

Supplementary Planning Guideline (SPG)

**New Housing  
Developments  
and  
Affordable  
Housing : A Guideline  
for  
Developers.**



This SPG has been approved by the  
Council Planning Committee at the  
meeting of 28th September 2006

## **New Housing Developments and Affordable Housing: A Guideline for Developers**

### **1.0 Introduction**

- 1.1 There is continued pressure across South Ayrshire for affordable housing, most particularly in the social rented sector. One of the means by which the Council aims to address this need is through a policy framework, which seeks a contribution from all new housing developments towards the provision of affordable housing. The South Ayrshire Local Plan (SALP) sets out a policy that requires affordable housing to be provided as part of new housing development. This Supplementary Planning Guideline (SPG) provides advice to developers on the background to this policy and how it should be implemented.

### **2.0 Policy Context**

- 2.1 The affordable housing policy of the SALP, and this accompanying Supplementary Planning Guideline, have been prepared within the following policy context:
- 2.2 In accordance with the Housing (Scotland) Act 2001 the Council has prepared and approved a Local Housing Strategy. The Local Housing Strategy provides a detailed analysis of the local housing system in South Ayrshire and concludes that the social rented sector is failing to meet need and is under considerable pressure. These conclusions are set out more fully in section 3, below.
- 2.3 The planning system is responsible for ensuring that sufficient land, in attractive and sustainable locations, is brought forward to meet the need for new housing. Scottish Planning Policy 3 "Planning for Housing" confirms that the planning system can assist with addressing affordable housing shortages through development plan policies that seek a contribution to the supply of affordable housing from private housing building.
- 2.4 PAN 74 'Affordable Housing' sets out detail of how the planning system delivers the provisions of SPP 3. It highlights the role that the Local Housing Strategy can have in informing need and sets out the ways that local plans can make provision to address need. It sets out that where planning authorities seek a percentage contribution of affordable housing on private housing sites that this should be clearly set out in the local plan. The affordable housing policy of the SALP, and this SPG, closely follow the provisions set out in PAN 74.

The approved Ayrshire Joint Structure Plan states that proposals for affordable and special needs housing should be brought forward within the overall strategic context for housing land release as part of local plan preparation. The SALP implements this context in the provisions of policy H13 and this SPG.

The structure plan sets out housing requirements that the local plan requires to address. These housing requirements relate to all housing markets. Therefore, the affordable housing needs, referred to in section 3 below, form one part of the overall requirements set out in the structure plan. It should be noted that the housing needs arising in section 3 and the housing requirements of the structure plan are not directly comparable. This is because structure plan housing requirements partly reflect actual housing need but also derive from wider policy judgements and strategic objectives.

### **3.0 Housing Need in South Ayrshire.**

3.1 The Council's approved Local Housing Strategy provides an analysis of the local housing system. This provides an assessment of need, against an appraisal of the existing and emerging housing stock. Amongst the conclusions is the estimate that there is only one Council housing unit available in any one year for approximately 24 applicant households. In relation to the private sector, both in terms of owner occupation and private rent, this sector is not accessible to those on lower incomes.

3.2 Arising from the housing systems analysis, the Local Housing Strategy sets out a range of objectives and actions, one of which seeks to enable every year 200 additional housing units through social landlord provision. The operation of the affordable housing planning policy H13, aims to contribute towards this approved objective.

A report to Communities Scotland (June 2004); Local Housing Need and Affordability Model for Scotland – Update, provides an assessment of need for additional affordable provision at local authority level. In South Ayrshire there is estimated to be an average annual shortfall of 270 affordable housing units. South Ayrshire Council considers that the estimate represents a minimum level of need.

3.3 SPP 3 requires planning authorities to aim to address affordable housing need within the Housing Market Area. Therefore, although housing need may vary throughout the Council area, and consistent with government policy, the Council has applied a single percentage target for contributions towards provision of affordable housing throughout the Housing Market Area of South Ayrshire.

3.4 Even the estimate provided by the Communities Scotland Study in para 3.2 above, of net annual need of 270 additional affordable houses is greater than the estimated yield from operating a target 25% contribution from new housing development. In this context, the conclusions to be drawn from the Local Housing Strategy and the Communities Scotland Study is that a target of 25% of new development to be for affordable housing is appropriate and justified given the high level of need. This level of contribution is consistent with the benchmark terms of PAN 74 'Affordable Housing'.

3.5 Potential Affordable Housing Yields – Target

| Potential Yield Per Annum | Housing Need Per Annum | Shortfall |
|---------------------------|------------------------|-----------|
| 79                        | 270                    | 191       |

\*Yield based upon 2004 Draft Housing Land Supply, including sites recommended in Sept 2006.

The above table is provided as a basis for monitoring the effectiveness and continued applicability of the policy.

**4.0 The South Ayrshire Local Plan and the Status of Supplementary Planning Guideline (SPG)**

4.1 This guidance has been produced to support the South Ayrshire Local Plan, in terms of its policy on affordable housing contributions arising from new housing developments. In so doing the guideline provides all those parties involved in the process of housing land provision with the necessary information to enable development proposals to be brought forward in a manner that maximises the effectiveness of this policy, and contributes towards the provision of affordable housing in South Ayrshire.

4.2 The SALP through policy H13 seeks a contribution towards meeting affordable housing needs from new housing sites. It states;

## H13

The Council will seek the provision of affordable housing on all new housing developments with a total capacity of 15 units or more, or a site size equal to or exceeding 0.6 hectares. A target provision of 25% of the total number of units will be sought.

**Note 1:** A Supplementary Planning Guideline 'New Housing Developments and Affordable Housing: A Guideline for Developers' accompanies policy H13, and all proposals shall require to comply with this guidance.

**Note 2:** Policy H13 applies to all housing developments that do not have an extant detailed or outline planning consent as of 11<sup>th</sup> May, 2004.

- 4.3 This Supplementary Planning Guideline (SPG) amplifies the above policy. Accordingly, proposals for new housing development will be assessed in terms of compliance, not only with policy H13, but also the terms of this SPG. It provides the essential level of detail to enable the policy to be clearly understood by all those involved in the provision of affordable housing in South Ayrshire.

## 5.0 Application of Affordable Housing Policy:

### 5.1 Eligibility of Housing Sites

5.1.1 An affordable housing contribution will be a requirement from all housing proposals where the development comprises 15 or more units and/or where the site size is equal to or exceeds 0.6 hectares. The policy applies to sites identified in the SALP, windfall sites that may emerge, and to any other site, including those in the Established Housing Land Supply, which do not have an extant planning consent as at 11<sup>th</sup> May, 2004. Only where it can be proven that consent has been implemented, or is otherwise valid, will the requirement be waived. Where a planning application is being considered in relation to a site, that in part comprises a site (or part of a site), that does have an extant planning consent for housing development, then a view will be taken as to whether the new site being considered is substantially different in net developable area or in terms of scale of development. Where it is concluded that the new site being considered is substantially different then the policy will be deemed to apply.

