Viability Report

Land at Beechwood Avenue, Runcorn, Cheshire WA7 3

October 2016

For:

Aurum Homes Limited

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1 Introduction

This report and accompanying appraisals have been collated in order to test whether or not the development as proposed at Beechwood Avenue, Runcorn, Cheshire, can sustain the provision of any affordable housing provision on site as required by Halton Borough Council (The Council). The report has been prepared on behalf of our client, Aurum Homes Limited. The proposed scheme in summary comprises the development of 14 semi-detached and detached houses.

A planning application has been submitted and approved – reference number 15/00024/FUL. The purpose of this viability report is to support a Section 73 application to vary the condition relating to the provision of affordable housing.

In order to test the viability of this proposed development we have utilised the Homes and Communities Agency Development Appraisal Tool (DAT).

The analysis contained within this report will focus on a development that provides the policy compliant level of 25% affordable housing.

We provide alternative scenarios as follows:

- A development comprising 25% on site provision
- A development comprising nil affordable housing.

Our Viability Report concludes that the development is unviable with any affordable housing provision.

1.1 Homes and Communities Development Appraisal Tool

The Homes and Communities Development Appraisal Tool is a financial appraisal model which has the capability to incorporate an element of affordable housing into a proposed scheme.

The model is promoted by the Homes and Communities Agency (HCA) as being suitable for use by property professionals, house builders and Local Planning Authorities in the negotiation of affordable housing planning obligations and other obligations.

Planning policies and practice for securing planning obligations need to accommodate both the current realities and the future dynamic of the land and property markets. Whatever the pace of future market recovery, a changed lending environment and attitude to risk is likely to impact on residential development business models, which in turn will require changed approaches to development finance and development management.

1.2 Background Information

Full planning permission was granted for the development as proposed under planning reference number 15/00024/FUL with a minor amendment being granted under 15/00024/S73. Condition number 13 of this approval requires that 25% of the number of units are affordable housing units.

Following receipt of the planning permission Aurum Homes contacted six housing associations who operate locally in the area. Out of these six housing associations only one expressed an interest in the affordable housing.
2 Summary and Interpretation

2.1 Local Policy: Halton Borough Council

In preparation of this report, reference has been made to the Supplementary Planning Guidance (SPG) produced by Halton Borough Council entitled ‘Affordable Housing’, adopted in January 2014.

The policy seeks to maximise affordable housing, whilst recognising the need to maintain the financial viability of sites to deliver such affordable housing.

Affordable housing units should be provided into perpetuity, on developments including 10 or more dwellings or 0.33 hectares or greater for residential purposes.

25% affordable housing provision is sought. 50% of the provision should be social rented or affordable rented tenures and 50% should be intermediate housing tenures.

The provision of affordable housing should address the identified local housing needs and should be fully integrated into the development.

The policy states that the affordable housing should only be reduced where robust and credible evidence is provided to demonstrate that the affordable housing target would make the development unviable.

The affordable housing should be provided on-site. Off-site provision or a financial contribution in lieu of on-site provision should only be made in exceptional circumstances.
3 Location and Property Description

The site is located in an area known as Beechwood in Runcorn, Cheshire. Runcorn is an industrial town located within the Borough of Halton. In 2010, Runcorn’s population was recorded to be 61,000. In May 2014, it became a member of the Liverpool City Region Combined Authority.

The town of Warrington is located approximately 8 miles away and Liverpool City Centre is around 16 miles away.

Runcorn is well known for its new town that was built in the east of the area in the 1960s and 1970s. This includes the area known as Castlefields, which has undergone some regeneration in recent years.

Please see the area map below.

The site itself is located in Beechwood, which is predominantly residential in nature. Beechwood is a desirable area to live in locally mainly because of the good transport links and the schools which are all very good, particularly a school called The Heath.

The site is triangular in shape and looks to be greenfield. Access is proposed off Beechwood Avenue. The site is approximately one acre in size.

