



# Great expectations: management of land supply for delivery of affordable housing

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Chartered Institute  
of Housing

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## Executive summary

Management of land supply for delivery of affordable housing is the activities and approaches used to get to a point where development of new affordable housing can start on site. For private developers and housing associations, land supply management predominantly involves working through site purchase and planning processes. For landowners it involves making decisions around use of a land portfolio and working through the sale process. And for local authorities it involves making and enforcing strategic decisions about how land can or must be used in an area.

A great deal of attention has been given to the relationship between land supply and delivery of new homes, with Barker, Callcutt and others arguing that allocation of more land for housing is the key to increasing supply of new homes.

Management of land supply is certainly at the heart of the effective delivery of affordable housing. Getting to the stage where there is a site with planning permission, with any section 106 (s106) agreement finalised, with the development partners in place, with the type of housing agreed, with any public subsidy arranged and the infrastructure lined up is a very intricate process. It involves difficult negotiations and the commitment of a range of individuals and organisations, and of the political process.

This report critically examines recent practice and considers the lessons for more effective management of land supply. It considers the effects of land supply management practices in the public and private sectors, and identifies ways that key actors have attempted to increase the amount of land available for new affordable housing, and therefore to increase the number of affordable homes being delivered. It also highlights examples of effective practice and makes recommendations for practice as well as policy or guidance.

The research for this report was carried out when the land market was different to the one now prevailing but the report has been adapted to match current and future policy and practice challenges. Consequently, it makes some suggestions for land management behaviour for affordable housing development in the economic downturn; and it draws out lessons from problems experienced in a strong market which can be used to inform preparation for market recovery.

The report is designed to be of use to all those involved in the complex process of securing land for affordable housing. In particular, it aims to help different actors in the process to understand each others' behaviours and motivations; to support improvements in land supply management; and to provide an additional insight for planners involved in policy making and land allocation and appraisal for affordable housing.

It highlights several key ways in which land can be managed so that more and better quality **affordable** housing is delivered. These activities may not result in more land for housing overall, but should lead to more land for affordable housing. Approaches to land management that may help include:

- use of skill and expertise in valuation, financial assessment and risk appraisal, sourced within or from outside the relevant organisation
- ensuring availability of both s106 and direct development opportunities for different types or preferences of developer
- use of robust economic viability assessments to inform thresholds where affordable housing must be provided alongside market housing
- use of skilled negotiators around price and planning conditions by developers and local authorities

- use of rural housing enablers
- increased and more flexible grant funding compared to 2008-9
- constructive approaches to density and grant to achieve delivery of family homes
- risk taking around the planning status of land bought by affordable housing developers
- proactive searches and interventions to identify and bring forward a range of sites suitable for development of affordable housing, based on knowledge of local partners' skills and preferences
- understanding the preferences, capacity and behaviours of different actors in the land supply process, and tailoring behaviour to take account of these traits
- off-market public land sales
- clarity and consistency over local planning policy and expectations from the outset, to reduce loss of supply due to negotiations or trading of s106 property
- development of strategic, corporate approaches to disposal of public sector land for affordable housing development, with use of models to retain a stake where appropriate
- strategic land banking to support land assembly for regeneration and affordable housing supply
- tighter s106 negotiations that focus on what type of affordable housing is needed, viable and acceptable
- control of land by affordable housing providers, or their early involvement in s106 negotiations
- development of a strategic overview of future land sources and allocation of appropriate resources to bring them forward in a way that meets local housing needs and delivery capacity
- a good evidence base to inform and defend local planning policies.

The report presents a number of other important findings which will aid understanding of, and approaches to, the way land management processes work and interact:

- Supply of land for affordable housing is not the same as supply of land for any housing, because difficulties exist around its conversion from land for any housing to land for affordable housing, and so it should be considered separately in assessments of land supply.
- Dependence on one method of land supply management to deliver affordable housing is high risk because market fluctuations can cause a hiatus in supply – a more flexible toolkit for managing land for affordable housing is needed.
- Market type (urban, rural, growth, regeneration) only impacts on land management behaviour at extremes, and in most cases the same tools and approaches are suitable for all market types.
- Organisational culture and size have more impact on land supply management than market types.
- A good awareness of local markets and economic projections is essential for all actors in the process to tailor land management policy and behaviour to best effect.
- There is insufficient understanding and practice relating to use of local authority well-being powers in disposal of public land for less than best financial value.
- Greater awareness of the Register of Surplus Public Sector Land and how to work with it are needed if public sector land is to be put to good use for affordable housing supply.
- Risk aversion is high in all aspects of land management for affordable housing supply, and risk management skills and confidence must increase if well managed and effective risk taking is to grow.
- There is an expectation of a shift to large sites to meet supply needs in future, but bringing large sites forward for affordable housing supply requires skill and strategy which must be resourced.

- Land banking is not prevalent or desired, and is mostly used within the housing development sector as a vehicle for site assembly.
- Maximising affordable housing output is not the priority of all actors who can contribute to it.
- Skills for non s106 delivery of affordable housing do exist in high value as well as lower value areas, and they should be spread as s106 opportunities reduce.
- There is not a good understanding of likely changes in land supply sources within many local authorities and developers, and this could threaten future development programmes.
- Partnerships can help to deliver some of the approaches to land supply management listed above but they do not always deliver on expectations – careful assessment and management is needed to make them work.
- Skills shortages are a particular barrier to good land supply management.
- Some areas' targets for affordable housing bear no relationship to what is needed or what it could be possible to deliver.
- There is poor understanding of the way windfalls should be treated in Strategic Housing Land Availability Assessments (SHLAAs).
- The need and desire to provide infrastructure through planning gain detracts from conversion of housing land into affordable housing land, because the overall need for infrastructure can take greater priority for s106 funding than affordable housing.

The current downturn in the housing market is having a significant effect on the way land is managed to deliver affordable housing, and it is affecting the behaviour of, and options open to, all key actors in the land management process.

Actors can adopt particular behaviours to try to maintain delivery of affordable housing through the downturn. Suggestions are made around:

- land sources
- tenure balance
- strategic assessments of land availability
- local knowledge
- approaches to planning obligations
- the role of national agencies.

The current economic situation provides an opportunity to review policy and practice to put it on a more sustainable footing for different market conditions. The report calls for the market downturn to be used to explore and promote new ideas for models to develop affordable housing which are sustainable and can help avoid counter cyclical downturns.

## Introduction

Management of land supply is at the heart of the effective delivery of new affordable housing. Getting to the stage where there is a site with planning permission, with any section 106 (s106) agreement finalised, with the development partners in place, with the type of housing agreed, with any public subsidy arranged and the infrastructure lined up is a very intricate process. It involves difficult negotiations and the commitment of a range of individuals and organisations, including local government.

This report, funded by the Tenant Services Authority (TSA), critically examines recent practice and considers the lessons for more effective management of land supply. It considers the effects of land supply management practices in the public and private sectors, and identifies ways that key actors have attempted to increase the amount of land available for new affordable housing, and therefore the number of homes being delivered. It also highlights examples of effective practice and makes recommendations for policy or guidance, albeit from a context in which the land market was different to the one now prevailing. It makes some suggestions for land management behaviour for affordable housing development in the economic downturn; and it draws out lessons from problems experienced in a strong market which can be used to inform preparation for market recovery.

The report is designed to be of use to all those involved in the complex process of securing land for affordable housing. In particular, it aims to help different actors in the process to understand each others' behaviours and motivations; to support improvements in land supply management; and to provide an additional insight for planners involved in policy making and land allocation and appraisal for affordable housing.

In this report, **management of land supply for delivery of affordable housing** is taken to be the activities and approaches used to get to a point where development of new affordable housing can start on site. For private developers and housing associations, land supply management predominantly involves working through site purchase and planning processes. For landowners it involves making decisions around use of a land portfolio and working through the sale process. And for local authorities it involves making and enforcing strategic decisions about how land can or must be used in an area.

## Methodology

The main source of the information contained in this report is a series of interviews with a range of relevant organisations in six case study areas in different parts of England: the Bristol area in the West of England; Birmingham and central West Midlands; East Kent and Ashford; Central Oxfordshire; the inner Manchester City Region; and the Yorkshire 'Golden Triangle'. More detail on these areas is presented in Appendix 1. The areas were chosen to reflect geographical and market diversity. They cover urban, rural, growth, regeneration, high- and low-value markets around the country, and they encompass areas with a range of administrative arrangements, partnerships and delivery vehicles.