5.1.2 In calculating the amount of contribution the overall capacity of the site will be considered, therefore if a site is being developed in phases of less than 15 units (or less than 0.6 hectares), the affordable housing requirement will still apply. The definition of a 'site' can either be that which is the subject of the current proposal, or any adjoining area on which the Council has previously approved the principal of housing development. Most commonly, this can be through identification in a

local plan, other policy definition, or in an approved Housing Land Supply. The target contribution applies to the net developable housing area of the site.

## **5.2 Target Contribution**

- 5.2.1 The target contribution of 25% affordable housing from any proposal should not be viewed as a quota, which will be imposed regardless of circumstance. Instead this target will be open to negotiation where its imposition would threaten the viability of a development. In such instances where a developer of a proposal is not confident that they will be able to meet the contribution target of 25% then a development viability statement will require to be submitted during pre-application discussions (see below – Partnership Process) or at the time of submission of the planning application. It will be open to a developer the information that is submitted in this viability statement, however, it should be of sufficient detail to enable the Council to understand the reason for the inability of the development proposals to meet with the expectations of the policy. All such valuation information disclosed will remain confidential to the Director of Development Safety & Regulation and officers of the Planning Service, unless all relevant parties agree otherwise.
- 5.2.2 In the early years of operating the policy regard will be given to the extent that developers, for proposals on which options have been secured prior to 11<sup>th</sup> May 2004, are able to absorb the cost arising from conforming with the policy and the ability to renegotiate purchase options for a site. To assist with this consideration account will be taken of the extent that a developer is able to demonstrate that a substantial level of financial commitment to progressing the site through the statutory planning process has been incurred in the period prior to the Council's approval of this policy, as well as the flexibility in options agreed.
- 5.2.3 Where it is demonstrated to the satisfaction of the Council that there are demonstrable extraordinary on or off-site costs incurred by the developer, particularly those that were not known about at the time of purchase of the site, then these costs will also be taken into account (this does not include the cost of the land purchase). To assist with such an appraisal, regard will be given to the net present value of the site, relative to the value of the site from development for housing, the returns from development relative to the costs of development, the timing and phasing of development, and to other necessary cost.
- 5.2.4 In calculating the level of contribution, where sufficient detail is provided to enable a calculation to be made on the number of affordable housing units, then this will inform the level of the contribution. In considering full or reserved matters planning applications this will be readily apparent. However, in the consideration of outline planning applications, where a development is meeting in full

the contribution target, and provided that a proposal is progressed through the partnership process outlined in para 6.2, then a contribution based upon units should be discernable. However, where site viability require to be considered, and proposals are not progressed in partnership, then it is more problematic to determine the actual number of affordable housing units that may transpire. In such instances the calculation will be based upon a percentage of the net developable housing area.

## **6.0 Delivering Affordable Housing: Partnership Development**

### **6.1 *Type of Affordable Housing***

The Local Housing Strategy confirms that it is the social rented sector that is most deficient in meeting the needs in South Ayrshire. Accordingly, the Council's preference is that provision be made to meet the needs of that sector. The Council recognises that there are other forms of affordable housing, as defined in the Scottish Executive Scottish Planning Policy 3 'Land for Housing' (2003) and PAN 74 'Affordable Housing', and does consider that these may also have a role to play in meeting need, in particular it is thought that there may be potential for provision through the Communities Scotland's 'Homestake' incentive. The Council has undertaken work to explore the potential for Shared Equity Housing in South Ayrshire. This work is detailed in a paper 'Housing Options and Affordability' paper (a copy of which is included in the appendix), which concludes that to meet the needs arising in South Ayrshire, and in accordance with the aims of the Local Housing Strategy, in any one year the Council will aim for 90% of provision to comprise of social rented provision. In all cases it should be demonstrated that provision meets the affordable housing requirements as defined in the 'Housing Options and Affordability' paper. It is also a requirement that any provision of affordable rented housing is secured in perpetuity. Regulations governing RSLs make this provision already, and the requirement will be secured with other providers through, in most cases, use of section 75 agreements. If appropriate the Council will seek to secure the provision of other forms of affordable housing in perpetuity through a similar agreement.

### **6.2 *On Site Provision - Partnership Process***

- 6.2.1 PAN 74 'Affordable Housing' notes that progress is smoothest where a developer enters into early discussion with an RSL as a potential development partner. Progression through such a route not only enables the scale of affordable housing provision, in terms of housing units, to be discerned but also ensures that matters relating to integration and phasing of development are able to be accommodated.. The preferred mechanisms for on-site provision are:

- A joint planning application by developer and RSL (RSL to be identified in partnership with the Council and Communities Scotland);
- An application by the developer, with an RSL identified to develop the affordable housing element to the satisfaction of the Council and Communities Scotland. Appropriate means of transferring serviced land to the RSL will be necessary, eg. A legal agreement under Section 75 of the Town and Country Planning (Scotland) Act 1997;
- An application by the developer, identifying land for affordable rented housing to the satisfaction of the Council. Appropriate means of transferring serviced land to the Council will be necessary, e.g. a legal agreement under Section 75 of the Town and Country Planning (Scotland) Act 1997.

6.2.2 Other mechanisms for the provision of affordable housing on site, including the provision of units by the developer, will be considered in exceptional circumstances.

Whether proposals are brought forward on the basis of the partnership model, or by way of Section 75 Agreement, the affordable housing must be considered as an integral part of the overall development, be visually integrated with the market housing, and particularly in larger developments, not be concentrated in one area. Whilst 'pepper-potting' through a development may not be practical or desirable, the provision of smaller groups of affordable housing is preferred. To this end developers are urged to seek early discussions with the Council. Partnership development also assists with the consideration of timing and phasing of development, ensuring undeveloped gaps do not endure, to the detriment of the development as a whole.

6.2.3 In both processes, land or units provided to the RSL will be transferred from the developer to the RSL, at a price agreed between both parties, equivalent to the value of the land to be used for affordable housing purposes. In the event of dispute, a mutually agreed independent valuer shall determine the appropriate price.

6.2.4 Land transferred to an RSL or the Council shall revert to the developer if development has not commenced on the affordable housing portion, or no funding is secured to implement development after five years from the date of the consent that has been implemented, or one year following completion of the wider development, whichever is the later date.

