Norwich City Council

Affordable Housing Viability Testing

June 2009

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1. Introduction

1.1 Drivers Jonas LLP have been instructed by Norwich City Council ("the Council") to undertake viability testing of the Council's emerging affordable housing policy, detailed within their 'Affordable housing supplementary planning document – draft for consultation, June 2008'.

1.2 This instruction arises from paragraph 29 of PPS3 which requires the Council to undertake a viability assessment of the plan-led target. This issue was further highlighted by the Blyth Valley judgement.

1.3 As part of this viability test, we have undertaken appraisals of six schemes, identified with assistance from the Council, which are currently within the development pipeline, or recently developed, and are located across the City of Norwich. These appraisals have been tested on two bases to reflect weak market conditions and also the potential for values to improve over the plan period.

1.4 The information contained within this report should not be relied upon for any other purpose without Drivers Jonas' prior consent. We have not inspected the sites referred to in the report for the purposes of this exercise but are aware of a number of them through our work with the Council in the preparation of the Local Infrastructure Framework.

1.5 The inputs and variables used within our appraisals are based on evidential information where possible, i.e. sales values and also our commercial knowledge derived from working on similar projects and schemes elsewhere.

1.6 It is important to note that our report is not intended to state that 40% affordable housing will be deliverable on every site but that the proposed target is reasonable and ensures the Council achieves the maximum level of affordable housing that is viable as a rule in the district.

1.7 The Council will need to take a reasoned approach on a site by site basis where specific viability considerations are required.

1.8 It should be noted that when considering the appraisals in the weak market conditions we have had to assume that normal lending conditions have resumed and that both land and residential units are being transacted. Much of the current market crisis has resulted directly from a lack of finance which has stalled the development market. For the purpose of the appraisals we have assumed therefore that developers are able to purchase sites and also private buyers are able to purchase completed units, although, in the weak market, at a much slower rate to reflect weak demand.

1.9 This report is confidential to the Council and the information contained within this report should not be relied upon by any other party without Drivers Jonas' prior consent. Should the Council wish to rely upon the information within as evidence at a Planning Examination in Public, the report would be amended to reflect the nature of that process.

1.10 This instruction has been led by Chris Baldwin BSc (Hons) MRICS a partner in DJ's residential consultancy team assisted by Steve Billington Bsc (Hons), a partner and Paul Telfer MA (Hons) MRICS, a senior surveyor in the same team. The residential consultancy team have been assisted by Mark Crane MRICS, an associate, and Peter Davidson BSc (Hons) MSc MRICS, a surveyor, within the Local Authority development team.

1.11 The date of the report is 30 June 2009.

2. Site Details

2.1 To test the viability of the policy requirement for 40% affordable housing across the whole district we have appraised six schemes. These are all currently within the development pipeline, or have recently been developed, and range from between 25 and 151 units.

2.2 The schemes provide a cross section of the different locations within the City of Norwich.

2.3 All of the S.106's for the sites appraised were signed on the basis of a lower requirement of affordable housing, ranging from 20% to 32%.

2.4 The sites are as follows:

- Site A
  - 0.6 hectares (1.48 acres)
  - Previous use – Industrial
  - 54 units (30% affordable requirement) and 418 sq.m of office space
  - Under construction and units on market
  - Acquired in February 2007 for £726,000
  - S.106 contribution of £1,336 per unit

- Site B
  - 2.25 hectares (5.57 acres)
  - Previous use – Industrial
  - 151 units (29.8% affordable requirement)
  - Not yet implemented
  - Acquired in August 2005 for £2,500,000
  - S.106 contribution of £1,602 per unit

- Site C
  - 0.22 hectares (0.54 acres)
  - Previous use - car parking/light industrial
  - 25 units (20% affordable requirement)
  - Pre-construction
  - Acquisition details unknown
  - S.106 contribution £2,500 per unit*

- Site D
  - 1.56 hectares (3.85 acres)
  - Previous use - Allotments
  - 41 units (29.2% affordable requirement)
  - Part constructed and some units have been sold

