Salford Revised Daft Local Plan

Assessment of residential viability

Salford City Council
January 2019

Contents

1. Introduction

1.1 This strategic assessment of the viability of residential development within Salford (referred to as the assessment hereafter) has been undertaken in order to inform the policy approach within Salford's Revised Daft Local Plan, particularly policy H7 (affordable housing).

1.2 Although this assessment is part of the evidence base for the Revised Daft Local Plan it should be seen as the starting point rather than the only determinant of affordable housing requirements / policy. The assessment is strategic, and does not seek to test the viability of specific sites or changes in viability that occur over time. Affordable housing requirements will need to reflect the spatial vision for the City, including creating a fairer Salford, and also evidence of affordable housing need.

1.3 In producing this assessment, regard has been had to the relevant parts of the 2018 national planning policy framework (NPPF)[1] and the associated online national planning practice guidance (PPG). The viability assessments have been run using the Homes and Communities Agency development appraisal tool.

1.4 This assessment builds on an earlier assessment of residential viability that was produced in November 2016 in support of the city council's Draft Local Plan, and takes into account comments received to it.

Viability of build to rent developments

1.5 This assessment has examined the viability of build for sale residential developments. With regards to the build to rent sector, the national viability planning practice guidance, which is titled "How does viability assessment apply to the build to rent sector?"[2], states that:

"The economics of build to rent scheme differ from build for sale as they depend on a long-term income stream. For build to rent it is expected that the normal form of affordable housing provision will be affordable private rent. Where plan makers wish to set affordable private rent proportions or discount levels at a level differing from national planning policy and guidance, this can be justified through a viability assessment at the plan making stage. Developers will be expected to comply with build to rent policy requirements."

1.6 The planning practice guidance on build to rent[3] explains that 20% is generally a suitable benchmark for the level of affordable private rent homes to be provided with national policy also requiring a minimum rent discount of 20% for affordable private rent homes. This national

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[1] "National planning policy framework" – Department for Communities and Local Government (July 2018).
[2] Para 019. Reference ID: 10-019-20180724
[3] Para 002. Reference ID: 60-002-20180913

approach is reflected in the Revised Daft Local Plan policy on build to rent (policy H8). Given this, and the advice in paragraph 19 of the build to rent planning practice guidance, it is not considered necessary for this assessment to consider the viability of build to rent schemes any further.

2. Viability assessment policy and guidance

National policy context

2018 National Planning Policy Framework

2.1 Paragraph 57 of the National Planning Policy Framework (NPPF) advises that:

> "Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available".

Planning Practice Guidance

2.2 Updated planning practice guidance (PPG) on viability was published on 24 July 2018 and provides details about how the NPPF should be applied. Key points from the guidance relating to plan making are set out below:

1) Policy requirements should be informed by a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of section 106[4]
2) The role for viability assessment is primarily at the plan making stage with the total cost of all relevant policies not undermining deliverability of the plan[5]
3) Plan makers can use site typologies to determine viability at the plan making stage. In some circumstances more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies[6]
4) Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage[7]

[4] Para 001. Reference ID: 10-001-20180724
[5] Para 002. Reference ID: 10-002-20180724
[6] Para 006. Reference ID: 10-006-20180724
[7] Para 007. Reference ID: 10-007-20180724

5) Assessment of costs should be based on evidence which is reflective of local market conditions. Abnormal costs, site specific costs, policy requirements (including affordable housing), and professional fees should be taken into account when defining benchmark land value[8]
6) Benchmark land value should be on the basis of the existing use value of the land (EUV), plus a premium for the landowner. This approach is often known as EUV+, with the premium providing a reasonable incentive for the land owner to sell land for development while allowing a sufficient contribution to comply with policy requirements[9].
7) EUV is not the price paid and should disregard hope value[10]
8) An assumption of 15-20% of gross development value may be considered a suitable return to developers in order to establish the viability of plan policies. A lower figure may be appropriate in consideration of the delivery of affordable housing[11]
9) For build to rent it is expected that the normal form of affordable housing provision will be affordable private rent. Where plan makers wish to set affordable private rent proportions or discount levels at a level differing from national planning policy and guidance, this can be justified through a viability assessment at the plan making stage[12]

2.3 Full regard has been had to the NPPF and associated planning practice guidance in the production of this assessment.

Other guidance on viability testing

2.4 In response to the 2012 NPPF, the Local Housing Delivery Group, a cross industry group of residential property stakeholders including the House Builders Federation, Homes and Communities Agency and Local Government Association, published guidance entitled 'Viability Testing Local Plans' in June 2012. The guidance states as an underlying principle, that:

> "An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered."

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[8] Para 012. Reference ID: 10-012-20180724
[9] Para 013. Reference ID: 10-013-20180724
[10] Para 015. Reference ID: 10-015-20180724
[11] Para 018. Reference ID: 10-018-20180724
[12] Para 019. Reference ID: 10-019-20180724

2.5 The guidance is not prescriptive about the use of particular financial assessment models but advises that a residual appraisal approach which tests the ability of development to yield a margin beyond all the test factors to determine viability or otherwise is widely used and accepted. The guidance sets out the key elements of viability appraisal and the factors that need to be considered to ensure robust assessment.

2.6 In August 2012 the Royal Institute of Chartered Surveyors (RICS) published a guidance note entitled “Financial Viability in Planning’. The guidance defines financial viability for planning purposes as follows:

“An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project. (Where viability is being used to test and inform planning policy it will be necessary to substitute ‘a development project’ into the wider context)”

2.7 The guidance highlights the residual appraisal methodology should be used where either the level of return or residual site value can be compared to a benchmark to assess the impact of planning obligations or policy. Site value is defined as market value having regard to development plan policies and all other material considerations; it does however go on to state that the site value may need to be further adjusted to ensure delivery would not be prejudiced.

2.8 The guidance note encourages practitioners to be reasonable, transparent and fair in objectively undertaking or reviewing financial viability assessments. Where possible, practitioners should seek to resolve differences of opinion.

3. Approach to viability testing

3.1 Residential viability appraisals include a wide range of assumptions about particular schemes / sites, including the capital value of a development (primarily the value realised by selling new dwellings), the cost of developing a site (such as buying the land, and build costs), the profit a developer expects from a particular site, and finance costs.

3.2 Viability assessments can vary significantly with only minor changes in assumptions, and therefore they can only ever provide a relatively broad estimate of the potential of a scheme to support developer contributions via planning obligations. It is important that they are seen in this context as a broad assessment of viability rather than as precise forecasts.

3.3 Having regard to the above and given the advice in planning practice guidance[13], it was not considered appropriate to individually test every site or seek assurance that individual sites are viable. For the purposes of this assessment site typologies have been used based on a range of different development characteristics that reflect the nature of sites coming forward in Salford (in terms of dwelling mix, different residential sales values in the city etc.).

3.4 Such appraisals are not intended to be detailed site appraisals for use in relation to particular schemes, and as such do not reflect site-specific issues which may arise in relation to particular sites (such as for instance abnormal costs). However, the typology approach allows the city council appraisals to make informed judgements and estimates with regard to different variables, and are considered to be an appropriate basis for assessing general levels of viability across the city.

3.5 The city council utilised Version 4.05 of the HCA development appraisal tool (DAT) model to run the viability appraisals. The DAT is a standard valuation model that runs in Microsoft Excel and is freely available to download via the gov.uk website[14]. Full details of the operation of the model are set out in the user manual which is also available from the gov.uk website.

3.6 The viability assessments undertaken by the city council used a form of the residual value technique, although land values were inputted into the appraisals so that the output is actually the residual surplus/deficit. The reason this approach was used is that it enabled the appraisals to identify any residual surplus, after costs including developer profit have been deducted, which would be available to be directed towards policy requirements and planning obligations (including affordable housing).

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[13] Para 003. Reference ID: 10-003-20180724

[14] Homes and Communities Agency development appraisal tool: version 4.05 (November 2017)

3.7 The approach taken by the city council, and the different variables that make up the appraisals, can be summarised as follows:

Table 1 – Approach to calculating scheme surplus/deficit

A	**Gross development value**
A1	Residential sales values
A2	Ground rent per unit per annum
A3	Ground rent yield
B	**Land acquisition costs**
B1	Benchmark land value
B2	Agent fees
B3	Legal fees
B4	Stamp duty land tax
C	**Development costs**
C1	Build costs
C2	Abnormals
C3	Marketing, sales and legal fees
C4	Professional fees (building design fees)
C5	Building contingencies
D	**Finance costs**
D1	Interest rates
E	**Developer overhead and return for risk**
E1	Developer ‘profit’
Overall surplus/deficit available for planning obligations and other policy requirements = A – (B+C+D+E)	

4. Viability assessment assumptions

4.1 Data on the different variables that form part of the appraisals set out below was collated having regard to a number of factors, including:

- Discussions with Urban Vision Property Services
- Development appraisals submitted within Salford in support of planning applications
- A review of other area-wide viability assessments prepared as part of the evidence base for other Local Plans and Community Infrastructure Levy (CIL) charging schedules
- The HCA development appraisal tool and associated user manual (November 2014)
- Publicly available data (such as stamp duty rates and land value estimates for policy appraisals)
- Local Housing Delivery Group – viability testing Local Plans: advice for planning practitioners (June 2012), and other guidance
- Evidence submitted by those making representations on the assessment of residential viability that was part of the evidence base for the Draft Local Plan of November 2016
- The city council's Housing and Economic Land Availability Assessment and annual residential development monitoring

4.2 The following section sets out the different assumptions the city council used to input to the appraisals.

Mix of dwellings (type and number of bedrooms)

4.3 In order to test a broad range of residential scheme types that come forward for development in Salford, three different scheme typologies were defined. These were as follows:

1) Family houses on a 2 hectare site comprising of between 70 to 100 houses at a density ranging from 35 dwellings per hectare to 50 dwellings per hectare. The density of 35 dwellings reflects the requirement in Revised Daft Local Plan policy H6 for all developments to be built at a minimum residential density of 35 dwellings per hectare.

