
Executive

14th December 2010

Report of the Director of City Strategy

AFFORDABLE HOUSING VIABILITY STUDY

Summary

1. A report on the Affordable Housing Viability Study (AHVS) was considered on 5th October 2010 by the Council's Executive, which endorsed the Dynamic Model as a mechanism for setting affordable housing targets. Members also resolved to allow additional time in order to further research and test values and costs set out in the study with a sub-group of the York Property Forum, York & North Yorkshire Chamber of Commerce and other developers in York.
2. Since that meeting further work has been carried out by CYC Officers and members of the Property Forum. Agreement has been reached on many assumptions set out in the study, but there are unresolved differences on how land values and developer profits are treated.
3. Annex 1 of this report sets out the results of the research and includes Officer recommendations on where it is agreed that assumptions should be changed, and where they should be retained.
4. Re-running of the recommended revised assumptions produces an amended target of 35% affordable on greenfield sites, but no effect on the brownfield sites' target of 25%. There is an additional opportunity to reduce both the brownfield and greenfield targets to 21.5% and 31.5% respectively if a minimum 25% developer profit is required to unlock finance and can be supported with robust evidence.
5. This represents a substantial move away from the current 50% blanket target, and has an accountable reference base. There remains the opportunity to submit individual site appraisals and even lower targets - as is the case currently - if it can be ably demonstrated that these lowered targets cannot be met. It is a fair, consistent, transparent and accountable policy approach which still responds to the national call for authorities to maximise opportunities to provide affordable housing.
6. It is recommended that these targets be introduced now for Development Control purposes – before the Core Strategy is adopted. This represents a clearly researched and up-to-date approach, which responds to current market conditions and is in line with government

guidance. The legal implications of introducing the revised targets now as interim policy, are set out in paragraph 35 of this report.

Background

7. The Council has previously endorsed the use of the Fordham Dynamic Model for setting affordable housing targets. The Inspector at the RB Kensington and Chelsea Core Strategy Inquiry has approved the Fordham Dynamic Viability principle in his report, just published. This is the first Inspector's report on the issue.
8. The study provides targets for what level of affordable housing will be viable, based on a detailed assessment of site viability on a range of sites in York which, together, give a fair representation of the types of sites, values and costs expected. The dynamic model allows the targets to remain aligned with market conditions based on house prices, build costs and alternative use values of land. If, for example, house prices fall and/ or build costs increase then viability will fall and affordable housing targets will be lowered, based on a detailed matrix of values.
9. The variables can be updated annually based on established sources – the BCIS index of costs, the Halifax House Price Index, and the local Valuation Office Agency (VOA) analysis of land values. It is the intention that the model is re-run each year, in June, and results published.

Conclusions of the Study

10. The Fordham Study is based on research carried out in 2009/ 2010. It concludes that greenfield sites, with generally lower land and build costs, can accommodate more affordable housing than their brownfield equivalents without affecting viability to the extent that reasonable developer profit is compromised.
11. Table 1 below identifies targets based on the existing assumptions set out in the study (April 2010), and proposed targets following a re-run of the model with CYC Officer recommended assumptions.

Table 1 - Summary of existing and revised targets		
<i>Nature of target</i>	<i>Viability Study Target</i>	<i>Revised target after re-running the Officer Recommended Assumptions</i>
Short term targets (Target 1): <i>Broad-brush (brownfield) PPS3 target on sites of 15+ dwellings</i>	25%	25%
<i>Greenfield target on sites of 15+ dwellings</i>	40%	35%
<i>Sites 11-14 dwellings</i>	25%	25%
<i>Sites 5-10 dwellings</i>	20%	20%
<i>Sites of 2-4 dwellings</i>	<i>Commuted sum</i>	<i>Commuted sum</i>
Long term need requirement target (Target 2): <i>Plan long and including grant expectations</i>	50%	50%

12. It can be seen that re-running the model with the revised assumptions makes no impact on brownfield sites, but it is proposed to lower the greenfield target from 40 to 35%.

Delivering Lower Affordable Housing Targets

13. In addition to this there remains a question over reasonable developer profit. Historically this local authority, like many others, has worked to 20% on costs. This has been an established industry level, with some house builders prepared to go lower in order to secure a site development in York. Representations from York developers and house builders, however, argue that 20% is now the minimum that any developer would accept in the present climate and consider that 25% would be more appropriate. In response Officers maintain that 20% is healthy and fair; it is supported by the Homes and Community Agency (source: CLG/ HCA Public Land Initiative, February 2010).
14. However, in order to move this on, the considered recommendation is to put the onus on developers to prove that nothing less than 25% will be accepted on individual sites for lending reasons. If it can be demonstrated, through open and independent proof of correspondence, then targets on that site (both brown and greenfield) will be lowered by a further 3.5% (ie. to 21.5% and 31.5% respectively). This is the impact of

increasing profit by 5% when set against all other costs in the viability model.

