note

Quod

Project ref Q30173

21 John Street, London WC1N 2BF

20 June 2012

1. Introduction

1.1 This note summarises the policy context for the delivery of affordable housing as it applies to the proposed scheme at 21 John Street and specifically considers the exceptional circumstance which together confirm that an offsite cash contribution is the most efficient use of the available subsidy.

2. Policy Considerations

2.1 This section identifies the relevant extracts from planning policy and guidance informing the affordable housing strategy for this site.

2.2 The local policy context has been considered in the planning statement which accompanied the application. In summary and with particular regard to the issues of onsite or offsite delivery of affordable housing; Policy CS6 of the Core Strategy sets a borough-wide target of 50% affordable housing Policy DP3 of the Development Policies states that the Council will negotiate the development of individual sites but will apply the target with regard to a sliding scale from 10% for developments with capacity for 10 dwellings to 50% for developments with capacity for 50 dwellings. Whilst the gross internal residential floor space proposed is 814 sq. m, the gross external area is 1,177 sq. m, triggering an affordable housing contribution of 10% (i.e. 1 unit on site).

2.3 The supporting text to the policy confirms that the Council will take a flexible approach to provision of offsite affordable housing for schemes close to the affordable housing threshold (i.e. between 1,000 sq. m and 3,500 sq. m (gross) of additional housing).

2.4 Furthermore Policy DP3 states that the Council will also take into account a number of key factors in determining whether it is practical to secure an onsite affordable housing contribution these are;

a) Access to public transport, workplaces, shops, services and community facilities;
b) The character of the development, the site and the area;
c) Site size, and constraints on including a mix of market and affordable tenures;

d) The economics and financial viability of the development including any particular costs associated with it;
e) The impact on creation of mixed and inclusive communities; and
f) Any other planning objectives considered to be a priority for the site.

2.5 The supporting text to Policy DP3 also states that the council will consider the following:

- Physical constraints of the site or premises would make on-site affordable elements impractical for management purposes;
- The management or service charges of an on-site scheme would be too costly for affordable housing providers or occupiers to meet;
- Particular costs associated with the development would require an excessively high amount of subsidy for on-site provision, but the economics of the development do not preclude making an off-site affordable housing contribution;
- The necessary affordable housing funding is unlikely to be secured within a reasonable timescale to enable an on-site scheme;
- An offsite contribution will maximise the overall delivery of housing and affordable housing.

2.6 Paragraph 6.4 of the Council's Planning obligations SPD sets out how payments in lieu of affordable housing are calculated. The Council has set a payment level of £2,650 per sq. m, which is applied to the on-site target for affordable housing, where a scheme is a market residential scheme (calculated on a gross external area basis). Therefore, the total gross external area for this development is 1,177 sq. m, which triggers a target of 12% (as the site has capacity to deliver 12 units). The floor space target for onsite affordable housing is 141 sq. m (12% x 1,177 sq. m), which results in an offsite contribution in lieu of onsite provision of £373,650 (£2,650 x 141 sq. m).

2.7 This local policy approach and consideration of whether onsite delivery is appropriate is supported by the London Plan which now further emphasizes (paragraph 3.74) the need for authorities to review the relative value for money where onsite affordable provision is pursued in lieu of offsite contributions. Similarly the NPPF has increased the emphasis towards an outcome based approach to the delivery of affordable housing.

2.8 Overall a balanced judgment needs to be made weighing up the baseline policy target of onsite delivery vs. the potential benefits of an offsite contribution and the barriers and constraints which may occur where provision is made on site. The next sections therefore consider the site specific constraints which arise in this development and reviews how a cash contribution, based on the Council's methodology of calculation, may be deployed offsite.

3. Barriers to onsite affordable housing provision

3.1 The scheme proposes commercial uses on the ground and first floors and 8 residential units (1 x 1bed, 6 x 2bed, 1 x 3bed) on the second to seventh floors. The overall design is constrained by the listed status of the building and its historical character and this has been explored in detail as part of the application and pre application process. The current design is considered to optimise the conversion of the building into its proposed mixed use. These overall design constraints combine with the intention to ensure the existing commercial occupiers can remain in situ during the duration of the conversion of the upper floors to ensure continuity for the employment element of the scheme. In addition the residential proposals are required to meet the Council's internal residential space standards and guidance on room standards. Therefore, when considering onsite affordable housing provision, the scheme design presents a number of management and deliverability issues, which are outlined in detail below:

3.2 The inclusion of affordable housing in converted buildings is not in itself a barrier to successful integration of tenures. However, registered providers prefer new-build provision as they are better able to manage exposure to cyclical and day to day maintenance obligations. The listed conversion will be delivered to a high standard but maintenance of the external fabric will be undertaken on behalf of leaseholders by the freeholder management company. By definition a registered provider will be a minority party in this arrangement and will not be in a position to control expenditure and or timing of improvements and maintenance. This can be potentially problematic particularly where the provider is responsible for funding this aspect as is the case for social and affordable rented accommodation.

