportion decreases by around 5% if all tariffs are charged. Of all the charges, the education tariff significantly reduces the deliverability of affordable housing, followed by health and public art.

2.2.2

The proportion of affordable housing would be increased to some 50% for greenfield developments if only the leisure tariff is charged (Scenario 6) and around 45% if all charges are included (Scenario 1). It is noteworthy that there would be little change in the deliverability of affordable housing on greenfield sites in Alton if the education tariff was levied.

2.2.3

The proportion of feasible affordable housing units is slightly less for Mill Conversions, where developers would be able to provide around 30% as affordable if all social infrastructure charges are applied. The proportion increases

marginally if only the leisure service provision is charged. As a result, in the case of Mill Conversions in Alton, there are only minor differences in the feasibility of affordable housing provision across the various scenarios.

2.3

Biddulph and Biddulph Moor

2.3.1

In this settlement, the analysis suggests that it would be unfeasible for developers to provide affordable housing units on brownfield sites if they are charged all tariffs. However, if only the leisure tariff is charged, some 5% of developments could be built as affordable housing units. This would be the only feasible option in this case.

2.3.2

With regard to greenfield sites, developers could build up to some 30% as affordable housing units at the full social infrastructure rate. This increases to around 40% if the local authority charges the leisure tariff only. Similar to Alton, education and health charges considerably reduce the proportion of affordable housing deliverability. In this location no Mill Conversions are available.

2.4

Blythe Bridge

2.4.1

In Blythe Bridge, the proportion of affordable housing that developers could consider building is constant at all tariffs within the respective types of sites.

2.5

Brown Edge

2.5.1

In this settlement, the provision of affordable housing is unfeasible on brownfield sites, except when the leisure tariff is applied. In this case the proportion of affordable housing would be only marginal.

2.5.2

In terms of greenfield sites, some 35% of affordable housing could feasibly be developed in this location at the leisure tariff. However, if all tariffs are applied, the proportion decreases to around 30%, which is the same level as if education is excluded. Further, if the local authority does not apply the health tariff, the proportion of affordable housing is slightly lower than for the leisure charge only.

2.5.3

There are no Mill Conversion sites available for affordable housing development at this location.

2.6

Caverswell and Cookshill

2.6.1

With regard to the current community facilities provision in Caverswell and Cookshill, deliverability of affordable housing is equal for all scenarios at brownfield sites. For greenfield sites, the proportion of affordable housing that developers could consider building is around 35% if all tariffs are charged, and around 35% to 40% if only the leisure charge applies. Apart from the

abovementioned scenarios, there is little change in the deliverability of affordable housing at greenfield sites in Caverswell and Cookshill. As in Brown Edge, no Mill Conversion Sites are available for affordable housing development.

2.7

Cheadle

2.7.1

Affordable housing development is currently undeliverable on brownfield sites in Cheadle. As there are no Mill Conversion sites available for development, greenfield sites are the only type of land available for affordable housing in this area. Here developers could consider building up to around a third of all units as affordable if only the leisure tariff is charged. Only the exclusion of health tariffs approaches nearly the same level of deliverability. The proportion decreases by around 4% if all tariffs are charged, resulting in the same proportion as if education charges were excluded.

2.8

Cheddleton

2.8.1

The scenario in Cheddleton is roughly similar to the one in Cheadle. With Mill Conversions unavailable and affordable housing development unfeasible on brownfield sites, developers may only consider greenfield site development for affordable housing. The proportion that developers could consider building is around 30% if they are charged all tariffs, or all but the educational tariff. If solely the leisure tariff is charged, around 35% of units could be developed as affordable, only slightly more than if the health tariff is excluded. In addition, the exclusion of other charges for community services leads to minor changes only.

2.9

Endon

2.9.1

Considering the present provision of community service facilities in Endon, deliverability of affordable housing units is around 10% on brownfield sites if developers are charged all social infrastructure tariffs. The proportion increases significantly to around 20% if only the leisure tariff is applied. In addition, the exclusion of education services from the rest of the charges for community facilities leads to an increase in deliverability of around 10%. The second highest increase in the proportion of affordable housing on brownfield sites in Endon would be feasible if solely health service charges are excluded, while the exclusion of charges for other community services would only lead to minor increases.

