

ENCOURAGING LOW COST HOME OWNERSHIP IN EAST LoTHIAN

A FEASIBILITY STUDY

FINAL REPORT

**by Heriot-Watt University, School of the Built
Environment and Three Dragons**

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CONTENTS

	EXECUTIVE SUMMARY	2
	GLOSSARY	9
CHAPTER 1	INTRODUCTION AND METHODOLOGY	10
CHAPTER 2	EXISTING PROVISION, CURRENT LCHO PROGRAMME AND OPTIONS FOR THE FUTURE	13
CHAPTER 3	STAKEHOLDER PERSPECTIVES ON AFFORDABLE HOUSING	21
CHAPTER 4	NEW AND SECOND HAND MARKET HOUSE PRICE ANALYSIS	27
CHAPTER 5	EAST LoTHIAN TOOLKIT RESULTS OF ASSESSMENT	32
CHAPTER 6	MODELLING AFFORDABILITY AND NEED	38
CHAPTER 7	DEVELOPING A PROGRAMME FOR DELIVERING AFFORDABLE HOUSING	52
CHAPTER 8	OPTION APPRAISAL	58
CHAPTER 9	CONCLUSIONS AND RECOMMENDATIONS	71
APPENDIX 1	OPTION APPRAISAL – DESCRIPTION OF OPTIONS	77
APPENDIX 2	NEW AND SECOND HAND MARKET HOUSE PRICE ANALYSIS	78
APPENDIX 3	OPERATION OF THE EAST LoTHIAN TOOLKIT	86
MAP 1	EAST LoTHIAN - INTERMEDIATE ZONES	88

EXECUTIVE SUMMARY

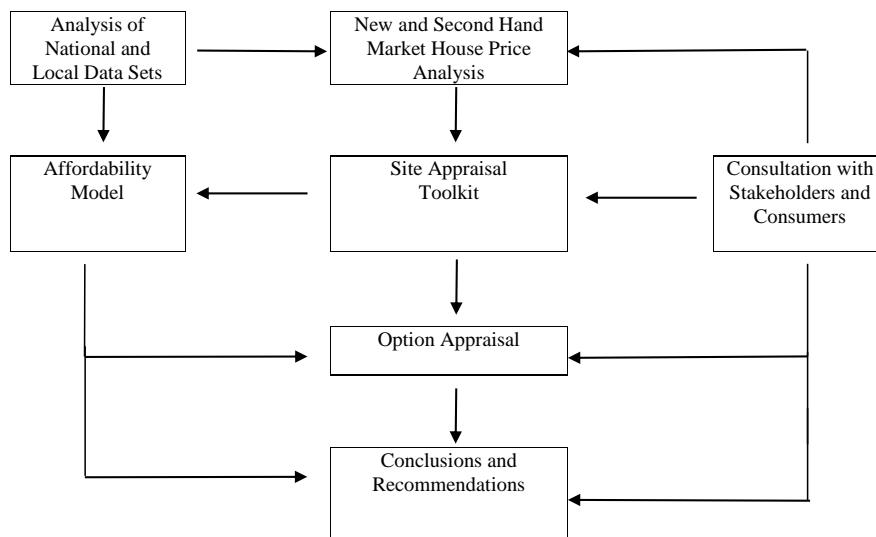
1. Introduction

- 1.1 This feasibility study arises from East Lothian Council's aim to deliver affordable housing. Through its Local Housing Strategy (LHS), East Lothian Council (ELC) recognises the potential to meet some of the need for affordable housing through low cost home ownership (LCHO). The LHS identifies an indicative target of 550 LCHO dwellings by 2013 and LCHO is one element of the council's Affordable Housing Policy, introduced on 16th December 2003.
- 1.2 LCHO can be delivered through a variety of mechanisms. These include new build approaches and subsidies to individuals to access existing housing affordably. The costs and benefits to providers, funders and purchasers vary depending upon the form of LCHO adopted.
- 1.3 This study addresses the potential contribution of a variety of forms of LCHO to meeting the need for affordable housing in East Lothian.

2. Methodology

- 2.1 To meet the requirements of ELC's brief, the researchers have employed a multi-pronged research methodology. This is summarised in figure 1.

Figure 1: Methodology



3. Overview of current LCHO provision and programme

- 3.1 The 2001 housing needs study (DTZ Pinda) indicated that there were 153 shared ownership dwellings in East Lothian. In addition to some GRO schemes and shared ownership, housing has been provided using 'shared equity' which differs crucially from shared ownership in that there is no rental element. Another less complicated alternative is equity loan such as the Homebuy schemes operated in England and Wales but which are not available in Scotland.
- 3.2 Shared ownership plays a small part in meeting local housing needs but for some customers it leads to limited mobility and a lack of choice. This is because they have a small equity stake and cannot easily enter the mainstream housing market, the stock of suitable shared ownership housing is very small and they are ineligible for affordable rented housing.
- 3.3 There has been no new supply of shared ownership through Communities Scotland's programme in recent years, reflecting the low priority given to LCHO by Communities Scotland and housing associations. However, it is now recognised that LCHO can play an important part in the delivery of affordable housing.

4. House Prices And Site Viability

- 4.1 This study has considered the feasibility of using a variety of mechanisms to deliver LCHO in the context of East Lothian Council's Affordable Housing Policy, the housing market, housing needs and incomes locally.
- 4.2 New and second hand price analysis (chapter 4) showed variation in price by area and property characteristics. A site appraisal toolkit used this analysis to determine the impact of LCHO on the residual value of sites in 5 case study areas in East Lothian. These areas, chosen in consultation with the project advisory group were:
- Gullane,
 - Musselburgh,
 - North Berwick,
 - Prestonpans,
 - Tranent Rural.
- 4.3 A hypothetical mixed tenure scheme was modelled for each area. The toolkit indicated that while LCHO provision would impact on residual values, there was sufficient value in the sites to allow transfer of part of the site for affordable housing without undermining the viability of the sites.

5. Affordability and Need

- 5.1 Overall, East Lothian is a relatively high income area by Scottish standards, although there are wide variations within the authority. Some of the urban

areas in the west of the district have incomes somewhat below the national average, but otherwise East Lothian is a fairly high income area.

- 5.2 However, house prices in East Lothian are also amongst the highest in Scotland, although there is considerable variation across the area. Overall in East Lothian in 2003, 40% of under-35 households and 43% of working households could enter the market on the basis of their incomes, compared with 54% nationally.
- 5.3 There is also a striking gap between the threshold entry price in the secondhand market and new build prices which are on average double the entry level. One factor contributing to the more affordable secondhand market is the considerable RTB resale market in East Lothian.
- 5.4 Option appraisals in the five case study areas confirmed the difficulty in attempting to meet the need for LCHO through a new build programme in much of East Lothian.

6. Conclusions and Recommendations

- 6.1 Shared ownership plays a small part in meeting local housing needs but has limitations in terms of its attractiveness for many customers and for lenders. Shared equity has been successful on a limited scale in East Lothian.
- 6.2 The Homebuy model used in England and Wales is an easily understood and widely available alternative which has proved popular with customers, lenders and housing associations. It can be run on a new build and secondhand basis. Where there is a commitment to recycle grant, it provides a potentially self sustaining method of delivering LCHO. Except where there is an absolute need to retain a particular property in perpetuity, this allows the benefit of the grant to be retained without the complications involved in the alternative shared equity model. However, using HAG for Homebuy would require Ministerial approval.
- 6.3 All forms of new build LCHO are unaffordable for many people on lower incomes in East Lothian because of very high land values and property prices. New build shared ownership, even at the minimum 25% share, only widens affordability by 1% point. The option appraisals highlighted that new build LCHO of whatever type was only appropriate in 2 of the 5 case study areas. (It should be noted, however, that the study was carried out after a prolonged rise in the market and we therefore present recommendations which take account of this.) Homebuy, which gives access to the secondhand market, widens affordability considerably more. Social rented housing is the most appropriate form of affordable housing for the majority of those in need in East Lothian.
- 6.4 Our needs analysis suggests that East Lothian-wide the 'quota' for affordable housing should be between around 20% and 30% of new build. This is broadly in line with targets used in the Affordable Housing Policy. However, the option appraisals highlight variation in the supply of sites relative to need, and in most instances need can only be met when DIY options are included. Nevertheless, we are conscious that the pressure on land values was

particularly high at the time of this study given the high point reached in the housing market. There is scope for a slightly increased contribution from new build should this pressure ease especially if there is an increase in land supply.

Recommendation 1

We recommend that there should be a mix of affordable tenures in new development sites. Overall, low cost home ownership might be 5-10% of all new affordable provision, depending on price levels.

Recommendation 2

We also recommend the introduction of a DIY version of Homebuy to enable people to buy in the secondhand market with tranches as low as 60%. This would raise the potential numbers for this option to up to 150 per year, which in addition to shared ownership/new build Homebuy would make for 158 LCHO units or 36% of affordable need.

- 6.5 Our modelling suggests that if all affordable housing provision used conventional Communities Scotland HAG funding, the cost would be of the order of £15.9m per year, of which £13.8m would be attributable to rental provision. This is probably higher than any realistic level of allocation from the national programme.
- 6.6 However, using the planning system systematically to secure affordable housing wherever appropriate and feasible, would deliver such a programme with much less call on national or local authority resources.
- 6.7 Shared ownership, shared equity, or new build Homebuy could be funded easily from within the economics of typical housing sites in East Lothian in most cases, through planning agreements. The 'transfer prices' which would allow RSLs to just break even on such provision would be on average around £82,000 per unit, which is well above the Toolkit indicated cost for a 2-bedroom unit of around £55,000.
- 6.8 Social renting provision could not be provided in this way without further cross subsidy from the developer or grant of around £15,000 per social rented unit.

Recommendation 3

We recommend that ELC should consider a mixed model, with some grant on offer, either on a uniform basis possibly equating to £15,000 per unit mentioned above or on a basis which varied with the indicated levels of residual value, or need, or both. Providing £15,000 grant to all of the 340 social rented units (identified in table 6.7 of the main report) would cost around £5.1m.

- 6.9 As indicated, DIY Homebuy is quite an attractive model in East Lothian, in terms of its potential contribution to meeting affordable housing needs. It could potentially be funded from commuted sums (payments in lieu) from

private sites which for one reason or another were not deemed suitable for affordable housing. Clearly the use of such sums would be subject to the Council making a policy decision within the Scottish planning framework. These sums, which would need to be dedicated to affordable provision elsewhere in the district, might be an appropriate source for funding DIY Homebuy type provision, among other things.

- 6.10 A larger programme of this kind (totalling as noted 150 units per year) would cost £4.0m pa. If about a third of the private units projected to be built (over 700 per year) were subject to this commuted sum mechanism this could yield a sum of £3.54m, which would cover the most of the cost of the Homebuy programme.

Recommendation 4

We recommend that ELC considers the use of commuted sums to finance a significant level of DIY Homebuy.

- 6.11 Given our support for the use of the planning system to deliver affordable housing, it is important that the needs of the various stakeholders are taken into account for example in maintaining profitability of developers and ensuring high quality housing is produced.

Recommendation 5

We recommend that ELC departments should develop protocols to ensure that their requirements are clear at an early stage and that implementing policy does not create avoidable delays in the development process.

- 6.12 ELC has been working to ensure that social housing meets high standards of quality, including community consultation and participation on sustainability. ELC has identified the need to explore how sustainability objectives can be rolled out to all development in East Lothian.

Recommendation 6

We recommend that where the Affordable Housing Policy results in new ways of housing associations and developers working together to deliver affordable housing, ELC should encourage the development of mechanisms for community participation to meet its quality and sustainability objectives.

- 6.13 A flexible approach to the use of existing and new housing should be employed to address the needs of disabled people. While Homebuy is a potentially flexible model - giving access to new and secondhand property - there will be occasions when the mix of financial and physical needs of a household make a shared ownership model more appropriate. An example of this might be where a larger but more expensive second hand property is suitable for a person with some capital but low income.

Recommendation 7

We recommend that ELC retains the option to tailor support to individual circumstances including, for example, the use of DIYSO where this is the most appropriate model.

- 6.14 New build Homebuy has a number of advantages over shared ownership. Shared equity has similar advantages but is more complicated than Homebuy because it involves title restrictions. Under Homebuy grant may be recycled when the property is sold and therefore the scheme can be self-sustaining. All other things being equal, Homebuy appears to be a preferable model. An exception to this would be where it is essential to keep a particular property affordable in perpetuity, in which case some restriction on future sales cannot be avoided.

Recommendation 8

Subject to Scottish Executive backing for a Homebuy scheme, new build Homebuy should be preferred to shared equity except where it is essential to retain a particular property as affordable in perpetuity

- 6.15 Agencies encouraging people on lower incomes into owner occupation should not expose them to unnecessary risk. Careful vetting of applicants is therefore essential. The needs of households will vary and resources can be most effectively targeted when the customer and the enabler (whether local authority or housing association) have the maximum information on choices available. A service such as the existing Homeseeker Pilot in East Lothian might be a model which can be developed in conjunction with the Affordable Housing Policy to direct people to the appropriate option.

Recommendation 9

We recommend that ELC considers the quality of information and advice which is given to all applicants for affordable housing. Although still at a pilot stage ELC should consider the potential for integrating its Homeseeker initiative with the Affordable Housing Policy.

- 6.16 Some concern was raised in this study as in others that people in low tranche shared ownership have limited mobility. This is caused by a combination of limited purchasing power in the open market, limited alternative provision at low equity shares and bureaucratic obstacles to moving into social housing. This has been shown to become a problem when family size increases or a person's home becomes less suitable for them in old age.

Recommendation 10

We would recommend that the Council and housing associations consider whether it would be possible to remove barriers to social renting for low tranche shared owners whose housing has become unsuitable and who are unable to move to new accommodation.

- 6.17 The appraisal toolkit used in this study has been sufficient to draw general lessons for viability which can inform broad policy but would require further refinement if it was to be used in discussion with developers over specific sites.

Recommendation 11

We recommend that ELC considers further development of the toolkit as an aid to implementing the Affordable Housing Policy.

- 6.18 Underlying the affordability problems facing households in East Lothian is the very high current level of house prices, particularly for new property. This also makes it difficult to provide affordable LCHO through new build provision. We therefore would underline the importance of following through the Structure Plan proposals to significantly increase the supply of land for new housing development generally in the belief that this will in time help to lower prices, particularly for new build.

Recommendation 12

East Lothian should follow through the Structure Plan proposals for significantly increased land allocations for new housing in their Local Plan. Land allocations should be kept under review in the light of monitoring information on price levels and affordability conditions.

- 6.9 Through the affordable housing policy, ELC intends to make best use of the land resources in its area. It might be considered inequitable and less than wholly efficient if consideration was not also given to the best use of land owned by the council. In pressured market areas in England local authorities have, for example, developed schemes to use Local Education Authority land to provide key worker housing. While 'housing' land has been used as a resource in this way in East Lothian, the council also has other land assets whose use it could consider.

Recommendation 13

In line with the policy to make best use of private sector sites for affordable housing, ELC should consider at a Corporate level, the best use of ELC owned land, including that owned by departments other than housing, as a resource in meeting affordable housing need.

GLOSSARY

BCIS	Building Costs Information Service, which regularly publishes a series of indices including one on tender costs.
BIC	Basic Indicative Cost (BIC) is used in scheme appraisal by Communities Scotland and is the basic works cost expected from a normal housing development with no unusual cost aspects.
DIYSO	Do-it-yourself shared ownership. DIY versions of shared ownership and other LCHO products involve the purchaser finding a property on the open market rather than a new build dwelling provided for the purpose of affordable housing.
GRO	Grant for Rent and Ownership (GRO) is a capital grant given to private developers to assist in the provision of affordable housing.
HAG	Housing Association Grant (HAG) is a capital grant given to housing associations to cover part of the costs of new build or rehabilitation of rented or shared ownership properties.
Homebuy	A form of equity loan developed in Wales and then England to provide low cost home ownership.
Hedonic Regression	A statistical technique used to explain or predict house prices based on the characteristics of the house and its location utilising data on past sales in the local area.
NIC	The New Indicative Cost (NIC) system is a cost appraisal and analysis tool published by Communities Scotland in June 2003 which replaced the Indicative Cost (IC) system, which was the former tool used to appraise and analyse construction costs of public sector housing.
Residual value	In a development this is the sum left over after deducting all construction and development costs and planning gain requirements from sales revenue.
SOOTS	Shared Ownership Off The Shelf (SOOTS) involves a housing association purchasing completed dwellings from a developer - usually dwellings which had not originally been built for sale to the association.
Threshold entry price	Defined in this study as the lower quartile of the market, i.e. three quarters of <i>market</i> sales will be above this level.
Transfer price	The price at which housing units would be acquired by RSLs for LCHO or rental where there is an element of cross-subsidy

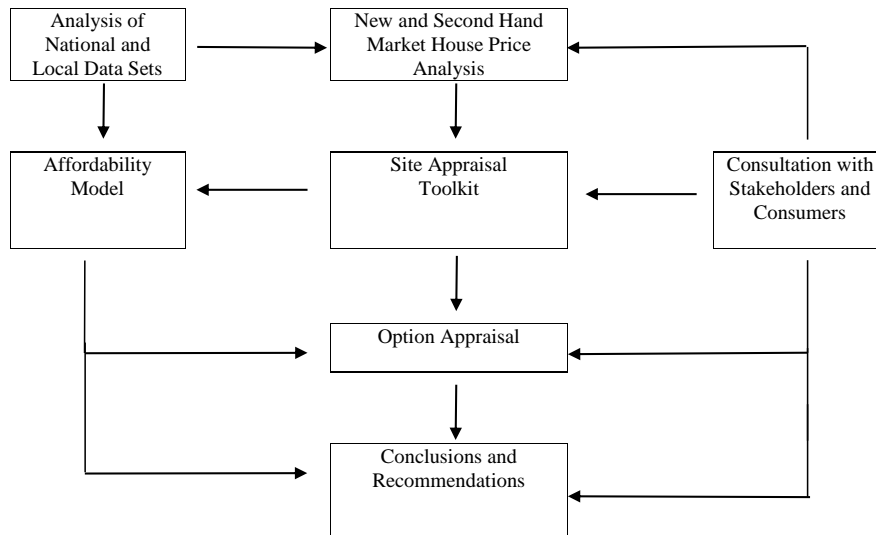
CHAPTER 1

INTRODUCTION AND METHODOLOGY

- 1.1.1 This feasibility study arises from East Lothian Council's aim to deliver affordable housing. Through its Local Housing Strategy (LHS), East Lothian Council (ELC) recognises the potential to meet some of the need for affordable housing through low cost home ownership (LCHO). The LHS identifies an indicative target of 550 LCHO dwellings by 2013 and LCHO is one element of the council's Affordable Housing policy, introduced on 16th December 2003.
- 1.1.2 LCHO can be delivered through a variety of mechanisms. These include new build approaches and subsidies to individuals to access existing housing affordably. The costs and benefits to providers, funders and purchasers vary depending upon the form of LCHO adopted. While new build solutions have the advantage of providing new affordable units, they are constrained by the availability and price of land, construction costs and suitable systems of delivery e.g. developers and RSLs willing and able to build the LCHO properties. Helping purchasers to buy existing homes in the open market takes advantage of the generally lower cost of access to existing housing and gives greater locational choice to purchasers. It is, however, constrained by the availability of suitable accommodation, particularly at the local level, and does not directly add to the supply of housing.
- 1.1.3 This study addresses the potential contribution of a variety of forms of LCHO to meeting the need for affordable housing in East Lothian.
- 1.1.4 To do this it considers price differentiation in new and existing housing; and income and affordability across different sub areas in East Lothian. It also models the impact of LCHO on new build sites and on land values. Taking into account availability of development sites, it is then able to give an indication of the feasibility and potential contribution of different LCHO mechanisms in different areas within East Lothian.

