STATES OF JERSEY

PROVISION OF AFFORDABLE HOUSING GUIDANCE (P.96/2021): COMMENTS

Presented to the States on 19th November 2021
by the Minister for Treasury and Resources
Earliest date for debate: 23rd November 2021

STATES GREFFE

COMMENTS

The Council of Ministers have effective and considered plans in place to deliver the housing that the Island needs, recognising the challenge and gravity of the situation. This includes:

- The Bridging Island Plan, delivering over 4,000 homes by 2025, including 1,500 homes accessed through the housing gateway. This is an 80% increase in housing starts by 2025, and exceeds the amount expected to be needed based on the Objective Assessment of Housing Need.

- Working with Andium Homes and the States of Jersey Development Company, who will produce 2,710 and 1,153 new homes respectively, together with other housing providers and organisations, to boost Jersey's housing supply. This includes accelerating the release of government-owned land for housing (we can now unlock more of our estate for housing following decisions on key projects, such as the location of the hospital and the new government office building).

- Measures to manage demand, including developing new migration controls which will limit migration and promote productivity, and a moratorium on new share transfer developments to restrict overseas ownership. Additional demand management measures are also in the pipeline.

- A Housing Action Plan bringing together key partners and stakeholders from across the housing sector, including government departments within a Strategic Housing Partnership. This is supported by a new Strategic Housing and Regeneration function within Government, working to provide the capacity and sector expertise to co-ordinate housing issues and delivery across Government. This coordinated, joint working is critical to robust policy development and effective operational delivery of housing.

Our pressing challenges with housing affordability cannot be solved overnight. There are long-standing issues linked to the number of people in the Island, the available land, the number of homes, the composition of the population, and how we deliver coordinated and quick action. We therefore need effective solutions, based on plans that are data-led, properly developed, costed, funded, and realistic in terms of delivery.

Unfortunately, the proposals from Senator Mézec do not meet these requirements. If anything, they jeopardise these developments at South Hill and South West St Helier and reduce the supply of much-needed homes.

In total, the States of Jersey Development Company are planning to deliver 1,000 housing units on the South West St Helier site, and 153 on South Hill, of which 15% will be sold as shared equity units. A further 35% will be targeted at first time buyer (which reflects the recent experience of their developments and has been achieved by enabling buyers to pay deposits during the construction period); 20% will be promoted for household right sizing; and 30% will be open market housing for those trading up. This is a good mix of tenures, recognising that we need varied types of housing to satisfy the needs of Islanders.

These properties will not be available to buy to let investors and local homeowners will therefore receive priority.

Let's not forget that these developments are part of exciting plans being developed for this part of our town, following significant public consultation, with the planning application due to be made in the next few weeks. Some of the visuals associated with the scheme are appended.

Notably, the South West St Helier site will include £156m of public realm and infrastructure improvements, ensuring our waterfront is more than just a large housing estate. It will be a community. This includes a leisure centre, expensive open and community spaces, gardens, and a children's play park, as well as the necessary sea defences.

If this proposition is passed, the financial viability of the scheme will be seriously undermined. An increase in the proportion of housing to 15% will cost £28.2 million and increasing to 50%, as proposed in the first Amendment, will cost £66.1 million. Or to put it another way, an increase to 30% and 50% affordable on these developments will turn a net gain on these schemes of £33.6 million, which on schemes of these sizes is just enough to give assurance to lenders to finance the scheme, into a net gain of £5.4 million at a 30% allocation, and a £32.5 million loss on a 50% allocation for affordable homes. This is not enough to secure financing for the scheme.

Viability assessment – South Hill

£m	No shared equity	15% SE	30% SE	50% SE
JDC Return	13.4	14.8	10.4	4.2
Cash received from JDC for land at completion of development	13.0	7.7	7.7	7.7
Total Government Return at Completion	**26.4**	**22.5**	**18.1**	**11.9**

Note: The land value for the South Hill site will be reinvested in affordable homes.

Viability assessment - Waterfront

£m	No shared equity	15% SE	30% SE	50% SE
JDC Return	191.1	167.3	143.5	111.7
Public infrastructure works	(156.1)	(156.1)	(156.1)	(156.1)
Total Government Return at Completion	**34.9**	**11.1**	**(12.7)**	**(44.4)**

Accordingly, should the main proposition succeed, or the first amendment, the scheme will be unable to proceed at this time, noting that the independent cost appraisal has identified that it will no longer be financially viable to develop and therefore an unacceptable financial risk (report as appended).

