

*Working towards...
The Spelthorne Local Development Framework*

Provision of Affordable Housing



April 2007



Provision of Affordable Housing

April 2007

**Planning Services
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1. Introduction

- 1.1 The purpose of this report is to review the policy options for ensuring that 40% of all new housing in Spelthorne is affordable.
- 1.2 The 40% 'requirement' is set out in both the Surrey Structure Plan – 2004 (Policy DNII) and the draft South East Plan – March 2006 (Policy LF3)
- 1.3 This report builds on an earlier report on the 'Provision of Affordable Housing – April 2006' and which is reproduced as Appendix A.

2. Background

- 2.1 The earlier report at Appendix A included within it a report from Campsie & Co, giving valuation advice of this issue.
- 2.2 The April 2006 report reviewed the success of the Council's existing Local Plan Policy – H6. That policy:
 - a) required schemes of 15 dwellings or more, or over 0.5ha in site area, to provide 50% of units as affordable
 - b) encouraged RSLs to bring forward sites under this threshold for affordable housing
 - c) encouraged affordable housing provision in mixed use schemes on town centre sites where wholly residential development would not otherwise be feasible or appropriate
- 2.3 The report showed that in the period 2001-2005 overall only 27% of all dwellings completed in the Borough had been affordable. This figure in part reflected the number of dwellings provided on sites below 15 dwellings. It was concluded that amendments to the policy approach were required if a provision of 40% was to be secured.
- 2.4 On the basis of the report at Appendix A the policy set out in the Preferred Options draft of the Strategy and Policies DPD (May 2006):
 - a) set a lower site size threshold of 10 dwellings or 0.3ha
 - b) required a financial contribution toward affordable housing from commercial development schemes, involving an increase of more than 1000m² of floorspace that increase employment in the Borough
- 2.5 It was concluded, from past evidence of the size of residential schemes coming forward, that lowering the site size threshold to 10 dwellings might yield an additional 6-7% of affordable housing as a proportion of all dwellings built. This would bring the contribution of affordable housing from residential sites to some 32-33% of all housing completions. It was judged that the use of financial contributions from commercial development would contribute to provision, but a specific percentage was not attributed. The Council's consultant had noted that contributions from commercial development might not be a significant factor in the foreseeable future due to the slow-

down in new commercial development, but the advice nevertheless concluded such a provision should be sought.

- 2.6 As a result of the Preferred Options consultation, Surrey County Council suggested a financial contribution could also be sought from residential schemes of nine dwellings or less.
- 2.7 The Council sought further advice from Campsie and Co on this suggestion and the basis on which a contribution might be calculated. Their second report is set out at Appendix B.

3. Financial contribution from small residential schemes

- 3.1 The further advice has assessed the feasibility of a contribution and its impact on the viability of small schemes.
- 3.2 The report supported the principle of a financial contribution. It reviewed the different development circumstances between schemes involving demolition of existing dwellings and those involving infilling. The report recommended seeking a percentage of the enhanced site value rather than a fixed sum. The percentage proposed was 30%, which is based on the principles in the Stokes vs Cambridge valuation case.
- 3.3 In reviewing this advice the Council has been mindful of the need to avoid deterring very small schemes from coming forward and concluded it was therefore appropriate to require a financial contribution from developments of four to nine dwellings.

4. Other considerations

- 4.1 The first report from Campsie and Co did refer to the issue of what assumptions should be made about the availability of government grant. Generally this is very limited, but where it was available it could increase the proportion of affordable dwellings that would be viable.
- 4.2 The Council has recently reviewed its list of 'preferred' RSL partners to also include organisations with a particular emphasis in bringing forward 100% affordable schemes on small sites and securing government grant. This is intended to support that aspect of the affordable housing policy.

5. Conclusions

- 5.1 Securing 40% of all new dwellings as affordable requires all available planning and housing powers and actions. The opportunities of provision via the planning process need to be fully used.
- 5.2 For this reason, in addition to the actions identified in the affordable housing policy in the Preferred Options draft, it proposes to add the securing of a financial contribution from housing schemes of four to nine dwellings.

