

1

Bradford Affordable Housing Economic Viability
Assessment

For

The City of Bradford Metropolitan District
Council

APPENDIX ONE

INVITATION TO TENDER – STUDY BRIEF

October 2010

Appendix 1 Invitation to Tender – Study Brief

Affordable Housing Economic Viability Assessment
The City of Bradford Metropolitan District Council

Invitation to Tender – Study Brief

Bradford Affordable Housing Economic Viability Assessment

Specification

May 2010

Bradford Affordable Housing Economic Viability Assessment: Brief for consultants

1. Introduction

- 1.1 The City of Bradford Metropolitan District Council (CBMDC) is seeking to commission an Affordable Housing Economic Viability Assessment (AHEVA) and invites submissions from suitably qualified consultants.
- 1.2 The AHEVA will form a fundamental part of the evidence base for the progression and implementation of the Council's Local Development Framework (LDF).
- 1.3 CBMDC are in the process of completing a Strategic Housing Market Assessment (SHMA) for the district, which together with the AHEVA will provide the necessary evidence to support sound and robust affordable housing policies in the LDF.

2. Purpose of research

- 2.1 The overall purpose of this AHEVA is to provide a sound evidence base which enables CBMCD to:
 - Develop a robust, transparent and effective means of determining appropriate and justifiable affordable housing targets in the Bradford LDF.
 - Test the viability of the findings from the Bradford SHMA and provide evidence to develop and support future planning policies in the LDF.
 - Produce recommendations on the viability of the proportion of affordable housing, site thresholds and tenure splits in different locations and on a range of different site types across the district.

Background

- 2.2 CBMDC is currently in the process of producing the LDF Core Strategy. The Core Strategy is one of the key documents that form part of the emerging LDF for Bradford. The Core Strategy will:
 - Set out the broad aims and objectives for sustainable development in the District for the next 15-20 years until 2026.
 - Set out broad policies for steering and shaping development within the district.
- 2.3 PPS3 requires Local Planning Authorities to set plan-wide targets for affordable housing which reflect housing need and an assessment of the likely finance available for affordable housing and the level of developer's contributions that can reasonably be secured.

- 2.4 CBMDC has commissioned a Strategic Housing Market Assessment (SHMA), to inform planning policies on affordable housing and housing mix in the LDF. The SHMA provides an evidence base for estimating housing need and demand across the district. The SHMA is due to be completed in June 2010.
- 2.5 The SHMA does not consider the impact of affordable housing policies on development viability. The purpose of the AHEVA is therefore to ensure that LDF affordable housing policies are viable and not so onerous that they prevent sites from coming forward and stifle development.
- 2.6 The next stage for CBMDC in the LDF evidence gathering process is to commission consultants to undertake an AHEVA to test the viability of the affordable housing evidence in the SHMA. The SHMA and the AHEVA will together provide a robust and sound evidence base to inform affordable housing policies and targets in the LDF.

Policy Context

Planning Policy Statement 3: Housing (PPS3)

- 2.7 In November 2006, the Government published PPS3, which superseded PPG3.
- 2.8 PPS3 states that based upon the findings of the SHMA and other local evidence, Local Planning Authorities (LPA) should set out in Local Development Documents:
- The likely overall proportions of households that require market or affordable housing.
 - The likely profile of household types requiring market housing.
 - The size and type of affordable housing required.¹
- 2.9 A robust and credible evidence base is identified by PPS12 as being necessary for a plan to be sound. In line with this, PPS3 expects LPAs to set policy targets for affordable housing supply which are economically viable². PPS 3 states that targets should;

‘reflect an assessment of the likely economic viability of land for housing within the area, taking account of the risks to delivery and drawing on informed assessments of the likely levels of finance available for

¹ Planning Policy Statement 3: Housing. Paragraph 22

² Planning Policy statement 3: Housing. Paragraph 29

affordable housing, including public subsidy and the level of developer contribution that can reasonably be secured³.’

- 2.10 PPS3 states that LPAs should also set out the range of circumstances in which affordable housing will be required. The national indicative minimum size threshold is 15 dwellings. However, LPAs may:

‘set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area. LPAs will need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed including their likely impact upon overall levels of housing delivery and creating mixed communities...’⁴

Regional Spatial Strategy: The Yorkshire and Humber Plan 2008

- 2.11 The Yorkshire and Humber Plan is the current Regional Spatial Strategy for the Yorkshire and Humber Region. It was issued in May 2008 and is a primary consideration for CBMDC in developing LDF policies.
- 2.12 The housing requirement in the RSS states that approximately 50,000 new homes will have to be built in the Bradford district between 2008 and 2026, to meet the need of the growing population and the increase in housing formation. This states an anticipated provision equating to 2,700 per year.
- 2.13 Policy H4 in the RSS states that LDFs should set targets for the amount of affordable housing to be provided.

Aims and Outcomes

Aims

- 3.1 The final AHEVA report should:
- Ensure robust evidence, which is able to withstand scrutiny at independent examination, is put forward to support LDF affordable housing policies.
 - Use an accepted viability model to test a range of sites across the district.

³ Planning Policy statement 3: Housing, Paragraph 29

⁴ Planning Policy statement 3: Housing, Paragraph 29

- Produce recommendations on the viability of the proportion of affordable housing, site thresholds and tenure splits in different locations and on a range of different site types across the district.
- Support the council in developing a strategic approach to affordable housing through consideration of the viability of affordable housing targets and thresholds across the district.
- Ensure that the viability study not only informs the economics of development in today's market, but also for the whole plan period.

Outcomes

3.2 Consultants will need to deliver a final report which will set out the methodology, analysis and conclusions of the AHEVA. This should contain firm recommendations on maximum viable and deliverable affordable housing targets and test the sensitivity of these targets, a range of development thresholds, percentage requirements and tenure splits. These recommended targets and tenure splits should be supported by robust and transparent information which is capable of detailed interrogation and defence through the statutory planning process.

4 Methodology

4.1 There is currently no formal government guidance regarding the methodology which should be used in undertaking an AHEVA. Therefore, consultants are invited to propose the detailed methods to be used which will provide a robust AHEVA.

4.2 The methodology put forward will need to incorporate the following requirements;

- It will be necessary to undertake an assessment of a range of sites, real or hypothetical, as is appropriate across the seven housing market sub-areas identified in the SHMA (Appendix F). These are; Wharfedale, Keighley and Worth Valley, Bingley and Shipley, City North East, City West, City Central and City South. The study will need to test the viability of sufficient sites to examine whether there are any differences in viability within or between the seven sub-areas.
- The study should look to budget for testing at least 20 sites. Consultants should propose and justify the exact number and type of sites to be tested in their submission.
- Consultants should state in their submitted methodology whether real or hypothetical sites will be used and justify the reasons for the chosen approach.
- Bradford district is diverse and the Core Strategy will look to guide future allocations of housing sites. Currently given the high housing growth figures it is likely that a broad range of sites, ranging from

inner city brownfield sites to greenfield sites and urban extensions, will be considered. It would therefore be appropriate for the viability study to test sites in the following locations;

- Urban areas
- Rural areas
- Brownfield sites
- Greenfield sites

The study will need to examine the viability of affordable housing on a range of sites which reflect this.

- The viability model (to be decided between the Council and Consultants) will need to test the viability outcomes of a range of affordable housing targets, tenures and thresholds through modelling a comprehensive range of scenarios. This should include running the appraisal with a range of different thresholds and targets and tenure splits based on the housing need evidence in the Bradford SHMA.
- The study will need to assess the implications of affordable housing provision at:
- The affordable housing requirement identified in the SHMA and levels above and below this target, including the potential for area based targets;
 - varying affordable housing thresholds up to the planning guidance level of 15 dwellings.
 - varying levels of tenure and development mix, including the indicative social rented/intermediate split identified in the SHMA.
- Affordable housing targets will need to be assessed in the context of varying market conditions. This will be important as the affordable housing targets in the Core Strategy will apply for the whole plan period to 2026 and therefore it would not be reasonable to base Core Strategy policy on a short term view of the housing market, and that a reasoned assumption on what might be a normal market will be needed. Consultants should propose how this will be achieved in their submission.
- The AHEVA must have regard to local market conditions in the Bradford district and the emerging LDF evidence base, particularly the Bradford SHMA.
- The AHEVA should incorporate planning obligations into any viability appraisal and the submitted methodology will need to advise on the approach taken regarding the Community Infrastructure Levy (CIL).
- Stakeholder involvement will be an important part of the proposed method. This will need to involve house builders. Stakeholders will need to be consulted on any model and modelling assumptions used,

the study methodology and the outputs and conclusions of the modelling. We would expect the submitted methodology to make recommendations on approaches to stakeholder engagement. A steering group will be formed to oversee the study

Report

4.3 The technical viability analysis should be accompanied by a report, which broadly follows the outline structure below:

- Executive Summary.
- Policy context
- Methodology and the housing market area
- Results of the economic viability assessment
- Policy implications
- Conclusions.

4.4 The technical analysis and report are to be presented to the Client in accordance with the Timetable at section 7.1.

2

Bradford Affordable Housing Economic Viability
Assessment

For

The City of Bradford Metropolitan District
Council

APPENDIX TWO
POLICY CONTEXT

October 2010



Contents

1.0	National Policy and Guidance	3
2.0	Planning Policy Statement 3: Housing	3
3.0	Planning Policy Statement 12: Local Spatial Planning (June 2008)	4
4.0	ODPM - Circular 05/2005: Planning Obligations	4
5.0	Regional Spatial Strategy – The Yorkshire and Humber Plan 2008	5
6.0	Replacement Unitary Development Plan (RUDP)	6
7.0	Core Strategy Issues and Options – February 2007	7
8.0	Bradford City Centre Affordable Housing Supplementary Planning Document (SPD) – October 2008	8
9.0	District Wide Affordable Housing Supplementary Planning Document (SPD)	9
10.0	Planning Obligations Supplementary Planning Document (SPD) – October 2007	10
11.0	Bradford City Centre Area Action Plan (AAP) – Issues and Options Report –August 2007	10
12.0	Allocations Development Plan Document (DPD)	12
13.0	Annual Monitoring Report 2008/09	12
14.0	Bradford Strategic Housing Market Assessment Arc4 – June 2010	13



1.0 National Policy and Guidance

- 1.1 In 2003, the government set out their current vision for housing in the Communities Plan. This publication led to a period of significant change in planning systems across the UK and the current housing policy document which is Planning Policy Statement 3 and the companion document Delivering Affordable Housing.
- 1.2 The Key Objectives of the Communities Plan state that our communities should:
- Be economically prosperous;
 - Have decent homes at affordable prices;
 - Safeguard the countryside;
 - Enjoy a well designed, accessible and pleasant living and working environment; and
 - Be effectively and fairly governed with a strong sense of community.

2.0 Planning Policy Statement 3: Housing

- 2.1 PPS3 supplements the aims of the Communities Plan and specifically sets out the National Affordable Housing Policy. PPS3 identifies a number of specific requirements, but emphasises that policy should be applied flexibly, "having regard to housing need and supply and taking account of risks to delivery, drawing upon an informed assessment of the level of finance available, including public subsidy and the level of developer contributions that could reasonable be assumed".¹
- 2.2 Paragraph 29 of PPS3 also refers to viability being important for the setting of overall affordable housing targets. This involves looking at the risks to delivery and the likely level of finance available including public funding and developer subsidy.
- 2.3 A companion document to PPS3, Delivering Affordable Housing expands upon these principles; "Effective use of planning obligations to deliver affordable housing requires good negotiation skills, ambitious but realistic affordable housing targets and thresholds given site viability, funding 'cascade' agreements in case grant is not provided, and use of an agreement that secures standards".²
- 2.4 The approach is therefore to identify the level of need and its nature, to consider the types of affordable housing that might best meet this need and then to consider the economics of delivery and how sources of uncertainty (such as the availability of public funds and economic changes over the life time of the development) can best be managed. This process will necessarily involve the assessment of the financial circumstances of development sites, a process that lies outside the scope of this statement.

¹ Paragraph 29, PPS3, DCLG, November 2006

² Delivering Affordable Housing, CLG November 2006, page 3



- 2.5 The basis of affordable housing must also be considered in the light of economic viability and deliverability. It is important that policies must be grounded in the real world so that they do not hinder development and restrict sites coming forward for (residential) development.
- 2.1 Small changes to PPS3 were implemented by the coalition government in June 2010 regarding the following:
- The national indicative minimum density of 30 dwellings per hectare is deleted from paragraph 47; and
 - Private residential gardens are now excluded from the definition of previously developed land in Annex B.

3.0 Planning Policy Statement 12: Local Spatial Planning (June 2008)

- 3.1 PPS12 considers the deliverability and flexibility of Core Strategies in paragraphs 4-44 to 4-46. This is within the context of overall infrastructure requirements but it is clear that if infrastructure is to be delivered then viability of policies, including affordable housing policies, are viable within this context.
- 3.2 Furthermore, the flexibility of core strategy requirements should also be assessed and PPS12 goes on (paragraph 4-46) to suggest a minimum 15 year consideration of the impact of policy to calculate how contingencies should be dealt with so that constraints and challenges to policy can be considered over the longer time frame.
- 3.3 PPS12 also gives specific guidance on the evidence base necessary to support core strategies. The evidence base should be based on two elements; participation and research/fact finding. Generally, the core strategies should be based on "thorough evidence".

4.0 ODPM - Circular 05/2005: Planning Obligations

- 4.1 Circular 05/05 also has a key role to play in the subject of viability as it provides guidance on the use of planning obligations under S106 of the Town and Country Planning Act 1990. Paragraph B5 of the Circular requires that planning obligations are only sought where they meet all of the following tests:
- Relevant to planning;
 - Necessary to make the proposed development acceptable in planning terms;
 - Directly related to the proposed development;
 - Fairly and reasonably related in scale and kind to the proposed development; and
 - Reasonable in all other respects.



4.2 The level of financial contributions required on individual sites can be critical in any assessment of financial viability. Circular 05/05 provides the basis upon which Local Authorities should incorporate sufficient information in to the plan-led system in order to enable developers to predict as accurately as possible the likely contributions they will be asked to make through planning obligations. On occasions formulae and standard charges may be appropriate, as part of the framework of negotiating and securing planning obligations. This may change in the near future as further work progresses on introducing the Community Infrastructure Levy (CIL). Regulations implementing CIL came into force on 6th April 2010. However, Planning Obligations will remain after CIL is introduced and affordable housing is likely to continue to be secured through planning obligations rather than CIL.

4.3 The previous Government argued that CIL would improve predictability and certainty for developers as to what they will be asked to contribute. It will increase fairness by broadening the range of developments asked to contribute and will allow the cumulative impact of small developments to be better addressed. A key benefit of CIL is that it can more easily fund sub-regional infrastructure, typically larger elements that will benefit more than one Local Authority Area. It was proposed that Local Authorities should have the freedom to work together to pool contributions from CIL within the context of delivering their development plan. It is also anticipated that public sector bodies could forward fund infrastructure and be reimbursed from a CIL Income Stream.