As such, the plans for the site and the scheme funding will need to be reviewed and revised, and the planning application will be delayed, perhaps until late 2022, as there will be a need for further engagement and consultation.

This means the delivery of any homes on this site will be significantly delayed, or worse, the development may ultimately prove unviable.

The Government would of course act to discharge the will of the Assembly as fully as possible, but the practicalities of development, including design and financing, need to be stepped through and appreciated properly.

Instead, the Assembly are asked to support the plans of the States of Jersey Development Company. For this includes supporting at least 15% affordable homes delivery on these sites, *and more if possible*, and extending this principle to all other sites they develop. This is the Amendment of the Council of Ministers. This is a positive and realistic Amendment, that delivers affordable units on all sites, to the maximum level possible.

By working with the States of Jersey Development Company, and other housing providers on suitable sites to deliver more affordable units in future schemes, we can therefore look to other sites to deliver even more affordable units.

Notably, the St Saviour Hospital site alone can deliver over 250 homes. The site would need infrastructure and amenities, given its location, such as shops and outdoor communal space, as part of a mixed housing development, with good design, layout and sense of place and community. The old Les Quennevais school site, once the hospital is completed, would also suit housing.

In both cases, the Council of Ministers have asked that plans be proactively developed, in consultation with local residents, and the respective Parish Constable and Deputies. There are also proposals to accelerate decisions on other sites, to create a portfolio of housing sites.

This is coordinated, and rapid action.

It is also important to note that, taken together, the number of homes planned exceeds the amount expected to be needed based on the Objective Assessment of Housing Need, and we should be focused on delivering these homes, including a large proportion of affordable homes.

Ten Year Estimated Housing supply
(Assumes BIP policy applied; policy off form 2025-30)

		5-year supply 2021-25		5-year supply 2026-31		10-year total
		Affordable	Open market	Affordable	Open market	
Under construction Spring 2021		625	700	0	0	1,325
Planning Permission Spring 2021		0	700	0	0	700
Town Capacity	Town Capacity sites	0	600	50	500	1,150
	Government sites (including Andium Homes)	425	150	750	0	1,325
Windfall (outside of town)		0	500	450	500	1,450
Rezoning		450	0	0	0	450
West St Helier Master Plan		0	0	150	850	1,000
Total		1500	2650	1400	1850	7,400
		4150		3250		

Conclusion
It is fully understandable why many States Members may wish to support the main proposition. We all want to deliver more homes, and this issue is urgent.

The increases in house prices and rents we have seen recently, while not a new trend, is critical and serious.

It is pricing many of our young people out of the housing market.

However, we need to think about the consequences of this proposition on these specific sites, - it is not financially viable, at least not in the near future, and will simply mean the scheme will not be progressed or significantly delayed. We will therefore delay all the housing, open market and affordable, as well as the public realm improvements, and the progress and work undertaken over the last few years.

This is the wrong action to solve our housing problem. It will make the housing situation worse. We cannot afford to delay any housing delivery or undermine developments of the public realm.

This government wishes to concentrate our effort and our investment on more suitable sites, giving us the opportunity to build a range of suitable homes, in the right locations with the right amenities around them.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]:

These comments were submitted to the States Greffe after the noon 19th November 2021 deadline, as set out in Standing Order 37A, due to final due diligence and reviews and to secure and complete the Independent Financial Analysis which is appended.

Appendix – Site Pictures and Review of the Financial Impact of Shared Equity Housing on the South Hill and Waterfront Developments

Government of Jersey

Review of the Financial Impact of Shared Equity Housing on the South Hill and Waterfront Developments

8 November 2021

Confidential

Contents

1. Introduction

The States of Jersey Development Company (JDC), a company 100% owned by the Government of Jersey (GoJ), has a mandate to complete the development of the St Helier Waterfront and to regenerate States-owned property no longer required for the delivery of public services.

