

# AFFORDABLE HOUSING VIABILITY STUDY

Report to Executive 14<sup>th</sup> December 2010

## Supplementary Note 9<sup>th</sup> December 2010

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### Affordable House Completions 2005-10

The following table sets out all affordable house built during the last 5 years, as a result of agreements on private housing sites through section 106 agreements. It also identifies affordable homes built in addition to the planning requirement as a result of recent negotiations to kick-start stalled sites.

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%
<b>Total</b>	<b>3,449</b>	<b>686</b>	<b>1,496</b>	<b>395</b>	<b>26.4%</b>

\* 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.

### Affordable Consents 2010

The following table identifies the status of consented housing sites in York as at 30<sup>th</sup> November this year. It reveals that there is more construction activity on sites with affordable housing than those without – 577 out of a total of 1,059 (54%) homes under construction are affordable homes on allocated sites, against 216 out of 1,252 (17%) on sites not yet started. On unallocated sites 44% of homes under construction are affordable, and 18% affordable on sites which have not yet started. This analysis tends to suggest that the

certainty of affordable house funding is helping to keep some development sites going in the current economic downturn.

York Housing Consents, 30<sup>th</sup> November 2010

Type of Site	Total Capacity	Total Built	Total Net Remaining*	Total Affordable Housing Consented
Allocated Sites – Under Construction	1,375	316	1,059	577
Allocated Sites – Not yet started	1,252	0	1,252	216
<b>Allocated Sites - Total</b>	<b>2,627</b>	<b>316</b>	<b>2,311</b>	<b>793</b>
Unallocated Sites – Under Construction	449	45	335	148
Unallocated Sites – Not Yet Started	795	0	795	142
<b>Unallocated Sites - Total</b>	<b>1,244</b>	<b>45</b>	<b>1,084</b>	<b>290</b>

\* Total net remaining also takes account of demolitions and change of use/conversions

\*In accordance with the latest affordable housing policy sites only qualify for 50% affordable housing targets provided that: -

1. Sites are 0.3 ha or more in urban areas/15 or more dwellings
2. Sites are 0.03 ha or more in villages with less than 5,000 population/2 or more dwellings

Precedent

Officers have contacted the 22 local authority members of the Northern Affordable Housing Group in order to establish whether any other Local Authorities have implemented a reduced target to aid housing delivery and, if so, by how much and for how long.

Responses have been received from 8 Local Authorities (Selby, Barnsley, Wakefield, Craven, East Riding, Sheffield, Leeds and Kirklees).

None of the Authorities that responded are operating a reduced target. Targets being implemented are based on the results of Viability Studies. As with York's proposed approach all authorities have built in flexibility, allowing applicants to submit individual site viability appraisals to demonstrate if a target is not viable – this has been operating in York since the introduction of affordable housing policy in 1996, and remains current policy.

Fordham Research also confirms that, for the 36 local authorities they have undertaken viability studies for, none have included a developer profit of more than 25%. Some of the studies have included a developer profit of less than 20%, but most are at 20%.

Officers also monitor approaches to affordable housing through national planning journals and websites. No 'reduced target' approaches have been identified through this.

Fordham's consider that a 20% profit assumption remains defensible. Banks may require 25% plus profit in the project calculations they see, in order to approve funding. But it is expected that the developers should put in some of their own equity. The amount of the profit actually required will vary, as it always has done, from site to site depending on the risks and amount of equity put in by the developer. By putting in equity the developer is sharing some of the risk. That is why 20% is still a reasonable assumption for the overall project funding.

Fordham's would advise against any reduction in the policy target levels. That is because they were found to be deliverable, and although the market has softened slightly since September 2009, when they were done, it will not have affected the overall position by much. It has always been open to developers on particular sites to put forward specific viability calculations to show that a lower target should be permitted on their specific site. This facility should be emphasised to anyone arguing that the target is too onerous on their site.

Fordham's consider that the fundamental reason for which development is held back at present is not the affordable target but the availability of finance: people cannot get mortgages. In that sense it will not kick start the market to reduce the affordable target. What would kick start it is banks being willing to lend again.

#### Legal Implications

Availability of development finance and mortgage availability are seen as the key factors in the housing market downturn, as explained in the main report. 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.

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.

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.

Legal colleagues advise that the Council can change policies on a temporary basis but, to do so, there would need to be (a) national guidance encouraging local authorities to do so, and (b) a rational evidence base. In this case there is neither, and therefore a high risk of challenge.

The planning system is based on the granting of planning permission, which relates to the commencement of development within a specified time period. There is no legal basis to enforce somebody to build/ complete a development, nor within a specific time period. It is considered that this approach (a further lowering of the target for a period of time) is not enforceable through the planning system. There would, therefore, be no sound basis for the authority to enter into an agreement to achieve this.

A site viability appraisal remains a means to negotiate with developers in order to agree a lower affordable housing level on a particular site.

#### Justification for land values

The £90k set out in the study derives from a standard agricultural value (£10k) together with an incentive to sell the land for development purposes (referred to as the cushion value in the study, and given as £80k). The £170k derives from Officers doubling the £80k cushion value originally set out in the Fordham Study, together with the original £10k agricultural value. It represents a value 17x that of agricultural land value and is in the upper range of the 10-20 x agricultural value advised by the Homes Community Agency to be a reasonable assumption.