The interviews typically included the local authority (both on the housing and planning sides), private housing developers, housing associations, the regional Housing Corporation and, sometimes, major public or private landowners and regional bodies. In all, 64 interviews were completed. London was intentionally excluded from the study. Its sheer size made it unsuitable for use in a case study in a project of this scale. In addition, many people believe housing delivery in London to be different from delivery in other areas and so lessons drawn from it may not be applicable to other areas of the country. This therefore means that the report's lessons are mainly appropriate for the 60% or so of affordable housing investment taking place outside London.

Material and findings from the interviews are supplemented with information from two key sources. An online survey was conducted in the study areas before the interviews were completed, to gain a broad understanding of issues to inform more detailed questioning. A literature and policy review provided understanding of government policy and other literature relevant to housing development, including academic work and reports commissioned by government and other interested parties. In some cases, the report covers issues on which the literature has focused but which have not been discussed as a priority in the interviews.

## Structure

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The report focuses on the issues that came directly from the interviews and relevant literature.

The early part of the report is structured around areas of key importance to securing a supply of land for delivery of affordable housing:

- the market and policy context
- the roles and behaviours of the actors involved in securing a supply of land
- cross-sector issues relevant to the ways land supply is secured.

It summarises findings and recommendations for each of the sub-topics within these three areas, and presents examples of effective practice where appropriate.

The report concludes with sections which look to the immediate and longer-term future of land supply management for affordable housing delivery:

- approaches to land management in the current economic downturn
- lessons that can be used to prepare for a return to economic stability.

While the study has been rigorous in its approach to the background research, ultimately its value depends largely on the views of the individuals who agreed to be interviewed. The conclusions it reaches need to be seen in that context.

## A note on recent changes in the housing market

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The material in the report was collected, and the report largely written, while residential property and land prices were high, there was a very active private market, and achieving affordable housing developments through mechanisms such as s106 was still viable. However, the report is now published at a time when the housing market in England is going through significant adjustments and a period of considerable uncertainty.

The report refers to behaviours that may already appear to fit better in a seemingly long-ago world of delivering affordable housing in a buoyant market. While it has not been practicable to redo the research to reflect the changed environment, many of the lessons of the research still hold. One of the report's focuses is on practices that may help all those involved in delivery to adjust better to the changing market, and other lessons from the research will have renewed relevance in a newly rising market, whenever it occurs. For example, the frameworks used for affordable housing delivery remain in place, and it is likely that they will still be there in some form when the downturn ends. The slowing down in the market may well provide an opportunity to develop new ways of delivering affordable housing within a policy framework that is responsive to changing market conditions and avoids the need for rapid revisions. This report is designed, in part, to contribute to that debate.

## Market and policy context

### Why land supply matters for affordable housing supply

A great deal of attention has been given to the relationship between land supply and delivery of new homes. The Barker Review of housing supply argued that:

*'Central to achieving change [in housing supply] is the recommendation to allocate more land for development. This certainly does not mean removing all restraints on land use, on the contrary the review advocates more attention be given to ensuring the most valuable land is preserved. But house builders would have greater choice as to which sites to develop, increasing competition. And it would also allow a quicker and more flexible response to changing market conditions on the upside.'* (Barker, 2004)

A Shelter publication reflecting on constraints on new housing supply states that:

*'By far the greatest of these constraints is the lack of available land for development. Various obstacles currently hinder the release of land for housing, including government policy requirements; the inadequate allocation of land by regional and local authorities; the continuing complexity of the planning system in spite of reforms; and the slow release of underused public sector land.'* (Townsend, 2007)

Similarly the Callcutt Review of house-building delivery said that some delivery organisations considered land to be the key to bringing housing forward, with Places for People reporting that *'this constraint outweighs all of the other constraints.'* (Callcutt, 2007)

However, some studies have refuted claims that there is insufficient land for house building. A CPRE report concludes:

*'The most striking finding from the planning data is that in all the different types of housing market studied there were ample – sometimes excessive – amounts of land available for house building... There was no indication that a shortage of building land was holding back house building on any significant (even detectable) scale. Planning permissions in all areas were typically sufficient over the study period for four or more years of house building. Land allocated for housing in addition to this was usually substantial. In areas with rising interest in house building there was evidence that these allocations were converted to planning permissions when they were needed. As unimplemented permissions lapse after three years, this was to be expected.'* (Green Balance, 2007)

Nevertheless, Callcutt agreed with Barker in saying that:

*'It is undisputed, however, that to achieve the government's target for new housing supply, more land will be needed than the planning system has been delivering.'* (Callcutt, 2007)

These studies all look, for the most part, at the link between market house building and land supply. This study identified that there have been significant problems in securing land for affordable housing across all the study areas, even those where availability of land for market housing was not a problem. In most areas the issue was not that landowners and agents were failing to put sites into the housing development process, but that the cost of land or features of the planning process limited the ability to use land for affordable housing.

### Policy expectations and roles of national institutions

The difficulty in delivering sufficient new housing in England, coupled with the stated importance of land supply in tackling this problem, has been an important driver behind a number of policy positions, guidance documents, reviews, and institutional changes.

The list below shows the range of new documents and activities over the last two years relevant to land supply for affordable housing:

- Planning Policy Statement 3: Housing (known as PPS3) and its companion guide, Delivering Affordable Housing, set a planning framework that expects local authorities to be more strategic and proactive in identification and allocation of land
- Planning for a sustainable future, the planning white paper, set out government's ideas for a more effective and responsive planning system, including plans to achieve a sustainable supply of land for development
- Homes for the future: more affordable more sustainable, the housing green paper, included several measures directly or indirectly relating to land supply for affordable (and market) housing:
  - a new public sector land use target – 200,000 new homes on surplus public sector land by 2016 (50% of which must be affordable housing and 60,000 of the total on land held by local authorities)
  - extension of the Register of Surplus Public Sector Land to all areas of central government including, for example, NHS trusts
  - new Local Housing Companies, a public-private delivery model which allows local authorities to contribute public land to housing development while retaining an interest in its value – thus making land release more attractive to authorities and making possible delivery of affordable homes without grant
  - pilots of Community Land Trusts, a model recognised particularly for its potential to support access to land for affordable housing in rural areas
- practice guidance on strategic housing land availability and strategic housing markets
- new guidance on preparing local development frameworks
- the housing protocol agreed by the Housing Corporation and Local Government Association in late 2006, and subsequent individual protocols between the Housing Corporation and several local authorities which set out actions that each will take to deliver affordable housing and sustainable communities, including a focus on the planning framework and land supply
- Unlocking the door, in which the Housing Corporation set out its own policies relating to affordable housing supply and land use, with clear expectations for local authority and housing association behaviour on land supply management
- launch of the National Housing and Planning Advice Unit (NHPAU) to provide independent advice on affordability matters to the Government, Regional Assemblies and other stakeholders with an interest in the housing market
- announcement of a Community Infrastructure Levy and inclusion of enabling powers for this in the Planning Act 2008
- the Callcutt Review of house building delivery examined how the supply of new homes is influenced by the nature and structure of the house building industry, its business models and its supply chain, including land, materials and skills
- discussions on land holding by the house building industry initiated by the Royal Town Planning Institute and CPRE
- establishment of the new Homes and Communities Agency (HCA), which brings together housing investment, regeneration, and capital programmes from English Partnerships and parts of Communities and Local Government (CLG) and the Housing Corporation and will introduce new ways of working including the 'single conversation'.

In its attempts to address the impact of the economic downturn on housing supply and the wider housing market, government has again stated the importance of the availability of public sector land for house building. The HCA has an urgent remit to respond to current housing market conditions,<sup>1</sup> and it is already using its funding more flexibly to support land management for

<sup>1</sup> CLG press release, 1 December 2008

delivery of affordable housing, in particular by revising tenure mixes and increasing the amount of grant paid. Later responses may involve it taking equity stakes in land or joint ventures to bring land forward for development as the private sector struggles to do so.

## Overview of the impact of housing and land markets on land supply management

The study looked at different types of market (urban and rural; regeneration and growth; high, low and medium demand) but did not find much variation at this level of categorisation in the way management of land supply took place. Values varied, but land supply and approaches to securing it changed only in the degree to which certain practices were applied, not whether they were applied at all.<sup>2</sup> Only in the most difficult regeneration area was there movement away from commercial developer-led delivery of affordable housing. All market types had issues relating to land assembly, remediation, infrastructure, and mix of large and small sites, although the sources of future land were different.

The more detailed features of local markets (eg the types of sites available or likely to become available, the types of landowners, and the need for social and transport infrastructure) had more influence than the broad type of market on the way land supply was managed. Good knowledge of the detail of local housing markets is clearly important if approaches to management of land supply are to be tailored effectively.

