

FINAL REPORT

Affordable Housing Viability Assessment

**On behalf of
Bolton Council**

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1.0 INTRODUCTION

- 1.1 A.P Sheehan and Co Ltd (APS) has been commissioned by Bolton Council (BC) to undertake a Borough-wide Affordable Housing Economic Viability Assessment (AHVA).
- 1.2 This study is to provide part of the evidence base for the housing policies and proposals in the Local Development Framework for Bolton. This work will address specific Government requirements set out in PPS3, to set an overall target for the amount of affordable housing to be provided.
- 1.3 The AHVA will build on the Strategic Housing Land Availability Assessment (SHLAA), and the Strategic Housing Market Assessment (SHMA) for Bolton, and will provide the necessary evidence to underpin sound affordable housing policies.
- 1.4 The outcomes of the study must support the outcomes identified in paragraph 29 of Planning Policy Statement 3 (PPS3), which states that in Local Development Documents, Local Planning Authorities should 'Set an overall (i.e. plan-wide) target for the amount of affordable housing to be provided. The target should reflect the new definition of affordable housing'.....

'It should also reflect an assessment of the likely economic viability of land for housing within the area, taking account of risks to delivery and drawing on informed assessments of the likely levels of finance available for affordable housing'.

1.5 OBJECTIVES OF THE STUDY

The main objective of the study is to satisfy the brief as set out above and develop a robust, transparent and effective means of determining appropriate and justifiable affordable housing target for Bolton.

It will provide:

- An assessment of the economic achievability of a representative sample of planned and potential housing sites
- An assessment of the viability of affordable housing provision under a range of housing market scenarios, in order to determine realistic and achievable levels of affordable housing provision
- A methodology and model for assessing the viability of affordable housing that can be used by Council officers to assess the viability of development

proposals submitted to the Council. This is compatible with the HCA Economic Appraisal Tool¹

- 1.6 Another objective is to actively engage stakeholders including landholders, house builders, and other stakeholders. It is widely recognised that they should be involved in the process and preferably be in broad agreement with the economic viability methodology and conclusions of the study.
- 1.7 The final main objective is to produce this report. Such a report sets out the methodology, analysis and conclusions of the study. It contains firm recommendations on maximum viable and deliverable affordable housing targets and tests the sensitivity of the targets under a range of development thresholds, percentage requirements and tenure splits.
- 1.8 Full details of each assessment for each site assessed for achievability and economic viability also accompany the report, together with a methodology and transparent model, which includes sourced data for assessing the viability of affordable housing.

1.9 BACKGROUND

Bolton, a relatively large Local Authority with a population of 262,800², is bounded to the South West by Wigan, to the Southeast by Salford, to the north by Chorley, Blackburn with Darwen, and to the east by Bury. The Borough lies within the Manchester City Region (as identified by the recently approved North West RSS).

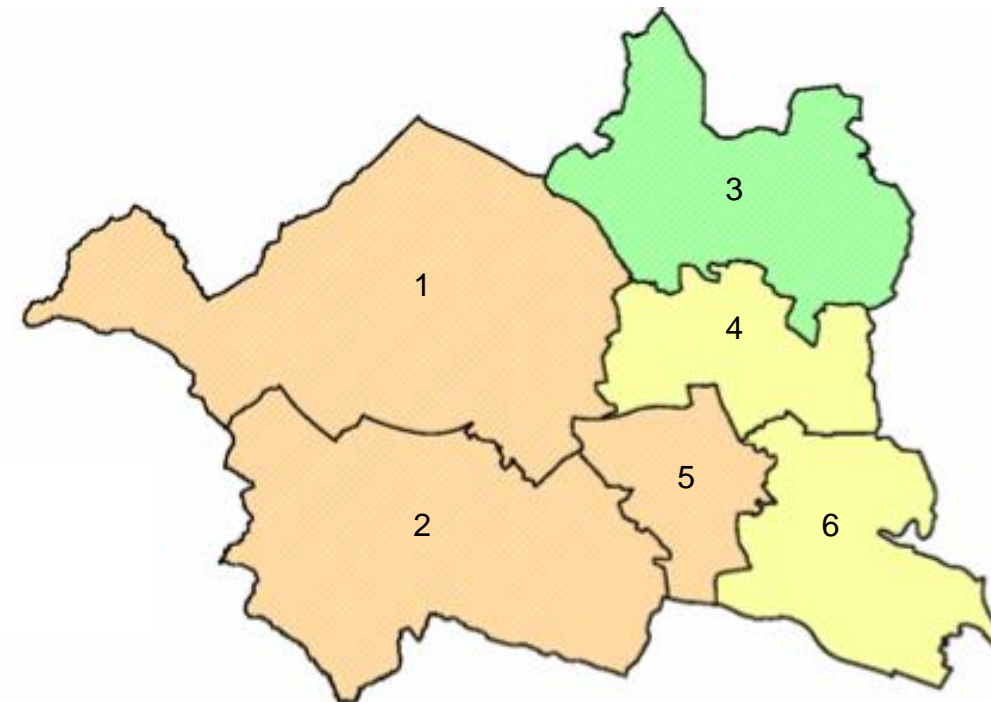
- 1.10 Population density in the Borough is far higher than the average for the North West as a whole, (18.9 persons per hectare, compared to an average of 10.95) and is significantly higher than the surrounding authorities, with the exception of Manchester, which has a density approximately twice that of Bolton.
- 1.11 In the Strategic Housing Market Assessment Report 2008, undertaken by David Couttie Associates, it was noted that distribution of population within the Borough is relatively even throughout 6 identified Housing Market Areas, with the exception being that of Sub Area 2, which is less densely populated. These exceptions include Hulton and Westhoughton North & South. On the whole however, the greater part of Bolton is urban in character.
- 1.12 The 6 identified Housing Market Areas are as follows:

Area 1 -	Horwich & Blackrod / Smithills/ Heaton & Lostock
Area 2 -	Westhoughton / Chew Moor / Hulton
Area 3 -	Astley Bridge / Bromley Cross / Bradshaw
Area 4 -	Halliwell / Crompton/ Tonge / Brightmet
Area 5 -	Rumworth / Great Lever / Harper Green
Area 6 -	Farnworth / Kearsley / Little Lever & Darcy Lever

¹ Homes and Communities Agency, Economic Appraisal Tool, Version 2.0, July 2009

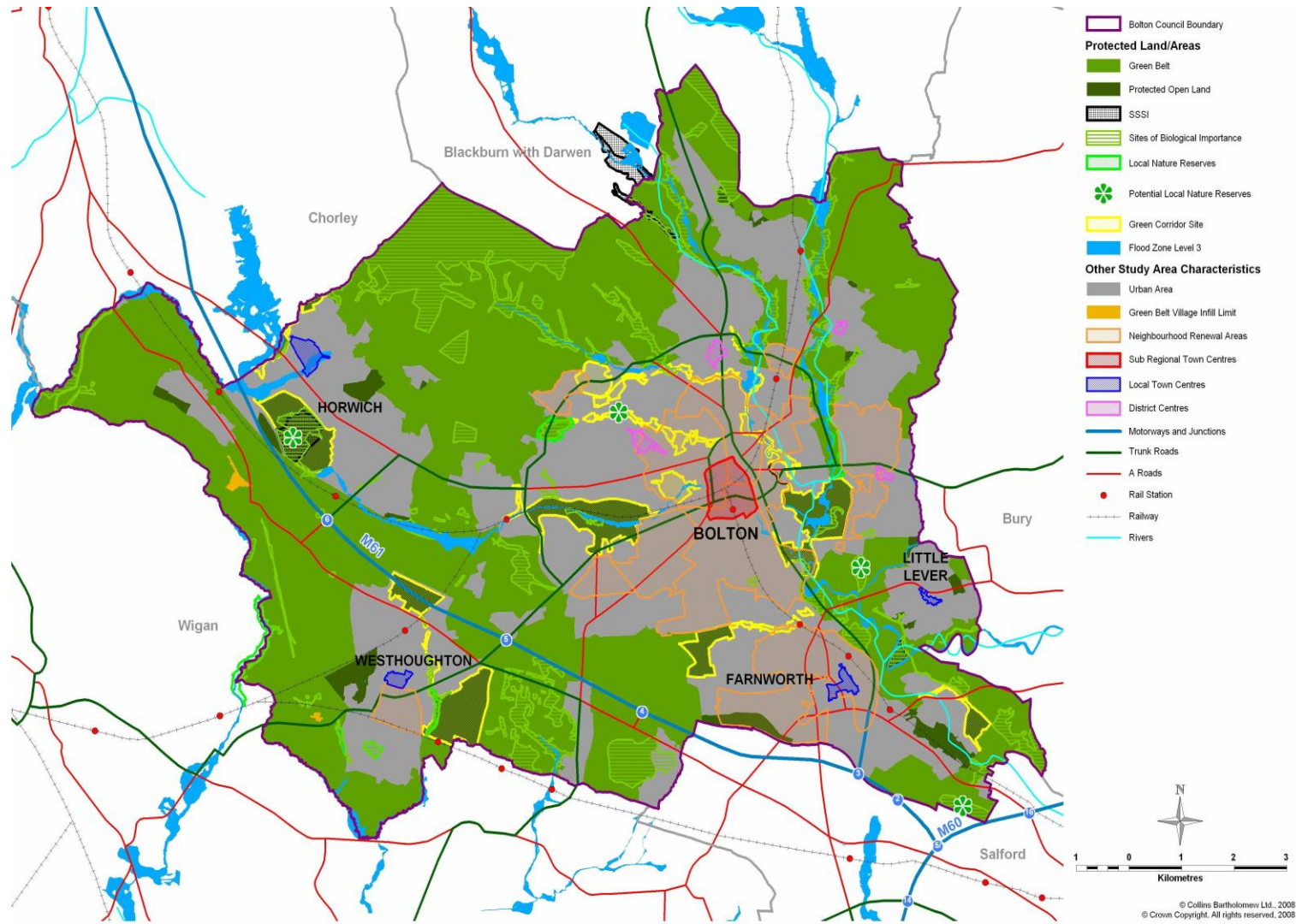
² ONS, 2006 Mid-Year Sub-National Population Projections (published 12 June 2008)

Map 1.1 Housing Market Areas
(as Identified In the 2008 SMHA by David Couttie Associates)

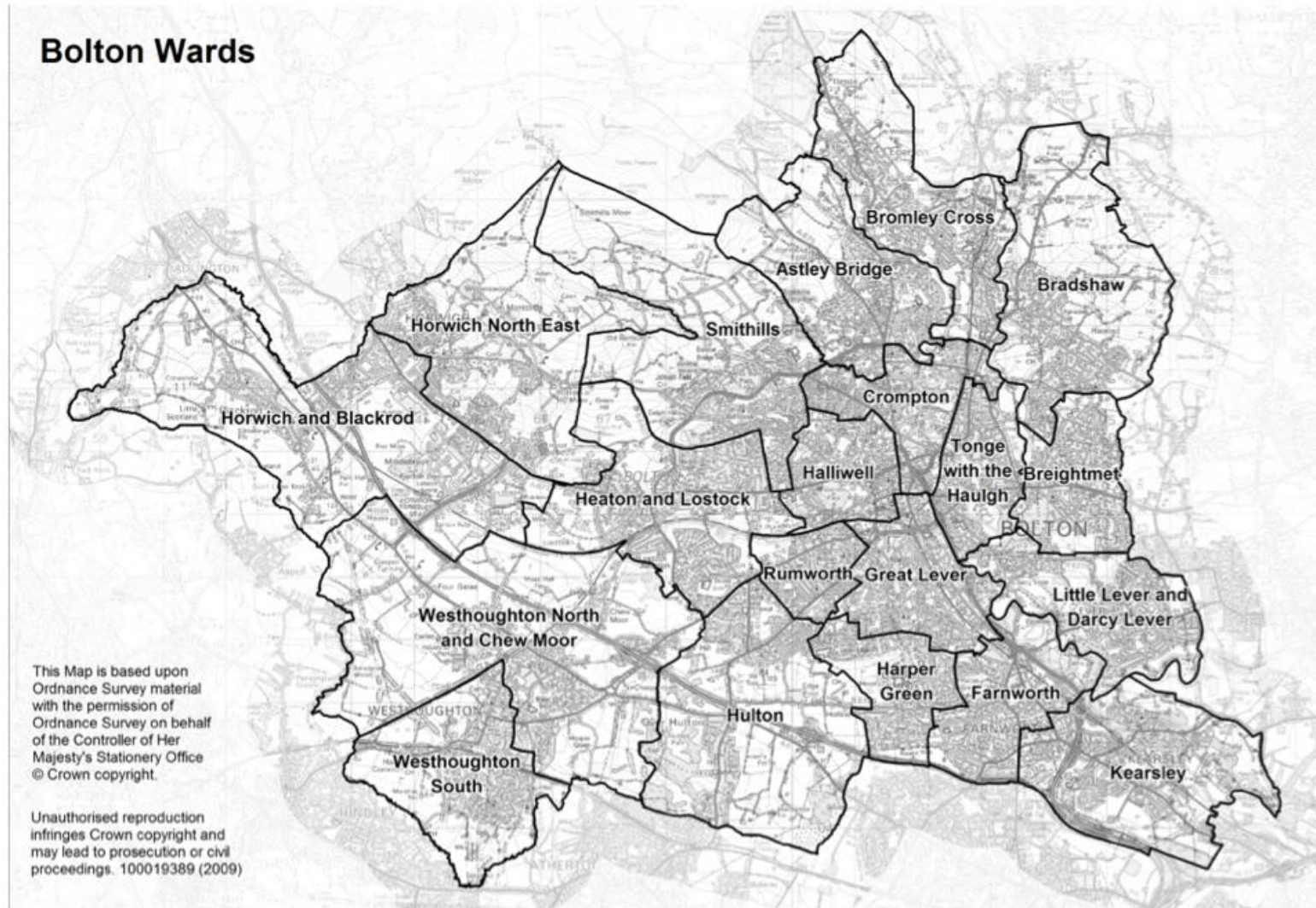


- 1.13 Bolton has in the recent past, benefitted from a proactive policy of housebuilding, notably during the recent years when many authorities had imposed residential planning moratoria. As a consequence of such a proactive policy in recent years, Bolton has succeeded in delivering affordable housing on its new-build housing sites, arguably to a greater extent than some of the surrounding authorities.
- 1.14 Bolton is the major town of the seven townships that make up the borough, namely Blackrod, Farnworth, Horwich, Kearsley, Little Lever, South Turton and Westhoughton, covering a landmass of approx 54.21 square miles. Of the seven townships these are further divided into a total of 20 wards. Most wards average a populous of circa 12,000 to 13,000 each with the exception of the smallest wards, Smithills and Tonge with the Haulgh who contain an average populous of approximately 10,500. As of the 2001 Census, Rumworth, Harper Green, Halliwell & Crompton demonstrate the greatest density, at 60.4, 43.3 and 43.2 persons per hectare respectively. Horwich & Blackrod and Westhoughton North & Chew Moor demonstrate the lowest density, with 9.4 and 8.8 people per hectare respectively. All wards enjoy the benefits of good connectivity.

Map 1.2 Bolton AHVA Study Area



Map 1.3 – Ward Profile



1.15 The majority of areas within Bolton enjoy the benefits from good connectivity to the national motorway network, with easy access to the M60, M61 and M6, from which the former provides excellent access to Manchester International Airport. Towns and villages in Bolton with the most suitable access to the motorway network, in particular on each side of the M61, have continued to be the most sought-after locations in the Borough. Indeed, most areas to the West of Bolton's urban centre enjoy a high popularity status from its residents. This aspect, when added to by a robust public transport service, enables Bolton to benefit further from its close proximity to Manchester, the Regional Hub.

1.16 Report Outline

The remainder of this report is structured as follows:

- | | |
|------------------|---|
| Section 2 | provides a résumé of current and emerging national, regional and local policy insofar as it relates to the provision of affordable housing and the economic viability of providing affordable housing. |
| Section 3 | provides an analysis and summary of the sub-regional development context in which this study is being taken. This includes an assessment of existing housing markets in Bolton and an overview of the delivery of affordable housing in the Borough so far. |
| Section 4 | provides an overview of our methodology for assessing the viability of sites for affordable housing. |
| Section 5 | presents the results of our development appraisals and assessments of the economic viability of affordable housing provision in Bolton. |
| Section 6 | provides a summary of our findings and outlines our headline recommendations. |

2.0 THE REQUIREMENTS OF NATIONAL, REGIONAL & LOCAL POLICY

- 2.1 The following section sets out the requirements of national, regional and local policy in so far as it relates to the provision of affordable housing, and more specifically, the viability of affordable housing provision in Bolton.
- 2.2 In recent years there have been a number of changes to planning policy, particularly in relation to housing. In 2004, the Barker Review of Housing Supply was published. The Government response to this review set out a package of measures to increase housing supply and improve affordability, including a target to raise the number of new houses being built to at least 200,000 net additions per year by 2016.
- 2.3 Whilst the pre-budget report of November 2006 argued that some progress has been made, it also highlighted Barker's findings that a lack of affordable housing has been one result of planning strategy being poorly aligned with the economy. Both the Barker Report and the above Budget Report, although dated, set out the basis from which further policies have emerged.

