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Draft Lambeth Local Plan 2013

Affordable Housing Policy - Viability and Strategy Assessment

Prepared for

London Borough of Lambeth

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1 Executive Summary

Study objectives

1.1 The Council's Core Strategy seeks to secure 40% affordable housing (50% if grant funding is available) on sites capable of providing 10 or more units (or sites in excess of 0.1 hectares). Since the Core Strategy was adopted in 2011, there have been major changes to affordable housing tenures and funding; the benefits system; and the way local authorities raise funding for infrastructure, with pooled Section 106 obligations to end by April 2014 and be replaced by the Community Infrastructure Levy. These factors will combine to put pressure on the delivery of affordable housing in an environment where bringing development forward is already difficult due to funding constraints and continuing limitation on mortgage finance. The Council has formulated a response to some of these changes (namely the changes to affordable housing tenures and the benefits system) and has commissioned BNP Paribas Real Estate to consider the impact of these approaches on delivery of affordable housing, and to review emerging policy for the Draft Lambeth Local Plan 2013.

1.2 The objectives of this study are summarised as follows:

- To review the Council's principles for securing the development of affordable homes in Lambeth;
- Test the impact of the Council's guideline rent policy (as expressed in the 2012 '*Tenancy Strategy*') on development viability and securing target levels of affordable housing;
- Consider interactions between the Council's guideline rent policy and the Universal Credit, which limits the total amount of benefits any individual household can claim[1];
- Consider interactions between the Council's guideline rent policy and the introduction of the Community Infrastructure Levy; and the types of schemes that are likely to come forward in different parts of the Borough;
- Consider the tensions between seeking to maximise supply of affordable housing by adopting as high a rent as possible, while also providing housing that is accessible to households in priority housing need (who may not be able to access the levels of benefits required to pay these higher rents); and
- Consider the viability of the Council's preferred housing mix and the potential impact these may have on the viability of affordable housing in the Borough;

Findings

1.3 In the context of finite development value, the Council is seeking to strike an appropriate balance between securing the maximum possible contribution towards affordable housing, whilst also securing contributions towards infrastructure that will be vital for growth. Both these objectives also need to be weighed against the need to allow competitive returns to developers and landowners.

1.4 There has been considerable debate as to what constitutes a 'competitive return' with conflicting guidance issued from various groups. The Council's

[1] In advance of the Universal Credit taking effect, benefits will be capped through provisions in the '*Benefit Cap (Housing Benefit) Regulations 2012'*

current approach of taking the existing use value of a site (plus a premium if appropriate) as a starting point for a competitive return is rational, fair and provides more opportunities for securing affordable housing than alternative measures, such as 'Market Value'.

1.5 The Council's affordable housing policy (Core Strategy S2) which seeks the maximum reasonable proportion of affordable housing provides a sound basis and does not require any change in our view. Economic and market conditions have improved since the 2009 Viability Study[2] was undertaken and a reduction in targets is unwarranted.

1.6 Changes to funding and grant funding for affordable housing since 2010 have affected the viability of some developments. Increased resources available through higher rents has helped to mitigate the loss of grant to an extent.

1.7 The Council's Tenancy Strategy places limitations on rent levels which has the effect of restricting the level of affordable housing that can be viably provided. However, the impending restrictions on benefits to be introduced by the Universal Credit leave the Council with little choice; rent levels that would be higher than benefits would meet would prevent priority households from accessing new affordable housing.

1.8 Similarly, the proposed housing mix in the Draft Local Plan (which seeks a significant supply of family housing) will also restrict the supply of affordable housing in comparison to a mix with smaller units. However, there is clearly a balance to be struck between a supply of housing that is of use in meeting needs, albeit lower in terms of quantum than a mix that may not meet needs.

1.9 In light of the inevitable compromises on levels of supply versus quality and meeting needs, the Council could use the diversity of housing markets in the Borough to increase supply. The Council could leverage off the high value developments in the north of the Borough to provide a greater quantum of units elsewhere than would have been possible on site. Again the advantage of increased supply would need to be weighed against the potential disadvantages of increasing polarisation between different communities.

Report structure

1.10 This report is structured as follows:

- **Section 2** considers recent policy developments that are pertinent to the future delivery of affordable housing in Lambeth;
- **Section 3** summarises the economic and housing market conditions affecting residential development in the Borough;
- **Section 4** summarises our approach to considering the Borough's affordable housing policies in the context of development viability;
- **Section 5** sets out the findings of our testing of the impact of recent changes on affordable housing delivery, focusing on the Council's Tenancy Strategy;
- **Section 6** considers the impact of the Council's Draft Local Plan housing mix on the delivery of affordable housing;
- **Section 7** briefly considers alternative options to delivering increased supply of affordable housing in the Borough;

[2] *'London Borough of Lambeth: Affordable Housing Viability Study (2009)'*

- Finally, **Section 8** sets out our conclusions.

Disclaimer

1.11 The contents of this report do not constitute a valuation, in accordance with Valuation Standards VS 1.1 of the *RICS Valuation – Professional Standards – Global and UK Edition* (March 2012), and should not be relied upon as such. This report is addressed to the Council only.

2 Background - policy developments

2.1 Lambeth Council adopted its Core Strategy in January 2011. It was drafted and examined prior to major changes introduced by the government following its Comprehensive Spending Review in October 2010. These changes included significant reductions in grant funding availability for affordable housing delivered through Section 106 agreements; the introduction of the new 'Affordable Rent' tenure with rents set at up to 80% of market rents (inclusive of service charges); and reforms of the benefits system, including the introduction of the 'Universal Credit' which will limit the total amount of benefits a household may claim, regardless of household composition.

2.2 During 2010, the government also confirmed its intention to retain the Community Infrastructure Levy ('CIL') which had been introduced by the previous government. The April 2014 deadline for ending collection of pooled contributions through Section 106 agreements was also retained. In boroughs like Lambeth, which rely upon sites that will require pooling of contributions, not adopting CIL is an unattractive option.

2.3 The Viability Study[3] commissioned to support the Council's affordable housing policy was undertaken prior to the changes above being introduced. This study tested the ability of a range of sites throughout the borough to provide varying levels of affordable housing, with and without grant and with various tenure mixes. The study concluded that the Core Strategy targets of 40% affordable housing (no grant) and 50% (with grant) were achievable in some circumstances in the Borough. However, the study also recommended that the targets would need to be applied flexibly, taking account of scheme specific circumstances, including scheme viability. The Council's 2010/11 Annual Monitoring Report shows that in 2009/10, 33% of units completed were affordable, but in 2010/11, 50% of units completed were affordable.

2.4 Since the grant funding budget was reduced, affordable housing levels secured in new schemes has fallen. The Council is therefore considering the impact that the guideline rent policy has on development viability and the ability of the Council to secure target levels of affordable housing. However, given that market rents in the Borough are high, it is vital to consider interactions between rent levels and the potential impact of the Universal Credit. This issue is also a key consideration in this report.

The National Planning Policy Framework

2.5 Since the Council adopted its Core Strategy, the old suite of planning policy statements and planning policy guidance has been replaced by a single document – the National Planning Policy Framework ('NPPF').

2.6 The NPPF provides more in-depth guidance on viability of development than Planning Policy Statement 3, which limited its attention to requiring local planning authorities to test the viability of their affordable housing targets. Paragraph 173 of the NPPF requires that local planning authorities give careful attention "*to viability and costs in plan-making and decision-taking*". The NPPF requires that "*the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened*". After taking account of policy requirements, land values should be sufficient to "*provide competitive returns to a willing landowner and willing developer*".

[3] '*London Borough of Lambeth: Affordable Housing Viability Assessment (2009)*' BNP Paribas Real Estate

2.7 The meaning of a "*competitive return*" has been the subject of considerable debate over the past year. For the purposes of testing the viability of a planning policy requirement, the Local Housing Delivery Group[4] has concluded that the current use value of a site (or a credible alternative use value) plus an appropriate uplift, represents a competitive return to a landowner. Some members of the RICS consider that a competitive return is determined by market value[5], although there is no consensus around this view. The RICS guidance is, in any case, aimed at testing the viability of individual developments, not the viability of planning policies.

London Plan – early minor alterations

2.8 In February 2012 the Mayor published proposals for early minor alterations to the London Plan, including amendments to policies on affordable housing. These amendments introduce the Affordable Rent tenure within the 'rented' element required by Policy 3.10.

2.9 When adopted, these changes will have the effect of targeting affordable rent units to meet the same needs as social rented housing. The 60% rented element required in the London Plan will therefore be predominantly Affordable Rent.

2.10 The Mayor's view, as set out in the alterations, is that boroughs should seek to maximise affordable housing supply by making optimum use of the resources available through the Affordable Rent product. The Mayor has stated that boroughs should not seek to cap rents below 80% of market rents through their planning policies. Affordability should be addressed through the benefits system and not through planning policy. The GLA has indicated that this is consistent with government policy[6].

The National Affordable Homes Programme Framework 2010-2015

2.11 In February 2011, the Homes and Communities Agency ('HCA') published its '2011-2015 Affordable Homes Programme – Framework', setting out its approach to funding the provision of new affordable housing. This document set out funding and investment criteria for new affordable housing and how the reduced grant funding budget would be used to increase supply.

2.12 The Framework signalled a move away from scheme -by-scheme grant allocations towards a programme-based approach, with individual RPs contracting with the HCA to deliver a certain quantum and type of units by March 2015. A key element of agreements between the HCA and individual RPs is the use of additional resources from re-letting existing social rented units as Affordable Rent product. This will lead over time to a reduction in social rented units available to let via RPs.