Research for this study showed that historic inflation in land costs had given rise to a number of changes in land management behaviours for affordable housing delivery. Housing land costs in England trebled in the decade to 2008, with year-on-year increases rising to nearly 24% for the first two years of this century.<sup>3</sup> The attention of, and guidance on, planning policies which govern local management of land supply have consequently shifted much more towards the use of planning obligations which are backed up by sound policies to secure affordable housing through market provision. Housing associations in all the areas examined stated that they found it hard to compete with the private sector for land, and reliance on affordable housing delivery through conditions on planning gain rather than direct delivery had grown significantly. The exception to this was on smaller infill and more difficult sites, the ones that other developers often do not want. Around 60% of affordable housing was delivered through planning gain (or s106 agreements) in 2007-8,<sup>4</sup> and some local authorities in high value areas reported that in 2007 they had received no planning applications at all from housing associations wishing to build on land they had purchased for development. Cost of land was given as the reason for this by local authorities and by housing associations.

However, the current economic downturn has brought depreciation in valuations of residential building land with planning permission, and latest CLG figures suggest this has been 18.5%<sup>5</sup> over the last year. The implications of this for land supply management by developers and landowners are not yet clear but they do need to be considered as the market, and organisations trying to work within it, stabilise.

<sup>2</sup> Rural exception sites are the obvious exception to this statement, but even broadly rural areas use the same sort of techniques beyond RESs

<sup>3</sup> CLG live tables, table 563, updated April 2008

<sup>4</sup> Based on figures in HSSA 2008 Table N and CLG completions data for 2007-8

<sup>5</sup> CLG live tables, table 563, updated February 2009

## The roles of different actors

Many different actors are involved in the activities required to get to a point where development of new affordable housing can start on site. The interactions between these actors, and the interdependencies between their actions, affect the speed, amount and quality of affordable housing delivery. A good understanding of each others' motivations and likely behaviours is needed to build strong relationships and underpin mutually supportive decision making.

This section gives an overview of different stakeholders' behaviour and aspirations in respect of land supply management. It considers the implications of their behaviour for the activities of other actors in the land supply management process and for affordable housing delivery overall, and it presents some recommendations for how stakeholders and those affected by them should respond to the behaviour.

### Developers (housing associations and private developers)<sup>6</sup>

Housing associations play a number of roles in ensuring that land includes affordable housing when it is brought forward for housing development. Among these roles are:

- purchasing housing provided by private developers as part of s106 agreements
- directly purchasing land and commissioning development of affordable housing
- securing finance (through borrowing, use of their own reserves, or bidding for grant) to support schemes
- providing ownership and management services for affordable housing, which gives local authorities a guarantee that their requirements for affordable housing to be provided 'in perpetuity' will be met
- contributing to preparation of the planning framework and other strategies, at local and regional levels.

As the proportion of affordable housing developed through s106 agreements has grown, the roles of private developers have become even more central to the process of ensuring that land is developed with an element of affordable housing. The key roles are:

- negotiating a purchase price for undeveloped land that reflects the expectation that affordable housing will be built on the site
- securing control of development sites through purchase or options
- securing planning permission for affordable housing development, including:
  - designing scheme layouts
  - acting as a central party in negotiation of s106 agreements, influencing tenure and type of affordable housing delivered
- building affordable housing
- identifying housing association partners to buy and manage the stock
- contributing to preparation of Strategic Housing Land Availability Assessments (SHLAAs) at local level.

With a better understanding of how these roles are played out by individual developers in local areas, based on a knowledge of their preferences and likely behaviours, local authorities will be better able to support others' management of land supply and to design planning policies which deliver to local needs.

<sup>6</sup> Development of affordable housing by providers other than private developers or housing associations was not on the agenda when research for this report was carried out. Focus on the roles of arms length management organisations and local authorities as developers has since increased.

### **Land sources**

The study indicated that developing housing associations in all areas were relying far more on access to land controlled by the development industry, and far less on land bought by themselves for development. This had not been a corporate preference for most housing associations but had been driven by land price and Housing Corporation (now HCA) grant policy. The indirect management of land supply undertaken when housing associations depend on s106 land requires tight liaison by housing associations with developers and planners, and also requires proactive planning policies and negotiations by local authorities. The introduction of Regular Market Engagement (RME), and now Continuous Market Engagement (CME), for allocation of grant has made this even more important.

A number of housing associations would, if given the opportunity, return to a model where they develop more of their own land because this gives them far greater control over timing, quality and standards of development. Local authority staff who assess land availability and allocate land through the planning process could support affordable housing delivery by ensuring that some smaller sites are allocated in addition to the major sites. This would enable variety in sources of land supply and support the capacity and aspirations of the local partners that will deliver the new affordable homes.

### **Effective practice**

#### **Avoiding reliance on s106 in high value areas by developing specialisms**

Town and Country Housing deals in a wide range of property types and locations, including difficult sites and schemes, and low grant schemes. Its ability to focus on these sites depends on its skills, expertise and reputation. It has an active training programme for its own staff, but also trains local authorities in the land development process and how to work effectively with the private sector. Town and Country has focused on building a reputation among individual landowners as a 'can do' organisation that means what it says and can move quickly, which has made it a focus for people wanting to sell land.

The proportion of rural exceptions seemed fairly constant as a land source for different housing associations, at no more than 10% of total land sources. As reflected elsewhere, they are viewed as 'hard work' even if worthwhile.

The predominant source of land for the **private sector** was open market purchases, and off-market purchases for smaller developers. The cost and duration of tender processes were seen as prohibitive, and negotiation was preferred. It was harder to avoid open market purchases in regeneration areas where more control was sought over whom the land was sold to, so tendering to become a preferred partner was common. Smaller developers made much greater use of windfall sites.

### **Preferred land sources**

For **housing associations'** direct land purchases, the preferred sources of land were:

- sites that private builders are not pursuing (these included sites above threshold size and, in poorer areas, brownfield sites requiring additional administration eg backland sites, employment sites and those requiring some assembly)
- local authority/public sector land, although respondents said that this source is expensive due to market value sale and can be slow to come forward due to the vendor's internal deliberations over the sale price, whether to make the sale, and standards to request.

To develop on their own sites, housing associations need to have strategies for acquiring and holding land and for managing the associated financial risks (see over).

There was little consistency in preferred sources of land for **private developers**. One local developer said they would actively pursue sites in which other developers were not interested (such as contaminated sites or those with 'ransom strips'). Some large national developers also preferred difficult sites and were comfortable sourcing land from public sector partners such as English Partnerships (now HCA) although they commented on the bureaucracy and restrictions involved. Others took entirely the opposite view.

### *Preferred land types and site sizes*

Developers' views on the management of different types of land were not as strong as expected, and land type did not strongly affect management practice. Some links between management requirements of different land types and the impact on delivery were explicitly made and informed the type of land sought, but other developers were less concerned about land type and only highlighted headline differences.

The vast majority of development was on brownfield sites, but many **housing associations** said they had no preference between greenfield or brownfield sites. Across all case study areas (and noting again that these exclude London), sites developed by housing associations were usually for between 11 and 50 units. Some housing associations felt that an urban site of less than 10 units was not viable, and so small sites tended to be used only in rural areas. Others did not have a preferred site size, and considered infill to be as valuable as large schemes. Although it can be harder to deliver targets using small sites, they help to spread financial and delivery risks and are easier to control. Also, there is less competition for them in all market types so it can be easier to secure them. Those with a preference for site size stated 20-50 as an ideal size in terms of balancing efficiency and feasibility, given the resources needed to develop larger sites. The need for mixed tenure and the desirability of managing risks of scale by working with private partners are also possible drivers of this behaviour.

Some **private developers** had a much smaller brownfield development programme than most housing associations (only 45% of sites in one case). In general, however, although there was a preference for greenfield sites, most private developers were working mainly on brownfield sites. There was not much appetite for mixed use sites because of their perceived complexity, especially around disposal of interests. Small sites (under ten units) were not commonly developed. Sites suitable for 11-50 units were desirable for smaller builders, especially those that specialised in design, and sites for 50+ units were considered when there was a need to spread their overheads. Larger developers were usually only interested in sites for over 40 units. The practice of deliberately developing sites under the affordable housing threshold varied by local authority and developer. Some developers rarely developed below-threshold sites because they did not find the margins on smaller sites attractive unless the sales values were very high; others seemed to do it on principle to avoid having to provide affordable housing.

