



Housing Northwest North West Affordable Housing Conference

Affordable Housing Delivery & Viability

**Is the model broke?
Will it mend in time?**

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DTZ The Key Questions

Why is viability important?

What is viability?

How has it changed?

How do you assess it?





WHY IS VIABILITY IMPORTANT?

DTZ

Why is viability important?

LDF Policies

PPS3

Blyth Valley

Delivery of new homes





WHAT IS VIABILITY?

DTZ What is viability

A willing developer....

... a scheme that can be approved

A willing landowner

It all stacks up





HOW HAS VIABILITY CHANGED?

The downturn affected developments How will the key players respond?

The developer

The housing association

The landowner

New behaviour

The local authority



DTZ The Developer

Prices



Sales rates



Finance cost



HA contribution



Risk



Prices



Sales rates



Finance cost



Risk





Grant?



DTZ The Landowner



10%  in prices = 20-30%  in land value

Affordable Housing Requirement



Non AH Section 106/ CIL costs



Environmental standards



Incentive to bring forward land





Calculation of Land Value

	Pre Downturn	10% sales values fall	20% sales values fall
Sales Value	100	90	80
Build cost	40	40	38
Sales cost	4	3	3
Interest cost	2	3	3
Overhead & Profit	20	18	16
Land (&s106)	34	26	20
% Fall in Land Value		-24%	-47%

DTZ New Behaviour

Cash, not profit

Small sites, not large

Houses, not flats

Greenfield, not urban?

Intermediate rent, not shared ownership

Public land, not private?





HOW DO YOU ASSESS VIABILITY?

How do you set about testing viability?

1 – emerging view of Planning Inspectorate

AH targets must be tested

Flexibility not a get out

Justify the maximum

A normal market

Impact of change in market



How do you set about testing viability? 2 – key decisions for testing

Sub-regional or local assessment?

Real sites or hypothetical sites

The viability test

- residual land value
- rate of return (IRR)

