

PAR PLANNING

AFFORDABLE HOUSING STATEMENT AND VIABILITY ASSESSMENT APPLICATION NUMBER: 138760/FO/2023



PROPOSED REDEVELOPMENT OF FORMER NURSERY TO PROVIDE 30 APARTMENTS 26A WILBRAHAM ROAD, MANCHESTER

Application number: 138760/FO/2023

Proposal: Erection of five storey apartment block to provide 30 apartments (15 x 1 bed and 15 x 2 bed) with associated landscaping following demolition of existing building

Location: Leapfrog Nursery, 26A Wilbraham Road, Manchester, M14 6JU

Proposed Redevelopment to provide 30 apartments, 26A Wilbraham Road, Manchester

This viability assessment has been undertaken by PAR Planning on behalf of Mr Naveed Ashraf, Creative Property People Limited, 3A Wynnstay Grove, Manchester, M14 6XG



1. Document Format and Executive Summary

The Proposed Scheme To Redevelop The Disused Former Nursery Building At 26a Wilbraham Road, Manchester To Provide 30 Apartments Is One With Considerable Planning Merit. In Particular It:

1. Redevelops a vacant building bringing the site back into use;
2. Serves a market which is growing substantially;

The analysis above does, however, demonstrate that the proposal is of restricted viability due to the current market conditions

The scheme proposed is on the margins of viability as it depends on achieving higher sales prices than were achieved by a new build scheme nearby two years ago and marginal increases in costs could make the scheme unviable.

This assessment demonstrates that there is relatively little flexibility in the financing of the project to justify significant S106 contributions especially for Affordable Housing.

It demonstrates that the potential developer's profit on a sales basis is 9.4% and the scheme actually makes a loss when valued on a rental basis. These figures exclude any S106 payments which would further reduce the development profit.

On this basis there is no possibility of provision for Affordable Housing but the developer is prepared to allow a local Registered Social Landlord nomination rights on 20% of the apartments being an equal mix of one and two bed apartments albeit at the market rental figures quoted below.

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Affordable Housing Statement

On schemes for 15 or more dwellings (Core Strategy Policy H8) a statement will be required which sets out how the proposals contributes to the housing mix in the city; and,

- The number of proposed units that fall into the Council's definition of affordable housing
- The type of housing being proposed (social rent, shared ownership etc)
- Where no affordable housing is being proposed, a full un-redacted viability assessment will be submitted; and
- Why the proposal meets any other policy exception.

The statement should also include for all types of housing;

- The total number of residential units
- The mix of units, with number of bedrooms

The scheme also fits within the exceptions of the Council's affordable housing policy as it complies with the following exceptions.

1. There is a very high level of affordable housing in the immediate area;
2. There is either a high proportion of socially rented housing (35%) or low house prices in the immediate area compared to average incomes;
3. Such housing would be prejudicial to the diversification of the existing housing mix;

It is clear therefore that the scheme cannot accept any significant S106 contribution.

The statement looks at the project and is divided into the following sections:

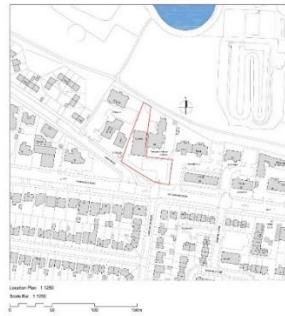
1. Executive Summary
2. Council Requirements for Affordable Housing and Viability Assessments
3. Affordable Housing Commentary
4. Viability of Former Use
5. Viability Principles
6. Housing Market Evidence of Values

Affordable Housing Statement

1. Council Policies on Affordable Housing

This document looks at the position of the proposal in relation to the Council's policies on affordable housing and housing standards.

7. Assessment of Viability
8. Draft Planning Conditions
9. Conclusions



Location Plan

Manchester City Council's Manchester Core Strategy 2012 to 2027 Policy Policy H 8 states

'The following requirements for affordable housing or an equivalent financial contribution, as set out in Providing For Housing Choice, or any future published SPD and Planning Guidance, currently apply to all residential developments on sites of 0.3 hectares and above or where 15 or more units are proposed. ...

