

**North Hertfordshire District Council
&
Stevenage Borough Council**



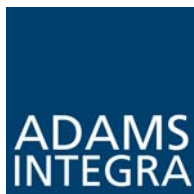
**Affordable Housing
Financial Contributions – Small Sites**

EXECUTIVE SUMMARY

August - September 2008

**Report for the consideration of North Hertfordshire District Council
& Stevenage Borough Council
This does not constitute Council Policy.**

Prepared by



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EXECUTIVE SUMMARY

Background

- North Hertfordshire District and Stevenage Borough Councils are progressing their Local Development Framework Core Strategies and associated Development Plan Documents. Those will set out their planning policy framework for the plan period – including on planning-led affordable housing.
- At present, the Councils' policy proposals seek to deal with affordable housing through a requirement for its provision on-site above a site size threshold of 5 new dwellings.
- The Councils have asked Adams Integra to investigate the potential (in terms of development viability) for all sites to contribute towards meeting affordable housing needs through the use of a financial contribution mechanism in-lieu of on-site affordable housing from the smallest sites.
- This study builds on a development viability overview study conducted by Adams Integra for the Council in 2007. It uses the same methodology as that previous study, but with updated assumptions where those have been considered appropriate.

The Exercise

- Developer-type appraisals were again carried out - this time across notional sites of 1 to 4 units at 6 Value Points that reflect the range of new build values seen across North Hertfordshire District and Stevenage Borough. Development viability was tested by fixing assumptions and then comparing the outcomes on a relative basis at 0%, 10%, 20%, 30% and 40% affordable housing equivalent (via a financial contribution rather than on-site provision).
- A methodology has been suggested for calculating financial contributions in lieu of on-site affordable housing on sites of 4 units or fewer and appraisals carried out to test the viability of such proposals. The methodology is formula based, and the same approach could apply to larger sites in exceptional cases where a financial contribution in lieu of on-site affordable housing is appropriate and robustly justified.
- The property values information has been updated from the 2007 study through further desktop research during July and August 2008.
- We reiterate that key considerations taken into account in the assessment of viability are developer's profit and landowner's sale price. If profit levels fall below a certain point then developers may be unwilling to take the risk of

developing a site or unable to secure funding. Equally, if the price offered by a developer to a landowner for a site is too low, the landowner may decide not to sell and instead continue with, or pursue, an existing or higher value land use.

- An increase in the percentage of affordable housing on a site will inevitably reduce the overall sales revenue a developer can expect to receive (compared to a site with a lower percentage of affordable housing). This is because the revenue received from affordable homes is significantly lower than from market sale units. Therefore, much like wider planning infrastructure requirements, a financial contribution towards affordable housing provision will be viewed as a cost to development schemes. This cost is generally passed on to the landowner by way of reduced land value, since particular development profit levels need to be maintained. This is why the consideration of development viability is a key aspect of affordable housing policy development, to ensure that site supply is not unduly affected.

The Key Outcomes and Conclusions

- Increasing the proportion of affordable housing sought impacts on residential development viability. The reduction in Residual Land Values (RLVs) across the notional sites tested ranged from 9% to 64% depending on Value Point and proportion of affordable housing sought (the greatest impacts seen at the lowest Value Points with the highest (40%) proportion of affordable housing requirement considered).
- The results of the appraisals carried out for collecting financial contributions in lieu of on-site provision suggest that a 10% to 20% affordable housing equivalent could be workable in viability terms on sites producing fewer than 5 new dwellings. There is no reason why smaller sites should not make a carefully judged contribution. There are, however, factors to be considered which suggest the benefit of seeking a reduced equivalent proportion on such sites – on the basis of an extension of the sliding scale approach which Adams Integra put forward in the 2007 study.
- Purely in viability terms we are therefore able to support a policy whereby the Councils seek financial contributions equivalent to:
 - between 10 - 20% proportion of affordable housing on sites of between 1 and 4 units

applied as a target and clear basis for the early stages review of sites by landowners and developers, and thus a target basis for negotiations to seek to deliver.

- All policy positions would need to be kept under review in light of delivery experiences, as a part of the Council's ongoing monitoring of a range of inter-related factors such as site supply, housing market trends, needs and local affordability. That process should be linked with contingency planning – in the event that the monitoring work points to adjustments being made to the approach. Viability will also need to be considered relative to wider planning obligations if those increase in the future.
- The Councils will need to consider the detail of application. This would include whether the approach would be relevant to all new dwellings, or to net numbers of new dwellings. Our assumption is that the approach would not apply to replacement dwellings. Clarity on all such aspects would be needed.