### **6.3 Commuted Sums**

6.3.1 Affordable housing should be provided on-site, unless exceptional reasons are provided to the Council demonstrating that on-site



provision is not possible In exceptional circumstances, where on-site provision is deemed not to be possible then a commuted sum in lieu of on-site provision will be sought. The instances where a commuted sum may be acceptable include the following circumstances;

- i) Where Communities Scotland conclude that provision on site is not feasible or cannot be provided within 5 years from the date of consent that has been implemented, or one year following completion of the wider development, whichever is the greater.
- ii) Where development requires to proceed in the absence of RSL funding, and this undermines the financial feasibility of the wider scheme. The circumstances where this would apply would usually only be in relation to flatted development.
- iii) Where a development proposal does not lie within an area of Strategic Priority for the Council and Communities Scotland, as defined in the Local Housing Strategy.

6.3.2 The commuted payment will be the value of the land for affordable housing All commuted payments will be agreed through a Section 75 legal agreement, and will be payable prior to the commencement of development.

6.3.3 Commuted payments will be paid into a fund, managed by the Council's Director of Social Work, Housing and Health, to facilitate the provision of new affordable housing within the South Ayrshire Housing Market Area. Contributions from individual sites will be accountable through separate accounts. Any money not allocated to a specific development project after 5 years will be returned to the developer.

**APPENDIX I TO SPG 'NEW HOUSING DEVELOPMENTS AND AFFORDABLE  
HOUSING: A GUIDELINE FOR DEVELOPERS (REVISED 28<sup>TH</sup> SEPTEMBER, 2006)**

# **HOUSING OPTIONS AND AFFORDABILITY IN SOUTH AYRSHIRE**

**SEPTEMBER 2006**

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## HOUSING OPTIONS AND AFFORDABILITY IN SOUTH AYRSHIRE

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### PURPOSE

The purpose of this paper is to establish the available housing options that are affordable to lower income households in South Ayrshire. The paper examines the income profile of people in South Ayrshire, identifies the broad costs of different housing options and draws conclusions based on this information.

### BACKGROUND

Much of South Ayrshire is a pressured housing market area where the need for affordable housing far outweighs supply. This need can be demonstrated through a range of information sources, including the Local Housing Strategy, South Ayrshire Pressured Areas Application, and 'Local Housing Need and Affordability Model for Scotland – Update' (Glen Bramley, 2004).

South Ayrshire Council Local Housing Strategy details a range of actions to increase the supply and quality of affordable housing. One of these actions is to develop an Affordable Housing Policy to operate in conjunction with South Ayrshire Finalised Local Plan.

To successfully operate this policy, information is required on the costs of the different housing options available and whether or not they meet the needs of lower income families requiring housing in the area.

The following assumptions have been made for the purpose of this paper:

**Affordable Housing:** housing is affordable if costs are no greater than 25% of net income. This does not include running costs, insurance etc.

**Mortgage Information:** All assumptions are based on a variable rate repayment mortgage with a current interest rate of 4.98%.

## **WHAT IS THE POPULATION PROFILE OF SOUTH AYRSHIRE?**

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### ***People***

The population of South Ayrshire is expected to experience a steady rate of decline (of around 0.2 per cent a year) over the ten-year period 2002 to 2012. Overall, the population is projected to fall by 2 per cent from 112097 in 2002 to 109848 in 2012 (2001 Census).

The fall in population is largely a consequence of falling birth rates and increased ageing of the population. This means that population is not expected to fall equally across all age groups, for example, the number of children is expected to decline by 12 per cent, whereas the number of 65 to 74 year olds is expected to grow by almost 9 per cent. South Ayrshire currently has the third largest population of people over the age of 75 in Scotland (2001 Census). This number is projected to increase by 10% by 2012, whilst the working age (16 to 64 year old) population in South Ayrshire is expected to decline by approximately 2 per cent over the same time period (General Register Office for Scotland, 2002).

### ***Households***

South Ayrshire has the 17<sup>th</sup> largest number of households of any local authority area in Scotland. The number of households in South Ayrshire is expected to grow each year from 2002 to 2012, resulting in a net increase of 5.4 per cent (Scottish Executive, 2002c). Furthermore, it is estimated that there will be a consistent rate of household formation of 0.4 to 0.6 per cent, in every year between 2002 and 2012 (Scottish Executive, 2002c).

This expected growth is in contrast to the falling population, and is representative of the wider demographic changes being experienced in Scotland and the UK and being predicted for South Ayrshire. The main impetus for household formation is expected to be from the social shift to single person households, which is a consequence of changing cultural expectations and increased longevity.

### ***Household Composition***

The number of single person households is projected to increase between 2002 and 2012 by one-fifth, to make up over a third of all households. The number of lone parent households is expected to increase by a similar level, although these households make up a much smaller proportion of the total South Ayrshire population. Conversely, the number of households with two adults and children is expected to decrease by almost one-quarter over the same period. This household grouping will only make up 15 per cent of the total South Ayrshire population by 2012 compared with 19.6% in 2001.

### ***Income***

#### ***Total Household Income***

Total Household Income (THI) is a measure of how much income a household receives not only from earnings, but also from pensions, benefits etc (Linacre, 2002).

Yearly mean THI in South Ayrshire between 1997 and 1999 was £13800 per household, or approximately £265 a week (SLIMS, 2002b). This is only 94 per cent of the Scottish THI, and only 92 per cent of the UK THI. Households in South Ayrshire therefore receive less money, from all sources, to spend on housing and other living costs.

#### *Gross Disposable Household Income*

Gross Disposable Household Income (GDHI) measures the relative wealth of households taking into account different local costs of taxes, housing, etc (Linacre, 2002).

Mean GDHI in South Ayrshire over the same period was 93 per cent of the UK and 95 per cent of the Scottish GDHI. Households in South Ayrshire can therefore be considered, in terms of actual income received, and in terms of the relative worth of this income, to be worse off than the average Scottish and UK households.

This picture represents all the households in South Ayrshire (working, retired, long-term sick, etc) and all sources of income (earnings, pensions, etc). The mean income of adults in full-time employment in South Ayrshire in 2001 is considerably higher, at £400.06 a week, or 99 per cent of the Scottish average (Scottish Executive, 2002a).

The mean income figure for the earnings of full-time working households does however hide considerable variations between households as the minority of high earners distorts the average.. Almost 27 per cent of full-time working households in South Ayrshire earn less than £250 a week (which represents 60 per cent of average earnings) (SLIMS, 2001), and 72 per cent of households earn less than £460 a week. This demonstrates that relatively speaking, incomes are low for even full-time working households in South Ayrshire.

#### *Net Income*

The Scottish Household Survey provides some limited information on household income. For 2003/04 survey (the last published), the distribution of household incomes was estimated as follows:

- 28.1% of households had less than £10,000 net annual income
- 21.6% had a net income of 10,000-15,000
- 13.8% had a net annual income of 150001 - 20000
- 36.5% had a net annual income in excess of £20000

#### *Housing and Council Tax Benefits*

A total of 17% of all households in South Ayrshire are in receipt of Housing Benefit (Dept of Work and Pensions, February 2004). A total of 65.5 % of people living in Council tenancies in South Ayrshire receive some level of Housing Benefit (6032 tenancies out of 9203), (South Ayrshire Council Rent Accounting System July 2006). Similarly 55.8% of Ayrshire Housing tenants receive full housing benefit, and a further 14.35% receive partial housing benefit (Ayrshire Housing July 2006).

