Department for
Social
Development
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Developer Contributions for Affordable Housing in Northern Ireland

Report of Study

December 2015

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CONTENTS

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November 2015

The research team would like to thank all those who gave their time in helping with the research for the study.

Further supporting information is available.

EXECUTIVE SUMMARY

Context

1. Northern Ireland is the only region in the United Kingdom that does not have a contribution scheme to provide affordable housing in mixed tenure developments, delivered through the planning system. 'Facing the Future: A Housing Strategy for Northern Ireland' (2012) identified the introduction of a system of developer contributions as a key action. The Strategy recognised that: "...*the introduction of developer contributions needs to take account of wider economic circumstances*."
2. In June 2014 the Department for Social Development (DSD) published a consultation document to seek views on options for a contributions scheme[1]. At the same time draft Planning Policy Statement 22[2] 'Affordable Housing' was published. It stated that the proposed introduction of developer contributions, *"...will promote a mix of housing particularly in terms of tenure, price and household composition including families with children, single person households and older people."*
3. The current study builds on these earlier documents and consultation process and addresses the central question:

   "Can a scheme of developer contributions be successfully introduced in Northern Ireland without impacting on the economic recovery of the local housing market; and if so, what type of scheme will deliver a successful outcome?"

4. Since publication of the consultation documents in 2014, the planning system has changed significantly. In April of this year responsibility for plan making and planning decisions largely passing to 11 new local government districts (LGDs). A locally defined developer contribution scheme (if one were put in place) would likely be set out as part of the local development plan process.

Research undertaken

5. A range of research approaches were employed for the study including analysis of published information, stakeholder interviews, workshops with the development industry and housing associations as well as analysis of scheme viability. Over 30 organisations were consulted.

The housing market

6. The Northern Ireland housing market is described as 'fragile' by stakeholders and in written publications, although the Housing Executive, noted that it is undergoing a period of stabilisation (NIHE, 2015). The *Northern Ireland*

[1] Developer Contributions for Affordable Housing, Public Consultation, DSD, June 2014
[2] Published for consultation June 2014

Quarterly House Price Index, Q2, 2015[3] suggests that it is likely is that the housing market will continue to 'rise gently' in the near future and industry experts, notably estate agents we surveyed, anticipate a rise in prices of around 5% over the coming year.

7. Between 2004 and 2007 there was a very sharp increase in property values followed by a sharp down turn so that, in just four years, the average price of new properties in Northern Ireland went from being the highest of the regions in the UK to the lowest. The subsequent recovery has been slower than elsewhere in the UK, reflected in the price to income ratio falling from amongst the highest three in the UK regions at the peak of the market to the lowest today. The price to income ratio in Northern Ireland may have now levelled off, possibly suggesting the beginning of a true recovery. Further evidence of recovery comes from both lenders and estate agents who report first time buyers entering the market again but that borrowers are still very cautious. Nevertheless, there are several negative factors in the wider economy such as labour market uncertainty and negative equity which may continue to act as a drag on the housing market.
8. The housing market is also characterised by significant geographic variations. Market performance in and around Belfast is considerably stronger than elsewhere both in terms of values and levels of activity.

The development pipeline

9. Reflecting the fall in values and transactions post 2007/08, new housing starts also fell dramatically from a high of over 15,000 in 2006 to around 6,700 in 2014. Housing completions have followed a similar pattern but with small rises in both starts and completions in the private sector in 2013 and 2014.
10. Single dwellings in the countryside account for the overwhelming majority of planning approvals (around 85%) but only around 20% of all units approved.
11. Excluding single dwellings in the countryside, the median size of new housing schemes is about 9 to 12 units. This is actually very similar to the equivalent figure for GB which we have estimated at fewer than 10 units.

The development industry

12. The private housebuilding industry in Northern Ireland is different from the rest of UK. None of the GB based large speculative developers build in Northern Ireland, where developers are much smaller and build fewer units. One industry source suggested that fewer than 15 developers are building more than 20 units per year.
13. Many developers are nervous of borrowing and lenders have been reluctant to lend working capital for development.

[3] University of Ulster, 2015

14. 24 housing associations operate in Northern Ireland but development within the sector is dominated by 4 associations. Each has a development programme larger than the biggest private developers.
15. There is also the Co-ownership Housing Association which provides co-ownership homes – a well established product that partly fills the role fulfilled by 'Help to Buy' elsewhere in the UK. There are no other established low cost home ownership schemes although a shared ownership scheme, 'Fairshare', has recently been introduced.

Need for affordable housing

16. The study confirmed that there is a significant aggregate need for additional affordable housing but with important geographical variations. Across Northern Ireland a need for 2,000 or more affordable units per annum has been identified which is consistent with NIHE estimates (NIHE, 2015). In very general terms, targets for affordable housing of the order of 35% of planned housing growth could be justified. In practice, viability and other practical issues are likely to preclude such high levels of provision.

Attitudes towards a developer contribution scheme

17. Attitudes towards the introduction of a developer contribution scheme found in this study are very similar to those provided to DSD last year. The arguments for and against a developer contribution scheme are summarised below:

Strongly in Favour	**Strongly Against**
• Meet need for affordable housing • Access land for affordable housing • Complement grant investment • Tackle monotenure development.	• Undermine recovery • Damage values/scheme viability • Unfair tax • Social impacts strongly negative • Developers and landowners may disengage

18. If a scheme were to be introduced, private developers and developer representatives strongly favoured the use of commuted sums. Others saw on-site provision as the better option because this gave access to land and lessened social segregation on mono-tenure new estates. Developer opposition to on-site provision mirrored that commonly found throughout the UK in terms of the perceived impact on property values and ease of sale but had an added dimension - a fear that a developer contribution scheme might be used to introduce community 'mixing'. Developers expressed a strong belief that community mixing, particularly on small developments, would undermined scheme viability, adversely affecting businesses and leading to some small developers leaving the industry.

19. There were also mixed views on whether a single contribution scheme across the whole of the region was preferable to locally based schemes[4]. The former had the benefit of consistency; the latter would better reflect local circumstances.
20. Views on the threshold at which a contribution scheme should apply also varied. Arguments were made that excluding schemes under 5 units would distort the market. On the other hand, it was argued that on-site delivery may not be appropriate on small sites and that smaller schemes were less viable.

Experience from elsewhere

21. Analysis of experience elsewhere in the UK and the Republic of Ireland confirms that Northern Ireland is the only part of the UK without a contribution scheme. Common themes to emerge from the comparisons include:

- Local councils set developer contribution policies within government guidelines that may be more or less specific e.g. in Scotland there is a national benchmark percentage for affordable housing but not in Wales;
- The national benchmarks in Scotland and Republic of Ireland are relatively low in comparison with some of the locally set targets in England and Wales;
- Site size thresholds are set locally but in the Republic of Ireland there is a national threshold (9 dwellings);
- On-site provision is favoured but commuted sums are allowed, if on-site provision is not practical[5];
- Site specific viability can be taken into account when planning applications are considered;
- Provision of affordable housing through developer contributions is not the sole means of providing affordable housing.

22. The Westminster government has published the Housing and Planning Bill (October 2015) that would, if enacted, require local authorities to make provision for starter homes. These are to be new homes for those aged 40 and under with 20% discount against market value (to a maximum of £400,000 in London and £250,000 elsewhere). Until there is further guidance, it is difficult to anticipate how the new policy will operate in practice.
23. Published policies show that elsewhere in the UK, allocations to mixed tenure developments are of the same types of household that get access to affordable housing in other schemes, rather than targeted at key workers.

Development incentives

24. The importance of development incentives in other regions was put forward by the development industry as a reason for the success of mixed tenure

[4] The consultation in 2014 put forward a target of 20% affordable housing for discussion.
[5] The only exception to this is the recently introduced policy in the Republic of Ireland

developments elsewhere and, by contrast, the lack of incentives is part of the explanation for the fragile recovery of the Northern Ireland housing market.

25. Incentives available are of two main kinds, those supporting demand and those supporting delivery of new housing (e.g. through funding of infrastructure). Examples of key measures include:

- **On the demand side:**
  - The most popular scheme has been Help to Buy (available in different forms in England, Wales and Scotland).
  - The main Help to Buy scheme is as an equity loan scheme in which the purchaser contributes a %age of the value of a property as a deposit and there is a government loan, repayable after a period or on sale of the property. Purchasers select their own properties from new developments. While Help to Buy has achieved a strong take-up and is being heavily promoted by housebuilders, a report by Shelter in September 2015[6] argues that, "....*Help to Buy has added around £8,250 to the average house price";*
  - The Help to Buy (Mortgage Guarantee Scheme) is available UK wide. Under this scheme Government offers lenders the option to purchase a guarantee on mortgage loans where the borrower has a deposit of between 5% and 20%. Statistics show that the NI accounts for about 1% of the total completions through the scheme. This is broadly in line with NI's share of overall mortgage lending.
  - Rent First (Wales) and Affordable Rent to Buy (England) provide homes for rent at below market rates. The tenant can later purchase the property. The Northern Ireland Co –Ownership Housing Association is at present developing a pilot rent to purchase initiative. It is anticipated that the initiative will be launched early in the coming financial year and will provide over a 100 additional affordable houses throughout Northern Ireland;
  - Starter Homes initiative (England) - currently available to first time buyers under 40 with a 20% discount on the market value of the property on under-used or unviable commercial or industrial sites;
- **On the supply side:**
  - Some measures exempt certain types of development from a particular planning requirement, e.g. self build dwellings are not required to pay the Community Infrastructure Levy nor provide affordable housing[7];
  - Funds (e.g. Builders Finance Fund) in the form of short terms loans secured through competitive bidding;
  - Funds for provision of strategic infrastructure e.g. the Single Local Growth Fund. These are often administered by Local Enterprise Partnerships in England, on a competitive basis;
  - New Homes Bonus available to local authorities in England as a grant paid for new homes in their area. The fund is not ring-fenced;

[6] How much help is Help to Buy, Shelter, September 2015

[7] Until recently, this also applied to all schemes in England of less than 10 dwellings but this was overturned in a recent court case. The government is challenging the judgement

- o The Community Infrastructure Levy – administered by local authorities in Wales and England who can opt to charge a levy on development to fund strategic infrastructure projects. CIL charges vary by locality but typically equate to around £5,000 to £15,000 per dwelling.
- o In Scotland, Partnership Support for Regeneration Grants are provided to assist developers in building homes for sale in areas with little or no private housing or to help meet local shortages.

Impact on small businesses

26. The government has a duty to consider whether a developer contribution scheme will impact on small and microbusiness and whether it will disproportionately affect this group of businesses. Almost all developers in Northern Ireland fall within the definitions of a small/micro businesses[8].
27. Developers were concerned about the potential negative impact on the ability of small businesses to raise finance with a developer contribution scheme in place. Other major concerns include the lack of capacity in small businesses to negotiate agreements for mixed tenure schemes potentially adding costs, reducing control, increasing risk and that the costs of negotiating individual schemes would fall disproportionately on small businesses.
28. However, if small sites are excluded from a contribution scheme, (through site size thresholds), the impact on small businesses would be lessened. The use of thresholds, though, has other potential problems – including 'threshold avoidance' with schemes being 'artificially' kept below the threshold.

Viability of development

29. If a contribution scheme were to make development unviable, this would have a detrimental impact on housebuilding rates and the development industry. The impact on viability has been a concern raised by the development industry throughout this study and in the earlier consultation exercise.
30. This study included viability testing using an approach widely accepted elsewhere in the UK. It is based on the Harman guide[9]. The approach first assesses the residual value of a scheme. Residual value is the sum of all revenue in a scheme minus all the costs, including the costs of any planning obligations (e.g. affordable housing). The residual value (RV) is then compared with a notional benchmark land value. If the RV exceeds the benchmark, development is considered viable but otherwise, the development is not viable. Underlying this approach is the principle that the developer should receive a return for their investment and that the landowner receives a payment sufficient that they are willing to sell their land.[10]

[8] With fewer than 50 employees or a turnover of less than EUR 10 million

[9] Viability Testing Local Plans, Advice for Planning Practitioners, Local Housing Delivery Group chaired by Sir John Harman, June 2012

[10] In England, the National Planning Practice Guidance (2012) describes this as providing, "…*competitive returns to a willing land owner and willing developer to enable the development to be deliverable*."

31. The testing process is illustrative and relies on a range of inputs to model the values and costs associated with development. Published data was used wherever possible and the assumptions discussed with stakeholders, including the development industry. Where data was weak or there was lack of agreement about the assumptions – sensitivity testing was undertaken.
32. The main testing took a notional 1 hectare site at different densities and identifies the RV of the scheme in each of the 11 LGDs. A second set of tests used a series of illustrative small sites including sites of 3 or fewer dwellings. Small sites can have higher build costs and this affects their viability.
33. The viability testing confirms the relative weakness of the current housing market in Northern Ireland with questions over the viability of developing 100% market housing in many parts of Northern Ireland away from Belfast. The analysis shows that a developer contribution scheme without any public subsidy would not be viable except in Belfast (and its immediate environs), where some level of contribution should be achievable. This would be more certain with the contribution provided as land rather than on-site units and with the increase in market values that is anticipated.
34. Small sites do face higher costs and there is a viability argument for including a threshold in any developer contribution policy but not all small sites will be less viable than larger developments and vice versa.

Models of delivery and impact assessment

35. A number of options can be considered in the light of the quantitative and qualitative evidence presented in the report as summarised below.

Variable	Considerations	Recommendation
Contribution level	Should be based on local need for affordable housing and viability considerations.	Policy should be set locally through the LDP process with ability to vary based on individual scheme viability assessment.
Northern Ireland-wide scheme	Consistency and certainty. Concern that national policy may not account for local, especially rural, issues of access to land.	National policy requiring local councils to consider a target for developer contributions as part of their LDP process. Most LDPs will have a zero target (viability being inadequate) but all areas should consider whether they should have a target in framing their policies.
On site contribution	Only relevant if there is a contributions policy. Allows access to land. Meets housing need. Allows for tenure mix. Problematic with small schemes.	Preferred option but delivery by free land should be considered – it is advantageous where viability is marginal.
Commuted sum	Meets developer concerns about impact on values but fails to meet social policy objectives. Does not give access to land. Can be implemented equitably for all scheme sizes.	Should only be considered in exceptional circumstances where on site provision/free land is not practical.
Threshold	Reduces burden on small developments. Can distort provision in market.	A threshold of 5 units accounts for small business issues although a lower threshold of 3 could also be argued for purely on viability grounds.
Tenure mix	Aims to increase mix. Implementation is important.	Sensitive implementation is required e.g. in relation to tenure blind development to avoid stigma and to address Northern Ireland specific issue of ‘community mix’.
Use of Grant	Can bridge viability gap. Uses scarce resources.	Grant should be considered for mixed tenure schemes where aids viability

Overall conclusions

36. The research has shown that introducing a developer contribution scheme with a single percentage of affordable housing across Northern Ireland will not work given current market conditions. In Belfast and its environs a scheme could be considered but the timing, percentage target and form of provision (e.g. units on site versus land) is best left to local decision makers working

through the local development plan process – where targets, delivery mechanisms and issues of tenure versus community 'mixing' can be fully debated. There is a continuing role for grant to support mixed tenure development.

37. There is a prima facia case for treating small sites differently because of the extra build costs they incur, the adverse impact this has on their viability and potentially on the developers of such schemes, on which the development industry in Northern Ireland relies more heavily than other parts of the UK.

38. The Northern Ireland housing market does not benefit from demand and/or supply side measures found in other parts of the UK and, given the continuing relative fragility of the market (especially away from Belfast), there is value in considering their potential role.

Recommendations

39. **Recommendation one** – Targets and delivery mechanisms for a developer contribution scheme should be set locally as part of the local development plan process. Regional policy should include a requirement that LDPs identify a local target for a developer contribution scheme which takes into account need and viability (amongst other considerations). It is clear that a target of 0% will be justified in most parts of Northern Ireland at the present time but in some places, a limited contribution to affordable housing should be possible without impacting on the recovery of the market. The target percentage should specify the balance between social rent and shared equity products if provided on site or how a free land approach would operate. The latter is a realistic option in the circumstances of Northern Ireland. There would need to be flexibility to deal with individual schemes where viability was found to be an issue.

40. **Recommendation two** – Thresholds for developer contributions are valid and should form part of a locally defined policy. However, regional guidance can prescribe a standard threshold leaving LDPs to vary from this if there is local evidence to justify it. The 5 dwelling threshold previously consulted on seems a realistic starting point which takes into account the extra costs of small schemes and the practical benefits of taking small business out of a requirement to provide affordable housing – at least for the foreseeable future. There are equally valid arguments for a 3 dwelling threshold based on cost/viability considerations. The position can be reviewed if and when a developer contribution scheme (determined at the local level) has been successfully implemented.

41. **Recommendation three-** DSD establishes a working group of interested organisations (including the development industry and housing associations) to provide guidance on how viability issues should be dealt with and the data sources to draw on which can be used to advise local councils firstly, on how to draw up their LDP policies and second, to deal with any subsequent scheme viability issues. The working group should also have in its remit a

review of the practical implementation of ‘tenure blind’ development and the approach to allocations of social rent housing.

42. **Recommendation four –** A support team with the right skills is established by DSD to give direct assistance where this is needed on viability matters. We do not recommend that the team takes on the responsibility for drawing up local policies but acts as an advisory/training body.

43. **Recommendation five –** Further consideration is given to using grant as part of a developer contribution scheme to help meet funding gaps when they arise. We do not recommend a policy that precludes the use of grants on mixed tenure schemes (although we would expect the requirement to be much less than with 100% affordable housing development.)

44. **Recommendation six –** Further consideration is given to the provision of development incentives (both to encourage demand and to bring forward necessary infrastructure to support new development).

1 STUDY CONTEXT

Study origins and purpose

1. Northern Ireland is the only region in the United Kingdom that does not have a contribution scheme to provide affordable housing in mixed tenure developments delivered through the planning system. In 2012, the Minister for Social Development launched his strategic plan for housing entitled 'Facing the Future: A Housing Strategy for Northern Ireland'. One of the key actions in the strategy was the introduction of a system of developer contributions. But the Strategy recognised that: "...*the introduction of developer contributions needs to take account of wider economic circumstances*." The Strategy also indicated that the economic circumstances were not right to introduce the scheme in 2012 but that Northern Ireland should be ready to introduce a scheme, "*.....when circumstances improve*."
2. In June 2014 the Department for Social Development (DSD) published a consultation document to seek views on options for a contributions scheme[11]. A summary of responses to the consultation document was subsequently published in November 2014.
3. The current study provides an assessment of the potential to introduce a contribution scheme and is to address the central question:

   "Can a scheme of developer contributions be successfully introduced in Northern Ireland without impacting on the economic recovery of the local housing market; and if so, what type of scheme will deliver a successful outcome?"

   A 'successful outcome' (as defined in the study specification) is one that will be consistent with the Housing Strategy aim of, "... *helping to create the right conditions for a stable and sustainable housing market that supports economic growth and prosperity."*

4. The study must reflect the situation in Northern Ireland and provide:

   "..........up-to-date and Northern Ireland specific data as to the likely economic and social impacts of the various options for developer contributions schemes that could be implemented here."

5. Within this broad context, the study has a number of specific objectives which are, in summary, to:
   - Consider and critically examine the responses received to both the DOE and DSD consultation documents;
   - Undertake a review of existing developer contributions schemes across the rest of the UK and Republic of Ireland;

[11] Developer Contributions for Affordable Housing ,Public Consultation, DSD, June 2014

- Undertake an options appraisal as to which approach might best deliver the policy outcomes required in Northern Ireland;
- Consider the impact of Northern Ireland-specific issues on the economic analysis;
- Undertake a small business impact test, in line with NICS guidelines.

The changed local government and planning environment

6. The planning context in which a developer contribution scheme would operate has significantly changed since April 1st of this year. Responsibility for plan making and decisions on planning applications has largely passed to 11 new local government districts (LGDs) which took over their planning (and other) powers on 1 April 2015. It is not the purpose of this study to analyse the way the new planning system operates but the change has important consequences for any developer contribution scheme.
7. The LGDs are to prepare new local development plans that will set out "...*how an area should look in the future by deciding what type and scale of development should be encouraged and where it should be located*".[12] In preparing their plans, local councils must take into account:
   - the Regional Development Strategy 2035, which is the spatial strategy of the NI Executive;
   - DOE Planning Policy Statements and guidance.
8. The Regional Development Strategy was produced in 2010. It encourages the development of more affordable housing but pre dates any consideration of a developer contribution scheme and so makes no reference to this.
9. The Strategic Planning Policy Statement for Northern Ireland (SPPS), which was published on the 28th September 2015, sets out strategic planning policy on a wide range of planning matters. On social/affordable housing the SPPS sets out the role for the development plan process and states that it will*, ".....be the primary vehicle to facilitate any identified need by zoning land or by indicating, through key site requirements, where a proportion of a site may be required for social/affordable housing. This will not preclude other sites coming forward through the development management process.* " (para 6.143)
10. The SPSS does not provide guidance on provision for a developer contribution scheme but refers to two earlier publications - Draft PPS 22 'Affordable Housing' published for public consultation in June 2014 at the same time as DSD's draft 'Developer Contributions for Affordable Housing' policy. SPPS refers to the current study and notes that, "*DSD are currently taking forward research which both Ministers will consider before finalising any future policy on Affordable Housing*".
11. Draft Planning Policy Statement 22, Affordable Housing stated that the proposed introduction of developer contributions, *"...will promote a mix of*

[12] NI Direct website - http://www.nidirect.gov.uk/development-plans

housing particularly in terms of tenure, price and household composition including families with children, single person households and older people."

12. The consultation document, Developer Contributions for Affordable Housing set out in more detail the options for introducing a developer contribution scheme – if one were introduced. The consultation document sought comments on the following questions:

    Do you agree, in the face of constraints on public finances and sustained housing need, that a scheme of developer contributions for social and affordable housing is necessary? If not, why not?

    Should the level of developer contributions be based on a regional target (e.g. 20%) or on economic viability modelling, or on something else?

    Do you agree that the affordable housing contribution should be applied to all developments of 5 units or over?

    Do you agree with the preferential order proposed for the four contribution options? What circumstances do you consider justify off-site housing provision or a commuted sum, rather than on-site provision, given the desirability of mixed-tenure developments?

    Do you agree that tenure-blind developments are desirable?

    Do you agree that if the developer can make a profit of 15%, then the development should be deemed liable for scheme contribution?

    Do you agree that this policy does not have any adverse impact on any Section 75 group? Are there any other equality implications that the Department should consider?

    Do you have any comments to make on the partial Regulatory Impact Assessment that has been carried out?

    Any other comments or queries on this policy?

13. The consultation document recognised that a mechanism would be needed to deal with site specific viability issues (if a regional and/or local target were set) and stated that, "... *the proportion of affordable housing required will have to be economically viable to the developer, or development will not take place*." The document put forward a definition of viable as follows, *"..........if the developer can make a profit of 15%, over the whole development (market housing and the affordable element), the development can be deemed viable for scheme contribution."*

14. The consultation document made the assumption that, for on-site provision, "......*developers will normally be expected to build the units of affordable housing themselves as an integral part of their development, although on occasion the transfer of a part of the site (land only) to a Housing Association in order for them to carry out the development of the affordable units themselves may be acceptable*."

