

Planning Committee

2.00pm, Wednesday, 1 December 2021

Affordable Housing Tenures

Executive/routine Wards Council Commitments	Executive All
--	--------------------------

1. Recommendations

- 1.1 It is recommended that Planning Committee:
 - 1.1.1 Agree the content of this report discharges the remit of the adjusted motion approved at Planning Committee on 19 May 2021 to report back in two cycles on assessment of all homes delivered by the Affordable Housing Policy (AHP) in the last three years;
 - 1.1.2 Note that an assessment of the impact of Low Cost Home Ownership (LCHO) will be carried out. Informal engagement will take place with private developers, Registered Social Landlords and Scottish Government regarding the Golden Share tenure and support for LCHO; and
 - 1.1.3 Refers this report to Housing, Homelessness and Fair Work Committee for information.

Paul Lawrence

Executive Director of Place

Contact: Elaine Scott, Housing Services Manager

E-mail: elaine.scott@edinburgh.gov.uk | Tel: 0131 529 2277

Affordable Housing Tenures

2. Executive Summary

- 2.1 The Affordable Housing Policy (AHP) provides an important source of land to support the delivery of the new supply of affordable housing. This report compares delivery of affordable homes through the AHP to housing need figures (estimated in the last Housing Need and Demand Assessment) and addresses the request for an assessment of all homes delivered by this policy in the last three years.

3. Background

- 3.1 In 2000, Edinburgh was the first local authority to introduce an AHP in Scotland. The AHP is a planning policy which ensures that 25% of homes on all housing sites with 12 homes or more, are required to be affordable. The policy requires private housing developers to transfer a proportion of a housing site/land to affordable housing providers for affordable housing use.
- 3.2 On [24 August 2017](#), Council approved its five-year business plan. The plan sets out an objective to build 20,000 new affordable homes in the city over the following ten years. The AHP is an important delivery mechanism to meet this commitment. Prior to its introduction, the high demand for housing land in the city meant that affordable housing developers were often outbid by private housing developers and failed to acquire suitable land for affordable housing.
- 3.3 On [7 August 2019](#), Planning Committee noted an AHP Delivery report. This set out the strong performance of the AHP, with 3,828 onsite affordable homes being secured between 2013 and 2018. Nine out of ten planning applications of 20 or more homes resulted in onsite delivery of affordable homes.
- 3.4 On [14 January 2021](#), Housing, Homelessness and Fair Work Committee approved the Strategic Housing Investment Plan 2021-2026. This set out a pipeline of 10,036 affordable homes which could be approved for site start, with 11,370 anticipated completions between 2021 and 2026.
- 3.5 On [19 May 2021](#), Planning Committee approved the recommendations of the Affordable Housing Policy Update report. The report set out that delivery of the AHP had been strong and committed sums had assisted the delivery of 195 affordable homes.

- 3.6 In addition to the report recommendations on 19 May 2021, Planning Committee approved an adjusted motion which called for an assessment of all homes delivered by this policy in the last three years to be reported back to Committee within two cycles, and that this assessment should in particular examine the number of low cost home ownership (LCHO) and mid market rent (MMR) homes (subsidised and unsubsidised) delivered, whether the number of each category delivered is consistent with the Council's housing need and demand assessment, and whether a further adjustment to the Council's AHP is required as a result of that assessment.
- 3.7 On [29 September 2021](#), Planning Committee approved the recommendations of the City Plan 2030 - Approval of Proposed Plan for Statutory Representation Period report. The proposed plan, which includes the policy of 35% affordable housing as part of new residential developments, was approved for publication for the representation period.

4. Main report

Housing Need and Demand Assessment

- 4.1 A "Housing Need and Demand Assessment" uses past and present data to estimate future housing need. The six "South East Scotland" local authorities of Edinburgh, East Lothian, Midlothian, West Lothian, Fife and Scottish Borders carry out a joint Housing Needs and Demand Assessment.
- 4.2 A third South East Scotland Housing Need and Demand Assessment is underway, with the results expected in 2023. This considers the figures from the second "Housing Need and Demand Assessment", commonly referred to as "HoNDA2", which was estimated based on information from the preceding period and was given "robust and credible" status by Scottish Government in 2015.
- 4.3 Average household income in 2015 was set out in the Council's AHP as being £39,067. The current average household income figure is £45,443, which is an increase of 16%. However, this figure has not been updated since 2019 because of the Covid-19 pandemic, the resulting uncertain and fluctuating economic impact and the short-term impact of furlough schemes on household income.
- 4.4 The average house price in Edinburgh in January 2015 was £217,355, compared to an average house price in July 2021 which was £291,434, an increase of 34%. CityLets latest statistics show that Edinburgh rents have increased by around 14% in the last five years and 48% over the last ten years. The average rent is now £1,157 per calendar month.
- 4.5 HoNDA2 set out four possible scenarios for predicting future housing need; "Default", "Steady Recovery", "Wealth Distribution" and "Strong Economic Growth" with varying levels of economic recovery. Using those scenarios, it was projected that between 67,996 and 96,394 homes in total would be required over the period 2012 to 2032. These are split into number of social rent, below market rent, Private Rented Sector and owner occupied.