1. New development will contribute to the City-wide target for 20% of new housing provision to be affordable. Developers are expected to use the 20% target as a starting point for calculating affordable housing provision. It is envisaged that 5% of new housing provision will be social or affordable rented and 15% will be intermediate housing, delivering affordable home ownership options.
2. The proportion of affordable housing units will reflect the type and size of the development as a whole; and where appropriate provision will be made within Section 106 agreements to amend the proportion of affordable housing in light of changed economic conditions, subject to a financial viability assessment.
3. Affordable housing units will be inclusively designed to reflect the character of development on the site.
4. Either an exemption from providing affordable housing, or a lower proportion of affordable housing, a variation in the proportions of socially rented and intermediate housing, or a lower commuted sum, may be permitted where either a financial viability assessment is conducted and demonstrates that it is viable to deliver only a proportion of the affordable housing target of 20%; or where material considerations indicate that intermediate or social rented housing would be inappropriate.'

Providing for Housing Choice - Supplementary Planning Document and Planning Guidance

Before examining the finances of the scheme it should be noted that the Council's Affordable Housing policy does allow for exceptions to the requirement for Affordable Housing contributions in specific circumstances. These are set out within the policy .

Exceptions

A lower proportion of affordable housing, a variation in the proportions of socially rented and intermediate housing, or a lower commuted sum, may be permitted where material considerations indicate that this would be appropriate. Such circumstances could include, for example:

1. There is a very high level of affordable housing in the immediate area;
2. There is either a high proportion of socially rented housing (35%) or low house prices in the immediate area compared to average incomes;
3. Such housing would be prejudicial to the diversification of the existing housing mix;
4. The inclusion of affordable housing would prejudice the achievement of other important planning or regeneration objectives which are included within existing Strategic Regeneration Frameworks, planning frameworks or other Council approved programmes; or financially undermine significant development proposals critical to economic growth within the City;
5. The financial impact of the provision of affordable housing, combined with other planning obligations would affect scheme viability (see below);
6. A legally binding agreement had been reached on land values by 1st December 2007 which had not incorporated the cost of affordable housing.

It is argued that the scheme falls within criteria 1, 2, and 3 and that an Affordable Housing contribution is not required under the exemptions. Further details on the nature of the housing and social structure of this area are provided later.