5.0 Regional Spatial Strategy – The Yorkshire and Humber Plan 2008

5.1 The Yorkshire and Humber Plan is the Regional Spatial Strategy for the Yorkshire and Humber Region. On 6th July 2010 Secretary of State Eric Pickles announced the revocation of Regional Spatial Strategies in a letter sent to Chief Local Authority Planning Officers. The letter includes guidance which reads: "In the longer term the legal basis for Regional Strategies will be abolished through the 'Localism Bill' that we are introducing in the current Parliamentary session. New ways for local authorities to address strategic planning and infrastructure issues based on cooperation will be introduced".

5.2 The guidance states that the revocation of RSSs is "not a signal for local authorities to stop making plans for their area." It advises local planning authorities to continue to develop LDF core strategies and other DPDs, "reflecting local people's aspirations and decisions on important issues such as climate change, housing and economic development."

5.3 On housing targets the guidance says: "Local planning authorities will be responsible for establishing the right level of local housing provision in their area, and identifying a long term supply of housing land without the burden of regional housing targets. Some authorities may decide to retain their existing housing targets that were set out in the revoked Regional Strategies. Others may decide to review their housing targets".

5.4 The housing requirement in the RSS states that approximately 50,000 new homes will have to be built in the Bradford district between 2008 and 2026, to meet the need of the growing population and the increase in housing formation.



- 5.5 Policy H1 (Provision and Distribution of Housing) states that Bradford should ensure the average annual net additions to the housing stock of 1,560 from 2004 to 2008 and 2,700 from 2008 to 2026. For the purpose of housing allocations Bradford falls into the West Yorkshire Sub Region. Due to capacity constraints, and the need to ensure an adequate supply of homes in all parts of the region, it is not appropriate to match housing growth with potential job growth in Leeds and Bradford, but both cities need to significantly increase housing supply.
- 5.6 Policy H4 states that LDFs should set targets for the amount of affordable housing to be provided. It also states that the Region needs to increase its provision of affordable housing. Provisional estimates of the proportion of new housing that may need to be affordable are set out for different parts of the region. It is estimated that the following rates of provision are required across the district:
- Over 40% in North Yorkshire districts and the East Riding of Yorkshire;
 - 30-40% in Kirklees, Leeds, Wakefield and Sheffield;
 - Up to 30% in other parts of South and West Yorkshire, Hull, North Lincolnshire and North East Lincolnshire.
- 5.7 Bradford also forms part of the Leeds City Region under policy LCR1 and the aim is to transform the Regional City of Bradford with significantly increased growth in economic development, jobs and homes through the renaissance of the city centre, and regeneration elsewhere.

6.0 Replacement Unitary Development Plan (RUDP)

- 6.1 The Replacement Unitary Development Plan (RUDP) adopted in October 2005 is the District's present development plan. The Plan covers the period to 2014 for housing allocations with a longer term strategy up to 2021.
- 6.2 The Council's affordable housing policy is outlined in Policy H9 of the RUDP. Provision of affordable housing will be sought for residential developments, depending on the need, suitability of the site and economics of provision. More detail of the level of contribution is contained in the supporting text, more specifically, Paragraph 6.27 which outlines the percentages of affordable housing required in different parts of the District.
- 6.3 The Replacement UDP details the percentage of affordable housing which is required when an application is submitted for fifteen units or above. The percentage varies across the District:
- Wharfedale – 40%
 - Airedale – 30%
 - The Villages – 25%
 - Bradford and Keighley Inner and Suburbs – 15%



6.4 The percentage figures above are a starting point for negotiation which will be undertaken on a case by case basis, and will take into account current need and the economic viability of the proposed development.

6.5 Policy H9 sets out the principles of providing affordable housing. Policy H9 states:

‘On planning applications for substantial residential development the Council will negotiate for a proportion of affordable housing based on the extent and type of need, the suitability of the site or building in the case of conversions, and the economics of provision’.

6.6 Policy UR6 of the Replacement Unitary Development Plan sets out the Council's approach to using planning obligations:

6.7 It states: ‘The Council will impose conditions or seek planning obligations where development proposals require or would not be acceptable without the provision of:

- Physical Infrastructure;
- The mitigation of adverse environmental impacts and/or the enhancement of the environment;
- and Social Infrastructure’.

7.0 Core Strategy Issues and Options – February 2007

7.1 The Council are currently taking stock of all the information gathered during the Issues and Options and Further Issues and Options Stages of the Core Strategy to produce the Preferred Option for the Bradford District.

7.2 The topic paper ‘Meeting the Need for Dwellings in the District’ was published as part of the Core Strategy Issues and Options in February 2007. The paper outlines that 70% of households in the Bradford area are already owner occupiers and 25% are in rented property. The paper also highlights localised demand for affordable housing in areas such as Lidget Green, Daisy Hill, Fairweather Green, Frizinghall and Manningham areas, which all have high levels of under supply of affordable housing³.

7.3 The options for meeting needs of the community include:

- allocating sites specifically for affordable housing in all parts of the District where there is need;
- lowering the site size threshold where developers are expected to provide affordable housing in areas where there is an acute shortage of affordable housing;
- allocating larger sites, which encourage mixed tenures;

³ ‘Meeting the Need for Dwellings in the District’ published as part of the Core Strategy Issues and Options, City of Bradford Metropolitan District Council, February 2007, P.11



- Requiring different sites to make provision in relation to a percentage based on the market area and need which promotes a higher requirement in areas of highest need (eg Wharfedale).⁴

- 7.4 The Topic Paper also indicates that the bulk of housing in the District is either terraced or semi-detached and that the local authority has the lowest level of detached housing in the whole region.
- 7.5 The Council published a Settlement Study as part of the Further Issues and Options in January 2008. The background paper sets out the approach taken by the Council regarding the identification of the roles of individual settlements and the suitability of areas of the District for future development to accommodate future growth. The settlement study examines a number of areas across the District including Bradford North East, Bradford City Centre, Bradford South East, Bradford South West, the Canal Road Corridor and Shipley. In addition twenty settlement profiles are set out for the areas to the north and west of the Bradford Urban Area.
- 7.6 As part of the Further Issues and Options the Council also produced a Spatial Vision and Strategy Paper. City living will be encouraged in Bradford City Centre with regeneration at key re-developments. The Bradford Urban Area (including Shipley and Lower Balidon) will be the main focus for new housing provision within the District. The Canal Road Corridor will become a key area for the provision of housing.
- 7.7 In Airedale, Keighley will maintain its role as a key centre. Housing (including affordable housing) will be provided in Bingley. There will be varied housing provision, including affordable housing in Balidon. Silsden will become an important centre for those settlements in the northwest of the District.
- 7.8 In Wharfedale, Ilkley will remain the principal town. Housing will be provided, including affordable housing to provide sustainability. The Wharfedale area includes the villages of Burley and Menston.
- 7.9 Housing to meet local needs including affordable housing will be a priority in the Pennine Towns and Villages. Diversification of the rural areas will be supported.

8.0 Bradford City Centre Affordable Housing Supplementary Planning Document (SPD) – October 2008

- 8.1 The SPD was adopted in October 2008 and sets out the City of Bradford Metropolitan District Council's affordable housing policy for the City Centre. The SPD and its policy provisions apply until such time as it is superseded by the provision of the Bradford City Centre Area Action Plan. The SPD elaborates on the replacement UDP in relation to all developments in the city centre which require an affordable housing contribution.
- 8.2 The following requirements for affordable housing delivery on development schemes will be sought by the Council:

⁴ Ibid



- Schemes of less than 15 units = 0%
- Schemes of 15-49 units = 10%
- Schemes of 50 units or more = 15%⁵

8.3 The Council has considered the balance of delivery between open market and affordable accommodation. The SPD states that, 'the unique characteristics of Bradford City Centre lend themselves to a bespoke, targeted and focused affordable housing policy which is considerate to the needs of inner city residents and is aware of the influence the City Centre residential market has on surrounding areas'.⁶

8.4 The SPD indicates that there are large concentrations of affordable housing within the City Centre located at Chain Street, Baptist Place and Newcastle House. It is stated that in the areas surrounding these developments affordable housing will not normally be required to be developed onsite and the Council will seek an off-site contribution.

8.5 Paragraph 4.1 of the SPD indicates that the majority of affordable housing sought by the Council will be via Low Cost Home Ownership models. However, 'this will not rule out the delivery of limited and targeted schemes for social rent where justified by evidence of current or future shortfalls in this sector and where there is an identified unmet need'⁷. These models will include shared ownership and shared equity, as well as discount for sale accommodation and leasehold for the elderly.

9.0 District Wide Affordable Housing Supplementary Planning Document (SPD)

9.1 The Council published a District Wide Affordable Housing SPD Scoping Report in October 2008. The SPD is yet to be adopted and was intended to expand upon and provide further detail to the policies in the Replacement Unitary Development Plan. The scoping report provides a number of best practice examples which look at Affordable Housing SPDs prepared by other local authorities.

9.2 The scoping report raises 32 questions including:

- Should the SPD look for consistency with other adjoining authorities and authorities within the Strategic Housing Market Area regarding affordable housing policy?
- Should the SPD outline at what level intermediate housing should be above/below social and market prices or rents?
- Should the threshold for seeking the provision of affordable housing be set at 15 or more dwellings or would it be more appropriate to set a lower

⁵ Bradford City Centre Affordable Housing Supplementary Planning Document (SPD), City of Bradford Metropolitan District Council, October 2008, P.1

⁶ Ibid, P.3

⁷ Ibid, P.8



threshold? If so, what should this threshold be and what reason would there be for setting a lower/ higher threshold?

- Is it appropriate for the SPD to set affordable housing targets? If so, should the current targets be amended?
- Should the targets be different according to the size of the site?

9.3 The Local Development Framework has assessed all of the comments received which will have an impact on the preparation of the SPD.

10.0 Planning Obligations Supplementary Planning Document (SPD) – October 2007

10.1 The Planning Obligations SPD (adopted October 2007) sets out the Council's approach that will be taken with regard to Policy UR6 of the Replacement Unitary Development Plan.

10.2 Paragraph 4.3 of the SPD indicates that Planning Obligations can be used:

- To counteract need arising from development – such as pressures placed upon education provision or open space provision;
- As a way to integrate development into the surrounding community and environment; to make the development more sustainable;
- To restrict or encourage development of a certain use, or require land to be developed in a certain way, for example the provision of affordable housing.

10.3 The list of key areas for contributions is outlined in section 7 of the SPD and includes:

- Affordable Housing;
- Education;
- Highways and Physical Infrastructure and Travel;
- Natural Environment;
- Open Space and Recreation;
- Public Art ;
- Public Realm.

11.0 Bradford City Centre Area Action Plan (AAP) – Issues and Options Report –August 2007

11.1 The Issues and Options for the Area Action Plan were published for consultation in August 2007 until mid November 2007. The slippage of the Core Strategy has had



implications for the timing of the Bradford City Centre AAP Preferred Options Report. The City Centre Area Action Plan is needed to:

- Deliver proposed growth in the City Centre;
- Stimulate regeneration;
- Protect built heritage whilst accommodating new development;
- Ensure developments are of appropriate scale, mix and quality.

11.2 Objective 4 of City Living and provision requires a range of good quality housing and facilities to cater for a successful city centre community. The trend for city living is developing in Bradford. Over nine hundred units have already been completed in twenty seven schemes. There is also an interest in new-build schemes on the outskirts of the city centre which propose mixed use developments, located at key entrance points.

11.3 Among the key issues associated with city living include the amount, location and type of affordable housing in the city centre. Issue 1 discusses the amount of new affordable housing to be located in the City Centre. At present, there is no figure for the number of houses to be built. Various options discussed include:

- The number of new houses should be left to the market;
- The Area Action Plan should indicate a housing target;
- No more housing should be encouraged in the city centre.

11.4 Issue 2 examines the location of new housing in the city centre as there are no current housing allocations. Development to date has been focused in Little Germany and Manor Row. The options examined included:

- The AAP should designate areas for housing to avoid conflicts between different uses;
- The location of housing should be left to the market to ensure greater flexibility;
- A balance of uses in one area should be encouraged.

11.5 Issue 3 analyses the type of housing to be encourage in the City Centre. Currently, the majority of units coming forward are one bed and two bed apartments. A number of options are presented, including:

- There should be a mix of housing types and sizes in the City Centre, but the location should be left to the market to decide;
- Areas of the City Centre should be designated for one type of housing;
- It should be left to the market to determine the location and range of housing types to ensure some flexibility.



12.0 Allocations Development Plan Document (DPD)

- 12.1 Consultation on the Issues and Options paper was scheduled for November 2008 to January 2009, however due to the delay in preparing the Core Strategy progress has slipped. Substantial work has already been carried out in identifying sites through analysis of urban capacity and the Council is currently preparing a Strategic Housing Land Availability Assessment (SHLAA). The SHLAA will comprise a robust search for site across the district and will focus on site developability providing outputs for testing both Core Strategy options and site allocation options.

