



Committee report

Committee	POLICY AND SCRUTINY COMMITTEE FOR REGENERATION, HOUSING, PLANNING AND THE ENVIRONMENT
Date	1 FEBRUARY 2018
Title	AFFORDABLE/SPECIALIST HOUSING TASK GROUP UPDATE
Report of	COUNCILLOR TIG OUTLAW - CHAIRMAN

SUMMARY

1. To consider an update on work being done by the task and finish group looking at affordable/specialist housing.

BACKGROUND

2. The committee established a specific task and finish group at its 7 September 2017 meeting to look in more detail at affordable/special housing on the island.
3. This was to look at the supply of affordable/specialist housing on the Isle of Wight and how this should be reflected within the Island Plan. This is intended to identify how existing processes can be made for effective.
4. As part of its work members of the task and finish group compiled a range of questions for a number of key partners/stakeholders. There was a need to have some different questions to reflect the range of stakeholders involved. Stakeholders were taken from the list of those attending a Housing Summit in 2016 and members of the Strategic Housing Partnership. A total of 22 stakeholders were invited to submit responses. Eight responses were received and these are shown below. (RP = Registered Providers; PP = Potential Providers; HB = House Builders; TA = Tenants Associations; LF = Landlord Forum; VS = Voluntary Sector)

Question 1. Do you believe the council's planning and associated policies are a help or a hindrance to the delivery of affordable/specialist housing? (Please give details of any specifics)- RP, PP, HB

- a. I believe that they could be improved with regard to specialist housing. Currently there is a lack of understanding of what specifically the council/other stakeholders want to achieve with regard to specialist housing.

There is also no clear guide on what subsidy is to be provided beyond HB which is not sufficient return on its own to provide developments of specialist housing.

- b. Both... depends on the site, whose bringing it forward, complexities associated with it.
- c. Quota policies are obviously helpful. The key thing is that policy requirements are known and more or less fixed when land is valued and purchased.

Question 2. In what way might the council change planning policy, as detailed in the Island Plan, to help with the delivery of affordable/specialist housing? - RP, PP, HB

- a. I am not sure this is about planning policy, more over a lack of understanding of what is needed and what the return is. With that information the market can either provide a workable solution or highlight the gap between want and return.
- b. Consider whether it would be possible that where an HA is in control of the site that there is no requirement in the S106 for affordable housing - it might then be delivered as “additionality” and attract grant. This is a complex question that needs further consideration.
- c. I need to give this thought. I am participating in a form that is providing information to members in mid Jan.

Question 3. What barriers do you see to the housing market’s ability to deliver affordable/specialist housing? - RP, PP, HB

- a. The biggest barrier is cost to return
- b. Scheme viability, cost to buy, cost to rent (low in comparison to mainland markets)
- c. Barriers are supply of land at viable cost, and construction industry capacity, skills and competitiveness, and the currently low levels of grant subsidy. The principle of discounted housing requiring subsidy is all the more critical in an area where the uplift in land value for residential use is limited.

Question 4. How is the quality of your current housing stock assessed and what mechanisms are in place for maintaining the stock? – RP

- a. We undertake stock condition surveys over a rolling 5 year programme. This alongside a yearly review of our asset database informs the planned programme
- b. Our stock was surveyed for compliance with the Decent Homes standard and the required investment was provided so that compliance was achieved in 2012. The performance of stock is monitored according to repair requirements and customer satisfaction. Our energy advisors work with residents and will identify properties that are not performing to expected standards.

Question 5. There is a higher than average level of turnover (churn) of Housing stock on the Island. What do you see as the reason for this? - RP, TA

- a. Turnover of our stock in the Newport office area (IOW) was 4.9% last year which is lower than average

- b. My colleague has provided this response in the past - Island Homefinder eligibility criteria allows existing social housing tenants to register and bid for available units. The criteria is reasonably generous and quite often we find our existing tenants being successful in bidding either for vacancies in our own stock or in the stock of other RP's like Sovereign and Vectis. This becomes particularly noticeable when new schemes complete, we lost a number of tenants for example when Vectis built their scheme in Bembridge recently. This provides a great facility for RP tenants in need of a move but does cause us higher turnover than we see in other Local Authority areas.

