GREATER NORWICH AFFORDABLE HOUSING

Further to our recent discussion I set out below some general comments regarding Affordable Housing viability issues and then specifically answer the questions that you have raised concerning the Viability Assessments prepared for the Greater Norwich Development Partnership (GNDP).

I hope that these comments are of assistance to you but if you do need any further help please do not hesitate to let me know. I also confirm that I would be happy to attend any examination in due course.

GENERAL

The thrust of PPS3 as supported by the Blyth Valley case requires local authorities to provide a robust assessment of their affordable housing policies in order to ensure that as far as possible any adopted policy will in all likelihood not interfere with the deliverability of affordable housing within their District. It is this issue of deliverability which is key. If a policy is drafted in a way which stifles the deliverability of affordable housing, then it will have failed. In order for affordable houses to be delivered, there are 3 key players in the process. These are the local authority in granting any consent, the developer and the original landowner. It may be of course that the developer and landowner are the same person, but for simplicities sake, it is easier to understand the whole process by assuming that they are different people.

The imposition of affordable housing together with all other planning gain requirements under a Section 106 Agreement are in essence a tax on the landowner. The developer will initially work out what he can afford to pay to the landowner for the land. He assesses the gross development value for the houses that he proposes to build from which he then deducts the cost of construction, his finance charges and his own profit based on either cost or as a share of development value. The planning gain package will be considered by the developer as a cost as it either reduces the development value that he can achieve in respect of the affordable housing, or alternatively the planning gain package imposes capital obligations on him.

The developer will not reduce his profit from the scheme because of the affordable housing or other planning gain obligations, but merely reduces the amount that he is prepared to pay the landowner. It is therefore the landowner which ultimately pays for all planning obligations and the impact upon value caused by the imposition of affordable housing.

In order therefore for development to occur, the landowner must be sufficiently incentivised to sell his land. The landowner is therefore an absolutely key player in the process and unless he feels that he is achieving a figure which incentivises him to sell, then development will not happen. The imposition therefore of affordable housing together with all other planning gain costs must not be at a level which does not incentivise the landowner to sell.
The purpose therefore of a viability study is to work our whether in theory the imposition of affordable housing and other planning gain obligations reduces the land value to a point where it does not incentivise the landowner to sell. It is a popular misconception

that the imposition of planning obligations somehow affects the developer. It does not for the reasons set out above i.e. he takes his fixed percentage profit on cost or as a share of development value and he merely passes on the planning obligation costs to the landowner.

In order therefore for a policy to be robust and comply with PPS3, it is necessary for any viability assessment to specifically state on what basis it considers the landowner is incentivised. The way of working out what the land value is after the imposition of affordable housing etc, is via the residual land value calculation which I understand is well known to you. Within the Drivers Jonas report, they state in their overview (para 3.1) that if the residual land value is lower than the previous use value, then it is considered that the scheme would be unviable. This is a correct statement as landowners will not sell their land for a value below that which they already enjoy without any planning permission being granted. Para 3.6 of the Drivers Jonas report then states that "as long as the site value remains positive and shows the landowner a reasonable uplift in value from the property's previous use…..then the landowner should still be incentivised to dispose of the property and the site can be considered viable". What Drivers Jonas do not say however is what is "a reasonable uplift". A reasonable uplift to one person may not be considered to be reasonable to another. In order therefore for the policy to be robust it must include an objective test of viability.

Within paragraph 4.1 of the Drivers Jonas report, there is a suggestion that "marginal schemes are those where the residual value in our appraisal is within £100,000 of the previous/alternative use value". This is the closest that their report gets to providing an objective test. In my opinion, neither suggestion in reality is objective enough because an uplift of £100,000 could only be a very small percentage uplift on a high value existing site yet could also be a significant increase on a low value alternative use site.

The report therefore is fundamentally flawed as it does not have an objective test of viability which from a landowners perspective incentivises him to bring his land forward. From the development industry's perspective it needs to be clear and understandable in order that it gives certainty in knowing exactly how much planning gain the local authority are seeking to impose on any site.

The Drivers Jonas report is also unclear in relation to the issue of housing grant. As it correctly states in its conclusions (paragraph 5.5) grant funding "is critical to viability". The whole grant funding scenario is however extremely fluid both in respect of the amount of funding that might be available for specific schemes or whether any funding at all is going to be forthcoming in the future. It cannot therefore be right that a Core Strategy which is dealing with the deliverability of housing over a long period, should not be clear at the outset and therefore it must assume that no grant funding is available. The policy can be sufficiently flexible to have a no grant situation as its base line, and then allow changes to the amount of affordable housing if funding then became available. This issue should therefore have been more directly addressed by the report.

Finally, the Drivers Jonas report only deals with a small part of the District and therefore in geographic terms, I believe that more work needs to be carried out in relation to the whole of the policy area and not merely restrict matters to Norwich itself.

I appreciate that the Infrastructure Needs and Funding Study does cover a wider area but that is also confusing in the way in which it approaches the viability of imposing tariffs. The model that they set out on page 215 inputs a specific land value and then assumes that there is some development surplus or deficit. That is incorrect as it should input the tariff and then see whether the resultant land value incentivises the landowner for the reasons set out above. The importance of land value in the development equation is to a certain extent recognised on page 218 but it then states that as long as residential land value is above existing use or alternative use value, then residential development remains viable. This is not a realistic scenario as unless the landowner is property incentivised then he will not sell his land. Merely achieving a figure in excess of alternative use value will not sufficiently incentivise the landowner and therefore of housing will not be delivered.

SPECIFIC QUESTIONS

1. Do the relevant parts of the EDAW/Drivers Jonas report (INF1) adopt a reasonable method of assessment? Does this approach provide a robust and convincing evident to underpin policy 4 and satisfy the PPS3/Blyth Valley tests?

As I have stated in my general comments above, the Drivers Jonas report and the Infrastructure Needs Funding Study do not provide either robust or convincing evidence to underpin the affordable housing policy. There must be an objective test of viability against which any site can be considered, all testing must be on the basis of no grant funding and there must be a greater geographic testing.

2. Is the report sufficiently focused on the viability of affordable housing?

In essence the answer to this is no. I have set out in my general comments above why the viability of affordable housing is a very complex subject but essentially it is under pinned by the issue of whether or not a landowner is incentivised to sell his land.

3. Does the report assume unrealistic levels of captured land value?

The captured land value issue is set out in the Infrastructure Needs Study. For the reasons set out above, I do not believe that this is the correct way in dealing with such matters as it inputs a hypothetical figure which may or may not be sufficient to incentivise a landowner.

4. Does the evidence place an unrealistic emphasis on the availability of past average levels of grant per AH unit bearing in mind the policy requirement to substantially increase the proportion/quantity of AH units provided?

For the reasons stated above, any viability testing must be on the basis of a no grant scenario.

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11.5.10