JDC is currently developing the South Hill residential site and the Waterfront mixed use development. A summary of the two developments is as follows:

South Hill

- Development of 153 apartments comprising a mix of 1-bed, 2-bed and 3-bed units. The original proposals were for the units to be open market Category B homes. Detailed planning permission has been submitted. The current programme is targeting planning determination by March/April 2022, with construction commencement in the second quarter of 2023.

Waterfront Development

- Development of three Key Opportunity Sites to deliver residential accommodation and provide a mix of other uses to make the Waterfront a destination and positive attractor of overseas visitors and business. Designs for the development are currently being finalised, the public consultation process has been completed and the planning application is targeted for the end of November 2021.

Over the past year, several Propositions have been lodged to the States of Jersey requiring the consideration of affordable housing in various forms within the two developments. The Council of Ministers has issued Housing Guidance for the States to consider in this respect. A summary of the Propositions and Guidance is included in Appendix A to this report.

The Housing Policy Guidance sets out specific principles for JDC to follow for each development:

South Hill (r139-2021)

- Ensure that buy-to-let investors are prevented from acquiring units on the Development at the initial point of sale.
- Take such steps as are necessary to provide that the Development and the units thereon are structured by way of Flying Freehold.
- Ensure that a minimum 15% of the units eventually constructed are provided for a first-time buyer shared-equity scheme, for which access and eligibility criteria will be established by the Minister for Housing and Communities.

In addition:

- The capital receipt from the land sale at South Hill is intended to be reinvested in affordable housing products.

As a result of this guidance:

- JDC will not, at the point of sale, receive the full market value of those units sold through the shared equity scheme.
- It is not possible to know when, or whether, people that buy a shared equity property will wish to purchase the retained equity held by JDC.
- As a result, an element of the payment due to the Government by JDC in relation to the land value of the site is expected to be deferred. The deferred element is expected to be c£5.3m – or an amount equivalent to the value of the retained equity.

Waterfront (r157-2021)

- Take such steps as are necessary to provide that the development and the units thereon are structured by way of Flying Freehold, thereby ensuring no foreign buy to let sales.
- Follow the prescribed approach to controlling domestic buy to let sales, which will see priority given to owner occupiers and buy to let units only made available subsequently on the decision of the Housing and Communities Minister.
- Ensure that a minimum 15% of the units eventually constructed are provided for a first-time buyer schemes where homes will be sold at a discount to market value and for which access and eligibility criteria will be established by the Minister for Housing and Communities.

On 14 October 2021, Senator Mézec lodged two further propositions to request that the Council of Ministers withdraw the guidance on affordable housing for the South Hill and Waterfront developments and to issue new guidance which stipulates a minimum provision of affordable housing at no less than **30%/50%** of the homes built in the proposed developments on the Waterfront and South Hill.

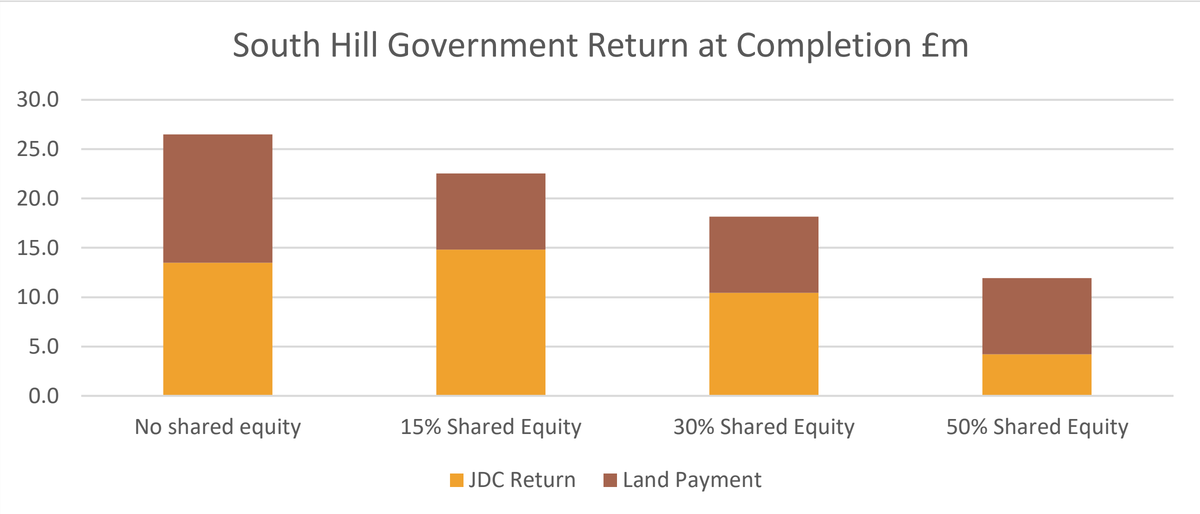
Prior to a presentation to States Members on 11 November 2021 regarding the affordable housing implications on the two developments, GoJ has appointed Dow Schofield Watts Business Planning LLP (DSW) to undertake a review of the financial impact of the inclusion of affordable housing in the two developments. This report sets out the results of this review, considering:

