CLUTTONS

London Borough of Sutton

Maintaining Housing Supply In Depressed Market Conditions

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London Borough of Sutton

Core Planning Strategy

Maintaining Housing Supply In Depressed Market Conditions

Cluttons has been instructed by the London Borough of Sutton, "to review the current financial situation and assess its impact on both the current and future delivery of housing sites over the next five years and in particular, the likely delivery of specific sites in the Council's five year housing land supply as well as other possible sites, both large and small, that might come forward during that period".

In consideration of the delivery, we have had regard to the impact on viability of affordable housing quotas and Section 106 contributions.

We have considered initiatives to assist in maintaining the future housing supply, in particular over the next five years.

1. Current Market Conditions

1.1 Residential and commercial values peaked in 2007, the former in around September and the latter, three or four months earlier. The market in both sectors virtually came to a standstill throughout 2008, although there were signs last December of an increase in viewings, turning into increased sales in the first quarter of this year.

1.2 However, the plummeting fall in values throughout 2008 spelt a disastrous scenario for recent homebuyers with minimal equity, developers who purchased at land values reflecting higher house prices, and banks, which found that the collateral offered by the customers was much reduced or non existent. Banks became very reluctant to lend, which increased the velocity of the fall in values.

1.3 More recently, those with cash to spare, or buyers with sufficient deposits, were encouraged back to the market, to a degree, by the fact that house prices looked far more attractive compared to the year previously; and even cash deposits in banks started to look riskier than bricks and mortar. There is evidence of a surge of sales being agreed in the last few weeks and in some of the better residential areas in the South East, agents are reporting a slight increase in values compared to October last year.

1.4 On the commercial front, yields have weakened right across the sector and rents are also beginning to fall. Table 1 below reflects the consensus of opinion in the market at present;

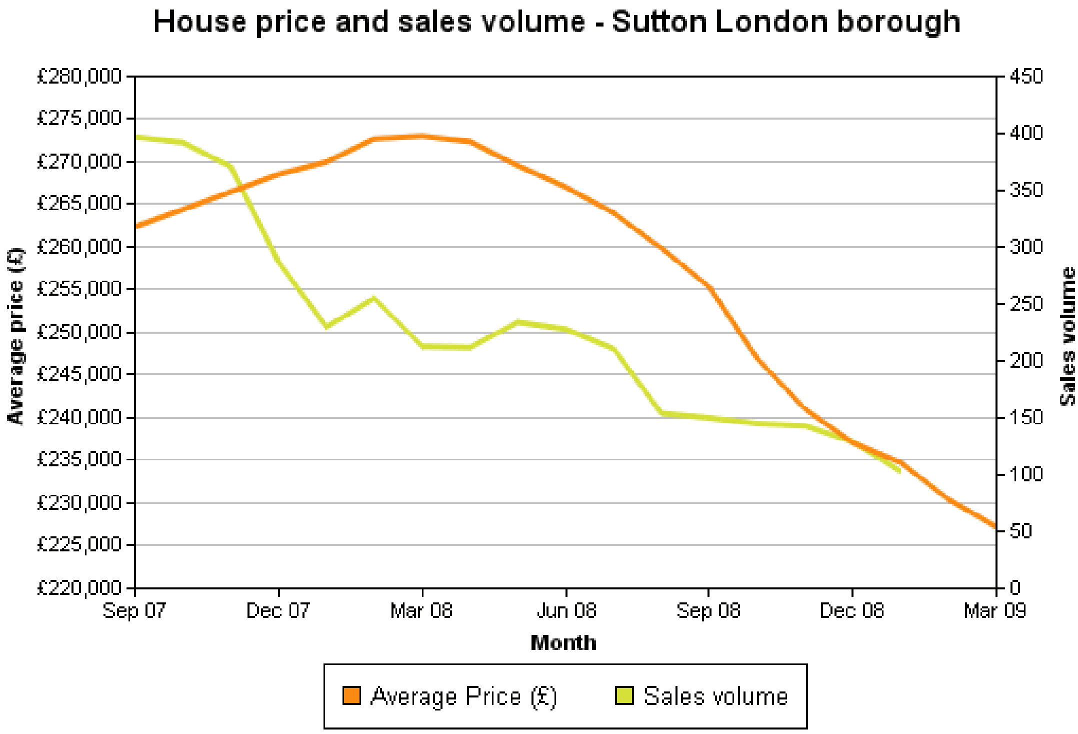
Table 1:

Type	**Yield May 2007 (Peak)**	**Yield Feb 2009**	**Trend**
Prime Shops	4.5 – 5%	6.75 – 7.5%	Stabilising
Secondary Shops (District Shopping Centre)	5 – 6%	9% +	Weaker
Retail Warehouse (Secondary – bulky goods)	5.5%	10% +	Weaker
Industrial – Modern Estate	4.85 – 5.5%	8 – 8.5%	Weaker
Older Industrial	5.5 – 6.25%	10% +	Weaker
Offices (City Centre)	4.5 – 5.5%	7 – 8%	Weaker
Secondary Offices	6.75 – 8%	10% +	Weaker

1.5 Effectively, a weakening yield of, say, 10% instead of 6% means that a factory or an office with a rental value of, say, £10,000 pa reduces in value from £1.66m to £1m. This means that mixed use schemes incorporating commercial will suffer a decline in value as well as the residential element; but likewise, existing use value of commercial properties suitable for residential development will also fall, although not necessarily by the same percentage (see para 5.1 (ii)).

1.6 According to the Land Registry, average property prices in Sutton fell by approximately 13% from the peak of the market in March 2008 to March 2009 - see table below.

Table 2: Average Property Prices (September 2007 – March 2009)



(Source: Land Registry)

1.7 Clearly, the average property price is affected by the type of properties which are sold at any given time. Average values are not the most appropriate measure, as they can be skewed by very low or high values, thus misrepresenting the market. Nationwide indices, however, estimate that average property prices for the 'Outer Metropolitan' area over this same period, have fallen by 19%. It must be borne in mind, that Nationwide data is based on their own mortgage transactions.

1.8 According to Land Registry data shown in Table 3, the number of sales in LB Sutton declined by approximately 74% from September 2007 to January 2009.

Table 3: Number of Transactions recorded by Land Registry

Date	Sales Volume
September 2007	397
January 2009	103

(Source: Land Registry)

1.9 Both the DTZ Affordable Housing Viability Study (11/09/08) and the Fordham Research Report (04/08) refer to open market prices in the 2007 market. Table 4 below, shows their figures, together with our assessment of the current level of values, which we consider to represent a more accurate reflection, when compared to Land Registry / Nationwide.

Table 4

Property Size	DTZ OMV New 2007 ([1])	Fordham Entry Level Prices at 2007 ([2])	Current Entry Level Prices (Cluttons) ([2]) ([3])	Percentage Fall (Entry Levels)
1 bed flat	£170,000	£144,400	£110,000	24%
2 bed flat	£214,500	£185,300	£135,000	27%
3 bed terr house	£325,000	£260,300	£190,000	27%
4 bed terr house	£409,500	£358,600	£275,000	23%

([1]) These relate to new build across the Borough; in 2007, a premium was paid for new build whereas today, no such premium exists.
([2]) This relates to lower quartile. Entry level figures based on East Borough areas.
([3]) Source: Right Move web site.

1.10 The highest fall in residential values is in the apartment sector of the market. The effect on land value, however, can be even more marked if, for instance, looking at the above table, we consider a development for, say, 10 No. 3 bed houses; if the value of those houses were thought to be £260,000 prior to the commencement of development, but once developed, turned out to each be worth £70,000 less, effectively the land value reduces by £700,000 (10 x £70,000). In other words, if the land was worth around £1m in 2007 with the benefit of planning consent, in 2009 it may only be worth £300,000, with the same consent.

1.11 Construction costs are beginning to reduce, with some developers reporting actual tenders being submitted at 10 – 20% below the original Quantity Surveyor's estimates.

1.12 There are still concerns about the future of the market. With unemployment continuing to rise, there will be a reluctance to take on any added mortgage commitments with the possibility of a loss of employment; and many developers are still concerned that values will fall by a further 5 – 10% before there is stability in the market.

1.13 The Government and many commentators are suggesting the economy in the market will improve in 2010 and already the Stock Market is reflecting an increased confidence.