13.0 Annual Monitoring Report 2008/09

- 13.1 The Council's Annual Monitoring report indicates that there were 1,440 net additional dwellings during the monitoring year and the following table outlines housing delivery from 2004/05 to 2008/09:

Year	Net Additional Dwellings
2004-2005	1361
2005-2006	1369
2006-2007	1578
2007-2008	2156
2008-2009	1440

- 13.2 The Annual Monitoring Report also states that outstanding planning permissions total 10,459 and this includes 6990 on previously developed land, 2087 through conversion/change of use and 1382 on greenfield land, agricultural land and agricultural buildings. In addition, remaining allocations in the Replacement UDP total 4,451. The Annual Monitoring Report states that, 'based solely on planning status, the total of the current supply of outstanding planning permissions and the remaining allocations in the RUDP 15910, will last for 5.89 years against the net annual requirement of 2,700 dwellings'⁸.
- 13.3 During the monitoring year of 2008/09 a total of 259 affordable homes were provided, including 155 social rented and 104 intermediate properties.
- 13.4 The following table outlines the number of completed schemes by density category. 22.22% of completed schemes were completed at a density of below 30 dph, 22.2% were also completed at 30-50 dph and there is a large proportion (55.56%) of schemes with a density above 50dph:

⁸ Annual Monitoring Report 2008/2009, City of Bradford Metropolitan District Council, December 2008, P.32



	Number of Completed Schemes	% of Completed Schemes	Number of dwellings on completed schemes.
<30 dph	10	22.22%	311
30-50 dph	10	22.22%	365
>50 dph	25	55.56%	917
Total	45	100	1593

- 13.5 The following table illustrates that during the monitoring year the percentage of completions on Previously Developed Land (PDL) is in excess of the 65% regional target set out in the RSS:

	Gross new build completions	Gross change of use to residential	Gross conversion to residential	Total
Number on PDL	971	292	105	1368
Number on Greenfield	181	27	4	212
Total	1152	319	109	1580
Percentage gross on PDL	84.29	91.54	96.33	86.58

14.0 Bradford Strategic Housing Market Assessment Arc4 – June 2010

- 14.1 Arc4 have been commissioned by the Council to undertake a Strategic Housing Market Assessment (SHMA) for the City of Bradford Metropolitan District which is due to be published imminently.
- 14.2 The SHMA found that median house prices across Bradford District have increased by 163% over the ten year period 1999 to 2009, with median prices peaking at £129,950 in Quarter 4 2007. During 2009, average prices in Bradford District fell by 7.2% compared to a fall of 2.7% regionally. By October 2009, prices in Bradford had fallen 17.9% from their peak.
- 14.3 The SHMA demonstrates that there are considerable variations in house prices across Bradford District. The highest house prices were in Wharfedale, with prices of between £150,000 and £180,000 in the Bingley and Shipley area. The lowest prices were in the City Central and City South areas⁹.
- 14.4 The affordability of open market dwellings in Bradford District is compared with 21 other local authorities in Yorkshire and Humber. Bradford ranked as the 8th most affordable local authority. However, the study also indicates that average house

⁹ Bradford Strategic Housing Market Assessment, Arc4, June2010, P.37



prices fail to illustrate that areas such as Wharfedale are amongst the least affordable in the District.

- 14.5 The SHMA also studies sub-markets within the local authority area. A number of sub-areas were studied by considering ward level data. The urban area of Bradford was split into four localities, including: City West, City South, City Central and City North East. The remainder of the District divided into: Bingley and Shipley; Keighley and Worth Valley; and Wharfedale¹⁰.
- 14.6 The tenure profile of Bradford district is as follows: 70.1% of dwellings are owner occupied, 15.1% are social rented, 14.1% are private rented and 0.3% are intermediate. Proportions of social rented properties were found to be highest in City Central, City South and Keighley & Worth Valley. The proportion of households who are owner-occupiers exceeds 80% in Wharfedale and Bingley and Shipley.
- 14.7 The SHMA calculated that there is a net need for 749 affordable homes per annum from 2008/09 to 2012/13. Net and Gross requirements are broken down by number of bed spaces in the following table:

Designation	No. Beds	Gross	Net
General Needs	One	8	-375
	Two	502	351
	Three	741	604
	Four +	119	108
Older Person	One/Two	160	61
Total		1530	749

Annual Affordable Housing Requirement 2008/09 to 2012/13¹¹.

- 14.8 The SHMA conclusions indicate that affordable housing policies in the Council's LDF need to be informed by the above evidence. An overall district-wide target of 25% to 30% is suggested on the basis of a net shortfall of 749 properties per annum and RSS targets. The SHMA states that, 'assuming a 25-30% District-Wide target, it would be appropriate to split this between a target for urban areas (25%-30%) and a rural target for Wharfedale (35%-40%)'.
- 14.9 SHMA analysis suggests that there is a role for intermediate products in Bradford and it is estimated that a proportion of those in need (23.6%) could afford equity shares in intermediate products of up to £60,000. It is also stated that the proportion of intermediate dwellings to be delivered needs to be reconciled with the economic viability of delivering affordable housing.
- 14.10 Across Bradford District, demand for open market accommodation exceeds supply, particularly in City Central, City West, City South, Bingley & Shipley and Keighley/Worth Valley sub-areas. Specific shortfalls include larger three and four bedroom properties. An analysis of property type preferences of households in need and newly-forming households would suggest the following profile of property types:

¹⁰ Ibid, P.44

¹¹ Ibid, P.78



- 42.3% houses;
- 31.5% flats;
- 26.2% bungalows.

14.11 Provision of affordable housing on smaller sites is also dealt with in the SHMA. Paragraph 6.19 of the SHMA states that, 'development in the smaller settlements and even in larger ones such as Ilkley is more weighted to small sites and windfalls (below 0.4ha) and there is a need for these small sites to make an affordable housing contribution either on site or via commuted sum payments'.

3

Bradford Affordable Housing Economic Viability
Assessment

For

The City of Bradford Metropolitan District
Council

APPENDIX THREE
CURRENT AND PROJECTED ECONOMIC
CONDITIONS

October 2010



Contents

1.0	Introduction	3
2.0	Market Trends	4
3.0	Yorkshire and Humberside Regional Context	8
4.0	Future House Price Growth Scenarios	12



1.0 Introduction

- 1.1 The Level analysis of viability is a dynamic one and takes into account past economic trends in order to assess how future residential markets might perform. While past history has its own specific characteristics which may be peculiar to the period in question, there are still fundamental principles that can be seen that might suggest how markets might perform in the future. This will not inform a single assessment of how the market will change but will give us the main parameters within which we can test possible scenarios.
- 1.2 It is important to note that our analysis is limited to the residential market. Where we discuss the general economy this is in the context of its action upon the housing market both nationally and locally. It is not our purpose, here, to predict general economic conditions either locally or nationally. However, we do look at the effects of the economy on the housing market both in terms of price trends and affordability.



2.0 Market Trends

- 2.1 Although local housing markets are contingent upon local conditions, they are also subject to both the economic conditions internationally and nationally. More specifically, they are subject to national regulation and constraints. In particular, the availability and cost, generally, of finance dictates the price that home owners are able to afford. The costs of finance for individuals will be influenced by financial institutions' lending practices and interest rates. These, in turn, are influenced by the national economy and, increasingly, the role of international markets is also important.
- 2.2 Looking at past market performance can only give trends and the interpretation of how markets act must be considered carefully. For instance, the housing market recession of the late 1980s and early 1990s has been considered to be due to the dramatic increase in base interest rates and the cost of finance. While this admittedly caused a number of home owners into financial difficulties, some commentators¹ have pointed to the possibility that the housing market had already been in decline and that the fall in values had already started to take place.
- 2.3 The housing market recession of the 1990s is likely to have happened in any case notwithstanding the effect of Black Wednesday in 1992. The housing market was beginning to recover just before that stage and the dramatic increases in the cost of borrowing immediately following Black Wednesday heralded a further period of house price stagnation. However it is still not clear whether this was part of the general cycle in house price inflation/deflation and, in particular, Fred Harrison points to an approximate 18 year boom and bust land and property cycle that has been evident over the long-term.² In other words, it may be possible that these property price fluctuations occur despite (not because of) general economic trends and, indeed, may be their very cause.
- 2.4 Another peculiar feature of the housing market is the positive price:transaction volume correlation.³ When prices inflate, the number of transactions increases; trading is more frequent and volume is higher when prices go up and vice versa.⁴ This means that a more dynamic approach to the assessment of the performance of the housing market has to be examined.
- 2.5 Rady and Ortalo-Magne⁵ suggest a model to explain the underlying reasons for "boom-bust" housing market cycles. It assumes households will generally prefer

¹ See especially Fred Harrison "Boom Bust: House Prices, Banking and the Depression of 2010" Shephard Walwyn 2005, Andrew Oswald "The Great 2003-2005 Crash in Britain's Housing Market" November 2002, Cameron Muellbauer and Murphy "Was there a British House Price Bubble? Evidence from a Regional Panel" March 2006

² Gordon Brown, as Chancellor of the Exchequer, acknowledged the effect of a volatile housing market : "Most stop-go problems that Britain has suffered in the last 50 years have been led or influenced by the more highly cyclical and often more volatile nature of our housing market" - Gordon Brown, Chancellor of the Exchequer, House of Commons, June 2003

³ The effect of the ability to borrow and asset value is discussed by Lamont and Stein where "over some regions, a fall in asset prices can actually lead to reduced asset demands, because it impairs the ability of potential buyers to borrow against the assets". Owen Lamont (University of Chicago) and Jeremy C Stein (MIT Sloan School of Management) "Leverage and House-price dynamics in US Cities"

⁴ See Wenlan Qian "Heterogenous Agents, Time-varying Macro Fundamental and Asset Market Dynamics." Haas School of Business University of Berkeley (2008)

⁵ Rady and Ortalo-Magny "Housing Market Dynamics: On the Contribution of Income Shocks and Credit Constraints" Department of Economics, University of Munich (2001)



home-ownership and that the incomes of young households play a critical role in the fluctuations in the market. The market is sensitive to income “shocks” amplified by credit constraints which affect the timing of household moves that explains the positive price:transaction volume correlation.

- 2.6 The actions, generally, of first-time buyers is to access the market at a level that can be afforded but with the prospect that they will increase housing consumption as their means allow. Thus, as their income increases, they are able to increase their ability to pay and as income increases for first-time buyers in turn then this will increase the capital for those wishing to make purchases further up the housing ladder. Liberalisation of the finance market has a similar effect to increasing income especially at the bottom of the market. Similarly, an increase in the cost of finance has a similar effect to reducing income.
- 2.7 Credit liberalisation coincided with the high rate of property price inflation during the 1980s. Together with the increase in tax allowance in the 1983 budget for Mortgage Interest Tax Relief at Source (MIRAS) and the ability for couples to pool their resources, access to mortgages for young first time buyers helped many on to the housing ladder. Right to Buy social housing (following 1980) also encouraged many tenants to enter the housing market and thereby increased the potential market for subsequent homebuyers in the latter part of the 1980s. As Rady and Ortal-Magny have pointed out, all of this “prompted a major adjustment of the distribution of debt and housing across households, hence a period of exceptionally many transactions”. They point to the rapid increase of transactions in the 1980s to “repeat buyers bringing forward their moves up the property ladder”.
- 2.8 House price growth, however, only remains sustainable in the long term while incomes are able to support values. As we have pointed out, the main driver of this is first time buyer (starter home) purchase, typically those households in the 24-35 age group. Pressure on these households is strong because, generally, these are the most highly geared (their loan to income ratio is the highest). Subsequent movers in the late 1980s – those that had bought in the early 1980s – were dependent upon the generation of high levels of equity in order to realise their progression in the housing market.
- 2.9 The Council for Mortgage lenders (CML)⁶ has remarked on the supply of housing being unresponsive to prices being for two main reasons. Firstly, the durability of housing being such that new housing becomes only a small proportion of the total stock and, secondly, that bringing new housing to the market is both lengthy and has significant barriers.
- 2.10 Taking these factors into consideration, the inelastic supply of housing leads to the “demand driven” increases in price. Any increase in demand due, say, to demographic changes locally or increases in incomes, will lead directly to high housing market inflation.
- 2.11 While certainly it is undeniable that constraints on supply, including the constraints imposed through the planning system, have an effect on the housing market, this

⁶ Ibid pp11 - 12



will have different effects regionally and demand side influences would appear to be more easily modelled.

- 2.12 It is clear that the high interest rates of the late 1980s and early 1990s were a contributing factor in the unaffordability of housing but it becomes more difficult to prove a direct causal link to house price inflation or deflation. Interest rates and the cost of money has become less during the period since 1997 when the government gave control of monetary policy to the Bank of England. While this period coincided with the house price inflation of the mid 2000s, the control of interest rates has failed both to control the rapid increase in prices (2000 to 2007) and the subsequent crash in prices. However, interest rates have remained at their lowest level (0.5%) since the beginning of 2009 and although the cost of mortgages for new buyers has still been difficult this has undoubtedly meant that pressures on the cost of housing has been alleviated. This can partly explain the rallying in values since that time.
- 2.13 Other economic factors, both internationally and nationally, have occurred which will have directly affected the housing market to some extent or another. These include the economic recession of 1979-1980; the abolition of exchange rate controls in 1979; the high unemployment rates and miners strike during the mid 1980s; the subsequent period of strong economic recovery and income growth; the abolition of dual income tax relief of mortgage interest in 1988 that caused a sudden stimulation to the market; the discontinuation of membership of the ERM in 1992 (Black Wednesday); the introduction of the minimum wage by the incoming Labour government; the Bank of England given the power to set interest rates by the incoming Labour government; and the recent worldwide recession ("Credit Crunch"). All of these factors have affected both supply side and demand side factors in the housing market.
- 2.14 Curiously, interest rates have been at the lowest point ever since March 2009 and house prices have continued to increase in the past year albeit at a consistently falling annual rate. Nationwide report that the year on year house price inflation rate has declined from 9.8% in May 2010 to 8.7% in June. Monthly house prices throughout the country are continuing to rise and the 3 month on 3 month rate rose in June 2010 from 1.7% to 1.8%. Property values at the time of writing (July 2010) appear to be holding up despite a number of pressures from budgets cuts economic pressures from the Eurozone and other parts of the world.
- 2.15 Some commentators were suggesting in the early and mid 2000s that the house price increases were sustainable and that the volatility of the past had been "due to a combination of unstable demand and unresponsive supply".⁷
- 2.16 The Council for Mortgage Lenders in 2001, in line with many commentators at the time, were suggesting that the housing market booms and busts were a thing of the past for the following reasons:

⁷ CML 2001 page 18



- a. There are less likely to be large swings in interest rates;
- b. Large swings in financial liberalisation are less likely;
- c. There is likely to be more macroeconomic stability;
- d. Greater financial products increase the flexibility of loan conditions.

Finally, the CML believed at that time that:

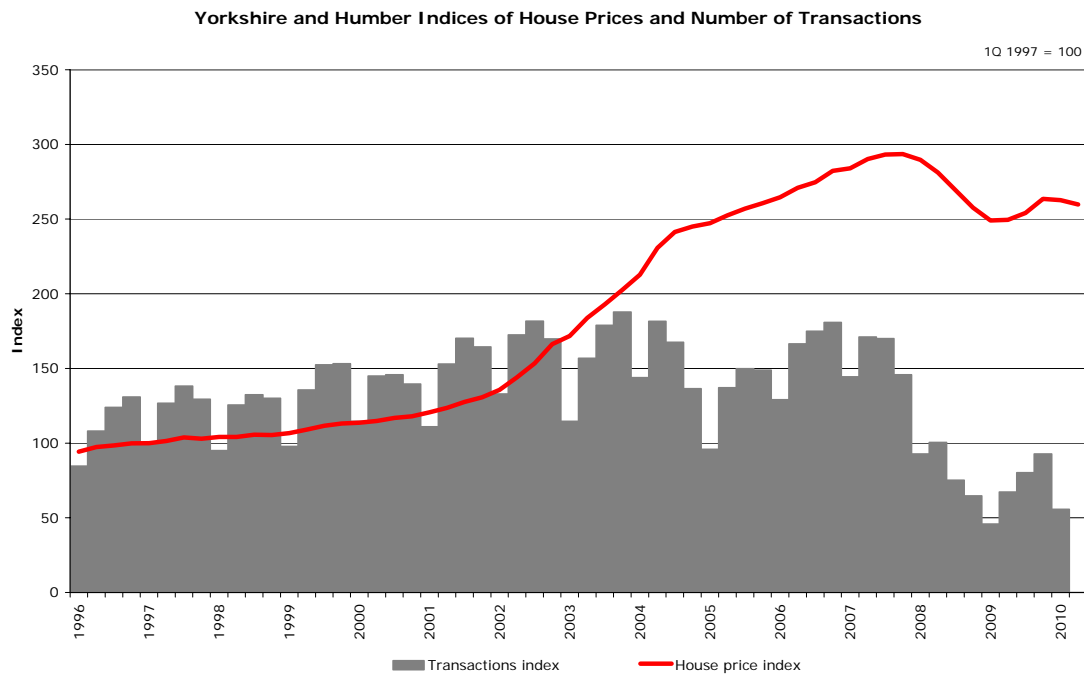
“The risk to consumers is now lower than during the last house price boom, but it seems more likely that borrowers – rather than lenders – are misperceiving the risks”.

