

# Local Development Plan – Affordability Index Monitoring (1<sup>st</sup> April 2016 – 31<sup>st</sup> December 2017)

## Pembrokeshire County Council

### 1) Background and Purpose

1. The Pembrokeshire County Council Local Development Plan (LDP) requires that all new market developments contribute to the provision of local needs affordable housing. This policy approach was developed in recognition of the acute need for affordable housing in Pembrokeshire.
2. Indicative affordable housing requirements are set out for allocated sites in a table in Policy GN.27 Residential Allocations and range from ‘up to 5%’ to ‘25%’. Policy GN.28 Local Needs Affordable Housing sets the requirement for unallocated sites – this is 10% in Towns, Service Centres and Service Villages.<sup>1</sup>
3. Policy GN.28 states that where a sustained positive change in the financial viability of development can be demonstrated through monitoring, the local authority will seek a higher percentage contribution towards affordable housing. It also states that in Towns, Service Centres and Service Villages a provision of affordable housing below the target figure may be appropriate where this is supported by economic viability evidence.
4. The Monitoring Framework section of the LDP (adopted 28/02/13) and Affordable Housing Supplementary Planning Guidance (SPG) (adopted 14/09/15) together set out how the local authority will monitor whether there have been changes to local housing market conditions. If such conditions are considered significant enough in nature to change the financial viability of development, the Authority will re-assess the viability evidence that influenced the LDP targets for Affordable Housing. The LDP lifespan is from its adoption (2013) until 2021 and this monitoring is essential to ensure that it is sufficiently flexible and resilient to economic changes and that the targets used to negotiate affordable housing remain robust.
5. The purpose of this document is to set out the monitoring work that the Authority has undertaken since adoption of the LDP.
6. This analysis of housing market indicators concludes that broader economic changes have not been sufficient to affect significantly the financial viability of development. Therefore, at present, no re-assessment of the development viability evidence that influenced the targets of the LDP is justified. However, there are early indications of a possible recent improvement in housing market conditions. Hence, the matter will be re-considered in conjunction with review of the Council’s Local Development Plan.

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<sup>1</sup> In Large Local Villages 50% of dwellings proposed should be affordable and in Small Local Villages all new dwellings must be affordable. The Plan explains that in Local Villages the objective of residential development is to meet the need for more affordable homes in rural areas and therefore concerns over the viability of development do not justify any relaxation of the policy.

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### 2) Monitoring Framework and SPG

#### 1. The Monitoring Framework of the LDP states:

*“Should average house prices increase by 5% above the base price of 2012 levels sustained over 2 quarters then the Authority will consider other triggers identified in the Affordable Housing SPG and may conduct additional viability testing and modify the targets established in GN.27 and GN.28.”*

#### 2. The Affordable Housing SPG, Appendix 4 (Monitoring of the Council’s LDP targets for Contributions), states:

a. *“Calculating the financial viability of affordable housing provision is complex and involves multiple variable inputs, where any changes may have an effect on the overall outcome (residual land value). The main influence on viability is changing house prices, but an increase does not necessarily lead to an improvement in viability. Within its LDP monitoring framework the Council has committed to monitoring local house prices and when there is an increase of 5%, sustained over two successive quarters, the Council will look for changes in other local housing market indicators to assess whether it would be appropriate to reassess development viability evidence that has influenced the LDP indicative targets. Data from the Land Registry will be used to monitor the median dwelling price of properties sold in Pembrokeshire against a baseline of September-December 2012 as an indicative quarter.*