1.14 It is, however, sensible to look at previous recessions and their timescales, as shown below:

Periods of Recession	Approximate drop in house prices
1973 – 1976	15%
1980 – 1982	Nil
1990 – 1996	25 - 30%
2007 - ?	20 – 30%

2. Impact on development market

2.1 Besides fewer housebuyers and sale transactions, and lower prices, the situation is as follows:

- Many developers are no longer trading.
- Large national developers owe the banks more than their land holdings are worth; the banks are effectively partners (e.g. Barratt, Taylor Wimpey, Crest Nicholson).
- Those that remain in the market are unlikely to pay cash for land up front, particularly for substantial tranches; for large schemes by national developers, they may initially pay for the affordable housing land element (and will pay the equivalent amount that they receive from the RSL); most transactions have been renegotiated.
- Even national developers are reluctant to take up options for purchase unless they are acquired for a nominal sum.
- Developers will only purchase subject to planning consent if there is a very good chance of obtaining planning consent; they will not venture money on risky option arrangements. Land values have effectively fallen by at least 40 – 50% (see our previous para 1.10 above); landowners who do not have to sell (including Statutory Authorities) are reluctant to accept the massive decrease in values knowing full well that if house values increase once more by, say, 10%, that percentage can be added straight onto the land value.
- Developers are reluctant to take on major apartment schemes – mostly only traditional dwelling houses will be contemplated; houses are less risky partly because there is a greater demand compared to supply, and also it is easier to stop building houses if a recession emerges, compared with a large block of flats, where the scheme really needs to be completed before any revenue from sales completions is obtained, apart from affordable housing revenue.

- Even Registered Social Landlords (RSLs) have had problems, particularly those who ventured heavily into shared ownership projects; they found to their cost, in a falling market, that no-one wants to buy even a share of a house when it is going to be worth rather less in a few months' time. However, there is an element of intermediate housing being considered by some RSLs where it reflects, say, 80% of market rents and can be upgraded to shared ownership in five years or so (when the majority of potential housebuyers consider the market is guaranteed to return to normality).

- With an aging population, there has been an increase in planning applications for care homes and nursing homes, but even this is susceptible to the difficult market conditions and values of such sites have been declining, particularly in areas where there is an over-supply.

3. Affordable Housing in Sutton

3.1 Planning policy requires that 50% of all new housing in the Borough should be affordable.

3.2 The split of affordable housing is to be 70% social rented accommodation and 30% intermediate.

3.3 Affordable housing provision should be sought on any site which has capacity to provide 10 or more homes.

3.4 Off-site contributions may be considered in certain instances, in lieu, particularly in Sutton town centre, in order to meet the commitment to larger family sized affordable housing.

3.5 Currently, in our experience, some development schemes are being devoted entirely to affordable housing (e.g. Butter Hill – Orbit).

3.6 It is apparent in the Borough that Housing Associations are less interested in large flatted schemes and their ideal preference is for smaller, 20 – 30 unit schemes, incorporating a reasonable number of houses as well as flats.

3.7 High density flatted schemes emerged with the original PPG3 policy of maximising developments on Brownfield sites; in Sutton, flatted schemes of 1 and 2 bedroom units accounted for 80% of all new developments in 2005/06, rising to 85% in 2006/07.

3.8 A number of RSLs are generally resistant to the provision of Intermediate housing, as they have little experience of below market renting and feel that the provision of shared ownership housing is too risky.

3.9 It is apparent that private developers are sometimes not involving RSLs early enough in the design and planning of a scheme, which means that potential management problems can arise, as far as an RSL is concerned, and the size and standards of design do not meet RSL requirements. Some architects must also carry the blame for not complying with these requirements; on the other hand, a number of schemes with planning consent were originally conceived principally for private housing.

3.10 Grants from the Homes & Communities Agency (HCA) are largely already earmarked up to 2011. There are concerns that the consequences of the current banking bail-out will lead to a shortage of Government funding for affordable housing projects in the future. Funds are available, but loans to some RSLs have been reduced, particularly where they have borrowed too heavily against shared ownership schemes in the past.

3.11 The generous availability of grants in recent years has meant competitive offers from RSLs to developers; because an RSL offer is guaranteed as a source of income, developers are prepared to cut their profit margins from, currently 25% profit on costs (due to the risk of falling prices) down to 7 – 10% on costs, particularly as it retains their building team and helps their business to survive this recession.

4. Mixed and balanced communities

4.1 Planning Policy Statement No. 3 (PPS3) acknowledges the need for mixed and balanced communities. Local Planning Policy states the need to retain employment opportunities. However, employment use within a mixed use scheme might not be cost effective as the value of such new premises may hardly cover the construction costs and could impact adversely on the value of the land.

4.2 Additionally, it is noted that the stated aim for the developments is to accommodate 25% of dwelling units to be at least 3 bedroom in size (see Site Development Policies DPD Preferred Policy DM26); this may of course be difficult to achieve within tall apartment blocks.

