Final Report

Affordable Housing Viability Assessment

EXECUTIVE SUMMARY

Report for the consideration of
North East Lincolnshire Council:

This document does not constitute Council Policy

December 2009

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EXECUTIVE SUMMARY

This summary first seeks to briefly introduce and explain the study. Then, after providing a quick overview of the main study findings, it outlines the main recommendations.

For detailed information on the study methodology, results and conclusions it will be necessary to refer to the full text and appendices which follow this summary.

Background and Introduction

1 In the process of considering and developing its planning-led affordable housing policies North East Lincolnshire Council commissioned Adams Integra to study the workability of various potential policy positions – in terms of likely impact on residential development viability.

2 The Government’s key statement on planning for housing, Planning Policy Statement 3 (PPS3), requires local authorities to enable the bringing forward a suitable, balanced housing mix including affordable housing. It confirms the well established route for the principles of seeking integrated affordable housing within private market housing developments. It encourages local authorities to make best use of this approach bearing in mind their local markets and circumstances. As a part of this, PPS3 also requires local authorities to consider development viability when setting policy targets for affordable housing. The PPS3 definition of affordable housing is set out in Appendix IV to this study as well as within the appendices to PPS3. These definitions have been used throughout this study.

3 This commission was therefore made against the backdrop of PPS3, in the context of building the evidence base for, and considering the affordable housing content of, Core Strategy Policies for the Council’s LDF.

4 The study is to be considered as part of and alongside the Council’s developing wider evidence base, including that on the local housing market and housing needs; and information on the range of site sizes and types which are likely to come forward. It is required to review policy options and recommend suitable policy positions from a viability point of view.

5 Maintaining the viability (in this sense meaning the financial health) of residential development schemes is crucial to ensuring the release of sites and thus a continued supply of housing of all types. The study addresses only affordable housing which is required to be provided within market housing schemes under the existing established approach of setting site size thresholds (point(s) at which the affordable housing policy is triggered) and proportions of affordable housing to be sought at those points.
The study is based on carrying out a large number of developer type appraisals. These use well established and standard residential development practice 'residual land valuation' techniques to approximate the sum of money which will be left for land purchase once all the development costs, including profit requirements, are met (hence the term residual land value – ‘RLV’). The study methodology is settled and tested, having been used in a wide range of local authority locations for this purpose.

We vary the affordable housing assumptions across the range of appraisals and the outcomes to inform our judgements on the likely workability of various policy positions from a viability viewpoint. Having fixed development costs and profit requirements within a given appraisal, we can see the impact on development viability caused by variations in the amount and type of affordable housing. Two of the key ingredients to ensuring viable development are sufficient land value created by a development (relative to existing or alternative use values; or perhaps to an owner’s particular circumstances) and adequate developer's profit in terms of risk reward.

Affordable housing impacts development viability principally because it provides a reduced level of revenue to the developer compared with market level sales values.

North East Lincolnshire Property Market and Viability Findings

Before commencing modelling Adams Integra researched the local residential property market to inform a range of appraisal assumptions which we then adopted. The research also helps to help set the context for considering the outcomes. The information is included within our Property Values Report, which is to be found at Appendix III to the full study document.

We have seen a range of values on reviewing the overall (resale property dominated) market and the new build housing market. The pricing of typical new build property locally seemed to show less variation across the Borough than the overall market picture suggested. The new build values did not always fit well with the perceptions and overall market indicated picture of values patterns.

In terms of value levels and viability issues, we picked up no clear basis for evidencing distinct policy positions in terms of varying affordable housing proportions for different areas across the Borough - without creating unduly complex policy. It is possible, however, that wider evidence base considerations could point to distinctions in policy detail between areas or settlement types.

At the time of the study, the local market broadly reflects the type of conditions which have been and are being experienced on a national basis.
The market is a very uncertain one in which funds for property development and purchase at both commercial and domestic levels are much less readily available than in relatively recent times (as per the well reported “credit crunch”). Property sales volumes are very markedly down, although have showed some degree of recovery in recent months. Over the Autumn and Winter 2008/9 period this lack of activity was seen to flow through more significantly to sales values than had been seen earlier in 2008. Values fell month on month over that period and into early Spring 2009, more sharply than previously. It is fair to say that we have seen a degree of stabilisation since.

It is simply not possible to predict the future direction of the market, however. Since around March 2009, we have started to pick up on a greater variety of messages about the market, with more positive sentiment being reported by The Royal Institution of Chartered Surveyors (RICS), agents, building societies and others. Recent Land Registry House Price Index information reports a more stable picture as its overview, with most regions seeing steady house price increases again.

While there are certainly some signs of market improvement as we have moved through 2009 and seen activity levels pick up to a degree, overall we regard these as mixed messages still. As above, a balanced view of the various market signs and reporting must be taken. There are a number of prominent commentators currently saying that the more recent period of house price stability and gains has been because lack of supply has protected prices; rather than because of a significant improvement in finance availability and terms; or in confidence levels. Only time will tell how these conditions will play out in the coming period.

Given the long-term nature of the LDF, the study also envisages a variety of scenarios including a more stable, active housing market stimulated by a better functioning lending climate, which will again begin to feed a more normal level of market and therefore development activity. This has been explored through varying appraisal assumptions which cover a wide range of property values, given that those are the key driver of the RLV calculations and therefore the likely viability outcomes.

The results of our study show that viability of development in the Borough is varied. This is because we have considered a wide range of values; including (particularly at the low end) values that are currently lower than most we have seen through our widespread viability work. At best the results here might be described as mixed; the overall tone of house prices and therefore the RLVs those produce is low relative to most of our wider work. The Council will need to monitor the local market as, if there is further decline, values will be seen at lower levels more frequently.
17 However, the values at the middle to upper parts of the range we have studied suggest scope for those schemes in particular to deliver meaningful proportions of affordable housing alongside wider planning obligations. This finding will also be relevant to the current lower value scenarios as those are considered in light of a range of market conditions over time, including market improvements.

18 In our view the current economic downturn should not be the only factor that determines policy positions. Housing need is worsening and those same economic conditions are most likely to be adding to the needs trend (with consequent job losses, weak earnings growth and lack of suitable finance acting against the improved affordability which should be seen through reduced house prices). The Council needs to prioritise the provision of affordable rented homes. We can support a target tenure mix, overall, of not more than 75% affordable rent /25% intermediate tenure.

19 In setting strategic policy, the Council will seek a balance between the opposing tensions of housing need and viability. It will not be viable to provide the levels of affordable housing that the needs evidence justifies. On the other hand, strategic affordable housing targets which were reduced too far with recent and current market characteristics (rather than longer term market variety) as a sole driver would not go far enough to contribute towards addressing need when the delivery scope improves.

20 Whilst we have to consider the recent and current market conditions as a factor in coming to our recommendations, those are very likely to change in some way over short periods of time in relation to the planning timeframe being considered through the LDF. We do not consider that it is appropriate or realistic to set strategic policies and targets based on a snapshot of current market features alone. Following such an approach could mean regularly varying those policies and targets with varying market conditions. That could lead to requirements that are uncertain and to potential inequities – the approach needs to create certainty and clarity of expectations on a more stable basis.