### *Preferred planning status for land*

The majority of **housing associations** across all study areas said they preferred to purchase land that had, or would soon have, residential planning permission because they could get on site fairly quickly. This helps to reduce risk, although it means that prices are higher and potential to benefit from increase in value on grant of planning permission is lost. Some housing associations expressed a liking for sites with outline planning permission or non-residential permission because the housing association can add value and benefit from it as it proceeds to full permission or secures permission for a change of use. These housing associations felt that Housing Corporation grant allocation procedures were a barrier to purchase of such sites, because grant was only available when development started on site. This seems to demonstrate a desire to benefit from risk taking but a reluctance to actually carry and manage the risk with the housing association's own resources. It was interesting to note that there were no differences between operating areas in whether housing associations sought land with only outline permission – it seemed to be more down to corporate preference than market type.

### Effective practice

#### **Purchase of sites without planning permission can deliver financial and community benefits if risks are calculated and managed appropriately**

Knightstone Housing Association (part of the Arcadia Housing Group) will take managed risks on site purchase to maximise land value uplift which can be used to make development viable. The site at Backfields in St Pauls, Bristol was a former printing works. The site was on the market for over a year and marketed for industrial use. In 2006, Knightstone put in an offer for the site which was not conditional on planning or funding. Knightstone's board agreed to land bank the site as part of its long-term commitment to regeneration work within this neighbourhood.

The scheme design was then worked up to a detailed planning application. A mixed use development was put together comprising of 69 residential units (96% affordable) and eight workshops. The scheme evolved over time taking on board the views received during an extensive pre-application consultation period of more than 12 months. Numerous pre-application and post-application discussions were held with council officers, as well as meetings with community groups and a public exhibition to consult with the local community face-to-face.

The scheme was given planning permission in October 2007 and work commenced on site in December 2007; it is due for completion in October 2009. Funding for the scheme was agreed by the Housing Corporation once the site had been purchased.

Risk management for land holding where land does not have planning permission involves having (or working with an agent who has) a good knowledge of the local authority's ambitions for an area, the likelihood of permission being granted and of development taking place (as the current market conditions highlight), and working closely with the authority to ensure support for the potential project.

Only a few housing associations mentioned use of options on land as a way to secure future access to land. Most said it was something they would do occasionally, but one housing association in a high value area said that optioned sites formed the majority of land in its pipeline. Ensuring the optioned land can be purchased and come forward for development clearly required significant input (to get sites allocated and get permission), but was considered to be a 'risk free' way to source land.

In general, **private developers** would only purchase land once it has planning permission, but their involvement with the land started earlier than this so they could benefit from the value uplift in land resulting from the grant of planning permission. This meant that many would favour options on sites with no permission. Some had specialised in purchase of sites with no permission, taking both the risk and the benefit themselves. Comment was made that on such sites it is only possible to guess what the affordable housing obligation might be and therefore what a fair value for the land might be, which makes the developer more likely to oppose affordable housing requirements. This suggests that these developers were unaware of local planning policies or were operating in areas that do not have clear planning policies.

Public and private housing developers were generally risk averse in deciding what land to buy and at what stage in the planning process to buy it. Many would not buy land which was not, at least, allocated for housing in a local plan and, preferably, had outline or full permission. This is entirely understandable at a time of high land costs and concerns about the costs of borrowing but it does mean that those developing cannot reap the benefits derived from buying land earlier in the planning process at a lower value. Lower priced land can increase flexibility in calculations of the different house types and tenures that could be accommodated in a scheme whilst retaining an acceptable level of return.

### *Bringing land forward for development*

Most **housing associations** brought sites forward for development ‘when we can’ or ‘as soon as we can’ rather than anything more strategic. The cost of holding land and the grant payment rules (grant is not received until development starts on site) seemed to be driving this behaviour. Where housing associations did choose a particular time to bring sites forward, they tended to be part of a co-ordinated regeneration programme, fitting in with the activities and strategies of other actors.

In general **private developers** also brought land forward as soon as it had planning permission due to the cost of holding undeveloped land. Complaints about private developer land banking have been explored by Barker, Callcutt and others, and it is now clear that the view that housing developers regularly hold land with planning permission for lengthy periods is too simplistic. However, some small local developers had historic land holdings (longer than 20 years) that they held speculatively, renting it out where possible and waiting for local authority zoning to catch up with their sites in other cases. They were not in a hurry to push their land holdings towards having planning permission.

### *Tenure balance*

**Housing associations** commonly shaped tenure mix to make a scheme stack up financially, even in low value areas.<sup>7</sup> Housing associations also recognised the importance of balancing site viability with local need and the desires of the local authority. This was most pronounced in regeneration areas where the local authority’s lead role and awareness of the fragility of the market were perhaps more pronounced, and also in rural areas.

Tenure balance on **private developers’** sites was more strongly determined by planning policy requirements. Private developers much preferred shared ownership to social rent due to cost and alleged stigma, and all said they would push in planning negotiations to provide shared ownership rather than social rent.

Since the research for this report was conducted, shared ownership has become less desirable as properties have become difficult for many housing associations to sell. Rent to mortgage is considered a more practical product for tenure mix and cross subsidy in the current market.

### *Competition*

There was great dissatisfaction with the operation of competition to secure control of land for affordable housing delivery. **Housing associations** will compete with other housing associations for s106 and direct purchase land because they have organisational targets to fulfil and may need land in a particular area to complete business objectives. Most housing associations felt that competition was not ideal but was necessary, but some local authorities were very critical especially where an unknown housing association outbid a local operator. There was a mixed picture of the impact of competitive behaviour on land price; this study only found anecdotal evidence either way.

## Effective practice

### **Bristol City Council matrix**

Bristol City Council has sought to provide clarity, certainty and consistency in its requirements for affordable housing provision by fixing the price to be paid for social rented and shared ownership housing provided through planning agreements. It has developed a matrix which specifies the price that will be paid to developers by housing associations for affordable housing based on house type and location. The matrix also specifies the floor size and target rent/value based on the Homes and Community Agency requirements and assessment of affordability to local households. The policy for the matrix sets out the circumstances in which commuted sums will be considered acceptable.

<sup>7</sup> Future income for the organisation is also a consideration – decisions on tenure balance are not all about the viability of the individual site.

Competition with private developers was a frustration for housing associations in all case study areas, with a general perception that developers can offer more for land because their properties are smaller and their quality lower, so their development costs are lower.

Most **private developers** did not feel hindered by competition from housing associations, but smaller builders were dissatisfied with the competitive practices of larger builders which affected the type of site they could access.

### Recommendations

- Local authorities should have a clear understanding of the preferences and capacities of individual not for profit and private developers working in their area, so they can target their policies and practice towards supporting delivery.
  - Those allocating land through the planning process should try to ensure that some smaller sites are allocated in addition to major sites, to diversify opportunities for affordable housing development activity.
- Local authorities should increase their knowledge of the local market so that they are better able to understand the context in which their policies operate and to anticipate developer behaviour.
- To secure delivery through s106, especially with RME (and now CME), planners must be skilled and committed to drive planning agreements forward, and housing associations must be proactive in pushing for clarity and speed from authorities and developers.
- Housing associations should increase their risk management skills to increase opportunities for development and value maximisation in a safe way.
- The HCA should assess the extent to which provision through s106 is resulting in poorer quality developments and consider whether the implications for residents, and housing associations' ongoing management input, merit intervention or a new approach.
- The HCA should examine tensions between its grant policy and associations' behaviour, and find ways to rectify these either by policy reform or practice guidance.
- The HCA should review its approach to public sector land sales and master planning so it can quickly and effectively bring sites forward with developer partners.

## Landowners (public and private)

Landowners' main roles in management of land supply for delivery of affordable housing are:

- making land available for purchase by those intending to build new homes
- negotiating a sale price that makes development of affordable housing, not just market housing, viable
- on occasion, securing outline planning permission before sale.

Not all owners of land suitable for affordable housing development intend to use it for this purpose. 61% of land suitable for building is owned by non-property companies, including the public sector, and 25% is owned by commercial and mixed developers.<sup>8</sup> A survey published in 2007<sup>9</sup> showed that 25% of brownfield land suitable for housing development is owned by local authorities or other public sector bodies.

Often there was a lack of awareness that public landowners, in particular local government, are allowed to dispose of land at less than best financial value if to do so would bring other benefits to an area. Public bodies often needed to sell at best financial value to fund other areas of their service and they were also hindered when the financial value was limited because planning policy specified that the site must be used for affordable housing. Some ways to balance the need for income and need for affordable housing had been found, however.

