

Economic Viability of Affordable Housing Requirements in Stockton

Executive Summary

1.0 Background and Purpose

1.1 This report has been prepared to advise Stockton Council on the economic viability of the proposed affordable housing requirements set out in the planning policies issued for consultation in October 2008.

1.2 The key policy CS8 in the Core Strategy DPD Publication Draft policy 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 sites of 10 dwellings or more. Figures lower than the standard requirement for a specific area will only be acceptable where robust justification is provided. This must demonstrate that provision at the standard requirement would make a site unviable”.

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 ... “

1.3 The Council had previously carried out viability work, which showed that 15% is achievable on brownfield sites including those with significant costs such as remediation. Whilst the Council attaches considerable value to this work it also recognises the additional value to be gained from a more in-depth research exercise. Therefore, the Council has commissioned this study.

2.0 Approach of the Study

2.1 Housing market conditions vary considerably between different parts of Stockton. To provide a balanced assessment, fourteen beacon sites were selected for the study. These draw on the likely range of typical sites with development potential, to provide a mix of location, size and market appeal. The sites are used as examples of a typical conditions rather than reflecting any particular site-specific issues.

2.2 The study looks at options for affordable housing provision as a part of the planning obligations, ranging from 0% to 25% of dwellings on each site. It also considers the effects on the viability of affordable housing provision of changing

market conditions. House prices have fallen by 15% from the levels in late 2007, and it is widely forecast they may fall by a further 10% (so 25% in total). A number of other possible variations in market conditions are also explored in the study, including the effects of introducing Level 4 of the Code for Sustainable Homes, the costs associated with brownfield sites and the phasing of payments for land purchase.

3.0 Conclusions

Affordable housing targets: viability at late 2007 baseline prices

3.1 In the still relatively favourable market conditions of late 2007, our assessment is that affordable housing provision, delivered through planning obligations, would be viable as follows: -

- with a tenure split of 80% social rent and 20% shared ownership: on most sites at a level of 15-20% affordable housing provision, and
- with a tenure split of 50/50: the viability of provision improves slightly, and more schemes would work at 20% affordable housing provision.

3.2 A review of the sensitivity of these targets to other potential factors shows that

- The introduction of Level 4 of the Code for Sustainable Homes seems likely 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. However, we do not consider it would be appropriate to set a planning policy for 2013 and beyond at this stage, based on this forecast, which is subject to a number of significant uncertainties. This should be reviewed nearer to the implementation date.
- The costs associated with brownfield land development could seriously affect viability. On some relatively pessimistic assumptions, we find that achievement of the proposed targets would be difficult. This arises because the full costs of remediation are sometimes not taken fully in account when land prices are being negotiated. The policy should, however assume that additional costs arising from brownfield sites are correctly taken into account in determining land prices.
- A delay in the phasing of payments for land purchase can significantly improve the economic viability of schemes. This highlights the potential for positive as well as negative impacts on viability.

Effect of reduced house price levels

3.3 At a 15% reduction in house price levels, we are estimating that land values will fall by 50%. At this level, two of the beacon sites would cease to be viable at all, unless big changes can be made in the development proposals. At a 25% reduction in price levels, we are estimating a 70% fall in land values. The impact is severe with 10 of 13 sites becoming non-viable.

- 3.4 We also considered the potential further effect of reductions in building costs due to the recession and a highly competitive market. It is uncertain how much reduction there may be, so we modelled 5% and 10% building reductions to match the two lower price scenarios. It is likely the greater reduction in prices and a deeper recession would result in a greater fall in building costs. If we assume these levels of reductions in costs occur, it would result in most sites still being viable for development.
- 3.5 In relation to the potential for affordable housing provision, these scenarios including reductions in building costs would probably mean that
- At the 15% house price reduction, a 10% affordability provision would be achievable on most of the sites that remain economically developable; 15% may be achievable on a minority of sites in higher value areas.
 - At the 25% house price reduction, affordable housing provision seems likely to be viable at a 5-10% level, but not for all sites.
- 3.6 We consider these scenarios with some allowance for reduced building costs, are probably the most plausible. They produce a model of a housing market where development would be able to proceed on most sites in Stockton, although certain higher density regeneration sites in the urban core no longer appear to be viable.

Overall policy advice

- 3.7 As the market conditions will change during the currency of the Local Development Framework, it will be desirable for the Council to have policies in place for affordable housing provision that are designed to apply to a broad range of house prices and land values. It also seems appropriate that the policies should be able to take advantage of positive market conditions, as existed in late 2007. Whilst the market is in recession, however, policies will need to be applied with considerable flexibility, otherwise housing development may be substantially discouraged.
- 3.8 We therefore suggest that
- The baseline policies for affordable housing provision should be established in the context of the market conditions in late 2007. In those circumstances, a target of 15-20% affordable housing provision would be economically viable for most sites.
 - There will need to be flexibility in applying this policy whilst the forecast sale prices for new houses remain significantly below these late 2007 levels. The commentary above has indicated how far lower house prices levels may reduce the potential to provide affordable housing.
 - The viability of inner urban regeneration sites is likely to under the greatest pressure; this underlines that certain sites are likely to need specific assessment to establish how far affordable housing can be provided.

Site thresholds

- 3.9 Our opinion on the level of the threshold for affordable housing targets is that there is not a strong argument for reducing the threshold below the national indicative figure (in PPS3) of 15 dwellings. We base this opinion on an assessment of the practical issues arising for smaller sites and the likely disincentive to new development this would cause.

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