

Report of the Director of City Strategy

Affordable Housing Viability Study

Summary

1. This report advises Members on the production of the Affordable Housing Viability Study (AHVS) for York as required by national planning guidance in Planning Policy Statement 3 (PPS3) Housing.
2. This report is an evidence base which reports the findings of the AHVS Study: it is not a full LDF policy approach. The wider LDF policy approach will be reported to Members later in the year as part of the Core Strategy submission draft – which has been subject to consultation through the Preferred Options document. This affordable housing viability report recommends that the targets and thresholds concluded in the consultants study be adopted now – ahead of the LDF policy – as an interim Development Control policy. It represents a clearly researched and up-to-date approach which responds to current market conditions, and which will provide the certainty that developers have requested through consultation.
3. The study acknowledges the recent downturn in the national and local housing market and proposes short-term targets of 40% affordable housing in York on greenfield sites, and 25% on brownfield sites without social grant on sites of 15 dwellings or more. It explains that changes in the housing market will require revisions of these targets over the plan period to keep them aligned with changing circumstances. The study demonstrates that the City Council are justified in stating a long-term need requirement target for the plan period of 50% including grant.
4. The long-term need requirement target of 50% reflects the substantial (1,218 homes per annum) affordable housing need expressed in the current Strategic Housing Market Assessment. The Fordham's Study recognises that in the current economic climate the maximum 50% is unlikely to be met and that targets should be lowered. However, it also states that the 50% maximum would have been relevant at the market peak, and that this position might be reached again if house prices recover.
5. The study concludes that the history of affordable housing since the early 1990's has been one of a broadly rising market. This meant that targets could rise also, to reach their current level of 40-50%. The downturn following the recession means that targets need to be lowered.

6. To ensure that the targets remain aligned to market conditions the study proposes a 'Dynamic Model', which allows the short-term affordable housing targets to be reviewed annually. The percentage of affordable housing required will be determined in accordance with the Dynamic Model target at the time consent is approved. However, larger schemes, which are phased, will include a mechanism (i.e. S106) that will allow an automatic updating of the affordable housing target to keep phases aligned with the Dynamic Model target. This allows affordable housing in York to be responsive to changes in market conditions, and will give a clear statement to landowners and house builders on what is achievable and reasonable.
7. Consultation with and presentation of the study methodology to key developers, RSL's, and house builders earlier this year received strong support for this approach to affordable housing target setting.
8. The study also supports lower affordable housing targets on smaller sites (less than 15 homes), which aligns closely with support for a sliding scale from the development industry (i.e. as a general rule the economies of scale will dictate that larger sites are able to accommodate a larger proportion of affordable housing than smaller sites).
9. An Executive Summary of the AHVS is attached as Annex A to this report, and a full copy of the study is available in the Members Room. Members are asked to approve this document for publication as part of the Local Development Framework evidence base, and to adopt the current targets and thresholds and the principles of the Dynamic Model for Development Control purposes as soon as possible. Whilst site targets in York are already being reduced to 25-40% in order to reflect the current market following individual assessments of site viability, it is considered that this more formal policy 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 40% on Greenfield sites, subject to annual review.
10. It is considered that the introduction of these targets and thresholds as interim policy until the Core Strategy is adopted represents a clearly researched and up-to-date approach which responds to current market conditions, and which will provide the certainty that developers have requested through consultation. The reduced thresholds and targets are inline with guidance in Planning Policy Statement 3 (housing). Legal Services advise that the targets and thresholds can be adopted by the Planning Committee but the Local Authority should be aware that any policy legally may carry little weight because of where it stands within the statutory process, and could also result in claims at public inquires. However, these new targets are clearly based on new evidence and are in line with market conditions. The interim approach will still allow developers to demonstrate where they can not meet the lowered targets – although this would need to be accompanied by extremely robust *independent* appraisals paid for by the developer.

Background

11. PPS3 sets out the government policy on planning for housing. Paragraph 29 sets out the need to carry out an assessment of the likely economic viability of land for housing within the area. The requirements of such studies was enhanced by the Blyth Valley judgement, which has had important implications for all Development Plan Documents in its interpretation of the guidance set out in PPS3. The inclusion of statements within planning policy to the effect that viability factors will be assessed on an individual basis is not seen as sufficient.
12. To date no government guidance has been produced to assist in how these assessments of viability should be carried out. A good practice guide (Investment and Planning Obligations: Responding to the downturn) by the Homes and Communities Agency sets out two alternative bases for target setting:
 - set the target to the minimum (probably current) level of viability. This would evidently under provide affordable housing when taken over a plan period
 - set the target for a 'normal' market and treat it as flexible

This second approach is also based on an unpublished note from the Planning Inspectorate.