2. Affordable Housing Commentary

Need for affordable housing for rent

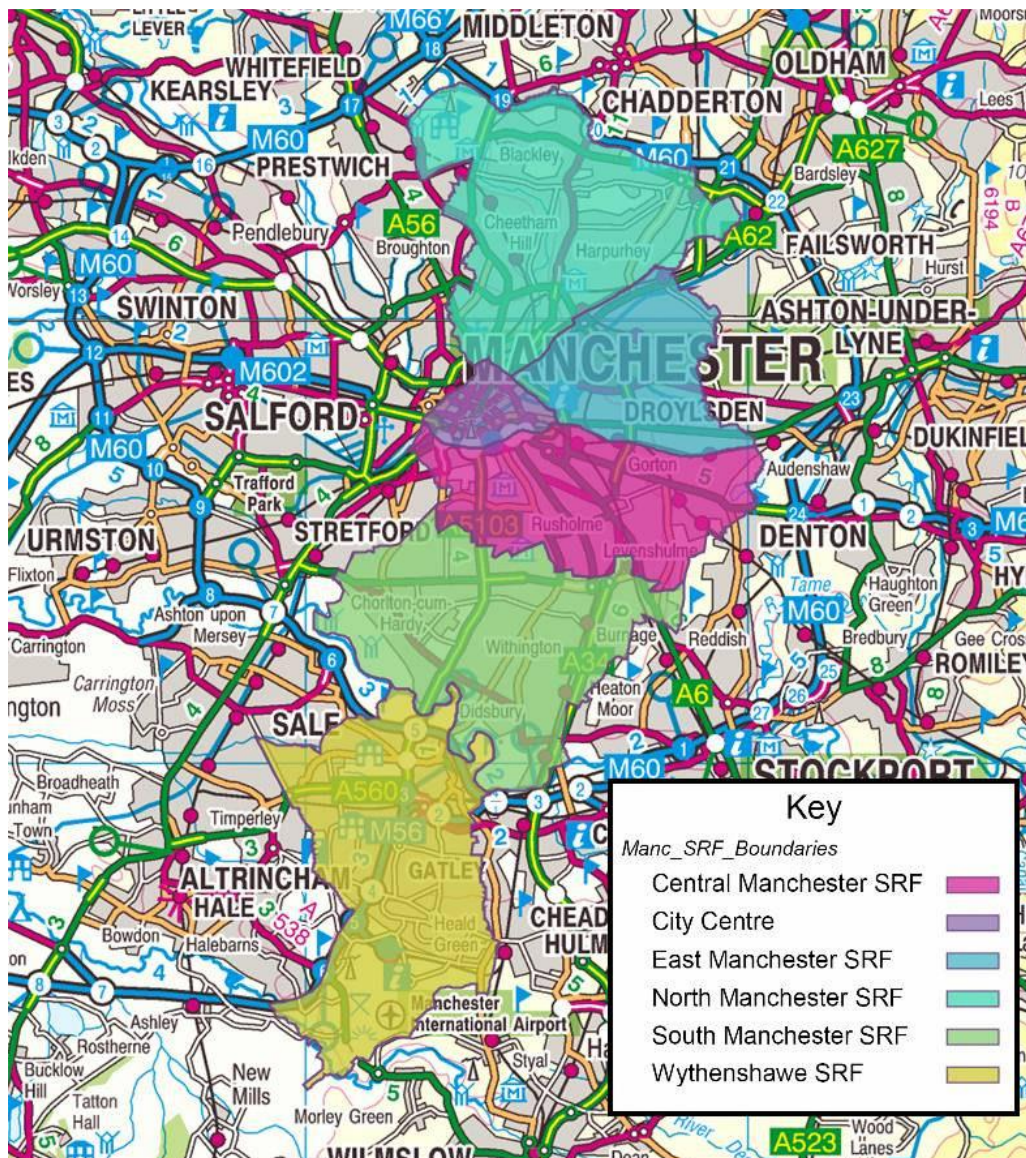
The identified need across the City of Manchester for affordable rented housing is high, with around 8,000 households registered on Manchester Move. Unlike substantial parts of the rest of the City (and in particular the North and East) the proportion of social rented housing units (compared to private stock) in this part of South Manchester is relatively low, whilst rental levels in the private sector are relatively high.

As a result demand for suitable stock is particularly high. Southway Housing for example currently get an average of around 180 bids for every rental property that becomes available.

Table 6.3 Geographical distribution of affordable housing requirements in Manchester

Sub-area	Need	Supply	TOTAL	Supply as % of need
Central Manchester	2,465	1,899	566	77.0%
Manchester City Centre	111	115	-4	103.7%
East Manchester	1,120	1,055	65	94.2%
North Manchester	1,788	1,305	484	73.0%
South Manchester	1,366	913	453	66.8%
Wythenshawe SRF	1,105	1,294	-189	117.1%
TOTAL	7,955	6,580	1,375	82.7%

Source: Fordham Research Manchester HNA 2007



As can be seen, the highest need in index terms is in Central Manchester, followed by North Manchester and South Manchester. Wythenshawe and Manchester City Centre record a surplus of affordable accommodation. The scheme lies in the South Manchester area.

Housing Need in the Fallowfield, Area

Discussions have been held with the Southway Trust. The Southway Trust owns around 2000 socially rented properties within the Burnage area. The majority of this stock is three bedroom family housing. Crucially there is a lack of one and two bedroom property, compared to demand. Flats in the adjacent areas to this site have received between 90 and 130 expressions of interest per property.

