

HousingNorthwest

THE REAL ECONOMICS OF SITE DEVELOPMENT

The Government is looking to the planning system to deliver affordable housing to meet local needs by negotiating legal agreements with developers – S.106 agreements – whereby they provided an element of affordable housing in new schemes. The house building industry is willing to do this, but there are economic limits on the proportion of affordable housing that it is viable to provide on each site.

Affordable housing brings developers less revenue than market housing. However they do not cost appreciably less to build when construction, infrastructure provision, other planning gain requirements, normal profit and marketing costs have been taken in to account. This means that builders have less money than they would have otherwise to acquire land, and landowners may be unwilling to sell land at the price that builders can afford.

(One way around this would be to increase the amount of housing being allowed. Greater volumes of sales would increase builders revenues and also increase the number of affordable houses being built in absolute terms.)

The upshot is that developers are generally willing to provide affordable housing, but asking for too great a proportion of affordable housing could mean that schemes became unviable.

Although details of S.106 agreements for each site would have to be negotiated to reflect the circumstances of each site, local authorities could help developers by setting out in their development plans what they would require. This is all part of having a plan-led planning system providing greater certainty for developers and land-owners.

Points made in discussion included:-

- Landowners are reluctant to sell land at the moment. They are frequently being advised to wait for more certain economic times.
- Using Housing Corporation funding to subsidise schemes which are required through a S.106 agreement. The pro was that it might generate more bangs for the Corporation's buck. The con was that developers would run the risk of time delay by having to fit in to the Corporation's investment programme cycle.

www.housingnorthwest.co.uk

- Developers are reluctant to bid for Housing Corporation funding to provide affordable housing, even though they are eligible to do so. The simple explanation may be that builders are not used to dealing with the Corporation.
- The Housing Green Paper urges local authorities to release their own land for affordable housing. However pressures on local authority finance squeezes their ability to release it cheaply.
- Local authorities would like to know more about house builders' economics in negotiating schemes – "the open book". However builders were in a competitive business and were understandably wary of releasing sensitive information to the public domain.
- House builders frequently transferred affordable housing to Registered Social Landlords (RSLs). They usually charged a cost for doing this, which the RSLs passed on in higher rents.
- Who should house builders approach first in negotiating with a local authority, the housing or planning department? There should be a one-stop-shop approach.
- It would be a good idea to include RSLs in pre-application negotiations if they are to manage the completed dwellings.
- Developers and local authorities alike should be informed by Housing Market Assessments as to which types, sizes, tenures and price-bands of houses to build.
- Good design is the key to marketing developments containing affordable housing. The affordable housing should look just as good as the market housing.
- Eco-homes and the new Code for Sustainable Homes (CSH) could increase the construction costs of affordable housing, typically £5k for a CSH level 3 dwelling.

A BISHOP
25.1.08