13. In light of this, and as part of the ongoing work associated with the Local Development Framework, Fordham Research was appointed last year to provide an assessment of the viability for affordable housing and advice on policy direction. The overall objective of the study was to test the viability of the proposed Core Strategy affordable housing preferred options and to inform future policy development based on a sound evidence base.

14. Study Approach





- 15 actual sites selected, which cover a wide range of sites (see table 1 below), locations, size and brownfield/greenfield
 - Sites examined under a range of assumptions
 - Generous assumptions used for viability analysis
 - Viability value of land for the particular residential scheme compared to the alternative use value, to determine if another use would derive more revenue for the landowner.
 - Cushions incentive value added - If the residual value produces a surplus over the alternative use value benchmark, it does not follow automatically that the site is viable. There needs to be a sufficiently large surplus ('cushion') to provide an incentive to the landowner to release the site.
 - Viability of sites determined
 - Target levels determined based on number of sites viable and professional judgement
15. Table 1 illustrates the viability of sites tested in current market conditions without grant by applying the above approach.

Table 1 Appraisal outcomes: zero grant

No	Site	Alt use value	Value £k per acre			
			No aff	20%	30%	40%
1	Germany Beck	10+80	744	483	350	218
		90	VIABLE	VIABLE	VIABLE	VIABLE
2	Lowfield Sec. School	115+40	437	215	102	-11
		155	VIABLE	VIABLE	NOT VIAB	NOT VIAB
3	Metcalf Lane Osbaldwick	10+80	535	305	190	73
		90	VIABLE	VIABLE	VIABLE	MARGINAL
4	Hungate	165+40	2,694	832	-121	-1,110
		205	VIABLE	VIABLE	NOT VIAB	NOT VIAB
5	Manor School	115+40	579	324	195	67
		155	VIABLE	VIABLE	VIABLE	NOT VIAB
6	The Brecks, Strensall	10+80	537	325	219	111
		90	VIABLE	VIABLE	VIABLE	VIABLE
7	Askham Bar Park & Ride	165+40	781	491	342	195
		205	VIABLE	VIABLE	VIABLE	MARGINAL
8	Discus Bungalows	50+40	272	13	-123	-260
		90	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB
10	Delivery Office, Birch Park	165+40	501	85	-136	-357
		205	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB
12	Burdike Avenue	100+40	367	156	46	-67
		140	VIABLE	VIABLE	NOT VIAB	NOT VIAB
13	Burnholme WMC	100+40	503	255	125	-8
		140	VIABLE	VIABLE	MARGINAL	NOT VIAB
14	Water Lane, Clifton	165+40	-41	-345	-498	-654
		205	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
15	22 Princess Rd Strensall	293+40	581	333	208	-77
		333	VIABLE	MARGINAL	NOT VIAB	NOT VIAB
16	Reynards Garage	165+40	2,332	1,485	1,043	612
		205	VIABLE	VIABLE	VIABLE	VIABLE
17	62 Mill Lane	100+40	297	63	-58	-180
		140	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB

Source: Fordham Research 2009

'Marginal' means that the schemes does not achieve the full 'cushion' allowance, only part of it

Key	
VIABLE	
MARGINAL	
Positive land value but below alternative use value	
UNVIABLE	

16. Based on the results the study recommends the following short term affordable housing targets be concluded as reasonable in the present (Oct 2009) market. These short-term targets are reached by assessing the number of sites that are viable at the percentage levels, along with professional judgement.

Urban Brownfield sites of 15 dwellings or more: 25%

Greenfield sites of 15 dwellings or more: 40%

17. Whilst PPS3 requires a citywide target it says nothing against having main and sub-targets, it merely demands a plan wide one. York's LDF preferred spatial strategy acknowledges the benefits of enabling Greenfield development in creating successful new places, served by a range of services and infrastructure. Ignoring the fact that York has a large number of Greenfield sites that can deliver a greater level of affordable homes than Brownfield sites while still remaining viable would go against government aims to maximise opportunities for providing affordable housing. The study therefore concludes that separate targets are appropriate.
18. As these findings only relate to market conditions as at October 2009, the lack of government guidance, and the need to maximise affordable housing over the Plan period; this presents the question of what target should be set in future Policy. To assist with this the study includes sensitivity testing and Fordham's propose a Dynamic Model.