<sup>8</sup> Callcutt Review (p37)

<sup>9</sup> <http://www.communities.gov.uk/documents/planningandbuilding/pdf/322044>

### Effective practice

#### **Local authority retains freehold ownership of Housing Revenue Account sites**

A large urban authority has developed a model which enables it to sell the leasehold on HRA sites but retain ownership of the freehold. The leasehold on the land is sold at around 70% of the overall value of the site, which makes it financially viable for the purchaser to develop affordable housing as well as enabling the local authority to retain some of the value of its assets for future use.

Sometimes local authorities and other public bodies were willing to value sites at best social value and to work with a specified housing association in the process of selling (rather than tendering) them. This can reduce sale costs and help ensure sale to an organisation that is trusted to deliver, but the capacity of local authorities to use this approach is limited by dwindling land holdings.

### Effective practice

#### **County council offers land to housing associations before going to market**

Oxfordshire County Council has developed an approach to sales of its land holdings that lets it maximise the social return as well as getting a good financial return. It is committed to considering if it can offer land from old school and care home sites off-market to housing associations before going to market. When this approach is used, the relevant district council nominates preferred partners and supports the bid for social housing grant (now from the HCA). The housing association pays a mid-price for the land and agrees to provide care or supported housing facilities on site to meet the needs of the county council alongside the affordable housing. The county council achieves best value although it gets slightly less money for the site than it would for open market sale. The lower price enables it to work with selected partners and to get additional benefits in terms of on-site provision to meet its own strategic objectives, which might not be viable if more had been paid for the land. The keys to making this approach work are building strong relationships, finding a 'win' for all parties involved, meeting county aims for affordable housing, and getting HCA support.

Ideally, asset management plans will relate to corporate or local strategic objectives rather than just departmental ones.

### Effective practice

#### **Local authority asset management plan**

Bristol City Council has a well maintained GIS-based record of all its land holdings. Even if properties are vested in particular departments, they are viewed as assets of the whole council that are capable of being used for corporate objectives. The council's asset management plan draws on this record.

The views taken by **private land owners** (and, importantly, their agents) of the value of land in both the short and long term were major determinants of whether land was brought forward for housing. Private land owners that wished to sell for housing development had become more realistic in their understanding of the value of their land where affordable housing was required. But land owners will take a long view, meaning some will never sell for housing and some will be less willing to sell in a weak market.

## Recommendations

- Public bodies that hold land should be aware of what land they do own and have a clear strategy for disposal of any land that becomes surplus to requirements or can support wider corporate objectives.
- Off-market sales of public land should be considered where possible to support affordable housing provision.
- Local authorities should be aware of others' priorities and how to facilitate a land sale that delivers for everyone.
- To shape private landowner behaviour, local authorities need clear, strong and up-to-date policies on land, and a negotiating stance that backs these up.
- Developers looking to secure land should be aware of, and understand, preferences and aspirations of local landowners.
- Advice from CLG on asset management needs to be joined with a straightforward guide to the rules governing disposal, to help public land play its full part in supporting the delivery of affordable housing.
- The Treasury could examine its rules on public land disposal to see whether they do create an obstacle to allowing that land to assist in supporting the achievement of the government's wider social agendas.
- Models for retained interest in land should be evaluated and rolled out to other public bodies.
- The HCA should build greater awareness of the role the Register of Surplus Public Sector Land could play at local level to support better use of public land for affordable housing.

## Local authority strategic role and development control behaviour

Local authorities play three key roles in land management for affordable housing:

- creating a planning framework to deliver appropriate numbers and types of affordable housing within which others can manage their land
- leading and influencing others' behaviour through personal intervention and relationships
- managing their own land holdings.

Our research identified the factors crucial to the effective fulfilment of these roles. They include:

- corporate commitment and effective joint working arrangements within the authority
- robust policy positions to set out expectations and secure required outcomes
- effective negotiation with developers to capture 'planning gain'
- strategic identification of sites
- inclusion of land supply issues in strategic decision-making, eg through Local Area Agreements.

### ***Corporate commitment and joint working***

Local government is a pivotal point around which regulation of the management of land takes place. This role is carried out most effectively when:

- there is a corporate approach within local government that embraces housing strategy, the planning process, asset management, funding decisions and community involvement
- it is strong enough to reconcile competing departmental interests and take a unified approach to housing land supply issues both strategically and in relation to specific decisions (eg planning inquiries relating to proposals which involve affordable housing).

A number of authorities demonstrated effective joint working **within** the authority to deliver land supply for affordable housing. The greater prevalence of unified directorates for housing and planning is one example of this, as is the increasing tendency for negotiation on affordable housing not to be left to planners alone.

## Effective practice

### **Inter-departmental approach to planning applications**

South Gloucestershire Council has developed good internal working relationships which support its approach to land management across the council. Key relationships are between housing, policy, and development control. All housing proposals are automatically referred to the housing department, which then leads the negotiations on affordable contributions. If necessary, meetings are held with developers where housing, planning and legal departments are all present. The housing department is empowered to negotiate with developers on behalf of the council on scheme details, on the basis of planning policy and the approved Affordable Housing Supplementary Planning Document (SPD).

Even in authorities where there is political opposition to new market housing development, it has proved possible to build commitment to affordable housing in schemes that do go ahead. One council organised a workshop on delivering affordable housing which brought together councillors, planners and housing associations to increase understanding of the roles and pressures which each face.

However, joint working **between** councils can be problematic. Where growth serving an urban centre inevitably has to be met by urban extensions into adjoining districts, the council which has to oversee the delivery may either be unenthusiastic or lack the skilled staff needed to ensure a successful outcome. Decisions taken outside of the local authorities can also hinder joint working. One rural high pressure market area, where there was a will for councils to work together, found problems when planning inspectors deemed the authorities' preferred threshold unviable in one authority and viable in the neighbouring authority, which made it difficult to deliver a consistent sub-regional approach.

### ***Robust policy positions and effective negotiations***

Some authorities admitted their weaknesses in negotiating the affordable housing element of new developments through s106 agreements, or were in the process of strengthening their capacity by appointing more experienced staff (although small authorities have difficulty in recruiting sufficiently skilled people).

Other authorities had staff who were well-grounded in negotiating with developers, understood development finance and were familiar with how housing associations balance the financial factors (land value, building cost, grant etc) in establishing whether schemes are viable. A strong basis for negotiating with developers could be provided by having a specific and detailed Supplementary Planning Document (SPD) on affordable housing of which developers and landowners are aware.

## Effective practice

### **Affordable housing negotiation via pre-application discussions**

Harrogate Borough Council has streamlined its negotiation process for affordable housing. People applying for planning permission are encouraged to have pre-application discussions on the amount of affordable housing to be provided, and to submit a pro forma confirming what has been agreed before they register a planning application (this is one of the council's Local Validation Criteria). This is a spur to avoid protracted negotiations and also means that the target to process applications satisfactorily in less than thirteen weeks can usually be met.

Concerns were widespread about the dominance of flats in new developments and the management problems that could be associated with them. There was a desperate need for family homes in many areas and there were real difficulties securing them through s106 where density increases were a key feature of land supply management. Planners felt railroaded into allowing higher densities and flatted developments to get any affordable housing at all. Explicit statements in local policies on desired approaches to density were seen as beneficial, although their outcomes had not yet been demonstrated.

Frustration was expressed about the length of time needed to change formal planning policy resulting in out-of-date policies being applied, often with lower targets for the proportion of affordable housing than an authority and its partner housing associations would currently wish to achieve. The challenge of how to deal with this problem in a way that gives long-term certainty, but delivers what is reasonable, remains unanswered.

Some areas' targets seemed to have no link to the amount of affordable housing that was actually needed or what it was possible to deliver. Some authorities had reported targets of less than 10% of assessed need, and felt that if targets were more meaningful they could be used to inform approaches to land supply management as well as resources allocated to it. Local politics and the need to have deliverable targets were seen as the main barriers to development of more meaningful targets.

Thresholds for delivery of affordable housing presented a number of problems eg where developments came forward which were just (often one dwelling) below the threshold. In some cases, the local planning authority would look at the density of schemes to ensure that the scheme had not been designed to avoid a requirement for affordable housing, and would challenge developers on this point.

Areas with a high dependence on s106 highlighted that it could be very difficult to deliver their percentage targets for the total number of new homes that will be affordable in the whole area. This was because not all new housing developments involved any affordable housing, and some delivered affordable homes at old (and low) thresholds, which put additional pressure on other sites to deliver above target. Again, this shows the need to find opportunities for direct development by housing associations or others alongside s106. The strategic approach needed to do this might include a focus on use of publicly owned land.

