

Isle of Wight Council

Housing Development Viability Testing Study

February 2008

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1. INTRODUCTION

1.1 Isle of Wight Council wishes to maximise the delivery of affordable housing to meet the Government's overarching housing policy goal "to ensure that everyone has the opportunity of living in a decent home, which they can afford, in a community where they want to live."

1.2 The Council has completed a Strategic Housing Market Assessment¹ which identifies a strong 'need' for affordable housing on the Island. The purpose of this study is to consider what level of affordable housing is deliverable, to inform the Council's affordable housing policy.

Context

1.3 National planning policies for housing provision are set out in the Government's *Planning Policy Statement 3: Housing (PPS3)*. This provides a framework for setting affordable housing policies.

¹ GVA Grimley (March 2007) *Isle of Wight Strategic Housing Market Assessment: Final Report*

1.4 *PPS3: Housing*² sets out that in Local Development Documents, Local Planning Authorities should:

- Set an overall (i.e. plan-wide) target for the amount of affordable housing to be provided.
- Set separate targets for social-rented and intermediate affordable housing where appropriate.
- Specify the size and type of affordable housing that is likely to be needed.
- Set out the range of circumstances in which affordable housing will be required.
- Set out their approach to seeking developer contributions to facilitate the provision of affordable housing.

1.5 PPS3 is clear **that the local affordable housing target should also reflect an assessment of the likely economic viability of land for housing within the area**, taking account of risks to delivery and **drawing on informed assessments of the likely levels of finance available for affordable housing**, including public subsidy and the level of developer contribution that can reasonably be secured.

² CLG (November 2006) *Planning Policy Statement 3: Housing*

1.6 It sets a **national indicative minimum site size threshold of 15 dwellings**, but states that **Local Planning Authorities can set lower minimum site size thresholds, where viable and practical**, including in rural areas. This can include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area. However **to support this, Local Planning Authorities will need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposes**, including their likely impact upon overall levels of housing delivery and creating mixed communities.

1.7 As the new definition of affordable housing excludes low-cost market housing, in deciding proportions of affordable housing to be sought in different circumstances, PPS3 advises Local Planning Authorities to also take account of the need to deliver low cost market housing as part of the overall housing mix.

1.8 PPS3 is also clear that in seeking developer contributions, the **presumption is that affordable housing will be provided on the application site** so that it contributes towards creating a mix of housing.

1.9 To summarise the implications of PPS3:

- Viability analysis is require to support a policy requiring affordable housing contributions from developments of below 15 units;
- There is potential for different proportions of affordable housing to be required in lower size bands, where viability is not jeopardised;
- The presumption is that affordable housing will be provided on site. An appropriate policy should, in our view, incentivise this.

Purpose

1.10 PPS3 provides a precise set of parameters for determining robust and deliverable local affordable housing policies. In light of these, the purpose of this Viability Testing Study is to explore the development economics of affordable housing provision. It assesses the implications of affordable housing policy options on the viability of residential development, including the potential to increase affordable housing targets, reduce site size thresholds and/or require a financial contribution to delivery of affordable housing.

1.11 Increasing affordable housing targets will impact on the value of land suitable for residential development. Reducing site size

thresholds at which affordable housing is required or requiring a financial contribution to affordable housing from sites which would previously not have had to make any contribution, will affect the value and viability of these sites.

1.12 This Study hence models the effect on land value (through residual valuation) of varying affordable housing policies.

1.13 It is important that revised affordable housing policies do not reduce the supply of land being brought forward for residential development.

1.14 Essentially, the Study must consider that if residential land values (the prices developers will offer to landowners) fall to low, the landowner may not sell the land, may continue with an existing use or may consider alternative uses of the land.

1.15 An appropriate policy must therefore strike a balance between increasing delivery of affordable housing, and maintaining incentives for landowners to release land and for developers to bring forward schemes. This will maximise affordable housing delivery. To stringent a policy stance risks deterring development activity, which may have the opposite affect in terms of reducing delivery of new market and affordable housing, worsening affordability.

Current Policy

1.16 Residential land values on the Isle of Wight will reflect the Council's current affordable housing policies.

1.17 The Council's current policy is for 30% affordable housing on developments of:

- Over 25 units in Newport
- Over 15 units in the other main towns
- Over 10 units in rural settlements of less than 3,000 population.

1.18 It has been delivering 16 – 17% of new housing provided as affordable housing, but with no rural affordable housing being delivered.

1.19 There are however a number of development coming forward and inflated land values for sites just below current thresholds.