- Acquired in May 2005 for £3,005,500
- S.106 contribution of £1,152 per unit

- Site E
  - 0.38 hectares (0.938 acres)
  - Previous use – Warehousing and Public House
  - 57 units (32% affordable requirement)
  - Not yet implemented
  - Acquisition details unknown
  - S.106 contribution of £3,646 per unit

- Site F
  - 4.27 hectares (10.55 acres)
  - Previous use – Private Sports Pitches
  - 78 units (32% affordable requirement)
  - Not yet implemented – awaiting final planning consent
  - Acquisition details unknown
  - S.106 contribution of £3,063 per unit

** The Section 106 for Site C does not include quantifiable contributions for highways, public open space and heritage works. In the absence of the contribution details we have made an assumption that the s.106 would be £3,000 per unit, a figure that approximately equates to an average of the more recent s.106 agreements Sites E & F.*

2.5 We have been unable to find information on either the purchase price and /or deal structure of the following sites:

- Site A;
- Site C;
- Site E; and
- Site F.

2.6 We are however continuing our enquiries into the structure of these deals.

3. Appraisal Inputs and Assumptions

Overview

3.1 In order to assess the viability of each scheme, the residual land value calculated in our appraisals is compared against the previous use or alternative use value. If the residual value is lower than the previous use value then it is considered that the scheme would be unviable.

3.2 We have remodelled each of the six sites to reflect the change in affordable housing requirement to 40%, which is higher than initially granted for every scheme.

3.3 We have tested the impact of two different market conditions on each of these sites to ensure as robust a test as possible. Following research into market conditions in Norwich we have concluded that the following are representative of strong and weak markets:

- Strong market – mid/end 2007
- Weak Market – the current market, mid 2009.

3.4 We have appraised each site using the values and sales rates being achieved in both a strong market and a weak market.

3.5 We have researched the price paid for each site and at what point in time the land was transacted.

3.6 It is accepted that affordable housing units are less valuable to developers than private therefore an increase in affordable obligations is likely to reduce the amount developers are able to pay for sites. However, this drop will not always have the effect of making a site unviable. As long as the site value remains positive and shows the landowner a reasonable uplift in value from the property's previous use or alternative use value, to reflect the landowners risk, plus all costs incurred then the landowner should still be incentivised to dispose of the property and the site can be considered viable.

Market Conditions and their Impact on Viability

3.7 The changes in the property market have been well publicised in recent times with significant falls being experienced in the period between mid/end 2007 and the present day. Although there are no clear signs of market improvements at present, it is recognised however, that the property market is cyclical and that market conditions will continue to change throughout the policy period.

Affordable Housing Provision

3.8 In all of the sites that have been tested the current permissions allowed for less than 40% affordable housing provision. To bring these schemes in line with the proposed 40% requirement we have therefore remodelled the sites and, whilst we have retained the same overall mix of consented units, we have created a scheme which would deliver a total of 40% affordable housing (by unit), split 75% / 25% between social rent and intermediate tenures.

3.9 In doing this, we have mirrored, as closely as possible, the affordable unit mix that was set out in the consented schemes.

Market Impact on Affordable Housing Delivery

3.10 When appraising both a weak and strong market, we have considered the impact market conditions have on the delivery of affordable housing, particularly intermediate products. Whilst the demand for social rented units will remain strong, or even increase, in weak market conditions shared ownership tenures closely mirror the fortunes of the private market.

3.11 The problems faced by private purchasers in accessing mortgage finance in the weak market, has been felt more acutely by potential shared ownership purchasers for whom competitive mortgages have almost completely dried up. This results in less people being able to purchase shared ownership units, meaning that Registered Social Landlords ("RSLs") will want to deliver less of this product in the weak market.

3.12 To take account of this in our weak market appraisals we have assumed that an RSL would no longer be considering providing intermediate units as shared ownership and would instead move to the provision of intermediate rent. RSLs are increasingly proposing this product with arrangements in place for the occupants to buy the properties on a shared ownership basis when the market improves or mortgages are more readily available.

