

Development Management Sub Committee

report returning to Committee - Wednesday 29 July 2015

**Application for Planning Permission 13/02510/FUL
At 235 Corstorphine Road, Edinburgh, EH12 7AR
Proposed residential development comprising of conversion
of existing building to create 9 apartments, and development
of 21 residential apartments, car parking landscaping and
ancillary works.**

Item number	6.2
Report number	
Wards	A06 - Corstorphine/Murrayfield

Recommendations

It is recommended that this application be Granted subject to the details below.

Background information

This application was originally considered by Committee on 14 May 2014. Committee was minded to grant the application subject to the conclusion of a suitable legal agreement to deliver an on-site provision of 7 affordable homes, as part of a development of 30 residential units.

The applicant has now requested an amendment from on-site provision to a financial contribution for off-site affordable housing provision.

Main report

(a) Background

That addendum was considered by Committee at its meeting on 17 June 2014 where it was requested that further investigation be undertaken to provide the following:

1. To investigate the possibility of the Council becoming involved in the delivery of affordable housing.
2. To determine which Registered Social Landlords (RSLs) had been approached and why they were unwilling to take up this option.
3. How would the commuted sum, payable to the applicant, to fund off-site affordable housing deliver units quickly? Has an alternative site been identified?

The Edinburgh City Local Plan policy Hou 7 and the Council's 'Developer Contributions and Affordable Housing' guidance require that 25% of units within a development in excess of 12 dwellings should be of affordable tenures and that for proposals of 20 or more dwellings this should be provided on-site and, whenever practical, the affordable housing should be integrated with the open-market housing.

However, the preferred purchaser for the site has submitted supporting evidence to show that the development would not be viable with on site affordable housing provision. The provision of 'Low Cost' ownership has also been considered but this was also found not to be a viable option in this instance.

Committee initially considered the applicant's request for an amendment to the terms of the legal agreement for a financial contribution in lieu of on-site affordable housing provision and requested that further information should be provided regarding the viability of the affordable housing on this site.

Further discussions have now taken place with the applicant and as a result an updated consultation response from Housing & Regeneration has been provided:

(b) Updated Consultation

Housing & Regeneration - Updated Consultation

Viability Issues at 235 Corstorphine Road

The Council's preference in every case is to seek delivery of affordable housing contributions on site as this helps the city to deliver mixed, sustainable communities. In the past, whenever the Council has recommended and accepted a commuted sum, in lieu of on-site affordable housing, it has done so on the basis that the affordable housing units were not viable to deliver for the Council or an RSL. We have not taken into account developer's viability concerns, instead focussing purely on the issues facing those who would be tasked with delivering the AHP homes. This is because the Affordable Housing Policy (AHP) enables the Council to be gifted land, at 'nil' value, but on a time-limited 'use-it-or-lose-it' basis. A viability assessment is important in assessing the risk of the Council (or RSLs) finding that they could not deliver the affordable housing within the 60 month timescale allowed. If delivery cannot be achieved, then (in theory) the land would be handed back to the developer at 'nil' value, with no commuted sum or other form of affordable housing resource being forthcoming.

Part of the Council's viability assessment is that - in order to achieve mixed, sustainable communities - it is necessary that the homes are tenure blind, use the same materials as the market homes, and blend in with the rest of the development.

An assumption is always made, in line with convention in Edinburgh, that land for AHP has a 'nil' value. In terms of process, the viability assessment tests every possible on-site tenure, by taking the following into account:

- The developer provides the construction cost of a like-for-like unit using the same construction materials as the market homes (and assuming a nil land value, and zero profit);
- The availability of subsidy is calculated. That figure is subtracted from the construction cost;
- The figure left after that process is the amount that either would be used to derive the rent level (for social/mid rent) or would become the sale price (for low cost home ownership).

At 235 Corstorphine Road, the developer provided construction costs on a confidential open book basis.