Policy Aspirations

1.20 Isle of Wight Council wishes to increase its target for affordable housing provision from 30% to 35% to increase delivery of affordable housing to meet identified need; and to bring its target

in line with the regional target set out in the Regional Housing and Spatial Strategies.

- 1.21 In September 2007, the Council adopted its Housing Strategy 2007 – 2012. This set out the objective to ensure that every housing unit built on the Isle of Wight makes a contribution to delivering affordable and low cost housing to meet local housing need.
- 1.22 The Council is in the process of consulting with partners to agree an approach to achieve this. This involves consultation with statutory bodies, local organisations, landowners and developers.
- 1.23 The Council's current proposal is to require a contribution to affordable housing delivery from all new homes delivered, based upon a percentage of the sales values. The contribution will be made either by a capital payment to the Isle of Wight Council or from direct provision of affordable housing. Affordable housing units will be exempt.
- 1.24 The market value used to assess payments would be set using evidence of local house prices and mortgage valuations.

Report Purpose and Structure

- 1.25 The purpose of the Development Viability Testing Study is to test the Council's affordable housing policy proposals; and other potential alternative approaches to recommend an affordable housing policy which maximises affordable housing delivery whilst not stifling development viability.
- 1.26 The remainder of this report is structured as follows:
- Section 2 - Appraisal of Current Policy Options and Recommended Policy Approach
 - Section 3 - Value Testing Scenarios and Assumptions
 - Section 4 - Results and Analysis of Value Testing
 - Section 5 - Conclusions and Recommendations

2. RECOMMENDED POLICY APPROACH

- 2.1 Isle of Wight Council's key objective is to maximise the *delivery* of affordable housing on the Island.
- 2.2 In this section, we review the Council's proposed approach to affordable housing, based upon calculating on-site provision or payment in lieu based upon a percentage of the Gross Development Value (GDV) of the proposed development scheme. We appraise this against alternative approaches being taken forward by other local authorities across South East England.
- 2.3 Our conclusions are informed by research by GVA Grimley on reforming planning obligations for Central Government³.

³ ODPM (2004) *Reforming Planning Obligations: the Use of Standard Charges*

Incentivising On-Site Provision

- 2.4 A main plank of Government policy is to meet affordable housing provision 'in kind' on-site. This encourages the creation of mixed communities.
- 2.5 In our view, the Council's affordable housing policy should strongly incentivise the direct delivery of affordable housing on site. Financial contributions in lieu should be regarded as the exception rather than the rule. They should only be taken forward where there are sound planning reasons for doing so.
- 2.6 A financial contribution mechanism may encourage developers to argue for off-site provision. There are potential financial advantages to this, from a developers' perspective, as affordable housing can affect both the values achievable for the market housing on a scheme, and how quickly it sells.
- 2.7 There is a strong mixed communities case for promoting on-site delivery of affordable housing to achieve socially-mixed developments. In our view, the Council's proposed approach by talking in financial terms rather than in terms of the expectation of affordable units to be delivered, may promote contributions in lieu of direct provision.

2.8 A further practical question relates to where affordable housing would be delivered through the suggested approach. The Council and RSLs would have to acquire sites to deliver affordable housing on the Island. This might not promote mixed communities nor help to improve the delivery rates of affordable housing.

2.9 In conclusion, we are strongly of the view that the Council's policy should incentivise and give first credit to direct on-site affordable housing provision by developers. To achieve this it should set out its affordable housing requirements (in terms of percentage provision and tenure mix) and site size thresholds above which this will apply. This approach is consistent with that being adopted by other local authorities across the South East.

Using Financial Contributions

2.10 Even accepting the above approach, there may be some circumstances in which a financial contribution is sought. This could be for sites below established thresholds, or in exceptional circumstances where it is not appropriate or practical to require on-site delivery. We have hence considered how the financial contribution should be determined.

2.11 Firstly it is worth commenting that we are not aware of other local authorities that are pursuing an approach to calculating affordable housing contributions based upon a percentage of sales values.

2.12 The disadvantages of this approach are significant and include:

- There is a weak relationship between the proposed contribution and the impact of the development (which is what the contribution is aiming to mitigate).
- There is not an agreed mechanism for calculating gross development value or sales values. It is unclear for instance how you might take account of potential future variation in market conditions prior to implementation or practical completion; or on what basis to agree the sales values which could be achieved for the specific scheme proposes. As a consequence, there would be scope for argument between the develop/ landowner and the Council and a potential need for arbitration. This would be contrary to the objectives of speeding up the planning process and housing delivery.