21 When considering delivery based on challenging targets, particularly in the short-term as policy expectations change and while we have difficult market conditions, it is vital that the Council continues to apply policy with flexibility where needed. As a part of this, the Council may need to prioritise planning obligations or other requirements within overall objectives and targets.

22 Given the level of need and type of site supply (the role of smaller sites locally) the Council is also considering widening its approach by bringing within the policy scope a wider set of, or potentially all, schemes which include an element of residential development. This would be part of looking for a reasonably market sensitive but still sufficiently challenging approach.
Having stated within this study that smaller sites are no more or less viable than larger ones (i.e. site size in itself is not a determinant of viability), we consistently recommend the application of modest or reduced target proportions to smaller sites which are currently outside the affordable housing policy scope. In North East Lincolnshire’s case this means sites of fewer than 15 dwellings, in the event the policy scope is expanded to capture such schemes.

This is related to the points we make about the very significant first-time impact of policy in such situations; and to how development value tends to reduce the smaller the scheme so that it may become more marginal compared with existing/competing land use values.

Should the Council review the role of smaller sites, we consider that there would be scope for it to look at various options around this, including potentially a form of sliding scale approach, relating to the various threshold points and proportion (%) combinations, as well as to the potential role of a financial contributions approach within this.

Our recommendations are summarised below, and set out at Chapter 5. The wider options are also discussed in the report Conclusions, Chapter 4.

Quick overview of main outcomes

A tone of viability results which we have described as mixed at best, driven overall by what we consider to be a relatively low tone of house price levels in North East Lincolnshire.

Values do vary, however. Stronger values driving better RLVs are also seen in the Borough. It is relevant to consider what role that a more mixed picture of values and residential scheme viability could play in supporting affordable housing and other planning obligations, when a more strategic, longer term view is taken of the market and how it could influence varying price levels.

It is important to stress that affordable housing requirements are not the single cause of the less favourable results – the influence of recent market conditions on already modest local house price levels is arguably a bigger factor at the current time. We can see this through some of the no (0%) affordable housing results being poor.

An affordable housing target of 20% is recommended as an appropriate headline position.

We consider that this would certainly be suitable for application to schemes of 15 or more dwellings across the Council’s plan area – as a simple, single target approach Borough-wide for those sites, to give maximum clarity. This
would respect the range and blurring of values levels, and thus viability conditions, seen. It could be applied as a straightforward substitution for the Council’s current target of 30%, leaving the 15 threshold unchanged. However, there are other options which could be considered in our view.

32 We have not seen enough evidence of a distinct or readily definable picture that points towards a range of area specific targets for the Borough instead. Furthermore, from the information available, the value patterns appear to be less clear still, when looking at new build property rather than at overall (resales dominated) market prices. New build housing in lower value areas can provide a different offer there, not necessarily following existing values.

33 In viability terms we strongly suggest that affordable housing targets for universal application locally should not be set at more than 20%. Affordable housing provision is not just about numbers. It will continue to be about the optimum provision that can be delivered in each specific set of circumstances – looking at dwelling and tenure mix, design and quality, making sure that there is not an over-reliance on social housing grant, etc. Whilst the level of need is acknowledged, the type of provision is another factor that means not over-stretching the proportions sought, in our view.

34 The Council proposes to target affordable housing tenure mix at 75% affordable rented, 25% intermediate. A target tenure mix no higher than this can be supported, as strategic approach, subject to scheme specific viability and funding availability aspects which the study discusses; i.e. not always applied rigidly but as a measure for site specifics to be discussed against.

35 For potential future policy consideration where there may be scope to consider lowering the affordable housing policy threshold, this study has also investigated the potential for sites beneath the current 15 dwellings threshold to contribute towards meeting affordable housing needs.

36 If consideration is to be given to including schemes below 15 dwellings within the policy scope, then the Council could consider a target of no more than 20% affordable housing as applicable to schemes in the size range 5 to 14 dwellings; with scope also to select varying threshold points within that range depending on wider evidence as well. A lower 10% target proportion could potentially be applied to the very smallest sites (particularly of fewer than 5 dwellings) in the event those are to come within the policy scope. The Council could consider either a combination of on-site and financial contributions routes, an on-site route at any point from 5+, or using the financial contributions approach on a wider range of schemes.

37 From a viability viewpoint these areas could be a workable potential addition to the policy scope, as a part of developing an equitable approach overall. A target proportion of 10% might usefully play a role in respecting the
sensitivities on the very smallest sites (especially of fewer than 5 dwellings), if those are to be part of this picture. In any event, target proportions within the range 10% to 20% (whether direct provision or affordable housing equivalent in the case of financial contributions) are recommended if the threshold is to be lowered from its current point. A sliding scale of requirements must fit together logically overall, and this factor may influence the shaping of any policy detail that may be developed for the smallest sites.

38 When considering financial contributions, the same type of target approach would be needed, with carefully judged payment levels and (as with on-site provision) negotiated solutions as appropriate. A strategy would need to be in place for the use of the contributions; and transparent monitoring records kept of the sums collected and committed to local affordable housing provision.

39 At this strategic level overview for policy development, unfortunately it is simply not possible to provide the Council with definitive “cut-off” points (in terms of affordable housing proportion and other details) at which individual schemes would definitely be viable and would go ahead; or conversely where viability would be compromised to the degree that development would not take place. Site specifics will influence viability on individual sites.

40 Where viability issues arise and are justified, a flexible approach to policy application may be needed. This could include discussing the areas of affordable housing dwelling mix, proportion and tenure mix; as well as numbers rounding and likely grant availability. The affect of these factors will need to be considered together, to arrive at solutions based on the combination of that works best for delivery in the particular circumstances. In exceptional circumstances where on-site affordable housing would not support sustainable communities’ aims as well as an off-site route, the use of financial contributions in lieu (calculated to exact proportions and used in lieu of either part or whole provision) could be considered amongst the options – including on larger sites.

41 These represent challenging but appropriate targets when viewed in the context of a potentially wide range of future market conditions. They are not pitched purely with current market conditions in mind, and in our view any affordable housing target (i.e. set at any level) might often be viewed as challenging given the tone of local values in current and likely short-term future uncertain market conditions.

42 In all cases, policy positions should be framed as clearly worded targets, to provide clarity for stakeholders and a basis for a continued practical, negotiated approach which has regard to viability matters. Current market conditions will tend to mean increased emphasis on this type of approach. Any application of policy to smaller sites will require particular flexibility in any event, bearing in mind that other factors alongside the headline proportion
(e.g. dwelling type, numbers rounding, etc) can be equally if not more influential on viability.

43 This key point about the flexible, practical application of policy always applies, as the study emphasises, but it is likely to be in focus particularly in the market conditions we have seen both locally and nationally during the study period. These factors, combined with the modest local values and wider development costs and obligations, suggest that this is a particularly sensitive stage for the Council’s consideration of this area of policy development.

44 In our view, however, the required flexibility and practical approach need not reduce the effectiveness of targets, taking a longer term more strategic view.

45 In arriving at its final policy selections, the Council should also have regard to its wider information and evidence base and requirements – for example on affordable housing needs, type of site supply, wider planning objectives and obligations.