- 2.17 Other economic factors have been important recently. For example, it is clear that the sub-prime crisis in America which led to the worldwide recession has affected the UK economy generally and the affects affordability in the housing market. This may not have been foreseen but it is also clear that house prices generally and starter homes in particular, had reached an unsustainable level. This suggests that there may be some further falls in property prices in order to enable affordability to return to the market. If we are return to our suggested 3.5 times income analysis then prices in the UK will have to fall a further 14%.
- 2.18 Other factors, particularly the higher rate of unemployment, are also relevant here for a number of further reasons:
 - a. Unemployment may remain high and with projected low economic growth and the risk following public expenditure cuts some commentators are highlighting the risk of a ‘double dip’ recession;
 - b. There is pressure on incomes generally;
 - c. Finance is increasingly difficult to obtain, high loan-to-value (LTV) mortgages (especially for first-time buyers) are difficult to obtain and, despite low base interest rates, finance is expensive (particularly for those wishing to enter the market for the first time);
 - d. Market confidence is low and households expect prices to fall further.
- 2.19 While these factors are influential on the market, the government has (in the 2009 budget and with additional subsequent announcements), attempted to support the housebuilding industry through a number of measures. It is not yet clear how these measures will affect the property market either in the short or the long terms. On the other hand, it is likely that budget constraints following the March 2010 budget and the subsequent General Election in order to deal with the large deficit will have an effect on spending generally and the economy as a whole.
- 2.20 Therefore, a number of factors have affected and will affect the housing market and the affordability of housing. These include macro-economic influences and the worldwide recession. However, there are also systemic pressures from within the workings of the housing market which affect the affordability of housing and, ultimately, how the market works. In the next section we look at the regional and local situation.



3.0 Yorkshire and Humberside Regional Context

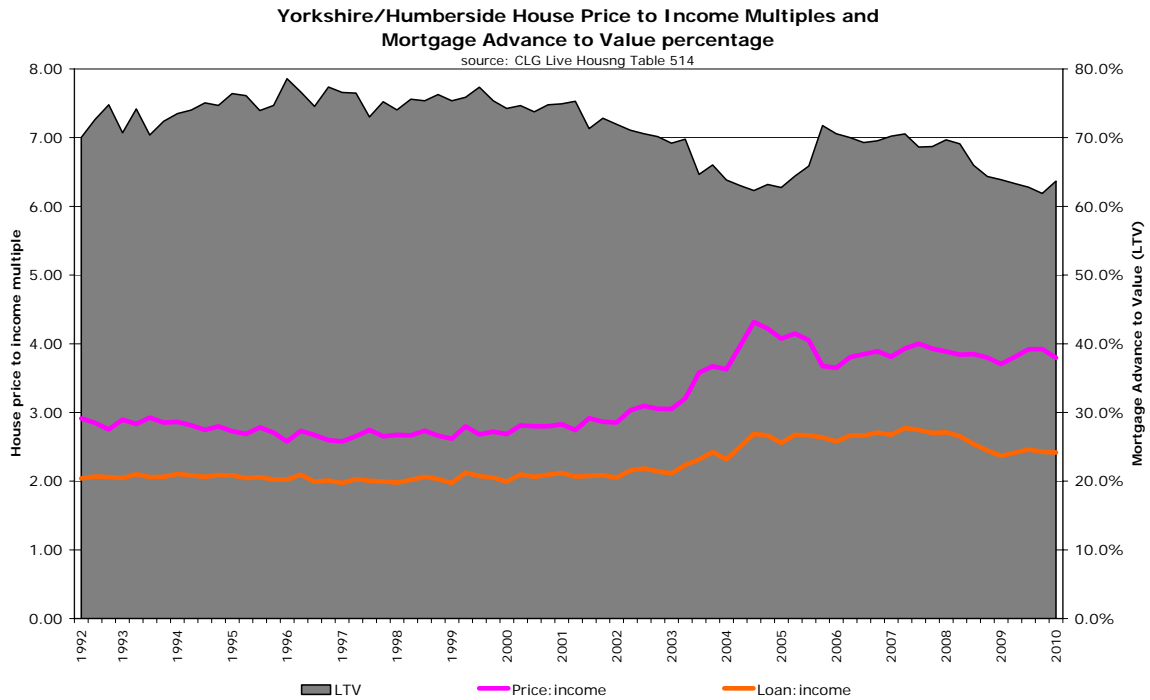
Price/Volume correlation



- 3.1 The graph above demonstrates the approximate correlation between house price and volume.
- 3.2 Firstly examination of the transactions index on a quarter by quarter basis shows the seasonal nature in the number of transactions, with numbers falling typically in Q1 due to the preceding holiday period. Overall, however, transactions generally rose to mid 2003 and represented a period of steady house price growth. Transaction volumes after that period then began a decline, although prices rose steeply and then continued a steady climb towards the price peak in late 2007.
- 3.3 As the availability of mortgage finance became heavily restricted due to the global credit crunch the price correction is evidence the transactions fell to a quarter of their volume at price peak.
- 3.4 Indeed it would appear that prices are holding in current circumstances because of the very limited number of transactions taking place in the market at below half that of peak.



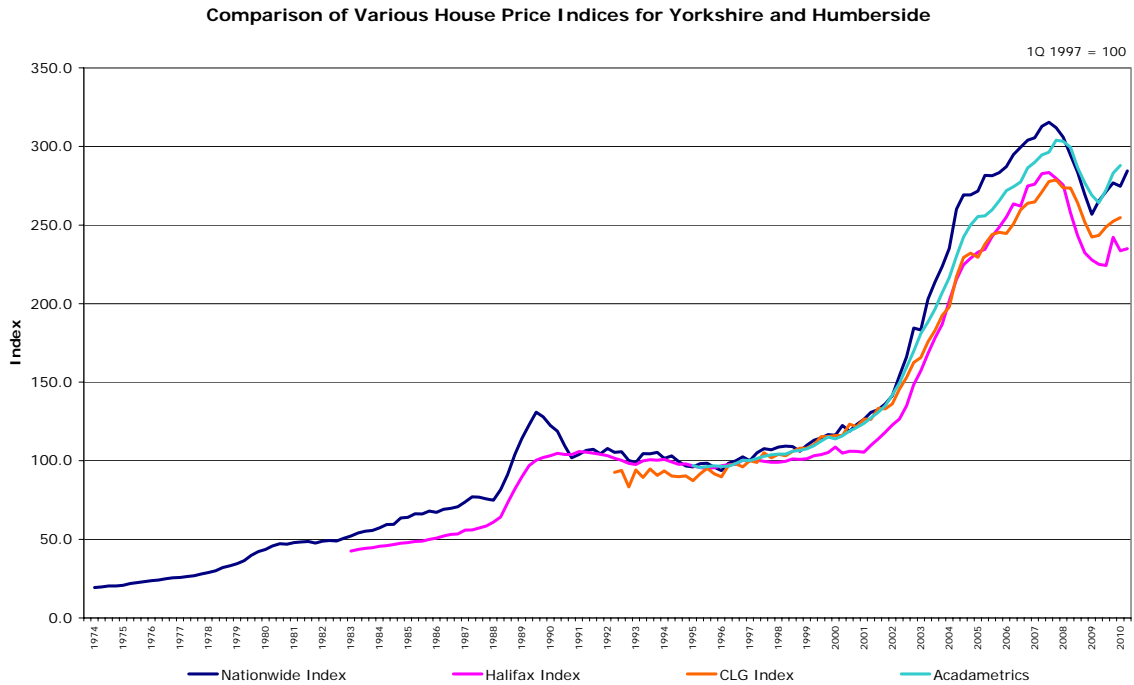
Affordability/Lending trends



- 3.5 From the plot above of Loan:income ratios of mortgages completed on it can be seen that as prices rose to their peak in late 2007 the typical loan:income ratio remained consistently between 2 and 3 times household income.
- 3.6 It should be noted that there was a substantial peak in house price:income ratios in mid 2004, corresponding to the steep climb in house prices at that point and a rise in the loan:income ratio above its historic standard of approximately 2. It is interesting to note that the corresponding period did not see a continuation in the loan to value (LTV) ratio but a reduction. This would suggest a short term change in the way households accessed housing finance, drawing on other resources to fund their house purchase.
- 3.7 Subsequent to that period house price:income ratios fell suggesting that as housing became more expensive it was only those households with a sufficiently high income to access mortgage finance who were able to afford to purchase.
- 3.8 The overall trend for increasing deposits on house purchase can also be seen, represented by a decline in LTV ratios, most significantly since early 2006. This is probably due to the dominance in later years of home movers with significant levels of equity.



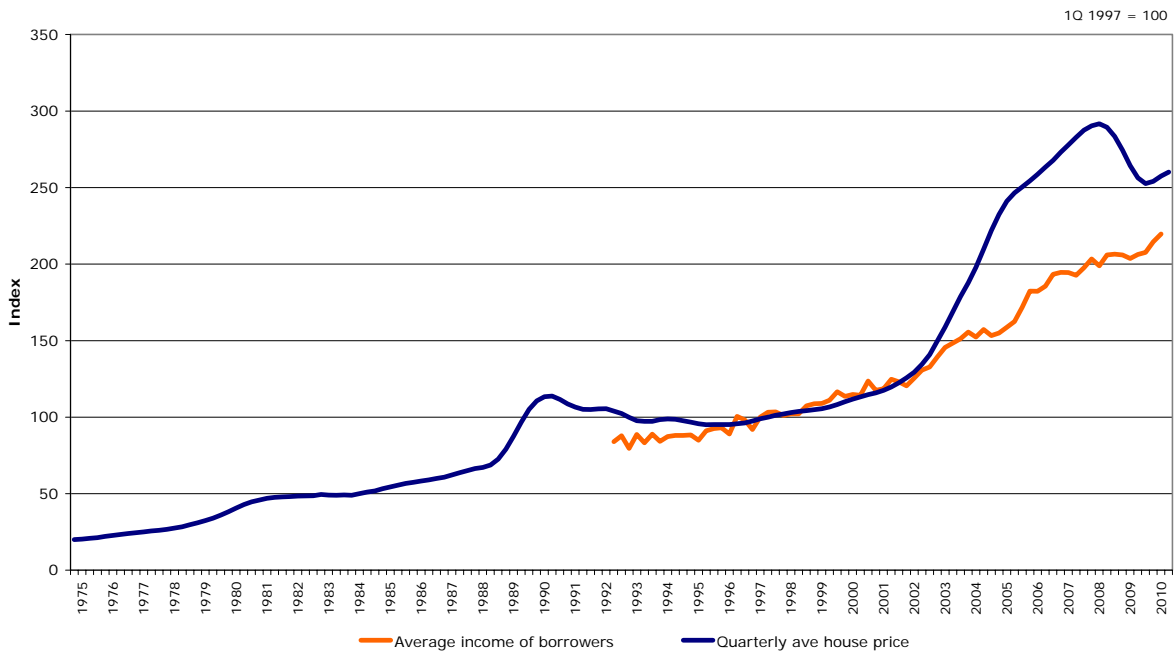
Long term track of house prices



- 3.9 Above is a long term track of published average house price data from Nationwide, Halifax, CLG and Acadametrics. Available data does not cover the same period for all data providers and average house prices have been indexed to First Quarter 1997 to allow comparisons to be drawn.
- 3.10 Firstly it is apparent that, whilst the profile of all the indices is similar, there is a lag in the data points of CLG and Acadametrics. This is because of the way in which the data is compiled using Land Registry data from completed transactions, rather than Halifax and Nationwide data which is collected at mortgage valuation stage.
- 3.11 The approximate 18 year peak to peak market cycle can be seen between 1989 and 2007, with the very substantial price increases in the later half of the cycle, followed by a tailing off and then price falls as the cycle begins again.
- 3.12 Whilst all data sources are mix adjusted for property types there is an increasing difference between them over time. We have therefore averaged and smoothed the indices to generate a single combined index which can be used for forward growth scenarios.



**Yorkshire and Humber House Price and Borrowers' Income Indices
actuals to date**



3.13 The graph above shows the smoothed, averaged house price index to second quarter 2010. In addition the index of household incomes receiving mortgages is plotted as a reference. Extrapolating this back suggests that the rate of change of household income index is approximately constant over time and just intersects with the house price curve during periods of steady growth at mid cycle (assuming the cycle runs peak to peak). This is an important reference for projecting forward house price growth and also demonstrates the significance of price bubbles in the UK market.