2.13 In our view, the proposed approach provides considerable potential for debate and disagreement; which may be

counterproductive in terms of reducing the time and cost of negotiating the agreement on both sides.

2.14 The key advantage to the proposed approach is that it takes account of the differential economics of development for different sizes and types of development and at different locations across the Island. There is hence a connection with land value, profitability and the ability to pay.

2.15 On balance however, it is our view that a simple policy should be adopted based upon an affordable housing target, housing mix and site size thresholds; with the potential for differential targets to be applied for smaller sites to reflect viability.

2.16 Our recommended approach would be to implement a policy which:

- Set out clear site size thresholds above which affordable housing would be expected to be provided on site.
- Required potentially a lower level of provision or a contribution to affordable housing delivery below an established threshold.

2.17 This approach is consistent with the Council's aspiration to ensure that all new housing contributes to affordable housing. It

will also ensure that affordable housing is delivered, and in mixed developments.

2.18 We believe that this approach will maximise affordable housing delivered.

Viability Considerations

2.19 An assessment of financial viability is essential to determining a robust and credible affordable housing policy; to ensure that development is not deterred. It is however not possible to take account for every eventuality; hence allowance must be made for exceptional development costs and, where relevant, current use value. This influences how the policy should be applied.

2.20 Generally in higher value areas the cost of planning obligations is passed back to landowners, depending on the value of the prevailing existing use and amount of surplus value generated by the development scheme. The developers' return from risk and profit are largely unaffected.

2.21 Greenfield sites may be able to contribute more than brownfield, although for larger greenfield schemes there may be costly infrastructure requirements to support the scheme.

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- 2.22 In lower value areas, development is more likely to be deterred, because of the low return to the landowner and less prospect of uplift in property values to compensate the developer for the risk incurred. The ability of developers of small and medium sites in particular to pass the charge back to the landowner may be circumscribed, unless the developer is also either the landowner or future occupier.
- 2.23 Isle of Wight is one of the lower value areas in South East England. Average house prices in Q2 2007 on the Island were £162,750: 24% below the South East average and 6% below the national average. In this context, and recognising that most housing development is being brought forward by smaller, local housebuilders; we consider that development will be particularly sensitive to changes in the affordable housing policy.
- 2.24 The impact of planning obligations (including affordable housing and other infrastructure requirements) is magnified for smaller schemes, their viability being particularly sensitive. Smaller schemes are generally more expensive to develop on a per unit basis than larger ones. These cost differentials are not reflected in higher sales prices. Most practitioners also believe that smaller developments also have lower profit margins.
- 2.25 This supports the case for lower affordable housing contributions (either in kind or in lieu) from smaller sites to reflect their lower profitability.
- 2.26 There are also practical issues regarding affordable housing on smaller sites. This is particularly the case for social rented provision, with smaller numbers of affordable houses on individual sites often impractical from a management perspective. Intermediate housing may be more appropriate (and deliverable) in some circumstances.
- 2.27 The Council's policy will also need to take account of wider planning obligations costs (to fund/ deliver other infrastructure) and other factors which will increase development costs, including the proposed phased implementation of Code for Sustainable Homes Standards (impacting on build costs. These all impact upon viability.
- 2.28 In our view a reduction in land value resulting from the planning obligations package by up to 20% is acceptable to most developers or landowners and would not result in land being withheld and/ or the level of development being significantly affected.
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2.29 This does not mean that there is not potential to increase the 'capture' from planning obligations as property and land values rise. It does mean that a delicate balance is required in order to increase development contributions to delivering affordable housing; whilst ensuring that economic viability and incentives to bring sites forward are maintained.

3. VALUE TESTING SCENARIOS AND ASSUMPTIONS

Rationale

3.1 There are a range of issues which may affect the viability of residential development and land values. These include:

- **Proposed Development:** The size of the development site; together with the density and mix of dwellings proposed (both market and affordable);
- **Market Context/ Location:** The location of the development site; and the values which can be achieved from the sale of properties;
- **Build Costs:** including higher costs to achieve higher levels of environmental sustainability. The proposed phased implementation of the Code for Sustainable Homes will influence build costs;
- **Site Abnormals:** other costs associated with site assembly and remediation, servicing etc;

- **Affordable Housing Component:** The level of affordable housing to be provided; and the mix in terms of social rented and intermediate housing products; and different sizes of property;
- **Grant Funding Availability:** The availability of Social Housing Grant;
- **Other Infrastructure Costs:** including for transport, education, highways, environmental mitigation etc. which are negotiated through planning obligations;
- **Developer Profit:** the expectations of the developer regarding the level of profit they expect to achieve, which may be influenced by the degree of risk associated with the development scheme.

