

**“STUDY CONCERNING THE
ECONOMIC VIABILITY OF PROVIDING
AFFORDABLE HOUSING”**

**Undertaken in connection with the emerging
Local Development Framework**

Completed on behalf of Wigan Council

by

District Valuer Services

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EXECUTIVE SUMMARY

District Valuer Services (DVS), part of the Valuation Office Agency, has been commissioned by Wigan Council to produce financial appraisals in respect of a number of proposed residential sites across the Borough to determine the ability of development sites to support a level of Affordable Housing.

The Council wished to test viability for a range of sites in a variety of development circumstances and an appraisal approach was undertaken that would permit this reflecting a prescribed level of affordable housing and housing mix, in keeping with the housing needs study recommendations. A list of sites was randomly selected, with the aim of testing sites in a variety of geographical locations. This would enable more general conclusions to be drawn about the viability implications locally of differing scenarios.

The sites are all 'real' and their individual characteristics, any anticipated abnormal costs, etc. are taken into account in the appraisals. However, the sites are not specifically named or identified in order to avoid prejudicing any potential planning application which, by its nature, will involve more detailed data and will be viewed on its individual merits.

The valuations and appraisals were agreed to be as at 1 April 2010. The appraisals have been tested for sensitivity analyses, to allow for changes in market prices ranging from 10% below and up to 20% above, those current at this date. This approach reflects the long-term nature of the proposed Policy and the potential for changes in potential viability based solely on improvements in the general market for housing.

It is important to stress that the prescribed 'test' developments designed to meet the Council's combined planning policies do not necessarily match any future actual development. Accordingly no dialogue has been entered into with landowners or developers (in respect of the specific sites) in carrying out this study.

A total of twenty sites were identified and appraised for the study. Having considered the sites and any development proposals for them where they existed, we considered actual/notional development schemes for each site, which would meet the current and proposed Local Development Framework objectives. These schemes included the full provision of affordable housing as required in the Consultancy Brief.

We considered assumptions in respect of development costs and other financial and site assumptions required to carry out the appraisals. Abnormal costs were assumed to arise on a number of the sites. Appropriate assumptions were made to determine the building programme for each site.

Development appraisals were produced for each of the twenty sites. The approach used was to determine the level of developer's profit on revenue, after taking into account the costs of development including the proposed Affordable Housing requirement; the likely income from sales; and an appropriate level of value for site acquisition having regard to the market conditions and/or the existing and alternative use value of each site.

A level of profit on revenue of 18% on the Market Value element of the scheme was considered 'viable' reflecting, in the appraisals, the nature of the development and its associated risks. A 'marginal' result gave developer's profit in the range 15-18%.

The results reflect the current uncertain property market, at current levels of value, the study shows the sites overall do not provide sufficient viability for a recommendation, at any level, of affordable housing.

When a relative increase in margins of 10% is factored into the appraisals, (“110% Margins”) then 13 of the 20 sites become viable or marginal, at an affordable home percentage provision of 20%; when the target is increased to 25% affordable provision this is viable or marginal on 12 of the 20 sites; and at a 30% affordable housing content, 9 out of 20 sites are either viable or marginal.

The context to this increase in viability is that a 10% ‘increase in margin’ has been calculated by inflating the house prices by 10%. However it is important to understand such an increase does not mean a 10% increase in house prices only, it means a 10% increase in house prices *relative* to all the other variables affecting development cost. In simple terms this could mean a 10% increase in house prices whilst all other variables (e.g. costs) remain static.

The viability picture also improves when development density is increased on the sites. The study shows that the larger the site the more likely its ability to deliver and support affordable housing, however it also shows small schemes can prove viable with affordable provisions, therefore a different target on the grounds of site size would not be recommended.

Consideration of the results using the 110% data, is in our opinion reasonable within the context of the plan. It is clearly appropriate to take account of likely house price growth across the plan period to 2026.

Current market commentaries are mixed and it is impossible to predict when a return to higher house price sale levels will occur, which will make the sites ‘viable’. A reasonable estimate could be that to achieve the 110% level i.e. a 10% increase in developer margin, may take at least three to four years.

Taking into account the above, we would recommend an aspirational affordable housing contribution target of 25%

This recommendation is based on the results produced by utilising the 110% data. Of the 20 sites tested 12 were viable or marginal with 25% affordable housing provision . An increase of 10% in margins as stated above, is considered reasonable in the context of the plan period and the current, exceptional, depressed state of the market. This 25% target also reflects the split of affordable housing tenure types outlined in the Report.

We would further recommend that the LDF allows for sites to be considered on an individual scheme-by-scheme basis with a full viability appraisal, if necessary.

In addition, we would recommend regular revision of the viability appraisals (ideally on an annual basis), to establish whether the main assumptions, particularly in respect of sale prices and costs, have been subject to fluctuation. In the event that the parameters have moved to any significant degree it may be appropriate to review the affordable housing contribution target.

1 INTRODUCTION

1.1 Introduction

DVS, part of the Valuation Office Agency, has been commissioned by Wigan Council to produce financial appraisals in respect of a number of proposed residential sites across the Borough to determine the ability of development sites to support a level of Affordable Housing.

The appraisals have been designed to assess the impact, on development viability, of the requirements for provision of Affordable Housing at various levels. The Council is producing a Local Development Framework ('LDF') which, when adopted, will serve as the statutory strategic spatial development framework for the Borough until 2026.

This study is a document which will be used in arriving at an aspirational target for affordable housing, within the LDF. It is not intended, nor should it be used, as a basis for any individual case being considered. In arriving at an overall target there will be sites which will perform better than the average and those that perform less well but the study will provide a reasonable target aspiration from which affordable housing policy may be derived.

1.2 Brief

The Council wished to test viability for a range of sites in a variety of development circumstances and an appraisal approach was undertaken which would permit this reflecting a prescribed level of affordable housing. A list of sites was produced, with the aim of testing sites in a variety of geographical locations and each having different attributes. This would enable more general conclusions to be drawn about the viability implications both locally of different scenarios and to produce a general target, for Affordable Housing, for Wigan Council as a whole.

The valuations and appraisals reflect an agreed valuation date of 1 April 2010. The appraisals have been tested for sensitivity analyses to allow for changes in market prices (as a proxy for changes in development margins) in 10% intervals ranging from 10% below and up to 20% above those current at this date. These percentage variations have been chosen to give a reasonable range of potential market changes. Variations outside these parameters are likely to require more detailed analysis of all the variables and their interactions. This approach reflects the long-term nature of the proposed Policy and the potential for changes in viability based solely on improvements in the general market for housing.

1.3 DVS

DVS (District Valuer Services), part of The Valuation Office Agency, provides valuation advice to public bodies throughout England, Wales, and Scotland. It has extensive experience in carrying out development appraisals and employs specialists in commercial and residential development work, together with dedicated environmental and quantity surveyors to assist in appraisal work. In the last few years, Councils have increasingly commissioned us to assess the viability of development schemes in relation to their ability to support affordable housing and other obligations arising in the planning process.

2 DEVELOPER CONSULTATION

As part of the study process, a consultation workshop was held at the DW Stadium, in Wigan on 9 March 2010. A copy of the Agenda, minutes and attendees (parties identified by the Council as having a potential interest in the study) is attached in Appendix 3. Attendees included; developers, house builders, planners, consultants and Registered Social Landlords (RSL's).

The 'Agenda' outlined the main processes undertaken, together with assumptions and basic methodology, and the final aims of the study. Comments were invited on these points and any other issues that the parties deemed important.

The parties were invited to comment on the process and given the confidential nature of some of the information discussed were provided with our contact details should they wish to make additional comments.

The topics and issues discussed at the meeting are summarised below, in brief :

Which sites should be chosen for the studies?

- A random site selection from whole Borough was agreed, although there was a suggestion for to policy to concentrate on areas where affordable housing is in short supply.

Affordable Housing

- Registered Social Landlords (RSL's) comment that current difficult market conditions mean it is now easier to get on board with developers;
- Developers feel that financially they struggle to make Affordable Housing pay, and raised concern that pepper-potting (incorporating affordable housing amongst private schemes) does not work.
- Developers confirm that Socially Rented homes are bought for 35 - 45% of full Market Value and intermediate affordable housing at 65% - 70% of Market Value.
- The viability study will assume no grant. Grants are often site specific and not able to be worked into the study. It is accepted that developers often rely on grants to make affordable housing pay.
- The difficulty mortgagees face securing finance on intermediate affordable housing dwellings. The lender limits exposure by require larger deposits, reduces the ability to sell these properties quickly. Suggestion to include a rate of sale and how long it takes to dispose of the Shared Ownership properties has been incorporated in the appraisal.
- Some developers feel the policy should be changed from a rigid percentage to a commuted sum, however as a commuted sum would suppress the land value, this benefits the developers ability to make profit and does not promote the building of affordable homes. This would also go against government recommendations.
- Discussion on size of Affordable Housing, developers feel these should be smaller to minimise the build costs. However new space standards discourage this and conclusion reached for this study was to use the same sized dwellings for the both affordable and general market dwellings.

Density Mix

- Mix of tenure and proportions of Affordable Housing was discussed, Developers prefer a larger proportion of intermediate affordable housing including Shared Ownership or Joint Equity schemes and Discounted For Sale homes, whereas RSL's prefer for a large proportion of Socially Rented houses. Conclusion from the Council to recommend the proportions in line with the housing needs study. A 50:50 split was considered appropriate and adopted in the study.
- Lower densities, 12 dwellings per acre/ 30 per hectare is preferred, this is down from current policy of 40 per hectare. A mode of 30 dwellings per hectare was used on the majority of appraisals.
- Number of bedrooms, it was expressed that there is no demand for 1-2 bedroom homes, the main new build market is for the larger units (family homes). Also the majority of stock in Wigan is 2-bedroom terrace, so new developments need to cater for people moving up from this market.
- Two-storey housing is preferred, the market has moved away from high density 3 storey, equating to less square feet per acre.

Appraisal Inputs

- Use of BCIS index for base build cost was not disputed. The main issue related to compliance with various new guidelines for sustainable homes and the likely increase to build costs. It was agreed to incorporate increasing build costs to reflect Code 3 (and beyond) standards.
- There is no differential between the private and social building standards, the same build costs have been adopted for both.
- Sales and marketing overheads are accounted for in the appraisals.
- Finance costs and arrangement fees have been reflected in our appraisal. A 6.0% rate of interest has been used. This rate incorporates the moving trend for developers to now borrow on a rolling year to year programme rather than per scheme basis, as finance rates tend to be more favourable.
- Land values. Developers expressed concern that land will not be released to the market at amounts significantly lower than the previous 'market' rates. We have considered this and reflected some of these views in arriving at figures for land costs in the appraisals.
- Profit - Developers stated that much higher profit levels are currently required to reflect the increased risk. Our figures reflect a reasonable profit assuming a more 'normal' market than currently exists and bearing in mind the long period covered by the LDF. This lies within accepted ranges.
- Section 106 agreements were discussed, the planning team agreed to provide details of the likely costs; aside from Affordable Housing, infrastructure, and open space contributions have been incorporated In the appraisals.

Whilst we recognise that many of the issues discussed could be the subject of lengthy discussion, our conclusions are provided in this Report (a number of which answer comments received). In particular, we would stress that a number of our assumptions reflect the long-term nature of the LDF rather than representing a 'snap shot' of present day conditions.

