

## **Affordable Housing: Evidence Base and Emerging Options**

Charnwood Local Development Framework Stakeholder Workshop

4<sup>th</sup> June 2010, 9.30am, Committee Room 3

### **I. Introduction**

- 1.1. The purpose of this paper is to introduce the key findings of the Charnwood affordable housing evidence base and highlight the emerging options for the Core Strategy policy. It is hoped this will inform a discussion at the Stakeholder Workshop on 4<sup>th</sup> June 2010, which will provide an opportunity to ask questions, discuss the options and a potential approach to affordable housing policy. The workshop will help inform the preparation of a draft policy for the submission version of the Core Strategy.

### **2. Policy Background**

- 2.1 As in most parts of the country, there is a significant need for affordable housing in Charnwood. Increasing house prices in recent years has meant affordability issues are affecting an increasingly large proportion of the community.
- 2.2 Planning Policy Statement 3: Housing (PPS3) was published in November 2006 with the aim of improving the affordability and supply of housing in all communities. PPS3 requires Local Authorities to set out the following in their Local Development Documents:
- 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<sup>1</sup>;
  - set out the range of circumstances in which affordable housing will be required;
  - set out the approach to seeking developer contributions to facilitate the provision of affordable housing;
  - set a clear target for rural affordable housing and consideration of allocating and releasing sites solely for affordable housing.
- 2.3 PPS3 requires local authorities to consider both **need** and **viability** in setting targets and thresholds for affordable housing in Local Development Documents. The companion guide to PPS3 states that there is a need for ambitious but realistic affordable housing targets and thresholds.

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<sup>1</sup> These terms are explained in paragraph 4.12

- 2.4 The East Midlands Regional Plan, published in March 2009, sets out an indicative affordable housing target for monitoring purposes for the Leicester and Leicestershire Housing Market Area of 26,500 for the period 2006-26. The Regional Plan requires local authorities to include affordable housing targets within their Local Development Framework, on the basis of the most up to date Strategic Housing Market Assessment.

### **3. Core Strategy Further Consultation (October 2008)**

- 3.1 The Core Strategy consultation document published in 2008 proposed considering an increase in the current 30% requirement for the proportion of new homes that must be affordable and reducing the threshold for when affordable homes are required from 15 dwellings or more. It also proposed that the type of affordable homes required should be determined on the basis of local needs and should include a mixture of social rented homes and intermediate homes. Two alternative approaches were proposed, to increase the requirement for affordable housing uniformly across the Borough or to vary the requirements for different parts to help target areas in most need.
- 3.2 The majority of respondents neither supported nor objected to the proposal to consider increasing the requirement for affordable housing above 30%. A large number of respondents suggested the requirement should be informed by the findings of the Strategic Housing Market Assessment and that regard should be given to the impact on the viability of sites in the context of the current market and the additional costs of other policy requirements.

### **4. Evidence Base**

- 4.1 There are two key elements to the evidence base for an affordable housing policy. The first is the Leicester and Leicestershire Strategic Housing Market Assessment, jointly commissioned by the Leicestershire Local Authorities and published in December 2008. The second is the Charnwood Affordable Housing Economic Viability Assessment, which is due to be published shortly. The following section sets out and discusses the detailed findings of the evidence base studies in the context of national and regional policy.

#### Estimated Shortfall for Affordable Housing

- 4.2 The Strategic Housing Market Assessment (SHMA) identified extensive housing need in the Leicester and Leicestershire Housing Market Area. The assessment estimated affordable housing need using a version of the 'Bramley' housing needs model which uses the key variables of entry level house prices and incomes of new emerging households. It also makes assumptions about the level of deposit available and finances from other sources.

- 4.3 The model includes both new need that is arising each year from new households that form and are unable to afford to buy, and backlog need. Backlog need is those people already in need identified from the local authority housing register. It was agreed by the Housing Market Area Partnership that this backlog need should be addressed over a period of seven years in the model. This is based on what was felt to be a reasonable but realistic period over which to address the known significant backlog need.
- 4.4 In addition to identifying the groups in need of affordable housing, the SHMA also identifies the various sources of supply available in order to establish the scale of unmet need. The sources of supply considered include local authority relets and housing association new lets and relets.
- 4.5 Pulling all of this analysis together the SHMA produces an estimate of the shortfall in affordable housing above current supply levels required to meet housing needs and relates this to the Regional Plan requirements. The summary table is reproduced below and updated to reflect the adopted Regional Plan.