   The density differs by value area[15] given that in practice the type/number of bedrooms of houses will vary between the different value areas. For example, in the higher value areas development will be at a lower density than that seen in lower value areas (given that a greater proportion of larger sized properties will be built in the higher value areas and vice versa). Further details are shown in the table below:

[15] See paragraphs 4.16 to 4.22 below for further details of the value areas.

Table 2- Density and number of dwellings for family houses scheme by value area

Scheme type	Value area(s)	Site size	Number of dwellings
Family houses at 35 dwellings per hectare	Premium and high	2ha	70 houses
Family houses at 37.5 dwellings per hectare	Mid/high	2ha	75 houses
Family houses at 40 dwellings per hectare	Mid	2ha	80 houses
Family houses at 50 dwellings per hectare	Low/mid and low	2ha	100 houses

2) Mid density apartments at 125 dwellings per hectare, comprising 125 apartments on a 1 hectare site

3) High density apartments at 300 dwellings per hectare, comprising 150 apartments on a 0.5 hectare site

4.4 For each of the typologies, Annex A sets out the assumed mix in terms of number of bedrooms and the type of dwellings. These are derived from the broad range of schemes that are likely to come forward for development within the city having regard to:

- A review of recent developments that have been built in the city or are under construction
- Sites with extant planning permission for housing where development has not started
- The type and density of schemes identified in the city council's housing and economic land availability assessment as being developable for new housing in the future.

4.5 Note that the precise mix on actual sites will of course vary on a specific site by site basis.

Size of dwellings

4.6 Having established the mix of dwellings for the each of the typologies, it was necessary to estimate the total floorspace in each, given that the appraisals need to include an allowance for build costs and sales costs on a per square metre basis.

4.7 In order to calculate the floorspace in each scheme typology, the starting point was to make an assumption about the floorspace of each of the dwelling types. For the purposes of the appraisals, the following dwelling floorspaces (gross internal area in square metres) were assumed.

Table 3 – Dwelling floorspace by number of bedrooms and property type

	Terraced	Apartment	Semi-detached (2 storey)	Townhouse (3 storey)	Detached (2 storey)
1 bed	n/a	50sqm	n/a	n/a	n/a
2 bed	74.5sqm	65sqm	n/a	n/a	n/a
3 bed	n/a	86sqm	93sqm	99sqm	107sqm
4 bed	n/a	n/a	106sqm	n/a	120sqm
5 bed	n/a	n/a	n/a	n/a	133sqm

4.8 The assumptions in the table above were developed having regard to the nationally described space standards, which were published in March 2015[16] which set out the minimum gross internal floor areas and storage (sqm) by number of bedrooms, bedspaces (persons) and the height of the dwelling (storeys). The city council has included the requirement for national space standards in policy H5 of the Revised Daft Local Plan and so it is considered necessary for the standards to be included within this assessment.

4.9 The table above is inclusive of an additional allowance of 14sqm for all detached dwellings in the family houses scheme typology, to allow for a single garage. Assuming all detached dwellings have a single garage results in the following proportion of garages by scheme type:

Table 4 – Number of garages in the family houses scheme by value area

Scheme type	Value area(s)	Number of houses	Number of garages	% of houses with a garage
Family houses at 35 dwellings per hectare	Premium and high	70	46	66%
Family houses at 37.5 dwellings per hectare	Mid/high	75	44	59%
Family houses at 40 dwellings per hectare	Mid	80	43	41%
Family houses at 50 dwellings per hectare	Low/mid and low	100	0	0%

4.10 Although it is recognised that in practice not all detached dwellings will have garages, and that some semi-detached dwellings will have garages etc., for the purposes of this area-wide assessment it is considered to be an appropriate assumption The council's assumptions

[16] "Technical housing standards - nationally described space standard" – Department for Communities and Local Government (March 2015, as amended on 19 May 2016)

do not over-estimate the number of garages in new developments particularly when this is benchmarked against developments recently completed or currently under construction in the city.

4.11 Full details of how the floorspaces in Table 3 have been derived are set out in Annex B.

Net to gross adjustment

4.12 Note that the net sales areas adopted for the apartment typologies set out above do not reflect circulation space and other common areas (i.e. access corridors, lifts and stairwells). To ensure that these additional areas are factored into the build cost a net to gross adjustment needs to be made. In other words, the total net sales area for all of the apartments in each site was identified (the net sales area of each flat multiplied by the number of flats), and then an uplift applied.

4.13 The gross to net uplift for the mid density apartment typology was taken as being 15%, with a higher figure of 17.5% being applied to the high density apartment typology. It is recognised that in the market place, there will obviously be some variation in the specification of the final dwellings but the above is considered to be a reasonable assumption having regard to:

- The HCA development appraisal tool states that an allowance of 15% for common areas may be a typical figure
- Viability assessments submitted within Salford as part of planning applications
- A review of other area-wide viability assessment for areas outside of Salford that have been published in support of Local Plans and CIL charging schedules.

4.14 For houses, there are no common areas and therefore a net to gross ratio of 100% was assumed (i.e. net and gross are the same). This approach is recognised as industry standard.

4.15 Having regard to all of the above, the total gross floorspace for each typology is calculated in Annex C.

A. Gross Development Value

A1. Residential sales values

4.16 The Development Appraisal Tool requires that residential sales value data per square metre is inputted. Given this, openly available data from the land registry was obtained for the actual sales value of individual properties across the city (rather than the asking price as had been used in previous work published by the council). This was then cross referenced with floorspace data for those properties from open data contained within Energy Performance Certificates (EPCs).

4.17 The floorspace data from the EPCs does not include garages and so therefore an additional floorspace of 14 square metres was added to the EPC floorspace data for all detached dwellings (with the dwelling type being available from the land registry). This assumption is in line with an additional allowance of 14 square metres being added to the floorspace of detached dwellings in the family houses typology to allow for garages, and is considered appropriate for this plan making stage viability assessment.

4.18 33 areas were identified across the city. Land registry price paid data was identified for properties that were mainly sold between the start of 2017 and the end of March 2018, largely focused on new build residential developments or modern housing developments (completed within the past 10-15 years). For areas of the city where there were a limited number of new build developments or modern housing developments, older dwellings were identified. Where there was a lack of sales in 2017 / early 2018, older sales have been used instead.

4.19 A minimum of 10 residential properties were identified per area, with a total of 725 residential across all of the areas and this is considered to be a satisfactory sample for the purposes of this area wide viability assessment. The schedule of all properties reviewed and a summary of the data by sales value area is set out at annex D.

4.20 This detailed analysis identified a significant range of asking price values across the city. Clear patterns were identified with particular spatial areas having broadly similar typical values. Taking account of this, six broad residential value areas have been identified. These are considered to give a good overall indication of residential values across the city, although inevitably there will be some degree of variance and outliers within each.

4.21 The table below sets out the six defined residential value areas and the range of values within them.

Table 5 – Residential value areas

Value area	Typical values per sqm
Premium	£3,400
High	£2,800
Mid/high	£2,500
Mid	£2,200
Low/mid	£2,000
Low	£1,800