- The financial implications for GoJ of the inclusion of Shared Equity units at 15%, 30% and 50% for each development; and
- The inclusion of Shared Equity in perpetuity for the Waterfront Development.

2. South Hill

Based on the assumptions set out in Appendix B, the financial implications for the GoJ for the inclusion of shared equity units is set out in the following table:

£m	No shared equity	15% SE	30% SE	50% SE
JDC Return	13.4	14.8	10.4	4.2
Cash received from JDC for land at completion of development	13.0	7.7	7.7	7.7
Total Government Return at Completion	**26.4**	**22.5**	**18.1**	**11.9**



This shows that, due to the reduced JDC return and the deferral of the land payment, the return to GoJ at completion of the development is reduced as the proportion of Shared Equity apartments increases. The deferred element of the land payment (£5.3m) should eventually be paid by JDC to GoJ, but the mechanism for timing and criteria for this payment has not yet been determined and it has therefore been excluded from this analysis.

It is recommended that, once the proportion of shared equity to include in the scheme is determined, the value of the deferred land payment should equate to the shared equity value retained by JDC.

%	15% SE	30% SE	50% SE
JDC Return at Completion	15.6%	11.0%	4.4%

Commercial developers typically expect a return of between 15% to 25%. A reasonable return for JDC, as a 100% owned Government developer, is in the region of 15%. Given the early stage of the development and the high level of uncertainty in costs and sales values, the 15% Shared Equity Scenario gives a reasonable return when an element of the land payment required from JDC is deferred. The 30% and 50% Shared Equity scenarios reduce the return to 11% and 4% respectively, which are levels which threaten the viability of the development and are not commensurate with a commercially acceptable proposition. If costs increase or sales values fall below forecast values, there may be insufficient headroom in these scenarios to avoid a loss-making position.

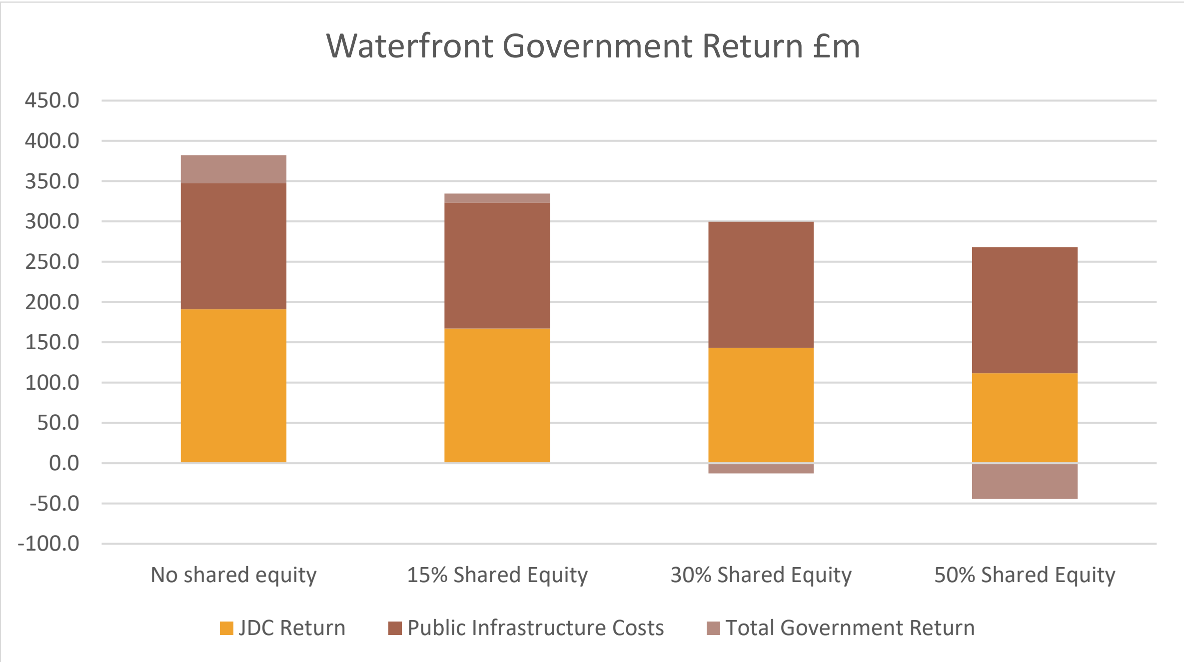
JDC returns are 100% used towards Government projects whether that is through reinvestment into future JDC projects, the funding of public infrastructure or as a dividend return to the Government as 100% shareholder.