2.9.2

For greenfield sites, the proportion of affordable housing that developers could consider building is around 40%, if all tariffs are charged, and around 50% if solely the leisure charge applies. Similar to other locations mentioned above, education and health charges considerably reduce the proportion of affordable housing deliverability in greenfield sites. The exclusion of charges for emergency services or

public art would not result in an increase in deliverability. In this location no Mill Conversions are available.

2.10

Ipstones

2.10.1

The present availability of community facilities in Ipstones results in some 25% of units that could be developed as affordable on brownfield sites in this location. This is roughly the same for all other scenarios, except the exclusion of all but the leisure charge, which increases deliverability by around 2%.

2.10.2

With regard to greenfield sites, the proportion of feasible affordable housing is equal for all charges (around 50%). There are no Mill Conversion sites available for affordable housing development at this location.

2.11

Kingsley

2.11.1

In this settlement, developers could consider building up to some 20% of housing units as affordable in brownfield sites if all charges are applied, which is the same proportion if the education or emergency tariffs are excluded. This rate increases to some 25% if only the leisure tariff is charged.

2.11.2

Deliverability in greenfield sites and Mill Conversion sites equal to the one in Ipstones. It is constant in all scenarios for greenfield sites while no Mill Conversions are available.

2.12

Leek

2.12.1

Considering the current provision of community facilities in Leek, only a marginal proportion of housing units can be considered affordable on brownfield sites if the local authority charges all tariffs. If solely the leisure tariff is charged, around 5% of units could be developed as affordable, which is similar to the scenario if health or public art charges are excluded.

2.12.2

The proportion of affordable housing would be increased to some 40% for greenfield developments if only the leisure tariff is charged. There is only a minor change in deliverability if charges for all community facilities apply.

2.12.3

With regards to Mill Conversions, developers could consider constructing some 25% to 30% of units as affordable if all charges are applied. Similar to the other types of sites, an exclusion of the other charges results only in minor variations.

2.13	<i>Oakamoor</i>
2.13.1	In Oakamoor, the proportion of affordable housing that developers could consider building is constant at all tariffs on brownfield and greenfield sites. Mill Conversions are not available at this location.
2.14	<i>Upper Tean</i>
2.14.1	In this settlement, affordable housing development is currently undeliverable on brownfield sites. Further, as there are no Mill Conversion sites available for development, greenfield sites are the only option that can be considered for affordable housing in this area. Here, the proportion of affordable housing that developers could consider building is around 30%, if all tariffs are charged, and around 35% if only the leisure charge applies. Similar to the situation in Alton, of all the charges, the education tariff significantly reduces the deliverability of affordable housing, followed by public art.
2.15	<i>Warrington and Cellarhead</i>
2.15.1	The present availability of community facilities in Warrington and Cellarhead results in a percentage of some 5% of units that could be developed as affordable on brownfield sites in this location. This is roughly the same for all other scenarios, except the exclusion of all but the leisure charge, which increases deliverability to some 10%. In terms of greenfield sites, the proportion of feasible affordable housing is constant at around 40%, with the only exception being the local authority solely charging for leisure facilities, where developers would be able to provide between 40% and 45% as affordable. In Warrington and Cellarhead no Mill Conversions are available.
2.16	<i>Waterhouses</i>
2.16.1	The proportion of deliverable affordable housing on brownfield sites in Waterhouses is around 20%, assuming the local authority charges all tariffs for the provision of community services. Again, by reducing the total charge by the one attributable to education, deliverability is increased significantly. Further, if solely leisure services are charged, deliverability increases to around 25% in this location.
2.16.2	With regard to greenfield sites, the proportion of affordable housing would be increased to some 50% for greenfield developments if only the leisure tariff is charged. The proportion that developers could consider building is slightly less, between 45% and 50% if they are charged all tariffs. In addition, the exclusion of the other charges for community services leads to minor changes only, with education representing the largest factor that influences deliverability.
2.16.3	In Waterhouse no Mill Conversions are available.

3 The Way Forward

3.1

Introduction

3.1.1

The brief highlights that future policies on affordable housing targets should aim to ensure that the supply of available land is not unduly affected by insufficient incentives for land owners and developers. This approach is particularly important in the current context of housing market slowdown, where ambitious affordable housing objectives may result in disincentives for the potential land owners and developers, limiting housing development in the District in the short to medium term.