3.2 The Study is not intended to assess all eventualities. It is particularly intended to test the impact on residual land values of:

- **Reducing site size thresholds** (requiring affordable housing contributions from sites which wouldn't previously have contributed); and
- **Increasing the affordable housing requirement** from 30% to 35%.

3.3 The key variables considered are:

- Residential sales values and how these vary by location across the Island (as these affect the Gross Development Value (GDV)). We have defined **low, middle and high 'value zones' across the Island** to represent the test a range of market circumstances.
- The affect of varying the affordable housing requirement. We consider the affect on residual land value of **0% affordable housing** (as some sites are not subject to an affordable housing requirement at present); **30% affordable housing** (the current policy position); and **35% affordable housing** (the proposed policy position).
- **Site size:** we have considered schemes of 6, 10, 15 and 25 dwellings. This approach is based upon **testing the impact on viability at the margins** at which the impacts of potential changes in thresholds will be first felt.

3.4 The assessment standardises a number of other factors to disaggregate the specific impact of these key variables. These are considered later in this section.

Defining the Vale Zones

3.5 Current sales values across the Island have been assessed using data from Hometrack supplied by the Isle of Wight Council for each of the housing sub-markets defined in the Council's Strategic Housing Market Assessment. The sub-markets cover each of the key towns and the rural areas.

3.6 This information has been used to define three value bands. These low, middle and high value bands reflect the range of variance in house prices in different locations across the Island.

3.7 GVA Grimley has also researched the values for new-build properties from Rightmove. This has confirmed that while new-build values for similar products do differ, the degree of variance is not substantial. The degree of variance is reflected in the defined value bands.

3.8 The table below establishes typical house prices for different property sizes in each of the value bands.

Figure 1: House Price Assumptions

	1-bed Flat	2-bed Flat	2-bed House	3-bed Flat	3-bed House	4-bed House
Low	£100,000	£122,000	£155,000	£160,000	£185,000	£260,000
Middle	£110,000	£135,000	£175,000	£200,000	£205,000	£275,000
High	£115,000	£140,000	£190,000	£215,000	£235,000	£350,000

Source: Hometrack/ GVA Grimley

- 3.9 From our own research on the size of properties and values being achieved together with consultation with local estate agents, we have defined typical values on a per sq.m basis for new-build development in each of the value zones. These have informed the appraisals.
- 3.10 Our appraisals are houses are based upon £2250 per sq.m in the higher value zone; £2000 per sq.m in the middle zone; and £1850 in the low value zone. For flats we have assumed £1500 per sq.m in the low value zone; £1750 in the middle zone; and £2000 per sq.m in the high value zone.

Development Schemes Considered

- 3.11 It was agreed with the Isle of Wight Council that a set of 'notional' rather than actual development schemes would be considered. The benefits of this are in terms of being able to standardise the results, reducing the range of variables to disaggregate the specific impacts of the affordable housing policy options examined.
- 3.12 We are clear that in reality there are a range of site specific circumstances and abnormal costs which may affect viability in some circumstances. However these can only effectively be examined on a case-by-case basis.
- 3.13 The site size thresholds examined aim to test the impact of viability at current or potential threshold levels. The key differences between 9 and 10 unit schemes; or between 14 and 15 unit schemes under current conditions are reflected in the 0% and 30% affordable housing scenarios for 10 and 15 unit schemes. In our view, there is likely to be a negligible difference in the site size between these.
- 3.14 Figure 2 below hence presents the matrix of options considered.

Figure 2: Options Matrix

Number of Units	% Affordable Housing	Value Band
6	0%	Low
10	30%	Medium
15	35%	High
25		

Key Assumptions

- 3.15 Residual development appraisal is used to calculate the residual land value for each of the notional schemes. The key variables are the site size; percentage of affordable housing; and value zone.
- 3.16 The appraisals are based on the following key assumptions:
- **Developer Profit** – assessed at 15% profit on cost. This is consistent with the approach adopted elsewhere of ‘testing the margins’;