#### b. The other indicators will include:

- *Average build costs (Source: Royal Institute of Chartered Surveyors Building Cost Information Service);*
- *Number of new dwellings completed (source: PCC Annual Monitoring Report); and*
- *Number of sales of dwellings (Source: Land Registry data).*

c. *Should these indicators suggest that the housing market has improved the Council will undertake further viability testing of a selection of housing allocations using the 3 Dragons Toolkit. If subsequently the viability work indicates that higher affordable housing contributions could be provided, the Council will publish on its website updated affordable housing targets for allocated sites (GN.27) and windfall sites (GN.28). These updates will also be communicated directly to stakeholders such as County Councillors, Town and Community Councillors, Registered Social Landlords and Planning Agents.*

d. *New targets would replace those published in the Local Development Plan.”*

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### **3) Housing Market Indicators**

1. Appendix 1 sets out the Housing Market Indicators monitored by the Authority. The baseline house price for September - December 2012 was £155,000. A 5% increase on this baseline would be an increase of £7,750 (i.e. £162,750). Since then house prices have usually been below this level, but were higher in Q2, 2012, Q3, 2017 and Q4, 2017. As there was an increase of 5% or more above the 2012 base price sustained over two quarters in Q3 and Q4 2017, there is a consequential need to consider the other indicators identified in Appendix 4 of the Affordable Housing SPG. The monitoring related to these further indicators is also presented in the table that follows section 4. An analysis of each is given below and has informed the conclusion on whether additional viability testing and modification of the targets established in GN.27 and GN.28 might be needed.
2. Of the other matters that now need to be considered, average build costs is also identified as a primary indicator. Between 2011 and 2014, a single figure is presented for each year, this being the quarter 1 figure for that year. From 2015 onwards, figures are recorded for each quarter of the year and separate figures are recorded for estate housing and for flats. The estate housing figure is generally lower than that for flats. The figures fluctuate, but there was a significant rise in average build costs for both estate housing and flats in 2017. That has lifted these costs well above those recorded in the period 2011 to 2014 and also above the more detailed figures available for 2015 and 2016.
3. The remaining matters for consideration include four identified as secondary indicators and a further two identified as being of local importance.
4. Of the secondary indicators, UK mortgage interest rates have in broad terms risen slightly over the period under consideration, although the overall trend is masked by monthly fluctuations. Similarly, annual median household income has also risen slightly since 2011, again with some month-by-month variations. House price to income ratios were slightly higher at the end of the monitored period than at the start, although the overall trend hides some monthly ups and downs. Finally, the mortgage lending to income ratio seems to reflect closely the house price to income ratios, although there is only one figure available, that being the quarter 1 figure for 2014.
5. The two local indicators are for dwelling completions and dwelling sales. Dwelling completions rose sharply between 2011 and 2014, but then fell away from 2014 to 2017. The 2017 figure is above that for 2011, but is less than half that recorded in 2014. Dwelling sales have a strong seasonal component to them, hence significant yearly fluctuations are the norm, with significant falls in sales being a feature of quarter 1 and large increases being found in other periods. However, some individual figures go against the more general trends. In broad terms, sales in 2017 were at significantly higher levels than at the start of the monitoring period.

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### **4) Conclusions**

1. The baseline figure for house prices has been exceeded by more than 5% on three occasions since monitoring started, but there is only one instance where such an increase has been sustained for two consecutive quarters, which was for quarters 3 and 4 of 2017. Consequently, other indicators also need to be considered, to reach a conclusion on whether additional viability testing and modification of GN.27 and GN.28 targets is needed.
2. The monitoring work undertaken shows that there has also been a significant increase in average build costs, especially during 2017. As this is the other primary indicator, and as the increase in average build costs coincides with the increase in house prices, it would be unwise to suggest that the housing market has significantly improved. Indeed, it is possible that house prices have risen in response to increases in build costs.
3. Of the secondary indicators considered, there seems to have been slight rises in UK mortgage interest rates, in median household incomes and in house price to income / mortgage lending to income ratios. None of these matters provides compelling evidence of housing market improvement.
4. The local indicators show a rise followed by a decline in housing completions over the monitored period. Sales show a high level of seasonality, but were significantly higher in 2017 than at other times. This might be indicative of a more buoyant housing market, but it would be wise to see whether the increase is sustained over a longer period.
5. Overall, the evidence gathered does not conclusively indicate that there has been a sufficient change in Housing Market Indicators to require a re-assessment of the development viability evidence that influenced the LDP targets for Affordable Housing. However, the recent house price increases and sales increases may be indicative of a recent housing market improvement, although build costs also seem to have increased. Further monitoring is needed to establish whether this is a temporary fluctuation or a longer-term trend. Review of the Council's Local Development Plan will provide an opportunity to re-consider viability matters and to make any changes deemed necessary to GN.27 or GN.28.

