

**Central
Lancashire
SHLAA – Stage 7c
Addendum**

Preston City Council, Chorley
Borough Council, South
Ribble Borough Council

31st March 2009

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Introduction

- 1.1 The purpose of this report is to provide the viability results of the sites from the Central Lancashire SHLAA that make up the 5 year supply of housing within the local authorities of Preston, Chorley and South Ribble.
- 1.2 Following the submission of the Stage 7c Report in December 2008 progress has been made through the Housing Developers' Panel and subsequent consultations on the documents which has resulted in a number of minor changes.
- 1.3 The Panel was established following the submission of the Stage 7c to ensure that developers and housebuilders were more formally engaged in the development of the SHLAA. Building on the work with the Strategic Housing Partnership, including public and private representatives, and the engagement process undertaken in the development of the Stage 7c report, the Councils hosted meetings of the Housing Developers' Panel between January and March.
- 1.4 Following this consultation process another test of the site viabilities has been undertaken to reflect the input of the panel to demonstrate a collaborative process between public and private sectors.
- 1.5 This short addendum is therefore structured around the following sections:
 - Feedback from Developer Panel meetings
 - Viability Model Assumptions and updates
 - Modelling Deliverability – High level assessment of the 5 Year Supply

Feedback from Developer Panel meetings

1.6 Three Developer Panel meetings were held after the submission of the Stage 7c report, meetings were held on:

- 19th January
- 26th February
- 25^h March

Housing Developers Panel 19th January

1.7 In the first meeting the Local Authority Partners and GVA Grimley presented the work of the Stage 7c report to the full panel. There was a general consensus around the approach and the panel were given the opportunity to consider the report in further detail and to feedback to the panel at the next meeting

Housing Developers Panel 26th February

1.8 The panel convened on the 26th February with the purpose of discussing the assumptions of the Stage 7c report and to review all of the sites currently recorded in the SHLAA. Each site was discussed through the process and highlighting a requirement for the identification or sensitivity testing.

1.9 In line with the request for feedback on the Stage 7c report a number of specific issues were raised, which will be described below.

1.10 Build out rates included in the Stage 7c report were considered somewhat optimistic in the current market and even through the process of recovery.

1.11 The following staged build out rate was agreed:

- 2008/9 – 1 unit /month, 12 /year
- 2009/10 – 2 units a month, 24/year
- 2010 onwards – capped at 30/year

1.12 It was agreed that sites with two or more developers would be able to achieve higher completion rates although this would not simply be a case of doubling the rate. It was agreed that faster rates could be achieved on larger sites of 250 units or over.

- 1.13 There was discussion about build costs, particularly in relation to achieving Code for Sustainable Homes levels. The figures used in Stage 7c used costs for achieving Code for Sustainable Homes Level 3*. Whilst it was recognised that these would be representative of the initial phases of development it is anticipated that development will have to adhere to higher CSH levels over future years, impacting upon site delivery.
- 1.14 In considering the market perception of sites, members of the panel also revised the densities for a number of the sites to reflect changes in the market such as the reduced appetite for apartments. Whilst this is highlighted in the Stage 7c report it was felt that market conditions over recent months had reinforced this further.
- 1.15 Of particular discussion were the Preston City Centre and inner urban sites which previously featured a large number of apartments. Panel members took the view that development for these sites was unlikely in years 1-5, unless there was strong developer commitment and that the overall mix would include fewer units and a more balanced mix with mews type housing, therefore impacting upon the density of these sites.
- 1.16 Whilst largely agreeing upon the conclusions of the Stage 7c report this consultation process represents a 'qualitative' check of the deliverability of sites.

Housing Developers' Panel 25th March 2009-03-26

- 1.17 The meeting in March allowed the Panel to discuss any outstanding sites in the SHLAA and any adjustments to be made to criteria such as density and time of development. There was a general acceptance of the principles applied to the SHLAA. Reference was made to certain sites where developers are ready to submit planning applications but have yet to do so. It was agreed by the Panel that given the scale and amount of pre-application meetings held over these sites, particularly by the HCA, that there was sufficient intent to move these sites to years 1-5.
- 1.18 The Panel also agreed the assumptions for running a fresh round of viability tests on the 5 year supply sites.

Viability Model Assumptions & Changes

- 1.19 It is accepted that the Stage 7c Report of December 2008 represents a point in time. Given the volatility of the market a number of changes were suggested by the Panel, and the alterations made are summarised below. The detailed assumptions and appraisal process is described in more detail within the main report and this should be referred to in the first instance for the full details of model construction and assumptions.
- 1.20 In March 2009 the viability model prepared for the Stage 7c was used to test the viability of the sites within the 5 Year Supply for the 3 Local Authorities. The changes made to each step of the calculation process are detailed below.

Step 1: Site Classification and Development Density

- 1.21 The sites were broken down according to location in the original SHLAA work. However, for the latest model the development mix has been adjusted to be as follows:
- City centre – 100% apartments
 - Inner urban – 40% apartments, 60% mews
 - Suburban – 10% apartments, 34% mews, 34% semi-detached, 22% detached
 - Rural settlements– 34% mews, 33% semi detached, 33% detached
 - Other rural – 50% semi-detached, 50% detached
- 1.22 The reduction in the mix of apartments has been made to reflect developer consultation and the lack of developer appetite for apartments on sites at present.
- 1.23 Site density has drawn upon the further consultations and adjustments made through the SHLAA Housing Developers' Panel and updated capacity figures input into the SHLAA have been used in the appraisal of the viability of sites.