2.4 NATIONAL POLICY AND GUIDANCE

PLANNING POLICY STATEMENT 3 (NOVEMBER 2006): HOUSING

- 2.5 The Government is bringing forward further measures to increase and speed up the delivery of new, sustainable and affordable housing. The publication of Planning Policy Statement 3: Housing (PPS3) is designed to ensure that local and regional plans are more responsive to housing markets and that they release more land to meet future housing requirements.
- 2.6 PPS3 replaced the previous PPG3 as the statement of the national planning policy framework for delivering the Government's housing objectives. PPS3 defines affordable housing as that which meets the needs of eligible households, whose needs are not met by the market.

'Affordable housing includes social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market.'

2.7 Thus, affordable housing should:

‘Meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices.

Include provision for the home to remain at an affordable price for future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision.’

2.8 Critically, PPS3 emphasises the need for housing development to be viable and for the impacts of affordable housing provision on schemes to be tested so that such provision does not hold back development. The guidance states that Local Planning Authorities should:

‘set an overall target for the amount of affordable housing to be provided... [the target] should also reflect an assessment of the likely economic viability of land for housing within the area, taking account of risks to delivery and drawing on informed assessments of the likely levels of finance available for affordable housing, including public subsidy and the level of developer contribution that can reasonably be secured.’

2.9 This study is therefore a direct response to the above requirement to explore the most viable options for the provision and delivery of affordable housing across the Borough. We will also look at the potential differences in the provision of affordable housing targets on Brownfield and Greenfield land.

2.10 In particular, Local Planning Authorities should set out the range of circumstances in which affordable housing will be required. Whilst the national indicative minimum site size threshold stands at 15 dwellings, where viable and practicable, Local Authorities may set lower thresholds. This is particularly relevant in more rural areas, or where there exists a more acute need for affordable housing. All such options shall be assessed in this study.

2.11 *Policy Statement (November 2006): Delivering Affordable Housing*

The aim of this document is to support local authorities and other key stakeholders in the delivery of affordable housing by outlining the affordable housing challenge that needs to be met and by providing information on how existing delivery mechanisms can help the provision of such housing. It is intended for this document to be read in conjunction with PPS3: Housing.

2.12 Paragraph 19 of the Policy Statement outlines the issues for local authorities to consider when developing strategies for the delivery of affordable housing. In particular we note that local authorities should consider the following:

- the availability of both public and private investment in the delivery of affordable housing, and its impact on the viability of sites and the level of affordable housing targets and thresholds. Most importantly, the targets should reflect an assessment of the likely economic viability of providing affordable housing within schemes; and
- an understanding of the mechanisms for ensuring affordable housing is retained in the affordable housing market, whether that is through buy back or through the recycling of public subsidy.

2.13 Affordable Housing Viability – The case of Blyth Valley

There is no doubt in the current economic circumstances that development viability is a critical issue; if a scheme is not economically viable, then development will be incapable of getting off the ground in the first place.

2.14 In July 2008, the Court of Appeal gave judgement in the case Blyth Valley Borough Council v Persimmon Homes (North East) Limited and Others³. In addition to forcing a change in the wording of PPS12 in relation to soundness, the case is well known for confirming the need in PPS3 for affordable housing targets to be based on *'an assessment of the likely economic viability of land for housing within the area'*.

2.15 It was shown in Blyth Valley that, in future, local authorities would need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed. It was also pointed out that a Strategic Housing Market Assessment (SHMA) would *'not necessarily involve the sort of economic viability study required by PPS3,'* and that *'no viability exercise carried out on the old bases could be considered valid for the purposes of assessing the viability of a particular proportion of affordable housing as defined now in PPS3 and the Core Strategy.'*

2.16 Importantly, Blyth Valley Borough Council had commissioned a study of Housing Need, which had concluded that the need was so high in the Borough, that it would equate to 83 per cent of the Borough's annual housing land requirement, however, given that this would clearly be unviable, the Study recommended a proportion of 40 per cent. The Council then lowered this figure to 30 per cent in order that it was consistent with the neighbouring authority of Wansbeck. In the High Court, Collins J concluded that *'the 30 per cent has been produced on the basis of material which is not supported by the guidance and which ignores a highly material factor, namely the economic viability of the relevant target.'*

³ Case Number: C1/2008/1319, 29 July 2008

- 2.17 The notable factors emerging from this case focus on the fact that LPAs must carry out an economic viability assessment to justify any demands for affordable housing in their Core Strategy; any other approach is simply not tenable. Accordingly, Bolton Borough Council requires a viability assessment of housing sites, to provide a sufficiently detailed and robust evidence base to inform the emerging Core Strategy, which will satisfy the requirements of PPS3 that were confirmed through the Blyth Valley case.
- 2.18 We will therefore use the findings from the SHLAA, completed by Roger Tym & Partners as well as the SHMA, which David Coultie Associates completed for the Council in 2008 as the starting position. In order to satisfy PPS3 and bearing in mind, the findings of the 'Blyth Valley' case, we will undertake a bespoke affordable housing economic viability assessment, focusing on a representative sample of sites.
- 2.19 In a wider context, this approach represents an emerging and welcome trend in planning, for decisions to be based on robust and credible evidence. With the huge recent market changes in value, delivery and economic circumstances for both landowner and developer, so too must change the policy which is guided by such factors. Listed below are a number of proactive example responses set out by Central Government to tackle such market changes.

2.20 Key Government Housing Initiatives Since 2008

National Affordable Housing Programme - £8.4 billion to increase the supply of all affordable homes up to 2011.

Housing Pledge - £1.5 billion to support existing programmes, including £350 million to buy unsold stock and £400 million brought forward for affordable housing.

Kickstart - £1.06 billion package to deliver 22,000 homes over two years, of which 8,600 will be directly supported affordable homes.

Community Infrastructure Fund - £100 million for the Thames Gateway and £200 million for Growth areas and Growth Points to support housing developments.

HomeBuy Direct - £300 million shared equity scheme to help first time buyers purchase their newly-built properties.

Housing PFI (Round 6) - £1.7 billion PFI credits for ten councils to deliver 4,500 new or improved council homes as well as 1,600 new affordable rented homes.

Housing Market Renewal Pathfinder Areas - £35 million extra funding.

Eco Towns - four new settlements to provide 10,000 new homes by 2016, of which 30 per cent are to be affordable homes.

Mortgage support - includes the £44 million Homeowners Mortgage Support Scheme and the £280 million Mortgage Rescue Scheme.

Stamp Duty holiday - on properties costing less than £175,000 until the end of 2009.

Local Authority New Build Programme - £100 million provided to fund local authority new build, Further funding was subsequently announced as part of the Building Britain's Future package. Allocations made to 49 Local Authorities to deliver over 2,000 new homes, building on their own land. Homes will be for social rent, built to high environmental standards.

2.21 REGIONAL POLICY

NORTHWEST OF ENGLAND PLAN: REGIONAL SPATIAL STRATEGY TO 2021 (SEPTEMBER 2008)

The North West of England Plan (the RSS) replaces Regional Planning Guidance for the North West (RPG13) and the Joint Lancashire Structure Plan (JLSP). The RSS provides a framework for development and investment in the region in the period up to 2021.

- 2.22 The RSS divides the region into five sub-regions (Manchester City Region; Liverpool City Region; Central Lancashire City Region; Cumbria and North Lancashire; and South Cheshire). Bolton is located within the Manchester City Region.

- 2.23 Section 7 of the draft North West Plan establishes an overall Regional Spatial Framework. Bolton is identified as a 'Regional Town' within the Manchester City Region. Policy RDF1 of the RSS states that most new development should be 'concentrated within the urban areas of the Regional Centres, Regional Towns and Cities' and advocated that plans and strategies should 'Maximise the growth opportunities presented by the three city regions of Manchester, Liverpool and Central Lancashire'.
- 2.24 Policy MCR1 relating to Manchester City Region states that plans and strategies will 'accommodate housing growth in areas that are accessible by public transport to areas with strong growth prospects' and 'provide high quality housing to replace obsolete stock'. Policy MCR4, relating specifically to the northern part of the Manchester City Region (which contains Bolton) prioritises 'the expansion of the quality and choice of housing'.
- 2.25 Policy L4 of the RSS stipulated that Bolton should have a housing provision of 9,200 dwellings (net dwelling gain, after clearance) in the period 2003 to 2021 – equating to an average net gain per annum of 578 dwellings – with a target for at least 80 per cent on Previously Developed Land. This represents a small increase from the level of 470 dwellings per annum (dpa), which was previously set out in the UDP.
- 2.26 The Association of Greater Manchester Authorities (AGMA) submitted an expression of interest for the New Growth Points Initiative, which if followed through, would see a significant increase in population in the Metropolitan Borough of Bolton (along with the Cities of Manchester and Salford and the Metropolitan Borough of Trafford). Greater Manchester was subsequently declared a second round Growth Point in July 2008. Under the Growth Points scenario, Bolton Council envisages an average net gain of 694 dpa within its administrative area. The Council has asserted that 694 dpa are comfortably achievable without compromising the target for 80 per cent of development on PDL, and that this level of development would assist the Council in meeting the pressing need for affordable housing in the Borough. The emerging Core Strategy will carry both the dwelling number and the PDL development figures forward.
- 2.27 Importantly, the RSS explains that the housing provision figures set out should no longer represent maximum thresholds or 'absolute targets'. Thus, in line with the 'plan, monitor, manage' approach which underpins PPS3, the RSS has laid the foundations for a more flexible approach to housing provision at the local level, explaining that local authorities can introduce phasing policies and that the annual housing figures may be exceeded, *'where justified by evidence of need, demand, affordability and sustainability issues and fit with relevant local and sub-regional strategies'*. *Conversely, the RSS also states that 'some areas will achieve lower levels [of housing provision] in the early years, for example during major housing renewal, which will be compensated later.'*

2.28 The North West Regional Housing Strategy (January 2009)

This revised Regional Housing Strategy (RHS) builds on that published by the Regional Housing Board in 2005. It is envisaged that the Strategy will play a leading role in the development of policy and local delivery, in addition to providing a clear platform for the integration of housing in the emerging Regional Strategy.

- 2.29 The revised RHS is written therefore, in the context of economic conditions, which have had significant adverse impacts on housing development in the region. In particular, the strategy notes that it is becoming increasingly apparent that many of these adverse impacts are structural rather than just cyclical. This means 'revisiting many long held assumptions, policies and investment models to check against reality, deliverability and appropriateness in moving forward.' In light of this, the RHS sets out an overall vision which is:

'to create balanced housing markets across the North West that support economic growth , strengthen economic and social inclusion and ensure that everyone has access to appropriate, well-designed, high quality, affordable housing in sustainable, mixed and vibrant communities.'

- 2.30 Thus, in addition to increasing the overall supply of homes in the region, the RHS identifies that there is a linked issue of the requirement for the provision of greater numbers of affordable homes. However, given the current economic circumstances, a reduction in affordable supply is inevitable; these impacts however are short term and thus the RHS advises that it is essential that the planning system continues to be used to maximum effect to secure affordable housing and to ensure an adequate supply of land in suitable locations once the market recovers.
- 2.31 The RHS also acknowledges that the vulnerable HMR areas have already been hit by the economic downturn, however as the Parkinson Report⁴ highlights, this means that what was right in good times, is essential in poor ones. A weakening of support will leave these struggling areas at high risk of slipping back into the circumstances that provoked their establishment in the first place. The key leadership role in delivering transformational programmes in vulnerable markets now lies with local authorities and their sub-regional partnerships.
- 2.32 However, the RHS considers that the solution to deprived neighbourhoods is not just provision of more affordable and social housing as this will only further weaken unsustainable tenure patterns. Rather, more difficult, but comprehensive and long-term solutions must be found through strategies that address deep-rooted issues of low self-esteem, worklessness and poverty. In this context, the overall aim of policy in relation to affordable housing in the region is '*to create a better income-mix in areas*

⁴ The Credit Crunch and Regeneration: Impact and Implications, January 2009, Professor Michael Parkinson et al. Found at: <http://www.communities.gov.uk/publications/citiesandregions/creditcrunchregeneration>

dominated by social housing by addressing worklessness in particular, to offer a wider range of choice to those in housing need and to improve social mobility.'

2.33 LOCAL POLICY DOCUMENTS AND STUDIES

STRATEGIC HOUSING LAND AVAILABILITY STUDY (SHLAA) 2008

The Council was required to undertake an annual Strategic Housing Land Availability Assessment (SHLAA). The first SHLAA for Bolton was undertaken in 2008 by consultants Roger Tym & Partners and an update of this has been carried out internally to 31st March 2009.

2.34 The primary role of the Assessment was to: -

- Identify specific deliverable sites with potential for housing;
- Assess their housing potential; and
- Provide a baseline for future land allocation as part of the LDF process.

2.35 The possibility of permission being granted on sites that have not been included within the assessment is not precluded. Any planning applications for housing development will still be treated on their individual merits.

Sites in the SHLAA were assessed against SHLAA Practice Guidance deliverability criteria, as outlined below, using a combination of desk research, GIS analysis and site visits.

'Suitability', 'Availability' and 'Achievability' criteria were led by property market agents Lambert, Smith, Hampton.

2.36 BOLTON STRATEGIC HOUSING MARKET ASSESSMENT (2008)

In 2008, Bolton Council commissioned David Couttie Associates to undertake a Borough-wide Strategic Housing Market Assessment (SHMA), the findings of which would inform appropriate policy responses to housing need and demand in Bolton.

2.37 The key findings of the SHMA indicate that there are clear variations throughout the Borough in terms of tenure. The highest concentrations of owner occupied properties are found towards the West of the Borough. The pattern for social rented accommodation however is less clear, with wards with the highest levels of social rented properties dispersed across the Borough, and areas containing the lowest social rented stock found towards the West and North.

2.38 In terms of a 'snapshot' of the housing market at the time of the publication of the study, analysis of quantitative data and discussions with agents revealed that house price levels in the Borough are lower than the average for England and Wales. Within the Borough itself however, there does exist some variation in prices, with a concentration of more expensive housing to the North West and West of the Borough, in and around the areas of Blackrod, Westhoughton, and Smithills for example.

- 2.39 The SHMA also carried out an assessment of the affordability of housing in Bolton. The study found that there is a growing affordability issue throughout the Borough; indeed, affordability ratios have been climbing steeply since 2002, due to the level of increases in house price above wage inflation. For Bolton, the lower quartile house price to quartile income ratio is 7.0.
- 2.40 The report talks of the scale of demand and need identified being significant. It states that compared to the proposed annual provision of 578 units per annum in the RSS, there is an identified annual shortfall of 496 units in the market sector and 380 of affordable housing, which alone is 67% of the whole annual dwelling provision to 2021.
- 2.41 The report indicates that a large percentage of the affordable housing need could be met through a form of intermediate housing, albeit, based on the above assessment of need informed by research, DCA conclude that the majority priority housing need in Bolton is for additional social rented stock and that this should be a priority in terms of housing market need in Bolton. DCA conclude that the scale of need could justify the whole affordable housing target as social rented stock, however bearing in mind the Governments strategy to provide balance in stock levels, a higher proportion of social rented to intermediate housing stock is suggested, in the form of a 75:25 ratio in favour of social rented.
- 2.42 DCA conclude that an affordable housing target level should be set of 35% of new units should be sought from the total of 'all suitable sites'. DCA also note however that all such targets must be subject to

'Wider planning economic viability, regeneration and sustainability considerations and will require a flexible approach to specific site negotiation.'

DCA also recommends that the Council should consider a range of thresholds below 15 units in sub-areas within the Borough,

'Recognising that viability issues may require lower target levels or provision of commuted sums for delivery on alternative sites'

- 2.43 The most striking aspect of the findings of the SHMA in relation to affordable housing need is the high proportion of affordable housing required and the high proportion of social rented housing required; indeed, evidence from the SHMA indicates that the demand for affordable housing in the Borough exceeds averages for the North of England.

2.44 In this context, the AHVA shall undertake a detailed and robust viability assessment of housing sites to determine the appropriate and most viable threshold of affordable housing to be set throughout the Borough in order to best satisfy the high levels of identified need.

2.45 Bolton Housing Land Availability Study (March 2009)

The Housing Land Availability Study (HLAS) 'considers the distribution of development land, provides information on new planning permissions, and assesses the balance between private and housing association provision' and 'provides detailed information relating to dwellings completed' in the year ending 31 March 2009.

2.46 In the current Annual Monitoring Report, the projected supply for 2009-2014 of 2847 dwellings is set against the residual requirement of 2282 giving an over-supply of 565 dwellings. The actual net completions for 08/09 was 530, 6% higher than anticipated, but representing a 55% decrease on the previous year reflecting the downturn in the housing market and economy generally.

2.47 During the year 1st April to 31st March 2009, the Draft Annual Monitoring Report set out the current requirements. The current Regional Spatial Strategy (RSS) sets an annual net housing requirement for Bolton of 578 dwellings, giving a residual requirement of 2244 dwellings to 2010-2015. In addition, as part of the Government housing 'growth points' initiative and emerging Core Strategy the Council has put forward an annual net completions target of 694 dwellings, giving a 5 year requirement of 3470 units for 2010 to 2015.

