RESPONSE TO MAYOR OF LONDON'S DRAFT SPG ON AFFORDABLE HOUSING AND VIABILITY

HIGHBURY GROUP ON HOUSING DELIVERY

Introduction

The Highbury Group is an independent group of specialists from public, private and independent sectors from housing, planning and related professions which prepares proposals for Government and other agencies on policy options for optimising the output of housing including affordable housing. The current core membership is set out in a footnote to this submission.

Key Points:

* Financial viability assessments should be secondary to the achievement of adopted planning policy

* The proposed 35% affordable housing threshold will mean that schemes that could comply with the full policy requirements as set out in the London Plan will not receive adequate scrutiny and that the policy of achieving the maximum reasonable amount of affordable housing in policy 3.12 of the London Plan will not be delivered in relation to such schemes.

* The GLA affordable housing toolkit and guidance must be updated to current values, prices and financial assumptions, and must be reviewed annually.

The role of viability within planning policy and practice

The Highbury Group welcomes the intention of the Mayor to strengthen the policy mechanism for maximising delivery of affordable housing in terms of the existing policies set out in the 2015 London Plan, specifically in relation to the use of viability assessment of planning applications. We are conscious of the fact that the draft SPG has to operate within the existing policy and that the Mayor will make proposals later in the year to amend housing policies and other policies in the London Plan.

We would also wish to stress that planning decisions in relation to residential development should continue to be plan led and based primarily on whether schemes provide housing to meet the requirements identified in the Strategic Housing Market assessment and in planning briefs for specific sites which are derived from this assessment. While financial appraisals assess the justification for non-compliance based on the development economics of a specific development proposal, the GLA and boroughs should also use the financial appraisal system to test whether a proposed scheme could be adjusted to provide more and or more appropriate affordable housing, including am assessment of whether the Mayor is justified in contributing grant in relation to the specific scheme to optimise affordable housing outputs. The financial appraisal system should also be used to test the affordability of the homes provided to prospective occupants in terms of the target group and income based criteria for affordability of different types of sub-market housing.

Part 2 The Threshold Approach.

While we appreciate the intention of the Mayor to simplify the current appraisal system, we have concerns that the proposed threshold approach will not necessarily maximise the output of genuinely affordable homes on the full range of sites referable to the Mayor. We are also aware that individual Boroughs will refer to the approach proposed by the Mayor in their assessment of schemes they determine which are not referable to the Mayor.

The London Plan retains a numerical affordable housing target equivalent to 40% of the identified housing capacity of 42,000 homes a year. The Mayor has also stated his intention of raising this target to 50%. The Mayor has commissioned a new Strategic Housing Market Assessment (SHMA) and a new Strategic Housing Land Availability Assessment (SHLAA) to inform the proposed new target. It is likely that these new assessments will demonstrate that the need for additional sub-market homes is greater than 50% of assessed development capacity over the next 10 years – the period for which new London-wide and borough housing targets will apply. In this context, we think it is inappropriate to set a site specific threshold of 35% sub-market housing, above which full financial scrutiny is dis-applied in relation to schemes not involving any public subsidy.

The proposal is put forward as a mechanism for speeding up the planning decision making process and is not supported by any evidence to the effect that, London-wide, the current 40% target or potentially a higher target, is not deliverable. The fact that in recent years the 40% target has not been delivered is not in itself evidence that in the current context and in the period up to the adoption of a new target, the 40% target cannot be delivered. In fact the Mayor has recently stated that the aggregate of schemes considered by him since May 2016, have in fact been given planning consent on the basis of achieving an affordable housing output of above 40%. The proposed change in practice does not appear to be based on any research demonstrating that in practice the 40% target cannot be delivered on specific sites or on an aggregate of sites, similar to the research which was carried out by the Three Dragons consultancy to support the inclusion of the 50% target in the 2004 London Plan.

While it is correct that the level of direct public subsidy per unit available for different types of sub-market housing is less than it was in 2004, sales values are significantly higher, with a near doubling of sales values in some areas of London since 2008. The earlier research demonstrated than in central London boroughs, high value schemes could support 50% affordable housing without grant. In the current context, there will certainly be high value schemes which could support 50% affordable housing without grant and consequently the 35% threshold will fail to deliver the existing London plan policy of delivering the maximum reasonable output of affordable housing on a specific site.