The stated priority of the Trust is

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‘We have firm ambitions to grow and diversify, and new housing development and further acquisition forms a key part of our Futures Strategy. We build and acquire to:

- Increase the supply of housing in areas that are in or close to South Manchester, improving the range and choice of housing available for those who currently have limited or no access to a decent, safe and secure home
- Generate financial surplus that can be used to help fund our core business and social objectives’

It is, however, proposed that the units will remain in the management of the developer’s management company but with tenant nomination rights offered to the City Council or Southway.

Meeting the needs of the future workforce

It should also be recognised that in Manchester the need to ensure that the forecast job growth is supported by appropriate housing provision is a critical issue. This has led to a different approach: a definition of "essential workers" being identified which is more reflective of Manchester's economic needs than the definition of key workers used elsewhere. The traditional definition of “key workers” based on public sector employees has become an important element of policies for housing choice and affordable housing in other parts of the country.

Providing for Housing Choice - Planning Guidance states

‘The option of providing priority in certain new housing schemes for workers who will have a key role in the local economy is therefore one that the City Council wishes to have available. This would be limited to access to intermediate tenure housing. Priority for essential workers will be established in the allocations and marketing for specific schemes, or groups of schemes, where this is appropriate to the needs of essential workers, having regard to location and the types of property available. This may then be an element of the site-specific requirements.’

It is therefore recognised that there is a need for affordable housing in the Fallowfield area. It should also be recognised that there is still a need for further apartment development providing one and two bed units. This scheme will meet the needs for key workers engaged in the city centre, university and local hospitals.

The Design and Access Statement makes it clear that this site is not suited for the development of houses so the current proposal is needed and relevant to the site.

3. Viability Of Former Use

An analysis of the viability of the former use as a nursery is attached within the document pack. This makes it clear that the continuation of the former use was not possible and leaves the site at risk of dereliction unless an alternative development is identified.

Given the nature of the site and its location residential is the only possible option.

4. Viability Principles

Applying the Vacant Building Credit

National Planning Policy and Practice Guidance provides an incentive for brownfield development on sites containing vacant buildings. Where a vacant building is brought back into any lawful use, or is to

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be demolished and replaced by a new building, the developer should be offered a financial credit equivalent to the existing gross floorspace of relevant vacant buildings when the local planning authority calculates any affordable housing contribution which will be sought.

This credit is applied by taking the existing floorspace of a vacant building and crediting this against the floorspace of the new development.

The formula to calculate site affordable housing requirement is as follows: (Difference between proposed and existing floorspace / proposed floorspace) * policy requirement

In this instance: The gross existing floor space is 2029.2sqm The proposed gross floor space is 2029.2sqm The affordable housing requirement is 20% (equivalent to 5 dwellings). Applying the vacant building credit the site wide affordable housing requirement for this scheme would be 0% (equivalent to 0 dwellings).

Having regard to the intention of national policy in promoting the development of brownfield land, it is not considered that there is any evidence of abandonment.

The applicant has secured the building and boarded the windows whilst looking for an alternative use and has decided to pursue an application to convert the building for residential use. The property remains in a reasonable condition which would also prove that issues of abandonment are not relevant here. Residual Planning Requirement and Viability

After the vacant building credit is taken into consideration, the residual affordable housing requirement for this site would be 0%.

Paragraph 006 and 007 of the NPPG Guidance on Viability states: 006 “Where up-to-date policies have set out the contributions expected from development, planning applications that fully comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage...” 007 “Such circumstances could include for, for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example building to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force...”

The adopted Local Plan currently comprises the Manchester Core Strategy DPD (2012) and any relevant Saved Policies of the Manchester Unitary Development Plan Review (2009). The economic viability work which informed the Core Strategy policy likely predates 2012. This cannot be considered up to date and as such viability is a matter which needs to be considered on a case-by-case basis at the decision-making stage.