1.2 Methodology

- 1.2.1 To meet the requirements of ELC's brief the researchers have employed a multi-pronged research methodology. This is summarised in figure 1 and then described below:



1.2.2 Launch seminar: An initial stakeholder seminar set out the aims of the project, our approach and the roles which the stakeholders may play including through interviews and provision of data.

1.2.3 Affordability model: This used a variety of national data sets including the Scottish Household Survey (SHS), Family Resources Survey and 2001 Census (including the Small Area Statistics) along with data collected specifically in East Lothian, such as that presented in the DTZ *Pieda Housing Needs Study* (April 2001) and administrative data e.g. from waiting lists. The affordability model was developed and run at East Lothian and sub area levels built up from East Lothian Council's Local Investment Framework (LIF) areas.

1.2.4 ~~Evaluation toolkit: Site based modelling:~~ Three Dragons and Nottingham Trent University had developed a "*Toolkit*" for the GLA and the Housing Corporation which enables the appraisal of the financial impact on residual value and the potential subsidy requirement of the provision of a range of different affordable housing options on a scheme by scheme and borough average basis. This toolkit was adapted for use in East Lothian. Developmental work on the toolkit included

- a. liaison with key actors, notably the local authority planning department, to collect data to enable selection of sites for use as case studies to develop prototypes which fed into the toolkit evaluation.

5-b. site based modelling was carried out, e.g. relating to BCIS and Sasines data.

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6-c. Contextual data and funding regime information was sought from Communities Scotland and fed into toolkit.

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- d. Data from Registered Social Landlords (RSLs) and private developers was sought to calibrate the modelling. It should be noted that only limited data was made available partly because of the lack of recent LCHO development by housing associations in East Lothian and by a reluctance for whatever reason on the part of developers to provide scheme development information.

- 1.2.5 Consumer feedback:** Efforts were made to attract LCHO consumers and those interested in LCHO to participate in focus groups. Over 400 invitations were sent out and in two Shared Equity schemes researchers hand delivered invitations and spoke to residents who were at home to encourage participation. The response to this was disappointing with a total nine participants attending. Nevertheless the results of the qualitative analysis of focus group discussions are valid in filling out the actual experience of individuals, particularly when viewed in the context of other quantitative research. The researchers have therefore analysed the focus group discussion and where appropriate make reference to a postal survey carried out by MORI as part of an analysis of the Low Cost Home Ownership Programme in England and Wales (Bramley et al 2002).
- 1.2.6** Two focus group/workshops were held to explore consumer views on LCHO options. Owners and people who had expressed an interest in LCHO were invited. In practice all participants were shared owners or people interested in LCHO: no shared equity customers attended.
- 1.2.7** ~~East Lothian Council and the steering group would be kept informed of developments and consulted as the study progressed, through the steering group and contact between the Research project manager and a designated officer from the local authority.~~ **Stakeholder feedback:** Key stakeholders were interviewed, with one of the main purposes being to establish the supply side constraints and possibilities e.g. whether schemes such as equity share or mid-rent schemes would be viable. Interviews also, more generally, allowed stakeholders to express concerns and priorities at a strategic and implementation level. Stakeholders consulted included:
- East Lothian Council - Housing
 - East Lothian Council - Planning
 - 4 Private developers
 - 4 RSLs
 - 1 Disabled housing enabler
- 1.2.8 Option appraisals:** of different LCHO models were carried out based on the toolkit, affordability modelling and additional data such as site availability.
- 1.2.9 Conclusions and recommendations** in chapter 9 are developed from a synthesis of the different strands of the research.

CHAPTER 2

EXISTING PROVISION, THE CURRENT LCHO PROGRAMME AND OPTIONS FOR THE FUTURE

2.1 This chapter summarises the extent and nature of LCHO provision in East Lothian. It considers the experience of housing associations which have provided LCHO and of their customers. This gives a picture of some of the limitations and opportunities associated with current forms of provision. Drawing on experience from England and Wales it then highlights characteristics of an equity loan scheme called Homebuy which is not currently available in Scotland and which is highlighted elsewhere in this report as a potential LCHO vehicle.

2.2 Overview of current LCHO provision and programme

2.2.1 The 2001 housing needs study (DTZ Pida) indicated that there were 153 Shared Ownership dwellings in East Lothian. In the current research, discussions took place with Communities Scotland, East Lothian Housing Association, Homes for Life Partnership and Castle Rock Housing Association to determine the nature and extent of LCHO provision in East Lothian. This highlighted that although there were a number of potential routes to provide LCHO, the programme had effectively dried up since the mid 1990s.

2.2.2 The main mechanisms by which Communities Scotland can fund LCHO are:

- New Build Shared Ownership including Purpose Built Shared Ownership (PBSO) and Shared Ownership Off-the-Shelf (SOOTS). SO is characterised by a mix of rent and ownership.
- GRO – a grant to developers to bridge the gap between development cost and market price *or* to allow the provision of housing at below market price (GRO type 3), targeted at social renters and first time buyers.
- RHOG – a rural home ownership grant available to individuals – a very small scale programme nationally and not used in East Lothian.
- In addition a Special Needs Capital Grant (SNCG) can be used to assist people with disabilities.

2.2.3 As noted above, Homebuy is not currently available in Scotland. Communities Scotland interviewees stated that any scheme which was not currently supported by its programme would require Ministerial approval before it would be eligible for Housing Association Grant (HAG). This would remain the case even after the transfer of the management of development funding (TMDF) to ELC. However, the local authority would also have freedom to use its own funding streams for LCHO without the need for this approval. ELC explores this option in the LHS.

- 2.2.4 In East Lothian GRO schemes were developed in the early 1990s although information on their location was not available. East Lothian HA (ELHA) and Castle Rock Housing Association both have a number of shared ownership schemes but the last development dates from 1997. ELHA and ELC also developed two LCHO schemes based on a different “shared equity” model. A mix of free land and GRO was used to provide affordable housing for sale. HFLP has a scheme in development which includes shared equity housing provided without grant.

2.3 Shared Ownership Schemes

- 2.3.1 East Lothian HA has 63 SO units and has sold a further 8 outright. The schemes are located in a number of settlements:

Dunbar	10
North Berwick	16
Tranent	7
Haddington	13
Pencaitland	2
Prestonpans	10
Wallyford	5

- 2.3.2 ELHA shared ownership units are a mix of flats and houses and virtually all two bedroom, 3 apartment with a few 3 bedroom properties.

- 2.3.3 Castle Rock HA has a total of 52 shared ownership units.

Musselburgh	37
Tranent	8
Pencaitland	7

- 2.3.4 48 of Castle Rock’s shared ownership properties are 2 bedroom 3 apartments, with four 4 apartments in one development in Musselburgh. Almost all of the properties in Musselburgh and Tranent are flats while those in Pencaitland are houses. There is also one retirement 3 apartment shared ownership property.

2.4 Shared Equity Schemes

- 2.4.1 ELHA, along with ELC, has developed a model of LCHO used in two “shared equity” schemes in Ormiston and East Saltoun with 20 and 10 houses in each. The East Saltoun properties were sold at a discount of 48.5% from market value and in Ormiston at a discount of 43%. This scheme differs significantly from shared ownership in that the owner does not pay a rent, only a mortgage. In addition, ELHA does not own a share but title restrictions implemented using a Section 50 planning agreement (what would now be a Section 75 agreement) ensure that the discount is passed onto the next purchaser.
- 2.4.2 Homes for Life Partnership (HFLP) have no LCHO at present but a scheme due to complete 2005 at Gullane includes 12 LCHO units which would be sold using a shared equity model similar to that described above using free land

from ELC as the subsidy. HFLP state that this will allow discounts similar to those in the previous shared equity scheme to be achieved and note that this could be replicated in future under the Affordable Housing Policy where the free land came from the owner/developer. In discussion, HFLP also suggested that there was scope for providing an additional 42 LCHO units in their forward programme.

2.5 Experience of LCHO in East Lothian

2.5.1 This section considers the management issues experienced by the providers of LCHO and relates this to the experience of focus group participants who included sharing owners and people who had expressed an interest in LCHO. SO customers are mainly couples with a child and usually purchase 25% shares. Some elderly people with savings but low incomes have also bought properties. As has been found in other studies (e.g. Bramley et al 2001) relationship breakdown and loss of income also played a part for some.

2.5.2 Focus group participants stated a range of reasons for choosing shared ownership:

- Can't afford to buy
- Couldn't get council house
- Divorce had led to decrease in income compared to outgoings
- It was an investment for some
- It was a way of not having to share with others
- Location

2.5.3 While affordability meant that LCHO was attractive, its location was a key factor in deciding to opt for (or search for) a particular property. When considering location, personal choice and individual circumstances influenced the decision to buy.

“There's no choice with council houses – you could end up in the back of beyond.”

“It was in North Berwick - the best location for me.”

“There are excellent schools here.”

“I'm renting in Edinburgh and can't afford to buy – I want to live in a rural place and be able to commute to work in Edinburgh.”

2.5.4 The limited number of properties and limited range of stock mean that there are virtually no opportunities for mobility within the LCHO stock. This has implications for mobility and choice for people entering the tenure at low, 25%, tranches whose other options are also limited. Examples from the focus groups demonstrate the point:

LCHO had played a part in allowing a couple to find a home in a good location but they'd found themselves unable to move:

A couple in their 30s had been on the council waiting list when a two bedroom SO property became available in an ideal central location. They'd bought at 25% and stayed for more than 10 years. They had had two children and couldn't move to a larger home— couldn't afford a bigger share or outright ownership, they weren't eligible for council housing and there were no three bedroom properties available at 25% SO. They loved their home and location but were not able to get what they'd ideally want for a growing family.

- 2.5.5 Both Castle Rock and ELHA put sellers in touch with potential purchasers who will buy their share. There is low turnover (e.g. 9 months since the last ELHA sale) but there has been a steady market for these properties when they do become available. The small numbers buying outright (a total of 14 ELHA properties) and the ability of associations to find eligible people to buy means there has been little loss of stock from the shared ownership sector.
- 2.5.6 The very small number of private sales on the open market have mainly been of SOOTS properties. A housing association interviewee was untroubled by this loss of stock since the SOOTS properties had been viewed as a potential management problem because they were in blocks where other owners were in the majority. It was believed that this could lead to difficulties in ensuring the long term maintenance of the properties.
- 2.5.7 Some owners noted dissatisfaction with SO because it brought full repairing responsibility even at low tranche ownership levels. This was further reflected in attitudes of owners, some of whom requested "transfers" from associations, displaying an attitude more akin to tenants than owners.
- 2.5.8 Experience from other areas has shown very consistent patterns in consumer views of a variety of LCHO models. The large scale evaluation of the LCHO Programme in England and Wales undertaken by the current research team found exceedingly high levels of satisfaction with Homebuy and moderately high levels of satisfaction with Shared Ownership. 94% of Homebuy purchasers and 84% of Shared Owners were satisfied with their tenure. 96% of Homebuy purchasers and 84% of Shared Ownership purchasers would recommend the tenure to someone else. (Bramley et al, 2002, p150) Satisfaction with Homebuy was associated with the greater feeling of ownership.
- 2.5.9 ELHA interviewees believed that "Shared Equity" schemes have been popular, giving a greater sense of ownership. The association's involvement is limited to that of an estate agent at the time of sale. Association involvement at this stage is important to ensure that the property is sold in accordance with the original agreement – limited to people living within the parish boundary, and then, if necessary, cascading to the next level which is contiguous non-urban parishes. The association arranges for advertising and keeps a list of people interested in LCHO.

2.5.10 The association argues that fee levels it is paid for this do not reflect its costs in advertising and administration which are necessary to make the scheme work as intended, i.e. to retain the property in shared equity in perpetuity. With only a small number of sales, no problems have arisen to date but failure to find an eligible purchaser could mean that the property might be lost in perpetuity since there would eventually have to be an open market sale and repayment of the subsidy.

2.5.11 Although popular with purchasers and the association, ELHA noted that there has been a small choice of lenders willing to participate in the shared equity scheme. When first developed, it is believed that only one local branch of one bank was willing to lend to purchasers. The availability of mortgage brokers is believed to have been beneficial in extending the choice in more recent sales.

2.5.12 Researchers have interviewed a number of lenders in recent research (Bramley et al, 2002, p56) and found them pragmatic about schemes which restricted the owner's ability to sell:

"We are not so keen on these....We would lend selectively where there was a market."

(Lender 1)

"It isn't a problem for us but they add complication. We just want a sensible get out - we want the broadening of marketing beyond the initial restriction to happen quickly if there is no demand."

(Lender 2)

2.5.13 The research referred to above also found lenders to prefer the more straight forward LCHO schemes. While there were lenders who were happy to lend on shared ownership schemes, equity loans (such as Homebuy described below) involved less work and were low risk. Homebuy involves the lender in low "loan-to-value" loans and because the lender has a "first charge" over the property there is a low risk of the lender not being able to recover the loan if the mortgagee defaulted.

2.6 Homebuy

2.6.1 The researchers believe that the Homebuy scheme represents a useful alternative to the schemes developed in East Lothian to date. This section of the report therefore highlights key aspects of the scheme.

2.6.2 Homebuy, a form of equity loan, was introduced in Wales in the early 1990s and in England in 1999. Although similar in principle, the two schemes differ in operational detail and objectives.

2.6.3 An equity loan from a housing association meets part of the initial purchase cost and this is treated as an interest free loan to the purchaser. Upon subsequent resale or "staircasing", the association is paid the relevant percentage of the current market value. The grant/equity loan is treated as a

second charge on the property, which enables mortgage lenders to view Homebuy as a low (75%) loan-to-value loan. From a housing association point of view the equity loan will earn a return in the form of capital appreciation in a rising market, and will eventually be paid back and be available to “recycle” to other LCHO buyers or for other purposes. In different market conditions, where house prices were falling, housing associations, like other property owners, would be at risk of incurring a shortfall on the sale of a property.

- 2.6.4 Homebuy differs significantly from shared ownership (but is similar to shared equity schemes in East Lothian) in that there is no rental element and it is therefore a simpler form of LCHO. This simplicity makes it potentially more attractive to lenders and consumers.

2.7 *Homebuy in England*

- 2.7.1 In England Homebuy is run on the basis of a 25% equity loan. The objectives of Homebuy are to:

- Assist tenants of RSLs, local authorities and those nominated from the waiting list to buy a home.
- To help meet the demand for social housing by creating vacancies in social housing stock and reduce waiting lists.

2.7.2 *Eligibility*

To be eligible for Housing Corporation funded Homebuy an applicant must be:

- A tenant of a Registered Social Landlord or Local Authority
- On a housing waiting list and nominated by the local authority as being in housing need
- Not have received housing benefit in the last 12 months (except in some circumstances where housing benefit was payable due to high private rental costs)

2.7.3 *Property Eligibility*

- Properties may be new or second-hand. They must be mortgagable and in reasonable repair. (In consultation in East Lothian associations noted the concern that low income purchasers should not be put in a position where they had repair obligations which were too great for their means and that this would be a particular issue in the lower priced secondhand market. Such concerns should inform association decisions in vetting applicants and properties which are included in any future scheme.)
- If new, properties must have NHBC or similar warranty. The housing association will determine whether the size of the property is suitable for the applicant’s current housing needs. The property must be bought with vacant possession and be immediately habitable.

- There are value limits set by the Housing Corporation which limit the search options available to the purchaser. However, cost limits may be waived at the discretion of the Housing Corporation where a larger or more expensive property is needed to meet the needs of a disabled applicant or disabled member of the applicant's household.

2.8 *Homebuy in Wales*

2.8.1 Homebuy in Wales is intended to meet two main policy objectives:

- To help meet the need for affordable housing in areas of shortage by assisting people who would otherwise have priority for social housing to buy a home on the market.
- To help create balanced communities by offering tenure options to residents of new and existing social housing developments.

2.8.2 Homebuy may also be used to provide assistance to

- Owner occupiers whose homes are required for clearance where the proceeds from their former dwelling are not enough to purchase a suitable replacement dwelling outright
- Elderly owner occupiers of dwellings that are unsuitable for their current needs where the sales proceeds are not enough to purchase a suitable dwelling outright.

2.8.3 The Welsh system is rather more flexible than the English model in that there is provision to vary the size of the equity loan. The Assisted Home Ownership Procedure Guide states that the equity loan will normally be for 30% of the approved purchase price. The equity loan can be increased to 50% in the following circumstances but only where the applicant is unable to afford 70%:

- In rural communities
- In schemes that offer a mix of tenures as an aid to community sustainability
- To assist owner occupiers whose homes are required for demolition and redevelopment and who are intending to remain in their present community

2.9 *Issues for Housing Associations Participating in Homebuy*

2.9.1 To participate in Homebuy associations must have a Consumer Credit Licence and a Direction from the Director General of Fair Trading under the Consumer Credit Act 1974.

2.9.2 Homebuy is intended to assist those who could not otherwise afford to buy. As an interest free equity loan, it is potentially very attractive to applicants and targeting on need is essential. Since Homebuy is not intended to provide a better quality home for an applicant who could already buy, associations must determine whether an applicant could afford to buy a cheaper property within a reasonable travel to work area, bearing in mind their circumstances e.g. location of schools, child care and social services.

- 2.9.3 A Homebuy purchaser may repay the loan either while still in occupation or upon sale of the property. In England the loan repayment is recycled through the Recycled Capital Grant Fund (RCGF) up to the amount of the original grant. Any surplus may be retained by the association. This will allow new LCHO to be provided in place of any lost through outright purchase.
- 2.9.4 The Home Ownership Taskforce did not come down unequivocally in favour of Homebuy over shared ownership. Homebuy is a little more expensive to the public purse. There is also a view that Homebuy is possibly overly generous to consumers and might discourage mobility.
- 2.9.5 There is no evidence that Homebuy has had the effect of putting inflationary pressure on the housing market. Nationally this is unsurprising due to the small scale of the programme in comparison with the number of transactions. At the East Lothian scale it is possible that there might be some small impact at the margins.

2.10 Summary of provision issues in East Lothian

- 2.10.1 The overall picture of supply in East Lothian is that shared ownership plays a small part in meeting local housing needs. The existing small pool of shared ownership units is meeting the immediate needs of residents but there is the potential for people housed to find mobility limited.
- 2.10.2 There has been no new shared ownership supply in recent years reflecting the low priority given to it by Communities Scotland and housing associations. There is a stark contrast between the amount of grant which has been or is likely to be directed towards LCHO and the LHS target of 550 units of LCHO.
- 2.10.3 In the context of TMDF, the local authority could decide to direct a greater share of capital resources towards LCHO but this would have to be at the expense of other expenditure, i.e. on social rented provision and the scope for this is therefore minimal. ELHA suggests that the shared equity scheme could be extended as a model which will allow LCHO to be provided in perpetuity in East Lothian.
- 2.10.4 The only current development involving LCHO involves shared equity subsidised through free land without grant assistance. ELC is committed to delivering LCHO through the Affordable Housing Policy. Whilst the shared equity model is one route to providing LCHO, there is merit in exploring the less complicated Homebuy approach.
- 2.10.5 The Homebuy model used in England and Wales is an easily understood and widely available alternative which has proved popular with customers, lenders and associations. Where there is a commitment to recycle grant, it provides a potentially self sustaining method of providing LCHO. Except where there is an absolute need to retain a particular property in perpetuity, this allows the benefit of the grant to be retained without the complications involved in the alternative shared equity model.