Definition of social/affordable housing

15. In this report, we adopt the definition of social/affordable housing set out in the SPPS:

> **Social Rented Housing** is housing provided at an affordable rent by a Registered Housing Association; that is, one which is registered and regulated by the Department for Social Development as a social housing provider. Social rented accommodation should be available to households in housing need and is offered in accordance with the Common Selection Scheme, administered by the Northern Ireland Housing Executive, which prioritises households who are living in unsuitable or insecure accommodation.
>
> **Intermediate Housing** consists of shared ownership housing provided through a Registered Housing Association (e.g. the Co Ownership Housing Association) and helps households who can afford a small mortgage, but that are not able to afford to buy a property outright. The property is split between part ownership by the householder and part social renting from the Registered Housing Association. The proportion of property ownership and renting can vary depending on householder circumstances and preferences.
>
> This definition of intermediate housing used for the purpose of this policy may change over time to incorporate other forms of housing tenure below open market rates.

Research methods

Overview

16. The study specification set out that the research should:
    - Include structured and formal engagement with stakeholder groups.
    - Be sufficiently robust to gain the confidence of stakeholders.
    - Enable any future decision on policy implementation to be made on firm evidence-based foundations.
    - Be specifically tailored to the Northern Ireland housing market.
    - Should include up-to-date data that takes into account the recent significant changes to the economic environment.

17. In response to the specification we adopted a mixed mode approach including semi structured stakeholder interviews, analysis of published data, review of previous consultation responses, workshops with representatives of the development industry and housing associations, follow up technical discussions and detailed analysis of scheme viability.

Desk based data sources

18. We drew on a wide range of statistics to describe the housebuilding industry and the housing market in Northern Ireland and to compare it with the wider picture for Great Britain. Information sources included:
    - Council for Mortgages Lenders – press releases with quarterly data – latest being 26th August 2015.

- The desk based market analysis was supported by information from other commentators including:
  - Ulster University's Quarterly House Price Index;
  - Northern Ireland Statistics and Research Agency (NISRA) Northern Ireland Residential Property Price Index;
  - Office for National Statistics (ONS) House Price Index;
- Affordability and Need Analysis drew on the ESRC-funded *Understanding Society Survey* (USS) Wave 3, which has a sample of 2,425 households in Northern Ireland;
- Planning permissions: Glenigan dataset containing over 2,000 schemes in Northern Ireland.

19. In addition we made use of the web to review policy approaches to delivering affordable housing elsewhere in the UK and the Republic of Ireland and to research the main financial and other development incentives to support residential development (this time limited to elsewhere in the UK).

Consultations for this study

20. Consultations were undertaken with organisations as set out in the specification and with other organisations/individuals identified as important as the study progressed. The organisations consulted were:
    - DSD, DoE, DFP
    - Construction Employers Federation
    - Northern Ireland Federation of Housing Associations
    - Northern Ireland Housing Executive
    - Council for Mortgage Lenders
    - National House Building Council
    - Chartered Institute of Housing
    - Local estate agents (15 were initially contacted by phone and/or e mail and 5 agreed to be interviewed)
    - Co ownership Housing Association
    - RICS
    - 9 housing associations through a workshop
    - 10 representatives of the development industry through a workshop
    - LGD planners to discuss the new planning arrangements and issues around local market conditions

21. Over 30 organisations have been consulted. Consultations were undertaken using semi structured agendas and, in the case of the workshops, a PowerPoint presentation to guide the discussion. Those attending the

workshops were given the opportunity for further comment when a draft note of the key points from the workshop was circulated to attendees.

Consultation responses

22. Responses to the consultation document 'Developer Contributions for Affordable Housing' have already been collated and analysed by the Department for Social Development and published in November 2014 (Summary of Responses to Consultation). We do not replicate the analysis of that exercise but have reviewed the consultation responses to understand more fully some of the issues raised with us during consultation with stakeholders.

Viability testing

23. A central task for the study has been to review the viability of various models of developer contributions and to test alternative levels of contribution in different areas. To do this, we have collated information about current development costs and market values. There is limited published information for this exercise and we have sought the views of a range of organisations and individuals who deal with development economics, including within DSD itself but also views of those with direct experience of residential development in Northern Ireland.

2. THE HOUSING MARKET

Overview

24. Northern Ireland's housing market is influenced by the wider strategic context of the world and UK economies and the position of Northern Ireland within the latter. Within Northern Ireland there is also regional and local variation.

25. The Housing Executive notes that the housing market is undergoing a period of stabilisation (HE, 2015). This is against a background of a slowly growing world economy, supported, for example, by lower oil prices but with slowing growth in emerging economies, especially China, and continuing uncertainty in Europe. Within this broader picture, Northern Ireland continues to lag behind other UK regions, a situation exacerbated by political uncertainty, a rise in unemployment and a hangover of negative equity for over 60,000 households (HE, 2015). Trends in employment in Northern Ireland showed increases in employment and economic activity levels and decreased unemployment during 2014/15 but a sharp increase in unemployment in the first quarter of 2015. UK government policy also continues to constrain public spending.

26. The *Northern Ireland Quarterly House Price Index, Q2, 2015* suggests that despite downside risks, it is likely is that the Northern Ireland housing market will continue to 'rise gently' in the near future (University of Ulster, 2015). While the housing market varies significantly both geographically and by property type, stakeholders, notably some estate agents, contacted as part of the current study considered a rise in prices of around 5% over the coming year to be likely and demand to be strong or buoyant in commuting areas and in Belfast but weaker elsewhere.

27. Until relatively recently, information on the housing market in Northern Ireland was somewhat scarce, with the main sources of analysis being the Ulster University Quarterly House Price Index (see Ulster University, 2015, for example) and the periodic publication by the Northern Ireland Housing Executive of the Housing Market Review (see HE, 2014). The quality of data has improved recently, with additional analyses being provided by the Office for National Statistics (see ONS, 2015) and a new residential property price index being published by DFPNI (see DFPNI, 2015).

28. The purpose of this section is to provide a brief synthesis based on these published sources, to consider how well established a housing market recovery is, and to examine the role of new housing supply in the housing system in Northern Ireland. This is supplemented and contextualised by analysis of stakeholder views gathered during the current research. Estate agent views give a useful illustration but it should be noted that only five estate agents (albeit covering a good range of market areas and types) contributed to the research.

National and regional house price and affordability trends

29. We begin with a brief review of the historical development of prices in Northern Ireland in comparison with elsewhere in the United Kingdom, and then consider spatial patterns in prices, and the new-build sector more specifically.

30. The review starts with an overview of trends in new build house prices in Northern Ireland compared with the rest of the UK and using North East England as an example of a weaker English market for illustration.

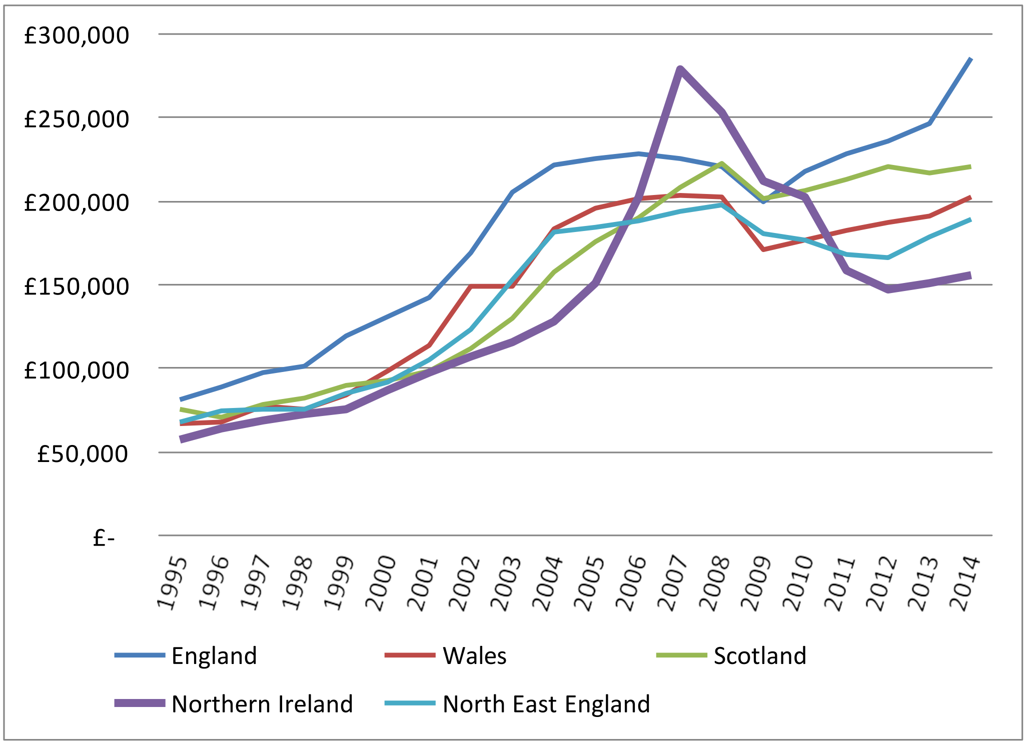

Figure 2.1 Housing market: simple average house prices new dwellings by region, 1995 to 2014 (ONS House Price Index (HPI) Table 23, May 2015)

31. The above chart clearly illustrates the very sharp increase in market values for new build properties in Northern Ireland to 2007, followed by a sharp down turn (so that the average price on new properties in Northern Ireland went from being the highest in the UK to the lowest in the space of 4 years). There has been a recovery since the down turn but it appears to have been slower than elsewhere in the UK. These very simple facts explain a great deal about the current state of the market. Our analysis looks in more detail at the market in the following sections but this high level picture sets the scene very well.

32. The severity of the boom and subsequent correction is also captured neatly in the University of Ulster's (2015) analysis, summarised in Figure 2.2.

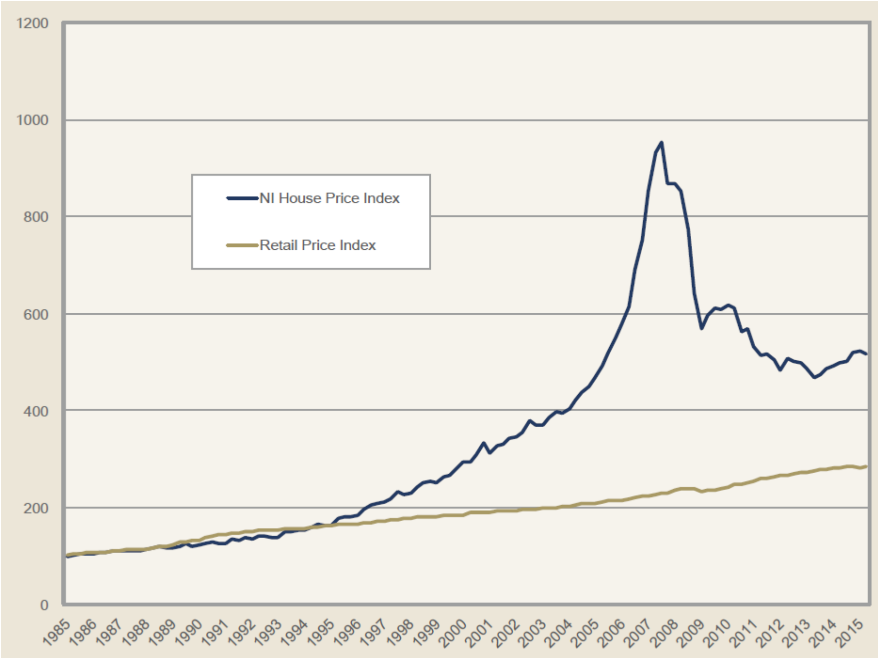

Figure 2.2 Housing and retail prices in Northern Ireland (source: Ulster University, 2015, p8)

33. However, although Figure 2.2 captures the boom and correction very well, the comparison of housing to retail prices is not particularly helpful for gauging how affordable housing is, or for answering questions about the likely future path of house prices. To address these questions, we need to ask whether the price correction is complete, whether it has over-corrected and whether there is potential for stabilisation then growth in the market in the near future. The affordability of housing is often gauged in relation to one of two indicators: the ratio of house prices to household incomes, and (less frequently) the proportion of household income consumed through meeting mortgage costs. Figure 2.3 summarises the regional picture of the ratios of house prices to incomes, using data sourced from ONS.

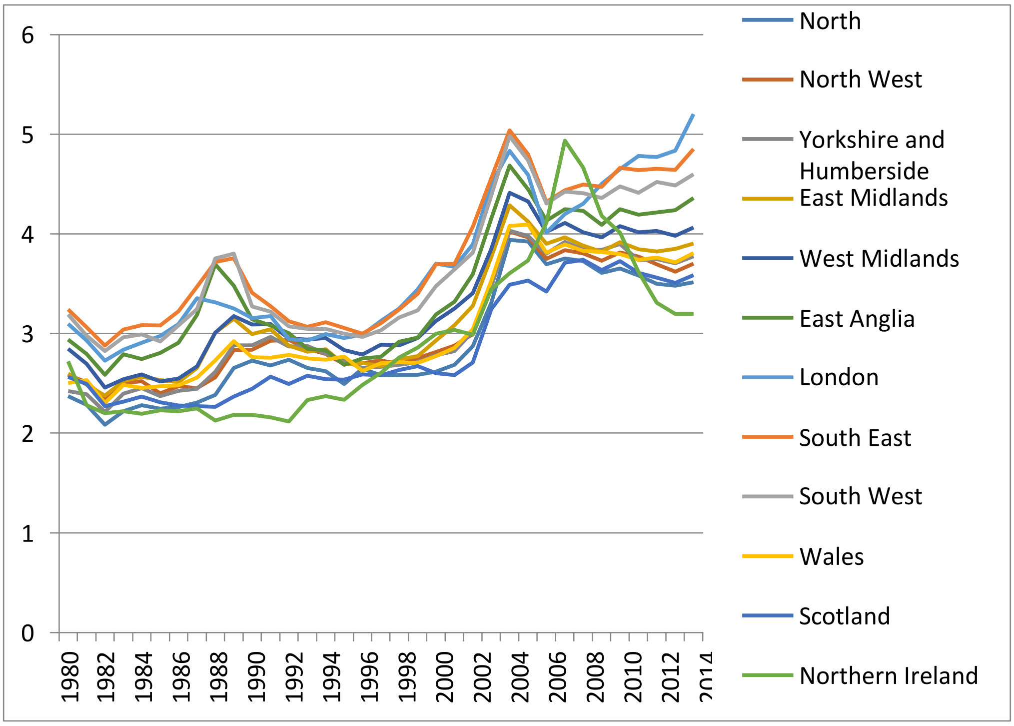

Figure 2.3 The ratio of house prices to incomes

34. A number of interesting patterns and trends can be discerned from Figure 2.3. Perhaps the most striking relates to the structural change that occurred between the 1980s through mid 1990s and the late 1990s through to the present. While price to income ratios ranged between 2 and 3 for most regions in the 1980s, a much higher ratio evolved after around 1997. This is conventionally believed to reflect the lower interest rate regime that emerged following the independence of the Bank of England, but also reflects generally low interest rates (and low inflation) internationally in the late 1990s through 2000s. The move from a higher inflation and interest rate economy in the 1980s to the low inflation and interest rate regime more recently permitted house prices to be bid up rapidly during the early 2000s. Essentially, house buyers began to find from the late 1990s onwards that a given level of income could sustain higher capital housing costs because falling mortgage interest rates lowered the monthly mortgage costs. Thus, Figure 2.3 clearly shows that the peak in housing costs in 2004 reached a much higher level expressed in terms of the price to income ratio than the 1988 boom.

35. A second pattern evident in Figure 2.3 relates to the so-called regional housing market ripple effect. In the 1970s and 1980s, testing for the existence of the regional ripple was a popular pursuit of UK housing and regional economists. A simple examination of the development of the 1980s boom shown in Figure 2.3 reveals that London, the South East and South West experienced inflating prices before other UK regions (around 1986). By 1987, East Anglia and the Midlands were experiencing rapid growth in prices, and by 1988 the housing boom was essentially universal, though with a muted response in Wales and Scotland. There is really no evidence of any inflationary pressures in Northern Ireland during this period. However, what we

can see is a very early and rapid growth in house prices in Northern Ireland from around 1996 onwards, noting that most other UK regions did not see much sign of renewed housing market activity until around 1 to 2 years later. There is an argument that the early response in Northern Ireland might reflect the subdued housing market performance in the 1980s – without the 1980s boom and subsequent slump, it is possible that latent demand existed, and a more modest overhang of debt.

36. A third striking pattern concerns the timing of the 2000s boom. In Northern Ireland this occurred very noticeably later than in other UK regions, with the peak being around 2007/2008 rather than 2004, and the size of the peak (measured in terms of prices to incomes) being equivalent to the South East or South West regions in England. The scale of the subsequent correction is also striking, with the price to income ratio in Northern Ireland falling from being amongst the highest three in the UK, to the lowest by a considerable margin. There is a suggestion at the very end of the time series that the price to income ratio in Northern Ireland has now levelled off (i.e. is no longer falling), and this may suggest the beginning of a recovery.

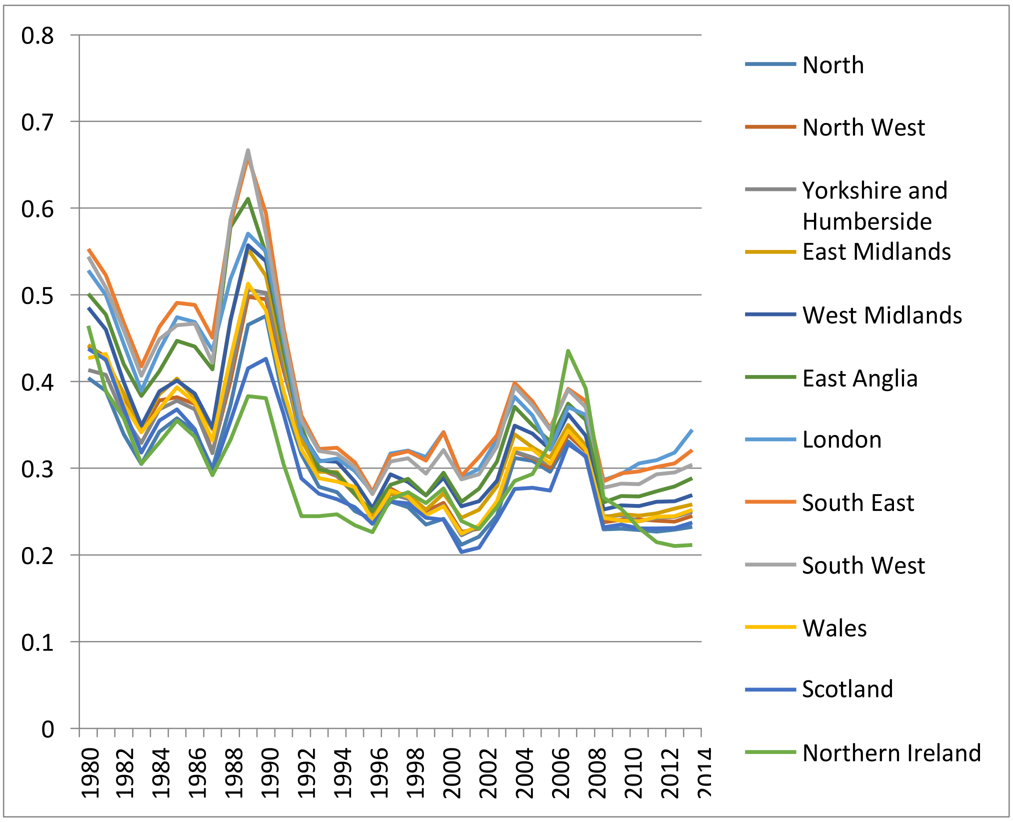

Figure 2.4 Housing costs as a proportion of income

37. The analysis summarised in Figure 2.4 provides an alternative view of housing affordability. The graph shows a measure of typical monthly mortgage costs. These are calculated by decapitalising ONS mean house prices assuming 25 year mortgage terms at the Bank of England's reported average standard variable rate. In other words, the graph suggests typical housing costs assuming buyers purchase at the mean market price on standard variable rate

mortgage. This analysis also reveals some striking patterns. For example, while housing costs peaked at more than 65% of monthly income in the South East / South West in 1989, the peak was much less pronounced at 35-40% for most regions in the more recent boom. Although the interaction between Bank of England base rates, mortgage rates and the UK's Exchange Rate Mechanism policy undoubtedly distorts the late 1980s position, it is clear even by examining the 1982 through 1987 period that a range of 30-50% is more typical of the 1980s while a range of 30-40% describes most of the 2000s leading to the crash in prices in 2007/2008.

38. The interactions of policy decisions with housing market outcomes are more readily visible from the analysis of monthly housing costs than the simple price to income ratio. For example, the decline in monthly housing costs in 1986 and 1987 belies the trend of rising prices shown in Figure 2.4. This, of course, relates to the 'Lawson boom' triggered in the late 1980s (before the independence of the Bank of England) through the reduction of interest rates in the lead-up to the general election. Another example relates to 2004-2005. Reductions in interest rates in this period were not politically motivated but were later argued to be premature, and Figure 2.4 clearly shows the later impact on affordability as prices outstripped incomes coinciding with rising interest rates in 2006-2008.

39. When we examine the period since 2006, it is clear that the low level of housing costs in the recent period is reminiscent of most of the 1990s, as the housing market in most UK regions gradually stabilised and recovered from the early 1990s recession, but without much sign of any significant house price growth. But, in fact, there has been a gradual rise in housing costs in all regions but Northern Ireland since 2006. In London, the South East and South West, Figure 2.4 shows that this gradual increase has actually returned monthly housing costs to levels last seen in the early 2000s, in the lead-up to the most recent housing market boom. But, it must be remembered that interest rates are still held at an historical low, and that even a modest rise in rates would have a significant impact on typical monthly housing costs as summarised in Figure 2.4. This suggests that the recovery, even in London and the southern regions, might be quite fragile.

40. Finally, we examine the index of housing costs in Northern Ireland. It can clearly be seen that the correction has positioned Northern Ireland as the most affordable of the UK's regions in terms of typical house prices to incomes, accounting for mortgage costs. It is also clear from the graph that the decline in housing costs plateaued perhaps 1-2 years ago. This might suggest that the correction has occurred and that the market is now stabilising, but this conclusion is in the context of the earlier warning that housing market recovery must be considered fragile given the unprecedented low level of interest rates and the significant deterioration in affordability that would occur following any rate rise. Indeed, this conclusion mirrors the views set out by the Northern Ireland Housing Executive (2014) that :

"… *(the) housing market is still undergoing a period of stabilisation… the high levels of negative equity in Northern Ireland will continue to hamper the process of market normalisation.*"

Spatial patterns in housing market and market recovery within Northern Ireland

41. House prices vary in Northern Ireland in a pattern not dissimilar to other parts of the UK and other countries, with higher prices in the main city and commuting areas around this (Figure 2.5). In Northern Ireland this is also seen in a broadly east/west spit with higher prices in the east. Estate agents noted a reluctance to commute more than 30 to 40 minutes and therefore strong demand along motorway corridors and less demand in more rural areas. Some agents also linked lack of demand in rural areas to lack of housing supply and services or amenities in villages. Figure 2.5 shows the mix adjusted price and it should be noted that below the trends in house prices at a geographical level, variation in house type has a strong influence on prices and price trends in any region.

