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Carrots & Sticks: What do London's new affordable housing measures mean for developers?

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By PrimeResi

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With affordable housing policy firmly under the spotlight after a series of high-profile set-tos, Alex Ground takes a look at the new combination of carrots and sticks being deployed to speed up delivery in London; how will the measures impact on developers, and can they really deliver what the capital so desperately needs?

In September, London Mayor, Sadiq Khan published for consultation his strategy to tackle London's housing crisis. His plans include a focus on affordable housing earmarking £250m to help City Hall buy and bring forward land for new Affordable Housing (AH) with a target of 90,000 new AH by 2021; this is in addition to the £3.15 billion announced last autumn to support affordable housing delivery.

This follows hotly on the back of the publication in August of guidance on affordable housing (AH) and viability which set out a "fast track" route for planning permission (no viability assessment needed) which will be available for private schemes proposing more than 35% and public sector schemes proposing at least 50% AH.

values to prevent developers out-bidding each other and then relying on that high purchase price to argue a scheme is unviable unless less than the target affordable housing is delivered; a move away from allowing developer's to justify a lower level of affordable housing provision by recovering the excess paid for a site through a reduced level of affordable provision.

There is now clear support for the use of existing use value plus (current use of site plus an appropriate premium to incentivise the landowner to release the site) as the most appropriate benchmark land value (opposed to market value) against which residual land value is compared to assess whether sensible to release the land. One of the difficulties will be in relation to many sites already purchased at high prices where there is now a risk that, under the new policy of EUV+ delivery of those schemes will be extremely challenging as they won't be able to recover high market value price paid by lowering the AH so it will be a challenge to ensure those sites don't sit vacant.

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Some of the extra money will be used to offer grant funding of £28k per unit for shared home ownership and £60k per unit for Affordable Rent to private sector developers and where this enables a level of AH more than 40% the per unit grant will then be applied to each affordable unit thus providing further financial incentive.

In terms of the public sector land holdings contribution, the extra funding from City Hall will be focused on helping public sector bodies to deliver the 50% affordable housing target on their schemes. The money will be used to remediate such sites and install the infrastructure, which without such financial help often makes such sites unviable.

Other aspects of the planning system are also being looked at to help in terms of viability constraints on delivery. The Community Infrastructure Levy Review team provided a number of recommendations which DCLG are now considering and are likely to use as a basis for a consultation on revisions to CIL. Finally, it is also understood that the GLA are in discussions with Government regarding lowering the threshold no. of units (from 150 units currently down to nearer 50 units) for which it can call in planning applications to try and ensure that even medium size schemes deliver close to the 35% minimum affordable housing target.

The link between a successful city and the need for more affordable housing (many of those on lower incomes and in public sector roles live in existing social housing and the fear is that without providing more affordable housing positions for those roles will start to increasingly become unfilled) is clear. Will this new combination of carrots and sticks be able to deliver?

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