CHAPTER 3

STAKEHOLDER PERSPECTIVES ON AFFORDABLE HOUSING

- 3.1 Building upon the issues raised on chapter 2, chapter 3 highlights the key issues raised by stakeholders in relation to future LCHO provision. It looks at the attitudes of the stakeholders to different forms of provision and to working together in the context of ELC's Affordable Housing Policy. The chapter begins with discussion of ELC objectives and priorities.

3.2 Local Authority Housing Priorities and Objectives

- 3.2.1 ELC has strategic responsibility for delivering affordable housing. The transfer of the management of development funding (TMDF) due to take place in financial year 2004-05 will strengthen ELC's ability to fulfil this role. In addition to managing HAG funding, the local authority will also consider whether there is an opportunity to revive GRO. However, as indicated in chapter 2, these funding sources are likely to be insufficient to meet the need for LCHO. ELC will use the Affordable Housing policy as a means of increasing the supply of LCHO.
- 3.2.2 ELC's Affordable Housing Policy does not view LCHO in isolation and seeks to balance the provision of LCHO and other affordable forms. Interviews with key local authority staff and examination of local authority documents show that social rented housing remains the Council's priority and that only a minority of affordable provision will be LCHO. The LHS, for example, indicates that a split of 80/20 rented to LCHO provision may be appropriate.
- 3.2.3 Where LCHO is provided, ELC wishes to ensure the benefit is retained in perpetuity for the people of East Lothian rather than resulting in a "windfall" for the first purchaser of the property. Any form of LCHO promoted by the Council must fulfil this objective.

Use of Council Resources

- 3.2.4 ELC has transferred land to Homes for Life Partnership. HFLP's current and future programme may produce over 50 LCHO units with the aid of this resource.
- 3.2.5 However, this source of subsidy is very limited as the Council now owns virtually no vacant "Housing" land. Other ELC departments have estates but there would be a tension between any desire to use this land to assist in the provision of affordable housing and the requirement of other departments to maximise income from the sale of any land for housing. Decisions on utilising such resources would require corporate consideration by the council. While the extent of such opportunities has not been explored in this report, we would urge the Council to consider this as part of its overall affordable housing strategy.
- 3.2.6 The Council has also considered funding loans for priority purchase categories in the second hand housing market. These would be available, for example, to

waiting list applicants and tenants. Although these could make a contribution to meeting need it is understood that very small numbers of loans are being considered.

Implementing the Affordable Housing Policy

- 3.2.7 There is little experience in Scotland in general and in East Lothian in particular of using the planning system to deliver affordable housing. It is clear, however, in a national context (SPP3) that the planning system may make a contribution to the provision and retention of affordable housing. East Lothian Council has responded to national policy, and to local conditions with the development of an Affordable Housing Policy. Objectives of this policy include delivering affordable housing while achieving housing quality and tenure diversity. The current research considers whether private sector development sites can be used to meet these objectives without the need for additional grant subsidy.
- 3.2.8 The Affordable Housing Policy recognises the need to work closely with developers, social landlords and other partners to meet affordable housing targets at a sub-area level. The following sections of this chapter consider the views of these stakeholders relating to the policy's objectives.

3.3 Developers

- 3.3.1 Developers view East Lothian as a good area for development with all land identified for housing being attractive to some degree. Nevertheless, developers stress the need to maintain turnover in order to remain profitable. A key concern for developers in working with the council and housing associations is that this is not compromised through the implementation of policies designed to promote affordable housing. They make the general point that local authorities should be aware that delays and uncertainty in the planning system can ultimately cause them to look elsewhere to meet their overriding turnover priority.
- 3.3.2 The market does not provide incentives for developers to provide products aimed at lower income households. The majority of developer housing products are two storey detached homes. Although these are 3 or 4 bedroom properties, they often also include a number of public rooms/other use rooms and are therefore considerably larger. There are a smaller number of semis detached houses. Developers suggested in interview that on most sites the detached house with integral garage is the most economically efficient form. Thus the market is unlikely to produce the type of property which can be readily used to meet affordable housing needs:

“New build is not the first step on the housing ladder.”

- 3.3.3 Meeting the public policy objective of securing affordable new housing through private developer owned or controlled sites therefore requires intervention by government and/or the local authority. Individually, developer representatives may express doubts over government policy towards using the

planning system to deliver affordable housing but there is a growing level of acceptance that this is the environment in which they must work. In interview they refer to the Homes for Scotland position (set out in the consultation paper *Avoiding a Social Crisis: Affordable Housing and Starter Homes*, October 2003) which is generally supportive of the Scottish Executive's objectives.

3.3.4 There are in the current context two broad categories of developer – those with a contracting arm which may have experience of working with housing associations - and those who develop purely for market sale. To deliver affordable housing it will be necessary to be able to work with both types of developer.

3.3.5 There are a range of developer views on how affordable housing should be delivered in practice. When asked directly about their preferred route they varied depending upon whether they were outright developers or included a contracting division:

- A developer which doesn't work with HAs would prefer to build own units and do a straight low cost market sale – the imperative being a product which would blend in.
- A developer with experience of providing affordable housing with housing association is confident that housing developed with HAs can be built to Communities Scotland requirements and still fit with developer style.

3.3.6 One developer interviewed as part of the study indicated a willingness to promote a scheme not dissimilar to the existing shared equity discussed above, at least in relation to one particular development.

3.3.7 The overriding concern of developers was that there should be clarity in what was required by the affordable housing policy so that there was a "level playing field". This relates to the quantity and tenure of affordable housing required as well as design briefs which can impact on the value of the site and its profitability.

3.3.8 Where a developer has to work with a housing association there is concern that delays in financing the association section of a site could have an adverse impact on purchasers of the developer's units. The researchers believe that where grant is required, the council would be in a better position to co-ordinate the programming of association work after the transfer of funding management from Communities Scotland but factors such as annuality of funding may continue to hamper this co-ordination.

3.4 Housing Associations

3.4.1 As has been noted earlier, associations have very limited experience of developing LCHO in East Lothian since the mid 1990s. They would, however, be supportive of a variety of models if promoted by the council.

- 3.4.2 Associations expressed varying degrees of caution over whether shared ownership would be an appropriate model in East Lothian. This mirrors the views discussed in the previous chapter: one association stated that shared ownership was unduly complicated and therefore unattractive to consumers and lenders. In general the view from associations was that if it could be shown to be feasible then the associations would work with the ELC to provide the appropriate form of LCHO.
- 3.4.3 Associations have experience of working with developers. They, like the developers, believed that issues of quality could be dealt with through an understanding of both partners' needs. Associations would not necessarily object to using developers' standard house types but these would be amended to meet barrier free/Housing for Varying Needs (HfVN) standards. Both associations and developers agree that affordable housing should look similar to the market housing on mixed tenure sites to promote integration and avoid stigmatisation.
- 3.4.4 ELC is committed to including the community in the development of quality and sustainability standards, e.g. in the recently completed community consultation and ongoing design briefing for affordable housing at Windygoul in Tranent. There is currently no mechanism for applying a similar approach to private sector building and indeed developers argue that market research into housebuyers' preferences rather than consultation with the local community is the appropriate mechanism for driving improvement in housing quality. Bridging this gap in perception is, perhaps, particularly important in relation to LCHO where the purchasers are not those who have maximum buying power in the private market but *do* have a financial stake in the properties.

3.5 Housing for people with special needs.

- 3.5.1 Discussions with providers and enablers of housing for disabled people highlighted opportunities for the needs of people with disabilities to be addressed by an affordable housing policy. Their needs relate to physical aspects of design and to mechanisms for delivering affordable housing across all tenures.
- 3.5.2 People with disabilities have been disproportionately affected by the Right to Buy because of the sale of suitable ground level accommodation. Access to owner occupied housing has also been made more difficult by the "Edinburgh effect" which has pushed up the price of housing. Once again, disabled people have been disproportionately disadvantaged because suitable housing is often larger, more expensive, private sector properties, e.g. the traditional bungalow.
- 3.5.3 Improvements in the standards of new build properties which are being driven by changes to building regulations are considered to be insufficient since they emphasise visitability rather than occupancy.
- 3.5.4 A variety of approaches were suggested as being beneficial for meeting the needs of disabled people:

- There is a need for new build housing to take account of the needs of disabled people but also for assistance in finding a suitable home and financial package.
- SO is appropriate in particular places where land prices are so high that full ownership is unaffordable (DIYSO may play a particularly useful role).
- Homebuy is much more flexible than current SO options.
- Flexible tenure may be particularly appropriate for the needs of disabled people.
- Information about housing which is adaptable is being developed which will assist people to find housing on the market.
- More could be done by private developers to market new housing as suitable for people with disabilities.
- There are particular problems in rural areas where there may be a lack of suitable accommodation locally (while recognising that there may be sound sustainability or environmental limitations on provision in particular areas).

3.6 Intermediate Rent and Non-Social Renting

- 3.6.1 Housing Associations are not averse to providing intermediate rent where their constitutions permit but see their main role as providers of social rented housing.
- 3.6.2 Although not consulted directly, the Scottish Rural Property and Business Association (SRPBA) was represented on the steering group and made specific comment regarding the potential of its members to contribute to housing in rural areas. Noting that in rural Scotland its members provide over 35% of privately rented housing, they believe that private landlords could provide a valuable resource if funding was made available to them. SRPBA highlights a number of advantages including: the landlord already has the land, grant would be used to deliver affordable housing rather than sustaining high land values and that it would represent support for rural businesses.
- 3.6.3 Currently development funding from Communities Scotland is channeled almost exclusively through HAG to housing associations. SRPBA acknowledge that extension of grant to its members would have conditions attached in areas such as rent levels and nomination rights. Communities Scotland/Scottish Executive are currently evaluating the HAG system with a view to the possible introduction of a Social Housing Grant which *may* be available to a wider group of organisations. Should that eventuality occur, the SRPBA approach would merit consideration in certain circumstances and for certain groups.

3.7 Local Authority Homeseecker Pilot

ELC has been running a pilot scheme which is designed to extend the information given to applicants for housing beyond the traditional “housing advice” function. This is being set up as a web enabled service with links e.g. to estate agents and other housing advice. Opportunities may exist in future to develop such a service in ways which are integrated with the Affordable Housing Policy e.g. in maximising information about options which could match individual needs.

3.8 Policy Conclusions

- 3.8.1 ELC has a strategic role in ensuring that its policies deliver good quality affordable housing. It can bring to bear a number of tools including the use of its own resources and after the transfer of funding, the direction of Scottish Executive resources. To meet its overall objectives it must work with private developers and housing associations through its affordable housing policy.
- 3.8.2 In working with the private sector it is essential that the operation of the affordable housing policy provides clarity and avoids delays. Where any local authority department (e.g. planning or housing) interacts with the development process it is essential that this point informs processes.
- 3.8.3 ELC has been working to ensure that social housing meets high standards of quality, including community consultation and participation on sustainability. ELC has identified the need to explore how sustainability objectives can be rolled out to all development in East Lothian. Where the Affordable Housing Policy results in new ways of housing associations and developers working together to deliver affordable housing, ELC should encourage the development of mechanisms for community participation to meet its quality and sustainability objectives.
- 3.8.4 A flexible approach to the use of existing and new housing should be employed to address the needs of disabled people. While Homebuy is a potentially flexible model - giving access to new and secondhand property - there will be occasions when the mix of financial and physical needs of a household make a shared ownership model more appropriate.
- 3.8.5 The needs of households will vary and resources can be most effectively targeted when the customer and the enabler (whether local authority or housing association) have the maximum information on choices available. A service such as the existing Homeseecker Pilot in East Lothian might be a model which can be developed in conjunction with the Affordable Housing Policy.

CHAPTER 4

NEW AND SECOND HAND MARKET HOUSE PRICE ANALYSIS

4.1 Introduction

- 4.1.1 The main objective of this chapter is to provide a set of simulated (standardised) new-build house prices that can be used as an input to the site appraisal toolkit. Detailed description of the methodology is essential to the verification of the analysis. It is, however, potentially fairly dense for the general reader and is therefore set out in Appendix 2. Chapter 4 lays out only the basic information necessary for an understanding of the results of the data analysis and its use.
- 4.1.2 Providing the standardised new-house prices is complicated by the fact that the specification of new-build housing is likely to vary markedly from locality to locality. Therefore, a simple analysis of average new-build property prices broken down by locality will potentially yield misleading results. Similar problems are associated with analysis of second-hand house prices. In the second-hand market the housing stock may differ markedly in terms of quality and specification within a local authority area. This means that comparing house prices between localities is not a “like for like” exercise and may lead to biased results.
- 4.1.3 The chapter reviews the results of two distinct models. The first seeks to reveal local variations in house prices. The output is expressed in terms of local price discounts or premia. The second model benchmarks new-build house prices to specification second-hand house price levels. The chapter then provides a set of simulated or predicted new-build house prices for 1 through 5 bedroom properties across a range of localities in East Lothian.

4.2 Second-hand house price analysis

- 4.2.1 The objective of estimating the second-hand model is to arrive at a method of satisfactorily explaining variation in house prices with regards to size and specification. This model is then used to identify local variations in house prices.
- 4.2.2 The second-hand price model follows a well-rehearsed and widely accepted methodology known as hedonic regression. It looks at the relative importance of particular attributes e.g. a garage or a dining room in determining the price of a property. The impact of different locations on price is also considered in the model. The model is estimated twice. The first variant considers postcode sectors while the second uses 12 areas based on “Intermediate Zones” shown in Map 1. (The reasons for using this scale are discussed in chapter 6). Haddington is taken as the benchmark and variation above and below this are shown in the model. The model is estimated using ESPC data for 1999-2003

and the full results are shown in table A2.1 (appendix 2).

- 4.2.3 The results show that aspects of specification and location both influence price. The model is benchmarked to Haddington so, for example, properties in Wallyford trade at a 29.7% discount compared with like-for-like properties in Haddington. Properties in North Berwick trade at a 27% premium compared with Haddington, and so on. A summary of the locational discounts / premia is shown below in table 4.1.

Table 4.1 Locational discounts / premia

Izone	Area	Premium (%)
1	Gullane Coast	14.2
2	NB rural	15.3
3	North Berwick	27.0
4	Cockenzie / Longniddry	-7.1
5	Prestonpans	-23.9
6	Musselburgh	6.1
7	Wallyford / Whitecraig	-29.7
8	Tranent urban	-21.3
9	Tranent rural	0
10	Haddington	0
11	Dunbar	-14.0
12	Dunbar rural	0

4.3 Results of the new-build price analysis

- 4.3.1 The new-build house price model is designed in accordance with economic theory. Rather than modelling the new-build sector as though the second-hand sector does not exist, second-hand house prices levels are taken as the starting point for new-build price determination.
- 4.3.2 The model therefore assumes that new-build house prices are a function of the second-hand house price level (as expressed through the ESPC index) and local adjustment factors as revealed in the analysis of second-hand house price data shown earlier. In effect, this permits us to model relative new-build property prices, i.e. the price of new-build property relative to second-hand price levels in the locality. The main advantage of this specification is that it permits us to use the local level adjustment factors estimated using the large ESPC dataset. The estimated model is benchmarked or anchored to the publicly available ESPC price index for East Lothian which means that it can be used to predict new-build price levels in each locality in subsequent years, provided the ESPC index continues to be freely available.
- 4.3.3 Two alternatives of the model are estimated. In the first, the locally-adjusted new-build price is as shown while in the second variant of the model, the price variable is converted to natural logarithms. As discussed in appendix 2 the simplified linear model is used as the working new-build price model. The full

estimation results are shown in tables A2.3 through A2.6 (appendix 2).

- 4.3.4 The results of the estimation with new-build / planning authority data suggest that the planning data can be used to satisfactorily explain new-build price levels with respect to second-hand levels. As noted earlier, the new-build prices are 'pre-adjusted' to take account of local variations in price levels. The adjustment factors were obtained from the model estimation using ESPC data.
- 4.3.5 New-build house prices are driven primarily by the number of bedrooms and internal public room area. Box rooms and utility rooms add value while the detached house type is also worth more than flats, terraces and semi-detached houses. Holding other attributes constant, there is no significant difference between the prices of flats, terraces and semi-detached houses. The value of these property types may vary as a result of differences in size, number of rooms and specification but the results show that there is no inherent positive or negative premium associated purely with the property types.

4.4 Estimating or predicting new-build house prices

- 4.4.1 As noted earlier, the new-build price model has been designed partly to ensure it has value as a predictive tool. The model implicitly uses information on the ESPC average house price index for East Lothian and local price adjustment factors estimated using the ESPC data for calendar years 1999-2003. The estimated new-build price model can be used to predict the price of new-build housing by feeding in details on specification together with the ESPC average price index value. Recent values of the ESPC index are shown in table 4.2:

Table 4.2 ESPC average price levels for East Lothian

Qtr	ESPC
1999, Q3	77,350
1999, Q4	81,833
2000, Q1	78,029
2000, Q2	91,977
2000, Q3	88,770
2000, Q4	88,150
2001, Q1	82,344
2001, Q2	98,498
2001, Q3	97,793
2001, Q4	101,291
2002, Q1	96,795
2002, Q2	114,520
2002, Q3	117,013
2002, Q4	123,015
2003, Q1	124,134
2003, Q2	135,239
2003, Q3	144,917
2003, Q4	149,875

4.4.2 The price predictions concern four property types: (1, 2, 3, and 4 bedroom). Their specification is as follows:

Table 4.3 Summary of property type attributes / specification

Attribute / feature	2B flat	2B terr	2B semi	3B terr	3B semi	3B det	4B det
Bedroom area	18	24	22	23	24	25	37
Public room area	16	16	18	16	20	22	26
Living room	√	√	√	√	√	√	√
Dining room					√		√
Dining area		√	√	√		√	√
Utility room							√
Box room			√				
WC2			√	√	√	√	√
Ensuite						√	√
Driveway			√	√	√	√	√
Parking space	√	√	√				
Single garage				√	√	√	√
Double garage							

4.4.3 Given the relatively simple set of predictors used in the new-build price model, a number of elements of specification are implicit. For example, in predicting the price of a 2 bedroom flat, the model implicitly assumes that the property has a living room, parking space, 18 square metres of bedroom area and 16 square metres of public room area (mirroring the most common specification of such properties in the sample of data used to construct the model).

4.4.4 Based on an analysis disaggregated by postcode sector, the predicted prices of the 2, 3 and 4 bedroom properties in the case study areas discussed in chapters 5 and 8 are set out in table 4.4 (for quarter 3 of 2003 only).

Table 4.4 Quarter 3, 2003 predicted new-build property prices (first model)

	2 bed	3 bed	4 bed
Musselburgh (EH21_6)	118,000	163,000	231,722
Gullane (EH31_2)	136,500	188,250	267,642
Prestonpans (EH32_9)	100,500	138,697	197,310
Pencaitland (EH34_5)	146,500	202,019	287,391
North Berwick (EH39_4)	153,250	211,394	300,728

- 4.4.5 The figures shown in table 4.4 are used in the subsequent site appraisal toolkit analysis. However, a further development of the model permits a wider ranging analysis encompassing 1 and 5 bedroom properties. The data collected from planning applications contained no information on 1 bedroom properties. As a consequence, predicted prices obtained from this further development of the model are forecasts rather than predictions.
- 4.4.6 The second version of the model is also used to predict the price of 1 and 5 bedroom properties. These predicted prices are shown in table 4.5.