3.1.2

As mentioned earlier in this document, the analysis carried out as part of this study is based on cost and value assumptions at settlement level and does not entirely reflect the complexities of individual sites. Hence, the conclusions presented in this section should be viewed as guidance offering direction to the District's future affordable housing policy, rather than recommendations set in stone.

3.2

Conclusions

3.2.1

The section presents the key findings of the study across the requirements set out in the brief and summarised in 'Section 1.2: Study Approach' of this document:

- ***Increasing the proportion of affordable housing on all sites from 33% to 50%:*** Given the findings of the analysis (based on August 2008 cost and value assumptions), it is appropriate to infer that 50% affordable housing provision is likely to be feasible only in some instances on large greenfield sites across the District. The scale of the development to achieve economies of scale, timing of the development to at least reach the August 2008 prices and adequate existing provision of social infrastructure will be the key factors for achieving such high levels of affordable housing. Alternatively, promoting land owners to actively work in partnership with Registered Social Landlords (RSLs) at pre development stages can facilitate development sites to make higher affordable housing contributions than the current 33% target.
- ***Increasing the proportion of affordable housing on all sites from 33% to 100%:*** The private sector operates with two core objectives of maintaining a positive cash flow and profitability. Hence, it is highly unlikely for the District to achieve this scenario under open market conditions. However, as mentioned earlier, active RSL participation in Staffordshire Moorlands' housing market can facilitate individual sites to make higher affordable housing contributions than the current 33% target, potentially up to 100%.

- ***Reducing the threshold from sites of 15 dwellings (0.5 hectares) or more to sites of 5 dwellings or more:*** The analysis demonstrates that there would not be sufficient economies of scale for house builders to profitably deliver the smaller spectrum of development schemes. In particular, small schemes (less than 15 units) will struggle to offset affordable housing contributions in the form of 33% of total dwellings.
- ***Reducing the threshold from sites of 15 dwellings (0.5 hectares) or more to any sites coming forward as a housing development:*** As highlighted above, the analysis suggests that small housing development schemes of less than 15 units are unlikely to be profitable with a 33% affordable housing contribution, particularly in the current market conditions.
- ***Requiring all housing sites below the current or any new thresholds to make a financial contribution towards meeting the affordable housing needs of the local area:*** In the current economic climate, any significant increases in the affordable housing contributions or changes in thresholds will impact negatively on the development viability of the District's housing land supply. This can stem the development rate over the medium term. However, working in partnership with land owners and house builders, the Council could transparently agree a nominal financial contribution on a site by site basis. It has not been possible to determine the level and timing of such financial contributions, not least because these inferences will form part of individual negotiations which would reflect the prevailing market conditions, contributions to infrastructure provision and site abnormalities.

4

2010 Addendum: Site Level Appraisals

4.1

Introduction

4.1.1

In 2010, Halcrow and Bridgehouse Property Consultants produced an update of the Stage 2: Development Capacity Study, which focussed on housing development viability using the Homes and Communities Agency's new Economic Appraisal Tool Kit. Following this exercise, Staffordshire Moorlands District Council wished to update the findings of this Stage 3: Development Capacity Study, reflecting the prevailing market conditions in 2010.