2.13 The Framework set out two very clear signals with regard to grant funding. Firstly, developer-led schemes which provide affordable housing will not be eligible to receive grant. While there have been some exceptions, it has largely been the case that RPs buying units from private developers have not included grant in their offer prices. Secondly, the Framework document emphasises that the HCA will not support schemes that provide the rented element as social rented housing. Local authorities that seek to secure social rented housing therefore have to secure alternative sources of funding.

[4] Viability Testing Local Plans: Advice for planning practitioners, June 2012

[5] RICS Guidance Note: Financial Viability in Planning, August 2012

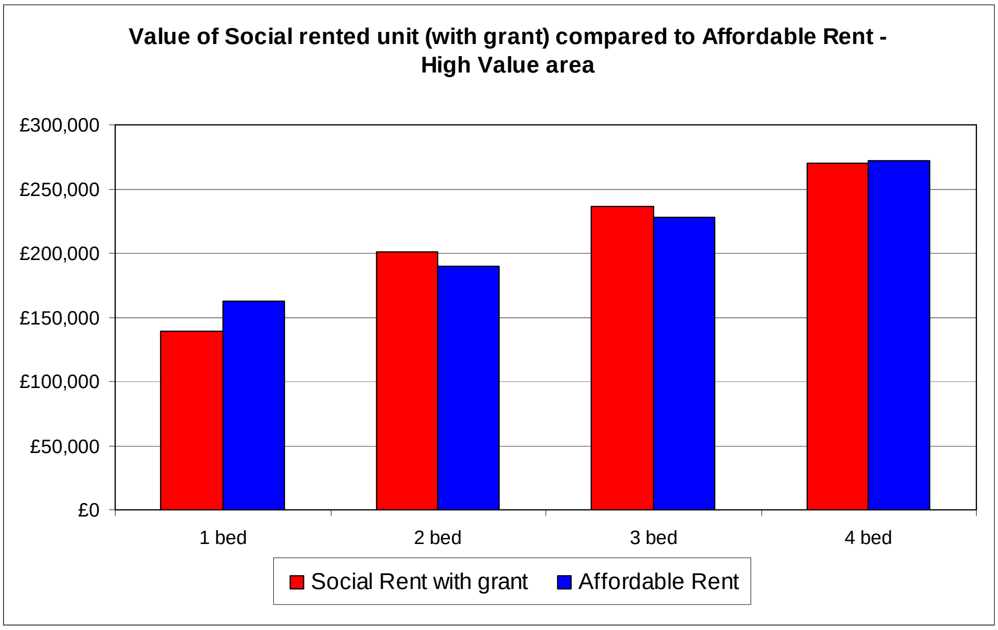
[6] See the Mayor's representations to Islington and Tower Hamlets' Development Management document DPD examinations.

Affordable Rent and the Universal Credit

2.14 The Affordable Rent concept was the cornerstone of the approach set out in the National Affordable Homes Programme Framework. It was initially announced in the Comprehensive Spending Review in October 2010, at the same time as the announcement of an 80% reduction in funding for new affordable housing. The Government's intention was that higher capital values, driven by higher rent levels of up to 80% of market rents, would help to mitigate the loss of grant and consequently maintain the overall level of 'affordable' housing supply.

2.15 Our analysis indicates that the government's intended objective of mitigating the loss of grant might work in terms of viability in areas where market rents are high, such as Lambeth and other central London boroughs. However, this would require that the rents for all properties would need to be set at 80% of market rents, which is likely to pose affordability issues. Figure 2.15.1 shows the capital values generated by Social Rent with grant and compares them to the capital values that would be generated by Affordable Rent at 80% of market rents. This shows that in the higher value areas, the capital values of the two tenures would be very similar, so schemes could (in principle at least) viably provide similar levels of affordable housing as they could previously.

Figure 2.15.1: BNPPRE modelling of Affordable Rent and social rent in central London boroughs



2.16 However, moving outside high value areas, the picture is very different. Figure 2.16.1 repeats the analysis above in lower value areas. This shows that the capital values generated by Affordable Rent would be substantially lower than values generated by social rented housing with grant. In these areas, the introduction of Affordable Rent will not mitigate the loss of grant and supply of affordable housing is therefore likely to fall. It is, however, important to point out that Affordable Rent still generates substantially higher capital values than social rent on a nil grant basis, as illustrated in Figure 2.16.2.

Figure 2.16.2: BNPPRE modelling of Affordable Rent and social rent in lower value areas

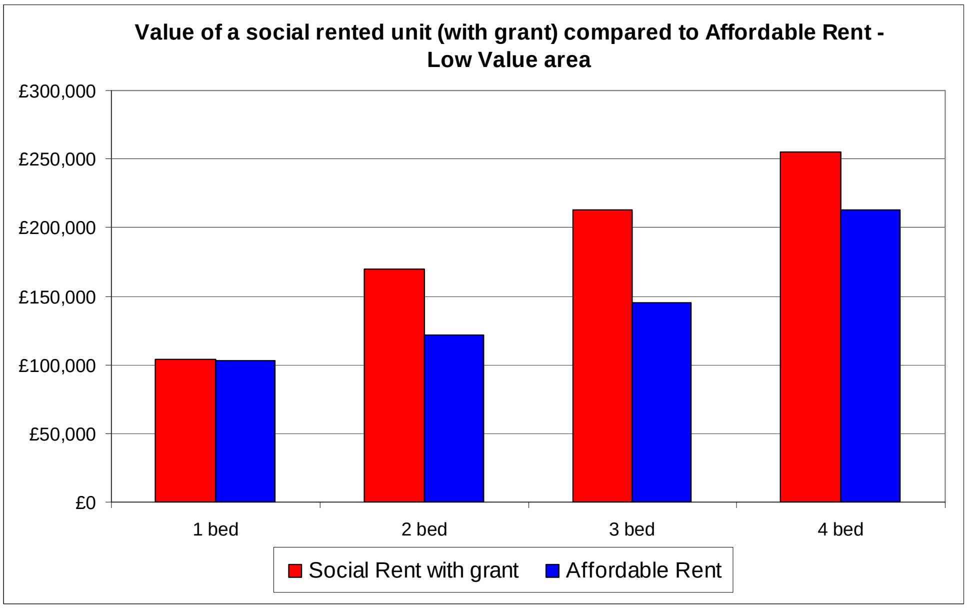
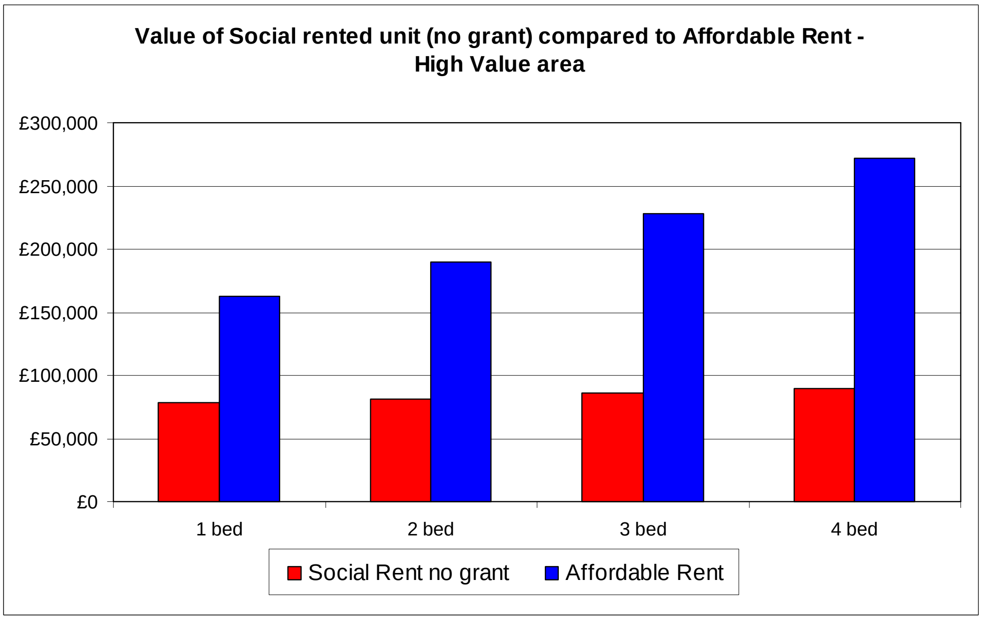


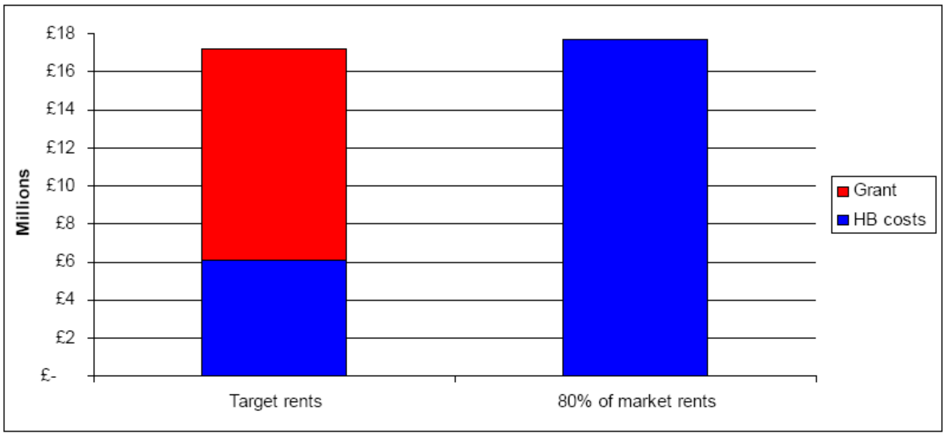
Figure 2.16.3 BNPPRE modelling of Affordable Rent and social rent (without grant) in high value area



2.17 Two main issues of concern flow from the introduction of Affordable Rent. The first relates to the long term cost of Affordable Rent in comparison to the previous regime of social rented housing supported by grant. Figure 2.17.1 shows our analysis of the long term costs (in terms of upfront subsidy and Housing Benefit costs) of providing 100 units of affordable housing, either as social rent with support of grant (the left hand column) and the long term cost of providing the same number of units as Affordable Rent.