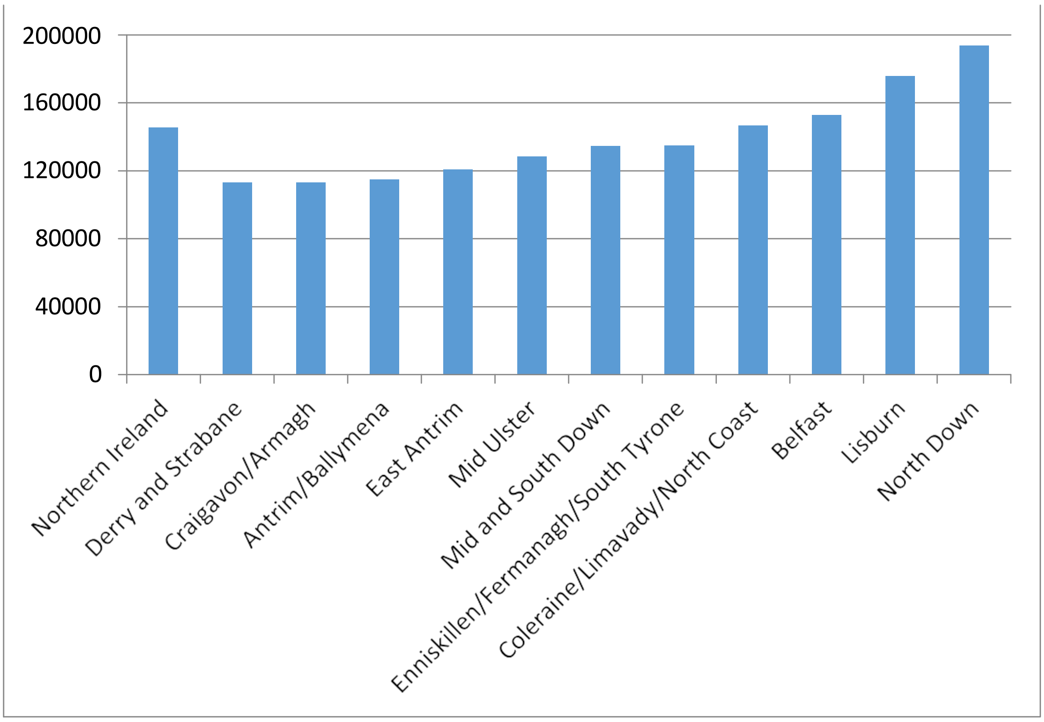

Figure 2.5: Average House Prices by Market Area 2nd Quarter 2015 (Source: University of Ulster, 2015)

42. This trend is also evident in new build prices modelled by the research team from a variety of sources and shown in Figure 2.5. Here, and for this house type, highest prices are found in Belfast, followed by the nearby commuting areas.

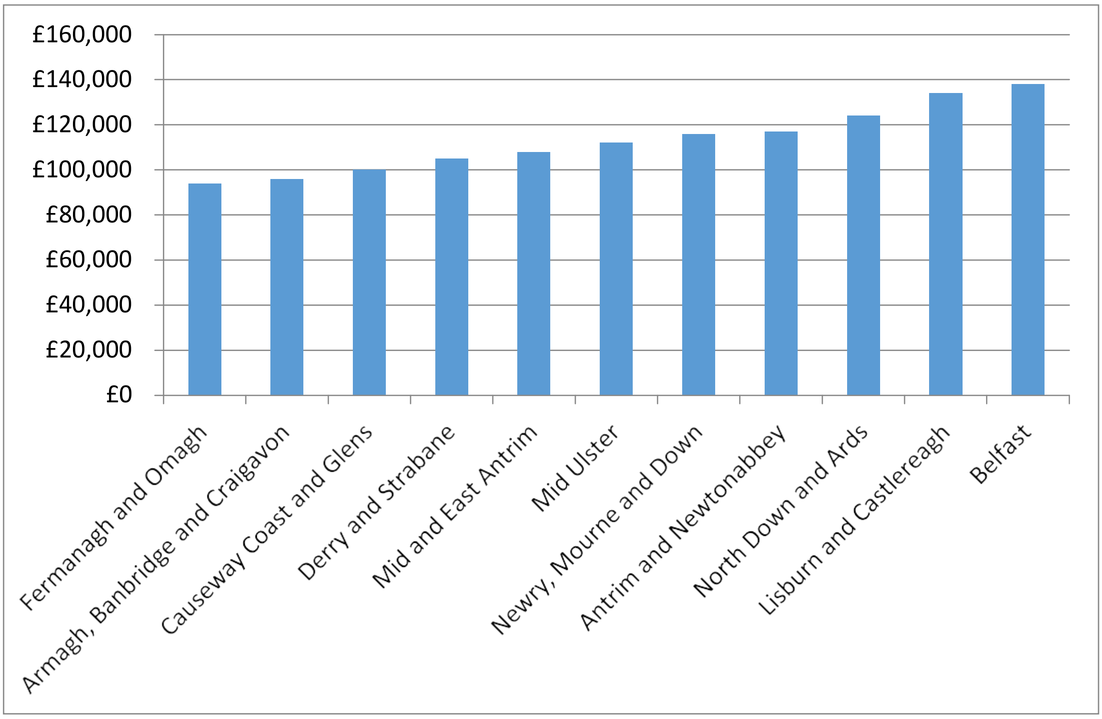

Figure 2.6: Average New Build Semi-Detached House Prices by New LGA 2nd Quarter 2015 (Source: Modelled by Research team)

43. The University of Ulster (2015) reported that average property prices increased modestly for most property types between 2014 and 2015, ranging from 2.2% for semi-detached houses to 7.4% for semi-detached bungalows. Only terraced houses were subject to a further decline in prices (6.3%) compared to a year earlier, with the report suggesting that this probably reflects that relatively poor quality stock traded in this market sub-sector.

44. The spatial pattern of price growth reported recently is suggestive of a core market (Belfast) beginning to recover, with prices rising by around 5% over a year, but perhaps polarising further into a stronger South Belfast market with semi-detached prices of just under £200,000 compared to just under £160,000 for the city overall. Ulster University report a complex picture of price changes by property type and area, but it appears to boil down to a strengthening market for larger, detached houses in commuter areas such as North Down and Lisburn, and weaker markets for terraces and apartments. Their reported 10.9% and 19.9% rates of growth for semi-detached / detached houses in Lisburn seem to suggest sample selection bias issues, with perhaps the larger and more expensive houses more likely to be traded in current market conditions, thus giving the impression of higher rates of price change. Ulster University reported evidence for East Antrim, the North West and the South of Northern Ireland is suggestive of conditions that are still stabilising, with apparently high rates of price change for one property type or another offset by lower or negative rates for other property types or areas. The evidence is suggestive of thin trading volumes, small samples and the appearance of volatility through sample selection bias issues. However, their analysis of the

West of Northern Ireland (Mid Ulster, Enniskillen, Fermanagh, South Tyrone) is very similar to their analysis of Belfast and Lisburn, with prices appearing to recover well in the West, but clearly led by transactions of more expensive, detached properties.

45. To an extent, the Ulster University (2015) view is contradicted by figures published by NIPFA (2015). The NIPFA index has the advantage of being supported by stronger mix-adjustment methods, but lacks detail on the distinction between new build and second hand prices by area, or property type by area. Figure 2.7 is sourced from their report. It clearly shows that the price of detached houses has only begun to recover since the middle of 2013, but with annualised rates of price change hovering around the region of 5% since then. This finding tends to reinforce the possibility that examples of strong price growth cited by Ulster University (2015) may reflect changes in the mix of properties being sold over time and by locality, with rather more larger / more expensive properties being sold recently rather than strong rates of price growth *per se*.

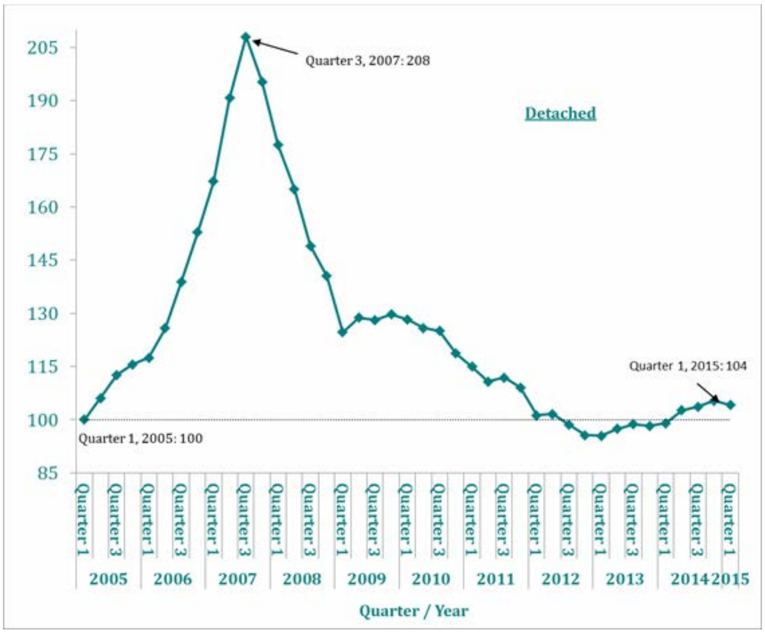

Figure 2.7: Detached property price index (source: NIPFA)

46. Even amongst a small sample of estate agents there was a variation in the overall mood with three, covering all areas of Northern Ireland and new and second hand housing between them, describing strong demand across most types of housing. Others were more cautious, one describing confidence as “on a knife edge”. Strong demand for 2, 3 and especially 4 bedroom new build houses was noted, with less demand for flats. There was a feeling of increasing demand from first time buyers (FTBs) and that this was moving from flats toward houses and from second hand to new properties. One estate agent stated that few 2 bedroom properties were being built and those that were tended to be in city centre locations and aimed at FTBs. Concern was raised by a lending industry stakeholder who found that first time buyers who

would have bought during the boom were now ‘stuck’ since the market crash and the lack of these people re-entering the market is holding back the pace of the recovery.

New Build Price Comparison with Second-Hand Market

47. The level of detail available to allow analysis of the new-build relative to the second-hand sector is very limited, so caution is needed in assessing the potential value of new-build sales. Neither the University of Ulster nor the DFPNI reports include a specific analysis of the new-build sector. The ONS figures do include separate averages for new-build and second-hand properties, though these are not broken down by property type or by any sub-regional geography. Nevertheless, there does appear to be a distinct downward trend in the apparent premium of new-build over second-hand prices, as shown in Figure 2.8.

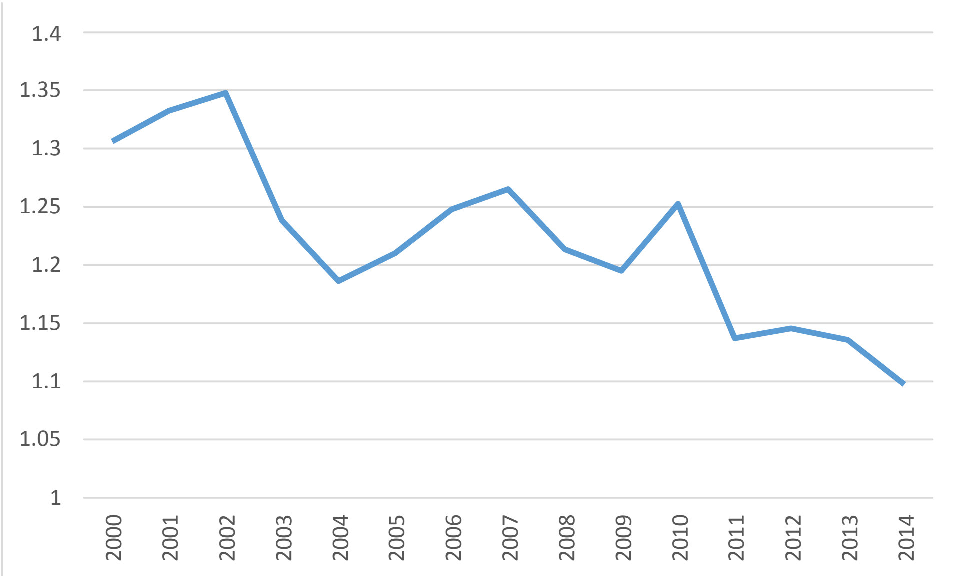

Figure 2.8 The ratio of new-build to second-hand average prices in NI

48. The reduction in the ratio of new-build to second-hand prices suggested by Figure 2.8 is important and appears to contradict evidence from the Ulster University (2015) report. Of course, it is misleading to think of the ratio of new-build to second-hand prices as a proxy for a new-build premium because there are no like-for-like figures to compare. Given that there was a considerable rise in the number of apartments being constructed during the housing boom, it is possible that the trend shown in Figure 2.8 merely reflects a changing new-build sample composition compared to the second-hand sample (i.e. more apartments being built over time compared to the second-hand sample). However, it then seems strange that the trend has not halted or reversed in the most recent 1-2 year period given that the University of Ulster seem to suggest that the market for more expensive, detached properties is now more vibrant than other market sectors.

Transaction Volume

49. The issue of transaction volume is an important one, and worth reflecting on. Figure 2.9 shows the number of quarterly transactions reported by DFPNI (2015), broken down to their five broad geographical definitions.

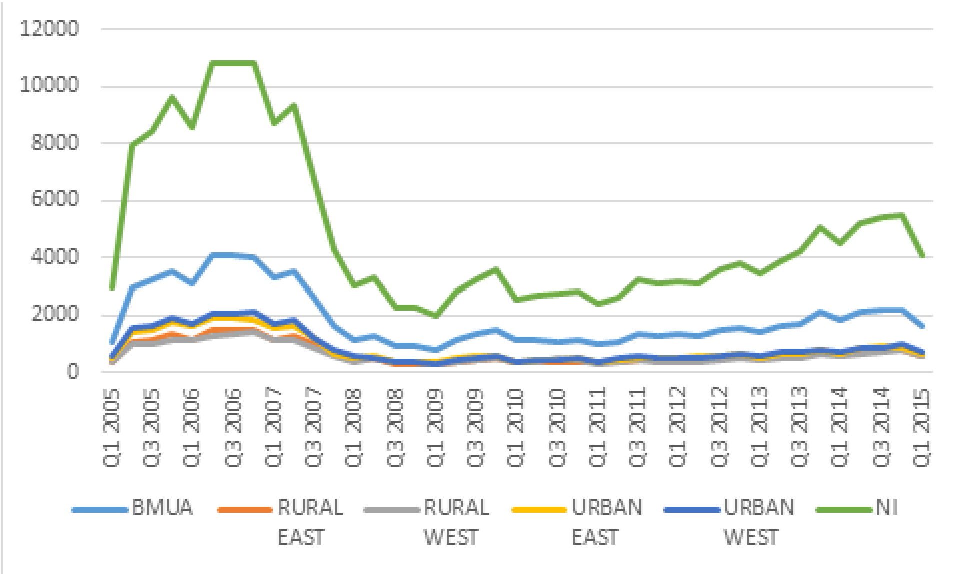

Figure 2.9 Transactions volume (source: DFPNI, 2015)

50. What emerges is that there has been a slow and steady recovery in the number of transactions since the bottom of the trough in late 2008. However, it is also apparent that the Belfast Metropolitan Area has seen its transaction volume rising at a slightly faster rate than elsewhere in Northern Ireland, which tends to reinforce the thesis that the recovery is led by Belfast and some of its surrounding commuter areas. A final note of caution is that the transaction volume, which is often a leading indicator of price change, appears to have plateaued once again at the end of 2014, with the first quarter of 2015 showing a fall. This may also be evidence of underlying fragility in the housing market recovery in Northern Ireland.

51. Stakeholder evidence supports this view of a fragile market with a lending industry stakeholder suggesting that, "….*the market is still struggling. There remains a high percentage of purchasers in negative equity and some purchasers are 'still stuck'. There has been a slow pick up in house prices – affected by the constrained labour market and anticipating public sector cuts yet to come."*

Negative equity and mortgage availability

52. The history in Northern Ireland of a steep rise in prices in the mid 2000s followed by a sharp down-turn has been widely commented on. It is seen by the development industry and lenders as leading to continuing problems of negative equity for some purchasers. This has been coupled with a limited supply of mortgages, especially for first time buyers (as elsewhere in the UK).

The combined impact of these trends has been said to have depressed turnover in the market (as households are 'stuck' where they are) and led to limited opportunities for first time buyers to enter the market which has held back the pace of recovery.

53. There is evidence that the problems of mortgage availability may be starting to ease. The most recent publication by the Council for Mortgage Lenders (CML) (August 2015) stated that:

> *"House purchase lending in Northern Ireland saw a quarter-on-quarter rise, in both number of loans and amount borrowed. In comparison to the second quarter of 2014, however, there was a dip in activity but this still (is) the second highest lending level in a second quarter since 2007."*

54. Data from CML demonstrates a pick-up in mortgage lending so that for the last 4 quarters for which information is available, (July 2014 to June 2015) total mortgage lending was 12,700. This compares with 8,900 mortgages for the similar period in 2010/11 and 9,200 in 2012/13 and is above the level for 2007/08 (at 11,200). Mortgages for first time buyers have followed a similar pattern with a low point in 2008/09 and picking up generally since then so that they are now back to levels of 2007.

55. However, even if mortgage lending is recovering, consultees still expressed concerns about the continuing impact of negative equity on market activity and that this is further evidence of a still fragile market recovery.

56. The other point that CML make is that first-time buyers in Northern Ireland typically borrowed less than elsewhere in the UK – CML reports that first time buyers in Northern Ireland borrow 2.79 times their gross income compared with a UK average of 3.38. Both lenders and estate agents report FTB entering the market again but that growth is gradual and borrowers still very cautious.

57. *Development pipeline* This section of the report looks at trends in new build planning permission, housing starts and housing completions. Where possible, it seeks to show the relative contribution of smaller and larger development sites, rural and urban and social and private sector development. While various elements of the required information exist separately, there was a surprising lack of complete and systematic coverage in official datasets. Data on completions is available up to 2014.

58. New housing starts fell dramatically after the crash. From a high of over 15,000 in 2006 (Wilcox, 2014)[13] the post-crash high was 8,401 in 2010 with starts of 6,885 in 2013 to 6,711 in 2014 (Figure 2.10).

[13] Wilcox S. and Perry, J. UK Housing Review 2014

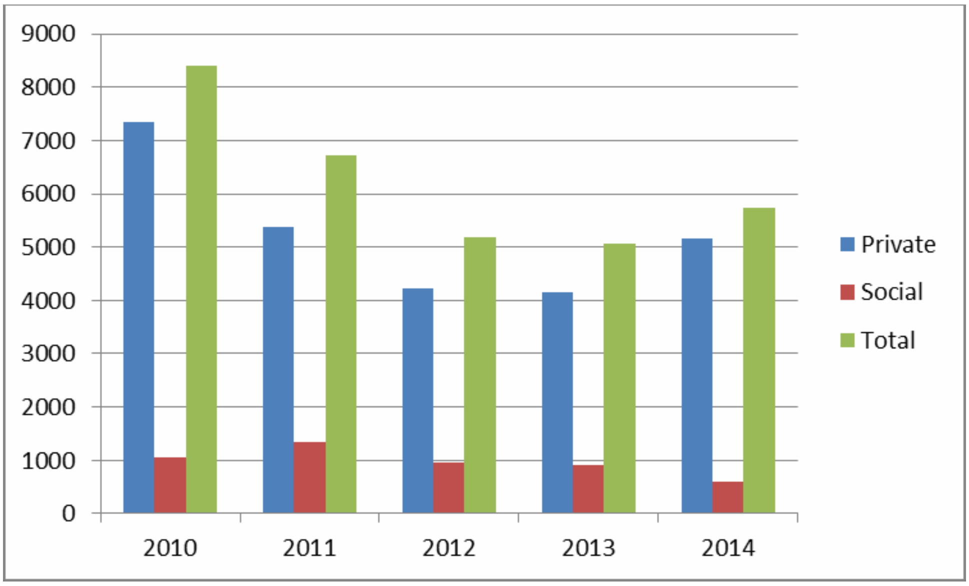

Figure 2.10: New Dwelling Starts
Source: LPS, Building Control

59. From a high of over 18,000 housing completions at the height of the boom in 2006 (Wilcox, 2014), new build activity dropped sharply with the highest number of post-crash starts at 6,612 in 2010. Figure 2.11 shows that 2014 saw a small rise from the previous year to 5,532 units completed (LPS, 2015). Recent relatively small rises in both starts and completions have been in the private sector with small falls in social housing. Both starts and completions are still well below pre-boom levels[14].

Figure 2.11: New Dwelling Completions
Source: LPS, Building Control

[14] Note that LPS statistics are used here but other government statistics show different, higher, levels of completions.

Mix of sites

60. Throughout the research we have been told that the pattern of housing delivery in Northern Ireland is very different from elsewhere in the UK with a large proportion of housing being in individual sites in the countryside and a larger role being played by small developers. We therefore seek to investigate the rural/urban split and the numbers of units being provided on larger and smaller sites. Data on planning approvals is available for single dwellings in the countryside from official planning permission statistics. We have supplemented this with data from the Glenigan dataset to give coverage of larger developments and of urban areas. Given the nature of the data, it is appropriate to present analysis of scheme mix based on planning permissions as proportions rather than absolute numbers.

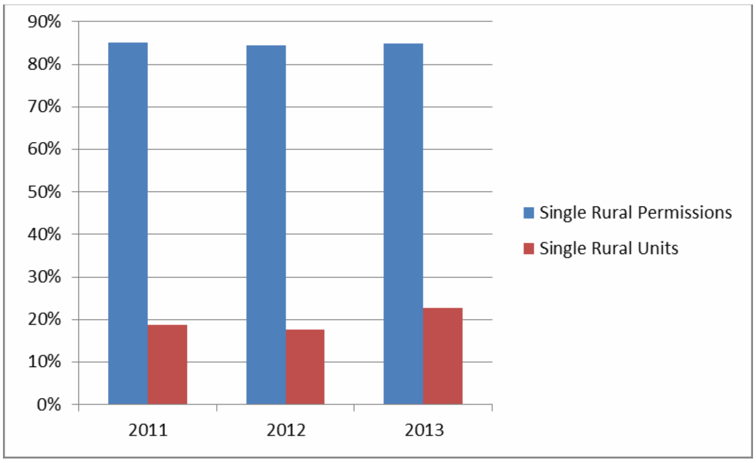

Figure 2.12: Single Dwellings in the Countryside as Proportion of All Permissions

Sources: DOE, Planning approvals and Glenigan, Planning Permission Approved

61. DOE figures for planning approvals (Full and Reserved Matters) for single dwellings in the countryside show these range from 1,464 in 2013 to 2,428 in 2011. Data indicates that single dwellings in the countryside account for the overwhelming majority of planning permission approvals (84% or 85% in each of the years included here). However, the number of planning permission approvals for single dwellings in the countryside makes up only 18% to 23% of all **units** approved during this period.

