

ECONOMIC VIABILITY OF AFFORDABLE HOUSING REQUIREMENTS

**REPORT BY THE DEPUTY CHIEF EXECUTIVE AND THE EXECUTIVE
DIRECTOR OF HEALTH, HOUSING AND ADULT SERVICES**

1.0 PURPOSE OF REPORT

- 1.1 This report informs Committee of the findings of a study which considers the economic viability of securing affordable housing in the city. The report will form part of the evidence base of the emerging Local Development Framework (LDF) Core Strategy.

2.0 BACKGROUND

- 2.1 Government Guidance on the preparation of LDF's (Planning Policy Statement 12; Local Spatial Planning) places significant emphasis on local planning authorities to prepare robust evidence to understand the local area and help inform proactive plan-making and decision-making.
- 2.2 In relation to housing, one of the main evidence bases is the Strategic Housing Market Assessment (SHMA), which provides a five-year assessment of housing requirements in Sunderland, including the type, size and locality of housing, as well as identifying gross levels of affordable housing need.
- 2.3 This SHMA was undertaken in 2007/8 by specialist consultants. It considered a wide range of housing issues to gain an insight into the city's housing market, such as the current and future housing market within the city, affordability and household requirements. The assessment involved a survey of households (over 7,000 postal questionnaires were completed) and interviews with stakeholders including estate agents and local authority representatives.
- 2.4 The SHMA was reported to the then Regeneration and Community Review Committee in February 2009. With regards to affordable housing, it concluded that from 2007/8 to 2011/12 the city has an annual gross shortfall of 388 affordable dwellings which could be met through registered social landlord activity in the city, as well as the private sector via the planning process.
- 2.5 However, for appropriate policies to be set out within the LDF, National Planning Policy Statement 3 – Housing (PPS3) (2006) requires an assessment of the likely economic viability of delivering affordable housing. This takes into account risks to delivery, likely levels of finance

available for affordable housing, including public subsidy and the level of developer contribution that can reasonably be secured.

- 2.6 The requirement for assessing the economic viability of affordable housing is a relatively new piece of evidence that is now required to support the LDF. This follows from the Court of Appeal's judgment in July 2008 in the case of Blyth Valley Borough Council v Persimmon Homes (North East) Limited and others, where for the first time in the country failure to meet this requirement of PPS3 has been challenged. The court held that Blyth Valley's Core Strategy had not been properly informed by an economic viability study as required by PPS3. In effect, completion of the economic viability assessment has now become a 'quasi- statutory' piece of work required to support the LDF.
- 2.7 No clear formula exists to assess economic viability. Therefore, the same consultants who prepared the SHMA were re-appointed in early 2010 to undertake the Economic Viability Assessment. They have recently completed assessments that have been subject to scrutiny and endorsement at other LDF inquiries.

3.0 THE REPORT METHODOLOGY

- 3.1 The study which was complete in July 2010, considered the economic viability of 12 'beacon' sites which were selected by the Local Authority to ensure consideration of a range of different sites with development potential throughout the city in terms of their potential house types, land values and market appeal. (The site name and location was removed from the process to enable appraisals to be undertaken without site specific issues arising). Arc4 undertook individual development appraisals on each of the sites, which included details such as open market property valuations (these were based on 2009 July –September 2009 values), build costs, developer profit, finance charges and rate of sale.
- 3.2 A consultation exercise with all the house builders and Registered Social Landlord (RSL) providers operating in the city was also undertaken as part of the study to gain views on the study's methodology, the definition of the beacon sites as well as all the key data and assumptions applied. The five responses received informed the development of the document.

KEY FINDINGS OF THE REPORT

- 3.3 The Economic Viability Report has reached a number of conclusions and as such the following recommendations have been suggested:
- An initial target of 10% provision of affordable housing should be sought on all housing sites and applied city-wide. (National planning guidance as set out in Planning Policy Statement 3 - Housing, recommends a minimum site size of 15 dwellings as a site threshold). Of this provision 75% should be affordable units for

social rent and 25% for intermediate tenures (e.g shared ownership).

- This 10% target may not be achievable on all sites and as such a flexible approach should be adopted to allow the viability of affordable housing to be reviewed where the developer submits evidence that the target is not deliverable.
- Due to current market weaknesses, agreement may not be reached between the Local Planning Authority and developers on larger sites which are to be phased. As such, there should be provision to enable a review of the scheme prior to the commencement of future phases of development.
- If there are significant house price rises of more than 10% from a base date of September 2009, consideration should be given to reviewing the policy with a view to increasing the target for affordable housing provision to 15%.
- Consideration should be given to time-limiting planning obligations for any scheme that allow substantial reductions from the targets to avoid a developer banking a consent with a reduced affordable housing target until the market recovers.

4.0 NEXT STEPS

- 4.1 As part of taking this document forward, this report was presented to the Planning and Highways Committee on 28th September 2010 given that the study will inform land use planning decisions (in terms of both formulating land use policy and determining housing related planning applications).
- 4.2 The recommendations from the report will be used to produce an affordable housing policy, which will form part of the revised Preferred Options of the Core Strategy. The Core Strategy document is programmed for public consultation in January 2011 and as such comments will be sought on the affordable housing policy at that time.
- 4.3 Until the Core Strategy is adopted it is now possible to implement Policy H16 of the Unitary Development Plan (UDP) which seeks affordable housing on new housing sites of 50 dwellings or more given that it is now supported by a demonstrable need for affordable housing and supported by this viability assessment.
- 4.4 Due to the complex nature of delivering affordable housing a Supplementary Planning Document (SPD), which will provide more detailed information on the mechanisms for delivering affordable housing is also in preparation. It is anticipated that a draft of this SPD will be available for consultation at the same time as the Core Strategy Preferred Options document (January 2011).

- 4.5 The Economic Viability report will be made available on the Planning Policy website. Copies of the full report have been placed in the member's room.

5.0 RECOMMENDATION

- 5.1 Committee is recommended to note the contents of the Economic Viability of Affordable Housing study.

6.0 BACKGROUND PAPERS

Sunderland 2008 Strategic Housing Market Assessment, December 2008
Report of the Director of Health, Housing and Adult Services to the
Regeneration and Community Review Committee on the Local Housing
Market Assessment (2008) update, 18 February 2009
Economic Viability of Affordable Housing Requirements, July 2010

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