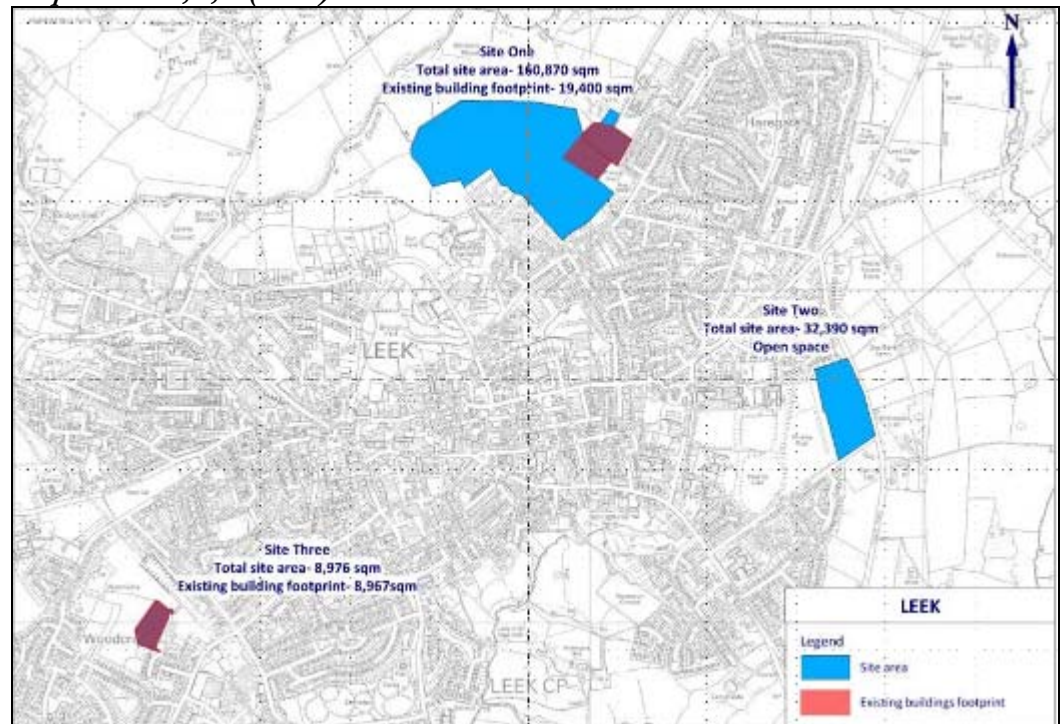
4.1.2

Additionally, the focus of this update exercise was to test the financial viability of 11 specific sites using the HCA's new Economic Appraisal Tool. More details on this new approach are presented in recently updated Stage 2: Development Capacity Study. The 11 sites, identified by the Staffordshire Moorlands District Council, are envisaged to be a representative sample of housing land supply across the local authority area.