3 INDIVIDUAL DEVELOPMENT SITES

3.1 Introduction

The Council identified a total of twenty one real and representative sites for assessment in this study. The sites were not 'selected' but a list was produced following a sampling procedure from an existing list of sites within the Councils Strategic Housing Land Availability Assessment (SHLAA). Following removal of 'unique' special sites, random selection of sites in each of the ten townships was undertaken by Wigan Council. Details of this random sampling mechanism are provided in Appendix 2. The number of sites in the sample size was considered to ensure sites of all size ranges, types and in all market areas were represented. This also allows the study to consider existing threshold points for affordable housing.

This section considers the key characteristics of the individual sites, together with the assumptions made about the proposed development for the purposes of producing appraisals.

The sites are of varying sizes and have differing current uses, although nearly all are 'brown-field', this is a primarily a reflection of the preponderance of this land type available in the Borough and all sites were considered to be readily able to be connected to all mains services.

The individual sites were inspected in April 2010, and brief descriptions of each site are provided within Appendix 1. The sites are all 'real' and their individual characteristics, any anticipated abnormal costs, etc. are taken into account in the appraisals. However, the sites are not specifically named or identified in order to avoid prejudicing any potential planning application which, by its nature, will involve more detailed data and will be viewed on its individual merits.

We were not asked as part of this study to consider the appropriateness of any other items of developer contributions.

3.2 Existing Data

Planning applications have not been submitted in respect of the majority of the sites, when planning permissions do exist we have had regard to the permitted densities and mix of dwellings when carrying out our appraisals. Upon inspection, we noted no instance of new housing development being underway, complete or nearing completion on any of the sites.

Having regard to the Council's brief, in consultation with Wigan's Planners we arrived upon hypothetical schemes for each site, to meet current planning objectives in terms of density and mix, and have formulated appraisals based upon house price and commercial data from our database of all reported property transactions (supported by wider market investigations), as at the agreed valuation date. Building Cost information has been obtained directly from our internal quantity surveyors and BCIS (the Building Cost Information Service of the Royal Institution of Chartered Surveyors).

In addition;

- No allowance has been made for ecological factors (bats, newts etc)
- Potential site remediation costs, were considered and have been reflected where it is felt the market would do so.
- Being a former mining locality there is risk from a stability perspective, this has been considered on a site by site basis.

3.3 The Sites

Details of the sites identified by the Council are set out in the table below:

Site No.	Description	Gross Land area (Ha)
1	Former Utility site, edge of town centre, retail locality.	0.66
2	Surplus amenity /scrub land	0.33
3	Remediated former colliery site	6.22
4	Back of local authority housing estate.	0.29
5	Existing school site assumed vacant.	2.50
6	Currently garage and haulage yard.	0.34
7	Site of former primary school.	1.30
8	Scrub land	0.74
9	School site assumed vacant.	2.68
10	Small amenity site amongst local authority housing	0.26
11	Major existing developed site, (MED) in the Green Belt.	4.34
12	Reclaimed reservoir site.	0.43
13	MED in Green Belt.	4.12
14	Former showroom, garage and workshops.	0.34
15	Open space on remediated former colliery site.	0.58
16	Vacant school.	0.28
17	Offices.	0.63
18	Scrub land in low value residential locality	0.26
19	Large mixed use site to south of town centre	9.48
20	Back of local authority housing estate	0.34
21	Surplus amenity open space.	1.63

The sites provide a mix of locations and site types, as well as being geographically spread across the ten townships in the Borough.

Following inspection, Site 19, was eliminated from the study. This site has individual complications which are highly unlikely to be replicated elsewhere; these include; a Listed building, abnormal infrastructure costs and inclusion of commercial and cultural uses, also it is a large development which would be subject to phasing, it is felt that its inclusion would only skew the study, which is seeking to consider the generality of sites in the Borough.

In the market place, there will be some variation in the specification of the final dwellings; and in the degree of aspiration for high quality design. Whilst recognising that across the Borough, the Council would aspire to achieve a high standard of urban design, we assumed the sites will be developed to a typical standard specification for Wigan – having inspected the sites we consider that this ‘median’ level of specification is also that accepted by the market in these locations. As a result a single median building cost assumption has been made for the majority of the sites, and this level of specification is reflected in the prices achieved for the individual developments. The exceptions to this rule are Sites 13 and 18. We took the view that the level of specification required by the market in these locations would differ and Site 13 would be developed to a higher design standard than other sites, whilst Site 18 would be developed to a lower design standard. As a result higher/lower building cost assumptions have been made for these sites, although this along with a higher/lower specification is likely to result in higher/lower end values for the development.

3.4 Development Assumptions

In order to test schemes that meet all aspects of present planning policy, we considered the unit numbers and mix to be met by each site. This was done by considering densities proposed in various existing study documents, following guidance from Wigan's planners and policy, our own market knowledge and by consideration of comments on this subject in the Developer workshop.

The prescribed development for each site is set out below:

Site Ref	Appraisal Density (Units) per Hectare (Note 1)	Flats 68 m ² 2 bed	Flats 80 m ² 3 bed	Terraced 80 m ² 2/3 bed	Semi 95 m ² 3 bed	Detached 110 m ² 3 bed	Detached 140 m ² 4 bed	Detached 200 m ² 5 bed	Total units
1	50	-	-	13	14	6	-	-	33
2	40	-	-	-	6	7	-	-	13
3	30	-	-	-	62	75	50	-	187
4	60.5	11	-	7	-	-	-	-	18
5	30	-	-	-	24	31	20	-	75
6	35	-	-	-	12	-	-	-	12
7	30	-	-	-	10	14	15	-	39
8	30	-	-	-	10	8	4	-	22
9	30	-	-	-	30	40	10	-	80
10	40	-	-	10	-	-	-	-	10
11	22.2	-	11	-	20	45	20	-	96
12	30	-	-	-	-	7	6	-	13
13	10	-	-	-	10	10	15	9	44
14	40	-	-	6	6	2	-	-	14
15	40	-	-	23	-	-	-	-	23
16	55	-	-	5	10	-	-	-	15
17	35	-	-	8	14	-	-	-	22
18	45	-	-	12	-	-	-	-	12
19	40	-	-	-	-	-	-	-	379
20	35	-	-	12	-	-	-	-	12
21	30.5	-	-	20	30	-	-	-	50

Note 1: Density adopted reflects guidance from Wigan Planners and takes account of existing planning permissions where they exist, regard has been had to individual site characteristics in terms of topography, developable area, the necessity for estate roads, local market demands for types of dwellings etc.

The property sizes tested have been derived from guidance provided to RSLs. The densities reflect planning guidance and are related to net site areas, they also reflect any particular site difficulties which result in lower densities due to difficult topography, limited developable area (such as MED site restrictions) etc.

It is recognised that the eventual developers of each site will form their own views on what the appropriate unit type mix is but, for the purposes of consistency, the following unit types have been tested across both the affordable and private tenure homes: 2/3 bed terraced house at 80 sq.m; 3 bed semi detached house at 95sq.m; 3 bed detached house 110 sq.m; 4 bed detached house 140 sq.m, 5 bed detached house 200sq.m.

The mix of dwellings focuses mainly on the need for larger family housing, as expressed by Developers through consultation and consideration of current dwelling types in the Borough, where there is a significant amount of existing stock of two bed terraced dwellings; and an over supply on 1 bed apartments, in recent times

In our consultations with Developers and RSLs, the point was reasonably made that the general market housing and the affordable housing would be of similar size for 2/3 bedroom properties but that 4 and 5 bed properties would be smaller (around 120 sq. metres for a 4 bed), for the affordable homes, as historically has been the case. Although, the vast majority of the housing mix is 3 bedroom we have included 4 and 5 bedroom housing where we feel those particular sites would command them. It is true a larger detached house results in higher value however, given the mix on each site it is thought that the study conclusions would not be materially affected by varying the size of the affordable dwellings.

The housing mix, to a large extent, reflects the comments made at the Developers' workshop in terms of current house types 'demanded' by the market where there is less need for 1/2 bed properties.

The final 'mix' does not impact on the overall viability assessments which calculates on floor areas and could equally be based on an overall developed floor space per hectare using unit rates for sale price per square metre of accommodation.

In recent times 'market' housing provided by developers has meant an increased built area (square metres) per hectare through 3 storey construction and inclusion of apartments, both of which result in greater site density. However developer workshop and market research shows there is a trend to move from the three storey housing back to traditional two storey detached homes. The densities used in the appraisals for this study reflect this, and are generally at the lower end of those achieved in recent times and PPS 3 expectations, and also reflect the reduced provision of any apartment type dwellings on any of the sites. In order to further consider this, the viability model also incorporates analysis based on the assumption of additional 10% and 20% floor space density, accounting for previous density trends.

3.5 Affordable Housing Assumptions

It is recognised that Wigan Council's existing policy concerning the provision for affordable housing is more reserved when compared with other authorities. The purpose of this was to promote development of small infill sites. In Wigan the 2006 development plan states that schemes under 25 houses do not have to include any affordable housing, and the level of affordable housing provision at 20% as set out in the Supplementary Planning Document (SPG).

In accordance with the brief, our appraisals assume that there will be a requirement to provide affordable housing on each site, even those small sites where current policy does not require provision (as detailed above). The affordable housing is assumed to be tenure neutral but for valuation purposes a notional split is taken - 50% social rented and 50% intermediate affordable housing (shared ownership or discounted for sale).

The 2008 Housing Needs Study recommendations were :

The key recommendations of the Wigan Housing Needs Study 2008 (commissioned from DCA.) in regards to affordable housing are that:

1. *There is an affordable housing need of 417 dwellings per year in the Borough.*

2. *That there should be a 35% provision of affordable housing on suitable sites, subject to site viability.*
3. *That 50% of affordable housing should be for social rent and 50% for intermediate housing.*
4. *That the PPS3 national indicative minimum threshold of 15 units should be applied and possibly less, subject to testing the increased level of supply which would result from applying a lower threshold to the SHLAA.*

In discussion with Council Officers it was stated that the '50% for intermediate affordable housing' figure would be more appropriately classified as either discounted for sale or shared ownership affordable housing.

In our discussions with Developers and RSL's, it is clear that, developers have historically been reluctant to work in conjunction with the RSL's for mixed schemes. The general consensus amongst developers is that 'pepper-potting' (mixing the affordable homes in amongst the privately sold homes) does not work and deflates the value of the estate. Whilst this is a separate issue which is not addressed within this viability study, national and regional planning policy strongly supports the concept of integrated, mixed, developments, and over the period of the LDF this is expected to be the case in Wigan. From a viability perspective, we have assumed that such mixed developments will occur and that RSL's and Developers will work together, with the RSL's contributing at a similar level as elsewhere. Current market conditions and the availability of grants have given RSL's leverage to get on board with developers becoming increasingly more involved in schemes.

The affordable housing has been assumed to be sold by a Developer to a RSL. We have adopted an approach based on information from the consultation with the house builders and developers and from evidence of other housing viability studies. We have assumed that an RSL could reasonably be expected to pay a Developer an average of 40% of Market Value for social rented properties and 70% of Market Value for discounted for sale homes. This does not preclude the affordable homes being sold on directly to an occupier with a similar discount for sale with resale restrictions in place.

Each of the tested schemes assumes that no Social Housing Grant has been offered in support of the development of affordable housing. This is a conservative approach and effectively results in the Developer receiving lower payments from the RSL, for the affordable housing content in the hypothetical appraisals, meaning that viability is more difficult to achieve. In the present climate availability of grant funding is uncertain and difficult to anticipate as grants are awarded on a case by case basis, and therefore it was considered inappropriate to test viability with that assumption.

If/when grant funding is available RSL's will be able to pay Developers sums nearer to Market Value which will improve their ability to provide more affordable housing, whilst maintaining viability. For specific planning applications it is recommended that the availability of grants should be incorporated into the appraisal to ascertain the deliverability of affordable housing on that site.