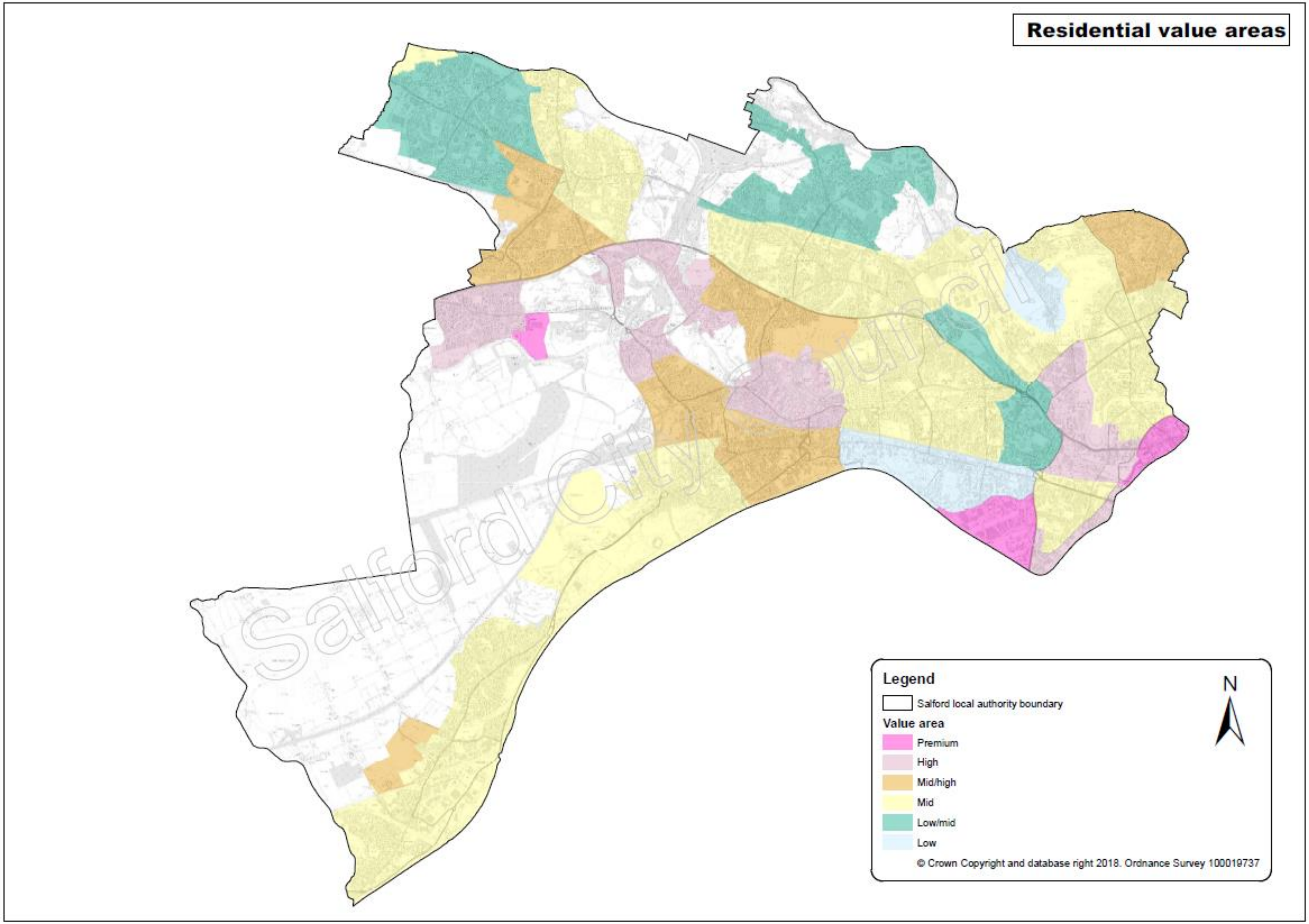
Land in the Green Belt

4.22 The revised draft Greater Manchester Spatial Framework allocates three sites that are currently within Salford's Green Belt for new housing. There is no comparable sales values data available for these sites and so therefore a judgement needed to be made as to what value area they are likely to correspond to, for the purposes of this assessment. Having regard to this, the Green Belt allocations are considered to fall under the sales value area set out below:

- East of Boothstown – Premium value area: the dwellings that will come forward on this site will be to an exceptional quality, targeting the top end of the housing market with the intention of attracting highly skilled professionals. On this basis the sales value of dwellings on the site are going to be reflective of the premium values.
- Hazelhurst Farm– High Value area: the sales values for this site is likely to be the same as the areas that they are adjacent to.
- North of Irlam Train Station – Mid/High value area given that the site is likely to create its own market and will have higher sales values than the areas that it adjoins.

4.23 Other land within the green belt (as proposed as a result of amendments to the boundary through the revised draft Greater Manchester Spatial Framework) are not covered by the value areas. This is due to any such development being by definition inappropriate.

4.24 The plan below identifies the boundaries of the value areas.


Residential value areas
Legend
Salford local authority boundary
Value area
Premium
High
Mid/high
Mid
Low/mid
Low
N
© Crown Copyright and database right 2018. Ordnance Survey 100019737
Salford City Council

A2. Average ground rent per unit per annum (£)

4.25 This was assumed as follows, on the basis of a review of recent housing development within the city and viability evidence submitted to the city council:

- Houses: No ground rent assumed given that the government has said that it will legislate to prevent the sale of new build leasehold houses except where necessary such as shared ownership.
- Mid density apartments: £150 per dwelling
- High density apartments £300 per dwelling

A3. Ground rent yield (%)

4.26 This was assumed to be 5% for all residential appraisals, recognising that ground rent income is a secure investment.

B. Land acquisition costs

B1. Benchmark land value

4.27 As noted above, planning practice guidance on viability was published by the government to accompany the revised NPPF on 24 July 2018. This states that to define land value for any viability assessment, a benchmark land value should be calculated on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+)[17].

4.28 The guidance goes on to state that in all cases benchmark land value should:

- Be based upon existing use value
- Allow for a premium to landowners (including equity resulting from those building their own homes)
- Reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and
- Be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

4.29 The guidance further states that when undertaking any viability assessment EUV can be established by assessing the value of the specific site or type of

[17]Para 013. Reference ID: 10-013-20180724

site using published sources of information such as agricultural or industrial land values. Source of data include valuation office agency and public sector estate/property teams' locally held evidence[18].

4.30 An appropriate level of premium above the EUV is not set out in the guidance although the premium should provide a reasonable incentive for a land owner to bring forward land for development. Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan.[19]

4.31 It is clear from the guidance that the existing land use value benchmarks used to test plan policies can be less than the value at which land is being traded in the market. This point was highlighted in the London Mayoral CIL examiner's report which, although relating directly to CIL, sets out important principles in the treatment of benchmark land values[20]

"Finally the price paid for development land may be reduced. As with profit levels there may be cries that this is unrealistic, but a reduction in development land value is an inherent part of the CIL concept. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges".

4.32 Recent RICS research also highlights the drawback in using market evidence to set land value benchmarks: "If market value is based on comparable evidence without proper adjustment to reflect policy compliant planning obligations, this introduces a circularity, which encourages developers to overpay for sites and try to recover some or all of this overpayment via reductions in planning obligations".[21]

4.33 In May 2018 the Ministry of Housing, Communities and Local Government (MHCLG) published land value estimates for policy appraisal as of 1 April 2017, along with guidance for their use. With regards to residential land values, a figure of £1,345,000 per hectare is set out for Salford. The guidance explains that the figure assumes nil affordable housing and so therefore the figures may be significantly higher than would reasonably be obtained in the actual market. The figure is for a 'typical' site with planning permission where "….no major allowances need to be made for other s106/s278 costs. The site is regular shape, with services provided up to the boundary, without contamination or abnormal development costs, not in an underground mining area, with road frontage, without risk of flooding, with planning permission granted and that no grant funding is available.

[18] Para 015. Reference ID: 10-015-20180724
[19] Para 016. Reference ID: 10-015-20180724
[20] Report to The Mayor of London, by Keith Holland January 2012
[21] RICS, 2015, Financial Viability Appraisal in Planning Decisions: Theory and Practice

4.34 MHCLG also published industrial land values for policy appraisal in May 2018. No specific figure is set out for Salford, although for Greater Manchester figures of £650,000 and £550,000 are given for Manchester and Bolton respectively as of 1 April 2017. The guidance for these values notes that these figures can be used a proxy for developments on brownfield land. It is assumed that they are for a brownfield site in an urban location, services to the edge of the site, use restricted to industrial/warehouse with full planning consent in place, and no abnormal, contamination and/or remediation issues.

4.35 Having regard to all of the above, the city council has been advised by Urban Vision Property Services on appropriate benchmark land values for the purposes of this assessment. These land values are based on the EUV+ approach with the existing use being industrial / employment land that is within an urban location and is brownfield land. The land values differ by the residential value areas used in this assessment recognising that there are differences in what the current use of a site is worth depending on location.

4.36 Although not all land that will come forward for residential development will be on employment land it is considered reasonable to apply the employment values to all of the typologies in this assessment. Whilst other land uses may have a different EUV and could command a higher/lower value, for the purposes of the high level assessment it is deemed proportionate to apply this figure.

4.37 With regards to an appropriate premium that would provide an appropriate premium for the landowner to sell the land, Urban Vision have advised that this should be 20% above the existing use value for the family houses and mid density apartment typologies. A premium of 20% is commonly used on viability modelling across the country (particularly for viability work that has been tested at Examination for CIL). For the high density apartment typology, Urban Vision have advised that the premium should be 30% reflecting the higher premiums required to incentivise landowners to sell their land given such sites will achieve a higher density of development.

4.38 The existing use values per hectare and also the premium required to incentivise a landowner to sell their land that have been used in this assessment are set out below.

Table 6 - Land value by value area: Family houses and mid density apartment typologies

Value area	Existing use value (EUV) per hectare	Premium to landowner (+)	EUV + value per hectare
Premium	£595,000	20%	£714,000
High	£595,000	20%	£714,000
Mid/high	£495,000	20%	£594,000
Mid	£495,000	20%	£594,000
Low/mid	£430,000	20%	£516,000
Low	£370,000	20%	£444,000

Table 7 - Land value by value area: High density apartment typology

Value area	Existing use value (EUV) per hectare	Premium to landowner (+)	EUV + value per hectare
Premium	£595,000	30%	£773,500
High	£595,000	30%	£773,500
Mid/high	£495,000	30%	£643,500
Mid	£495,000	30%	£643,500

B2, B3 and B4: Fees associated with land purchase

4.39 The table below shows the fees associated with the acquisition of a site.

Table 8 – Fees associated with land cost

Cost type	Assumption	Commentary
B2. Agents fees	1% of site value	Assumed at 1% across all residential appraisals, which is a commonly accepted figure, and consistent with the Local Housing Delivery Group advice[22]
B3. Legal fees	0.75% of site value	Industry standard assumption
B4. Stamp duty land tax	• 0% on the first £150,000 of the land value; • 2% on the next £125,000 (the portion from £125,001 to £250,000); • 5% on the remaining amount (the proportion above £250,000)	As per HMRC rates for non-residential and mixed use land and property rates.

C. Development costs

4.40 For the purposes of this viability assessment, the planning practice guidance advises that costs should be based on evidence which is reflective of local market conditions.