2.48 The report demonstrates that for 2008 to 2026, the anticipated NAD, based on the AGMA Growth Points trajectory, averages out at the Core Strategy 694 annual completion rate matching the dwelling requirement of 12492 dwellings from 2008 to 2026.

2.49 Transforming Estates

Transforming Estates is a delivery vehicle, which will operate on a Borough-wide basis, following a model that is being developed with the HCA. The partnership will include Bolton Council, ALMO and registered social landlords, and potential private developers. The initial stages of the study have been undertaken by Broadway Malyan, who have examined and categorised the space in fourteen neighbourhoods throughout the Borough.

2.50 The primary objective of the programme will be to increase the supply of housing whilst maximising the potential of Council land. It is estimated that the programme will potentially deliver around 4,000 to 6,000 new dwellings, of which 50 per cent will be affordable.

2.51 This will be achieved by making better use of space in and around Bolton's Council Estates. Underused and untidy patches of land and redundant green buffers will in many cases become sites for housing and are as such included in our database. However, any development carried out on these sites will be carried out alongside

comprehensive masterplanning of the estates to ensure that recreational facilities are retained and enhanced, and that the quality of the urban environment improved. Most of these patches of land are in the ownership of Bolton Council; however, the project also looks at the inclusion of some private land so that the transformational effect is complete throughout the estate.

- 2.52 This study brought forward 230 sites over 0.25 ha for consideration. Many smaller sites were also identified and will be considered in a comprehensive way as part of the Transforming Estates Programme.

3.0 SUB-REGIONAL DEVELOPMENT CONTEXT

3.1 INTRODUCTION

In this section we provide an assessment of the Bolton housing market including housing stock, tenure, affordability and areas of demand. We also provide a brief review of the key data in relation to affordable housing delivery trends to date.

3.2 HOUSING MARKETS IN BOLTON

HOUSING STOCK

The Housing Strategy Statistical Appendix (HSSA) 2008 records a total stock of 113,305 dwellings for Bolton, containing 113,363 household spaces. Data on property types is only collated in the Census and therefore the figures for housing stock in Table 3.1 reflect the position at 2001.

- 3.3 The Borough contains a broad mix of property types including farmhouses, barn conversions, pre-1900 stone terraces and more modern semi-detached, detached properties and apartments.
- 3.4 Table 3.1 shows that the proportion of detached properties in Bolton is below the average for England and Wales, however the proportion of semi-detached properties is greater than the national average but lower than the regional average. The largest single property type in Bolton is terraced housing comprising 37.1 per cent of total stock, compared to 26 per cent in England and Wales. Compared to the national and regional level of flatted accommodation Bolton has a much lower stock level of approximately 11.5%.
- 3.5 Anecdotal evidence from local agents suggests that the terraced housing stock within Bolton is generally popular. Terraced properties are also attractive to first-time buyers where they are relatively spacious and cheap to purchase. Local agents also consider there to be an under-supply of larger modern family homes with a limited property range available for families; they have also suggested that demand for apartments has fallen dramatically and is not anticipated to experience any significant increase in the short to medium term.

TABLE 3.1**HOUSING STOCK**

Property Type	Bolton		England and Wales	
	Number	Percentage	Number	Percentage
Detached	18,117	15.98	5,131,821	23
Semi-detached	40,020	35.3	7,117,662	32
Terraced	42,065	37.1	5,869,878	26
Flat, maisonette or apartment	12,933	11.41	4,246,029	19
Other	228	2	115,915	1
TOTAL	113,363	100	22,481,305	100

Source: Census 2001

3.6 HOUSING TENURE

Of total dwelling stock of 113,363, 15.7 per cent is Local Authority Stock and 6.0 per cent is Registered Social Landlord (RSL) stock, with the remaining 78.3 per cent in the private sector.

- 3.7 The total RSL stock of 6.0 per cent is lower than both the average for the North West (12.9 per cent) and England (9.5 per cent). However total public sector stock (Local Authority, RSL and other) is 21.7 per cent, higher than both the North West average of 18.8 per cent and the England average of 18.1 per cent.

TABLE 3.2**HOUSING TENURE (2008)**

	Bolton	North West	England
LA Dwelling Stock	15.7%	5.8%	8.3%
RSL Dwelling Stock	6.0%	12.9%	9.5%
Other Public Sector Dwelling Stock	0%	0.1%	0.3%
Owner Occupied and Private Rented Dwelling Stock	78.3%	81.2%	81.8%

Source: DCLG - Dwelling Stock by Tenure, 2008

3.8 House Building

The number of dwelling starts on site peaked nationally in 2005 and regionally in 2006, and peaked in 2005 at the sub-regional level and 2007 at the local level. This would suggest the local level is more in tune with the regional level rather than the sub-regional level. The decline in housing starts can obviously be attributed to the

economic downturn and issues affecting the housing market, the implications of which are discussed more fully in Section 6.

TABLE 3.3

DWELLING STARTS AND COMPLETIONS (2005-2009)

		Dwellings Started	Dwellings Completed
2005/2006	England	184,910	163,400
	North West	22,020	17,910
	Greater Man/c	11,840	8,020
	Bolton	832	515
2006/2007	England	172,290	167,680
	North West	24,570	20,620
	Greater Man/c	8,860	8,230
	Bolton	1,126	892
2007/2008	England	155,880	166,990
	North West	19,730	18,070
	Greater Man/c	7,799	9,781
	Bolton	1,298	1,205
2008/2009	England	90,320	133,830
	North West	7,110	13,850
	Greater Man/c	2,582	6,034
	Bolton	298	641

Source: CLG House Building Statistics

3.9 AFFORDABILITY

The specific needs for Bolton identify a waiting list of some 20,825 with the demand for social housing being extremely high; this with a projected ageing population in Bolton will have implications for future levels of supported housing needs and supply of relevant accommodation.

3.10 Tables 3.4 and 3.5 below show the number of households on the housing waiting lists as at 1 April between 2001 and 2008 at a national, regional, sub-regional and local level and shows the percentage change over time.

TABLE 3.4

NUMBER OF HOUSEHOLDS ON THE WAITING LIST AS AT 1 APRIL

	2001	2002	2003	2004	2005	2006	2007	2008
England	1,039,265	1,093,342	1,270,675	1,437,735	1,547,280	1,634,301	1,674,421	1,770,116
North West	112,405	121,213	160,194	177,836	200,600	217,397	212,597	234,559
Greater Man/c	51,813	52,733	79,098	85,073	81,034	93,773	87,565	104,048
Bolton	4,808	9,371	11,909	18,490	16,096	21,422	25,405	20,825

Source: CLG Housing Statistics

TABLE 3.5**HOUSING WAITING LISTS CHANGE**

	% Change since 2001	% Change since 2006	% Change since 2007
England	70%	8%	6%
North West	109%	8%	10%
Greater Man/c	101%	11%	19%
Bolton	333%	-3%	-18%

Source: CLG Housing Statistics

3.11 Bolton operates a choice-based lettings scheme, which is a partnership of eight landlords, including Bolton at Home. Due to the open application process and because the scheme covers 95% of the social rented stock in the town, the numbers registered are greater than would be expected from the traditional local authority housing register model. Of those registered, on average, 14% are actively searching; 34% have never expressed an interest (which may indicate a lack of suitable accommodation in the area they are looking to live); 14% are housed and require a transfer; and 250 to 300 per annum are accepted as homeless. The growth as depicted in Table 3.5 is a result of the implementation of the choice-based lettings scheme in 2001.

3.12 House price data collected by Communities and Local Government indicates that Bolton has an average residential property price of £139,306 in 2008⁵. However, although house prices are relatively low, the weekly earnings of residents living in Bolton are also commensurately low. Bolton employees' gross weekly pay of £414.40 is 13.5 per cent less than the average weekly earnings for England (£479.30)

TABLE 3.6**AVERAGE HOUSE PRICES**

	2005	2006	2007	2008	2009⁶
England	192,247	206,715	222,619	220,310	203,287
North West	137,804	150,046	159,892	156,811	146,376
Greater Man/c	133,956	146,386	156,459	150,712	139,503
Bolton	121,502	131,552	140,978	139,306	125,395
Bury	135,309	142,352	150,301	146,493	145,811
Manchester	127,007	144,305	156,290	144,953	136,215
Oldham	105,157	121,270	131,092	128,785	116,620
Rochdale	112,688	123,612	132,108	128,712	119,005
Salford	123,946	133,207	143,164	136,251	130,171
Stockport	169,214	182,200	195,665	194,380	179,081
Tameside	115,770	124,831	137,731	133,181	119,818
Trafford	224,770	229,411	247,458	245,836	211,711
Wigan	115,209	126,942	132,076	128,838	115,943
Lancashire	126,954	140,587	152,469	153,069	143,854

Source: CLG and Land Registry

⁵ Rank out of 348 authorities across England and Wales, where 1 is the cheapest house price area and 348 is the most expensive.

⁶ House price data for 2009 is based on a mean of figures published for Q1 and Q2.

TABLE 3.7**HOUSE PRICE CHANGE**

	£ Change 2005-2008	£ Change 2005-2009	£ Change 2007-2009	% Change 2005-2008	% Change 2005-2009	% Change 2008-2009
England	28,063	11,040	-19,332	14%	6%	-8%
North West	19,007	8,572	-13,516	14%	6%	-7%
Greater Man/c	16,756	5,547	-16,956	12%	4%	-7%
Bolton	17,804	3,893	-15,583	15%	3%	-10%
Bury	11,184	10,502	-4,490	8%	8%	-0.5%
Manchester	17,946	9,208	-20,075	14%	7%	-6%
Oldham	23,628	11,463	-14,472	22%	11%	-9%
Rochdale	16,024	6,317	-13,103	14%	5%	-7.5%
Salford	12,305	6,225	-12,993	10%	5%	-4%
Stockport	25,166	9,867	-16,584	15%	6%	-8%
Tameside	17,411	4,048	-17,913	15%	3%	-10%
Trafford	21,066	-13,059	-35,747	9%	-6%	-14%
Wigan	13,629	734	-16,133	12%	0.6%	-10%
Lancashire	26,115	16,900	-8,615	20%	13%	-6%

- 3.13 Tables 3.6 and 3.7 above show that residential property prices peaked in 2007 and have fallen by 11% across the Borough as a consequence of the economic downturn. This corresponds with anecdotal evidence from local agents who also stress that the situation differs across the Borough, with some areas of traditional low demand experiencing falls in the region of 15 per cent.
- 3.14 The latest House Price Index Statistics released by CLG showed an annual fall in England house prices of 7.4% for Q2 - 2009 compared to Q2- 2008. More positively, house prices for the quarter ending May 2009 increased by 2.7 per cent, compared to a decline of 3.3 per cent in the quarter ending February 2009. This is primarily due to a lack of supply, however evidence is suggesting that supply in relation to demand has now stabilised and the rate of further growth for 2010 is likely to be subdued.
- 3.15 A property can be considered 'affordable' to a purchaser able to buy on the open market, if the purchase price of a property on the open market is no more than 3.5 times a household's annual income. Table 3.8 demonstrates that the ratio of median house price to median earnings for the last two full accounted years is higher in Bolton than both the regional and sub-regional average.

TABLE 3.8**RATIO OF MEDIAN HOUSE PRICE TO MEDIAN EARNINGS**

	2005	2006	2007	2008
England	6.81	6.91	7.26	6.94
North West	5.37	5.62	5.82	5.53
Greater Manchester	5.14	5.45	5.66	5.38
Bolton	5.05	5.32	6.01	5.67

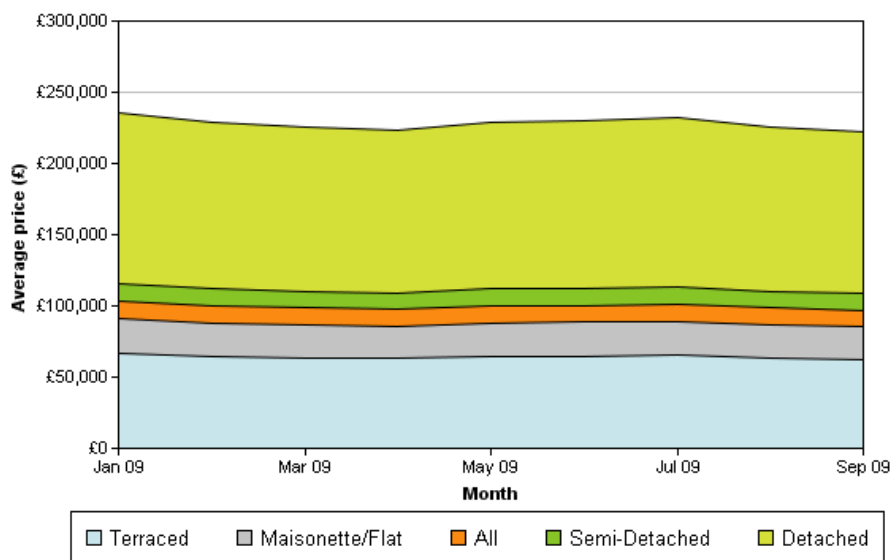
Source: CLG Housing Statistics

3.16 It is important to note that a fall in house prices does not automatically improve affordability. The significant growth in average house prices over the last ten years means that any price falls would have to be very substantial for housing to become affordable relative to average household earnings. Recent research on the ‘Credit Crunch’ and its implications for the UK housing market suggests that first time buyers are being hit particularly hard as lenders apply stricter criteria and require larger deposits whilst providing a more limited range of mortgage products⁷. The credit-driven excesses of the last ten years also indicates that the average first time buyer has to consider reducing their amount of debt on other facilities such as store/credit cards and loans before they can be considered eligible for further financial products, such as mortgages.

3.17 It is also important to be aware of the relative open market affordability of different types of property within the borough of Bolton, which Figure 3.9 demonstrates. It shows that although terraced housing stock across the Borough generally falls within the affordable range of 3.5 times average income levels, there is a limited choice of other types of affordable dwellings. An average priced semi-detached property is only attainable at 5.0 times the average household income. Meanwhile, detached properties across the Borough can only be purchased at a price 10.3 times average household income.

Table 3.9

House type breakdown – Bolton Metropolitan District



Source – Bolton Borough Council

⁷ The Credit Crunch and Implications for the UK Housing Market. Centre for Cities. May 2008

Table 3.9**House type breakdown – Bolton Metropolitan District**

Bolton Metropolitan District (Jan - Sept 2009)	Detached (£)	Semi-Detached (£)	Terraced (£)	Maisonette/ Flat (£)	All (£)
January-09	235,597	115,407	66,380	90,706	102,904
February-09	229,393	112,368	64,632	88,318	100,194
March-09	225,169	110,299	63,441	86,691	98,349
April-09	223,261	109,364	62,904	85,956	97,515
May-09	228,402	111,882	64,352	87,936	99,761
June-09	229,799	112,567	64,746	88,474	100,371
July-09	231,969	113,630	65,357	89,309	101,319
August-09	225,200	110,314	63,450	86,703	98,362
September-09	221,867	108,681	62,511	85,420	96,906

Source – Land Registry Data

3.18 AREAS OF DEMAND

There is a distinct division between demand for housing towards the north and west of the Borough, and demand for housing towards the south and east. Following discussions with Estate Agents and Housebuilders, the areas of higher demand and considered desirable are those such as Blackrod, Heaton, Horwich, Harwood, Smithills and Westhoughton, with areas of lesser demand being Farnworth, Kearsley, and Little Lever.

3.19 Bolton is fortunate in that it does not have a housing market, whereby wholesale housing market collapse has occurred and where regeneration on such a contentious scale is considered necessary, such as that in Liverpool. One response to address housing and community regeneration needs in the Borough is through the Transforming Estates Programme, which includes the provision of some open market housing as well as social rented. The Programme aims to create a better-built environment, by incorporating modern mixed-tenure estates, whilst at the same time improving land productive use and demonstrates that there is still demand in nearly all areas of Bolton.

3.20 PAST TRENDS IN THE DELIVERY OF AFFORDABLE HOUSING IN BOLTON

Detailed below is a brief review of the key data in relation to affordable housing delivery trends in Bolton to date. This is important in the context of any possible

amendments to policy, which the authority may wish to consider in response to the findings of this study.

- 3.21 Existing affordable housing for rent in Bolton is predominately owned by the Council but managed under a partnership by the Arms Length Management Organisation. The social housing market in Bolton makes up 21.7 per cent of the overall stock, compared with the average in England of 17.8 per cent.
- 3.22 Bolton has lost an average of around 3.1 per cent per annum of its social rented stock⁸, through demolitions and the right to buy process. The replacement of new-build affordable units however has not kept up with this loss, and thus, overall, the Borough has witnessed a decline in its stock of affordable accommodation and the current shortfall is 380 units per annum.
- 3.23 Given that some 57% of the population reside in larger “traditional family housing” it is likely that the potential future social housing need within the borough will require similar style accommodation. Based on current social rented stock levels the greatest by number sector is the three-bedroom unit, representing some 38.0% of the total stock. Another challenge for the Council, however will be to address the ageing population which is expected to increase by 39.8% in the 65+ age group, some additional 16,000 people by 2026.