The site is bounded on two sides with open fields to the east and west and a number of densely populated trees. Beechwood Avenue runs along the frontage to the site to the south with a large residential modern estate called ‘The Shires’ being located beyond this. To the north of the site the A533 (Southern Expressway) is located.
4 Development as Proposed

The development proposed is a mixture of semi detached and detached houses arranged around an access road. There are fourteen houses in total to be developed. A further phase of four houses is planned and has full approval under a separate planning application (15/00023/FUL).

The properties are to be developed to good space standards and the elevations are fairly traditional in appearance. Externally, each property appears to have parking for two vehicles, a small front garden and a rear garden.

Please see the site plan as proposed below taken from the plans prepared by Cassidy and Ashton (8455 – P10H).

Having had regard to Halton's SPD guidance for affordable housing, it is proposed that 2, two bedroom houses will be for affordable rent and 2, three bedroom houses will be for shared ownership.

We have not been provided with any information with respect to the proposed internal specification but we would assume a good quality product. We would envisage that good quality units and appliances are provided to the kitchens, and that bathrooms would be contemporary with tiled finishes to both the walls and floors. Suitable heating, hot water and electrical systems should be provided along with security features to doors and windows.

Please see below a summary of the accommodation as proposed:
<table>
<thead>
<tr>
<th>Plot No.</th>
<th>House Type</th>
<th>Description</th>
<th>Tenure</th>
<th>GIA Sq m</th>
<th>GIA Sq Ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>C</td>
<td>Three bedroom Detached house</td>
<td>Private Sale</td>
<td>91.6</td>
<td>986</td>
</tr>
<tr>
<td>2</td>
<td>F</td>
<td>Three bedroom semi detached house</td>
<td>Shared Ownership</td>
<td>93</td>
<td>1,001</td>
</tr>
<tr>
<td>3</td>
<td>F</td>
<td>Three bedroom semi detached house</td>
<td>Shared Ownership</td>
<td>93</td>
<td>1,001</td>
</tr>
<tr>
<td>4</td>
<td>D</td>
<td>Three bedroom detached house</td>
<td>Private Sale</td>
<td>93</td>
<td>1,001</td>
</tr>
<tr>
<td>5</td>
<td>D</td>
<td>Three bedroom detached house</td>
<td>Private Sale</td>
<td>93</td>
<td>1,001</td>
</tr>
<tr>
<td>6</td>
<td>D</td>
<td>Three bedroom detached house</td>
<td>Private Sale</td>
<td>93</td>
<td>1,001</td>
</tr>
<tr>
<td>7</td>
<td>C</td>
<td>Three bedroom detached house</td>
<td>Private Sale</td>
<td>91.6</td>
<td>986</td>
</tr>
<tr>
<td>12</td>
<td>E</td>
<td>Two bedroom semi detached house</td>
<td>Affordable Rent</td>
<td>684</td>
<td>64</td>
</tr>
<tr>
<td>13</td>
<td>E</td>
<td>Two bedroom semi detached house</td>
<td>Affordable Rent</td>
<td>684</td>
<td>64</td>
</tr>
<tr>
<td>14</td>
<td>A</td>
<td>Four bedroom detached house with integral garage</td>
<td>Private Sale</td>
<td>126</td>
<td>1,359</td>
</tr>
<tr>
<td>15</td>
<td>A</td>
<td>Four bedroom detached house with integral garage</td>
<td>Private Sale</td>
<td>126</td>
<td>1,359</td>
</tr>
<tr>
<td>16</td>
<td>A</td>
<td>Four bedroom detached house with integral garage</td>
<td>Private Sale</td>
<td>126</td>
<td>1,359</td>
</tr>
<tr>
<td>17</td>
<td>A</td>
<td>Four bedroom detached house with integral garage</td>
<td>Private Sale</td>
<td>126</td>
<td>1,359</td>
</tr>
<tr>
<td>18</td>
<td>B</td>
<td>Four bedroom detached house (3 storey)</td>
<td>Private Sale</td>
<td>136</td>
<td>1,466</td>
</tr>
<tr>
<td>14</td>
<td></td>
<td></td>
<td></td>
<td>2,656</td>
<td>14,006</td>
</tr>
</tbody>
</table>
5 Viability Appraisal

5.1 Approach to Viability Assessment

Our approach is to use a residual land value approach, consistent with that promoted by the Royal Institution of Chartered Surveyors’ Professional Guidance Note entitled “Financial Viability in Planning”.