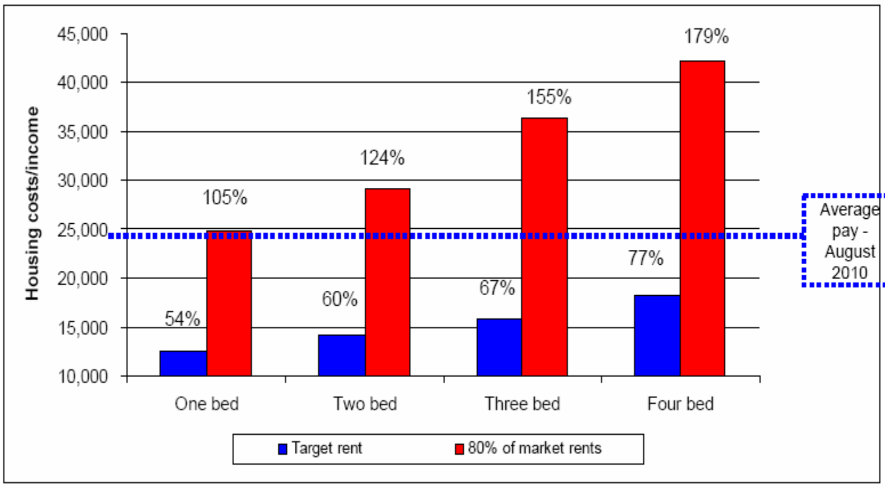
2.18 Due to the substantially higher rent levels (that in the main will be supported by Housing Benefit), there is in fact no cost saving compared to the current regime. Given that the government suggests that some of the existing 2.25 million RSL tenancies may move to Affordable Rent when current tenants leave, there could be an explosion in the costs of benefits. At some point, the government could seek to reduce rents to mitigate the long term costs of increased HB.

Figure 2.17.1: BNPPRE analysis of long term costs of Affordable Rent



2.19 The second main issue of concern is the impact of Affordable Rent upon affordability. Our analysis (summarised in Figure 2.1.2.4, showing pan-London averages) indicates that the incomes a household will require to access Affordable Rent will increase substantially compared to the incomes required to access a social rented unit. This analysis assumes that Affordable Rent units are let at 80% of average market rents (market rents will, of course vary between areas, so this analysis provides an illustration only). For example, our analysis indicates that a household would require an income equivalent to 54% of average pay to rent a one bed social rented unit (this figure is calculated by dividing the average August 2010 pay by the annual Target Rent for a one bed unit). To afford an Affordable Rent unit at 80% of market rent, the same household would require an income of 105% of the average. As the graph vividly demonstrates, the income required to access a four bed ARP unit would be equivalent to 179% of average pay; an increase from 77% for a social rented unit.

Figure 2.19.1: BNPPRE analysis of affordability impact of Affordable Rent



Universal Credit

2.20 The introduction by the government of the 'Universal Credit', where the total benefits a non working household can claim is limited to £26,000, causes more difficulties for larger non-working households seeking to access affordable rented housing. In Lambeth and over central London boroughs, rents of 80% of market rents would far exceed the amount that families could fund through benefits. These families would therefore be effectively excluded from access to any new Affordable Rent units coming through the planning system and would have to wait for a Social Rent re-let offered by a RP or the local authority.

2.21 There are also impacts in terms of welfare dependency and incentives to work. Although the Universal Credit does not apply to working families, those households who are reliant on an element of Housing Benefit support might be reluctant to opt for an Affordable Rent tenancy. This is because they are likely to be concerned about the impact of potential loss of employment, at which time the Universal Credit would come into effect, potentially impacting on their ability to pay their rent. Although there are clear dis-benefits for households, lowering rents to aid affordability will generate lower capital values, potentially resulting in lower supply of affordable housing. This relationship is explored later in this report.

The Council's response – Tenancy Strategy

2.22 These issues present planning and housing authorities with a set of complex and inter-related issues of maximising supply of affordable housing with affordability difficulties and potential for substantial socio-demographic change. One of the most important issues for Lambeth must be to avoid the risk of securing a supply of affordable rented housing that very few households on the housing waiting list can actually afford.

2.23 In 2012, the Council sought to address the issues highlighted above by adopting a new 'Tenancy Strategy', which limits rents to levels which are considered to be affordable to households which rely on benefit. The Council's key concerns are to reduce welfare dependency and disincentives to work. These concerns are to be resolved by limiting 'blended' affordable rents to no more than 65% of market rents. This is consistent with the pan-London average investment monitoring benchmark set by the Mayor.

2.24 The Tenancy Strategy also introduces an assumption that rents should not exceed the Local Housing Allowance, which in Lambeth are shown in Table 2.29.1. Large properties are close to the national Local Housing Allowance cap.

Table 2.29.1: Local Housing Allowances in Lambeth

Property type	Local Housing Allowance (per week)	Local Housing Allowance cap
One bed	£185	£250
Two bed	£240	£290
Three bed	£300	£340
Four bed	£392	£400

2.25 Although other London boroughs[7] have sought to retain their rented housing requirement as social rent. However, Lambeth's Tenancy Strategy acknowledges the trade-off between securing growth in affordable housing supply and affordability of rents to individual households. The Borough accepts that Affordable Rent is now a key part of funding for new affordable housing. However, the Tenancy Strategy states that Registered Providers should only apply Affordable Rent to one and two bed properties and retain

[7] For example Islington and Tower Hamlets. Islington is seeking to secure the entire affordable rented element as social rent, while Tower Hamlets had proposed a more pragmatic approach, allowing Affordable Rent on a case by case basis. Tower Hamlets' approach was recently rejected by the Inspector.

target rents for larger properties.

The Community Infrastructure Levy

2.26 Lambeth has significant infrastructure investment requirements to accommodate new development. The Council has recently consulted on its Preliminary Draft Charging Schedule ('PDCS') with area based rates of CIL proposed for residential development and other types of development.

2.27 The purpose of CIL is to raise funding for infrastructure that will support the development of the area. The CIL regulations state that in setting a charge, local authorities must aim to strike *"what appears to the Charging Authority to be an appropriate balance"* between funding infrastructure on the one hand and the potentially adverse impact upon the viability of development on the other. Statutory Guidance states that authorities should undertake a broad test of viability taking a strategic view across their area. Regulation 14 recognises that the introduction of CIL may put some potential development sites at risk. It is for charging authorities to decide on the appropriate balance for their area and 'how much' potential development they are willing to put at risk. CIL should not put at serious risk the overall development of the area. The regulations also state that local authorities should take account of other sources of available funding for infrastructure when setting CIL rates.

2.28 The regulations allow a number of reliefs and exemptions from CIL. Firstly, affordable housing and buildings with other charitable uses (if controlled by a charity) are subject to relief. Schemes which provide a higher level of affordable housing than others will have a smaller CIL liability. Secondly, local authorities may, if they choose, elect to offer an exemption on proven viability grounds. The exemption would be available for 12 months, after which time viability of the scheme concerned would need to be reviewed. To be eligible for exemption, regulation 55 states that the Applicant must enter into a Section 106 agreement (and the costs of complying with the agreement must exceed the amount of CIL that would have been payable); and that the Authority must be satisfied that granting relief would not constitute state aid.

2.29 The CIL regulations enable local authorities to set differential rates (including zero rates) for different zones within which development would take place and also for different types of development. The Council's PDCS does not propose any nil rates on residential development in the Borough, but rates will vary by area.

2.30 The 2010 regulations set out clear timescales for payment of CIL, which varied according to the size of the payment, which by implication is linked to the size of the scheme. The 2011 amendments to the regulations allow local authorities to set their own timescales for the payment of CIL if they choose to do so. The Council is likely to adopt its own instalments policy, which splits the liability on an individual scheme, depending on size.

2.31 Lambeth's PDCS was published on 19 September 2012 and proposes the following rates on residential development:

- Zone A (Waterloo) £369 per square metre;
- Zone B (Vauxhall) £265 per square metre;
- Zone C (Kennington, Oval and Clapham South) £150 per square metre; and
- Zone D (Streatham, West Norwood, Streatham Hill, Tulse Hill, Brixton, Stockwell and Herne Hill) £50 square metre.