In addition, 22% of households receive Council Tax Benefit (Dept for Work and Pensions, based on 2001 Census).

## **WHAT IS THE COST OF SOCIAL HOUSING IN SOUTH AYRSHIRE?**

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### ***Council Housing***

The average weekly rent for a Council house in South Ayrshire in 2004/05 was 39.84. Scottish Executive comparison tables show this as being one of the lowest rents in Scotland at the time (21 authorities have a more expensive rent) and below the Scottish average of £42.64 (Scottish Executive Statistical Bulletin Housing Series HSG/206/1). Actual monthly costs range from £145.90 for a bedsit to £198.12 for a five bedroom property, although there are additional costs involved for properties that have been modernised. The Council is now reconsidering the base rent calculation to take account of the level of housing modernisation that has taken place and to more accurately reflect the rent that people pay. Scottish Executive comparison tables for 2006/07 are not available and therefore we are unable to compare the proposed new rent level with the national average and with other local authorities at present.

### ***Registered Social Landlords***

Rent levels vary between RSLs and also between particular developments. Allowing for this, average weekly rents for the three main RSL providers in South Ayrshire are as follows:

|                                      |                  |
|--------------------------------------|------------------|
| West of Scotland Housing Association | £58.78 (2006/07) |
| Ayrshire Housing                     | £61.96 (2006/07) |
| Hanover Housing Association          | £68.75 (2006/07) |

Whilst these rents are higher than those charged by South Ayrshire Council, they do fall into the bracket of affordable housing, with all rents being approved by the Rent Assessor. A significant percentage of tenants also qualify for Housing Benefit to assist them with costs. There are none of the associated costs of owner occupation in that repairs, modernisation and buildings insurance are the responsibility of the landlord.

### ***Housing Supply***

Council and RSL housing is the only affordable housing option for people on low incomes. In addition, the cost of owner occupation in South Ayrshire potentially means that Council and RSL housing is increasingly the only option for a percentage of the population that cannot afford to buy, but who otherwise would not have considered renting as their preferred option.

Right to buy sales have reduced the supply of Council housing by 53% since 1980 (in total the stock has reduced from 18,500 in 1980 to 8753 in August 2006) (South Ayrshire Council House Sales). The rate of right to buy sales continues to be greater than the rate of new build through RSL developments, meaning that there is an overall net loss of affordable rented housing of 42% (Scottish Executive SST blue Paper 2001).

As a result, pressure on the social housing sector is increasing, demonstrated by longer waiting lists and increased waiting times for housing. Research carried out by South Ayrshire Council into pressured areas in 2003 demonstrated that the average waiting time for a 2 bedroomed property in South Ayrshire is four years, with the wait being up to eleven years in some extreme cases. Low turnover (zero in some of the villages) and stable communities in South Ayrshire combine with the supply of

housing to make it very difficult for people in housing need to secure appropriate housing within a reasonable timescale.

New legislation, in particular the requirement for the abolition of priority need (Housing (Scotland) Act 2003), will significantly increase pressure on this type of housing. In South Ayrshire the projected impact of this legislation is that there will be a potential requirement to find housing for an additional 90 people per year (Tribal HCH; Impact of the Abolition of Priority Need in South Ayrshire, 2005).

### ***Key Issues***

There has been a net decrease in the supply of affordable housing for rent since the advent of right to buy in 1980.

There continues to be a net decrease as the rate of right to buy is greater than the annual rate of new build through RSLs.

New legislation is increasing pressure on the social rented sector and this pressure will continue to increase over the next few years.

It is taking longer to house people in need because of low turnover and increasing demand for fewer houses.



## WHAT IS THE COST OF OWNER OCCUPATION IN SOUTH AYRSHIRE?

### ***Second Hand Housing Market***

The second hand house sales market (excluding right to buy) accounts for the majority of transactions in South Ayrshire, accounting for around 64 per cent of transactions in the Ayr and North Carrick sub housing market area and, 51 percent in the Girvan and South Carrick sub-housing market area (Register of Sasines).

The sub-HMAs within South Ayrshire can also be differentiated by price. Mean prices for open-market sales in the Girvan and South Carrick have been consistently lower than in Ayr & North Carrick. Between 1991 and 2000, the mean house price for an open-market sale in Girvan & South Carrick was £46900, compared to £61530 for Ayr & North Carrick – almost one-quarter lower (Register of Sasines).

The mean price of resales made in the period 1991 – 2000 was £49120 in the Girvan and South Carrick sub-HMA, but £61020 in the Ayr and North Carrick sub-HMA, 24 per cent higher. This difference in price has been reasonably consistent in every year over the period except from 1997. The mean price has increased by 23 per cent between 1991 and 2000.

In 2004 the average second hand house sale price in South Ayrshire was £97,181, compared with the then Scottish average of £99,056. In 2005 the average sale price in South Ayrshire had increased by 10.4% to £108,343 compared to the increase in the Scottish average of 7% to £106,392 (Register of Sasines).

The mean price of second hand sales is generally lower than for new build sales. However, the gap has been steadily growing since 1991 because of the difference in the rate of price increase. In 1991 resales<sup>o</sup> were only 8 per cent cheaper, compared to almost 30 per cent in 1999, although the gap in 2000 fell to only 20 per cent. This increasing difference reflects developers preferences to achieve higher residual land values. It suggests that new-build is increasingly only available to those on higher incomes.

In the Girvan and South Carrick sub-HMA the differences are not as large, but there have been relatively few new build sales in Girvan and South Carrick sub-HMA with which to make comparisons.

### ***Affordability and Second Hand Sales***

Figure 1 identifies average second hand house prices per settlement in South Ayrshire (2005) and demonstrates the level of household income required to purchase a property in each settlement. The required income calculation is based on a 100% mortgage offered at 3 times gross income, and CACI Paycheck statistical analysis provided by Communities Scotland suggests that the average annual household income for South Ayrshire is £26,202.

This information presents a basic understanding of affordability by comparing the findings in the table with the average income for South Ayrshire as a whole. In 80% of the settlements listed, a household would require to have an income that is higher than the South Ayrshire average in order to purchase a house. This excludes approximately 65% of households at present (CACI Paycheck 2005).