Table 3.10
Provision of Affordable Housing 2004 – 2010

	2004/05 Outturn	2005/06 Outturn	2006/07 Outturn	2007/08 Outturn	2008/09 Outturn	2009/10 Outturn
England						
SR						
	22,302	23,195	23,504	27,909	28,696	33,352
IR						
	223	678	1,482	1,615	1,519	2,577
SE						
	8,300	11,612	14,277	16,822	17,861	17,972
total	30,825	35,485	39,263	46,346	48,076	53,901
North West						
SR						
	1,748	1,933	1,557	2,164	2,248	2,276
IR						
	0	0	22	70	45	125
SE						
	634	753	855	1,349	1,467	1,789
total	2,382	2,686	2,434	3,583	3,760	4,190
Bolton						
SR						
	114	83	48	99	19	75
IR						
	0	0	0	0	0	0
SE						
	84	20	67	81	12	46
total	198	103	115	180	31	121

⁸ Source: Bolton Council SHMA

4 METHODOLOGY

4.1 BROAD APPROACH

As a starting point, we have undertaken high-level assessments of the 70 sites over 0.4ha from the SHLAA that we rated predominantly as Category 1 ('deliverable'). Included within this allowance are a small number of Category 2 sites and 1 Category 3 site. From guidance in the original Briefing, such sites have been chosen on a number of basis, listed as follows;

- a fair representation of sites from all 6 of the Housing Market Areas, as identified in the SHMA,
- a broad representation of sizes and locations within those HMAs,
- a representation of Greenfield and Brownfield sites,
- with and without significant geo-environmental issues,
- origin of the site info (e.g. call for sites, Broadway Malayan study etc).

As part of this process we have made a judgement on the level of affordable housing, which could be required without rendering the site unviable.

4.2 We have then completed a more detailed development appraisal on a sample of 30 sites around the Borough. From these assessments we have been able to evaluate the appropriate targets for affordable housing requirements across the Borough.

4.3 We have also undertaken consultations with a range of stakeholders, including number of agents, planning consultants and housebuilders and have liaised with such stakeholders at a meeting held at Bolton Council Town Hall. Minutes of such a meeting are found in Appendix 2 at the end of this report. Findings and details will be summarised below.

4.4 HIGH LEVEL SITE ASSESSMENTS

Using the information from the SHLAA, on which members of this firm initially acted for the Council, alongside Roger Tym & Partners, we have assessed each of the 70 sites. As part of this assessment, factors likely to influence viability (such as bad neighbour uses, topography, likely geo-environmental conditions and the character of the surrounding area) have been recorded. We have then assessed appropriate yields and densities, taking into account factors such as proximity of town centres, bus routes and permanent features. This information has fed into the achievability analysis for the 70 sites to ensure that our assessments are robust.

4.5 These assessments have been undertaken for sites that have been predominantly rated as Category 1, (that is, the sites which we consider can make the greatest contribution to the delivery of market and affordable housing, and which are most likely to come forward in the short- to medium-term), with a small number of Category 2 sites and 1 Category 3 site included.

- 4.6 We have taken account of the impact of the potential balance between social rented and shared equity.

4.7 DETAILED DEVELOPMENT APPRAISALS

In addition to the high-level assessment of the 70 sites, we have completed more detailed development appraisals on a sample of 30 sites across the Borough. The sample selected has been based on securing a broad representative sample by geography, site size, origin of the site info (e.g. call for sites, Broadway Malayan study etc) and land type.

4.8 THE APPRAISAL MODEL

- 4.9 These appraisals enable us to demonstrate that our assumptions in the 'first phase' achievability assessments are robust and provide the Council with a set of representative 'templates' which can then be used as the basis for detailed assessment of any site, as and when required.
- 4.10 An appraisal has then been completed for each site, which can be adapted, should an application be made for residential or mixed-use development. A general overall developable area, split initially between market and affordable housing, can be supplemented with detail from a proposed schedule of accommodation to establish an acceptable level of affordable accommodation on that particular site, and the make-up of such affordable accommodation.
- 4.11 Under our Excel spreadsheet based Viability Assessment Model, the development appraisals are notionally divided into two halves; 'revenue' and 'cost'. Revenue factors reflect a general price per square foot of the net developable area under 'normal' market conditions in each area of Bolton⁹. In considering the house-building industry's acceptable margin levels in the current climate we have applied a gross margin of approximately 24 per cent. We accept however, that at this moment in time, the margin level is arguably slightly higher for some medium-sized regional builders.
- 4.12 The margin level has a substantial impact on land value and therefore delivery, and will also have a substantial impact on what is a deliverable level of affordable housing, either on-site or in the form of a commuted sum.
- 4.13 Our appraisal format has taken into account cost implications, including any initial obvious geo-environmental factors which would have a bearing on the site, issues such as abnormal piling costs, former foundation grub-up, likely ground remediation costs, gas protection measures, Japanese knotweed remediation techniques and associated costs. It has also taken into account general build costs for both apartment schemes and traditional housing schemes.

⁹ We define 'normal' market conditions as a market time frame of around 2-3 years, with a stable availability of mortgages

- 4.14 The appraisals also take into account ongoing Government policy factors affecting build costs, such as the Code for Sustainable Homes (CSH) or Policy EM18 of the RSS. The financial implication of the requirement for affordable homes to be built with CSH level 3 has been incorporated into the site appraisals.
- 4.15 The APS Viability Assessment Model allows the user to vary the amount of affordable housing included within any given scheme allowing, together with adjustments to the land value, a margin of 24-25 per cent. The overall viability of a scheme is determined by the level of residual land value in relation to alternative use values.
- 4.16 In summary the APS development appraisal format takes into account:
- the existing use value of the site,
 - the most appropriate type of residential development for the site,
 - the impact on deliverability of different forms of tenure;
 - general build costs
 - ongoing Government policy factors
- 4.17 **KEY ASSUMPTIONS**
We set out the assumptions on which our analysis is based below. It is important to note that the housing market is constantly changing and therefore any analysis of viability can only provide a snapshot. The current housing market is currently experiencing major changes as a consequence of the economic downturn and it is important to note the significant effect that this has on the viability of affordable housing and development in general.
- 4.18 *Grant Funding*
We have assumed that there is no grant assistance available for the affordable element of schemes.
- 4.19 *Planning Permission*
We have assumed that planning permission is in place or will be granted and that the site is serviced, cleared and ready for development.
- 4.20 *Land Value*
Land value has been determined as that of the Existing Use Value of the site (or Alternative Use Value, should the site be obviously suitable for another use), for commercial/industrial/agricultural purposes etc, plus an incentivised amount. From experience as a firm with personnel for many years involved also in housebuilding and Land Agency, reinforced through liaison with housebuilders, landowners and other land/estate agents, we have determined the trigger point for deliverability. Such a point is the EUV, plus approximately 20-25% uplift in such value. This is considered as the minimum uplift required to persuade a landowner to consider undertaking the exercise and expense of applying through the Local Planning Authority, for a change of use on their site, covering the upfront costs associated with such an exercise and releasing their land into the housebuilding industry.

4.21 *Development Mix*

We have initially assumed a split of 75% Social Rented and 25% Discounted Market Value. This split has been determined and agreed with the Council as the required approach, following the needs assessment identified in the 2008 SHMA, undertaken by David Couttie Associates. It is worth noting however, that the appraisals demonstrate that by changing the proportions of tenure type to the detriment of quantities of Social rented, the volume of deliverable units can be enhanced with little or very limited impact on land value. The difference can be seen for example, with a 25 per cent contribution on a social rented basis from a contribution of 75 per cent. For example, a site that is capable of providing 15% affordable housing on an original 75:25 split of tenure, can generally provide 25% of the total units on site as affordable housing. On this basis, certain flexibility on an area-by-area needs basis is possible.

4.22 *Density*

Unit densities are based upon current industry standards, which have seen a marked reduction in high-density schemes. Such current industry standards are based on an exhaustive review of agents but more importantly, the housebuilding industry. They are also reflective of what has been reported by volume housebuilders in the industry and national press and the standard we adopt was also fully accepted by the housebuilders present at the stakeholder meeting. The majority of housebuilders are currently targeting lower density semi-detached and detached schemes, at an average of 14.5 units per acre. They are re-planning schemes with town houses and apartments originally contained within the scheme, in favour of detached and semi-detached 3 and 4-bed houses.

4.23 *Unit Sizes*

With regard to unit sizes we have assumed a standard 3-bed house at 900 sq ft and a 4-bed at 1,150 sq ft. In reality these unit sizes will be altered on a site-by-site basis, dependant on developer and market demand. Such sizes have been determined once again, through liaison with the housebuilding industry and a detailed knowledge held within APS on house-type sizes adopted currently and in the recent past. These sizes were confirmed once again as commensurate with the housebuilding industry's approach, at the stakeholder meeting.

4.24 *Build Costs*

We have drawn on various sources, including our extensive experience, consultation with relevant personnel in various housebuilding companies and the latest Building Cost Information Service (BCIS) data and have developed a base per sq m build cost for the different housing types. Our assumptions are based on construction with either brick or reclaimed stone.

4.25 A residential all-in build cost of £785.77 per sq m (£73.00 per sq ft) was originally assumed, based on liaison with the housebuilding industry. This reflects a traditional mode of construction (i.e. non timber framed method) based upon traditional strip foundations 1m down with ground bearing slabs and no gas protection measures incorporated.

- 4.26 Some of the housebuilders at the stakeholder meeting declared the sum to be far too low. Following debate, it was suggested by the majority present that a figure of £83-85 per sq ft (£883-915) per sq m was more appropriate. What was subsequently determined was that the housebuilders had included costs for developing to Code Level 3 of the Code for Sustainable Homes. The APS model allows for an extra £7 per sq ft (75 per sq m) within each appraisal, thereby taking the net build cost to £82 per sq ft (£861.12 per sq m). APS stressed that these costs had been derived from discussions with a number of housebuilders and that their figures were therefore reasonable. With the stakeholder comments in mind however, APS has increased the net cost to £75 per sq ft (807 per sq m). With the Code Level 3 allowance, this amounts to the lower end of the level, which the majority of housebuilders present at the stakeholder group find acceptable and deliverable. The differences in costs are therefore seen as resolved, such differences borne out of what was actually determined as a net build cost. It was accepted that certain housebuilder included costs that other housebuilder listed separately within appraisals.
- 4.27 With reference to apartments, the build cost is more variable, save for the £7 per sq ft uplift to conform to Code Level 3, which can also be applied to apartment schemes. We consider a cost net of the Code Level 3 costs to be in the order of £105 per sq ft to £112 (1205 per sq m) on a gross basis. The cost rises for developments with 4-6 storeys (approx £120 per sq ft) and again on developments of 7-11 storeys (135-145 per sq ft). Post 11 storeys, a steel frame gives way to concrete and the cost rises to approximately £175 per sq ft. All of these costs are viable, dependent on the required external specification of design and materials, on the strata for piling and the internal fit out. The largest variable applies to car parking provision, whether provided via the surface (approx £1800 per sq ft), undercroft (approx £8000-£10,000 per sq ft), semi-basement (10,000-£15,000 per sq ft) or fully basement provision (£20,000-£35,000). Car parking costs quoted are dependant on the scale of development and the economies applied thereto.
- 4.28 A commercial build cost (typically ground floor retail to shell and core) £65.00 per sq ft (700 per sq m) is assumed and was confirmed as acceptable at the stakeholder meeting.
- 4.29 We also originally assumed a cost for the delivery of affordable housing to Code for Sustainable Homes Level 3 calculated at £7 per sq ft extra over the build cost, however the above demonstrates that as we approach April 2010, the housebuilding industry has now accepted this level as industry standard.
- 4.30 *Other Development Costs*
We have also assumed a figure for other development costs in addition to the build cost. This covers basic infrastructure including services, roads, car parking, landscaping and other external costs. These costs will be specific to the requirements of each site and therefore can only be generally estimated within the detailed development appraisals.

4.31 *Abnormal Development Costs*

Geo-environmental abnormalities are estimated based on industry experience, local area knowledge and some knowledge of an individual site's former use. Such costs are estimates and will be subject to change, upon production of a phase 2 environmental report.

4.32 *Professional Fees*

Our assumptions for professional fees are based upon current industry standards and include; Stamp Duty at 4 per cent; agent fees at 1 per cent, legal fees at 0.5 per cent, and Vat on Stamp Duty, usually associated with Brownfield land, at 15 per cent.

Other professional fees are set as a percentage of construction costs and based on current industry standards. Promotion and marketing fees are also set to current industry standards.

4.33 *Section 106 Costs*

The majority of residential developments are required to provide contributions, other than affordable housing, towards highways, health, public art, public open space, education and other costs related to the development as part of the Section 106 Agreement. Our assumptions for Section 106 cost are based on requirements of Bolton Council.

4.34 *Contingency*

A Developer's contingency of 5 per cent on build costs has been assumed on every site and was agreed as acceptable by those present at the stakeholder meeting.

4.35 *Developer's Profit*

The appraisals have been calculated to provide a return of 24-25 per cent as a Gross Margin on Revenue. This is the generally accepted industry standard at the current stage of the economic cycle, but will require close attention and annual updates. Gross margin on cost figures are also automatically calculated as some smaller housebuilders occasionally utilise this figure. Return on Capital Employed (ROCE), also used by a small number of volume housebuilders, is included to provide a thorough picture.

4.36 *Interest Rates*

The financial return assumes an interest rate of 7 per cent, a figure that is of a punitive nature and current industry standard. An economic recovery will inevitably be followed by an eventual rise in interest rates, in order to control the level of inflation. Recovery will in part be instigated by the increased flow of monies within the banking sector and the 'knock-on effect' of such activity, exactly the reverse of the 'Credit Liquidity Issue', which is what occurred to trigger the current recession. The banking industry will once again reconnect with property development and the associated profits such activity provides and will eventually become more competitive with their rates. We believe that in this regard, a figure of 7 per cent will remain fairly constant during the short-medium term, as any rise in interest rates will be offset by a reduction in the punitive scale set by the industry at the present time.

4.37 Once again, such assumptions have been discussed with a number of housebuilders and developers and were accepted by all present at the Stakeholder meeting.

4.38 *Sales Rates and Values*

Sales rates have been estimated under 'normal' market conditions, as have investment yields, although particular regulation attention will need to be paid to the latter figure, as it is subject to more mobile activity. These figures have been derived from consultation with developers, housebuilders, estate agents and where required, investment agents. Assumptions on Affordable Housing purchase rates are based upon current industry circumstances and have verified through consultations with various RSL's and housebuilders, a list of whom are provided in Appendix 3. Our sales values for market dwellings have been assumed as equating to £1,883 sq. m (£175 per sq ft) for 3-bed dwellings and £1,830 per sq. m (£170 per sq ft) unless otherwise stated. Variations are made on an area-by-area basis.

4.39 **UPDATING THE APPRAISALS**

We recommend that certain data assumptions be updated on a 6-monthly basis and others on an annual basis. As previously stated, it is important for the Council to be in possession of accurate key up-to-date information. Listed below are sources from which the information can be updated. Certain data is freely available and will prove simple to update. Other information is more difficult to obtain. In this regard APS will be happy to provide such updates.

4.40 **6-Monthly Updates**

- | | | |
|--------------------------------|---|---|
| Land Value | - | Liaison with Commercial Agents, both Local and National. |
| Build Costs | - | Building Cost Information Service (BCIS), plus more accurate extraction of costs following liaison with Regional and National housebuilders. Such figures will prove more difficult for the Council to pinpoint accurately. |
| Other Development Costs | - | Building Cost Information Service (BCIS), plus more accurate extraction of costs following liaison with Regional and National housebuilders. Such figures will prove more difficult for the Council to pinpoint accurately. |
| Developer's Profit | - | Requires 6-monthly update by Bolton Council, from appropriate sources. |
| Interest Rates | - | Such information can be obtained through liaison with the banking industry and the housebuilding industry, but ought to be verified by the District Valuer and a specialist residential development consultant. |

- Sales Values** - Reference to Local Estate Agents and also Estate Agency websites will supply suitable data. More up-to-date new-build sales values may be obtained through liaison with the housebuilding industry, however incentives and investor deals mean that the figures should be verified through new-build agents or residential development consultants. APS are able to provide.
- Sales Rates** - Liaison with Regional and National housebuilders should provide the Council with the appropriate data.

4.41 **12-Monthly Updates**

- Density** - Collation of empirical data from planning applications submitted and through liaison with Regional and National housebuilders.
- Unit Sizes** - Collation of empirical data from planning applications submitted and through liaison with Regional and National housebuilders.
- Professional Fees** - These costs are easily updated, via liaison with the housebuilding industry.

4.42 **STAKEHOLDER MEETING – 10.00AM 23RD OCTOBER 2009, LANCASTER SUITE, BOLTON TOWN HALL**

Letters were sent out to 115 different organizations, inviting them to attend the above event. The invitees were a range of land agents, architects, Housing Associations, estate agents, planning consultants, mixed-use developers and housebuilders.