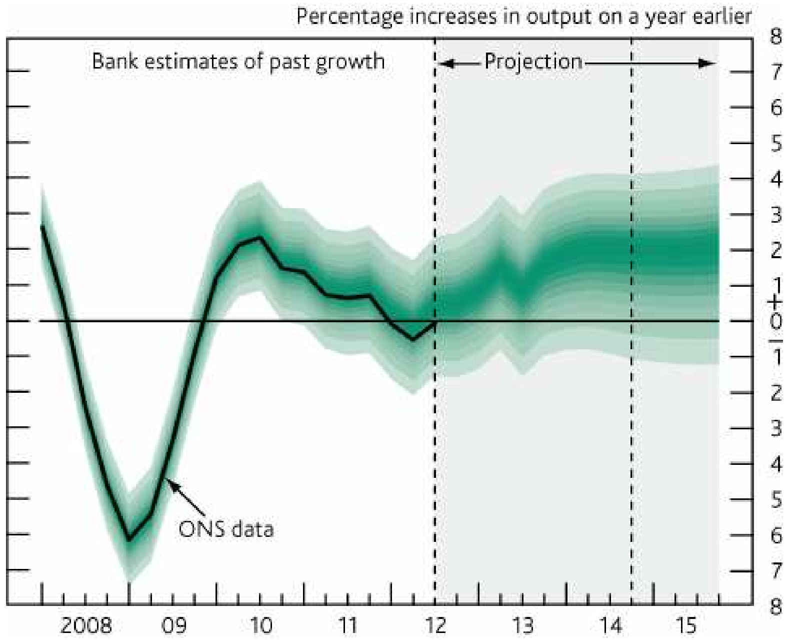
2.32 The Council has carefully weighed the need to secure affordable housing alongside the need to raise funding to pay for essential community infrastructure to support housing growth. With CIL being a fixed levy, the risk is that the affordable housing might be adversely affected in a scheme where viability is under pressure. There are methods of addressing these effects, including offering 'exceptional relief' from CIL if it can be proven that the scheme would become unviable if the CIL were to be paid. To secure exceptional relief, the Developer would need to enter into a Section 106 agreement, the costs of which are equal to or greater than the CIL would have been. In addition, the Council would need to be satisfied that granting exceptional relief would not constitute 'state aid'.

2.33 Other approaches that can help to protect viability and affordable housing delivery include adopting an instalments policy, where some of the payments due are deferred to a later point within the development period. This reduces interest costs, as the whole CIL payment would not need to be financed from commencement of development.

3 Economic and housing market context

3.1 The historic highs achieved in the UK housing market by mid 2007 followed a prolonged period of real house price growth. However, a period of 'readjustment' began in the second half of 2007, triggered initially by rising interest rates and the emergence of the US sub prime lending problems in the last quarter of 2007. The subsequent reduction in inter-bank lending led to a general "credit crunch" including a tightening of mortgage availability. The real crisis of confidence, however, followed the collapse of Lehman Brothers in September 2008, which forced the government and the Bank of England to intervene in the market to relieve a liquidity crisis.

3.2 The combination of successive shocks to consumer confidence and the difficulties in obtaining finance led to a sharp reduction in transactions and a significant correction in house prices in the UK, which fell to a level some 21% lower than at their peak in August 2007 according to the Halifax House Price Index. Consequently, residential land values fell by some 50% from peak levels. One element of government intervention involved successive interest rate cuts and as the cost of servicing many people's mortgages is linked to the base rate, this financial burden has progressively eased for those still in employment. This, together with a return to economic growth early 2010 (see November 2012 Bank of England GDP fan chart below, showing the range of the Bank's predictions for GDP growth to 2015) has meant that consumer confidence has started to improve to some extent.



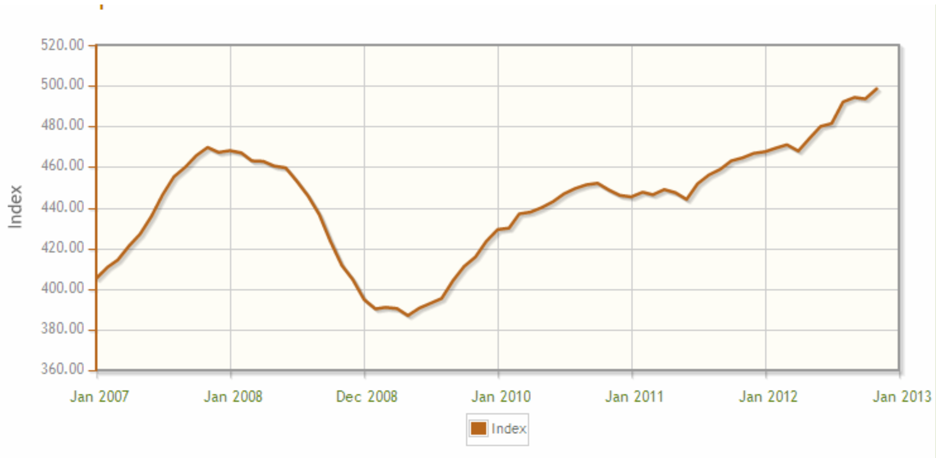
Source: Bank of England

3.3 Throughout the first half of 2010 there were some tentative indications that improved consumer confidence was feeding through into more positive interest from potential house purchasers. Against the background of a much reduced supply of new housing, this would lead one to expect some recovery in prices. However it is evident that this brief resurgence has abated, with the Halifax House Price Indices showing a fall of 0.6% in the year to March 2012. The Halifax attributes at least some of the recent recovery in sales values to first time buyers seeking to purchase prior to the reintroduction of Stamp Duty from 1 April 2012.

3.4 The balance of opinion is that house prices will remain flat in the short term, with continuing high levels of unemployment likely to result in increased repossessions and increased supply of homes into the market. At the same time, demand is expected to remain subdued, due to the continuing difficulties consumers face in securing mortgages. However, central London markets (including substantial parts of the north of the Borough) are likely to benefit from continuing overseas investment, with prices increasing strongly since 2009.

3.5 According to Land Registry data, residential sales values in Lambeth have recovered since the lowest point in the cycle in May 2009. Prices increased by 29% between April 2009 and October 2012. In October 2012, sales values were 6.2% higher than the previous (November 2007) peak value.

Figure 3.5.1: House prices in Lambeth



Source: Land Registry

Figure 3.5.2: Sales volumes in Lambeth

Source: Land Registry

3.6 The future trajectory of house prices is currently uncertain, although Savills' current prediction is that values are expected to increase over the next five years. Medium term predictions are that properties in mainstream London markets will grow over the period between 2012 to 2017 . Savills predict that values in mainstream London markets (i.e. non-prime) will fall by 0.5% in 2012, but increase by 1.5% in 2013, 4% in 2014, 4.5% in 2015, 5% in 2016 and 4.5% in 2017. This equates to cumulative growth of 21% between 2012-2017 inclusive, compared to a UK average of 11.5% cumulative growth over the same period. Savills predict that values in outer-prime London markets will increase by 3.5% in 2012, not change in 2013, increase by 3.5% in 2014, 6.5% in 2015, 5.5% in 2016 and 5% in 2017 (cumulative growth over the period of 22.1%).

3.7 Although private sales values have increased beyond their 2007 peak level, as shown in Figure 3.5.1, the significant reduction in grant funding for affordable housing and the consequent reduction in prices paid by RPs has offset the positive impact of the housing market recovery. Despite this, many schemes in the Borough are able to deliver high levels of affordable housing, in many cases close to the 40% (without grant) target.

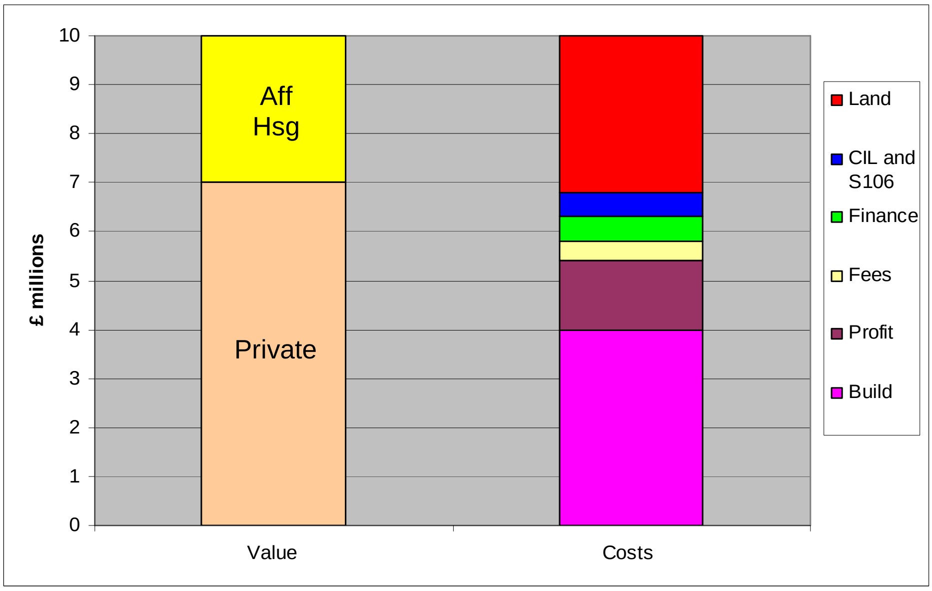
4 Testing the viability impacts of changes to affordable tenures

4.1 In the following sections, we consider issues relating to scheme viability and the impact of rent levels and other related issues. This section provides a brief overview of the methodology we have adopted for testing viability. Details of our testing assumptions are provided at Appendix 1.

4.2 Our methodology follows standard development appraisal conventions, using locally-based sites and assumptions that reflect local market and planning policy circumstances. The study is therefore specific to Lambeth and reflects the Council's emerging planning policy requirements.

Approach to testing development viability

4.3 Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing and the payment from a Registered Social Landlord ('RSL') for the completed affordable housing units. For a commercial scheme, scheme value equates to the capital value of the rental income. The model then deducts the build costs, fees, interest, CIL (at varying levels) and developer's profit. A 'residual' amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner. The residual land value is represented by the red portion of the right hand bar in the diagram.



4.4 The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of existing use value, discussed later), it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.

