

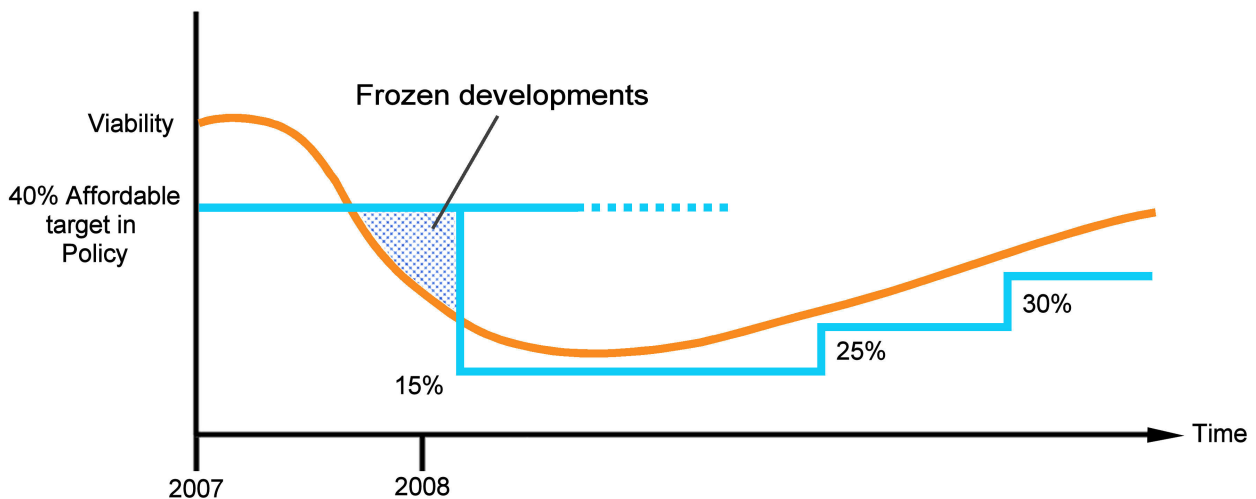
# Credit Crunch Newsletter

*Issue 2.1 December 2008*

## Viability and the Credit Crunch: Conference 19<sup>th</sup> November 2008

This issue contains a summary of the conference ‘Viability and the Credit Crunch’ which Fordham Research organised on 19<sup>th</sup> November 2008. It addressed a range of issues of importance in addressing housing during the credit crunch. The following is a short summary of material discussed during the conference.

The following diagram illustrates the dynamic viability approach: a two tier approach to setting affordable housing targets, adjusted over time (discussed in paras 9-11 below).



### Chair

Dr Hartley Booth      Consultant      Denton Wilde Sapte (Solrs)

### Speakers

Vicki Jessop	Housing Manager	Wellingborough Borough Council
Cat Hartley	Housing Manager	East Northants Borough Council
Graeme Geddes	Planning Manager,	Investment Division, Homes and Communities Agency
Richard Honey	Barrister	Francis Taylor Building, Temple
Dr. Richard Fordham	Chairman	Fordham Research
Andrew Whitaker	Planning Director	Home Builders Federation
Margaret Gibson	Co-ordinator	Taunton and West Somerset SHMA
Justin Gardner	Director of Research	Fordham Research

The following is a summary of the main points raised at the Conference, held at the Friends Meeting House, Euston Road, London. This summary has been discussed with the Speakers and where desired amendments made. However responsibility for it rests with Fordham Research.

### **Preconceptions about infrastructure costs and viability**

1. Vicki Jessop and Cat Hartley examined a set of 9 common assumptions about housing development in this context. These included the issue of the effect of infrastructure on land price and the way in which the subsidy involved in affordable housing affects land price. Vicki Jessop pointed out that there is a £340 million 'funding gap' on the major urban extensions planned in North Northants. That is the gap between the cost of providing infrastructure, affordable housing, and 'green homes'. Clearly all of these things cannot be provided. She said that although they were obtaining a reasonable amount of affordable housing on smaller sites, they were only achieving 20% onsite affordable housing on the urban extensions. In discussion it was argued that testing viability should be done at the point of inception of development as well as the point of granting permission.

### **Credit Crunch challenges**

2. Graeme Geddes said that, contrary to some assertions, the affordable housing investment model is not broken; however the 39% of new affordable housing that has been delivered on S106 sites in recent years is at risk in current market conditions. The aim of the Corporation, and of the future Housing and Communities Agency (HCA) was to achieve mixed and balanced development. The HCA would inherit the National Affordable Housing Programme (NAHP) which represents more than 50% of its 2008-11 budget. In recognition of the impact of the credit crunch on its

Investment Partners, some flexibility in future use of grant will be needed where 'new housing schemes' are brought in. However grant would not be used simply to rescue schemes which have become unviable, or to prop up bad deals (or land values).