Another hurdle surrounding the provision of affordable homes is the ability potential buyers' face to raise mortgages on intermediate affordable housing. We have not involved financial advisors in our consultations here, but drawing on the responses we received elsewhere and from wider anecdotal evidence, it is clear that risk and return are the factors that most influence lenders, and in the current climate the emphasis is firmly on risk.

Given this and the wider misunderstanding of shared equity schemes by lenders, it is not surprising that obtaining a mortgage on affordable homes is difficult. This is a challenge affecting the whole of the UK. It is difficult to envisage a time when lenders will offer mortgage products specifically designed to suit planning policies, so unfortunately the onus has to fall upon Councils to make s.106 agreements clear and flexible, and perhaps offer assistance to any would be mortgagees experiencing difficulty. Most specifically, this would involve finding out exactly what the mortgagor is objecting to and seeing what options for resolution are available. Despite the resource needed to provide the necessary assistance (whether simple explanation of the s106 agreement to the mortgagor/mortgagee or review of its wording) this can be a worthwhile investment of time to ensure the deliverability of affordable homes.

4 OTHER DEVELOPER CONTRIBUTIONS

4.1 Other Developer Contributions

The Council has notified us that there is S.106 requirements for a financial contribution towards open space, of £1,317 per dwelling for schemes under 99 dwellings, and where a scheme exceeds 99 dwellings, there is a requirement to provide open space equivalent to 25 square metres per dwelling plus a financial contribution in lieu of play equipment provision and to cover commuted maintenance costs. Currently the contribution equates to almost £1,133 per dwelling for schemes over 100 dwellings. These contributions have been accounted for as section 106 payments.

There are a number of sites which will require highways improvements if they are to be developed for housing. Guidance has been sought from the Highways department of the Council in connection with the works and estimated cost of the road works has been factored into the individual appraisals where appropriate.

One site, site 13, requires a contribution towards public transport improvements. Even though it is a low density scheme, its location in the green belt has prompted this request, a contribution amounting to 1% of the gross development value has been stipulated towards public transport improvements on this site, accounted for as section 106 payment.

No other developer contribution requirements in respect of each site have been allowed for in our appraisals.

Whilst other payments may be required on particular sites, dependant upon specific local needs, e.g. education, the Council have stated affordable housing will remain a priority. There may be instances where this is not the case, e.g. where infrastructure is required without which no development can take place, but these will be limited.

Community Infrastructure Levy may become an additional factor during the period of the Plan. However, at this stage it is not operational and it is difficult to gauge what impact it may have. For this study we have made no allowance for CIL although any future review (as recommended) will need to take changes in policy on this matter into account.

5 LOCAL MARKET CONDITIONS

5.1 Introduction

This section provides an assessment of local market conditions. This provides the basis for the assumptions on house prices used in the financial appraisals for the twenty sites. Where appropriate, the values enable a calculation of the alternative use values of the sites, against which to assess a threshold land value sufficient to allow the proposed development to proceed.

5.2 General Comments

In support of this exercise, we have considered values specific to the test sites identified. It is important to stress that a series of factors will influence values and that, although development schemes do have similarities, every site is unique to some degree. Consequently, whilst market conditions in general will broadly reflect national economic circumstances and local supply/demand factors, within an area there will be particular localities and site-specific factors that generate different values and costs. The range of sites tested in this study seeks to assess viability across varying localities for this reason.

The comments below relate to prevailing market conditions at the 1 April 2010 valuation date. It should be stressed that values fluctuate and that assessments of viability can alter over relatively short periods of time.

5.3 The Financial Appraisal Model

Development appraisals are in essence relatively straightforward and can be illustrated by the following equation:

$$\begin{array}{r}
 \text{Completed Development Value} \\
 \text{Less} \\
 \text{Development Costs (Land Acquisition + Construction + Fees + Finance)} \\
 \text{Equals} \\
 \text{Residue for Developer's Profit and Risk}
 \end{array}$$

5.4 The Residential Market

The Metropolitan Borough of Wigan is a conurbation of many former mining towns, it is an established commercial centre lying on the western edge of the Greater Manchester conurbation some 18 miles west of Manchester city centre. The principal town lies roughly halfway between Manchester and Liverpool. The whole district has over 300,000 residents (2001 census) and benefits from excellent road communications with the M61, M6 and M62 motorways and the main East Lancashire A-Road (A580) all situated within the borough.

Wigan is well known as a former coal producing / mining area. During the Industrial Revolution, the canal network resulted in a dramatic economic expansion and a rise in the population, creating a series of townships and the modern day metropolitan borough was formed. This stretches from Standish, Shevington and Orrell in the north and west to include, Ashton-in-Makerfield, Golborne, Lowton, Leigh, Astley, Tyldesley, Atherton, Westhoughton, Aspull, and more centrally Platt Bridge and Wigan.

Today the majority of the collieries and spoil heaps have been cleared and redeveloped or replaced by landscaping and green developments. There have been many housing developments in recent times throughout the borough.

Each of the test sites and developments has been assessed having regard to new build sale prices, where available, or by reference to general value levels obtained from our database of all property sales. We have assessed the property values on both a unit-by-unit basis and with reference to wider sale price trends of new build houses.

In undertaking this exercise, all the subject sites and their surrounds were inspected. During our inspection we noted a number of ongoing and recently completed housing developments in the locality. From these we obtained current asking prices and from our research were able to note prices actually achieved, on sales around the valuation date. From this extensive list of comparables, we attributed values in each of the locations for use in the appraisals.

As a result, the following typical prices for the market housing are reflected within the appraisals. We consider them to be fair and reasonable and fully reflective of each of the local markets considered. The prices reflect the size of dwellings detailed in section 3.4.

5.5 Valuations

All the figures reflect conditions as at the valuation date of 1 April 2010. In order to test viability over the longer term, our analysis has been based on market values at this date and through a range of value from 90%, up to 120%, of these April 2010 levels. The values adopted are shown in the table below

Valuations							
Site Ref	Flats 2 bed £	Flats 3 bed £	Terraced 2/3 bed £	Semi 3 bed £	Detached 3 bed £	Detached 4 bed £	Detached 5 bed £
1	-	-	110000	130000	185000		
2	-	-	-	130000	185000		-
3		-	-	140000	195000	230000	-
4	95000	-	105000	-	-	-	-
5	-	-	-	155000	185000	240000	-
6	-	-	-	140000	-	-	-
7	-	-	-	130000	175000	225000	-
8	-	-	-	130000	175000	225000	-
9	-	-	-	155000	190000	235000	-
10	-	-	110000	-	-	-	-
11	-	115000	-	135000	195000	235000	-
12	-	-	-	-	165000	210000	-
13	-	-	-	155000	200000	270000	375000
14	-	-	120000	140000	170000	-	-
15	-	-	112000	-	-	-	-
16	-	-	105000	125000	-	-	-
17	-	-	105000	135000	-	-	-
18	-	-	95000	-	-	-	-
20	-	-	110000	-	-	-	-
21	-	-	120000	130000	-	-	-

Appraisals reflect current conditions, with a move away from apartments and dense developments, 3 bedroom flats at Site 11 reflects existing planning permission

6 ASSUMPTIONS FOR VIABILITY ANALYSIS

6.1 Introduction

This section considers the costs and other assumptions required to produce financial appraisals for the individual sites.

6.2 Development Costs

6.2.1 Construction Costs

Following consultation advice from VOA quantity surveyors and taking into account recent published build cost data, we have established a current base price per square metre for construction costs for residential development in the Wigan area. The build costs have been taken from the Royal Institution of Chartered Surveyors' Building Cost Information Service (BCIS), which calculates build costs based upon actual tender and build price information.

The base figure adopted for the majority of appraisals is £763 per square metre for houses. This is the median cost for all new housing mixed scheme developments is provided within the BCIS report, as at the second quarter of 2010 when adjusted for the Wigan location. By its nature this is a generalised figure (the lowest rate recorded in the BCIS Report is £502 per square metre. and the highest is £1,598 per sq.m.), as specific developers will have different priorities. Exceptions from this rate include schemes of wholly terraced housing where the median taken from the same index is £668 per sq. m; and the executive 'high end' sites where the upper quartile of £775 per sq. m has been adopted. A build cost of £796 per sq. m has been adopted for the apartments.

During the Consultation exercise various 'build costs' were mentioned, as well as reference to figures agreed within the 'Three Dragons Model.' As part of our individual viability assessments a number of Developer appraisals have been considered, provided in support of discussions on viability tests on individual sites, which support the figures adopted. In view of this evidence and the comments made above, we are comfortable that the figures we have used are fair and reasonable.

It use to be that affordable homes could be built more cheaply than market value homes. However in our experience the current costs of affordable housing do not significantly differ from those used for the market housing due to the stringent requirements of Lifetime Homes and Development Quality Requirements required by the RSL's. We have therefore used the same build costs for both the affordable and market value homes.

The UK Zero Carbon Hub (ZCH) have tested the cost implications of a range of build specifications as part of their "Defining a Fabric Energy Efficiency Standard for Zero Carbon Homes" paper and whilst there are clear cost implications of the Code, we are not aware that the ZCH has specifically and explicitly tested against the various levels of the Code for Sustainable Homes.

At the Developer workshop figures of between £5,000 and £10,000 per dwelling were suggested for compliance with these issues. The Communities and Local Government department have produced their own cost analysis of the Code for Sustainable Homes. They concur that increases in build costs were likely, and in 2008 estimated increases of £2,922 to £5,027 per dwelling (Medium case). Subsequent requirements have increased from this estimate. However, there is an argument that technology advances through improving the materials and efficiency the cost of compliance could be reduced, the report estimated by as much as 16% to 25% by 2016.

In addition to the above it is important to note that BCIS data often comes from RSL development schemes, publically funded developments (or those on public land) are increasingly required to have been built to Level 3 of the Code for Sustainable Homes, Lifetime Homes Requirements, therefore the higher build specifications are already reflected in the BCIS figures.

In view of the preceding paragraphs and the variability of cost amongst dwelling types and sizes adopted an addition of 10% to the base build cost, for all properties, has been made in respect of achieving a standard of Code 3 Sustainable Homes. For an average semi detached house of 95 square metres adds £7011 to the build cost. This amount has been verified by our Quantity Surveyors as representative of the increased obligations the Codes warrant and, is within the range suggested by the developers in the forum. Therefore we consider it to be a fair and reasonable allowance for the Code issue.

6.2.2 Other Normal Development Costs

In addition to the build costs in terms of per square metre as described above, an allowance needs to be made for a range of infrastructure costs – roads, drainage, and services within the site; parking, footpaths, landscaping and other external costs; as well as off site costs for drainage and other services.

Many of these items will depend upon individual site circumstances and can only be estimated following a detailed assessment of each site. This is not practical within the scope of this study and therefore, based upon the experience of our Quantity Surveyors, a general allowance in relation to the build costs has been made. For basic external works (gardens, fencing etc.) to the dwellings an addition of 5% has been made; for estate roads, incoming services etc. a further addition of 5%-20% has been made. Finally, a 5% addition has been added for 'contingencies'.

6.2.3 Abnormal Development Costs

The information provided to us together with site inspections indicated that exceptional or abnormal costs could arise on some sites. Whilst not having detailed information in respect of these elements we have made a broad estimate of the likely scale of abnormal costs for each site. Typically, abnormal costs would constitute items such as unusual site levelling, additional foundation costs where ground conditions are poor, provision of roundabouts/traffic lights for site access, cost of remediation for contaminated sites, etc.

We have not undertaken investigations regarding the availability and capacity of existing utility services, which was considered to be beyond the scope of this study. We have, therefore, assumed that such services are available and adequate for each of the sites.

