

Planning Committee

2.00pm, Wednesday, 31 August 2022

Affordable Housing Policy - Tenures Update

Executive/routine Wards Council Commitments	Executive All
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1. Recommendations

- 1.1 It is recommended that Planning Committee:
 - 1.1.1 Notes the affordability of Mid Market Rent (MMR) and Intermediate Rent (IR) homes as set out at 4.10 and 4.11 of this report, and that the Golden Share (GS) tenure continues to assist households with average or below average household income to purchase homes;
 - 1.1.2 Note that the affordability of GS homes will continue to be monitored as house price increases are outpacing increases in household income;
 - 1.1.3 Agrees the content of this report discharges the motion approved at Planning Committee on 1 December 2021 to report back in Summer 2022 with an assessment of the impact of Low Cost Home Ownership (LCHO) and Below Market Rent (MMR and IR);
 - 1.1.4 Agrees that an Affordable Housing Policy Update will be provided to Planning Committee in Spring 2023; and
 - 1.1.5 Refers this report to Housing, Homelessness and Fair Work Committee for information.

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Executive Director of Place

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Affordable Housing Policy - Tenures Update

2. Executive Summary

- 2.1 This report provides an assessment of the impact of affordable tenures including LCHO and Below Market Rent (MMR and IR) delivered through the Affordable Housing Policy.
- 2.2 Market rents average between £830 per month for a one-bedroom home and £1,611 per month for a three-bedroom home. This means that renting an MMR or IR home could save a household between £1,700 and £6,200 per year compared to renting on the private market.
- 2.3 New build affordable homes are energy efficient, low carbon homes that minimise carbon emissions and reduce energy demand, which can help tenants to save on energy costs compared to older homes. Affordable Housing providers are professional landlords and can offer security of tenure, affordable rents, efficient modern homes and well managed places.

3. Background

- 3.1 In 2000, Edinburgh was the first local authority to introduce an Affordable Housing Policy (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 affordable. The policy requires private housing developers to transfer a proportion of a housing site/land to affordable housing providers to build affordable homes.
- 3.2 The AHP provides an important source of land to support the delivery of the new supply of affordable housing. AHP land can be used to deliver any of the affordable tenures set out in the [Council's Affordable Housing guidance](#). The guidance set out the affordable housing tenures in priority order; with social rented housing as the highest priority need.
- 3.3 On [19 May 2021](#), Planning Committee approved the recommendations of the AHP update report. The report set out that the AHP was enabling the delivery of affordable housing with nine out of ten planning applications of 20 or more homes resulting in delivery of on-site affordable homes. In addition to this, commuted sums had assisted the delivery of 195 affordable homes since March 2018. The majority of affordable homes provided through the AHP are for affordable rent, either social rent or mid market rent.

- 3.4 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 increasing the policy to a 35% affordable housing requirement as part of new residential developments, was approved for publication and the beginning of the representation period.
- 3.5 On [1 November 2021](#), Housing, Homelessness and Fair Work Committee approved the recommendations of the Strategic Housing Investment Plan (SHIP) 2022-27. The SHIP set out a programme of 11,188 affordable homes that could be approved for site start and 10,124 that could be completed over the five-year period.
- 3.6 On [1 December 2021](#), Planning Committee approved a motion that: *“Agrees that an assessment of the impact of Low Cost Home Ownership (LCHO) and Below Market Rent (Mid Market Rent and Intermediate Rent) will be carried out; informal engagement will take place with private developers, Registered Social Landlords and Scottish Government regarding the Golden Share tenure, support for LCHO and Below Market Rent options, and a further report will be presented to committee in Summer 2022”*.