C1. Build costs

4.41 The planning practice guidance on viability states that a cost of development is build costs and suggests that such costs should be based on appropriate

[22] "Viability testing Local Plans: advice for planning practitioners" – Local Housing Delivery Group chaired by Sir John Harman (June 2012), p35.

data, for example that of the Building Cost Information Service (BCIS).[23] Consideration was given to using build costs per square metre of the gross internal floorspace as set out in the Building Cost Information Service (BCIS) residential build cost data. However, Urban Vision Property Services have advised that the costs are not representative of the actual build costs that they are seeing on actual schemes within Salford, including those that have been verified by the district valuer.

4.42 Urban Vision have advised that the following costs should be adopted for the purposes of this local plan viability assessment:

Table 9 – Build costs by dwelling type

Dwelling type	Build cost per square metre
Houses	£1,033
Mid density apartments (3 to 5 storeys)	£1,065
High density apartments (6+ storeys)	£1,615

4.43 The above build costs for houses has been applied to all of the different house types, whilst different figures are given for different heights of apartments reflecting the increased build costs associated with the development of higher buildings. It is recognised that there are likely to be different build costs in the different value areas associated with the quality of internal fixtures and fittings within the different value areas. However, given this assessment is high level and that its purpose is to inform policy rather than being site specific, it was considered appropriate use the figures above across all of the value areas.

4.44 Urban Vision have advised that the build costs identified above include infrastructure / externals (i.e. access roads, services and drainage, landscaping etc.). Services are assumed to be provided to the boundary of the site and so no allowance needs to be provided for this.

C2. Abnormals such as decontamination and demolition

4.45 Clearly some sites, particularly those of a brownfield nature, will have an element of abnormal costs. However this strategic area-wide nature of this viability assessment is not designed to test the viability of specific sites; it cannot seek to encompass all the potential differences in individual site circumstances / abnormals that affect viability. Given this, all appraisals made a nil allowance for abnormals, recognising that any site specific issues should result in a reduced existing use value, subject to the proper exercise of due diligence by the site purchaser.

Other scheme costs

4.46 There is a range of other development costs that apply to all the residential development case studies and which have been included in viability testing. These are set out in the table below.

[23] Para 012. Reference ID: 10-012-20180724

Table 10 – other development costs

Cost type	Assumption	Commentary
C3. Marketing, sales and legal fees	3% of market housing value	Based on other schemes within Salford. The timing of this cost coincides with the period between the first and last open market sale.
C4. Professional fees (building design fees)	5% of build costs	Figure has been agreed with volume housebuilders as being appropriate on schemes within Salford where a viability assessment has been submitted in support of a planning application.
C5. Building contingencies	3% of build costs	Assumed having regard to other developments in Salford (and as agreed through planning application viability assessments) and the North West. Building contingencies for regional or national volume house builders usually remain relatively stable across different developments as they have in-house design teams who design standard house types which are used across multiple sites. Furthermore they will often use the same contractors who become familiar with the house types and which leads to greater efficiencies.
D1. Interest rate	Debit – 6.5% Credit – 0%	Debit rate reflects recent viability appraisals submitted in support of planning applications for residential development within Salford. A nil rate was assumed for credit reinvestment, recognising that it is not standard practice to reflect this in strategic assessments of residential viability.
E1. Developer profit	18% of GDV	The planning practice guidance on viability[24] states that "For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this

[24] Paragraph 018. Reference ID: 10-018-20180724

Cost type	Assumption	Commentary
		according to the type, scale and risk profile of planned development". Having regard to the planning practice guidance, and on the basis of recent viability evidence submitted to the city council, a developer profit of 18% of gross development value is considered to be an appropriate benchmark in current market conditions. A lower percentage developer profit will be appropriate for specific types of scheme (e.g. a Private Rented Sector scheme, or a scheme where units are to be sold to a Registered Provider). It is also recognised that a higher or lower percentage developer profit may be necessary depending on the risk of the schemes. It is however considered that 18% represents an appropriate benchmark in current market conditions and for the purposes of this area wide viability assessment.

Scheme timings

4.47 The HCA DAT takes into account cashflow through the course of a development. As such, timings for different elements of a development need to be inputted into the model. The city council's assumptions in relation to this are set out below.

Build period (construction start / end)

4.48 Construction start was assumed as 3 months after the grant of planning consent. This construction start time was assumed as standard for all scheme typologies to ensure consistency across the appraisals. The build period was assumed to vary for each of the 3 scheme typologies, reflecting the different scheme sizes. A build rate of 40 units per annum was assumed for the family houses typology which is considered conservative given the rate schemes are being out at in the City. For both apartment scheme typologies it was assumed that the apartments would be built out at a rate of 100 units per annum. These build rates have been informed by the speed of delivery on recent residential development schemes within Salford and in some respects are also considered to be conservative assumptions. Taking this into account, the table below sets out the build period assumptions for each of the scheme typologies:

Table 11 – Build period by scheme typology

Scheme typology	Dwelling number	Build period
Family houses scheme	70 houses	21 months
	75 houses	23 months
	80 houses	24 months
	100 houses	30 months
Mid density apartment scheme	125 apartments	15 months
High density apartment scheme	150 apartments	18 months

Other timings

4.49 The DAT contains other timings that need to be populated. The city council's assumptions in relation to each of these are set out in the table below.

Table 12 – Other development timings

Stage	Timing
Overall scheme end date	• All typologies: 1 month after the last open market sale
First market housing sale	• Family houses typology: 4 months after the start of construction • Mid density and high density apartment typologies: 90% of units are reserved off-plan with transactions completed on construction finish (remaining 10% sold following this).
Last market housing sale	• Family houses typology: 4 months after construction end • Mid density and high density apartment typologies: 3 months after construction end
Timing of ground rent payment (month)	• Mid density and high density apartment typologies: the same as the overall scheme end date (i.e. one month after last open market sale)

Overall surplus/deficit

4.50 The potential surplus/deficit available from a development was calculated by deducting total development costs, land acquisition costs, finance costs and developer profit from the total gross development sales value. The next section of this assessment sets out the results of the viability appraisals.

5. Baseline appraisal results

5.1 Having regard to the assumptions set out above, 16 baseline requirements were undertaken. Although these baseline appraisals take into account the dwelling floorspace requirements of policy H5 of the Revised Daft Local Plan, they do not take into account any other policy requirements of the revised draft plan or planning obligations / affordable housing. The different appraisals are summarised in the table below.

Table 13 – Baseline appraisals undertaken

Appraisal number	Site size (ha)	Scheme typology	Sales value area
1	0.5	High density apartments	Premium
2	1.0	Mid density apartments	Premium
3	2.0	Family houses	Premium
4	0.5	High density apartments	High
5	1.0	Mid density apartments	High
6	2.0	Family houses	High
7	0.5	High density apartments	Mid/high
8	1.0	Mid density apartments	Mid/high
9	2.0	Family houses	Mid/high
10	0.5	High density apartments	Mid
11	1.0	Mid density apartments	Mid
12	2.0	Family houses	Mid
13	1.0	Mid density apartments	Low/mid
14	2.0	Family houses	Low/mid
15	1.0	Mid density apartments	Low
16	2.0	Family houses	Low

5.2 The three scheme typologies were appraised within each of the six residential value areas, with the exception of the high density apartment scheme typology which was not assessed within the low/mid and low value areas recognising that this form of development is not anticipated to come forward within these locations.

5.3 A summary of the outputs for each of the baseline appraisals is shown in the table below

Table 14 – Findings of baseline appraisals

Appraisal	Site size (ha)	Sales value area	Scheme type	No. of units	Total capital value of open market housing	Total capital value of scheme (A)	Total direct costs (B)	Finance &acquisition costs (C)	Developer profit (D)	Surplus/deficit at completion = A – (B+C+D)	Surplus / deficit per dwelling
1	0.5	Premium	High density apartments	150	£30,730,900	£31,630,900	£20,030,959	£1,502,534	£5,531,562	£4,565,845	£30,439
2	1	Premium	Mid density apartments	125	£25,620,700	£25,995,700	£10,965,482	£1,275,926	£4,611,726	£9,142,556	£73,140
3	2	Premium	Family houses	70	£26,798,800	£26,798,800	£9,597,438	£1,624,957	£4,823,784	£10,752,620	£153,609
4	0.5	High	High density apartments	150	£25,307,800	£26,207,800	£19,868,266	£1,535,015	£4,555,404	£249,114	£1,661
5	1	High	Mid density apartments	125	£21,099,400	£21,474,400	£10,829,843	£1,288,247	£3,797,892	£5,558,417	£4,467
6	2	High	Family houses	70	£22,069,600	£22,069,600	£9,455,562	£1,638,555	£3,972,528	£7,002,954	£100,042
7	0.5	Mid/high	High density apartments	150	£22,596,250	£23,496,250	£19,786,920	£1,486,802	£4,067,325	-£1,844,797	-£12,826
8	1	Mid/high	Mid density apartments	125	£18,838,750	£19,213,750	£10,762,024	£1,154,640	£3,390,975	£3,906,111	£31,249
9	2	Mid/high	Family houses	75	£19,802,500	£19,802,500	£9,431,059	£1,699,733	£3,564,450	£5,107,257	£68,097
10	0.5	Mid	High density apartments	150	£18,224,355	£20,784,700	£19,705,573	£1,525,991	£3,579,246	-£4,026,110	-£26,841
11	1	Mid	Mid density apartments	125	£16,578,100	£16,953,100	£10,694,204	£1,163,309	£2,984,058	£2,111,529	£16,892
12	2	Mid	Family houses	80	£18,000,400	£18,000,400	£9,668,178	£1,734,003	£3,240,072	£3,358,147	£41,977
13	1	Low/mid	Mid density apartments	125	£15,071,000	£15,446,000	£10,648,991	£1,078,236	£2,712,780	£1,005,993	£8,048
14	2	Low/mid	Family houses	100	£17,565,000	£17,565,000	£10,325,058	£1,223,397	£3,161,700	£2,854,844	£28,548
15	1	Low	Mid density apartments	125	£13,563,900	£13,938,900	£10,603,778	£1,004,580	£2,441,502	-£110,961	-£888
16	2	Low	Family houses	100	£15,808,500	£15,808,500	£10,272,363	£1,076,113	£2,845,530	£1,614,494	£16,144

6. Impact of policy requirements and non-affordable housing planning obligation requirements on viability

6.1 As noted above, the appraisals were run with land values and developer profit as an input, and therefore the output from the model is the surplus/deficit (after land costs and developer profit have been deducted) which would be available to support policy requirements, and planning obligations including affordable housing.

