



## **Affordable Housing Transfer Price**

### **April 2006**

The Council operates a subsidy free approach to the delivery of affordable housing on s106 sites. The Council previously used an approach to this based on the Housing Corporation's grant rate and Total Cost Indicator system.

During 2003, Bristol City Council pioneered a new approach to delivering subsidy free affordable housing on s106 sites, taking the cost of the housing to the end user (the out-turn affordability) as the key driver of the value the housing associations pay for units they acquire through s106 agreements.

#### **Subsidy Free calculations for rented units:**

The model works by identifying the level of contribution from landowners and developers that is equivalent to the funding gap between the total cost of providing the individual dwelling and the total amount payable by the housing association. Instead of basing this on the grant regime, the amount the RSL can pay is based on the net loan a target rent can support for a property, taking account of the acquisition and ongoing revenue costs. This is known as the *supportable deficit*. The gap between the supportable deficit and the total cost of developing the units is the discount provided by the developer.

The target rent levels are agreed with the Housing Corporation to ensure that each housing association's rents will be able to converge with local authority rents by 2010 and which are related to property size, property values and local earnings.

The model is based on 4 bands within North Somerset, identified on a postcode basis as having similar property prices. Within each band, a transfer price based on the supportable deficit is given for 5 unit types, with fixed space standards.

An annual uplift of the Retail Price Index plus 0.5% will be applied to the baseline 2005/6 figures on 1st April each year.

#### **Subsidy Free calculations for New Build Homebuy (formerly shared ownership):**

The affordability of homeownership is determined as the relationship between income and property price. Best practice recommends that no more than 30% of net income should go on mortgage costs and/or rent and this premise is the background for the model. In order to develop the model, affordability relates to incomes that fall within the 'unable to rent or buy in the open market' element of the Council's definition of affordable housing.

Income data for the District suggests ownership pitched at a 40% equity sale and a 1% rent on the unsold equity is the appropriate model for New Build Homebuy for the District. The housing association will pay 40% of the open market value for each unit and will capitalise the 1% rent to cover the on-costs associated with the purchase, marketing and onward sale of the unit.

### **Introduction of the Supportable Deficit Model for North Somerset**

Consultant Stuart Larkin, who developed the model for Bristol CC and then South Gloucester DC, has been working with the Strategy and Enabling Team and the Local Tier Partners to develop the model for North Somerset.

There are benefits to the Council of working on a sub-regional basis with the West of England Authorities in streamlining our approaches to s106 affordable housing delivery. Many of the larger developers work across all four authorities and similarities in approach will greatly speed up the development process and encourage developers to form long standing arrangements with the strategic housing association partnership, HomesWest.

Adopting the same approach to subsidy free delivery is the start of a process that will see us sharing best practice on developing standard s106 clauses and Supplementary Planning Documents.

### **Justification for introducing a subsidy free calculation based on Supportable Deficits**

1. The model has been proven in Bristol and South Gloucestershire Council's to be a transparent framework for determining the price a housing association will pay for affordable housing units.
2. Adoption of the model further promotes joint working and consistency in approach at the Sub-regional level
3. Affordability to the end-user is the key behind the proposed approach.
4. As of 1st April 2006, the Total Cost Indicator framework used by the Housing Corporation is being abandoned, which means there is no ceiling against which the grant based calculation can be applied to ensure value for money and affordability.
5. Affordable rented housing provided without subsidy is exempt from the right to acquire and other forms of acquisition by tenants. This ensures that the affordable housing will remain within the sector in perpetuity.

## North Somerset Affordable Housing Transfer Price

### North Somerset Bands

Band	Postcode	Town / Village
Band A	BS21, BS22, BS24, BS29, BS49	Clevedon, Kewstoke, Locking / Hutton, Banwell / Loxton, Claverham / Yatton / Congresbury
Band B	BS23, BS20, BS25	Weston-super-Mare, Portishead, Winscombe
Band C	BS48, BS40, BS41	Nailsea / Backwell, Wrington, Long Ashton
Band D	BS8	Abbots Leigh

**Target Rent calculations** – using the 1999 values each RSL calculated the July 2006 Target rent. Some variations have occurred and where required followed up. The rent column in the table is the common position for the housing associations working in North Somerset.