### ***Strategic identification of sites***

Local authority interviewees were fairly well advanced with SHLAA production, and had found the process beneficial. However the need to make it a live process, not just a one-off document, had not been appreciated by all authorities (eg those which had seconded staff or taken them off regular duties to get the SHLAA ready). The process of undertaking the assessments had clearly not always provided opportunities for the involvement of landowners, developers, public bodies and infrastructure providers – very few interviewees outside councils mentioned the SHLAA approach at all, let alone as a useful tool. However, there was evidence of some involvement. One authority that was very dependent on windfalls reported that the SHLAA had to some extent improved their relationships with site owners and land managers, and therefore improved their knowledge of business sites that may become vacant (which changes sites from being 'likely windfalls' into strategically included ones).

There was an inaccurate perception in nearly all the study areas that government policy, through PPS3, does not permit any allowance being made for windfall sites in SHLAAs. Concerns were raised about how to meet land supply needs in general, and for smaller developers in particular, without using windfalls.

## Recommendations

- Authorities (or groups of authorities within sub-regions) should consider how to build political commitment to affordable housing provision, especially where it is weak or does not exist across the whole area.
- Joint working arrangements between housing and planning functions should be reviewed to ensure they are effective and cover all the necessary aspects from strategy down to delivery of developments.
- Authorities should review the skills they have available for negotiating with developers and whether they effectively combine the different areas of expertise required.
- Authorities should consider having specific SPDs on affordable housing obligations to tighten and strengthen their policy position and delivery, and local authority planning departments should be prepared to enforce them where necessary.
- The strategic planning and assessment approach advocated in the Audit Commission guide, Securing community benefits through the planning process, and in the plans for the Community Infrastructure Levy (CIL) should be used to help inject realism and clarity around planning and negotiation for delivery of affordable housing.
- Local planning authorities should take greater account of the need to cater for smaller developers in their land allocation and, if necessary, bring the availability of windfall sites more fully into the allocation process.
- It is essential that the right organisations are involved in the SHLAA process if the land identification process is to be effective and the desired land is to come forward.
- Local authority departments should align priorities and pool skills.
- Explicit statements on desired approaches to density are needed in local policies, and good practice in getting suitable area management and housing types in high density areas must be included in new developments.
- Care should be taken to ensure targets are more topical and meaningful, so they can be used to inform approaches to land supply management as well as resources allocated to it.
- Local planning authorities should look very closely at the density of small schemes to ensure that they are not designed in a way to avoid a requirement for affordable housing.
- Planning inspectors should base their own assessments on a good understanding of local market conditions and sub-regional objectives.
- Work towards hitting affordable housing targets should be supported by a strategic approach to provision of non s106 sites, which might include a focus on use of publicly owned land.
- Government should consider giving clearer guidance on good practice around windfall sites and make sure that links are made between the information needs of strategic planning for housing and knowledge gained by local authorities through exercise of their (proposed) local economic assessment duty.

## Homes and Communities Agency (formerly the Housing Corporation)

It was noticeable in all the study areas that Housing Corporation staff were more concerned with the way that local authorities managed land for affordable housing than they were with the land management activities of housing associations and non-registered bodies in receipt of grant. This is because so much more affordable housing has been delivered through s106 than directly by housing associations. Focus on grant-free development varied around the country, but had increased the ability to deliver without grant in some areas.

The belief that the Corporation's grant allocation system impacted negatively on housing associations' ability to manage land to best effect was widespread. Some of this thinking appeared to derive from a desire for more certainty in the grant regime. All housing associations expressed some frustration with the regime – feeling it was driving them to behave in ways they did not want, that Corporation decisions on what to fund were inconsistent, and that the end-of-year rush to meet targets was unhelpful. Some did feel that RME offers possibilities for improving the

situation, and that it may change housing association behaviour if they start to purchase sites that they would not previously have been involved in because of perceived risk associated with the grant process.

### Recommendations

- The HCA should continue to develop a policy of 'rewarding' housing organisations that can deliver without grant on some sites with increased grant on costlier sites that can deliver high quality.
- The HCA should use its new operating structure to balance outcomes more equally with delivery against targets.

## Regional government

There were a range of criticisms of regional government. Some of the comments seemed to stem from lack of buy-in to Regional Assemblies, and others from experience of poor performance. Both were seen as a barrier to effective regional working. It is to be hoped that the new structures for the Regional Development Agencies (RDAs), alongside the HCA's single conversation, can tackle buy-in issues.

The importance of ensuring that regional targets are deliverable in terms of the capacities within the region, and that this should be done by enhancing capacity rather than revising targets, was stressed. There was support for Regional Assemblies that had recognised delivery problems and targeted interventions accordingly, and for action plans and active interaction with delivery partners.

### Effective practice

#### Implementation action plan

Yorkshire and Humber Regional Assembly developed an Implementation Action Plan to support delivery of its Regional Spatial Strategy (RSS). The purpose of the Implementation Action Plan is to identify:

- delivery agents and mechanisms
- procedures for monitoring the Plan's implementation, including targets and indicators
- procedures for review including identifying gaps in the implementation of the Plan and key priority actions to address these
- how investment for the Region is aligned
- what infrastructure exists in the region to support the delivery of the Plan.

It has led to support for a range of housing initiatives including a guide to preparing Strategic Housing Land Availability Assessments and dissemination of good practice on the delivery of affordable housing.

(Housing and Planning work is now being taken forward by Local Government Yorkshire and Humber in conjunction with the RDA).

### Recommendations

- Issues of performance and behaviour, in particular those around understanding of and support for housing development, should be taken into consideration as the RDAs take over responsibility for housing and develop new Regional Strategies.
- It would be valuable if work in advance of the transfer of the regional planning process to Regional Development Agencies could include an evaluation of the necessity for a delivery plan for housing, in particular affordable housing, at regional level. In addition the HCA, through its single conversations, could get a good picture of capacity and target resources accordingly.

## Cross sector issues

### Future sources of land

An understanding of future as well as current sources of land is needed if a strategic approach to land management is to be adopted.

A number of interviewees stressed the role that major sites must play in delivering the numbers of affordable homes that are required. They felt that although small sites would keep coming forward they would not meet demand in the long term. By their nature, large sites will be often greenfield and on the edge of existing settlements, although this is not so often the case in major urban regeneration areas.

The ability to develop larger greenfield sites is constrained by landscape, greenbelt designations and, increasingly, by assessments of liability to flooding. However, interviewees in at least one study area felt that there must be greater use of greenfield land in the future as brownfield sites are used up or become increasingly difficult to develop. This clearly runs counter to a range of national policies on regeneration, climate change, and the protection of open land which all envisage longer term reliance on brownfield sites. There was some feeling in a number of study areas that PPS3 may actually drive release of more greenfield sites.

It was estimated that 43% (26,750 ha) of previously developed land available in 2006 for redevelopment would be suitable for housing with a total capacity of 974,000 homes. This study found that those involved in land supply across all the study areas were looking to use three main sources of previously developed land in the future:

- **Employment land** There were two main concerns about building on land originally allocated for employment uses: first, that a policy of 'housing first' could mean that too much employment land was lost; and second, the cost of cleaning former industrial sites.
- **Regeneration schemes** There was a clear difference between the study areas in respect of the emphasis placed on regeneration schemes as a future source of land for affordable housing. Although regeneration schemes might not be a source of much affordable housing supply in some areas, their potential should always be considered.
- **Existing housing estates** The potential for developing existing housing estates at a higher density was highlighted in the majority of the study areas. There were several examples of development taking place on former garage sites and increasing the density of existing estates. The main barriers to delivering higher densities raised were logistics and public acceptability: it was felt that quality of life and environment could suffer in higher density schemes.

Some **housing associations** were expecting the contribution of s106 to grow in proportion to other land sources because of decreasing availability of local authority land, the RSS's preference for large market-led sites, and because s106 sites were cheaper than housing association-led sites.

It was widely expected in most areas that land in future would still come from the private market but would be more often located on the edge of settlements in the form of urban extensions. A number of **private developers** highlighted their concerns that less private land would come forward in future as landowners saw falling prices and waited for an upturn. Some private developers expected a greater public sector supply of land, possibly reflecting greater awareness of government policy priorities.

The accuracy of these predictions is now in question of course, but a key point remains. Overall, there was little evidence of a strategic overview of the sources of future land supply. In particular, some regional bodies interviewed demonstrated a real lack of knowledge of sources of land for affordable housing. To some extent lack of a strategic overview should be overcome as more

Strategic Housing Land Availability Assessments become established tools and, perhaps, as the new Regional Strategy is prepared in each region. However, given the acknowledged importance of land, it is surprising that there was not already more understanding of its likely future availability.

## Joint working and partnerships

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Bringing forward land for affordable housing depends on interactions between different actors, none of which can bring the development process to conclusion without the others.