62. Social housing developments tend to be larger than private developments. Looking only at private developments, it can be seen that single dwellings in the countryside make up a large proportion of private permissions (Figure 2.13).

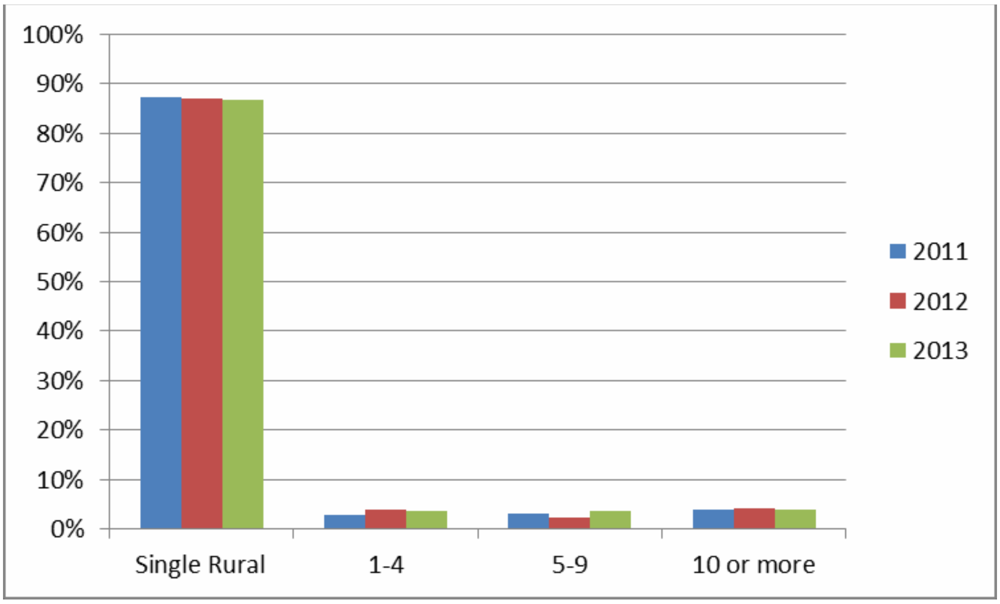

Figure 2.13: Percentage of schemes of different sizes
Sources: DOE, Planning Approvals and Glenigan, Planning Permission Approved

63. Excluding single dwellings in the countryside, there is a spread of permissions for developments of different sizes ranging from the very small to larger sites over 50 dwellings (Figure 2.14). Looking at larger sites, in each of the three years considered, there was one large site with permission for 400-600 units and a bunching of other large sites between two and three hundred. However, even excluding the many single dwelling in the countryside the median scheme size ranged from 9 to 12 units during these three years.
64. In Great Britain the largest developers account for a significant proportion of development with the largest delivering over 10,000 dwellings each and the largest single planning permission in excess of 6,000 units. Interestingly, Glenigan data shows that (even excluding single dwellings), the median site size in Great Britain was less than 10 units and the mean 28 units.

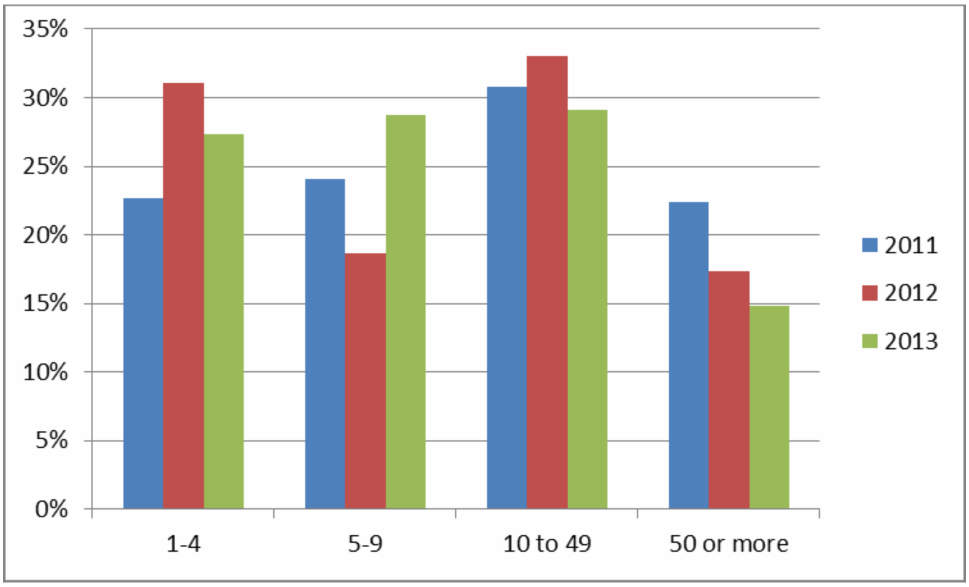

Figure 2.14: Percentage of schemes of different sizes

65. Turning to the number of dwellings for which permission was granted in Northern Ireland, even including single dwellings in the countryside, two thirds to three quarters of *dwellings* are on larger sites of 10 or more (Figure 2.15). If single dwellings are include, most sites are small but most new housing is being built on larger sites.

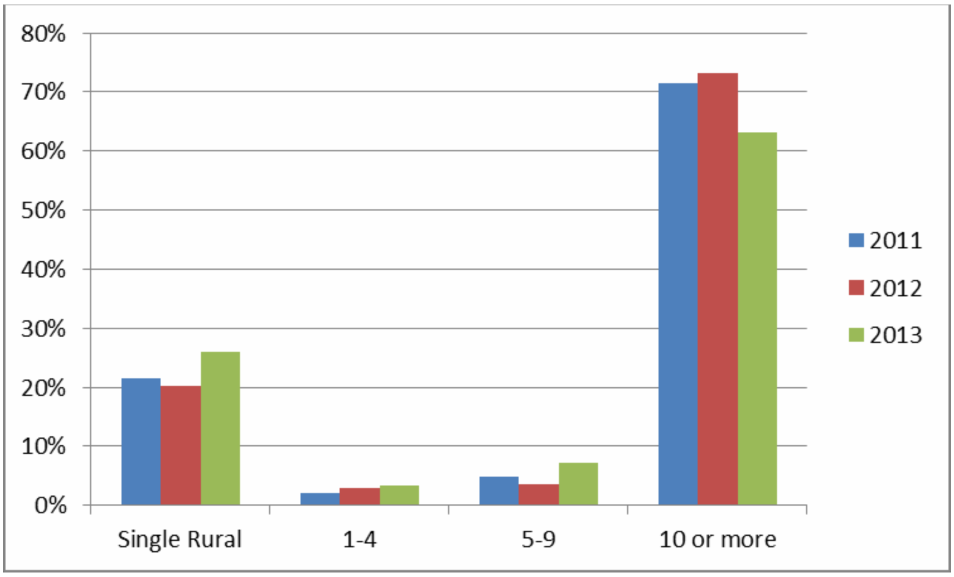

Figure 2.15: Total Number of Dwellings by Site Size (Permissions)

Summary

66. New house construction is still well below pre-crash and, indeed, pre-boom levels. There has been a further fall and no significant increase in starts or completions in the period since 2010. Data relating to the nature of provision shows that single dwellings in the countryside form an overwhelming

proportion of planning approvals but and a significant minority of units approved. Sites are distributed across a range of sizes with a few very large sites of 400 to 600 units. While two thirds to three quarters of dwellings are produced on sites over 10 units, the median site size is around 10 units.

Affordability

Types of non market housing

67. The definition of affordable housing in the SPPS identifies two broad types of affordable housing – social rented housing and intermediate housing. The former is provided at an affordable rent with priority for the available stock for households who are living in unsuitable or insecure accommodation. Intermediate housing is targeted at households that can afford a small mortgage but not outright purchase. The most popular form of intermediate housing has been co-ownership where the purchaser can purchase between 50% and 90% of the equity (in 5% tranches) and pays rent on the unbought share. The purchaser can staircase to full ownership at a later date.
68. Co-ownership sales have totalled about 25,000 since the scheme was introduced with annual sales currently at around 700 per annum.
69. Co-Ownership funding for the purchaser's unowned shared is by way of Housing Association Grant (HAG), which is repaid when the purchaser staircases out. Funding from the current financial year has moved to loan funding. The model of delivery reduces risk to the public sector as dwellings are not developed in advance of known demand and public funding is only required when a sale is agreed.
70. Co-ownership sales include new build dwellings with purchasers selecting their new home from the open market. Sale of new build dwellings as co-ownership properties represents about 40% of all co-ownership sales. This does not appear to have been contentious and represents an existing example of mixed tenure development – albeit this has not been on a 'planned basis'.
71. A new equity share product is being developed by a group of housing associations and participating developers and called FairShare. All homes available to buy with FairShare are built or refurbished by housing associations, and/or their subsidiary companies or by private developers. FairShare differs from the traditional model of co-ownership as it includes properties 'built at risk' for later sale. The product is in early stages of development and is not currently being built in mixed tenure developments.
72. Social rent housing is currently the more significant element of the supply of new affordable housing. For example, in 2014 970 social rent dwellings were completed, which was slightly down on the previous two years.[15]

[15] Northern Ireland Building Control Starts and Completions, Land and Property Services, May 2015

73. Social rented housing is developed by housing associations. It is grant funded with the associations making a contribution towards the costs of the housing on the basis of the amount they can borrow against the rental income they receive. DSD operates a system of standard calculations to estimate appropriate grant levels for each social rent scheme, including for build costs and land purchase. These are based on a set of Total Cost Indicators (which are not publicly available).

Affordability and Needs Estimates for Northern Ireland

74. This section summarises findings exploring the need for affordable housing in Northern Ireland. The aim is to make a set of current estimates of the level of need for additional affordable housing provision in the region, based on secondary data. Stakeholder views give a flavour of the need felt on the ground by providers of housing and representatives within the industry. Our approach to estimating needs and affordability follows a methodology developed by Bramley in a range of studies across the UK, particularly work for Communities Scotland/Scottish Government (Bramley et al 2006). We consider an estimate of affordability at Northern Ireland and new LGD levels taking into account factors such as income, purchase and rental prices, household formation, migration, waiting lists, relets and stock changes.

75. This methodology is consistent with official guidance on local housing needs assessment in UK countries, but is relatively broad-brush in character. The survey basis for the affordability estimates is the ESRC-funded *Understanding Society Survey* (USS), which is a larger-scale replacement for the previous longitudinal British Household Panel Survey. We use Wave 3 (2011/12) of USS which has a sample of 2,425 households in Northern Ireland, which is robust at national level and adequate if slightly imprecise at the level of the 11 new LGDs in the region.

76. Our snapshot estimate for net need for affordable housing adds up to just over 2,000 (2,090) for Northern Ireland overall. This figure is close to the need for affordable housing shown in the Housing Executive's (2015) review of the housing market.

77. There are interestingly quite considerable variations between localities, from 473 in Armagh etc. down to only 16 in Mid/E Antrim. Belfast is only in the middle of the data, with just under 200.

78. Figure 2.16 takes the estimate of net need and compares it with various alternative figures and benchmarks. Firstly, we have assumed that the operative threshold for those in need is inability to afford private renting. This assumes that, following its recent expansion, the PRS represents an appropriate solution to most people's housing requirements, notwithstanding its typically limited tenure security and some issues about standards. An alternative assumption might be that the aspirational long term tenure which is to be promoted is owner occupation, so that we are concerned with anyone who cannot afford that. If we adopted that assumption, net need would jump

by 50% to 3,167 units pa. Such an assumption would probably not be accepted as the norm across the UK, although the current UK government is clearly concerned about trying to boost home-ownership. It might be that an intermediate position would be adopted, whereby PRS is acceptable for some groups but not others (e.g. elderly, disabled). That might give rise to an estimate somewhere between the 2090 and 3167 figures.

79. Perhaps more immediately relevant, given the interest in promoting home-ownership at the margin, is what the analysis implies about the potential scope for Low Cost Home Ownership (LCHO). Two estimates are presented in the table below. A ‘maximum’ estimate is derived by taking the ‘incremental affordability’ estimated for a 25% reduction in effective price to enter owner occupation, which yields a total of 1,338 units pa (ranging from 326 in Belfast to 48 in Newry/Mourne//Down). But this is really too high in practice, for two reasons. Firstly, it assumes that government would prioritise giving subsidy to households for LCHO buyers who are not ‘in need’ on the core assessment, because they can afford private renting. Secondly, it assumes that all of these people would choose to buy an LCHO product rather than go into private renting, or wait for a social tenancy. A ‘minimum’ estimate is offered, by calculating the number who could afford to buy an LCHO product but who cannot afford, on standard assumptions, private renting. This minimum number is 261 in total; districts with higher potential include Mid Ulster (67) and Ards/North Down (56); however, some localities have negative assessments (where even a 25% discounted purchase is more expensive than private rented). These estimates are of particular interest in the present context, because UK experience shows that LCHO fits well within planning agreements for affordable housing, as part of the mix.

80. The next two columns show net need against various benchmarks. The first compares net need with the recent level of actual social housing provision (starts). Numbers less than 100% indicate that current provision exceeds estimated need – Belfast, Lisburn/Castlereagh, Mid/E Antrim. Numbers much above 100% indicate that there is apparently greater need than is currently being met. Particularly high figures are shown for Armagh etc., Causeway Coast, Mid Ulster and Fermanagh/Omagh.

81. The second benchmark compares net need with an estimate of household growth – the average of actual growth 2001-2011 and projected growth 2012-21. This is relevant in this study because it represents a form of ‘quota’ of affordable provision within the total. However, owing to the much reduced level of household growth, reflecting economic and demographic downturn post ‘crisis’, the ‘quotas’ look rather high, and indeed in many instances they would probably be too high to be viable. Overall for N Ireland this indicator stands at 35%, which would be a relatively high quota by UK standards Relatively high ‘quotas’ are shown for Armagh etc, Causeway Coast, Mid Ulster, and Ards-North Down, with low quotas for Mid Antrim and Lisburn/Castlereagh.

	Affordable Need – Can't Rent	Affordable Need – Can't Buy	Max LCHO Impact	Min LCHO Impact	Need relative to Social Starts	Need relative to H'hld Growth
Belfast	197	522	326	0	55%	35%
Ards & North Down	194	344	206	56	280%	49%
Antrim & Newtownabbey	135	218	106	23	126%	32%
Lisburn & Castlereag	85	271	176	-10	50%	14%
Newry & Down	254	298	48	4	201%	33%
Armagh City & Bann	473	510	87	51	2366%	49%
Mid Antrim	16	56	79	39	73%	4%
Causeway Coast	200	228	50	21	974%	47%
Mid Ulster	313	368	122	67	497%	48%
Derry City & Strabane	143	202	81	23	113%	31%
Fermanagh & Omagh	80	152	58	-13	424%	21%
Total NI	2,090	3,167	1,338	261	190%	35%

Figure 2.16: Net Need Summary and Comparisons

82. Another sense check for the need figures presented here would be the homeless numbers recorded by the Executive in discharging its duties under homelessness legislation. In 2013/14 9,649 households were accepted as homeless and owed the full duty in N Ireland. This number is fairly comparable to our estimated 'gross need' figure of 9,798 (net need plus relets). The homeless numbers are not additional to our estimate of need – we would expect them to be contained within them. As a comment, the homeless numbers look relatively high given the overall demographics, and suggest that homelessness has become the main accepted route into social housing. From work undertaken within the Crisis Homeless Monitor exercise, it appears that NI homelessness numbers are higher than comparable UK numbers would be, because (a) prevention policies and procedures have not been adopted in NI in the same way as in UK, and (b) because certain types of need (e.g. older disabled/health related) are treated as 'homeless' in a way that would not be the case in the rest of the UK.

83. The main conclusions of this exercise, relevant to the issue of planning policies for affordable housing, are as follows. Firstly, it is possible to generate evidence of the need for affordable housing in Northern Ireland, comparable to assessments made elsewhere in UK (and used as a basis for planning targets for affordable housing), albeit on a somewhat broad-brush basis. Secondly, these estimates suggest that there is a significant level of need for additional affordable housing, which in aggregate amounts to roughly double the current level of new social housing provision. Thirdly, there is significant variation in the level of need in different localities within Northern Ireland, although some caution is needed in view of underlying sample sizes and other data issues.

Fourthly, although practical issues of viability and types/sizes/ownership of sites are not addressed here, in broad brush terms targets for affordable housing of the order of 35% of planned housing growth could be justified. In practice, viability and other practical issues are likely to preclude such high levels.

84. The findings from this assessment are significant considerations for policy in Northern Ireland. They indicate that there is a need for higher levels of affordable housing provision than at present. The need for an affordable housing supply of 2,000 or more units per annum is consistent with HE estimates showing a minimum requirement for 2,000 social units per year based on new need and addressing a backlog of unmet need from previous years (HE, 2015) and stakeholder views on the expressed political support and capacity of the housing association sector.

85. There is need for social/affordable housing in all areas but gross provision exceeds this in some areas. However, this takes account only of need based on the above affordability criteria and does not account for need arising from regeneration policies.

86. In summary, a regional proportion of 35% of new development being affordable is justifiable. This is not to suggest that this is the figure which should be provided by a developer contribution scheme but by all sources of provision including allocation of land through the planning system.

The Development Industry

Private Developers

87. Housebuilding in Northern Ireland is distinct from the rest of UK. None of the GB based large speculative developers build in Northern Ireland. Northern Irish developers are much smaller and they build fewer units than their larger GB based counterparts. The industryin Northern Ireland has suffered greatly in the period since the crash with a number of developers going out of business and some reportedly still experiencing financial difficulty. The shrinkage in the market is demonstrated in Figure 2.17 which shows the volume of private sector new housing output after stripping out inflation and deflation.

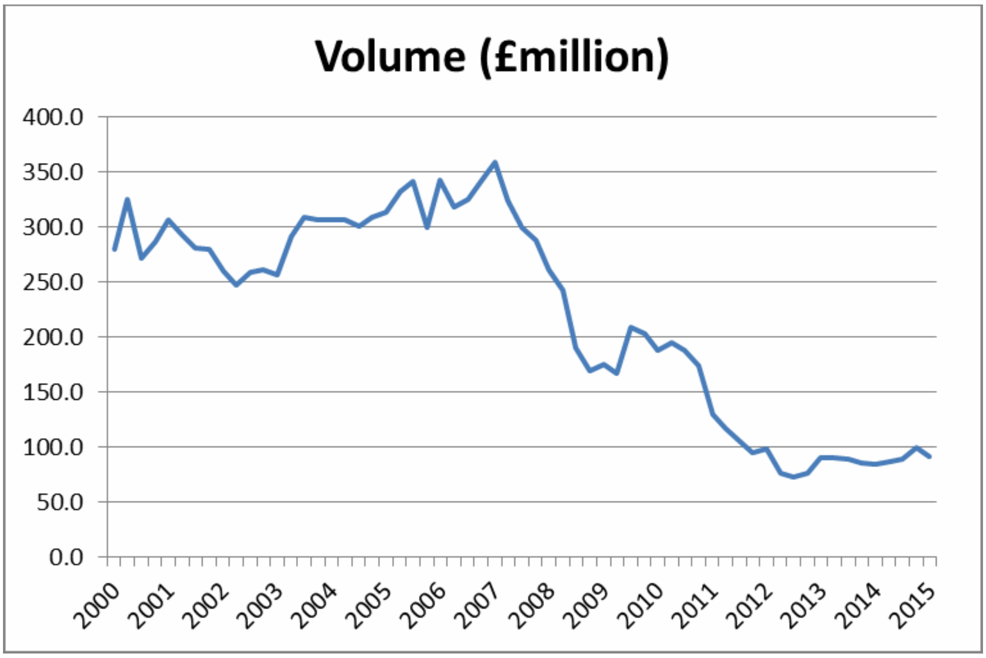

Figure 2.17: New Housebuilding Output

Source: NISRA Quarterly Construction Bulletin (2015, Q1) using Chained Volume Measure (2011) Prices

88. Industry consultees estimated that there are now only four private developers with annual programmes in excess of 100 units. This is said to have reduced from 14 or 15 in 2006, with around 3 or 4 having had programmes in excess of 200 units. An interviewee also noted that there were some companies from other industries beginning to show an interest in housing development and there was potential for these to become important in the sector.

89. However, most developers are small scale, building between 5 and 20 units per year. One industry source suggested that fewer than 15 developers are building more than 20 units per year. 40% of developers have a turnover of less than £600,000 per year; 54% less than £3.1 million and three quarters less than £5.25 million. This is likely to make them considerably more vulnerable to relatively small changes in viability at the level of the individual development compared to their counterparts in other parts of the UK. Development industry sources suggest that a number of the remaining developers are suffering from borrowing at the height of the boom, making their positions even more precarious.

90. There is some concern over the loss of skills as tradespeople move to the Irish Republic of Great Britain for work. Some of the larger firms are sustaining activity by seeking work in other parts of the UK and flying their staff over to work on sites.

Finance for Private Development

91. Many developers are understandably nervous of further borrowing and lenders have been reluctant to lend working capital for development. Where lending is

available, developers often believe the conditions are too onerous and risks too high for the lending to be attractive.

"*Banks now say they have money to lend to builders but conditions are not reasonable – take personal guarantees; everyone knows people who've been cleaned out by the banks, lost their home… No-one will sign a personal guarantee now.*"

92. Some builders who are still in a position to do so are financing development without borrowing from the banks. Examples are said to include small builders are buying 5 or 6 house sites and raising finance via their accountant or solicitor. "*They are putting little investment groups together on a site by site basis and this is working well*." An arrangement colloquially referred to as "site finds" is also being used. In this arrangement, a landowner and builder mutually agree that the builder funds the development on-site and when the house is sold, the price paid is split between the two.

93. For the small developers, building under around 15 to 20 units a year, house building may not be their only business, with involvement in other areas such as farming. Their model tends to be to sell a couple of houses and then start on-site with a couple more. As the economic environment improves, their output is unlikely to increase greatly. Additionally, if there is a shock to the market or the prospect of developing appears too onerous, there is a greater possibility of their withdrawing from housebuilding and concentrating on other activity than would be the case with larger developers.

Housing Associations

94. There are 24 housing associations operating in Northern Ireland with stock ranging from around 50 units to 10,000 units. Fifteen or 16 associations are developing, although some work with partners rather than developing themselves. Development within the sector is dominated by 4 associations which each have development programmes that are larger than the biggest private developers, ranging from around 200 to 500 units each per year. These larger organisations are said by industry consultees to be financially sound with access to lending on a scale which is much larger than that available to private developers. Finance sector and development sector interviewees both noted that their financial strength meant that the larger associations could gain access to finance on relatively favourable terms.

95. Housing associations are supported by a grant system where grant rates, at around 50%, are higher than those available in England. Government statistics show social housing starts at 1,299 units in 2013/14 and a target of working towards 1,500 starts in 2015/16 (HE, 2015).

96. In addition to the housing association role in providing social rented housing there is a well-established Co-ownership Housing Association which has provided over 25,000 co-ownership sales over a 38 year period.

97. Co-ownership is attractive to lenders as a well-known and low risk product and partly fills the role taken on by 'Help to Buy' elsewhere in the UK. There are no

other well developed low cost home ownership schemes in Northern Ireland although another shared ownership scheme, ‘Fairshare’, has been introduced very recently.