Appendix A

THE PROVISION OF AFFORDABLE HOUSING IN SPELTHORNE

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Ref: 11/2006



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1. Introduction

- 1.1 This background paper considers the provision of affordable housing within the Borough in relation to the Regional and County Structure Plan strategic policies. It examines the level of provision which has been made during the current Structure Plan period since 2001 and considers the likely level of future provision of affordable in terms of current policy.
- 1.2 The consultation draft of Planning Policy Statement 3: Housing (PPS 3), published in, December 2005 confirms the role of local authorities in securing affordable housing and states that local planning authorities, in determining the overall target for affordable housing provision, should have regard to the relevant sub-regional housing market assessments and the various relevant Regional and local housing strategies. The Government's definition of affordable housing includes both social rented and intermediate housing and it is suggested that separate targets should be set for both, where appropriate.
- 1.3 PPS 3 also confirms that local planning authorities should set a minimum site-size threshold, above which affordable housing will be sought. The indicative national minimum is 15 dwellings (currently the threshold set out in Spelthorne's Policy H6) although Local Planning Authorities may set a different threshold where this can be justified. This background paper specifically examines the appropriateness of the Council's current threshold and the need to vary it.
- 1.4 The need for affordable housing must be balanced against the viability of sites. Valuation advice has therefore been sought to confirm that any revision to thresholds is based on sound evidence. This advice was obtained from Campsie & Co, a local firm of estate agents and valuers. Their report is set out in Appendix 1 to this paper and includes an assessment of the implications of competing land uses and the availability of suitable funding for affordable housing schemes.

2. Current Requirements

- 2.1 The Regional Strategy (Draft South East Plan) sets out an overall regional target that 25% of all new housing should be social rented accommodation and 10% other forms of affordable housing. In support of this the draft sub-regional strategy sets out the following policy:-

Policy LF3 : AFFORDABLE HOUSING

40% of all new housing in the Sub-Region should be affordable, with the precise level and the split between social rented and other forms of tenure being determined locally having regard to local housing assessments.

Local Development Documents should seek provision of affordable housing on all sites where it can be justified by local housing assessments and the economics of provision. In cases where on-site provision of affordable housing is not feasible, commuted payments will be required. Non-residential development which generates needs for additional housing will also make an appropriate contribution to affordable housing provision

- 2.2 The Surrey Structure Plan 2004 also contains a target for affordable housing of at least 40% of total provision. In order to meet the Structure Plan requirement the Adopted Local Plan 2001 (with adopted alterations Dec 2004) requires the completion of 345 affordable dwellings to be completed in the period April 2003 to April 2006. This was to be achieved by negotiating for 50% of affordable housing on all sites comprising 15 dwelling or more, or on sites of 0.5 hectares and over.

3. Actual Provision of Affordable Housing in Spelthorne to date

- 3.1 In the period from 2001 to 2005 a total of 1158 dwellings (net) has been completed in the Borough of which 321 (27.7%) have been affordable. Over the period covered by the revised Local Plan Policy H6 (2003 -2005), 195 affordable dwellings have been completed out a total of 745 dwellings; an average of 26%. At the current level of permissions and completion rates the overall requirement of 345 affordable dwellings to be completed by 31 March 2006 will not be achieved, with a shortfall of over 100 units.
- 3.2 Only in the two years 2002/3 and 2004/5 has the annual completion rate of affordable housing as a percentage of all new housing been around 40%. When the level of provision of affordable housing is assessed against the overall provision from eligible sites (i.e. sites of 15 units and more) for the period 2001 to 2005 the figures show an achievement of some 38% whereas the policy seeks to achieve a 50% provision of affordable housing from such sites.
- 3.3 It is significant that a number of schemes permitted during the last three years have been designed for total dwelling numbers set just below the affordable housing threshold of 15 units. In the current year a total of ten schemes have been permitted for residential development on sites providing fewer than 15 units, generating in total 124 units. Such sites represent missed opportunities to increase the supply of affordable dwellings.