3. He explained the various measures that the Corporation, and prospectively the HCA, are taking to mitigate the effects of the credit crunch where possible. This includes a National Clearing House for unsold stock. They are switching some shared ownership to intermediate rent.
4. The Housing Corporation now operated 'continuous market engagement' for the NAHP to allow rapid investment decision making on schemes. He thought 2009 would be brutal, and pointed to the fact that a drop in house prices means much more of a drop in land value. This meant a significantly reduced scope for S106 affordable housing in the medium term. The HCA will as of December 2008 be promoting a 'dynamic process' in a 'single conversation'. Work to understand the market impact on S106 delivery will inform future policy. It is of course uncertain as to how long or how deep the downturn will be. One effect of the reduction in shared ownership sales was that the cross-subsidy to social rented housing it supported is putting pressure on RSLs business plans. In response to a question Graeme acknowledged that more grant would have to be found if future market scenarios could not sustain the level of planning obligations achieved in recent years.

## **S106 and credit crunch**

5. Richard Honey said that in a situation where all of the planning gains cannot be afforded, it is for the planning authority to decide which package of elements is of the highest priority. In principle viability can be measured at the point of grant of permission only (clearly not effective in present circumstances). Secondly there can be a viability check at the start of development, and thirdly a more elaborate mechanism in the S106.
6. Purely financial clawback is much easier than 'things' (such as units of affordable housing), for reasons of legal enforceability. Whatever the trigger, it must be simple to apply, as a judge must be able to read off the appropriate solution without ambiguity or risk of challenge. A key question is setting the floor for the ratchet in such a process (the ratchet being the notches up and down which changes in market conditions would trigger). Elements such as the Community Infrastructure Levy (CIL), if adopted by a council, clearly reduce the leeway for affordable housing in the credit crunch.
7. Richard reviewed in detail the Government Guidance and the scope for flexibility in the S106 phrasing. There is some, but it requires careful handling. He illustrated clawback provisions and discussed their application in the Thames Gateway. In discussion it was asserted that developers generally offer 100% of the transport requirements; 50% of the policy level of affordable housing, and zero for education and social policy items.

## **Dynamic viability analysis**

8. Richard Fordham pointed out that during the history of affordable housing since 1991 there had been no credit crunch or

downturn. Hence it is not surprising that PPS3, the main Guidance, takes a static view of viability. It requires that affordable housing contributions should be deliverable. It does not allow for sharp variations in viability, especially downward ones, such as are now being experienced.

9. He suggested that a two tier system of affordable housing targets should be employed. PPS3 requires only a 'plan wide' target. The upper tier of such a target (Target A) would be set using the traditional housing needs assessment approach, and might be as high as 40-50%. But that target alone is likely to be unviable in the present situation. Hence a lower tier (Target B) should be calculated from viability assessment to show that say 15% was as high a target as could currently be afforded. Target B would be revised periodically (say annually) and the new Target B issued through a Development Plan Document. Thus the Target B might rise, if the market does, to 25%, 30% and so on, but with a ceiling set by Target A. Hence the affordable housing level would never be above Target A. The Planning Inspector at the LDF would be asked to agree Target B as it stood at the time, with Target A as the longer term background.
10. In discussion it was suggested that the shortfall of planned amounts of affordable housing, which is bound to arise over the next few years, might be recouped in any prosperous high priced years that might follow. This could be difficult, due to the impracticability of plan wide targets much over 50%.
11. Richard Honey expressed his legal opinion that dynamic viability was a workable idea and met the Guidance and statute requirements. The dynamic viability approach is being used in a Strategic Housing Market Assessment in Somerset.

## Meeting Housing Targets

12. Andrew Whitaker argued, using examples, that local authorities should allocate much more land in the credit crunch. He argued that they would obtain more affordable housing through this approach. He also argued that more overall housebuilding would follow from involving more housebuilders in any given area, using the established fact that two builders working on a given site will generally sell almost twice as many houses as one.

## Combining SHMA, dynamic viability and SHLAA in one package

13. Margaret Gibson said that housing market areas are 'beasts with furry coats and so have fuzzy edges'. She gave background to the geography of commissioning and planning authorities. Her Steering Group had taken on board the approach of combining viability and housing market assessment, and had now included the

land supply in the overall project. Through working closely with their Housing Market Partnership, including the HBF, regional agencies and local developers, it was their hope that this would produce an agreed result which would be less open to challenge and objection through the planning process. The Housing Market Partnership is taking a strategic overview of the Strategic Housing Market Assessment, the Strategic Land Viability Assessment and the Strategic Housing Land Availability Assessments currently in progress.

14. Uncertainties about the integrity of secondary data available to them, particularly from local housing registers, indicated the need to undertake primary housing needs research locally.
15. Justin Gardner made the point that such combined studies made much greater demands on data manipulation: it did not fit neatly into boxes, and the combination of the stakeholder process and technical analysis was required to produce a robust result.