6.2 The cost implication of the policy requirements and non-affordable housing planning obligations were then added into the baseline appraisals. These cost assumptions are set out below.

Accessible and adaptable homes

6.3 Policy D7 of the Revised Daft Local Plan requires that all new homes are built to the national accessible and adaptable dwelling standards under optional requirement M4(2) of the Building Regulations. A review of the cost of meeting the requirement was undertaken by EC Harris on behalf of DCLG;[25] the report estimates the extra cost of providing accessible and adaptable dwellings over current industry practice[26]. The provenance of these figures has not been re-examined which is beyond the scope of this assessment. There is no obvious reason to question their continued soundness and the council are not aware of any changes in practice that will have materially changed the cost basis of the figures (either higher or lower). The costs are summarised in the table below:

Table 15 – Accessible and adaptable home costs per dwelling by type

Dwelling type	Costs
1 bed apartment	£940
2 bed apartment	£907
2 bed terrace	£523
3 bed semi-detached	£521
4 bed detached	£520

6.4 The above costs were taken into account in calculating the overall costs of providing homes to the accessible and adaptable standards for each of the dwelling types that appear in the appraisals as follows:

Table 16 – Accessible and adaptable homes costs assumed in viability assessments by dwelling type

Dwelling type	Cost applied to each dwelling type / size
1 bed apartment	£940
2 bed apartment	£907

[25] "Housing standards review: cost impacts" EC Harris (September 2014)
[26] Ibid. Table 45: Access costs summary

3 bed apartment	£907
2 bed semi-detached house	£523
3 bed townhouse	£523
4 bed townhouse	£523
4 bed detached house	£520
5 bed detached house	£520

6.5 Applying the costs per dwelling identified above to the scheme typology dwelling mix shown in table 1 above, the following costs were factored into the city council's assessments[27]:

Table 17 – Accessible and adaptable homes costs for each scheme typology

Scheme typology	Value area(s)	Total cost of complying with M4(2) accessible and adaptable standard
Family houses	Premium and high	£36,424
Family houses	Mid/high	£39,039
Family houses	Mid	£41,675
Family houses	Low/mid and low	£52,253
Mid density apartments	All areas	£115,025
High density apartments	All areas	£138,030

Electric Vehicle Charging points

6.6 Policy A11 of the Revised Daft Local Plan requires that:

"Every new residential dwelling with a garage or driveway shall include a dedicated charge point specifically designed for charging all types of electric vehicle. Where a residential dwelling has more than one parking space within a garage or driveway, the charge point shall be located so that it can be accessed by a vehicle parked in any of the spaces."

6.7 Given this it is considered that a cost should be attributed to this policy requirement for all houses within the family houses typology within this assessment. A literature review of other area-wide viability assessments shows that the cost per house for a charging point ranges from £100 to £1,500. In one assessment no specific additional cost was made with this being captured within the external development allowances. Further details are set out at Annex E.

6.8 Having regard to the information in Annex E an allowance of £500 per house was made for an electric vehicle charging point. Taking this into account the following costs were factored into the city council's assessments.

Table 18 – Electric vehicle costs for each typology and value area

[27] For the purposes of this assessment the EC Harris costs for a terrace dwelling were applied to the townhouse dwelling type, whilst the costs for a 2 bed apartment were also applied to the provision of 3 bed apartments.

Scheme typology	Value area(s)	Total cost of providing electric vehicle charging points
Family houses	Premium and high	£35,000
Family houses	Mid/high	£37,500
Family houses	Mid	£40,000
Family houses	Low/mid and low	£50,000
Mid density apartments	All areas	Not applicable
High density apartments	All areas	Not applicable

Sustainable energy in new developments

6.9 Criterion A) of policy EG1 (and policy D7) of the Revised Daft Local Plan requires that new build residential schemes shall exceed the fabric energy efficiency required under Part L of the Building Regulations by at least 19%, and achieve a higher standard than is required under any subsequent revision to building regulations.

6.10 The above requirement would apply to all dwellings, not just houses. Therefore it is considered necessary to factor in a cost for sustainable energy in all of the typologies considered within this assessment. With regards to this, the UK Green Build Council (UKGBC)[28] states the following:

> "A 19% improvement beyond Part L 2013 can be achieved entirely through energy efficiency measures (enhanced insulation, glazing, airtightness and high efficiency heating and hot water heat recovery). Our discussions suggest that developers feel this approach might cost between £2-3k for a mid or end terraced home up to £5-6k for a detached house. However, for those building to the Part L 2013 notional specification it is possible to achieve a 19% improvement through the use of photovoltaics (PV) or other renewables. A terraced would need around 0.8 kWp of PV with a detached house needing perhaps 1.2 kWp (depending on floor area). The capital costs of adopting a renewables based strategy are likely to be c.£1,500-£2,000 per home."

6.11 With regards to these costs, the UKGBC goes on to state that:

> "We do not believe this will impede housing delivery. A modest increase to build costs can be factored into the cost of land acquisition and/or minimised if not entirely eliminated over time through supply chain innovation and efficiencies. Developers already exceeding the baseline requirements recommended simply see this as the cost of doing business."

6.12 The UKGBC also notes that there are various studies that can be utilised in considering costs, although most are a few years old given that they relate to previous policy commitments by central government. They go on to also state that LAs can use existing resources produced by other LAs on viability.

[28] UK Green Build Council (Version 1.1: July 2018) Delivering sustainability in new homes: a resource for local authorities

6.13 A review of the studies and resources highlighted by the UKGBC shows that Brighton and Hove Council made an allowance of £220 per dwelling[29]. Alternatively an extra over costs equivalent to 2% of build costs was assumed by Havant Borough Council[30], whilst an extra over cost equivalent figure to of 3.14% of build costs was applied by Guildford Borough Council[31].

6.14 Having regard to all of the above it is clear that estimated the costs of a 19% improvement beyond Part L of the 2013 building regulations for energy efficiency varies significantly. For the purposes of this assessment it has been assumed that the cost will be an extra over cost equivalent to 2% of build costs for all dwellings. This is lower than the UKGBC estimate for achieving the standard through fabric efficiency, although higher than the figure used by Brighton and Hove Council in support of their adopted local plan policy CP8. In setting an appropriate assumption, regard has also been had to the advice of the UKGBC with regards to the requirement for increased energy efficiency not impeding delivery as it can be factored into land acquisition costs and can be minimised / entirely eliminated over time due to supply chain innovation and efficiencies.

6.15 Taking into account the 2% of build cost estimate for sustainable energy in new developments, the following costs were factored into the city council's assessments.

Table 19 – Sustainable energy costs for each scheme typology and value area

Scheme typology	Value area(s)	Total cost of sustainable energy measures
Family houses	Premium and high	£162,842
Family houses	Mid/high	£163,297
Family houses	Mid	£168,482
Family houses	Low/mid and low	£181,457
Mid density apartments	All areas	£188,497
High density apartments	All areas	£353,879

Allotments

[29] Element Energy Limited and David Langdon (August-September 2013) Costs of building to the Code for Sustainable Homes. Prepared for Bath and North East Somerset Council, Brighton and Hove Council, Bristol City Council, Swindon Borough Council and Wiltshire Council.

[30] DSP (November 2017) Havant Borough Council Local Plan and CIL viability study draft report. Appendix I states that the 2% figure is derived as follows: "The above costs are based on the DCLG Housing Standards Review Impact Assessment costings assuming equivalent CfSH L4 energy costs only base. Appraisals assume cost uplift in line with figures above assuming average cost uplift from each unit type (£1,932 per unit average, equating to the 2% assumed above)."

[31] Porter Planning Economics Ltd (November 2017) Guildford Local Plan viability update. Para 4.13 of this study notes that a report by Evora Edge on behalf of Guildford Borough Council identified that he average increase in build costs, to improve a Part L compliant building so that it complies with proposed Policy D2, is between 2.62% and 3.14%. For the revised testing, the upper (worst case) extra-over cost of 3.14% is applied. This cost relates to a 20% improvement over part L.

6.16 Criterion 5 of policy R2 of the Revised Daft Local Plan states that new residential developments shall contribute to the achievement of a minimum of 5,000m² (or 0.50 hectares) of allotments per 1,000 households, with each new plot being 125sqm in size to enable as many residents as possible to take on an allotment. The policy also requires that the management and maintenance of the allotments shall be provided for a period of at least 20 years.