A list of attendees is found on page 1 of the meeting minutes, however, with the exception of Bolton Council officers and their consultants, the meeting was attended by the following stakeholders:

- Ted MacDougal - Bardsley Construction
- David Short - Emerson Group/Jones Homes
- Graham Bee - Jones Homes
- Simon Artiss - Bellway Homes
- Helen Ireland - Darcy Lever Residents Association
- Mark Calvert - Taylor Wimpey
- Chris Kershaw - Arley Homes

4.43 Bolton Council officers initially explained to the group the purpose of the study, highlighting affordable housing need and the context of this study, in relation to the previously undertaken SHMA and SHLAA exercises.

- 4.44 APS then continued, by explaining the methodology undertaken, via utilisation of the High Level Achievability Assessments and the Detailed Development Appraisals.
- 4.45 APS explained the emerging findings and highlighted the following:
- Brownfield sites are less deliverable especially at 35% affordability. Deliverability is likely to be less certain on these sites.
 - Greenfield sites can accommodate the full 35% target, even with imposition of the full range of Section 106 requirements.
 - Section 106 cost impacts are being assessed by the Bolton Council on a site by site basis.
- 4.46 The group was led through examples of such appraisals under various scenarios.
- 4.47 Assumptions contained within the appraisals were then discussed amongst the group. The group was generally in accordance with the approach, as well as assumptions relating to density, house type delivery, margin, finance, sales values and contingency. It was generally accepted that APS had included all the necessary variables.
- 4.48 There was some dispute in relation to build costs. APS had taken a net build cost at £73 per sq ft. Some attendees felt that this was too low a figure and explained that in their opinion, the figure should be in the region of £83-85 per sq ft. APS directors explained the rationale; having canvassed a number of housebuilders on their costs, the above figure having been the general conclusion arrived at. APS also went on to show that the housebuilders concerned had included build costs, which satisfied Code Level 3 of the Code for Sustainable Homes. The APS figure did not initially do so but it was pointed out that all the appraisals included a separate cost for such a Code Level, adding an extra £7 to the build cost. This put the APS build costs at £80 per sq ft. There were also cost assumptions in relation to foundations within certain housebuilder's assumption of a net build cost, which were not included in the APS or other housebuilders assumption of 'net' build cost.
- 4.49 With the need to consider the feedback from the group, APS revisited the Detailed Development Appraisals, adding another £2 per sq ft to its net costs, thereby reflecting the lower end of the threshold discussed during the meeting, but a level which APS feels is reflective of the wider housebuilding market.

5 FINDINGS OF THE VIABILITY ASSESSMENTS

5.1 INTRODUCTION

This section of the report presents the findings of the viability assessments. It aims to show, by testing a number of key policy options, what the impact of providing affordable housing is likely to be on the viability of development and will include an analysis of the results of the 70 high-level site assessments and the 30 detailed development appraisals. This will allow us to calculate how many sites are viable at various different affordable housing thresholds and thus will inform the most appropriate threshold to be applied in Bolton.

- 5.2 It is important to note at the outset that the following appraisals assume 'normal' market conditions; that is a market timeframe of around 2-3 years, with a stable availability of mortgages and readily available funding for development. This is particularly pertinent given the current economic circumstances prevailing at the time of undertaking this study. Delivery of Brownfield schemes is more challenging than on those that are Greenfield in nature. This was also the general opinion of those housebuilders present at the Stakeholder meeting.
- 5.3 With mortgage products available at around 85% of the total loan, we consider this to now be 'normal' market conditions. Fiscal controls by National Government are currently being considered to prevent banks from offering 100% - 125% loans once again, particularly in the short-mid term. These were seen as part of the original cause of the current economic crisis, particularly when looking at the trigger point in the United States with sub-prime lending. Even the banks themselves are reported in the national press as having little appetite for such lending. Our views have been endorsed through consultations with volume and medium-sized housebuilders, who in turn have been consulting directly with the banking industry, through the normal course of their operational parameters. It is very much to the housebuilding industry's advantage to liaise with the banking industry, as trends within the latter have a direct impact on the former.
- 5.4 Development funding will undoubtedly return to reasonable levels for traditional housebuilding during the course of the next 18 months, although the development of apartments will not occur in any noticeable quantities for a minimum of 3 - 5 years, especially in relation to schemes greater than 3 storeys in height and located in town centres. This undoubtedly has an impact on the number of deliverable affordable units. Apartment developments will become more deliverable on larger housing schemes, which may once again incorporate a small element, say 10-20% 3-storey apartments within a 2-4 year period. Housebuilders at the stakeholder meeting concur with this point and confirmed that they were currently in the process of re-planning those schemes that contained elements of apartments and townhouses.
- 5.5 Whilst the current market position is a concern, given the cyclical nature of the property market, we consider that the downturn will be replaced by moderate growth during the lifetime of Bolton Council's affordable housing policy. It is likely that we will experience more than one property cycle during the lifetime of the Core Strategy and

therefore, in order to ensure a policy which is flexible enough to adapt to changing market conditions, a range of affordable housing thresholds has been tested. We discuss this matter in more detail in Section 6 of this report together with the impact that the recession may have on the delivery of affordable housing throughout the Borough.

5.6 APPRAISAL RESULTS: HIGH LEVEL ASSESSMENTS

The high-level site assessments tested five different degrees of affordable housing thresholds, which were applied to each of the 70 sites, in order that we might score each site according to its degree of viability under each of the five thresholds.

- 5.7 Scenario 1 reflects the baseline position and indicates the proportion of schemes that would be viable without any element of affordable housing, and under 'normal' market conditions. Of the total 70 sites, under Scenario 1, (0 per cent affordability threshold), 2 sites achieve a score of '0'.
- 5.8 Tables 5.1 and 5.2 indicate that Scenario 1 results in the least variation in terms of viability and the highest proportion of sites, 63 in total (or 90 per cent), achieving the highest score of '5' which indicates 'excellent viability'. However, this is to be expected given that this scenario incorporates an affordable housing threshold of 0 percent. Given that the recently commissioned SHMA indicated a likely annual requirement for 380 affordable dwellings throughout Bolton, this scenario is unsatisfactory and merely serves to indicate the proportion of schemes, which would be viable, without affordable housing and under 'normal' market conditions.
- 5.9 Under Scenario 2, Table 5.1 and Table 5.2 indicate that a ratio of 5 per cent affordable housing is achievable across 70 per cent of sites. Indeed, the findings of the 70 high level site assessments indicate that 46 sites achieve the highest score of 5, and are thus classed as having 'excellent viability' potential under 'normal' market conditions. In contrast to Scenario 1, 19 sites are deemed to have 'very poor viability' and are thus unable to deliver affordable housing, although 6 of these sites produce a yield of less than 15 units and are therefore unlikely to produce affordable units. The remaining sites are Brownfield, particularly in lower value areas.

Table 5.1

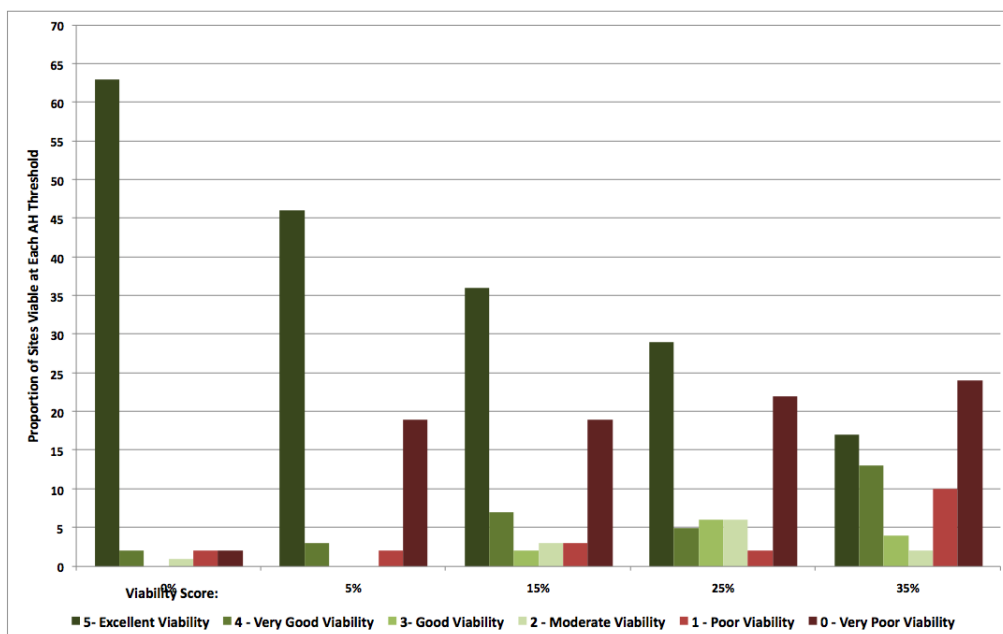
Summary of High Level Site Assessment Scores

Site Ref	Site Area (HA)	Town	Yield	Scenario 1 0%	Scenario 2 5%	Scenario 3 15%	Scenario 4 25%	Scenario 5 35%
7	0.91	Brightmet	41	5	5	4	3	1
8	1.23	Brightmet	43	5	5	4	3	1
16	0.38	Lostock Junction	11	5	0	0	0	0
31	1.77	Heaton	79	5	5	5	5	4
38	1.78	Horwich	57	5	5	5	3	2
43	5.18	Lever Edge	167	5	5	5	4	4
44	2.34	Top o' th' Brow	88	5	5	5	5	4
56	1.84	Tonge Moor	66	5	5	5	4	4
127	0.93	Halliwell	42	5	5	4	2	1
137	0.86	Farnworth	23	4	4	2	1	0
144	0.72	Deane	32	4	4	2	1	0
163	2.28	Lever Edge	103	5	5	4	2	1
172	1.02	Victory	35	5	5	2	2	1
244	0.42	Farnworth	23	5	0	0	0	0
346	0.66	Victory	23	5	5	3	2	1
577	0.36	Horwich	22	5	0	0	0	0
587	1.99	Smithills	58	5	5	5	5	5
608	0.95	Harwood	33	5	5	5	5	4
632	1.50	Lever Edge	51	5	5	5	5	4
697	0.36	Sharples	18	5	0	0	0	0
703	0.42	Dunscar	15	5	5	5	5	5
718	5.92	Top o' th' Brow	203	5	5	5	5	5
721	1.75	Harwood Lee	58	5	5	5	4	4
743	0.85	Brownlow Fold	29	5	5	5	5	4
761	0.30	Farnworth	15	5	0	0	0	0
767	0.37	Horwich	19	5	0	0	0	0
780	2.22	Horwich	73	5	5	5	5	5
781	2.96	Blackrod	99	5	5	5	5	5
782	0.55	Blackrod	30	5	5	5	4	3
786	0.34	Blackrod	17	5	0	0	0	0
789	0.64	Gilnolw	29	5	5	5	3	1
908	0.70	Darcy Lever	32	5	5	4	2	1
917	2.42	Top o' th' Brow	91	5	5	5	5	5
925	0.37	Brightmet	18	5	0	0	0	0
929	0.29	Brightmet	14	5	0	0	0	0
938	0.85	Darcy Lever	25	5	4	3	2	1
954	2.52	Farnworth	63	5	5	5	5	5
961	0.25	Great Lever	12	5	0	0	0	0
972	1.51	Fernhill Gate	48	5	5	5	5	5
978	1.94	Deane	87	5	5	5	5	4
986	0.79	Little Lever	43	5	5	5	5	4
989	0.72	Little Lever	39	5	5	5	5	5
994	0.62	Kearsley	33	0	0	0	0	0
1005	5.57	Kearsley	163	5	5	5	5	4
1009	0.32	Kearsley	19	5	0	0	0	0
1013	0.83	Wingates	37	5	5	5	5	5
1015	0.89	Wingates	29	0	0	0	0	0
1021	1.14	Westhoughton	41	5	5	5	5	5
1023	0.83	Wingates	22	5	5	5	5	5
1032	0.36	Westhoughton	18	5	0	0	0	0
1035	0.42	Westhoughton	23	5	5	5	5	5
1039	0.15	Bolton	8	5	0	0	0	0
1045	0.22	Bolton	100	2	0	0	0	0
1046	0.82	Bolton	370	1	0	0	0	0
1050	0.33	Rose Hill	75	1	0	0	0	0
1062	10.94	Westhoughton	219	5	5	5	5	5
1073	0.61	Farnworth	20	5	5	5	4	4
1074	0.49	Kearsley	15	5	1	1	0	0
1081	0.49	Bolton	31	5	5	5	3	3
1094	3.91	Middle Hulton	123	5	5	5	5	5
1095	3.77	Westhoughton	127	5	5	5	5	5
1105	1.14	Darcy Lever	36	5	5	5	5	3
1106	1.08	Darcy Lever	36	5	5	5	5	4
1112	1.07	Harwood	29	5	5	4	3	2
1129	0.79	Astley Bridge	36	5	5	5	5	5
1135	1.14	Darcy Lever	38	5	5	1	0	0
1139	5.00	Great Lever	167	5	1	1	0	0
1155	0.69	Horwich	15	5	5	5	5	3
1158	0.32	Horwich	5	5	0	0	0	0
1161	0.77	Bolton	21	5	5	4	2	1

Key for A P Sheehan & Co's Assessment of 'Achievability'	Score	Key
- Excellent viability (no known exceptional costs or conflict of land values with existing use)	5	Viabile
- Very good marketability and/or viability	4	Unviabile
- Good viability	3	
- Questionable viability dependant on exceptionals and existing land value	2	
- Poor viability based on exceptionals and existing land value	1	
- Very poor viability (assumed exceptional costs and insufficient land value to better existing use)	0	

Graph 5.1

Proportion of Viable Sites At Each Affordable Housing Threshold



5.10 Given therefore, that 70 per cent of sites are achievable under this scenario, we consider that an affordable housing threshold of 5 per cent would be a viable option. However, the Council must take into account the findings of the 2008 SMHA, which indicated that 380 affordable dwellings would be required annually in Bolton (if the identified need is to be satisfied; this would be a difficult target to achieve with an affordable housing threshold of just 5 per cent. Thus whilst a development mix of 5 per cent affordable housing may be viable and achievable, perhaps even in those weaker housing market areas such as Farnworth, such a target would not adequately meet the identified need.

TABLE 5.2

SUMMARY OF RESULTS OF HIGH LEVEL SITE ASSESSMENTS

Viability Score	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
	Number of Sites Viable at Each Threshold				
	0%	5%	15%	25%	35%
5- Excellent Viability	63	46	36	29	17
4 - Very Good Viability	2	3	7	5	13
3- Good Viability	0	0	2	6	4
2 - Moderate Viability	1	0	3	6	2
1 - Poor Viability	2	2	3	2	10
0 - Very Poor Viability	2	19	19	22	24
Total Achievable Sites For AH	66	49	48	46	36
Achievable Sites as a % of Total	94%	70%	68.5%	66%	51%

- 5.11 The results of the high-level site assessments under Scenario 3 indicate that under 'normal' market conditions, 68.5% per cent of sites would be achievable at an affordable housing threshold of 15 per cent. This includes 36 sites which achieve a score of '5', a further seven sites which achieve a score of '4', two sites which achieve a score of '3' and three sites which achieve a score of '2'. This is therefore deemed to be a marginally viable threshold for affordable housing across the borough; however we consider that developers may have more difficulty in delivering this level of affordable housing on Brownfield sites given scale of remediation costs associated with such sites, particularly in the lower quality housing market areas. Indeed, delivery is likely to rise in difficulty at this level, generally commensurate to a narrowing proximity to urban centres, where alternative use values are higher as is the proportion of Brownfield sites.
- 5.12 The results of the high-level site assessments applied under Scenario 4 indicate that under 'normal' market conditions, 66 per cent of sites would be achievable at an affordable housing threshold of 25 per cent. This includes 29 sites which achieve a score of '5', a further five sites which achieve a score of '4', six sites which achieve '3' and six sites which achieve a score of '2'. Thus, the findings of the 70 high-level site assessments indicate that a 25 per cent affordable housing target would be a possible figure for affordable housing across the Borough. However, developers will once more experience difficulty delivering this level of affordable housing in the urban areas where sites are predominantly Brownfield, and in those areas which are deemed less desirable.
- 5.13 Under certain circumstances where there is sufficient social rented stock in the immediate area and in order to maximize the proportion of affordable homes which can be delivered throughout the borough, the Council may wish to consider altering the affordable housing tenure splits, perhaps by providing a higher proportion of intermediate tenure housing to that of social rented stock. RSLs may not wish to take up further amounts of shared equity stock in the Borough however – at least for the next 2-3 years. The focus for the Council however, will always be to provide affordable housing on the previously mentioned 75:25 split.
- 5.14 Under Scenario 5, 35 per cent affordable housing is deliverable across 51 per cent of the total schemes assessed. It is recommended that 70 per cent of sites should be viable prior to a policy being classed as robust¹⁰. Therefore at 51 per cent viability overall, Scenario 5 falls somewhat below the acceptable threshold and therefore an affordable housing threshold of 35 per cent would be deemed unacceptable. Of the viable sites at this level however, it should be noted that many are Greenfield and are capable of substantial affordable provision.

¹⁰ The same level of 70% has been applied by DTZ for Wakefield Council in the Economic Viability Appraisal section of their Strategic Housing Market Assessment (2008). The report was approved at public inquiry and as such can be considered as a robust approach. Roger Tym & Partners and APS & Co have also adopted this figure for their joint instruction on the Rossendale AHVA.