Sensitivity testing

19. A number of sensitivity testings were carried out, but a key one to focus on is the market peak level around Oct/ Nov 2007 (when prices were at least 15% higher than those assumed in our study, and costs may have been 5% lower). The results set out in Table 2 show that viability would be greatly improved, with eleven of the sites viable at 40% affordable. This demonstrates that a target above 40% would be reasonable in these market conditions for both urban Brownfield and Greenfield sites.

Table 2 Appraisal outcomes: market peak

No	Site	Alt use value	Value £k per acre		
			Base 30%	New 30%	New 40%
1	Germany Beck	10+80	350	655	481
		90	VIABLE	VIABLE	VIABLE
2	Lowfield Sec. School	115+40	102	387	234
		155	NOT VIAB	VIABLE	VIABLE
3	Metcalfe Lane Osbaldwick	10+80	190	474	317
		90	VIABLE	VIABLE	VIABLE
4	Hungate	165+40	-121	1,830	601
		205	NOT VIAB	VIABLE	VIABLE
5	Manor School	115+40	195	497	324
		155	VIABLE	VIABLE	VIABLE
6	The Brecks, Strensall	10+80	219	486	340
		90	VIABLE	VIABLE	VIABLE
7	Askham Bar Park & Ride	165+40	342	679	482
		205	VIABLE	VIABLE	VIABLE
8	Discus Bungalows	50+40	-123	217	39
		90	NOT VIAB	VIABLE	NOT VIAB
10	Delivery Office, Birch Park	165+40	-136	398	111
		205	NOT VIAB	VIABLE	NOT VIAB
12	Burdike Avenue	100+40	46	331	186
		140	NOT VIAB	VIABLE	VIABLE
13	Burnholme WMC	100+40	125	433	266
		140	MARGINAL	VIABLE	VIABLE
14	Water Lane, Clifton	165+40	-498	-108	-316
		205	NOT VIAB	NOT VIAB	NOT VIAB
15	22 Princess Rd	293+40	208	515	345
		333	NOT VIAB	VIABLE	VIABLE
16	Reynards Garage	165+40	1,043	1,916	1,369
		205	VIABLE	VIABLE	VIABLE
17	62 Mill Lane	100+40	-58	253	90
		140	NOT VIAB	VIABLE	NOT VIAB

Source: Fordham Research 2009

'Marginal' means that the schemes does not achieve the full 'cushion' allowance, only part of it

Availability of Social Housing Grant

20. Whilst the study includes sensitivity testing in respect of two social housing grant levels, there is no means of predicting what grant levels may be available over the plan period. Due to this uncertainty the study advises that it is best to separate the whole issue of grant from the issue of deliverable targets. This means setting short-term targets based on zero grant, with a

parallel long term need requirement target that includes an allowance for grant.

21. The study advises that it would not be reasonable for the long term need requirement target to go above 50%, since that is the ceiling set in the SHMA. However there is no particular reason why it should be set any lower. It may be that a recovery in the housing market and/or the availability of social housing grant will mean that a 50% plan long target (referred to in the study as Target 2) is viable.

Thresholds

22. In order to provide a full picture of how viability varies below 15 dwellings, model sites ranging in size from two to 15 dwellings were created. The Study recommends the following:

Sites of 11 - 14 dwelling: 25% affordable

Sites of 5 -10 dwellings: 20% affordable

Sites of 2-4 dwellings: off site commuted sum in accordance with City's price system

Dynamic Model

23. This is a bespoke Model designed by Fordham Research. Its aim is to overcome a dilemma created by the recession and subsequent market recession, with the short term affordable housing targets being assessed annually based on 3 indexes. It proposes:

- a system which permits deliverable targets to be set, regardless of future fluctuations in the market, using sets of price and cost indices
- the Core Strategy Inquiry can be presented with the full range of possible target outcomes, and once approved (in whatever form) no new policy change is required to alter the target.
- its based on the use of matrixes governed by changes in 3 indexes – Build Costs, House Prices and Alternative use values.
- only the movement of published indexes change the target.
- the intervals at which it is changed must be infrequent enough to permit an orderly land market, thus perhaps annually.

Page 70 of the main document illustrates how the target is assessed and changed.

24. A Stakeholder Workshop, which focused purely on the methodology, assumptions used in the study (development profit, land and cushion values etc) and the idea of using a 'dynamic model' was held at the end of January 2010. Attendees included developers, housebuilders, agents and Registered Social Landlords. The elements presented were positively received.

Conclusions of the Study

25. The conclusions of the Study re-emphasise the robustness of the study methodology and confirm that sites have been treated fairly and consistently.

The assumptions made are considered to be fair and reasonable, drawing on considerable experience.