We note the statements in para 2.3 and 2.9 that all schemes receiving public subsidy (including Mayoral or Borough grant or any discount on market value of public land), schemes involving off site affordable housing provision, schemes involving demolition of affordable housing, and applications making use of vacant building credit, will be subject full financial appraisal, irrespective of whether the proportion of affordable housing proposed is above 35%. It is however also important to specify that the 35% figure will be assessed in terms of habitable rooms or floorspace and not in relation to units, in order to take into account the differential size between tenures of proposed dwellings.

It is however critical to ensure that before applications are considered for the Route B process, the full policy requirements in the London Plan are tested and the additional guidance in the Housing SPG are considered. This relates not only to schemes delivering the required mix of sub-market provision (‘affordable housing’ for the purposes of the Mayor’s proposed 35% target/threshold) a minimum of 60% of sub-market homes meeting the criteria for social and affordable rent. In para 2.28, the draft SPG introduces different targets for different types of sub-market housing product which are different from those set out in the London Plan. The new proposed threshold/target could lead to a significant reduction of the proportion of sub-market housing which is social or affordable rented housing. We would stress that while the Mayor has the power to determine how his housing investment programme is allocated between different types of sub-market housing product, and change of the targets set out in the London Plan requires a formal revision to the London Plan, for which there is a statutory process. We would also point out with reference to para 2.28, that it is inconsistent with the objective of achieving genuinely affordable social or affordable housing if the rent levels are higher than the relevant limit for housing benefit such as local housing allowance. The Mayor GLA therefore should for the purposes of its use of its housing investment funding and exercise of its planning powers require that rent levels should not exceed benefit levels.

Paragraph 2.34 refers to London Living Rent. There is an expectation that London Living Rent tenants cannot afford owner occupation but may seek in due course to move into owner occupation. It is therefore illogical to include the incomes of those who are already in owner occupation in the definition of median household income for London Living Rent level limits. Including local owner occupier household income will vary significantly the figure of one third of the relevant median household income quoted in the draft SPG. For instance in a borough with about 45% of households being owner occupiers, including owner occupier incomes increases the median income figure by a third. Crucially the scale of the variation will be different dependent on the local proportion of housing that is owner-occupied. It is technically unsatisfactory to have such a measure defined in a way which varies according to the local proportion of housing which is owner-occupied. Therefore the only household income data useable for the purposes of setting the London Living Rent level is that of households excluding owner occupier incomes.

Schemes should also provide a mix of unit types in accordance with assessed housing requirements including the target for homes which are 3 bedrooms or larger, the minimum internal space standards and amenity and environmental standards and also comply with the density policies as set out in the existing London Plan, and do not constitute over-development or under-development. If these policy requirements are dis-applied, it is likely that that in order to avoid financial appraisal, some developers will produce schemes that provide 35% sub-market through providing small units which are only marginally submarket in schemes which are over-developed and in built forms which are inappropriate for the intended occupants. This would clearly be an unsatisfactory outcome.

It is also critical that in appraising schemes which purport to include affordable housing units, the GLA assess whether the homes proposed as social or affordable rent or intermediate homes, actually meet the needs of the intended target group and are affordable by them. It is therefore essential that the GLA reintroduce into the viability model the assessment of individual units against the relevant affordability criteria. This includes an assessment of service charges as well as rental and purchase costs. We are concerned to note that the guidance Notes for the affordable housing development control toolkit no longer appear on the Mayoral website. The GLA should also assess whether the payment of CIL and planning gain contributions are sufficient to support a new residential development.

The SPG indicates that lower affordable housing targets will be considered in Opportunity Areas ‘given the need for additional infrastructure’. While it is recognised that some Opportunity Areas will require significant infrastructure, given the importance of the Opportunity Areas in delivering new housing supply, any waiver of the normal policy requirements for affordable housing in relation to these areas, will significantly reduce the ability of the Mayor to deliver the overall affordable housing targets set in the London Plan. As the existing London Plan does not include differential treatment of affordable housing targets for schemes within Opportunity Areas, it is ultra vires to introduce a separate policy through SPG. Moreover this proposal does not recognise that the development economics of schemes within Opportunity Areas will vary widely, and the treatment of all Opportunity Areas as if they have similar characteristics is not appropriate.