3.13 Intermediate rent units are more easily accessed by prospective tenants in the weak market conditions. However, they do not produce as much revenue as shared ownership units, resulting in a lower overall affordable offer to a developer. Our models take account of this.

Impact of Affordability Criteria on Intermediate Value

3.14 This is one of the key factors affecting the intermediate value in each of our appraisals. The affordability criteria set by the local authority dictate the maximum weekly amount that a shared ownership purchaser or intermediate renter can pay. The *Greater Norwich Sub-region: Evidence Base for a Housing Market Assessment (June 2006)* document, which we have used to determine affordability, sets out three bands of intermediate housing costs.

3.15 The maximum amounts payable are relatively low. For shared ownership this means that the equity share sold, or the rent on the unsold equity, must be set at a low level to ensure that income limits are not breached.

3.16 The affordability criteria also determines the amount that an occupier can pay for intermediate rent, which means that the relatively low amounts payable impact negatively upon the total revenue stream receivable and therefore value payable for the intermediate element of the affordable.

Affordable Housing Grant Support

3.17 We have appraised sites on a with and without grant basis, using recent Homes and Communities Agency ("HCA") investment as a benchmark for our with grant position.

3.18 The availability of grant support from the HCA is important for the viability of schemes. To ensure that our appraisals are as informed as possible we would recommend that the HCA is consulted in relation to the levels of investment assumed over the plan period.

3.19 At this stage it is unlikely for there to be absolute certainty over grant support from the HCA. We understand however that in general Norwich have been successful in attracting HCA funding into schemes. This is evidenced by the average grant allocated in Norwich exceeding the eastern region average for the HCA's 2008-11 funding period.

3.20 Despite the current success that Norwich have had in attracting grant funding into schemes, there is still a risk that no or reduced grant funding may be forthcoming in the future. This could be due to shortfalls in government funding budgets or changes in funding priorities.

3.21 In our with grant appraisals we have used the average grant allocated in Norwich in the HCA's National Affordable Housing Programmes in 2006/08 (strong market 2007) and 2008/11 (weak market 2009), as follows:

	Social Rent (per person)	Intermediate (per unit)
Strong Market - 2007	£12,663	£15,759
Weak Market - 2009	£12,240	£17,766

Standard Development Inputs

3.22 There are a number of inputs which are common to all of our appraisals. We have set out these inputs below detailing where they have been changed to allow for different market conditions:

Purchasing Agent fee	1%
Legal Fees	0.5%
Stamp Duty	As per standard rates
Construction costs (includes landscaping) (see note [1] below)	£861 per sq.m – £1,076 per sq m £80 per sq.ft – £100 per sq.ft
Demolition Costs (where applicable)	£2 per sq.ft for existing buildings
Construction contingency	5%
Affordable Housing	40%
Affordable housing split	75% social rent/ 25% intermediate
Professional fees	10%
Marketing cost	2%
Sales agent fee	1.5%
Sales legal fee	0.5%
Finance rates	6.75%
Profit on Cost private sales	20%
Profit on Cost affordable sales	5%
Section 106 costs	As per the individual signed agreements

Construction Costs

3.23 A number of the schemes involve the redevelopment of former commercial buildings to residential accommodation. It is more difficult to estimate the potential build costs for refurbishment of office space as we have not inspected the property and are unaware of any site specific construction issues.

3.24 We have therefore adopted build costs based upon our experience of similar projects that we have been involved with elsewhere.

[1] Build costs vary from between £861 per sq.m to £1,076 per sq.m. We have factored in a variation to reflect the construction of different unit types. The construction of houses and two storey flats can be achieved at a significantly lower level than of 3/4/5 storey blocks of flats and therefore a differential in the build costs is required.

Phasing

Private

3.25 In terms of phasing, we have adopted standard build and sales periods on all of the sites apart from Site B. This site is treated as an exception due to the size of the development.