4. Main report

Edinburgh Housing Market Context

- 4.1 The second “SESplan Housing Need and Demand Assessment” (HoNDA2) was given “robust and credible” status by Scottish Government in 2015. It set out that between 67,996 and 96,394 homes of all tenures would be required in Edinburgh between 2012 to 2032. It was estimated that around 60% of homes would need to be affordable. The third “SESplan Housing Need and Demand Assessment” was given “robust and credible” status by Scottish Government in July 2022 and gives a forward projection of affordable housing need. An article on HNDA3 is included in the Business Bulletin for this Committee. However, the figures in this report come from HoNDA2 as that covers the 2017-2021 period.
- 4.2 [Citylets Quarterly Report Q1 2022](#) sets out that average rent in Edinburgh is £1,214 per calendar month, ranging from £830 a month for a one bedroom home to £2,211 a month for a four bedroom home. Rents for all property sizes have increased by more than 50% in the last ten years. The majority of properties advertised are let within a month and 40% of one and two bedroom homes are let within a week.
- 4.3 The average Edinburgh house price, as set out in [ESPC’s House Price Report June 2022](#), is £302,699. However, prices across the city vary and in some areas average price is in excess of £400,000. Buyers pay on average 8% over the Home Report value.
- 4.4 Average household income in Edinburgh is around £45,000 per annum. Both [Scottish Government](#) and [Shelter Scotland](#) research states that paying more than 30% to 40% of household income on housing is considered unaffordable; although affordability does vary depending on personal circumstances.
- 4.5 The average cost of building an affordable home increased from just under £120,000 in 2012 to just under £160,000 in 2020. In 2021, the cost of building an

affordable home rose to almost £190,000. Construction prices have increased globally and costs of construction materials such as timber, steel and particleboard have increased by more than 40% in the last year due to increased demand, rising energy prices, post Covid-19 pandemic, and reduced supply, due in part to the war in Ukraine.

The Impact of Low Cost Home Ownership and Below Market Rent

- 4.6 The impact of these tenures can be measured in terms of affordability for “Priority Clients”(as defined in Section 6 of the [Affordable Housing Policy guidance](#)). Priority Clients are those people earning average household income or less, who are likely to find themselves in affordable housing need and will need some support to be able to afford a home.
- 4.7 MMR and IR offer below market rent housing options to households with average or below average household income. Private Residential Tenancies are the tenancy agreements used for both tenures. MMR is provided by Registered Social Landlords (RSLs) with grant subsidy. IR is used as an affordable tenure in Build To Rent (BTR) developments, where the affordable housing is provided by BTR developers and operators with no grant funding required.
- 4.8 MMR rents are set below [Local Housing Allowance](#), which is published by Scottish Government each year. There are different rates for each “broad rental market area”, usually covering one or more connected local authority areas. Intermediate Rents, an unsubsidised tenure which receives no grant funding, will tend to have higher rents than mid market rents, which can be subsidised and are set by RSLs to be below Local Housing Allowance. Intermediate rents cannot, however, exceed the Broad Rental Market Area 30th Percentile for the Lothians; the lower third of the rental market in the area. 30th Percentile rent figures are published annually by Scottish Government.
- 4.9 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 tenures. Affordable Housing providers are professional landlords and can offer security of tenure, affordable rents, energy efficient homes and well managed places. Mid rent housing providers; including Edinburgh Living (the Council’s Limited Liability Partnership) are providing permanent housing for working homeless households. Since 2020, at least 163 households have been helped to move into mid rent homes as a result of joint working between the Council’s private rented team, other agencies and the mid rent landlords.

- 4.10 The table over compares MMR and IR rents with average market rents and shows the amount a household could save each year by renting through MMR or IR.

Table 1: Monthly Rents and Annual Saving

Monthly Rent Comparison	Mid Market Rent - Local Housing Allowance	Intermediate Rent – Broad Rental Market 30 th Percentile	Average Market Rent	Annual Household Saving
1 Bedroom	£688	£688	£830	£1,703
2 Bedroom	£823	£823	£1,121	£3,579
3 Bedroom	£1,097	£1,097	£1,611	£6,168
4 Bedroom	£1,690	£1,695	£2,211	£6,191

- 4.11 Rents below Local Housing Allowance are likely to be affordable to a family earning average income or less. Using 35% of income as an affordability marker, rents at Local Housing Allowance would be likely to be affordable to households with incomes of over £23,600 per annum. A household renting an MMR or IR home could save between £1,700 to almost £6,200 per year compared to average market rents.
- 4.12 The number of below market rent (MMR and IR) homes required in the HoNDA2 is noted as being between 9,590 and 12,944 over a 20 year period. This equates to between 434 and 606 below market rent homes between 2017- 2021. 689 MMR homes (enabled by the AHP) were completed during that period. A strong pipeline of IR homes has been identified and over 700 have been approved, the first of which was in 2019. We continue to work with affordable partners and BTR developers to build the pipeline.