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**Amended version (with DM suggestions)**

Monitoring (Annual and Quarterly)	Affordability Indicators								
		Primary Indicators (two major indicators that affect viability)		Secondary Indicators (do not affect viability but give a better picture)				Local Indicators (give an indication of local characteristics specific to Pembrokeshire)	
	Time period <sup>1</sup>	Quarterly Median House Price (GBP) <sup>2</sup>	Average build costs (£/m <sup>2</sup> gross internal floor area) <sup>3</sup>	UK mortgage interest rates (%) <sup>4</sup>	Annual Median Household Income (GBP) <sup>5</sup>	House price to income ratio <sup>6</sup>	Mortgage lending to income ratio <sup>7</sup>	Number of new dwellings completed <sup>8</sup>	Number of dwelling sales <sup>2</sup>
2011 Q1	145,250	814	4.07 (31/03/11)	29,589	145,250 / 29,589 = 4.91		347 (also covering 2010 Q2 to Q4)	230	
2011 Q2	150,000		4.05 (30/06/11)		150,000 / 29,589 = 5.07				203
2011 Q3	159,000		4.12 (30/09/11)		159,000 / 29,589 = 5.37		317		
2011 Q4	159,950		4.12 (31/12/11)		159,950 / 29,589 = 5.41			349	
2012 Q1	148,500	799	4.10 (31/03/12)		27,389	148,500 / 27,389 = 5.42			240

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	2012 Q2	165,000		4.22 (30/06/12)		165,000 / 27,389 = 6.02		397	270
	2012 Q3	158,500		4.29 (30/09/12)		158,500 / 27,389 = 5.79			310
	2012 Q4  <b>(Baseline figure – £155,000 for Sept' to Dec' 2012)</b>	150,500		4.35 (31/12/12)		150,500 / 27,389 = 5.49			388
	2013 Q1	153,000	881	4.34 (31/03/13)	29,010	153,000 / 29,010 = 5.27			257
	2013 Q2	150,000		4.38 (30/06/13)		150,000 / 29,010 = 5.17		459	359
	2013 Q3	154,500		4.35 (30/09/13)		154,500 / 29,010 = 5.33			359
	2013 Q4	145,000		4.39 (31/12/13)		145,000 / 29,010 = 5.00			486
	2014 Q1	139,725	872	4.43 (31/03/14)	28,926	139,725 / 28,926 = 4.83	5.20		378
	2014 Q2	153,000		4.36 (30/06/14)		153,000 / 28,926		588	409

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						= 5.29		
	2014 Q3	154,000		4.52 (30/09/14)		154,000 / 28,926 = 5.32		484
	2014 Q4	160,000		4.48 (31/12/14)		160,000 / 28,926 = 5.53		462
	2015 Q1	155,250	Estate housing – 818 (823 in S.Pembs, 813 in Preseli)  Flats – 946 (952 in S. Pembs, 940 in Preseli)	4.51 (31/03/15)	29,025	155,250 / 29,025 = 5.35		414
	2015 Q2	149,000	Estate housing – 857 (862 in S. Pembs, 852 in Preseli)  Flats – 992 (998 in S. Pembs, 986 in Preseli)	4.49 (30/06/15)		149,000 / 29,025 = 5.13	405	466
	2015 Q3	156,750	Estate housing – 815 (820 in S. Pembs, 810 in	4.50 (30/09/15)		156,750 / 29,025 = 5.40		534