<b>Table I: Leicester &amp; Leicestershire Housing Needs Model Summary</b>			
<b>Finance</b>			
Deposit	16%	Policy Period to meet backlog need:	7 years
Balance to Fund	84%	Resources from other sources:	5%
Income: Mortgage Multiplier	3.5		
<b>Results</b>	<b>Affordable Housing Shortfall/Year</b>	<b>Regional Plan Housing Requirements (per year)</b>	<b>% Affordable Housing Required</b>
Blaby	289	380	76%
<b>Charnwood</b>	<b>309</b>	<b>790</b>	<b>39%</b>
Harborough	264	350	75%
Hinckley & Bosworth	290	450	64%
Leicester	790	1,280	62%
Melton	143	170	84%
North West Leicestershire	355	510	70%
Oadby and Wigston	214	90	238%
Housing Market Area Total	2,654	4,020	66%

- 4.6 For Charnwood the shortfall above the current supply levels is 309 affordable dwellings a year, which is the equivalent of 39% of the Borough's total Regional Plan housing requirement of 790 a year. It is important to emphasise that this is

based on clearing the backlog in need over 7 years and is in addition to the levels of affordable housing that have been achieved in the last few years.

#### Estimated Total Need Requirements

- 4.7 The Strategic Housing Market Assessment needs model only identifies the shortfall in affordable housing above current supply levels. However, to inform the Core Strategy policy for affordable housing it is important to understand the total need for affordable housing including current supply levels. To estimate this it is necessary to add the current levels of new supply to the shortfall figure set out in SHMA.
- 4.8 Monitoring data shows that at the time of the preparation of the Strategic Housing Market Assessment the delivery of affordable housing was averaging 73 dwellings per annum. However, like the SHMA figure this figure only covers the agreed seven year period to address the backlog in affordable housing needs.
- 4.9 As the Core Strategy covers a longer term period up to 2026 and it is important to also understand what the need for affordable housing will be after the first seven years. Once the backlog need has been addressed there is an estimated affordable housing need of 36 per annum. This is calculated by removing backlog need (346 per year for seven years) from total need (382 per year) in order to find out how much new arising need there is each year.
- 4.10 This calculation suggests that for the Core Strategy plan period of 20 years there will a total affordable housing need of 3,142 ( $382 \times 7\text{years} + 36 \times 13\text{years}$ ). This is an average of 157 per annum over the 20 years. Whilst this annual average is useful to understand, it is not acceptable to plan on the basis of this average figure as it would mean backlog need would not be addressed until the end of the plan period in 2026.
- 4.11 It is important to emphasise that there is the need to consider the housing needs estimated for Charnwood in the context of the Housing Market Area need. As the overall Regional Plan housing requirements for each borough are based on the housing needs of the whole Housing Market Area and a strategy of urban concentration, Charnwood is required to deliver a significant proportion of overall housing. It therefore follows that it will also need to deliver a significant proportion of the affordable housing to meet the Regional Plan target.

#### Estimated Housing Need by Type and Tenure

##### *Intermediate and Social Rent Needs*

- 4.12 There are two distinct types of affordable housing defined in Planning Policy Statement 3, social rent and intermediate housing. Social rented properties are those provided by a Registered Social Landlord at a 'below market rent' level.

Intermediate housing, also described as ‘shared ownership’, is housing provided at prices and rents above those of social rent, but below market prices or rents. This can include shared equity products, where households can buy a percentage of the property and rent the remainder from a Registered Social Landlord.

- 4.13 The evidence in SHMA suggests that affordable housing in Charnwood should be split 21% intermediate housing and 79% social rent to meet the requirements of those in need. This is based on those able to afford 70% of full entry level house prices as this offers an attractive share of the property for purchase but is not so close to entry level prices that buyers will decide to stretch themselves or wait to buy outright.

*Type and Size of Affordable Housing Needs*

- 4.14 The SHMA uses household projections to assess the ages and types of household that will exist in the future. The assessment uses this information to estimate the most likely type and size of accommodation that different household groups will choose, accept and be able to afford to occupy, based on their most likely market position at the time.
- 4.15 Considering household characteristics, in the context of household projections, it is possible to identify an optimised ‘shape’ of the housing provision for an area. This is not the optimum shape of new provision, but the overall housing stock and so requires a comparison between existing stock and the optimum shape to guide the type and size of new properties that are most needed. This needs to take account of the different stages of a household’s housing “career”, for example considering that one bedroom flats are generally acceptable for relatively short periods of time. The results of this analysis in the SHMA are set out below for additional housing need in addition to current rates over the next seven years.