5.15 The box below provides a summary of our assessment of each of the five scenarios, with a conclusion as to whether or not they are viable policy options for the delivery of affordable housing in Bolton.

Scenario 1 - 0% - 94 per cent of schemes are viable, however this scenario tests the viability of the 70 sites with no element of affordable housing incorporated into the development mix. Hence this scenario is not appropriate should the Council wish to meet its affordable housing requirements of 380 new affordable dwellings annually.

Scenario 2 - 5% - 70 per cent of schemes are achievable under this scenario, thus making this a viable target for affordable housing. However, given that the need in Bolton is so high, the Council should consider a higher threshold.

Scenario 3 - 15% - 68.5 per cent of schemes are achievable under this scenario, again making this a marginally viable target for affordable housing.

Scenario 4 - 25% - 66 per cent of schemes are viable under this scenario, this is a reasonable proportion of viable schemes, but is below the acceptable threshold of 70 per cent viability. Thus, any policy based on this threshold would be considered possible but would not be considered as robust.

Scenario 5 - 35% - Just 51 per cent of schemes are achievable under this scenario, and thus we consider that this would not be a viable policy option.

5.16 APPRAISAL RESULTS: DETAILED DEVELOPMENT APPRAISALS

The purpose of this second phase development appraisals is two-fold. Firstly, the appraisals will demonstrate that our assumptions in the 'first phase' of achievability assessments are robust. Secondly, the appraisals will provide the Council with a set of representative 'templates' which can then be used as the basis for detailed assessment of any site as and when required.

5.17 In summary, each detailed development appraisal takes into account the following factors¹¹:

- the existing/alternative use value of the site (other than the residential development upon which planning is assumed), reflecting any obvious physical and geo-environmental factors and constraints such as abnormal piling costs, likely ground remediation costs, gas protection measures, Japanese knotweed remediation techniques and associated costs;

¹¹ The full methodology is included in Section 4 of this Report.

- the most appropriate type of residential development for the site, based on both macro and micro-economic factors, and the impact of various levels of affordable housing provision;
- the impact on deliverability of different forms of tenure;
- general build costs for apartment schemes and traditional housing schemes;
- ongoing Government policy factors affecting build costs, such as the Code for Sustainable Homes (CSH) or Policy EM18 of the RSS.

5.18 To ensure that the detailed development appraisals take account of the wide range of variables which can affect the viability of providing affordable housing on a scheme, we have selected thirty sites, each with different characteristics in terms of location, size, land type and information source (call for sites, Broadway Malyan Study, NLUD etc). In this context we have selected the following sites:

TABLE 5.3

LIST OF THIRTY SITES SELECTED FOR DETAILED DEVELOPMENT APPRAISALS

Site Ref	Town	Housing Market Area	Site Area (HA)	Yield	Comments
8	Brightmet	4	1.23	43	Former school site surrounded by low value high density residential.
38	Horwich	1	1.78	57	The site lies within the urban area and is surrounded by residential.
43	Lever Edge	5	5.18	167	Large accessible site on urban fringe adjacent to open countryside
172	Victory	4	1.02	35	Located in a highly sustainable area with questionable buildings on site.
346	Victory	4	0.66	23	Surrounded by residential on three sides - marginal if the full affordable allocation was required
587	Smithills	4	1.99	58	Open Space
608	Harwood	3	0.95	33	Open Rural site with adjacent residential.
632	Lever Edge	5	1.50	51	Infill site with sufficient access
703	Dunscar	3	0.42	15	Public Open Space
718	Top o' th' Brow	4	5.92	203	Infill Site
721	Harwood Lee	3	1.75	58	Surrounded by residential and an excellent infill site
743	Brownlow Fold	4	0.85	29	Infill site for residential with good access. Possible drainage issues
780	Horwich	1	2.22	73	Fringe of greenbelt. Possible standoff required for a culvert. Topography will reduce density and increase build costs
781	Blackrod	1	2.96	99	Protected open land - half of it is a recreation ground
938	Darcy Lever	6	0.85	25	Substantial earthworks will increase build costs
954	Farnworth	6	2.52	63	Poor quality open space which would benefit from residential development and amelioration of part
972	Fernhill Gate	1	1.51	48	Part of school grounds.
1005	Kearsley	6	5.57	163	Greenfield site - levels and stand off from elevated railway will reduce developable area
1015	Wingates	2	0.89	29	Open waste land adjacent to railway and industrial premises.
1039	Bolton	4	0.15	8	Town Centre Site - apartments only. Site size and shape precludes any significant development form.
1046	Bolton	4	0.82	370	Mixed use required. Unsure whether S106 requirements will make the scheme uneconomic.
1062	Westhoughton	2	10.94	219	Large tracked of land comprising open countryside on fringe of residential area
1073	Farnworth	6	0.61	20	Infill site.
1074	Kearsley	6	0.49	15	Industrial infill site - in need of extensive remediation - presence of telecoms equipment on chimney.
1094	Middle Hulton	2	3.91	123	Poor quality land within the urban boundary.
1095	Westhoughton	2	3.77	127	Good size and configuration site at heart of mixed used urban area. Adjacent to water course and open land.
1105	Darcy Lever	4	1.14	36	Drainage issues may require attention. Within the urban boundary
1106	Darcy Lever	6	1.08	36	Accessible, level, open land in a good fringe countryside location – potential contamination issues from former rail line
1135	Darcy Lever	6	1.14	38	Mill site with contamination issues and reasonable existing use value
1139	Great Lever	5	5.00	167	Mill site in industrial area - the former use denotes high probability of contamination

- 5.19 The comprehensive results of the detailed development appraisals are presented in Appendix 1, and summarised below in Table 5.4 for ease of reference.
- 5.20 The findings indicate that **15 per cent** affordable housing is achievable on twenty of the sites selected (66.7%) for the detailed development appraisals. Under the high-level site assessments, 68.5 per cent of schemes were viable under this scenario and this is considered to be a reasonably high level of viability. Although there is a difference between these results and those of the High-Level Assessments, the Detailed Assessment result re-enforces the robustness of the High-Level Assessment at 15%. We must bear in mind that many of those sites that hit a threshold of only 5% may not have been far from the 15% threshold level. It may be that the abnormal allowances can be reduced on production of empirical evidence through Geo-technical reports. In sampling terms, to hit a 70% level, only one further site is needed to make up the difference. We feel it appropriate to suggest that this is a representative sample.
- 5.21 It is important to note that for four of the sites selected (Site 1046, 1073, 1074 and 1135), the results of the appraisals indicate a likely nil contribution will be forthcoming, based on the abnormalities connected to these Brownfield sites and the impact that they have in reducing the land value to within 20% of the Existing Use Value (EUV). Indeed, for Site 1135, the acquisition cost is only a minor enhancement of the EUV and in the case of Site 938, the acquisition cost is close to EUV; thus, were a higher proportion of affordable housing to be implemented on either site, revenue would be reduced to the extent that the gross margin would be less than the required 24%-25% and hence net profit would be insufficient enough to attract not only the landowner to consider release for residential development, but also developer interest. In this case, alternative uses would be considered and residential delivery unviable.
- 5.22 In this context, it is likely that delivery of a residential development on Sites 1135 and 938 would only be possible, if the scheme comprised a maximum 5 per cent affordable housing, given that the return produced when accommodating 15 per cent is too low.
- 5.23 The results of the detailed development appraisals demonstrate that at an affordable threshold of **25 per cent**, 19 out of the thirty sites are viable and can produce a gross margin in the region of 24 – 25 per cent; this equates to 63 per cent viability, which we consider is a reasonable proportion. Of those that are unviable at the 25 per cent threshold, further analysis of the detailed development appraisals indicates that these sites are limited in their capacity to accommodate higher proportions of affordable housing, due to their Brownfield nature and the associated scale of abnormal costs. In many cases, alternative use values are higher. Due to the nature of previously developed land and the associated urban location, together with the potential for alternative uses, the general delivery of affordable accommodation over a level of 15-25 per cent appears challenging.
- 5.24 Greenfield sites will always have the capacity to accommodate a higher proportion of affordable housing, and indeed a higher proportion of social rented within this affordable element, given that the existing use value is lower. There tend to be very few

remediation costs and abnormalities tend to be limited to topographic and drainage issues. Furthermore, these sites are often located in more sought-after rural areas where end sales values and housebuilder sales rates are higher.

5.25 In addition to the aforementioned abnormal costs associated with residential development on the Brownfield sites, these sites are also located in areas such as Kearsley and Farnworth – tertiary-housing areas, where values are generally lower than elsewhere in the Borough. This subsequently has a negative impact on the revenue side of the appraisal. Build costs and abnormal remediation costs are more of a constant.

Table 5.4 - Summary of Results of Detailed Development Appraisals

Table 5.4 - Summary of Results of Detailed Development Appraisals												
Site Ref.	Location	Size (ha)	B'field or G'field	Affordable Threshold	Tenure Mix		S106 Inc	Site Cost to Developer	Gross Margin (%)	Net Profit (%)	Net Profit	Additional comments on viability of site
					SR	SE						
8a	BRIGHTMET	1.23	B	5%	75%	25%	Y	£405,000	24.27	20.31	£1,198,801	The site is best suited for residential purposes, although a care use could be perceived as an alternative. As there are no perceived abnormal costs, bearing in mind its former use, this site will provide a reasonable amount of affordable.
8b				15%	75%	25%	Y	£235,000	24	20.33	£1,145,951	
8c				15%	75%	25%	N	£435,000	24.38	20.58	£1,159,970	
38a	HORWICH	1.78	G	35%	75%	25%	Y	£440,000	24.04	20.25	£1,651,669	The site is highly suited to residential development. Some flood issues may be present and potential abnormal works arising out of such. Even so, will provide a reasonable level of affordable housing.
38b				35%	75%	25%	N	£705,000	24.03	20.14	£1,696,280	
43a	LEVER EDGE	5.18	G	25%	75%	25%	Y	£2,285,000	24.01	19.86	£5,195,349	The site is best suited for residential purposes, although a care use could be applied to approximately 1 acre of the site. As there are no perceived abnormal costs, bearing in mind its former use, this site will provide a high amount of affordable.
43b				25%	75%	25%	N	£3,105,000	24.13	19.84	£5,192,043	
43c				35%	75%	25%	Y	£1,265,000	24	20.23	£4,905,565	
172a	VICTORY	1.02	B	5%	75%	25%	Y	£590,000	24.06	19.86	£1,243,267	A reasonable site for residential development, although existing use values will mitigate the full quota of affordable housing from being delivered.
172b				15%	75%	25%	Y	£375,000	24.06	20.18	£1,182,774	
172c				15%	75%	25%	N	£590,000	24.12	20.03	£1,173,861	
346a	VICTORY	0.66	B	5%	75%	25%	Y	£305,000	24.13	20.27	£847,290	A suitable site but one which will yield low amounts of affordable, based on the size of the site, the end sales values and existing use values.
346b				15%	75%	25%	Y	£205,000	24.07	20.47	£792,986	
346c				15%	75%	25%	N	£315,000	24.05	20.17	£781,455	
587a	SMITHILLS	1.99	G	35%	75%	25%	Y	£1,265,000	24.13	19.35	£1,733,564	Suitable for nothing other than residential. As such, the full quota of affordable may be applied.
587b				35%	75%	25%	N	£1,605,000	24.03	19.03	£1,705,204	

608a 608b	Harwood	0.95		25%	75%	25%	Y	£555,000	24.16	20.01	£1,221,192	Highly suitable for residential. Greenfield in nature and as such, the full quota of affordable may be applied.
				35%	75%	25%	N	£505,000	24.17	20.21	£1,120,287	
632a 632b 632c	Lever Edge	1.50		25%	75%	25%	Y	£75,000	24.01	20.66	£1,306,532	Suitable only for residential and as such should provide the maximum quota of affordable.
				35%	75%	25%	Y	£1	20.46	17.06	£1,020,876	
				35%	75%	25%	N	£105,000	24.05	20.85	£1,248,007	
703a	Dunscar	0.42		35%	75%	25%	Y	£475,000	24.17	19.24	£517,633	As the site is publically owned, the likelihood of a reasonable density, more than 15 units, is higher than usual. As such, the full level of affordable can be applied.
718a	Top o' th' Brow	5.92		35%	75%	25%	Y	£1,750,000	24.13	20.28	£5,954,054	An excellent infill site highly suited to residential. The Greenfield nature of the site demonstrates a probable lack of significant abnormal build costs. As such, the full quota of affordable should be applied.
721a	Harwood Lee	1.75		35%	75%	25%	Y	£1,000,000	23.96	19.69	£1,979,037	An excellent infill site, highly suited to residential. The current use for the site demonstrates a probable lack of significant abnormal build costs. As such, a reasonably high quota of affordable should be applied, with an alternative use value for care/retirement purposes being duly considered also.
721b				35%	75%	25%	N	£1,350,000	24.24	19.8	£1,989,878	
743a	Brownlow Fold	0.85		35%	75%	25%	Y	£265,000	24	20.09	£831,929	Highly suited to residential development as an infill site. Regularly shaped, will command reasonable density and should yield approximately 7 affordable units.
780a	Horwich	2.22		35%	75%	25%	Y	£1,300,000	24.11	19.77	£2,469,045	A highly suitable site and one that should yield the full level of affordable, as there are no real alternative uses for the site.
781a	Blackrod	2.96		35%	75%	25%	Y	£2,100,000	24.17	19.63	£3,319,775	A highly suitable site and one that should yield the full level of affordable, as there are no real alternative uses for the site.
938a 938b	Darcy Lever	0.85		5%	75%	25%	Y	£535,000	24.18	19.84	£891,050	A highly suitable site and one that should yield the full level of affordable, as there are no real alternative uses for the site.
				15%	75%	25%	Y	£355,000	24.1	20.11	£815,595	

938c				15%	75%	25%	N	£435,000	24.06	19.84	£804,692	
954a	Farnworth	2.52		35%	75%	25%	Y	£1	20.54	17.15	£1,259,950	Appropriate site for 80% of the site, due to the presence of a LEAP. Good access and will produce sufficient numbers for a full affordable housing quote. No alternative uses.
954b				35%	75%	25%	N	£135,000	24.04	20.88	£1,534,648	
972a	Fernhill Gate	1.51		35%	75%	25%	Y	£335,000	24.08	20.35	£1,389,274	Well placed housing site capable of AH delivery.
972b				35%	75%	25%	N	£605,000	24.19	20.24	£1,382,255	
1005a	Kearsley	5.57		35%	75%	25%	Y	£1,200,000	24.09	20.61	£5,215,974	Nice sized housing site, however levels and stand off from elevated railway will reduce developable area.
1005b				35%	75%	25%	N	£2,300,000	24.07	20.08	£5,019,906	
1015a	Wingates	0.89		15%	75%	25%	Y	£595,000	24.1	19.55	£955,367	In isolation of adjoining site this area is more suited for Industrial uses, however the provision of affordable is possible.
1015b				25%	75%	25%	Y	£425,000	24.02	19.8	£908,402	
1015c				25%	75%	25%	N	£595,000	24.13	19.69	£903,528	
1039a	Bolton	0.15		100%	75%	25%	N	£1	-51.13	-59.34	-£373,494	Site size and shape precludes any significant development form.
1046a	Bolton	0.82		0%	75%	25%	Y	£1	15.25	9.36	£1,728,738	Given the sites suitability towards a high-density mixed use scheme it is unlikely to come forward within a sub 5 year time line. Potentially circa 8/10 years.
1046b				0%	75%	25%	N	£1	12.32	6.22	£1,150,758	
1062a	Westhoughton	10.94		35%	75%	25%	Y	£8,100,000	24.01	19.43	£12,387,896	Good traditional housing site capable of significant AH delivery. Should yield in excess of 120 AH units.
1062b				35%	75%	25%	N	£10,100,000	24.08	19.33	£12,325,490	
1073a	Farnworth	0.61		0%	75%	25%	N	£310,000	24.16	20.03	£591,337	Well placed site. Site size together with clearance costs and foundation implications may limit quantum of AH delivered.
1073b				5%	75%	25%	N	£155,000	24.09	20.25	£398,610	
1074a	Kearsley	0.49		0%	75%	25%	N	£135,000	24	20.09	£439,927	Suitable housing site, however blight of telecoms (line of sight required to operate) together with clearance costs and potential remediation from previous uses is likely to prohibit any AH yield.
1094a	Middle Hulton	3.91		35%	75%	25%	Y	£2,650,000	24.13	19.57	£4,143,265	Well placed traditional housing site that is capable of providing a full quota of AH.
1095a	Westhoughton	3.77		35%	75%	25%	Y	£2,750,000	24.2	19.65	£4,312,153	Well placed traditional housing site that is capable of providing a full quota of AH.