- **Build Costs** - £775 per sq.m for market units on smaller sites (6 and 10 units) and £750 per sq.m for larger sites (15 and 25 units). Build costs for the affordable units are £650 per sq.m for houses and £725 per sq.m for flats (without grant). These costs are consistent with the implementation of Code for Sustainable Homes Level 4.
- **Site Preparation:** We assume that the site is cleared and construction can begin at Month 1, making no allowance for site preparation costs. The appraisals hence assume no exceptional land conditions.
- **Marketing, Promotion and Cashflow** – We have assumed promotion costs of £1,000 per private unit (beginning at Month 3). For sites with 6 units we have assumed it takes 4 months to construct and sell; for 10 units we assume 8 months; for 15 units, 12 months; and for 25 units, 16 months. Direct sales are expected to begin at the end of the build period.
- **Affordable Housing** – We have assumed under a ‘no grant’ scenario that the developer recovers the build costs for social rented units (under a free and serviced land scenario). For intermediate units we have assumed that 67.5% of Open Market Value (OMV) is recovered by the

developer. A 60:40 split between social rented and shared ownership is assumed across the board.

- **Housing Mix and Density:** We have assumed development of houses on sites of 6, 10 and 15 units; and of a mix of houses and flats on schemes of 25 dwellings. We have assumed a standard development density of 30 dwellings per hectare.
- **Other Section 106 Costs** – Other Section 106 costs are included equating to £6,000 per unit. This is informed by discussions with Isle of Wight Council.

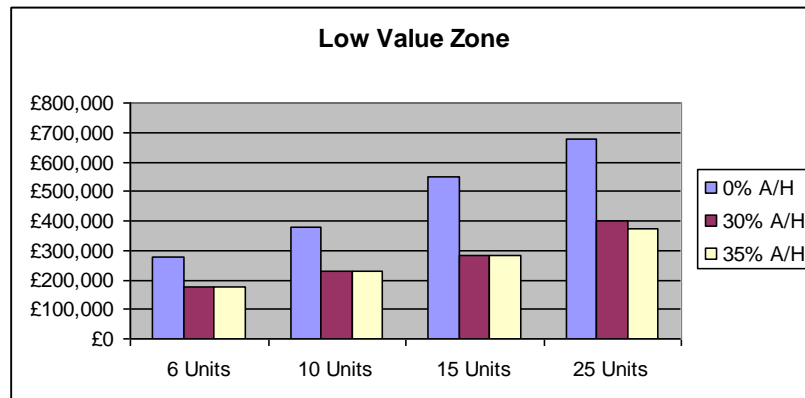
The appraisals have been prepared for indicative purposes. This advice is exempt from the current RICS Appraisal and Valuation Standards and as such cannot be regarded as, or relied upon, as a valuation.

4. VALUE TESTING RESULTS

4.1 This section presents the results of the value-testing process. Figure 5 overleaf indicates residual site values calculated for each of the options considered. It also shows reductions in land values resulting from potential changes to the affordable housing policy for different site sizes.

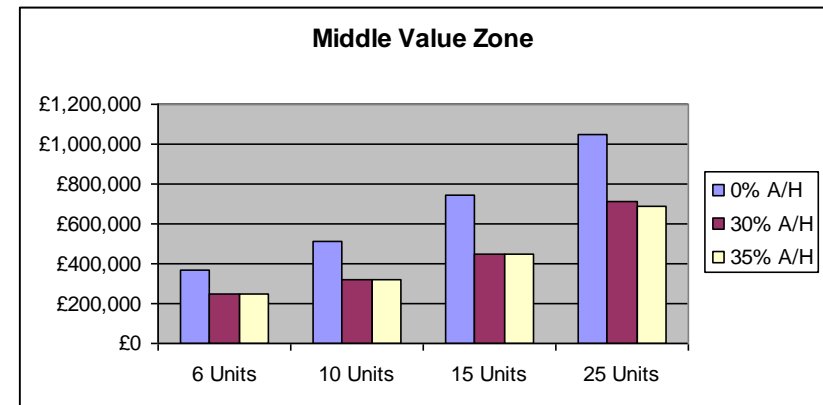
4.2 Figure 3 below indicates the absolute reductions in residual land values in the low value zone.

Figure 3: Reductions in Land Values as a result of Affordable Housing Policy Options – Low Value Areas



4.3 Figures 4 and 6 provide a comparable analysis for the middle and high value zones.

Figure 4: Reductions in Land Values as a result of Affordable Housing Policy Options – Middle Value Areas



4.4 The level of reduction in land value as a result of a requirement for affordable housing is higher in the higher value areas. In proportional terms, as market strength increases the proportional reduction in value reduces.