6.17 The cost of creating each individual plots will vary depending on the specific site conditions, previous uses and its location. Typical costs tend to include significant clearance, excavation to a depth of 600mm, and the importation of new topsoil. In addition to these costs the new local standard expects the plots to include appropriate access (via footpath as a minimum), car parking (depending on the site / location) and access to water.

6.18 Actual costs from a limited number of recent allotment schemes that have been delivered in Salford have been provided by the city council's environment and regeneration sections for the purposes of this assessment. This shows a typical cost of £6,562 per 125sqm plot. Having regard to this and the requirement of Revised Daft Local Plan policy R4, would result in a cost of £262 per dwelling for allotments[32]. Taking this into account the following costs were factored into the city council's assessments.

Table 20 – Allotment costs for each scheme typology by value area

Scheme typology	Value area(s)	Allotment costs
Family houses	Premium and high	£18,340
Family houses	Mid/high	£19,650
Family houses	Mid	£20,960
Family houses	Low/mid and low	£26,200
Mid density apartments	All areas	£32,750
High density apartments	All areas	£39,300

Non affordable housing planning obligations

6.19 The city council adopted its Planning Obligations Supplementary Planning Document (SPD) on 18 June 2015[33]. The SPD sets out that contributions to open space and education will be sought using set formulas. Current costs, and also an explanation as to how they have been derived, are set out in a document that was published by the city council in March 2018[34]. The costs are set out below.

Table 21 – Open space and education planning obligations

	Open space contribution (policy OB2)	Education contribution (policy OB3)
Houses	£1,555 per bed space [A]	£1,132.45 per non principal bedroom [B]
Apartments	£1,123 per bed space [A]	Nil

[32] This is calculated by multiplying the cost per plot of £6,562 by 40 (number of plots required) and then dividing this by 1,000 (requirement per households).
[33] Salford City Council (June 2015) Planning Obligations Supplementary Planning Document
[34] Salford City Council (March 2018) Planning Obligations Supplementary Planning Document: background document on cost updates

[A] - A bed space is defined as the number of bedrooms within a dwelling plus one
[B] - The number of non-principal bedrooms is the total number of bedrooms within a house, minus one.

6.20 The SPD also sets out that the council will seek contributions towards transport and public realm on a site specific basis. It goes on to clarify that "site specific means that the council may require a contribution to mitigate the impact of the development, and the appropriate scale of any contribution will be negotiated having regard to site-specific circumstances. Having regard to the scale of contributions sought from applicants as part of the planning application process, the following costs have been assumed for the purposes of this assessment.

Table 22 – Transport and public realm planning obligations

	Transport	Public realm
Houses	£200 per bed space	No allowance sought as contribution will not be sought in all instances
Apartments	£200 per bedspace	£550 per dwelling

6.21 Taking the above into account the following costs were factored into the city council's assessments for planning obligations.

Table 23 - Total planning obligations costs for each scheme typology by value area

Scheme typology	Value area(s)	Open space	Education	Transport	Public realm
Family houses	Premium and high	£522,480	£221,960	£67,200	n/a
Family houses	Mid/high	£519,370	£208,371	£66,800	n/a
Family houses	Mid	£522,480	£199,311	£67,200	n/a
Family houses	Low/mid and low	£583,125	£198,179	£75,000	n/a
Mid density apartments	All areas	£371,713	n/a	£66,200	£182,050
High density apartments	All areas	£445,831	n/a	£79,400	£218,350

Total cost of policy requirements / planning obligations

6.22 Annex F summarises the costs for each of the 16 appraisals of the above Revised Daft Local Plan policy requirements and also the non-affordable housing planning obligations as set out within the city council's adopted planning obligations supplementary planning document.

Impact of policy requirements and non-affordable housing planning obligations on viability

6.23 Taking the baseline appraisal results from section 5 of this assessment, the Revised Daft Local Plan policy requirements and non-affordable housing planning obligations costs set out at Annex F were inputted into the appraisals. The DAT required that payment start and payment end dates were entered, with the assumption being that the cash flow is 'flat lined' between start and end dates. Having regard to this, the following assumptions were made:

- Policy requirements (accessible and adaptable homes, electric vehicle charging, and energy efficiency) payment start and end date was the same as the overall period of construction for all of the appraisals
- Planning obligations (open space, education, transport and public realm) and allotment payment start and end date was different for the houses and apartment typologies. For the houses typology the start date was the same as the first open market sale with the end of payments being 75% into the construction period. For the apartment typologies payment start date was at construction start with the final payment being at 90% of the construction period.

6.24 The above assumptions are considered to represent an appropriate proxy for an approach that allows phased payment of contributions.

6.25 The table below shows the surplus/deficit at completion for the 16 baseline appraisals, and also shows the impact that policy requirements of the revised draft plan and non-affordable housing planning obligations has on this when run through the DAT taking into account cashflow associated with the timings of the payments.

Table 24 – Surplus/deficit with Revised Daft Local Plan policy requirements and planning obligations

Appraisal	Site size (ha)	Sales value area	Scheme type	No. of units	Baseline surplus/deficit at completion	Policy requirements and obligations value	Surplus/deficit at completion with policy and planning obligations
G1	0.5	Premium	High density apartments	150	£4,565,845	£1,274,790	£3,210,444
G2	1	Premium	Mid density apartments	125	£9,142,556	£936,220	£8,163,638
G3	2	Premium	Family houses	70	£10,752,620	£1,064,246	£9,682,955
G4	0.5	High	High density apartments	150	£249,114	£1,274,790	-£1,119,384
G5	1	High	Mid density apartments	125	£5,558,417	£956,712	£4,550,727
G6	2	High	Family houses	70	£7,002,954	£1,064,246	£5,928,944
G7	0.5	Mid/high	High density apartments	150	-£1,844,797	£1,274,790	-£3,214,659
G8	1	Mid/high	Mid density apartments	125	£3,906,111	£956,712	£2,898,420

Appraisal	Site size (ha)	Sales value area	Scheme type	No. of units	Baseline surplus/deficit at completion	Policy requirements and obligations value	Surplus/deficit at completion with policy and planning obligations
G9	2	Mid/high	Family houses	75	£5,107,257	£1,054,026	£3,858,559
G10	0.5	Mid	High density apartments	150	-£4,026,110	£1,274,790	-£5,403,018
G11	1	Mid	Mid density apartments	125	£2,111,529	£956,712	£1,105,791
G12	2	Mid	Family houses	80	£3,358,147	£1,060,109	£2,233,924
G13	1	Low/mid	Mid density apartments	125	£1,005,993	£956,712	-£4,511
G14	2	Low/mid	Family houses	100	£2,854,844	£1,166,213	£1,662,266
G15	1	Low	Mid density apartments	125	-£110,961	£956,712	-£1,128,340
G16	2	Low	Family houses	100	£1,641,494	£1,166,213	£405,770

Copies of appraisals

6.26 Full copies of the appraisals outline in table 24 above are attached at Annex G.

7. Impact of affordable housing requirements on viability

7.1 The implications of providing affordable housing on viability, after other obligations and policy requirements of the Revised Daft Local Plan are taken into account, is considered further below.

Preferred tenure mix

7.2 The tenure of affordable housing has a significant bearing on scheme viability, given that the subsidy required for social rented and affordable rented dwellings is much more substantive than that for affordable home ownership dwellings. For the purposes of estimating the viability of schemes as part of this assessment, it is necessary to determine the tenure mix of the affordable housing to be provided.

7.3 The 2018 NPPF glossary states that affordable housing is housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and / or is essential for local workers). It goes on to state that this should be:

a) Affordable housing for rent (social rent, affordable rent and affordable private rent)
b) Starter homes
c) Discounted market sales housing
d) Other affordable (shared ownership, relevant equity loans, other low costs homes for sale and rent to buy)

7.4 If the city council were seeking to maximise the delivery of affordable housing purely in terms of total numbers, then it would seek to ensure that all affordable dwellings secured are for a subsidised route to home ownership (as the subsidy required is much less than for social and affordable rented dwellings). However, the city council consider it appropriate to seek a high proportion of social rented and affordable rented dwellings through planning obligations, given evidence of housing need. Also having regard to need and levels of incomes, it is considered that seeking shared ownership dwellings is the preferred product for those requiring a subsidised route to home ownership. The implication of specifically requiring a high proportion of rented and shared ownership dwellings is that fewer affordable dwellings will be delivered than potentially could be (for example if starter homes were provided instead), but overall it should help to ensure that a good mix of affordable dwellings come forward that best meets need.

7.5 Having regard to this, the table below sets out the different tenure mixes used in the appraisals for the different residential value areas.

Table 25 – Affordable housing tenure mix by value area

Value area	Typical value per sqm	% social rented	% affordable rent	% shared ownership
Premium	£3,400	37.5%	37.5%	25%

High	£2,800	37.5%	37.5%	25%
Mid/high	£2,500	37.5%	37.5%	25%
Mid	£2,200	25%	25%	50%
Low/mid	£2,000	25%	25%	50%
Low	£1,800	12.5%	12.5%	75%

7.6 The tenure mixes above were primarily derived from a range of housing and other socio-economic data including the 2011 Census; the findings of both the Salford and the Greater Manchester Strategic Housing Market Assessments and evidence of the need for affordable housing; the objectives of securing mixed communities and greater diversity in the stock; and the longer term sustainability of neighbourhoods. Regard has also been had to policy H1 of the Revised Daft Local Plan which requires that a key component of the spatial strategy for housing in Salford is to deliver a good supply and a balanced mix of new dwellings across the city and within individual developments, in terms of tenure and affordability.