4.5 Problems with key appraisal variables can be summarised as follows:

- Development costs are subject to national and local monitoring and can be reasonably accurately assessed in 'normal' circumstances. In boroughs like Lambeth, many sites will be previously developed. These sites can sometimes encounter 'exceptional' costs such as decontamination. Such costs can be very difficult to anticipate before detailed site surveys are undertaken;

- Development value and costs will also be significantly affected by assumptions about the nature and type of affordable housing provision and other Planning Obligations. In addition, on major projects, assumptions about development phasing; and infrastructure required to facilitate each phase of the development will affect residual values. Where the delivery of the obligations are deferred, the less the real cost to the applicant (and the greater the scope for increased affordable housing and other planning obligations)[8]. This is because the interest cost is reduced if the costs are incurred later in the development cashflow. Following the introduction of CIL, Section 106 payments will be scaled back and largely replaced by CIL payments. The Council has adopted a CIL instalments policy which applies to each phase (reserved matters) application on major developments; and
- While Developer's Profit has to be assumed in any appraisal, its level is closely correlated with risk. The greater the risk, the higher the profit level required by lenders. While profit levels were typically up to around 15% of completed development value at the peak of the market in 2007, banks now require schemes to show a higher profit to reflect the current risk. Typically developers and banks are targeting 20% profit on scheme value.

4.6 Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value[9]' or another appropriate benchmark to make development worthwhile. The margin above existing use value may be considerably different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites.

4.7 Clearly, however, landowners have expectations of the value of their land which often exceed the value of the current use. Affordable housing, CIL and other planning requirements will all impact on the residual land value. Ultimately, if landowners' expectations are not met, they will not voluntarily sell their land and (unless a Local Authority is prepared to use its compulsory purchase powers) some may simply hold on to their sites, in the hope that policy may change at some future point with reduced requirements. It is within the scope of those expectations that developers have to formulate their offers for sites. The task of formulating an offer for a site is complicated further still during buoyant land markets, where developers have to compete with other developers to secure a site, often speculating on increases in value.

Land value benchmarks and planning policy

4.8 In this study, the viability testing we have undertaken seeks to understand the relationships between particular inputs (e.g. rent levels and unit mix) and the value generated by a scheme. The purpose of the testing is not to test whether or not a scheme is viable as this has been considered elsewhere[10]. Core Strategy Policy S2 is already sufficiently flexible to cope with viability issues associated with individual developments and the Council considers

[8] Our appraisals assume that Section 106 payments are paid in month 1 (i.e. no deferment and therefore represent a worst case scenario.

[9] For the purposes of this report, existing use value is defined as the value of the site in its existing use, assuming that it remains in that use. We are not referring to the RICS Valuation Standards definition of 'Existing Use Value'.

[10] 'London Borough of Lambeth: Affordable Housing Viability Assessment (2009)': BNP Paribas Real Estate

each scheme on its own merits.

4.9 Where we do use benchmarks, these are indicative only to illustrate the impact of the inputs on viability. They are not intended as representative of any particular use or area.

4.10 We would, however, point out that land values are not fixed and can flex to accommodate planning policy requirements; it should not be assumed that planning policy must always flex to meet the requirements of landowners. There will always be a point where land values are pushed down below an acceptable level (typically a site's current use value plus a landowner return). Similarly, there will be a point where a scheme will be unacceptable in planning terms if it yields too little towards mitigation and improvement of local infrastructure that will support growth. This tension is recognised by the Local Housing Delivery Group guidance, which recommends that benchmark land value "*is based on a premium over current use values*" with the "*precise figure that should be used as an appropriate premium above current use value [being] determined locally*". The guidance considers that this approach "*is in line with reference in the NPPF to take account of a "competitive return" to a willing land owner*". In contrast, the RICS Guidance on 'Financial Viability in Planning' takes a 'Market Value' approach, based largely on prices paid for land.

4.11 The recent examination on the Mayor of London's CIL charging schedule considered the issue of an appropriate land value benchmark. The Mayor had adopted current use value, while certain objectors suggested that 'Market Value' was a more appropriate benchmark. The Examiner concluded that:

"The market value approach…. while offering certainty on the price paid for a development site, suffers from being based on prices agreed in an historic policy context."

4.12 In his concluding remark, the Examiner points out that

"the price paid for development land may be reduced [so that CIL may be accommodated]. *As with profit levels there may be cries that this is unrealistic, but* ***a reduction in development land value is an inherent part of the CIL concept****. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges.* (para 32 – emphasis added).

4.13 In this context, it should not be assumed that land value is an immoveable object and affordable housing and other requirements must flex accordingly. This is recognised in the Council's approach to viability testing individual schemes, which relies upon the current use value of a site as a viability benchmark. This is effectively the 'bottom line' below which the value of a scheme should not fall if there is to be a reasonable prospect of the site being released for development.

5 Assessing the impact on affordable housing delivery in Lambeth

Improving viability through increasing rent levels

5.1 The GLA recently stated[11] that government policy is that affordable housing is no longer defined by affordability, but by eligibility; affordability is no longer considered to be a planning matter and must be addressed through the benefits system. Therefore, placing caps on rent levels in DPDs is seen by the GLA as reducing the resources potentially available to increase the supply of affordable housing.

5.2 Several councils have argued that the forthcoming introduction of the Universal Credit will prevent many households from accessing sufficient levels of benefit to pay their rent, unless rents are capped. This would suggest that larger affordable housing units would have to be occupied by households who do not rely on benefits.

5.3 If issues associated with benefits could be resolved and rents were allowed to be set at Local Housing Allowance levels (or indeed higher), there is clearly potential for an improvement in viability if rents are allowed to increase towards 80% of market rents.

5.4 The Council's Tenancy Strategy indicates the Council's preference for rents of up to 80% of market rents (capped by the Local Housing Allowance) for one and two bed units, while rents for larger units should be no higher the Target Rents (i.e social rented housing).

5.5 We have run a series of development appraisals on typical development typologies in Lambeth to consider the impact of rent restrictions on the levels of affordable housing that might be secured from developments. Our starting point is to calculate the residual land values generated by schemes with 40% affordable housing, with rents set at 80% of market rents (inclusive of service charges), subject to capping by the Local Housing Allowance. This is rental **scenario 1** (see Table 5.5.1). We then consider the impact of reducing the rents by capping rents at the Local Housing Allowance. In many cases, there is no change in rental level, other than in the higher value parts of the Borough. This is rental **scenario 2** (see Table 5.5.2). Rental **scenario 3** (Table 5.5.3) reflects the Council's Tenancy Strategy – rents for one and two bed units are set at 80% of market rents (capped by the Local Housing Allowance) and three and four bed units are set at target rents. Finally, rental **scenario 4** sets rents for all units at target rents.

5.6 The results are attached as Appendix 2.

5.7 As would be anticipated, when higher rents are charged, residual land values are higher than when lower rents are charged. We consider the impact this may have on the quantum of affordable housing in the next section.

[11] In representations to examinations of DPD examinations at LB Islington and LB Tower Hamlets

Table 5.5.1: Scenario 1: rents per week at 80% of market rents, inclusive of service charges

Area	One bed	Two bed	Three bed	Four bed
Norwood Park SE19	147	190	226	258
Streatham SW16	159	209	249	313
West Norwood SE27	178	193	223	266
Streatham Hill SW2	182	246	324	403
Tulse Hill SE21 & Brixton/Myatts Fields SW9	175	218	252	315
Herne Hill SE24	159	225	292	349
Kennington/Oval SE11	245	288	367	428
Clapham South SW4	230	297	372	466
Vauxhall and Waterloo	299	400	597	662

Table 5.5.2 Scenario 2: rents per week – 80% of market rents, capped by Local Housing Allowance

	One bed	Two bed	Three bed	Four bed
Norwood Park SE19	147	190	226	258
Streatham SW16	159	209	249	313
West Norwood SE27	178	193	223	266
Streatham Hill SW2	182	240	300	392
Tulse Hill SE21 & Brixton/Myatts Fields SW9	175	218	252	315
Herne Hill SE24	159	225	292	349
Kennington/Oval SE11	185	240	300	392
Clapham South SW4	185	240	300	392
Vauxhall and Waterloo	185	240	300	392

Table 5.5.3 Scenario 3: rents per week – one and two beds at 80% of market rents, capped by Local Housing Allowance, three and four beds at target rents

	One bed	Two bed	Three bed	Four bed
Norwood Park SE19	147	190	119	136
Streatham SW16	159	209	119	136
West Norwood SE27	178	193	119	136
Streatham Hill SW2	182	246	119	136
Tulse Hill SE21 & Brixton/Myatts Fields SW9	175	218	119	136
Herne Hill SE24	159	225	119	136
Kennington/Oval SE11	185	240	143	150
Clapham South SW4	185	240	143	150
Vauxhall and Waterloo	185	240	143	150

Table 5.5.4 Scenario 4: rents per week – target rents

	One bed	Two bed	Three bed	Four bed
Norwood Park SE19	91	103	119	136
Streatham SW16	91	103	119	136
West Norwood SE27	91	103	119	136
Streatham Hill SW2	91	103	119	136
Tulse Hill SE21 & Brixton/Myatts Fields SW9	91	103	119	136
Herne Hill SE24	91	103	119	136
Kennington/Oval SE11	128	135	143	150
Clapham South SW4	128	135	143	150
Vauxhall and Waterloo	128	135	143	150

Affordable housing delivery and the Tenancy Strategy

5.8 We have considered the potential impact of the Council's restrictions on rent levels on affordable housing supply in the Borough. As previously noted, these restrictions are set out in the Council's Tenancy Strategy and restrict one and two bed units to up to 80% of market rents (inclusive of service charges), capped by the Local Housing Allowance. Rents for three and four bed units are set at target rents.

5.9 Our starting point for this analysis is that to take the residual land values and affordable housing levels generated by rent scenario 2 (the highest permitted rents which do not exceed the Local Housing Allowance) as the maximum potential amounts. We then measure the residual land values generated by the lower rental scenarios against the outputs from scenario 2.

5.10 In order to generate the same residual land values from the appraisals using rental scenarios 3 and 4 as is generated by scenario 2, we have reduced the affordable housing percentage until the residual values are equal.