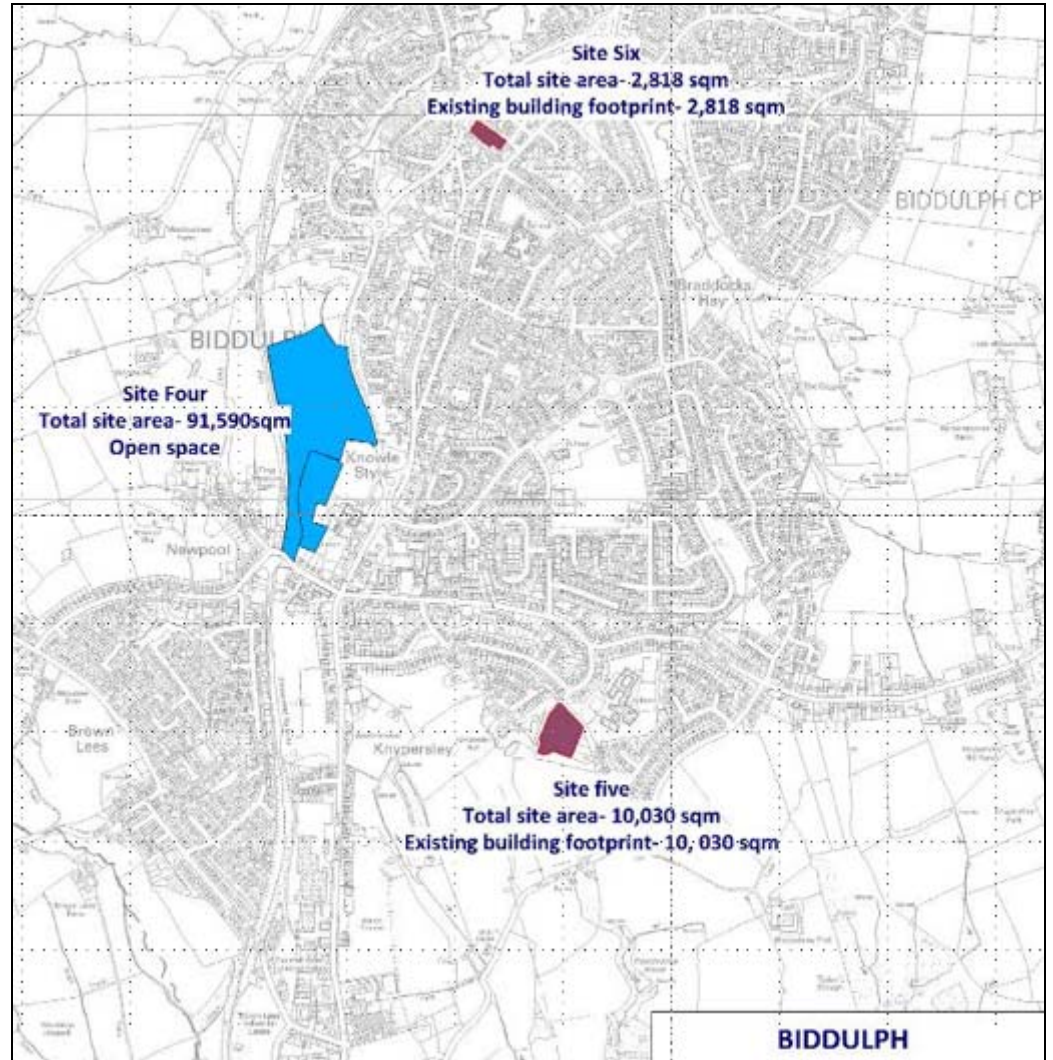
4.1.3

The location of these sites is presented in the maps below.

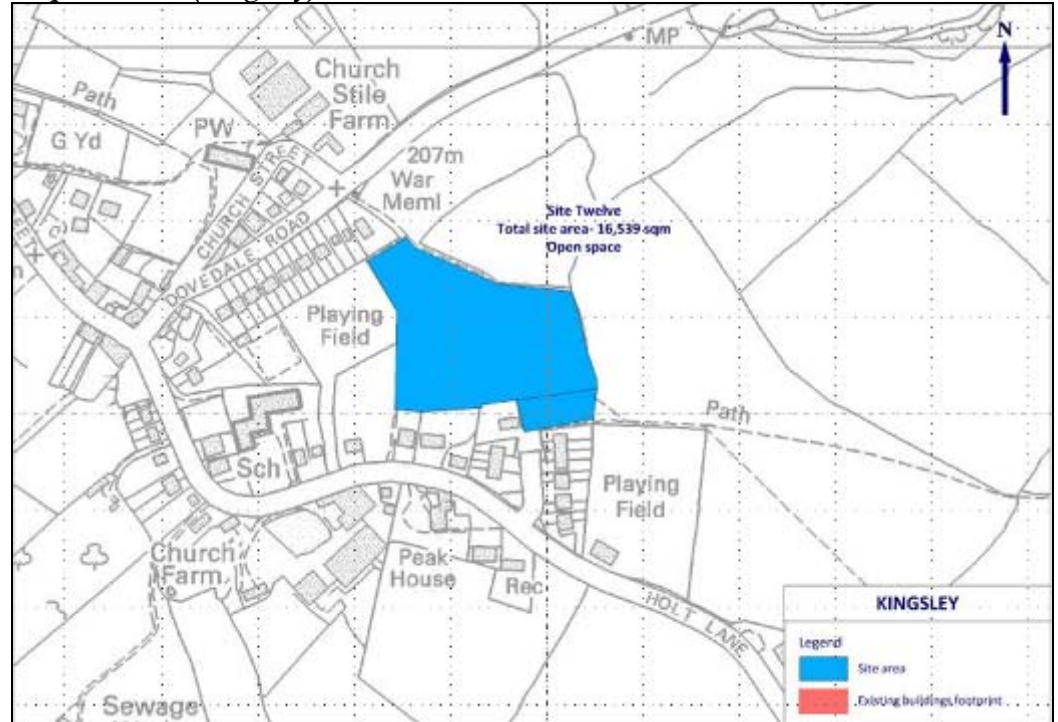
Map of sites 1, 2, 3 (Leek)



Map of sites 4 and 5 (Biddulph)



Map of site 12 (Kingsley)



4.2

4.2.1

Key Assumptions

The following core assumptions have been adopted for the site appraisal:

- The appraisals adopt an identical property mix used for each of the Baseline appraisals recently undertaken as part of the updated Stage 2: Development Capacity Study².
- The housing numbers for the sites were estimated by the Council. Therefore, even if a site could potentially have a greater capacity for dwellings, a density assumption of 35 dwellings per hectare has been adopted.
- Where Planning Obligations are calculated per hectare, and to eradicate the above anomaly, BHP have derived a 'net developable area' assessment by simply taking the Council's housing estimate and dividing it by 35 (houses per hectare) so that the planning obligation cost is more reasonable
- The cashflow for each appraisal has been adjusted to take account of scheme size. The appraisal Tool Kit is limited in that the maximum cashflow period is

² A 1 hectare site comprising 35 dwellings being a market driven mix of 10 2-Bedroom Houses, 17 3 Bedroom Houses and 8 4 Bedroom Houses

5 years whereas some of the urban extensions will run for significantly longer periods than that.

- The appropriate highways infrastructure cost estimates have been inputted from the additional information Transport Assessment carried out by Halcrow.
- For brownfield sites, appropriate assumptions have been made for demolition and remediation costs.
- The appraisals adopt the policy position from the Staffordshire Moorlands LDF Core Strategy Submission Document (May 2009) on affordable housing for all sites. The Core Strategy Submission Document states that:
 - In the towns, residential developments of 15 dwellings (0.5 hectares) or more shall provide a target of 40% affordable housing on-site from all sources.
 - In the larger villages, residential developments of 5 dwellings (0.16 hectares) or more shall provide a target of 50% affordable housing on-site from all sources.
 - In the rest of the rural areas, including smaller villages, all housing should either be affordable or meet a local need which cannot be met elsewhere
 - Unless circumstances dictate otherwise and in agreement with the Council, 70% of all affordable dwellings provided on each site should be social rented housing with the remainder being intermediate housing.

4.2.2

A summary of the sites assessed is presented in **Table 4-1** below:

Table 4-1: Site description

Site number	Site location	SMBC site ref.	Description	Existing land use condition
1	Area 3, North of Leek	LE076, LE059, Bode Business Park	Large Urban Extension – comprises of mix of brownfield and greenfield including part landfill site, current employment site and vacant field	Industrial site operational and considered in reasonable condition
2	Area 6a, Rear of Leek High School, Leek	LE140	Small Urban Extension – greenfield vacant land	N/A
3	Land off Woodcroft Road, Leek	LE014	Urban Site – vacant, derelict land, brownfield	Derelict and in need of upgrading
4	Area 4, West of Bypass, Biddulph	BD106. BD071	Large Urban Extension – greenfield, open countryside	N/A

Site number	Site location	SMBC site ref.	Description	Existing land use condition
			site	
5	Knypersley Garden Centre, Biddulph	BD069	Small Urban Extension – brownfield/greenfield, former garden centre	Former garden centre in need of significant repair and upgrading
7	Areas 1 & 2, North Cheadle	CH001, CH080, CH081	Large Urban Extension – greenfield open countryside and vacant land	N/A
8	Area 4a, Brookhouses, Cheadle	CH003, CH085 (Northern part only)	Small Urban Extension – greenfield open countryside site	N/A
9	Areas 6 and 7, Eastern Cheadle	CH0129, CH073 (part), CH075, CH076 (part)	Large Urban Extension – greenfield open countryside	N/A
10	Stoddards Garage, Leek Road, Cheadle	CH015	Urban Site – brownfield site in employment use	Site operational and in relatively good condition
11	Haulage Depot, St. Thomas's Road, Upper Tean	UT019	Village Site – small brownfield site in employment use	Operational site in reasonable condition
12	Land off Haste Hill Avenue, Kingsley	KG019A, KG019B	Village Site – small greenfield site in open countryside	N/A

4.3

4.3.1

Summary Findings

Assuming the same greenfield and brownfield existing use values as the ones used in the updated Stage 2: Development Capacity Study (£150,000 for greenfield and £225,000 for brownfield sites), the results of the site level assessment, which incorporate the proposed affordable housing policy targets, indicate that most of the 11 sites would not be financially viable under the current market conditions. As **Table 4-2** summarises, the residual site value per hectare is below the current use value in all cases.