In order to achieve the requirement of the Council, this appraisal looks at:

1. The nature of the area around the site;
2. The impact on values and examples of the values of similar properties in the area;
3. An assessment of potential yields for the development
4. An assessment of the return on investment and the likely opportunity to provide affordable housing contributions.

Viability Processes

For all applications where the proposal does not include the necessary policy provision or financial contributions, and this is being justified on viability grounds, a viability assessment, to include an executive summary will be required.

Information should be provided in its entirety. Applicants should also be aware that the assessments will be made publically available in the same manner as other documents that form part of the planning submission. (Core Strategy policy H8, Para 57 NPPF) The assessment should include the following:

- Existing use value plus a premium supported by an independent valuation
- Land acquisition price and the basis of its purchase (eg subject to planning)
- Purchase process
- Purchase costs including legal fees and agent fees
- Estimated sales values with independent supporting evidence including a schedule of unit sizes
- Estimated construction costs, including a specified contingency, contract related fees and defined 'abnormals'
- Preliminary costs
- Professional fees (under respective headings)
- S106 costs
- Financing rate
- Estimated profit/developers target returns
- Value/cost of affordable housing provision where relevant together with tenure assumptions and any commuted sum

THE NATURE OF THE AREA AN OVERVIEW

Fallowfield lies within the M60 motorway in the City of Manchester. It is less than 3 miles south of the city centre and about half a mile east of Princess Road - a major route from Manchester to the South and the M60. It is a predominantly residential area with a wide mix of properties from terraced houses to semi detached and increasingly the area is seeing the development of low rise apartments.

The area can be divided into the older urban area dominated by older terraced and semi detached housing and the later pressures for development for apartments for people working in the city centre, university and Manchester Royal Infirmary. There is a very limited but developing apartment market in this older area for the retirement market driven by ease of access to the City Centre.

5. Values

APARTMENT PRICES IN WILBRAHAM ROAD/ FALLOWFIELD, MANCHESTER

This section looks at the values associated with the apartment market in Fallowfield. Initially it looks at sales values but also examines the rental market and yields.

APARTMENT VALUES

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Examples of the apartment market in the local area are given below. This is a sample based on a review of properties for sale using Rightmove data. It has excluded larger properties and houses. The market is keen with many properties selling in days but some properties especially more unusual types can stick. The assumption taken here is that directly comparable properties to those to be provided have been selected.

As at 20/12/23

BEDS	LOCATION	TYPE	PRICE £000's
2	Wilbraham Road	Newbuild	295
2	Park Place	Newbuild	295
2	Athol Range	Newbuild	245
2	Anchorside Close	Newbuild	235
2	Holden Avenue	Newbuild	220
2	Holden Avenue	Newbuild	200
2	Arundale Court Wibraham Road	Newbuild	200
1	Egerton Road	Newbuild	190
2	Holden Avenue	Newbuild	180 X 2
2	Athol Range	Newbuild	175
1	Menzies Court	Newbuild	165
1	Athol Range	Newbuild	160
1	Barlow Moor Road	Newbuild	150
2	Mauldeth Road	Conversion	150
1	Wilbraham Road	Conversion	130
1	Barlow Moor Road	Newbuild	125
1	The Hawthorns	Conversion	120

6. Viability Assessment Costs of Development

A base figure for construction costs has been obtained from BCIS data. The latest data is from the fourth quarter of 2022. This is set out below.

Flats/apartments without lifts: 3-5 storey	1,940 - 2,160
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RICS Index of Construction 2022

A base figure of £2050 per square meter has been adopted as an average construction cost. This has been reduced as costs in the North West are at 94% of the national figures above giving a base construction costs of £1927 per square meter.

This cost per square meter is applied to the size of the development. This is set out below.

The total net area for the scheme is 1844 square meters which equates to 2028.4 square meters gross. This gives an estimated construction cost of £4,494,149 for the scheme assuming no abnormalities based on RICS data from 2022.

