Appendix A

SUMMARY OF DEVELOPER RESPONSES TO SCRUTINY REVIEW CONSULTATION

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We very much appreciate the invitation to offer our thoughts in respect of the provision of Affordable Housing requirements on new developments. However, it is difficult to consider Affordable Housing in isolation of the other requirements/obligations that have to be considered when bringing a potential development forward, as they all contribute to how any development proposal is put forward.

The Local Plan includes policy WLP8.2 – Affordable Housing, which sets the affordable housing requirement based on the location of the proposed development. The Local Plan policy is viability tested and set at a level which is deliverable. Increasing the affordable housing on a development puts pressure on other areas. Land value is one variable which can be used to balance the provision of additional affordable housing. However, landowner expectations on land value are such that if anticipated values are not achievable they will not sell the land and the development will be stymied. Another variable is the developer profit, however development carries risk and therefore if the profits level are not reflective of the risks involved then again the development will not be viable and not be delivered. Lenders will have an expectation that a certain level of profit is achievable, if this is not the case then development finance will not be forthcoming. Profit levels of 15-20% are considered acceptable.

Affordable Housing delivery is subsidised by either the open market housing or grant. Grant cannot be used to subsidise Affordable Housing on private developments and so it is the open market housing that supports the delivery of the affordable housing. Affordable housing payments received from HA's, RP's or indeed LA's do not generate any contribution to land value and often do not cover the actual build cost. As mentioned, we as private developers cannot cover off losses with Government grants, hence levels need to be balanced to ensure viability and thus actual delivery. Any Affordable Housing delivered must be provided to a Registered Provider (RP). Depending on the location of the development there will be varying levels of interest from RP's willing to acquire the Affordable Housing. This will be a factor in the level of RP offer that a developer is able to achieve which in turn will have a bearing on the scheme viability. The number of RP's interested in certain locations within the Local Authority is limited. East Suffolk itself is a stock holding authority and could be more proactive in assisting developers with their viability appraisals of developments and in bringing sites forward.

Developer margins, now more than ever, are being squeezed from all directions. Significant material and labour price increases, rising finance costs, more onerous, but welcomed, legislation in relation to build standards and huge increases in infrastructure costs. This is all coupled with a sharp reduction in house prices generally, which has resulted in viability being pushed to the limits on many schemes. Should affordable housing levels be increased further and on an already delicately balanced viability matrix, this will only have an adverse effect on delivery. We are sure the Authority appreciates the issues developers such as ourselves face, with their own challenges in balancing their own housing stock levels.

On the whole, we feel that the current levels of affordable housing required by policy are just about manageable. They allow us to bid for land to an acceptable level for private landowners and deliver a good level of subsidised (by open market) affordable housing, that comply with the necessary policies, standards and legislation.

Phil Hardy, Town Planner MRTPI, Persimmon (Anglia)

Views on the Council's processes - The Strategic Housing Market Assessment (SHMA) provides guidance on the type of affordable housing needed in the Waveney Local Plan area including the level of housing required and size and tenure of homes. The latest SHMA for the Ipswich and Waveney Housing Market Areas indicates that 50% of affordable housing should be affordable rented and 50% should be intermediate affordable housing tenures. This is reflected in Policy WLP8.2 of the Waveney Local Plan adopted in March 2019 which requires 50% affordable rent and states that only in exceptional circumstances can the level and tenure of affordable housing be varied where it can be satisfactorily demonstrated that a different tenure mix or lower percentages of affordable housing are required to ensure the site remains financially viable. ***It is important to note that the SHMA was adopted in 2017, however, so is therefore 6 years out of date now***. In the absence of a more up to date evidence base, we would recommend that until a new SHMA is adopted, there should be more flexibility in planning decisions relating to the affordable housing mix.

Challenges developers face in meeting these requirements – The cost of materials in housing construction has risen significantly since the global covid pandemic, the cost of living crisis and the war in Ukraine. As such, we would urge more flexibility in agreeing affordable housing requirements in each application. If a viability assessment in line with guidance in Appendix 5 of the Waveney Local Plan adopted in March 2019 is required for every scheme where a lower affordable housing percentage is proposed than required by policy, this may significantly delay many housing schemes and adversely impact on housing delivery and achieving housing targets. The adoption of the Local Plan in 2019 occurred prior to the start of the global covid pandemic, the cost of living crisis and the war in Ukraine, therefore the way they have impacted on viability of schemes is worthy of consideration.

Martin Aust, Director of Pathfinder Development Consultants on behalf of Crocus Homes

Crocus Homes are a local housebuilder, who build distinctive homes, rich in character, offering energy efficient modern living, with real focus in ensuring integration of schemes with the local surroundings. They are wholly owned by Registered Provider (RP) Saffron Housing Trust, with all their profits covenanted back to their shareholder to enable them to deliver more affordable homes or enhanced services to their tenants.

Pathfinder are a consultancy specialising in development economics, assisting in the delivery of affordable housing, and site appraisal, land acquisition, and development within the east of England. Our clients include national and regional house builders, as well as local developers, and land promotion organizations as well as individual landowners.

In this brief paper I seek to explore the impact of delivering affordable housing through S106 agreements and other mechanisms to increase the supply of affordable housing.