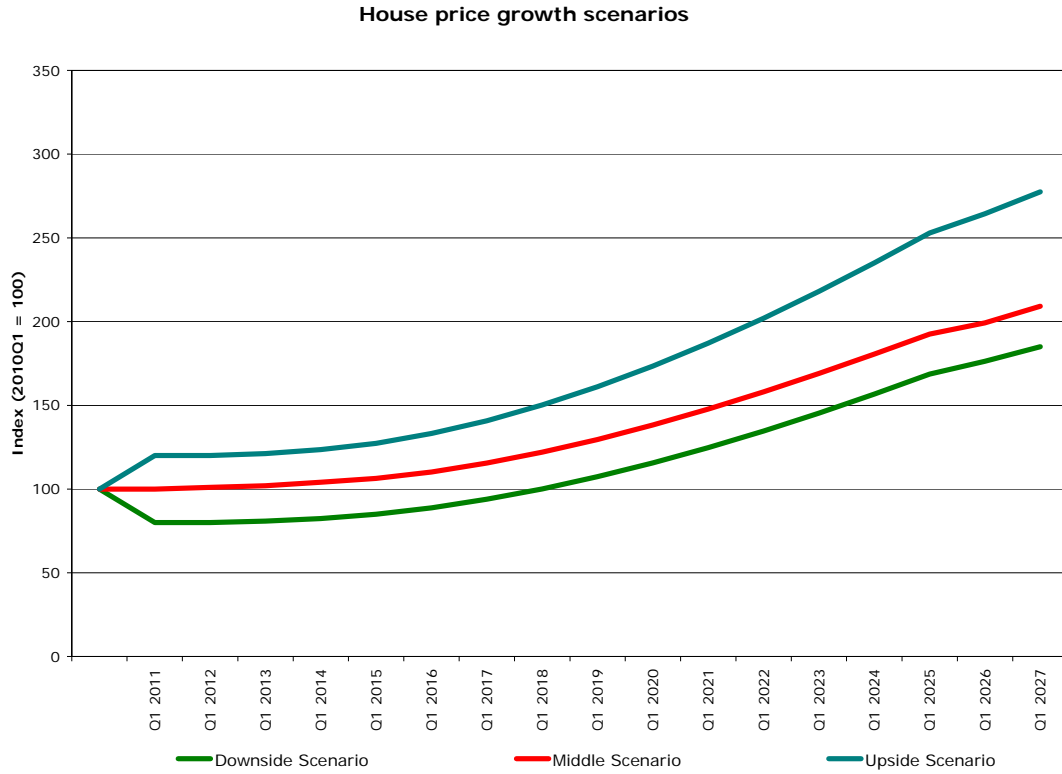


4.0 Future House Price Growth Scenarios

- 4.1 There is clearly pressure in Bradford on affordability due to the relationship between household incomes and local prices generally. Our analysis of past trends, and taking into account the continuing pressures due to market conditions, suggests that there may be a long period of stagnation in the property market despite the rises during the final quarter of 2009 and early 2010. Early information from housing market indicators in 2010 suggest that this period of stagnation may have already started although we should be wary of drawing conclusions from only one quarter's data.
- 4.2 However, we want to test scenarios that assume both a more optimistic position as well as the downside. Therefore, using past trends as a guide, we suggest that there are 3 potential directions or scenarios that should be tested representing a range of potential directions the market might take.
- 4.3 The first of these is an "upside" position where values show an increase in prices in the very short term. We have assumed an increase in values so that 2007 average values are achieved again fairly rapidly and the profile of increases follows the same pattern as in the previous period (1992 to 2007) from this high value base (20% above average).
- 4.4 This is an optimistic view of property prices with house prices assumed to be well above the long term average from the previous period. In this scenario, affordability is likely to be a significant and continuing issue.
- 4.5 The second scenario is our "middle" and assumes property values follow the trend seen between 1992 and 2007. The short term follows a continuing stagnation in values with a slow recovery with affordability ratios remaining fairly benign until the later part of the period.
- 4.6 Finally, the "downside" scenario assumes a long term trend 20% below the historic (1992 to 2007) position.



4.7 All three scenarios can be seen in the following diagram (index Q1 2010=100):

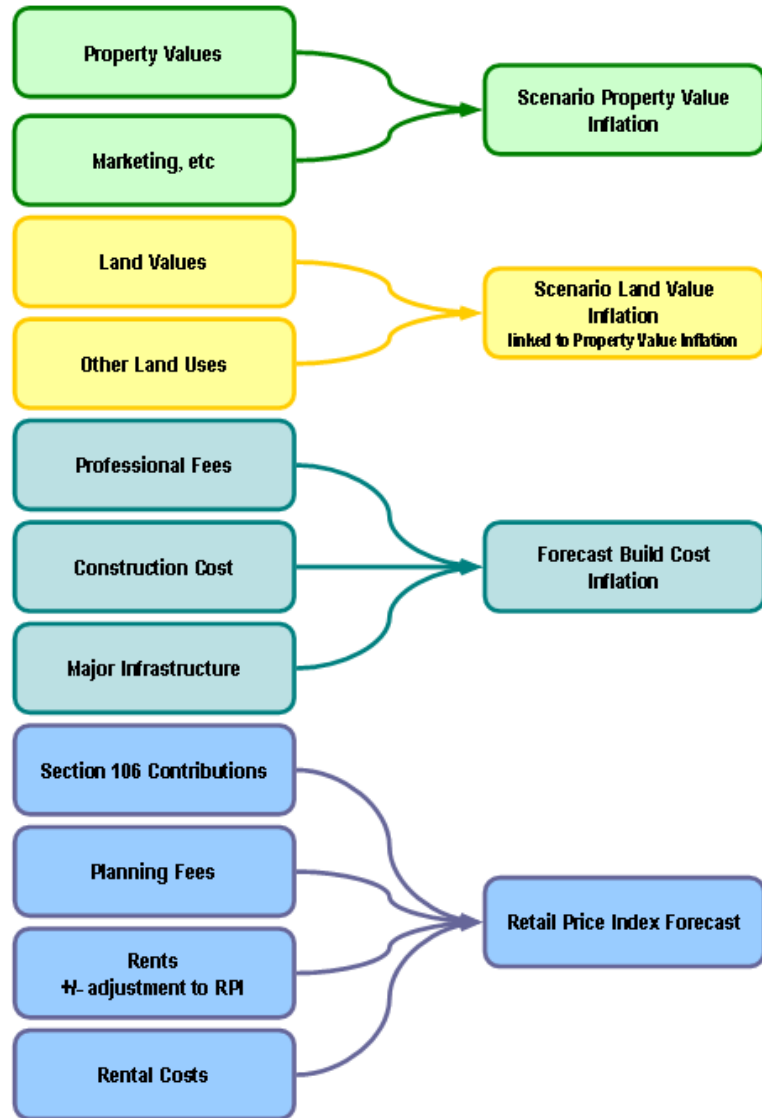


4.8 The house price inflation for each of these scenarios is shown in the table below.

	Middle Scenario	Downside Scenario	Upside Scenario
Q1 2011	0%	-20%	20%
Q1 2012	1%	0%	0%
Q1 2013	1%	1%	1%
Q1 2014	2%	2%	2%
Q1 2015	2%	3%	3%
Q1 2016	4%	5%	5%
Q1 2017	5%	6%	6%
Q1 2018	6%	7%	7%
Q1 2019	6%	7%	7%
Q1 2020	7%	8%	8%
Q1 2021	7%	8%	8%
Q1 2022	7%	8%	8%
Q1 2023	7%	8%	8%
Q1 2024	7%	8%	8%
Q1 2025	7%	8%	8%
Q1 2026	3%	4%	4%



- 4.9 We propose a dynamic assessment of viability. To do this we will use the three scenarios to feed into our viability analysis by taking the house price indices that are generated. House price inflation is one component of our proposed future proofing methodology and we will combine projections for other elements of the inputs including Retail Prices Index, Construction Cost forecasts and land value forecasts. We will then use these forecast indices to inform the viability assessments over the length of the development periods as well as to assess variable development start dates. A matrix of costs will be used which uses the property price values described above together with some assumptions on RPI and cost construction indices.
- 4.10 It is anticipated that these projections will remain constant between the different property value scenarios so that the relative effect of the upside, downside and middle projections for values can be assessed. The following diagram illustrates how different cost and value elements are linked to the various indices. For example, professional fees will be linked to construction cost inflation while planning fees may be linked to RPI.



4.11 Sites will be coming forward through the planning process over different timescales. Therefore, our dynamic approach will allow us to consider developments with development start dates up to 2026. Clearly, projections at later dates must be treated with caution but this will give a general indication about possible long-term viability. This may allow the council to look at a flexible approach to policy setting over the time of the Core Strategy that will enable challenging but realistic targets for affordable housing to be set.

4

Bradford Affordable Housing Economic Viability
Assessment

For

The City of Bradford Metropolitan District
Council

APPENDIX FOUR
STAKEHOLDER ENGAGEMENT

October 2010



Contents

1.0	Stakeholder Methodology	3
2.0	Stakeholder Questionnaire	3
3.0	Response Rate	3
4.0	Response to Specific Questions	4



1.0 Stakeholder Methodology

- 1.1 In consultation with the Council it was agreed that the most appropriate method of stakeholder engagement for this study would be the use of an email/postal questionnaire and a stakeholder event. A copy of the questionnaire can be found at the end of this section.

2.0 Stakeholder Questionnaire

- 2.1 The questionnaire sought to ascertain stakeholder's views on key assumptions that would be modelled to assess the impact upon development of a range of affordable housing policy options. Thus the questionnaire outlined a range of key assumptions in order that development conditions within the District could be fairly reflected within the parameters of the study.
- 2.2 The Council provided a comprehensive contact list of stakeholders within the District. These included, not exclusively, Registered Social Landlords (RSLs), private developers, house builders, planning and other development consultants and land owners.
- 2.3 A copy of the questionnaire and letter was sent to all stakeholders in the week beginning 6th July 2010 with a requested response date of July 26th 2010. In total, 6 responses were received. The questionnaire responses were used to inform the modelling assumptions.
- 2.4 Levvel also organised a stakeholder meeting on 20th July 2010 to discuss in more detail the feedback received at that stage and to allow stakeholders to have further input. Following the stakeholder meeting an email summarising the feedback and comments received was sent to each of the attendees. A copy of this email can be found at the end of this appendix. Following this, further email correspondence was received from four stakeholders with further comments relating in the main to sales rate assumptions. Further refinement to these assumptions was then made and these were communicated to these respondents. Any alterations to the assumptions made within this study as a result of stakeholder engagement are identified.

3.0 Response Rate

- 3.1 A total of 6 Questionnaires were returned and the response rate by type of organisation was as follows:
- Agents/ Consultants – 2
 - Developers – 3
 - RSLs - 1



4.0 Response to Specific Questions

Q.1 Scheme Types

- 4.1 Respondents were asked to select appropriate site types that reflect the land being brought forward for development. The questionnaire presented six scheme types labelled A to F. Respondents were also asked to include any other scheme types that have not been considered.
- 4.2 One respondent did not believe that the recommended scheme types adequately cover the range of schemes coming forward in the District. It was stated that the high density flatted developments in A and B above are not coming forward as there is no current market for them. One stakeholder also noted PPS3 has been relaxed in terms of density requirements and categories C and D are not overly attractive. Another respondent indicated that more family housing is required.
- 4.3 Other respondents agreed with the recommended scheme types. One stakeholder also noted that it is important that the housing mixes represent the long term profile and are based on market areas across the district.
- 4.4 **Action Taken:** As no other scheme types in addition to those proposed were suggested no changes were made. Furthermore, although some scheme types may not be attractive for development currently, the study will be used to inform the Local Development Framework and thus needs to consider a reasonable range of scheme types that are likely to come forward over its lifespan.

Q.2 Affordable Housing Percentages

- 4.5 Levvel reported that they will look to test a range of targets from 10% to 40%. Levvel confirmed that initial modelling will be based on a nil- grant position. Participants raised a number of points which included:
- 4.6 One developer stated that current affordable housing targets were not realistic in the current market and supported the testing of lower affordable housing targets. It was also stated that it is important to test a range of affordable housing targets across each of the Housing Market areas.
- 4.7 Another stakeholder suggested that it may be useful to take account of the SHMA recommendations when they are published.
- 4.8 **Action Taken:** As the affordable housing targets of 10%, 20%, 30% and 40% were assessed across each value area and cover the range of percentages identified in the SHMA no additional affordable housing targets were tested.

Q.3 Thresholds

- 4.9 It was proposed that Levvel will test sites as low as 5 dwellings. Stakeholders were asked whether there are any other thresholds that should be considered.
- 4.10 One stakeholder noted that the SHMA is yet to be published and as a result testing viability is difficult to undertake when no specific need has been identified. Another stakeholder noted that it is appropriate to test different thresholds and percentages across the market areas.



- 4.11 **Action Taken:** Thresholds of 5, 10 and 15 units were assessed across each of the value areas.

Q.4 Tenure Mix

- 4.12 Respondents were asked whether there were any specific affordable housing tenure mixes that need to be considered.

- 4.13 Some respondents believed that there were no specific affordable housing tenure mixes to be tested. However, other stakeholders indicated that there are a number of tenure splits that should be considered including:

70/30 Social Rented/ Intermediate

50/50 Social Rented/ Intermediate

30/70 Social Rented/ Intermediate

- 4.14 One RSL noted that there are not any other tenure mixes that need to be considered. However, it was noted that social rented affordable housing or social rented with an element of shared ownership was most attractive. There was less interest in discount for sale affordable housing products.

- 4.15 Another stakeholder noted that as many tenure mixes as possible needed to be tested and these include tenure mixes of 25: 75, 75:25, 100% social rented and 100% intermediate.

- 4.16 **Action Taken:** Tenure mixes of 70:30, 50:50, 0:100 and 100:0 have been tested.

Q.5 Values Required to Bring Land Forward for Development

- 4.17 Stakeholders were asked what values can be assumed to be sufficient to bring land forward for development in the District.

- 4.18 One stakeholder noted that greenfield land may be worth anything from £10,000 per hectare but if there is any potential for residential development this may rise to £1,200,000 per hectare. Brownfield sites may be circa £1,200,000 per hectare on a serviced site basis. Industrial land was valued at £80,000 to £100,000 per hectare.

- 4.19 One stakeholder noted that the value of land can only be expressed in terms of a clean land price as abnormal can vary significantly and values can also vary due to location, listed building status and scheme type. It was also noted that if the land is under option/ sold subject to planning then the value will be whatever the planning permission drives out unless there is a minimum price per acre within the contract.

- 4.20 Another stakeholder recommended the following land values:

Greenfield/ Agricultural Land:

At least £600,000 per hectare

Brownfield Land:

At least £250,000 per hectare



Industrial Land:

At least £370,000 per hectare

- 4.21 **Action Taken:** Based upon advice received from an independent valuer and stakeholder engagement, viability was assessed across a range of 4 different land values. This range was communicated to stakeholder meeting attendees through a follow up email (attached below) and no further feedback has been received.

Q.6 Land Value Expressed as a Percentage of the Development Value

- 4.22 Stakeholders were asked their views as to the value of land expressed as a percentage of development value for different land uses.
- 4.23 One developer noted that the minimum value at which a land owner would release their site for residential development is 20% of the Gross Development Value. It was also suggested that over recent months a level of 25% to 30% would be more robust. Other respondents suggested the following land values:

Greenfield land values typically account for 25% of development value.

Brownfield land accounts for 15% to 25% of development land value

20 % was recommended for industrial land.

- 4.24 **Action Taken:** We have taken a figure between 18% and 30% gross development value (dependent upon density and site size) as a test for the level which residual land value may need to reach in order to incentivise the landowner sufficiently to bring forward his parcel of land.

Q.7 Developer Profit

- 4.25 Respondents were asked to indicate a figure expressed as a percentage of Gross Development Value which may represent reasonable levels of gross profit given the likelihood that a range of market conditions will be experienced for the period 2010 to 2026. The responses to this question are summarised below:

Profit levels at 25% of GDV should be applied

It may be appropriate to consider developer profit in a range of between 15% and 25%. The emphasis should be on the upper end of the range to account for the current availability of finance and the risk associated with development under current market conditions. There may be a reduction in profit in the years ahead.