Social Rent

- 4.6 The AHP enabled 563 social rented homes to be completed between 2018/19 to 2020/21. The total social rent need for Edinburgh in HoNDA2 is estimated at between 32,278 and 43,507 over the period 2012 to 2032, with an estimated need for between 1,281 and 2,271 social rented homes in the period 2017-2021. The Council's Affordable Housing Planning Policy has an aspiration that 70% of all new affordable housing should be social rent. It should be noted that 2,271 social rented homes would need grant funding of around £163 million and that not all sites are suitable or viable for social rent.

Mid Market Rent and Intermediate Rent

- 4.7 Both Mid Market Rent (MMR) and Intermediate Rent contribute towards what the HoNDA defines as "below market rent", which is affordable housing for rent made available to households with average or below average household income (average household income in Edinburgh is currently £45,443 per annum). Private Residential Tenancies are the tenancy agreements used for both tenures. MMR is provided by Registered Social Landlords (RSLs) with grant subsidy. Intermediate Rent is used as an affordable tenure in "Build To Rent" developments, where the affordable housing is provided by developers with no grant funding required.
- 4.8 The number of below market rent homes required in Edinburgh is noted as being between 9,590 and 12,944, for the HoNDA period 2012 to 2032. For the period 2017- 2021 this is estimated as being between 434 and 606. This is a small proportion of the total below market rent need and does require continued significant below market rent delivery in future years.
- 4.9 In the three years covered by this report (2018/19, 2019/20 and 2020/21), no IR homes have completed, the first of these being approved in the years 2019/20 and 2020/21; over 550 have been approved to date. 465 MMR homes completed during the period that were enabled by the AHP. This is roughly equivalent to the projected need for the period.
- 4.10 However, the HoNDA2 does not, and could not, take into account individual development viability. Between 2018/19 and 2020/21 there were 11 developments that completed which were a mix of social rent and MMR. In total, 407 social rent homes were delivered by these schemes, with a further 262 MMR. RSLs use MMR to cross subsidise social rent, enabling onsite affordable housing where this may not be feasible if only social rent could be provided. Because rents for MMR are higher, this enables more borrowing, which in turn can help deliver onsite affordable housing where social rent alone would not be viable. A mix of social rent and MMR can help support onsite delivery, minimise the need for offsite affordable housing contributions, and help deliver the Council's aspiration for mixed tenure sustainable communities.
- 4.11 People who are eligible for MMR and Intermediate Rent are on below average incomes, but unlikely to be able to access a social rented home. MMR starting rents must be below Local Housing Allowance. Intermediate Rents must be at or below

the Lothians Broad Rental Market Area 30th Percentile. Both are published by Government each year.

- 4.12 Local Housing Allowance is set annually by UK Government for each Broad Rental Market Area (BRMA) across the UK. It is set either at the 30th Percentile of the BRMA or as a percentage increase on the last years Local Housing Allowance levels. Both Local Housing Allowance and BRMA 30th Percentile rents are currently at the same level, although historically, this has not always been the case. Local Housing Allowance in Edinburgh and the Lothians had been significantly lower than the BRMA 30th Percentile but was adjusted to match in 2020 because of the impacts of the Covid-19 pandemic on people's income.
- 4.13 Both Local Housing Allowance and BRMA 30th Percentile rents are currently £688 per calendar month for a one-bedroom home and up to £1,097 per month for a three-bedroom home. This compares to average market rents which range from £799 per month for a one-bedroom home to £1,544 per month for a three-bedroom home. This means that renting through MMR or Intermediate Rent could save a household between £1,330 and £5,360 per year compared to renting on the private market.

Low Cost Home Ownership (LCHO)

- 4.14 Need for LCHO is not addressed in HoNDA2 and figures are not provided in the housing need estimates. The 2008 Update of the Lothian Housing Need and Demand Study set out that, at that time, 27% of people in housing need may be able to afford LCHO. However, an updated assessment of the impact of LCHO is recommended, alongside engagement with LCHO providers (RSL and Developers) and Scottish Government.
- 4.15 With current average house prices in the city so high, LCHO can assist people on low incomes to afford to purchase a stake in a home. However, LCHO makes up a small percentage of the homes delivered through the AHP. Between 2018/19 and 2020/21 there were 1,216 affordable homes delivered through the AHP but only 188 (15%) were LCHO.

Golden Share

- 4.16 Golden Share (GS) is a LCHO tenure where the purchase price is fixed at 80% of market value, and this is restricted in the title deeds in order that homes might remain affordable in perpetuity. The GS homes are made available by housebuilders to people who could not afford to purchase the property at full market value. Guidance states that GS properties can have a value of up to £214,796, which is roughly 80% of average house prices in Edinburgh. House price inflation means that the affordability of GS homes in perpetuity can no longer be guaranteed, as house prices are increasing more quickly than incomes.
- 4.17 141 of the 188 LCHO homes completed between 2018/19 and 2020/21 were GS. No grant funding is required for GS. Two thirds of the Golden Share homes delivered to date have been provided onsite by three housebuilders.