Figure 5: Residual Site Values for Options Considered

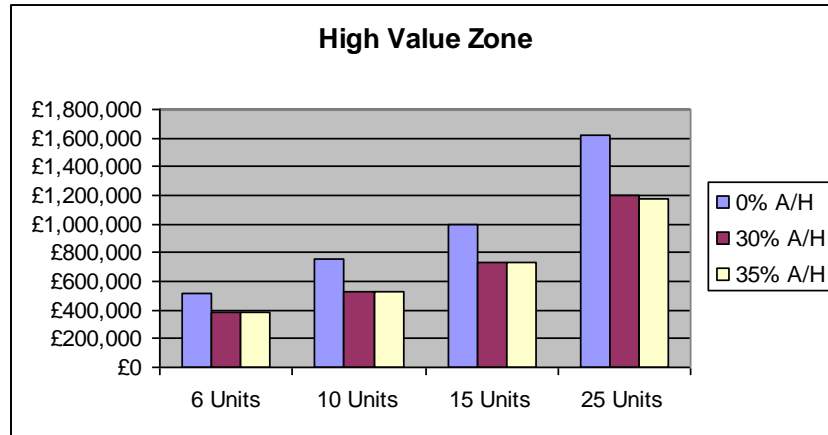
		Site Value	Site Value	Site Value	% Reductions in Site Value		
Low Value Areas		0% A/H	30% A/H	35% A/H	0% - 30%	30%-35%	0% - 35%
15% Profit On Costs	6 Units	£275,000	£175,000	£175,000	-36%		-36%
15% Profit On Costs	10 Units	£380,000	£230,000	£230,000	-39%		-39%
15% Profit On Costs	15 Units	£550,000	£285,000	£285,000	-48%		-48%
15% Profit On Costs	25 Units	£680,000	£400,000	£375,000	-41%	-6%	-45%

		Site Value	Site Value	Site Value	% Reductions in Site Value		
Middle Value Areas		0% A/H	30% A/H	35% A/H	0%- 30%	30%-35%	0%-35%
15% Profit On Costs	6 Units	£365,500	£245,000	£245,000	-33%		-33%
15% Profit On Costs	10 Units	£515,000	£320,000	£320,000	-38%		-38%
15% Profit On Costs	15 Units	£745,000	£445,000	£445,000	-40%		-40%
15% Profit On Costs	25 Units	£1,050,000	£715,000	£690,000	-32%	-3%	-34%

		Site Value	Site Value	Site Value	% Reductions in Site Value		
High Value Areas		0% A/H	30% A/H	35% A/H	0-30%	30-35%	0-35%
15% Profit On Costs	6 Units	£515,000	£385,000	£385,000	-25%		-25%
15% Profit On Costs	10 Units	£760,000	£530,000	£530,000	-30%		-30%
15% Profit On Costs	15 Units	£1,000,000	£730,000	£730,000	-27%		-27%
15% Profit On Costs	25 Units	£1,615,000	£1,200,000	£1,175,000	-26%	-2%	-27%

Note: Appraisals have been prepared for indicative purposes only. This advice is exempt from the current RICS Appraisal and Valuation Standards and as such cannot be regarded as, or relied upon as a valuation.

Figure 6: Reductions in Land Values as a result of Affordable Housing Policy Options – High Value Areas



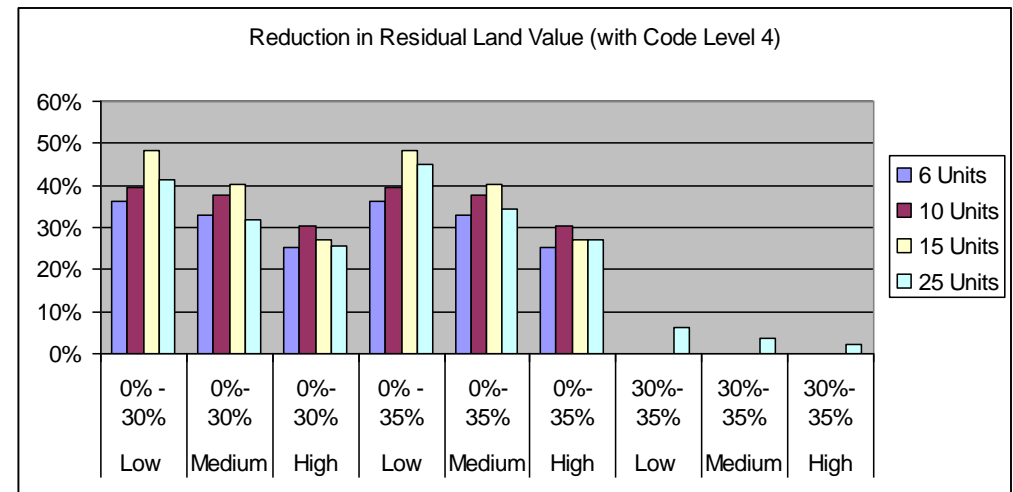
4.5 Figure 7 compares the reduction in residual land values in proportional terms across the value zones for a move from 0 – 30% affordable housing requirement; from 0% - 35% affordable housing; and from 30% to 35%.