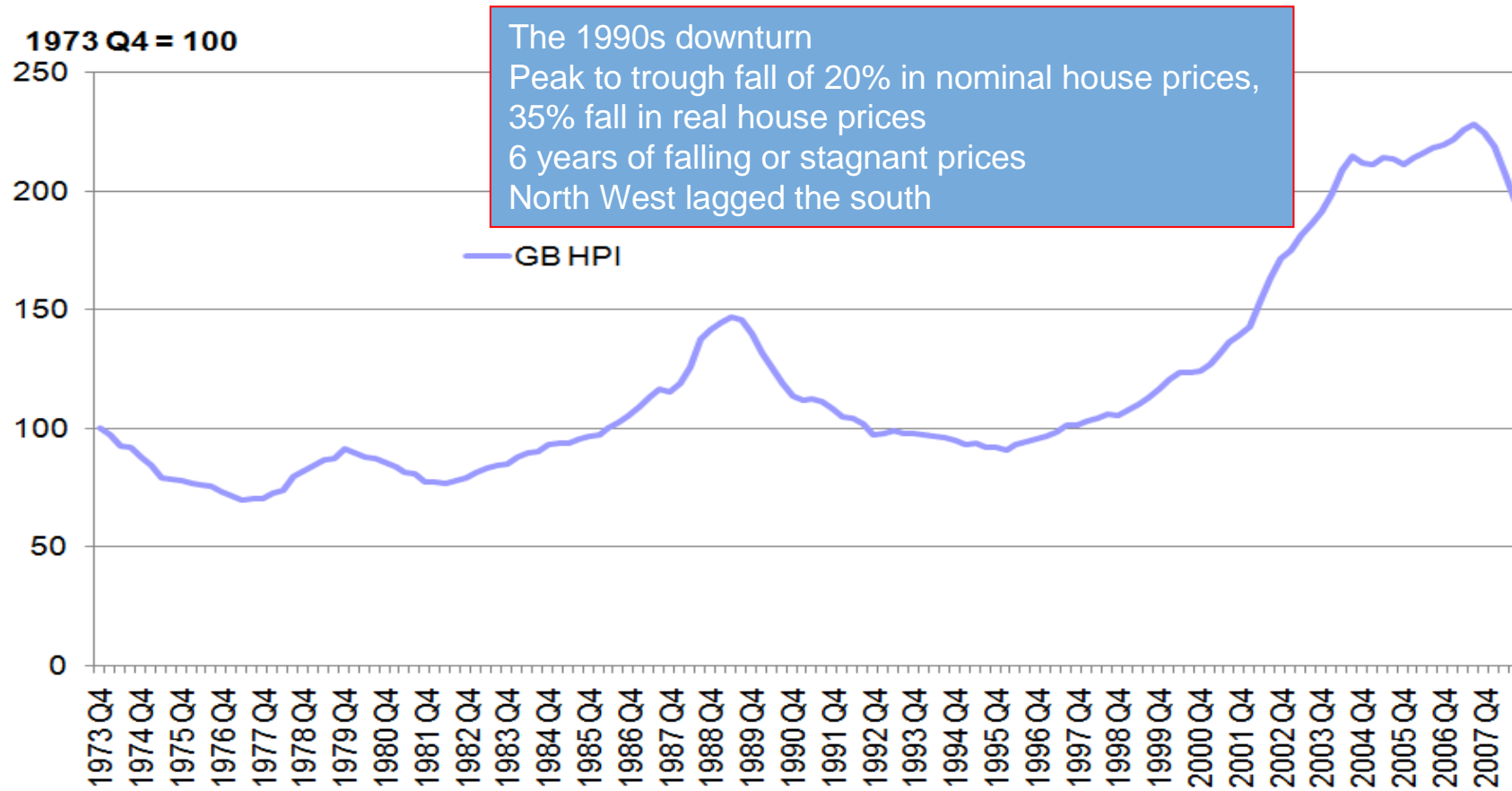
Stakeholder engagement

View of the future





The Duration and Depth of the early 1990s downturn



The 1990s downturn
Peak to trough fall of 20% in nominal house prices,
35% fall in real house prices
6 years of falling or stagnant prices
North West lagged the south

Source
Nationwide and DTZ

Key Elements of a Viability Model

Framework for Analysis	Key Components	Key Variables for Testing	Viability Tests
Historic house price and sales rate scenarios	Revenues (price of market and affordable homes)	Percentage of affordable housing	Internal Rate of Return (target 15%)
Value geographies – areas of similar sale values/land prices	Costs (build, non-AH s106, marketing, finance costs, etc)	Market prospects – different scenarios	Residual land value (using land value as output)
Development archetypes – different scheme in terms of density & dwelling mix	Land value (can be an input or an output)	Level of affordable housing grant	% Profit on cost



Key Elements

KEY INPUTS

Value Band

£ per sqft sales values by type & tenure
£ per sqft build costs by type and tenure

Archetypes (Urban/Suburban/Market Town)

Dwelling type and size mix
Density/dwellings per hectare
Average dwelling size
Site size
Floorspace assumptions

NOMINAL REVENUES AND COSTS

Revenues

Revenues from market housing
Revenues from affordable housing
Payment of grant

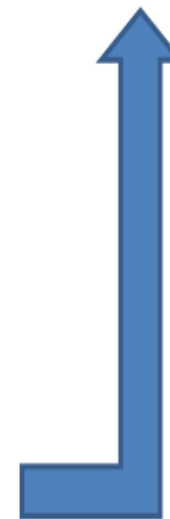
Costs

Demolition costs
Construction costs (market and affordable)
Non-affordable housing section 106 costs
Sales costs
Interest
Land value/price 1
Land value/price 2
Car parking costs
Acquisition on land costs
Professional fees
Contingency costs
Infrastructure costs

VIABILITY/SCHEME PERFORMANCE

Performance Measures

Total revenue
Total costs
Total surplus
Total profit
NPV
IRR (key measure - viability threshold 15%)
Residual land value (vs alternative use)





CONCLUSION



DTZ Viability of Housing Delivery

Understand it

Test it

Times have changed

Adapt policy



QUESTIONS AND COMMENTS





The Local Authority – your policy stance

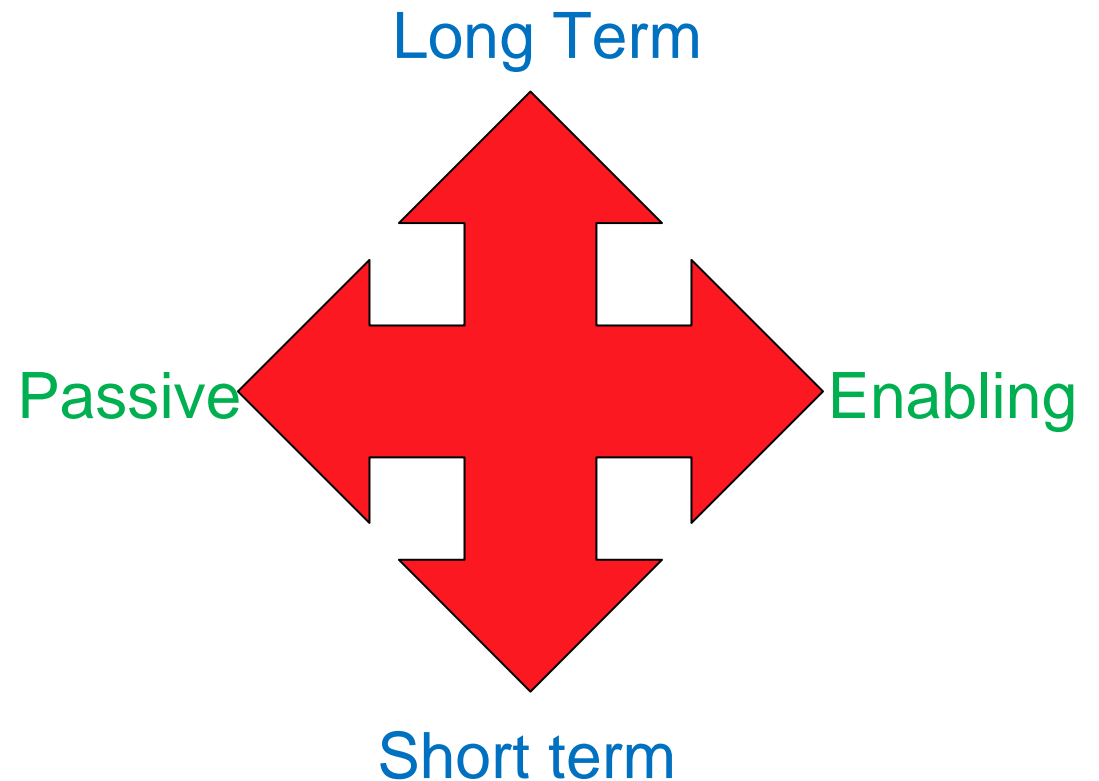
Rising homelessness?