1105a 1106a 1106b 1106c	Darcy Lever	1.14		35%	75%	25%	Y	£135,000	24.1	20.56	£1,060,036	Good traditional housing site, however drainage issues and access costs may impact upon AH quantum
	Darcy Lever	1.08		5%	75%	25%	Y	£575,000	24.09	19.41	£855,445	Well placed housing site with limit on AH, quantum being potential ground remediation costs to former railway line.
				15%	75%	25%	Y	£465,000	24.1	19.74	£919,460	
15%	75%	25%	N	£705,000	24.03	19.39	£902,983					
1135a 1135b	Darcy Lever	1.14		0%	75%	25%	Y	£905,000	24.07	19.38	£1,319,343	The site sits in a suitable and accessible location, however the former use denotes high probability of contamination and the existing use value of the site is such that little affordable provision will be possible.
				0%	75%	25%	N	£1,200,000	23.98	19.05	£1,296,819	
1139a 1139b 1139c	Great Lever	5.00		15%	75%	25%	Y	£2,650,000	24.05	19.78	£5,527,742	The site sits in a suitable and accessible location, however the former use denotes high probability of contamination and the existing use value of the site is such that little affordable provision will be possible.
25%				75%	25%	Y	£1,650,000	20.13	20.22	£5,271,722		
25%				75%	25%	N	£2,750,000	24.18	20.02	£5,220,747		

5.26 Site No. 1039 has been allocated a 100% affordable housing provision, on the basis that it is derelict and can be argued that unsuitable for any other use, other than for a grant assisted affordable housing conversion scheme.

- 5.27 Finally, the findings of the detailed development appraisals indicate that an affordable housing threshold of **35 per cent** is viable on 14 of the thirty sites – or 46.6%. Certain sites that are able to provide 25% affordable have been downgraded from 35% even though they are Greenfield in nature, as alternative use values are higher. It is therefore likely that a landowner would only commit to delivery of this site if the affordable element of the scheme were in the region of 25 per cent, in order to raise the land value comfortably above the alternative use value level.
- 5.28 Indeed, in cases such as this, whereby there is a fine balance between the viability of a site or otherwise, the council might consider a more flexible tenure mix within the affordable element to that tested in the detailed development appraisals as standard (75% social rented, 25% shared equity). This will have the effect of improving the chance of delivery of the land for residential development, without the need, in many cases, to reduce the quantity of stock delivered. In fact, the development appraisals demonstrate that, in many cases, reversing the tenure split allows an extra 10% affordable units to be delivered on-site.
- 5.29 One other main factor to heavily influence viability in the development appraisals, not previously discussed, is that arising from the inclusion of Section 106 costs. Prior to August 2007, the impact of the S106 costs on viability was insufficient to reduce the land value to a level close to that of the EUV. Post 2007, this scenario has changed dramatically. The Schedule of Appraisal Conclusions demonstrates the impact of these costs on many sites, especially Brownfield. It is also interesting that by withholding a requirement for other S106 contributions, the amount of viable affordable provision on a site can be raised again by as much as 10% i.e. from a contribution of 15% to 25%. Whereas in Table 5.4 we detail the results of the Detailed Development Appraisals, in Table 5.5 we use this information and consider the Existing Use Value of a site, or an Alternative Use Value. With an incentive level of approximately 20%-25% adopted, to provide a practical chance of delivery for residential development, the table demonstrates at what affordable provision level the sites are viable. Those scenarios which are labeled as 'Non-Viable', produce a land value which is too close to or below the EUV or an Alternative Use Value.

TABLE 5.5 - SCHEDULE OF APPRAISAL CONCLUSIONS

Site No	% Affordable	S106?	Approximate Land Value	Viable or non-viable?
8a	5%	Y	£405,000	V
8b	15%	Y	£235,000	N
8c	15%	N	£435,000	V
38a	35%	Y	£440,000	V
38b	35%	N	£705,000	V

43a	25%	Y	£2,285,000	V
43b	25%	N	£3,105,000	V
43c	35%	Y	£1,265,000	N
172a	5%	Y	£590,000	V
172b	15%	Y	£375,000	N
172c	15%	N	£590,000	V
346a	5%	Y	£340,000	V
346b	15%	Y	£225,000	N
346c	15%	N	£320,000	V
587a	35%	Y	£1,280,000	V
587b	35%	N	£1,625,000	V
608a	25%	Y	£555,000	V
608b	35%	N	£505,000	V
632a	25%	Y	£75,000	V
632b	35%	Y	£1	N
632c	35%	N	£135,000	V
703a	35%	Y	£475,000	V
718a	35%	Y	£1,750,000	V
721a	35%	Y	£1,000,000	V
721b	35%	N	£1,350,000	V
743a	35%	Y	£265,000	V
780a	35%	Y	£1,325,000	V
781a	35%	Y	£2,100,000	V
938a	5%	Y	£560,000	V
938b	15%	Y	£380,000	N
938c	15%	N	£460,000	N
954a	35%	Y	£1	N
954b	35%	N	£135,000	V
972a	35%	Y	£335,000	V
972b	35%	N	£605,000	V

1005a	35%	Y	£1,225,000	V
1005b	35%	N	£2,320,000	V
1015a	15%	Y	£605,000	V
1015b	25%	Y	£430,000	N
1015c	25%	N	£605,000	V
1039	100%	N	£1	N
1046a	0%	Y	£1	N
1046b	0%	N	£1	N
1062a	35%	Y	£8,100,000	V
1062b	35%	N	£10,150,000	V
1073a	0%	N	£310,000	V
1073b	5%	N	£155,000	N
1074a	0%	N	£145,000	V
1094a	35%	Y	£2,650,000	V
1095a	35%	Y	£2,750,000	V
1105a	35%	Y	£140,000	V
1106a	5%	Y	£570,000	V
1106b	15%	Y	£475,000	N
1106c	15%	N	£705,000	V
1135a	0%	Y	£940,000	N
1135b	0%	N	£1,200,000	V
1139a	15%	Y	£2,700,000	V
1139b	25%	Y	£1,650,000	N
1139c	25%	N	£2,750,000	V

TABLE 5.6 SUMMARY OF SCHEDULE OF APPRAISAL CONCLUSIONS

% Affordable Thresholds	Viable with S106					Viable with/without S106				
	0%	5%	15%	25%	35%	0%	5%	15%	25%	35%
Brownfield	11	6	1	1	0	11	6	5	1	0
Greenfield	19	19	19	18	14	19	19	19	19	17
Total	30	25	20	19	14	30	25	24	20	17

5.30 The above table demonstrates the point that the impact on site viability from the Section 106 levy, is significant. The table shows that at 15%, just one of the Brownfield sites is viable, although without S106 costs imposed, forty five percent of Brownfield sites are capable of providing 15% affordable. It may well be that many sites have just fallen short of the 15% threshold and that a slight reduction in other S106 costs will be sufficient to lift them above such a threshold. In these situations, dependant on priority of the different S106 contributions, the Council may be able to demonstrate flexibility on such costs to enable delivery of a site at a preferred affordable provision level.

5.31 In this regard, we would suggest that the Council retains an element of flexibility when deciding upon the level of S106 costs, other than those associated with the provision of affordable housing. We would recommend that, especially in relation to marginal Brownfield sites, the Council applies S106 requirements flexibly, based on a detailed understanding of individual site-specific viability. This should be applied alongside affordable need in the area, to create a balance that will not impede delivery. Naturally, the low Existing Use Values associated with Greenfield land, ensure that they can support the full compliment of S106 contributions.

5.32 APPRAISAL RESULTS: SENSITIVITY TESTING AND ALTERNATIVE APPRAISAL SCENARIOS

In order to test the impact that adjustments to cost and revenue inputs have on the viability of schemes, particularly those that are at the limits of viability, we have undertaken a small number of additional appraisals with adjustments to tenure mix and build costs.

5.33 Tenure Mix

The results of the detailed development appraisals undertaken for site 1139 indicate that at an affordable threshold of 15 per cent, this site is at the limits of viability, and thus, should there be any further abnormalities it is likely that a developer may only

commit to a scheme of this nature if the affordable element was reduced, as it would reduce the land value to a level whereby delivery of the land from its owner would be unviable. The detailed development appraisals incorporate a tenure mix of 75% social rented, 25% shared equity as standard within the affordable element of the scheme.

- 5.34 It is clear that at present, the RSLs have no appetite for Shared Equity product, however this might change in the course of the next 3-5 years and, although the emphasis must remain on a need to maintain the 75:25 requirement, this is useful testing of the tenure split for unusual situations where a lesser amount of social rented is applicable and a greater amount of shared equity applicable. In order to assess the impact that changes in the tenure mix has on the viability of schemes which are unviable at higher proportions of affordability, we have undertaken additional appraisals for site 1139 with the following adjustments to the tenure mix:

Scenario 1 – 100 per cent social rented.

Scenario 2 - 85 per cent social rented and 15 per cent shared equity.

Scenario 3 - 75 per cent social rented and 25 per cent shared equity.

Scenario 4 - 50 per cent social rented and 50 per cent shared equity.

Scenario 5 - 35 per cent social rented and 65 per cent shared equity

Scenario 6 - 25 per cent social rented and 75 per cent shared equity.

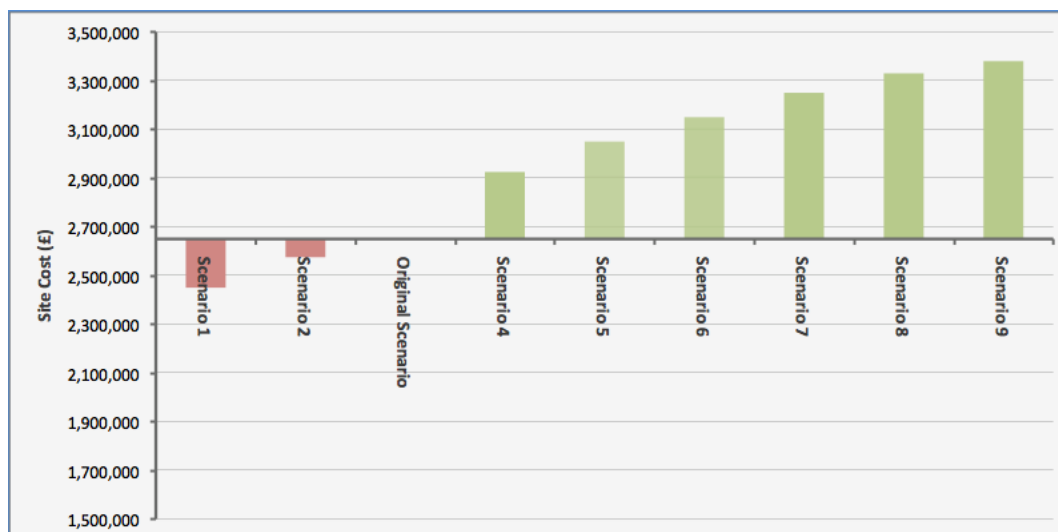
Scenario 7 - 15 per cent social rented and 85 per cent shared equity.

Scenario 8 - 5 per cent social rented and 95 per cent shared equity.

SCENARIO 9 – 100 per cent shared equity.

- 5.35 Graph 5.2 provides a summary of the results of this analysis, and gives an indication of the price that the developer would be expected to pay in order to secure a gross margin in the range of 24 to 25 per cent for each scenario; this price, in turn, is an indicator of the viability of a scheme depending on how close it is to the EUV, plus approximately 20% enhancement in land value (an approximate incentive level to persuade a land owner to commit to agreeing to apply for change of use). The EUV+20% for site 1139 has been valued at approximately £2,600,000, and thus any scenario with a site cost which is close to, or lower, than this EUV in order to secure a gross margin of between 24 and 25 per cent, would be deemed unviable. On this occasion, industrial land values are estimated in the region of £175,000 per acre in today's market. We have again, approached industrial agents to verify our own figures. It is assumed for the benefit of this exercise, that although the net residential developable area is 11.5 acres, the developable area for commercial purposes is the full 12.36 acres.
- 5.36 The original scenario tests a tenure split of 75% social rented, 25% shared equity housing within the affordable element of the scheme; this split required a site cost of £2,650,000 (as indicated in Graph 5.2) in order to secure a gross margin of 24.25 per cent. However, this acquisition cost was only greater than the EUV by approximately 20% and thus the scheme is at the minimum viability level.

Graph 5.2 The Impact of Adjustments to Tenure Split on Site Cost at 15% Affordable Housing – Site 1139



5.37 Of the alternative tenure splits tested, Graph 5.2 demonstrates that the first two scenarios are not achievable given that they require a land cost which is either lower than, or only a minor enhancement of the EUV. This is attributable to the fact that these two scenarios incorporate higher proportions of social rented housing which subsequently generates less revenue than either shared equity or discounted market value housing. More importantly, it demonstrates the amount of flexibility that the Council will be able to exercise, should the viability be impacted by other factors such as abnormals.



5.38 **Build Costs**

The second analysis we have undertaken assesses the impact that adjustments to construction costs will have on the gross margin of a scheme. Whilst the construction costs tend to remain fairly stable - influenced predominantly by the level of demand and the cost of raw materials and labour - we have included an analysis of the sensitivity of the gross margin to changes in such costs in order to illustrate the importance of accuracy when estimating build costs. Indeed, a minor reduction in costs can increase the return on a scheme and subsequently reduce risk and increase viability, thus the Council should ensure accuracy on such cost estimation, as an overly optimistic or pessimistic view will have a significant impact on the viability appraisals. During the stakeholder meeting, our own assumption of build costs was challenged by various housebuilders. It was later discovered that the various housebuilders were taking differing factors into account when estimating their own costs. This has highlighted the need for a 'level playing field'.

5.39 Table 5.5 summarises the results of the sensitivity analysis carried out for Site 1015, incorporating 15 per cent affordable housing, which, it appears at this moment in time, is the maximum proportion this site can viably accommodate. The analysis demonstrates that a reduction in build costs of just 3 per cent, either side, can have a significant impact on the viability of a scheme.

TABLE 5.7

IMPACT OF BUILD COST ADJUSTMENTS ON GROSS MARGIN AND NET PROFIT

Site 1015 - 15% Affordable Housing					
	Scenario	% Change	Build Cost (£ psf)	Gross Margin (%)	Net Profit (£)
 	Scenario 1	15	97.00	14.21	435,238
	Scenario 2	10	92.00	17.51	605,319
	Scenario 3	5	87.00	20.80	787,252
	Scenario 4	3	85.00	22.18	854,498
	Original Scenario	0	82.00	24.10	955,367
	Scenario 5	-3	79.00	26.07	1,056,235
	Scenario 6	-5	77.00	27.39	1,123,481
	Scenario 7	-10	72.00	30.68	1,291,595
Scenario 8	-15	67.00	33.98	1,459,709	

5.40 As one would expect, an increase in the construction costs has a hugely negative effect on the gross margin of the scheme. Such an adjustment would make this scheme less and less viable at 15 per cent affordable housing.

5.41 Summary

The findings of the detailed development appraisals confirm that the method for determining the appropriate level of affordable housing throughout the Borough requires careful consideration, however the approach adopted by Bolton Council is a robust means of working viability. The range of variables that can influence the viability of any given scheme, evidenced by the adjustments we have made to several appraisals by way of tenure mix and build costs, demonstrates the need to assess each scheme on an individual basis, keeping up-to-date on build cost, abnormal costs, interest, margin and revenue data. Therefore, prior to recommending the most appropriate level of affordable housing to be implemented throughout the Borough, we have ensured that the Council has the tools to consider appropriate flexibility to implement affordable housing targets, in line with site-by-site viability.

5.42 The detailed development appraisals indicate that 35 per cent affordable housing is achievable for fourteen of the sites (46.7 per cent), a maximum 25 per cent is achievable on nineteen of the sites, fifteen per cent is achievable on twenty sites and 5 sites can only accommodate 5 per cent affordable housing. There are five sites that presently cannot accommodate any affordable dwellings, however they are considered as a minority faced with high abnormal costs and EUV. Still they do represent a percentage of sites, which may be incapable of providing any affordable housing contribution and the Council should bear this in mind when conducting viability negotiations.

- 5.43 With the above in mind, the findings of the detailed development appraisals demonstrate that a range of between 5 per cent and 35 per cent affordable housing is deliverable on sites located throughout the borough, with the individual site threshold ultimately dependent on variables such as prevailing market values, tenure mix and the scale of development costs. On many Brownfield sites, a case may be applicable for the provision of a lesser figure than the target of 15%, in order to ensure delivery of the residential stock on the site. Alternatively, the Council could consider the reduction of other S106 costs to ensure delivery at 15% affordable.
- 5.44 Undoubtedly, the challenges associated with the delivery of residential development on Brownfield land, are greater, especially in secondary and tertiary areas during the course of the next few years. Naturally, the nature and Existing Use Value of Greenfield land presents fewer challenges and even with a provision of 35% it is likely that land will be released.
- 5.45 Bearing in mind the results of the detailed development appraisals, it is clear that S106 contributions have a significant impact on viability (as demonstrated in Tables 5.5 and 5.6). We would therefore recommend that the Council consider a flexible implementation of its approach towards Section 106 contributions, on a site-by-site basis, in response to a demonstration of viability by an applicant.
- 5.46 At this stage, two conclusions can be provided in relation to affordable housing provision;
- 1) The above analysis has demonstrated that variations in the social housing tenure can have a significant impact on the viability of a scheme. We consider that the Council has the opportunity of considering a reduction in the overall level of affordable housing on a scheme, or an increase in the proportional amount of shared equity, when negotiating with a developer. Based on the needs assessment in the SMHA, the starting point is 75:25, in favour of social rented dwellings. The Council will then consider what is most appropriate on the viability of individual schemes. Naturally, it is better for a scheme to be implemented with a lower overall proportion of affordable dwellings or higher proportion of shared equity housing within the affordable element, than for a scheme to not proceed at all. Graph 5.2 provides us with a view of the impact that such figures have on the viability of schemes.
 - 2) The volatile nature of the property market and the subsequent repercussions these shocks have on development costs is a key factor in determining the viability of a scheme. Thus, it is critical that the council does not apply a blanket threshold throughout the borough, but rather applies a minimum and a headline threshold, which provides flexibility for the Council, during those times when prevailing costs and values do not favour residential development.
- 5.47 Both these points are especially relevant in the case of marginal sites; that is those sites which might incur high abnormal costs, are located in low value areas or have

physical constraints. Many of these sites will undoubtedly be typically Brownfield in nature.