The following extract from the Guidance note provides a summary:

“The residual appraisal methodology for financial viability testing is normally used, where either the level of return or site value can be an input and a consequential of either a residential land value or return respectively can be compared to a benchmark, having regard to the market in order to assess the impact of planning obligations or policy implications on viability”.

In determining the ‘Site Value’ this should equate to the market value subject to the following assumption: that the value has regard to the development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.

The guidance goes on to say that the analysis used in determining the ‘Site Value’ should include comparison with the sale price of land for similar development, where such evidence exists, based on land value/hectare or per unit of development.

In undertaking scheme specific viability assessments, the nature of the applicant should normally be disregarded as should benefits or disbenefits that are unique to the applicant. The aim should be to reflect industry benchmarks having regard to the particular circumstances in both development management and plan making viability testing.

A copy of the viability appraisals can be found in Appendix 1. The following narrative is based upon a scenario whereby 25% on site affordable housing is provided. We have also included a further appraisal for a development that has NIL affordable housing.

5.2 Key Components of the Viability Assessment

GROSS DEVELOPMENT VALUE (GDV)

The Gross Development Value is the estimated value of the development upon completion. This is the revenue for the development. For the private housing for sale we have used a combination of our experience, the estate agent’s view and comparable evidence in determining the value of the units.

Market Housing For sale

The location of the site is within the Beechwood area, which tends to be a popular area for local residents to buy property in. As mentioned above, the schools are very good as are transport links to the major cities of Liverpool and Manchester. Traditionally, several parts of Runcorn have been labelled as being ‘low value’ areas, especially those areas dominated by high levels of social housing and the new town areas.

In arriving at our estimation of achievable selling prices, we have looked at other new build developments in the locality and also the pricing structure suggested by the estate agents, Entwistle Green who are based locally in Runcorn and have very good local market knowledge. Please see the table below:
The Barge, Castlefields Avenue East, Runcorn WA7. Keepmoat Homes. The Eston is a two bedroom semi detached house. It has two double bedrooms. The asking price is £121,995. The Kepwick is a three bedroom semi detached house advertised for sale at £161,995. It is a 3 storey house. The Kellington is a 2 storey three bedroom semi detached house advertised at £141,995. We are of the opinion that this development is in a lower value area when compared to the subject site.

The Tarvin at Mosaic, off Brackendale, Halton Brook WA7 2EE. A development by Seddon Homes. This property is the ex-show home and is advertised for sale at an asking price of £117,500. The Marbury is a four bedroom detached house with garage advertised for sale at an asking price of £174,950. The Elton is a four bedroom detached house with integral garage advertised for sale at an asking price of £169,950. Again, we are of the opinion that this development is in a lower value area when compared to the subject site.

Village Street, Sandywood, Runcorn, WA7. David Wilson Homes. The Irving at Lea View is a four bedroom detached house (two double and two single bedrooms), advertised for sale at an asking price of £271,995. At 1151 sq ft, this represents £238 psf. We have heard anecdotally that substantial incentives can be offered on this development, which include legals, stamp duty, dishwasher, floor coverings and curtains. We therefore think that the net price would be somewhere in the region of 10% lower than that shown above.

The Meadows is a development by Morris Homes. It is located in Sandywood and comprises a mixture of apartments and houses – 2, 3 and 4 bed. There are 38 new homes available. The Bereton is a four bedroom detached house with integral garage advertised at £266,750. The Didsbury is a three bedroom semi detached house advertised at an asking price of £189,750. We understand again that some incentives are offered and we would expect the net selling price to be in the region of 5 – 10% below the prices advertised.