One respondent noted that a recent development had developer profit on private sales units set at 12% of sales revenue.

Profit should be set between 20% and 25% of gross development value. Developers will require a minimum IRR of 20% if they are to proceed with the development of a small scheme (less than 50 units) and the developer will require an IRR of 23% when developing larger sites (more than 50 units).



Another stakeholder notes that a profit level of 25% is required in order to obtain finance to fund house building in present market conditions.

It was noted that banks may not lend on the basis of less than 17.5% profit.

- 4.26 **Action Taken:** Developer profit has been assessed at 17%, 20% and 25% of gross development value.

Q.8 Should we be assessing profit/return on a different basis?

- 4.27 One respondent noted that profit levels are important and if there are insufficient incentives a landowner will not sell and developers will not build resulting in non-delivery of both market and affordable housing.

- 4.28 Another respondent was happy with the profit assumptions made and did not believe that it should be tested on a different basis.

- 4.29 Developer profit is based upon the different business models of the providers. There is a restructuring of the major housebuilders and the resources available to RSLs.

- 4.30 Another stakeholder suggested that the study should be assessing return on capital employed.

- 4.31 **Action Taken:** Profit/ return have not been assessed on a different basis.

Q.9 Build Costs

- 4.32 Stakeholders were asked for their views on an appropriate build cost per m2 on the basis of Gross Internal Floor Area. A variety of responses were received:

Development Type	Build Cost	
Flatted Development:	Public £700	Private £700 to £743
Terraced Housing/ Town Houses:	Public £710.16 m2	Private £540 to £710.16
Semi- Detached:	Public: £550 to £721	Private £530 to £721
Detached:	Public £914.6	Private £558 to £941.6

- 4.33 Another stakeholder noted than an allowance may need to be made for abnormals and overheads. It was also stated that higher build costs associated with public housing may be necessary to meet current design and space standards as required by the HCA.

- 4.34 **Action Taken:** We have used build costs derived from the Build Cost Information Service adjusted to reflect the Bradford local authority index. These are within or above the range of figures received through stakeholder engagement.



Q.10 Dwelling Sizes

- 4.35 Stakeholders were asked what dwellings size should be assumed for the following flat and house types. Respondents suggested the following ranges for private and public dwellings in each category:

Unit Type	Private Dwelling Size	Public Dwelling Size
1 bed flat	51m ²	51m ²
2 bed flat	56 to 60m ²	60m ²
2 bed house	57 to 79 m ²	65 to 79m ²
3 Bed House (Terraced)	81 to 88m ²	88m ²
3 Bed House (Semi Detached)	74 to 93 m ²	73 to 93m ²
3 bed house (Detached)	93 m ²	93 m ²
4 bed house (Semi)	97 to 104 m ²	97 to 116 m ²
4 bed house (Detached)	97 to 113 m ²	102 to 111 m ²
5 bed Semi (House)	102 to 151 m ²	135m ²

Action Taken: The unit sizes used in the study are within the range of those suggested by stakeholders.

Q.11 Rent

- 4.36 Respondents gave their views on gross rents, management, maintenance, voids and the cost of major repairs for a number of dwelling types ranging from a 1 bed flat to a 4 bed house.

Unit Type	Gross Rent	Management	Maintenance	Voids	Major Repairs
1 Bed Flat	No Response	No Response	No Response	No Response	No Response
2 Bed Flat	No Response	No Response	No Response	No Response	No Response
2 Bed House	No Response	No Response	No Response	No Response	No Response
3 Bed House	No Response	434	422	4%	800
4 Bed House	No Response	No Response	No Response	No Response	No Response

- 4.37 **Action Taken:** Feedback directly from steering group members, in addition to stakeholder responses and other research has informed the affordable housing assumptions used in the main report.



Q. 12 Capitalisation of Rents

- 4.38 Views were sought on whether the proposed assumption of 6% for the capital receipt from social rented properties is correct.

A 6% yield is the level to be expected from a blue chip retail scheme. The value from social rented properties should be based on a yield of around 10%

Another respondent viewed 6% for the capital receipt of social rented properties as a reasonable level.

- 4.39 **Action Taken:** A yield of 6% was used for the purposes of testing following discussion at project steering group meetings.

Q.13 Public Subsidy

- 4.40 It was explained that the methodology would initially assume a nil public subsidy baseline before testing the effect of public subsidy. Stakeholders were asked for recommendations for an appropriate level of public subsidy. The following responses were received:

Stakeholders did not answer this question. It was explained in some instances that grant does not apply to the respondent's scheme.

- 4.41 **Action Taken:** Baseline assessments assume nil public subsidy. Recent Regional Investment Statements informed the range of public subsidy assumptions to be assessed within sensitivity testing.

Q.14 Planning Obligations

- 4.42 Respondents were asked to give an idea of the level of payments they have been making under Section 106 agreements to items other than affordable housing.

Education Provision - £1,500 per plot/£2,788 per unit (primary)

Public Open Space - £1,300 per plot/£1,680 per unit

Travel Cards - £500 per plot/£500 per unit

- 4.43 **Action Taken:** Section 106 contributions include contributions to transport, public open space and education at similar or higher levels than those suggested through stakeholder engagement.

Further Comments

- 4.44 Flatted schemes are problematic for delivery of affordable housing because the tenants cannot afford the management costs.

- 4.45 Sales rates will have a large impact on scheme costs and finance. Assumptions on finance costs need to be clear. The banks currently want a good return for their investment in what could be perceived as a risky sector.



- 4.46 The percentage of affordable housing should be based on the number of units and not on floor area.
- 4.47 Consideration should be given to other methods of delivery like the transfer of units for rent at nil cost or making available services land at nil costs to enable the RSL to develop.
- 4.48 Alternative land uses are not appropriate in all circumstances.
- 4.49 It is difficult to get an appreciation of the housing needs of the district without having the Strategic Housing Market Assessment.
- 4.50 Higher finance charges may apply on smaller schemes. Many small developers cannot access an interest rate as low as 6.5% and this may be more applicable to larger developers.
- 4.51 Contingency at a level of 5% to 10% needs to be included.
- 4.52 Abnormal costs may need to be considered as part of the viability assessment.

Attached copy of:

- Questionnaire;
- Stakeholder Meeting Additional Follow-up Email July 2010. This contains further detail on actions taken as a result of stakeholder engagement. It should also be noted that sales rates were revised again following the stakeholder follow up email following discussions with Council Officers. This was undertaken as a result of further comments received from stakeholders via email.



City of Bradford Metropolitan District Council

www.bradford.gov.uk

AFFORDABLE HOUSING ECONOMIC VIABILITY ASSESSMENT

STAKEHOLDER QUESTIONNAIRE

Level has been appointed to undertake an Affordable housing Economic Viability Assessment on behalf of the City of Bradford Metropolitan District Council.

The study will be undertaken in the context of Planning Policy Statement (PPS) 3: Housing (June 2010).

This questionnaire is part of a two stage process. We will be collecting information and comments initially through your responses to this questionnaire which will inform our viability assessment. We will then be supplementing this with a stakeholder meeting on **Tuesday 20th July** to discuss in more detail the feedback received so far and to allow you to have further input into the final report. An invitation to this meeting is attached.

The overall aim of the study is to produce a sound and robust technical evidence base that will inform the Council's affordable housing and planning policies. The study will test the impact of affordable housing on development viability on a strategic basis, relevant to the local circumstances in the Bradford District.

The study will look at a number of issues including (but not exclusively):

- The levels of affordable housing that could be sought by planning policy;
- Thresholds that could be justified;
- Optimum mix of affordable housing tenure type that can be justified;
- The level of affordable housing provision that could be viable with and without public subsidy.

The study will make recommendations as to the appropriate level, form and type of affordable housing that could be supported in new housing schemes in the local authority, and explore the potential for varied targets and thresholds in different sub-areas of the District.

Key Stakeholder Engagement

The advice and opinions of house builders, Registered Social Landlords, land agents and other relevant key stakeholders are crucial to make sure the study approach is appropriate and robust. Any assistance you can provide Levvel will be gratefully received. Should you have any questions or queries regarding this work, please do not hesitate to contact Levvel through the details provided at the end of the questionnaire.

The Council Officers with whom to liaise should you have any general queries are:

Simon Latimer

simon.latimer@bradford.gov.uk

01274 43 4606

Alex Bartle

alex.bartle@bradford.gov.uk

01274 43 4296

We would be very grateful if you could return this questionnaire by **Monday 26 July 2010**.

SCHEME TYPOLOGY

As part of the study, we will choose a number of notional schemes on which to carry out development appraisals. The effect of the imposition of affordable housing will then be assessed to ensure that future policy does not reduce land values to a level which will prevent land being brought forward for development.

Our aim is to assess a range of development types which are likely to come forward in each housing market area throughout the District. In this regard, your views are sought on the following;

Q1 Do the following development types adequately cover the range of schemes coming forward in the District?

- A – High Rise Flatted Developments – flats of circa **250** dwellings per hectare
- B - Flatted Developments – flats/apartments of circa **120** dwellings per hectare
- C - Mixed Development – flats and houses of circa **75** dwellings per hectare
- D – Estate Housing – Town Houses, Semi-Detached and Detached dwellings of circa **50** dwellings per hectare
- E – Low Density Estate Housing - Semi Detached and Detached dwellings of circa **35** dwellings per hectare
- F – Very Low Density Estate Housing - Detached dwellings of circa **20** dwellings per hectare

YES

NO

If NO, please include details of scheme types we have not considered in terms of development mix and density;

These development types will each be assessed as if they were being developed on parcels of land throughout the District in order to account for geographical variations in the value of housing which have an effect on development viability.

POLICY TESTS - PERCENTAGE AND THRESHOLD

Initially, we will test a range of percentage targets and thresholds for affordable housing to include the following:

On all new development on sites in the towns, other centres of population and rural areas we will test a range of affordable housing targets between 10% and 50%

Q2 Are there any specific affordable housing percentages we should consider?

YES NO

The number of dwellings above which affordable housing is required has been 15 dwellings. It may be that sites of fewer than 15 dwellings could contribute to affordable housing. We will test sites as low as 5 units to see if they could contribute an element of affordable housing.

Q3 Are there any other thresholds you think we should consider?

YES NO

Please provide any comments you may have on the range of thresholds and percentages we will be testing.

Q4 Are there any specific affordable housing tenure mixes you think we should consider?

LAND VALUES

PPS3 requires that affordable housing policies have regard to the economics of development. This is generally interpreted as an acknowledgement that if the residual value of the land, including the affordable housing requirement is lower than its existing use value (plus the cost of assembly) or than its reasonable alternative use value (where appropriate), then it will not come forward.

It is therefore important for the study to ensure that it has as clear a view as possible of the land values which are necessary to bring land forward for development in Bradford. In answering this question, it would be helpful if respondents could be as clear as possible whether they are discussing the cost of serviced land with planning consent or of unserviced land.

Q5 What values can be assumed to be sufficient to bring land forward for development in the District? Please express this on a per hectare basis if possible.

<p>Greenfield/Agricultural land</p> <p>Brownfield land</p> <p>Industrial land</p>
--

Q6 Do you have a view as to the value of land expressed as a percentage of the development value?

Greenfield/Agricultural land

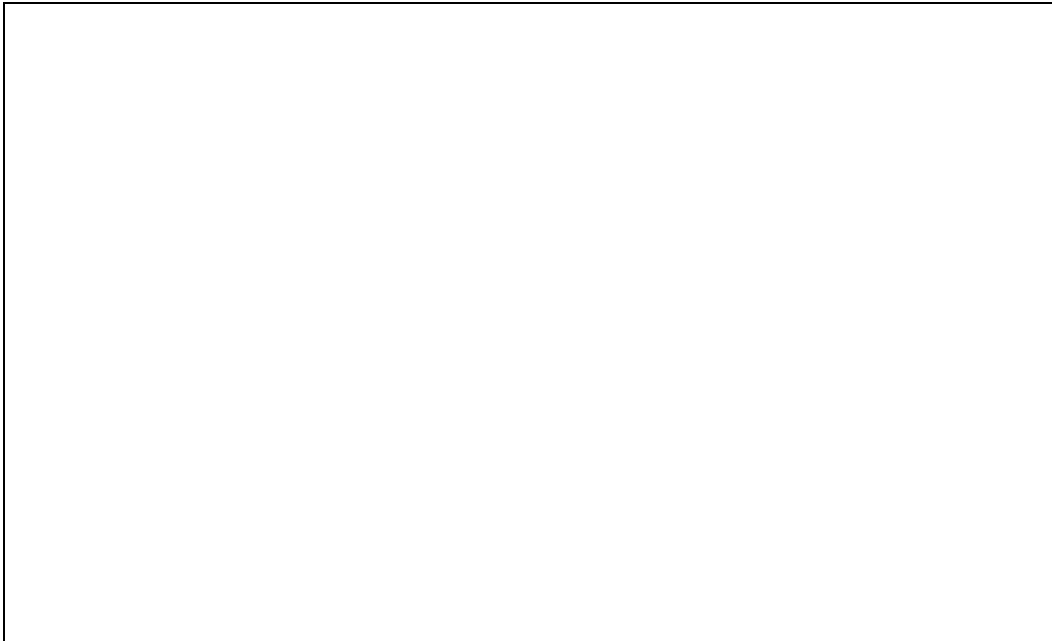
Brownfield land

Industrial land

DEVELOPER PROFIT

Profit levels can be affected by the level of risk attached to a particular development. Current housing market conditions mean development may be considered risky and therefore may require a higher profit to make it worthwhile for a developer to build. The policy that this study is to inform will endure for the life of the local authority's Core Strategy which, it is to be assumed, will also cover less risky housing market conditions.

Q7 Please indicate a figure (expressed as a percentage of Gross Development Value) or a range of figures which you feel represent acceptable levels of gross profit given the likelihood that a range of market conditions will be experienced for the period 2010 to 2026.



Q8: Should we be assessing profit/return on a different basis ?

YES

NO

If Yes, please provide details below;

BUILD COSTS

We will assume basic build costs aligned to the appropriate measure from the Royal Institute of Chartered Surveyors Build Cost Information Service (BCIS) as a baseline build cost for the local authority area plus 15% as an allowance for external areas.

Q9 In order to compare this to “on the ground” costs, we would appreciate your views on a per m² build cost below (on the basis of Gross Internal Floor Area)

Development type	Build Cost per m2 GIFA (private housing)	Build cost per m ² GIFA (public housing)
Flatted Development		
Terraced Housing/Town Houses		
Semi-Detached		
Detached		

DWELLING SIZES

Q10 What dwelling sizes should we assume for the following flat and house types (ft² or m²)?