5.48 **IMPLICATIONS & POLICY RECOMMENDATIONS**

The purpose of this study is to inform the development of the affordable housing policy for Bolton Council. Taking into account the findings of the above appraisals, the analysis contained in the SHMA and our wider knowledge of the operation and application of affordable housing policy, we now provide our recommendation for affordable housing targets in Bolton, and an analysis of the policy implication of such targets for the Borough's affordable housing requirements.

5.49 The Bolton SHMA, completed in 2008 and undertaken by David Coultie Associates, indicates that there is a requirement for 380 affordable homes annually in Bolton in order to meet the need identified by the HNS. Based on the SMHA requirement, DCA conclude that it would be reasonable to assume that an affordable housing target of 35 per cent would be appropriate in Bolton, of which a 75 per cent proportion should comprise social rented housing.

5.50 However, David Coultie Associates are keen to state that such targets must be subject to assessments of viability and deliverability, and such assessments are outside the boundaries of their particular study. Hence, this APS study has assessed various scenarios of affordable housing targets in order to test the viability of the scenarios and thus come to a conclusion as to the most appropriate affordable housing target for Bolton.

5.51 Prior to recommending a viable and achievable target for affordable housing in Bolton, we consider what might constitute an appropriate site size threshold. PPS3 sets out the national indicative site size threshold as 15 dwellings; however, the guidance further states that:

'Local Planning Authorities can set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area.'

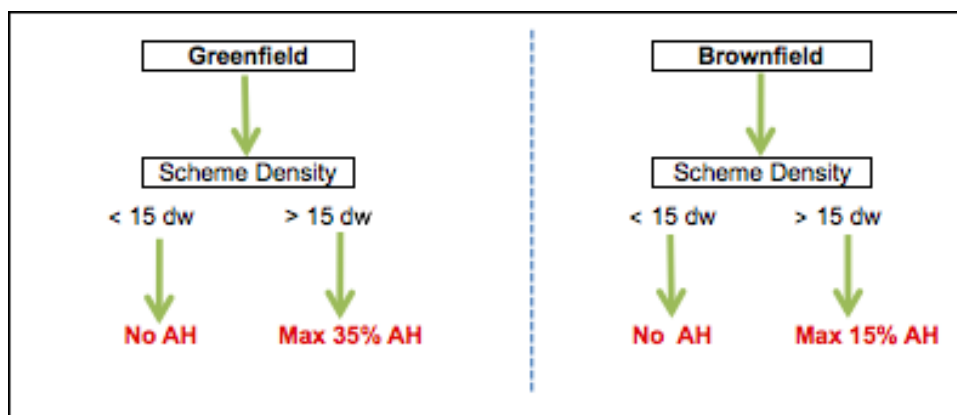
5.52 The findings of the detailed development appraisals indicate that, due to the low Existing Use Values associated with Greenfield land, when targets are set lower for sites of a smaller size on Greenfield sites, then affordable housing provision is still viable and achievable; indeed, viability is more sensitive to development cost, location, density and tenure or development mix than site size thresholds.

- 5.53 Research carried out on similar studies¹² suggests it is often the case that where higher site size thresholds are implemented in a plan area, developers and landowners will opt for lower density development in order to prevent having to provide affordable housing. Again, this reduces the overall potential for affordable housing provision.
- 5.54 The findings of the appraisals in Bolton also demonstrate that the capacity for Brownfield sites to achieve higher levels of affordable housing is limited, particularly on smaller sites located in the urban areas. On this basis, the Council should consider implementing a higher minimum site size threshold for Brownfield sites. This will ensure that on smaller Brownfield sites, where the provision of affordable housing is not viable, developers will not be deterred from redevelopment. This is especially critical given the large number of Brownfield sites located within Bolton.
- 5.55 The quotas currently implemented by Bolton Council are approximately 35 per cent, dependent on the density of a scheme. The findings of the 70 high level site assessments indicate that the two most viable options for the delivery of affordable housing are scenarios 2 and 3; Scenario 2 tests an affordable housing target of 5 per cent, and Scenario 3 tests a scenario of 15 per cent.
- 5.56 The detailed development appraisals undertake a more comprehensive analysis of the seventy sites located throughout the borough in order to determine the level of affordable housing that could be achieved on each site.
- 5.57 The need for affordable housing in Bolton is high - 380 affordable homes annually - and thus we consider that whilst a wholesale target of 15 per cent throughout the Borough would be too low, it would also be inappropriate to apply a blanket target of 35 per cent throughout the plan area given that the results of the detailed development appraisals indicate that 35 per cent affordability is not achievable on all sites, and in particular, Brownfield sites.
- 5.58 Thus, in light of the aforementioned, we consider that the most appropriate guidance for the provision of affordable housing would be to implement a minimum requirement of 5 per cent throughout the Borough, with a headline target of 35 per cent where viable, and on larger sites. This is summarised below, in Figure 5.2.

¹² Greater London Authority (2003) *Thresholds for Application of Affordable Housing Requirements*, Roger Tym and Partners, Three Dragons, Nottingham Trent University and Eilund Morgan.

FIGURE 5.2

FACTORS FOR CONSIDERATION IN DETERMINING AFFORDABLE HOUSING (AH) TARGETS



- 5.59 In determining the most appropriate and viable proportion of affordable housing on a site-by-site basis, the Council should consider utilising the process illustrated in Figure 5.2. This will ensure that the potential for each site to deliver affordable housing is maximised, whilst ensuring that those sites that are incapable of achieving such thresholds do not remain undeveloped due to the unviable implementation of affordable housing on such sites.
- 5.60 We also consider that in weaker market areas, or for those schemes where the viability of providing affordable housing is poor, it would be prudent for the Council to promote a more varied development mix, which may comprise a higher proportion of intermediate housing and a lower proportion of social rented housing. Developments in the past few years have attempted to create a variety of tenure, in order to create a reasonable balance, so that not all developments are 100 per cent social rented within the affordable element. Thus, if the council wishes to increase the proportion of viable and affordable schemes, and a target closer to that recommended by David Couttie Associates of 35 per cent of affordable housing comprising a mix of affordable tenure, then there will be a requirement in certain circumstances for the Council to adopt a more flexible approach to such mixes.
- 5.61 The benefits of such flexibility within the approach to affordable housing provision is evidenced by the analysis we have undertaken which follows on from the detailed development appraisals and which indicates that on marginal sites, in order to increase the chances of deliverability, a more varied tenure mix within the affordable element of the scheme should be permitted.
- 5.62 Taking into account the aforementioned analysis, our policy recommendation for the provision of affordable housing in Bolton is as follows:

Policy Recommendation:

On all Greenfield sites over 15 dwellings, a maximum of 35 per cent affordable units should be sought and applied wherever practicable. In particular, 35 per cent should be sought on sites of higher densities and those within the regeneration areas or areas of high demand. The final level however should be negotiated on the basis of specific site viability to ensure that full affordability potential is reached.

On all Brownfield sites over 15 dwellings, a maximum target of 15 per cent should be sought wherever practicable.

Public subsidy should be sought to ensure that the desired targets are met and to enable the provision of affordable housing on marginal and Brownfield sites.

Affordable schemes should comprise a 75:25 Social Rented to Shared Equity mix of affordable housing tenures; however, on marginal sites the council should be more flexible in terms of tenure mix - i.e. a higher proportion of intermediate housing. In order to maintain the tenure mix, the Council should consider relaxing the other Section 106 requirements. Ultimately, the final tenure split should be agreed with the Council and should respond to local needs.

- 5.63 Whilst there has been criticism of the target based approach (whether numerical or percentage), we consider that it is the most suitable means of maximising the potential for achieving affordable housing within Bolton, whilst ensuring that the delivery of schemes is not hindered as a result of rigid and inflexible policy requirements. In this regard, if there are genuine reasons why the maximum target cannot be achieved on a particular site (e.g. high existing use value, other section 106 costs, physical constraints etc), then it is more beneficial for the site to come forward with a lower proportion of affordable housing than the headline target than not at all. Following such an approach is encouraged in the guidance contained within PPS3, which seeks to ensure a '*flexible, responsive supply of land*'.
- 5.64 Our analysis has proven that Greenfield sites have the capacity to accommodate a higher proportion of affordable housing - and indeed a higher proportion of social rented within this affordable element - given that the existing use value is lower, there are no associated remediation costs and, these sites tend to be located in more rural areas where values are higher and alternative uses fewer.

6.0 SUMMARY AND CONCLUSIONS

- 6.1 The purpose of this study is to inform the development of affordable housing policy for Bolton Council. It is a direct response to test the most viable options for the provision and delivery of affordable housing across the Borough. We have also looked however at individual targets for the provision of affordable housing on Brownfield and Greenfield land, given that the thresholds in the economic viability to deliver on each of these land types are so far apart.

The study has addressed the following issues:

- Potential for the Council to set a minimum site size threshold for the provision of affordable housing and what should this threshold be;
- Determination of the tenure split between intermediate and social rented units, in order to maximise affordable housing delivery and ensure a greater overall proportion of affordable housing;
- Determination of the minimum proportion of affordable housing to be applied to all sites; and
- The maximum target, which is capable of being achieved on larger sites.
- Ability of Bolton Council to assess the viability of sites submitted to the Planning Department for residential Development, utilising up-to-date empirical data.

6.2 SUMMARY High Level Site Assessments

Scenario 1 is viable across 93 per cent of sites in Bolton. Such a high proportion of viability is to be expected given that this scenario does not incorporate any element of affordable housing; indeed, under this scenario, 63 sites achieve the highest score of '5' which indicates 'excellent viability'. However, this scenario would not be an appropriate policy option given the need for affordable housing in Bolton is so high.

- 6.3 The findings of Scenario 2 indicate that a ratio of 5 per cent affordable housing is achievable across 70 per cent of sites. However, whilst a target of 5 per cent affordable housing is achievable on the majority of sites throughout the Borough, again we note that the affordable housing need is high in Bolton, and thus a low target such as this would prevent sites from meeting their full potential in terms of affordable housing provision.
- 6.4 Scenario 3 indicates that under 'normal' market conditions, 68.5 per cent of sites would be viable at an affordable housing threshold of 15 per cent. This makes this an achievable and reasonable target for affordable housing in Bolton. The results of the high-level site assessments applied under Scenario 4 indicate that 66 per cent of sites

would be achievable at an affordable housing threshold of 25 per cent. This is a reasonable proportion of viable schemes, but is below the acceptable threshold of 70 per cent viability, and thus any policy based on this threshold cannot be considered robust.

- 6.5 Finally, the findings of Scenario 5 indicate that 35 per cent affordable housing is achievable across just 51 per cent of sites. We consider that this degree of viability is too low for a blanket affordable housing policy to be set at such a threshold and would not be defensible as one which was considered viable and robust.

6.6 Detailed Development Appraisals

The findings of the detailed development appraisals indicated that 35 per cent affordable housing is achievable for fourteen of the thirty sites, 25 per cent is achievable on 19 sites, 15% is achievable on twenty sites and a further five sites can comfortably accommodate a maximum proportion of 5 per cent affordable housing. The remaining five sites were unable to provide affordable housing due to inadequate size or a mixture of high abnormal costs and proximity to Existing Use Value.

- 6.7 Thus, the findings of the detailed development appraisals demonstrate that a range of between 5 per cent and 15 per cent affordable housing is deliverable on the vast majority of sites located within the borough, with the individual site threshold dependant on variables such as prevailing market values, tenure mix and the extent of development costs. Such appraisals also indicate that Greenfield sites in particular but not exclusively, are able to provide a greater volume of affordable units, should the Council determine to reduce requirements for other S106 costs. Such cost reductions should be considered especially in relation to Brownfield sites, where in the majority of cases, attaining a level of 15% affordable and maintaining delivery of a site, could be challenging.
- 6.8 Additional appraisals were also carried out in order to test the impact that adjustments in tenure split and construction costs might have on those sites that are unable to accommodate higher proportions of affordable housing. The results of this analysis provide us with two critical insights, which should be taken into account when formulating policy on affordable housing:

- The Council must ensure that it remains flexible in its approach to affordable housing, particularly in relation to the overall proportion of affordable housing and on occasion perhaps also the tenure mix, which it promotes within the affordable element of schemes. On this basis, rather than applying a blanket target throughout the Borough, we recommend a minimum and a headline target to enable the Council to be able to respond changing economic circumstances. Moreover, the sensitivity analysis which was carried out as part of the detailed development appraisals has indicated that adjustments to the tenure split or S106 contributions can make the difference between the viability of a scheme or otherwise, and thus the Council should consider the

adoption of a flexible approach to the mix of S106 contributions and affordable housing level it promotes in schemes.

- Secondly, the volatile nature of the property market means that the costs and values related to residential development are constantly fluctuating in response to the peaks and troughs, which occur in property market cycles. Thus, the Council should ensure that the empirical data used in viability assessments is updated regularly, in particular with regard to the scale of costs and margin, in order to ensure that the viability of affordable housing schemes is accurately tested¹³.

6.9 HEADLINE RECOMMENDATIONS

Prior to recommending a viable affordable housing threshold, our study has considered what would be an appropriate site size threshold. Analysis of past permissions in Bolton indicates that many permissions are for schemes of less than 15 dwellings, thus if the Council were to impose a threshold of 15 dwellings on Greenfield sites, as recommended by PPS3, the potential to deliver affordable housing in Bolton might be reduced. Imposition of a lower Greenfield site threshold may deter housebuilders however, as preliminary costs are similar for small sites as they are for medium sized sites and housebuilders may choose to look further afield for more economically viable sites. The findings of the appraisals in Bolton also demonstrate that the capacity for Brownfield sites to achieve substantial levels of affordable housing is limited, particularly on smaller Brownfield sites located within urban areas. On this basis, the Council should consider implementing the same site size threshold for Greenfield sites than for those that are Brownfield in nature.

- 6.10 In this context, and in light of the findings of the viability assessments, we propose that the most appropriate guidance for the provision of affordable housing would be to apply a maximum threshold of 15 per cent throughout the Borough for Brownfield sites of 15 dwellings or more and a maximum target of 35 per cent for all Greenfield sites of 15 dwellings or more.
- 6.11 We also consider that in weaker market areas, or for those schemes where the viability of providing affordable housing is weak, it would be prudent for the Council to consider a more varied tenure mix which may comprise a higher proportion of intermediate housing and a lower proportion of social rented housing. Alternatively the Council could look to amend the S106 requirements on such sites, in order to ensure deliverability.
- 6.12 Our analysis has proven that Greenfield sites have the capacity to accommodate a higher proportion of affordable housing - and indeed a higher proportion of social rented within this affordable element - given that the existing use value is lower, there are fewer associated remediation costs and that these sites tend to be located in more rural areas where values are higher.

¹³ APS and Co are available to provide training to the Council on all elements of viability testing.

- 6.13 Viability is questionable on sites that are located in areas of low demand, sites that have high abnormal development costs and sites that have high Existing Use Values. On such sites, it may be necessary for housebuilders and RSLs to secure gap funding from the HCA and its NAHP.
- 6.14 Furthermore, on marginal sites such as these, we consider that the Council will need to be flexible in its affordable housing targets in order to maximise the potential of residential schemes to provide affordable housing. Such flexibility can be in the form of either allowing adjustments to the tenure mix, other S106 costs or by setting a minimum and a headline target as opposed to a blanket affordable housing target throughout the Borough. In this context we have recommended above, the maximum threshold of 15 per cent throughout the Borough for Brownfield sites of 15 dwellings or more.
- 6.15 The economic downturn is posing significant challenges for residential developers in particular, especially in terms of producing market housing with a suitable return. Thus, it is even more challenging for the private sector to produce affordable housing at present, and therefore they are unlikely to undertake significant development within the current 12 month cycle. The most recent statistics and our own understanding of both the macro-economic environment and the housebuilding industry indicate that whilst we may be approaching the 'floor' of the recession, we are likely to trundle along the bottom and significant growth is unlikely to return to the mainstream until early 2012, irrespective of how soon prices stop falling.
- 6.16 We do not envisage a problem with developers and landowners withholding sites due to an increased affordable housing target, unless existing use mitigates against this. However, it should be recognised that there may be some time lag for the new policy to 'settle' and thus some flexibility in the negotiation process is advocated.
- 6.17 Ultimately, it is critical that viability is tested on a case-by-case basis. This will ensure that the full potential of each site to provide affordable housing is maximised, and, that developers are not deterred from development of Brownfield sites that are unable to accommodate such housing.