It may be that in the future when discussions take place on actual sites, that provision of services will be an 'abnormal' cost (if such services are not readily available or require significant infrastructure contributions) and will need to be reflected in the viability of the particular site under consideration. Full underground mining subsidence report has not been carried out.

We understand that numerous settlements in the Borough do currently have stability issues regarding former colliery works but consider that this will affect each of them on an individual basis. Where abnormals connected with mining works are known this has been incorporated into the study.

6.3 Land Values

In order to meet the Council's goals for the delivery of affordable homes, a clearer, more focused and evidenced policy is being formulated and we have reflected this in our assessment of the available evidence. This will necessitate a revision to landowner/developer price expectations of land.

The land values adopted reflect an opinion of the level required for the land to be released onto the market for residential development. This may well be lower than transactions in the recent past, and although regard has been had to historic land sale prices, our appraisals are based on market conditions at the 1st April 2010 valuation date, with affordable housing requirements, and assumes the land is acquired at the date of valuation.

Evidence of land values at the present time is limited. Anecdotal evidence of asking prices suggests that landowners' price aspirations remain firm. Whilst there is some greater flexibility on price, our market research suggests that distressed landowning vendors are rare and most of the major land-holders are content to "land bank" their sites and await an improvement in the property and wider economic climates.

Establishing the level at which a landowner would 'release' development land is subjective. Factors that could be taken into account include individual circumstances (including tax liability), expectations about possible changes in Government policy with regard to section 106 and affordable housing delivery; opinion on the present and future trend in land values.

The general view is that landowners should accept the need to reflect public realm expenses in the land value they receive, and there is a general level of value for development land. This varies depending on the circumstances of each site.

The appropriate value will be that at which the vendor will be minded to sell when comparing the existing use value of the land (plus any premium required to incentivise the vendor to sell) against alternative uses. Such alternatives could be very low, e.g. amenity, premium agricultural land at say £25,000 per hectare, or at a higher level for industrial land say £375,000 per hectare.

Land value is a critical element in any assessment of viability. As valuers, in our opinion, it is too simplistic to state that land value should be, say, 25-30% of Gross Development Value (as has been proposed in some consultation workshops). The land values' percentage of the overall GDV is relative but this is more of a yardstick for the developer, as this percentage will change as other factors change (i.e. development cost, risk, house prices etc.). It also ignores the fact that sites which are considered 'unviable' by developers may theoretically have a negative land value.

Essentially, in arriving at Market Value both parties will first consider what the land is likely to be worth at its highest Alternative Use Value ('AUV') as a residential site and also what its Existing Use Value ('EUV') is.

The AUV informs both sides of the gain being made by the land owner, and the amount of this difference is their incentive to sell. If the incentive is relatively small then the landowner may not be minded to sell or may demand the full AUV. If the incentive is relatively large then the vendor may be keen to sell and the developer will try and take advantage of this by negotiating down the price. In these negotiations AUV and EUV are considered but not with any hard and fast rules and in every case each party will make their own assessment of what is an appropriate incentive to sell.

The above valuation methodology has been applied to each site (assessment of EUV and AUV) through the use of comparable land sales evidence and development appraisal modelling. In our Viability Study testing we have assumed land values that offer significant financial incentives (above EUV) to land owners, albeit that they are well below previous figures for residential development land seen in the market.

On this basis we have adopted land values ranging from £250,000 to £800,000 per hectare. In our opinion these figures are able to provide a “life changing sum” which would incentivise a landowner to sell and provides accurately for the reality in the market place at the valuation date.

For the majority of ‘green field’ sites we have adopted a rate of £250,000 per hectare, ten times the premium agriculture value. On previously developed and utilised sites, values reflect the existing use ranging from £500,000 to £800,000 per hectare. This rate has also been used on the very small sites to reflect the need for a reasonable total price for the land to give the incentive for a disposal.

Where there is a current use on the site then the value in that existing use will be the base value to the vendor (plus a possible addition to incentivise the move, as discussed above), which will need to be paid to induce the occupier to release the land for development. In some cases the landowner could also be the developer (for example, a farmer with surplus land) and, in that situation, could decide to ‘release’ the land at a nominal sum and take his profit through sale of completed dwellings, thus improving potential viability.

This is an important factor that was considered in relation to some of the sites when forming views on the appropriate land release value, where the existing use value sets a minimum site value for residential development. In those circumstances making the site viable for alternative residential development appears very difficult, even across the range of conditions we have considered. On four of the five sites with EUVs of over £400,000 per hectare, it can be seen that affordable housing provision is not viable. Nonetheless, these are representative of a number of sites in the borough and it is important to include them as part of the sample.

A couple of the sites are either landlocked or would need the co-operation of a third party to create a suitable access. We have not, generally, made any allowance for extra costs in these cases but have assumed that the main landholding would share some of its ‘value’ with the third party to create a developable site, and that it would not impede the valuation.

6.4 Fees

We have assumed professional fees (Architects, Quantity Surveyors, Planning Consultants, Engineers, etc) amounting to 10% of build costs.

Professional fees can vary greatly from scheme to scheme, and from discussions and negotiations with developers (including at planning inquiry) fees are usually below 12% and as low as 5% of build cost. From our evidence we feel that 10% is fair and reasonable, in addition this fee level was discussed at the forum and not disputed.

6.5 Financial and Other Appraisal Assumptions

(i) VAT

It has been assumed throughout this study that VAT either does not arise or that its effects can be ignored.

(ii) Interest rate

Our appraisals assume a finance rate of 6% for outgoings. We are aware, from the workshop, that this is considered 'low' and that finance can be difficult to obtain at 'any rate'. However, we concluded this rate, at 5.5% above base, is consistent with developer appraisals available to us, and consider it to be reasonable in the context of the exercise being undertaken.

(iii) Developers' Profit

We normally assume that a residential developer requires a return of 15-20% return on revenue (Gross Development Value) for Market Housing (private sales) For the purposes of this study we have adopted 18% benchmark to test the viability of each development.

The appraisal model assumes that the Developer will construct all the affordable housing for the RSL and charge an 8% 'project management fee' for doing so. This reflects the fact that this element of the development carries little risk as the units are effectively pre-sold. Again this was raised at the Developers forum and not challenged.

The surplus/deficit from the Affordable Housing element is added to the surplus from the market housing element to give a total profit/loss for the scheme. The total profit figure is then calculated as a percentage of the Gross Development Value of the Market Housing element.

Thus, the profit 'hurdle' relates to the hypothetical development achieving a profit of 18% of GDV on the private housing assuming that the Developer also receives a project management fee of 8% of the costs on the affordable housing provided.

(iv) Phasing

For the purposes of this study we have assumed the following development periods, based upon our experience of similar schemes and discussions with our Building Surveyor colleagues.

The expected timeframes reflect the current state of the market and the anticipated take up of housing on new developments. These have been informed by discussions on take up rates in the Developer Workshop.

DEVELOPMENT PHASING TABLE				
Site No.	Description	No of dwellings	Development Period (Months)	Land Ownership (Months)
1	Former Utility site, edge of town centre, retail locality.	33	18	24
2	Surplus amenity /scrub land.	13	12	18
3	Remediated former colliery site.	187	72	78
4	Back of local authority housing estate.	18	12	18
5	Existing school site assumed vacant.	75	48	54
6	Currently garage and haulage yard.	12	12	18
7	Site of former primary school.	39	24	30
8	Scrub land .	22	18	24
9	School site assumed vacant.	80	48	54
10	Small amenity site amongst local authority housing.	10	12	18
11	MED in the Green Belt.	96	48	54
12	Reclaimed reservoir site.	13	12	18
13	MED in Green Belt.	44	24	30
14	Former showroom, garage and workshops.	14	18	24
15	Open space on remediated former colliery site.	23	18	24
16	Vacant school.	22	18	24
17	Offices.	12	12	18
18	Scrub land in low value residential locality.	15	12	18
20	Back of local authority housing estate.	12	12	18
21	Surplus amenity open space.	50	24	30

6.6 Site Acquisition and Disposal Costs

(i) Site holding costs and receipts

The development is assumed to proceed immediately and so other than interest on the site cost during construction, no allowance has been made for holding costs, or indeed any income arising from ownership of the site.

(ii) Acquisition costs

Acquisition Costs include stamp duty at a the 1 April 2010 rates i.e. of 4% for sites in excess of £500,000 and an allowance of 1.5%, for acquisition agents' and legal fees.

(iii) Disposal costs

Sales/promotion and legal fees are assumed to amount to 4% of receipts with no separate allowance for marketing costs. In some larger schemes there may be increased marketing costs through show homes and media marketing to maintain sales rates, but we feel this will be offset by reduced fees to agents. An overall figure of 4% is therefore considered reasonable across all schemes.

7 RESULTS OF VIABILITY ANALYSIS

The main objective of this study is to assess the Economic Viability of providing Affordable Housing. The results are discussed in the next section of this report. The below colour coded summary table indicates whether the target developer profit of 18% can be achieved based on an affordable housing provision of 20%, 25%, 30%, 40% and 50% and adopting the density on each site as originally set out.

KEY:

✓ Viable	Developer's Profit greater than 18%
M Marginal	Developer's Profit between 15% and 18%
Unviable	Developer's Profit less than 15%

Summary Results: WIGAN COUNCIL Affordable Housing Viability Study

Site Ref.	No. of Units	Margins at 1/4/10 100%					Increase of 10% Margins 110%					Increase of 20% in Margins 120%				
		Affordable Housing Content					Affordable Housing Content					Affordable Housing Content				
		20%	25%	30%	40%	50%	20%	25%	30%	40%	50%	20%	25%	30%	40%	50%
1	33	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	M	Unviable	Unviable	Unviable	Unviable
2	13	Unviable	Unviable	Unviable	Unviable	Unviable	✓	✓	✓	M	Unviable	✓	✓	✓	✓	✓
3	187	Unviable	Unviable	Unviable	Unviable	Unviable	✓	✓	M	Unviable	Unviable	✓	✓	✓	✓	M
4	18	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	✓	✓	✓	✓	✓
5	75	Unviable	Unviable	Unviable	Unviable	Unviable	✓	✓	✓	M	Unviable	✓	✓	✓	✓	✓
6	12	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	✓	✓	✓	✓	✓
7	39	Unviable	Unviable	Unviable	Unviable	Unviable	✓	M	Unviable	Unviable	Unviable	✓	✓	✓	✓	Unviable
8	22	Unviable	Unviable	Unviable	Unviable	Unviable	✓	✓	M	Unviable	Unviable	✓	✓	✓	✓	M
9	80	Unviable	Unviable	Unviable	Unviable	Unviable	✓	✓	✓	Unviable	Unviable	✓	✓	✓	✓	✓
10	10	Unviable	Unviable	Unviable	Unviable	Unviable	✓	✓	✓	Unviable	Unviable	✓	✓	✓	✓	✓
11	96	Unviable	Unviable	Unviable	Unviable	Unviable	M	M	Unviable	Unviable	Unviable	✓	✓	✓	✓	Unviable
12	13	Unviable	Unviable	Unviable	Unviable	Unviable	M	Unviable	Unviable	Unviable	Unviable	✓	✓	✓	M	Unviable
13	44	Unviable	Unviable	Unviable	Unviable	Unviable	✓	✓	M	Unviable	Unviable	✓	✓	✓	✓	✓
14	14	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable
15	23	Unviable	Unviable	Unviable	Unviable	Unviable	✓	✓	M	Unviable	Unviable	✓	✓	✓	✓	M
16	15	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	M	M	Unviable	Unviable	Unviable
17	22	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable
18	12	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	Unviable	M	M	Unviable	Unviable	Unviable
20	12	Unviable	Unviable	Unviable	Unviable	Unviable	M	M	Unviable	Unviable	Unviable	✓	✓	✓	✓	Unviable
21	50	Unviable	Unviable	Unviable	Unviable	Unviable	✓	M	M	Unviable	Unviable	✓	✓	✓	✓	M
Viable							10	8	4			15	14	13	12	5
Marginal							3	4	5	2		3	3	1	1	4
Unviable		20	20	20	20	20	7	8	11	18	20	2	3	6	7	11

The results on a site by site basis, based on the above assumptions, are set out in Appendix 1.