Table 4.5 Quarter 3, 2003 predicted new-build property prices (2nd model)

Izone	1 bed	2 bed	3 bed	4 bed	5 bed
Musselburgh	131,861	173,838	277,199	339,440	416,605
Gullane Coast	141,877	187,043	298,257	365,225	448,253
Prestonpans	94,570	124,676	198,807	243,446	298,788
Tranent rural	124,276	163,839	261,255	319,916	392,643
North Berwick	157,800	208,035	331,729	406,214	498,559

- 4.4.7 The results of the prediction / simulation exercise provide a set of new-build house prices which can be used as substitute values in the site appraisal toolkit. The figures are generally higher than those obtained from the first variant of the model. The primary reason for this is that the first variant of the model uses postcode sectors as an approximation for local sub-areas or “neighbourhoods”. Meanwhile, the second variant of the model uses “intermediate zone” boundaries. The results of the second model predictions therefore show local price variations that are in line with the analysis of second-hand data and the analysis linked with affordability in chapter 6.
- 4.4.8 In order to provide as robust a set of residual land value estimates as possible, the predicted prices obtained under the first variant of the house price model are the ones used as default values in the site appraisal toolkit. This is primarily because these are the more conservative of the two sets of estimates. The second model is estimated using intermediate zone boundaries, which are preferable to the postcode sector level of analysis. However, the first model is preferable from a theoretical point of view because it is used only to predict within sample (2-4 bedroom properties) and not outwith the sample (1 bedroom properties).

CHAPTER 5

EAST LOTHIAN TOOLKIT: RESULTS OF ASSESSMENT

5.1 Introduction

- 5.1.1 This chapter introduces the site appraisal toolkit which helps us to assess the viability of affordable housing on new build sites. This feeds into the affordability modelling in chapter 6 and the option appraisals presented in chapter 8. For reasons discussed earlier, it draws upon the more conservative of the two house price models in chapter 4.
- 5.1.2 The toolkit developed for East Lothian is based on a model initially provided to the Greater London Authority by Nottingham Trent University and Three Dragons (the NTU/3D model). A further detailed description of that model is provided at Appendix 3.
- 5.1.3 The logic of the model follows closely the residual development valuation approach. A key objective of the model is to generate a residual value. This is done by factoring in all possible sources of revenue and balancing them against all sources of development cost.

5.2 How the toolkit works

- 5.2.1 In a scheme with 100% market housing, total revenue will be the result of the number of homes sold at given price(s). Where the scheme involves affordable housing, the model also has to take account of the revenue generated from payments by the housing association to the developer for the construction of the affordable housing. Developer costs are incurred from a number of sources including: base construction costs (materials and labour), infrastructure costs, professional fees, developer overheads, finance costs and operating margins.
- 5.2.2 When total revenue has been balanced against total cost, a residual value results. At this stage, it is a 'gross residual', since there are other costs which may need to be deducted. In particular, the costs to the developer may rise as a result of the local authority asking for additional physical or social infrastructure as a result of the schemes going ahead – other planning 'gain'. Once these costs are taken into account, a 'net' residual results.
- 5.2.3 The "net" residual will include the payment made by the developer for the land plus any "superprofit" or loss which arises from the difference between the actual land value payment and the residual generated by a comparison of final revenue vs development costs. There is unlikely ever to be perfect fit between forecast and actual net residual because of lack of perfect knowledge of house prices and development costs.
- 5.2.4 Information on revenue from affordable housing has been obtained from discussions with Communities Scotland and with individual housing associations. It reflects the operation of the New/Base Indicative Cost system

as administered by Communities Scotland which quantifies build costs in considerable detail but leaves other key variables such as land value and wider planning gain as matters for individual negotiation between the RSL and the developer/landowner, albeit with access to advice from the District Valuer on land valuation issues.

- 5.2.5 The model (toolkit) operates on the basis of a notional one hectare site at a specified development density. The user can use a default development mix based on information supplied as to typical development patterns in East Lothian or can input their own development mix for the site. Larger or smaller sites can also be modelled using the toolkit.
- 5.2.6 A distinctive feature of the model is the use of key secondary data sets; in particular those relating to dwelling prices, development costs, density and housing mix and the availability of public subsidy. The toolkit provides 'default' average data for various locations within East Lothian which enables the user to undertake a preliminary analysis of financial viability through the toolkit even where detailed financial information on an individual site basis is lacking. Users are however strongly recommended to obtain robust information on actual site specific development costs and revenue as soon as possible and to share the use of the toolkit with key development partners (eg developers and RSLs).
- 5.2.7 The model provides a basis for strategic policy making and in its current form it can provide the basis for understanding the impact of seeking affordable housing (with and without public subsidy) from a market housing development. A further significant issue is the relationship between the site residual for residential use versus the residual value for alternative uses. Where the latter is higher, it may be hypothesised that the residential scheme will not come forward. However, the data itself must not be allowed to become the final arbiter or indicator of housing land supply, since this is subject above all to decision making on the part of land owners.

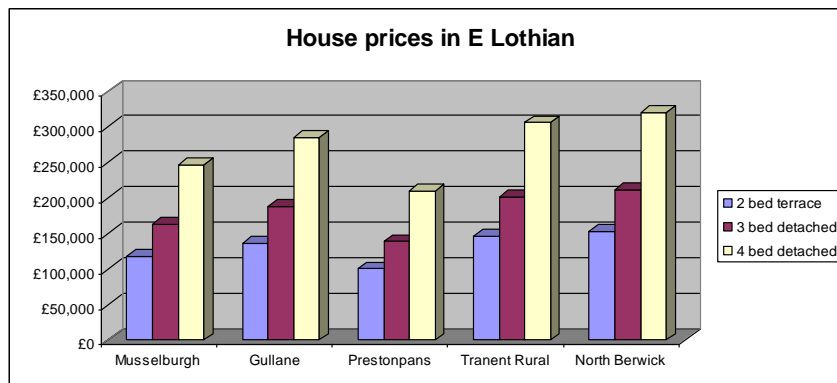
5.3 House Prices, Costs and Revenue in Case Study Areas in East Lothian

- 5.3.1 Here we have used the model to assess the impact on residual values of LCHO provision in 5 locations in East Lothian. These five areas were chosen as case studies to be subject to option appraisal (selection criteria are outlined in chapter 8).
- 5.3.2 Selected areas are:
- Musselburgh,
 - Gullane
 - Prestonpans
 - Tranent Rural
 - North Berwick.
- 5.3.3 Build cost and NIC data is common to all areas, but house prices vary considerably as shown in Table 5.1 and Chart 1 below.

Table 5.1: Newbuild house prices

	<i>2 bed terrace</i>	<i>3 bed detached</i>	<i>4 bed detached</i>
Musselburgh	£118,000	£163,000	£247,250
Gullane	£136,500	£188,250	£285,500
Prestonpans	£100,500	£138,750	£210,500
Tranent Rural	£146,500	£202,000	£306,500
North Berwick	£153,250	£211,500	£320,750

Chart 5.1 House Prices in East Lothian Case Study Areas



5.3.4 For each area the East Lothian toolkit compares development cost with market values (**revenue**) in order to derive a **residual** value which reflects land value. The toolkit is also able to model revenue payment from RSLs to developers based on two possible options:

- Communities Scotland NIC system** This assumes a common payment to the developer for social rent and shared ownership based on the BIC calculation. BIC seeks to model build costs and makes no standard provision for land value. Any land payment is based on an assessment by the District Valuer and, we understand, will normally reflect market value. As modelled there is no allowance for any payment for land value. The residual value is therefore the land price plus any profit made by the developer.
- A revenue based model:** This model assumes that no public subsidy is available and that the payment to the developer reflects the capitalised nett income to the RSL. In the case of social rent this is the nett rent after allowing for management, maintenance and voids. For shared ownership revenue is based on the 25% share purchased by the customer plus a rent of 3% on the

remaining value of the property. No allowance is made for maintenance or management. For Homebuy revenue is based on payment to the RSL by the Homebuy purchaser of 60% of market value.

5.4 The scenario

- 5.4.1 Here we model a hypothetical scheme based on assumptions which stakeholders agreed represented a reasonable approximation of the type of mixed tenure development which might occur in East Lothian.

The scheme modelled is a 2 hectare development of 50 sale housing units: 30 x 4 bed detached and 20 x 3 bed detached. The density is 25 dwellings per hectare.

It is assumed that a S75 affordable housing requirement of 25% affordable housing is then applied to the site. This requirement is expressed as 25% of the land and it is assumed that this part of the site will be developed with 2 bed terraced units at a density of 35 dwellings per hectare.

This produces an overall mix of 55 units of which 18 are affordable and 37 are market units. The market units are 15 x 3 bed detached houses and 22 x 4 bed detached houses. The overall density of the site is now 27.5 dwellings per hectare.

The 18 affordable homes are modelled as:

- Social rent
- 25% shared ownership
- 60% Homebuy

It is assumed that there are no other elements of planning gain and no exceptional development costs. Both of these can be modelled within the toolkit and will have a direct (negative) effect on residual value.

Table 5.2: Residual values per hectare:

	<i>Market sale</i>	<i>25% social rent with grant (NIC based)</i>	<i>25% shared ownership with grant (NIC based)</i>	<i>25% social rent no grant</i>	<i>25% shared ownership no grant</i>	<i>25% Homebuy (60% equity purchased)</i>
Musselburgh	£2,168,150	£1,584,537	£1,584,537	£1,458,386	£1,756,179	£1,544,143
Gullane	£2,754,788	£2,017,726	£2,017,726	£1,891,575	£2,291,934	£2,035,607
Prestonpans	£1,604,588	£1,168,388	£1,168,388	£1,042,238	£1,243,009	£1,072,870
Tranent	£3,076,063	£2,254,954	£2,254,954	£2,128,804	£2,584,604	£2,304,336
Rural North Berwick	£3,295,275	£2,416,834	£2,416,834	£2,290,684	£2,783,907	£2,487,478

5.5 Analysis of results

- 5.5.1 In the case of **market housing** residual values per hectare range from £1.6m in Prestonpans to £3.3m in North Berwick. Since build costs are constant the difference reflects the significant variation in house prices across East Lothian. (House prices in North Berwick are on average 52% higher than in Prestonpans.)
- 5.5.2 **Affordable housing – NIC based** (columns 2& 3). This formula applies to social rent and shared ownership. It assumes that no payment is made for land and that the payment from the RSL to the developer is based on the BIC formula. The same payment is made for social rent and shared ownership. In this case the introduction of 25% affordable housing reduces residual values (i.e. the amount available to cover the land cost and the developer's profit) by an average of 26%.
- 5.5.3 **Revenue based affordable housing.** In the case of social rent there is a further reduction in the residual value per hectare: residuals range from 69.5% of market value in North Berwick to 65% of market value in Prestonpans.
- 5.5.4 For 25% shared ownership residuals are higher than for the NIC based payment, but still lower than for outright market sale. The uplift is significantly more noticeable in high value areas (e.g. in North Berwick the residual is down by 16%, but in Prestonpans it is down by 22.5% on full market value). This is a logical out-turn given that build/developers costs are uniform (as is the NIC base formula) but the revenue will vary based on house prices in different locations.¹

¹ This formula implies that the housing association gets a higher cash rent (3% of value) for a property in a higher value area than for a property in a low value area. A formula which set a common rent for

- 5.5.5 In the case of 60% Homebuy residuals are lower than under the NIC system in Musselburgh, Gullane and Prestonpans but higher in Tranent Rural and North Berwick. Again the difference in out-turn correlates with high house prices in Tranent Rural and North Berwick.

5.6 Policy conclusions

- 5.6.1 Unless there is a substantial increase in public subsidy the introduction of a S75 affordable housing requirement will have a direct effect on land values.
- 5.6.2 In a worst case scenario – provision of social rent without grant – 25% affordable housing reduces residual value by 30-35%
- 5.6.3 Shared ownership will reduce residuals by 16-22% and Homebuy will reduce residuals by 25-33%.
- 5.6.4 The current public funding system normally supports payment for land based on a valuation by the District Valuer. There is no tradition in Scotland of discounting land in order to reflect the costs of affordable housing provision. The current analysis indicates that there is scope to use the planning system to allow reduce amount of grant required in the provision of affordable housing.
- 5.6.5 Subject to availability, grant could be used to generate a land payment. However, as we argue in chapter 7, we would not recommend this for LCHO given current land values, while the payment of a reduced level of grant in the case of social rented housing may be justified.
- 5.6.6 The toolkit enables direct estimation of the impact on land value of the introduction of an affordable housing requirement. This can be expressed in the form of units provided on site, but it could also be used as Payment in Lieu (PiL) which would provide a cash sum to the local authority to support the purchase of existing properties for LCHO or social rent.
- 5.6.7 The Affordable Housing Policy indicates that PiL should only be considered in exceptional circumstances. It may be worth considering this option where newbuild house prices exceed existing house prices, on very small sites where tenure mixing is considered undesirable or on sites whose location makes them suitable for market housing but not for affordable housing.

shared ownership would go some way to even out these anomalies, but would not do so entirely because around one third of revenue is derived from the 25% share purchased which varies with market value.

CHAPTER 6

MODELLING AFFORDABILITY AND NEED

6.1 Introduction

- 6.1.1 The purpose of this modelling work is to estimate affordability conditions in different parts of East Lothian and to derive from this estimates of the need for additional affordable housing and the part of this which might be met by forms of Low Cost Home Ownership (LCHO). This is a distinct modelling exercise which is complementary with other parts of the study, which have included modelling of house prices and an appraisal toolkit to be applied to particular development proposals.
- 6.1.2 The basis of the model is the affordability-based housing needs model developed over a number of years by Bramley. The East Lothian model is an adaptation of the model developed for Communities Scotland and applied to all local authorities in Scotland, as described in a report published in July 2003. Similar models have been used in England, for example for the Home Ownership Task Force and the Barker review.
- 6.1.3 Adaptation of the model has focussed on spatial disaggregation within the district and on feeding in inputs from a variety of sources, including the Census, various house price analyses, and data compiled from administrative sources by East Lothian as part of its 'Local Investment Framework' (within its Local Housing Strategy).

6.2 Geographical Framework

- 6.2.1 East Lothian requested that we attempt to fit the analysis into a set of areas chosen for their Local Investment Framework (not directly related to those used in the affordable housing policy areas). These 25 areas (referred to as LIF areas for short) are based on primary school catchments, and thus correspond with the starting point for the proposed 'Data Zones' in the Scottish Neighbourhood Statistics project. The SNS Data Zones themselves have now been finalised, and involve some aggregation to achieve a minimum viable size (500-1000 population) and some adjustments to reflect homogeneity considerations. We have not checked whether these differ significantly from the LIF areas.
- 6.2.2 We anticipated that some of the LIF areas might be rather small for reliable estimation, with small numbers of population and households present and a degree of imprecision resulting from Census rounding procedures as applied to small cells. For example, the number of households ranges from 89 in Stenton and 163 in Saltoun to 8284 in Musselburgh. Clearly, it is essential to weight for population size when computing averages across these areas.
- 6.2.3 In addition, local housing needs assessment has to recognise that needs cannot always be met within the zone in which they arise, particularly in small rural settlements, and consideration should be given to meeting these needs in adjacent zones. For this reason, as well as the reliability factor, we have established two higher levels of zoning and present results at these levels as

well as at the LIF level. The upper level of the hierarchy is the Secondary School Catchment Areas, of which there are 6 within East Lothian (Musselburgh, Prestonpans, Tranent, Haddington, North Berwick, Dunbar). Some of these (e.g. Tranent) combine both an urban area and a substantial rural hinterland. To reflect marked differences in affordability and supply within these wider areas, we have constructed a set of Intermediate Zones, 12 in all, which group the smaller rural hinterland areas and smaller adjacent settlements together, nesting within the secondary catchments. These intermediate zones are identified on Map 1.

6.4 Incomes

- 6.4.1 The affordability model contains a very detailed method of modelling local income distributions. This is not described in detail here, but the essence is to divide households up into 24 subgroups by household composition/type and by economic activity (number of workers). The model is intended to be consistent with the best available official household income data for Scotland; most recently this has been based on the Family Resources Survey.
- 6.4.2 The model produces plausible average figures for the LIF areas and intermediate zones in East Lothian. The estimates are shown below in Table 6.1. Incomes are estimated for all households and then, for the purposes of housing affordability, for households where the head is aged under 35 (as a proxy for newly forming households).

Table 6.1: Income Estimates by LIF Area
(Gross Weekly Income, 2003)

<i>LIF</i>	<i>Mean All Mean</i>	
	<i>Hhd</i>	<i>Hhd < 35</i>
Aberlady	591	634
Athelstaneford	720	710
Cockenzie	526	537
Dirleton	553	607
Dunbar	434	448
East Linton	616	659
Elphinstone	427	443
Gullane	505	585
Haddington	471	483
Humbie	676	688
Innerwick	563	575
Longniddry	689	757
Macmerry	430	460
Musselburgh	431	440
North Berwick	531	592
Ormiston	484	493
Pencaitland	792	800
Prestonpans	373	372
Saltoun	622	624
Stenton	759	769
Tranent	426	419
Wallyford	383	358
West Barns	449	464
Whitecraig	408	399
Yester	616	642
Total	539	558

- 6.4.3 East Lothian is a relatively high income area by Scottish standards, although there are wide variations within the authority. Some of the urban areas in the west of the district have incomes somewhat below national average, but otherwise East Lothian is a fairly high income area.
- 6.4.4 In the smaller rural settlements which are more affluent, there is some tendency for our model to show particularly high incomes. This may be in some cases a result of small numbers from the Census, or because of a more general tendency to predict high incomes where there is a combination of wealthiness indicators. Examples include Stenton, Pencaitland, Longniddry, Athelstaneford, Humbie.
- 6.4.5 At the intermediate zone level the incomes are less prone to these extremes, and range (for younger households) from £372 in Prestonpans and £379 in Wallyford/Whitecraig up to £651 in Tranent Rural and £684 in North Berwick Rural.

6.4.6 Generally, the under-35 incomes are similar to the all ages incomes – the exclusion of retired households offsets the generally lower incomes of younger working households.

6.5 House Prices

6.5.1 The model uses different house price figures for different purposes. There is a broad distinction between prices at the threshold entry level of the secondhand market and prices associated with new build provision. The former are based primarily on the Sasines data for 2003 (first half), taking the lower quartile in each Intermediate zone as the basic figure. These are then adjusted for the local size mix in the owner occupier sector (from the Census), with separate thresholds then calculated for 1, 2 and 3 bedroom properties as required by different household types.

6.5.2 For new provision, the figures now used are those derived from the statistical analysis of new house prices, consistent with those used in the appraisal toolkit. Table 6.2 shows the prices at these two levels, threshold and new build, for the 12 intermediate zones.