An acceptable balance therefore needs to be achieved in the proportion of affordable homes and the provision of returns to the Government. The 15% Shared Equity scenario appears to achieve this balance. The 30% and 50% scenarios appear to tip the balance too far towards affordable homes creating unacceptable financial risk levels within the development.

3. Waterfront

Based on the assumptions set out in Appendix B, the financial implications for the GoJ for the inclusion of shared equity units is set out in the following table:

£m	No shared equity	15% SE	30% SE	50% SE
JDC Return	191.1	167.3	143.5	111.7
Public infrastructure works	(156.1)	(156.1)	(156.1)	(156.1)
Total Government Return at Completion	**34.9**	**11.1**	**(12.7)**	**(44.4)**



The table shows that under the No Shared Equity and the 15% Shared Equity scenarios, all the proposed public infrastructure works could be completed from the returns provided by the Waterfront development. In the 30% and 50% Shared Equity scenarios, GoJ would have to decide whether to remove elements of the public infrastructure or source alternative funding to complete the public infrastructure works.

%	15% SE	30% SE	50% SE
JDC Return at Completion	*13%*	*9%*	*4%*

As noted above, a reasonable level of developer return is c15% for JDC. The 15% Shared Equity scenario is already below this level and the 30% and 50% Shared Equity scenarios would not be viable. Given the early stage of the development if costs increase or sales values fall below forecast values, there may be insufficient headroom in the 30% and 50% scenarios to avoid a loss-making position.

JDC returns are 100% used towards Government projects whether that is through reinvestment into future JDC projects, the funding of public infrastructure or as a dividend return to the Government as 100% shareholder.

An acceptable balance therefore needs to be achieved in the proportion of affordable homes and the provision of returns to the Government. The 15% Shared Equity scenario appears to achieve this balance as all proposed public infrastructure works could be funded and the return is at the low end of reasonable. The 30% and 50% scenarios appear to tip the balance too far towards affordable homes creating unacceptable financial risk levels within the development and a requirement for GoJ to either remove elements of the public infrastructure or source alternative funding.

Units Sold or Rented at Below Market Value In Perpetuity

The Waterfront Housing Guidance sets out Protocols to establish the viability of affordable homes in perpetuity:

> *25. Where units are sold or rented at below market value in perpetuity, they can never be sold at market value, and a reduced value must be recorded on the balance sheet. The effect of this is to challenge the overall value of the development, and hence challenge the loan to value ratio that lenders require. This makes securing financing for the development more difficult.*
>
> *26. Viability discussions with SOJDC have not, to date, shown that affordable homes in perpetuity can be accommodated with the Waterfront development within the requirements of P.165/2020 – that is, not while maintaining the overall viability of the development – including all public realm improvements and other community and leisure uses. To the extent that there is a trade-off between affordable homes and wider public benefits, P.165/2020 is clear that priority is to be given to securing those wider public benefits that have been required by RSG.*

If the units are held as shared equity units into perpetuity, the remaining 30% of the sales value will not be received by JDC and therefore the overall value of the development is reduced. This in turn impacts the level of external funding which is available to JDC and will reduce the funds available for delivery of the public infrastructure.

