

EXECUTIVE SUMMARY

1. In November 2007 Adams Integra was instructed by Mole Valley District Council to provide an Affordable Housing Financial Viability Assessment. This was to inform the development of the Council's Core Strategy Development Plan Document, which will include the Council's policies relating to the provision of planning-led affordable housing.
2. This study tests the circumstances in which the Council can expect the residential property market to deliver the required levels of affordable housing.
3. The study has been carried out in the context of seeking to maintain the supply of housing sites overall, whilst securing an optimal contribution to affordable housing need provided through market-led housing developments.
4. The requirement for market-led schemes to provide affordable housing has an impact on development viability because the levels of financial receipt available to the developer are significantly reduced in comparison to market sale receipt levels for the completed homes. The affordable housing requirement is regarded in much the same way as other planning obligations – a cost to the scheme, which is largely passed on to the landowner by way of a reduced sum available for land purchase (reduced land value when compared with a scheme which provides solely market housing).
5. The Council's current affordable housing policy HSG9 (updated by the Alterations to Policy HSG9 – Affordable Housing 2003), requires 30% affordable housing on developments of 5 or more net dwellings (or are 0.2ha or larger) in defined rural settlements with a population of less than 3,000, and 30% affordable housing on developments of 15 or more net new dwellings (or are 0.5ha or larger) in all other areas of the District. The Council wished to explore the impacts of, and sought our recommendations on, a range of potential policy options. Those options included reducing the affordable housing thresholds and/or increasing the proportion of affordable housing sought. It also required the investigation of the potential to collect financial contributions for affordable housing in lieu of on-site provision on sites below the thresholds tested for on-site affordable housing. This is all in the context of the high levels of affordable housing need locally.
6. The study involved carrying out developer type appraisals on a range of notional development scheme types agreed with the Council, aimed to reflect a typical range of scheme types likely to come forward.
7. Adams Integra's modelling concentrated on notional schemes ranging from 1 to 100 dwellings in size, of varying mixes. This ensured that we tested viability

at a range of potential threshold levels, as well as at affordable housing proportions from 20% to 50% depending on site size.

8. While the viability outcomes from increasing requirements in this way are significant, the area covered by Mole Valley is a high value one in terms of property and land values.
9. Although there is a range of new build values seen, and that will always be the case, we do not consider that overall the variations are significant enough or patterns distinct enough to merit different affordable housing policies across the district.
10. Given the strength of local values, we consider that the on-site affordable housing policy trigger threshold could potentially be taken down to 5 dwellings District-wide without unduly compromising delivery from a site viability point of view. This is provided that the proportion of affordable housing sought on smaller sites is judged appropriately, and practicalities of delivery are also taken into account.
11. However, the study goes on to outline alternative possible approaches which we encourage the Council to consider the merits of. These are set out in the main report body, but also referred to in this summary, below.
12. The results of our study suggest considering reduced affordable housing proportions on sites below the Council's current adopted affordable housing thresholds.
13. However, the Council would also need to demonstrate the wider justification for lowering thresholds in terms of need, local site supply and characteristics. Government Guidance within PPS3 is framed in terms of a "national indicative minimum site size threshold" of 15 dwellings. PPS3 states that Local Authorities "can set lower minimum thresholds where viable and practicable...." There need no longer be a distinct approach to thresholds and related policy in small rural villages where more potential flexibility previously existed. In our view the widened scope for flexibility could apply in all areas – smaller and larger settlements, rural and urban.
14. In tandem with these viability outcomes, the Council will need to consider the type and number of sites likely to come forward alongside housing need and the delivery which could flow from the various approaches.
15. Given the practicalities of affordable housing delivery on smaller sites and the steepest viability impacts normally being on newly captured sites, it is possible that the Council could consider the collection of financial contributions in lieu of on-site provision on smaller sites. Those sites could be in the 1-4 or 1-9 dwellings size range. These options, as with others, are

detailed within this report. The introduction of an affordable housing requirement on smaller sites, albeit at a lower starting proportion would also make a valuable contribution to meeting housing need.