Table 6.2: Threshold and New Prices of 2-bedroom homes by Intermediate Zone, 2003 (first half)

<i>IZONE</i>	<i>Threshold</i>	<i>New*</i>	<i>Ratio Increase</i>	
			<i>New: Threshold</i>	<i>%</i>
Gullane Coast	106490	187043	1.76	3.7
NB Rural	121159	188957	1.56	39.9
North Berwick	104457	208035	1.99	68.1
Cockenzie/Longniddry	81931	152131	1.86	69.5
Prestonpans	63976	124676	1.95	5.8
Musselburgh	71799	173838	2.42	32.1
Wallyford/Whitecraig	64768	115197	1.78	44.3
Tranent Urban	67986	129003	1.90	70.7
Tranent Rural	79606	163839	2.06	22.1
Haddington/Gifford	58539	163839	2.80	26.0
Dunbar	102151	140982	1.38	76.2
Dunbar Rural	78786	163839	2.08	5.3
Total	78402	158824	2.03	38.8

**Prices in both cases are for a 2-bedroom house.

6.5.3 The entry price in the market is lowest in Prestonpans (£63,976) and Tranent Urban (£67,986) (and rather surprisingly low in Haddington at £58,539), and highest in North Berwick Rural (£121,159). The low Haddington figures reflect a lack of transactions in the surrounding rural areas and the possible influence of RTB resales in the town. The rural areas are generally much more expensive, but among the urban areas North Berwick and Dunbar are also expensive.

6.5.4 New build prices are generally much higher, about double on average. The lowest new build prices are in Wallyford (£115,200) and Tranent Urban

(£129,000). They are highest in North Berwick Urban and Rural and Gullane Coast. The new build markup is particularly high in Haddington and Musselburgh, and relatively low in Dunbar.

- 6.5.5 It is clear that prices have risen a lot, by about 39% since 2001, in East Lothian, so that affordability generally has deteriorated. New prices have risen more than threshold prices. However, the movement in prices at the level of these smaller zones is a bit haphazard and we are not very confident in how robust some of these individual figures are (e.g. Tranent Rural).
- 6.5.6 These generally large margins between new and entry level secondhand prices which are a feature of East Lothian pose an obvious problem for new affordable provision. New build shared ownership, for example, is likely to have a market value close to the figures for new build shown here, although it may be possible to shave it down somewhat. This will make it relatively unaffordable, even with low tranches like 25%, and it may not contribute much to widening access to home ownership beyond that which is available in the secondhand market. Partly for this reason, we think it is important to consider options for provision of LCHO which give access to the secondhand market (DIY Homebuy, for example), and we include such an option in the modelling.
- 6.5.7 One factor contributing to the more affordable secondhand market is the considerable RTB resale market in East Lothian. We have been supplied with separate RTB resale price figures, although we do not use these directly in the analysis. In some areas the RTBs are below the lower quartile, but in other areas they are above.

6.6 Affordability

- 6.6.1 The basic test of affordability of buying in the market is made using lending multipliers linking gross annual income to house prices. We use a multiplier of 3.5 for single incomes and 85% of this (just under 3.0) for two incomes. These were established as reasonable norms in a recent exercise looking at patterns of lending in England to feed into a new affordability index there. For shared ownership, a different test is applied, using a net outgoings to net income ratio of 30%. In all cases, a supplementary 'residual income' test is applied, to exclude households who would be placed into poverty by their housing costs.
- 6.6.2 Table 6.3 presents the basic homeownership affordability results averaged at the intermediate zone level.

Table 6.3: Affordability of Market Purchase and LCHO options in 2003 by Intermediate Zones (% of under-35 households)

<i>IZONE</i>	<i>Buy % Able to Buy</i>	<i>Increment</i>		
		<i>Working Able to Households</i>	<i>25% Increment Shared</i>	<i>75% DIY Own % Homebuy</i>
Gullane Coast	34.0	37.8	0.0	16.3
NB Rural	32.8	35.7	4.0	17.1
North Berwick	33.5	35.6	0.0	16.2
Cockenzie/Longniddry	49.0	49.2	0.0	14.8
Prestonpans	34.8	41.1	0.0	12.4
Musselburgh	39.4	44.5	0.0	14.7
Wallyford/Whitecraig	33.2	39.3	0.0	11.9
Tranent Urban	39.1	43.9	0.0	13.6
Tranent Rural	50.2	48.3	0.0	13.7
Haddington/Gifford	56.4	57.6	0.0	9.3
Dunbar	20.3	24.0	10.2	14.8
Dunbar Rural	44.4	48.0	0.0	14.9
Total	40.0	43.4	0.9	13.8

Note: Cols 1,2 and 4 are based on threshold price in secondhand market; col 3 is based on new provision. Cols 3 & 4 overlap.

- 6.6.3 Overall in East Lothian in 2003 40% of under-35 households (representative of newly forming households) can afford to enter the market. The proportion of working households is slightly higher at 43%. The range of variation is from 20% in Dunbar to 56% in Haddington/Gifford. This variation is generally less than that in house prices because, as the earlier tables showed, there is considerable correlation between high house prices and high incomes.
- 6.6.4 The potential contribution of new shared ownership, even at the minimum 25% share, is very low overall, only widening affordability by just under 1% point. In most zones there is negligible scope, basically because of the high price level of new build there. The places where there appears to be some scope are Dunbar and North Berwick. Using 2001 prices, when new build was much less expensive, most zones show some potential for shared ownership, except Tranent Urban, Haddington and Dunbar Rural.
- 6.6.5 The shared ownership model presented here has been modified for consistency with the assumptions used in the toolkit. This assumes that new shared ownership housing would be priced at a level similar to new private housing of the same size. If somehow the price of new provision were lower, for example at a level of say 15% above modern secondhand house prices, then the scope for shared ownership would be much greater, particularly in areas like Musselburgh and Cockenzie.
- 6.6.6 Forms of LCHO which give access to the secondhand market, represented here by a 75% DIY Homebuy option, have generally more potential to widen access, adding nearly 14% points overall (10% in 2001). The figures are

relatively high in Gullane Coast, North Berwick Urban Rural (and Tranent Rural in 2001). They are lower (perhaps anomalously) in Haddington.

- 6.6.7 It is possible to use the Homebuy results to calculate some ready reckoners for affordability across the district, as shown in Table 6.4. This shows the extra percentage points of affordability among under-35 households for each 1% reduction in price. On average, you get 0.55% points more affordability for each 1% price reduction. These values range from 0.37% in Haddington to 0.69% in North Berwick Rural. These sensitivities can also be expressed as elasticities, beloved of economists. We believe this kind of ready reckoner is a useful addition to the local toolkit, as it enables you to test what the effects would be of changes in the market or changes in the parameters of LCHO schemes on offer.

Table 6.4: Affordability Ready Reckoners for a Marginal Reduction in Price by Intermediate Zone, 2003

IZONE	Sensitivity	
	per 1%	Elasticity
Gullane Coast	-0.65	-1.92
NB Rural	-0.69	-2.09
North Berwick	-0.65	-1.93
Cockenzie/Longniddry	-0.59	-1.21
Prestonpans	-0.49	-1.42
Musselburgh	-0.59	-1.49
Wallyford/Whitecraig	-0.48	-1.44
Tranent Urban	-0.55	-1.39
Tranent Rural	-0.55	-1.09
Haddington/Gifford	-0.37	-0.66
Dunbar	-0.59	-2.93
Dunbar Rural	-0.59	-1.34
Total	-0.55	-1.38

Note: col 1 shows increase in affordability in percentage points for a 1% reduction in entry price; col 2 shows this as an 'elasticity', i.e. relative proportional change in affordability over relative change in price.

- 6.6.8 To illustrate the application of the ready reckoner, we know that house prices in East Lothian rose by about 32% between 2001 and 2003 (first half). This would reduce affordability/access by $32 \times 0.55\% = 17.6\%$. In other words, nearly 18% points less of new/younger households would be able to afford to buy. In fact, allowing for increases in income and the fact that the sensitivity is increasing as prices rise, the actual change was about 10.4%. From Table 6.5 below we can infer that this would mean an increase of 104 households per year seeking affordable housing.

6.7 Housing Need

- 6.7.1 The next step in the analysis is to translate these affordability results into numerical estimates of housing need. This brings into play a range of other data about demography, different elements of need, and existing housing

supply. The basic model is essentially the same as that used in current update of our Communities Scotland study. The elements of need considered are:

1. Newly forming households who cannot afford to buy in the market.
 2. A proportion of migrants who are assumed to have affordability limitations
 3. A number of existing owner occupiers who for various reasons are seeking to move into social or affordable housing.
 4. A quota of the existing backlog of households (existing or potential) who are in need, based on the waiting list and other evidence (Scottish House Condition Survey).
- 6.7.2 The sum of these needs, expressed as an annual flow, is then confronted with the number of net relets available from the existing social housing stock (LA and RSL). The net need for additional affordable provision is the difference between the sum of these gross needs and the supply of net relets (excluding transfers).
- 6.7.3 Item 1 is based on an estimate of the annual number of households forming (gross household formation). This yields a total estimate for gross household formation in East Lothian of 939 per year. Affordable need for this group is the product of this number and the percentage who could not afford to buy in the market (totalling 563 households per year).
- 6.7.4 Item 2 involves trying to apportion migration across the LIF areas. We know that for East Lothian as a whole there is a net in-migration of c.650 persons per annum. We also know that at small area level migration will tend to go towards areas where there is new housing being built. We assume that some migrants (a relatively small proportion) would be 'unaffordable', ie in the frame for social housing or other affordable provision.
- 6.7.5 Although owner occupation is the preferred long term tenure for most households, and most who attain owner occupation remain in this tenure, there are some situations where owner occupiers need or wish to move into social rented or affordable housing. This can arise due to ageing, illness, infirmity, problems of disrepair and housing condition, relationship breakdown, loss of job, or other reasons. We assume that the incidence of such problems is fairly constant over time and space, and utilise information from national surveys (SHCS) to estimate the prevalence of this situation. This number has been revised upwards in the light of recent national information.
- 6.7.6 All of the needs considered so far are annual flow estimates of newly arising needs. The remaining category of need taken into account is the 'backlog' of existing (actual or potential) households who already had unmet housing needs which they are still waiting to have attended to. This distinction is widely recognised in work on housing needs assessment. In the 2003 CS study our estimate of backlog needs was based on the housing waiting list. However, we recognise there are limitations in this data source and we therefore took only rather conservative account of waiting list numbers in this assessment,

applying a quota of 10% as an annual contribution to reducing the backlog. This is consistent with assuming that the deadwood/not in need categories account for half of the list and that the remainder are to be dealt with over a five year period. In the latest estimates, we have revised the East Lothian total to be in line with new estimates of households in need derived from the SHCS.

- 6.7.7 The total number of applicants on the list (excluding transfers) is divided between the LIF areas pro rata to the share of total preferences for rehousing in those areas. People are allowed to choose multiple areas, and there is no necessary relationship between LiF area of origin and destination.
- 6.7.8 The relets numbers are as supplied by ELC. If these are based on one year only, there may be some random fluctuation, particularly at small area level. For RSLs a constant turnover rate of 8.78% is applied to stock numbers as provided by ELC.
- 6.7.9 Table 6.5 shows the overall key numbers on the demand and supply side at the level of the intermediate zones (tables at LIF area and secondary school catchment area are also provided on the accompanying spreadsheet). New household formation of over 900 (of whom 563 need affordable provision), a backlog quota of 235 and other elements of need of 148 confront a supply of relets of about 500 per year. The annual positive need for additional affordable provision on this reckoning is estimated at 441 units per year.
- 6.7.10 Needs are positive in all LIF areas bar three (Elphinstone, Saltoun, Stenton). All intermediate zones have positive net needs. The largest absolute net needs are in Musselburgh, Dunbar, Cockenzie/Longniddry, Wallyford, Haddington and North Berwick. This is not completely surprising as these are among the larger urban areas. Needs are relatively lower in Prestonpans, among the urban areas, and in absolute terms the numbers are naturally lower in the more rural zones. Gullane Coast and North Berwick Rural show up more strongly among the more rural parts. However, within the latter people in need in one village might be able to find rehousing in one of the other villages.

Table 6.5: Household Formation, Relets and Net Need for Affordable Housing by Intermediate Zone 2003. (*number per annum*)

<i>IZONE</i>	<i>Gross</i>	<i>Net</i>	<i>Positive</i>	
	<i>Household Formation</i>	<i>Relets</i>	<i>Net Need</i>	<i>Need</i>
Gullane Coast	35	13	18	18
NB Rural	32	15	15	15
North Berwick	62	25	36	36
Cockenzie/Longniddry	88	27	52	52
Prestonpans	77	66	29	29
Musselburgh	208	93	100	100
Wallyford/Whitecraig	58	25	39	39
Tranent Urban	122	92	36	37
Tranent Rural	53	30	9	9
Haddington/Gifford	116	63	45	45
Dunbar	67	38	57	57
Dunbar Rural	20	11	4	5
Total	939	499	439	441

6.7.11 Comparing net need with net relets gives an idea of general pressure. Net need exceeds relets (i.e. gross need is more than double supply) in six of the zones. Net need is low relative to relets in Prestonpans and Tranent Urban, as well as Tranent Rural and Dunbar Rural.

Table 6.6: Components of Need by Intermediate Zone (*number per year*)

<i>IZONE</i>	<i>New</i>	<i>Net</i>	<i>Moves</i>		<i>Positive</i>		<i>Priority</i>
	<i>Hhlds</i>	<i>Migrant</i>	<i>Own to</i>	<i>Backlog</i>	<i>Net</i>	<i>Net</i>	
	<i>Unaff</i>	<i>Unaff</i>	<i>Social</i>	<i>Quota</i>	<i>Relets</i>	<i>Need</i>	<i>Homeless</i>
Gullane Coast	23	0	4	4	13	18	6
NB Rural	21	2	3	4	15	15	1
North Berwick	41	6	7	7	25	36	5
Cockenzie/Longniddry	46	8	8	18	27	52	6
Prestonpans	50	8	8	30	66	29	17
Musselburgh	126	4	19	46	93	100	50
Wallyford/Whitecraig	39	11	4	10	25	39	4
Tranent Urban	74	4	13	38	92	37	21
Tranent Rural	26	0	5	8	30	9	3
Haddington/Gifford	51	4	11	44	63	45	20
Dunbar	54	10	6	25	38	57	9
Dunbar Rural	11	0	2	2	11	5	0
Total	563	57	90	235	499	441	142

- 6.7.12 Table 6.6 analyses the components of need in more detail at the intermediate zone level. The first column shows new need associated with household formation and affordability; these numbers will be greater in areas with more young adults and poorer affordability. It can be seen that this category of need is relatively more important, compared with say the backlog, in the more rural areas, North Berwick and Musselburgh. This may be partly because lack of supply in some rural areas encourages people to register preferences for areas where they expect lettings to become available. Migrant need is associated with places where new building is projected.
- 6.7.13 The final column shows the number of priority homeless in each area, for comparison. This is not a separate category of need counted in this analysis, but homeless people would be expected to be counted within the groups considered already (e.g. newly forming households unable to afford to buy). The incidence of homelessness is more clustered than the other categories, with an emphasis on the larger urban centres. There are probably several reasons for this: homelessness is associated with poverty and lower income; some homelessness is associated with private renting, while other cases often arise from within the existing social rented stock; homeless people may gravitate towards urban centres, partly because that is where the housing offices are.
- 6.7.14 Table 6.7 looks at the contribution which LCHO could make to meeting these needs for additional affordable housing. As in the affordability analysis, we include two LCHO options, shared ownership new provision at tranches down to 25%, and a 'DIY Homebuy' type of option with tranches of 75%. The numbers assigned to the latter option are net, after assigning anyone who can afford it to shared ownership. The remainder of net need is assumed to require social rented provision. However, it should be noted that no allowance is made for existing social renters who might be willing to move out into LCHO, creating a vacancy for someone else in need. This is partly justified by noting that RTB is relatively popular in East Lothian and this would be a natural LCHO route for most council tenants.

Table 6.7: Net Need for Additional Affordable Housing Divided between Rental, Shared Ownership and DIY ‘Homebuy’, by Intermediate Zone

<i>IZONE</i>	<i>Shared</i>		<i>DIY</i>
	<i>Social Rent</i>	<i>Ownership</i>	<i>Homebuy</i>
Gullane Coast	13	0	4
NB Rural	11	1	3
North Berwick	27	0	9
Cockenzie/Longniddry	37	0	15
Prestonpans	23	0	6
Musselburgh	75	0	24
Wallyford/Whitecraig	32	0	7
Tranent Urban	29	0	8
Tranent Rural	6	0	3
Haddington/Gifford	36	0	10
Dunbar	46	7	3
Dunbar Rural	4	0	1
Total	340	8	92

Note, cols do not overlap.

6.7.15 Because of high new house prices, shared ownership is relatively unaffordable, as explained earlier. Therefore the total numbers who could be helped are currently very modest (8 per annum), and these are concentrated in two areas (Dunbar, North Berwick Rural). The further group of households who could benefit from a DIY Homebuy option is larger in magnitude (92 per annum) but spread rather differently. This time the most promising areas would be Cockenzie/Longniddry and Musselburgh.

6.7.16 Table 6.7 suggests some variation in the mix of new development. But the combination of new build shared ownership (or new build Homebuy if available) and DIY Homebuy could be a quarter of the programme.

6.7.17 All of these results would vary if we changed some of the assumptions and parameters. A more positive role for LCHO could result from offering a DIY version of Homebuy to enable people to buy in the secondhand market with tranches as low as 60%. This would raise the potential numbers for this option to 150 per year, which with the addition of 8 shared ownership would make for 158 LCHO units or 36% of affordable need. Alternatively, lower procurement prices could make shared ownership more affordable; for example, with prices only 15% above modern secondhand values, shared ownership could help 100 households a year. Homebuy applied to such new provision at a minimum 60% tranche could help a further 25 households.

6.8 Affordable Housing Targets in Local Plan

6.8.1 The final step in the needs analysis is to relate the need for additional provision to the prospective supply of new development in different parts of the authority. This is obviously a matter for ongoing review within the local housing strategy and Local Plan processes. Our revised estimate of projected new build (based on land available and new allocations) indicated a total

output of 1016 pa over the period 2006-2010. This reflects the higher level of new provision required under the new Structure Plan.

- 6.8.2 Table 6.8 shows the need for new social rent and shared ownership (but excluding DIY Homebuy) as a percentage of the projected new build across the intermediate zones. This kind of analysis could be used to inform Local Plan policies on the target level of affordable housing to be negotiated for in different areas on general housing sites. To indicate robustness to underlying assumptions, we show the figures that result from three different variants in terms of LCHO and also using the 2001 house prices and incomes. (The column headings refer to different combinations of the overall programme package. The figures in the columns refer to new build only).

Table 6.8: Need for Social Rented and Shared Ownership Provision as a percentage of projected New Build by Intermediate Zone.

IZONE	2003	2003	2003	2001
	SO 25	SO 25*	SO 25	SO 25
	DIYHB 75	NBHB 60	DIYHB 60	DIYHB 25
Gullane Coast	92	96	83	100
NB Rural	35	38	27	27
North Berwick	27	31	21	17
Cockenzie/Longniddry	25	31	20	16
Prestonpans	18	22	16	21
Musselburgh	71	92	60	61
Wallyford/Whitecraig	18	21	16	15
Tranent Urban	31	39	27	13
Tranent Rural	26	32	21	15
Haddington/Gifford	34	42	30	30
Dunbar	40	38	34	25
Dunbar Rural	37	46	30	41
Total	32	38	27	25

* in col 2, shared ownership and Homebuy are both based on modern secondhand prices plus 15%.

- 6.8.3 Table 6.8 suggests that East Lothian-wide the 'quota' for affordable housing should be between 25% and 38% of new build. This is in line with most targets used to generate affordable housing through the planning system, south or north of the Border. There is very considerable variation within the authority in the quota levels. However, the only implausibly high figures are in Gullane Coast and Musselburgh. Otherwise, many figures hover around the 25-40% level. Relatively lower figures are shown for Prestonpans and Wallyford/Whitecraig.