3.26 For all other sites, assuming a strong market, we have adopted a three month pre construction period and a sales period calculated at four units per month. We have assumed that the units are built to demand. The sales period begins three months into the construction phase.

3.27 Assuming a weak market, we have made the assumption that a developer would not start construction until January 2010 for a scheme with a majority of houses and until July 2010 for a predominantly flatted scheme. This is to account for the likelihood of the market for houses recovering sooner than for flats for which there appears to be somewhat of an oversupply in Norwich at present.

3.28 These time lags are due to the prevailing market conditions. Again we have assumed that units are built to demand. Following a six month construction lead in we adopt sales at two per month for the remainder of 2010, and four per month thereafter until all units are sold.

Affordable

3.29 The phasing for the affordable is similar for all of the sites in both the strong and weak market approaches. It assumes a three month pre-construction period, a build rate of 9 units per month (with a minimum build period of 9 months) and the income is triggered at an assumed “golden brick” date and spread evenly until completion.

3.30 In the strong market appraisals the construction of the affordable units runs alongside the development of the private units. In a weak market, where the construction of private units is delayed till 2010, we have assumed that the affordable housing element of these schemes is built out first in 2009, before the private units are constructed and sold. This is done in order to bring in some capital to the scheme and reduce risk and is currently being seen in number of developments nationwide.

3.31 In a strong market the affordable income in the cashflow is appraised as a 40% upfront payment on the “golden brick” date with the remainder of the income distributed, using an s-curve, across the remainder of the build period. In the weak market the affordable income is distributed, using an s-curve, across the entire build period with no lump sum at the golden brick date.

Finance

3.32 We have worked on the assumption that developers are able to secure finance to pay for land and finance the proposed scheme.

3.33 Whilst this is not an issue in a strong market, in our weak market appraisals we have had to assume that finance will be secured for the development at competitive rates. However we are aware, that in reality. in a weak market developers may find it hard to secure finance at a competitive rate.

Accommodation Schedules

3.34 We have obtained the majority of the unit sizes from the planning information and conversations with the relevant agents or architects. Where it has not been possible to obtain this information we have based the unit areas on the guidelines set out in the Housing Corporation's (now the HCA) Design and Quality Standards (2nd Edition, 2007).

Demolition

3.35 Where the sites had an industrial existing use, we have factored in a demolition cost to reflect the need to level the site as part of the preliminary works.

S.106 Obligations

3.36 In terms of the s.106 costs we have modelled these in our appraisals based on the information set out in the individual s.106 agreements.

3.37 At Site F we have assumed that the draft s.106 will be finalised in it's current form. We have been informed by the council that this is likely to be the case.

3.38 In our appraisals we have assumed that the s.106 contributions remain at the same level in both strong and weak market conditions and that the developer would not seek to renegotiate the contributions in weak market conditions.

Specific assumptions – Site B

Sales Phasing

3.39 Due to the size of the development at Site B (151 units in total), we have adopted specific phasing assumptions.

3.40 In a strong market we have adopted a sales rate of 6 units per month compared to the 4 at the other developments. A scheme of this size is likely to be marketed on a regional basis and draw significant attention from house buyers.

3.41 Elsewhere we have assumed a 3 month period before unit construction begins on site. At Site B we have assumed this period would be 6 months to account for the greater infrastructure requirements and site preparation.

3.42 We have included significant marketing costs to account for the necessary marketing requirements for a site of this nature.

3.43 In the weak market scenario we have assumed that the developer would delay the start of construction until January 2010 as a result of the prevailing housing market. Once construction starts it is at a much slower rate to match the residential sales profile to ensure that the developer is not left with a significant number of built but unsold units. From six months into the private unit construction stage we adopt sales at two per month for 2010, four per month in 2011 and 6 per month thereafter until all of the units are sold.

3.44 Again, in a weak market, we have assumed that the affordable housing element is built out first.

£1 Affordable Land Payment

3.45 The s.106 agreement for Site B contains a provision that the price payable by an RSL for the affordable housing land shall be £1.