4. Residual Requirement

- 4.1 The Structure Plan dwelling requirement for the period 2001 to 2016 is 2580, of which, 1158 dwellings had been completed by April 2005. This leaves a residual requirement of 1442 dwellings, of which some 568 would need to be affordable to meet the 40% requirement for affordable housing overall, disregarding any shortfall to date.
- 4.2 Spelthorne's Housing Capacity Study 2003 demonstrates the overall supply of housing to meet the Structure Plan requirement to 2016. An analysis of the proportion of sites in various size categories is set out below:-

Site Size	As percentage of overall provision
1 – 9 units	38%
10 – 14 units	13%
15 + units	49%
	100%

Even though sites of 15 units and more represents almost half the total provision, negotiating 50% of affordable units on all these eligible site would at best produce some 350 affordable dwellings over the plan period. Evidence of past performance suggests that it has not always been possible to achieve 50% affordable provision on all large sites. Whilst some sites may produce 100% provision through the direct activities of a Registered Social Landlord, the average level of provision has tended to fall below 50%. Thus a straightforward analysis of the size composition of housing capacity sites suggests that application of the current policy threshold levels would generate an overall level of contribution to affordable housing of some 24% of all new dwellings. In numerical terms this would represent a shortfall of some 224 units. Given the shortfall of 142 units which exists from completions to date from 2001 the total shortfall in the provision of affordable units over the whole of the plan period could be in the region of 366, equivalent to an overall level of provision of only some 26%.

5. Addressing the Shortfall

- 5.1 There is no evidence currently available to suggest that the overall split in the tenure of affordable housing needs to be changed. Forthcoming work on an updated Housing Needs Survey will inform further consideration of this aspect of policy. For the purposes of this paper and the valuation advice it has been assumed that the balance between tenures will remain at 65% rented and 35% shared ownership (intermediate).
- 5.2 The first option for addressing the shortfall would be to reduce the threshold above which affordable housing would be required. Lowering the threshold from 15 to 10 units could, at 50% provision, generate an additional 6 or 7% of affordable housing. Although there is clear evidence that lowering the threshold would potentially bring forward more sites, there is a possibility that the viability of suitable sites could be affected, leading to a reduction of such sites coming forward. General valuation advice (as set out in Appendix 1 to the background paper) suggests that affordable

housing on smaller sites could be achieved without an undue effect on viability. This advice does suggest however, that a threshold below 10 units could be problematic both in terms of viability and management of tenures.

- 5.3 Any lowering of the threshold may produce an increase in the number of sites coming forward for schemes where the total number units would be set below the threshold. To avoid this, policy will need to ensure that sites are not deliberately restricted or manipulated to avoid the reasonable application of policy. Whilst valuation advice suggests that small sites below 10 units may not be viable and that RSLs would generally be unable to compete on the open market for small sites, past evidence suggest that in certain circumstances RSLs have been able to develop small sites for 100% affordable housing. The availability of grant and certain conditions of ownership could continue to ensure that an element of affordable housing could still come from sites of fewer than 10 units, although it would not be appropriate to include such sites within the requirement of policy.
- 5.4 Valuation advice further confirms that the achievement of affordable housing on sites of 10 or more units may be difficult to achieve without an assumption of housing grant in some form. It is clear that an open book approach to negotiations will still be required, with a starting point that grant is not available. However in order to optimise the provision of affordable housing, valuation advice confirms that the preferred approach would be for the developer to come forward with a preferred partner for the particular scheme being promoted.
- 5.5 The current policy threshold is 15 units or a site of 0.5 hectares irrespective of the number of units. In reducing the threshold to 10 units it would be necessary to make a commensurate reduction in the site area threshold. Although in practice, because of the general level of densities achieved in Spelthorne, the area threshold would rarely apply, a pro rata reduction to a figure of 0.3 hectares would be consistent.
- 5.6 A second option for increasing the supply of affordable housing would be to increase the percentage to be negotiated on each site. Past performance suggests that it has not always been practicable to achieve 50% on many of the larger sites which have come forward but that the overall target has almost been achieved by virtue of some significant sites being developed as 100% by, or in partnership with an RSL. Rather than increase the general target of 50%, it would be more effective, as suggested above, to ensure that funding is available to RSLs to facilitate their greater involvement in particular schemes. This could provide for a higher proportion of eligible schemes generating affordable housing in excess of 50%.
- 5.7 The third option for considering the generation of additional funding for affordable housing is the contribution that could be sought from commercial development, particularly where that development, in itself, generates a potential demand for additional housing within the local market. The recent redevelopment proposals for Shepperton Studios presented such an opportunity. A financial contribution to affordable housing through a Section 106 agreement was negotiated on the basis of the additional demand for housing that would be generated by the development. Valuation advice on this aspect is also considered in Appendix 1. This concludes that the current state of the commercial market is such that few schemes are currently coming forward and that those that do could be rendered unviable by the additional burden of making provision for affordable housing. Nevertheless, it is anticipated that, over the life of the plan, an upturn in the fortunes of the commercial sector may see this as an important area of additional and necessary funding. It is important that