46 These potential policy positions are suggested not in isolation of other scheme costs and planning obligations, but have been arrived at through including assumptions on a range of other matters as set out in the study detail – the key ones being:

   a. Planning infrastructure obligations.
   b. Code for Sustainable Homes level 3 attainment – all dwellings (with future direction of Code requirements also considered).
   c. Renewable energy requirements (cost allowances added to above Code assumptions, bearing in mind the overlaps that exist between the two).

47 Nevertheless, finally confirmed policies and accompanying text together with other guidance (e.g. provided through SPD) should acknowledge the relevance of viability and the adaptable approach that will be applied to policy application.

48 The Council will need to monitor affordable housing delivery progress and experiences alongside its wider housing delivery monitoring work. Review periods and potential delivery contingency measures should be considered, linked to those monitoring processes.

49 The report picks up on all of these aspects, and points to consideration by the Council based around the following points:
Key recommendations summary

50 A challenging but appropriately pitched headline policy target set at a single clear position of 20% affordable housing applicable to scheme sizes 15 or more dwellings, Borough-wide.

51 Support for an affordable housing tenure mix which will necessarily reflect the priority needs for affordable rented homes. 100% affordable rented is unlikely to be deliverable with regularity and we envisage a tenure mix of up to 75% affordable rent to 25% intermediate – as an overall target, not for rigid application site by site, and subject to scheme specific viability.

52 These are envisaged as being suitable for Borough-wide positions to create clarity and simplicity of the approach and expectations, although the Council could pursue varying policy within the parameters we have set out if needs and site supply patterns dictated a different approach between settlement types, for example.

53 To develop unambiguous policy wording which sets clear targets as a basis for the practical, negotiated approach, acknowledging the relevance of site viability.

54 To build on the approach through SPD or other means of guidance to set out detail which explains and helps stakeholders through the local approach, and helps to guide expectations.

55 Acknowledging current market conditions in particular, but also moving forward, the Council will need to approach site by site delivery in an adaptable way - reacting to viability issues which may arise.

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would respect the range and blurring of values levels, and thus viability conditions, seen. It could be applied as a straightforward substitution for the Council’s current target of 30%, leaving the 15 threshold unchanged. However, there are other options which could be considered in our view.

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sensitivities on the very smallest sites (especially of fewer than 5 dwellings), if those are to be part of this picture. In any event, target proportions within the range 10% to 20% (whether direct provision or affordable housing equivalent in the case of financial contributions) are recommended if the threshold is to be lowered from its current point. A sliding scale of requirements must fit together logically overall, and this factor may influence the shaping of any policy detail that may be developed for the smallest sites.

38 When considering financial contributions, the same type of target approach would be needed, with carefully judged payment levels and (as with on-site provision) negotiated solutions as appropriate. A strategy would need to be in place for the use of the contributions; and transparent monitoring records kept of the sums collected and committed to local affordable housing provision.

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42 In all cases, policy positions should be framed as clearly worded targets, to provide clarity for stakeholders and a basis for a continued practical, negotiated approach which has regard to viability matters. Current market conditions will tend to mean increased emphasis on this type of approach. Any application of policy to smaller sites will require particular flexibility in any event, bearing in mind that other factors alongside the headline proportion
(e.g. dwelling type, numbers rounding, etc) can be equally if not more influential on viability.

43 This key point about the flexible, practical application of policy always applies, as the study emphasises, but it is likely to be in focus particularly in the market conditions we have seen both locally and nationally during the study period. These factors, combined with the modest local values and wider development costs and obligations, suggest that this is a particularly sensitive stage for the Council’s consideration of this area of policy development.

44 In our view, however, the required flexibility and practical approach need not reduce the effectiveness of targets, taking a longer term more strategic view.

45 In arriving at its final policy selections, the Council should also have regard to its wider information and evidence base and requirements – for example on affordable housing needs, type of site supply, wider planning objectives and obligations.

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b. Code for Sustainable Homes level 3 attainment – all dwellings (with future direction of Code requirements also considered).
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52 These are envisaged as being suitable for Borough-wide positions to create clarity and simplicity of the approach and expectations, although the Council could pursue varying policy within the parameters we have set out if needs and site supply patterns dictated a different approach between settlement types, for example.

53 To develop unambiguous policy wording which sets clear targets as a basis for the practical, negotiated approach, acknowledging the relevance of site viability.

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Executive Summary ends
North East Lincolnshire Council

Final Report

Affordable Housing Viability Assessment

EXECUTIVE SUMMARY

Report for the consideration of
North East Lincolnshire Council:

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December 2009

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For detailed information on the study methodology, results and conclusions it will be necessary to refer to the full text and appendices which follow this summary.

Background and Introduction

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2 The Government’s key statement on planning for housing, Planning Policy Statement 3 (PPS3), requires local authorities to enable the bringing forward a suitable, balanced housing mix including affordable housing. It confirms the well established route for the principles of seeking integrated affordable housing within private market housing developments. It encourages local authorities to make best use of this approach bearing in mind their local markets and circumstances. As a part of this, PPS3 also requires local authorities to consider development viability when setting policy targets for affordable housing. The PPS3 definition of affordable housing is set out in Appendix IV to this study as well as within the appendices to PPS3. These definitions have been used throughout this study.

3 This commission was therefore made against the backdrop of PPS3, in the context of building the evidence base for, and considering the affordable housing content of, Core Strategy Policies for the Council’s LDF.

4 The study is to be considered as part of and alongside the Council’s developing wider evidence base, including that on the local housing market and housing needs; and information on the range of site sizes and types which are likely to come forward. It is required to review policy options and recommend suitable policy positions from a viability point of view.

5 Maintaining the viability (in this sense meaning the financial health) of residential development schemes is crucial to ensuring the release of sites and thus a continued supply of housing of all types. The study addresses only affordable housing which is required to be provided within market housing schemes under the existing established approach of setting site size thresholds (point(s) at which the affordable housing policy is triggered) and proportions of affordable housing to be sought at those points.
The study is based on carrying out a large number of developer type appraisals. These use well established and standard residential development practice ‘residual land valuation’ techniques to approximate the sum of money which will be left for land purchase once all the development costs, including profit requirements, are met (hence the term residual land value – ‘RLV’). The study methodology is settled and tested, having been used in a wide range of local authority locations for this purpose.

We vary the affordable housing assumptions across the range of appraisals and the outcomes to inform our judgements on the likely workability of various policy positions from a viability viewpoint. Having fixed development costs and profit requirements within a given appraisal, we can see the impact on development viability caused by variations in the amount and type of affordable housing. Two of the key ingredients to ensuring viable development are sufficient land value created by a development (relative to existing or alternative use values; or perhaps to an owner’s particular circumstances) and adequate developer's profit in terms of risk reward.

Affordable housing impacts development viability principally because it provides a reduced level of revenue to the developer compared with market level sales values.

North East Lincolnshire Property Market and Viability Findings

Before commencing modelling Adams Integra researched the local residential property market to inform a range of appraisal assumptions which we then adopted. The research also helps to help set the context for considering the outcomes. The information is included within our Property Values Report, which is to be found at Appendix III to the full study document.