**Figure 1**

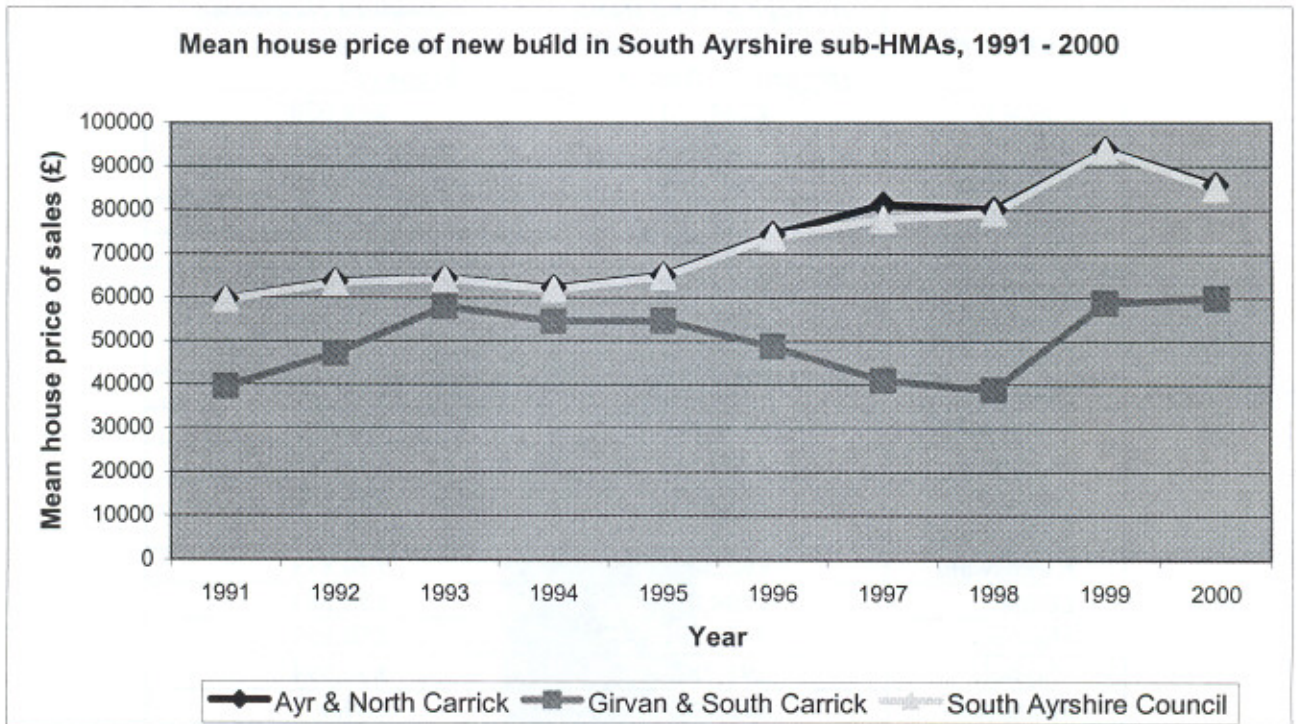
| <b>Settlement</b> | <b>Average Second Hand House Sales Price 2005 (Register of Sasines)</b> | <b>Combined Household Annual Income Required</b> |
|-------------------|---|--|
| Alloway           | £264,061  | £88,020  |
| Ayr               | £126,604  | £42,201  |
| Ballantrae        | £107,740  | £35,913  |
| Barrhill          | £155,500  | £51,833  |
| Colmonell         | £55,000   | £18,333  |
| Coylton           | £113,838  | £37,946  |
| Crosshill         | £111,868  | £37,289  |
| Dailly            | £99,190   | £33,063  |
| Doonfoot          | £144,567  | £48,189  |
| Dundonald         | £130,814  | £43,605  |
| Dunure            | £146,152  | £48,718  |
| Girvan            | £85,899   | £28,632  |
| Kirkmichael       | £217,417  | £72,472  |
| Kirkoswald        | £62,500   | £20,833  |
| Loans             | £164,051  | £54,684  |
| Maidens           | £151,976  | £50,659  |
| Maybole           | £91,782   | £30,594  |
| Minishant         | £62,000   | £20,667  |
| Monkton           | £158,408  | £52,803  |
| Mossblown         | £78,933   | £26,311  |
| Prestwick         | £133,644  | £44,548  |
| Straiton          | £183,325  | £61,108  |
| Symington         | £165,183  | £55,061  |
| Tarbolton         | £56,064   | £18,688  |
| Troon             | £138,375  | £46,125  |

(Source: Register of Sasines 2005; CACI Paycheck 2005)

### **New Build**

Between 1991 and 2000 in South Ayrshire there were 1932 new build completions for sale on the open market. In that period 1874 were in the Ayr and North Carrick sub-HMA and only 58 in the Girvan and South Carrick sub-HMA. Figure 2 shows the average price of new build sales in both sub-HMAs.

Figure 2



Source: Register of Sasines

Note: Prices rounded to the nearest £100.

It demonstrates that between 1991 and 2000, the mean price of new-build housing has increased by over 40 per cent, although this has been subject to variations from year-to-year. This again indicates a trend for new-build housing to be aimed at the higher end of the market most likely as a result of high land values and development costs.

Over the ten-year period, the price of new build housing has averaged at one-third less expensive in the Girvan and South Carrick sub-HMA than in the Ayr and North Carrick sub-HMA (£50150 and £73120 respectively). However, the difference has been as great as 50 per cent less expensive in 1998, and as little as 10 per cent in 1993.

There is a clear difference in the types of new-build properties being purchased by incomers compared to existing South-Ayrshire residents. Although incoming purchasers are only involved in 25 per cent of sales transactions in South Ayrshire, they nevertheless comprise 40 per cent of all new-build purchasers. Furthermore, incomers make up only an approximate 7 per cent of band A purchasers, and are involved in less than 30 per cent of transactions in band B. By comparison, incomers make up almost 60 per cent of purchasers buying the most expensive (band G and band H) properties. This may reflect the housing preferences of these incoming households, together with the marketing strategies of volume house builders. However, when taken together with the sharp rise in new-build mean house prices and the lower-than-average incomes in South Ayrshire, it may indicate that new-build housing is increasingly becoming unaffordable for existing residents.

Analysis of available Estate Agent information suggests that indicative new build prices for South Ayrshire in August 2006 are as follows:

**Figure 3**  
**Indicative New Build Prices August 2006**

| <i>Property size</i> | <i>Average New Build Price</i> |
|----------------------|--------------------------------|
| 1 bedroom            | None currently for sale        |
| 2 bedrooms           | None currently for sale        |
| 3 bedrooms           | £199,000                       |
| 4 bedrooms           | £204,799                       |
| 5 bedrooms           | £450,000                       |

(Source: Rightmove.co.uk)

A basic comparison of these new build prices with CACI Paycheck household income data suggests that new build is not an affordable option for a significant percentage of the population in South Ayrshire. It is estimated that a household earning the average income for South Ayrshire of approximately £26,000 could only comfortably afford to purchase a property at around £79,000.