Table 4-2: Financial viability summary

Site number	Location	Current use value per hectare	Residual site value per hectare	Financially viable in current market conditions?
1	North of Leek	£150,000 / £225,000	£43,358	No
2	Leek	£150,000	£147,341	Marginal
3	Leek	£225,000	£74,419	No
4	Biddulph	£150,000	£213,958	Yes
5	Biddulph	£225,000	£24,242	No
7	North Cheadle	£150,000	£74,710	No

Site number	Location	Current use value per hectare	Residual site value per hectare	Financially viable in current market conditions?
8	Cheadle	£150,000	£31,457	No
9	Eastern Cheadle	£150,000	£53,119	No
10	Cheadle	£225,000	-£62,423	No
11	Upper Tean	£225,000	£52,014	No
12	Kingsley	£150,000	£93,599	No

4.3.2 However, it is worth noting that the above results are sensitive to some critical assumptions, including those for house prices and developer contributions. As highlighted earlier in this Chapter, the assumptions on house prices incorporated into these site level appraisals reflect a snapshot of the market conditions, which is currently depressed. Equally, the assumption on developer contribution is based on a higher policy target. Thirdly, the assumption on developer contributions towards education infrastructure presumes a worst case scenario that there is no capacity at the existing facilities within the sites' context areas.

4.3.3 Strong recovery in house prices in the coming years could impact the results positively, making housing developments viable. Equally, reduced developer contributions in the prevailing climate could also result in viable housing developments on indicative sites appraised as part of the production of this addendum. However, such sensitivities have not been tested numerically as part of the recent analysis.

4.3.4 Also worth noting is the recent judgement on the legal challenge by Barratt Developments Plc against the City of Wakefield District Council. In particular, Barratt appealed that the target of 30% affordable housing target proposed in Wakefield's Core Strategy is unsupported by adequate economic evidence, that the defect is not cured by the provision for negotiations on individual sites, and that the policy is in other respects unclear or unsupported. The judge dismissed the developer's challenge, stating that Wakefield's affordable housing policy applied the 30% target to sites that passed the specified thresholds, but it was subject to a site by site negotiation to take account of abnormal costs, economic viability and other requirements associated with the development (see details in Table 4-3).

4.3.5 In light of the above mentioned sensitivities for current results on site level appraisals and the court judgement in favour of Wakefield District Council, it is appropriate for the Staffordshire Moorlands District Council to explore the evidence for a higher forward looking affordable housing target, reflecting the evidence on local need, as long as the final contributions are agreed on a site by site basis and the decision are based on transparent viability assessments.

Table 4-3: Barratt Developments Plc versus The City of Wakefield District Council

Background

The claimants, Barratt Development Plc, a well-known house-building company, challenged Wakefield District Council's Policy CS6 in the Council's Core Strategy, which lays down requirements for affordable housing at 30%. In particular, the developers claimed the Council had formulated the affordable housing policy when market conditions were more favourable to developers. Given the prevailing market conditions, the target of 30% throughout the 17 year duration of the Strategy was not justified.

Wakefield District Council's Evidence Base

The Strategic Housing Market Assessment: Economic Viability Appraisal, which was prepared in August 2008, concluded that there was little scope to deliver any development, let alone affordable housing. However, despite these findings the report did not mean that the requirement should be set at 0%. In particular, the document concluded that:

"Over the course of the Core Strategy and the life of any affordable housing policy it is recommended to expect, having regard to the cyclical nature of the housing market, that the market conditions will vary significantly. WMDC need to ensure that any policy they put in place is flexible enough to deal with these changes in market conditions.

The results... show that any policy put in place by WMDC for the delivery of affordable housing needs to be flexible and have built in trigger points which enable more affordable housing to be delivered as the market improves to more normal market conditions."

Judgement

On 6th July 2010, the judge, Lord Justice Carnwath explained if the target for affordable housing provided in the Core Strategy is set unrealistically high, developers will be discouraged from bringing forward proposals and social housing needs will not be adequately addressed. The strategy depends upon profitable development, and profitable development depends in large measure upon buoyant land values. If prospective development land is unprofitable because it is 'blighted' by a social housing burden it is less likely that the land will be sold for development and the strategy may, in consequence, fail to bear its intended fruit. If, on the other hand, the affordable housing target is set too low to address need, the Council will fail to deliver national policy.

The Judge concluded that the available evidence was sufficient for the Secretary of State's Inspector to conclude that the Core Strategy's 30% affordable target was a realistic aspiration in favourable conditions. Accordingly, the Judge dismissed this appeal. Lady Justice Arden and Lord Justice Stanley Burnton present were in agreement.