3.3 Management of onsite affordable units with a shared core: The scheme design requires a single core, which serves both the commercial and residential units on the upper floors and it is proposed that the lift will be for the principal use of the residential occupiers controlled through passcode security. Whilst a shared core does not impact the split land use within the building, having a shared core for both private and affordable units makes it impossible for a registered provider to manage affordable units separately from the management regime for the private units. This is a critical requirement for sound management of social rented or affordable rented units both in terms of service charge exposure and the wider housing management function (as identified in the above paragraph). On this basis where the policy requirement for one affordable housing unit to be provided on site is being reviewed, the shared core constraint would suggest the preferred tenure would be intermediate housing for sale in the form of shared ownership.

3.4 Service Charge levels: Having a shared core prevents the registered provider from opting out of communal service charge as this would be contrary to the Landlord and Tenant Act 1985. On this basis they would be obliged to contribute the due share for the concierge management company proposed for the communal areas, which includes a full time porter. The registered provider would take a leasehold interest in the unit and as a minority leaseholder would have only limited control over actual service charge levels. The burden of Service charge falls on the tenant or shared ownership owner. For tenants the key issue is whether the charges are recoverable against housing benefit as this will be important for a majority of potential occupiers. For shared owners (or tenants not on housing benefit) the level of service charge impacts directly on their level of disposable income to direct at rent or mortgage payments.

3.5 Typically shared owners will seek to deploy their available income to pay off mortgage debt rather than 'fund' services which they would not ordinarily seek (like concierge functions). For these reasons registered providers now have an increased focus in ensuring they keep control of service charge levels and that they are kept to a minimum.

3.6 The applicants have undertaken an assessment for the proposed conversion and charges are likely to be between £7,600 and £8,690 per annum per unit. This includes communal heating charges, water charges and porter totaling £3,690 per annum all of which are not housing benefit eligible. These additional costs would therefore present a significant financial burden to any affordable residents, particularly to those social/affordable renters who may be reliant on 100% housing benefit to cover their housing costs. Subsequently, it may prove challenging to allocate as affordable rent, particularly as the Council operates a choice based letting system.

3.7 It will be appreciated that for the private units this level of service is typical and is considered an important element in achieving the target sales prices for the apartments and maintaining a high standard of service for residents occupying what will be high quality accommodation.

3.8 Affordability of the intermediate units: As identified above social rented and affordable rented accommodation as a single unit in this development faces significant barriers some of which may be eased by switching the tenure to intermediate accommodation purely because this operates for a different income group and with different management criteria for the registered provider. However, the affordability of intermediate units is a critical consideration in establishing the suitability of onsite affordable housing provision. Paragraph 3.62 of the London Plan (July 2011) sets out the income thresholds for intermediate housing, updated in the London Plan Annual Monitoring Report (AMR) March 2012. This identifies that intermediate housing must be affordable to households on incomes of no more than £64,300 (slightly higher for 'family accommodation'). The AMR also states that total housing costs (including mortgage repayments, rent on the unsold equity and service charges) shall not exceed 40% of the household's net income. Applying the anticipated residential value of 1,000 per sq. ft. and assuming plot 2.02 on the second floor is proposed as intermediate housing for sale, the open market value of the unit would be circa £895,000. Assuming the minimum initial equity share of 25% is purchased, applying the net income cap of 40%, a 10% deposit requirement on the 25% equity share and a typical mortgage interest rate of 6.5%, the following table summarises the minimum incomes that would be required when a range of rent levels are applied to the unsold equity:

Rent level charged on the unsold equity	Minimum household income required (Based on an annual service charge of £7,600)	Minimum household income required (Based on an annual service charge of £8,690)
0% rent	£81,350	£85,032
0.5% rent	£92,668	£96,351
1% rent	£103,987	£107,669

3.9 The table above demonstrates that it would be impossible for a registered provider to deliver the unit as intermediate housing for sale and meet the Mayor's income requirements. This is even the case where an assumption is made for no rental charge on the unsold equity which would undermine the principle of shared ownership and place management pressures on the provider as they would have no income stream post sale of the initial share. The detailed calculations behind this summary table are set out in annex 1 to this note which includes calculations for the smaller unit of 3.02 for comparison.