Developer contribution / subsidy

7.7 In order to determine what each notional scheme can support in terms of affordable housing, it was necessary to calculate the cost to the developer of having to provide affordable housing as part of their schemes.

7.8 To secure the involvement of a registered provider to manage affordable housing, a developer will normally have to provide dwellings to them at a discount from open market value. The discount off open market value will inevitably differ on a scheme by scheme basis, but acknowledging the recent delivery of affordable housing in the city and information supplied by registered providers active in the Salford, it was considered that an appropriate discount off open market value is 60% for social rented, 50% for affordable rented and 40% for shared ownership dwellings.

7.9 An output from the viability assessment is the total capital value of market housing. It was therefore possible to calculate the average sales value of each dwelling under the different appraisals, and then apply the discounts off open market value referred to above in order to determine the discount a registered provider needs in order to take on the management of affordable dwellings.

Table 26 – Discount off open market value required by registered provider by tenure per dwelling

Appr-aisal	Value area	Scheme type	No. of units	Total capital value of open market housing	Average dwelling sale price (capital value / dwellings)	Discount RP needs per social rent unit (60% discount per unit)	Discount RP needs per affordable rent unit (50% discount per unit)	Discount RP needs per shared ownership unit (40% discount per unit)
1	Premium	High density apartments	150	£30,730,900	£204,873	£122,924	£102,436	£81,949

Appr-aisal	Value area	Scheme type	No. of units	Total capital value of open market housing	Average dwelling sale price (capital value / dwellings)	Discount RP needs per social rent unit (60% discount per unit)	Discount RP needs per affordable rent unit (50% discount per unit)	Discount RP needs per shared ownership unit (40% discount per unit)
2	Premium	Mid density apartments	125	£25,620,700	£204,966	£122,979	£102,483	£81,986
3	Premium	Houses	70	£26,798,800	£382,840	£229,704	£191,420	£153,136
4	High	High density apartments	150	£25,307,800	£168,719	£101,231	£84,359	£67,487
5	High	Mid density apartments	125	£21,099,400	£168,795	£101,277	£84,398	£67,518
6	High	Houses	70	£22,069,600	£315,280	£189,168	£157,640	£126,112
7	Mid/high	High density apartments	150	£22,596,250	£150,642	£90,385	£75,321	£60,257
8	Mid/high	Mid density apartments	125	£18,838,750	£150,710	£90,426	£75,355	£60,284
9	Mid/high	Houses	75	£19,802,500	£264,033	£158,420	£132,017	£105,613
10	Mid	High density apartments	150	£18,224,355	£121,496	£72,897	£60,748	£48,598
11	Mid	Mid density apartments	125	£16,578,100	£132,625	£79,575	£66,312	£53,050
12	Mid	Houses	80	£18,000,400	£225,005	£135,003	£112,503	£90,002
13	Low/mid	Mid density apartments	125	£15,071,000	£120,568	£72,341	£60,284	£48,227
14	Low/mid	Houses	100	£17,565,000	£175,650	£105,390	£87,825	£70,260
15	Low	Mid density apartments	125	£13,563,900	£108,511	£65,107	£54,256	£43,404
16	Low	Houses	100	£15,808,500	£158,085	£94,851	£79,043	£63,234

7.10 Taking account of the discount that registered providers need in order to acquire dwellings for affordable housing, the table below shows the total estimated cost to a developer of having to provide affordable housing. This is based on between 5% and 50% of the total dwellings in a scheme being affordable (at 5% intervals), whilst having regard to the different tenure splits in the different value areas as shown in table 25 above.

Table 27 – Cost to a developer of providing affordable housing to a registered provider

			Total discount required to allow RP to purchase units									
Value area / tenure mix	Appraisal	Scheme type	50% affordable	45% affordable	40% affordable	35% affordable	30% affordable	25% affordable	20% affordable	15% affordable	10% affordable	5% affordable
Premium value areas (37.5% social rent, 37.5% affordable rent, 25% shared ownership)	1	High density apartments	£7,874,793	£7,087,314	£6,299,835	£5,512,355	£4,724,876	£3,937,397	£3,149,917	£2,362,438	£1,574,959	£787,479
	2	Mid density apartments	£6,565,304	£5,908,774	£5,252,244	£4,595,713	£3,939,183	£3,282,652	£2,626,122	£1,969,591	£1,313,061	£656,530
	3	Houses	£6,867,193	£6,180,473	£5,493,754	£4,807,035	£4,120,316	£3,433,596	£2,746,877	£2,060,158	£1,373,439	£686,719
High value areas (37.5% social rent, 37.5% affordable rent, 25% shared ownership)	4	High density apartments	£6,485,124	£5,836,611	£5,188,099	£4,539,587	£3,891,074	£3,242,562	£2,594,050	£1,945,537	£1,297,025	£648,512
	5	Mid density apartments	£5,406,721	£4,866,049	£4,325,377	£3,784,705	£3,244,033	£2,703,361	£2,162,689	£1,622,016	£1,081,344	£540,672
	6	Houses	£5,655,335	£5,089,802	£4,524,268	£3,958,735	£3,393,201	£2,827,668	£2,262,134	£1,696,601	£1,131,067	£565,534
Mid/high value areas (37.5% social rent, 37.5% affordable rent, 25% shared ownership)	7	High density apartments	£5,790,289	£5,211,260	£4,632,231	£4,053,202	£3,474,173	£2,895,145	£2,316,116	£1,737,087	£1,158,058	£579,029
	8	Mid density apartments	£4,827,430	£4,344,687	£3,861,944	£3,379,201	£2,896,458	£2,413,715	£1,930,972	£1,448,229	£965,486	£482,743
	9	Houses	£5,074,391	£4,566,952	£4,059,513	£3,552,073	£3,044,634	£2,537,195	£2,029,756	£1,522,317	£1,014,878	£507,439
Mid value areas (25% social rent, 25% affordable rent, 50% shared ownership)	10	High density apartments	£4,669,991	£3,895,456	£3,462,627	£3,029,799	£2,596,971	£2,164,142	£1,731,314	£1,298,485	£865,657	£432,828
	11	Mid density apartments	£4,248,138	£3,543,569	£3,149,839	£2,756,109	£2,362,379	£1,968,649	£1,574,920	£1,181,190	£787,460	£393,730
	12	Houses	£4,612,603	£3,847,586	£3,420,076	£2,992,567	£2,565,057	£2,137,548	£1,710,038	£1,282,529	£855,019	£427,510
Mid/low value areas (25% social rent, 25% affordable rent, 50% shared ownership)	13	Mid density apartments	£3,861,944	£3,221,426	£2,863,490	£2,505,554	£2,147,618	£1,789,681	£1,431,745	£1,073,809	£715,873	£357,936
	14	Houses	£4,501,031	£3,754,519	£3,337,350	£2,920,181	£2,503,013	£2,085,844	£1,668,675	£1,251,506	£834,338	£417,169
Low value areas (12.5% social rent, 12.5% affordable rent, 50% shared ownership)	15	Mid density apartments	£3,475,749	£2,670,393	£2,373,683	£2,076,972	£1,780,262	£1,483,552	£1,186,841	£890,131	£593,421	£296,710
	16	Houses	£4,050,928	£3,112,298	£2,766,488	£2,420,677	£2,074,866	£1,729,055	£1,383,244	£1,037,433	£691,622	£345,811

7.11 The cost of a developer providing affordable housing under each scenario above was inputted into the appraisals. The starting point for this process was the surplus / deficit at completion shown in table 24, which takes into account allowances for policy requirements and planning obligation contributions.

7.12 It was assumed that the affordable housing is provided on-site and that it is phased throughout the whole of the build period. Given that the HCA DAT requires that payment start date and end date are entered (i.e. the period when the affordable housing is built), it has been assumed that the costs of providing affordable housing for the developer is spread evenly throughout the construction period (i.e. the payment start date is the same as the construction start date, and the payment end is the same as the construction end date).

7.13 The table below shows the implications the provision of affordable housing at different proportions has on scheme viability. Appraisals have not been run for each scenario towards the higher end of the requirement range where it is clearly not viable at the lower requirements.