5.11 This exercise helps us to determine the percentage amounts of affordable housing that the Council might potentially lose as a result of restrictions on rent levels.

5.12 Table 5.12.1 shows the residual land values generated by each appraisal for Site Type 4. Taking Clapham South as an example, the scheme incorporating scenario 2 rents generates a residual land value of £5.52 million. When rents are reduced to scenario 3 rents (in line with the Tenancy Strategy levels), the residual land value falls to £4.76 million, a reduction of 14%. When target rents are applied to all the rented affordable units, the residual land value falls to £4.27 million, a reduction of 23%.

5.13 In order to mitigate this reduction in residual land value, again taking Clapham South as an example, affordable housing would need to fall from 40% to 29% when scenario 3 rents are used (see Table 5.13.1). A further fall to 24% would be required is rents are set at target rents.

5.14 Across all areas, our appraisals indicate that the Tenancy Strategy rent restrictions will reduce affordable housing supply by a factor of 10% of units. The exact proportion will be heavily dependent on the housing mix; schemes with high proportions of larger units will of course be more adversely affected than schemes comprised of smaller units.

Table 5.12.1: Residual land values generate by different rent scenarios (£ millions)

Area	SCENARIO 2 Residual Land Value – 40% Aff Hsg, market rents @ 80% market rents capped by LHA	SCENARIO 3 Residual Land Value – 40% Aff Hsg, market rents @ 80% market rent capped by LHA for 1 and 2 beds, target rents for 3 and 4 beds	SCENARIO 4 Residual Land Value – 40% Aff Hsg, target rents for all property types
Clapham South	£5.25	£4.60	£4.27
Kennington and Oval	£3.78	£3.12	£2.79
Herne Hill	£3.17	£2.52	£2.14
Tulse Hill	£2.21	£1.68	£1.31
Streatham Hill	£1.67	£0.95	£0.51
West Norwood	£0.77	£0.37	£0.06
Streatham	£0.60	£0.09	Negative
Norwood Park	Negative	Negative	Negative

Table 5.13.1: Reduced affordable housing percentages to generate same residual land value as Scenario 2

Area	SCENARIO 2 Affordable housing percentage – rents at 80% of market rents, capped by LHA	SCENARIO 3 Affordable housing percentage, 80% market rent capped by LHA for 1 and 2 beds, target rents for 3 and 4 beds	SCENARIO 4 Affordable housing percentage – target rents for all property types
Clapham South	40%	31%	28%
Kennington and Oval	40%	28%	24%
Herne Hill	40%	28%	24%
Tulse Hill	40%	28%	23%
Streatham Hill	40%	19%	15%
West Norwood	40%	28%	23%
Streatham	40%	22%	17%
Norwood Park	n/a	n/a	n/a

Rent levels and landowner expectations

5.15 Other councils have been cautious about setting rents at levels that exceed target rents. This is because of the risk that landowners and valuers simply factor higher rents into their appraisals and land values increase as a result. The opportunity, albeit rare, to secure a scheme with affordable housing provided at target rents then forever recedes, as the land price would not allow for this, reflecting a higher rent level.

5.16 Tower Hamlets sought to address this concern by proposing a presumption in favour of social rent in the submission version of their Development Management DPD, with an indication that Affordable Rent would only be accepted if schemes could not viably provide social rented housing. The rationale was that the policy presumption in favour of social rent would retain land values at lower levels and the ‘additional’ value that might be generated by affordable rent could be used to either increase supply or address viability issues (e.g. to help offset abnormal costs or particularly high Section 106 requirements).

5.17 The recent Inspector’s report on the Borough’s Development Management DPD has found the approach to be inconsistent with the London Plan and has been rejected. Tower Hamlets will now have to remove rent restrictions from its planning policies and seek to impose these through individual schemes negotiations and through its housing strategy documents.

6 Impact of housing mix requirements

Housing mix requirements

6.1 The Council's Core Strategy (Policy S2 d) states that the Council will seek "a mix of housing sizes and types to meet the needs of different sections of the community including through applying Lifetime Homes and Building for Life standards and providing wheelchair accessible housing". These needs could be met by new housing on different developments, for example, the needs for smaller units could be met on high density schemes in town centres, while the needs for larger family housing could be met in more suburban locations. Some schemes may be able to cater for a variety of needs.

6.2 Paragraph 4.9 of the Core Strategy notes that "*the mix of housing types, sizes and tenures will be informed by the recommendations of the Strategic Housing Market Assessment and the priority needs identified in regular housing needs assessments*".

6.3 Policy H4 of the Draft Local Plan provides a specific housing mix, as follows:

- Affordable housing:
  - 1 beds: Not more than 20%
  - 2 beds: 20-50%
  - 3 beds+: 40%
- Market housing: not specific percentages, but the policy requires "*a balanced mix of unit sizes including family sized accommodation*"

6.4 We have considered the impact of variations to housing mix upon viability of developments in the Borough. A number of factors will affect the viability of a given mix versus another. Firstly, a larger number of (smaller) units within a certain quantum of floorspace will generate more value than a scheme with less (larger) units. This is because the sales value achieved per square foot or metre of completed development typically falls as unit size increases. Table 7.4.1 shows values taken from a recent scheme in the SE11 area of the Borough.

Table 7.4.1: Relationship between unit value and value per sq ft / m

Unit type	Size (sq m)	Unit value	Value per sq m	Value per sq ft
1 bed	57	£332,000	£5,851	£544
2 bed	82	£448,077	£5,441	£505
3 bed	108	£537,500	£4,996	£464
4 bed	138	£650,000	£4,707	£437

6.5 The second factor that may impact on viability is the requirement for amenity space for varying types of unit. In a flatted scheme of at least ten units, Draft Local Plan policy H5 requires at least 50 square metres of shared amenity space plus an additional 10 square metres per flat, provided either as private amenity space or as additional shared amenity space. However, there is no requirement to provide varying amounts of amenity space with different sizes of unit. A scheme comprised wholly of one bed flats would therefore be required to provide the same amount of amenity space as a scheme comprised wholly of three bed flats.

6.6 For schemes of houses, there is a requirement to provide 30 square metres of amenity space per house, but there is no variation with unit size.

6.7 Schemes of 10 or more units which include at least one family size dwelling are also required to provide a children's play-space. As the vast majority of schemes will provide at least one family size dwelling, this will be a requirement that applies to almost all schemes above 10 units. This requirement would therefore only very rarely vary with unit mix.

Viability impact of Council's desired mix

6.8 We have assessed the residual land value of a scheme providing a total of circa 5,000 square metres, split between private, affordable rented and intermediate housing. We have applied the Council's Core Strategy target of 40% (assuming no grant is available), with the affordable housing provided as 70% rent and 30% intermediate.

6.9 We have appraised three potential unit mixes, one of which complies with the Council's mix requirements set out in Policy H4 of the Draft Local Plan (Mix 2). These mixes are summarised in Table 7.9.1. As noted above, the Policy does not provide a specific mix for private housing, but a balanced mix is required, including family housing. We have therefore assumed that the affordable housing mix applies on a pro-rata basis to the private housing.

Table 7.9.1: Unit mixes appraised

Unit type	Policy mix	Mix 1		Mix 2		Mix 3	
		Units	*% of total*	Units	*% of total*	Units	*% of total*
One bed	Up to 20%	65	*74%*	14	*20%*	6	*10%*
Two bed	20-50%	14	*16%*	29	*41%*	30	*48%*
Three bed	40%	8	*10%*	20	*29%*	17	*27%*
Four bed	Incl above	-		6	*9%*	10	*16%*
		88	***100%***	**70**	***100%***	**63**	***100%***

6.10 Mix 1 departs substantially from the Council's required mix, providing 74% of units as one bed flats, against the limit of 20% in the Policy. As a substantial proportion of the scheme is provided as small units, the number of units (88) exceeds those of the two mixes that either comply in full (Mix 2) or exceed the Council's requirements (Mix 3).

6.11 The residual land values generated by the three mixes vary significantly, as shown in Table 6.11.1.

Table 6.11.1: Appraisal results – unit mix

Mix	Residual land value
Mix 1	£4,165,000
Mix 2	£3,170,000
Mix 3	£2,975,000

6.12 The residual land values generated by the three mixes vary significantly, as shown in Table 6.11.1. The Council could maximise the overall number and percentage of affordable housing units by selecting the mix that generates the highest residual land value, i.e. a scheme heavily weighted towards smaller units. This would generate a higher residual land value, as shown by our appraisals; Mix 1 which is comprised of 74% one bed units generates a residual land value of £4.2 million, whereas a mix that would comply with the Draft Local Plan, with a significantly lower percentage of one bed flats, generates a residual land value that is around £1 million lower. If the land had a current use value of £4 million in this scenario, the scheme with smaller units would be able to deliver 40% affordable housing. However, the scheme with a higher proportion of larger units would need to be brought forward with a substantial reduction in the overall percentage of affordable housing.

6.13 Clearly, however, housing need in Lambeth would not be satisfied by provision of a bulk of new affordable housing as small units. The Council therefore needs to balance the overall quantum of affordable with the quality of supply, in terms of unit sizes that are suitable for those in urgent housing need. Inevitably, this may mean that when scheme viability is under pressure, the Council may need to sacrifice overall numbers for an attractive unit mix. Conversely, if a site is deemed to be unsuitable for a high proportion of family housing, a higher number of affordable housing units could be secured.

7 Other options for increasing supply

7.1 This section considers other options for increasing supply of affordable housing that take advantage of high values in the north of the Borough and lower values in the south. The Council could consider a selective programme of commuted sums in-lieu of on-site delivery. This is an approach under consideration in neighbouring boroughs.

