

AGENDA ITEM

**REPORT TO PLANNING
COMMITTEE**

8 APRIL 2009

**CORPORATE DIRECTOR OF
DEVELOPMENT AND
NEIGHBOURHOOD SERVICES**

**LOCAL DEVELOPMENT FRAMEWORK: ECONOMIC VIABILITY OF AFFORDABLE HOUSING
REQUIREMENTS IN STOCKTON**

SUMMARY

1. Arc4 were commissioned to test the economic viability of the affordable housing requirements set out in Policy CS8 in the Core Strategy DPD Publication Draft. The report (Economic Viability Of Affordable Housing Requirements In Stockton: Report for Stockton Borough Council) is contained in appendix 1 (agenda, Planning Committee 8th April 2009) The executive summary is attached at appendix 2. The methodology used was the subject of a consultation exercise with the development industry and a report detailing this is contained in appendix 3 (agenda, Planning Committee, 8th April 2009).
2. The report found that, in the still relatively favourable market conditions of late 2007, most sites would be viable with at a level of 15-20% affordable housing provision and with a tenure split of 80% social rent and 20% shared ownership.
3. The report recommended that the baseline policies for affordable housing provision should be established in the context of market conditions in late 2007. However, it also recommended that these policies would need to be applied with considerable flexibility whilst the market is in recession.
4. The report does not support a threshold for affordable housing provision that is below the national indicative figure of 15 dwellings. Therefore, it is recommended that the threshold for affordable housing provision in Policy CS8 be raised to 15 dwellings.

RECOMMENDATION

5. Members are recommended to: -
 - i) Note the content of the report

BACKGROUND

6. The Tees Valley Strategic Housing Market Assessment (published in January 2009) shows an annual affordable housing requirement for the Borough of 866 dwellings. In relation to the average annual dwelling requirement for the Borough stated in the Regional Spatial Strategy (557 dwellings) the annual requirement of 866 affordable dwellings equates to an affordable housing requirement of 155.5%.
7. In deciding the level at which to set regard also has to be had to advice in Planning Policy Statement 3: Housing (PPS3) which states that the target for affordable housing should also reflect an assessment of the likely economic viability of land for housing within the area. The PPS3 requirement has been reinforced by a Court of Appeal decision. The Court upheld an earlier legal decision, which found that the affordable housing requirement stated in the

Blyth Valley Core Strategy was not supported by an economic viability study, and is not, therefore, valid.

8. Policy CS8 in the Core Strategy DPD Publication Draft states “Affordable housing provision within a range of 15-20%, depending on the needs of specific areas, whether a site is brownfield or greenfield, will be required on site of 10 dwellings or more”. It further sets out in relation to tenure mix that “The mix of affordable housing to be provided will be negotiated on a site-by-site basis but the starting point for negotiations will be 20% intermediate and 80% social rented tenures...”
9. The target of 15-20% has been informed by an affordable housing viability exercise, which reviewed residential planning permissions that have been granted since 2004. This exercise showed that 15% affordable housing provision has been agreed (through Section 106 Agreements) on some brownfield sites, including those with significant costs such as remediation. Whilst considerable value is attached to this work, it is also recognised that additional value is to be gained from a more in-depth research exercise. Therefore, Arc4 have been commissioned to test the economic viability of affordable housing requirements in Stockton.

Approach of the Study

10. The study was based on fourteen notional sites, referred to as “beacon” sites. The “beacon” sites represented different sectors of the market and were informed by actual opportunities and real-world intelligence but should be taken as examples of a typical site rather than reflecting any specific site. This approach is considered best suited to informing strategic policy, which the study is designed to do. It is not designed to be a viability appraisal of specific sites and does not attempt to take into account site-specific factors that may arise on some sites such as flood risk, contamination, noise intrusion and the need for major highways improvements. Where relevant these factors will be taken into account at the planning application stage through officer negotiation.
11. It was essential to ensure that the study will be demonstrably robust in the event of the current house price volatility continuing, that is to say that its findings will not be rapidly invalidated by a continuing decline in house prices. In order to address this the Report modelled three main scenarios for property market conditions using the beacon sites. These were:
 - House prices and land values in late 2007 when the market was still relatively favourable. This is the “base” scenario.
 - A position that reflects about a year later, late 2008 with average 15% fall in prices.
 - A position reflecting a 25% fall in prices based on widely predicted further falls in house price falls
12. In addition the impact on economic viability of a number of specific scenarios was modelled. These included the following:
 - Affordable housing provision at 0, 5, 10, 15, 20 and 25% (the purpose of testing at 0% was to establish whether a site is economically developable at all, that is to say even with no affordable housing).
 - The introduction of Level 4 of the Sustainable Code for Homes (scheduled to be introduced in 2013).
 - Affordable housing tenure splits of 80/20 and 50/50 for social rented / shared ownership.