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			Preseli)  Flats – 942.5 (948 in S. Pembs, 937 in Preseli)					
2015 Q4	155,000	Estate housing – 821 (826 in S. Pembs, 816 in Preseli)  Flats – 950 (956 in S. Pembs, 944 in Preseli)	4.49 (31/12/15)		155,000 / 29,025 = 5.34			560
2016 Q1	159,950	Estate housing – 833 (838 in S. Pembs, 828 in Preseli)  Flats – 964 (970 in S. Pembs, 958 in Preseli)	4.57 (31/03/16)	28,980	159,950 / 28,980 = 5.52			489
2016 Q2	155,000	Estate housing – 854 (859 in S. Pembs, 849 in	4.52 (30/06/16)		155,000 / 28,980 = 5.35		365	365



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			Preseli)  Flats – 988 (994 in S. Pembs, 982 in Preseli)					
	2016 Q3	155,000	Estate housing – 827 (832 in S. Pembs, 822 in Preseli)  Flats – 957 (963 in S. Pembs, 951 in Preseli)	4.24 (30/09/16)		155,000 / 28,980  = 5.35		476
	2016 Q4	162,500	Estate housing – 854 (859 in S. Pembs, 849 in Preseli)  Flats – 988 (994 in S. Pembs, 982 in Preseli)	4.23 (31/12/16)		162,500 / 28,980  = 5.61		529
	2017 Q1	159,650	Estate housing – 902.5 (908 in S. Pembs, 897 in Preseli)	4.28 (31/03/17)	30,225	159,650 / 30,225  = 5.28		434

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			Flats – 1044.5 (1051 in S. Pembs, 1038 in Preseli)						
	2017 Q2	155,000	Estate housing – 981 (987 in S. Pembs, 975 in Preseli)  Flats – 1135 (1142 in S. Pembs, 1128 in Preseli)	4.28 (30/06/17)		155,000 / 30,225 = 5.13		286 (also covering 2018 Q1)	495
	2017 Q3	167,500	Estate housing – 929.5 (935 in S. Pembs, 924 in Preseli)  Flats – 1075.5 (1082 in S. Pembs, 1069 in Preseli)	4.31 (30/09/17)		167,500 / 30,225 = 5.54			515
	2017 Q4	166,000	Estate housing – 981 (987 in S. Pembs, 975 in	4.54 (31/12/17)		166,000 / 30,225 = 5.49			532

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			Preseli)  Flats – 1135 (1142 in S. Pembs, 1128 in Preseli)						
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1. Q1: January to March; Q2: April to June; Q3: July to September; Q4 October to December.
2. Land Registry PricePaid dataset – sales of detached, semi-detached and terraced houses and flats.
3. Valuation Office Agency (VOA) – from BCIS average prices in £/m<sup>2</sup> study. Rate per m<sup>2</sup> gross internal floor area for building – cost including prelims. Quarterly figures for 2015 Q1 onwards are an average of the South Pembrokeshire and Preseli figures, taken to provide Pembrokeshire-wide price information, with separate figures for estate housing and flats. Pre-2015 data is from the RICS and records the Q1 figure for each year only.
4. Bank of England, Monthly interest rate of UK monetary financial institutions (excl. Central Bank) sterling standard variable rate mortgage to households (in percent) not seasonally adjusted.
5. Household income is estimated as median gross annual pay for full-time workers from the Annual Survey of Hours and Earnings (ASHE, confidence ± 10%) multiplied by 1.25 (roughly the ration of the CACI Paycheck estimate of household income to the ASHE median gross annual pay for full-time workers).
6. Quarterly median house price (GBP) / annual median household income (GBP).
7. Indicative ratio of mortgage lending to income – sample mortgage lenders (Halifax and Barclays).
8. Pembrokeshire County Council LDP Annual Monitoring Report (annual figure, April to March), derived from Joint Housing Land Availability Studies.