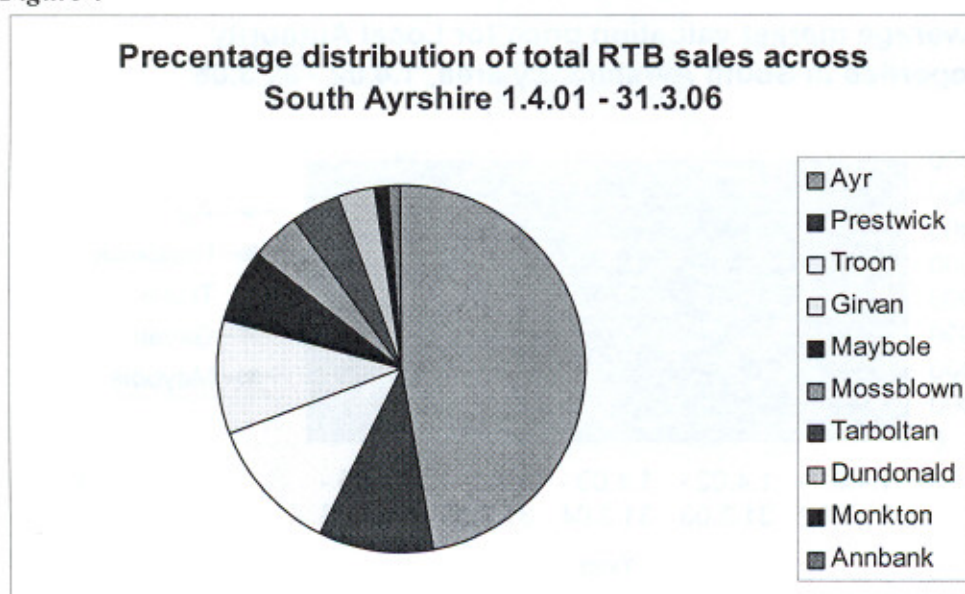
#### **Right to Buy**

The increase in owner occupation in South Ayrshire has been largely due to Right-to-Buy sales. Between 1991 and 2000 there were 1932 new houses built and sold for owner occupation, compared to 4363 RTB sales.

Between 1991 and 2000 Girvan & South Carrick sub-HMA experienced a higher proportion of Right to Buy sales than Ayr & North Carrick sub-HMA – 21.8 per cent compared to 15.8 per cent respectively (South Ayrshire Council House Sales, and Register of Sasines).

Between April 2001 and March 2006 there were a total of 1655 RTB sales in South Ayrshire. This shows a gradual decline in sales compared to previous years, however the annual reduction in stock is significant given the overall numbers of affordable rented housing and the need for housing. The biggest percentage of sales was in Ayr, Prestwick and Troon, however, this reflects the concentration of both stock and population. Percentage distribution of sales is illustrated in figure 4 below.

**Figure 4**

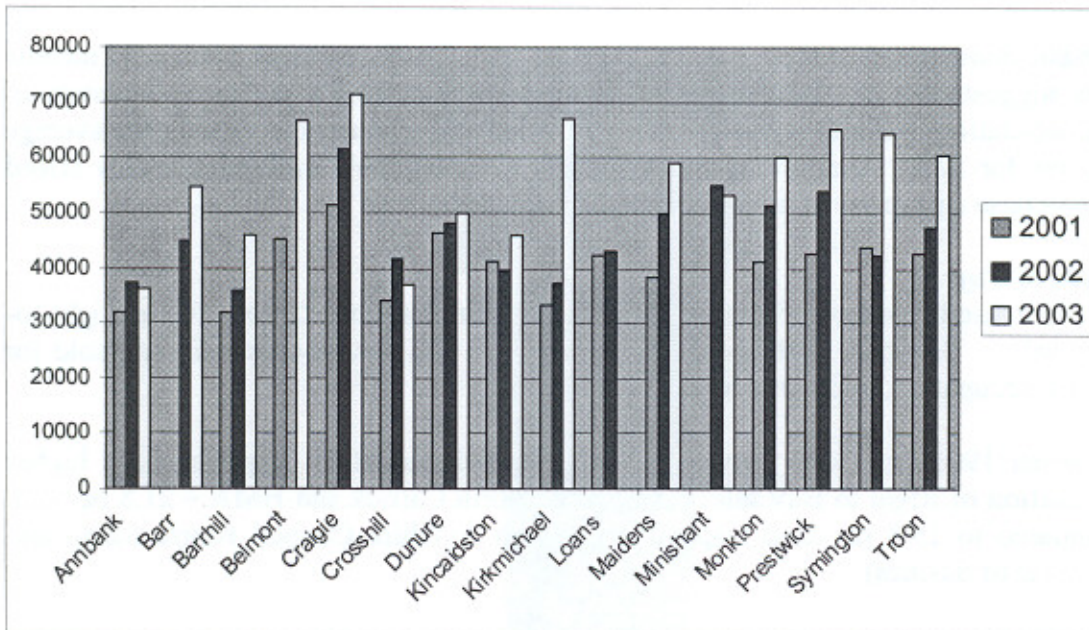


(Source: Register of Sasines)

The shift in housing tenure from social rented to owner occupation through right to buy has an impact on affordability, i.e. properties purchased originally through RTB in South Ayrshire no longer remain affordable once they are then resold on the open market.

Trend analysis of average RTB re-sale prices 2000-2003 largely shows that the cost of this type of housing is increasing as demonstrated in figure 5:

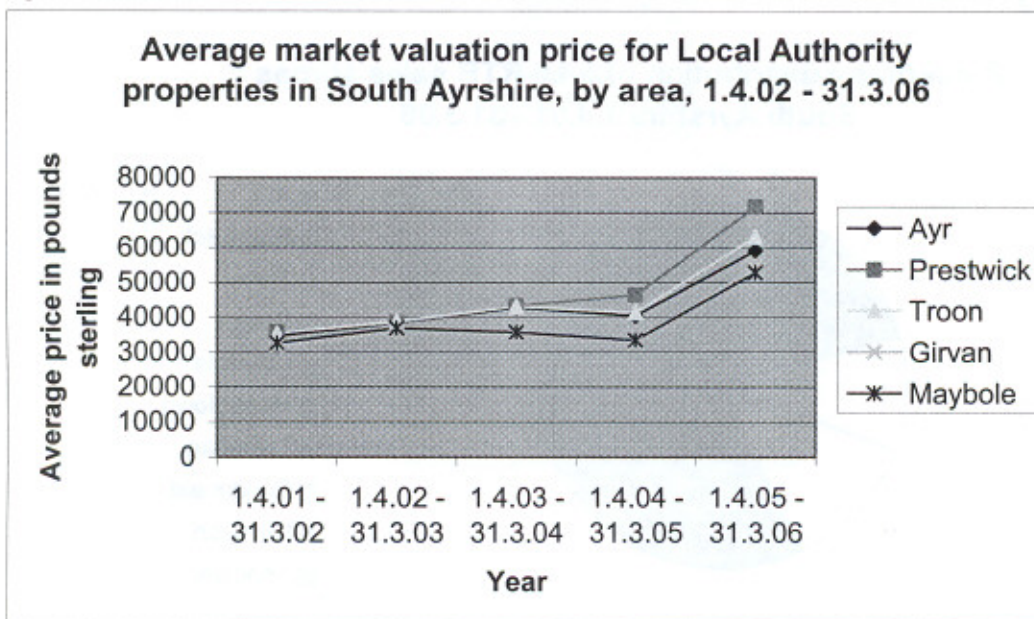
**Figure 5**



(Source: Register of Sasines)