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Proposed Apartment Development 26A Wilbraham Road Fallowfield Manchester**Dwelling Types:** 30 apartments

Floor Level	Apartment Number	No Bedroom	Bedroom 1 Sqm	Bedroom 2 Sqm	Total Sqm (GIA)
G/F	1	1	13	0	52
	2	1	16	0	51
	3	1	15	0	47
	4	2	21	17	86
	5	2	15	9	69
	6	2	15	9	68
	Total G/F				373
1/F	7	1	13	0	52
	8	1	16	0	51
	9	1	15	0	47
	10	2	21	17	86
	11	2	15	9	69
	12	2	15	9	68
	Total 1/F				373
2/F-3/F	13/19	1	13	0	52
	14/20	1	16	0	51
	15/21	1	15	0	47
	16/22	2	21	17	86
	17/23	2	15	9	69
	18/24	2	15	9	68
	Total 2/F-3/F				746
4/F	25	1	13	0	52
	26	1	16	0	51
	27	1	15	0	47
	28	2	19	15	73
	29	2	15	8	61
	30	2	15	9	68
	Total 4/F				352

In the absence of updated figures for 2024 an updating exercise of costs has been undertaken. This is based on cost data from RICS, with additional evidence coming from Appleyard and Trew Quantity Surveyors.

Tender prices in 4th quarter 2021 rose by 4.9% compared with a year earlier. Strong annual increases will continue over the first three quarters of 2022 in the order of 5% to 7% per annum, generally as a result of the following over 2021:

- contractors no longer being able to absorb the additional cost of following social distancing
- a number of contractors going into liquidation
- strong upward pressure from input costs
- rising demand
- materials and labour shortages
- logistics problems.

However, quarterly increases in tender prices slowed over the second half of 2022, resulting in an annual increase of 4.4% in 4th quarter 2022, with materials related pressures subsiding, but still with pressure from site rates. With demand increasing over the remainder of the forecast period, tender prices are forecast to rise ahead of input costs, with prices rising by 22% over the whole of the forecast period (4Q2021 to 4Q2026).

Materials prices rose by 3.8% in 4th quarter 2021 on a quarterly basis and by 20.0% compared with a year earlier. The materials supply situation is expected to stabilise by 3rd quarter 2022 and prices will rise by 12% over the forecast period (4Q2021 to 4Q2026).

There is a shortage of labour currently. According to the Hays/BCIS Site Wage Cost Index, all-in site rates rose by 8% in 4th quarter 2021 compared with a year earlier but quarterly increases slowed from the previous quarter from 3.7% to 1.2% . This will be reflected in the BCIS Market Conditions Index, putting upward pressure on tender prices. By comparison, promulgated wages where they were awarded in 2021 were in the order of 2.0% to 2.5%.

The BCIS General Building Cost Index rose by 2.3% in 4th quarter 2021 compared with the previous quarter, and by 10.7% compared with a year earlier. Costs will rise by 14% over the forecast period (4Q2021 to 4Q2026).

Total new work output increased by 1% in 4th quarter 2021 compared with the previous quarter and by 5% compared with a year earlier. New construction output will rise by 12% over the forecast period (2026 compared with 2021).

Tim Hinsley

From: t.hinsley@appleyardandtrew.co.uk

To: rowlinson.p@sky.com

Cc: Mark Newton

Mon, 6 Nov at 11:42

Hi Peter,

Based on the original Order of Cost being 2Q 2022 using BCIS All in Tender Price Indices we get the following:

Current Day prices (4Q 2023) would be an inflation increase of 6.5% (note in order OoCE we allowed 8%).