3.10 In summary the range of design and service charge constraints combine to prevent the successful integration of either social or affordable rented accommodation within this project. To do so would place unrealistic cost burdens on tenants even where they were in receipt of housing benefit. The emergence of the universal credit proposals as part of the welfare reform bill will invariably add further pressure to this scenario. Similarly the management and maintenance obligations which will fall to the registered provider will be significant and to an extent uncontrollable. In the context of a single unit of affordable provision this is not considered a suitable or appropriate scenario. Intermediate accommodation offers less constraint but affordability is a huge problem and even if the London Plan limits could be 'set aside' prospective purchasers will be deterred by the need to 'divert' some of their disposable income to service charge functions which they would not ordinarily seek.

3.11 The leads to the logical conclusion that the most appropriate option for this development is the payment of a cash sum in lieu of affordable provision. Given the range of described circumstances, this option is also one which is consistent with policy at local, regional and national level.

4. <u>Use of an offsite contribution in lieu of onsite provision</u>

4.1 In the context of this development an offsite contribution would present a more efficient solution, maximising affordable housing delivery and use of resources to meet housing needs. Whilst the proposed contribution sum of £373k, as calculated in accordance with policy, is not sufficient to advance a standalone alternative development scheme offsite it has the potential to deliver a range of affordable housing outcomes. These may take various forms but will each deliver either an increased quantum of affordable housing compared to the onsite alternative and potentially wider community benefits or a very significant contribution towards an established initiative related to affordable provision. A number of potential relevant options are considered below;

a) The offsite contribution could be used to provide grant to registered providers to increase the level of affordable housing on new build mixed tenure scheme with lower market values. Evidence of grant per unit from the most recent bidding round administered by the HCA/GLA indicates a broad average of around £35k per unit. On this basis diverting the offsite contribution to support this programme could potentially deliver up to 10 affordable homes. Even at double the average grant level the potential for additional affordable housing outcomes over and above that which can be achieved on site is clear.

b) Specific Council led regeneration schemes like the Abbey Road Estate and Bacton low rise are being advanced as part of the Council's Community Investment Programme. Each of these projects will require additional development subsidy to optimise the type and quantum of affordable housing which can be viably delivered alongside the wider community aims of the projects. The pooling of offsite contributions from small development projects like John Street to support such programmes could have a significant net benefit to the council both in terms of meeting housing needs and securing a range of wider community benefits in those key regeneration projects.

c) The Council are currently exploring a tenant deposit scheme, to assist tenants to either purchase a market sale or shared ownership property of their own or move to the private rental sector. This would in turn help support various objectives, such as reducing overcrowding or under occupation (of existing council tenants), in turn freeing up existing social rented properties for re-let. This is particularly relevant in relation to facilitating the delivery or availability of larger family sized properties which are more challenging to deliver on high density developments which now form the majority of development proposals. Assistance with deposits could also be earmarked to assist those existing leaseholders living on Council-owned estates that are being redeveloped and identified in the Council's Community Investment Programme, enabling them to purchase a property and return to the area.

4.2 The above each offer the potential to provide a much more significant affordable housing outcome than the onsite alternative of a single heavily constrained affordable rented product or an intermediate property of marginal affordability (in the context of the London Plan).

4.3 Optimisation of the available development subsidy for affordable housing is increasingly important component of scheme specific discussions and this has been emphasised by the GLA. In the context of this development the net benefit to the council of electing, in accordance with policy, to secure a cash contribution from this project for the offsite delivery of affordable housing represents the most logical and efficient use of the available subsidy.