98. There is a general consensus amongst consultees including housing associations, government agencies and the financial sector that the main constraint on housing association development was access to land and sites rather than to finance. There was a view that planning policy could do more to allocate land for affordable/social housing both at a policy level and in practice, where a view was expressed that housing land is sometimes developed for non-housing uses. Although financially strong, housing associations were said to be unable to compete with private developers for land on the market because of value for money constraints placed on what they can bid by regulators. A core focus of PPS 12 is on identifying specific sites on which social housing needs can be met.

99. A further consideration for housing association development is the lack of mixed tenure development. Nearly all new housing association development is monotenure, including sites of up to 600 units, creating and perpetuating a lack of integration of income and social class. It should be noted in the context of a developer contribution scheme that there are additional concerns regarding community mixing which are discussed later in this report.

3. PERSPECTIVES AND KEY ISSUES

Information sources

100. There have been two consultation exercises on the options for a developer contribution scheme – the formal consultation process by Department for Social Development last year following publication of 'Developer Contributions for Affordable Housing' and the structured interviews and workshops undertaken for this study. In this section of the report we review the collected evidence and conclude that the arguments put forward in both exercises are very similar.

Messages from the consultation exercise - 2014

101. DSD published a Summary of Responses in November 2014. The Summary highlighted the divergence of views from different parts of the development sector with limited consensus on the best way forward.

102. On the basic question of whether, **"....a scheme of developer contributions for social and affordable housing is necessary**? "The consultation responses are almost equally divided with 14 respondents agreeing and 12 disagreeing. The mechanism is seen as a potential route for securing more land for affordable housing and offering a substitute for reduced public funding. Objectors are most concerned about the impact of a developer contribution scheme on development viability and that this will lead to a brake on the pace of development. These concerns are epitomised by the following comment from a respondent which also raises the 'in principle' objection of a developer contribution scheme being a form of 'tax':

"This proposal will in effect be a "Development Tax", which would be introduced at a time when the construction industry is only just recovering from the deepest recession in living memory, and resulted in many well established house building companies going into administration. This proposal, if implemented now, would reduce the overall supply of new homes in Northern Ireland. Currently new housing starts are approximately 30% of what they were in 2003/2004."

103. There were similarly mixed views in response to the consultation question, "**Should the level of developer contributions be based on a regional target (e.g. 20%) or on economic viability modelling, or on something else?**" Only 4 respondents favoured a regional target while 14 preferred an economic viability approach. The underlying reasons for this again reflect concerns about the impact of a developer contribution scheme on development viability, although these concerns were balanced by other perceived advantages of using a regional target. For example:

"In principle a regional target would provide a level of confidence and certainty for developers over negotiations; however stalled housing developments due

to economically unviable affordable housing requirements results in no development, no regeneration and no community benefit. It must therefore be noted that unrealistic developer contribution agreements negotiated in differing economic conditions can be an obstacle to house building."

104. A minority view put forward proposed that targets should be set locally – to reflect market circumstances:

"A regional target (e.g. 20%) is fundamentally unfair and unreasonable as it fails to take account of local market circumstances. This particular aspect should be a matter for the new District Councils to determine, following a process of local consultation..."

105. Again, the consultation produced mixed views on whether **"....the affordable housing contribution should be applied to all developments of 5 units or over?"** On the one hand, some respondents consider that small sites are less viable than larger schemes and therefore less able to carry an affordable housing contribution. In addition developers of small schemes are said to be usually smaller businesses with fewer resources to deal with affordable housing negotiations. These arguments are pitted against a fairness argument that developers of smaller sites should not be treated differently from larger scale developers, coupled with concerns that the introduction of a threshold could distort the land market. The following comments illustrates the dichotomy of views:

"The five unit trigger level is far too low. Developments of this size do not have significant economies of scale and so are less profitable than larger schemes."

"*We believe that a contribution should apply regardless of the size of the development to ensure that there is equity of treatment, and to reflect the predominance of small scale developments across Northern Ireland."*

"The 5 units cut off point seems completely arbitrary. This will create a turbulent land market, where smaller schemes will benefit at the expense of larger housing proposals, creating piecemeal development."

106. There was a greater degree of consistency when asked about the, "**preferential order proposed for the four contribution options.."** with most of those that commented being against on-site provision (15 against, 7 in favour and 6 giving preference to neither)**.** As noted by Department for Social Development in their November report, **"**It was suggested that even though each development is different, the level and type of contribution required should be determined based on the individual components within each proposed site."

107. Where a commuted sum was accepted, one commentator set out how the contribution should be calculated. This reflects the approach to commuted sums (where accepted) generally used elsewhere in Great Britain:

"The general principle should be that financial contributions should be of 'broadly equivalent value', in that the commuted sum should be equivalent to the developer/landowner contribution if the affordable housing was provided on-site, and not of less expense. For developer confidence it is recommended that planning authorities consider a policy and methodology for calculating a commuted sum ('Commuted Payments Formula'), and be subject to consultation with stakeholders before being applied."

108. There was significant support for **tenure neutral development** if affordable housing were to be provided on-site (20 in favour and 4 against). The reasons behind this were generally about promoting, "*inclusive and balanced communities.*" However, DSD noted that:

"........ almost all responses received acknowledge that the achievement of tenure blind, mixed-tenure developments will be complex."

109. Some commentators went on to describe how they thought tenure blind development could best be achieved. For example:

"Clustering of social or affordable on a site may therefore be preferable in that it may be more practical with regard to maintenance arrangements and long term maintenance costs."

110. A further question in the consultation asked, "**Do you agree that if the developer can make a profit of 15%, then the development should be deemed liable for scheme contribution?**" The majority of respondents were against this proposition (16 disagree and 5 agree). Commentators did not put forward an alternative percentage they found more acceptable. Objections to 15% were essentially an objection to setting any percentage as that being required - as the following comment explains:

"15% is a healthy profit margin, but in practice profitability of a development can vary during the build process and viability can be determined across multiple developments of a larger developer's business and not in respect of any single development"

111. The final question related to any impact of the policy on **Section 75 group** with a consensus that, "*the introduction of this policy poses little to no adverse impact on any of the section 75 categories*".

112. The consultation responses raised a number of other issues that have also been repeated through the consultation process for this study. We highlight the main ones below.

113. The major **changes to the planning process** with responsibility for local development plans resting with local councils, is put forward as a reason for delaying the introduction of a developer contribution scheme until after a 'settling in period'. This has also been linked to the timetable for preparing LDPs (with a three to four year horizon for this quoted) and which will:

“................ provide the opportunity for all interested parties to assist in framing appropriate delivery mechanisms that meet the differing level and type of need across the respective Council areas.”

And that:

“*Builders need certainty when buying land as to what conditions come with that land. The time to lock in requirements for social/affordable housing is when land is being zoned. The new development plans which are to be produced by the new councils present the perfect opportunity for this to be done*.”

114. Another reason given to support a delay in the introduction of a developer contribution scheme is to allow for time, *“.... to ensure that all stakeholders have the skills, resources and capacity to work with it.”*

115. In terms of the relationship with the planning system, the question was also raised about the future of land already zoned for housing and whether a developer contribution scheme could be imposed on this through the LDP.

116. Two other aspects relating to **development viability** were also raised. The first concerned the availability of incentives for development offered elsewhere in GB and that either stimulated demand and/or contributed to the provision of new infrastructure. It was said by one commentator that, “.....*whilst developer contribution policies have been operational in other jurisdictions these policies have on most occasions gone hand in hand with other policies to incentivise house building and the purchase of new build properties*.” We review the various development incentives available in a later chapter.

117. The other aspect of viability specifically mentioned was the level of payment (if any) housing associations obtaining land and/or completed new homes should make. Some respondents felt the consultation document on this point was unclear, for instance:

“The Consultation can be interpreted that Developers are being required to both sacrifice land and also build Affordable Housing............. the Developer will not be able to make 15% profits, or anywhere close to it within the current proposal and therefore it is untenable.”

118. One commentator also opined that, with a developer contribution scheme in place, housing associations, “...... *may still require an element of capital grant to make such a policy viable*.”

Messages from Current Research Stakeholder Consultation

Background

119. Extensive stakeholder engagement has informed all aspects of this report. However, it is worth highlighting some key points from the consultation separately here. It is noted that it was not possible to agree a note of the developer workshop which formed part of the current research and a summary of areas of disagreement between the researchers and the developers was

produced along with a note of the meeting consisting of the researchers' draft and developer first round of comments.

120. Stakeholders from across the spectrum shared a view of a Northern Ireland housing market which had experienced an unprecedented boom and crash. All acknowledged the fragility of the market. Some stakeholders, particularly developers, pointed to continuing downward pressure on the market (as discussed elsewhere in the report). Some on the developer side of industry speculated that normal conditions may not be experienced for another 5 to 7 years. Other consultees pointed to predicted annual growth in prices in the region of 5% as indicating that normalisation would occur more quickly.

121. All stakeholders highlighted the large variation in price and demand across different parts of Northern Ireland.

122. Different interest groups, as might be expected, had very different views on the key issues facing the housing market. Some saw the need to recover overall numbers of new build units in the private sector as the most pressing need while others viewed a lack of delivery of affordable housing as a more serious issue.

Developer Contributions Schemes

123. Opinion was sharply divided on the merits of a contribution scheme as shown below:

Strongly in Favour	**Strongly Against**
• Meet need for affordable housing, • Access land for affordable housing, • Complement grant investment, • Tackle monotenure development.	• Undermine recovery, • Damage values/scheme viability, • Unfair tax, • Social impacts strongly negative, • Developers and landowners may disengage.

124. Broadly, government and the housing association sector saw benefits arising from a contributions scheme to address difficulties in gaining access to sites, pressure on government funding and monotenure development. Continuing to develop monotenure social housing estates was seen by several as anachronistic given that this was discouraged across the rest of the UK, being widely recognised as socially divisive and leading to concentration of deprivation. Access to land, through a contributions scheme or other policy options was seen as essential to affordable housing delivery in the future.

125. Although some in the private sector expressed the view that there was a reluctant acceptance of the need for a scheme, some questioned the timing and others were vehemently opposed to the scheme in principle and in practice. On the whole, stakeholders from the lending and estate agent sectors were not opposed to a contribution scheme provided it was implemented appropriately to avoid damaging the development industry. However, timing is a concern with one estate agent stating that a contribution scheme, "*would kill the housing market as it stands*".
126. There was some resentment in the developer sector that a contributions scheme represented an unbalanced approach in the absence of other incentives to development which are available elsewhere in the UK. (Reference to these is made elsewhere in this report.) There was also a view from both private and social developers that infrastructure and sustainability requirements placed unnecessary burdens on development with several references to the term "gold plating".
127. If a scheme were to be introduced, private developers and developer representatives strongly favoured the use of commuted sums. Government and social housing providers saw on-site provision as the appropriate model, not least because this gave access to sites and allowed social segregation on mono-tenure estates to be addressed.
128. Developer opposition to on-site provision mirrored that which is commonly found throughout the UK in terms of the perceived impact on property values and ease of sale but had an added dimension. Estate agents believed that on-site provision would lower values. Some suggested on-site provision would be unacceptable to purchasers of high value properties but less of an issue in lower value developments.
129. As mentioned elsewhere in this report, developer opposition to on-site provision also focused on a fear that a developer contribution scheme might be used to introduce community mixing. Developers referred to sectarian violence and to media reports of intimidation around mixed community housing developments. An estate agent also believed sectarianism would be associated with tenure mixing in general and would undermine schemes. Developers expressed a strong belief that community mixing, particularly on small developments, could undermined scheme viability, adversely affecting businesses and leading to some small developers leaving the industry.
130. There were mixed views on whether a single contribution scheme across the whole of Northern Ireland was preferable to locally based schemes. The former had the benefit of consistency and, importantly, providing certainty, the latter benefited from being attuned to local circumstances. Any national scheme would have to have local flexibility built into it. Several consultees were concerned about the lack of skills in local authorities to deal with developer contributions and viability issues now that local authorities have taken on planning responsibility.

131. Views on the threshold at which a scheme should apply varied. Arguments were made that excluding schemes under 5 units would distort the market, encouraging even more single dwellings in the countryside. On the other hand there was recognition that on-site delivery may not be appropriate on very small sites. Some housing associations believed that viability of their providing small numbers of units on a site was questionable unless it was part of a serviced site.
132. There was a general consensus that level of contribution implied in the previous consultation was too onerous.
133. Developers were concerned that the timing of payments for affordable housing might undermine small developers if these were made on completion.
134. Developers were against any retrospective application of a contribution scheme where the land price related to development without a contribution scheme in place.
135. Housing associations noted that greater flexibility around procurement than had been shown to date would be necessary if there was to be close working between associations and private developers. Some associations also felt that if mixed tenure sites were to become a feature of their programmes they may have to take on additional staff. Unlike private developers, they did not feel that this would have negative impacts on their businesses because it would be associated with extra income generating activity.
136. There was significant comment on the potential impact of a scheme on businesses as discussed elsewhere in the report.

4. EXPERIENCE FROM ELSEWHERE

Delivery of affordable housing

137. The study specification called for a review of existing developer contributions schemes across the rest of the UK and Republic of Ireland. In preparing the review we noted one particular comment in response the DSD consultation document of last year which argued that, "*The department states a similar policy of developer contribution is in place in the remainder of the UK and the RoI. Those systems are dramatically different to the proposals for Northern Ireland*."

138. This section of the report reflects on the accuracy of this assertion and sets out the key elements of developer contribution schemes operating in Scotland, Wales, England and the Republic of Ireland. The characteristics of each scheme are assessed in terms of the following:

- Definition of affordable housing;
- Who decides how and where affordable housing is delivered i.e. at what level of government (national, local or some other level) policy is set and decisions on individual planning applications made:
- What target percentages are utilised – and whether there is national guidance on this;
- Whether there is a size threshold above which a developer contribution policy operates;
- How affordable housing is to be delivered – on site, off site or as a commuted sum – and who and how decisions are made about which is chosen;
- Actual delivery levels for 2013/14 (the last year for which we have statistics for all the comparators);
- Availability of grant for mixed tenure schemes;
- Other standards affordable housing is to meet;
- How viability considerations for individual schemes are taken into account.

139. The table below provides a summary of approaches adopted in the comparison jurisdictions. The information was collected in early summer 2015 and it is possible that some policies have subsequently been updated – where this is known, we have referred to them.

	England	Wales	Scotland	Republic of Ireland
National Definition of Affordable Housing	*"provided to eligible households whose needs are not met by the market"* [16]	*"housing provided to those whose needs are not met by the open market"*	"*housing of a reasonable quality that is affordable to people on modest incomes*."	*"the provision by Government of housing supports for those unable to provide for accommodation from within their own resources"*
Policy Mechanisms: Who Decides How & Where AH is Delivered	Local council through local plan and supplementary planning guidance	Local council through local development plan and supplementary planning document	Local council through local plan and supplementary guidance	National Spatial Strategy / Regional Planning Guidance/ core strategy/ Housing Strategy
Targets / Percentages	Variable & set locally - Usually between 20% & 50% but no upper or lower limit	Variable and set locally Usually between 20% & 50% but no upper or lower limit	Set locally but national policy benchmark of 25%	Up to 20% of land zoned for housing
Thresholds	Set locally. No national threshold currently – until August there was a national threshold of 10 dwellings with exceptions for some rural areas.	Set locally, dependent on site viability	Set locally but with national benchmark.	Sites above 9 units (this is a recent change)

[16] The government has signalled its intention to broaden the definition of affordable housing to include, *"... a fuller range of products that can support people to access home ownership.*"

	England	Wales	Scotland	Republic of Ireland
Standards	Building Regs + govt space standards (LA optional)	Building Regs + sprinklers + addt standards for AH if grant funded	Building Regs + additional standards for AH if grant funded.	No additional standards for social or affordable housing
Delivery Mechanism: delivering mixed communities	On-site unless 'robustly justified' but commuted sums on smaller sites.	'Strong presumption' for on-site but commuted sums on smaller sites	On-site expected on urban sites over 20 units although this varies locally (lower in rural areas)	Balanced communities encouraged - off-site allowed but not commuted sum
Grant	Not generally available for mixed tenure (S106) sites	Grant can be available for mixed tenure sites but limited amounts	Grant is available for mixed tenure sites but usually at lower level	Grant is available for mixed tenure (part V) sites
Delivery 2013/2014	42,710 new homes, 15.5% @ nil grant	2,416 new homes, 44% @ nil grant	2006-2011 – around 2,000 pa with grant through developer contribution -C30% of total AH	515 new homes (2014 calendar year) (c 5% all dwellings) but completions AH are c 7% pre crash (2007)[17]
Site specific viability	Negotiations considered – based on current costs & values	Negotiations considered	Negotiations considered	

[17] Data sourced from Environment Community and Local Government website which notes that direct comparisons cannot be made between pre 2009 and post 2010 data onwards. Up to 2010, completions relating to long term voids and demountables were included as new build completions.

140. The approaches in the four jurisdictions are very similar but with subtle differences. Key points to highlight are:

- The similarities in definition of affordable housing, noting that definitions are broad and not set at a particular ratio of housing costs to incomes;
- Local councils set developer contribution policies for affordable housing within government guidelines that may be more or less specific e.g. in Scotland there is a national benchmark for the percentage of affordable housing but no equivalent in Wales;
- The national benchmarks for affordable housing percentages in Scotland and Republic of Ireland are relatively low in comparison with some of the locally set targets in England and Wales (which are as high as 50% e.g. in some London boroughs and rural market 'hotspots');
- Similarly, site size thresholds are generally set locally but in the Republic of Ireland there is a national figure (above 9 dwellings);
- Encouragement of on-site provision is common but commuted sums are allowed for, if this is not practical (and can be justified). The only exception to this is the recently introduced policy in the Republic of Ireland which does not allow for commuted sums ;
- Site specific viability can be taken into account in dealing with planning applications;
- Provision of affordable housing through developer contributions provides a useful addition to the supply of affordable housing but is not the sole means for doing so and is not even the majority mechanism.

141. The Westminster government has published the Housing and Planning Bill (October 2015) that would, if enacted, require local authorities to make provision for starter homes. These are to be new homes for those aged 40 and under with 20% discount against market value (to a maximum of £400,000 in London and £250,000 elsewhere). Until there is further guidance, it is difficult to anticipate how the new policy will operate.

Allocation policies

142. One aspect of mixed tenure schemes discussed during the research was the way in which new affordable homes were allocated in the four comparator jurisdictions. Allocations will be determined by a combination of the local housing authority and/or the housing association that is to manage the scheme. It was put to us that allocations to mixed tenure schemes will be predominately or exclusively to key workers (e.g. recently qualified nurses and teachers).

143. Provisions of housing for key workers tends to be concentrated in London and south east England (but not exclusively). Key worker housing is generally on a different basis than for households in more general housing need and is typically in separate developments and at rental levels above those for other

affordable housing. The following are taken from the websites of different providers in London and South East England which sets out the type of accommodation on offer to key workers.

- *Intermediate Rent, which provides rented accommodation for Key Workers at below private market rates*
- *Properties are rented on an assured short-hold tenancy basis at a rate below the current market rate.*
- *Our affordable rent schemes typically offer rentals that are between 15 and 25 percent below market rates.*

144. There may be other examples of key worker accommodation but these types of rental product are the more typical.

145. Housing authorities and housing associations, in our experience, do not pursue allocation policies for mixed tenure schemes that are different from those they employ on other affordable housing schemes. We have reviewed a number of allocations policies for authorities with significant quantities of mixed tenure development in their plans. These are illustrated below.

South Northamptonshire Allocations Policy – September 2015, example of key policy objectives

i) to help local people with a housing need find suitable accommodation within south Northamptonshire; ii) to ensure that priority is given to those in the greatest housing need; iii)) to enable Applicants to make an informed choice about where they would like to live; iv)) to allow Applicants to be considered for available properties in the area of their choice; v) to prevent people from becoming statutorily homeless; vi) to promote the development of sustainable communities; vii) make the most efficient use of the limited social housing in the Council's district;

East Devon District Council – Allocations policy

There is a common application form and housing register for all 10 local authorities in Devon. Devon operates a choice based lettings scheme.

Extract from Devon Home Choice – Policy Document **Statement of Choice** The Devon Home Choice partnership believes in offering people seeking housing as much choice as possible. There is very high demand for affordable housing in Devon and the provision of choice has to be balanced with the need to ensure that housing goes to those with the greatest need. *Devon Home Choice February 2015*

Development incentives

Context

146. The study specification includes a requirement to, "Consider and impact Northern Ireland-specific issues on the economic analysis – for example, how the Northern Ireland house-building industry differs from the industry in the rest of the UK, the varying levels of incentives available to stimulate housing development across the regions....". The importance of development incentives in other regions was put forward by the development industry as a reason for the success of mixed tenure developments elsewhere and, by contrast, one reason for the fragile recovery of the Northern Ireland housing market.

147. In this section of the report we review examples of the main incentives available elsewhere in the UK. We do this under two headings – incentives to stimulate demand and those to support the delivery of new housing (e.g. through funding of infrastructure). We do not review availability of grant for affordable housing as that is common across the UK.

Demand side

148. **Help to Buy** – (1) Equity Loans available in England, Wales and Scotland. (2) Mortgage Guarantee Scheme, available UK wide.

149. In England, This is mainly as an equity loan scheme in which the purchaser contributes 5% of the value of a property as a deposit, there is a government loan of a further 20% which is repayable on sale of the property or after 25 years. In the sixth year of ownership the purchaser is charged a fee of 1.75% of the loan's value and this increases every year thereafter. Purchasers select their own properties from new developments where the housebuilder is registered with the scheme. In England, Help to Buy is open to both first-time buyers and home movers for new-build homes with a purchase price up to £600,000. The government has recently announced that the value of the equity loan will increase to 40% of purchase price for properties in London. According to DCLG, as at April 2015 in the first 25 months of the scheme in England, 49,389 properties were bought through Help to Buy. 82% were sales to first-time buyers and the average (mean) purchase price was £213,954.

150. A related Help to Buy (Help to Buy mortgage guarantee) provides a guarantee from the government to lenders of the loan if the buyer defaults. This allows a purchaser to take out a higher mortgage than otherwise, up to 95% of purchase price, if they can raise a deposit of at least 5%..

151. In Wales, the equivalent equity loan scheme has an upper purchase price limit of £300,000. Between January 2014 and March 2015, a total of 1,378 property purchases were completed with a mean purchase price of £178,290. 74% of homes purchased were by first time buyers.

152. In Scotland the scheme (similar to those set out above) is now closed, except for the small developer scheme. When it operated, Help to Buy (Scotland) was available on new build homes from participating home builders and on homes

up to a maximum value of £250,000 with a combined 5% deposit from the purchaser and mortgage to provide a combined minimum 80% of the total purchase price. The government equity stake could be up to 20% of the purchase price.

153. A successor to the Help to Buy (Scotland) scheme has been announced. The Scottish Government intends to spend £193 million over three years on an equity loan scheme due to be launched in January 2016. At the time of writing, operational details have not yet been confirmed.

154. Help to Buy (Scotland) Small Developers Scheme spread support across the housebuilding industry with an earmarked fund available from around 170 smaller developers. The government stated that these developers are often in remoter/rural locations.