- 4.18 There are other LCHO tenures which can assist potential home owners who cannot afford to purchase a home at full market value. The Scottish Government's Low-cost Initiative for First Time Buyers scheme is a shared equity scheme that has helped over 700 people in Edinburgh to purchase their first home in the last three years. Scottish Government commit funding for this scheme annually and can help buyers by covering between 10% to 40% of the value of the home.
- 4.19 GS values are increasing as market values increase. The average GS price in 2015 was £174,000, compared to average GS value in 2021 of almost £200,000, and average GS full market value is now almost £250,000. An average deposit is £40,000, which is roughly 20% of property value. GS resale market values in some areas of the city are now exceeding £300,000.
- 4.20 GS values are checked at planning application stage and again before homes are marketed. However, there can be a gap of years between application and GS homes coming to market. It seems likely that in new developments, even with current GS values at or around £200,000, these values are likely to increase to above the current cap when these homes come to market.
- 4.21 Although initially conceived as a tenure which could deliver affordable homes in perpetuity, rising house prices mean that GS homes which are resold often have a value which would not be achievable for family earning less than average income. As incomes are not rising as quickly as house prices, there is an increasing disconnect between average income and GS affordability.
- 4.22 For these reasons, officers will carry out an assessment of the impact of LCHO tenures and plan to engage informally with private developers, developing RSLs and Scottish Government regarding future support for LCHO, including the role of the GS tenure.
- 4.23 Views will be sought on the impact of LCHO on wider development, need and demand, financial impact, viability and deliverability, alternative LCHO tenures and if LCHO can support social rent delivery, as this is the affordable housing for which there is the greatest need. All thirteen Golden Share providers to date will be contacted, as will RSLs who are actively developing in Edinburgh. These views will help inform next steps in relation to LCHO.
- 4.24 If changes are required to the Council's Affordable Housing Policy, Scottish Government guidance is that these should be consulted on. In line with [Council's Consultation Approach](#), approved by Policy and Sustainability Committee on 20 April 2021, any consultation would run for at least 12 weeks.
- 4.25 A report on the assessment of LCHO and the outcome of the engagement will be presented to Planning Committee in summer 2022.

5. Next Steps

- 5.1 Officers will carry out an assessment of the impacts of LCHO and will engage with Housebuilders, RSLs and Scottish Government regarding LCHO and the future of LCHO tenures.

- 5.2 Further changes to AHP may be considered as part of the preparation of future guidance to support relevant policies in the City Plan 2030. As set out in national Planning Policy Guidance, any significant changes to the AHP would be subject to consultation.

6. Financial impact

- 6.1 GS values are increasing as market values increase. The average GS value in 2021 is almost £200,000 and average GS full market value is now almost £250,000. An average mortgage deposit is £40,000, which is roughly 20% of property value. The financial impact of LCHO tenures will be part of the engagement with private developers, RSLs and Scottish Government.

7. Stakeholder/Community Impact

- 7.1 The AHP has been successful in delivering mixed tenure communities and providing affordable housing in diverse areas across the city.
- 7.2 The Council and RSLs, through delivery of social and mid-market rent, place community engagement at the centre of housing development projects and go far beyond statutory planning requirements.
- 7.3 Affordable homes delivered by the Council and RSLs are built to high standards and as such contribute to the public sector equality duty and advances equality of opportunity. Homes secured through the AHP increase access to affordable housing and well designed, energy efficient, safer and cleaner communities. It contributes to improved health by increasing the supply of good quality homes, reducing fuel poverty and providing homes which are physically accessible.
- 7.4 The majority of new build properties delivered by the Council and its housing association partners are accessible for people of limited mobility, meaning particular needs housing requirements can often be met through allocation of a standard general needs property.

8. Background reading/external references

- 8.1 [Annual Review of Guidance](#), Planning Committee, 3 February 2021
- 8.2 [COVID-19 engagement and consultation approach](#), Policy and Sustainability Committee, 20 April 2021
- 8.3 [Affordable Housing Policy Update](#), Planning Committee, 19 May 2021

9. Appendices

- 9.1 List of Abbreviations.

Appendix 1 – List of Abbreviations

1. AHP (Affordable Housing Policy) - The Council's Affordable Housing Planning Policy which requires 25% of homes to be affordable.
2. BRMA (Broad Rental Market Area) – Is defined by UK Government as an area “where a person could reasonably be expected to live taking into account access to facilities and services” including employment and travel. The Lothians BRMA covers the local authority areas of Edinburgh and the Lothians (East, West and Midlothian).
3. GS (Golden Share) – Affordable homes with values restricted to 80% of market value.
4. HoNDA2 (Housing Need and Demand Assessment 2) - The second Housing Need and Demand Assessment covering the South East Scotland area.
5. LCHO (Low Cost Home Ownership) – Affordable home ownership tenures including Golden Share
6. MMR (Mid Market Rent) – Affordable rented housing with rents higher than social rent but below market rent.
7. RSLs (Registered Social Landlords) – Affordable Housing provider, usually a housing association or local authority, who can provide social rented homes and is regulated by the Scottish Housing Regulator.