Note 1: The 90% 'Margin' figures are not included in the summary table, (although they are in the Appendix 1 tables) these results indicate for all sites it would not be viable to provide affordable housing at a reduced margin of 90% of current levels.

Note 2: The appraisal calculates exact numbers rather than discreet numbers of units. Overall floor areas are used in the calculations and, if required, could be used in the affordable housing requirement rather than number of units (which may vary in size/type).

RESULTS

The main objective of this study is to assess the Economic Viability of providing Affordable Housing. In our opinion development would be likely to proceed on those sites which are either 'viable' or 'marginal' as illustrated by green and orange cells in the above table.

First considering the '100%' Sale Price figures as at 1 April 2010, the study shows all sites do not provide sufficient viability for a recommendation of affordable housing provision. This is a reflection of the depressed and uncertain property market at the valuation date and is illustrated by the three wholly red columns in 100% section of the above summary table. It is considered reasonable to expect house prices to recover in the coming years, and certainly within the duration of the plan.

However as shown in the middle section of the table (110%) when a relative increase in house prices of 10% is factored into the appraisals, shows;

- at a 20% affordable housing content, 13 of the 20 sites become viable or marginal
- at a 25% affordable housing content, 12 of the 20 sites are either viable or marginal;
- at a 30% affordable housing content, 9 out of 20 sites are either viable or marginal;
- at a 40% affordable housing content, 2 out of 20 sites have marginal viability

Beyond a 40% content the figures are indicative of non viability.

The context to this increase in viability is that a 10% 'sale price' increase does not mean a 10% increase in house prices, it means a 10% increase in house prices *relative* to all the other variables affecting development cost. In simple terms this could mean a 10% increase in house prices whilst all other variables (i.e. costs) remain static. This is how we have tested this variable.

Following on from this, increasing margins by 20% (measured by sale price) would improve the availability to deliver affordable homes significantly, as shown to the right of the summary table, as follows:

- at a 20% affordable housing content, 18 of the 20 sites become viable or marginal
- at a 25% affordable housing content, 17 of the 20 sites are either viable or marginal;
- at a 30% affordable housing content, 14 out of 20 sites are either viable or marginal
- at a 40% affordable housing content, 13 out of 20 sites are either viable or marginal
- at a 50% affordable housing content, 9 out of 20 sites are either viable or marginal

In regards to density changes, as one would anticipate the viability picture improves when development density is increased (as illustrated in the individual appraisal results in Appendix 1). This is to be expected, however caution should be applied as not all sites would be able to accommodate a 20% increase in densities. In many cases, there would be a tension between the viability driver for increased development density and the context of the surrounding community, the immediate existing built environment, design and space standards. These are the sorts of challenges that all stakeholders including developers, policy makers and implementers must address when considering increased densities and in reality each site will throw up its own individual circumstance that will require careful and objective consideration.

The study has considered the impact on viability of a range of densities and site sizes, most of which has demonstrated that viability can be achieved in the majority of sites, if margins are increased from levels at April 2010.

Some sites are unlikely to ever be viable for provision of affordable housing without grant funding. Of the 20 sample sites in this study, there are three sites where no viability can be shown, even at increased margins. The main reasons for this is either due to a high Existing Use Value or because the locations of these sites are situated in a very low value area, which gives rise to a low Gross Development Value (GDV).

TRENDS

We have considered each site individually in terms of land values, development costs and dwelling prices. Clearly, there are varying degrees of correlation between some of the sites, and the higher value localities are more likely to be able to incorporate provision for affordable housing.

The results, of this sample, also indicate that the smaller sites are less likely to support affordable housing with only 2 of the 8 sites with less than 15 units proving viable at 20% 25% & 30% affordable housing provision (a further 2 have marginal viability at 20%).

This study shows viability can occur on small sites and the reason viability is not shown on a large number of the small sites, is not solely the result of the size of these sites but has more relevance to the underlying land value and overall development value. The previous affordable housing policy in Wigan was only applicable to sites over 25 dwellings. There was no requirement for affordable provision on sites less than 25 units. The threshold was established to reflect the amount of officer time expended on implementing a policy and managing applications. This threshold policy aimed to encourage development of difficult small Brownfield or 'infill' sites and was largely supported by the housing industry.

To continue to implement a different policy on small scale developments will be open to criticism given that this study shows that viability can, on occasion, occur on small sites.

Similarly the creation of a different target in different market areas, to promote certain townships having a higher affordable housing requirement than others would not, in our opinion, be a beneficial policy. This was a suggestion from an RSL that wished for a higher requirement in those localities identified as having greater need in the housing needs study.

To have varying policies be it in terms of location or size, will create scrutiny and promote sub-land/property markets within the authority and this may also be contrary to the requirements for an authority-wide affordable housing target based on the need identified in the needs study. It is also unnecessary as each planning application should be considered in isolation, and there would be opportunity for applicants to challenge the aspirational target for affordable housing, as supported by this study, on an individual basis.

Consideration of the results using the 110% data, is in our opinion reasonable within the context of the plan. It is clearly appropriate to take account of likely house price growth across the plan period to 2026, given established historic house price trends. House price growth over the last 50 years equated to 273% in real terms (i.e. after allowing for retail price inflation), a year on year average figure of 2.7%.

It is accepted by established market commentators that a return to house price growth will occur. Current market commentaries are mixed and it is impossible to predict when a return to higher house price sale levels will occur, and consequently make the sites 'viable'. A reasonable estimate could be that to achieve the 110% level (compared to April 2010), i.e. a

10% increase in developer margin, may take 3 or 4 years. The 120% level is more difficult to foresee and will depend largely upon trends with the other variables, of which land value is a critical element.

In arriving at these figures we have used the split of affordable housing tenure types outlined in Section 3.5 of this report – the split is equal with 50% being available for intermediate affordable housing and 50% for socially rented. This mix has been ascertained from the housing needs study. It is obvious that any change to the proportions of tenure type specified will impact on the results, for example, a greater proportion of intermediate affordable housing will improve viability and a greater proportion of social rented will reduce viability, consequently should the housing needs mix change through the duration of the plan the appraisals should be re-visited.

It should also be noted that RSL's are likely to have a lower profit margin than the level quoted for private sector house builders, and used in our study. As a result of this, it is probable that some of the sites would actually be viable for development solely by social landlords sometimes without Social Housing Grant, as RSL's can have recycled funds that allow them bridge gaps in viability. This has not been tested for this study.

Ultimately, flexibility between the three main delivery stakeholders - Landowners, Developers and the Public Sector (RSLs are included as public sector, although in cases they could move between all three hats) is the key. Historically, flexibility has been expected only from the Public Sector, in particular planning requirements and, whilst it is right to expect a flexible approach, the other stakeholders also need to recognise that they need to be flexible (whether it be on land values, margins etc.). Stakeholders appear to be engaging with this debate, and hopefully this will lead to better delivery of both affordable and private homes.

The inclusion of affordable housing on an estate appears to have been overcome in the majority of locations throughout the Northwest region. In many localities, certainly a few years ago there was a tendency for the affordable housing to be grouped together at one corner of a site, often with a different access road for the general market housing. Although this is not encouraged, it has been a compromise accepted by planners in order to secure affordable housing within a scheme.

Today, whilst there is continued reluctance by Developers to 'pepper pot' schemes, it is largely enforced and accepted, it is understood there are very few 'pepper potted' housing schemes to date in Wigan. The way to ensure integrated schemes is for developers, and prospective purchasers, to be reassured as to the level of quality management undertaken by the social landlords, and this can only be achieved by constructive dialogue between the parties combined with an agreed process to ensure that the developers fears are not realised.

It has been put forward that it would be possible to avoid this issue by use of commuted sum payments yet, whilst this may be appropriate in very small developments (which may be difficult for RSLs to manage, in any event) it is not generally in line with national policies. Clearly, the Planning Authority has the ability to effectively ensure that mixed tenure developments occur in the future through their use of conditions in S106 documentation etc.

It would, however, be relatively straight forward to provide a supplementary note on the appropriate sums to be requested for the provision of commuted sums, should that prove necessary.

If rigorously enforced, any affordable housing policy could restrict the number of sites coming forward for development. On the other hand, a firm affordable housing policy should also help reduce land price expectations amongst landowners, and increase the availability of

land to be developed. Nonetheless if flexibility is not adopted on those sites experiencing genuine, and evidenced, viability issues this could lead to an overall reduction in affordable and open market housing delivery.

7.1 Recommendations

Taking into account the results of the appraisals as summarised above, we would recommend an aspirational affordable housing contribution target of 25%.

This recommendation is based on the results produced by utilising the 110% data, which, as stated above, is considered reasonable in the context of the plan period and the exceptional, depressed state of the market at the valuation date.

We would further recommend that the LDF allows for sites to be considered on an individual scheme-by-scheme basis with an individual viability appraisal.

In addition, we would recommend regular revision of the viability appraisals in this study (ideally on an annual basis), to establish whether the main assumptions, particularly in respect of sale prices and costs, have been subject to fluctuation. In the event that the parameters have moved to any significant degree it may be appropriate to review the affordable housing contribution target.

CONCLUSION

These results meet the objectives of the brief by providing a robust and credible means of determining an appropriate and justifiable affordable housing targets and thresholds in Wigan Borough which can be incorporated into planning policy in the Local Development Framework. The testing of variables for increases and decreases in value and density prepare against future housing market fluctuations and enable Wigan Council to assess the viability of development over time and against various scenarios.

The final point to make is one that has been reiterated through this study and viability testing, and that is the overriding importance of flexibility. A strong policy framework is essential but this should include clear and transparent flexibility in the assessment of each site for affordable housing provision. A clear, fair and flexible policy framework will engender goodwill and will hopefully be reciprocated in flexibility in landowners' price expectations and developers' expected margins. For example; there may be occasions where developers genuinely cannot provide the stated target on a particular site, to show flexibility in these circumstances many planning authorities now require the developer to pay for an independent analysis of the site to confirm- or otherwise- the developers' interpretation. This would be a reasonable and flexible practice for Wigan Council to introduce as soon as practicable, to ensure the optimum delivery of affordable homes on a site by site basis. Should the Council require further information or advice on this matter DVS would be to happy to assist.