26. It sets out the need for two targets. Target 1 - Short term targets based on current market conditions and assumes no availability of social housing grant or other public subsidy and is designed to be used in negotiations over the proportion of affordable housing on market sites. Target 2 – Long term need requirement target, which includes assumptions about grant but would not be an operational one in the sense of entering into site negotiations but allows flexibility to increase provision if grant is available. The Dynamic Viability model applies solely to Target 1.

Target 1: Short term targets - Deliverable without grant

27. The results from the appraisals indicate that at current market values, costs and zero grant, it would be possible to sustain a broad-brush short term target for brownfield sites over 15 dwellings of 25% and a greenfield site target of 40%.
28. As these short-term targets are based on site-specific factors these targets can be negotiated if there is a convincing viability case. Any future policy needs to allow for individual site-specific viability appraisals but due to the generous cushions applied in the Study the circumstances would have to be exceptional.
29. The 25% short-term broad-brush (brownfield) target is the one that would be run through the Dynamic Model and this would be directly linked to the 40% Greenfield target. In other words if the 25% target rose or fell by x% due to changes in the indices, so would the Greenfield target, but with a 50% ceiling based on the SHMA.
30. For sites below 15 homes the Study recommends:
 - 5-10 dwellings: a 20% target
 - 11- 14 dwellings: a 25% target (the same as the urban target over 15 dwellings)

The target over 11 dwellings would remain consistent with the broad-brush (brownfield) target. The 5 - 10 dwelling target would be 5% lower than the broad brush (brownfield) one.

31. For small sites (2 – 4 dwellings) a commuted payment is recommended.
32. The percentage of affordable housing required will be determined in accordance with the Dynamic Model short term targets at the time consent is approved. However, larger schemes, which are phased, will include a mechanism (i.e. S106) that will allow an automatic updating of the affordable housing target to keep it in tune with the Dynamic Model target

Target 2: Long Term Need Requirement Target including grant

33. The changing nature of the housing market including its prospects for medium to long term recover, plus the unknown availability of social housing grant leads the study to advise setting an aspirational need based target for the plan period. Based on the evidence of the strategic housing market assessment and the exceptionally high requirement for additional affordable housing the study concludes that it would be reasonable to maintain a 50% Long term need requirement target (Target 2).

34. Table 3 below summarises the targets and thresholds.

Table 3 Summary of target proposals		
Nature of target	Target	Comment
Short term targets (Target 1): Broad-brush (brownfield) PPS3 target	25%	Used as the basis for Dynamic Viability and therefore variable as market circumstances change. Applies up to 50% on sites of 15 dwellings and above.
Greenfield target	40%	Linked by being 15% above the broad-brush one. Upper limit of 50% as with Target 1.
Sites 11-14 dwellings	25%	These targets would vary in step with the 25% broad-brush target, like the rural 40% one.
Sites 5-10 dwellings	20%	
Sites of 2-4 dwellings	N/a	No target, but cash in lieu as negotiated on the basis of site viability.
Long term need requirement target (Target 2): Plan long and including grant expectations	50%	Target 2 is intended to include the proceeds of Target 1 plus the unknown future product of HCA grant over the plan period. This target is designed to inform policy but not to be applied in site negotiation unless the DV model demonstrates viability of sites to 50% without grant. It is set at the limit of what the SHMA indicates as a target and could be set lower if the City feels that grant expectations would not permit it to be as high

Core Strategy Policy

35. The precise, practical workings of the Dynamic Model and how it can be embodied in policy and supplementary planning documents need to be further developed, if Members decide this is an approach they wish to pursue. The revised Core Strategy Affordable Housing Policy is due to be brought back to Members later in the year 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. These representations, along with this new evidence base will be used in the formulation of the policy. Given the lack of government guidance, the need to set a realistic target that is viable but which will maximise affordable housing over the 20-year period of the plan needs careful thought. The table below illustrates pro and cons of different approaches.