4.6 The proportional reduction in land value reduces from the low to middle; and middle to higher value areas.

4.7 The difference on land value resulting from a move from 30% to 35% is fairly small.

4.8 However there is a significant impact on land value of requiring affordable housing provision on sites which would previously not have had to contribute. While the impact is less pronounced in the higher value areas, in each case it results in a reduction in land value of over 25% (rising in the low value areas to up to 40% in some circumstances). Requiring 30% or 35% affordable housing provision in these circumstances would result, in our view, in an unacceptable reduction in site values with the potential to deter sites being brought forward.

Figure 7: Proportional Reduction in Land Value for Scenarios Examined (with Code Level 4)



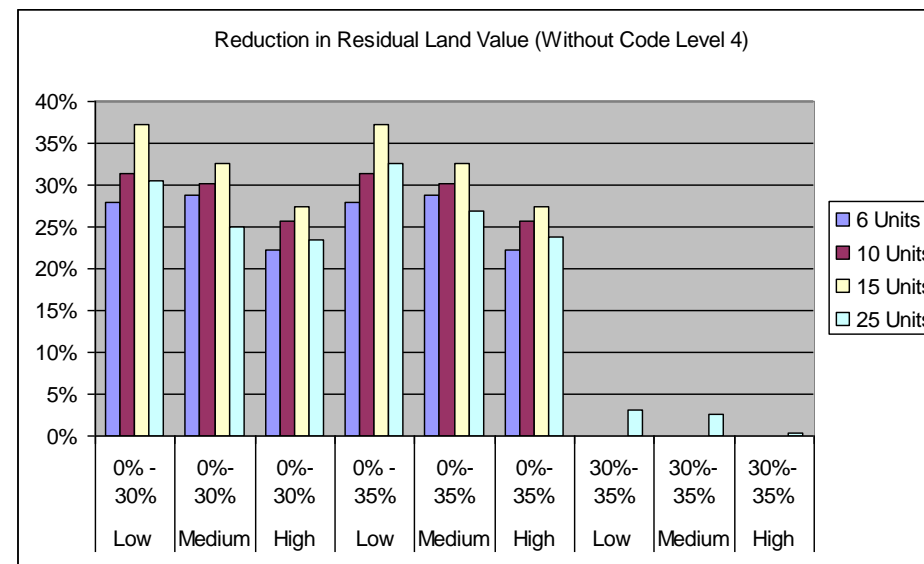
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- 4.9 A move from 30% to 35% affordable housing has a limited impact on land values for small sites. In many cases this does not result in a requirement for any additional affordable housing units. On sites of 20 units or more, our view is that the impact is insufficient to stop developers and landowners bringing sites forward for development.
- 4.10 The key impact of potential changes to affordable housing policies being considered will be for development sites which have previously not been subject to affordable housing requirements. This is sites of < 25 units in Newport; of < 15 units in the other main towns; and < 10 units in rural settlements.
- 4.11 It is appropriate to implement the national indicative site size threshold of 15 dwellings for the urban areas. There is no rationale reason why a higher threshold should be retained in Newport. However some initial flexibility may be necessary for an initial period, in circumstances where sites have been purchased or a development scheme prepared on the basis of the current policy position. An 'open book' approach should be adopted with developers.
- 4.12 In our view, the proportional reduction in land value shown for sites of < 15 units in urban areas and < 10 units in rural settlements which have previously not had to contribute to affordable housing is however sufficient to deter development activity on the Island. This is based on a 30% or 35% affordable housing requirement, higher build costs resulting from delivery to Code for Sustainable Homes Level 4 standards, a 60:40 split between social rent and intermediate housing, and a £6,000 contribution per dwelling for other S106 costs. The aggregate impact of these needs to be assessed in terms of the financial viability of development. Our research indicates that this aggregate impact of these is too high.
- 4.13 To summarise, a policy which required 35% affordable housing with a 60:40 split between social rented and intermediate housing is appropriate on developments of 15 units or more in the towns on the Island, and of 10 units or more in the rural settlements.
- 4.14 We would recommend that further thought is given to affordable housing policies on sites below these thresholds, and that this is tested further with local landowners and developers.
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4.15 In our view a more nuanced approach is required to smaller sites which reflects viability concerns, and possibly (in its implementation) the geography of values on the Island. Policy options for the Council include:

- Requiring less affordable housing provision (e.g. 20%)
- Using Social Housing Grant to support delivery;
- Being less stringent in the application of the Code for Sustainable Homes;
- Providing more intermediate housing as opposed to social rented.