policy is in place to take advantages of situations when they do occur. It is considered appropriate, from the evidence currently available, to consider the housing generation potential of all schemes over 300sq m and to ensure that a robust formula is set out in future SPG to clarify the level of contribution which would be appropriate given the differing nature of land use and employment characteristics for any particular commercial development.

6. Conclusions

- 6.1 To continue with the current Local Plan Policy H6 would be likely to see a significant shortfall in the provision of affordable housing over next plan period. Increasing the percentage requirement on sites above the current threshold would affect the viability of schemes and have implications for the marketing of sites and would be unlikely to generate significant additional affordable units.
- 6.2 To lower the threshold to sites of 10 units or more, or sites larger than 0.3 hectares, would generate additional affordable units without necessarily affecting viability, although the availability of grant would generate greater certainty of deliverability.
- 6.3 An “open book” approach to negotiations is essential to the achievement of optimum levels of affordable housing on any particular site and there are distinct advantages in the developer working with a preferred funding partner from the outset.
- 6.4 Funding for affordable housing generated from commercial development is unlikely to produce significant sums in the short term given the current state of the commercial but there is scope for a contribution to be made. In view of the limitations of the housing market to meet all the need and the housing demands created by further commercial development; a requirement for such schemes should be made.

**Appendix 1 - Valuation advice from Campsie
& Co relating to the provision of Affordable
Housing in Spelthorne**

VALUATION ADVICE RELATING TO THE PROVISION OF AFFORDABLE HOUSING WITHIN SPELTHORNE.

A REPORT TO SPELTHORNE BOROUGH COUNCIL.

1. BACKGROUND

- 1.1 Spelthorne Borough Council currently has a policy requiring the provision of 50% of any units within a development scheme above a threshold of 15 to be affordable and within that affordable element, it is required that 65% be rented and 35% shared ownership (intermediate).
- 1.2 The current level of delivery of affordable housing is below the target of 40% of all new housing and the issue has been raised whether the policies to secure this housing should be altered in order to accelerate the rate of provision.

2. MARKET CONSTRAINTS

- 2.1 Considerable difficulty has been experienced in reaching the target of 50% of units on residential sites and in general, this has been as a consequence of the existing use value being at a relatively high level. As any proposal for a residential development would have to create a development value to exceed that level, within the framework of the affordable housing policy, its literal interpretation deflating value would defeat the possibility of a residential development, and which has resulted in lower percentages being agreed.
- 2.2 The assumptions in these calculations had assumed a grant free environment, with no Local Authority Housing Association Grant or Housing Corporation Grant. It was also assumed that any social housing provider did not make any contribution from their own reserves.
- 2.3 As a rule of thumb, in a grant free environment and within the policy framework of 65% affordable rented/35% shared ownership, the residual site value for the affordable element overall is now nil.

3. POLICY OPTIONS

3.1 Reduction of Threshold to 10 units

The constraints of adopting a policy along these lines are: -

(a) Design

It is inevitably the case that there has to be physical separation between varying tenures and the smaller the development the more difficult this will be to achieve.

(b) Existing use value

A hypothetical illustration below assumes a site in Ashford which is currently a detached dwelling in a large plot, which is capable of redevelopment into ten units.