We did a bit of research on our Market and Intermediate Rent turnover at Oak Vale looking at where our tenants were moving to. 2 main areas cropped up. Firstly there seemed to be a surfeit of private rentals in Ryde, in areas that were more attractive and because there was a surfeit relatively low rents. Households had the chance of moving to something they preferred. Secondly we found residents were able to buy a home because in a lot of areas of the Island property is still relatively affordable in comparison to mainland prices. That isn't always the case, some of what I call the yachty towns, Seaview, Cowes, Yarmouth, and the West Wight villages are very expensive but bits of the established bigger towns, Ryde, Newport, Sandown, Ventnor are much cheaper.

Another possible cause of churn, and this is based on my gut rather than working knowledge, is that people see the Island as an attractive place to settle, they've perhaps come over on holiday for a short period and liked it. However a number struggle to settle, it is too isolated, there's little work, services don't exist etc. and they move back off the Island.

Question 6. What formula is used for setting the rents on your current stock? - RP, LF

- a. There is no "formula", other than "what the market will bear".

An increase in individual landlords costs cannot simply be passed on to tenants, as they will not then let the property if the resultant rent is out of line with the market norms. A few landlords might be prepared to "underprice" if they want to be particularly picky about tenant selection, but most will market vacant properties at their best guess of market rent. On the Isle of Wight, negotiation of rent is very rare. Tenants will either accept the proposed rent or walk away to find something offering better value. I very seldom get counter offers on rent from tenants (I think the last time it happened was about 10 years ago!).

Some landlords (myself included) will tend to let rents "lag" behind increases in market rent for existing tenants, on the basis that it reduces the likelihood of a good existing tenant leaving. I would tend to allow rents to get to 10-15% below market rent before reviewing for existing tenants, and I would probably leave a 5% discount even after review.

If landlord costs increase, it will be reflected by fewer landlords acquiring property for rental, and some existing landlords leaving the market. Ultimately this will force rents up, and eventually landlord costs will indeed be reflected in market rents, but this does not generally happen quickly.

- b. In line with current Government instructions most of our stock is having a 1% reduction applied
- c. Central government target rent and affordable rent formulas

Question 7. How has the governments 'Right to Buy' policy impacted on your business? – RP

- a. Right to Buy removes both stock to use for rent (therefore adverse effect both in income terms and letting to local people) and asset base against which private finance is secured
- b. None yet

Question 8. How do you see the change from Housing Benefit to Universal Credit impacting on your business? - RP, LF

- a. I do not see any significant **direct** effects from the transfer from HB to UC. The much vaunted “direct pay to tenants” under UC is only relevant to the Social Rented Sector, as Private landlords already faced this some years ago with the introduction of LHA (Social Landlords were exempt from that change). It caused a few problems at the time but these have mostly been ironed out, and if anything, I understand there may be marginally BETTER safeguards for Landlords under the new system than under current (ability to request direct pay to landlord, and ability to force some collection of arrears from other benefits).

The delays may cause additional hardship, but this appears to be getting addressed by recent changes, and again they are no worse than we have seen before. More concerning are the related changes (such as the benefit cap) and the failure to reflect open market increases in rent in the housing element, which will restrict UC recipients' ability to access suitable accommodation. Already there are more HB recipients on the Isle of Wight than can be accommodated in the bottom 30% of rental properties that can be afforded under current LHA banding. And this is not increasing to reflect market rents (it has been frozen since 2016).

As Shelter comments: Anyone who claims housing benefit is also expected to find a home to rent which is cheaper than average for their local area. Housing benefit levels are already set at, or below, the cost of renting a home in the bottom third of the private rental market. Since 2010 housing benefit levels have not risen in line with rising private rents, and current freeze means that they will remain frozen at their 2016 levels until 2020, regardless of how much private rents have gone up by in each local area.

https://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/briefing_who_is_affected_by_the_lha_freeze

The facile argument that Landlords will simply be forced to reduce rents to levels affordable by HB/UC recipients is nonsense, in a market that is already undersupplied. Those tenants will have no option but to access private sector

property at prevailing market rents. There is very little Social Housing available, and little if any of what is being built is being made available at Social Rents.