ANNEX 1

Affordability Assessment Shared Ownership
21 John Street (based on the minimum annual service charge of £7,600)

0% rent on the unsold equity

Unit ref	Type	Beds	Size Sq m	Market Value	Initial Share	value of equity share	Deposit Requirement (10% of equity share)	Monthly Payments Est Mortgage	Equity Rent	Service Charge	Total Housing Cost	Income Required
3.02	Apartment	1	59	£ 635,070	25%	£158,768	10%	£976.20	£0	£633	£1,610	£65,251
2.02	Apartment	2	83	£ 893,404	25%	£223,351	10%	£1,373.30	£0	£633	£2,007	£81,350

Notes:

1 Mortage rate 6.50% Typical high street rate
2 Equity Rent 0.00% of unsold equity
3 Income Requirement 40% of Net where Net equals 70% of Gross
4 Denotes units within GLA affordability criteria
5 Annual Service charges = 7600

0.5% rent on the unsold equity

Unit ref	Type	Beds	Size Sq m	Market Value	Initial Share	value of equity share	Deposit Requirement (10% of equity share)	Monthly Payments Est Mortgage	Equity Rent	Service Charge	Total Housing Cost	Income Required
3.02	Apartment	1	59	£ 635,070	25%	£158,768	10%	£976.20	£198	£633	£1,808	£73,297
2.02	Apartment	2	83	£ 893,404	25%	£223,351	10%	£1,373.30	£279	£633	£2,286	£92,668

Notes:

1 Mortage rate 6.50% Typical high street rate
2 Equity Rent 0.50% of unsold equity
3 Income Requirement 40% of Net where Net equals 70% of Gross
4 Denotes units within GLA affordability criteria
5 Annual Service charges = 7600

1.0% rent on the unsold equity

Unit ref	Type	Beds	Size Sq m	Market Value	Initial Share	value of equity share	Deposit Requirement (10% of equity share)	Monthly Payments Est Mortgage	Equity Rent	Service Charge	Total Housing Cost	Income Required
3.02	Apartment	1	59	£ 635,070	25%	£158,768	10%	£976.20	£397	£633	£2,006	£81,343
2.02	Apartment	2	83	£ 893,404	25%	£223,351	10%	£1,373.30	£558	£633	£2,565	£103,987

Notes:

1 Mortage rate 6.50% Typical high street rate
2 Equity Rent 1.00% of unsold equity
3 Income Requirement 40% of Net where Net equals 70% of Gross
4 Denotes units within GLA affordability criteria
5 Annual Service charges = 7600

Affordability Assessment Shared Ownership
21 John Street (based on the maximum annual service charge of £8,690)

0% rent on the unsold equity

Unit ref	Type	Beds	Size Sq m	Market Value	Initial Share	value of equity share	Deposit Requirement (10% of equity share)	Monthly Payments: Est Mortgage	Equity Rent	Service Charge	Total Housing Cost	Income Required
3.02	Apartment	1	59	£ 635,070	25%	£158,768	10%	£976.20	£0	£724	£1,700	£68,934
2.02	Apartment	2	83	£ 893,404	25%	£223,351	10%	£1,373.30	£0	£724	£2,097	£85,032

Notes:

1	Mortage rate	6.50%	Typical high street rate
2	Equity Rent	0.00%	of unsold equity
3	Income Requirement	40% of Net where Net equals 70% of Gross	
4		Denotes units within GLA affordability criteria	
5	Annual Service charges =	8690	

0.5% rent on the unsold equity

Unit ref	Type	Beds	Size Sq m	Market Value	Initial Share	value of equity share	Deposit Requirement (10% of equity share)	Monthly Payments: Est Mortgage	Equity Rent	Service Charge	Total Housing Cost	Income Required
3.02	Apartment	1	59	£ 635,070	25%	£158,768	10%	£976.20	£198	£724	£1,899	£76,979
2.02	Apartment	2	83	£ 893,404	25%	£223,351	10%	£1,373.30	£279	£724	£2,377	£96,351

Notes:

1	Mortage rate	6.50%	Typical high street rate
2	Equity Rent	0.50%	of unsold equity
3	Income Requirement	40% of Net where Net equals 70% of Gross	
4		Denotes units within GLA affordability criteria	
5	Annual Service charges =	8690	

1.0% rent on the unsold equity

Unit ref	Type	Beds	Size Sq m	Market Value	Initial Share	value of equity share	Deposit Requirement (10% of equity share)	Monthly Payments: Est Mortgage	Equity Rent	Service Charge	Total Housing Cost	Income Required
3.02	Apartment	1	59	£ 635,070	25%	£158,768	10%	£976.20	£397	£724	£2,097	£85,025
2.02	Apartment	2	83	£ 893,404	25%	£223,351	10%	£1,373.30	£558	£724	£2,656	£107,669

Notes:

1	Mortage rate	6.50%	Typical high street rate
2	Equity Rent	1.00%	of unsold equity
3	Income Requirement	40% of Net where Net equals 70% of Gross	
4		Denotes units within GLA affordability criteria	
5	Annual Service charges =	8690	