Part 3 Guidance on Viability Assessments

It is essential that viability appraisals are carried out on a consistent basis and that the GLA maintains a dataset on all appraisals undertaken, to enable the comparison of individual schemes and to establish a benchmarking system. It would be preferable for a standard model to be used and an updated version of the GLA’s own Affordable Housing Toolkit would appear to be most appropriate as it was, unlike the other models in common usage, designed specifically for the purpose of development appraisal by public planning bodies to assess any justification based on scheme economics for non-compliance with published planning policies. It is essential that the current version of the model, which is based on January 2015 assumptions on costs, valued and financing assumptions is brought up to date, and updated on an annual basis as used to be the case. This is especially important given the significant increase in sales values of the majority of London developments over the last two years. Using out of date assumptions will significantly reduce affordable housing outputs, as well as increasing developers ‘surplus’ profit.

We strongly support the proposal that all appraisals and assessment of viability submissions should be undertaken by the GLA's in-house team. This will remove the potential conflict of interest that often arises in the case of relying on assessments by private consultants employed by or paid for by the applicant. We also support the requirement that appraisals should be fully transparent and that all of the background viability information should be available both to the officers, the Mayor and councillors involved in determining planning applications and to the general public.

We support the detailed guidance on the content and assumptions to be used in viability submissions. We support the use of Existing Use Value plus premium as a basis for consideration of land value. It would however be helpful for the Mayor to issue guidance on the acceptable premium in specific contexts and to seek full justification for profit levels assumed by applicants in their viability assessments. Proportionate premiums could be set in relation to the actual EUV with a higher proportionate premium in relation to land where the EUV is low, or in relation to the existing land use concerned. It is important that the premium is sufficient to ensure that the appropriate land is released for housing development, while ensuring that the landowner does not capitalise on hope value to the extent that it significantly reduces either the quantum of submarket housing or the affordability of such housing. Where a landowner is not prepared to release an appropriate housing site on the basis of EUV plus a reasonable premium, the Mayor should consider using his Compulsory Purchase powers to ensure that the site is brought forward for development.

We support the application of review formulae.

Part 4 Build to Rent

We do not support the inclusion of Build to Rent in the affordable housing definition, unless the scheme meets the criteria for intermediate housing as set out in the London Plan and the Housing SPG. . This includes the appropriate affordability criteria as well as the criteria that these criteria are met in perpetuity. Where the homes can be sold within a prescribed period, or where rents can be raised above the appropriate level, such homes should not be considered as covered by the affordable homes policies and targets set out in the London Plan. It is important that the Mayor urgently brings forward revised definitions for affordability for each category of sub-market housing, which relate directly to the incomes of the target group for each sub-market product, as in the 2004 and 2008 London Plans, rather than relying on the current national Government definition that housing available at up to 80% market price or 80% market rent is deemed to be affordable in terms of the application of planning policy and targets for affordable housing outputs within new developments.

Footnote

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The group was established in 2008. The group now meets at the University of Westminster, London. It comprises the following core members: Duncan Bowie - University of Westminster (convener); Stephen Ashworth – SRN Denton ; Julia Atkins - Consultant; Bob Colenutt – Oxford Brookes University ; Kathleen Dunmore - Three Dragons ; Michael Edwards - Bartlett School of Planning, UCL; Deborah Garvie/Sarah Mahmoud- SHELTER ; Stephen Hill - C20 Futureplanners ; Angela Housham - Consultant ; Andy von Bradsky -Consultant ; Seema Manchanda – planning consultant; Tony Manzi - University of Westminster; James Stevens - HomeBuilders Federation ; Peter Studdert – Planning consultant ; Janet Sutherland - JTP Cities; Paul Watt - Birkbeck College ; Nicholas Falk- URBED; Richard Donnell – Hometrack; Pete Redman – TrasdeRisks; Richard Simmons - UCL; Richard Blyth /Joe Kilroy – RTPI ; Shane Brownie , Stephen Battersby- Pro-Housing Alliance; Roger Jarman – Consultant/ Housing Quality Network; Richard Bate- Green Balance; Eric Sorensen; David Waterhouse- Design Council/CABE; Martin Crookston; Chris Shepley; Kath Scanlon – LSE; Nicky Morrison – University of Cambridge; Glen Bramley- Heriot Watt University; Tim Marshall – Oxford Brookes University. Alisdair Chant- Berkeley Group; Chris Knowles- Tonbridge and Malling BC; Sarah Sackman- Francis Taylor Building; Beth Stratford – Leeds University; Luke Murphy -IPPR; Alice Martin – New Economics Foundation; Peter O'Kane; Abdul Choudhury- RICS: Joe Sarling- NLP , Riette Oosthuizen, HTA

The views and recommendations of the Highbury Group as set out in this and other papers are ones reached collectively through debate and reflect the balance of member views. They do not necessarily represent those of individual members or of their employer organisations.

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