3.2 Under the 50% policy, five of these ten should go into the private sector and the residual five into the social sector.

3.3 We would regard it as potentially difficult for the 65%/35% policy to be consistently adopted because of the small numbers and the design constraints following thereon.

3.4 The illustrations below are based on an assumption that the existing use value of the property is £350,000 and consent would be obtained for 10 No. two bedroom flats.

3.5 Indicative site values following on the development of 10 units within an affordable 10 unit threshold with the social being grant free, and the assumption that the market sale prices for each unit is £180,000. are:-

a)	If affordable policy did not apply	£675,000
b)	If affordable policy applied – 65%/35%	£337,500
c)	If affordable policy applied solely rented	£300,000
d)	If affordable policy applied for shared ownership only	£530,000

Therefore, in the literality of the policy the scheme would not proceed unless the affordable units created were all shared ownership.

3.6 Following this example, we are now assuming that there were two adjacent detached dwellings similar to the hypothesis advanced in 3.1 (b) above. By dint of the marriage value of the two properties, the overall site created is more efficient and is deemed capable of producing 24 two bedroom units: assuming an existing value for each existing property of £350,000 and sales prices for the new units each as £180,000. The various values are:-

3.7	(a)	If affordable policy did not apply	£1,600,000
	(b)	If affordable policy applied for shared ownership only	£1,300,000
	(c)	If affordable policy applied 65%/35%	£ 800,000
	(d)	If affordable policy applied, solely rented	£ 700,000

- 3.8 Demonstrably, the larger the scheme, the greater the flexibility, and in the case of 3.6 (the 24 unit scheme) the possibility exists of succeeding within the policy framework.
- 3.9 The above illustrations pertain to a situation where an existing use value has to be beaten. If any site is a vacant one, its value for development purposes will be determined by a planning consent, and it will, therefore, follow that, unless there were a competing alternative use, provided that consent were granted in accordance with the policy framework, then that policy would be met in any development. It is, however, fair to say that vacant sites of any size in the Borough are a minority, and are not likely to contribute materially to the affordable housing provision.
- 3.10 The values of a vacant site with consent for 10 units would be as set out in para 3.5, and thus, other things being equal, would succeed in complying fully with a policy of a threshold of 10 units.
- 3.11 These illustrations serve to confirm a generality that one of the primary reasons why the Council's target for affordable housing provision has not been met lies in the level of existing use value of the sites being considered for development. Requirements of a S106 agreement frequently require further contributions inter alia for highway improvements, to meet other planning policies. Developers tend to consider payment obligations under a S106 agreement in aggregate, and of which affordable housing is just one aspect. But the gross financial commitment thereunder is a critical factor in development viabilities, and inevitably bear downwards on the site value for a development scheme.

4. AN ASSUMPTION OF GRANT/CAPITAL INPUT

- 4.1 Although it would be an ill advised policy that was founded on assumption that Housing Corporation grant or direct input by social housing providers from their own reserves was available as of norm, nonetheless it would be in appropriate to ignore the fact that such grant is or could be available.
- 4.2 Taking the simplistic examples set out above of the redevelopment of the plot of a single detached house or a marriage of two detached houses, the conclusions with grant, and assuming compliance of the Council's 65%/35% policy would be:-

a. Development for 10 units

Site value on total market basis (see 3.5)	<u>£675,000</u>
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Site value assuming 5 market units, 3 affordable rented units, 2 shared ownership units (all with grant) site value	<u>£460,000</u>
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b. Development of 24 units

Site value (on market basis see 3.7) £1,600,000

Site value -12 market units, and 8 affordable rented,
4 shared ownership (all with grant) £1,070,000

- 4.3 Subject to design criteria, it could accordingly be concluded that within a grant/capital input environment, a scheme would be economically viable down to a threshold of 10 units, and adopting the Council's 50% policy and tenure split

5. POLICY CHOICES IN A GRANT FREE ENVIRONMENT

- 5.1 It can be demonstrated quite clearly that the larger the scheme, the greater is the ability for flexibility within a policy framework, and particularly where there is no third party grant input.
- 5.2 It has also been demonstrated in the illustrations above that at a threshold of 10 units and without grant, adopting the Council's literal policy the scheme would not proceed; a scheme with 24 units would probably just be persuasive to two sets of vendors to sell.
- 5.3 The reality is a need for flexibility both in the context of the percentage of affordable units in any Scheme, and the tenure split
- 5.4 Thus a developer indicating an inability to meet policy criteria must adopt an "open book" policy to support their position.

