Economic Viability of Affordable Housing Requirements

Summary of Consultation feedback and responses to these comments

As part of the study commissioned by Stockton Council, a consultation paper was issued on 5th January 2009 on the approach proposed for the study. It also set out the main assumptions and information to be used and invited comments.

It was sent to all developer and RSL stakeholders known to be working in the area. Three weeks were given for responses, and there was feedback from one major RSL, from the HBF as a composite response, and from one other developer.

This note sets out the main comments received and the response to these comments, prepared jointly by the Council and the Consultants working on the Study.

We are grateful for the constructive and thoughtful comments made, which have helped shape the study. This has resulted in detailed changes, but also a revised and new approach to assessing the likely impact of changing market conditions.

Comment	Response
Accent Group	
Does not say however what happens next. The red/amber/green comparison between residual and actual land values seems crude and could cover a host of possibilities.	The Council is mindful of comments by a Planning Inspector at a Royal Town Planning Institute event that inspectors do no want to read overly long and technically complex reports. Whilst it is fully appreciated that the study deals with a complex subject it is essential that it be presented in as non-technical, simple and concise a manner as possible. The traffic light system is considered to be clear and transparent and assists in fulfilling this objective. The final report will contain a full interpretation of the findings.
The policy should indicate that the profit level above 15%, £xxxx, would support an affordable housing mix of X% comprising the	Comments were invited on the methodology for the affordable housing viability study. Stakeholders wishing to comment on the

following tenures	policies in the Stockton-on-Tees Core Strategy Publication Draft have had the opportunity to do so through the consultation exercise carried out by the Council, which closed on 22 December 2008. The assumed profit level in the assessment is used to test a range of options.
RSLs will be required to construct homes to Code Level 4 from 2011. Additionally RSLs must build or acquire properties that comply with the HCA's Design and Quality Standards and that achieve certain HQI scores. This makes the majority of standard developers house types unsuitable and requires additional construction costs and usually land take.	The model assumes that construction costs are fully in compliance with HCA's Price and Quality Standards. This includes minimum floor space standards. Costs (base date 4th quarter 2007) assume Code for Sustainable Homes level 3 with a separate scenario showing the impact of raising this to Code 4. Research undertaken on behalf of the Homes and Communities Agency and CLG ("Cost Analysis of the Code for Sustainable Homes – Final Report", July 2008) suggests that this is likely to add a premium to construction costs of around 12.7% above current building regulation compliance. Code 3 (which forms the datum in our "base scenario") represents a 5.1% increase above current building regulation compliance. In other words the move from code 3 to code 4 corresponds to a 7.6% increase in build costs.
The biggest concern is that this model looks at viability entirely from a private developer perspective and not the provider of affordable housing's view. RSLs will not take on properties if the scheme does not meet their basic quality and viability assessments and thus affordable housing may be difficult to procure even if this model indicates it is viable to do so	As referred to above, the costings assume that quality standards are in compliance with HCA's Price & Quality Standards. Viability assessments assume disposal by the private sector to an RSL at a viable discount from open market value (OMV).
The model also ignores if NAHP grant is available, usually not in the North East for a S.106 affordable housing requirement but you should ascertain the views of the regional HCA in this respect	The model is designed to test the viability of contributions from developers as part of planning obligations. We agree this can be supplemented by HCA grant to increase the provision on these schemes, or to fund separate developments. The extent of such funding is taken into account in setting the overall target, that still falls far below the identified levels of affordable housing need.
Close consultation with RSLs on a site-by-site basis need to be carried out in terms of tenure mix. Currently most shared ownership schemes	The Council's Housing Strategy team do, as a matter of standard practice, consult with RSLs on tenure mix.