155. While Help to Buy across all three regions has achieved a strong take-up and is being heavily promoted by housebuilders, it has its detractors. A report by Shelter in September 2015[18] argues that, "....*Help to Buy has added around £8,250 to the average house price. In other words, it has helped a small number of people to buy, at the expense of worsening the overall affordability crisis for everyone else*".

156. **Rent First (Wales) and Affordable Rent to Buy (England)** are schemes that provide homes for rent at below market rates giving the tenant first refusal to purchase the property within a defined period (e.g. within 7 years in England). The scheme in England was only launched in 2014 and is intended to provide 10,000 new homes between 2015 to 2018. Rent First has been in operation in Wales since 2011 and is targeted at households with incomes of between £16,000 and £30,000 per annum. The Welsh Government recently commissioned research to assess the impact of the scheme. The research report[19] concluded that "*Rent First is making a modest contribution to the overall supply of intermediate rent (estimated at about 40 to 50 Rent First properties per annum since 2012)."* The report described Rent First as a niche product and that, "…*there remains a 'gap' in the housing market which Rent First can help address. However, take up of Rent First has been patchy.*"

157. The Northern Ireland Co –Ownership Housing Association is at present developing a pilot rent to purchase initiative. It is anticipated that the initiative will be launched early in the coming financial year and will provide over a 100 additional affordable houses throughout Northern Ireland.

158. **Starter Homes initiative** – the initiative was launched in February 2015 and is available in England to first time buyers under 40 giving them a 20% discount on the market value of the property they purchase. The properties are to remain available at 20 per cent below market value on resale for the first five years. The scheme is available on under-used or unviable commercial or industrial sites not currently identified for housing. Local planning authorities

[18] How much help is Help to Buy, Shelter, September 2015

[19] An Evaluation of Rent First and the Intermediate Rent Market in Wales, Three Dragons, SQW Ltd, Cyngor Da, and Opinion Research Services Ltd for Welsh Government, July 2015

will not be expected to seek section 106 affordable housing or tariff-style contributions for the starter homes. These sites may include a small proportion of market homes, where this is necessary for the financial viability of the site.

159. The Housing and Planning Bill (October 2015) includes measures to extend the Starter Home initiative. At the time of writing, full details of the operation of the extended scheme are awaited and the legislation is still progressing through Parliament. Important measures for the proposed Starter Home initiative include a general duty on all planning authorities to promote the delivery of Starter Homes and a requirement for a proportion of starter homes to be delivered on all suitable reasonably-sized housing developments. (yet to be defined). The Bill takes forward the principle that Starter Homes will be properties with a value up to £250,000 (or £450,000 in London) available to first time buyers under 40 with a 20% discount on the market value of the property.

160. **Other shared equity products –** across GB there are various equity share products similar to Co-ownership and/or FairShare in Northern Ireland. They include shared ownership in England where the purchaser buys a percentage of the equity and pays rent on the remainder and Homebuy in Wales (where the purchaser buys a percentage of the equity but does not pay rent on the remaining share). The government announced through the Spending Review and Autumn Statement that access to shared ownership housing in England will be made easier[20]. In Scotland, there are New Supply Shared Equity and Open Market Shared Equity schemes. Common to the various schemes is the ability for the purchaser to increase their share of the equity over time.

Summary

161. Demand side measures, notably Help to Buy, have proved popular and take up has been strong. The criticism of these measures is that they fuel house price increases, thus worsening affordability. It could be argued that Northern Ireland already has its own well established demand side measure through Co-ownership. However, Help to Buy offers a slightly different style of product that is well supported by purchasers.

Supply side

162. In England (and in some circumstances in Wales), there are a range of measures that **'exempt' certain types of development** from a particular planning requirement. For example, self build dwellings are not required to

[20] "The scheme will be open to all households earning less than £80,000 outside London and £90,000 in London, and will relax and remove previous restrictions such as local authorities' rights to set additional eligibility criteria through the lifting of certain restrictions and an increase in the maximum income needed to be eligible." Spending Review and Autumn Statement 2015, Cmnd 9162, HM Treasury, November 2015

pay the Community Infrastructure Levy if one is operating in that local authority and other planning obligations including delivery of affordable housing[21]. Similar exemptions from s106 charges apply to homes to be provided under the Starter Home Initiative (i.e. homes built on under-used commercial/industrial land or land not currently assigned for residential).

163. **The Builders Finance Fund** provides loans to developers in England to help accelerate and unlock housing developments between 5 and 250 units that 'have slowed down or stalled completely'. For schemes between 5 and 14 units, the fund will be exclusively for Small and Medium Enterprises. Obtaining money from the fund is on the basis of a competitive bidding process. The fund is administered by the Homes and Communities Agency and the Greater London Authority in London and is described as, "……*making direct investments in specific projects through loans to address cashflow issues or taking an equity stake to build confidence through risk-sharing.* [22]

164. There are funds e.g. the **Single Local Growth Fund** that are administered by Local Enterprise Partnerships in England for local strategic infrastructure projects (as well as for other project types that are seen to promote economic growth in the LEP area). The allocation for 2015/16 is £2bn across England. Bids for schemes are made by local partnerships (usually led by local authorities) to the LEP board and successful projects are then included in bids to central government for funding.

165. **Build to Rent** fund of £1 billion to provide about 100,000 new private rented units. The fund provides repayable loans. Funds repayable within 1 to 2 years with interest and available for up to 50% of eligible development costs. To qualify, developer must be able to start on site by March 2016

166. **Public Land release** (Build now pay later) was launched in 2011. Developers pay for land after they have started work. Value of scheme unclear and there has been some criticism over lack of monitoring (see Inside Housing July 2015). Applicants must demonstrate Value for Money against other options.

167. In Scotland, **the National Housing Trust (NHT)** model has been developed to increase the supply of affordable homes. Under NHT, developers are appointed to build affordable homes on land they already own. Once complete, a Limited Liability Partnership (LLP) consisting of a local authority, the developer and the Scottish Futures Trust (an independent, arms-length company established by government) purchases the homes with a loan from the participating local authority and a developer contribution as a mixture of loan funding and equity investment. The scheme is backed by a Scottish Government guarantee. The properties are managed for intermediate rent by an agent for 5 to 10 years after which they are sold, the loan repaid and the

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[21] Until recently, this also applied to all schemes in England of less than 10 dwellings but this was overturned in a recent court case. The government is challenging the judgement

[22] Builders Finance Fund Prospectus, DCLG, July 2015

developer receives repayment of equity capital. Contracts have been signed for over 1,350 homes in a number of local authority areas.

168. **New Homes Bonus** is available to local authorities in England. It is a grant paid to local authorities for new homes in their area. It is based on Council Tax rates for market properties with a flat rate for affordable homes. The fund is not ring-fenced and local authorities are not obliged to spend the NHB on projects that support new housing developments.

169. **Community Infrastructure Levy** – administered by local authorities in Wales and England who can opt to charge a levy on development in their area to fund strategic infrastructure projects (including roads, education provision, and community facilities). Scaled back planning obligations (s106 payments) may also be required to fund measures to mitigate direct impact of the new development. CIL charges vary by locality but are typically around £50 per sq m to £150 per sq m or c £5,000 to £15,000 per dwelling. Levy rates must be proven to be viable and some authorities have opted not to charge CIL.

170. In Scotland, **Partnership Support for Regeneration Grants** (PSR) are provided to assist developers in building homes for sale in areas with little or no private housing or to help meet local shortages. This bridges the gap between the cost of a development project and sales values. The maximum annual budget is £10 million but this must come from the Affordable Housing Supply Programme. The scheme runs from June 2015 end of December 2020.

171. During the height of the recession there was also a Housebuilding Infrastructure Loan Fund but this has now closed.

172. There are some other funds that are either now closed or less directly relevant to current newbuild developments. These include:

- **Estate Regeneration Fund** - £150 million released to kick start estate regeneration. Payable to private sector developers (on loan basis) working with local authorities on estates in need of regeneration.
- **Get Britain Building Fund** - £500 million loan and equity fund to unlock stalled sites. Now in final stages and closed to new applicants.

Summary

173. Supply side measures are typically funds that can only be accessed on a competitive basis and are in the form of short terms loans. Not all the funds listed are specifically to fund infrastructure in support of new housing development. CIL is the exception to this and can directly fund new infrastructure but CIL relies on a levy raised from development.

5. IMPACT ON SMALL BUSINESSES

The Small and Micro Business Impact Test

174. When introducing new regulation government in Northern Ireland has a duty to consider whether it will impact on small and microbusiness and whether it will disproportionately affect this group of businesses. The Small and Micro Business Impact Test (SAMBIT) is designed to support the development of a Regulatory Impact Assessment and to "help focus the minds of policy makers and officials of what the regulatory impacts and effects on small and micro businesses potentially will be." (DETI, 2014)

175. Guidance refers to European Union definitions of small businesses as having fewer than 50 employees or a turnover of less than EUR 10 million and micro businesses as having fewer than 10 employees or a turnover of EUR 2 million. Published data shows that 75% of construction companies have a turnover of less than EUR 4.2. Only the few very largest developers could be considered not to be small businesses in terms of turnover with many operating at the level of micro businesses. Stakeholder consultation suggests that the typical building firm in Northern Ireland has very few employees, bringing most within the category of micro businesses.

176. We do not have any direct data about the size of businesses making up the housebuilding industry. There is information on the "Characteristics of VAT and/or PAYE registered businesses in NI"[23] for the construction industry as a whole which gives some indication of the structure of the housebuilding industry. The data available (for 2013) shows that in the construction industry there were 9,650 businesses of which 9,050 had less than 10 employees. These will likely include a large number of single person trade businesses (plumbers, electricians and the like). Perhaps what is more significant is that there were only 25 businesses (or 0.3%) with 100 or more employees. A comparison can be made with GB using a different data set[24]. This shows a similar picture of the predominance of small firms with only 0.5% of construction businesses having over 80 employees and 91% having less than 8 employees. The differences in categories is not helpful for this comparison but the statistics do show that the structure of the construction industry in Northern Ireland is heavily weighted towards smaller businesses but so too is that elsewhere in the UK.

Research findings on impact

177. In the current research, stakeholders were given the opportunity to provide quantitative data regarding the potential impact of a developer contribution scheme on their businesses. Unsurprisingly, given that no scheme is in place,

[23] Facts and Figures from the IDBR
[24] Construction Statistics Annual Tables, ONS, 2015

they were unable to provide such information. Moreover, given that they are mostly small and micro businesses, it would unduly onerous to expect them to spend time collecting such data as may exist.

178. The modelling of development viability forms a major part of this report and this has implications for small and large businesses alike. However, with the significant exception of viability modelling of the impact on individual developments, the assessment of the potential impact of a contribution scheme on small and micro businesses therefore relies on qualitative views expressed by developers and other industry consultees.

179. Nevertheless, a substantial report was submitted as part of the earlier consultation and further discussion highlighting the differences between the GB and Northern Ireland housing industries and markets. Amongst other considerations, this pointed to the increased sensitivity of small developers to any additional cost burdens incurred due to a contributions scheme.

180. Several of the concerns expressed by developers related to the potential negative impact on their ability to raise finance. This included the possibility that additional costs of individual funding applications would increase risk leading to rejection. This highlights the need for any scheme, if one were to be introduced, to be soundly based on the viability of projects.

181. There was a wider concern that lenders may be reluctant to lend on mixed tenure schemes as result of “the history of social segregation in social housing”. The lending industry currently lends to housing associations and sees them as a good risk and lending industry consultees believed that mixed tenure schemes would make housing association lending more attractive.

182. However, the scale of housing association development programmes tends to be larger than that of most private developers and the size of project larger. As larger organisations developing associations are more resilient to individual developments experiencing difficulty in letting. Private developers remain extremely wary of the potential impact of mixed tenure leading to attempts to create mixed communities and undermining the viability of individual projects which represent either all or a significant proportion of their annual development activity.

183. Developers and other industry consultees pointed to most builders being small, family run businesses that lack internal staff resources to negotiate complicated agreements for a number of predominantly small planning applications. This expertise would have to be outsourced, adding additional costs to the business, reducing control and therefore increasing risk. The structure of the industry at a Northern Ireland scale makes the potential impact of these costs the on the developer market as a whole potentially greater than in Great Britain where the market is dominated by large organisations.

184. Notwithstanding the need to bring in external consultants to assist in negotiations, small developers will have to divert staff time from development to additional administrative activity and are concerned that they will have to employ extra staff to cope with the extra burden. They are concerned that this

will be exacerbated by having to work with an increased number of external bodies including a social housing provider, the Housing Executive, DSD and very local residents associations.

185. Developers highlight that negotiation will take time and impact on cashflow and therefore their businesses as a whole. The recent devolution of planning responsibilities to local authorities is feared to have a potentially compounding effect as planning staff will take time to gain expertise to deal efficiently with a contributions scheme and the associated negotiations.

186. There was a further concern that a contributions scheme will introduce uncertainty into the system and that this will increase risk. For some consultees this was associated with the timing of the introduction of a scheme when developers, especially small developers, are still in a relatively weak position after the crash. For these consultees, this was an argument for delaying introduction of any contributions scheme.

187. The arguments put forward highlight several areas where regulation may impact on small and micro businesses. These include the need for any scheme, if it is introduced to as administratively efficient as possible. Attention needs to be paid to creating regulations which are simple, transparent and avoid uncertainty. Negotiation timescales need to be as short as possible and to be monitored. Consideration has to be given to the support needs of local planning departments and to the role of a central expert team. NIHE (2015) notes that the Department for Social Development intends to establish and resource multi-disciplinary teams to negotiate agreements with developers.

188. We did not pick up any feeling that mixed tenure in itself would cause lenders to be reluctant to lend. The evidence from the rest of the UK indicates that mixed tenure does not have a negative impact on values. Nevertheless, the concern expressed by developers is real and in the context of small developers the potential impact on their business as a whole would be great if issues of mixed community were to affect small schemes. Clearly, any contributions scheme would have to have regard to this issue in its implementation.

6. VIABILITY OF DEVELOPMENT

Relevance to study

189. Central to a decision about the introduction of a developer contribution scheme is the viability of development. If a contribution scheme were to make development unviable, this would have a detrimental impact on housebuilding rates and the development industry. This has been a concern raised by the development industry throughout our research and was raised as a key issue in the earlier consultation exercise undertaken by DSD.

190. Although the study specification does not directly call for testing of development viability, the specification's central aim to test whether "….*a scheme of developer contributions (can) be successfully introduced in Northern Ireland without impacting on the recovery of the local housing market…*" implies that viability must be taken into account and tested.

191. Elsewhere in the UK and the Republic of Ireland development viability must be taken into account in setting the local policy for the amount and type of affordable housing (rent and shared equity). The following extracts from policy guidance illustrate the importance attached to viability considerations.

192. Wales - TAN 2;

"When setting site-capacity thresholds and site specific targets local planning authorities should balance the need for affordable housing against site viability. This may involve making informed assumptions about the levels of finance available for affordable housing and the type of affordable housing to be provided." (10.4)

193. England - Planning Practice Guidance;

"*Policy for seeking planning obligations should be grounded in an understanding of development viability through the plan making process.*"

And

"*Planning obligations must be fully justified and evidenced. Where affordable housing contributions are being sought, planning obligations should not prevent development from going forward."*

194. Scotland - PAN 2/2010;
Step 4 – Where affordable housing is identified as a main issue – preparation of the Main Issues

• *Consider viability of proposed affordable housing percentages in light of any major costs which may be associated with elements of the established land supply (e.g.any known decontamination requirements) and availability of funds.*

195. Although traditionally, consideration of viability may not have been central to planning, it has become a key element of policy making where plan policies are to set out a requirement for developer contributions particularly where these include affordable housing. We therefore have paid particular attention to testing development viability in this study.

Principles underlying the approach

196. There is no single approach to viability testing for policy making that is universally adopted. However, a guide was produced in 2012 by a working group of representatives from the development industry, local government, the planning inspectorate and expert practitioners. This set out the process to follow for viability testing and data sources to be used. The process we have followed in this research draws on the Harman guide[25] and experience of local plan and CIL examinations in England, Scotland and Wales both directly and through research into practice generally in viability testing.

197. The principle of the approach used is to assess the residual value of a scheme and compare this with a notional benchmark land value. Residual value is the sum of all revenue in a scheme minus all the costs, including the costs of any planning obligations (including affordable housing). The following diagram illustrates this process.

Total development value – market and AH

Minus

Development costs - market and AH (incl. build costs and return to developer)

=

Gross residual value

Minus

Planning obligations

=

Net residual value (available to pay for land)

Figure 6.1: Residual value approach for viability testing
AH – affordable housing – including social rent and equity share

198. The residual value (RV) is then compared with a notional benchmark land value. If the RV exceeds the benchmark, development is considered viable but otherwise, the development is not viable.

199. Underlying this approach is the principle that the developer should receive a return for their investment and that the landowner receives a payment that

[25] Viability Testing Local Plans, Advice for Planning Practitioners, Local Housing Delivery Group chaired by Sir John Harman, June 2012

means they are willing to sell their land (that there is a willing developer and a willing landowner).[26]

200. This approach to viability testing was discussed with the development industry and was found to be acceptable – although there were issues raised about the assumptions to use as we describe later.

Testing approach

201. The viability testing undertaken is of two types. The main testing takes a notional 1 hectare site at different densities and identifies the RV of the scheme in each of the 11 LGDs. A second set of tests uses a series of notional small sites – this element of the research is used to identify whether a site size threshold would be justified on viability grounds.

202. The testing process is illustrative and it is acknowledged that development schemes vary and that the results of the testing would not necessarily apply to an individual scheme.

Assumptions used and their derivation

203. For the viability testing, we have compiled a set of assumptions to assess the value and costs for the schemes modelled. The assumptions have drawn on published data wherever possible and feedback from the developer and housing association workshops. In some instances, we have been unable to arrive at a single agreed set of assumptions and have therefore undertaken sensitivity tests using alternative assumptions.

Affordable housing

204. For the affordable housing, we undertake two types of test. The first set of tests assumes that the affordable housing is built by the developer and housing associations pay for completed units. This does not imply that this is the way affordable housing <u>should</u> be provided but explains the modelling approach. The payment for the social rent is the amount that housing associations can afford to borrow against the net rent[27] they receive. The approach was accepted by the housing associations attending the housing association workshop. For the equity share product modelled we assume that the payment is based on the equity share purchased and a capitalised amount for the unbought share.

[26] In England, the National Planning Practice Guidance (2012) describes this as providing, "…*competitive returns to a willing land owner and willing developer to enable the development to be deliverable*."

[27] Net rent = gross rent paid by the tenant less an allowance for management and maintenance costs and void periods. The rent is then capitalised. In England the Homes and Communities Agency specifies that, "(For Affordable Rent – the equivalent to social rent)....... our assumption is that the price paid will be no more than the capitalised value of the net rental stream of the homes." Affordable Homes Programme, 2015-2018 Prospectus January 2014.

205. In the 2014 consultation by DSD, it was assumed that housing associations paid nothing – we believe that associations can pay something towards the cost of acquiring affordable housing and have modelled this accordingly.

206. With this testing option, there are two other points that need to be highlighted:

- We have assumed that affordable housing is to be provided as a mix of social rent and shared equity housing. This assumption has been agreed with DSD as the basis for the testing but should not be taken to imply a particular policy stance. The mix used is based on experience from elsewhere in the UK and recognises that purpose built equity share is being considered in Northern Ireland. By adopting this mix of affordable housing we are not commenting on the value of a new shared equity product , other than to say it will help viability in marginal situations;
- The use of financial contributions (commuted sum) has been put forward as an alternative to on-site provision. If the principle is adopted that the developer/landowner should be no worse or better off with a commuted sum payment (than they would be with on-site provision), then an analysis of on-site provision gives the same results as taking a commuted sum (everything else being equal). If, however, taking a commuted sum is being considered as a way of reducing the contribution from the developer/landowner, this implies that the percentage of affordable housing sought needs to be reduced.

207. We have then tested an alternative approach which assumes that the requirement for affordable housing is provided as 'free land' and that a housing association develops the affordable housing itself. In this case the developer/landowner hands over land to a housing association at a price well below market value – often at nil cost. We have also modelled this option but it must be recognised that such an approach only works if grant is available – the amount housing associations can afford to borrow against the net rent received is unlikely to cover the costs of its development.

208. In all the testing, we assume that there is no public subsidy available to fund affordable housing but we comment on the role of public subsidy later on in the report.

1 hectare tile – mixes

209. For the main testing we use a notional 1 ha tile. We appreciate that most development in Northern Ireland is on smaller sites but using the 1 ha tile allows us to compare results between locations.

210. We have devised a set of illustrative dwelling mixes for alternative development densities. These were discussed at the development industry and housing association workshops. In light of the comments received we undertook additional analysis of a sample of recent planning permissions to finalise the mixes for testing. The review of planning permissions was also used to check the dwelling sizes to be used in the modelling.

211. The mixes for the 1 ha tiles are set out below. We use different mixes for the market housing and for the social rent/equity share housing.

House Type	20dph	30dph	40dph
2 bed flat			25%
2 bed terrace		10%	
3 bed terrace	5%	20%	30%
3 bed semi	50%	55%	35%
3 bed detached	15%		
4 bed detached	30%	15%	10%

Figure 6.2a: 1 ha tile - dwelling mix market housing for different development densities

House Type	20dph	30dph	40dph
1 bed flat			10%
2 bed terrace	40%	60%	50%
3 bed terrace	30%	20%	40%
3 bed semi	30%	20%	

Figure 6.2b: 1 ha tile - dwelling mix social rent/equity share for different development densities

212. The 20 dph and 30 dph tiles are tested in all the LGDs but the 40 dph tile is tested only in Belfast.

Dwelling sizes

213. The size of dwellings used has been derived from a variety of data sources. For the market housing this included i) a review of new properties on the market using the Zoopla website ii) development industry workshop feedback iii) review of sample of planning permissions. For the affordable housing we used Table 1 of the web based TCI guidance - General Needs Housing - TCI Area/Cost Bands Applicable and confirmed the data at the housing association workshop.

House Type	Social rent	Market and shared equity
1 bed flat	50m^2	
2 bed flat	65m^2	65 m^2
2 bed terrace	75 m^2	75 m^2
3 bed terrace	95 m^2	90 m^2
3 bed semi	95 m^2	100m^2
3 bed detached	100 m^2	105m^2
4 bed detached	105 m^2	120m^2
5 bed detached	115 m^2	130 m^2

Figure 6.3 Size of dwellings – sq m – gross internal area

An additional 10% circulation space is added to the floor area of flats to allow for common areas, hallways and stairwells etc

Market values

214. We have devised a set of market values for the dwelling types used in the testing and for each of the 11 LGDs. The figures used are indicative new build values and were devised specifically for the viability testing – they will not be found in any published property market reports.

215. An initial set of indicative market values for different dwelling types was presented at the developer workshop. These were considered too high and were reviewed by the consultant team and re-circulated to those attending the workshop. We also asked the estate agents interviewed about values in the areas they operate. The information received from the agents is consistent with the values we have devised from the available data sets.