3.46 This is designed to set the price that an RSL would pay for a package of s.106 affordable units as being equal to the cost of constructing the units.

3.47 The intention of the policy is to ensure the RSL pays a discounted price and to prevent competition amongst RSLs.

3.48 In our opinion the only impact it has is to skew the cashflow of an RSL's offer, but they would still offer a market value.

3.49 Conventionally an RSL would pay a certain percentage of their package price upfront, against the "land" element of the deal (40% in our strong market scenario), with the balance paid on a month by month basis as works progress. Therefore we feel that the clause would stop this upfront payment being made. That said an RSL would just roll this into their month by month payments instead.

3.50 We have therefore adopted this approach in the strong market scenario for Site B, with the affordable revenue being paid on a month by month basis rather than as an upfront payment for the "land" element as assumed at our other schemes.

3.51 In a weak market we have s-curved the affordable payment over the duration of the build period.

Site Specific Abnormal Costs / Exceptional Costs

3.52 We have not accounted for any abnormal development costs, such as contamination and flood risk mitigation within our appraisals.

Previous Use / Alternative Use Value

3.53 Viable development relates, to a certain extent, to the value of a property's previous use or alternative use. When considering the viability of the identified sites we have therefore had regard to their previous or alternative use values.

3.54 Two of the sites identified were previously allotments or sports fields and four of the sites were previously in commercial / industrial use.

3.55 To estimate the potential previous use values we have carried out desktop estimates of values using information available to us. Where possible we have used the Valuation Office Agency Rating List 2005 to determine the size of the properties. Where this is not possible we have used the Ordnance Survey online mapping tool Promap, in conjunction with photographs and aerial imaging to estimate the areas of the properties.

3.56 It must be noted that these assessments of value are for indicative use only and we have not carried out any site inspections.

3.57 Our assessments of value are based on the assumption that all of the sites are vacant and there is no knowledge of any existing tenancies in place.

3.58 We have valued the four previously commercial properties on the basis of a rent and yield approach and compared these findings against the residual appraisals for the residential schemes to assess the impact on viability. We have also considered the commercial development value of these sites, however initial tests showed that commercial development value was some way off the value of the remodelled schemes and that the previous use value based on a rent and yield were higher than the commercial development values.

Market Commentary

3.59 We have undertaken a review of market conditions based on the strong market experienced in 2007 and the weak market, focusing particularly on residential sales values and the rate of sale of the units.

3.60 Market evidence was obtained from discussions with local agents and from contacting the marketing suites of currently marketed developments in Norwich City.

3.61 It is worth noting that June 2009 research from Savills details that the value of development land has fallen 59% in the eastern region from it's September 2007 peak.

Strong Market Conditions

3.62 In order to assess the strong market conditions we used historic comparable data from the peak of the market, which was found to be mid/end 2007. The historic evidence was predominantly obtained from those developments that have been on the market since this date and supported by Land registry evidence.

3.63 Our research included sales information from 2007 for the following developments Appleyard's Mill (Hopkins Homes), Riverside Heights (Bryant Homes) and Read Mills (PJ Livesey).

3.64 These are shown in the table below;

2007 Private Residential Sales Values		
Scheme Name	**Houses £ per sq.ft**	**Flats £ per sq.ft**
Read Mills (PJ Livesey)	n/a	£300
Riverside Heights (Bryant Homes)	n/a	£280
Appleyard's Mill (Hopkins Homes)	£230	n/a

3.65 In terms of average sales rates across the district, we have assumed in a strong market at mid/end 2007 the sales rates would be 1 unit per week for smaller developments and greater sales rates on any larger developments.

Weak Market Conditions

3.66 The research for the weak market conditions has been carried out in Spring / Summer 2009.

3.67 As mentioned previously in this report, the market conditions at this time are very uncertain and as such the general economic conditions, coupled with the lack of available finance to home buyers, have dramatically impacted on the residential market. This impact has been two-fold; first residential developers have been forced into reconsidering the pricing on their units, with some significant decreases/incentives required to sell properties and secondly the units have been selling at a much slower rate.