are unviable because of low property values and high construction costs. Additionally many prospective shared ownership customers are unable to obtain mortgages or raise the necessary deposits.	
In para 4.6 and elsewhere sq ft and sq mtr are used in the same sentence. Since the construction industry went metric many years ago this is not helpful.	Acknowledged. The report has been amended to show allowance in metric and their imperial equivalent.
Where have the disposal figures of 75% and 50% of OMV for intermediate and social rented come from? What happens in the case of disputed valuations where the developers value sales prices far in excess of a RSLs independent valuation? These percentages are far too crude and ignore if NAHP is used or not. Other Local Authorities (York, Hambleton and Harrogate for example) have an annually set tariff drawn up in consultation with RSLs and the regional HCA. These set out actual disposal prices to RSLs for affordable housing per property type. Generally these assume no grant and can then be used to calculate what additional grant is required to bring off the shelf properties up to an acceptable standard. This can sometimes mean losing a bedroom to meet Design and Quality and minimum HQI standards thereby causing problems with the Developers valuations. A tariff system is recommended as it provides easily understandable certainty to developers and RSLs alike.	Rented accommodation is assumed to be acquired at 50% of OMV and shared ownership units at 75% of OMV. Our information suggests that transactions at this level are representative of similar transactions over the past few years within the Stockton and similar markets, given that smaller properties predominate in the affordable housing mix. We recognise that this provides an average across-the-board view and may not reflect the specific issues for a scheme. Alternative approached have been considered in some detail, but also have drawbacks, not least that RSLs in the NE region do not operate a "tariff" system, and the amount RSLs offer for acquisition actually varies significantly depending on the policies of the RSL.
I have not come across ground rent or leasehold disposals in Stockton. Is there evidence this is commonplace outside of the apartment market?	Ground rents are often charged in situations where the freehold is not transferred to the end occupier, although it is acknowledged that this varies from region to region and indeed developer to developer. For the purposes of the modelling exercise we have assumed ground rents *are* payable, but this can be revisited on a site by site basis subject to the specific terms of each development where required.
In para 4.7 it states no differential is applied in build costs between affordable and market dwellings. As explained above, unless the developer builds units to HCA standards, as a matter of course there will be different build costs and land take requirements.	The model adopts HCA price and quality standards and assumes no differential.

House Builders Federation	
If the findings of the study show that certain large brownfield sites would not be viable for affordable housing in line with the submission draft CS8, what are the implications for the policy at this stage? Would the council seek to take a reverse step in the plan-making process to try and address their affordable requirement on sites which arguably could withstand greater percentage of affordable, or would the Council acknowledge that some affordable need simply wouldn't be met in favour of bringing forward suitable (and in current RSS parlance, sequentially preferable, sites)?	Arc4 have been commissioned to carry out an affordable housing viability study. The implications of the study in spatial planning terms will be a matter for the Spatial Planning team at Stockton Borough Council to consider in due course.
Will this study be done again once we have the findings of the adopted SHMA?	The HBF have been involved in the preparation of the Tees Valley SHMA and will be aware, therefore, that it is now complete and only awaiting formal adoption by the Tees Valley authorities. Its findings are already known. No purpose would be served, therefore, by immediately reviewing the affordable housing viability study when the SHMA is adopted.
Perhaps a clear statement should be made about whether the methodology of this document will be used by the Council in assessing the 'robust justification' offered by anyone seeking to provide less than the standard requirement, for the avoidance of any doubt. Or, will the Council consult further on any future guidance as to how to engage on a site by site basis on this issue?	If a developer contends that affordable housing provision at the standard requirement for a specific area then the developer must provide evidence that the scheme would not be viable. The Council's current policy is to require an "open book" approach, which is independently assessed.
The policy seems to suggest, but is not entirely clear whether brownfield sites would automatically qualify (without robust justification) for affordable at the lower end of the standard requirement. This needs clarity if your beacon study assumptions are to be robust themselves.	Brownfield sites do not automatically qualify for provision at the lower end of the requirement.
There is a vast difference in abnormal costs associated with both brownfield and greenfield sites. As an industry we would wish to be involved in the estimates of likely abnormal costs for brownfield (e.g. remediation) and greenfield (e.g infrastructure and community facilities) abnormal costs.	The study does not attempt to assess in detail the abnormal costs associated with specific sites. Recognising the concern on this point, the approach taken is fully explained in the report.

It should be noted that existing use or alternative proposed use value of sites should be given proper consideration. If the delivery of housing could be affected by sites being put to alternative uses e.g. retail, industrial, commercial, or if the sites in question are currently in use or have lawful uses, then landowners and developers may choose not to bring sites forward for development.	Noted and agreed.
The Traffic light approach helps create an 'at a glance' view of deliverability. However, just because the residual land value aligns with the expected market value does not mean that a site will be available or viable for housing. On hearing that his/ her land is actually worth as little as they feared they thought it was, the landowner/ developer could react in any number of ways such as: • I wish I had sold it 18 months ago. I'll sit on it and hope prices will come back • If prices keep falling but credit frees up, there will not be such a high affordable housing requirement, or the proportion of social rented might diminish, giving me a better residual. • I'll see if I can get an alternative use on the site and take a long term investment instead of a lump sum land value. At least with 'fit for use' the ground clean up won't be so high. • I need to relocate my existing business to realise that low value, so I think I will just stay put. The implications for the methodology are that there ought to be another stage after the traffic light analysis to see whether existing uses; potential alternative uses; and the magnitude of land value after abnormals is so low, that land owners/ developer would sensibly act prudently to not deliver housing, thereby pushing sites into an alternative traffic light category.	Noted and agreed. It will take some time before some land-owners decide to proceed with sales, and inevitably some will decide not to do so. The study aims to assess the implications once the market stabilises after falls in land values. The purpose of the study is to assess the economic viability and impact of the introduction of an affordable housing policy at various percentage interventions. The starting point for this has to assume that the beacon sites will indeed be used for residential purposes so that that the impact on financial and/or economic viability at varying