Table 28 – Implications of providing different levels of affordable housing by value area and typology

Value area / tenure mix	Appraisal	Scheme type	50% affordable	45% affordable	40% affordable	35% affordable	30% affordable	25% affordable	20% affordable	15% affordable	10% affordable	5% affordable
Premium value areas (37.5% social rent, 37.5% affordable rent, 25% shared ownership)	1	High density apartments	n/a	n/a	n/a	n/a	n/a	-£987,735	-£144,308	£695,459	£1,534,471	£2,373,484
	2	Mid density apartments	£1,310,621	£1,997,362	£2,682,506	£3,367,651	£4,052,795	£4,737,939	£5,423,083	£6,108,228	£6,793,372	£7,478,517
	3	Family houses	£2,699,054	£3,405,273	£4,108,838	£4,810,269	£5,510,049	£6,207,829	£6,904,668	£7,600,565	£8,295,288	£8,989,503
High value areas (37.5% social rent, 37.5% affordable rent, 25% shared ownership)	4	High density apartments	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-£2,508,557	-£1,813,970
	5	Mid density apartments	n/a	-£580,491	-£6,017	£565,483	£1,136,951	£1,708,342	£2,276,818	£2,845,296	£3,413,773	£3,982,250
	6	Family houses	£108,674	£703,699	£1,294,312	£1,881,597	£2,465,476	£3,046,852	£3,626,156	£4,203,809	£4,780,099	£5,354,853
Mid/high value areas (37.5% social rent, 37.5% affordable rent, 25% shared ownership)	7	High density apartments	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-£4,461,518	-£3,838,088
	8	Mid density apartments	n/a	n/a	n/a	-£669,678	-£156,754	£354,306	£864,545	£1,374,785	£1,883,283	£2,390,852
	9	Family houses	n/a	-£1,020,659	-£471,713	£75,810	£620,501	£1,162,701	£1,704,901	£2,245,408	£2,784,770	£3,321,909
Mid value areas (25% social rent, 25% affordable rent, 50% shared ownership)	10	High density apartments	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-£6,335,055	-£5,869,036
	11	Mid density apartments	n/a	n/a	n/a	n/a	n/a	n/a	-£561,771	-£143,428	£273,479	£689,635
	12	Family houses	n/a	n/a	n/a	n/a	-£505,111	-£44,680	£413,575	£869,658	£1,325,283	£1,780,595
Mid/low value areas (25% social rent, 25% affordable rent, 50% shared ownership)	13	Mid density apartments	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-£765,140	-£384,825
	14	Family houses	n/a	n/a	n/a	n/a	n/a	-£526,203	-£79,297	£361,395	£798,046	£1,231,399
Low value areas (12.5% social rent, 12.5% affordable rent, 50% shared ownership)	15	Mid density apartments	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-£1,753,993	-£1,441,166
	16	Family houses	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-£700,645	-£327,681	£41,359

8. Potential affordable housing requirements based on viability and conclusions

8.1 Table 28 above shows the typical surplus/deficit once affordable housing provision at different levels is taken into account (and also including the costs of the Revised Daft Local Plan policy requirements and planning obligations). It is clear that there is differing viability across the residential value areas. Moreover, there are also significant differences in the viability by scheme typology (i.e. between high density apartments, mid density apartments and family houses).

Premium value area

8.2 The table below sets out the surplus/deficit at scheme completion in the premium value area with different proportions of affordable housing, comprised of a tenure mix of 37.5% social rent, 37.5% affordable rent and 25% shared ownership tenure.

Table 29 – Surplus deficit with Revised Daft Local Plan policy requirements, planning obligations and affordable housing in the premium value areas

Affordable requirement	High density apartments typology (appraisal H1)	Mid density apartments typology (appraisal H2)	Family houses typology (appraisal H3)
50%		£1,310,621	£2,699,054
45%		£1,997,362	£3,405,273
40%		£2,682,506	£4,810,269
35%		£3,367,651	£4,810,269
30%		£4,052,795	£5,510,049
25%	-£987,735	£4,737,939	£6,207,829
20%	-£144,308	£5,423,083	£6,904,668
15%	£695,459	£6,108,228	£7,600,656
10%	£1,534,471	£6,793,372	£8,295,288
5%	£2,373,484	£7,478,517	£8,989,503

High value area

8.3 The table below sets out the surplus/deficit at scheme completion in the high value area with different proportions of affordable housing, comprised of a tenure mix of 37.5% social rent, 37.5% affordable rent and 25% shared ownership tenure.

Table 30 – Surplus deficit with Revised Daft Local Plan policy requirements, planning obligations and affordable housing in the high value areas

Affordable requirement	High density apartments typology (appraisal H4)	Mid density apartments typology (appraisal H5)	Family houses typology (appraisal H6)
50%			£108,674
45%		-£580,491	£703,699
40%		-£6,017	£1,294,312

Affordable requirement	High density apartments typology (appraisal H4)	Mid density apartments typology (appraisal H5)	Family houses typology (appraisal H6)
35%		£565,483	£1,881,597
30%		£1,136,951	£2,465,476
25%		£1,708,342	£3,046,852
20%		£2,276,818	£3,626,156
15%		£2,845,296	£4,203,809
10%	-£2,508,557	£3,413,773	£4,780,099
5%	-£1,813,970	£3,982,250	£5,354,853

Mid/high value area

8.4 The table below sets out the surplus/deficit at scheme completion in the mid/high value area with different proportions of affordable housing, comprised of a tenure mix of 37.5% social rent, 37.5% affordable rent and 25% shared ownership tenure.

Table 31 – Surplus deficit with Revised Daft Local Plan policy requirements, planning obligations and affordable housing in the mid/high value areas

Affordable requirement	High density apartments typology (appraisal H7)	Mid density apartments typology (appraisal H8)	Family houses typology (appraisal H9)
45%			-£1,020,659
40%			-£471,713
35%		-£669,678	£75,810
30%		-£156,754	£620,501
25%		£354,306	£1,162,701
20%		£864,545	£1,704,901
15%		£1,374,785	£2,245,408
10%	-£4,461,518	£1,883,283	£2,784,770
5%	-£3,838,088	£2,390,852	£3,321,909

Mid value area

8.5 The table below sets out the surplus/deficit at scheme completion in the mid/high value area with different proportions of affordable housing, comprised of a tenure mix of 25% social rent, 25% affordable rent and 50% shared ownership tenure.

Table 32 – Surplus deficit with Revised Daft Local Plan policy requirements, planning obligations and affordable housing in the mid value areas

Affordable requirement	High density apartments typology (appraisal H10)	Mid density apartments typology (appraisal H11)	Family houses typology (appraisal H12)
30%			-£505,111
25%			-£44,680
20%		-£561,771	£413,575

Affordable requirement	High density apartments typology (appraisal H10)	Mid density apartments typology (appraisal H11)	Family houses typology (appraisal H12)
15%		-£143,428	£869,658
10%	-£6,335,055	£237,479	£1,325,283
5%	-£5,869,036	£689,635	£1,780,595

Low/mid value areas

8.6 The table below sets out the surplus/deficit at scheme completion in the mid/high value area with different proportions of affordable housing, comprised of a tenure mix of 25% social rent, 25% affordable rent and 50% shared ownership tenure.

Table 33 – Surplus deficit with Revised Daft Local Plan policy requirements, planning obligations and affordable housing in the low/mid value areas

Affordable requirement	Mid density apartments typology (appraisal H13)	Family houses typology (appraisal H14)
30%		
25%		-£526,203
20%		-£79,297
15%		£361,395
10%	-£765,140	£798,046
5%	-£384,825	£1,231,399

Low value areas

8.7 The table below sets out the surplus/deficit at scheme completion in the mid/high value area with different proportions of affordable housing, comprised of a tenure mix of 12.5% social rent, 12.5% affordable rent and 75% shared ownership tenure.

Table 34 – Surplus deficit with Revised Daft Local Plan policy requirements, planning obligations and affordable housing in the low value areas

Affordable requirement	Mid density apartments typology (appraisal 15)	Family houses typology (appraisal 16)
15%		-£700,645
10%	-£1,753,993	-£327,681
5%	-£1,441,166	£41,359

Potential affordable housing requirements based only on evidence of viability

8.8 Having regard to the above, the table below shows the level of affordable housing that could be supported through developer contributions, by the different residential value areas and scheme typology. Note that this is based on a range of assumptions that may vary on individual sites, with some developments being more viable and some less viable than indicated in the assessment depending on factors such as the specific site characteristics, the funding model and tendering process for the development, and the market conditions at the time. This variability in viability, both between sites and over time, means that it is appropriate that the table below is the starting point rather than the only determinant of the affordable housing policy

Table 35 – Potential affordable housing requirements through developer contributions

Appraisal	Sales value area	Typology	Potential affordable housing requirement	Assumed tenure of affordable dwellings
H1	Premium	High density apartments	15%	37.5% social rent, 37.5% affordable rent and 25% shared ownership
H2		Mid density apartments	50%	
H3		Family houses	50%	
H4	High	High density apartments	0%	37.5% social rent, 37.5% affordable rent and 25% shared ownership
H5		Mid density apartments	35%	
H6		Family houses	50%	
H7	Mid/high	High density apartments	0%	37.5% social rent, 37.5% affordable rent and 25% shared ownership
H8		Mid density apartments	25%	
H9		Family houses	35%	
H10	Mid	High density apartments	0%	25% social rent, 25% affordable rent and 50% shared ownership
H11		Mid density apartments	10%	
H12		Family houses	20%	
H13	Low/mid	Mid density apartments	0%	25% social rent, 25% affordable rent and 50% shared ownership
H14		Family houses	15%	
H15	Low	Mid density apartments	0%	12.5% social rent, 12.5% affordable rent and 75% shared ownership
H16		Family houses	5%	

8.9 It can be seen that the potential affordable housing requirements based solely on an assessment of financial viability range from 0% up to 50% of the total dwellings in a development.

8.10 The full appraisals for where affordable housing through a developer contribution is estimated to be viable having regard to the assumptions in this assessment (H1, H2, H3, H5, H6, H8, H9, H11, H12, H14 and H16) are set out in Annex H of this assessment.

Conclusions

8.11 In line with the requirements of the NPPF and planning practice guidance, the city council has undertaken assessments of the likely economic implications of the policy requirements of the Revised Daft Local Plan, planning obligations, and affordable housing in new build for sale residential developments. The approach taken is considered to provide a broad understanding of viability and is proportionate, and will inform the development of policy.

8.12 The assessments have involved inputting a large number of variables into the Homes and Communities Agency development appraisal tool in order to determine the likely potential surplus/deficit of generic schemes across the range of residential value areas. The table above shows the levels of affordable housing that could be required by policy, based purely on evidence of viability.