This trend has continued between 2003 and 2006, with the greatest increase in valuations being seen in Prestwick, (Figure 6)

**Figure 6**



(Source: First Housing SAC RTB Statistics 2006)

***Key Issues***

Minimum houses prices rose by 52% in South Ayrshire between 2003 and 2005 meaning that increasingly owner occupation is not an option for people on lower incomes.

The gap between house resale prices and the cost of new build has increased significantly since 1991.

There is a significant difference between prices between the housing market sub areas and a marked difference in levels of new build, with the majority of new build activity taking place in Ayr and North Carrick.

There is evidence to suggest that new build housing is becoming increasingly unaffordable to existing residents as 60 percent of purchasers buying new build properties in Council Tax bands G and H are from areas other than South Ayrshire.

It is estimated that around 35% of the population could afford to purchase a property costing over £79,000. Based on resale and new build prices, this suggests that owner occupation is becoming increasingly unaffordable to first time buyers in South Ayrshire.

Right to buy resale prices are increasing meaning that ex-council houses increasingly do not remain affordable in the second hand sales market.

## WHAT IS THE COST OF HOUSING IN THE PRIVATE RENTED SECTOR IN SOUTH AYRSHIRE?

The private rented sector makes up 4% of the total housing stock (2001 census) in South Ayrshire. The sector is displaying a slow rate of growth, with an expansion of only 1% since 1991.

Expansion could be encouraged through the operation of a private leasing scheme. This type of scheme would operate with landlords who wished to purchase property for private rent, but lease to the council for a fixed period and a fixed rent. The scheme would not involve use of existing properties. Research has been commissioned by South Ayrshire Council to investigate the feasibility of such a scheme and assess the impact on the housing market.

Rents are generally high, with the average monthly rent for a 2-bedroom property in Ayr being £400, and a 1-bedroom property being between £300 and £350 per month. Rents out with Ayr are generally lower (approx £300 per month for a 2 bedroom property, £250 for a 1-bedroom property).

Analysis of available properties for rent in South Ayrshire (August 2006) suggests that rents in the private rented sector as follows:

**Figure 7**  
**Minimum and average property rents in South Ayrshire as of August 2006**

| Property size | Minimum rent (£/week) | Average rent (£/week) |
|---------------|-----------------------|-----------------------|
| 1 bedroom     | 75                    | 83.75                 |
| 2 bedrooms    | 90                    | 131.95                |
| 3 bedrooms    | 105                   | 153.13                |
| 4 bedrooms    | 167.50                | 185.75                |

(Source: Survey of Letting Agents August 2006)

Figure 8 shows that there is a significant increase in average private sector rents, particularly for larger properties. The increase has been more gradual for 1 bedroom properties and minimum rents for 2 bedroom properties have remained fairly stable. This picture is, however, a snapshot and reflects available properties at the time of survey.

**Figure 8**  
**Comparison of Minimum and Average Rents between 2003 and 2006 Market Surveys**

| Property Size | Rent £ per week |              |              |              |              |              |   |         |
|---------------|-----------------|--------------|--------------|--------------|--------------|--------------|---|---------|
|               | Dec 2003        |              | Feb 2005     |              | Aug 2006     |              | % increase in rents<br>Dec 2003- Aug 2006 |         |
|               | Minimum Rent    | Average Rent | Minimum Rent | Average Rent | Minimum Rent | Average Rent | Minimum                                   | Average |
| 1 bedroom     | £71             | £83          | £77          | £88          | £75          | £83.75       | 6%  | 1%      |
| 2 bedrooms    | £92             | £108         | £87          | £101         | £90          | £131.95      | -2%                                       | 18%     |
| 3 bedrooms    | £104            | £123         | £108         | £139         | £105         | £153.13      | 1%  | 20%     |
| 4 bedrooms    | £115            | £139         | £133         | £177         | £167.50      | £185.75      | 31%                                       | 25%     |

(Source: Survey of Letting Agents)

### ***Key Issues***

The indication is that average rents in the private sector have increased significantly over the last three years.

Rents in the private rented sector tend to be high, although housing benefit subsidy does make a proportion of the sector affordable.

Expansion of the sector has been slow, although incentives such as private leasing schemes could encourage a faster rate.



## WHAT IS THE COST OF SHARED EQUITY HOUSING IN SOUTH AYRSHIRE?

### *National Context*

Homestake is a shared equity scheme aimed at helping people on low incomes purchase housing. Individuals purchasing a Homestake property from an RSL will generally require to take an equity stake of between 60% and 80% of the market value of the property, as set by the District Valuer. With the agreement of the grant provider, however, the minimum equity stake can be reduced to as low as 51%. This is likely to apply where a housing market is particularly pressured, or where people with particular housing needs have identifiable additional housing costs.

Scottish Executive guidance states that in the South West of Scotland, Estate agents report that typical market prices are £100,000 for a two bedroom flat, and £150,000 for a three bedroom house. Single person households with an income of less than £33,000 and a couple with a combined income of less than £40,000 are excluded from owner occupation in the local market because of the way in which mortgage eligibility is calculated (generally the calculation is individual salary x 3 or joint salaries x 2.5). In normal circumstances (and being able to raise at least 60 per cent of the mortgage) Homestake purchasers would have to have incomes above £20,000 for a single working person and a combined income of £24,000 where there is more than one income.

### *South Ayrshire Context*

The Local Housing Need and Affordability model for Scotland (2003) commissioned by Communities Scotland showed that South Ayrshire had a positive net need of 220 units for affordable housing across all tenures. In addition, the study found that the area had an affordability rate of 44%, the fifth lowest in Scotland. East and North Ayrshire, for example, have a significantly higher ratio at 55% and 62% respectively.

Average new build prices (Register of Sasines) in Ayr, Prestwick and Troon respectively are £113,411, £198,817 and £115,961. This is not affordable when compared with typical income levels. In addition land values in the area have increased sharply and there are few opportunities to develop affordable housing.

