

West of Harrogate Strategic Sites Affordable Housing Transfer Values: Technical Note

Client: North Yorkshire Council
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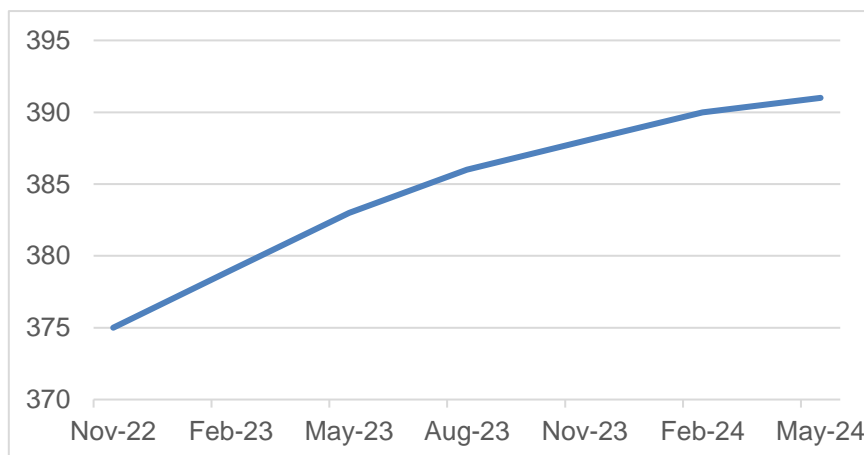
AspinallVerdi were appointed in October 2022 to assist Harrogate Borough Council (now North Yorkshire Council) with the Delivery Strategy for the West of Harrogate Strategic Sites which was being produced by Hyas. Our role has been to undertake viability testing to ensure that the cumulative costs associated with infrastructure and Council planning policies are both viable and deliverable for the sites allocated in the West of Harrogate Parameters Plan (2022).

Working with both the Council and the site promoters/developers, we have undertaken property market analysis to determine the sales values that the proposed residential sites are likely to achieve. We have also considered the likely costs associated with these schemes, including the construction costs and policy costs (including affordable housing, education, sports, open space, biodiversity net gain, health and transport). We have produced financial appraisals to determine whether these sites achieve a sufficient incentive (developer's profit) to ensure that the sites can be considered viable and to ensure that the market will deliver them.

Property Market Context

Since we began work on the project, the economic climate has become more challenging for development. This is for a variety of reasons including the mini budget, labour costs following Brexit and the war in Ukraine. On average, the cost of construction in the UK has increased by approximately 4.25% since November 2022, as shown by the BCIS Tender Price Index which tracks the cost of construction tender returns (see the graph below).

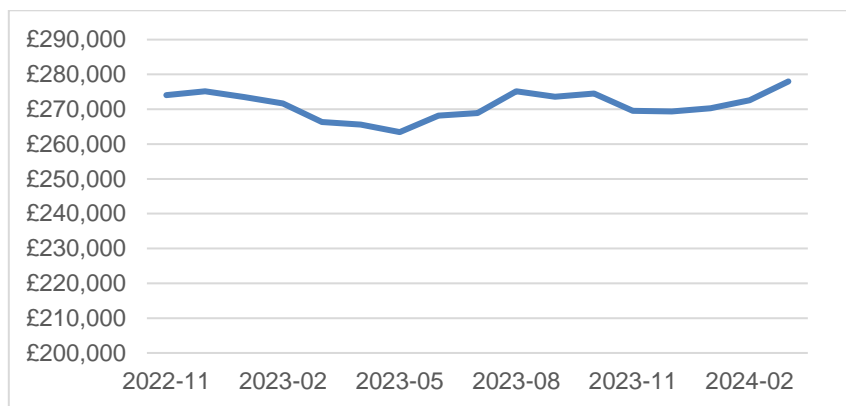
BCIS UK Tender Price Index



Source: BCIS, accessed 23 May 2024

Over the same period, the market for residential sales has plateaued. In North Yorkshire, Land Registry data shows that the average price of a residential property in Yorkshire reached £274,076 in November 2022 and was £272,557 in February 2024. The following graph shows how average prices have changed over this time in the local authority area.

Average Sales Values (All House Types) – North Yorkshire



Source: Land Registry, 2024

In January 2024, new regulations for development also came into effect, making delivery of a 10% uplift in Biodiversity Net Gain (BNG) a mandatory national requirement for all development sites. Whilst BNG is calculated on a site-specific basis, and the costs of delivering this uplift can vary significantly site-to-site based on the ecology present at the site, it has also become an additional cost which must now be factored into all viability appraisals, increasing the cost burden and reducing the ability to fund other policy costs.

Throughout the UK, softening house price growth and rising costs have served to reduce development viability. In some cases, this has led to schemes becoming unviable or situations where policy contributions cannot be met in full. Often this leads to a reduction in the quantum of affordable housing required by policy. Our work has specifically tested the impact of these conditions on the West of Harrogate Strategic Sites.