16. Should the Council choose to introduce lowered affordable housing threshold points (compared with its existing approach) as policy, then we would recommend introducing a graduated or “sliding scale” approach as site size increases. This could start at 20% affordable housing provision, increasing to 40% on sites of 15 or more dwellings. Given that newly captured sites show the greatest impacts from any revised policy, the “sliding scale” approach to policy application has the effect of softening the viability impacts on those small sites by reducing the size of the “steps” as site size increases.
17. In summary, the options Adams Integra is able to support from a viability viewpoint include:
18. **Introducing a sliding scale type effect to policy, thereby reducing the impact from the straight introduction of 40% by setting a requirement of:**
 - a. **Removing the threshold distinctions between defined rural settlements and the rest of the District and requiring a target of 20% affordable housing equivalent financial contribution on sites of 1 to 4 dwellings and;**
 - b. **requiring a target of 20% on-site affordable housing on sites of 5 to 9 dwellings (effectively lowering the proportion from current policy in defined rural settlements) and;**
 - c. **requiring a target of 30% on sites of 10 to 14 dwellings and;**
 - d. **requiring a target of 40% on sites of 15 or more dwellings.**

or
19. **Introducing a sliding scale policy by setting a requirement of:**
 - a. **Removing the threshold distinction between defined rural settlements and the rest of the District and require a target of 20% affordable housing equivalent financial contribution on sites of 1 to 9 dwellings and;**
 - b. **requiring a target of 30% on-site affordable housing on sites of 10 to 14 dwellings and;**
 - c. **requiring a target of 40% on sites of 15 or more dwellings.**

or

20. **Maintaining the existing distinction between defined rural settlements and elsewhere in the District and introduce a sliding scale by setting a requirement of:**
- a. **Defined rural settlements:**
 - i. **Requiring 20% affordable housing equivalent financial contribution on sites between 1 and 4 dwellings.**
 - ii. **Requiring 30% affordable housing on sites of 5 to 14 dwellings and;**
 - iii. **requiring 40% affordable housing on sites of 15 or more dwellings.**
 - b. **Rest of the District:**
 - i. **Requiring 20% affordable housing equivalent financial contribution on sites between 1 and 4 dwellings.**
 - ii. **Requiring 20% affordable housing on sites of 5 to 9 dwellings and;**
 - iii. **requiring 30% affordable housing on sites of 10 to 14 dwellings and;**
 - iv. **requiring a target of 40% affordable housing on sites of 15 or more dwellings.**
- or
21. **A variation of the above, moving the on-site affordable housing threshold to 15 dwellings (in conjunction with a target proportion of 40% at that level) combined with a sliding scale approach to collecting financial contributions beneath that – potentially from all sites. This has the potential to be the most market-friendly approach within the range of options, but would need to be balanced against the type (distribution of) and extent of delivery and thus judged alongside the practical issues we discuss, as well as the wider evidence base.**
22. **Regardless of the detailed policy options that the Council may seek to take forward, affordable housing requirements must be unambiguous and form the basis for practical negotiations with developers where site circumstances lead to a departure from the targets. In setting out policy and supporting text the Council should make clear their approach, including outlining the general circumstances in which a departure from targets might apply.**
23. **The property market research behind our assumptions is appended to this study.**
24. **The research carried out in the earlier study stages has been supplemented with more recent market reporting as has been available.**

25. It must be acknowledged that the study has been carried out over a period of changing market conditions, particularly when viewed on a national or regional scale and given the more widely available analysis and reporting at those levels. The “credit crunch” is, for example, well documented and reported daily. Inevitably a study of this nature requires the fixing of assumptions in its early stages. However, given our decisions not to reduce interest rate assumptions while the base rate has been reduced in recent months, coupled with our use of a range of value points enabling a view to be taken as values vary, we remain confident that the study results would not be materially affected by the range of market signs we currently see. Our studies consider land value impacts from a cautious viewpoint. This is an approach we have adopted for several years of carrying out such studies, as we consider it appropriate not to take an over-optimistic view of financial viability, even in more buoyant market conditions.
26. We think it unrealistic to expect to update this type of work on a very regular basis in response to emerging or changing market trends over a short period of time. Instead, we think it more relevant and appropriate for the Council to continue monitoring its local market and, related to that, adopt flexibility in its approach to these and other planning obligations requirements particularly when clear and robust evidence of site viability difficulties is presented. Clarity for landowners and developers needs to be provided and there needs to be some stability with regard to those requirements and expectations. In the short-term, all round delivery is more likely to be achieved through establishing clear justified targets, then applying those practically.
27. Depending on experiences in the coming months and through regular contact with RSLs and others, the Council may need to consider particular aspects of detail in respect of the “credit crunch”; such as any issues around shared ownership sales with respect to the availability of appropriate mortgage finance.
28. Other recommendations include the bringing forward of Supplementary Planning Documents or Development Plan Documents to clearly bring to life the more detailed aspects of this policy area, and set out the Council’s working approach – map out the process and give as much certainty to developers and landowners as possible. Encouragement should be given to discussion about sites coming forward, at the earliest possible stage.
29. Irrespective of market trends (but of course taking account of those) this type of work, revolving around the Council developing its understanding of the local market, should be kept under review and revisited periodically in any event - in light of the delivery outcomes and the experiences which result from the new policy positions ultimately selected. Those policy positions can then be reviewed in response to the range of factors, as appropriate.