- 6.8.4 The quota in the second column is higher than in the first column because it assumes shared ownership could be procured on a more affordable basis, and could therefore meet more of the need. The quota in the third column is lower because it assumes that Homebuy (at 60% minimum tranche) could meet more of the need, leaving less need to be met from new build. Finally, the fourth

column shows a lower quota because in 2001 prices were much lower, affordability was better, and the need for affordable provision smaller.

6.9 Conclusion

This chapter has highlighted issues of affordability and need. It has shown the variety of conditions pertaining across East Lothian. Key issues are the relative unaffordability of new build options and the high price differentiation between new build and second hand homes. We would stress that new build may look particularly unpromising at this time because of the sustained rise in the market over recent years and where appropriate we have given comparison figures for earlier years. The next chapter explores the types of programme which might be developed to address the needs identified here.

CHAPTER 7

DEVELOPING A PROGRAMME FOR DELIVERING AFFORDABLE HOUSING

7.1 Costs and Subsidies

- 7.1.1 Is the kind of programme of affordable housing provision indicated by our model of needs financially realistic? If we take the baseline programme suggested by the model in Table 6.7, and tried to provide this using conventional CS HAG funding, the cost would be of the order of £15.9m per year, of which £13.8m would be attributable to rental provision. This is probably higher than any realistic level of allocation from the national programme.
- 7.1.2 However, if the planning system were used systematically to secure affordable housing wherever appropriate and feasible, it would be possible to deliver such a programme with much less call on national or local authority resources. Indeed, it can be argued that it would be inappropriate to direct subsidies to much of this provision, because of the exceptionally high land values in East Lothian as revealed by the Toolkit. In these circumstances the subsidies would feed into supporting these high land values.
- 7.1.3 Shared ownership, shared equity, or new build Homebuy could be funded easily from within the economics of typical housing sites in East Lothian in most cases, through planning agreements. The ‘transfer prices’ which would allow RSLs to just break even on such provision would be on average around £82,000 per unit for shared ownership. In the lowest cost area (Wallyford) the transfer price would be around £69,000 for 60% Homebuy and £59,000 based on a 48.5% shared equity discount. All of these are above the Toolkit indicated cost for a 2-bedroom unit of around £55,000 (derived from the NIC calculation of build cost fees etc.). This means that landowners/developers would still get some margin on these units, without any need for subsidy. Only in a couple of areas would this margin be squeezed.
- 7.1.4 Social renting provision is a somewhat different matter. Here, the breakeven transfer price is about £40,600 across the whole area. This equates to the amount of loan which could be financed using the rent levels assumed in the toolkit and is about £15,000 less than the indicated cost. This would mean that, if the planning negotiations were based on a ‘no grant’ model, landowners/developers would have to convey the land for nothing and also throw in a cross-subsidy of £15,000 per social rented unit (paid for from the high margins on the market sale units). The toolkit indicates that sites in most parts of the area could bear such a cross-subsidy and still remain quite profitable in terms of residual value. However, residual values might be squeezed harder in some cases. This might be further affected by other planning gain requirements.
- 7.1.5 The authority might then try to operate a mixed model, with some grant on offer, either on a uniform basis (say equating to the £15,000 per unit mentioned above) or on a basis which varied with the indicated levels of

residual value, or need, or both. Providing £15,000 grant to all of the 340 social rented units would cost around £5.1m. These would then be viable on the basis that they were build on 'free land' (or land at a nominal cost).

- 7.1.6 In developing the policy in practice it should be borne in mind that changes in market conditions will alter the calculations. If rent levels were higher or lower, this would impact on the amount of loan which could be generated and therefore the level of grant/cross subsidy. Changes in interest rates could also impact on the loan which can be supported and therefore on grant/cross subsidy. Increases (or variations in different places) in construction costs could also impact on levels of grant/cross subsidy. Nevertheless, we believe that a mixed funding model such as that described is based on fairly conservative assumptions of what the market could take given the high land values in East Lothian.
- 7.1.7 DIY Homebuy is quite an attractive model in East Lothian, in terms of its potential contribution to meeting affordable housing needs. This would be particularly true if tranches could be varied down to 60%, depending on means tests. However, this model cannot be directly subsidised from land value within new developments. Nevertheless, it could be a potential beneficiary if commuted sums (payments in lieu) were collected from private sites which for one reason or another were not deemed suitable for affordable housing, e.g. because they were too small or in the wrong location. (Clearly the use of such sums would be subject to the Council making a policy decision within the Scottish planning framework). These sums, which would need to be dedicated to affordable provision elsewhere in the district, might be an appropriate source for funding DIY Homebuy type provision, among other things. A larger programme of this kind (totalling as noted 150 units per year) would cost £4.05m pa.
- 7.1.8 Suppose about a third of the private units projected to be built (over 700 per year) were subject to this commuted sum mechanism. Suppose the formula involved were based on an affordability target of 25% and a 'gap' between transfer price (£40k) and market price (£120k), which would yield a payment of £15k per unit (not untypical in the South of England). This would yield a sum of £3.54m, which would nearly cover the cost of the Homebuy programme.

7.2 Needs, Provision Options and Value for Money

- 7.2.1 East Lothian has displayed evidence of a shortage of affordable housing for a number of years. However, with the recent steep rise in house prices the scale of this shortage has increased, and so also has the affordability gulf between what many local households can pay and the prices in the market. National assessments made on a common basis across all of the Scottish local authorities show that East Lothian's need for additional affordable housing, relative to size of population and existing supply, is among the highest in the country.

- 7.2.2 What forms of affordable housing provision may be appropriate to meet the needs, existing and future? To answer this question it is necessary to consider affordability profiles, as reported in this paper, but also issues of cost, value for money in the short and longer term, practical feasibility, the views and preferences of potential consumers, and the views of professional providers and other stakeholders. We consider a number of options in turn.

7.3 Social Rented Provision by Housing Associations

- 7.3.1 The analysis of need and affordability suggests that most of the net need for additional affordable housing is a need for social rented housing. We cannot suggest LCHO options which could meet much more than about a third of the need directly, although LCHO provision might tempt some existing social tenants to relinquish tenancies and meet need indirectly. Similar comments would apply to intermediate renting types of provision. Reasons for this situation include the high level of house prices and the low level of relets from existing social rented stock.
- 7.3.2 Social renting is the mainstream route for provision which the social housing sector tends to focus upon. Current levels of new provision fall well short of the needs indicated above. Conventional funding and procurement has not delivered and faces even more significant limitations in the current situation, as land values soar beyond the reach of associations.
- 7.3.3 We therefore support ELC's Affordable Housing Policy has an approach which should allow the opportunity offered by the planning system to be seized firmly, with a general policy for affordable provision on all general housing sites in (most parts of) East Lothian. This general policy should make clear that a substantial part (probably a majority) of provision secured in this way should be for social renting (as indicated in the case study area Option Appraisals, chapter 8), with the balance for LCHO or other intermediate tenure. The large expansion of planned new housing provision in the district provides a good opportunity to make the most of this possibility. It also provides an opportunity to set expectations in a new way, so that most new developments are seen as 'mixed' in terms of tenure as well as housing type. Where sites are unsuitable for rented housing or any form of affordable housing, commuted sum payments could be obtained. This may be particularly pertinent in areas such as Gullane Coast where site availability is likely to be a problem (see Option Appraisal, chapter 8).
- 7.3.4 Large scale use of the planning system in this way has implications for styles of procurement, partnership with developers and use of common (or more similar) housing types. Chapter 2 refers to some of the issues which this raises and the need to ensure consistency with ELC policies on quality and sustainability.
- 7.3.5 As explained above, social rented provision may entail not just 'free land' but also either an element of cross-subsidy or a partial subsidy, although the latter might be funded in part from a pool created by commuted sum payments. It is assumed that the pool of HAG money available to East Lothian will remain limited, although the council may be able to argue its case for a somewhat

greater share of the pot. However, we believe that the way that this resource is used should be changed, and subject to careful scrutiny. We do not believe HAG should in general be paid out to support large positive land values. It may need to be used mainly on small sites which are being developed for social/affordable housing only, difficult/complex sites, provision for particular needs, conservation oriented schemes and the like; plus possibly in the form of a small contribution to schemes which receive the bulk of their subsidy from land value via planning agreements.

- 7.3.6 There are some other value for money questions about social renting provision by housing associations. We are concerned for example about the apparently high level of rents, much higher than council rents although naturally much lower than market levels. These rent levels may generate some poverty trap problems when taken in conjunction with the Benefit system. There may be a need to see some convergence of social sector rents, which could place financial limits on RSL business plans. We are somewhat concerned about the possible longer term financial impact of the Right to Buy under the single Scottish social tenancy, although in some ways RTB is a positive vehicle for promoting tenure diversity and lower cost access to ownership.

7.4 Social Rented Provision by the Council

- 7.4.1 We understand that the Council has shown some interest in the possibility of procuring additional social rented provision through a more traditional council housing model, perhaps taking advantage of the 'Prudential Borrowing' regime. We have not subjected this possibility to detailed scrutiny, but would offer a number of observations.
- 7.4.2 Firstly, this should not be seen as a reason for ignoring the key potential role of the planning system. We still believe the main form of additional social housing should be through new provision on mixed schemes within the planned areas of expansion in East Lothian. The council could in principle acquire units from developers at 'net' prices, in the same way as RSLs (although we have not explored whether there are any legal snags here; there is little precedent in England for this approach).
- 7.4.3 If the council borrowed to fund this new provision, its borrowing would count as public expenditure, unlike RSLs. It would also, like RSLs, have to be able to demonstrate that this borrowing was prudent, in the sense that it was compatible with an HRA business plan which demonstrated a robust ability to meet obligations into the future. The current low level of council rents in East Lothian might militate against this, as these rents do not provide a very good rate of return on investment once provision is made for current and future repairs and for management.
- 7.4.4 The Right to Buy is more of an issue with council provision, because it is available to tenants in the near foreseeable future. In addition, the normal 'protection' of the 'cost floor' on RTB discounts would not protect the council

in this case, because the units will have been procured at a 'net' price. So there would be a serious danger that much of this very attractive new rented stock would be quickly bought out at substantial discounts, discounts which would not be repayable on resale after 3 years. In that sense the value of the new provision would not be available to the community in perpetuity, and particular households would gain a valuable windfall. So this might be a indirect route to LCHO which is 'popular' with the beneficiaries but not really best value from the public point of view.

7.5 Shared Ownership Provision

- 7.5.1 Shared ownership is a familiar model for some providers and some consumers, and has been shown in England to be good value for money for the public purse in the longer term. However, if most of the sales are at the minimum 25% tranche, the up front public cost is quite high, although in circumstances like East Lothian this cost could generally be met in full from market land value via planning agreements. Shared ownership may be slightly less attractive in value for money terms to potential buyers, since they are acquiring typically a low share of equity and still have to pay rent. Rents could possibly be shaved down further (we have modelled rents as 3% of retained equity).
- 7.5.2 The main problem with shared ownership in East Lothian is the very high level of house prices, particularly for new houses. The shared ownership model is tied to market value, for good reasons. So long as new prices remain so high, shared ownership will not be very affordable, and not much more affordable than buying in the secondhand market. When prices were somewhat lower, as in 2001, the model shows that the potential for shared ownership was double what it is in 2003.
- 7.5.3 A more hopeful scenario in the medium term is one where the planning policy of releasing significantly more land for new housebuilding will in time lead to a moderation in the price level of new housing, and some convergence between the new and secondhand markets. This would be a local example of the kind of scenario which the recent Barker Review of Housing Supply is proposing. This scenario would bring a double benefit for affordability: firstly, the general price level would moderate and allow some more households to buy in the open market; secondly, LCHO provision on new build sites would become more affordable.

7.6 Alternative New Build LCHO

- 7.6.1 Several alternative ways of providing LCHO within new build schemes have been considered in this study. One such model is the 'shared equity' scheme involving a discounted sale with the discount carrying forward proportional to future prevailing market price levels. This is equivalent to either the 'Resale Covenant' scheme tried by some authorities in England and Scotland or the Homebuy scheme applied to new building. These models are often quite attractive to consumers, because they are simpler, give a larger equity stake, and do not involve paying rent. Some of these schemes (certainly Homebuy)

are also more attractive to lenders. Any of them could see the initial subsidy funded from land values via planning agreements.

- 7.6.2 However, all of these share the same affordability problem that affects shared ownership, namely the very high level of market prices for new houses at the moment. In the short term they can only be made more affordable by reducing the equity stake, say from 75% to 60%, but even then they do not become affordable to more people than 25% shared ownership. Again, they could come into their own more effectively if this general level of new prices could be brought down as a result of a greater land supply becoming available.

CHAPTER 8

OPTION APPRAISAL

8.1. Introduction

8.1.1 This chapter explores the feasibility of a variety of affordable housing options in each of 5 case study areas in East Lothian. The areas were chosen in consultation with the steering group and ELC to represent a range of types, including high medium and low price; rural and urban; east and west of the local authority area. The locations of the selected areas can be seen on map 1. The case study areas are:

- Gullane,
- Musselburgh,
- North Berwick,
- Prestonpans,
- Tranent Rural.

8.1.2 The affordable housing options included new build and DIY versions of home ownership and new build social rented provision. The empirical and modelling work presented in chapters 4 to 6 and the various appendices informed the range of assumptions regarding these options of price and affordability of these options. Options considered were:

- New Build Shared Ownership (modelled at 25% share)
- New Build Homebuy (75% but affordability could be extended with 60% Homebuy and comment is made where this is a potentially important issue).
- New Build Shared Equity/resale covenant (using the same assumptions as for Homebuy i.e. 75% SE/ price discounted to 75% but affordability could be extended with 60% assumption as in Homebuy).
- New Build Social Rent
- DIY Options – Homebuy/other form of equity loan (again assuming 75% but affordability could be extended with 60% Homebuy).

8.1.3 Some of the characteristics of these options are set out in appendix 1.

8.2 Criteria Used In Option Appraisal

8.2.1 This report has appraised LCHO options across five areas selected in consultation with the advisory group based on systematic criteria applied to each are. The components considered in the appraisal are:

- Affordability of LCHO options drawing on new build and second hand prices in chapter 4 and 6. (New build house prices based on version 2 which is compatible with the secondhand price and affordability modelling in chapter 6).

- Residual land values based on toolkit analysis carried out in chapter 5 (based on the more conservative new build house price analysis discussed in chapter 4).
- Projected average annual new build (all tenures) at Izone level for East Lothian 2006-2010, based on combination of land audit and land allocations provided by ELC.
- Implications of Affordable Housing Policy affordable housing levels for the number of affordable new build units based on projected new build levels.
- The characteristics of LCHO schemes including the views of consumers and stakeholders in East Lothian and elsewhere (as discussed in chapters 2&3).

8.3 Option Appraisal Summary

8.3.1 Individual appraisals of each area are given later in this chapter but overall, the appraisals are summarised as follows:

	Gullane Coast	Musselburgh	North Berwick	Prestonpans	Tranent Rural
New Build SO	Appropriate but possibly no opportunities.	No additional affordability compared with second hand market.	Unlikely to be affordable.	Appropriate.	Unlikely to be affordable.
New Build Homebuy	Appropriate but possibly no opportunities.	No additional affordability compared with second hand market.	Unlikely to be affordable.	Appropriate.	Unlikely to be affordable.
New Build Shared Equity/resale covenant	Appropriate but possibly no opportunities.	No additional affordability compared with second hand market	Unlikely to be affordable.	Appropriate.	Unlikely to be affordable.
New Build Social Rent	Appropriate but possibly no opportunities.	Appropriate – possibly increase quotas.	Appropriate.	Appropriate.	Appropriate but limited opportunities.
DIY Options (e.g. Homebuy)	Consider at higher levels e.g. 40% loan where no new build possible.	Appropriate.	Appropriate.	Not necessary.	Appropriate on a small scale.

8.3.2 In all areas the toolkit indicated that land values were sufficient to retain significant positive residual value for the transfer of the land even without grant. This fact underlies our view on the appropriateness of the use of sites

throughout of East Lothian for delivery of affordable housing. Nevertheless, the implementation of this policy may mean that the value of the site is less than that expected by landowners and may influence the sales of land. In the current climate, given the relatively modest quotas proposed in East Lothian we would, however, believe that land sales would remain attractive.

- 8.3.3 The high price of land and of housing impacts significantly on affordability in East Lothian. This is a key factor in the analysis that new build home ownership is not affordable in a number of case study areas. Higher levels of affordability and feasibility were found when 2001 figures were considered and so the use of new build LCHO might be extended if market conditions changed.
- 8.3.4 Where new build LCHO is appropriate, an equity loan such as Homebuy has been shown to be particularly popular with consumers and its simplicity is also attractive to lenders (see chapter 2).
- 8.3.5 The shared equity model developed in East Lothian has merit provided that is operated in a manner which is not too strict, so as to limit lenders' acceptance nor too loose, undermining its ability to provide affordable housing in perpetuity. Ultimately such a scheme can only protect the dwelling as an affordable unit so long as there is demand and need. In rural areas in particular it may sometimes be necessary to protect the subsidy for future use through the recycling of receipts.
- 8.3.6 Shared ownership may have a place in meeting certain needs but is generally a less attractive option than equity loan or shared equity for people who can afford it. Households who rely on housing benefit in particular may find shared ownership appropriate. In an area like East Lothian where there is a small pool of shared ownership dwellings there is a danger of people owning low tranches (and therefore little accumulated equity) becoming stuck in unsuitable dwellings.
- 8.3.7 DIY LCHO options are appropriate, giving access to the benefits of cheaper secondhand property. Equity loans (including Homebuy) will be the preferred option in most cases. In particular cases access to secondhand property via shared ownership may be preferred e.g. for a person with a low income but with enough capital to put down a significant deposit.
- 8.3.8 It should also be noted that in some areas the amount of land available is extremely limited and so it would be reasonable to consider provision in adjacent areas particularly where prices in those areas are lower.

8.4 OPTION APPRAISAL GULLANE COAST

Access to new and second hand market housing

New build average prices 2003

	1 bedroom	2 bedroom	3 bedroom	4 bedroom	5 bedroom
Gullane Coast	142,000	187,000	298,000	365,000	448,000
East Lothian	121,000	160,000	255,000	312,000	383,000

8.4.1 We did not pick up examples of 1 bedroom new build properties being provided in this area. The 2 bedroom dwellings, therefore, better express the price of access to new build housing, i.e. £187,000, although most new build is 3 and 4 bedroom. There is a considerable difference between this and the threshold access level for the second hand market. The second hand threshold price is £106,000 for a 2 bedroom home (from table 6.2).

8.4.2 The threshold second hand entry price in this area is the second highest in East Lothian.

New build affordable housing

8.4.3 Using the toolkit and assumptions in the scenario described in chapter 5 (25% affordable housing on a 2 hectare site) and the comparatively low quota for affordable housing (around 20%), the toolkit indicates that at current values sites would retain positive residual value for the transfer of the land even without grant.

8.4.4 Land supply (average annual provision 2006-2010): 9 units.

8.4.5 The affordable housing policy indicates that in suitable sites the provision of affordable housing in Gullane (part of the North Berwick and Coastal Villages area) should be 22%. This would represent around 2 units. However, the developable sites are very small and with 9 units per year coming on stream there is a question over whether any site could be expected to include affordable housing.