5. Current Use Value

5.1 It is noted that the Housing Delivery Assessment (09/08) concludes that 100% of the new housing units are expected to be on previously developed land. Previously developed sites will not come forward for development unless the land development value comfortably exceeds the current use value. Consider the following two hypothetical examples:

(i) Three existing houses are to be substituted by a proposed block of flats. Each house is worth, say, £400,000 but if the values over the past 18 months have been reduced by, say, 25%, the houses would now be worth £300,000 - a total of £900,000. If the land value for a proposed block of flats was worth, say, £1.5m in 2007, but the land value has reduced by 50% (i.e. £750,000), this means that the land value for the flatted development is worth less than the original houses and consequently, the site will not come forward for development at the present time.

(ii) An existing secondary office block with a rental value of £10,000 pa, previously worth about £1.33m in 2007 (7.5% yield), falls in value to around £1m (reflecting a 10% yield). Assume that replacement of a new apartment block is considered but the value of the land with consent for the apartment block which was once £1.5m now reduces in value to £750,000. The site will clearly not come forward for development at the present time.

6. Illustrative Site Appraisals showing likelihood of housing sites coming forward for development within a five year period

6.1 Cluttons was asked to consider a number of sites to illustrate the likelihood of the target number of houses being delivered, bearing in mind the impact of the current economic crisis.

6.2 Fifteen sites were reviewed and appraisals carried out for eight. All the sites were suitable for development for in excess of 10 dwellings.

6.3 In order to obtain an up-to-date assessment on the likelihood of delivery, each of the site owners (apart from the sites owned by LB Sutton) were contacted, to ascertain their plans for development. A summary of our findings, based on the responses we have received, local inquiries and illustrative viability appraisals, are shown as follows (details of the financial calculations that underpin these assessments have not been included):-

Site Comments	**Estimated Time for Delivery**	**No. of Residential Units**
1. Canon House, 2 Melbourne Road, Wallington ***Description*** This is a partial conversion of an office block, together with new build, in a prominent location, on a site extending to about 0.4 hectares (1.24 acres). ***Proposed Scheme*** Known as the Signature Scheme, the development is proposed by Henry Homes, to include commercial space on the ground floor, 118 private flats and 56 affordable flats. ***Progress*** We understand that an investment company is interested in acquiring the private flats, subject to construction, but that there has been difficulty in finding an RSL willing to take on the affordable housing. We gather that renewed talks are being held with another RSL.	1 - 2 years (commencement within six months)	174 units

Conclusion The consent sets out a fixed percentage of shared ownership and social rented units and planning flexibility will be required in order to deliver a higher percentage of social rented, in line with today's economic circumstances. Some amendment will probably be required to the design, as there are too many 1 bedroom dwellings and the affordable block is not designed entirely to RSL requirements. Due to the complexity of estimating conversion costs, an illustrative valuation appraisal has not been carried out.		
2. Bawtree House, Worcester Road, Sutton ***Description*** The site area extends to about 1.09 acres (0.44 ha). This is a former care home with dated accommodation, currently vacant. ***Proposed Scheme*** There are no current formal proposals. ***Appraisal Findings*** An appraisal has been carried out on the basis of houses and flats. Assuming grants are available, the property would be suitable for 100% affordable housing. Private values would have to increase by as much as 25% before the land value of the private scheme matches the best affordable housing scheme, assuming current grant levels. ***Conclusion*** The size of the site and its location would attract RSLs. The site is likely to come forward for development.	1 - 2 years	28 units
3. Hallmead Day Centre, Northspur Road, Sutton ***Description*** This site is approximately 1.28 acres (0.517 ha), next to a school, in a predominantly residential area, containing mid 20th century private housing together with social housing.	2 years	23 units