It seems likely that this will lead: a) to poverty, arrears and more social deprivation and b) an increase in cash-in-hand employment and benefits fraud, neither of which are good for society, and not good for landlords in the context of arrears. If the response to this is to stop taking HB/UC recipients it will pose massive problems for the IW Council in finding suitable AFFORDABLE accommodation for those affected.

- b. Immediate, obvious and significant impact on rent arrears plus increased staff resource required to assist both tenants and lessen the financial loss
- c. It will increase arrears and related consequences

Question 9. How do you assess the financial viability of potential developments and (if applicable) does the approach vary between mainland and Island developments? - RP, PP, HB

- a. Of course why would you not? Cost is higher on the Island. The rate of sale is lower on the Island and values on the Island are also lower, so yes a different approach is required on Island over the immediate south coast.
- b. Our feasibilities are based on a net present value (NPV) generated from the relationship between construction and associated costs, on-costs/overheads and sale and rental streams of the tenures we're providing. The approach is the same for the island and the mainland
- c. Financial appraisal takes a long term investment approach, whereby rented tenures are subsidised by other tenures including open market sale. With the lack of adequate subsidy levels available on the IOW, development on IOW is cross subsidised by development and operations on the mainland.

Question 10. How do you see the proposed changes outlined in the Government White Paper to the NPPF relating to development 'viability testing' changing your approach to developments? - RP, PP, HB

- a. The sentiment is good, but there is no detail at this stage. However I would urge the IOWC to consider making its section 106 costs clear, there is no standard approach and this makes understanding what is required to make a development acceptable a matter of protracted and delaying negotiation, leading to viability issues. There also must be an understanding that change policy that effect costs/contributions, must be phased in or they have the potential to turn a viable development into a none viable development overnight
- b. There is no intention to change our approach at the moment.
- c. This is positive and should ensure that purchase prices for land are more subdued . But with caution being added into the process , there will be more pre conditions to the purchase and possibly it will prolong the development process

Question 11. Overall how do you see the government's latest White Paper impacting on the delivery of affordable/specialist housing? - RP, PP, HB

- a. I welcome the standardisation of need calculation. Fully support the new models of mentioned for delivery of affordable housing. But fear that standardised calculation will reveal a far worse situation that is currently detailed, this coupled with our consistent under delivery poses some very real dangers for the Island. We need as a matter of urgency to educate those elected who drive and direct the IOWC as there is a disturbing lack of understanding about the simple economics of supply and demand relationship to pricing. We have a ratio of 8x's average earnings to house prices and quite simply if we do not keep up with population growth in terms of need this ratio will continue worsen.
- b. Devil will be in the detail
- c. More thought required to answer this

Question 12. How might encouraged you to develop 'Brownfield sites' on the Island? - RP, PP, HB

- a. De-risk the sites constraints such as demolition, de-contamination and/or archaeology would always help encourage re-development of what can be constrained and difficult areas to develop. Completion of brown field land register and confirming what is available and understanding what this could yield in terms of development. Review the protectionist policies, if you do not want to spread out, you must go up...
- b. More grant funding, cheaper land, speedier planning process, underwritten costs: few S106/CIL contributions
- c. Risk mitigation/sharing strategies

Question 13. Do you believe Island Landowners expectations of land value to be realistic? - RP, PP

- a. This or they will not sell, definition of willing buyer and willing selling... Land owners views vary of course but if they want to sell their land will find its value. I do not believe the Island differs greatly from any other periphery area in this regard.
- b. Inevitably they are too high

Question 14. If availability of funding is preventing you from moving forward with housing developments, what would help you overcome the funding barriers? - RP, PP, HB

- a. No.
Other funding sources. Cheaper land / cheaper procurement routes; Different tenure opportunities to balance viability.
- b. Higher levels of subsidy
- c. Access to funding can be a barrier on the Island for many types of development.