Appendix A Summary of the Relevant Propositions and Housing Guidance

Proposition/Guidance	Summary
P165-2020 Residential Properties in the Waterfront Development *Lodged by Senator Mézec on 11 December 2020*	(a)no residential properties should be sold by the SoJDC to foreign buy-to-let investors; (b) at least 50% of the residential properties built should be for social rental or affordable purchase through the Affordable Housing Gateway; (c) no plan for development should proceed without first seeking States Assembly approval on a proposition by the Minister for Treasury and Resources; and (d) to request the Minister for Treasury and Resources, as shareholder representative, to instruct the SoJDC accordingly and bring the necessary proposition under (c) above before the Assembly for consideration.
P165-2020 Amendment Residential Properties in the Waterfront Development *Lodged by Council of Ministers on 2 February 2021*	Amendment to remove the arbitrary 50% affordable housing requirement and replace with: "to request the Council of Ministers to present a report to the States Assembly by 30th April 2021 which provides guidance to be used by SoJDC with the aim of maximising the proportion of affordable units allocated through the Housing Gateway, together with a range of other residential accommodation of varying prices, types and tenure, to help meet the housing aspirations of other Islanders within the Waterfront development, while maintaining the overall viability of the scheme including all public realm improvements and other community and leisure uses."
R100-2021/P165 2020 Residential Properties in the Waterfront Development Interim Report *Presented by the Council of Ministers on 7 June 2021*	Notification of delay to issuance of guidance due to the publication of new Strategies and Plans which will inform the guidance. Confirmation that: "Whilst the issuance of guidance has been delayed due to the change in timescales above, the Council of Ministers remains committed to the publication of the guidance in the form of a report to the States Assembly in advance of SoJDC's submission of the Application."
R157-2021 Action on Housing – recent progress and Waterfront guidance	Housing guidance to JDC regarding the incorporation of affordable housing in the Waterfront development. Key principles relevant to this analysis as follows: **Strategic Principles**

Presented by the Council of Ministers on 30 September 2021	• In line with commitments in the Common Strategic Policy, the guiding strategy of RSG has been to maximise the opportunity presented by the development for investment in high quality public realm and infrastructure. In this way, RSG have encouraged SOJDC to create a new and desirable destination for St Helier residents and islanders alike and to respond to several long-term strategic challenges facing the regeneration of town, with a particular focus on sustainable transport, movement, and connectivity. • This guidance is therefore required to manage competing tensions within the overall development. In particular, and as required by P.165/2020 (as amended), it seeks to provide a framework that can maintain the overall viability of the development – including all public realm improvements and other community and leisure uses – while also maximising the proportion of affordable units. It also seeks to provide a mechanism to respond to the phased nature of the development and the potential for changes in the wider housing and construction markets over time. **Specific Principles** The specific principles provide that, in advancing their plans for the development Waterfront development, SoJDC will: • Take such steps as are necessary to provide that the development and the units thereon are structured by way of Flying Freehold, thereby ensuring no foreign buy to let sales. • Follow the prescribed approach to controlling domestic buy to let sales, which will see priority given to owner occupiers and buy to let units only made available subsequently on the decision of the Housing and Communities Minister. • Ensure that a minimum 15% of the units eventually constructed are provided for a first-time buyer schemes where homes will be sold at a discount to market value and for which access and eligibility criteria will be established by the Minister for Housing and Communities. **Two types of affordable homes proposed** Two forms of affordable homes are proposed in this guidance: • Existing viability assessment has shown that a minimum threshold of 15% shared equity units can be delivered in the development whilst meeting the requirement of P.165/2020 to maintain the overall viability of the development – including all public realm improvements and other community and leisure uses. Shared Equity units help islanders own a home at below market rate, with the opportunity to take full