Table 2: Housing Need Shortfall by Type and Size (annual rates to 2015)

Tenure	Need per annum	Charnwood	Housing Market Area
Total	Overall need	309	2654
Social Rent	1 bed general needs	6	46
	2 bed upsizing general needs flats	6	43
	2 bed downsizing flats/bungalows	26	246
	2 bed general needs houses	52	472
	3 bed general needs flats	5	47
	3 bed general needs houses	89	727
	4+ bed general needs	3	63
	1 bed elderly person(s)	0	0
	2 bed elderly person(s)	45	315

	Sheltered/supported	13	105
	Total Social Rent	245	2064
Intermediate Housing	1 bed general needs	2	13
	2 bed general needs	35	306
	3 bed general needs	27	244
	4+ bed general needs	1	24
	Total Intermediate Housing	64	588

4.16 The results show that for the whole Charnwood area there is a particular need in Charnwood for two and three bed general needs houses and two bed elderly person homes, downsizing flats and bungalows. This reflects the fact that the trend of growth in the number of smaller households does not translate into a requirement for more smaller units, as there is often a relatively high turnover in properties such as one bed flats. Many smaller households are older people living longer with existing homes, equity and a strong market bargaining position.

#### Viability of Affordable Housing Requirements

4.17 There is clearly an argument based solely on the needs evidence that the Council should be seeking a high proportion of affordable housing to contribute to meeting the needs of Charnwood and the Housing Market Area. However **need** is only one part of the evidence needed to inform the Council's policy, it is important to now consider **viability**. The Charnwood Affordable Housing Economic Viability Assessment<sup>2</sup> assesses the potential impact on the viability of development of affordable housing requirements using a residual development appraisal model.

4.18 House prices have a significant impact on development economics and the viability of providing affordable housing. The viability assessment therefore uses an analysis of the previous three years sales of existing housing in the Borough to identify a number of sub-markets based on house prices. This was done using postcode data for second hand sales with a new build premium added on to identify a set of indicative new build values as at June 2009.

#### *Sub-Markets*

4.19 The study identifies nine sub-markets which broadly fall into three categories:

- **Higher value sub-markets:** rural areas of the Charnwood Forest, Rural East/High Leicestershire and the Wolds;
- **Medium value sub-markets:** areas of Leicester fringe villages, Loughborough, Thurcaston and Soar Valley; and

<sup>2</sup> Three Dragons, due to be published shortly

- **Lower value sub-markets:** urban areas of Thurmaston and Shepshed.

4.20 The assessment undertakes viability testing of different scenarios using a notional one hectare site and case studies for the different sub-markets and for typical development mixes and densities. This shows the impacts of increasing the percentage of affordable housing on residual site values. These residual values have then been benchmarked against historic residential land values and realistic alternative use values.

#### *Proportion of Affordable Housing Required*

4.21 Based on the viability evidence the report outlines a number of options for the Borough in setting an affordable housing policy:

- 30% is retained and it is accepted that this will be easily achieved in higher value markets, achievable in many cases in the medium value areas but routinely unviable for the weaker sub markets without public sector grant.
- Differential targets for different parts of the Borough are used to reflect the differences in market values. The report identifies two main options:
  - o a higher target of 40% in high value areas and a target of 30% in the remaining areas; or
  - o 40% in high value areas, 30% in medium value areas and 20% in lower value areas.

4.22 The report emphasises that there will be site specific circumstances where achievement of the affordable housing requirements may not be possible but that this should not detract from the robustness of the suggested overall targets. Viability issues for individual sites will need to be justified by the developer and will be considered as part of the normal planning application process.

#### *Public Sector Grant Funding and Proportions of Intermediate Housing*

4.23 The assessment also considers the potential impact of grant funding and increasing the proportion of intermediate affordable housing which can improve viability to a greater or lesser extent depending on the sub-market. In higher value areas a 50:50 split of social rent and intermediate housing rather 75:25 split has a significant impact on residual values, however this is not the case in weaker sub-markets. On the other hand grant funding has a greater proportionate impact in the weaker sub-markets. Grant is not an insignificant factor in middle and higher markets but the uplift in viability is not as marked.

#### *Thresholds*

4.24 The report recommends considering a lower threshold for qualifying sites (the point at which a development will need to include affordable housing) than the

national indicative level of 15 dwellings. The assessment shows that around 45% of dwellings granted permission since April 2006 have been on sites of less than 15 dwellings and sites of 5-14 dwellings make up around a quarter of the housing supply for this period.

- 4.25 Based on the types of sites coming forward for development in Charnwood the report suggests that there is a case for a reduction in the threshold without affecting overall viability, as often smaller sites achieve higher land values than larger ones. The report suggests three options:
- No threshold so that all sites contribute to affordable housing;
  - Threshold of 5 dwellings or above;
  - Split threshold of 15 dwellings or more in the Principal Urban Area of Leicester and Sub-Regional Centre of Loughborough/Shepshed and 5 dwellings or more elsewhere.
- 4.26 The viability evidence suggests there is no viability argument for a threshold, however this raises issues around the practicality of negotiating provision on smaller sites given the resource implications this entails.