We have seen a range of values on reviewing the overall (resale property dominated) market and the new build housing market. The pricing of typical new build property locally seemed to show less variation across the Borough than the overall market picture suggested. The new build values did not always fit well with the perceptions and overall market indicated picture of values patterns.

In terms of value levels and viability issues, we picked up no clear basis for evidencing distinct policy positions in terms of varying affordable housing proportions for different areas across the Borough - without creating unduly complex policy. It is possible, however, that wider evidence base considerations could point to distinctions in policy detail between areas or settlement types.

At the time of the study, the local market broadly reflects the type of conditions which have been and are being experienced on a national basis.
The market is a very uncertain one in which funds for property development and purchase at both commercial and domestic levels are much less readily available than in relatively recent times (as per the well reported “credit crunch”). Property sales volumes are very markedly down, although have showed some degree of recovery in recent months. Over the Autumn and Winter 2008/9 period this lack of activity was seen to flow through more significantly to sales values than had been seen earlier in 2008. Values fell month on month over that period and into early Spring 2009, more sharply than previously. It is fair to say that we have seen a degree of stabilisation since.

13 It is simply not possible to predict the future direction of the market, however. Since around March 2009, we have started to pick up on a greater variety of messages about the market, with more positive sentiment being reported by The Royal Institution of Chartered Surveyors (RICS), agents, building societies and others. Recent Land Registry House Price Index information reports a more stable picture as its overview, with most regions seeing steady house price increases again.

14 While there are certainly some signs of market improvement as we have moved through 2009 and seen activity levels pick up to a degree, overall we regard these as mixed messages still. As above, a balanced view of the various market signs and reporting must be taken. There are a number of prominent commentators currently saying that the more recent period of house price stability and gains has been because lack of supply has protected prices; rather than because of a significant improvement in finance availability and terms; or in confidence levels. Only time will tell how these conditions will play out in the coming period.

15 Given the long-term nature of the LDF, the study also envisages a variety of scenarios including a more stable, active housing market stimulated by a better functioning lending climate, which will again begin to feed a more normal level of market and therefore development activity. This has been explored through varying appraisal assumptions which cover a wide range of property values, given that those are the key driver of the RLV calculations and therefore the likely viability outcomes.

16 The results of our study show that viability of development in the Borough is varied. This is because we have considered a wide range of values; including (particularly at the low end) values that are currently lower than most we have seen through our widespread viability work. At best the results here might be described as mixed; the overall tone of house prices and therefore the RLVs those produce is low relative to most of our wider work. The Council will need to monitor the local market as, if there is further decline, values will be seen at lower levels more frequently.
However, the values at the middle to upper parts of the range we have studied suggest scope for those schemes in particular to deliver meaningful proportions of affordable housing alongside wider planning obligations. This finding will also be relevant to the current lower value scenarios as those are considered in light of a range of market conditions over time, including market improvements.

In our view the current economic downturn should not be the only factor that determines policy positions. Housing need is worsening and those same economic conditions are most likely to be adding to the needs trend (with consequent job losses, weak earnings growth and lack of suitable finance acting against the improved affordability which should be seen through reduced house prices). The Council needs to prioritise the provision of affordable rented homes. We can support a target tenure mix, overall, of not more than 75% affordable rent/25% intermediate tenure.

In setting strategic policy, the Council will seek a balance between the opposing tensions of housing need and viability. It will not be viable to provide the levels of affordable housing that the needs evidence justifies. On the other hand, strategic affordable housing targets which were reduced too far with recent and current market characteristics (rather than longer term market variety) as a sole driver would not go far enough to contribute towards addressing need when the delivery scope improves.

Whilst we have to consider the recent and current market conditions as a factor in coming to our recommendations, those are very likely to change in some way over short periods of time in relation to the planning timeframe being considered through the LDF. We do not consider that it is appropriate or realistic to set strategic policies and targets based on a snapshot of current market features alone. Following such an approach could mean regularly varying those policies and targets with varying market conditions. That could lead to requirements that are uncertain and to potential inequities – the approach needs to create certainty and clarity of expectations on a more stable basis.

When considering delivery based on challenging targets, particularly in the short-term as policy expectations change and while we have difficult market conditions, it is vital that the Council continues to apply policy with flexibility where needed. As a part of this, the Council may need to prioritise planning obligations or other requirements within overall objectives and targets.

Given the level of need and type of site supply (the role of smaller sites locally) the Council is also considering widening its approach by bringing within the policy scope a wider set of, or potentially all, schemes which include an element of residential development. This would be part of looking for a reasonably market sensitive but still sufficiently challenging approach.
23 Having stated within this study that smaller sites are no more or less viable than larger ones (i.e. site size in itself is not a determinant of viability), we consistently recommend the application of modest or reduced target proportions to smaller sites which are currently outside the affordable housing policy scope. In North East Lincolnshire’s case this means sites of fewer than 15 dwellings, in the event the policy scope is expanded to capture such schemes.

24 This is related to the points we make about the very significant first-time impact of policy in such situations; and to how development value tends to reduce the smaller the scheme so that it may become more marginal compared with existing/competing land use values.

25 Should the Council review the role of smaller sites, we consider that there would be scope for it to look at various options around this, including potentially a form of sliding scale approach, relating to the various threshold points and proportion (%) combinations, as well as to the potential role of a financial contributions approach within this.

26 Our recommendations are summarised below, and set out at Chapter 5. The wider options are also discussed in the report Conclusions, Chapter 4.

**Quick overview of main outcomes**

27 A tone of viability results which we have described as mixed at best, driven overall by what we consider to be a relatively low tone of house price levels in North East Lincolnshire.

28 Values do vary, however. Stronger values driving better RLVs are also seen in the Borough. It is relevant to consider what role that a more mixed picture of values and residential scheme viability could play in supporting affordable housing and other planning obligations, when a more strategic, longer term view is taken of the market and how it could influence varying price levels.

29 It is important to stress that affordable housing requirements are not the single cause of the less favourable results – the influence of recent market conditions on already modest local house price levels is arguably a bigger factor at the current time. We can see this through some of the no (0%) affordable housing results being poor.

30 An affordable housing target of 20% is recommended as an appropriate headline position.

31 We consider that this would certainly be suitable for application to schemes of 15 or more dwellings across the Council’s plan area – as a simple, single target approach Borough-wide for those sites, to give maximum clarity. This
would respect the range and blurring of values levels, and thus viability conditions, seen. It could be applied as a straightforward substitution for the Council’s current target of 30%, leaving the 15 threshold unchanged. However, there are other options which could be considered in our view.

32 We have not seen enough evidence of a distinct or readily definable picture that points towards a range of area specific targets for the Borough instead. Furthermore, from the information available, the value patterns appear to be less clear still, when looking at new build property rather than at overall (resales dominated) market prices. New build housing in lower value areas can provide a different offer there, not necessarily following existing values.

33 In viability terms we strongly suggest that affordable housing targets for universal application locally should not be set at more than 20%. Affordable housing provision is not just about numbers. It will continue to be about the optimum provision that can be delivered in each specific set of circumstances – looking at dwelling and tenure mix, design and quality, making sure that there is not an over-reliance on social housing grant, etc. Whilst the level of need is acknowledged, the type of provision is another factor that means not over-stretching the proportions sought, in our view.