We understand from the estate agents that a great deal of interest has been shown in the development from prospective purchasers, but that it is likely that anyone purchasing a four bedroom property would have a property to sell first of all and so they are unsure of the length of time it will take to sell the properties. Also, there is not a great deal of four bedroom property in the immediate area and so it is difficult to obtain second hand comparable evidence.

Taking all factors into consideration we can confirm that we are satisfied with the estimated pricing as presented by Enwistle Green.
Affordable Housing Units

The market value of the units for affordable housing is based upon capitalised rents at appropriate yields after deductions for major repairs, voids / bad debts, management, maintenance and service charge together with any capital receipts from equity sold. A discounted cashflow technique is used ordinarily over a 30 year period.

The affordable rent is calculated as being 80% of the market rent for each property type or capped to the Local Housing Allowance for the property type.

Our assumptions regarding the adopted yields for capitalisation is supported by our experience gained through the valuation of affordable housing stock for our clients in similar locations. The summation of all the components has been adopted as proxies for "Market Values" for each unit type, and on the assumption that the market is restricted to the affordable housing providers.

Taking all factors into consideration, we can provide a summary of the prices that we think would be achievable on the subject site as follows:

<table>
<thead>
<tr>
<th>Plot No.</th>
<th>House Type</th>
<th>Description</th>
<th>Tenure</th>
<th>GIA Sq m</th>
<th>GIA Sq Ft</th>
<th>Estimated Value £</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>C</td>
<td>Three bedroom Detached house</td>
<td>Private Sale</td>
<td>91.6</td>
<td>986</td>
<td>190,000</td>
</tr>
<tr>
<td>2</td>
<td>F</td>
<td>Three bedroom semi detached house</td>
<td>Shared Ownership</td>
<td>93</td>
<td>1,001</td>
<td>122,000</td>
</tr>
<tr>
<td>3</td>
<td>F</td>
<td>Three bedroom semi detached house</td>
<td>Shared Ownership</td>
<td>93</td>
<td>1,001</td>
<td>122,000</td>
</tr>
<tr>
<td>4</td>
<td>D</td>
<td>Three bedroom detached house</td>
<td>Private Sale</td>
<td>93</td>
<td>1,001</td>
<td>185,000</td>
</tr>
<tr>
<td>5</td>
<td>D</td>
<td>Three bedroom detached house</td>
<td>Private Sale</td>
<td>93</td>
<td>1,001</td>
<td>185,000</td>
</tr>
<tr>
<td>6</td>
<td>D</td>
<td>Three bedroom detached house</td>
<td>Private Sale</td>
<td>93</td>
<td>1,001</td>
<td>185,000</td>
</tr>
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<td>Three bedroom detached house</td>
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<td>91.6</td>
<td>986</td>
<td>190,000</td>
</tr>
<tr>
<td>12</td>
<td>E</td>
<td>Two bedroom semi detached house</td>
<td>Affordable Rent</td>
<td>684</td>
<td>64</td>
<td>68,677</td>
</tr>
<tr>
<td>13</td>
<td>E</td>
<td>Two bedroom semi detached house</td>
<td>Affordable Rent</td>
<td>684</td>
<td>64</td>
<td>68,677</td>
</tr>
<tr>
<td>14</td>
<td>A</td>
<td>Four bedroom detached house with integral garage</td>
<td>Private Sale</td>
<td>126</td>
<td>1,359</td>
<td>260,000</td>
</tr>
<tr>
<td>15</td>
<td>A</td>
<td>Four bedroom detached house with integral garage</td>
<td>Private Sale</td>
<td>126</td>
<td>1,359</td>
<td>260,000</td>
</tr>
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<td>A</td>
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<td>Private Sale</td>
<td>136</td>
<td>1,466</td>
<td>250,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2,656</td>
<td>14,006</td>
<td>2,606,354</td>
<td></td>
</tr>
</tbody>
</table>
COSTS FOR THE DEVELOPMENT AS PROPOSED

Build Cost

We have adopted the industry norm procedure and had reference to the BCIS index for relevant building costs with adjustments as necessary. We have 'rebased' the results to the Halton sub-region. We have adopted a base build cost of £1,016 per square metre (£94 psf). To this we have added 10% for external costs. This results in a build cost of £1,118 per square metre (£104 psf). A separate contingency of 5% has been added to this figure.