	percentage levels can be assessed. If the resultant residual land value as a consequence of the affordable housing policy renders alternative uses more viable, then it is likely that the market will pursue alternative uses, always assuming of course that consent for those alternative uses would be forthcoming.
Dwelling mix and densities are vitally important to this study. The removal of cash and capital from the industry, the disappearance of investors, and the lower Loan to Value ratios all militate against apartment schemes. Also, townhouses are very likely to be resisted as a consequence of them generally being a dwelling purchased as a consequence of not being able to purchase a traditional house. Now, we are seeing those who have a deposit and can proceed able to purchase traditional properties, with townhouses being maligned due to their perceived compromised form of living. The consequences of this, are that homebuilders are likely to veer back towards being housebuilders. This will alter densities in a move back towards between 25 and 35 dph on all but the most urban and small sites.	It is important that the study tests a range of densities and this is reflected in range of beacon sites. It should be noted in this context that the timeframe for the Core Strategy DPD is 15 years. There may well be variations in the types of scheme that the market finds attractive over that period.
The base scenario is very unlikely to return and should therefore be discounted as irrelevant. The test should be done where we are at the time. What we could assume, with a leap of faith and suspension of reality, is that there is such a thing as a residual land value. After we deduct profit and costs from revenue we are left with a hypothetical value assuming competition among willing buyers who have the ability to buy the land. I think it is fair to say that we do not currently have such a market. However, in the interests of practicality, the HBF is willing to take that leap to convert RLV into land value. However, in doing so, it should be noted that sites requiring significant upfront investment or sites with current business use should be considered fragile as homebuilders are likely to avoid these because the benefits of any deferred payments would be lost.	It is acknowledged that a return of the base scenario in the short-term is very unlikely. However, it should be borne in mind that the Core Strategy looks ahead over a period of 15 years. Within that time frame it is quite probable that the base scenario will return. The study has acknowledged this point and has examined alternative scenarios in considerable detail.
As of October 2008, prices had fallen by 15% as an average. Although some members are suggesting it was already 25% average	It is acknowledged that variations in price reductions exist on a site by site and region by region basis. By their very nature, quoted

on their sites by that time.	"average" statistical data will encompass a range of figures both above and below this level. However, the development of the model as part of this study addresses this by showing the impact of a range of reductions in sales prices at the levels quoted to demonstrate the likely impact on economic viability.
Your third scenario, if to be a more robust 'worst case'(!) scenario should be 30% fall. Some members have even suggested that you go as far as 35% to reflect the Capital Economic predictions.	Scenarios have been modelled at 15% and 25% reductions respectively. The position at 30% and 35% levels this position can be extrapolated.
The sentence after the three bullet points should have the word 'not' inserted between 'schemes' and 'to be viable'.	Noted.
We would suggest changing the figures in the first bullet point from 5% to 0% and from 25% to 20% to reflect the emerging policy.	Nil affordable provision has been modelled.
You may wish to consider discount from open market value in perpetuity as a simple mechanism for delivering affordable housing relative to the prevailing market, particularly in a climate where RSLs have no appetite for intermediate shared ownership.	The financial implications are likely to be similar to shared ownership, assuming that the purchase prices are to be affordable and the model provides for genuine retention of the discount in perpetuity.
We have mentioned the importance of densities and find that most of the sites in the table need density revision not only because of the current market but also appear incorrect as a baseline notwithstanding the current trends.	The model is capable of adapting and changing development densities on a site by site basis as dictated by different developers, the likely differing market conditions and market demand at different points in time.
Developers reserve the ability to propose alternative mixes at planning application stage, and if applicable, argue the affordable/ viability case on the market mix prevailing at that time.	Acknowledged.
1 bed properties should not be considered in the affordable mix unless the council and local RSLs are prepared to accept them, or they can be provided through discount from OMV	A range of house types have been modelled to allow for possible changes in demand and taste over time.
We can understand that the model was developed to advise EP, but the use of EP quality standards for space is not policy and will therefore skew the report. It is acceptable to apply them to beacon sites which are known to have HCA or associated quango involvement such as North Shore	We have adopted HCA Price and Quality standards in an attempt to identify a nationally understood baseline position for the purpose of financial modelling. Adoption of these standards is becoming more widespread and indeed where sites are likely to involve an RSL, then they too are also adopting these standards.
If the EP (HCA) quality and price standards are used, then the cost per	We are satisfied that the selling prices reflect market values for