TYPE	AFFORDABLE	MARKET
1 BED FLAT		
2 BED FLAT		
2 BED HOUSE		
3 BED (Terrace) HOUSE		
3 BED (Semi) HOUSE		
3 BED (Detached) HOUSE		
4 BED (Semi) HOUSE		
4 BED (Detached) HOUSE		
5 BED (Semi) HOUSE		

RENT

In order to ensure we are properly assessing the value of the affordable housing to the developer it would be helpful if we had real values for assumed rents and costs of social rented housing.

Q11 This question is aimed mainly at RSLs – What rent levels should we allow for (we are currently using DATASPRING values but would like to ensure up-to-date information is used).

Can you also give an indication on management, maintenance, void levels and major repairs allowances (expressed as a percentage or as an amount) of the gross rent.

TYPE	GROSS RENT	MANAGEMENT	MAINTENANCE	VOIDS	MAJOR REPAIRS
1 BED FLAT					
2 BED FLAT					
2 BED HOUSE					
3 BED HOUSE					
4 BED HOUSE					

CAPITALISATION OF RENTS

Q12 We are currently assuming a yield of 6% for the capital receipt from social rented properties. Is this level reasonable?

YES

NO

If NO, please give some indication of an alternative;

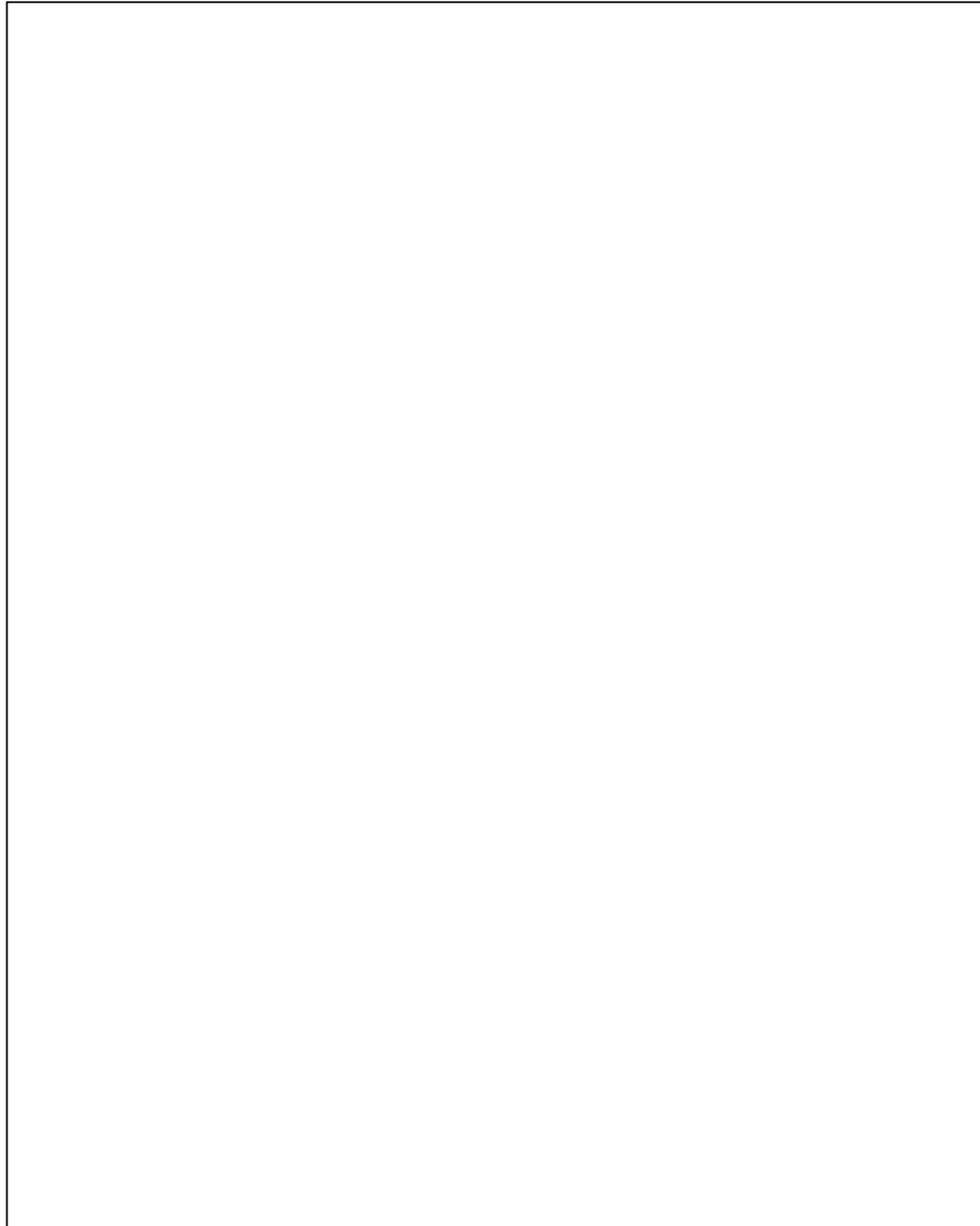
PUBLIC SUBSIDY

Q13 Our methodology will assume a nil public subsidy baseline in the first instance and will then test the effect of applying public subsidy to the affordable housing units. In your experience what levels of public subsidy (on a per unit basis) should we be assessing;

PLANNING OBLIGATIONS

Q14 Like affordable housing, planning obligations are a cost on development, although the means by which such obligations are sought is changing with the introduction of CIL. It would be helpful if respondents could give an idea of the level of payments they have been making under Section 106 agreements to items other than affordable housing

Finally, if you have any further comments about our assumptions, including any that we have not mentioned above, please feel free to include them here. The above questions do not cover every assumption we are making and we want to make sure that the parameters and principles that we are taking into account are clear and open and acceptable to local stakeholders in the residential development process. We want the process to be as inclusive as possible.

A large, empty rectangular box with a thin black border, intended for providing comments or feedback. It occupies the central portion of the page below the introductory text.

We will not attribute your name to the views expressed within this questionnaire or provide them to any other party without your express permission.

We may wish to follow up this questionnaire with telephone discussions where we feel further clarification is necessary. Your help is very much appreciated.

Name _____

Position _____

Company _____

Address _____

_____ POST CODE _____

Contact telephone _____

Email address _____ @ _____

May we contact you further? YES

NO

PLEASE RETURN THIS QUESTIONNAIRE BY MONDAY 26 JULY 2010 TO:

Levvel, 147 Leigh Road, Wimborne BH21 2AD

Telephone 01202 639444

www.levvel.co.uk

gail.percival@levvel.co.uk, simon.mitchell@levvel.co.uk

Stakeholder Questionnaire – Follow up email – July 2010

1.0 Introduction

Levvel has been appointed by the City of Bradford Metropolitan District Council to undertake an Affordable Housing Economic Viability Assessment.

The purpose of the study is to produce a sound and robust technical evidence base that will inform the Council's affordable housing and planning policies. The study will be undertaken in the context of Planning Policy Statement (PPS) 3: Housing (June 2010).

2.0 Background - Stakeholder Engagement

2.1 Stakeholder Questionnaire

It was identified at the inception of the project the importance of ensuring stakeholder engagement therefore a questionnaire and covering letter were forwarded to a range of appropriate stakeholders identified by the Local Authority in early July 2010. This included an invitation to a stakeholder event held in the morning of 20 July 2010.

2.2 Stakeholder Meetings

Eighteen stakeholders attended the event on the 20 July 2010. A short presentation on the purpose of, and background to the study was provided by Levvel. This was followed by discussions with attendees regarding the nature and range of assumptions that would be used for the purposes of undertaking a study of this nature.

A précis of issues discussed at the stakeholder events is outlined in the following section.

One of the key aspects raised by stakeholders was a desire for a further opportunity to comment regarding the study methodology. The timetable for delivery of the project has been altered to enable this.

We invite stakeholders (those who attended the stakeholder event on 20 July 2010 and/or returned a completed stakeholder questionnaire and/or notified Levvel they were unable to attend the event) to comment further if they should wish, by **Friday 30th July**, using the contact information in Section 5 of this report.

2.0 Stakeholder Events – Summary of Feedback and Comments

Key feedback and comments received are summarised below:

- Assumptions used for the purposes of viability modelling should be explicit within the report;
- It would be useful to model schemes using a 'static value' approach rather than modelling changes to sales values (based on the downside, middle and upside growth scenarios) which may occur over the lifetime of a development;
- In Bradford the transfer value of affordable housing is based upon a discount applied to open market values which may be at odds with the method proposed for the study (e.g. social rent – capitalising the social rent income stream based on a 6% yield);
- Intermediate rent levels in certain areas are likely to be very similar to social rent levels;

- Current affordability of low cost home ownership products reflects generally an initial equity purchase of 35%;
- Profit at 15% of GDV for market housing is too low. A range of profit levels should be assessed with the upper end of that range at around 25% of GDV;
- Build costs may change according to market conditions (different build costs may apply in upside, middle and downside market conditions);
- The mandatory timescales for Code for Sustainable Homes should ensure the different timescale for affordable housing is reflected;
- The sales rates assumed for the purposes of viability modelling should be realistic;
- The Council's current position in respect of affordable housing is based upon the floor area of affordable housing and not the number of units. How will the results of the study be presented?
- Alternative land use values should reflect the differences between net and gross land values and be realistic.

Following the stakeholder meeting a further meeting of the Project Steering Group was held at which several of the points raised by stakeholders were discussed. The response to points raised are discussed in the following section.

3.0 Methodology

We will take on board the specific elements that have been identified through this stakeholder engagement process using both the feedback from the stakeholder meetings and the stakeholder questionnaires returned. The questionnaire is an important element in refining the final assumptions that will be made.

The assumptions used within the study will be based upon best practice, our further analysis and feedback from this stakeholder engagement process and experience in undertaking studies of this nature. Where practicable and necessary, sensitivity testing will be undertaken against certain elements.

We will ensure that a range of notional development schemes varying in scale and nature will be assessed across the local authority to reflect development that is likely to come forward within the lifetime of the Core Strategy.

In order to maintain consistency, the methodology used to assess viability for policy setting purposes will be compatible with general practice nationally. It will take into account realistic development economics in order to test policy requirements at a District wide level.

We are aware that development economics may be assessed differently between organisations and between different site types. A residual value methodology will be used which incorporates a cash flow analysis. This is especially relevant to larger schemes with longer development periods. The outcome of this analysis will then be assessed against the level which is required to bring these sites forward for development. This is undertaken through two main tests of viability:

- The residual land value will be assessed against the existing/alternative use value of the site;
- The relationship between residual value and Gross Development Value will also be assessed. This will be based upon analysis of the long term historic relationship between these two factors.

Testing will be undertaken based upon the number of affordable housing units rather than a percentage of the floor area of the development.

Profit

Different organisations will have different methods of assessing profit. We will use the convention of a percentage of gross development value as well as a reasonable level of internal overheads in order to achieve a gross profit level. The impact upon viability of a range of profit levels will be demonstrated and discussed.

Build costs

Current BCIS costs will be used (to reflect the built form of each notional site) plus an additional uplift in respect of external works and a further contingency in order to allow additional comfort against those figures. Build costs will also reflect the additional costs likely to be incurred in achieving the relevant Code for Sustainable Homes requirements.

Professional Fees

These will be a percentage of build costs.

Lifetime Homes

Additional costs will be incorporated in order to achieve Lifetime Homes Standards.

Sales and marketing costs

These will be a proportion of the sales values and number of sales units and will take into account legal fees.

Sales rates

We will assess the impact upon viability of a range of absorption rates and we propose to test:

- 60 units per annum;
- 80 units per annum;
- 100 units per annum.

Finance costs

These are assessed using a monthly cashflow. Finance arrangement fees will also be included.

Costs of disposal

It was agreed that the methodology used to assess the transfer value of the affordable housing would be based upon:

- Social rented units – the rent capitalised at a 6% yield;
- Shared ownership units – the value of the initial equity purchase (35%) plus rent charged at 2.75% of the unsold equity, again capitalised at a 6% yield.

Tenure mixes

A 70:30 social rent:intermediate tenure mix will be assessed. In addition a 50:50 social rent:intermediate tenure mix may be tested in some cases.

S106 costs

Section 106 costs will be included as costs to development. Sensitivity testing will be undertaken to reflect any potential future increases to these sums.

Infrastructure costs

A range of infrastructure costs will be assessed against notional site typologies that are more likely to be associated with the delivery of new infrastructure.

Ground rent

Ground rents on flats will be assumed and capitalised.

Acquisition costs

Residual value takes into account the cost of acquiring land including legal fees, agents fees and stamp duty at the prevailing rate.

Planning fees

These will be incorporated at the prevailing rate.

Other miscellaneous costs

Additional items such as valuation fees and site investigation fees will be allowed for where appropriate.

Static value modelling

Additional modelling will be undertaken on relevant notional schemes using this approach and any potential differences in the outputs generated through the use of this methodology will be highlighted.

Land values

Advice received from Thornes Chartered Surveyors indicates that land values within the District have significantly reduced from the peak in the residential market in 2007. Valuation Office Agency data at July 2009 is suggesting land values of £1,000,000 per hectare for small sites and sites for flats and maisonettes in Bradford. For the same period for bulk land, a figure of £900,000 per hectare is reported for the District.

Based upon VOA information, feedback from the stakeholder questionnaires and advice received from the valuer we have engaged to undertake further research regarding land values in the District, we will be assessing a range of existing/alternative land uses with values approximately ranging from £560,000 per hectare to £1,200,000 per hectare. These will inform one of our tests of viability. A second test of viability will be the relationship between the Residual Land Value and the Gross Development Value (RLV:GDV) of each notional scheme.

4.0 Summary

Although some of these items have been outlined previously in the stakeholder questionnaire we invite further comment on any of the aspects outlined above by emailing comments to simon.mitchell@levvel.co.uk or gail.percival@levvel.co.uk by Friday 30th July 2010.

5

Bradford Affordable Housing Economic Viability
Assessment

For

The City of Bradford Metropolitan District
Council

APPENDIX FIVE

THORNES CHARTERED SURVEYORS LETTER

October 2010



THORNES
CHARTERED SURVEYORS & ESTATE AGENTS

Gail Percival
Levell
Leigh House
147 Leigh Road
Wimborne
BH21 2AD

Our Ref: RF/CAS/Affordable Hsing -Bradford

Friday 23rd July, 2010

Dear Gail

Re: City of Bradford Metropolitan District Council –Affordable Housing Economic Viability Assessment

In accordance with your letter dated 5th July 2010, we have undertaken an investigation to provide information regarding land values across the Metropolitan District of Bradford and their relationship to Gross Development Values within the area.