West of Harrogate Viability Testing

The financial appraisals we have produced demonstrate that the rising costs, coupled with the level of infrastructure required to make the West of Harrogate sites acceptable in policy terms, have had a negative impact on the viability of these sites.

Although it is not possible to confirm what this means for the viability of development across the former Harrogate District Council area as a whole, as these appraisals take into the specific circumstances of the strategic sites, it suggests that there may be viability challenges elsewhere in the former Harrogate Borough Council area. This is because the sites we have tested are located within a relatively high-value area so any areas with lower values will be more greatly affected.

The findings of our assessment have triggered the need to undertake some sensitivity testing. This is where we run various scenarios of the financial appraisals, testing certain appraisal inputs at higher or lower levels to understand what impact this is likely to have on the overall viability. One of the sensitivity scenarios we have been instructed to test relates to the affordable housing transfer values included in the financial appraisals. The transfer value is the price a Registered Provider (RP) will pay a developer to acquire a S106 affordable unit. This testing has demonstrated that increasing the transfer values beyond the capped level currently included in the Council's policies can greatly improve the viability of development, serving to derisk the delivery of new homes.

This work suggests that a review of the transfer values included in the 2021 Harrogate Borough Council Affordable Housing SPD and 2022 Harrogate Borough Council First Homes Guidance Note is required and that this could aid the delivery of viable development, ensuring a policy-compliant proportion of affordable housing.

Current Transfer Value Position

The current approach to Transfer Values is set out in the 2021 Harrogate Borough Council Affordable Housing SPD and 2022 Harrogate Borough Council First Homes Guidance Note. This takes an approach whereby the transfer values for all affordable housing tenures are capped, either at £1,100 psm for affordable houses or £1,050 psm for affordable flats. This cap applies for all tenures including (effectively) First Homes (2022 HBC First Homes Guidance Note).

In our experience, the approach taken is fairly unique. In most other areas we have undertaken viability work, whilst affordable housing must be transferred at a value which reflects the specific tenures required by policy, a blanket cap on values is not applied across the different tenures. Because the values each tenure generates for the RP will vary, the values which RPs will pay to acquire them from a developer also vary.

Transfer Values Elsewhere

We regularly undertake viability testing across England. This can be undertaken for site-specific purposes to help determine planning applications or on a plan-wide basis to support policy development or plan adoption.

As part of this work, we regularly consult both RPs and local authority housing teams. In the table below, we provide examples of the transfer values adopted in some of the other Local Plan Viability Assessments we have undertaken. Although RPs will pay a certain price per unit in reality, for viability testing purposes, this is typically expressed as a percentage of Open Market Value.

Table 3 - Transfer Value Examples – Expressed as Percentage of Open Market Value

Local Authority	Social Rent	Affordable Rent	Intermediate	First Homes	Date of Study	Source
Richmondshire (High-Value Area Average)	32%	32%	53%	n/a	May 2020	RP Consultation
Richmondshire (Low-Value Area Average)	42%	42%	63%	n/a	May 2020	RP Consultation
Wirral	35%	80% of market rent	70%	70%	October 2021	WMBC
Bradford	n/a	40%-50%	50%-70%	n/a	January 2020	RP Consultation
South Oxfordshire	44%	60%	76%	70%	December 2021	Council Housing Team
Selby (High-Value Area Average)	32%	40%	62%	n/a	October 2018	RP Consultation
Selby (Low Value Area Average)	37%	41%	64%	n/a	October 2018	RP Consultation
Birmingham	45%	55%	75%	70%	April 2024	Council Housing Team

Although few of these examples include first homes, First Homes will typically be valued at 70% of Market Value, as set out in Paragraph 016 of the Planning Practice Guidance, First Homes.

Summary

Our financial viability appraisals for the West of Harrogate Strategic Sites demonstrate that current market conditions and increased regulatory requirements have served to reduce the viability of new development. As a result of this work, it has been recognised that a review of the approach to transfer values in the Council's SPG is required – revising the approach taken is one mechanism in the Council's control which could significantly improve viability and aid the delivery of new homes.

There are different ways to improve viability. Lowering costs or increasing values will assist viability; however, these appraisal inputs are in the hands of the market and beyond the control of the local authority. Lowering the required level of affordable housing also increases the viability, but this is often considered a last resort. The work we have undertaken demonstrates that relaxing the cap on transfer values also presents an option which could also serve to aid viability and help to ensure the delivery of new development.

As stated earlier in this note, without testing the viability of other sites, it is not possible to accurately comment on the viability of development in other locations within the former Harrogate Borough Council area. However, given the Strategic Sites' location in a relatively strong residential market area, it is likely that the inflationary construction market and lack of growth in the housing market means that these issues will be experienced on other sites. Revising the approach to transfer values therefore presents an opportunity to ensure that sites remain viable and deliverable, whilst also ensuring the delivery of public goods such as the required level of affordable housing.