216. The market values used for the testing have been compiled by Heriot-Watt University and are based on a range of data sources because no single source contains data disaggregated geographically, by type and by new and second-hand properties in a form that is necessary for our analysis. The starting point is the Northern Ireland Statistics and Research Agency (NISRA) Northern Ireland Residential Property Price Index. This gives a breakdown of all (new + second-hand) property prices by property type (detached, semi-detached, terrace, apartment), but does not go below Northern Ireland level. The Office for National Statistics (ONS) house price index provides a breakdown of property prices by second-hand and new-build, but does not disaggregate below NI level. The University of Ulster house price index includes estimates of mean price by property type, by LGD, but there are

missing values given the small sample sizes. There is no breakdown by new-build / second-hand. The market values derived were checked against asking prices for new homes on the market using various websites e.g. Zoopla. [28]

	Detached			Semi detached	Terraced		Apartments	
LGD	**5 bed**	**4 bed**	**3 bed**	**3 bed**	**3 bed**	**2 bed**	**2 bed**	**1 bed**
Antrim and Newtonabbey	£195,000	£177,000	£159,000	£117,000	£68,000	£61,000	£81,000	£73,000
Armagh, Banbridge and Craigavon	£168,000	£153,000	£138,000	£96,000	£62,000	£56,000	£74,000	£67,000
Inner Belfast	£332,000	£302,000	£272,000	£151,000	£91,000	£82,000	£108,000	£98,000
Outer Belfast	£277,000	£252,000	£227,000	£126,000	£75,000	£68,000	£89,000	£81,000
Causeway Coast and Glens	£164,000	£149,000	£134,000	£100,000	£81,000	£73,000	£96,000	£86,000
Derry and Strabane	£182,000	£165,000	£149,000	£105,000	£67,000	£60,000	£79,000	£71,000
Fermanagh and Omagh	£152,000	£138,000	£124,000	£94,000	£66,000	£59,000	£80,000	£72,000
Lisburn and Castlereagh	£215,000	£195,000	£176,000	£134,000	£86,000	£77,000	£102,000	£92,000
Mid and East Antrim	£185,000	£168,000	£151,000	£108,000	£72,000	£65,000	£86,000	£78,000
Mid Ulster	£172,000	£156,000	£140,000	£112,000	£79,000	£71,000	£96,000	£86,000
Newry, Mourne and Down	£187,000	£170,000	£153,000	£116,000	£79,000	£71,000	£93,000	£85,000
North Down and Ards	£223,000	£203,000	£183,000	£124,000	£89,000	£80,000	£105,000	£95,000

Figure 6.4 Indicative market values used in the viability testing

217. A view expressed both by the development industry and by some of the estate agents interviewed is that the integration of market and affordable housing (especially social rent) will depress the market values achieved and, by implication, the values shown in the table above would not hold.

218. Perhaps surprisingly, there is very little evidence either way in the jurisdictions where developer contributions for affordable housing are part of established policy. A recent report by the NHBC and the Homes and Communities Agency reviewed the available literature.[29] On the impact on market values

[28] We appreciate that asking prices and sale prices differ and made an adjustment for this in the analysis.
[29] Tenure integration in housing developments A literature review, NHBC and the Homes and Communities Agency, September 2015

the review finds little evidence but drawing on that which is available comments that:

"*.......good design was crucial to the saleability of new homes, and developers were confident that tenure mix alone did not affect the saleability or price of their units on well-designed developments. Much more important was the location of the development, the design and quality of the homes, and the quality of the layout and public realm.* "

The report does also note that:

"Developers considered shared ownership a more 'palatable' affordable option than social housing for rent and, as it carried less stigma, the potential impact on property values was less marked. In more expensive housing markets, they preferred not to accommodate tenure mix at all, as this was seen as detrimental to the sale values of their private properties"

219. Interestingly, the importance of good layout and design for any mixed tenure development were echoed by some of the estate agents interviewed.

220. However, the above conclusions from the NHBC/HCA report do not fully reflect the concerns raised by the development industry which were not simply about mixing tenures per se. Developers fear and, as set out earlier, the view has been strongly expressed, that mixed tenure would go along with enforced mixing of communities and that this would adversely impact market values. We are unable to comment on this but note it as a real concern that policy makers need to take into account.

Build costs

221. Identifying appropriate build costs to use in the testing has proved particularly problematic. The information source typically relied on for policy related studies of this kind is the RICS Build Cost Information Service.[30] This provides per sq m build costs at a UK level and then a set of location factors so that costs for a local area can be estimated. We followed this approach initially but were concerned that BCIS shows a location factor for Northern Ireland which varies year by year but is around 55% to 60% of UK values. This seems unusually low and possibly reflects a small sample size. To devise an appropriate set of build costs to present to the workshops we therefore reviewed the lowest percentages of UK costs found in other regions – which was c90% and, recognising the low costs anticipated in Northern Ireland, used a figure of 85% of UK costs for discussion. To the base costs we then added a further 15% for external works (again a standard approach for testing of this kind) and presented the following build costs at the workshops:

- Houses £930 per sq m

[30] Use of BCIS costs is recommended in the Harman guide but noting that these should be, "adjusted only where there is good evidence for doing so based on specific local conditions and policies including low quantities of data "

- Flats £1,050 per sq m (assumed to be 2 to 3 storey)

222. Both workshops broadly agreed with the costs but we did receive comments that suggested a lower figure (at 80% of UK values) might be appropriate. We sought further advice from BCIS and a report produced in 2014 indicated that a lower figure (75% of UK average) could be used subject to professional judgement. This was put to the development industry and housing associations as a post meeting note in the workshop note circulated, specifically requesting further feedback. The new figures (Houses - £820 per sq m, Flats £936 per sq m) have been heavily criticised by the development industry but we have received no additional information from the industry about actual current build costs.
223. We therefore sourced further information from DSD and others in the development industry who are dealing directly with residential development. It is clear that there is minimal published data available but the information we received indicates that the figure of £930 per sq m for houses could be a little higher than would be typical but £820 is too low. We have therefore tested at the costs presented to the workshops and then also undertaken a sensitivity test using a lower figure of £890 per sq m for houses and £1,020 for flats i.e. about 80% of UK costs.
224. In our recommendations at the end of this report we pick up the issue of data availability and make proposals to improve the current situation so that any future viability testing can be undertaken more smoothly than has been the case on this occasion.

Other development costs

225. There is a range of other development costs that need to be taken into account in viability testing. We presented these at both the development industry and housing association workshops and the values shown below were broadly agreed:
    - Professional Fees- 10% build cost (applies all tenures)
    - Agents and Legal Fees – 1.75% GDV (applies market housing)
    - Finance – 6% build cost (applies all tenures)
    - Marketing – 3% GDV (applies market housing)
    - Developer Return – 15% GDV (applies market housing)
    - Social rent/shared equity contractor return – 6% build cost
    - Additional Build Costs (utility costs) - £2,000 per dwelling (applies all housing)
226. The main issue raised about the development assumptions was concern that the 15% developer return was a somewhat dated figure. We agreed to undertake a sensitivity test at a higher rate of 17.5% although we note that comments from other stakeholders indicated that even 15% might be a higher figure than is actually being achieved currently.
227. The other point of note is the allowance of £2,000 per dwelling for abnormal utility costs. The £2,000 figure was considered by the developers to be a

minimum and that there may be other utility costs that individual sites are required to meet. These will need to be taken into account when land values are negotiated and/or in subsequent specific viability considerations.

228. At the development industry workshop we discussed the impact of the pace of development on residual value. Our initial modelling has been undertaken on the basis of a static assessment of values and costs (i.e. they all occur at one point in time). The reason for this becomes apparent when we report results later on in this chapter. We have modelled some of the results on the basis of a 'timed' development to show the impact of development pace on scheme RV.

Social rents and other affordable housing assumptions

229. To model the value of the social rent and 'equity share' housing in any mixed tenure scheme, we have made a series of assumptions which were discussed with the housing associations at their workshop and with other relevant stakeholders. The key assumptions agreed were that:

- Social rents at 85% of the Local Housing Allowances in the relevant Broad Rental Market Area[31]
- Management and Maintenance (inc Repairs Reserve) - £1,500 per annum
- Borrowing/ Capitalisation Costs – 6%
- For the shared equity housing, it is assumed that a 50% share will be acquired, with 2.5% rent on the remaining balance.

Assumptions for the 'free land' testing option

230. For the 'free land' option we model a scheme with the percentage of market housing that is relevant and assume that the RV this generates is equivalent to the RV for the whole 1 ha tile. For example:

- I ha tile at 30 dph;
- Assume an affordable housing contribution of 20% and therefore 80% of the dwellings will be market housing (80% of 30 in this case or 24 dwellings);
- Model the RV of the 24 dwellings using the assumptions for market housing described earlier;
- Assume the RV for the 24 dwellings is the per hectare RV and 20% of the site is gifted to a housing association for affordable housing (whatever mix of social rent and equity share they choose).

Benchmark land values

231. Finally, we have derived a series of benchmark land values against which we compare the residual values achieved for the different schemes.

[31] Where our representative district falls within more than one BRMA we have used the BRMA that appears to cover most of the population in the district

232. The development industry indicated that the benchmark would vary with the market values achieved and should be based on a percentage of value. We received a number of (confidential) submissions on this. We sought information on land values from Land & Property Services at the Department of Finance and Personnel and from other stakeholders and derived the following overall benchmarks comprising high level generalised information for different types of locality from these various sources. We have drawn on this combined information and made further adjustments as shown in the table below – first at 100% market housing, then reducing these to take account of the introduction of affordable housing and reduction in the number of market units in a scheme.

LGD	100% Market	80% Market	90% Market
Antrim and Newtonabbey	£450,000	£360,000	£405,000
Armagh, Banbridge and Craigavon	£250,000	£200,000	£225,000
Inner Belfast	£1,000,000	£800,000	£900,000
Outer Belfast	£750,000	£600,000	£675,000
Causeway Coast and Glens	£250,000	£200,000	£225,000
Derry and Strabane	£375,000	£300,000	£337,500
Fermanagh and Omagh	£250,000	£200,000	£225,000
Lisburn and Castlereagh	£750,000	£600,000	£675,000
Mid and East Antrim	£375,000	£300,000	£337,500
Mid Ulster	£375,000	£300,000	£337,500
Newry, Mourne and Down	£450,000	£360,000	£405,000
North Down and Ards	£750,000	£600,000	£675,000

Figure 6.5 Land value benchmarks per hectare

233. We completely acknowledge that identifying suitable land value benchmarks has proven difficult. The above benchmarks provide a broad guide and reflect the range of the information received. Further detailed work will be necessary to refine the benchmarks for any future testing.

Modelling approach

234. All the testing has been undertaken using the Three Dragons Toolkit. This is an excel based model that assesses the residual value of a scheme for a given set of inputs. The Toolkit has been widely used elsewhere in the UK for viability testing for policy making purposes.[32]

1 ha tile testing results

235. The first set of results[33] are for 100% market housing and show that, using the assumptions described above, development in some parts of Northern Ireland produces a negative RV and in other parts, while the RV is positive, it does not exceed the benchmark and is therefore technically not viable. Only in the case of Inner Belfast does the RV exceed the benchmark and then only for certain densities of development with lower density schemes generally performing better than higher density development.

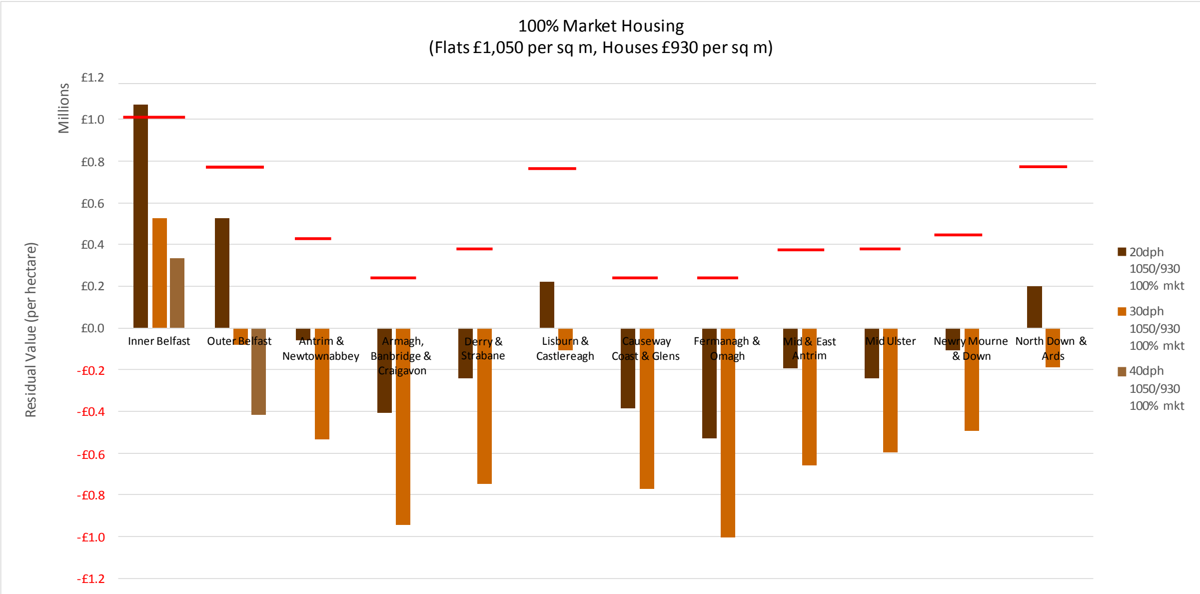

Figure 6.6 Residual value for 1 ha tile at 100% market housing for alternative development densities – build costs at £930 per sq m for houses and £1,050 per sq m for flats, developer return 15%

236. In our experience, these results are not surprising given the relatively low indicative market values we have found. However we appreciate that housing development is happening in locations which the testing indicates are non viable and where, in theory, development cannot be profitable for either developer or landowner.

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[32] It is important to note that the testing results shown are not a formal land valuation or scheme appraisal and should not be relied upon as such. The models used provide a review of the development economics of illustrative schemes and the results depend on the data inputs provided. This analysis should not be used for individual scheme appraisal. No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.

[33] The results use the static model which assumes all costs and values occur at the same time – when the impact of time is taken into account, residual values will possibly be slightly lower.

237. There are various possible explanations for this which include i) the assumptions used are too cautious – we have already noted the issue of build costs ii) developers are achieving higher selling prices now and are anticipating further increases in prices and so are building ahead with a view to sales over the next couple of years when prices are higher iii) developers with detailed knowledge of a particular market are providing niche schemes that maximise values and minimise costs in a particular locality iv) developers can achieve cost savings that we are not modelling e.g. lower professional fees or borrowing rates or accepting a lower return. These results therefore are presented with a major 'health warning' but they clearly indicate potential development viability issues across parts of Northern Ireland.

238. The next set of tests, again at 100% market housing, uses three alternative sets of build costs to explore the impact of the alternatives on viability. The alternatives are at the build costs used above, at the lower alternative of £890 per sq m for houses and £1,020 for flats i.e. about 80% of UK costs and at £835 per sq m for houses and £958 per sq m for flats i.e. about 75% of UK costs. The tests are for the 20 dph tile – which gives the highest RVs.

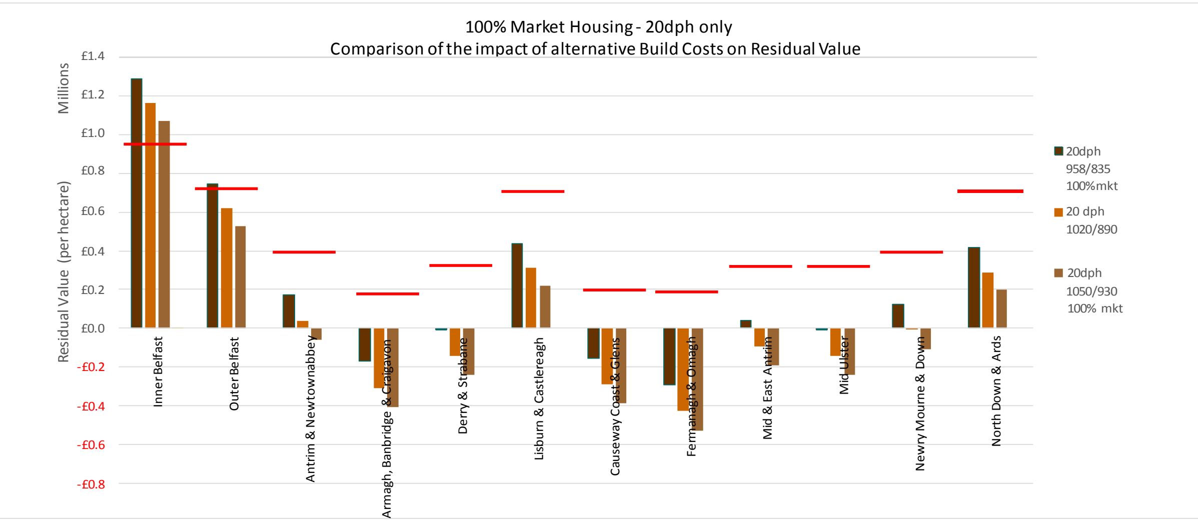

Figure 6.7 Residual value for 1 ha tile at 20 dph, at 100% market housing for alternative development densities and build costs, developer return 15%

239. The lower build costs are seen to increase the RV but not sufficiently to make an unviable scheme at 'full' build costs become viable with the reduced costs. The exception is in Outer Belfast where at the lowest build costs tested (75% of UK values) the RV exceeds the benchmark. At the lowest build costs schemes in Lisburn and Castlereagh and in North Down and Ards are beginning to approach the benchmark and it appears plausible that a niche development with other costs lower than we have modelled and stronger values would be viable. But in other parts of Northern Ireland, even at the lowest build costs tested, schemes only achieve a marginally positive RV or

remain negative. A lot would have to change for development generally to become viable across Northern Ireland as a whole.

240. The next set of tests explore the impact of introducing affordable housing – initially at 20% as units provided on site. We use the 'full' build costs and a 15% return for this test. We assume a lower benchmark land value – at 80% of the benchmarks used previously reflecting the proposition that land values are a percentage of market values.

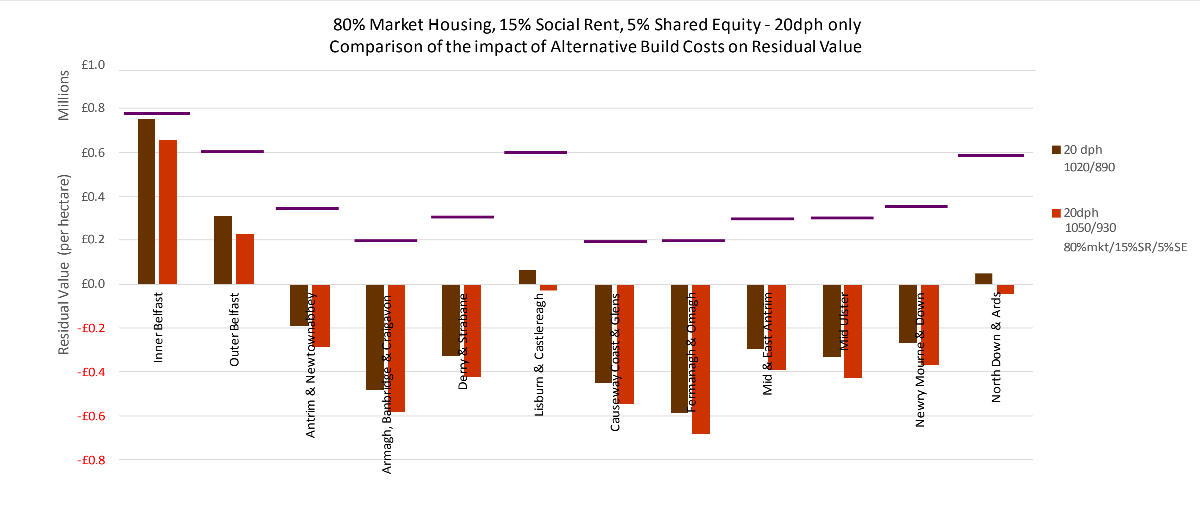

Figure 6.8 Residual value for 1 ha tile at 20 dph ,80% market housing, 15% social rent and 5% equity share for alternative development densities – build costs at £930 per sq m for houses and £1,050 per sq m for flats and at £890 per sq m for houses and £1,020 per sq m for flats, developer return 15%

241. RVs are reduced by the introduction of affordable housing but so too are benchmark land values. Nevertheless, the testing shows that, with the assumptions used, there is little scope to provide affordable housing on-site at 20% other than possibly in Inner Belfast and then only in quite limited circumstances and then only assuming lower costs and higher values than we have used.

242. The next set of results again considers the impact of 20% affordable housing on viability but this time on the basis of 'free land'.

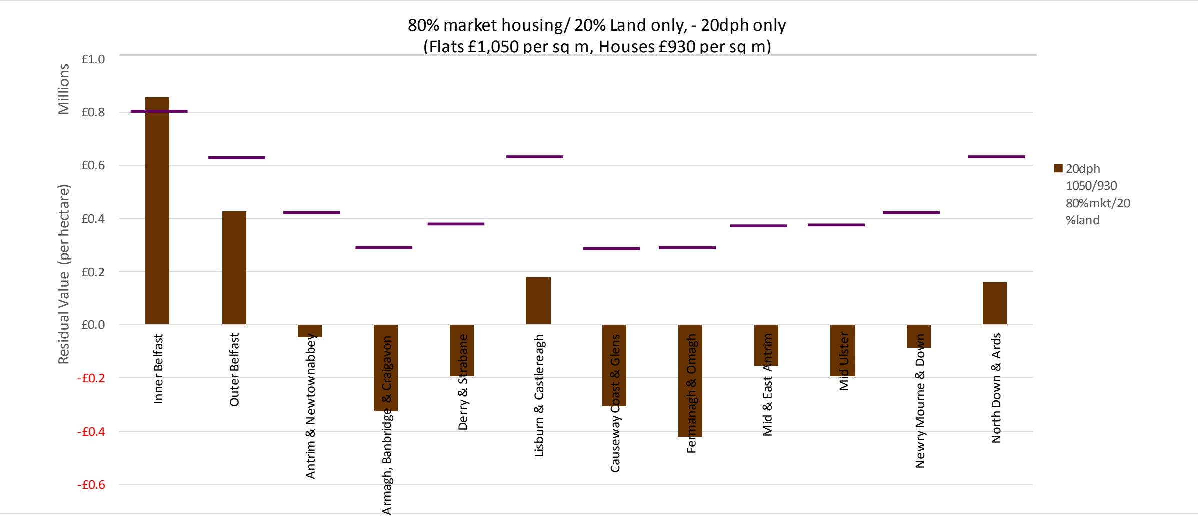

Figure 6.9 Residual value for 1 ha tile at 20 dph, 80% market housing, free land for affordable housing at alternative development densities – build costs at £930 per sq m for houses and £1,050 per sq m for flats, developer return 15%

243. RVs are higher with the 'free land' approach and in Inner Belfast the RV now clearly exceeds the benchmark land value with the 'full' build costs assumed. But outside Inner Belfast, even with the 'free land' approach does not provide viable development with a developer contribution of 20%.

244. Next we consider the combined impact of 'free land' and an increase in market values of 10% (using the 'full build costs). The 10% increase is notionally two years worth of value growth – based on the views of stakeholders consulted for the research. In reality, a 10% increase in value would likely be accompanied by an increase in costs and benchmark land values but the test illustrates the scale of value increase that would be needed to achieve viable development with a developer contribution of 20%.