The Valuation Office Agency provides figures for land values on the basis of small sites for less than 5 houses, bulk land for sites in excess of 2 acres and also sites for flats or maisonettes.

For the Bradford area the VOA suggests the following figures:-

July 2007 £2,000,000 per hectare
July 2008 £1,600,000 per hectare
July 2009 £1,000,000 per hectare

The above figures are the same for both small sites and sites for flats and maisonettes and it is easily recognised that since July 2007 land values have halved from the peak to the trough in the residential housing market, mirroring the general economic situation and lack of finance and funding for both private and social housing developments.

Please find below some information on a number of sites, which we have found within the area, the majority of which suggest that actual land transactions for larger sites have been particularly limited in recent years and with the majority of comparables showing range of prices between £300,000 and £500,000 per acre, or around £740,000 to £1,230,000, although the latter figure would be for sites more likely to be well located residential housing sites where planning permission and Section 106 agreements are already in place and without the need for Affordable Housing provision.

22, Parkstone Road, Poole, Dorset. BH15 2PG
t: 01202 684004 f: 01202 683462
e: info@thornes.org.uk w: www.thornes.org.uk





The examples are as follows:

- Carlton Garage, 3 Whitehall Road East, Birkenshaw, Bradford - A cleared site formerly a garage sales and repair site of 0.16 acres/ 0.065 ha - The site recently sold for a figure of £135,000 with no planning, this suggested a land value of £845,000 per acre/ £2,085,000 per Ha.
- 97 Hill Top Lane, Allerton, Bradford - A part conversion and part new build on the site of a former public house of 0.42 acres/ 0.17 ha with planning for 4 x 2 bed houses, 8 x 3 bed houses and 2 x 1 bed flats. The Section 106 costs of £13,000 are to be paid by the purchaser, however there is no requirement for social housing. The site has been on sale for over a year at an asking price of £375,000 this being equivalent to £893,000 per acre or £2,200,000 per ha, however a sale closer to £600,000 per acre/ £1,480,000 ha is more realistic according to the agent handling the sale.
- Paternoster Lane, Great Horton, Bradford - A brown field site with a former industrial unit on a site of 0.39 acres with planning permission in place for a development of 24 x 1 bed flats OR 6 x 4 bed houses has been sold for a figure of £175,000, there is no S106 agreement as yet and no social housing provision required. The site value equates to a figure of £450,000 per acre or £1,108,000 per Ha.
- Livingston Road, Bolton Woods, Bradford - A brown field site of 0.98 acres / 0.4 ha with planning permission for a care home sold for a figure of £700,000 or £715,000 per acre or £1,765,000. The agents suggesting that residential use would have reduced the value to £500,000 for the whole site.
- Lady Roy, Chellow Dean, Bradford - A part of the former girls grammar school on a site of 3.44 acres/ 1.39 Ha with detailed planning permission for conversion of the main buildings to provide 13 flats and 54 new build properties. The site has a guide price of £1,950,000 or £566,860 per acre/ £1,400,000 per Ha.



lack of mortgage supply and the increase in the requirement for Social Housing from Local Authorities.

Although the centre of Bradford has undergone a considerable amount of change in recent years, there is considered to be an over supply of new build apartments. The over supply and continued downturn in the property market has caused a number of local developers to go out of business, which is further reflected in the availability of repossessed and part completed sites.

The sites which are more likely to attract a higher land value have already had planning permission agreed, undertaken to provide Section 106 contributions and in the majority of cases there would be no requirement for social housing and the development would more likely to be made up of houses rather than apartments.

Towards the outer edges of the Metropolitan area, predominately made up of terraced housing and former Council accommodation, demand for residential land from developers is almost non existent and the lack of recent sales is continuing to compound the reduction in land values causing further downward pressure on prices.

We trust the above information is suitable for your purposes however, if you require anything further please do not hesitate to contact us. In the meantime please find enclosed our account for your attention in due course.

Kind Regards

Yours sincerely

A handwritten signature in blue ink, appearing to read 'R. Fox', with a stylized flourish at the end.

Richard Fox MRICS
Senior Valuation Surveyor

Encs

6

Bradford Affordable Housing Economic Viability
Assessment

For

The City of Bradford Metropolitan District
Council

APPENDIX SIX

NOTIONAL SITE COMPOSITION

October 2010



Contents

1.0	Notional Site Composition	3
2.0	500 UNIT SCHEMES	3
3.0	150 UNIT SCHEMES	4
4.0	50 UNIT SCHEMES	6
5.0	15 UNIT SCHEMES	7
6.0	10 UNIT SCHEMES	8
7.0	5 UNIT SCHEMES	9



1.0 Notional Site Composition

1.1 The unit type, size profile and density of each notional development scheme can be found in the tables below.

2.0 500 UNIT SCHEMES

500 Units at 35dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
Flat	50	1	2	Flat	30
Flat	60	2	3	Flat	30
Flat	65	2	4	Flat	30
House	77	2	4	Terrace	50
House	87	3	5	Semi	100
House	95	3	6	Detached	60
House	101	4	6	Detached	100
House	108	4	7	Detached	50
House	115	5	7	Detached	50
				Total	500

500 Units at 50 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
Flat	50	1	2	Flat	40
Flat	60	2	3	Flat	40
Flat	65	2	4	Flat	40
House	77	2	4	Terrace	100
House	87	3	5	Semi	120
House	95	3	6	Detached	50
House	101	4	6	Terrace	50
House	108	4	7	Detached	30
House	115	5	7	Detached	30
				Total	500



500 Units at 75 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
Flat	50	1	2	Flat	80
Flat	60	2	3	Flat	80
Flat	65	2	4	Flat	60
House	77	2	4	Terrace	180
House	87	3	5	Semi	50
House	95	3	6	Terrace	30
House	101	4	6	Detached	20
				Total	500

3.0 150 UNIT SCHEMES

150 Units at 35dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	77	2	4	Terrace	18
House	87	3	5	Semi	42
House	95	3	6	Detached	18
House	101	4	6	Detached	42
House	108	4	7	Detached	30
				Total	150

150 Units at 50dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	77	2	4	Terrace	60
House	87	3	5	Terrace	30
House	87	3	5	Semi	30
House	101	4	6	Detached	30
				Total	150



150 Units at 75 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
Flat	50	1	2	Flat	24
Flat	60	2	3	Flat	30
Flat	65	2	4	Flat	30
House	77	2	4	Terrace	30
House	95	3	6	Terrace	30
House	101	4	6	Semi	6
				Total	150

150 Units at 120 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
Flat	50	1	2	Flat	30
Flat	60	2	3	Flat	60
Flat	65	2	4	Flat	60
				Total	150

150 at 250 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
Flat	32	1	1	Flat	30
Flat	50	1	2	Flat	60
Flat	60	2	3	Flat	36
Flat	65	2	4	Flat	24
				Total	150



4.0 50 UNIT SCHEMES

50 Units at 20 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	95	3	6	Detached	17
House	101	4	6	Detached	8
House	108	4	7	Detached	12
House	115	5	7	Detached	13
				Total	50

50 Units at 35 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	77	2	4	Terrace	7
House	87	3	5	Semi	13
House	95	3	6	Detached	7
House	101	4	6	Detached	13
House	108	4	7	Detached	10
				Total	50

50 Units at 50 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	77	2	4	Terrace	20
House	87	3	5	Terrace	10
House	87	3	5	Semi	10
House	101	4	6	Detached	10
				Total	50

50 Units at 75 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
Flat	50	1	2	Flat	8
Flat	60	2	3	Flat	10
Flat	65	2	4	Flat	10
House	77	2	4	Terrace	10
House	95	3	6	Terrace	10
House	101	4	6	Semi	2
				Total	50



50 Units at 120 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
Flat	50	1	2	Flat	10
Flat	60	2	3	Flat	20
Flat	65	2	4	Flat	20
				Total	50

50 Units at 250 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
Flat	32	1	1	Flat	10
Flat	50	1	2	Flat	20
Flat	60	2	3	Flat	12
Flat	65	2	4	Flat	8
				Total	50

5.0 15 UNIT SCHEMES

15 Units at 20 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	95	3	6	Detached	5
House	101	4	6	Detached	2
House	108	4	7	Detached	4
House	115	5	7	Detached	4
				Total	15

15 Units at 35 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	77	2	4	Terrace	2
House	87	3	5	Semi	4
House	95	3	6	Detached	2
House	101	4	6	Detached	4
House	108	4	7	Detached	3
				Total	15

**15 Units at 50 dph**

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	77	2	4	Terrace	6
House	87	3	5	Terrace	3
House	87	3	5	Semi	3
House	101	4	6	Detached	3
				Total	15

15 Units at 75 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
Flat	50	1	2	Flat	2
Flat	60	2	3	Flat	3
Flat	65	2	4	Flat	3
House	77	2	4	Terrace	3
House	95	3	6	Terrace	3
House	101	4	6	Semi	1
				Total	15

15 Units at 120 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
Flat	50	1	2	Flat	3
Flat	60	2	3	Flat	6
Flat	65	2	4	Flat	6
				Total	15

6.0 10 UNIT SCHEMES**10 Units at 20 dph**

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	95	3	6	Detached	3
House	101	4	6	Detached	1
House	108	4	7	Detached	3
House	115	5	7	Detached	3
				Total	10



10 Units at 35 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	77	2	4	Terrace	1
House	87	3	5	Semi	3
House	95	3	6	Detached	1
House	101	4	6	Detached	3
House	108	4	7	Detached	2
				Total	10

10 Units at 50 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	77	2	4	Terrace	4
House	87	3	5	Terrace	2
House	87	3	5	Semi	2
House	101	4	6	Detached	2
				Total	10

10 Units at 75 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
Flat	50	1	2	Flat	2
Flat	60	2	3	Flat	2
Flat	65	2	4	Flat	2
House	77	2	4	Terrace	2
House	95	3	6	Terrace	2
				Total	10

7.0 5 UNIT SCHEMES

5 Units at 20 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	95	3	6	Detached	2
House	101	4	6	Detached	1
House	108	4	7	Detached	1
House	115	5	7	Detached	1
				Total	5



5 Units at 35 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	77	2	4	Semi	0
House	87	3	5	Semi	2
House	95	3	6	Detached	1
House	101	4	6	Detached	1
House	108	4	7	Detached	1
				Total	5

5 Units at 50 dph

Type	Net m2	Bedrooms	Persons	Value Type	Numbers
House	77	2	4	Terrace	2
House	87	3	5	Terrace	1
House	87	3	5	Semi	1
House	101	4	6	Detached	1
				Total	5

Bradford Affordable Housing Economic Viability
Assessment

For

The City of Bradford Metropolitan District
Council

APPENDIX SEVEN
VALUE AREA INFORMATION

October 2010



Contents

1.0	Value Area Information	3
2.0	Conclusions	5



1.0 Value Area Information

- 1.1 It is reasonable to assume that within a Local Authority boundary there will be a range of 'value areas', that is locations where property values are likely to be lower or higher than the average for the District as a whole. This view has been confirmed in the SHMA. In order to reflect these ranges analysis of achieved sales values in each Postcode Sector within the District (e.g. BD13 5) over the previous nine years was analysed. Postcode Sectors were then ranked according to value into nine value areas.
- 1.2 Land Registry data on achieved sales values from 1 January 2006 to 31 December 2008 for each type of dwelling (detached, semi-detached, terraced and flats and maisonettes) at a Postcode Sector level for each value area was then assessed. These values were then indexed down using the Land Registry index for Bradford as at May 2010 and averaged within each value area for each type of dwelling (detached, semi detached, terraced and flats and maisonettes). To this a 7% uplift was applied to represent a new build premium. Average values per unit type at a Postcode Sector level were then assessed against information regarding asking prices and achieved sales values on a number of property websites including Rightmove, Find a Property and Mouseprice to establish if they accurately reflected properties on the market currently. The reason the primary data was taken for the period 2006-2008 was that the number of sales achieved in the twelve months prior to commencement of this study was low thus the sample size would be in some areas be insufficient to extract meaningful data.



1.3 The Postcode Sectors which formed each value area are as follows:

Value Area 1	Value Area 2	Value Area 3	Value Area 4	Value Area 5	Value Area 6	Value Area 7	Value Area 8	Value Area 9
BD16 3	BD13 5	BD10 0	BD13 3	BD1 2	BD1 5	BD12 0	BD21 1	BD21 3
BD17 5	BD15 0	BD10 8	BD14 6	BD10 9	BD2 1	BD12 8	BD21 2	BD3 8
BD17 6	BD16 1	BD13 4	BD16 2	BD12 7	BD2 2	BD15 7	BD3 0	BD3 9
BD22 0	BD16 4	BD15 8	BD18 1	BD13 1	BD2 4	BD18 2	BD4 7	BD4 9
LS29 0	BD17 7	BD15 9	BD20 8	BD13 2	BD22 6	BD21 5	BD5 8	BD5 0
LS29 6	BD18 4	BD18 3	BD22 7	BD20 7	BD4 0	BD3 7	BD7 2	BD5 7
LS29 7	BD20 5	BD20 0	BD22 8	BD6 3	BD7 1	BD4 8	BD8 8	BD5 9
LS29 8	BD22 9	BD20 6	BD9 5	BD9 4	BD7 4	BD6 1	BD8 9	BD7 3
LS29 9		BD20 9		BD9 6	BD8 7	BD6 2		
				BD1 1				
				BD1 3				
				BD1 4				
				BD12 9				
				BD2 3				
				BD21 4				
				BD4 6				
				BD8 0				

1.4 This analysis enabled us to finalise a value for each unit type, e.g. detached, for each Value Area. In order to obtain a value per square metre it was necessary to assume a unit size for each property type. These were arrived at based upon stakeholder engagement and our experience within the development industry. The unit sizes assumed were as follows:

Detached – 105 m2

Semi detached – 95 m2

Terraced – 77 m2

Flat - 55 m2



2.0 Conclusions

2.1 The average sales values for each area and unit type were then divided by these figures to provide a base value per square metre for each area and unit type. This can be seen in the following table:

Values per square metre by area and property type

Value Area	Flat	Terrace	Semi	Detached
1	3441	3134	2802	3169
2	2796	2444	2106	2854
3	2286	2124	2300	2366
4	2467	2013	1745	2124
5	2146	1658	1629	2125
6	2571	1585	1621	1918
7	1920	1643	1578	1695
8	1718	1155	1312	1543
9	1417	1200	1117	1233

2.2 The values shown in the previous table are those used in the viability modelling. The values are determined as follows:

Flatted units of all sizes – flatted values used relevant to development location;

Two bedroom houses – terraced values used relevant to development location;

Three bedroom houses – semi detached values used relevant to development location;

Four bedroom houses – detached values used relevant to development location;

Five bedroom houses – detached values used relevant to development location.