Proposed Scheme There is no formal proposed scheme but an illustrative sketch scheme of mainly houses shows that the site lends itself for either 100% affordable housing or a mixture of affordable and private housing. ***Appraisal Findings*** The value of the land for development comfortably exceeds the existing use value. An all affordable housing scheme shows a greater value compared to a mixed private and affordable scheme. ***Conclusion*** The site would undoubtedly be attractive to RSLs.		
4. 2A Brambledown Way, Wallington ***Proposed Scheme*** The site has planning consent (Feb 07) for the demolition of dwellings and erection of 42 self contained flats for the elderly, the scheme to be carried out by Churchill Retirement Living. ***Progress*** The development is planned to commence once the economy improves; the developer estimates commencement mid 2010 at the earliest. The elderly usually need to sell their own existing housing prior to purchase of a sheltered unit. ***Conclusion*** An appraisal has not been carried out on this site. Generally the sales process can be quite slow and the developer may well wait until values increase.	2 - 3 years	42 units
5. Wynash Gardens, Carshalton Road, Carshalton ***Description*** This is opposite the grounds to Carshalton House,	1 year	18 units

fronting a busy main road, being the roof space of 1930's/50's apartment blocks. ***Proposed Scheme*** This scheme has detailed planning consent expiring in June 2009, for 18 self contained flats together with providing 21 car park spaces. ***Progress*** It is understood that the contents of a Section 106 agreement have yet to be confirmed and agreed, although the LPA and landowner are in discussions to conclude the contents as soon as possible, so that development can commence prior to the expiration of the planning consent. ***Conclusion*** The site should be developed shortly. No affordable dwellings are proposed on this site.		
6. 2 – 4A Rotherfield Road, Carshalton ***Description*** The site currently is occupied by four dwellings. ***Proposed Scheme*** This is a scheme with consent for 19 sheltered flats, to be carried out by Wren Homes. ***Progress*** The developer does not appear to be interested in bringing forward the site for development at the present time, on economic grounds. No affordable units proposed.	1 – 2 years	19 units
7. Stonecot Service Station, 157 Epsom Road (A24), Sutton ***Description*** This is a prominent corner site at a busy main road junction, being a former service station now used as an MOT/car repair centre and hand car wash.	1.5 - 2.5 years	18 units

Proposed Scheme The current planning consent has just lapsed (April 2009) but a revised scheme is expected to be submitted shortly. The previous scheme was for 17 flats and a large A1/A2 unit. ***Appraisal Findings*** An appraisal of this site has been carried out. On the basis of a 100% affordable housing scheme above a convenience store, the site is likely to come forward for development, being likely to be more valuable with planning consent compared to the current use value. ***Conclusion*** Whilst this would be an apartment scheme, its relatively small manageable size should attract interest from an RSL, despite its potential convenience store use on the ground floor.		
8. 229 – 245 Carshalton Road, Carshalton ***Description*** This is a proposed scheme by Linden Homes on an 0.6 acre (0.24 ha) site. This currently is a parade of shops with storage and former residential accommodation above, together with a disused detached Victorian shop and residential unit. To the rear are light industrial/warehouse premises. The site is in a prominent position fronting this busy main road, next to the period Listed Carshalton House grounds. ***Proposed Scheme*** The retail location could be classed as tertiary. Planning consent has been granted on Appeal for a contemporary scheme of 48 apartments and 5 retail units extending to approximately 544 m^2. Of the apartments, 17 affordable dwellings are proposed. ***Progress*** The developers are currently seeking an RSL for the affordable units. ***Appraisal Findings*** We have carried out an appraisal on the site, together with a hypothetical estimate of the existing use values on the site.	1 - 3 years	48 units

Conclusion Once private values start increasing again, this site is likely to come forward for development.		

9. Sutherland House, Brighton Road, Sutton ***Description*** This comprises a 1970s office block which is currently vacant. ***Proposed Scheme*** This is mainly a proposed conversion and an extension of an existing vacant office building, to provide 96 flats and a 70 bedroom hotel together with office and retail uses. ***Progress*** Although the planning application was refused and an Appeal dismissed, this was due to failure to complete a S106 Agreement. It is understood that there is no objection to the principle of the proposed uses. ***Conclusion*** No further action is expected to be undertaken until the economy improves and any outstanding planning issues are resolved.	3 - 5 years	96 units
10. Kelvin House, London Road, Hackbridge ***Description*** This site extends to about 0.6 acres (0.24 ha) and the previous buildings have been demolished, although apparently the basement remains as this will be incorporated in the proposed development scheme. ***Proposed Scheme*** The consented scheme is for retail and office use on the ground floor (a total of 600 m^2) and 6 floors of residential above, comprising 96 flats, of which 38 are affordable dwellings (24 x social rented and 14 x 1 bed shared ownership). The proposed developer is Taylor Wimpey. The three tier, partly basement car parking and podium arrangement at first floor level will be expensive to construct.	1 – 2.5 years	96 units