34 The Council proposes to target affordable housing tenure mix at 75% affordable rented, 25% intermediate. A target tenure mix no higher than this can be supported, as strategic approach, subject to scheme specific viability and funding availability aspects which the study discusses; i.e. not always applied rigidly but as a measure for site specifics to be discussed against.

35 For potential future policy consideration where there may be scope to consider lowering the affordable housing policy threshold, this study has also investigated the potential for sites beneath the current 15 dwellings threshold to contribute towards meeting affordable housing needs.

36 If consideration is to be given to including schemes below 15 dwellings within the policy scope, then the Council could consider a target of no more than 20% affordable housing as applicable to schemes in the size range 5 to 14 dwellings; with scope also to select varying threshold points within that range depending on wider evidence as well. A lower 10% target proportion could potentially be applied to the very smallest sites (particularly of fewer than 5 dwellings) in the event those are to come within the policy scope. The Council could consider either a combination of on-site and financial contributions routes, an on-site route at any point from 5+, or using the financial contributions approach on a wider range of schemes.

37 From a viability viewpoint these areas could be a workable potential addition to the policy scope, as a part of developing an equitable approach overall. A target proportion of 10% might usefully play a role in respecting the
sensitivities on the very smallest sites (especially of fewer than 5 dwellings), if those are to be part of this picture. In any event, target proportions within the range 10% to 20% (whether direct provision or affordable housing equivalent in the case of financial contributions) are recommended if the threshold is to be lowered from its current point. A sliding scale of requirements must fit together logically overall, and this factor may influence the shaping of any policy detail that may be developed for the smallest sites.

38 When considering financial contributions, the same type of target approach would be needed, with carefully judged payment levels and (as with on-site provision) negotiated solutions as appropriate. A strategy would need to be in place for the use of the contributions; and transparent monitoring records kept of the sums collected and committed to local affordable housing provision.

39 At this strategic level overview for policy development, unfortunately it is simply not possible to provide the Council with definitive “cut-off” points (in terms of affordable housing proportion and other details) at which individual schemes would definitely be viable and would go ahead; or conversely where viability would be compromised to the degree that development would not take place. Site specifics will influence viability on individual sites.

40 Where viability issues arise and are justified, a flexible approach to policy application may be needed. This could include discussing the areas of affordable housing dwelling mix, proportion and tenure mix; as well as numbers rounding and likely grant availability. The affect of these factors will need to be considered together, to arrive at solutions based on the combination of that works best for delivery in the particular circumstances. In exceptional circumstances where on-site affordable housing would not support sustainable communities’ aims as well as an off-site route, the use of financial contributions in lieu (calculated to exact proportions and used in lieu of either part or whole provision) could be considered amongst the options – including on larger sites.

41 These represent challenging but appropriate targets when viewed in the context of a potentially wide range of future market conditions. They are not pitched purely with current market conditions in mind, and in our view any affordable housing target (i.e. set at any level) might often be viewed as challenging given the tone of local values in current and likely short-term future uncertain market conditions.

42 In all cases, policy positions should be framed as clearly worded targets, to provide clarity for stakeholders and a basis for a continued practical, negotiated approach which has regard to viability matters. Current market conditions will tend to mean increased emphasis on this type of approach. Any application of policy to smaller sites will require particular flexibility in any event, bearing in mind that other factors alongside the headline proportion
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December 2009

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However, the values at the middle to upper parts of the range we have studied suggest scope for those schemes in particular to deliver meaningful proportions of affordable housing alongside wider planning obligations. This finding will also be relevant to the current lower value scenarios as those are considered in light of a range of market conditions over time, including market improvements.

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In setting strategic policy, the Council will seek a balance between the opposing tensions of housing need and viability. It will not be viable to provide the levels of affordable housing that the needs evidence justifies. On the other hand, strategic affordable housing targets which were reduced too far with recent and current market characteristics (rather than longer term market variety) as a sole driver would not go far enough to contribute towards addressing need when the delivery scope improves.

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Given the level of need and type of site supply (the role of smaller sites locally) the Council is also considering widening its approach by bringing within the policy scope a wider set of, or potentially all, schemes which include an element of residential development. This would be part of looking for a reasonably market sensitive but still sufficiently challenging approach.
23 Having stated within this study that smaller sites are no more or less viable than larger ones (i.e. site size in itself is not a determinant of viability), we consistently recommend the application of modest or reduced target proportions to smaller sites which are currently outside the affordable housing policy scope. In North East Lincolnshire’s case this means sites of fewer than 15 dwellings, in the event the policy scope is expanded to capture such schemes.

24 This is related to the points we make about the very significant first-time impact of policy in such situations; and to how development value tends to reduce the smaller the scheme so that it may become more marginal compared with existing/competing land use values.

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26 Our recommendations are summarised below, and set out at Chapter 5. The wider options are also discussed in the report Conclusions, Chapter 4.

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28 Values do vary, however. Stronger values driving better RLVs are also seen in the Borough. It is relevant to consider what role that a more mixed picture of values and residential scheme viability could play in supporting affordable housing and other planning obligations, when a more strategic, longer term view is taken of the market and how it could influence varying price levels.

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31 We consider that this would certainly be suitable for application to schemes of 15 or more dwellings across the Council’s plan area – as a simple, single target approach Borough-wide for those sites, to give maximum clarity. This
would respect the range and blurring of values levels, and thus viability conditions, seen. It could be applied as a straightforward substitution for the Council’s current target of 30%, leaving the 15 threshold unchanged. However, there are other options which could be considered in our view.

32 We have not seen enough evidence of a distinct or readily definable picture that points towards a range of area specific targets for the Borough instead. Furthermore, from the information available, the value patterns appear to be less clear still, when looking at new build property rather than at overall (resales dominated) market prices. New build housing in lower value areas can provide a different offer there, not necessarily following existing values.

33 In viability terms we strongly suggest that affordable housing targets for universal application locally should not be set at more than 20%. Affordable housing provision is not just about numbers. It will continue to be about the optimum provision that can be delivered in each specific set of circumstances – looking at dwelling and tenure mix, design and quality, making sure that there is not an over-reliance on social housing grant, etc. Whilst the level of need is acknowledged, the type of provision is another factor that means not over-stretching the proportions sought, in our view.

34 The Council proposes to target affordable housing tenure mix at 75% affordable rented, 25% intermediate. A target tenure mix no higher than this can be supported, as strategic approach, subject to scheme specific viability and funding availability aspects which the study discusses; i.e. not always applied rigidly but as a measure for site specifics to be discussed against.

35 For potential future policy consideration where there may be scope to consider lowering the affordable housing policy threshold, this study has also investigated the potential for sites beneath the current 15 dwellings threshold to contribute towards meeting affordable housing needs.

36 If consideration is to be given to including schemes below 15 dwellings within the policy scope, then the Council could consider a target of no more than 20% affordable housing as applicable to schemes in the size range 5 to 14 dwellings; with scope also to select varying threshold points within that range depending on wider evidence as well. A lower 10% target proportion could potentially be applied to the very smallest sites (particularly of fewer than 5 dwellings) in the event those are to come within the policy scope. The Council could consider either a combination of on-site and financial contributions routes, an on-site route at any point from 5+, or using the financial contributions approach on a wider range of schemes.