8.4.6 Affordability and needs modelling (chapter 6) indicated an unmet need for affordable housing of 16 units per year giving notional quotas of over 90%. Notwithstanding the lack of sites, high land values and new build prices, new build LCHO is feasible viewed in terms of affordability. New build should include social renting and some new build LCHO. Although modelled on the basis of 25% SO this could be Homebuy or SE at 75%.

Net need for additional affordable housing

	Units per year
Social rent	10
Shared ownership 25%	6
DIY Homebuy	0

DIY affordable provision

8.4.7 Unlike in some of the areas considered, the relatively high prices in the second hand market mean that DIY Homebuy at 75% in the private sector does not help to bridge this affordability gap beyond that catered for by new build options. It may be that it is considered if there are no new build opportunities. The option may also be to provide some supply in neighbouring slightly less expensive areas.

8.4.8 Appraisal Summary

New Build SO: Appropriate but possibly no opportunities.

New Build Homebuy: Appropriate but possibly no opportunities.

New Build Shared Equity/resale covenant: Appropriate but possibly no opportunities.

New Build Social Rent: Appropriate but probably no opportunities

DIY Options: Do not improve affordability much over new build options.

8.5 OPTION APPRAISAL MUSSELBURGH

Access to new and second hand market housing

New build average prices (2003)

	1 bedroom	2 bedroom	3 bedroom	4 bedroom	5 bedroom
Musselburgh	132,000	174,000	277,000	339,000	417,000
East Lothian	121,000	160,000	255,000	312,000	383,000

8.5.1 We did not pick up examples of 1 bedroom new build properties being provided in this area. The 2 bedroom dwellings therefore, better express the price of access to new build housing, i.e. £174,000, although most new build is 3 and 4 bedroom. There is a considerable difference between this and the threshold access level for the second hand market. The second hand threshold price is £72,000 for a 2 bedroom home (from table 6.2).

8.5.2 The threshold second hand entry price is the amongst the lowest (eighth of 12 in East Lothian but as one of the most populous areas this masks a degree of variation).

New build affordable housing

8.5.3 Using the toolkit and assumptions in the scenario described in chapter 5 (25% affordable housing on a 2 hectare site) and the comparatively low quota for affordable housing (around 20%), the toolkit indicates that at current values sites would retain positive residual value for the transfer of the land even without grant.

8.5.4 Land supply (average annual provision 2006-2010): 106 units.

8.5.5 The affordable housing policy indicates that in suitable sites the provision of affordable housing in Musselburgh should be 19%. This would represent around 20 units.

8.5.6 Affordability and needs modelling (chapter 6) indicated an unmet need for affordable housing of 82 units per year giving notional quotas of from around 50% to three quarters of provision (77%) depending upon the mix of affordable housing. Given the large difference between the affordable policy quota and our estimates of need a mixed response should be appropriate. The council could comfortably meet its own target from within the available sites but we would advise that consideration should be given to revising these upwards.

Net need for additional affordable housing

	Units per year
Social rent	62
Shared ownership 25%	0
DIY Homebuy	20

8.5.7 The relatively high new build prices compared with *relatively* low second hand prices mean that even at 25% shared ownership tranches new build is unlikely to be more affordable than secondhand market properties. New build affordable housing should all be social renting.

DIY LCHO

8.5.8 Because of the relatively moderate prices (in East Lothian terms) in the second hand market, Homebuy at 75% could go some way toward meeting the identified need. Homebuy at 60% would extend the range of people who could be assisted further.

8.5.9 Appraisal Summary

New Build SO: Not appropriate - Unlikely to be extend affordability.

New Build Homebuy: Not appropriate - Unlikely to be extend affordability.

New Build Shared Equity/resale covenant: Not appropriate - Unlikely to be extend affordability.

New Build Social Rent: Appropriate and consideration should be given to increasing quotas.

DIY Options: Appropriate.

8.6 OPTION APPRAISAL NORTH BERWICK

Access to new and second hand market housing

New build average prices (2003)

	1 bedroom	2 bedroom	3 bedroom	4 bedroom	5 bedroom
North Berwick	158,000	208,000	332,000	406,000	499,000
East Lothian	121,000	160,000	255,000	312,000	383,000

8.6.1 We did not pick up examples of 1 bedroom new build properties being provided in this area. The 2 bedroom dwellings therefore, better express the price of access to new build housing, i.e. £208,000, although most new build is 3 and 4 bedroom. There is a considerable difference between this and the threshold access level for the second hand market. The second hand threshold price is £104,000 for a 2 bedroom home (from table 6.2).

8.6.2 The threshold second hand entry price is the third highest in East Lothian.

New build affordable housing

8.6.3 Using the toolkit and assumptions in the scenario described in chapter 5 (25% affordable housing on a 2 hectare site) and the comparatively low quota for affordable housing (around 20%), the toolkit indicates that at current values sites would retain positive residual value for the transfer of the land even without grant.

8.6.4 Land supply (average annual provision 2006-2010): 98 units.

8.6.5 The affordable housing policy indicates that in suitable sites the provision of affordable housing in North Berwick should be 22%. This would represent around 22 units per year.

8.6.6 Affordability and needs modelling (chapter 6) indicated an unmet need for affordable housing of 31 units per year giving notional quotas of 18% - 31% depending upon the mix of affordable housing.

Net need for additional affordable housing

	Units per year
Social rent	23
Shared ownership 25%	0
DIY Homebuy	8

8.6.7 The high new build prices preclude new build affordable housing except social rented provision. Numbers which could be accommodated in new build sites are approximately the same as the quota set out in the affordable housing policy but this would not meet all of the need which we have identified.

DIY LCHO

8.6.8 Additional need for LCHO could be accommodated in the second hand market e.g. by Homebuy at 75%.

8.6.9 Appraisal Summary

New Build SO: Unlikely to be affordable.

New Build Homebuy: Unlikely to be affordable.

New Build Shared Equity/resale covenant: Unlikely to be affordable.

New Build Social Rent: Appropriate.

DIY Options: Appropriate.

8.7 OPTION APPRAISAL PRESTONPANS

Access to new and second hand market housing

New build prices (2003)

	1 bedroom	2 bedroom	3 bedroom	4 bedroom	5 bedroom
Prestonpans	95,000	125,000	199,000	243,000	299,000
East Lothian	121,000	160,000	255,000	312,000	383,000

8.7.1 We did not pick up examples of 1 bedroom new build properties being provided in this area. The 2 bedroom dwellings, therefore, better express the price of access to new build housing, i.e. £125,000, although most new build is 3 and 4 bedroom. There is a considerable difference between this and the threshold access level for the second hand market. The second hand threshold price is £64,000 for a 2 bedroom home (from table 6.2).

8.7.2 The threshold second hand entry price is also amongst the lowest in East Lothian.

New build affordable housing

8.7.3 Using the toolkit and assumptions in the scenario described in chapter 5 (25% affordable housing on a 2 hectare site) and the comparatively low quota for affordable housing (around 20%), the toolkit indicates that at current values sites would retain positive residual value for the transfer of the land even without grant.

8.7.4 Land supply (average annual provision 2006-2010): 129 units.

8.7.5 Compared with some other areas of East Lothian, there is a significant amount of development opportunity. The affordable housing policy indicates that in suitable sites the provision of affordable housing in Prestonpans should be 20%. This would represent around 25 – 26 units.

8.7.6 Affordability and needs modelling (chapter 6) indicated an unmet need for 13 additional units per year. The quota indicated by these figures is around 10%.

Net need for additional affordable housing

	Units per year
Social rent	10
Shared ownership 25%	3
DIY Homebuy	0

8.7.7 This is the only case study area where the need for additional affordable housing is below that indicated in the Affordability Policy. Given the difficulty in meeting the target level in some other areas it may be necessary to meet some of that need in this area.

DIY affordable provision

8.7.7 In all areas we have considered the option of providing on site and DIY versions of affordable housing to take advantage of the lower entry price to the second hand market.

8.7.8 Unlike in most other areas of East Lothian the combination of *relatively* low house prices and high number of sites means that all of the net need could be met in private sector new build sites.

8.7.9 Appraisal Summary

New Build SO: Appropriate

New Build Homebuy: Appropriate.

New Build Shared Equity/resale covenant: Appropriate.

New Build Social Rent: Appropriate.

DIY Options: Not necessary in this area.

8.8 OPTION APPRAISAL TRANENT RURAL

Access to new and second hand market housing

New build average prices (2003)

	1 bedroom	2 bedroom	3 bedroom	4 bedroom	5 bedroom
Tranent Rural	124,000	164,000	261,000	320,000	393,000
East Lothian	121,000	160,000	255,000	312,000	383,000

8.8.1 We did not pick up examples of 1 bedroom new build properties being provided in this area. The 2 bedroom dwellings therefore, better express the price of access to new build housing, i.e. £164,000, although most new build is 3 and 4 bedroom. There is a considerable difference between this and the threshold access level for the second hand market. The second hand threshold price is £106,000 for a 2 bedroom home (from table 6.2).

8.8.2 The threshold second hand entry price is a little above the average for East Lothian.

New build affordable housing

8.8.3 Using the toolkit and assumptions in the scenario described in chapter 5 (25% affordable housing on a 2 hectare site) and the comparatively low quota for affordable housing (around 20%), the toolkit indicates that at current values sites would retain positive residual value for the transfer of the land even without grant.

8.8.4 Given the comparatively low quota for affordable housing (around 20%), the toolkit indicates that at current values sites would retain positive residual value for the transfer of the land even without grant.

8.8.5 Land supply (average annual provision 2006-2010) 19 units.

8.8.6 The affordable housing policy indicates that in suitable sites the provision of affordable housing in Tranent Rural (part of the Haddington and Landward area) should be 17%. This would represent around 3 units per year. The developable sites will mostly be small, and there may be limited scope for addressing need through these.

8.8.7 Affordability and needs modelling (chapter 6) indicated an unmet need for affordable housing of 3 units per year giving notional quotas of 6 – 12%. Notwithstanding the lack of sites, high land values and new build prices would make new build options other than renting unaffordable. Given low absolute levels of demand for additional affordable housing in this area there might also be concern about the ability to find future purchasers if new build low cost home ownership was developed.

Net need for additional affordable housing

	Units per year
Social rent	2
Shared ownership 25%	0
DIY Homebuy	1

DIY affordable provision

8.8.8 Very small annual needs levels may be met through DIY options.

8.8.9 Appraisal Summary

New Build SO: Unlikely to be affordable

New Build Homebuy: Unlikely to be affordable

New Build Shared Equity/resale covenant: Unlikely to be affordable – also highlights potential problems with future demand for new build LCHO held in perpetuity.

New Build Social Rent: Appropriate but opportunities will be limited.

DIY Options: Appropriate on a small scale.

CHAPTER 9

CONCLUSIONS AND RECOMMENDATIONS

9.1 The Housing Market and Affordability

- 9.1.1 This study has considered the feasibility of using a variety of mechanisms to deliver LCHO in the context of East Lothian Council's Affordable Housing Policy the housing market, housing needs and incomes locally.
- 9.1.2 Overall, East Lothian is a relatively high income area by Scottish standards, although there are wide variations within the authority. Some of the urban areas in the west of the district have incomes somewhat below national average, but otherwise East Lothian is a fairly high income area. However, house prices in East Lothian are also amongst the highest in Scotland although there is considerable variation across the area. Overall in East Lothian in 2003 40% of under-35 households and 43% of working households could enter the market.
- 9.1.3 There is also a striking gap between the threshold entry price in the secondhand market and new build prices which are on average 74% higher. One factor contributing to the more affordable secondhand market is the considerable RTB resale market in East Lothian.

9.2 The roles of Different LCHO models

- 9.2.1 Shared ownership plays a small part in meeting local housing needs but has limitations in terms of its attractiveness for many customers and for lenders. Shared equity has been successful on a limited scale in East Lothian.
- 9.2.2 The Homebuy model used in England and Wales is an easily understood and widely available alternative which has proved popular with customers, lenders and housing associations. It can be run on a new build and secondhand basis. Where there is a commitment to recycle grant, it provides a potentially self sustaining method of providing LCHO. Except where there is an absolute need to retain a particular property in perpetuity, this allows the benefit of the grant to be retained without the complications involved in the alternative shared equity model. However, using HAG for Homebuy would require Ministerial approval.
- 9.2.3 All forms of new build LCHO are unaffordable for many people on lower incomes in East Lothian because of very high land values and property prices. New build shared ownership, even at the minimum 25% share, only widens affordability by 3.4% points. The option appraisals highlighted that new build LCHO of whatever type was only appropriate in 2 of the 5 case study areas. Homebuy which gives access to the secondhand market widens affordability considerably more. Social rented housing is the most appropriate form of affordable housing for the majority of those in need in East Lothian.
- 9.2.4 Our needs analysis suggests that East Lothian-wide the 'quota' for affordable housing should be between around 20% and 30% of new build. This is broadly

in line with targets used in the Affordable Housing Policy. However, the option appraisals highlight variation in the supply of sites relative to need, and in most instances need can only be met when DIY options are included. Nevertheless, we are conscious that the pressure on land values was particularly high at the time of this study given the high point reached in the housing market. There is scope for a slightly increased contribution from new build should this pressure ease especially if there is an increase in land supply.

Recommendation 1

We recommend that there should be a mix of affordable tenures in new development sites. Overall, low cost home ownership might be 5-10% of all new affordable provision, depending on price levels.

Recommendation 2

We also recommend the introduction of a DIY version of Homebuy to enable people to buy in the secondhand market with tranches as low as 60%. This would raise the potential numbers for this option to up to 150 per year, which in addition to shared ownership/ new build Homebuy would make for 158 LCHO units or 36% of affordable need.

9.3 Funding an Affordable Housing Programme

- 9.3.1 Our modelling suggests that if all affordable housing provision used conventional Communities Scotland HAG funding, the cost would be of the order of £15.9m per year, of which £13.8m would be attributable to rental provision. This is probably higher than any realistic level of allocation from the national programme.
- 9.3.2 However, using the planning system systematically to secure affordable housing wherever appropriate and feasible, would deliver such a programme with much less call on national or local authority resources.
- 9.3.3 Shared ownership, shared equity, or new build Homebuy could be funded easily from within the economics of typical housing sites in East Lothian in most cases, through planning agreements. The 'transfer prices' which would allow RSLs to just break even on shared ownership provision would be on average around £82,000 per unit, which is well above the Toolkit indicated cost for a 2-bedroom unit of around £55,000.
- 9.3.4 Social renting provision could not be provided in this way without further cross subsidy from the developer or grant of around £15,000 per social rented unit.

Recommendation 3

We recommend that ELC should consider a mixed model, with some grant on offer, either on a uniform basis possibly equating to £15,000 per unit mentioned above or on a basis which varied with the indicated levels of residual value, or

need, or both. Providing £15,000 grant to all of the 340 social rented units (identified in table 6.7) would cost around £5.1m.

9.3.5 As indicated, DIY Homebuy is quite an attractive model in East Lothian, in terms of its potential contribution to meeting affordable housing needs. It could potentially be funded from commuted sums (payments in lieu) from private sites which for one reason or another were not deemed suitable for affordable housing. Clearly the use of such sums would be subject to the Council making a policy decision within the Scottish planning framework. These sums, which would need to be dedicated to affordable provision elsewhere in the district, might be an appropriate source for funding DIY Homebuy type provision, among other things.

9.3.6 A larger programme of this kind (totalling up to 150 units per year) would cost £4.0m pa. If about a third of the private units projected to be built (over 700 per year) were subject to this commuted sum mechanism this could yield a sum of £3.54m, which would cover most of the cost of the Homebuy programme.

Recommendation 4

We recommend that ELC considers the use of commuted sums to finance a significant level of DIY Homebuy.

9.4 Implementation of an Affordable Housing Policy

9.4.1 Given our support for the use of the planning system to deliver affordable housing, it is important that the needs of the various stakeholders are taken into account for example in maintaining profitability of developers and ensuring high quality housing is produced.

Recommendation 5

We recommend that ELC departments should develop protocols to ensure that their requirements are clear at an early stage and that the implementing the Affordable Housing Policy does not create avoidable delays in the development process.

9.4.2 ELC has been working to ensure that social housing meets high standards of quality, including community consultation and participation on sustainability. ELC has identified the need to explore how sustainability objectives can be rolled out to all development in East Lothian.

Recommendation 6

We recommend that where the Affordable Housing Policy results in new ways of housing associations and developers working together to deliver affordable housing, ELC should encourage the development of mechanisms for community participation to meet its quality and sustainability objectives.

- 9.4.3 A flexible approach to the use of existing and new housing should be employed to address the needs of disabled people. While Homebuy is a potentially flexible model - giving access to new and secondhand property, there will be occasions when the mix of financial and physical needs of a household make a shared ownership model more appropriate. An example of this might be where a larger but more expensive second hand property is suitable for a person with some capital but low income.

Recommendation 7

We recommend that ELC retains the option to tailor support to individual circumstances including, for example, the use of DIYSO where this is the most appropriate model.

- 9.4.4 New build Homebuy has a number of advantages over shared ownership. Shared equity has similar advantages but is more complicated than Homebuy because it involves title restrictions. Under Homebuy grant may be recycled when the property is sold and therefore the scheme can be self-sustaining. All other things being equal, Homebuy appears to be a preferable model. An exception to this would be where it is essential to keep a particular property affordable in perpetuity, in which case some restriction on future sales cannot be avoided.

Recommendation 8

Subject to Scottish Executive backing for a Homebuy Scheme, new build Homebuy should be preferred to shared equity except where it is essential to retain a particular property as affordable in perpetuity

- 9.4.5 Agencies encouraging people on lower incomes into owner occupation should not expose them to unnecessary risk. Careful vetting of applicants is therefore essential. The needs of households will vary and resources can be most effectively targeted when the customer and the enabler (whether local authority or housing association) have the maximum information on choices available. A service such as the existing Homeseeker Pilot in East Lothian might be a model which can be developed in conjunction with the Affordable Housing Policy to direct people to the appropriate option.

Recommendation 9

We recommend that ELC considers the quality of information and advice which is given to all applicants for affordable housing. Although still at a pilot stage ELC should consider the potential for integrating its Homeseeker initiative with the Affordable Housing Policy.

- 9.4.6 Some concern was raised in this study as in others that people in low tranche shared ownership have limited mobility. This is caused by a combination of limited purchasing power in the open market, limited alternative provision at

low equity shares and bureaucratic obstacles to moving into social housing. This has been shown to become a problem when family size increases or a person's home becomes less suitable for them in old age.

Recommendation 10

We would recommend that the Council and housing associations consider whether it would be possible to remove barriers to social renting for low tranche shared owners whose housing has become unsuitable and who are unable to move to new accommodation.

- 9.4.7 The appraisal toolkit used in this study has been sufficient to draw general lessons for viability which can inform broad policy but would require further refinement if it was to be used in discussion with developers over specific sites.

Recommendation 11

We recommend that ELC considers further development of the toolkit as an aid to implementing the affordable housing policy.

- 9.4.8 Underlying the affordability problems facing households in East Lothian is the very high current level of house prices, particularly for new property. This also makes it difficult to provide affordable LCHO through new build provision. We therefore would underline the importance of following through the Structure Plan proposals to significantly increase the supply of land for new housing development generally in the belief that this will in time help to lower prices, particularly for new build.

Recommendation 12

East Lothian should follow through the Structure Plan proposals for significantly increased land allocations for new housing in their Local Plan. Land allocations should be kept under review in the light of monitoring information on price levels and affordability conditions.