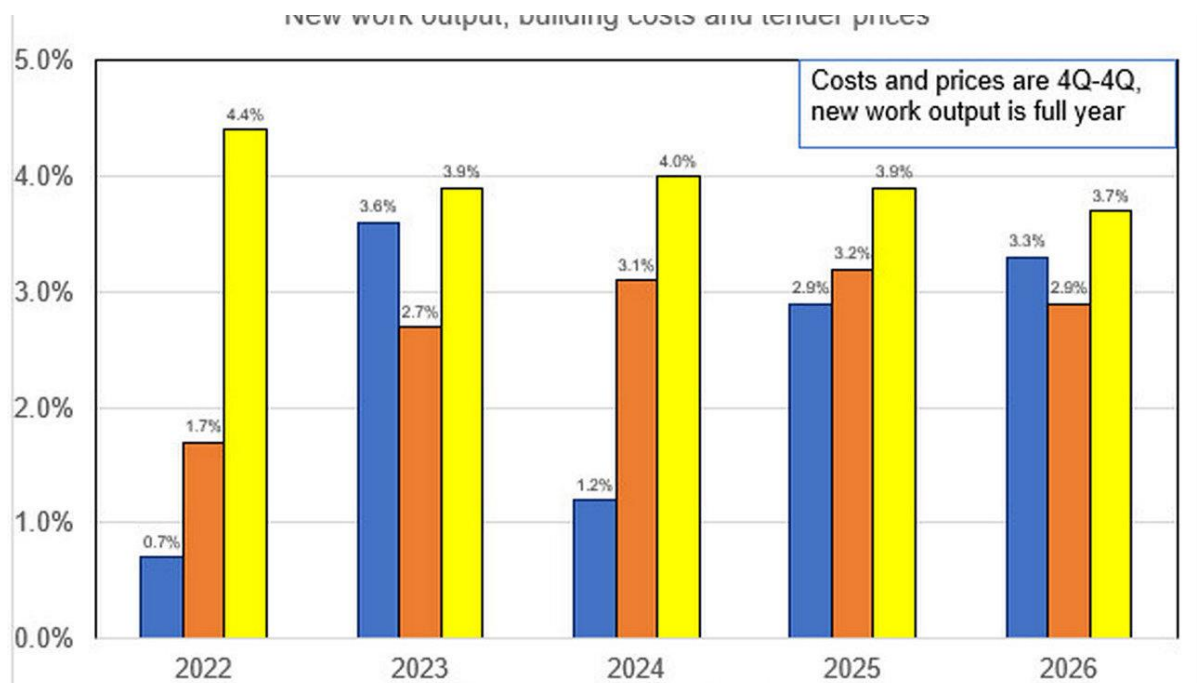
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However, when apply interest we normally target the midpoint of construction and based on where this project is currently at this is likely to be sometime in 2025, so a range of overall inflation figures (according to BCIS) is as follows:

1Q 2025 – 11%
 2Q 2025 – 12%
 3Q 2025 – 12.5%
 4Q 2025 – 13.5%

Based on the above I think 30% uplift is too high and assuming these works are unlikely to be tendered until the end of 2024 at the earliest, I would be tempted to go with a max of 15%.

Figure 1. New work output, building costs and tender prices



Based on the assessments above a figure for construction of £4,494,149 has been derived for construction commencing in 2024.

Looking at the rental market, this is dominated by student accommodation to be let on the basis of the academic year. Using information from Rightmove (January 2024) there is a clearly defined rental cost so 2 bed apartments range between £950 and £1250 per calendar month with 1 bed apartments being between £750 and £850 per calendar month. Unique properties will attract higher rentals but there is not a significant difference. Lower rentals are asked for larger properties sharing facilities but an average figure of around £500 per calendar month per bedroom can safely be assumed as a base for any calculations on yield.

7. Assessment Of Viability

As previously mentioned the viability assessment has been undertaken on the basis of both sales values and rental costs. The latter has been translated into capital values by applying a return on investment. Yields do vary but a 7 years purchase figure is assumed as this will be a new property. Higher yields can be adopted but these will reduce the capital value so a lower return has been used here.