The need for realistic land values and profits:

The difference between gross development value (GDV - the total value of the homes to be built) and total cost equates to a residual land value. That residual land value has to be sufficiently attractive to the landowner to release the site for development. Landowner expectations are a very important element in the voluntary release of land for development. If the residual land value is not sufficient the development will simply not come forward.

Financial institutions require a developer to demonstrate a sufficient margin (anticipated profit), to protect the lender in the case of changes in prices or development costs. They will also consider a wide range of other factors, including the amount of equity the developer is contributing (both on a loan-to-value and loan-to-cost basis), the nature of development and the development risks that may arise due to demolition works or similar, the warranties offered by the professional team etc. The PPG says '*For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers.* Anticipated profits at levels lower than this will simply lead to projects being un-fundable.

Appraisals under pressure:

House prices and therefore the GDV of a project are under pressure. The Nationwide House Price index reports a drop in values over the last year on average of 3.13%. Put simply this reduces the ability of a scheme to be viable.

However costs have risen. The BCIS all in tender price index shows that over the last two years build prices have risen by 15.8%. Equally the cost of borrowing development finance has risen sharply adding further cost just as values have reduced pacing all developments viability under pressure. Furthermore standards of construction through he Building Regulations are being driven upwards (for all the right reasons) but the increased costs do not lead to an increase in values.

How Does This Effect Affordable Housing Delivery:

The percentage of affordable housing to be delivered by developers is set in the local plan having being subject to rigorous viability testing and subject to public examination.

One of the constraints on the proportion of affordable homes that is viable is what Registered Providers will pay developers for these homes. The Local Authorities CIL Viability Assessment of October 2021 assumed that for affordable rented homes this was just 50% of market value, a level that may cover the build cost of the homes but not generate any land value, contribution to site wide infrastructure or profit. In our considerable experience of working for developers locally in sourcing RP partners for such schemes this assumption is generally in line with the market. Indeed, RP offer prices have in general also reduced in the last 12 months within Suffolk and Norfolk by typically 5% (See appendix 1 for an explanation).

A greater proportion of Affordable Housing would therefore reduce land values or profits to a level that would see development simply not be brought forward.

How to Improve the delivery of Affordable Housing:

The predecessor authorities to East Suffolk had long track records of working with RP's (and there often local developer partners) to bring forward 100% affordable housing schemes over many years. Delivery numbers had been significant but have gradually reduced over more recent years.

Such projects have the ability to leaver in Homes England grant funding ensuring there viability and in some locations (those sites not as attractive to private housebuilders) to generate land values at the market level. The success of this strategy in the past was built upon a strong enabling function with senior officers at the council committing to close partnership working with RP's and others, utilising land in their ownership etc.

Conclusion:

It is difficult to see how a greater proportion of affordable housing can be secured through S106 agreements by Housebuilders without viability being impacted in a way that will cause developments to simply not come forward. However In the district there has been a strong track record previously of delivery through 100% affordable housing schemes which if rediscovered may offer a robust solution to increasing the supply of affordable housing in East Suffolk.

Note - RP Offer Prices on S106 Affordable Housing

RP offer prices have reduced by approximately 5% in the last year due to the following factors:

1. Government policy

- Rents have been allowed to rise by CPI+1%. RP's base business planning around this assumption. However, to protect residents from cost-of-living pressures, the Government has introduced a rent cap for 2023 at a maximum rent increase of 7%, in real terms a rent reduction. Lower rents result when capitalised in lower purchase prices offered for rented homes. Of course, this has occurred as real cost pressures are faced by RP's.

- Shared Ownership homes have suffered from both a reduction in market values and more cautious appraisal assumptions introduced by RP's following the changes to the new model Shared Ownership lease placing increased liability on RP's (around maintenance expenditure and smaller staircasing traches being permitted). These changes also lead to some seeing SO as a higher risk leading to more cautious appraisal assumptions and therefore lower offers.

- Government policy around RP stock becoming carbon neutral by 2040, and the aftermath of Grenfell and the recent well publicised controversy over damp and mould issues have pushed RP's to generally increase maintenance budgets removing funding from development – smaller budgets leading to less development.

2. Competition

A marketplace exists in RP's bidding to housebuilders to acquire there affordable housing delivered through S106 agreements. If there are fewer RP's operating in the East Anglian development market for S106 schemes, with smaller programmes prices fall. Where there is less competition RP's can offer less and still deliver the number of homes in their programmes. Some examples:

- The above rent restrictions and their impact on the financially weaker RP's is real in reducing capacity.
- Some RP's have had success in securing land directly for their own development programme for the next 5 years. The demand for S106 opportunities has therefore dropped massively from these

RP’s. Such strategies are perused as it gives RP’s more control of what affordable housing is delivered, when it occurs and to what standard.

- In general, the For-Profit RP’s (who in recent years had become part of the marketplace) have either withdrawn or become very uncompetitive in face of higher interest rates and lower rents. Achieving target yields becomes impossible.
- It’s worth noting once RP’s get to the point in their Business Planning cycle that they need to refinance current deals are very unattractive. RP’s often deliberately cut the programme when rates are high to stave off needing to refinance hoping rates reduce.
- There is a pattern of RP’s withdrawing to their core historic areas of operation when programmes get smaller, and/or seeking only larger projects as ways of considering fewer opportunities. Neither of these mechanisms help with levels of competition.
- Historically there has been relatively low numbers of RP’s operating in East Anglia.