Prepared by:

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DVS Property Specialists for the Public Sector

September 2010

SITE 1

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viabile	Greater than	18.00%	
Marginal	Between	15.00%	and 18.00%
Unviable	Less than	15.00%	

Social Housing Grant: 0%

			Sale Price															
			90%				100%				110%				120%			
			Affordable Housing Content															
Density			20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%
Development Density	-	33	-18.21%	-22.71%	-27.86%	-40.73%	-4.91%	-8.49%	-12.57%	-22.80%	5.97%	3.15%	-0.07%	-8.12%	15.04%	12.85%	10.35%	4.10%
	+10%	36.3	-16.23%	-20.60%	-25.59%	-38.08%	-3.12%	-6.58%	-10.54%	-20.42%	7.60%	4.88%	1.79%	-5.96%	16.53%	14.44%	12.05%	6.08%
	+20%	39.6	-14.57%	-18.84%	-23.71%	-35.88%	-1.64%	-5.00%	-8.84%	-18.43%	8.95%	6.33%	3.33%	-4.16%	17.77%	15.76%	13.47%	7.74%

SITE 2

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

		Sale Price																
		90%				100%				110%				120%				
		Affordable Housing Content																
Density		20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	
		Development Density	-	13	3.97%	1.07%	-2.25%	-10.55%	14.73%	12.58%	10.13%	3.99%	23.54%	22.01%	20.26%	15.89%	30.87%	29.86%
+10%	14.3		4.64%	1.78%	-1.49%	-9.66%	15.33%	13.23%	10.82%	4.79%	24.08%	22.59%	20.88%	16.62%	31.38%	30.39%	29.27%	26.47%
+20%	15.6		5.20%	2.38%	-0.85%	-8.91%	15.84%	13.76%	11.39%	5.46%	24.54%	23.08%	21.41%	17.23%	31.79%	30.84%	29.75%	27.03%

SITE 3

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

			Sale Price															
			90%				100%				110%				120%			
			Affordable Housing Content															
			20%				25%				30%				40%			
Development Density	Density		20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%
	-	187	-0.32%	-3.50%	-7.15%	-16.26%	11.04%	8.65%	5.91%	-0.94%	20.34%	18.59%	16.59%	11.59%	28.08%	26.87%	25.49%	22.03%
	+10%	205.7	0.59%	-2.54%	-6.11%	-15.05%	11.86%	9.52%	6.84%	0.15%	21.08%	19.38%	17.44%	12.58%	28.76%	27.60%	26.27%	22.94%
	+20%	224.4	1.35%	-1.73%	-5.25%	-14.05%	12.54%	10.24%	7.62%	1.05%	21.70%	20.04%	18.14%	13.40%	29.33%	28.20%	26.91%	23.69%

SITE 4

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

		Sale Price																
		90%				100%				110%				120%				
		Affordable Housing Content																
Density		20%				25%				30%				40%				
		20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	
Development Density	-	18	-13.49%	-17.64%	-22.38%	-34.23%	-0.84%	-4.10%	-7.82%	-17.14%	9.51%	6.98%	4.08%	-3.16%	18.14%	16.21%	14.00%	8.49%
	+10%	19.8	-12.72%	-16.82%	-21.50%	-33.21%	-0.15%	-3.37%	-7.04%	-16.23%	10.14%	7.64%	4.79%	-2.33%	18.71%	16.82%	14.66%	9.25%
	+20%	21.6	-12.09%	-16.14%	-20.78%	-32.36%	0.42%	-2.75%	-6.39%	-15.46%	10.66%	8.20%	5.39%	-1.64%	19.19%	17.33%	15.20%	9.89%

SITE 5

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viabe	Greater than	18.00%	
Marginal	Between	15.00%	and 18.00%
Unviable	Less than	15.00%	

Social Housing Grant: 0%

		Sale Price																
		90%				100%				110%				120%				
		Affordable Housing Content																
Density		20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	
Development Density	-	75	3.06%	0.13%	-3.23%	-11.61%	13.92%	11.74%	9.26%	3.04%	22.80%	21.25%	19.47%	15.03%	30.21%	29.17%	27.98%	25.02%
	+10%	82.5	4.21%	1.35%	-1.91%	-10.08%	14.95%	12.85%	10.44%	4.42%	23.74%	22.25%	20.55%	16.28%	31.07%	30.09%	28.97%	26.17%
	+20%	90	5.17%	2.38%	-0.82%	-8.80%	15.82%	13.77%	11.43%	5.57%	24.53%	23.09%	21.44%	17.33%	31.79%	30.86%	29.79%	27.13%

SITE 6

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

		Sale Price																
		90%				100%				110%				120%				
		Affordable Housing Content																
Density		20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	
Development Density	-	12	-10.42%	-14.30%	-18.73%	-29.82%	1.87%	-1.15%	-4.60%	-13.24%	11.93%	9.61%	6.96%	0.33%	20.31%	18.58%	16.59%	11.63%
	+10%	13.2	-8.48%	-12.23%	-16.52%	-27.24%	3.62%	0.71%	-2.61%	-10.91%	13.52%	11.30%	8.77%	2.44%	21.76%	20.12%	18.25%	13.57%
	+20%	14.4	-6.87%	-10.51%	-14.67%	-25.08%	5.07%	2.26%	-0.95%	-8.97%	14.84%	12.71%	10.28%	4.20%	22.97%	21.42%	19.64%	15.19%

SITE 7

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable	Greater than	18.00%	
Marginal	Between	15.00%	and 18.00%
Unviable	Less than	15.00%	

Social Housing Grant: 0%

		Sale Price																
		90%				100%				110%				120%				
		Affordable Housing Content																
Density		20%	30%	40%	25%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	
Development Density	-	39	-2.71%	-10.11%	-19.97%	-6.16%	9.04%	6.41%	3.41%	-4.11%	18.66%	16.70%	14.47%	8.87%	26.68%	25.28%	23.68%	19.68%
	+10%	42.9	-1.80%	-9.07%	-18.76%	-5.19%	9.87%	7.29%	4.35%	-3.01%	19.41%	17.50%	15.32%	9.86%	27.36%	26.01%	24.46%	20.60%
	+20%	46.8	-1.04%	-8.20%	-17.74%	-4.38%	10.55%	8.02%	5.13%	-2.10%	20.03%	18.17%	16.03%	10.69%	27.93%	26.62%	25.12%	21.36%

SITE 8

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable	Greater than	18.00%	
Marginal	Between	15.00%	and 18.00%
Unviable	Less than	15.00%	

Social Housing Grant: 0%

			Sale Price															
			90%				100%				110%				120%			
			Affordable Housing Content															
			Density		20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%
Development Density	-	22	-1.03%	-4.36%	-8.17%	-17.69%	10.50%	7.97%	5.09%	-2.12%	19.93%	18.07%	15.93%	10.61%	27.79%	26.48%	24.97%	21.22%
	+10%	24.2	-0.16%	-3.44%	-7.18%	-16.53%	11.28%	8.81%	5.98%	-1.08%	20.64%	18.82%	16.75%	11.56%	28.44%	27.17%	25.72%	22.09%
	+20%	26.4	0.56%	-2.66%	-6.35%	-15.56%	11.93%	9.50%	6.73%	-0.21%	21.23%	19.46%	17.43%	12.35%	28.99%	27.75%	26.34%	22.81%

SITE 9

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

Development Density			Sale Price															
			90%				100%				110%				120%			
			Affordable Housing Content															
			20%				25%				30%				40%			
Density			20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%
-	80		2.85%	-0.11%	-3.49%	-11.95%	13.73%	11.53%	9.02%	2.74%	22.63%	21.06%	19.26%	14.75%	30.05%	28.99%	27.78%	24.77%
+10%	88		3.71%	0.80%	-2.51%	-10.81%	14.50%	12.35%	9.90%	3.76%	23.33%	21.80%	20.05%	15.68%	30.69%	29.68%	28.52%	25.62%
+20%	96		4.42%	1.56%	-1.70%	-9.86%	15.14%	13.04%	10.63%	4.62%	23.91%	22.42%	20.72%	16.46%	31.22%	30.24%	29.13%	26.33%

SITE 10

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable	Greater than	18.00%	
Marginal	Between	15.00%	and 18.00%
Unviable	Less than	15.00%	

Social Housing Grant: 0%

			Sale Price															
			90%				100%				110%				120%			
			Affordable Housing Content															
Density			20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%
Development Density	-	10	-1.70%	-1.36%	-4.86%	-13.60%	12.78%	10.49%	7.88%	1.36%	21.84%	20.19%	18.31%	13.60%	29.40%	28.28%	27.00%	23.80%
	+10%	11	2.70%	-0.30%	-3.72%	-12.27%	13.68%	11.45%	8.91%	2.56%	22.66%	21.07%	19.24%	14.69%	30.15%	29.08%	27.85%	24.80%
	+20%	12	3.53%	0.59%	-2.76%	-11.16%	14.43%	12.25%	9.77%	3.56%	23.34%	21.79%	20.02%	15.60%	30.77%	29.74%	28.57%	25.63%

SITE 11

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

Density		Sale Price																
		90%				100%				110%				120%				
		Affordable Housing Content																
		20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	
Development Density	-	96	-3.96%	-7.41%	-11.36%	-21.24%	7.88%	5.21%	2.17%	-5.45%	17.56%	15.54%	13.24%	7.48%	25.63%	24.15%	22.46%	18.25%
	+10%	105.6	-2.82%	-6.20%	-10.06%	-19.72%	8.90%	6.31%	3.34%	-4.08%	18.49%	16.54%	14.30%	8.72%	26.48%	25.06%	23.44%	19.39%
	+20%	115.2	-1.87%	-5.18%	-8.97%	-18.45%	9.76%	7.22%	4.32%	-2.94%	19.27%	17.37%	15.19%	9.76%	27.19%	25.82%	24.26%	20.34%

SITE 12

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

		Sale Price																	
		90%				100%				110%				120%					
		Affordable Housing Content																	
		Density				Density				Density				Density					
Development Density		20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%		
		-	13	-4.53%	-8.04%	-12.05%	-22.08%	7.17%	4.48%	1.41%	-6.27%	16.75%	14.73%	12.42%	6.66%	24.73%	23.27%	21.60%	17.44%
		+10%	14.3	-3.80%	-7.27%	-11.22%	-21.11%	7.83%	5.18%	2.16%	-5.40%	17.34%	15.36%	13.10%	7.45%	25.27%	23.85%	22.23%	18.16%
+20%	15.6	-3.20%	-6.62%	-10.53%	-20.30%	8.37%	5.76%	2.78%	-4.67%	17.84%	15.89%	13.67%	8.11%	25.72%	24.33%	22.74%	18.77%		

SITE 13

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

			Sale Price															
			90%				100%				110%				120%			
			Affordable Housing Content															
			Density				Density				Density				Density			
Development Density			20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%
	-	29	-0.31%	-3.54%	-7.22%	-16.44%	11.05%	8.61%	5.83%	-1.12%	20.34%	18.55%	16.51%	11.41%	28.08%	26.83%	25.41%	21.85%
	+10%	31.9	1.55%	-1.55%	-5.09%	-13.95%	12.72%	10.40%	7.75%	1.11%	21.86%	20.18%	18.25%	13.44%	29.48%	28.32%	27.01%	23.71%
	+20%	34.8	3.10%	0.11%	-3.32%	-11.88%	14.12%	11.89%	9.34%	2.97%	23.13%	21.53%	19.70%	15.13%	30.64%	29.57%	28.34%	25.26%

SITE 14

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

			Sale Price															
			90%				100%				110%				120%			
			Affordable Housing Content															
Density			20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%
Development Density	-	14	-20.23%	-24.86%	-30.15%	-43.37%	-6.72%	-10.41%	-14.63%	-25.17%	4.32%	1.40%	-1.94%	-10.29%	13.53%	11.25%	8.64%	2.12%
	+10%	15.4	-17.68%	-22.13%	-27.23%	-39.97%	-4.43%	-7.96%	-12.01%	-22.11%	6.41%	3.63%	0.45%	-7.50%	15.44%	13.29%	10.83%	4.67%
	+20%	16.8	-15.55%	-19.86%	-24.80%	-37.13%	-2.51%	-5.92%	-9.82%	-19.56%	8.15%	5.48%	2.44%	-5.18%	17.04%	14.99%	12.65%	6.80%