Source: Case No: C1/2010/0044, Royal Courts of Justice Strand, London, WC2A 2LL

4.4

Sensitivity Analysis

4.4.1

In 2011, Halcrow were asked to undertake some sensitivity analysis for a sample site appraised in Section 4.3. The purpose of this additional analysis was to test impact on development viability in light of sensitivities such as reduced levels of affordable housing and other planning contributions.

4.4.2

As demonstrated in the Table 4-2, with a residual value of -£62,423 per hectare, Site 10 in Cheadle appears to be the least viable housing site amongst the samples appraised. The sensitivity analysis focuses on outlining the step by step improvements in residual value of this site as a result of the following changes in the development assumptions:

- *Reduced Level of Planning Contributions:* As outlined in Section 4.2 the only S106 planning contribution was for Education and this was a fixed sum of £3,827 per private sale dwelling. This sensitivity analysis assumes that S106 planning contribution will be nil.
- *Reduced Level of Affordable Housing:* As outlined in Section 4.2 the previous appraisals assumed a housing mix of 60% dwellings for private sale and 40% affordable units. This sensitivity analysis assumes a housing mix of 71% private sale units and the remaining 29% as affordable units. Furthermore, Section 4.2 suggests that the base appraisal for Site 10 adopts an affordable housing mix of 70% social rented and 30% shared ownership. This sensitivity appraisal adopts a reduced affordable housing mix at 57% social rented and 43% shared ownership.

4.4.3

As summarised in Table 4-3, reducing the S106 education contributions to nil, results in a residual land value of £26,426 per hectare. Comparing this with the previously stated indicative existing use value of £225,000 per hectare (please see Table 4-2) suggests that the development is unlikely to go ahead. However, application of the affordable housing sensitivity assumptions along with no education contributions outlined above results in a significant improvement in viability results. In particular, the per hectare residual value for Site 10 improves from -£62,423 to £236,938, suggesting a marginally viable development scenario.

4.4.4

In addition to the above mentioned sensitivity assumptions, the viability results are also very sensitive to the sales price of the housing units. Recently published research on residential market trends in the UK by property specialists such as Savills³ and Jones Lang LaSalle⁴ suggest that house prices across the UK during

³ Source Document: *Residential Property Focus: Saving the Nation, Savills Research, Q1 2011 (February 2011)*

2011 are predicted to decline marginally. That said house prices are projected to increase over medium terms horizon of five years. The findings of Savills' and Jones Lang LaSalle's research about future trends in house prices are summarised below:

- *Residential Property Focus: Savills Research, February 2011* – House prices in the UK are forecasted to grow by 11.8% between 2011 and 2015. This growth is primarily fuelled by London and South East. In comparison, house prices in the West Midlands region are envisaged to increase by 4.8%.
- *On Point: UK Residential Market Forecasts, Jones Lang LaSalle, February 2011*: Prices are forecast to drop by 2% in Northern and Midlands markets during 2011, before recovering to a long-term sustainable average of 5% (2012-2015).

4.4.5

In light of the above research, the sensitivity analysis also tested a scenario where house prices (only for private sale units) were 3% higher than those assumed for the previous appraisal. As outlined in the table below, this improves the residual per hectare site value to £302,927. This estimate of the updated residual land values for a sensitivity scenario with reduced affordable housing (and changed mix) is much greater than the indicative existing use.

Table 4-3: Financial Viability: Sensitivity Analysis

Site number	Location	Appraisal	Current use value per hectare	Residual site value per hectare	Financially viable?
10	Cheadle	Base Appraisal	£225,000	-£62,423	No
10	Cheadle	Reduced Planning Contribution	£225,000	£26,426	No
10	Cheadle	Reduced affordable housing and other Contribution	£225,000	£236,938	Marginally Yes
10	Cheadle	Reduced affordable housing and other Contribution; Marginal increase in sales prices	£225,000	£302,927	Yes

4.4.6

In summary, these findings of the sensitivity analysis highlight the need of a flexible and transparent approach to test the affordable housing and other planning requirements on a site by site basis over through out the Core Strategy period.

⁴ Source Document: *On Point: UK Residential Market Forecasts, Jones Lang LaSalle, February 2011*