4.16 To demonstrate the possible impact of these, we have re-run our analysis assuming that build costs equate to current standards, without requiring Code Level 4 to be achieved. The results are shown in Figure 8 below. Comparing this to Figure 7, the reduction in residual land value is marginally less in all cases.

Figure 8: Proportional Reduction in Land Value for Scenarios Examined (without Code Level 4)



4.17 In our view, **the Section 106 package** – i.e. affordable housing and other S106 costs towards education, transport, health etc. – **should not result in a reduction in land value of more than 20%.**

- 4.18 From a practical perspective for these smaller sites (< 10 dwellings in rural areas; < 15 dwellings in urban areas) it may not be sensible to provide social rented homes. From our experience, the appetite of an RSL to take on 1 - 3 units from a small scheme may be limited. This reflects practical issues in managing these units.
- 4.19 However it may be possible to deliver intermediate housing products particularly housing for discounted market sale or rent in perpetuity in these circumstances. This would meet policy objectives for increasing the delivery of affordable housing, whilst potentially being easier to implement and reflecting considerations relating to the effective and efficient management of social housing stock.

5. CONCLUSIONS AND RECOMMENDATIONS

- 5.1 We would recommend an affordable housing policy which requires 35% affordable housing on-site for schemes of 15 or more dwellings in urban areas and 10 or more dwellings in rural settlements of over 3,000 population. A 60:40 split between social rented and intermediate housing is an appropriate starting point for negotiations.
- 5.2 In our view, the Council should do away with the distinction in threshold in Newport, bringing this into line with the national indicative minimum threshold of 15 units.
- 5.3 We can also see a case for requiring on-site provision below these thresholds. However we would question this can be achieved with a 60:40 social rent to intermediate tenure mix. It could possibly be achieved, in our view, for intermediate housing specifically for provision solely of intermediate market sale or intermediate market rent products. Alternatively the Council could require a financial contribution in lieu of on-site affordable housing.
- 5.4 An appropriate policy for these smaller sites really needs to consider some of the practical issues in securing delivery of affordable housing or a cash contribution in lieu. We have strong reservations as to whether it is practical for a six dwelling scheme to deliver affordable housing.
- 5.5 The Council should, in our view, consider the scale of development being brought forward on smaller sites on the Island. It should assess the practicalities in terms of the time and resource costs incurred by the Council, RSLs and developers in securing affordable housing provision on sites below the 15/10 dwelling thresholds. While some of these can be addressed through preparation of standardised S106 documents and in requiring an applicant to contribute to the Council's cost in negotiating provision, the political dimension (in terms of impact on small local developers) also needs to be taken into account.
- 5.6 The Council may wish to consider in some circumstances the use of a cascade agreement whereby a S106 agreement provides the flexibility to amend the affordable housing requirement or mix dependent on whether grant funding can be secured and the appetite of RSLs to take-on dwellings. English Partnerships and ATLAS have published research on the use of cascade agreements which may be of use.

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- 5.7 In implementing its affordable housing policy, the Council should be mindful of the site location, the availability of grant funding, the impact of the Code for Sustainable Homes standards on build costs, and other S106 requirements in negotiating affordable housing provision.
- 5.8 It should also continue to consider practical issues including that some sites have been owned for considerably periods or have historic outline consents. For an initial period, where a developer has negotiated site acquisition on the basis of the current affordable housing policy, some flexibility may be required in applying the new policy. This can be addressed through negotiation case-by-case. A similar approach will be required to address abnormal site costs.
- 5.9 In the case of brownfield sites, the Council will need to take into account the existing use value in negotiating affordable housing policies. If the affordable housing requirement reduces the site value for the development scheme proposed below that for the existing use, the site will not come forward. In these circumstances, the Council will need to exercise flexibility in applying its affordable housing policies, tailoring its requirements to specific circumstances on a case-by-case basis.