The study identified concerns about occasions when required joint working had not worked well. There were a number of examples where housing associations and the Housing Corporation had been brought too late into the s106 process; where housing associations were involved in a bidding rather than a negotiated process to secure the right to be involved; and where developers had not been involved in land availability assessments. Such disjointed working can be costly in both time and finance.

Formal partnerships can help to bring greater certainty to the process of managing land supply for affordable housing and can distribute the risks more evenly amongst the partners. This benefit is important: the study has shown risk aversion in all sectors involved in the process, with only a few examples of initiatives that demonstrate willingness and ability to take and manage higher risks.

The formal partnerships represented in the study areas covered a range of functions and objectives:

- a coalition of developing housing associations working to increase volume and scale of land purchase and therefore affordable housing supply
- a group of local authorities and housing associations responsible for using money to support HomeBuy schemes
- local authorities in a housing market area seeking to co-ordinate policy across boundaries
- local authorities and housing associations co-ordinating actions to facilitate rural affordable housing delivery
- local authorities, housing associations, developers, infrastructure providers, and regional government agencies working with an overarching body to bring their inputs together and lobby on their behalf to co-ordinate others to enable successful growth
- a housing association undertaking its programme of development work in one particular area and, therefore, getting to know the requirements and ways of working of the local authority.

Advantages gained through partnerships included:

- greater preparedness to take risks
- increased organisational focus on an area or issue
- reduction in competition
- ability to access new opportunities (types of land and development) and business
- ability to develop new delivery models
- greater consistency in behaviour and approach
- more consistent opportunities to share information, knowledge and skills
- ability to collectively employ staff or commission work that no one organisation could fund but all benefit from
- savings achieved through buying power and economies of scale, eg on contracting
- better decisions and more speed (due to reduction in conflict).

The study reinforced general messages about the keys to success and potential benefits of partnerships, but it also gave some specifics relating to partnerships around land supply. Partnerships whose objectives link to land supply management work best when there is:

- early engagement in the process by all concerned
- commitment to use the partnership for mutual as well as individual benefit
- the creation of a track record of working together and, therefore, of understanding each others' drivers
- an equality of partnership with the benefits that each partner brings to the process clearly spelled out, whether it is land, design innovation, development skills, access to grant funding, or regulatory responsibility
- certainty of behaviour at key stages in the land management process, eg the type of site where development will be sought, or guaranteed standards of property management
- a mechanism for recognising and distributing risk and rewarding risk taking
- use of the individual strengths of partners to achieve more than individual bodies could, eg site assembly
- use of a range of mechanisms available such as off-market land sales and regular partnering on s106 sites, as opposed to open bidding, to minimise the transaction costs involved in the partnership
- clear alignment of the objectives of the partnership to local and regional policies for affordable housing.

### Effective practice

#### **Diversifying opportunities through partnership**

Sovereign Housing's development partnership includes several supported and specialist housing providers as well as a range of general needs housing associations. The partners work together to generate opportunities: working through the consortium means that individual partners can access more people and a broader range of contacts, and consequently they can gain access to different development schemes which may not have been available to them as individual organisations.

In some cases it was harder to see that advantages accrued through the partnership would not have come through separate working. In others, the anticipated advantages had not materialised. Observing this, some interviewees had become more cautious about accepting partnership as being necessarily the best approach to delivery.

### Effective practice

#### **Assessment of potential for enhanced partnership**

A partnership operating in one of the study areas had actively considered whether it would be possible and helpful to increase the land management-related activities the partnership worked together on. Partnership members were working largely at local authority level for housing delivery rather than as a collective. Local areas had different targets, visions and different preferred housing association partners. Investigations showed that a number of options for working more closely together had distinct barriers which would hinder their effectiveness, and these findings were used to inform which areas of the partnership would be enhanced and how the enhancement would take place.

For example, it was recognised that harmonising planning policies (targets etc) may help to strengthen councils' negotiating stance on provision of affordable housing and help developers to understand expectations around provision of affordable homes in any part of the county. But it was felt that the views and actions of different local planning inspectors and the varying political views amongst the district councils could restrict potential for harmonising policies, and so although it was possible to go a long way towards achieving this objective, a way to overcome this would be needed if this aspect of the partnership was to be fully developed.

## Recommendations

- The HCA is encouraged to stress the importance of smooth joint working and help local authorities to keep a tight rein on behaviour. A timeline for the best time to bring partners in could be helpful.
- Main actors should reflect on the characteristics of successful joint working and partnerships shown above, and try to adopt them.
- Potential partners should give thorough consideration to the real benefits to be derived from partnerships and put an action plan in place to make sure they are achieved.

## Skills

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It is clear from this research and from wider studies<sup>10</sup> that too few people possess the range of skills needed to bring forward land for affordable housing. Such skills include:

- an understanding of development finance
- negotiation
- valuation
- risk appraisal
- project management
- the more technical skills associated with planning for, and undertaking, housing development.

Skills shortages can impact on effective land supply management in a number of ways. They can lead to practitioners making demands for affordable housing and other infrastructure which render a scheme potentially unviable; failing to achieve the maximum potential benefit from a scheme; or delivering schemes that have built-in management problems. There was an understanding of the skills gap and, in one sense, this does demonstrate recognition of the need to improve performance in this respect.

Nationally, there are a number of initiatives on skills development, including the work of ATLAS, the Planning Advisory Service, and IDeA through its strategic housing programme. Locally the skills required, particularly in valuation and negotiation, can sometimes be found elsewhere in a local authority or through the use of consultants. This latter approach may be easier to fund if local authorities commission studies and appraisals jointly as has been done by Homes West in the Bristol sub-region.

## Infrastructure

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The issue of land availability for affordable housing cannot be separated from that of infrastructure provision. The overall need for infrastructure can be a much greater priority for s106 contributions than affordable housing. More widely, the ability of local areas to deliver affordable housing can be closely tied up with the ability of bodies to fund and deliver the infrastructure that is needed to allow sites to be developed and sustainable communities created.

The proposed Community Infrastructure Levy should bring a more coherent approach to infrastructure prioritisation and funding. However, infrastructure planning will have to dovetail with planning for affordable housing so that pressure to fund infrastructure through planning gain does not undermine the ability to secure affordable housing. This again shows the importance of diversifying land sources and management techniques to enable a move away from near-exclusive dependence on planning gain to provide land for affordable housing.

<sup>10</sup> See, for example; ARUP (2007) *Mind the Skills Gap*, ASC

## Approaches to land management in the current economic downturn

The current downturn in the housing market is having a significant effect on the way land is managed to deliver affordable housing. It has highlighted the problems with recent approaches to land supply management to deliver affordable housing, and it is affecting the behaviour of, and options open to, all key actors in the land management process.

The HCA has an urgent remit to respond to current housing market conditions:

*'Top of the agenda... will be taking forward the Government's plans to respond to current economic difficulties. The way land is purchased, investment obtained and unsold stock is converted into social housing are just some of the areas being looked at to ensure affordable homes continue to be delivered in these tough times.'*<sup>11</sup>

The HCA has responded promptly with financial and procedural flexibility to support delivery by housing associations, and with new initiatives to support movement of new homes intended for market sale into the affordable housing sector.

Examples of practice described earlier in this report show that understanding of the need to work with the interrelated issues in land supply management is being acted on in some cases – with good results. Such good results are often tied to the ability to look at what needs to be achieved and to work out ways of doing this without being hidebound by past practice or an unthinking adherence to perceived legislative or regulatory constraints. Innovation and creativity will be essential if we are to find ways to maximise delivery of affordable housing in the current economic climate.

### Land sources

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The recession has clearly called into question developer-led approaches to land supply for affordable housing. It is likely that housing associations which can continue to develop will move to a position where they will seek to purchase land themselves on the open market and then control which tenure is provided and which partners are brought in.

Levels of supply of land for affordable housing may well change as the uncertainties in the housing market encourage landowners to take a longer-term view of the role of land in their financial portfolio. Many local authorities have revised their land disposal policies. They no longer feel able to dispose of land because values have fallen so much. Ways to meet demand for land will be needed, however.

This research identified new approaches being taken to land supply management, such as land owners maintaining an interest in land rather than selling outright, which may be a useful model for maintaining land supply as the land market continues in a period of uncertainty. Models for retained interest in land that can work without a reliance on high current land value should be evaluated and rolled out to other public and private bodies.

Whilst supply from land markets is restricted, some housing associations may wish to focus more closely and efficiently on their existing land holdings and how they can be used, and the development roles of local authorities and other public landowners may be strengthened.

