

Appendix 9 – Transfer price

Affordable Housing Transfer Price – April 2008



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 basis of the model is the indicative minimum amount the RSL could pay 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 indicative contribution of the landowner/developer is then the difference between the RSLs supportable deficit and the total cost of developing the units.

Target rent levels are agreed with the Housing Corporation and are related to property size, property values and local earnings. The model is based on 4 bands within North Somerset, identified by postcodes as having similar property values. Within each band, an indicative minimum transfer price is given based on the supportable deficit for 5 unit types.

An annual uplift of the Retail Price Index plus 0.5% is applied to the transfer price on 1 April each year.

Subsidy Free calculations for New Build Homebuy

The affordability of home ownership is determined as the relationship between income and property price. Government SHMA guidance recommends that no more than 25% of gross income should go on mortgage costs and/or rent and this premise is the background for the model. In order to develop the model,

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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.

North Somerset Affordable Housing Indicative Transfer Price

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

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The supportable deficit calculations range as follows:

Unit	Band	Target Rent	AH Transfer price 2008/9
			Including uplift @ 4.2%
1 bed flat 46m ²	Band A	55.77	38,523
	Band B	57.26	39,755
	Band C	58.24	40,681
	Band D	72.38	53,400
2 bed flat 61m ²	Band A	62.92	43,818
	Band B	63.58	50,374
	Band C	66.01	46,227
	Band D	85.47	66,041
2 bed house 76m ²	Band A	66.14	43,482
	Band B	67.69	46,060
	Band C	72.57	50,542
	Band D	93.52	71,723
3 bed house 86m ²	Band A	73.37	50,206
	Band B	76.15	53,905
	Band C	77.15	54,801
	Band D	104.51	84,051
4 bed house 110m ²	Band A	82.40	59,116
	Band B	84.62	61,749
	Band C	86.63	63,654
	Band D	110.01	94,136

New Build Homebuy (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.

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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 band 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 76m² and ten will be 3 bed 5 person houses at 86m² to reflect the housing needs of the locality.

The RSL will be able to pay:

$(10 \times \pounds 50,542) + (10 \times \pounds 54,801) = \pounds 505,420 + \pounds 548,010 = \pounds 1,053,430$ for the 20 units.

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

North Somerset's contribution is nil.

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Example – site 2

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

Site 2 is in BS23, which is in band 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 46m², seven 2-bed houses at 76m² and five 3-bed houses at 86m².

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:

$(5 \times £39,755) + (7 \times £46,060) + (5 \times £53,905) = £198,755 + £322,420 + £269,525 = £790,720$ 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 £1,198,720.

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

North Somerset Council's contribution will 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.