

## Agenda Item xx

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### REPORT

**Report Subject:** Planning application no. S/2006/1599 for: The erection of 26 Dwellings and formation of Vehicular and Pedestrian access thereto.

**LOCATION:** Downside Close, Mere BA12 6AS

**Report to:** WESTERN AREA COMMITTEE

**Date:** 19 March 2009

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#### 1. Report Summary:

This report is presented to members in order that they consider agreeing to an amendment to the affordable housing elements of the Section 106 agreement.

Members will recall that this development represented a new approach to the provision of affordable housing. The most notable difference was that the price of the affordable dwellings (in this case 'low cost market' homes, as opposed to for example RSL owned for rent)) was set at a level assessed as affordable based on a 'Local' average wage index and not the national wage index. It was considered that to use the national wage index would result in the affordable housing being too costly for intended occupants made up primarily of local people.

As a result of the combination of the market downturn and the details of the Section 106 agreement, the developers of the site 'Oval Homes' have approached SDC requesting that the agreement be varied. Oval Homes explain that the banks are not prepared to lend on the properties due to the restrictions of resale imposed under the Section 106 agreement.

A copy of a letter from Oval Homes setting out their concerns is attached as appendix 1.

## 2. Background

At a meeting with Oval Homes on 25/11/08 officers discussed this case and the problems with selling the low cost homes. Lenders were not willing to approve mortgages due to the restrictive method of calculating the purchase prices which are based on local incomes, and due to the absence of a Mortgagee In Possession clause. Numerous applicants have had their mortgage applications refused and for these reasons, the properties have now been empty for some considerable time.

### Options

The following options have been discussed:-

1. To recalculate the property prices as a percentage of open market value based around the maximum selling prices currently stated in the Section 106 Agreement for the initial sales. The resale price of the properties would then be similarly calculated by the same % of market value.
2. To sell the properties to a Registered Social Landlord who could offer them for general needs rent, intermediate rent, or a standard shared ownership scheme. However, assuming an RSL would be in a position to purchase the properties, this would still not meet the original purpose of the scheme, and would significantly delay any conclusion, leaving the developer in a difficult financial position.
3. To allow Oval Homes to rent the properties on Assured Shorthold Tenancies as an interim measure until such time that the lending situation improves. However, in the long term this is still unlikely to resolve the issue of lenders being unwilling to approve mortgages based on the method of calculating property prices applied to this case.
4. To allow that in all cases, a mortgagee in possession clause be added.

Discussions with the developers concluded that Option 1 would be the most practical solution to the problems, and would be the quickest way in which to progress forward with the sales of the properties which are already completed, and retain them as low cost market homes.

### Proposed Implementation of Option 1

It was suggested that an independent valuation be carried out to establish the current open market values of the low cost homes. The maximum selling prices of the properties, as stated in the S106, would then be converted into a percentage of those open market values. An independent valuation was carried out on 5/1/09, and the table below shows the calculations:-

<b>PROPERTY TYPE</b>	<b>OPEN MARKET VALUE AS AT 5/1/09</b>	<b>MAXIMUM SELLING PRICE AS PER S106</b>	<b>% OF OPEN MARKET VALUE</b>
1 bed flat with parking	£110,000	£48,476	44%
1 bed flat with garage	£117,000	£85,949	73%

2 bed flat with parking	£122,000	£72,863	59%
2 bed house	£149,950	£99,570	66%
<b>AVERAGE %</b>			<b>60.5%</b>

The options would then be to either:

- (1) use the average percentage, equating to 60%, and setting that as the maximum selling price for each of the low cost properties, or
- (2) to use the individual percentages for each property as shown in the table above.

The Section 106 Agreement could therefore be amended to remove the specified maximum selling prices, but to set sale prices at an agreed percentage of open market value. This would enable Oval Homes to still sell the properties to local applicants at significantly reduced prices, whilst still achieving their required sales income. The lenders would then be assured that the property values could increase relative to any increases in open market values, rather than always being linked to local incomes which would not reflect changes in the property market. There are already other low cost home ownership schemes in the district where property prices are restricted to a percentage of open market value, and purchasers have had no difficulty in obtaining mortgages. Lenders have indicated that this would be a preferred method of calculating prices.

Based on the above valuations, the revised sales prices based on an average 60% of open market value would be as follows:-

<b>PROPERTY TYPE</b>	<b>SELLING PRICE BASED ON 60% OF CURRENT OPEN MARKET VALUE</b>
1 bed flat with parking	£66,000
1 bed flat with garage	£70,200
2 bed flat with parking	£73,200
2 bed house	£89,970

## Risks

There are risks to be considered, as follows:-

1. Any significant increases in open market values could result in the property prices moving beyond those maximum prices previously stated. For example, if the open market valuation of a 2 bed house increased to £200,000 the maximum selling price could become either £120,000 or £132,000 depending on which percentage calculation method is adopted. This would be an increase of around £20,000 - £32,000 on the previously agreed maximum selling price. However, this could still be considered low cost housing in relation to open market values.
2. Given the present economic downturn and market prices, failure to resolve the issues with the current Section 106 Agreement is likely to result in the properties remaining empty and there is a risk of the developer not being in a suitable financial position to build out the rest of the scheme. As a result the delivery of the affordable homes will be delayed further.

As this is a unique scheme with no Registered Social Landlord involved it is considered that there are no other feasible options to pursue which would secure long term affordable housing for local residents.

### **3. Recommendation(s):**

That members consider the above report and agree to:

- (a) Approve the revised method of calculating the property values in line with a percentage of open market value, and to allow officers to agree a Mortgagee In Possession clause to satisfy the lenders' requirements without further redress to the committee.
- (b) Not to agree the recommendation set out above in (a). However, members are reminded of the risks involved as set out in the report.