The supportable deficit calculations range as follows:

Unit	Band	Rent	AH Transfer price 2005/6	AH Transfer price 2006/7
				2.9% inc
<b>1 bed flat 46m2</b>	Band A	55.77	34,375	35,372
	Band B	57.26	35,475	36,504
	Band C	58.24	36,300	37,353
	Band D	72.38	47,650	49,032
<b>2 bed flat 61m2</b>	Band A	62.92	39,100	40,234
	Band B	63.58	44,950	46,254
	Band C	66.01	41,250	42,446
	Band D	85.47	58,000	59,682
<b>2 bed house 76m2</b>	Band A	66.14	38,800	39,925
	Band B	67.69	41,100	42,292
	Band C	72.57	45,100	46,408
	Band D	93.52	64,000	65,856
<b>3 bed house 86m2</b>	Band A	73.37	44,800	46,099
	Band B	76.15	48,100	49,495
	Band C	77.15	48,900	50,318
	Band D	104.51	75,000	77,175
<b>4 bed house 110m2</b>	Band A	82.40	52,750	54,280
	Band B	84.62	55,100	56,698
	Band C	86.63	56,800	58,447
	Band D	110.01	84,000	86,436

## Shared ownership

Affordability relates to incomes that fall within the 'unable to afford to rent or buy in the open market definition' is the key for this element.

40% of the market value will be payable to the developer. This figure has been assessed on the basis that no more than a third of disposable income should be spent on housing costs.

There will be rent payable of 1.0% of the unsold equity.

## Notes

BS8 is an area where affordability of the shared ownership product is a concern given the extremes in property value. If a development triggers an affordable housing requirement, it is likely that only rented units will be sought on the grounds of achieving affordability.

There will be a periodic review of house values to determine the correct placing of North Somerset postcode areas into the 4 bands.

## Application of the North Somerset Affordable Housing Transfer Price

**Worked Examples** (using 2005/6 figures)

### Example – site 1

#### **30% affordable housing at nil public subsidy - all for rent**

Site 1 is in BS48, which is in area C. The site area is 1.3 hectares and. 66 homes will be developed on the site.

In this scenario 30% of the homes are to be affordable for rent (20 units). Of these, ten will be 2 bed 4 person homes at 76m<sup>2</sup> and ten will be 3 bed 5 person houses at 86m<sup>2</sup> to reflect the housing needs of the locality.

The RSL will be able to pay:

$(10 \times £45,100) + (10 \times £48,900) = £451,000 + £489,000 = £940,000$  for the 20 units.

The developer's contribution will be equal to the remainder of the total scheme costs.

North Somerset's contribution would be nil.

## Example – site 2

### **30% affordable housing at nil public subsidy – 75% rent; 25% shared ownership**

Site 2 is in BS23, which is in area B. The site area is 1.5 hectares and the 75 homes are being developed on the site.

In this scenario 30% of the homes are required as affordable housing.

$30\% \times 75 = 22.5$  rounded to nearest whole number = 23 units.

Of these, 75% will be for rent (17) and 25% for shared ownership (6).

The rented homes will be in a mix to reflect the housing needs of the locality. There will be five one-bed flats at  $46\text{m}^2$ , seven 2-bed houses at  $76\text{m}^2$  and five 3-bed houses at  $86\text{m}^2$ .

The shared ownership will also reflect the needs of the locality and will be three 2-bed houses valued at £155,000 each and three 3-bed houses valued at £185,000 each.

#### The RSL will be able to pay:

$(5 \times £35,475) + (7 \times £41,100) + (5 \times £48,100) = £177,375 + £287,700 + £240,500 = £705,575$  for the 17 rented units.

$3 \times (£155,000 \times 40\%) + 3 \times (£185,000 \times 40\%) = £186,000 + £222,000 = £408,000$  for the 6 shared ownership units.

The RSLs total contribution would be £1,113,575

The developer's contribution will be equal to the remainder of the total scheme costs.

North Somerset Council's contribution would be nil.

### **Calculation of Commuted Sums**

Where it is agreed by the Council that a commuted sum will be accepted in lieu of on-site affordable housing provision, this will be calculated in the following way. It is the Council's intention that the commuted sum will be equivalent to the level of discount being made to the RSL, based on the housing and tenure mix that would have otherwise been developed on the site. The sum will be calculated against the units that would otherwise be provided as the on-site affordable housing, where the transfer price for that unit will be deducted from the total cost of developing that unit (including land, fees, build cost and all other associated costs). The proposed total development costs will be scrutinised by the Council before approval.

Calculation of commuted sum for each affordable housing unit: **Approved Total Scheme Cost – Transfer Price = Commuted Sum Value.**

It will be a requirement of the s106 agreement that the commuted sum is payable to the Council no later than start on site of the development. Sums will be indexed and bonded in accordance with Council standards.