3.68 Our research at Spring/Summer 2009 showed residential sales values as follows:

2009 Private Residential Sales Values		
Scheme Name	**Houses £ per sq.ft**	**Flats £ per sq.ft**
Read Mills (PJ Livesey)	n/a	£242- £262
Paper Mill Yard (City Living)	n/a	£230
Riverside Heights (Bryant Homes)	n/a	£189 - £197
Fellowes Plains (Charles Church)	n/a	£213 - £253

Appleyard's Mill (Hopkins Homes)	£136 - £179	n/a
Prospect Place (Hopkins Homes)	£178 - £222	n/a
The Rise (Bryant Homes)	£150 - £155	£150 - £155
The Walnuts (Persimmon)	£174 - £215	n/a

3.69 In terms of unit sales rates our research has shown that, with the developers re-pricing their units there have been continued sales but at a much lower level when compared to the strong market. Unit sales rates are currently in the region of 1-2 per month.

Sales Value Inputs

3.70 The table below indicates the private residential sales values that we have adopted in our appraisals at each location. These are based on assumptions of strong and weak markets:

Adopted Private Residential Sales Values			
Private Sales Values		**Strong Market £ per sq.ft**	**Weak Market £ per sq.ft**
Site A	Houses	n/a	n/a
	Flats	£240	£190
Site B	Houses	£190	£150
	Flats	£210	£170
Site C	Houses	n/a	n/a
	Flats	£280	£190
Site D	Houses	£250	£200
	Flats	n/a	n/a
Site E	Houses	£210	£160
	Flats	£220	£170
Site F	Houses	£230	£185
	Flats	£240	£195

Affordable Value Inputs

3.71 We are aware that the draft affordable housing SPD contains an indicative pricing mechanism designed to provide guidelines for the price a developer should expect to receive from an RSL for a s.106 package of affordable units.

3.72 Whilst this may be helpful initial guidance to a developer, in our experience the majority of RSLs would appraise and price their offer for the affordable units adopting a "market value" approach. Therefore we have calculated the affordable values using market assumptions.

3.73 The affordable values have been calculated using an affordable residual appraisal software package used by RSLs in formulating offers for s.106 packages of affordable housing. This value is built up through a combination of:

- the annual income from the affordable units (which is a combination of the capitalised rent for the social rent and intermediate rent units and a mixture of initial equity sale and capitalised rent on the retained equity for the shared ownership units);
- amount of grant funding allocated to the RSL by the HCA;
- internal subsidy from an RSL.

3.74 The table below indicates the affordable sales values (with grant) at each location based on assumptions of 75% social rent and 25% intermediate;

	Strong Market	Weak Market
	£ per sq.ft	£ per sq.ft
Site A	£152	£144
Site B	£148	£143
Site C	£161	£151
Site D	£136	£129
Site E	£151	£144
Site F	£137	£131

3.75 We have also run appraisals on a "without grant" basis on the assumption of a 75% social rent and 25% intermediate tenure split. The affordable sales values are listed below:

	Strong Market	Weak Market
	£ per sq.ft	£ per sq.ft
Site A	£107	£98
Site B	£101	£96
Site C	£109	£99
Site D	£86	£81
Site E	£101	£94
Site F	£92	£87

4. Findings

4.1 The tables below detail the viability of providing 40% affordable housing when the results of our appraisals are compared against the previous use or alternative use values of the site:

With Grant

	Strong Market	Weak Market
Site A	Viable	Marginal*
Site B	Viable	Viable
Site C	Viable	Viable
Site D	Viable	Viable
Site E	Viable	Unviable
Site F	Viable	Viable

Without Grant

	Strong Market	Weak Market
Site A	Marginal	Unviable
Site B	Unviable	Unviable
Site C	Viable	Marginal
Site D	Viable	Viable
Site E	Unviable	Unviable
Site F	Viable	Viable

** Marginal schemes are those where the residual value in our appraisal is within £100,000 of the previous/alternative use value.*

With Grant Findings

4.2 All of the remodelled schemes show viability in the strong market conditions as the residual land value of the scheme (with a 40% affordable housing requirement) is higher than our calculation of the previous use values.