#### *On-site provision and Commuted Sums*

- 4.27 PPS3 states 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. However, where financial contributions in lieu of on-site provision (commuted sums) are justified, the viability report suggests that this should be equivalent to the developer/landowner contribution that would have been made if the affordable housing was provided on site. This would mean that the decision to take a commuted sum will be based on the acceptability or otherwise of on-site provision not in response to viability issues.

#### *Large Scale Developments*

- 4.28 The report highlights that further work will need to be commissioned on the development economics of the Sustainable Urban Extensions in terms of the viability based on the detailed development costs, phasing and other infrastructure costs associated with a particular location. The report estimates that the west Loughborough proposal would have selling prices broadly in line with those elsewhere on the fringes of the town and the east of Thurmaston proposal would be similar to the Soar Valley sub-market or even the lower end of the Rural East sub-market. This means they would both potentially fall into the middle value areas. This is based on the likelihood that these sites will, to some extent, create their own sub-markets and values.

## 5. Options for an Evidence Based Affordable Housing Policy

- 5.1 The estimate of affordable housing need, particularly in the short term to overcome the backlog need, is significantly greater than the number of affordable homes that have been built in recent years. Between 1997 and 2009 there have been 105 affordable homes delivered in Charnwood on average a year, this is equivalent to 17% of total completions.
- 5.2 Based on the needs evidence it is important that a review of the current policy on affordable housing takes place, taking account of the economic viability to ensure that the opportunity to achieve affordable housing is maximised whilst avoiding an approach which prevents any new housing from coming forward.
- 5.3 There are a number of key elements of the current affordable housing policy that need to be reviewed and reasonable options for these elements of policy are considered below based on the above evidence base. Where appropriate an initial indication of officer's preferred options are highlighted in **bold**.

Percentage Requirement Options	
1	Continue with the current policy of requiring 30% in all parts of the Borough.
2	<b>Increase the requirement in high value areas to 40% and keep the current requirement of 30% in medium &amp; low value areas.</b>
3	Increase the requirement in high value areas to 40% and keep the current requirement of 30% in medium value areas and reduce the requirement to 20% in lower value areas.

Threshold Options	
1	Continue with the current threshold for requiring affordable housing at 15 dwellings or more.
2	Do not have a threshold so all housing proposals will be required to include affordable housing or make contributions to provide elsewhere.
3	<b>Reduce the threshold for requiring affordable housing to 5 dwellings or more.</b>
4	Continue with the current threshold for requiring affordable housing at 15 dwellings or more in urban areas and reduce to 5 dwellings or more elsewhere.

<b>Target for Social-Rented and Intermediate Affordable Housing Options</b>	
1	Continue with the current split of 75% social rent and 25% intermediate housing.
2	<b>Change the split to 80% social rent and 20% intermediate housing.</b>

<b>Seeking Developer Contributions</b>	
<p>PPS3 is clear that there should be a presumption in favour of providing affordable housing on site to create a mix of housing.</p> <p>Where robustly justified financial contributions of equivalent value may be accepted where they contribute to the creation of mixed communities.</p> <p>Evidence suggests no alternative reasonable options.</p>	

<b>Affordable Housing in Rural Communities Options</b>	
1	Continue with the current Rural Exception Policy of allowing small scale affordable housing schemes in areas where market housing site would not be suitable based on identified local need.
2	Continue with the current Rural Exceptions Policy and in addition make a commitment to allocate sites for 100% affordable housing in rural areas as part of the Site Allocations Document.

<b>Size and type of affordable housing that is likely to be needed in particular locations and, where appropriate, on specific sites</b>	
1	<p>Identify that there is a particular need for:</p> <ul style="list-style-type: none"> <li>• two and three bed general needs houses</li> <li>• two bed elderly person homes, downsizing flats and bungalows</li> </ul> <p>Require that the size and type proposed on a site:</p> <ul style="list-style-type: none"> <li>• broadly reflects what is being delivered on the rest of the site</li> <li>• is based on discussions with housing officers to ensure they meet local needs based on housing register and other evidence</li> </ul>
2	As above and in addition specify the type and size of affordable housing that will be required as part of allocated sites. This would be set out in the strategic allocations policy in the Core Strategy and in the Site Allocations Document for other smaller allocations.

<b>Target for total number of affordable homes 2006-26 and target for delivery in rural areas</b>
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This will be dependent on the approach taken on percentage requirements and thresholds and informed by past delivery.