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39 At this strategic level overview for policy development, unfortunately it is simply not possible to provide the Council with definitive “cut-off” points (in terms of affordable housing proportion and other details) at which individual schemes would definitely be viable and would go ahead; or conversely where viability would be compromised to the degree that development would not take place. Site specifics will influence viability on individual sites.

40 Where viability issues arise and are justified, a flexible approach to policy application may be needed. This could include discussing the areas of affordable housing dwelling mix, proportion and tenure mix; as well as numbers rounding and likely grant availability. The affect of these factors will need to be considered together, to arrive at solutions based on the combination of that works best for delivery in the particular circumstances. In exceptional circumstances where on-site affordable housing would not support sustainable communities’ aims as well as an off-site route, the use of financial contributions in lieu (calculated to exact proportions and used in lieu of either part or whole provision) could be considered amongst the options — including on larger sites.

41 These represent challenging but appropriate targets when viewed in the context of a potentially wide range of future market conditions. They are not pitched purely with current market conditions in mind, and in our view any affordable housing target (i.e. set at any level) might often be viewed as challenging given the tone of local values in current and likely short-term future uncertain market conditions.

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44 In our view, however, the required flexibility and practical approach need not reduce the effectiveness of targets, taking a longer term more strategic view.

45 In arriving at its final policy selections, the Council should also have regard to its wider information and evidence base and requirements – for example on affordable housing needs, type of site supply, wider planning objectives and obligations.

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Executive Summary ends
North East Lincolnshire Council

Final Report

Affordable Housing Viability Assessment

EXECUTIVE SUMMARY

Report for the consideration of North East Lincolnshire Council:

This document does not constitute Council Policy

December 2009

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EXECUTIVE SUMMARY

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2 The Government's key statement on planning for housing, Planning Policy Statement 3 (PPS3), requires local authorities to enable the bringing forward a suitable, balanced housing mix including affordable housing. It confirms the well established route for the principles of seeking integrated affordable housing within private market housing developments. It encourages local authorities to make best use of this approach bearing in mind their local markets and circumstances. As a part of this, PPS3 also requires local authorities to consider development viability when setting policy targets for affordable housing. The PPS3 definition of affordable housing is set out in Appendix IV to this study as well as within the appendices to PPS3. These definitions have been used throughout this study.

3 This commission was therefore made against the backdrop of PPS3, in the context of building the evidence base for, and considering the affordable housing content of, Core Strategy Policies for the Council’s LDF.

4 The study is to be considered as part of and alongside the Council’s developing wider evidence base, including that on the local housing market and housing needs; and information on the range of site sizes and types which are likely to come forward. It is required to review policy options and recommend suitable policy positions from a viability point of view.

5 Maintaining the viability (in this sense meaning the financial health) of residential development schemes is crucial to ensuring the release of sites and thus a continued supply of housing of all types. The study addresses only affordable housing which is required to be provided within market housing schemes under the existing established approach of setting site size thresholds (point(s) at which the affordable housing policy is triggered) and proportions of affordable housing to be sought at those points.
6 The study is based on carrying out a large number of developer type appraisals. These use well established and standard residential development practice ‘residual land valuation’ techniques to approximate the sum of money which will be left for land purchase once all the development costs, including profit requirements, are met (hence the term residual land value – ‘RLV’). The study methodology is settled and tested, having been used in a wide range of local authority locations for this purpose.

7 We vary the affordable housing assumptions across the range of appraisals and the outcomes to inform our judgements on the likely workability of various policy positions from a viability viewpoint. Having fixed development costs and profit requirements within a given appraisal, we can see the impact on development viability caused by variations in the amount and type of affordable housing. Two of the key ingredients to ensuring viable development are sufficient land value created by a development (relative to existing or alternative use values; or perhaps to an owner’s particular circumstances) and adequate developer’s profit in terms of risk reward.

8 Affordable housing impacts development viability principally because it provides a reduced level of revenue to the developer compared with market level sales values.

North East Lincolnshire Property Market and Viability Findings

9 Before commencing modelling Adams Integra researched the local residential property market to inform a range of appraisal assumptions which we then adopted. The research also helps to help set the context for considering the outcomes. The information is included within our Property Values Report, which is to be found at Appendix III to the full study document.

10 We have seen a range of values on reviewing the overall (resale property dominated) market and the new build housing market. The pricing of typical new build property locally seemed to show less variation across the Borough than the overall market picture suggested. The new build values did not always fit well with the perceptions and overall market indicated picture of values patterns.

11 In terms of value levels and viability issues, we picked up no clear basis for evidencing distinct policy positions in terms of varying affordable housing proportions for different areas across the Borough - without creating unduly complex policy. It is possible, however, that wider evidence base considerations could point to distinctions in policy detail between areas or settlement types.

12 At the time of the study, the local market broadly reflects the type of conditions which have been and are being experienced on a national basis.
The market is a very uncertain one in which funds for property development and purchase at both commercial and domestic levels are much less readily available than in relatively recent times (as per the well reported “credit crunch”). Property sales volumes are very markedly down, although have showed some degree of recovery in recent months. Over the Autumn and Winter 2008/9 period this lack of activity was seen to flow through more significantly to sales values than had been seen earlier in 2008. Values fell month on month over that period and into early Spring 2009, more sharply than previously. It is fair to say that we have seen a degree of stabilisation since.

13 It is simply not possible to predict the future direction of the market, however. Since around March 2009, we have started to pick up on a greater variety of messages about the market, with more positive sentiment being reported by The Royal Institution of Chartered Surveyors (RICS), agents, building societies and others. Recent Land Registry House Price Index information reports a more stable picture as its overview, with most regions seeing steady house price increases again.

14 While there are certainly some signs of market improvement as we have moved through 2009 and seen activity levels pick up to a degree, overall we regard these as mixed messages still. As above, a balanced view of the various market signs and reporting must be taken. There are a number of prominent commentators currently saying that the more recent period of house price stability and gains has been because lack of supply has protected prices; rather than because of a significant improvement in finance availability and terms; or in confidence levels. Only time will tell how these conditions will play out in the coming period.

15 Given the long-term nature of the LDF, the study also envisages a variety of scenarios including a more stable, active housing market stimulated by a better functioning lending climate, which will again begin to feed a more normal level of market and therefore development activity. This has been explored through varying appraisal assumptions which cover a wide range of property values, given that those are the key driver of the RLV calculations and therefore the likely viability outcomes.

16 The results of our study show that viability of development in the Borough is varied. This is because we have considered a wide range of values; including (particularly at the low end) values that are currently lower than most we have seen through our widespread viability work. At best the results here might be described as mixed; the overall tone of house prices and therefore the RLVs those produce is low relative to most of our wider work. The Council will need to monitor the local market as, if there is further decline, values will be seen at lower levels more frequently.
However, the values at the middle to upper parts of the range we have studied suggest scope for those schemes in particular to deliver meaningful proportions of affordable housing alongside wider planning obligations. This finding will also be relevant to the current lower value scenarios as those are considered in light of a range of market conditions over time, including market improvements.