Progress The developer is awaiting agreement with an RSL (yet to be found) prior to commencing development. ***Conclusion*** If a suitable RSL operator is found, this development should commence.		
11. Azteque, 24 – 34 Sutton Court Road ***Description*** This is close to the town centre with a site area of 1.64 acres (0.66 ha) adjoining the railway station and with part of the site reserved as a future tram stop. The site currently contains an 18 storey tower block, probably dating from the late 1980's, with the surrounding buildings having now been demolished. The block is empty and may need refurbishment. ***Proposed Scheme*** The site has the benefit of planning consent for 2 further high rise buildings of apartments (12 and 13 storeys in height), together with basement car parking and an element of surface car parking; and retail units on the ground floor. It is in a location where one or two nearby sites also appear suitable for development and capable of accommodating tall blocks. ***Appraisal Findings*** An illustrative appraisal has been carried out based on the plans and information submitted. The consent is for 254 apartments, of which 62 are affordable. The developer informs us that he is not commencing the scheme at present, due to the economic situation and the lack of an agreement with an affordable housing partner. ***Conclusion*** Tall buildings, particularly over 7 storeys, tend to be much more expensive to build, compared to a standard block of flats, with building costs escalating by at least 25%, partly due to the high cost of providing basement parking. We have some concerns as to whether this scheme will come forward, in its present format, for development.	Beyond 5 years	254 units

12. Magnet Site, High Street, Sutton ***Description*** This is close to the town centre with terraced Victorian houses on the return frontage street, together with a workshop immediately adjoining. The site is about 1 acre (0.43 ha) and is currently occupied by a Magnet showroom/warehouse with a concrete car park. ***Proposed Scheme*** A planning application was submitted for a mixed use development comprising 750 m² of B1 floor space, 1,880 m² of A1 floor space and 90 self contained flats, of which 38 were to be affordable; the scheme was, however, subsequently withdrawn on highway issues and development cost grounds. ***Appraisal Findings*** An appraisal has been carried out based on a retail and office scheme in part, as above, and 75 flats with 50% being affordable housing tenures. ***Conclusion*** In order to bring this forward for development, including a residential element, house prices would need to increase, in our view, by at least 25%. This may not happen for some years, although the site is under-developed and may have potential for enlarging the commercial element.	Beyond 5 years	75 units
13. Blockbuster Site, High Street, Sutton ***Description*** This is close to the Magnet site. ***Proposed Scheme*** Planning consent was refused on a proposed mixed use redevelopment. ***Conclusion*** It is doubtful whether this site will come forward for development at the present time.	Beyond 5 years	

14. Burger King Site, High Street, Sutton ***Description*** This is opposite the previous site. This is a straightforward site with a reasonable amount of road frontage, which may lend itself suitable for residential use with some commercial element on the ground floor, depending upon the current value of Burger King. ***Progress*** A relatively high current use value would mean that residential development is unlikely to come forward until such time as residential values improve significantly. ***Conclusion*** However, sooner or later, the current construction will become dated, bringing forward the site for redevelopment.	Beyond 5 years	25 units
15. Land south of Lodge Place, Throwley Way, Sutton ***Description*** This is a site of about 1 acre (0.43 ha) occupied by Carpet Right and Farmfoods. However, within the site boundaries (at the south western tip) is a customer collection/storage point for Marks & Spencer, which adjoins their building to the rear of the site. It is assumed that this facility will need to remain. ***Proposed Scheme*** The site does not have benefit for an alternative planning consent. It is understood that the existing retail leases apparently have about 3 years remaining, so redevelopment will not take place until the end of the leases in 3 – 5 years time. ***Appraisal Findings*** An illustrative appraisal has been carried out which assumes approximately 1858 m^2 of A1 retail use and 80 flats above, of which 50% are affordable (social rented). ***Conclusion*** The site is unlikely to come forward for redevelopment unless house values increase, probably by at least 20%.	Beyond 5 years	80 units

7. Site Study Conclusions

7.1 The study throws up four main conclusions as to why sites are not coming forward for immediate development;

(i) Difficult market conditions, declining property values and a risk of a further downturn. This clearly affects most development sites, not only in Sutton but in other London Boroughs and throughout the U.K.

(ii) Lack of interest from RSLs e.g. Canon House (174 units), 229 – 245 Carshalton Road (48 units) and Kelvin House, Hackbridge (96 units). Their objection is principally to large apartment blocks with too many units; and further concerns with managing mixed tenure developments.