Bearing in mind that the land value had been removed from the deliberations (i.e. we assumed a 'nil' land value for these 7 affordable homes) the basic construction cost was £3,158 per square metre. This is considerably higher than the average construction cost per square metre for affordable homes constructed by the Council or RSLs, given the additional costs associated with a refurbishment project and the requirement for any new build homes to blend in with the rest of the site. The average RSL home in the city costs around £98,000 to construct. The Council's 21 Century Homes (the Council's new build housing team) have confirmed that their average construction cost is approximately £1,300 per square metre, a stark contrast to the £3,158 per square metre here. The "typical" RSL apartment on this site, blending in with the surrounding development, would cost in the region of £180,000 to deliver per home.

The first tenures to be tested in any viability assessment are the rental tenures of social rent and mid market rent. Taking into account available subsidy levels, and the typical social rent levels and mid market rent levels at present, it is reasonable to assume that neither the Council nor any RSL would be able to viably deliver these homes for those tenures in this case. That was reinforced by the RSLs who examined the site. They confirmed that the funding gap was considerable, and the poorer economies of scale associated with a 7 unit development exacerbated these. There would be a significant funding shortfall that could not be plugged in this particular case.

Another way of looking at rental tenures in this type of situation is that, given the construction cost, and the availability of subsidy, rent levels would have to be set at close to market rent levels to make the project viable, and in setting rent levels at market rates the homes would not be meeting any identified affordable housing need. That does not mean the same outcome would inevitably happen for every development in this area of town, as commuted sums (such as may be generated from this application) may be used to plug these types of gaps on similar developments in future. There are no sums at present that can be allocated to support rental tenure affordable housing development on this site. However, looking strategically, Committee can be reassured that any sum that emerges from this application would potentially benefit similar developments in this area of the city in future. What can be confirmed in this case is that social rent and mid rent tenures would not be viable for the Council or any RSL to deliver.

Next to be tested were the unsubsidised tenures, 'Shared Equity' and 'Golden Share'. These are more straightforward to assess, as they would not attract subsidy. The key question for these tenures is, 'would they be meeting an identified affordable housing need?' if they were sold off at construction cost (which would allow for zero profit and assumes a 'nil' land value).

Shared equity and golden share are both tenures which have been used to successful effect in many different parts of Edinburgh to provide housing for households who are earning on or around the average salary in the city.

Such households are often thought of as key workers (typically local private sector sole traders/trades people, and public sector workers such as teachers, police, health and fire service employees) and people on the average income are often priced out of the local housing market in Edinburgh. In previous cases, the price tags have been more along the lines of £120,000 for a two bedroom property, or £165,000 for a three bedroom property (which were justifiable as helping to meet a need that the open market was not meeting).

This case is different, though. The homes at Corstorphine Road would carry a price tag of £180,000 for a one or two bedroom apartment, and at those prices these homes could not be justified as meeting an identified affordable housing need in the city. There are many more options for households of that size on the open market. 'Golden Share' and 'Shared Equity' could not be justified as acceptable outcomes in this development.

Having exhausted all those options, the policy still provides for two options. Firstly, the Council could technically demand the land (at 'nil' value) for the 7 homes as the 25% AHP contribution. We would then, by convention, have 5 years to use or lose the land. If after five years we had not been able to square the financial circle, the Council would need to hand the land back (again at no cost) to the landowner. In that scenario, there would be no commuted sum or any other type of AHP resource from this proposal. Having assessed the construction costs involved, and set those against available subsidy levels and the income and borrowing levels of those in affordable housing need in the city, the department's recommendation is that there is a significant risk that choosing to take the land for these homes would lead to no AHP resource emerging from this application. It is recommended that a commuted sum should be accepted as the AHP resource from this application. The sum would be for the value of £187,500. This would be used to support the delivery of onsite affordable housing in a future development in the same or adjacent ward of the city.