Figure 6.10 Residual value for 1 ha tile at 20 dph, 80% market housing, free land for affordable housing build costs at £930 per sq m for houses and £1,050 for flats, developer return 15% and a 10% increase in market value.

245. With a 10% increase in values, the potential to achieve a 20% developer contribution as ‘free land’ is secured and in Inner Belfast this could likely also be provision of affordable housing on-site. Again, RVs in Lisburn and Castlereagh and North Down and Ards starts to approach the benchmark land values but is still below the benchmarks and again, away from these locations, introducing a developer contribution of 20% free land is not realistic.

246. With all the ‘free land’ tests it is highly likely that the provision of the affordable housing could not be achieved without grant to meet the gap between the amount the housing association could borrow against its rental income and the costs of development.

247. The final set of tests with the 1 ha tile and 20% affordable housing shows the impact of a higher developer return (17.5%) – this time tested with both the ‘full’ build costs and at the lower, 80% of UK costs. As would be expected, RVs are reduced with the higher return, so that viability is further reduced and even in Inner Belfast development that was viable before has become more marginal.

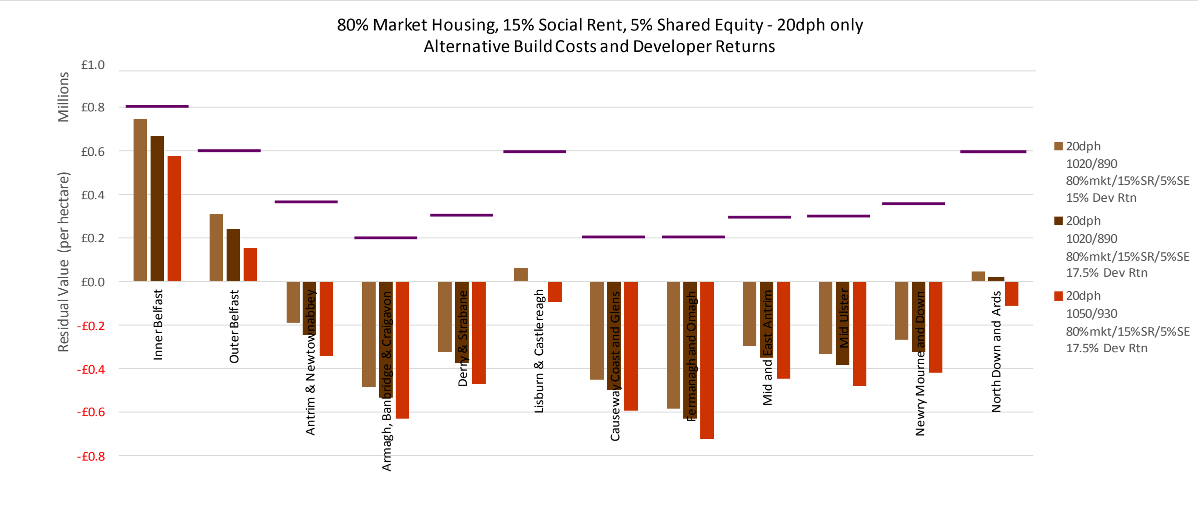

Figure 6.11 Residual value for 1 ha tile at 20 dph, 80% market housing, 15% social rent and 5% equity share – build costs at £890 per sq m for houses and £1,020 per sq m for flats and at £930 per sq m for houses and £1,050 per sq m for flats, with developer return at 15% (lower build costs) and at 17.5% (both build costs).

248. We now consider the impact of a lesser affordable housing requirement and use 10% affordable housing for this, provided as free land.

Figure 6.12 Residual value for 1 ha tile at 20 dph and 90% market housing, 'free land' for affordable housing for alternative development densities – build costs at £930 per sq m for houses and £1,050 per sq m for flats, developer return 15%

249. The impact of a reduced level of affordable housing provided as 'free land' is seen most in Belfast (Inner and Outer) where 10% affordable housing as free land is achievable within the benchmark land value at least in Inner Belfast and is approached in Outer Belfast. But in other parts of Northern Ireland, even at this reduced contribution, development is either not viable or does not reach the adjusted land value benchmark.

250. All the modelling reported above has been on a static basis with costs and income assumed to occur at one point in time and that all costs have to be financed at a 6% rate. We have also tested some of the schemes on a discounted cash flow basis so that costs only attract interest as they are incurred. For the one hectare tile, we have assumed that there is a year before any sales are achieved and then that sales take place in the following year. This approach reflects comments at the development industry workshop. The results show little significant difference between the static tests and those using a discounted cash flow.

251. We know from experience that larger schemes with significant up-front costs and/or schemes where costs have to be carried over a longer time, the effect on the cash flow will have a more detrimental impact on RV than using a 1 ha tile and would need to be taken into account in any future testing.

Testing results – small sites

252. We have also undertaken a series of tests with examples of smaller sites. Again, we drew on the review of planning permissions to identify the illustrative sites for testing. The analysis of permissions indicated a wide range of site types in terms of site size, density and the mix of units so the examples we have drawn up are broadly representative of what is being developed but there will be a significant range of other site types that have not been tested.

253. The size of small sites tested were also selected to test the implications of introducing a threshold for developer contributions at 5 dwellings. We did not limit ourselves to testing only at a 5 dwelling threshold but considered it was important to focus the testing at this scale. The notional sites tested were:

- 3 dwelling scheme – site area - 0.25ha
  - 2 x 3 bed semi
  - 1 x 4 bed det
- 5 dwelling scheme – site area - 0.25ha
  - 2 x 3 bed semi
  - 1 x 3 bed det
  - 2 x 4 bed det
- 10 dwelling scheme – site area - 0.47ha
  - 4 x 3 bed semi
  - 2 x 3 bed det
  - 3 x 4 bed det
  - 1 x 5 bed det

For this testing - affordable housing is allocated on a percentage basis for the 3, 5 and 10 dwelling schemes and we do not use the affordable mix as per the 1 ha tile.

254. The main difference in costs and value that we have modelled is an increase in build costs. Increased costs for smaller developments (because of the diseconomies of scale) has been raised as an issue generally during the

research and BCIS provides specific evidence on the point with higher build costs for schemes of 3 dwellings or fewer. Although BCIS data specific to Northern Ireland is undoubtedly limited, in the absence of any other local data, the general pattern of costs for smaller schemes provided by BCIS at UK level seems to provide a robust framework for assessing the costs of small schemes in Northern Ireland.

255. The assumptions we have used based on BCIS are that:

- 3 dwelling scheme – build costs inflated by 28% - costs for houses at £1,190 per sq m
- 5 dwelling scheme we have assumed that the build costs will be an average of the standard cost and the costs for the 3 dwelling scheme – costs for houses at £1,060 per sq m. We recognise that this is a somewhat arbitrary estimate but reflects the comments we received and that unit costs for 3 and 4 dwelling schemes will not be significantly different in practice;
- 10 dwelling scheme - costs as per the 1 ha tile (£930 per sq m)

256. The results of the testing are shown below at 100% market housing. Residual values are given on a per hectare basis for ease of comparison.

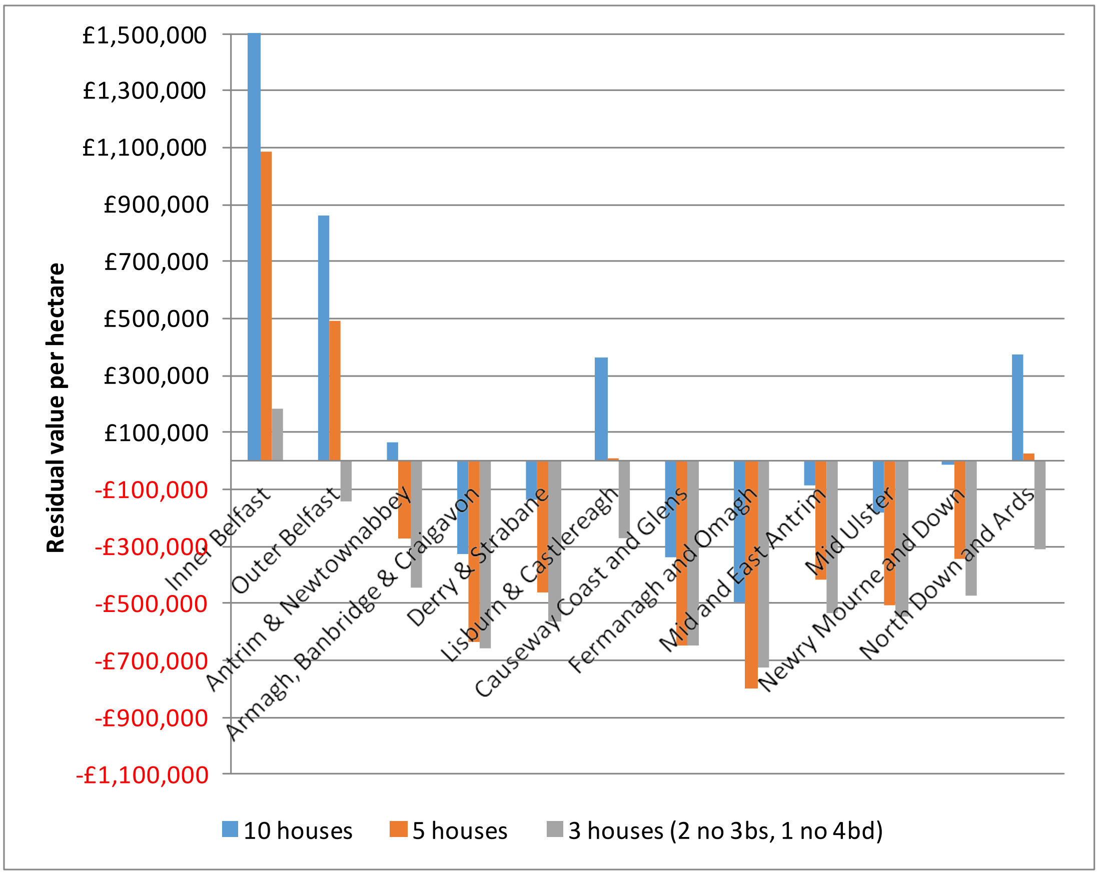

Figure 6.13 Residual values for small schemes at 100% market housing, build costs varying by size of scheme and developer return at 15%

257. Small schemes, especially of 3 or fewer dwellings have additional costs to bear and this is illustrated in the results shown in the above chart. The pattern of residual values is the same as for the 1 hectare tile with only Belfast Inner and Outer showing strongly positive RVs for any of the scheme types (although the 10 dwelling scheme performs reasonably well in Lisburn and North Downs). The small 3 dwelling scheme consistently gives either the lowest or next lowest RV but the analysis also illustrates how different scheme types can give different residual values in different areas. In these tests, the 10 dwelling scheme in Inner Belfast generates a higher RV than the 1 ha tile but this is the exception.

Summary

258. The viability testing has confirmed the relative weakness of the current housing market in Northern Ireland with questions over the viability of developing 100% market housing let alone mixed tenure housing at 20% affordable housing (with a mix of social rent and equity share as was modelled). The exception is Belfast and, as evidenced from across the study, there is a much stronger market in Belfast and introducing affordable housing should be possible given the right conditions. At current values and costs,

something between a 10% and 20% contribution as land rather than units is probably achievable but the ability to do so become more secure with a rise in house prices. We modelled a 10% increase which very approximately, according to local practitioners, might be achieved over 2 years (with consistent price growth). This cannot be guaranteed and it would not be appropriate to use anticipated value increases as the basis for policy making today.

259. Outside Belfast (and its immediate environs) there is no capacity in viability terms to introduce affordable housing. Values will need to increase substantially to allow for this.

260. There is a prima facia case for treating small sites differently because of the extra build costs they incur and the adverse impact this has on their viability. However, not all small sites will be less viable than larger developments and wherever a threshold is set some sites below the threshold may be capable of delivering affordable housing (if that is called for) while sites above the threshold may not. In deciding on a policy approach, this needs to be borne in mind.

7. CONCLUSIONS AND RECOMMENDATIONS

Study findings

261. The study has confirmed that there is a significant aggregate need for additional affordable housing but with important variations in need with different localities within Northern Ireland. The need for an affordable housing supply of 2,000 or more units per annum identified is consistent with HE estimates showing a minimum requirement for 2,000 social units per year (HE, 2015). In very general terms, targets for affordable housing of the order of 35% of planned housing growth could be justified. In practice, viability and other practical issues are likely to preclude such high levels.

262. The original research undertaken for this study has been extensive with a wide number of organisations and individuals consulted. This has included direct consultation with the development industry, estate agents and housing associations as well as representative organisations e.g. CEF, NIFHA and CIH.

263. Nevertheless, the position is very similar to that found last year when DSD called for responses to a series of proposals for introducing a developer contribution scheme. There is a complete dichotomy of views with the development industry generally set against introduction of a scheme of any sort at this stage and very concerned about a scheme which would provide social rented housing integrated within market housing – however 'tenure blind' the development proves to be.

264. On the other hand, those planning for and providing affordable housing report continuing difficulties in finding suitable sites for affordable housing and with an anticipated reduction in public funding, need to develop additional ways of delivering affordable housing and are concerned that continuing to build mono tenure estates is unhelpful to the community.

265. The housing market has been described as fragile by many of our consultees and the evidence supports this description, at least outside Belfast. The housing market in Northern Ireland has been slowly recovering from the property crash in the late 2000s but there is reported still to be an overhang of negative equity for some households and limited turnover of second hand properties which is restricting access for first time buyers. This has been coupled by limited mortgage finance but that appears to be lifting. Nevertheless value growth is slower than elsewhere in the UK and housebuilding rates are not picking up on a consistent basis – although this is far from a unique position across the UK.

266. Market performance in and around Belfast is considerably stronger than elsewhere in Northern Ireland and the differences in the market are stark – both in terms of values and activity.

267. This is reflected in the viability analysis which, drawing on assumptions compiled for this study, demonstrates that outside Belfast, housebuilding is not

'theoretically' viable although, in reality, there is activity suggesting a niche housebuilding market exists but it is very localised. The viability analysis shows that a developer contribution scheme without any public subsidy would not be viable in most of Northern Ireland but in Belfast, some level of contribution should be achievable and provide a reasonable return to both developer and landowner. This would be more certain with an increase in market values as is being predicted.

268. Small sites do face higher costs and there is a viability argument for including a threshold in any developer contribution policy but not all small sites will be less viable than larger developments and vice versa.

269. The conclusion from the viability analysis is that introducing a scheme with a single percentage of affordable housing across the region is not realistic and for most of the region, a developer contribution scheme will not work. In Belfast and areas around Belfast, a scheme could be considered but the timing, percentage target and tenure mix (social rent versus shared equity) is best left to local decision makers working through the local development plan process – where targets and delivery mechanisms can be fully debated.

270. Considering the impact of introducing a developer contribution specifically on small and micro businesses we find that such businesses make up a large part of the housebuilding industry and that there are particular issues they would face if a developer contribution scheme were introduced. The costs of identifying and negotiating individual schemes would fall disproportionately on small businesses. However, if small sites are excluded from a contribution scheme, through a site size threshold, the impact on small businesses would be lessened. However, the use of site size thresholds does bring with it other potential problems – including 'threshold avoidance' whereby schemes that might have previously been promoted at dwelling numbers above the threshold would be designed to remain below the threshold.

271. It has already been recognised by DSD and others that introducing a developer contribution policy requires new skills and procedures including support for the new local planning departments. Thought has been given by DSD and others to the potential role of a central expert team with multi-disciplinary skills. Our view is that this would have to include a thorough understanding of viability analysis both at policy level and individual scheme negotiation.

Models of delivery and impact assessment

272. A number of options can be considered in the light of the quantitative and qualitative evidence presented in this report. Key considerations are that:

- There is need for additional affordable housing in Northern Ireland as shown by our affordability modelling and this is consistent with other work previously carried out locally.

- There are signs of a slow recovery in the Northern Ireland housing market (especially in the Belfast area) but any recovery remains fragile and inconsistent, for example, as shown by the most recent transaction volumes.
- The Northern Ireland construction industry is characterised by the preponderance of small businesses with even the largest developers small in comparison to elsewhere in the UK. There is little evidence of sustained increase in new build activity. There is a strong sense that the industry remains vulnerable to economic shocks.
- Viability modelling has shown development viability to be marginal at best in most of the region but with better performance in Belfast
- There are a number of financially strong housing associations who have been assisted by a relatively generous grant regime but access to land is a major development constraint and grant is under pressure.
- Lack of mixed tenure is notable in comparison to other parts of the UK.

Figure 7.1: Options Appraisal

Option	Variables	Viability	Economic	Social	Recommendation
On site Contribution (20%)	No grant	Viable only in limited areas – mainly Belfast.	Scheme by scheme viability necessary to ensure no adverse effect on developer. Consider potential economic impact of implementation. Issues of site size threshold.	Meet affordable need. Gives access to land for affordable housing. Frees up grant for meeting other affordable need. Provides tenure mix. Implementation must take account of social conditions specific to NI relating to communities.	A single target for Northern Ireland is not feasible. In most parts of the region developer contributions cannot be justified at the moment (with limited prospects of doing so in the foreseeable future). There are some parts (Belfast) where some level of contribution could be achieved. Any introduction of a developer contributions scheme must be based on locally evidenced targets identified as part of the LDP process.
On site Contribution Free land	No grant Grant	In most parts of Northern Ireland, whether on-site or as free land, developer contributions are not feasible. Where they might be, free land is more economically viable but will require grant to deliver the affordable housing.	Scheme by scheme viability necessary to ensure no adverse effect on developer. Consider potential economic impact of implementation. Issues of site size threshold.	Meet affordable need. Gives access to land for affordable housing. Frees up grant for meeting other affordable need. Provides tenure/social mix Implementation must take account of social conditions specific to NI relating to communities.	Where it is feasible to introduce a developer contribution scheme, consideration can also be given to using free land as the mechanism for doing so but this will require grant.

Option	**Variables**	**Viability**	**Economic**	**Social**	**Recommendation**
Commuted sum/off-site contribution	Only relevant where a developer contribution would be feasible No grant Equivalent to on-site contribution. Only feasible in conjunction with use of planning system.	Viable only in limited areas of Belfast.	Developer should be no better or worse off if use a commuted sum rather than on-site provision Are limited circumstances where a commuted sum is justified e.g. housing association would struggle to manage limited number of units Scheme by scheme viability necessary to ensure no adverse effect on developer.	Does not provide access to land - no guarantee that alternative sites will be available. Does not address tenure mix. No risk to developers from social issues. Applicable to small sites.	Can only be considered where a developer contribution is feasible as part of the LDP process. Principle of ‘equivalence’ with on-site provision is important.
No scheme	Alternative method of providing affordable housing required. (Note that this is also required as complement to other options). Identify sites through planning system.	No issues of viability.	Reliance on reducing grant – lower levels of need met, additional cost to government e.g. homelessness.. No additional resources for social policy aims.	Adverse impact on meeting housing need. No access to additional land – impact on affordable housing programme.	Temporary solution until market is stronger and viability has improved across the board. Lost opportunity where developer contribution scheme would be viable now (or become so during preparation of LDP).

273. It should be noted that viability levels do not indicate that conditions are right for introduction of a developer contributions scheme across Northern Ireland as a whole at present. Important characteristics of a successful developer contribution scheme are summarised below.

Figure 7.2: Developer Contribution Scheme Variables

Variable	Considerations	Recommendation
Contribution level	Should be based on local need for affordable housing and viability considerations.	Policy should be set locally through the LDP process with ability to vary based on individual scheme viability assessment.
Northern Ireland-wide scheme	Consistency and certainty. Concern that national policy may not account for local, especially rural issues of access to land.	National policy requiring local councils to consider a target for developer contributions as part of their LDP process. Most LDPs will have a zero target (viability being inadequate) but all areas should consider whether they should have a target in framing their policies..
On site contribution	Only relevant if there is a contributions policy Allows access to land. Meets housing need. Allows for tenure mix. Problematic with small schemes.	Preferred option but delivery by free land should be considered – it is advantageous where viability is marginal.
Commuted sum	Meets developer concerns about impact on values but fails to meet social policy objectives. Does not give access to land. Can be implemented equitably for all scheme sizes.	Should only be considered in exceptional circumstances where on site provision/free land is not practical.
Threshold	Reduces burden on small developments. Can distort provision in market.	A threshold of 5 units accounts for small business issues although a lower threshold of 3 could also be argued for purely on viability grounds.
Tenure mix	Aims to increase mix. Implementation is important.	Sensitive implementation is required e.g. in relation to tenure blind development to avoid stigma and to address Northern Ireland specific issue of ‘community mix’.
Use of Grant	Can bridge viability gap. Uses scarce resources.	Grant should be considered for mixed tenure schemes where aids viability

Recommendations

274. Our recommendations relate back to the central question for the study "*Can a scheme of developer contributions be successfully introduced in Northern Ireland without impacting on the recovery of the local housing market; and if so, what type of scheme will deliver a successful outcome?*" We also take account of the questions posed in the consultation exercise carried out last year by DSD.

275. **Recommendation one** – Targets and delivery mechanisms for a developer contribution scheme should be set locally as part of the local development plan process. Regional policy should include a requirement that LDPs identify a local target for a developer contribution scheme which takes into account need and viability (amongst other considerations). It is clear that a target of 0% will be justified in most parts of Northern Ireland at the present time but in some places, a limited contribution to affordable housing should be possible without impacting on the recovery of the market. The target percentage should specify the balance between social rent and shared equity products if provided on site or how a free land approach would operate. The latter is a realistic option in the circumstances of Northern Ireland. There would need to be flexibility to deal with individual schemes where viability was found to be an issue.

276. **Recommendation two** – Thresholds for developer contributions are valid and should form part of a locally defined policy. However, regional guidance can prescribe a standard threshold leaving LDPs to vary from this if there is local evidence to justify it. The 5 dwelling threshold previously consulted on seems a realistic starting point which takes into account the extra costs of small schemes and the practical benefits of taking small business out of a requirement to provide affordable housing – at least for the foreseeable future. There are equally valid arguments for a 3 dwelling threshold based on cost/viability considerations. The position can be reviewed if and when a developer contribution scheme (determined at the local level) has been successfully implemented.

277. **Recommendation three-** DSD establishes a working group of interested organisations (including the development industry and housing associations) to provide guidance on how viability issues should be dealt with and the data sources to draw on which can be used to advise local councils firstly, on how to draw up their LDP policies and second, to deal with any subsequent scheme viability issues. The working group should also have in its remit a review of the practical implementation of 'tenure blind' development and the approach to allocations of social rent housing.

278. **Recommendation four –** A support team with the right skills is established by DSD to give direct assistance where this is needed on viability matters. We do not recommend that the team takes on the responsibility for drawing up local policies but acts as an advisory/training body.

279. **Recommendation five –** Further consideration is given to using grant as part of a developer contribution scheme to help meet funding gaps when they arise. We do not recommend a policy that precludes the use of grants on mixed tenure schemes (although we would expect the requirement to be much less than with 100% affordable housing development.)

280. **Recommendation six –** Further consideration is given to the provision of development incentives (both to encourage demand and to bring forward necessary infrastructure to support new development).

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