(iii) Insufficient premium over current use value e.g. Sutherland House (60 units), Magnet (75 units), Burger King (25 units) and 229 – 245 Carshalton Road (48 units).

(iv) Insufficient sales revenue premium over high build costs relating to tall residential tower blocks e.g. Azteque (254 units). In previous years, some high prices were achieved for upper floor units in high rise buildings. As we have suggested previously, there is really no premium payable currently for new build compared to the secondhand market.

7.2 Affordable housing quotas are having little adverse effect in bringing sites forward for development – indeed, in some cases, quite the opposite, with a need for RSLs to be interested in the acquisition of residential units in order to kick start a number of the major schemes. However, see para 7.1(ii) above.

7.3 Housing Associations are being able to buy sites at a price which induces landowners to sell, currently because of the availability of reasonably generous grants. These can be as much as £32,000 per person. It is probable that some landowners are not fully aware that affordable housing can have considerable value, sometimes exceeding private housing scheme values. Grants are far less for intermediate (shared equity) dwellings and because they have suffered in value, the majority of units in any scheme need to be social rented to attract an RSL.

7.4 The land value for affordable dwelling schemes is further enhanced by the fact that the money from the RSLs is guaranteed and therefore, there is very little risk to a developer in terms of the potential revenue, an acceptable return on profit on cost being 6 – 10% (also envisaged by the Three Dragons model) compared to a return on private schemes reflecting 20 – 25% with the risk of downturn and a slow sales rate.

7.5 We are informed that RSLs have purchased and developed a number of sites for almost entirely affordable housing, including 2 Sutton Park Road, (107 units); Headley Place, North Cheam; sites at Mallison Road and St John's Road; and schemes in the pipeline include Butter Hill, Carshalton (26 units).

7.6 In the majority of cases, S106 contributions have little impact over the viability, except where viability is borderline such as Canon House and Azteque. The principal impact on viability is diminishing house values. We are aware that there are concerns from the development industry regarding the adverse impact of S106 contributions when added to other constraints.

7.7 Grant aid is generally acknowledged to be available up to 2011; however, there is growing concern that with the obvious need for the Government to reduce public sector spending dramatically over the course of the next few years, there is a possibility that grants will be less freely available and much reduced in size. We would imagine that the Government would hope that there is a surge upwards in property values which will enable sites to come forward without the need for grants.

7.8 If house values do not rise over the next three years and RSL grants are less freely available, this will impinge upon the achievability of housing targets.

8. Recommended measures to improve the number of new homes coming forward for delivery

8.1 *Affordable Housing*

8.1.1 Activity from Housing Associations is an important element of encouraging housing development to commence when the private sector has suffered from declining values and a poor sales rate.

8.1.2 Landowners with sites under consideration for development should be encouraged to consider the impact of providing affordable housing or increasing the amount of the development that is affordable. From the outset, applicants are encouraged to discuss their scheme with the Housing Enabling Section of the Borough, together with holding discussions with recommended RSLs.

8.1.3 We do have concerns regarding the difficulties of getting an RSL on board for the affordable element within apartment schemes within Sutton. The lack of an agreement with an RSL means there are delays in bringing forward a number of dwelling units originally planned over the forthcoming year or so. Some amendments may be required to the planning consents, to reflect modifications which accord to the required specification of an RSL. Clearly, the Planning Department is being flexible in its approach, as the economic situation does give an opportunity to drive forward an increased portion of affordable housing in relation to private housing during current temporary economic constraints.

8.2 *Homes & Community Agency (HCA) Initiatives*

8.2.1 For regeneration sites, the HCA has invited expressions of interest in its Private Rented Sector Initiative (PRSI), which aims to create a new investment class in the UK through which institutions can fund new private sector homes for rent. It is understood to have identified sites in Croydon and the Olympic Park in Stratford, but clearly is only interested at the moment in large scale areas for development. It is thought that there may not be any particularly appropriate sites available within the Borough.

8.2.2 Another initiative by the HCA includes setting up and helping to fund local housing companies but again, this is aimed at large regeneration sites capable of providing around 10 years supply of dwellings.

8.2.3 The HCA is conscious that with the market as it is, regeneration programmes will not commence due to the generally high cost of providing the infrastructure. The HCA is therefore engaging Local Authorities in “a single conversation” on all aspects of housing and regeneration (employment/mixed use development being just as important as pure residential development). This initiative tries to implement the ambitions of local communities and Local Authorities, if need be by helping to invest in infrastructure, with an aim to achieve a shared vision and objectives. The HCA interventions will then be tailored to suit local needs and set out clear approaches for funding allocations. Local Authorities need to put forward their project requirements, either by July or, alternatively, by October this year.