Further Recommendation Regarding Unsubsidised Affordable Housing in General

The City of Edinburgh Council has delivered record numbers of affordable homes in recent years, and has been recognised nationally for having pioneered some unsubsidised affordable housing tenures, such as 'Golden Share', and a number of delivery mechanisms for 'Mid Market Rent'. This case has highlighted some emerging issues that are worthy of attention. It is recommended that a separate report be brought to Planning Committee on unsubsidised affordable housing in the city, its successes to date, its contribution to delivering mixed sustainable communities in different areas of the city and different parts of the local housing market, the impact on unsubsidised tenures of recent changes to the mortgage lending market, and measures that may be required to regulate the upper limit price cap on affordable homes to ensure that all unsubsidised AHP homes continue to be viable while continuing to meet an identified affordable housing need in the city.

(c) Issues Raised by Committee

1. *To investigate the possibility of the Council becoming involved in the delivery of affordable housing.*

The Housing & Regeneration response clarifies that under the provisions of the AHP the Council could demand the land, for the 7 homes, at 'nil' value. It would then have a 5 year period within which to attempt to 'square the financial circle'. At the end of that period the Council would need to hand the land back at no cost to the landowner. The department's recommendation is that there is a significant risk that choosing to take the land for these homes would lead to no affordable housing provided on the site and no commuted sum. Accordingly, there would be no Affordable Housing Policy resource from this proposal.

Accordingly, direct Council involvement on the site would be unlikely to result in the preferred outcome of providing affordable housing within the application site.

2. *To determine which Registered Social Landlords had been approached and why they were unwilling to take up this option.*

Both the applicant and separately Housing & Regeneration have approached two RSLs. These are Dunedin Canmore and Places for People, both of whom have stated that they were unable to take up the option, principally due to high construction costs at the site.

3. *How would the commuted sum, payable to the applicant, to fund off-site affordable housing deliver units quickly? Has an alternative site been identified?*

The Council's Affordable Housing Policy states that were a commuted sum is to be employed, a direct percentage of 25% should be applied to the number of dwellings to be provided on the site. Therefore, a financial contribution of £187,500 would be a required. This is based on £25,000 per unit at 7.5 units (25% of 30 proposed dwellings).

The Council's Housing & Regeneration section has identified potential developments within the same or adjacent wards where the commuted sum, derived from this development, could be used as quickly as this year. However, the details of those schemes are commercially sensitive; and disclosure of their details in public could jeopardise either their acquisition and/or delivery of affordable homes.

They have also identified that record numbers of affordable homes have been delivered by City of Edinburgh Council in recent years, recognised nationally for having pioneered some unsubsidised affordable housing tenures, such as 'Golden Share', and a number of delivery mechanisms for 'Mid Market Rent'.

This revised proposal is considered to offer the most appropriate means of delivering affordable housing given the specific circumstances associated with this particular development.

Conclusion

The delivery of social rent and mid market tenure properties on the site by the Council would be unviable, resulting in a loss of on-site affordable properties and would provide no financial compensation for use to provide off-site affordable properties elsewhere with this or adjoining wards. For the same construction costs reasons it would also be unviable for any RSL to deliver the necessary affordable housing on the site in this instance.

Therefore, it is recommended that the application be granted subject to the conclusion of a suitable legal agreement requiring the payment of a suitable financial contribution for the provision of off-site affordable housing in lieu of the original requirement for on-site affordable housing provision.

This recommendation is also subject to the conditions and informatives already contained in the report to Development Management Sub Committee of 17 June 2015. The report is contained in Appendix 1.

Links

Policies and guidance for this application

CITD1, CITD3, CITD5, CITD6, CITE2, CITE3, CITE12, CITE16, CITE16, CITE17, CITH1, CITH2, CITH3, CITH4, CITH5, CITH7, CITCO3, CITT4, NSLBCA, CITT5, CITT6, NSMDV, NSGD02, NP01,

A copy of the original Committee report can be found in the list of documents at

<https://citydev-portal.edinburgh.gov.uk/idoxpa-web/applicationDetails.do?activeTab=documents&keyVal=MP980MEW0GY00>

Or Council Papers online

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