6. A THRESHOLD BELOW 10 UNITS

- 6.1 Empirically, small unit schemes emerge from the entrepreneurial skills of small builders or indeed existing owners seeking to maximise their asset.
- 6.2 It is likely to be the case that an existing use value would be relatively high in relation to a residential development value.
- 6.3 Accordingly, a policy framework would need to exist to encourage that entrepreneurial skill to bring forward small schemes for housing need generally and the sensitivity issue of the impact of the introduction of social housing is large.
- 6.4 The issue is that of design. It is inevitable that purchasers and lenders in the private sector would wish the properties to be physically separate but from those in the social sector and the smaller the scheme the potentially more difficult it is to create a design solution that would meet these criteria.

- 6.5 Using the model advanced above, but assuming the site would only create 6 units, the residual site value for a standard market scheme without a social content would probably just justify such a development.
- 6.6 It is clear that a 50% policy would not work and if it were dropped say to 20%, we would doubt whether such a scheme would be of interest to social providers, simply by virtue of the management issue associated with a solus unit possibly unconnected with other properties in the general area.
- 6.7 On the face of it, we would couch extreme caution at looking at a threshold below 10 units.

7. GRANT ASSUMPTIONS

- 7.1 The existence of grant and/or financial contribution is potentially material in ensuring compliance with a social housing policy and maximising the provision of affordable housing.
- 7.2 The absence of grant materially impacts on development site value with a social content, which could become significant where existing use value is relatively high.
- 7.3 The danger from the Council's point of view in considering representations by a developer that the policy cannot be complied with, is that were the Council's judgement to be founded in an assumption of zero grant, which in practice was not a correct one, it would be conceding potentially too much ground within its policy framework.
- 7.4 Whilst at any given time it may be the case that a grant is generally unavailable, nonetheless in our opinion, we would recommend that there is an ongoing assumption that grant is available in considering whether a scheme can support the policy presumption of 50%.
- 7.5 Were it subsequently to be clear that grant is not available, then an exit strategy could be agreed to ensure that any scheme does have a basis of viability.
- 7.6 For there to be validity in initially assuming the existence of grant, it would be essential that any developer was in partnership with a Registered Social Landlord and particularly one of the Council's Preferred Partners.
- 7.7 We would, therefore, advise that at any time a developer came forward with a proposal seeking a deviation from policy, that as part of their application they

identified the RSL with which they would be partnering for the development overall.

- 7.8 As part of the application it would be expected that detail would be provided on grant input or the possibility of contribution from reserves of the RSL and that the developer's submission were totally open book.

8. PLANNING AGREEMENTS FROM COMMERCIAL SCHEMES

- 8.1 It is possible that Commercial Developments, particularly larger ones, will generate a need for Housing, putting further pressure on existing stock within the Borough, both private and affordable.
- 8.2 However, recent trends, now in their sixth year, are confirming a material slow-down in new Commercial Developments. The office market has been seriously depressed in this period, resulting in an overhang of un-let properties, and unimplemented planning consents. The viability of new office schemes is in serious doubt.
- 8.3 Pressure from new housing development, and materially rising values in that sector, are resulting in a growing possibility that existing employment land will be sought for residential schemes.
- 8.4 In essence, therefore, we think it unlikely that Commercial Planning Applications will, for the foreseeable future, generate a material contribution to the affordable housing sector through planning agreements.
- 8.5 None the less, whilst accepting that under the current climate the policy may not make a material contribution, we believe it would be appropriate for applicants for Commercial Schemes above a gross floor area of 300 sq.m and having identified the jobs that would be created following the implementation of the scheme, both direct and indirect, to make a contribution to affordable housing, either with an on-site provision, or a commuted payment and in accordance with a robust formula to be determined by the local authority

9. CONCLUSIONS

- 9.1 In our opinion, it would be feasible without material detriment within the housing market to drop the threshold to 10 units.
- 9.2 We would, however, recommend clearly transparent flexibility, in that if the Council's 50% policy could not be complied with, the developer had to adopt an open book policy in regard to their viability and which would set out their case for non-compliance and in the knowledge that the Council would be sympathetic, if an appropriate case had been supported by the Council's Surveyor.