In our view the current economic downturn should not be the only factor that determines policy positions. Housing need is worsening and those same economic conditions are most likely to be adding to the needs trend (with consequent job losses, weak earnings growth and lack of suitable finance acting against the improved affordability which should be seen through reduced house prices). The Council needs to prioritise the provision of affordable rented homes. We can support a target tenure mix, overall, of not more than 75% affordable rent /25% intermediate tenure.

In setting strategic policy, the Council will seek a balance between the opposing tensions of housing need and viability. It will not be viable to provide the levels of affordable housing that the needs evidence justifies. On the other hand, strategic affordable housing targets which were reduced too far with recent and current market characteristics (rather than longer term market variety) as a sole driver would not go far enough to contribute towards addressing need when the delivery scope improves.

Whilst we have to consider the recent and current market conditions as a factor in coming to our recommendations, those are very likely to change in some way over short periods of time in relation to the planning timeframe being considered through the LDF. We do not consider that it is appropriate or realistic to set strategic policies and targets based on a snapshot of current market features alone. Following such an approach could mean regularly varying those policies and targets with varying market conditions. That could lead to requirements that are uncertain and to potential inequities – the approach needs to create certainty and clarity of expectations on a more stable basis.

When considering delivery based on challenging targets, particularly in the short-term as policy expectations change and while we have difficult market conditions, it is vital that the Council continues to apply policy with flexibility where needed. As a part of this, the Council may need to prioritise planning obligations or other requirements within overall objectives and targets.

Given the level of need and type of site supply (the role of smaller sites locally) the Council is also considering widening its approach by bringing within the policy scope a wider set of, or potentially all, schemes which include an element of residential development. This would be part of looking for a reasonably market sensitive but still sufficiently challenging approach.
23 Having stated within this study that smaller sites are no more or less viable than larger ones (i.e. site size in itself is not a determinant of viability), we consistently recommend the application of modest or reduced target proportions to smaller sites which are currently outside the affordable housing policy scope. In North East Lincolnshire’s case this means sites of fewer than 15 dwellings, in the event the policy scope is expanded to capture such schemes.

24 This is related to the points we make about the very significant first-time impact of policy in such situations; and to how development value tends to reduce the smaller the scheme so that it may become more marginal compared with existing/competing land use values.

25 Should the Council review the role of smaller sites, we consider that there would be scope for it to look at various options around this, including potentially a form of sliding scale approach, relating to the various threshold points and proportion (%) combinations, as well as to the potential role of a financial contributions approach within this.

26 Our recommendations are summarised below, and set out at Chapter 5. The wider options are also discussed in the report Conclusions, Chapter 4.

<table>
<thead>
<tr>
<th>Quick overview of main outcomes</th>
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<tbody>
<tr>
<td>27 A tone of viability results which we have described as mixed at best, driven overall by what we consider to be a relatively low tone of house price levels in North East Lincolnshire.</td>
</tr>
<tr>
<td>28 Values do vary, however. Stronger values driving better RLVs are also seen in the Borough. It is relevant to consider what role that a more mixed picture of values and residential scheme viability could play in supporting affordable housing and other planning obligations, when a more strategic, longer term view is taken of the market and how it could influence varying price levels.</td>
</tr>
<tr>
<td>29 It is important to stress that affordable housing requirements are not the single cause of the less favourable results – the influence of recent market conditions on already modest local house price levels is arguably a bigger factor at the current time. We can see this through some of the no (0%) affordable housing results being poor.</td>
</tr>
<tr>
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</tr>
<tr>
<td>31 We consider that this would certainly be suitable for application to schemes of 15 or more dwellings across the Council’s plan area – as a simple, single target approach Borough-wide for those sites, to give maximum clarity. This</td>
</tr>
</tbody>
</table>
would respect the range and blurring of values levels, and thus viability conditions, seen. It could be applied as a straightforward substitution for the Council’s current target of 30%, leaving the 15 threshold unchanged. However, there are other options which could be considered in our view.

32 We have not seen enough evidence of a distinct or readily definable picture that points towards a range of area specific targets for the Borough instead. Furthermore, from the information available, the value patterns appear to be less clear still, when looking at new build property rather than at overall (resales dominated) market prices. New build housing in lower value areas can provide a different offer there, not necessarily following existing values.

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December 2009

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In setting strategic policy, the Council will seek a balance between the opposing tensions of housing need and viability. It will not be viable to provide the levels of affordable housing that the needs evidence justifies. On the other hand, strategic affordable housing targets which were reduced too far with recent and current market characteristics (rather than longer term market variety) as a sole driver would not go far enough to contribute towards addressing need when the delivery scope improves.

Whilst we have to consider the recent and current market conditions as a factor in coming to our recommendations, those are very likely to change in some way over short periods of time in relation to the planning timeframe being considered through the LDF. We do not consider that it is appropriate or realistic to set strategic policies and targets based on a snapshot of current market features alone. Following such an approach could mean regularly varying those policies and targets with varying market conditions. That could lead to requirements that are uncertain and to potential inequities – the approach needs to create certainty and clarity of expectations on a more stable basis.

When considering delivery based on challenging targets, particularly in the short-term as policy expectations change and while we have difficult market conditions, it is vital that the Council continues to apply policy with flexibility where needed. As a part of this, the Council may need to prioritise planning obligations or other requirements within overall objectives and targets.

Given the level of need and type of site supply (the role of smaller sites locally) the Council is also considering widening its approach by bringing within the policy scope a wider set of, or potentially all, schemes which include an element of residential development. This would be part of looking for a reasonably market sensitive but still sufficiently challenging approach.
Having stated within this study that smaller sites are no more or less viable than larger ones (i.e. site size in itself is not a determinant of viability), we consistently recommend the application of modest or reduced target proportions to smaller sites which are currently outside the affordable housing policy scope. In North East Lincolnshire’s case this means sites of fewer than 15 dwellings, in the event the policy scope is expanded to capture such schemes.

This is related to the points we make about the very significant first-time impact of policy in such situations; and to how development value tends to reduce the smaller the scheme so that it may become more marginal compared with existing/competing land use values.

Should the Council review the role of smaller sites, we consider that there would be scope for it to look at various options around this, including potentially a form of sliding scale approach, relating to the various threshold points and proportion (%) combinations, as well as to the potential role of a financial contributions approach within this.

Our recommendations are summarised below, and set out at Chapter 5. The wider options are also discussed in the report Conclusions, Chapter 4.

Quick overview of main outcomes

A tone of viability results which we have described as mixed at best, driven overall by what we consider to be a relatively low tone of house price levels in North East Lincolnshire.

Values do vary, however. Stronger values driving better RLVs are also seen in the Borough. It is relevant to consider what role that a more mixed picture of values and residential scheme viability could play in supporting affordable housing and other planning obligations, when a more strategic, longer term view is taken of the market and how it could influence varying price levels.

It is important to stress that affordable housing requirements are not the single cause of the less favourable results – the influence of recent market conditions on already modest local house price levels is arguably a bigger factor at the current time. We can see this through some of the no (0%) affordable housing results being poor.