4.3 In a weak market, however, not all sites show viability over and above the previous use values. The combination of lower residential sales vales, longer project phasing and the change in the flow of income received from the affordable housing all lead to significantly reduced residual land values. Four of the sites still show viability, although the gap between the residual land value and the previous use value falls.

4.4 However, Site E is not viable and Site A is marginal based on a remodelled scheme (with a 40% affordable housing requirement) in the weak market.

4.5 In both instances the residual value is lower than our assessment of the previous use / alternative use value. It is worth noting that both of these schemes are 100% flatted schemes and we believe the market for flats in Norwich will recover slower than that for houses. This demonstrates that unit type and mix is an important when considering the viable amount of affordable housing that can be provided at a scheme.

4.6 Where schemes are unviable or marginal, it is likely that the developer/landowner would not take the risk on residential development and, as such, these residential schemes would not be delivered into the market.

Without Grant Findings

4.7 Our appraisals without grant demonstrate the importance of grant funding in underpinning the proposed affordable housing provision.

4.8 All but one of the four previously commercial sites are not viable without grant funding in both the strong and weak market scenarios.

4.9 Site D is a relatively small mixed use scheme with two commercial units, the value of which may help to ensure the scheme remains viable in a good market. However it is unviable in a weak market when the value of the commercial units is considerably reduced.

4.10 Sites D and F have not been previously developed and are both viable without grant in both strong and weak markets which is to be expected as they both have low previous use values.

4.11 If grant funding was not achieved this would have an impact on viability in which case the Council may need to respond flexibly when negotiating the affordable housing.

Comment

4.12 Where the sites have a previous commercial use they are, on the whole, more susceptible to viability issues.

4.13 Where sites have previously been undeveloped they are, on the whole, less susceptible to viability issues.

4.14 It is recognised that flexibility in these extreme conditions will be needed if housing growth is to be supported. From the viability tests that we have undertaken it is clear that the Council may need a more flexible approach to be taken if development is to be achieved.

5. Conclusions

5.1 PPS3 requires the Council to have undertaken a viability assessment of the plan-led target of affordable housing. This issue was highlighted by the Blyth Valley judgement.

5.2 In response to this Drivers Jonas have undertaken viability testing of six schemes within Norwich City on the basis of a 40% affordable provision, assuming a 75/25 social rent to intermediate tenure split and the s.106 obligations agreed at the time.

5.3 In order to ensure our approach is robust as possible we considered their viability in two different market conditions – strong (mid/end 2007) and weak (mid 2009).

5.4 The increase in requirement has an impact on land value, which in a strong market should not be so significant as to undermine the viability and therefore deliverability of sites. In a weak market the requirement does affect the viability of some schemes.

5.5 However, HCA funding is critical to viability. If HCA funding is unavailable then a number of sites are unviable at 40% affordable housing even in a strong market, and the majority would not come forward in a weak market.

5.6 The potential for future changes in the amount of grant funding need to be carefully considered when formulating the council's affordable housing policy. Therefore we recommend that the council engages with the HCA at an early stage to assess whether grant funding will continue to be allocated on s.106 affordable schemes at the levels consistent with those seen previously within Norwich. If this is not the case, then the viability of the 40% affordable housing target in the majority of previously developed sites may be affected and this target in Norwich's policy should be reconsidered.

5.7 For these reasons, we consider the 40% affordable housing requirement a robust policy only if grant funding is available at the levels detailed in this report.

5.8 In addition, is important to ensure that there is sufficient flexibility written into the policy to enable developers to make viability arguments where applicable and enable the Authority to take a more flexible approach to support development for the less viable sites.