SITE 15

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

			Sale Price															
			90%				100%				110%				120%			
			Affordable Housing Content															
Density			20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%
Development Density	-	23	-0.56%	-3.85%	-7.60%	-16.98%	10.87%	8.38%	5.54%	-1.56%	20.22%	18.39%	16.30%	11.07%	28.01%	26.73%	25.26%	21.59%
	+10%	25.3	0.43%	-2.79%	-6.47%	-15.66%	11.76%	9.33%	6.56%	-0.37%	21.03%	19.25%	17.22%	12.15%	28.76%	27.52%	26.11%	22.58%
	+20%	27.6	1.25%	-1.91%	-5.53%	-14.56%	12.50%	10.13%	7.41%	0.62%	21.71%	19.97%	17.99%	13.05%	29.38%	28.18%	26.82%	23.40%

SITE 16

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viabile	Greater than	18.00%	
Marginal	Between	15.00%	and 18.00%
Unviable	Less than	15.00%	

Social Housing Grant: 0%

			Sale Price															
			90%				100%				110%				120%			
			Affordable Housing Content															
			Density				Density				Density				Density			
Development Density		Density	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%
			-	15	-14.03%	-18.21%	-22.99%	-34.92%	-1.33%	-4.62%	-8.37%	-17.77%	9.07%	6.51%	3.58%	-3.73%	17.73%	15.78%
+10%	16.5	-12.89%	-16.99%	-21.68%	-33.39%	-0.30%	-3.52%	-7.19%	-16.39%	10.00%	7.51%	4.65%	-2.48%	18.59%	16.69%	14.53%	9.11%	
+20%	18	-11.93%	-15.97%	-20.58%	-32.12%	0.56%	-2.60%	-6.21%	-15.24%	10.78%	8.34%	5.55%	-1.43%	19.30%	17.46%	15.35%	10.07%	

SITE 17

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

			Sale Price															
			90%				100%				110%				120%			
			Affordable Housing Content															
			Density		20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%
Development Density	-	22	-22.97%	-27.77%	-33.26%	-46.99%	-9.19%	-13.04%	-17.44%	-28.43%	2.08%	-0.98%	-4.49%	-13.25%	11.47%	9.06%	6.30%	0.59%
	+10%	24.2	-20.07%	-24.68%	-29.95%	-43.13%	-6.59%	-10.26%	-14.46%	-24.96%	4.45%	1.54%	-1.78%	-10.09%	13.64%	11.38%	8.78%	2.30%
	+20%	26.4	-17.66%	-22.11%	-27.20%	-39.91%	-4.42%	-7.94%	-11.98%	-22.06%	6.42%	3.65%	0.47%	-7.46%	15.45%	13.31%	10.85%	4.71%

SITE 18

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

			Sale Price															
			90%				100%				110%				120%			
			Affordable Housing Content															
			Density				Density				Density				Density			
Development Density			20%	30%	40%	25%	20%	30%	40%	25%	20%	30%	40%	25%	20%	25%	30%	40%
	-	12	-14.11%	-23.08%	-35.03%	-18.30%	-1.40%	-8.46%	-17.86%	-4.69%	9.00%	3.51%	-3.82%	6.44%	17.67%	15.71%	13.48%	7.89%
	+10%	13.2	-13.11%	-21.93%	-33.69%	-17.23%	-0.50%	-7.43%	-16.66%	-3.73%	9.82%	4.44%	-2.72%	7.31%	18.42%	16.51%	14.33%	8.89%
	+20%	14.4	-12.28%	-20.98%	-32.58%	-16.34%	0.25%	-6.57%	-15.66%	-2.93%	10.50%	5.22%	-1.81%	8.04%	19.05%	17.18%	15.05%	9.72%

SITE 20

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viabile	Greater than	18.00%	
Marginal	Between	15.00%	and 18.00%
Unviable	Less than	15.00%	

Social Housing Grant: 0%

		Sale Price																
		90%				100%				110%				120%				
		Affordable Housing Content																
Density		20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	
Development Density	-	12	-3.50%	-6.94%	-10.86%	-20.66%	8.15%	5.53%	2.54%	-4.94%	17.68%	15.73%	13.50%	7.93%	25.63%	24.23%	22.64%	18.66%
	+10%	13.2	-2.42%	-5.78%	-9.62%	-19.22%	9.12%	6.57%	3.65%	-3.64%	18.57%	16.68%	14.51%	9.11%	26.44%	25.10%	23.57%	19.74%
	+20%	14.4	-1.52%	-4.82%	-8.59%	-18.02%	9.93%	7.43%	4.58%	-2.56%	19.30%	17.46%	15.36%	10.09%	27.11%	25.82%	24.34%	20.64%

SITE 21

SUMMARY DEVELOPER'S PROFIT AS VARIED BY CHANGES IN DEVELOPMENT DENSITY AND SALE PRICE

Viable Greater than 18.00%
Marginal Between 15.00% and 18.00%
Unviable Less than 15.00%

Social Housing Grant: 0%

			Sale Price															
			90%				100%				110%				120%			
			Affordable Housing Content															
			20%				25%				30%				40%			
Development Density	Density		20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%	20%	25%	30%	40%
	-	50	-1.79%	-5.17%	-9.03%	-18.67%	9.88%	7.31%	4.38%	-2.94%	19.42%	17.52%	15.35%	9.93%	27.37%	26.03%	24.49%	20.66%
	+10%	55	-0.61%	-3.91%	-7.68%	-17.10%	10.94%	8.45%	5.60%	-1.52%	20.39%	18.55%	16.46%	11.22%	28.26%	26.97%	25.51%	21.84%
	+20%	60	0.38%	-2.86%	-6.55%	-15.79%	11.82%	9.39%	6.61%	-0.34%	21.19%	19.41%	17.38%	12.29%	29.00%	27.76%	26.35%	22.82%

Appendix 1

Individual Site Results

Appendix 2

Details of Random Sampling Mechanism

Appendix 2.

Details of Random Sampling Mechanism

Affordable Housing Viability Assessment: Methodology for Sample Site Selection

The process for selecting the sample sites is described below.

It was sensible to concentrate on sites that have been identified in the Strategic Housing Land Availability Assessment (SHLAA) as being suitable for residential development throughout the life of the plan.

From the existing SHLAA stock of sites, at March 2010, the following were excluded, as explained below:

- All safeguarded land sites not likely to be allocated for development in the Core Strategy i.e. those outside the east-west core plus that at Atherton South;
- The 8 key strategic sites, these are regarded to be unique and have complications that would not be concurrent with a typical piece of land available for residential development in the Borough.
- Major Existing Developed Sites in the Green Belt which the planners consider are unlikely to be developed for housing.
- Sites currently under construction.
- Long term release sites; that are not expected to be released for residential development for at least five years.

DVS Commercial Services had no involvement in the selection of sites, other than an advising the importance of the selection being random. Following the developers consultation where it was agreed that all townships be included, it was decided, that in order to ensure a fair representation the sample would be need to have an equal spread around the Borough.

The Wigan Planning team decided the fairest way would be to select two sites from each of the 10 main townships in the Borough. To do this, each of the township lists were arranged in site size order and the mid-point of that range of sizes identified. This results in two groups of sites for each township; one of large sites and one of small sites.

The final stage in the process was to randomly select one site from each of groups, resulting in one small and one large site being identified for each of the 10 main townships in the Borough. The list of twenty sites with plans was presented to DVS in April 2010 for inspection.

Following inspection of the sites by the DV it was evident that site 19 had to be removed from the study for suitability reasons, as explained in the main report, this was replaced by Site 21, which was also randomly selected by Wigan Planning team.

Appendix 3

Developer Workshop

Agenda, Attendees, and Minutes of Meeting.

AGENDA

Affordable Housing Viability Assessment Workshop

Wigan Developers Forum

Tuesday 9th March

**Coors Lounge
DW Stadium
Loire Drive
Robin Park
Wigan
WN5 0UH**

http://www.dwstadium.co.uk/find_us.php

Agenda

Focus of the meeting is the Viability Assessment for Affordable Housing and Infrastructure the Council has commissioned the District Valuer to undertake.

- 9.30 Arrival –
- 10.00 Welcome and Introductions
- 10.05 Wigan Viability Assessment – part 1
 - Introduction
 - Methodology
 - Affordable housing
- 11.15 Break
- 11.30 Wigan Viability Assessment – part 2
 - Commuted sums
 - Local market conditions
 - Development
- 12.30 Lunch
- 13.15 Wigan Viability Assessment - part 3
 - Land values
 - Viability
- 14.15 Break
- 14.30 Wigan Viability Assessment – part 4
 - Final assessment
 - Policy issues
 - Questions
- 15.15 SHLAA update and matters arising from previous meeting
- 15:30 End

Developer's Forum

9/3/10

Attendance

Annette Dooley	Adactus
Cheryl Foster	Wigan and Leigh Housing
Tony Whitehead	Whitehead and Co
Seb Healey	Redwaters
Chris Cockwill	Cockwill and Co
Dan Thompson	Dpt
A Hedley	Hedley Homes
Lynn Stringfellow	Ancer Homes
Peter Schickoff Brown	Ancer Homes
Andrew Thompson	Morris Homes
Steve Robinson	Wain Homes
Richard Chamberlain	Wain Homes
Philip Helm	Simply Housing
Stuart Ratcliffe	Wigan Council
Angela Durkin	Wigan Council
Eunice Taylor	Bramall Construction
Keith Molloy	Wigan Council
Katie Pierpoint	Plan It Construction
John Hughes	Hughes Bros
Paul Rodgers	Bloor Homes
Peter Layland	Wigan Council
Rob Rawlinson	Acland Bracewell Surveyors Ltd
Paul Smith	Acland Bracewell Surveyors Ltd
Diane Aldcroft	Persimmon Homes
Carl Moore	HCA
Celia Reed	District Valuer Services
Ian Carruthers	District Valuer Services
Steve Winnard	Wigan Council
Martin Stuart	Wigan Council
Mike Worden	Wigan Council

THE WIGAN DEVELOPERS FORUM, D W STADIUM, WIGAN

MINUTES FROM MEETING HELD ON 9 MARCH 2010

Affordable Housing Viability Study.

Appraisal Research.

Introduction

By Mike Worden Head of Planning and Strategy Wigan Council

Open discussion; led by Ian Carruthers DVS

*(Topics raised **in bold**; followed by comments in brief)*

Where are the markets? Which sites should be chosen for the studies?

- Developer - Fragmented market across the Borough, should concentrate on the main market areas.
- Developer - Satellite towns, acknowledge the fact that it is a series of communities and each one has their own market. Important to identify the settlements first.
- Developer - North/south split between the markets – the north = high end market.
- In general it is felt that affordable planning policy pushes development towards the south and the southwest of the borough.
- Developer - Each settlement can have a very varied market, for example in Leigh within ¼ mile between Pennington and West Leigh huge variation in prices and it is very difficult to differentiate if you had a 'one policy fits all'.
- Developer - Suggest 20 sites plus would be needed to give an real overview.

- RSL suggested to concentrate on where Wigan wants the Affordable Housing
 - For example, in Shevington and Standish particular pockets of Leigh that have already been identified. Felt this would work as the RSL can get the money to support development in these areas,

 - Cherry-picking the sites discredited by Wigan Council as they feel the whole of the borough should be included in the feasibility study. This is what is required by planning policy. DV recommends random site selection from whole borough.

- Developer - Suggestion for an inspirational target and a different target in different areas. Will utilise the value of land wherever it may sit.
- Developer feels irrespective of where it is it will all come down to how much it will cost to provide the Affordable Housing on a site.
- Developer - It's difficult to get a general view without regard to specific sites (horse/cart).
- RSL - Need to factor in the Affordable Housing need for each area.
- Developer - Suggestion towards a Development Tax, in that circumstance the developer knows where they are, where they stand for each development. Standardised approach

- Developer - Each development is site specific and it doesn't matter what the policy or the guess-timate is for Affordable Housing if it's always going to be open to change at the development stage. Query over the need/purpose for the study. Attention drawn to Blyth Valley case, necessity for these studies.