An affordable housing target of 20% is recommended as an appropriate headline position.

We consider that this would certainly be suitable for application to schemes of 15 or more dwellings across the Council’s plan area – as a simple, single target approach Borough-wide for those sites, to give maximum clarity. This
would respect the range and blurring of values levels, and thus viability conditions, seen. It could be applied as a straightforward substitution for the Council’s current target of 30%, leaving the 15 threshold unchanged. However, there are other options which could be considered in our view.

32 We have not seen enough evidence of a distinct or readily definable picture that points towards a range of area specific targets for the Borough instead. Furthermore, from the information available, the value patterns appear to be less clear still, when looking at new build property rather than at overall (resales dominated) market prices. New build housing in lower value areas can provide a different offer there, not necessarily following existing values.

33 In viability terms we strongly suggest that affordable housing targets for universal application locally should not be set at more than 20%. Affordable housing provision is not just about numbers. It will continue to be about the optimum provision that can be delivered in each specific set of circumstances — looking at dwelling and tenure mix, design and quality, making sure that there is not an over-reliance on social housing grant, etc. Whilst the level of need is acknowledged, the type of provision is another factor that means not over-stretching the proportions sought, in our view.

34 The Council proposes to target affordable housing tenure mix at 75% affordable rented, 25% intermediate. A target tenure mix no higher than this can be supported, as strategic approach, subject to scheme specific viability and funding availability aspects which the study discusses; i.e. not always applied rigidly but as a measure for site specifics to be discussed against.

35 For potential future policy consideration where there may be scope to consider lowering the affordable housing policy threshold, this study has also investigated the potential for sites beneath the current 15 dwellings threshold to contribute towards meeting affordable housing needs.

36 If consideration is to be given to including schemes below 15 dwellings within the policy scope, then the Council could consider a target of no more than 20% affordable housing as applicable to schemes in the size range 5 to 14 dwellings; with scope also to select varying threshold points within that range depending on wider evidence as well. A lower 10% target proportion could potentially be applied to the very smallest sites (particularly of fewer than 5 dwellings) in the event those are to come within the policy scope. The Council could consider either a combination of on-site and financial contributions routes, an on-site route at any point from 5+, or using the financial contributions approach on a wider range of schemes.

37 From a viability viewpoint these areas could be a workable potential addition to the policy scope, as a part of developing an equitable approach overall. A target proportion of 10% might usefully play a role in respecting the
sensitivities on the very smallest sites (especially of fewer than 5 dwellings), if those are to be part of this picture. In any event, target proportions within the range 10% to 20% (whether direct provision or affordable housing equivalent in the case of financial contributions) are recommended if the threshold is to be lowered from its current point. A sliding scale of requirements must fit together logically overall, and this factor may influence the shaping of any policy detail that may be developed for the smallest sites.

38 When considering financial contributions, the same type of target approach would be needed, with carefully judged payment levels and (as with on-site provision) negotiated solutions as appropriate. A strategy would need to be in place for the use of the contributions; and transparent monitoring records kept of the sums collected and committed to local affordable housing provision.

39 At this strategic level overview for policy development, unfortunately it is simply not possible to provide the Council with definitive “cut-off” points (in terms of affordable housing proportion and other details) at which individual schemes would definitely be viable and would go ahead; or conversely where viability would be compromised to the degree that development would not take place. Site specifics will influence viability on individual sites.

40 Where viability issues arise and are justified, a flexible approach to policy application may be needed. This could include discussing the areas of affordable housing dwelling mix, proportion and tenure mix; as well as numbers rounding and likely grant availability. The affect of these factors will need to be considered together, to arrive at solutions based on the combination of that works best for delivery in the particular circumstances. In exceptional circumstances where on-site affordable housing would not support sustainable communities’ aims as well as an off-site route, the use of financial contributions in lieu (calculated to exact proportions and used in lieu of either part or whole provision) could be considered amongst the options – including on larger sites.

41 These represent challenging but appropriate targets when viewed in the context of a potentially wide range of future market conditions. They are not pitched purely with current market conditions in mind, and in our view any affordable housing target (i.e. set at any level) might often be viewed as challenging given the tone of local values in current and likely short-term future uncertain market conditions.

42 In all cases, policy positions should be framed as clearly worded targets, to provide clarity for stakeholders and a basis for a continued practical, negotiated approach which has regard to viability matters. Current market conditions will tend to mean increased emphasis on this type of approach. Any application of policy to smaller sites will require particular flexibility in any event, bearing in mind that other factors alongside the headline proportion
(e.g. dwelling type, numbers rounding, etc) can be equally if not more influential on viability.

This key point about the flexible, practical application of policy always applies, as the study emphasises, but it is likely to be in focus particularly in the market conditions we have seen both locally and nationally during the study period. These factors, combined with the modest local values and wider development costs and obligations, suggest that this is a particularly sensitive stage for the Council’s consideration of this area of policy development.

In our view, however, the required flexibility and practical approach need not reduce the effectiveness of targets, taking a longer term more strategic view.

In arriving at its final policy selections, the Council should also have regard to its wider information and evidence base and requirements – for example on affordable housing needs, type of site supply, wider planning objectives and obligations.

These potential policy positions are suggested not in isolation of other scheme costs and planning obligations, but have been arrived at through including assumptions on a range of other matters as set out in the study detail – the key ones being:

a. Planning infrastructure obligations.

b. Code for Sustainable Homes level 3 attainment – all dwellings (with future direction of Code requirements also considered).

c. Renewable energy requirements (cost allowances added to above Code assumptions, bearing in mind the overlaps that exist between the two).

Nevertheless, finally confirmed policies and accompanying text together with other guidance (e.g. provided through SPD) should acknowledge the relevance of viability and the adaptable approach that will be applied to policy application.

The Council will need to monitor affordable housing delivery progress and experiences alongside its wider housing delivery monitoring work. Review periods and potential delivery contingency measures should be considered, linked to those monitoring processes.

The report picks up on all of these aspects, and points to consideration by the Council based around the following points:
Key recommendations summary

50 A challenging but appropriately pitched headline policy target set at a single clear position of 20% affordable housing applicable to scheme sizes 15 or more dwellings, Borough-wide.

51 Support for an affordable housing tenure mix which will necessarily reflect the priority needs for affordable rented homes. 100% affordable rented is unlikely to be deliverable with regularity and we envisage a tenure mix of up to 75% affordable rent to 25% intermediate – as an overall target, not for rigid application site by site, and subject to scheme specific viability.

52 These are envisaged as being suitable for Borough-wide positions to create clarity and simplicity of the approach and expectations, although the Council could pursue varying policy within the parameters we have set out if needs and site supply patterns dictated a different approach between settlement types, for example.

53 To develop unambiguous policy wording which sets clear targets as a basis for the practical, negotiated approach, acknowledging the relevance of site viability.

54 To build on the approach through SPD or other means of guidance to set out detail which explains and helps stakeholders through the local approach, and helps to guide expectations.

55 Acknowledging current market conditions in particular, but also moving forward, the Council will need to approach site by site delivery in an adaptable way - reacting to viability issues which may arise.

Executive Summary ends