metre should remain the same but the revenue per metre should fall so that the actual selling price is more or exactly reflective of the equivalent standard sized houses.	properties of the sizes quoted.
Intermediate is generally 60% of OMV. Social rented needs to be more scientific than 50% of OMV. This should be applied properly in relation to social rent multipliers and varied according to open market prices attainable on each beacon site. It could be as low as 25% which at 80% of the tenure, could have major impact on the viability. It may be preferable to fix social rented property values at what they are in Stockton.	This point has been covered above. The assumptions used aim to capture the average position, rather than extreme cases which appear to be referenced here.
We would wish to have input to the costs of the Code for Sustainable Homes and the costs of Lifetime Homes	The study prepared on behalf of CLG "Cost Analysis of the Code for Sustainable Homes – Final Report", July 2008 has been used as a datum and reference point for the purpose of this exercise.
Please give details on the 30 /70 split for the hard/soft landscaping calculation. Is it gross or net, are gardens and roads allowed for?	The 30% / 70% split is applied to the gross area of the site, but nets off the footprint area of the residential dwellings to give a "siteworks" area. The ratio of hard to soft landscaping will obviously vary from site to site, developer by developer and between rural and urban locations. Soft landscaped areas would include gardens, external public space / common areas and any are of the site considered "undevelopable". Hard landscaped areas would include driveways, pathways, roads and pavements.
Where is road construction allowed for – how is it calculated?	See above.
Where are overheads accounted for?	Overheads are assumed to be incorporated across construction preliminaries and within the allowance for development profit.
As stated above, please let us be involved in the estimation of abnormal costs for the beacon sites. This should include anticipated estimates / actual costs for known s278 works off site. These costs must be taken into account as they affect availability and achievability	The beacon sites are nominal sites so estimates of abnormal costs are not possible. The approach is to calculate viability independently of abnormal costs. If a developer contends that there are abnormal costs then this will be taken into account at the planning application stage.
We would like to see a breakdown schedule for the averaging of £767 per plot from the Council s106 monies please	SMBC to provide?
Some members are suggesting 6.5% is too low for finance costs.	Finance charges are likely to fluctuate over the time period envisaged

Interest receivable on positive balances is irrelevant. Contingency should be 5%	by this policy. Finance charges at this level are a stated “assumption” that can be varied to suit the circumstances at the time each individual planning consent is considered. Finance charges on any positive cash balances are included to reflect the potential opportunity cost. Contingency has now been included at 5%.
The team should consider carefully the Councils application checklist to estimate professional/ consultancy fees	The estimate is considered to be broadly appropriate.
Has the team considered how to account for the Community Infrastructure Levy – is this to equal the s106 allowance?	No allowance for the Community Infrastructure Levy has been included at this stage – only a £767 allowance per dwelling for S.106 costs. The model can accommodate any required future changes in this approach.
Rates of sale are very important. The model should allow for greater preliminaries where build and sales rates are slower due to fixed costs. In major urban areas we are seeing best rates of circa 0.6 per week and worst rates of 0.15 in secondary and tertiary locations. These reflect sensible ‘market’ discounting in line with the methodology rather than fire sale behaviour.	Acknowledged. A stated rate of sale of 4 dwellings per month is adopted as a baseline position for modelling purposes. Variations on this rate have then been modelled as scenarios to establish the likely impact on economic viability.
Homebuilders invariably calculate and declare margin based on approximately 15% of revenue rather than 15% on costs (build and land) as stated in the report. This importantly gives a different margin (and residual land value) result.	There are varying viewpoints on this approach. For the purpose of this exercise we have adopted the following definition for profit “the increase in wealth that an investor has from making an investment, taking into consideration all costs associated with that investment including the opportunity cost of capital”. We have therefore adopted profit as a percentage of cost – but the model is also capable of identifying a return on sales revenue.
The Beacon Sites tables need to be revised in light of all of the above. We believe the land values given in the table are optimistic even for late 2007. Once our recommended changes are built into the model and methodology we would welcome the opportunity to be involved again, perhaps getting into more detail on a site-by-site basis.	Amendments have been made to the beacon sites table in view of the comments made. There has been further consultation with representatives of the HBF on specific issues.
Given the importance of this work, and the danger of trying to capture the behaviour of the market in a model, shouldn’t the study be supplemented by contacting the owners/ developers of each of the	The beacon sites, although derived from actual sites (in the Strategic Housing Land Availability Assessment and planning application sites) are nominal sites. This approach is considered appropriate for a