	ownership over a longer period. In this regard, Shared Equity units represent a full market value asset for the purposes of development financing. • Where units are sold or rented at below market value in perpetuity, they can never be sold at market value, and a reduced value must be recorded on the balance sheet. The effect of this is to challenge the overall value of the development, and hence challenge the loan to value ratio that lenders require. This makes securing financing for the development more difficult. • Viability discussions with SOJDC have not, to date, shown that affordable homes in perpetuity can be accommodated with the Waterfront development within the requirements of P.165/2020 – that is, not while maintaining the overall viability of the development – including all public realm improvements and other community and leisure uses. To the extent that there is a trade-off between affordable homes and wider public benefits, P.165/2020 is clear that priority is to be given to securing those wider public benefits that have been required by RSG.
P69-2021 Affordable Homes in the South Hill Development *Lodged by Senator Mézec on 28 June 2021*	(a) no residential properties should be sold on to buy-to-let investors; (b) to request the Chief Minister to use his powers under the Control of Work and Housing (Jersey) Law 2012 to put such conditions on the South Hill properties; (c) to request the Council of Ministers to present a report to the States Assembly by 31st August 2021 which provides guidance to be used by SoJDC with the aim of maximising the proportion of homes to be designated as for "affordable purchase", while maintaining the overall viability of the scheme; and (d) to request the Minister for Treasury and Resources, as shareholder representative, to instruct the SoJDC accordingly.
R139-2021 Housing Policy Guidance – Housing Affordability and the South Hill Development	**Specific Principles** The specific principles provide that, in advancing their plans for the development on the South Hill site, SoJDC will: • Ensure that buy-to-let investors are prevented from acquiring units on the Development at the initial point of sale. • Take such steps as are necessary to provide that the Development and the units thereon are structured by way of Flying Freehold. • Ensure that a minimum 15% of the units eventually constructed are provided for a first-time buyer shared-equity scheme, for which

	access and eligibility criteria will be established by the Minister for Housing and Communities. The capital receipt from the land sale at South Hill is intended to be reinvested in affordable housing products. As a result of this guidance: • SoJDC will not, at the point of sale, receive the full market value of those units sold through the shared equity scheme • It is not possible to know when, or whether, people that buy a shared equity property will wish to purchase the retained equity held by SoJDC. • •As a result, payment to the Government by SoJDC of around £5.3m – or an amount equivalent to the value of the retained equity – is expected to be deferred.
P96-2021 Provision of Affordable Housing Guidance *Lodged by Senator Mézec on 14 October 2021*	to request the Council of Ministers to withdraw the guidance on affordable housing which has been provided to the States of Jersey Development Company, as found in the reports 'Housing Policy Guidance: Housing affordability and the South Hill development' (R.139/2021) and 'Action on Housing – recent progress and Waterfront guidance' (R.157/2021), and to issue new guidance which stipulates a minimum provision of affordable housing at no less than **30%** of the homes built in the proposed developments on the Waterfront and South Hill.
P96-2021 Amendment Provision of Affordable Housing Guidance *Lodged by Senator Mézec on 14 October 2021*	to request the Council of Ministers to withdraw the guidance on affordable housing which has been provided to the States of Jersey Development Company, as found in the reports 'Housing Policy Guidance: Housing affordability and the South Hill development' (R.139/2021) and 'Action on Housing – recent progress and Waterfront guidance' (R.157/2021), and to issue new guidance which stipulates a minimum provision of affordable housing at no less than **50%** of the homes built in the proposed developments on the Waterfront and South Hill

Appendix B Assumptions

South Hill

To assess the impact on the income of including shared equity apartments at 15%, 30% and 50%, the following assumptions have been made:

a) The percentage of shared equity apartments is based on the number of apartments rather than value of apartments;

b) The percentage is applied to 1-bed, 2-bed and 3-bed apartments proportionately (rather than all 1 bed apartments for example);

c) The allocation of apartments for shared equity will be applied to the lowest value apartments in each apartment type;

d) JDC retains 30% of the value of the shared equity units;

e) No rent is paid to JDC on the 30% shared equity element;

f) All apartments are sold; and

g) At some point in the future the owners would purchase the shared equity percentage, although no account has been taken of this income as the timing is unknown.

Waterfront

To assess the impact on the income of including shared equity apartments at 15%, 30% and 50%, the following assumptions have been made:

a) The percentage of shared equity units is based on the number of units rather than value;

b) A percentage (78.4%) applied to the average value to reflect that the shared equity units are likely to be the lower value units;

c) JDC retains 30% of the value of the shared equity units;

d) No rent is paid to JDC on the 30% shared equity element;

e) All units are sold; and

f) At some point in the future the owners would purchase the shared equity percentage, although no account has been taken of this income as the timing is unknown.