Question 15. The Housing Infrastructure fund offers 'marginal viability funding' of up to £10 million where 'high building costs' are holding back development. Do you envisage this helping the delivery of homes on the Isle of Wight? - RP, PP, HB

- a. Has this not closed last month - has this ship not sailed?? It has/had the potential to offer support on the Island given that high build costs and major infrastructure issues, particularly with regard to our underinvested highway junctions/network on the Island
- b. To a degree but there are other factors such as Labour and Material resource, affordability of the homes, land availability and economic opportunity that are also barriers.
- c. My understanding is that the grant will be for aspects such as public realm and flood defense in the context of regeneration projects. I am not sure that there are projects of the scale on the IOW that the fund envisages.

Question 16. The Government's 'Home Building Fund' has been developed to help private sector SMEs who would otherwise not progress with sites due to lack of funding. Do you envisage this helping the delivery of homes on the Isle of Wight? - RP, PP, HB

- a. This fund and its predecessor have funded the development of 81 units on the Island via my company. So yes very much so, as we could due to location, type of accommodation and tenure not borrow from the normal development funding streams.
- b. Yes, if local SMEs are encouraged to partake
- c. My understanding is that the cost of finance on offer is at commercial rates and would only be advantageous if the SME cannot access funding at all. A broader supply chain may assist in delivery

Question 17. What positive and/or negative effort does Section 106 rules have on the delivery of affordable/specialist housing? - RP, PP, HB

- a. S106 without grant funding is the only delivery of affordable of housing without either local or national government intervention.
- b. Can be too prescriptive, sometimes inflexible – particularly for longer term opportunities where the environment and need may change, can promote a viability challenge. Often take too long to negotiate
- c. The deregulation of standards has jeopardised the quality of housing procured through section 106. The incorporation of standards into building regs is rebalancing this. Section 106 is essential to the supply of new affordable housing

Question 18. Do you wish to become a Registered Provider of affordable/specialist housing to the Isle of Wight? – PP

No not an RP, why do we need to be a 'Registered provider' under the white paper you do not need to be to provide affordable housing....

Question 19. Do you see the Isle of Wight as having unique challenges when building homes and if so what are they? - HB, RP, PP

- a. Yes. High build costs due to imported materials and expensive aggregates (which are artificially high). Like much of the country we also have issues with skilled trades. A major blocker is lack of competition within the construction industry. We as an Island do not have enough largerer scale contractors (capable of delivering 40+ units a year) to drive completion in the contracting market place - this further hinders construction costs. Value of house versus build costs and rate of sale also an issue. Ratio of average earnings to average house prices (8x's).
- b. Yes. Procurement of labour resource & material resource – not always available on the Island; Difficulty in attracting off island resource; Affordability of homes to local residents/ owner occupiers; land availability; Site viability; Economic environment and work opportunity
- c. There is limited land value to be captured due to relatively low sale values and high build costs. High site abnormals or infrastructure costs will compromise the securing planning gains. Subsidy is required for the affordable housing. This is similar to any lower value area in the UK. This creates dependency on cross subsidy from higher value areas which is finite. When the economics of development are this tight it is difficult to achieve progressive design and high quality standards

Question 20. How useful a tool do you find Homefinder? - TA, RP, VS

- a. Homefinder is widely liked by staff and considered effective in meeting it's purpose
- b. Martyn Pearl informs me that the housing assocs have been asked the same question about Homefinder directly and they are only people who use it, so don't have any feedback on this.

On affordable housing....again I have no direct knowledge.....not since the local authority took our rural housing enabler officer away from us about 7 years ago and then made her redundant a year or so later. Will ask around and see if there's anything useful I can add but not sure I will.

Question 21. Do you think 'Land Banking' occurs on the Isle of Wight? - RP, PP

- a. Land banking occurs across the country. I would suggest that at present the Island position is better than that of the rest of the South Coast where much of the land is held by national developers/builder who carefully control release. If you are aware of long term permitted sites which remain not started, consider and action revoking planning permission - but be mindful of this approach and its effect on your five year tests - also be aware of national picture of permissions verses starts are we that different?
- b. Yes, there appears to be quite a number of planning permissions granted but this doesn't always result in construction activity and delivery outputs don't add up.