- 9.3 We are of the opinion that in all cases any such application should be in partnership with a Registered Social Landlord who is one of the Council's Preferred Partners.
- 9.4 We further believe that in any such proposals there should be a presumption of grant, but that if it were demonstrated eventually to be the case that grant did not exist or was withdrawn, then the possibility of an exit strategy should be created.
- 9.5 We are extremely cautious on dropping the threshold below 10, because we are of the opinion that that could have a damaging effect on the housing market generally, particularly as small schemes tend to result from the entrepreneurial flare of small builders (rather than Housing Associations) and the smaller the scheme the lower the flexibility available to achieve viability.
- 9.6 We believe it is unlikely that Housing Associations would create small schemes for 100% affordable units. Overwhelmingly, it is the case that small schemes are generated by builder/developers with local knowledge, and whose unit building costs are lower than those achievable through a tender process. Housing Associations would, in most instances, be outbid.
- 9.7 We feel it unlikely that Commercial schemes will be a significant factor in the generation of affordable housing, but none the less, believe a policy provision would be appropriate should consent for a scheme in accordance with 8.5 above be sought.

1 D.A SCHERER FRICS

For Campsie & Co

April 2006

APPENDIX B

REPORT FROM CAMPSIE & CO – NOVEMBER 2006

THE PROVISION OF AFFORDABLE HOUSING WITHIN NEW RESIDENTIAL DEVELOPMENTS

1. BACKGROUND

- 1.1 There is an acknowledged need to increase the provision of affordable housing within the Borough of Spelthorne.
- 1.2 The Council has adopted a robust policy, but it has proved difficult to meet its objectives, since given that most new build schemes have emerged on sites with existing buildings, the existing use value thereof, coupled with the need for the residual value of a new build scheme to exceed existing use value, has meant it difficult to reach the policy threshold and thus compromise has had to be made.
- 1.3 The current policy threshold provides for the implementation of the Affordable Housing Policy for 15 units above.
- 1.4 Design and management issues dictate that the provision of affordable housing on site for schemes of less than 10 units is probably not practical. But a commuted payment in lieu is an issue the subject of this report. The issue of proposals for 10 to 14 Units is also discussed.

2. APPARENT MARKET TRENDS IN ONE AND TWO BEDROOM DEVELOPMENTS

- 2.1 The general profile of investor purchasers of new build one and two bed properties has changed. For a period there was substantial demand for investment from private individuals, but the large rise in capital values, coupled with the fact that the buying activity resulted in a relative over supply for letting has meant that rents either plateaued or fell with the result that gross yields today have fallen below the cost of money.
- 2.2 It is the “professional” purchaser who is now most active in the new build market, frequently buying tranches of properties for a substantial discount. The “amateur” buyer, if he or she is still in the market will now tend to move towards second-hand properties.
- 2.3 The result of the activity by Buy to Let purchasers has been to force prices up sharply to the detriment of first time buyers. This has had the effect of distorting the market for two primary reasons:-
 - a. Historically speaking, it is the strength of the first time buyer market that has underpinned the housing market overall.
 - b. Investor purchasers tend to hold their properties medium to long term, when owner occupiers will tend to trade up after a period. In other words, the ongoing supply of properties onto the market is reduced by the growth in investor ownership.
- 2.4 Empirically, with a new build development of one and two bedroom flats there is an expectation that between 60% and 70% of the properties to be created will be

purchased by investors; some 20% will be by first time buyers, with the balance by people, either say trading down or as a result of family break-up.