Value/ Purchase of Site	650,000
Fees on Purchase	51,231
Demolitions/ Stripping Out	200,000
Planning and other fees	30,000
Construction (new build only)	4,494,149
Fees (12%)	539,298
Total Costs	5,964,678
Profit (@15%)	894,702
Total Costs	6859380

Value

RENTAL

15 1 Bed Apartments (£1000 per month)	@7YP 2,520,000
15 2 Bed Apartments (£1250 per month)	@7YP 3,150,000

SALES

15 1 bed Apartments @ 200,000	£3,000,000
15 2 bed Apartments@ 240,000	£3,600,000
Less agent's fees @2%	£13,200
Total Value	Rental
	£5,670,000
	Sales
	£6,586,200

Based on scheme costs we have the following financial assessment

Deficit on rental assumptions	- £294,678
Profit on sales assumptions	£621,522 (9.44%)

Note this is below the normal developer requirement of 15%

There is no doubt that flexibilities will exist within these scenarios and development by a builder will offer opportunities to reduce costs. Nevertheless the above gives an indication of the viability of the scheme and shows the marginal nature of the development.

No allowance is made in the above for planning obligations. It is considered that the rental levels quoted which are market rates for the area do offer a high level of affordability.

The analysis above shows a number of relevant points.

Firstly the majority of properties in Fallowfield are already rentals and social housing and it can be argued that this triggers the exception in the Housing Supplementary Guidance about areas where there is a large proportion of social housing already. Exceptions 1,2,3.

Secondly and more fundamentally the analysis of return on investment shows a limited profitability with total spend of £ 5964678 ignoring developer's profit against a value of £6,586,200 for sales whilst the rental market shows a loss. This would give a developer's profit of £621,522 or 9.4% using sales values as the base. The costs assume no S106 contribution which would reduce the profit margin further so it is clear that there is very little scope for affordable housing. The above calculations do not include contingencies so there could be a further reduction in profitability if abnormal costs are identified.

8. Planning Conditions

It is assumed that the majority of planning conditions to be imposed will relate to standard factors such as materials so this section here examines the conditions which are possible around Affordable Housing. At issue is whether the development can make a direct financial contribution which is considered to be difficult. The foregoing analysis shows that the scheme is of marginal viability so the potential for affordable housing being incorporated in the scheme is limited

It is agreed that nomination rights to ensure people on the waiting list are given access to the properties will be considered and this appears to be an approach which can be pursued.

9. Conclusions

The outcome of the above analysis demonstrates that under conventional forms of development ie developer with contractor there is limited viability and risks are high. There may be methods of reducing costs through a builder/ developer but it is only when returns reach 10YP that the scheme demonstrates a viable return.

It is argued that the rental levels quoted are realistic for the area and affordable and as a consequence no additional affordable housing obligations are necessary.

1. Brings a vacant building back into use;
2. Serves a market currently limited in scale but potentially growing;
3. It helps diversify the local housing market which has an overdependence on terraced properties.

The analysis above does, however, demonstrate that Fallowfield is a medium to high value housing area with a high dependence on terraced and semi detached properties and its social make up reflects this and means that housing values are unlikely to increase in the future.

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The scheme proposed is therefore on the margins of viability as it depends on achieving higher sales prices than were achieved by a new build scheme nearby two years ago and marginal increases in costs could make the scheme unviable. A brief assessment of yields on rental income confirms this assessment and if the scheme is to proceed the developer is clearly taking a risk on rental and value growth.

The scheme proposed is on the margins of viability as it depends on achieving higher sales prices than were achieved by a new build scheme nearby two years ago and marginal increases in costs could make the scheme unviable.

This assessment demonstrates that there is relatively little flexibility in the financing of the project to justify significant S106 contributions especially for Affordable Housing.

It demonstrates that the potential developer's profit on a sales basis is 9.4% and the scheme actually makes a loss when valued on a rental basis. These figures exclude any S106 payments which would further reduce the development profit.

On this basis there is no possibility of provision for Affordable Housing but the developer is prepared to allow a local Registered Social Landlord nomination rights on 20% of the apartments being an equal mix of one and two bed apartments albeit at the market rental figures quoted below.