More affordable housing

Support local jobs

Affordability and choice

Avoid ½ completed sites





The Local Authority – short term actions

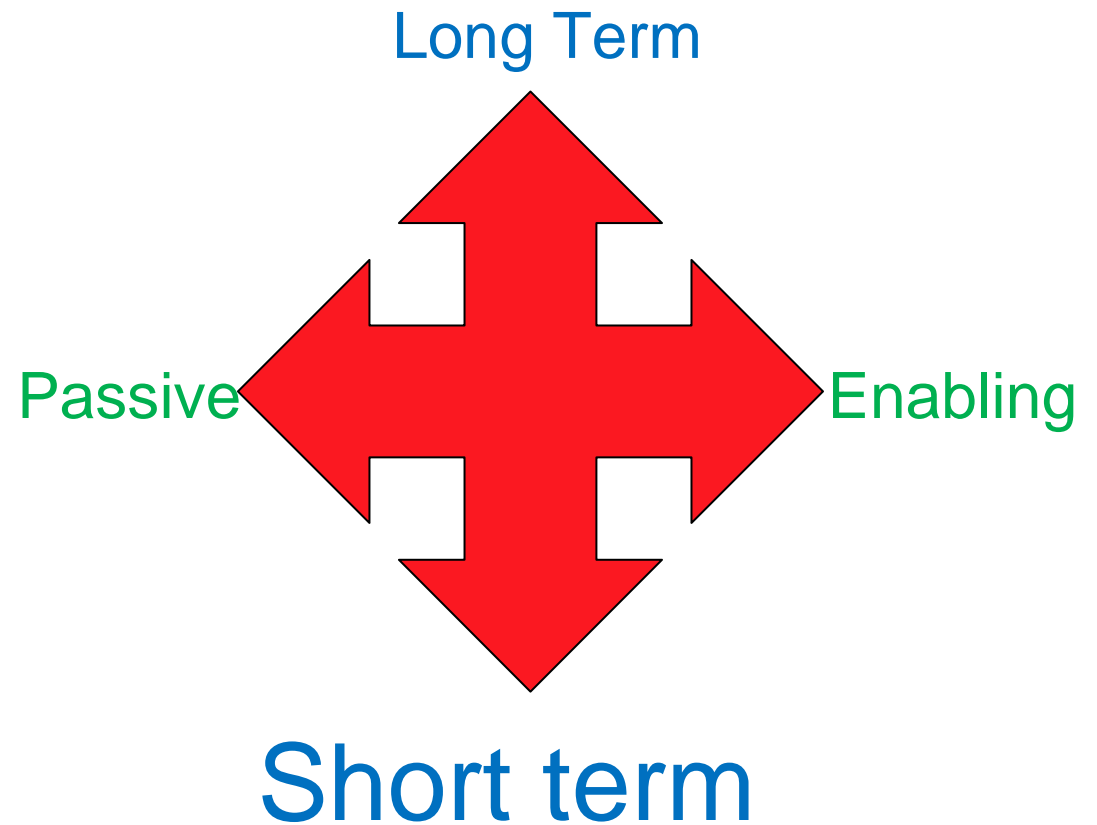
Audit status of development sites

Identify priority sites

Prioritise s106 benefits

Engage RSLs

Engage HCA





The Local Authority – longer term actions

Fix Affordable housing policy

Review s106 obligations

Be aware of regulatory cost

Review Five Year Land Supply

Bring forward LA land

Explore new vehicles – JVs