15. Recent negotiations and individual assessments of site viability support the study findings in that they conclude that brownfield targets of 25% minimum are achievable even in these days of economic downturn, for example Terry's (30%), and Nestle (25%).
16. However, individual site appraisals can still be submitted if a developer really can demonstrate that the new targets cannot be met, and should be lowered further still, but these must be independent and robust, with detailed evidence of costs and revenues.

Analysis - Market Conditions

17. The national downturn in the housing market and wider credit crunch has resulted in a major scaling back of short-term activity in the country as house builders have become more financially exposed. In York, as in other towns and cities, they are looking to the medium to long-term, waiting for the market to recover.
18. This downturn has led to a slowing down in housing applications coming forward and, in some cases, construction on sites has stopped. Since over 80% of new affordable housing in York is currently secured as part of private developments, this has inevitably led to a slowing up of affordable housing coming forward.
19. Total completions are set out in the table below, together with affordable house completions. The affordable totals do not include additional affordable homes completed through CYC housing investment programmes in partnership with Housing Associations, which amount to an additional 64 affordable homes in 2008/09 and 52 in 2009/10. The overall percentages are below 25% largely because of the substantial number of small schemes coming forward – ie. below the current threshold of 15 dwellings, below which there is no requirement for affordable housing.

Table 2 Housing Completions and Affordable Housing completions on private housing schemes 2005 – 2010.

Year	Total Housing Completions	All Affordable Housing Completions	Total Housing Completions on Qualifying Sites*	Affordable Housing Completions on Private Developments	% Affordable Completions on Qualifying Sites
2005/06	906	148	458	108	23.6%
2006/07	798	56	333	56	16.8%
2007/08	523	51	176	21	11.9%
2008/09	451	151	163	54	33.1%
2009/10	507	138	192	45**	23.4%

Quarters 1 and 2 of 2010/11	264	142	174	111**	63.8%
Total	3,449	686	1,496	395	26.4%

* For the avoidance of doubt, a qualifying site is a private developer led site which triggers the affordable housing policy through the planning system. The current affordable housing policy is triggered at sites of 15 homes or 0.3ha in urban areas and 2 homes or 0.03ha in rural areas.

** Includes 18 completions in 2009/10 and 31 completions in 2010/11 on private developments that are in addition to the negotiated affordable housing requirement. These have been secured through deals with private developers to buy surplus stock and kick-start developments that have stalled due to the poor market conditions. These have covered a range of tenures supported with low rates of Social Housing Grant. Negotiations are currently ongoing to purchase a further 50 homes on private developments across the city.

20. There is now evidence of recovery on many development sites in the city, with some (York College, Birch Park, The Croft – see Annex 2) only progressing because of affordable housing and the certainty of funding it brings.
21. A recent report by Savills (*Savills Research – Residential Property Focus, August 2010*) concluded that “the low transaction levels are undoubtedly a reflection of the ability and, importantly, the desire of people to trade in the current economic environment.” The report goes on to say that “any improvements to the availability of secured lending have been minimal and the Credit Conditions Survey published by the Bank of England suggests more lenders expect the availability of mortgage products to contract marginally over the third quarter of 2010.”
22. Most commentators would agree that the downturn in house building activity has happened because of (1) consumer conservatism (borrowers are even more nervous now, with the ongoing spending review), (2) availability of decent mortgages (strict mortgage rationing still in force with first time buyers, especially, having to find significant sums for deposits (typically 20%), and (3) bank lending to house builders (there is some evidence now of this beginning to free up as some banks are taking a longer term view and letting house builders re-invest and retain their businesses).
23. The Savills report, as with other national reports on the state of the housing market, did not highlight affordable housing targets as a reason for the slump in housing construction. Whilst some local developers have expressed concerns that affordable housing requirements are restraining the market, they also refer to schemes in York with zero affordable housing, which are not going ahead because of the wider, national issues set out above.

Kick-starting the Housing Market

24. The introduction and use of the dynamic model immediately lowers affordable housing requirements in York to 25% and 35% for brownfield and greenfield sites respectively. If a 25% developer profit is justifiable these rates would be lowered further to 21.5% and 31.5%. The submission of an individual site viability appraisal will continue to provide a route by which developers could secure a lower target.
25. Availability of development finance and mortgage availability are seen as the key factors in the housing market downturn. Paragraphs 17- 23, above, address this in more detail. If Members were to consider a further lowering of the targets to stimulate the market this would not address these fundamental restraining factors. The Homes and Communities Agency has offered 2 rounds of funding to developers from its Kick-start Housing Delivery Programme. No York developers have taken up this offer, which is aimed at unlocking stalled sites.
26. A lower time-limited target would need to link to the commencement of development and completion of houses within a specified period. The concept of commencement of development is much clearer in planning law than the notion of development completion. This inevitably raises issues of enforceability of such an approach. One time period is unlikely to be appropriate for all circumstances as larger schemes can take a number of years to build out.
27. To avoid the risk of judicial review/ High Court challenge any discount would also need to be offered to developers who have already got planning permission and this would lead to the re-negotiation of S106 agreements which could further slow development down and undermine agreed commitments. There is no Government guidance on this type of approach, and further legal advice from Counsel is advised if there is any intention to pursue it.