No:	Policy Option	Pro	Con
1	Set plan target based on the Study's current results	May help to Kick start provision Less need for independent viability	Based on poor market conditions – will not maximise affordable housing over life of plan

No:	Policy Option	Pro	Con
		<p>assessments</p> <p>Certainty for developers</p> <p>Short term</p>	<p>No allowance for grant</p> <p>No allowance for need identified in SHMA (2007)</p>
2	Set plan target based on height of market	<p>Allows for affordable housing provision to be maximised</p> <p>Takes into account need identified in SHMA</p> <p>Long term taking into account market improvement</p>	<p>Reliance on individual viability assessments</p> <p>May result in fewer sites coming forward</p> <p>Misinterpretation of the target being required</p>
3	Set plan target based on a normal market	Mid range target	<p>What is classed as a normal market?</p> <p>Peaks and troughs in market</p> <p>LDF soundness concerns</p> <p>Uncertainty for developers</p> <p>Will not always maximise provision</p>
4	Change target annually based on Dynamic model	<p>Target stays aligned to market conditions</p> <p>Less need for independent viability assessments</p>	<p>Will not always maximise provision, as some sites will be capable of exceeding the target</p> <p>No grant allowance</p>
5	Change target annually based on dynamic model but also include an aspirational target	<p>Target stays aligned to market conditions but seeks to maximise provision where possible by allowing top up of grant</p> <p>Takes into account need identified in SHMA</p>	May require site individual viability assessments
6	Broad-brush (brownfield) target set at minimum level of	Seeks to maximise affordable housing provision	<p>Uncertainty for developers</p> <p>Reliance on individual</p>

No:	Policy Option	Pro	Con
	affordable housing without it being support by the Dynamic Model	Scope to negotiate upwards Study results based on generous assumptions	viability assessments Subjective on which sites should be pursued for more provision

36. Based on the findings of the study and consultation, Officers recommended approach is number 5, a policy based on the Dynamic Model with a long term need requirement target, which will allow affordable housing to be maximised, whilst ensuring that provision is kept aligned with market conditions. The full policy approach, including how we deal with sites under 15 dwellings, rural sites, on/off site contributions and payment of commuted sums in lieu of on site provision, will be reported to members later this summer as part of the submission Core Strategy. This full policy approach will be informed by the consultation responses to the three options we consulted on at preferred options, the evidence provided in the AHVS and the need to comply with national planning guidance.

Options

37. Members have two options relating to the Affordable Housing Viability Study:

Option 1: To approve the Affordable Housing Viability Study attached as Annex A, for publication as part of the Local Development Framework and for progression into Interim Planning Policy.

Option 2: To seek amendments to the Affordable Housing Viability Study through recommendations of the LDF Working Group, or request further work from Fordham Research.

Analysis

38. The Affordable Housing Viability Study forms an important part of the evidence base for the LDF. It will be a key piece of evidence base used to guide future affordable housing policy and delivery in the City. Given the significance of the study, it is important that it is approved as part of the evidence base to support the progress of the Local Development Framework, particularly the Core Strategy Submission Document and the Allocations Development Plan Document.
39. Delaying the approval of the AHVS could delay the production of Core Strategy Submission draft. Consequently, there would be a significant risk that this would delay further stages of the LDF, since the Core Strategy will provide the overall planning policy framework to inform other Development Plan Documents. Members are therefore asked to approve the AHVS, as part of the evidence base for the Local Development Framework

40. Given the dynamic nature of house pricing and, therefore, site viability it is further proposed that the results of the study be adopted for Development Control purposes as soon as possible. Whilst site targets in York are already being reduced to 25-40% in order to reflect the current market following individual assessments of site viability, it is considered that this more formal policy 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 40% on Greenfield sites, subject to annual review.

Corporate Priorities

41. 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

42. 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** - None
 - **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

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

Recommendations

44. It is recommended that Members:
- (i) Approve, subject to the recommendations of this Working Group, the Affordable Housing Viability Study, for publication as part of the Local Development Framework evidence base.

Reason: So that the Affordable Housing Study can be used as part of the Local Development Framework evidence base and to avoid delays to the Core Strategy production.

- (ii) To use the principles of the Dynamic Model and the conclusions of the study to formulate the Core Strategy Policy which will be brought back to the LDFWG for consideration with the remainder of the Core Strategy Submission Draft.

Reason: To ensure that the Core Strategy Policy is based and supported on an up to date evidence base.

- (iii) To recommend that Planning Committee adopt the targets and thresholds in the Study for Development Control purposes and the Dynamic Model principles as an interim approach until the Core Strategy is adopted.

Reason: So that affordable housing is enabled and delivered in accordance with this up to date evidence base.

- (iv) Delegate to the Director of City Strategy, in consultation with the Executive Member and Shadow Executive Member for City Strategy, the making of any incidental changes arising from the recommendation of the LDF Working Group, prior to its publication as part of the Local Development Framework evidence base.

Reason: So that any recommended changes can be incorporated into the Affordable Housing Viability Study.

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n/a

**Report
Approved**

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Date 27/05/2010

Wards Affected: All

All

For further information please contact the author of the report

Background Papers: Annex A: City of York Council – Affordable Housing Viability Study Report, Executive Summary, May 2010.