Low Cost Home Ownership (LCHO)

- 4.13 With current average house prices in the city continuing to rise, LCHO can assist people on low and below average incomes to afford to purchase a home. The need for LCHO is not addressed in HoNDA2 and figures are not provided in the housing need estimates. The prior Housing Need and Demand Study set out that 27% of people in housing need may be able to afford LCHO. However, LCHO only makes up a small percentage of the homes delivered through the AHP. Between 2017/18 and 2021/22 there were 1,681 affordable homes delivered through the AHP; 18% (303 homes) were for LCHO.
- 4.14 Restrictions on LCHO introduced in the latest Affordable Housing Policy guidance ensure that the majority of affordable housing delivered through the AHP is for affordable rent; *“LCHO tenures should not normally exceed 20% of the overall affordable housing provision, or 12 units, whichever is the lesser”*.
- 4.15 The Scottish Government’s Low-cost Initiative for First Time Buyers (LIFT) scheme is a LCHO shared equity scheme that has helped over 1,000 people in Edinburgh to purchase their first home in the last five 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.

- 4.16 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 may remain affordable on resale. GS homes are made available by housebuilders to people who could not afford to purchase the property at full market value.
- 4.17 Of the 303 LCHO homes completed between 2017/18 and 2021/22, 256 were GS. No grant funding is required for GS, however, GS values are increasing as market values increase. GS is still providing assistance for people on below average incomes; the average income of a GS purchaser in 2022 is £41,000 per annum and the average GS home value is almost £202,000. Affordable Housing Guidance states that properties can have a GS value of up to £214,796, which was around 80% of average market value in 2021.
- 4.18 The Office of National Statistics estimates that household income increased on average by around 1% each year between 2011 and 2020. ESPC data estimates that house prices in Edinburgh increased by 5% between 2021 and 2022, and by 4% each year on average from 2014 to 2021. As average market values (and GS values) increase more than household incomes, they become less accessible to people in affordable housing need.
- 4.19 As household incomes have not increased as much as house prices, we do not recommend any increase to the maximum GS value in 2022/23 so that GS homes can continue to be affordable to people on average and below average incomes. If house prices continue to increase faster than household income, then 20% discount on market values secured by GS may soon be insufficient to ensure that GS homes are affordable to people on average and below average incomes.

Informal Engagement

- 4.20 Informal engagement regarding Below Market Rent and LCHO has taken place with developers, RSLs and Scottish Government. The Council held one to one discussions with six national housebuilders (responsible for delivering over 85% of the Golden share homes in the city to date) and nine RSLs and affordable housing providers (at its regular affordable development forum) who are actively developing affordable homes, or seeking to develop affordable homes, in Edinburgh.
- 4.21 MMR and IR are recognised affordable housing tenures that can provide affordable homes to people in housing need. RSLs and Scottish Government recognise the need for a range of affordable rent options to enable viable affordable housing on as many developments as possible.
- 4.22 IR is widely supported by Build To Rent developers and has enabled the approval of over 700 affordable homes within wider BTR developments, with no grant funding. The same number of affordable homes delivered by a RSL would require around £56 million of grant funding.
- 4.23 House builders have expressed a preference for LCHO tenures to continue and highlighted “Golden Share” can act as a viable option for larger properties (three bedrooms or more) which are prohibitively expensive for RSLs due to build costs. Developer-led LCHO also has no grant requirement.

5. Next Steps

- 5.1 House prices and incomes will continue to be monitored to ensure current LCHO options remain sufficient to ensure that homes are affordable to people on average and below average incomes. Provision of LCHO homes will continue to be monitored and will be reported in the Affordable Housing Policy Update to Planning Committee in spring 2023.
- 5.2 Further changes to AHP may be considered as part of future guidance to support relevant policies in the City Plan 2030.

6. Financial impact

- 6.1 MMR homes are affordable to households on below average incomes, saving them up to £6,000 a year in comparison to average market rents.
- 6.2 Over 700 IR homes have been approved. The same number of RSL homes would require grant funding in the region of £56 million.

7. Stakeholder/Community Impact

- 7.1 Homes secured through the AHP increase access to affordable housing and well designed, energy efficient, safer and cleaner communities. This contributes to improved health by increasing the supply of good quality homes, reducing fuel poverty and providing homes which are physically accessible.
- 7.2 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 [Affordable Housing Policy Update](#), Planning Committee, 19 May 2021.
- 8.3 [Affordable Housing Tenures](#), Planning Committee, 1 December 2021.

9. Appendices

- 9.1 None.