8.3 *Other Initiatives*

8.3.1 London Homes is a scheme devised by London Councils to intervene in the local housing market, particularly in schemes that are no longer viable within the current climate but which, with appropriate gap funding, could materially deliver against local strategic priorities in the short term. It is suggested that Local Authorities, through a Special Purpose Vehicle or similar, together with Housing Associations, could bid for the funding to purchase partly completed or unsold market properties, to be let on a flexible basis at market rent for an agreed period. They can then be sold subsequently, when the market recovers, or retained as private rented accommodation.

8.3.2 The £300m Home Buy Direct Scheme has proved reasonably popular, although London only has 4.9% of Home Buy Direct funds; the scheme is somewhat slow to implement but is attracting a number of buyers; sometimes mortgage top-up facilities can be difficult to obtain.

8.3.3 HomeBuy Direct is a new shared equity scheme designed to help up to 18,000 First-Time Buyers into affordable home ownership. The scheme will also help participating house builders by enabling more First-Time Buyers to purchase their newly built properties. The scheme has been allocated £400m of Communities and Local Government funding. The scheme will be offered on specific new build properties brought forward by developers. Buyers will be offered an equity loan of up to 30 per cent of the purchase price, co-funded by Government and the developer.

8.4 Whilst a number of landowners may wait until the market improves before disposing of their land for development, the Council could consider bringing forward development land to the market (subject to planning consent). However, assets held by Statutory Authorities for redevelopment are often sold to fund other projects and in a depressed market, the monies may be insufficient for those projects to commence. In addition, there are no guarantees that any developer would bring forward their site for development. Therefore, one option may be to consider putting the land into a development scheme for a nil amount with the collection of deferred revenue when the dwellings are sold subsequently. Initially, the units could be rented, which will provide an investment return, and sold when the market has much improved. This means that a developer does not need to find funding in respect of the land acquisition but would be only too happy to carry out the construction. This might be linked to the London Homes Scheme.

8.5 *Current/Future Impact on Values*

8.5.1 Although prices for flats and small houses have reduced to a more affordable level, the values are likely to increase when investors, including specialist company investors, move back into the market; we do retain doubts, however, regarding the viability of high rise apartment schemes.

8.5.2 Clearly, the number of new homes being delivered is much reduced compared to the period of more buoyant market conditions, but as economic conditions improve, we assume that there will be an element of catching up, particularly in the years 2010 – 2012. Developing property is, however, a slow process.

8.5.3 Clearly, landowners must be encouraged to obtain planning consents, ready for the market upturn. Unfortunately, obtaining planning consent can be an expensive process, which is why many applications are dealt with via developers. Currently, developers are unwilling to commit themselves to a planning application where there is a possibility that land values, even at current levels, could be further reduced in the future, despite today's level being well below the tone of values a year ago.

9. Conclusion

9.1 The studies that we have carried out in terms of a range of sites within the Borough indicate that a number of traditional schemes are likely to come forward when the market improves, if not before; but town centre and high rise schemes may need to be modified and await more buoyant market conditions prior to getting off the ground.

9.2 The rapid downturn in property values has caused a slow down in housing starts, not only in LB Sutton but in most other areas of the U.K. Despite some landowners' misgivings, the provision of affordable housing, particularly last year, has helped many construction projects to continue.

9.3 Current planning policies retain the flexibility to deal with both recessions and boom times but private housing starts will obviously reduce until such time as buoyancy returns to the market. This will produce a surge of activity, particularly for already consented sites.

9.4 It is important that the Planning Department continues to liaise with the Housing Enabling Section of the Council, in order to ensure an affordable housing element within a development is acceptable and manageable by an RSL. Applicants should be encouraged to approach RSLs at an early stage, because the Planning Authority want to know that, in granting planning consent, a project is deliverable.

9.5 It may be appropriate for LB Sutton to become more involved in development, although this would be a Council rather than a Planning initiative. It could, however, drive forward an enhanced housing delivery.

9.6 Whilst LB Sutton, like any London Borough, will wish to retain its long term vision for providing housing which matches the practical aspirations of its current and future residents, together with employment opportunities, progress in delivery will vary, depending upon economic circumstances, and it will be driven mainly by market forces.