- c. Probably less than average

Question 22. What other ideas would you suggest that would enable the Isle of Wight Council to effect the delivery of more affordable/specialist housing? – ALL

- a. Be clear of what you want with your own land holdings, as capital receipt/return and delivery of a specialist/affordable product that requires subsidy to work do not go hand in hand - be clear on your priorities. Assist difficult and marginal sites via national funding streams such as the 'HCA Infrastructure fund'. Encourage existing RP's to look at their existing stock, can this be re-developed to higher density as most historic developments made less efficient use of land.
- b. There are a large number of initiatives under consideration, all of which can help the severe problem of lack of affordable housing on the IW.

Probably the most important of these is the discussion around IW Council using some of its own land stocks to become a landlord again, offering properties to key workers at genuinely affordable levels (not just at discount to open market levels, as that discounted amount can still often be unaffordable on IW wages).

Existing policies of ring-fencing new housing for IW residents can also help. But the potential issue is that ring fencing can WORSEN the problem by preventing building happening in the first place. If developers cannot sell to local residents at a price that gives appropriate return, development will not happen.

Other initiatives proposed and advanced by regeneration team are welcomed and supported, but I will not restate them here.

Some less discussed opportunities that can help address both the housing shortage AND other issues on the IW are these:

- Encourage conversion of space over shops in town centres from (mostly unused office / retail storage) into residential flats. This is expensive to do with fire and noise separation requirements, and the space is therefore frequently left largely idle. Finding ways to support such conversion would not only bring new units on stream (often at affordable end of market) but also restore some vibrancy to town centres suffering from the exodus to out-of-town shopping.
- Encourage conversion of outdated and frankly appalling hotel units, particularly in the Bay Area, into residential. Many hotels have suffered decades of under investment, and are loss making, but owners have not been able to meet the planning conditions to allow conversion. This dreadful standard of the worst of the holiday accommodation cannot be helping the tourist industry and drags prices down for the entire market. Planning conditions have been relaxed in recent years to make it easier to gain consent for conversion / demolition & redevelopment, but much more can be done to encourage the poorest accommodation units to be redeveloped to provide residential space. This would not only help the housing stock, it would encourage development of new and better hotels to serve the more demanding tourists in today's market. Allowing higher densities (eg flexibility about height and mass constraints) can help make the economics attractive enough to bring forward marginal developments.

- Encourage development of single person dwellings, both self contained flats and HMO units. Two thirds of the Housing Register (upper categories) consists of people looking for one-bed accommodation. Yet very little is being done to cater for this demand. I believe this will do a lot to free up larger accommodation if it were built. There is evidence of tenants in social housing having to pay the Spare Room Subsidy (aka “bedroom tax”) because they are unable to access smaller units appropriate to their housing need. If this were satisfied by an intensive building programme, a considerable supply of larger units would be released for occupation by families. Instead of this, however, most of the units being built are 2 to 3 bedroom units.
 - With the extension of the “shared room rate” to include all under-35’s there is also significant demand for HMO accommodation, but little or nothing is being provided. This could perhaps be linked with hotel conversion as above, and perhaps incentives (eg suspension of Business rates / Council tax liability while conversion is taking place). Social housing Providers also need to be encouraged to revisit this much maligned sector.
 - There is also considerable under occupancy in the private owner-occupier sector, especially among retirees where kids have left home and perhaps one of a couple has died, leaving a single occupier in a family sized home. The assisted living initiative can help this, but there is more that can be done in supporting the elderly to take the potentially traumatic step of down-sizing at a stage in their lives where the prospect is daunting.
- c. CPOs; Stricter rules for implementing and delivering planning approvals within given timescales; Release of more Local Authority owned land; incentivising landowners to release/offer land.
- Facilitating grant opportunities; Facilitating/ providing funding for SMEs;
If it would be helpful to you we would be happy to provide more detail and clarity through the Strategic housing partnership meetings which we attend
- d. Development economics are not particularly complex, but when higher risks (due to uncertainty of outcome) are coupled with lower rates of return a disincentive to invest is created and this I would say is the main problem for areas such as the IOW. Addressing uncertainties and sharing of risk (with landowners/funders) are required to deal with this.

Contact Point: Paul Thistlewood, Statutory Scrutiny Officer,
☎ 01983 821000 ext. 6321 e-mail paul.thistlewood@iow.gov.uk

COUNCILLOR TIG OUTLAW
CHAIRMAN