Affordable Housing

Registered Social Landlords (RSL) and Developers comments on Affordable Housing in housebuilder schemes;

- RSLs comment that current difficult market conditions mean it's easier to get on board with house builders/developers; however the developers feel that financially they struggle to make Affordable Housing pay.
 - Typically £52,000, £55000 for a 3-bed (HB). For socially rented (roughly 40% of MV)
- Developers do not disagree with DV findings; 35-45% of full Market Value is representative for Social House for rented and 65%/70% of Market Value is representative for intermediate affordable housing in this current market.

Grants

- Persimmon Homes actively work with RSLs (with grant funding), other developers say they wouldn't chose to, but market conditions dictate.
- Most argue affordable provision wouldn't work without grants, too hypothetical and in market grants often subsidise the build costs for Affordable Housing. Viability will be affected if ignore grants; however accept cant know the amount of grant available an uncertain.
- Comments there are very few grants available. HEA targets (Open Regional Targets).
- The viability study will assume no grant because grants are scheme specific, uncertain and impossible to predict the amount in most cases.
- 40- 50% of Market Value does not always cover build costs, particularly where there is no grant funding and regulations move toward environmentally sustainable homes etc.

Provision of affordable housing

- Consensus among the room that it is not the developer's responsibility to provide Affordable Housing. Would prefer not to have to provide it within their schemes.
- Comments from the RSL express it is getting more and more difficult fro people to secure mortgages on intermediate affordable housing. All depends on how much exposure the lender wants on the property. Often require 35% deposits which are much larger than the general open market value properties.
- Does Shared Ownership (intermediate affordable housing) work in Wigan? RSL comment that it's very hard to get wholly Shared Ownership schemes through their Board, there is a larger risk that people can't get mortgages and there is not a guaranteed sale on the Shared Ownership properties so the RSLs are moving away from this due to market conditions, and moving towards Market Rented properties.
- Consensus across the room (developers and consultants) that pepper-potting 'does not work'.
- Devloper comments; on pepper-potted schemes neighbouring properties to the Affordable units are difficult to sell, have to discount these.

Mix of tenure and proportions of Social Housing

- Developers prefer a large proportion of the Affordable homes to be Shared Ownership / Joint Equity schemes, (profit) whereas RSLs prefer for a large proportion of Socially Rented houses. Due to the return
- Housing team will inform the study on the proportions; think its 50:50 but may be more socially rented preferred.
- Developer suggested it's very important to include a rate of sale and how long it takes to dispose of the Shared Ownership properties in the appraisal

- (Marketing time/ security costs/ sales can be up to £10,000 per month on large sites) (elsewhere not a Wigan scheme)

Commuted Sum / Standard Development Tax / Tariff

- Consensus from the Developers they would prefer the policy to change from a rigid percentage to a commuted sum,
- Planners commuted sum would suppress the land value, and benefits developer through the end sale of the house.
- General feel from developers that social engineering doesn't work. As desirable as it may be, it's felt that is not practicable especially in the current market place. If the developer can't make a profit he won't develop the land, in danger of going out of business in an already very tough market place.
- A threshold of small schemes below 25 dwellings where no affordable housing has to be provided is to be looked at again view of PPS Guidance Note 15, Wigan's existing policy is much higher than most other Boroughs, RSLs welcome change.
- RSL usually require a minimum of 6 affordable homes in one site from a management point of view. However depends on at proximity of other schemes that they manage.
- In theory planners would be open to consider a commuted sum instead when talking about low numbers of housing. But it is a national requirement to have a percentage target.
- Discussion on size of Affordable Housing. Developers feel they should be smaller to minimise the build costs. However HEA has space standards. RSLs keen to get involved earlier in the development process as often they are invited to by affordable housing in a development and it isn't suitable.

Density

- 40 dwellings per hectare (currently the policy) where there is no planning permission.
- Developers feel this doesn't work, and PPG3 target is too high. Relies on a high percentage of apartments which are difficult to sell. The Wigan market can't adhere to apartments, they need detached family houses.
- 30 dwellings per hectare preferred, perhaps even lower.
- Need flexibility. Schemes are unique.
- Number of bedrooms, no demand for 1-2 bedrooms. Desire and a larger market for the larger units (family homes). It is difficult to dispose of the 1 bedroom even in the rented sector for the Affordable Housing there is a quick turnaround on the 1 bedroom, they are undesirable.
- Two-storey housing preferred, move away from high density 3 storey. Less sq ft/ acre.
- Looking at 12 dwellings per acre, 30 per hectare for the study.
- The size of a 3-bedroom semi, typically 750-800 ft².
- 4-bedroom detached typically 1100-1200 ft².
- Would only include a garage where localities support them such as Standish and Orrell.
- The majority of stock in Wigan is 2-bedroom terrace, so new developments need to cater for people moving up from this market. No point in building 2 bed apartments or mews; 2 bed and a box-room required for young families.

Local Market Conditions

- Consensus, it's difficult to generalise, there have been marginal improvements from 12-months ago and they don't anticipate any changes in the next few years. No changes in prices, flat market. There's been a slight improvement in the rate of sale. However a long way off the 2007 rate of sales.
- It is felt that surveys for mortgage lending, the mortgage valuers have to provide valuations on a 'forced sale' basis and the lower loan-to-value ratio has meant that cancellation rates are up, due to the difficulty of getting mortgages. New build is a very different market from the second-hand market.
- Estates Agency side reports that instructions have risen, sales agreed have increased. There are questions over effective mortgage lending. The investor market is considered to be ok, however PB buy to lets suffering.
- Discussion on incentives for new build houses. Part exchange is now a vital part of new sale agreements. No confirmation on other incentives.
- The Stamp Duty holiday (December 2009, £175,000 threshold) was positive, obviously depending on the end sale price. No comment on premiums and discounts for first-time buyers etc on the new build housing.
- Most developers would welcome opportunities to comment on a one to one basis on variables such as Market Values they can achieve (build costs and profits) but would not discuss incentives in front of their competitors.
- Discussion about cash flows, five stage payments (Golden brick), where does the money come into the cash flow?
- Generally Wigan Planners advice that with regards to total planning applications over the last 3-years November 2009 was a third down on November 2008 which in turn was 20% down on November 2007. General terms.
- Discussion over extending planning permission life to 5 years.

Methodology and Appraisal Inputs

- Build Costs
 - Opened up to room if BCIS index supportable? Not disputed. Must be up to date.
 - Code 3 (moving forward to 6) (from April 2011 will be 4) DV to get Building Surveyors input on this variable, suggest coding can add £5,000 - £6,000 per unit.
 - After 2011 Code 4 will be required. Comments that this could add £6,000 - £8,000 per unit, this is to the build cost.
 - Did not dispute there is any differential between the private and social building standards, however can only make profit on the private costs. Historic to build social houses cheaper, but strict regulations now.
 - Externals. Service connections. No comment.
 - Contingencies. Developer suggests he would have 2 contingency funds; for abnormals / ground preparation costs and a smaller one for the supply and fix.
 - Willing to discuss build costs on a private basis.
 - Fees 7-10%.
- Additional variables.
 - Concern that DV appraisals do not take account of all overheads,
 - E.g. sales and marketing, on-site cabins, head office costs etc. They have never seen this in the DV appraisal. Upwards of £5,000 per unit on large schemes. So there can be a large difference between the gross profit and the net profit.

negotiations than the landowner would be on price. Developer gave examples of 3 cases where he had amended 106 from the planning permissions.

- Developers are managing to agree land sales without overage clauses in the current market. Comments on the DTZ case where it's proven that the land was bought at the height of the market, a study on the deliverability of the project was undertaken.
- It is felt that each planning application is open to negotiations and general policy guidance can be overlooked for certain schemes.
- Comments on the future of house building where a more environmentally friendly Code 6 etc houses need to be built in the future. Increasing build costs driving down the value of the land was discussed. However developers still feel that landowners of prime sites would not dispose of their land for less than the value to them.
- Concern among the house building sector generally that they can't sustain themselves if they are unable to buy land in the future.

- Abnormals;
 - In Wigan 80% of land is Brownfield.
 - High abnormal costs influence what else developer can afford to contribute, such as affordable.
 - In Wigan mining can have a major impact on value.

Discussion on previous Viability Studies by DV

- Results of previous studies what have DV found to date?
- On today's costs and values the land released value when we run the study generally supports 0% for Affordable Housing; however we are experiencing the worst market conditions in 30-years.
- This policy needs to be extended for the duration of the plan which is until 2026. (With 3 or 5-year reviews). Therefore DV run a series of sensitivity studies at 90, 100, 110 and 120% of sale prices (margins). For example general terms a 30% Affordable Housing policy may be justified if margins were to improve by 10%. However nobody knows when (if) this will happen.

- Comments from developer(s)...
 - "Your studies show private sector is not the appropriate vehicle to provide Affordable Housing unless we are experiencing a buoyant housing market."
 - Sale price not proportional, house price increases by 10% does not mean profit would and now able to provide affordable housing.
 - It is unreasonable to assume that looking ahead build costs would not increase more in relation to other costs with pressures for environmental and sustainable housing such as Code Level 3 or 4 coming into force,
 - Market conditions for house builders are worse than ever and their profits will be eroded.
 - Consensus that (profit) margins will be challenged and stretched.
 - Suggestion to look at, and review, the study from 12-months ago, has the viability changed?
 - One developer suggested that there was a case for using historic data from actual sites where the build costs; sale prices etc were all known. Queries the use of hypothetical sites.
 - Developers would welcome opportunity to comment on the appraisal inputs on a private basis.

- Policy changes all the time, emerging policies such as traffic and air pollution, open public space. Can these be incorporated in the study? Would need to be accounted for.
- There will be a need for periodic reviews in the studies to reflect these changes. DV agrees current known's can be incorporated in the studies and adapted in the future to reflect the fact that policy regime is changing.
- In terms of viability it is agreed that the higher the requirement for Affordable Housing in the policy diminishes the potential for Affordable Housing. Conversely the lower the target is the more likely the Local Authority is to get Affordable Housing.
- Planner's response:
 - Although there may be room for negotiation on the policy and individual schemes, an aspirational target is still desired by the planners and is accepted by the developers.
 - It was not an accident that Wigan Council set a low target for in 2006 Local Plan, they wanted to encourage residential developments,
 - Should the study show it is correct, are committed to dropping the policy on the threshold.
- Are planners flexible on the non-core areas where Affordable Housing is not a priority? would be a individual case assessment
- Suggestion that the SHLAA should be opened up to other options to be able to deliver Affordable Housing e.g. an on-site provision to the value of say 6% of GDV. Rather than say 20% of the development. Developers feel a percentage of GDV would be easier to understand as number of units is harder to negotiate whereas GDVs are easier to establish.

End of Forum

Discussion continued between DVS and Planners

Moving forward with the Study

- Random identification of the sites needed, 80-90% to be Brownfield, 10% to be Greenfield. Need for Wigan to identify the sub-areas to cover every township, to give suggestions towards densities and to include the developable area on each site, to involve Highways and let DV know how much Highways and other statutory obligations will be also be made aware of relevant issues (stability)
- Objective to have the project complete by the middle of May, in view of Core Strategy Meeting on Affordable Housing Council will need the numbers to put this information into the Study. Appreciate the formal report may take longer. Draft report delivery June 2010.