Based on this information, any Homestake Scheme is likely to be targeted at those households with an income range of £22,500 to £30,692 (this is the mean income in Prestwick, CACI Paycheck 2004, although lower income and mean income will be altered as appropriate by settlement).

The Wilcox 2005 report 'Working Households in Scotland That Cannot Afford to Buy' indicates that, in 2004, South Ayrshire has a house price to income ratio of 3.32.

Based on a new build price of £124,000, and based on the minimum equity share at 51%, a mortgage of £62,000 would be required for a Homestake purchaser. A buyer on a salary of £22,500 could obtain this level of mortgage which is approximately 2.75 times their salary. This is considerably below the South Ayrshire house price to income ratio highlighted above.

Homestake Schemes in South Ayrshire could be targeted both to people currently living in Council housing to free up affordable housing for those in need, and to people on the waiting list for social housing who could afford to buy given this type of assistance.

No shared equity developments have been completed to date in South Ayrshire, however, there is a potential scheme being developed within the proposal for regeneration in Lochside, North Ayr.

***Key Issues***

Shared equity is an affordable option for a small sector of the population – those people who cannot afford to buy on the open market, who are not in sufficient housing need to qualify easily for social housing, but who have an income of around £22,500.

Availability of land for affordable housing, and increasing land values mean that options for providing new build shared equity schemes in South Ayrshire are limited.

## AFFORDABILITY THRESHOLDS

Research carried out by Glen Bramley into affordability (Local Housing Need and Affordability Model for Scotland – Update 2004) identifies the percentage of people in South Ayrshire who can afford to buy. The information is based on lower quartile house prices for a 2 bedroomed property, and mean income. It demonstrates that 62% of the population can afford to buy on the open market, and a further 8% could afford to buy with some level of housing subsidy. 30% of the population cannot afford to purchase housing for owner occupation in South Ayrshire, even with subsidy, (Figure 9).

*Figure 9*

| Estimated Mean Income £per week | Percentage of population who can afford to buy | Additional percentage of population who could afford LCHO | Threshold Price 2003 (lower quartile, 2 bedroom property) | Threshold Price 1995 (lower quartile, 2 bedroom property) |
|---------------------------------|--|---|---|---|
| 485                             | 62   | 8   | 51,800  | 38,500  |

The research goes on to identify new households per year that cannot afford to buy on the open market, and identifies the number of new households that could afford a LCHO option, as detailed below:

*Figure 10*

| New households unable to buy | New households able to afford LCHO | Net migrants – unable to afford to buy | Moves out of owner occupation | Backlog of housing need | Net relets | Net need |
|------------------------------|------------------------------------|--|-------------------------------|-------------------------|------------|----------|
| 455                          | 50                                 | 10                                     | 150                           | 425                     | 820        | 220      |

This shows that there is a net need for an additional 220 affordable houses per year in South Ayrshire for people who cannot afford to buy.

Based on net income and the definition of affordable housing being that which costs up to 25% of net income, the following affordable housing monthly costs per income band can be identified:

|                    |                |
|--------------------|----------------|
| Less than £10,000  | £208.3/month   |
| £10,000 to £15,000 | £312.50/month  |
| £15,000 to £20,000 | £416.70/ month |
| £20,000 to 25,000  | £520.8/month   |

This suggests that people on incomes of less than £15,000 are unable to purchase on the open market and are less likely to be able to afford private rented accommodation. People on incomes of £15,000 to £20,000 have some, if limited, options to purchase on the open market, but are unlikely to be able to afford new build housing for owner occupation.

***Key Issues***

30% of the population cannot afford to buy housing for owner occupation either on the open market or with subsidy.

8% of the population are likely to be able to afford to buy a house if there is some level of subsidy (based on the shared ownership model of taking a 25% share in an RSL property valued at 5% above the median price level. This model will require to be updated as a result of the newer Homestake option).

Bramley suggests that, taking into account available lets, incomes and the cost of housing, there is a need for 220 additional affordable rented houses per year in South Ayrshire, plus 50 properties required for low cost home ownership. In total 270 new affordable properties are required each year.

## CONCLUSIONS

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The evidence in this report shows that there is a significant and increasing shortage of affordable housing in South Ayrshire. The greatest pressure is on the supply of affordable rented as evidenced by Glen Bramley and supported by South Ayrshire Council statistical information.

Glen Bramley estimates that 270 new affordable properties are required in South Ayrshire every year to meet need. In percentage terms, based on Bramley's findings and supported by the evidence in this report, 81% or 220 of the 270 new affordable housing provision requires to be for affordable rent. This leaves 19% or 50 properties a year that could meet need through low cost home ownership or, depending on price, shared equity.

There are a number of ways of trying to achieve these targets.

South Ayrshire is actively considering introducing a private leasing scheme in partnership with private sector landlords. If feasible, this scheme could potentially increase the number of affordable rented private sector properties by 250 over a three year period. This would encourage expansion in this sector and along with the existing voluntary accreditation scheme, encourage high quality accommodation and management. It is recognised, however, the private sector market could not sustain this type of expansion over a prolonged period and therefore this would be a short term solution, best suited to assisting with the temporary or interim accommodation needs of homeless people to ensure compliance with the Homelessness etc (Scotland) Act 2003.

RSL new build currently provides in the region of 70 new build properties for affordable rent each year. Increased development funding through Communities Scotland has ensured the potential to expand this programme however, this expansion is constrained by the lack of available land suitable for the development of affordable housing.

The Scottish Executive Planning Advice Note 74 suggests that housing sites should contribute a benchmark figure of 25% of the total number of units as affordable housing. It also recommends that developers should work in partnership with RSLs to achieve this target. If South Ayrshire operated an Affordable Housing Policy in line with PAN74 guidance then, based on the 2004 South Ayrshire Draft Housing Land Supply, this would provide the opportunity to build 79 affordable houses per year.

The RSL development programme currently provides an average of approximately 68 houses per year, just over a third (28) of which are were as a result of the affordable housing policy in 2005/06. Taking account of this, the modified affordable housing policy could potentially provide at least an additional 56 affordable properties per year. This would mean that the total annual yield of affordable housing would be at least 119 properties.

Based on Bramley's calculations that a total 270 properties are required per year then the shortfall is still around 151 properties per year. Based on the calculation of the affordable rented requirement then the shortfall is 101 properties per year.

This suggests that the greatest percentage of provision through the affordable housing policy should be for affordable rent. However, there is an argument, especially in areas of lesser demand or regeneration areas, to look to provide some low cost housing for owner occupation. Given the shortfalls outlined above, a provision of 19% is high and the suggestion is that a target of 10% LCHO or shared equity is set. Further work is required on identifying the most appropriate locations for this type of provision, and the market for shared equity housing requires to be fully tested. Any provision of LCHO and shared equity housing will be closely monitored and assessed in order to evaluate its success in meeting housing need.

## Partnership Process