beacon sites to ask them what they are intending with their land if the Core strategy is adopted as proposed?	strategic study.
Banks Development	
As developers we need flexibility and support. Flexibility will include the types of tenure. Until recently the HomeBuy model was most attractive to developers but at the moment it is unviable. It may come back in a revised and viable format. Intermediate Market Rent is being looked at more seriously as a format which may prove attractive in coming months.	Noted. A variety of affordable models are likely to emerge in response to varying market conditions. The model can be adapted to accommodate these approaches.
It has become apparent that the principle of “pepper potting” affordable units will militate against the delivery of units because it leads to a less efficient and attractive proposition for house builders and RSLs alike.	“Pepper potting” is considered to contribute towards the creation of mixed communities. It is recommended good practice.
It is important to recognise that restrictions on planning permissions which dictate the types of tenure or the level of distribution of affordable housing may become restrictions on delivery in a competitive sector. Section 106 agreements are intrinsically less viable than planning conditions because if circumstances change they are difficult, costly and time consuming to modify even if all the parties are agreed.	Comments were invited on the methodology for the affordable housing viability study. Stakeholders wishing to comment on the policies in the Stockton-on-Tees Core Strategy Publication Draft have had the opportunity to do so through the consultation exercise carried out by the Council which closed on 22 December 2008.
The Draft Core Strategy requires all new developments to achieve Code Level 4 after 2013 as well as Lifetimes Homes Standards. We believe that moving from Code Level 3 to Code Level 4 incurs an abnormal increase in costs of 20%. In marginal sites this could have the effect of removing site viability altogether. It will certainly restrict the potential for other forms of planning gain.	Refer to previous responses.
The three main scenarios (late 2007, 10% reduction and 25% reduction) do not reflect falls in the value of land itself which have been in the order of 50%. In fact this is obscured by the fact there are simply no buyers for most of the land due to the impact of the credit crunch on established house builders. We are uneasy with a methodology which looks for the “extent to which land values would need to fall for schemes to be viable”. As stated land owners have already suffered a	The point about land values is well made. The corresponding falls in land value as a consequence of falls in sales prices have been addressed as part of the modelling process. The detailed research confirms the view that a 15% reduction in house prices is likely to be reflected by a 50% fall in values. We are grateful for the comment on this point.

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<td>sharp decrease in land values. The idea that the market can be revived by reducing them further will meet landowner resistance. We do not believe that land value can be “expected to adjust” as suggested. Greenfield agricultural land could be developed at much lower levels but if this is allowed to happen then brownfield development will grind to a halt at a time when more land is becoming brownfield due to company closures.</td>
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<tr><th>Assumption</th><th>Our Comment</th></tr>
<tr><td>Build costs of £75/sqft</td><td>We would assume £100/sqft</td></tr>
<tr><td>Uplift applied to allow for “Code For Sustainable Homes” level 3 and subsequently for level 4 (which is required after 2013).</td><td>We would suggest uplift will cost 20% on build costs</td></tr>
<tr><td>No differential is applied between the build cost of private for sale dwellings and affordable dwellings</td><td>This is difficult to justify when affordable housing has different space standards</td></tr>
<tr><td>Landscaping</td><td>Not clear how this will affect the viability but in our experience assumptions in this area often exaggerate costs</td></tr>
<tr><td>No allowance normally made for abnormal ground conditions</td><td>This is acceptable in accounting terms but it will put brownfield land at a disadvantage</td></tr>
<tr><td>3% contingency</td><td>We would suggest 5%</td></tr>
<tr><td>Professional fees at 7% of build costs</td><td>We would suggest 8%</td></tr>
<tr><td>15% development costs deducted as a developers profit</td><td>This is about right</td></tr>
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<td>Build cost data for the house “structure” only (excluding siteworks and contingency) have been sourced from BCIS at 4th quarter 2007 levels. Separate allowances for siteworks and contingency typically take overall build costs to an average of around £105/sf

Code for Sustainable Homes – see previous response.

Space standards – no differential assumed between private and affordable. Allowances applied in line with HCA’s Price & Quality Standards

Landscaping – see previous response.

A scenario has been modelled that shows the impact on economic viability of abnormal costs at £100,000 per acre. For the purpose of this exercise, it is assumed that abnormal costs will be netted off the site value.

5% contingency adopted.

Professional fees will vary from site to site and from developer to developer depending on their respective complexity and approaches. 7% has been adopted as a datum for the purpose of this exercise.</td>
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