- 2.5 With second-hand properties on the market the balance switches to empirically 70% first time buyers; 30% investor buyers.
- 2.6 It is, therefore, clear that the growth in the investment market has distorted seriously both values on the one hand and ongoing supply on the other, and which has acted to the serious detriment of first time buyers, who find it increasingly difficult to access the market.
- 2.7 The expansion of provision in alternative tenures creating inter alia affordability, as well as satisfying social need, is imperative.

3. THE THRESHOLD BELOW 10 UNITS

- 3.1 It is not held to be feasible to require the provision of onsite affordable housing on sites below 10 units because:-
 - a. with the requirement that the different tenures are physically separate, the design impositions on a small site would be likely to prove difficult and
 - b. the management of a small number of units would not be welcomed to the Housing Association or RSL by virtue of fragmentation.
- 3.2 Equitably, however, and in the interest of the increase in affordable provision, it is inappropriate for a site simply by virtue of its size to operate outside the main policy framework.
- 3.3 Accordingly, therefore, whilst an onsite provision is not deemed to be appropriate for a development below 10 units, the issue of a commuted payment for off site provision is nonetheless valid.

4. POLICY FRAMEWORK FOR COMMUTED PAYMENTS

- 4.1 Constraints based on an existing use value will continue to apply.
- 4.2 If a development were typically on garden land attached to an existing dwelling and with minimal existing use value, inevitably the grant of a planning consent would create a residual site value for the development which would enable a commuted contribution to be made.
- 4.3 Thus if the dwelling to be created were say that of two bedrooms with a market value of £225,000 the residual site value for the land could be reflected in the sum of £90,000 and following the principles enunciated in *Stokes v Cambridge*, it would not be inappropriate for a contribution of 30% or £27,000 to be made.
- 4.4 If, however, the development were based on a site with an existing property, greater difficulties occur in generating surplus funds and the following example is based on an actual valuation in Ashford:-

The proposal was on the site of an existing three bedroom bungalow with a nice plot and for its demolition and conversion to 4 No. two bed flats. The residual value of the development barely exceeded the existing use value at £325,000

On the principle that there has to be a presumption that existing use value is exceeded by some 15% to 20% for a scheme to proceed, under these circumstances there would be minimal scope for a commuted payment.

- 4.5 We have referred briefly in paragraph 4.3 to the principles enunciated in *Stokes v Cambridge* pertaining to the valuation implications of development enabled by access over third party land.
- 4.6 Typically, this would represent a 30% of the additional value to be created and by virtue of a valuation principle which not only is transparent, but also long established within the legal valuation framework, and has the merit of simplicity.
- 4.7 It would be appropriate for any policy to be drawn up on the principle of flexibility, given sensitivities associated with existing use value.
- 4.8 In essence, therefore, there should be a presumption of a commuted payment of 30% of the enhanced value of the site, on all proposals of below 10 units with the Council acknowledging flexibility in the event that the developer or landowner transparently can indicate a lack of viability in the enforcement of this policy.

5. THE 10 TO 14 UNIT THRESHOLD

- 5.1 One of the factors associated with the 15 unit threshold is the large number of applications to the Council which stop at 14 units in order to avoid an obligation to provide affordable housing.
- 5.2 In our opinion, this issue could be confronted without detriment to overall housing provision by the adoption of a policy covering developments of 10 to 14 units. As it is the case that the policy is defined as 50% for 15 unit schemes and above; and if 30% commuted payment was adopted for proposals below 10 units, then realistically as between 10 and 14 there would be an expectation of a range between 30% and 50% affordable provision assuming an open book approach by any developer in the event that they deem any scheme not to capable of meeting the policy requirement.

6. CONCLUSIONS

- 6.1 For schemes of below 10 units, there should be a presumption of a commuted payment equivalent to 30% of value enhancement created by the grant of a planning consent.
- 6.2 For schemes of between 10 and 14 Units there should be a presumption of an on-site affordable housing provision of between 30% and 50%.
- 6.3 In both cases the Council should acknowledge flexibility in the interpretation of this policy, in the event that its enforcement could damage viability, but with the requirement that any developer/landowner claiming such damage should support its view with an open book approach.