- 9.4.9 Through the Affordable Housing Policy, ELC intends to make best use of the land resources in its area. It might be considered inequitable and less than wholly efficient if consideration was not also given to the best use of land owned by the council. In pressured market areas in England local authorities have, for example, developed schemes to use Local Education Authority land to provide key worker housing. While 'housing' land has been used as a resource in this way in East Lothian, the council also has other land assets whose use it could consider.

Recommendation 13

In line with the policy to make best use of private sector sites for affordable housing, ELC should consider at a Corporate level, the best use of ELC owned land, including that owned by departments other than housing, as a resource in meeting affordable housing need.

APPENDIX 1 Option Appraisal – Description of Options

SO New build	DIYSO (Do-it-yourself Shared Ownership)	Equity Loan (Homebuy) New Build	Equity Loan (Homebuy) existing	Shared Equity	Resale Covenant See comments on Shared Equity	Social Renting
Part buy/part rent @ 25% / 50%.	Part buy/part rent @ 25% / 50%.	Buy outright with interest free equity loan of 30% - 40%.	Buy outright with interest free equity loan of 30% - 40%.	Buy outright with discount @ 10-25% or more.	Buy outright with discount @ 10-30%.	Rent from RSL/LA.
May staircase to full ownership.	May staircase to full ownership.					
Provision by RSL on separate sites or with developer using s75.	Purchase in open market, managed by RSL.	Purchase new build property from RSL or developer with RSL managing scheme.	Purchase in open market, scheme managed by RSL.	Purchase new build provided by developer or RSL.	Purchase new build provided by developer or RSL.	Usually right to purchase with discount at future date.
Possibility of recycling grant/subsidy or of requiring property to be sold to person in housing need.	Possibility of recycling grant or of requiring property to be sold to person in housing need.	Repay equity loan at current value on sale or may pay off beforehand. No option for selling on as LCHO.	Repay equity loan at current value on sale or may pay off beforehand. No option for selling on as LCHO.	Sell on to nominated purchaser at value of equity owned. Subsidy remains with property after sale.	Sell on to nominated purchaser at value of equity owned. Subsidy remains with property after sale.	
Various sources of subsidy e.g. HAG, free/cheap land developer contribution.	Subsidy via HAG or commuted sum payment from developer providing market housing elsewhere.	Possibility of recycling grant. Various sources of subsidy e.g. HAG, free/cheap land developer contribution?	Possibility of recycling grant. Subsidy via HAG or commuted sum payment from developer providing market housing elsewhere.	Various sources of subsidy e.g. free/cheap land developer contribution, GRO or possibly HAG	Various sources of subsidy usually free/cheap land developer contribution.	Subsidy could be HAG or combination of various sources of subsidy e.g. HAG, free/cheap land developer contribution.

APPENDIX 2

New And Second Hand Market House Price Analysis

1. Introduction

The main objective of this appendix is to provide a set of simulated (standardised) new-build house prices that can be used as an input to the site appraisal toolkit. This task is complicated by the fact that the specification of new-build housing is likely to vary markedly from locality to locality. Therefore, a simple analysis of average new-build property prices broken down by locality will potentially yield misleading results. Similar problems are associated with analysis of second-hand house prices. In the second-hand market the housing stock may differ markedly in terms of quality and specification within a local authority area. This means that comparing house prices between localities is not a “like for like” exercise and may lead to biased results.

The main objective of the chapter, therefore, is to review a modelling framework which is sufficiently robust to allow the prediction of standardised or like for like house prices across East Lothian. The modelling work is designed to reveal constant-quality variations in local house price levels within the authority area.

The appendix reviews the results of two distinct models. The first is a cross-sectional model of second-hand house prices in East Lothian. The purpose of this element of the modelling work is to reveal local variations in house prices. The output is expressed in terms of local price discounts or premia. The second model benchmarks new-build house prices to specification and second-hand house price levels. A number of variants of the new-build house price model are examined. The chapter then provides a set of simulated or predicted new-build house prices for 1 through 5 bedroom properties across a range of localities in East Lothian.

2. Second-hand house price analysis

The objective of estimating the second-hand model is to arrive at a method of satisfactorily explains variation in house prices with regards to size and specification. This model is then used to identify local variations in house prices of ‘local adjustment factors’.

The second-hand price model follows a well-rehearsed and widely accepted methodology known as hedonic regression. The model is a conventional linear hedonic regression model. The modelling framework assumes that the price of an individual property can be specified as a function of the features or attributes that the property possesses. The analysis isolates the implicit price of each property attribute and provides indicators of the relative importance of these in contributing to the overall property value.

The specification of the model is simpler than many published models. In part, this is constrained by the availability of variables in the ESPC data. Local variations in price are captured using 11 locational dummy variables (there are 12 intermediate zones). In accordance with standard practice, one variable is omitted from the model (Haddington) in order to benchmark the model on this locality. The remaining 11 locational variables allow us to estimate the difference in price (all other factors held constant) between each of the 11 localities and Haddington. The model is estimated using ESPC data for 1999-2003 and the full results are shown in table A2.1.

Table A2.1 Cross-sectional model using ESPC data

Variable	Coefficient	t statistic	
Constant	0.248	0.627	
Heating	0.105	5.267	***
Garden	0.055	3.600	***
Garage	0.167	12.749	***
Bungalow	0.140	6.746	***
Cottage	0.213	10.060	***
Flat	-0.058	-3.964	***
ESPC (ln)	0.903	26.24	***
Bedrooms (ln)	0.511	32.374	***
Public rooms (ln)	0.448	27.443	***
Gullane Coast	0.142	5.389	***
NB rural	0.153	5.075	***
North Berwick	0.270	13.292	***
Cockenzie / Longniddry	-0.071	-3.588	***
Prestonpans	-0.239	-8.877	***
Musselburgh	0.061	3.550	***
Wallyford / Whitecraig	-0.297	-9.515	***
Tranent urban	-0.213	-10.308	***
Dunbar	-0.140	-5.747	***
Adjusted R Square	0.795		
Std. Error	0.247		
F statistic	528.49	***	

* significant at 10% level ** significant at 5% level *** significant at 1% level

The results show that second-hand property prices can be explained with reference to the specification data contained within the ESPC dataset. Significantly, most of the intermediate zone variables are statistically significant which reaffirms the idea that like for like property values are not uniform across East Lothian. The model is estimated in logarithms and, as a fortunate consequence, the postcode district coefficients are readily interpretable as price premia. The model is benchmarked to Haddington so, for example, properties in Wallyford trade at a 29.7% discount compared with like-for-like properties in Haddington. Properties in North Berwick trade at a 27% premium compared with Haddington, and so on. A summary of the locational discounts / premia is shown below in table A2.2.

Table A2.2 Locational discounts / premia

Izone	Area	Premium (%)
1	Gullane Coast	14.2
2	NB rural	15.3
3	North Berwick	27.0
4	Cockenzie / Longniddry	-7.1
5	Prestonpans	-23.9
6	Musselburgh	6.1
7	Wallyford / Whitecraig	-29.7
8	Tranent urban	-21.3
9	Tranent rural	0
10	Haddington	0
11	Dunbar	-14.0
12	Dunbar rural	0

3. Results of the new-build price analysis

The new-build house price model is designed in accordance with economic theory. Rather than modelling the new-build sector as though the second-hand sector does not exist, second-hand house prices levels are taken as the starting point for new-build price determination. The general specification of the new-build model is:

$$\frac{P_{it}}{E_t \times (1 + A_i)} = \beta_0 + \sum_k \beta_k X_k$$

Where,

- P_{it} Price of the i th new-build property in time period t
- E_t East Lothian ESPC average price in time period t
- A_i Constant local adjustment factor for area i
- X_k New-build property attributes or features.

The model therefore assumes that new-build house prices are a function of the second-hand house price level (as expressed through the ESPC index) and local adjustment factors as revealed in the analysis of second-hand house price data shown earlier. In effect, this permits us to model relative new-build property prices, i.e. the price of new-build property relative to second-hand price levels in the locality. The main advantage of this specification is that it permits us to use the local level adjustment factors estimated using the large ESPC dataset available for the cross-sectional model. The estimated model is benchmarked or anchored to the publicly available ESPC price index for East Lothian which means that it can be used to predict new-build price levels in each locality in subsequent years, provided the ESPC index continues to be freely available.

Two alternatives of the model are estimated. In the first, the locally-adjusted new-build price is as shown in the equation above while in the second variant of the model, the price variable is converted to natural logarithms. The full estimation results are shown in tables A2.3 through A2.6.

Table A2.3 Linear panel model using new-build data only

Variable	Coefficient	t statistic		VIF
Constant	0.533	1.987	**	
bedrooms (ln)	0.117	1.386		8.875
Bedroom area (ln)	-0.088	-1.020		9.014
public room area (ln)	0.144	1.730	*	6.550
box room	0.270	4.155	***	1.484
family room	0.458	5.398	***	2.965
dining area	0.106	3.350	***	2.572
breakfast bar	0.286	3.152	***	1.599
utility room	0.365	9.485	***	1.612
WC2	-0.066	-1.430		4.938
driveway	0.117	2.483	**	4.161
double garage	-0.116	-1.738	*	3.401
Detached	0.198	5.282	***	3.849
Detached (adjoining)	0.325	5.179	***	1.504
cul-de-sac	0.037	1.468		1.499
Adjusted R Square	0.725			
Std. Error	0.174			
F statistic	63.80	***		

* significant at 10% level ** significant at 5% level *** significant at 1% level

Several high VIFs (variance inflation factors) are cause for concern. Unfortunately, there are no firm rules regarding interpretation of VIFs. However, values above 2 indicate that a variable is linearly related to some other independent variable in the model while values above 3 are a particular cause for concern. High VIFs suggest the possibility of biased results. Following a procedure of sequentially removing variables with suspect VIFS and re-estimating yields the following simpler model:

Table A2.4 Simplified linear new-build price model

Variable	Coefficient	t statistic		VIF
Constant	-0.306	-2.129	**	
Bedrooms (ln)	0.220	4.670	***	2.290
Public room area (ln)	0.352	6.570	***	2.229
box room	0.277	4.579	***	1.055
utility room	0.389	10.430	***	1.242
Detached	0.100	3.247	***	2.151
Adjusted R Square	0.666			
Std. Error	0.192			
F statistic	133.86	***		

The improvement in model results (in terms of bias) come at the price of explanatory power. The model explains 66% rather than 72% of variation in new-build house prices. However, this loss of explanatory power is acceptable given the reduction in potential bias.

Table A2.5 Log-linear panel model using new-build data only

Variable	Coefficient	t statistic		VIF
Constant	-0.365	-8.867	***	

Bedrooms (ln)	0.127	2.130	**	4.139
box room	0.210	3.437	***	1.232
family room	0.314	3.916	***	2.492
dining area	0.116	4.411	***	1.675
breakfast bar	0.202	2.287	**	1.415
utility room	0.241	6.343	***	1.470
Driveway	0.146	2.870	***	4.552
single garage	-0.105	-2.270	**	5.077
double garage	-0.150	-2.053	**	3.799
Detached	0.229	7.162	***	2.633
Detached (adjoining)	0.424	6.994	***	1.319
Adjusted R Square	0.648			
Std. Error	0.180			
F statistic	56.85	***		

As before, the modelling results are generally good. The model explains some 76% of variation in house prices and most of the results are plausible. However, some of the VIFs are high. The model is therefore re-estimated in a simpler specification to remove the possibility that these high VIFs are associated with biased or misleading results. The results of the simpler estimation are as follows:

Table A2.6 Simplified log-linear new-build price model

Variable	Coefficient	t statistic		VIF
Constant	-0.384	-9.736	***	
Bedrooms (ln)	0.186	4.011	***	2.468
box room	0.250	4.151	***	1.168
family room	0.303	3.802	***	2.403
dining area	0.127	4.914	***	1.583
breakfast bar	0.195	2.205	**	1.401
utility room	0.238	6.207	***	1.462
double garage	-0.038	-0.629		2.614
Detached	0.204	6.852	***	2.234
Detached (adjoining)	0.420	7.242	***	1.178
Adjusted R Square	0.641			
Std. Error	0.182			
F statistic	67.08	***		

The results of the estimation with new-build / planning authority data suggest that the planning data can be used to satisfactorily explain new-build price levels with respect to second-hand levels. As noted earlier, the new-build prices are 'pre-adjusted' to take account of local variations in price levels. The adjustment factors were obtained from the model estimation using ESPC data.

The simplified model shown in table A2.4 yields plausible results. New-build house prices are driven primarily by the number of bedrooms and internal public room area. Box rooms and utility rooms add value while the detached house type is also worth more than flats, terraces and semi-detached houses. Holding other attributes constant, there is no significant difference between the prices of flats, terraces and semi-detached houses. The value of these property types may vary as a result of differences in size, number of rooms and specification but the results show that there is no inherent positive or negative premium associated purely with the property types.

The results of the second variant of the new-build model (estimated in natural logs) are shown in tables A2.5 and A2.6 below. The results generally show that the first variant of the model is to be preferred.

The results show that the simplified model explains 66% of variation in house prices. Although most of the coefficients are plausible, the model is not as effective as the linear specification in terms of explanatory and predictive power. This strongly suggests that the first variant of the new-build model is to be preferred, largely because it has superior predictive performance. The simplified version of the linear model (table A2.4) is therefore adopted as the working new-build price model.

4. Estimating or predicting new-build house prices

As noted earlier, the new-build price model has been designed partly to ensure it has value as a predictive tool. The model implicitly uses information on the ESPC average house price index for East Lothian and local price adjustment factors estimated using the ESPC data for 1999-2003. The estimated new-build price model can be used to predict the price of new-build housing by feeding in details on specification together with the ESPC average price index value. Recent values of the ESPC index are shown in table 4.7:

Table A2.7 ESPC average price levels for East Lothian

Qtr	ESPC
1999, Q3	77,350
1999, Q4	81,833
2000, Q1	78,029
2000, Q2	91,977
2000, Q3	88,770
2000, Q4	88,150
2001, Q1	82,344
2001, Q2	98,498
2001, Q3	97,793
2001, Q4	101,291
2002, Q1	96,795
2002, Q2	114,520
2002, Q3	117,013
2002, Q4	123,015
2003, Q1	124,134
2003, Q2	135,239
2003, Q3	144,917
2003, Q4	149,875

The price predictions concern four property types: (1, 2, 3 , and 4 bedroom). Their specification is as follows:

Table A2.8 Summary of property type attributes / specification

Attribute / feature	2B flat	2B terr	2B semi	3B terr	3B semi	3B det	4B det
Bedroom area	18	24	22	23	24	25	37
Public room area	16	16	18	16	20	22	26
Living room	√	√	√	√	√	√	√
Dining room					√		√
Dining area		√	√	√		√	√
Utility room							√
Box room			√				
WC2			√	√	√	√	√
Ensuite						√	√
Driveway			√	√	√	√	√
Parking space	√	√	√				
Single garage				√	√	√	√
Double garage							

Given the relatively simple set of predictors used in the new-build price model, a number of elements of specification are implicit. For example, in predicting the price of a 2 bedroom flat, the model implicitly assumes that the property has a living room, parking space, 18 square metres of bedroom area and 16 square metres of public room area (mirroring the most common specification of such properties in the sample of data used to construct the model).

The model is used to predict the price of 1 and 5 bedroom properties. Strictly speaking, these predicted prices and forecast prices. There is a distinction because the model is estimated using data on 2-4 bedroom new-build properties. Since there are no 1 or 5 bedroom properties in the sample of data used to construct the model, the predicted prices are forecasts.

The predicted prices of the 2, 3 and 4 bedroom properties are set out in table 8 (for quarter 3 of 2003 only).

Table A2.9 Quarter 3, 2003 predicted new-build property prices

Izone	1 bed	2 bed	3 bed	4 bed	5 bed
Musselburgh	131,861	173,838	277,199	339,440	416,605
Gullane Coast	141,877	187,043	298,257	365,225	448,253
Prestonpans	94,570	124,676	198,807	243,446	298,788
Tranent rural	124,276	163,839	261,255	319,916	392,643
North Berwick	157,800	208,035	331,729	406,214	498,559

The results of the prediction / simulation exercise provide a set of new-build house prices for use as default values in the site appraisal toolkit. The prices show local price variations that are in line with the analysis of second-hand data and the analysis linked with affordability in chapter 6.

APPENDIX 3

Operation Of The East Lothian Toolkit

The East Lothian toolkit is based on a model developed in 2001 by Three Dragons and Nottingham Trent University for the Greater London Authority and since used extensively by local authorities in the Greater London area and more widely in England.

Toolkit – basic principles

For a given number of units or size of site (typically 1 hectare) the toolkit performs three basic calculations:

The total **revenue** to the developer from market housing is calculated. This is based on market values of the specified mix of market units.

Total **development cost** (of market and affordable units) is calculated based on BCIS base build costs and specified additional development costs (eg overheads, marketing and finance costs and developers/contractors return)

Revenue and potential public subsidy requirement from affordable housing is calculated. The public subsidy calculation is based on Communities Scotland BIC and grant rate models. Revenue from affordable housing is calculated with and without public subsidy. With public subsidy the payment is based on the BIC calculation and makes no allowance for land value. Without public subsidy the payment is based on revenue to the RSL from capitalised nett rents in the case of social rent, nett rent plus share purchase in the case of shared ownership and 60% share purchase in the case of Homebuy.

The out-turn from these 3 calculations is a comparison between revenue and development cost from which a **residual** can be derived which broadly correlates to land value. (The residual will not necessarily reflect the exact price paid by the developer to the landowner which may be higher or lower than the residual derived from the toolkit). This can be expressed mathematically as follows:

$$\text{Gross residual value} = \text{Revenue (market units + affordable units)} - \text{Development Cost (market units + affordable units)}$$

There is provision in the toolkit to make allowance for the following additional variables:

- Exceptional development costs
- Wider planning obligations sought from the site
- Capital contributions from other sources

From this a nett residual value can be derived

$$\text{Nett residual value} = \text{Gross residual value} - (\text{planning gain} + \text{exceptional development costs}) + \text{capital contributions from other sources}$$

The toolkit can be used to test for:

- Variations in the number and type of market housing units
- Varying percentages of different types and tenures of affordable housing
- Variations in density

- Variations in house prices
- Alternative planning obligations

Although the base unit for measurement of residual value is the hectare (and the toolkit will always produce a residual value per hectare) any size of site can be fed into the toolkit and the toolkit will produce a site based residual as well as the per hectare figure.

Types of affordable housing currently modelled include:

- Social rent
- Shared ownership (at a chosen %age share purchased)
- Homebuy (at a chosen %age share purchased)
- Low Cost Sale (at a chosen %age share purchased)

There is a facility to include Gro-Grant although it has not proved possible to derive firm information on how a public subsidy regime for Gro-Grant would operate in an area such as East Lothian where market values exceed development costs.

Toolkit – data sources

The toolkit requires a considerable amount of information about development costs, market values and housing association funding. Default values are provided within the toolkit and clearly indicated on the **Borough Data** sheet. However these are averages based on 2004 values which provide guidance for general policy formation but will not be appropriate for consideration of individual schemes.

There is provision in the toolkit for the user to input alternative data on key variables.

It is important that default data is kept up to date and this will require annual monitoring of house prices, build costs and the public funding regime as well as periodic checks with RSLs and developers (Homes for Scotland) that key assumptions about development costs, floor areas, overheads, finance costs, rent levels, management and maintenance costs, voids, service charges etc have remained correct.

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MAP 1: EAST LoTHIAN INTERMEDIATE ZONES