Consultation

13. The approach adopted for the study has been the subject of consultation with the development sector. A consultation paper was issued and three weeks given for responses.

There was feedback from one major RSL, from the HBF as a composite response, and from one other developer (Appendix 3). These responses resulted in detailed changes to the approach.

Findings of the Study

14. In the still relatively favourable market conditions of late 2007 most sites would be viable at a level of 15-20% affordable housing provision and with a tenure split of 80% social rent and 20% shared ownership. The viability of provision improves slightly if the tenure split is 50/50 and more sites become viable at 20% affordable housing provision.
15. The introduction of Level 4 of the Code for Sustainable Homes seems on present estimates to reduce the viability of development. A 10% affordable housing target may become the most that can reasonably be achieved on most sites.
16. The assessment of the effects of house price falls of 15% showed that 10% affordability provision would be achievable on most of the sites that remain economically developable and that 15% may be achievable on a minority of sites in higher value areas. This assessment assumes a 50% fall in land values and a 5% fall in building costs.
17. The assessment of the effects of house price falls of 25% showed that 5-10% affordability provision would be achievable on most of the sites that remain economically developable. This assessment assumes a 70% fall in land values and a 10% fall in building costs.

Arc4 Policy Advice

18. Arc4 provided policy advice based on the findings of the study. The following paragraphs are a summary of this advice:
19. As the market conditions will change during the currency of the Local Development Framework, the policies for affordable housing provision should be applicable to a broad range of house prices and land values.
20. The baseline policies for affordable housing provision should be established in the context of market conditions in late 2007. In those circumstances, a target of 15-20% affordable housing provision would be economically viable for most sites.
21. However, these policies will need to be applied with considerable flexibility whilst the forecast sale prices remain significantly below these late 2007 levels, otherwise housing development may be substantially discouraged.
22. It is not appropriate to set a planning policy for 2013 based on the forecast impact of the introduction of Level 4 of the Code for Sustainable Homes (a 10% affordable housing target may become the maximum that is reasonably achievable) as this forecast is subject to a number of significant uncertainties. This should be reviewed nearer the implementation date.

Implications

23. The report identifies that the Credit Crunch has had a major effect on the viability of sites and their ability to provide affordable housing, with Arc4 commenting that the policy on affordable housing will need to be applied more flexibly to accommodate these current financial constraints.
24. Policy CS8 in the Core Strategy DPD Publication Draft indicates that a lower amount of affordable housing will only be accepted where a robust justification is provided, which demonstrates that provision at the standard usually required would make the site unviable.

25. Negotiations for affordable housing will begin at 15-20% as identified within Policy CS8. Where this is challenged by a developer an 'open book approach' will be used. This approach has been used in the past to determine if information provided by a developer regarding a housing site is robust and a suitable affordable housing requirement agreed. A working group with representatives from spatial planning, development services and housing strategy will be set up in order to establish how this policy can be implemented.
26. The viability of inner urban regeneration sites is likely to be under the greatest pressure; this underlines the issues that certain sites will require specific assessment to establish how far affordable housing can be provided
27. Whilst the current economic climate persists the amount of affordable housing secured through the planning process may reduce considerable. This will have a knock on effect on the meeting of indicators such as NI 155: provision of affordable homes.

THE NEXT STEPS

28. Following consideration by planning committee the "Economic Viability Of Affordable Housing Requirements In Stockton Report" will be referred to Cabinet on 16 April 2009. The intention is for the document, together with the executive summary and the consultation report, to be published as part of the evidence base supporting the preparation of the LDF.

RECOMMENDATION

29. Members are recommended to:
 - i) note the content of the report

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Background Papers

Planning Policy Statement No 3: Housing
Economic Viability Of Affordable Housing Requirements In Stockton: Report for Stockton Borough Council
Economic Viability Of Affordable Housing Requirements In Stockton: Executive Summary
Economic Viability Of Affordable Housing Requirements: Summary of Consultation feedback and comments
Tees Valley Strategic Housing Market Assessment

Financial Implications

In order for the affordable housing policy in the Core Strategy DPD to be found sound through the Examination in Public process it has to be supported by robust and credible evidence and this is inclusive of evidence regarding the economic viability of affordable housing. There would be the potential for negative financial implications if the policy were not found to be sound. These could include the costs arising from delays to the LDF process and from meeting a High Court challenge.

Environmental Implications – None.

Community Safety Implications – None

Human rights Implications – The provision of the European Convention of Human Rights 1950 has been taken into account in the preparation of this report.

Ward and Ward Councillors – N/A.