The HCA needs a robust stance on use of public sector land to support development, ensuring that its value is retained to the public sector as well as supporting development.

<sup>11</sup> CLG press release, 1 December 2008

## Tenure balance

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The role of mixed tenure in making the development of social housing viable has been turned on its head in the context of the current market conditions. The difficulties of selling shared ownership or market sale properties have undermined the viability of sites put together on this basis. In the current market, developers with sites which they must build out are revisiting the proportion of affordable housing on site in order to balance viability. Whilst affordable housing has been seen as a burden on development viability to date, sales to housing associations are currently seen as a way to enable stock to be sold given that market sales have declined. Flexibility and trust between housing associations, developers and the local authority are needed to facilitate these approaches.

## Planning policy

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Considerations of viability and thresholds have come to the fore since the research for this report was completed, with the credit crunch both hindering delivery and sharpening the likelihood that challenges to planning obligations will succeed. Local authorities need a good understanding of viability issues when setting targets and they will need to keep them under review as market conditions change. Similarly, planning inspectors need to base their own assessments on a good understanding of local market conditions and sub-regional objectives.

## Local knowledge

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Local authorities should explore how affordable housing investment can best support continued house building in their area in the current economic climate, and engage with options offered by the HCA and other partners. This will require detailed knowledge of how other actors in the area are reacting to and affected by the downturn. Flexibility around phasing preferences, so that affordable housing comes forward first in order to support developers' cash flow, may be an early step.

A key message is that it is essential that local authorities have a good understanding of their current and projected economic circumstances and that this understanding is used to inform decisions about land management for affordable housing. The CIH publication *Housing and the economy* shows in more detail how ambitions and needs for housing and the economy can be considered together.

## Strategic identification of sites

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Authorities should review site allocations to ensure they include sites that could be directly purchased by housing associations. They should consider increasing the number of this type of site whilst s106 delivery is low, to maximise opportunities for ongoing supply of affordable housing.

As the market downturn continues, what is 'available and achievable' may change frequently. Authorities should regularly monitor changes in land use which may be driven by the recession, and use this information along with other interventions to support housing supply and wider economic objectives.

## Planning obligations

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The change in the market has of course reduced hopes for delivery through s106 and suggests a big threat to affordable housing delivery in certain areas, which local authorities should be looking

to address. Authorities and their partners will need to review plans for how land can be managed to deliver affordable housing, as planning gain will not deliver as much as it has in recent years. Local authorities where affordable housing supply has been highly dependent on s106 should review with partners what could be done to facilitate direct development in their areas and how best to support them in their work. Investment in social housing may need to be targeted at organisations that have the skills and capacity to deliver through routes other than s106, rather than at those with the capacity to raise finance for s106 purchase. High value areas will need to assess how far the market downturn will enable housing associations to buy land, and how far the original values and demand were so high that the downturn may not help.

Homes will continue to be built through the downturn and s106 can still be used if it is based on a good understanding of market conditions and viability. Local authorities should review their planning requirements and extend skills around financial appraisal to ensure that development is not lost entirely by the imposition of too high demands on it.

## National agencies

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The HCA's flexible policy and investment framework is the right approach to support land supply management and development of affordable housing in changing markets. The affordable housing funding model needs to be based on development grant at a realistic figure without dependency on cross subsidy from sales, although rent to buy models may provide other cross-subsidy options. Changes in the market context will require investment staff to shift their focus from local authority planning behaviour as the key to delivery of new affordable housing, and onto what housing associations and other current and potential providers (including local authorities, arms length management organisations, and private companies) can deliver.

New roles may emerge for the HCA, eg using its legal powers to take equity stakes in land or joint ventures to bring land forward for development as the private sector struggles to do so. The degree to which the HCA gets involved in key sites as an alternative to developer-led approaches may well have a significant influence on future supply. The Agency should also use its research functions to identify ways, such as land leasing, in which land owners from all sectors may be encouraged to continue making land available for housing supply in the market downturn.

## Lessons that can be used to prepare for a return to economic stability

The current situation gives an opportunity to review policy and practice to put it on a more sustainable footing for different market conditions. There is strong support for creation of a flexible and sustainable policy and investment framework to support land supply management and development of affordable housing.

The approaches to management of land supply for delivery of affordable housing used when the market was strong were not always very effective, as this report shows. Good practice was often about finding ways to work as effectively as possible with the most difficult aspects of the system. Before the downturn, there were calls for a period of consolidation in the policy context to allow those charged with delivery a period of certainty and an ability to assess impact before further reform was initiated. We now know that the policy framework and most land management techniques were also poorly suited to dealing with a changing market context, and that a return to the same techniques when the market recovers is not really desirable.

Before the downturn concerns were already being raised about dependence on one method of land management to deliver affordable housing. The implications of this dependence with no back-up plan were borne out as the market tightened, causing a hiatus in delivery and hindering long term objectives. Indeed, one of the key difficulties of relying on a buoyant housing market to provide cross subsidy is that, at a time when house builders are withdrawing from the market, some housing associations are unable to continue with their own planned development thus adding to the downturn in the market and in the economy generally.

Similarly, concerns were being raised by house builders that the amount and range of benefits sought through planning gain and regulatory requirements were getting unfeasible. Whilst it still seems reasonable to tax the profit that landowners make on grant of residential planning permission, it is not desirable to stymie development with too many requirements. Calls to remove affordable housing from planning gain requirements, in order to enable continued provision of other requirements, are gaining momentum.

The current period of market downturn should be used to explore and promote new ideas for models to develop affordable housing which are sustainable and can help avoid counter cyclical downturns. For example, we should consider:

- whether there can be a framework within which affordable housing can be delivered without over-dependence on either public or private funding, and where supply can be maintained and kept constant through changes in the wider market
- how capacity to deliver by different means at different times could be maintained, eg how to avoid return to a situation where 80% of affordable housing in some areas comes from one source and bringing small sites forward is seen as a disproportionate effort
- how to base the funding model on development grant set at a realistic figure without dependency on cross subsidy from sales, and to use s106 units to enhance volume rather than to construct averages for programme delivery
- how to improve balance between the component parts of development, eg in late 2008 housing associations were technically able to purchase land at good values but faced problems of how to fund this (and the cost of the development) at a time of expensive finance and falling house prices
- whether land tax has a role to play in a new approach to the housing market, stifling speculation and providing funds for delivery.

## Conclusions

If there is any headline message arising from this study, it relates to the great complexity of the process of managing land supply for delivery of affordable housing. The report shows that it is impossible to separate out any one issue from the rest – be it the availability of grant, the process of gaining planning permission, the negotiation of a s106 agreement, the establishment of a development partnership, the skills needed to succeed, the corporate approach of those involved, or the importance of infrastructure.

It is not sufficient for any party involved with delivery of affordable housing simply to concentrate on any one aspect of the delivery process. Approaches to location of land, planning permission, site design and planning conditions must all be understood and given attention by anyone working on housing delivery. A complex and intertwined process of land management demands a sophisticated and inter-related policy package and practice response, otherwise ‘leaks’ develop in the pipeline and the outcome is weaker than it could have been.

Practice shows that sophisticated responses have been developed in some cases, and that they are effective. But the current economic context has undermined many of the working practices which have become established in management of land supply for delivery of affordable housing. It is more important than ever to foster an ability to work out ways to achieve what is needed without being wedded to past practice or hindered by misconceptions about legislative or regulatory constraints. It is also essential to use the current period of market downturn to explore and promote new ideas for models to develop affordable housing which are sustainable and can help to avoid counter cyclical downturns.

## Appendix 1: The six case study areas

The six case study areas which informed this research are as follows:

**Study area 1 West of England**

The unitary authorities of Bristol City, South Gloucestershire, North Somerset, and Bath & North East Somerset.

**Study area 2 West Midlands Central**

The metropolitan authorities of Birmingham and Solihull (unitaries), plus the districts of Lichfield and Tamworth.

**Study area 3 East Kent/Ashford**

The districts of Canterbury, Thanet, Dover, Shepway, and parts of Swale and Ashford.

**Study area 4 Central Oxfordshire**

Oxford City and parts of the administrative areas of Cherwell, South Oxfordshire, Vale of the White Horse and West Oxfordshire districts.

**Study area 5 Inner Manchester City Region**

Parts of the administrative areas of Manchester City Council, Salford City Council and Trafford Metropolitan Borough Council, focussed on the regional centre of Manchester City Region and the inner areas which surround the Regional Centre.

**Study area 6 Yorkshire 'Golden Triangle'**

The northern part of Leeds City (unitary), the City of York (unitary), and Harrogate district.

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