A copy of the BCIS summary sheet is contained within Appendix 2.

Site Abnormal Costs:

We have been informed by the quantity surveyor responsible for this development that there are abnormal costs associated with the development in the sum of £197,303. These are summarised as follows:

<table>
<thead>
<tr>
<th>Heading</th>
<th>Cost Estimate £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Fill Foundations</td>
<td>110,879.00</td>
</tr>
<tr>
<td>Off-site Foul Drain Connection</td>
<td>54,196.04</td>
</tr>
<tr>
<td>Attenuation Tank</td>
<td>13,500.00</td>
</tr>
<tr>
<td>Utilities to Site and cable diversion</td>
<td>18,728.50</td>
</tr>
</tbody>
</table>

Further detail relating to these abnormal costs can be found in Appendix 3. We have allowed for professional fees with respect to the site abnormal fees of 8%.

Professional Fees:

An allowance of 9% has been made for professional Fees, planning application fees, building regulation fees and other miscellaneous fees and accreditation costs. We would stress that the professional fees for a development of this scale and size will be proportionately higher on a percentage basis than for a large development.

S106 Contributions:

We have been informed by the Council that the following contributions are required and we have included these in our financial appraisal as follows:

Public Open Space: £35,692

Finance Costs and Timescales

A finance rate of 4.9% has been allowed for. In addition to this finance rate, we understand that the fees and miscellaneous costs associated with the development finance loan are in the region of £33,100. This includes all arrangement and exit fees, surveying costs and monthly monitoring fees, together with the legal fees associated with the loan.
We have assumed a total development period of 13 months with construction starting in month 1 and completing in month 13. We have assumed a sales rate of 2.5 units per month to take account of the fact that the properties for sale are all detached, larger houses.

Other Costs

In addition to the above, other costs have been allowed for which include sales, marketing and letting fees, stamp duty and purchaser’s costs. These have been set using industry norm assumptions and can be seen in the appraisal summary within Appendix 1.

Profit Margin

Ordinarily, a developer would expect a fixed overhead amount plus a percentage of GDV as a return to reflect the risk associated with the development. This can typically range from 15 – 20%. As this is a smaller development we have assumed a profit margin of 18% of GDV for the private sale units and 6% profit on cost for the affordable units.

Site Value

The site value for the development as proposed should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.

We are aware that the site was purchased from the Homes and Communities Agency in 2014 for a sum of £300,000. The site was already allocated for residential development within the local plan.

We are aware that the purchase price paid included an area of land that is the subject of a separate approval for four houses. In total, the whole of the area purchased will provide 18 residential units. This equates to £16,666 per plot.

For the purposes of this viability appraisal we have considered all factors and suggest that the site could be apportioned on a unit basis in order to arrive at a site value that is pro-rated. This results in a purchase price of £233,333 (£16,666 per plot). We are of the opinion that this figure is on the low-side as we would expect plot values to be in the region of £25,000 - £30,000. There are a number of site abnormal costs and so taking all factors into account the purchase price paid does seem to be a good indicator of the site value.
6 Summary and Conclusion

We have provided commentary on the values and costs associated with the development of the subject site on the basis of the provision of 25% affordable housing on-site.

Please see below a table showing a summary of the scenarios we have looked at.

<table>
<thead>
<tr>
<th>Description</th>
<th>Result assuming £233,333 Site Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>25% Affordable Housing Provision on-site</td>
<td>Negative £310.784</td>
</tr>
<tr>
<td>NIL Affordable Housing Provision on-site</td>
<td>Negative £181,070</td>
</tr>
</tbody>
</table>

Please refer to the summary appraisals contained in Appendix 1.

It can be seen from the above summary table that none of the scenarios we have examined are viable with a site value of £233,333.

We are therefore of the opinion that the affordable housing condition should be removed on the grounds of viability.

We trust that this report is transparent and comprehensive.

Melanie Dwyer MRICS