Commuted sums in lieu of on-site affordable housing

7.2 There is a very high value ‘forgone’ or high ‘opportunity cost’ when providing affordable housing in many parts of the Borough. In other words, the value of converting a private unit to an affordable unit results in a considerable loss in value. This relationship is most acute in the Borough’s highest value areas, such as Waterloo and Vauxhall. For example, if the market value of each square foot of housing is £800 and the value of each square foot of affordable housing is £200, the value ‘forgone’ is £600 per square foot. For a 500 square foot unit, the total value forgone would therefore be £300,000. However, in a lower value part of the Borough, the market value could be as low as £300 per square foot. The value of affordable housing in these low value areas would also fall slightly, perhaps to around £150 per square foot. However, the value forgone resulting from turning a private unit into an affordable unit is very low (£150 per square foot, or £75,000 per 500 square foot property)

7.3 As an alternative to on-site affordable housing, which has a high cost of delivery (in terms of value forgone), the Council could secure some of the affordable housing contribution on some sites as a payment in lieu, rather than units on site. The payment could then be used to provide affordable housing on lower value sites, where the value forgone is much lower. Taking the example from the previous section, a commuted sum of £300,000 arising from a single one bedroom flat could be used to provide 4 one bedroom flats in a lower valuer area. The Council would then enhance supply, or alternatively use some of the surplus monies collected to fund an acquisition programme or to provide or a programme of support for first time buyers.

7.4 This approach could be adopted for one affordable tenure or both, although we would suggest that affordable rent would probably be best provided off-site as these units generate lower values than shared ownership.

7.5 The obvious downside to the approach suggested above is that it has the potential consequence of creating an exclusively private housing enclave across large parts of the Borough. It may also result in more affordable housing being provided in lower value areas which may reinforce existing patterns of deprivation and worklessness (although this could be addressed to some degree through local lettings plans). This may be unpalatable in the context of a decade over which the Council has sought to achieve ‘mixed and balanced communities’. However, in the context of increasing challenges in meeting demand for affordable housing, approaches that increase supply whilst at the same time undermining other objectives might become less unacceptable.

7.6 To resolve issues associated with social mix, the Council might decide to accept payments in lieu on only a proportion of sites coming forward in high value areas to ensure at least some on-site delivery. Clearly this would be a matter for the Council to consider in respect to its current and future planning policies. We understand that the Council’s current stance is that offsite provision or payments are only considered in exceptional circumstances.

Use of commuted sums

7.7 If the Council were to collect commuted sums in lieu of affordable housing on some sites, this could be used to set up a programme of grant funding to assist in delivery in the Borough. This could be used for a number of alternative approaches to increasing affordable housing supply, which might include the following options, providing these are consistent with Council policies:

- Provision of equity loans or deposits to assist first time buyers;
- Improving the affordability of shared ownership products through purchasing equity stakes from RSLs, which would reduce the amount the purchaser would need to fund;
- Direct grants to RSLs on schemes in lower value parts of the Borough to increase levels of affordable housing above those that could be secured through developer contributions alone;
- Investments to bring existing stock back into use by funding refurbishment programmes. This would help to replace lost funding that was previously provided through central government's Decent Homes Standards programme;
- Funding incentives to under-occupiers to downsize, thus releasing larger units which are particularly in short supply;
- Provision of gap funding for estate regeneration schemes, reducing the reliance on private housing to cross-subsidise the reprovision of affordable housing.

7.8 The different approaches above would deliver varying benefits, but it is difficult to quantify the level of additionality that might be achieved from each route.

8 Conclusions

Balancing needs

8.1 Provision of an adequate supply of both rented and intermediate affordable housing is an important issue in the London Borough of Lambeth. Affordable housing policy requirements are based on need proven through the Council's Housing Market Assessment. The Borough's requirements for the provision of social and community infrastructure via CIL are equally clear from the PDCS, which indicates a substantial funding gap. In the absence of a contribution towards this infrastructure requirement from CIL, delivery of the development plan would be clearly more constrained.

8.2 The need for affordable housing and funding for infrastructure need to be weighed against the need to provide competitive returns to developers and landowners. This requirement is recognised by the Council when assessing schemes by allowing a premium to existing use values of sites to incentivise the release of sites for development, reflective of individual site circumstances; and through a developer's profit. It is important to make a distinction between the price that developers chose to acquire sites for and the value of land; the two are rarely the same. For the purposes of assessing the viability of development, it is important to disregard a number of factors that might skew the results (including inter alia developers taking a view on being able to negotiate on planning requirements; over-optimistic pricing of units; assumptions about value engineering development etc).

Core Strategy Policy S2

8.3 The Council's affordable housing policy S2 provides a sound basis for securing the maximum reasonable proportion of affordable housing from developments, while at the same time avoiding an adverse impact upon viability and residential land supply. Policy S2 acknowledges that exceptional circumstances may arise and that some sites have high existing and alternative use values. Recognising these factors, the Policy outlines the Council's approach of seeking a detailed and robust financial statement to demonstrate conclusively why planning policies cannot be met. Both in terms of policy and practice, these appraisals are tested by appropriately qualified advisors. In practice, the Council considers the results of these appraisal exercises alongside the planning benefits of individual schemes. There is no presumption that viability appraisals justifying low levels of affordable housing will be accepted, if other benefits do not outweigh this disadvantage.

8.4 Residential sales values are higher than at the time the 2009 Affordable Housing Viability Study was undertaken and consequently the viability of developments in the Borough should have improved. Securing development finance remains difficult for many developers, but when schemes are constructed, units are selling well.

8.5 Although grant funding for affordable housing is now much reduced in comparison to the levels provided before 2011, the increased levels of rent now available have to some extent off-set the loss of grant.

8.6 In this context, there is no justification in our view to change the affordable housing targets in Policy S2.

The Tenancy Strategy

8.7 The Council's Tenancy Strategy seeks to strike a balance between maintaining a degree of affordability and enhancing supply of new affordable homes. Our viability testing clearly indicates that the restrictions on rent will reduce supply below levels that could otherwise have been achieved.

8.8 However, rents at higher levels than those proposed in the Tenancy Strategy would exclude households who rely on benefits to pay their rent from access to new affordable rented properties. This would clearly cause considerable difficulties for the Council in addressing urgent housing need. The proposed approach therefore strikes an appropriate balance between securing as much supply as reasonably possible while protecting access to those who are in most need.

8.9 The Council should carefully monitor any future changes to the benefits system that might enable RPs to increase rent levels without adversely affecting access to priority households. Upwards adjustments to rent levels in these circumstances would help to increase the supply of affordable rented homes.

Increasing supply of affordable housing

8.10 Lambeth is a diverse Borough, with very high residential sales values in the north and much more affordable values in the south. This diversity provides an opportunity to 'leverage' against the high values to increase affordable housing supply.

8.11 Commuted sums paid from developers bringing forward schemes in the north of the Borough could fund a significantly higher number of units on sites elsewhere in the Borough in comparison to an on-site solution.

8.12 There are, however, issues associated with social mix in both the higher values areas (which risk becoming enclaves of well off people) and lower value areas (which risk becoming areas of higher levels of deprivation in comparison to the Borough as a whole).

Housing mix

8.13 The Council's proposed housing mix seeks to secure a significant contribution towards family housing from new developments, particularly for the affordable sector. Our viability appraisals suggest that this requirement has an impact on the overall quantum of affordable housing that can be secured. In common with other requirements, there is a balance to be struck between overall supply and securing a supply that actually meets needs of priority households.

8.14 The Council may wish to introduce some flexibility into the policy requirement so that sites which may not be suitable for high proportions of family housing are not required to do so; while sites that are more suitable could provide more than the minimum required.

Appendix 1 - Testing assumptions

Appraisal input	Source/Commentary	Site type number and assumptions					
		1	2	3	4	5*	6*
Number of units		25	100	300	50	250	125
Base construction costs (£s per sq metre)	BCIS adjusted for location. Based on gross areas before external works. Additional adjustments as set out in Table 4.21.1	£1,400	Flats - £1,400 Houses - £879	£1,400	£1,150	£2,260	£1,800
External works (% of build costs)	Based on average scheme cost.	15%	15%	15%	15%	15%	15%
Code for sustainable homes	Based on CLG/Cyril Sweett Study	6%	6%	6%	6%	6%	6%
Contingency (% of build cost)	Industry norm (5%)	5%	5%	5%	5%	5%	5%
Professional fees (% of build)	BNPPRE assumption	10%	10%	10%	10%	12%	12%
Finance costs	BNPPRE assumption	7%	7%	7%	7%	7%	7%
Marketing costs	BNPPRE assumption (% of GDV)	3%	3%	3%	3%	3%	3%
Construction period (months)	We assume that developers will build at the rate they are able to sell.	19	19	24	24	24	24
Sales period (months)	Determined by ability of market to absorb new development	5	15	15	8	4	15
Sale start (month from commencement)	Linked to later stages of construction period	16	12	20	22	20	22
Sales rate (units per month)	Reflective of current market, could improve.	3	4	6	4	7	5
Profit on private (% of GDV)	BNPPRE assumption – reflective of current funder requirements	20%	20%	20%	20%	20%	20%
Profit on affordable (% of GDV)	Reduced risk due to pre-sale to RSL	6%	6%	6%	6%	6%	6%
Phasing of CIL payments	BNPPRE assumption – equal splits, paid in months shown in table	1 / 6 / 12	1 / 6 / 12	1 / 6 / 12	1 / 6 / 12	1 / 12 / 24	1 / 12 / 24
Gross to net ratio for flats	BNPPRE assumption	85%	85%	80%	80%	75%	80%
Density and site area (ha, developable area)		180 uph 0.14 ha	100 uph 1.00 ha	150 uph 0.50 ha	400 uph 0.13 ha	500 uph 0.50 ha	375 uph 0.33 ha