Interim policy

28. The adoption of the 35% Greenfield and 25% brownfield targets for development control purposes can be taken immediately. Introduction of these targets and thresholds now - before the Core Strategy is adopted - represents a clearly researched and up-to-date approach that responds to current market conditions and is in line with government guidance. It will be for independent Inspectors to consider what weight should be attached to interim policy.
29. Whilst site targets in York are already being reduced to 25 - 35% following individual assessments of site viability, it is considered that this more formal declaration may help to clarify and provide more haste in pre application discussions. In essence, no individual site assessment will be required where submissions on brownfield sites of 15 or more

dwellings include 25% affordable housing, or 35% on greenfield sites, subject to annual review at the time of submission.

30. Whilst clearly not part of the LDF, the policy is fully researched, backed by up-to-date evidence, and has been consulted on. The Inspector at the RB Kensington & Chelsea Core Strategy Inquiry has recently approved the Fordham Dynamic Viability Model. The revised targets should speed up the planning process, as it is anticipated that the majority of applications will not require an individual viability appraisal, as is the case currently.
31. The Dynamic Model is a new approach, based on future changes to house prices, build costs and alternative land use values, and will be reviewed through the Annual Monitoring Report to ensure the delivery of affordable housing in York is not compromised.
32. The AHVS is an independent study, carried out by very experienced consultants. Whilst stakeholders have voiced concerns over a number of issues these have been addressed and Officers have recommended some changes. It is worth noting, however, that Fordham Research have defended their approach and believe that they would be upheld at Inquiry.
33. It is important that affordable housing in York is maximised given the high level of need demonstrated in the Strategic Housing Market Assessment and the Council's aim to build thriving and inclusive communities. It is considered that, through this study, clear and reasonable affordable housing targets have been set. They are considerably lower than the current 50% target and appear to be supported by recent individual assessments of site viability.
34. The precise, practical workings of the Dynamic Model and how it will be embodied in policy and supplementary planning documents will be further developed. The revised Core Strategy Affordable Housing Policy is due to be brought back to Members early in 2011 as part of the LDF Submission Draft. As Members are aware three options were consulted on as part of the Core Strategy Preferred Options and the responses to these were brought back in April this year. These representations, along with this new evidence base, will be used in the formulation of the policy.

Corporate Priorities

35. The Affordable Housing Viability Study supports the following Corporate Priorities:
 - It will help to support York's successful economy
 - It will enable the City and its communities to grow and thrive
 - It will help to improve health and lifestyles of people who live in York, particularly the poorest by providing decent affordable homes in the City

Implications

36. The following implications have been assessed:

Financial - The cost of preparing the Affordable Housing Viability Study will be met through current budgets provided for the LDF.

The adoption of an interim policy, which has not been through a formal adoption process, could lead to possible cost claims

Human Resources (HR) – None

Equalities – None

Legal – Reducing thresholds and targets is in line with guidance set out in Planning Policy Statement 3 (Housing). Legal Services advise that targets can be adopted by the Council as interim policy for development control purposes. However, if adopted, it will not carry the weight of a policy that has progressed through the statutory process (although it can be demonstrated that it is backed by an evidence base) and may therefore result in appeals. Whilst the policy may carry little weight, it will have some status as a material consideration and will provide a clear policy basis for the local planning authority and for planning inspectors when considering appeals.

Crime and Disorder – None

Information Technology (IT) – None

Property – The results will affect the amount of affordable housing required on the development of any land and buildings in the Council's ownership.

Other - None

Risk Management

37. In compliance with the Council's risk management strategy, there are no risks associated with the recommendations of this report.

Recommendations

38. It is recommended that Members:
- Approve the Viability Study and its 25% brownfield and 35% greenfield affordable housing targets for development control purposes, as set out in Table 1 of this report, including a lowering of the targets by a further 3.5% if a 25% developer profit can be justified, or by negotiating a lower target through a site-specific viability appraisal.

- Reason: So that the Affordable Housing Study can be used as part of the Local Development Framework evidence base, avoiding delays to the Core Strategy production, and for Development Control purposes as a material consideration to assist in the delivery of affordable housing in York now.

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**Report
Approved**

Date 1st December 2010

Specialist Implications Officer(s)

There are no specialist officer implications.

Wards Affected:

All

For further information please contact the authors of the report.

Background Papers:

Annex 1 – Table 1 – Summary of key Issues raised at the Stakeholder Event and by the Property Forum and others, results of further research and re-modelling of the study, and CYC Officer recommendations.

Annex 2 – Local initiatives to kick-start housing construction in York.