Step 2 – Allocation of Market Location

- 1.24 The sales values are held consistent with the original model and are correct as of summer 2008. Clearly the market has moved in terms of values; however the viability model is intended to test viability in a broad sense over the longer term and consideration should be given to this. Sites have continued to be classified within their original allocation of “cold”, “moderate” and “warm” property markets.

Step 3 – Allocation of Flood Risk

- 1.25 These allocations have been held consistent with the original model unless further information on an individual has suggested otherwise

Step 4 – Allocation of Contamination

- 1.26 These allocations have been held consistent with the original model unless further information on an individual site has suggested otherwise

Step 5 – Apply Economic Appraisal Constraints

- 1.27 Following the Housing Developer Panel meeting of the 16th February a discussion was held on the additional costs in meeting the Code for Sustainable Homes Level 4* on sites. It is understood that the Government has set targets of all new homes reaching code levels over the following stages:

- April 2010: All new homes to meet CSH Level 3*
- April 2013: All new homes to meet CSH Level 4*
- April 2016: All new homes to meet CSH Level 6*

- 1.28 The Government confirmed in February 2008 that a mandatory rating against the code will be enforced from the 1st May 2008. From April 2008 all new social rented housing must be built to CSH 3 and the code is still voluntary for the private sector. For the purpose of this exercise the development costs have assumed that the CSH Level 3* will be reached to reflect best practice. For homes in the 6-10 and 11+ time frame of delivery an additional cost of typically 6% could be applied to understand the viability¹. In terms of the sites within the 5 year supply the Code Level has been assumed to remain at 3*.

- 1.29 The Build Costs have therefore been assumed to be held the same as those established in December 2008 for the Stage 7c Report. Further sensitivity testing could be undertaken for sites to be developed beyond the initial 5 year supply into 2013

Step 6 - Arrival at the Residual Value

- 1.30 This process has been held consistent with the original model unless further information on an individual site has suggested otherwise. This step calculates whether each site is

¹ CLG Cost Analysis of the Code for Sustainable Homes December 2006

economically viable, those which have a positive land value are considered economically viable.

Step 7 – Factoring in Land Value

- 1.31 A per unit calculation is made against typical prices paid per acre of housing development land. This therefore accounts for whether the site would be typically deliverable against the price a landowner would expect to receive for the land.

Model Deliverability – The 5 Year Supply

- 1.32 Analysis was carried out on the sites contained within the three Local Authorities' 5 Year Supply. Sites that had an unimplemented planning permission, or were on site were not tested as clear developer intent could be demonstrated. This is a consistent approach to that adopted in the Stage 7c report.
- 1.33 Therefore sites that were classed as Housing Allocations and Suggested Sites that fell within the 5 Year Supply were tested as part of the additional research.
- 1.34 The additional research has reinforced that the vast majority of sites can be considered developable (i.e. to be brought forward at some point in time on the basis that they achieve a positive residual value). A number of sites are questioned in terms of their deliverability, that is their potential to deliver over the short term. However, it is important to recognise that this is more difficult to ascertain through the model which applies broad assumptions and is not able to modify its findings beyond the board parameters established.
- 1.35 The model does not constitute a formal valuation and has not been prepared in accordance with the current RICS Appraisal and Valuation Standards (Red Book).

Chorley

- 1.36 Within Chorley the remaining three Site Allocations and Suggested Sites all recorded a positive residual value and were considered market viable by the model, therefore both developable and deliverable. As such, in Chorley the model suggests that the supply of land represents a 5 year supply with minimal viability risk.

South Ribble

- 1.37 Within South Ribble the seven sites classified as Site Allocations were all identified as developable and deliverable.
- 1.38 Of the five Site Suggestions, all had a positive residual value. However, two gave results which raise questions over their deliverability. These sites were *Land at Dorothy Avenue SS12* and *Farington Saw Mills SS45* and both were assumed from the information provided to have an Inner Urban site density. However, if these sites are re-run with a suburban density with slightly fewer units they can achieve market viability. It is therefore likely that a developer would respond to the market in this way to achieve viability. The Council should be aware of this minor potential change to the trajectory. And could be required to make up a small

number of units within another site to counter for the potential slight reduction of units on the two sites discussed above.

- 1.39 As such, the testing of the sites within South Ribble suggests a clear 5 year supply with minimal viability risk according to the model.

Preston

- 1.40 All of Preston's Site Suggestions and Pending/Pre-Application sites had a positive residual value and could therefore be considered as developable. The model suggested potential issues around deliverables in the short term on all but two sites, given the relationship between the residual value nil of land costs and actual land values.
- 1.41 Within the Other Sites category, the sites that the model considered not to be market viable were Inner Urban schemes, reinforcing the issues associated with apartment schemes and the concentration of sites in areas of "cold" market values. For a number of these there were other factors such as a "cold" property market and one scheme has contamination costs. Also the Council should therefore be aware that a risk could be posed by these sites. The model doesn't take into account factors such as land ownership and as these sites may already be in developer control they could be market viable as the land payment has been made. Again, a sizeable residual value exists for each site, which given the scale of development could still result in these schemes being brought forward. These sites include Tithebarn, Alliance Works, Grosvenor Street and Goss Graphics.
- 1.42 Within the Site Suggestions category the sites at the Depot on Longridge Road, Land adjacent to Ashton Basin, and Park Street all suffer from contamination costs which impact upon their residual value. The model therefore highlights the fact that the market viability of these sites is questionable.
- 1.43 As such, Preston can be identified as having a 5 year supply with some limited viability risk according to the model given the supply being composed of a number of city centre apartment schemes. The vast majority of sites are classified as developable. However, the marginal value a few sites does draw into question their deliverability in the shorter term.