*Higher values areas only (Waterloo and Vauxhall)

Appendix 2 - Appraisal outputs

25 units, 30% one bed, 30% two bed, 30% three bed, 10% four bed **Site 1 – residual values (£ millions)**	**40% affordable**			**30% affordable**			**20% affordable**			**10% affordable**		
	Rent scenario 1	**Rent scenario 2**	**Rent scenario 3**	**Rent scenario 1**	**Rent scenario 2**	**Rent scenario 3**	**Rent scenario 1**	**Rent scenario 2**	**Rent scenario 3**	**Rent scenario 1**	**Rent scenario 2**	**Rent scenario 3**
Norwood Park SE19	-£0.62	-£0.62	-£0.77	-£0.56	-£0.56	-£0.68	-£0.51	-£0.51	-£0.59	-£0.45	-£0.45	-£0.49
Streatham SW16	-£0.11	-£0.11	-£0.30	-£0.02	-£0.02	-£0.17	£0.06	£0.06	-£0.04	£0.15	£0.15	£0.10
West Norwood SE27	£0.00	£0.00	-£0.15	£0.11	£0.11	£0.00	£0.22	£0.22	£0.15	£0.33	£0.33	£0.30
Streatham Hill SW2	£0.42	£0.39	£0.11	£0.51	£0.48	£0.27	£0.59	£0.57	£0.43	£0.67	£0.66	£0.59
Tulse Hill SE21 and Brixton/Myatts Fields SW9	£0.66	£0.66	£0.46	£0.82	£0.82	£0.67	£0.98	£0.98	£0.88	£1.13	£1.13	£1.08
Herne Hill SE24	£1.10	£1.10	£0.84	£1.29	£1.29	£1.10	£1.48	£1.48	£1.35	£1.67	£1.67	£1.61
Kennington/Oval SE11	£1.59	£1.39	£1.14	£1.74	£1.59	£1.40	£1.88	£1.78	£1.66	£2.03	£1.98	£1.92
Clapham South SW4	£2.30	£2.09	£1.84	£2.52	£2.36	£2.17	£2.74	£2.63	£2.51	£2.96	£2.91	£2.84

100 units, 30% one bed, 40% two bed, 30% three bed **Site 2– residual values (£ millions)**	**40% affordable**			**30% affordable**			**20% affordable**			**10% affordable**		
	Rent scenario 1	**Rent scenario 2**	**Rent scenario 3**	**Rent scenario 1**	**Rent scenario 2**	**Rent scenario 3**	**Rent scenario 1**	**Rent scenario 2**	**Rent scenario 3**	**Rent scenario 1**	**Rent scenario 2**	**Rent scenario 3**
Norwood Park SE19	-£0.67	-£0.67	-£1.12	-£0.33	-£0.33	-£0.66	£0.02	£0.02	-£0.21	£0.36	£0.36	£0.25
Streatham SW16	£1.39	£1.39	£0.84	£1.87	£1.87	£1.46	£2.35	£2.35	£2.07	£2.83	£2.83	£2.69
West Norwood SE27	£1.88	£1.88	£1.44	£2.46	£2.46	£2.13	£3.04	£3.04	£2.82	£3.61	£3.61	£3.50
Streatham Hill SW2	£3.48	£3.35	£2.58	£3.97	£3.87	£3.30	£4.46	£4.39	£4.01	£4.95	£4.92	£4.73
Tulse Hill SE21 and Brixton/Myatts Fields SW9	£4.55	£4.55	£3.99	£5.33	£5.33	£4.91	£6.11	£6.11	£5.83	£6.90	£6.90	£6.76
Herne Hill SE24	£6.31	£6.31	£5.58	£7.23	£7.23	£6.69	£8.16	£8.16	£7.80	£9.09	£9.09	£8.91
Kennington/Oval SE11	£8.31	£7.50	£6.84	£9.07	£8.46	£7.97	£9.83	£9.43	£9.10	£10.59	£10.39	£10.23
Clapham South SW4	£11.18	£10.36	£9.70	£12.26	£11.64	£11.15	£13.33	£12.93	£12.60	£14.41	£14.21	£14.04

150 units, 40% one bed, 30% two bed, 30% three bed **Site 3– residual values (£ millions)**	**40% affordable**			**30% affordable**			**20% affordable**			**10% affordable**		
	Rent scenario 1	**Rent scenario 2**	**Rent scenario 3**	**Rent scenario 1**	**Rent scenario 2**	**Rent scenario 3**	**Rent scenario 1**	**Rent scenario 2**	**Rent scenario 3**	**Rent scenario 1**	**Rent scenario 2**	**Rent scenario 3**
Norwood Park SE19	-£5.51	-£5.51	-£6.18	-£5.29	-£5.29	-£5.78	-£5.06	-£5.06	-£5.39	-£4.83	-£4.83	-£5.00
Streatham SW16	-£2.82	-£2.82	-£3.62	-£2.42	-£2.42	-£3.03	-£2.03	-£2.03	-£2.43	-£1.64	-£1.64	-£1.84
West Norwood SE27	-£2.13	-£2.13	-£2.77	-£1.62	-£1.62	-£2.11	-£1.12	-£1.12	-£1.44	-£0.61	-£0.61	-£0.78
Streatham Hill SW2	-£0.02	-£0.21	-£1.33	£0.36	£0.22	-£0.62	£0.74	£0.65	£0.09	£1.12	£1.07	£0.79
Tulse Hill SE21 and Brixton/Myatts Fields SW9	£1.32	£1.32	£0.49	£2.09	£2.09	£1.47	£2.86	£2.86	£2.44	£3.62	£3.62	£3.42
Herne Hill SE24	£3.57	£3.57	£2.50	£4.53	£4.53	£3.73	£5.49	£5.49	£4.96	£6.45	£6.45	£6.18
Kennington/Oval SE11	£6.33	£5.11	£4.13	£7.00	£6.08	£5.35	£7.66	£7.05	£6.57	£8.33	£8.03	£7.78
Clapham South SW4	£10.00	£8.82	£7.84	£11.08	£10.19	£9.46	£12.16	£11.57	£11.08	£13.25	£12.95	£12.71

50 units, 10% one bed, 40% two bed, 30% three bed, 20% four bed **Site 4– residual values (£ millions)**	**40% affordable**			**30% affordable**			**20% affordable**			**10% affordable**		
	Rent scenario 1	**Rent scenario 2**	**Rent scenario 3**	**Rent scenario 1**	**Rent scenario 2**	**Rent scenario 3**	**Rent scenario 1**	**Rent scenario 2**	**Rent scenario 3**	**Rent scenario 1**	**Rent scenario 2**	**Rent scenario 3**
Norwood Park SE19	-£0.51	-£0.51	-£0.90	-£0.41	-£0.41	-£0.70	-£0.30	-£0.30	-£0.50	-£0.20	-£0.20	-£0.30
Streatham SW16	£0.60	£0.60	£0.09	£0.76	£0.76	£0.38	£0.92	£0.92	£0.66	£1.08	£1.08	£0.95
West Norwood SE27	£0.77	£0.77	£0.37	£1.00	£1.00	£0.70	£1.23	£1.23	£1.03	£1.46	£1.46	£1.36
Streatham Hill SW2	£1.75	£1.67	£0.95	£1.90	£1.84	£1.29	£2.04	£2.00	£1.64	£2.19	£2.17	£1.99
Tulse Hill SE21 and Brixton/Myatts Fields SW9	£2.21	£2.21	£1.68	£2.52	£2.52	£2.13	£2.84	£2.84	£2.58	£3.16	£3.16	£3.03
Herne Hill SE24	£3.17	£3.17	£2.52	£3.55	£3.55	£3.06	£3.93	£3.93	£3.60	£4.31	£4.31	£4.14
Kennington/Oval SE11	£4.14	£3.78	£3.12	£4.44	£4.16	£3.67	£4.73	£4.55	£4.22	£5.02	£4.93	£4.77
Clapham South SW4	£5.69	£5.25	£4.60	£6.13	£5.80	£5.31	£6.56	£6.34	£6.02	£7.00	£6.89	£6.73

250 units, 40% one bed, 50% two bed, 105 three bed **Site 5– residual values (£ millions)**	40% affordable			30% affordable			20% affordable			10% affordable		
	Rent scenario 1	Rent scenario 2	Rent scenario 3	Rent scenario 1	Rent scenario 2	Rent scenario 3	Rent scenario 1	Rent scenario 2	Rent scenario 3	Rent scenario 1	Rent scenario 2	Rent scenario 3
Waterloo	£19.60	£19.60	£19.60	£24.95	£24.95	£24.95	£30.31	£30.31	£30.31	£35.67	£35.67	£35.67
Vauxhall	£5.45	£5.45	£5.45	£9.11	£9.11	£9.11	£12.78	£12.78	£12.78	£16.44	£16.44	£16.44

125 units, 30% one bed, 40% two beds, 25% three beds, 10% four beds **Site 6– residual values (£ millions)**	40% affordable			30% affordable			20% affordable			10% affordable		
	Rent scenario 1	Rent scenario 2	Rent scenario 3	Rent scenario 1	Rent scenario 2	Rent scenario 3	Rent scenario 1	Rent scenario 2	Rent scenario 3	Rent scenario 1	Rent scenario 2	Rent scenario 3
Waterloo	£18.05	£18.05	£17.47	£21.09	£21.09	£20.66	£24.14	£24.14	£23.85	£27.18	£27.18	£27.04
Vauxhall	£10.18	£10.18	£9.42	£12.26	£12.26	£11.69	£14.34	£14.34	£13.96	£16.42	£16.42	£16.23