Affordable rural housing: tackling the ‘land question’ on rural exception sites

Phoebe Stirling, Nick Gallent and Iqbal Hamiduddin report on research into the development of affordable homes on rural exception sites in England, and the increasing complexities around cross-subsidy support and incentives to landowners, which risk inflating land price expectation and undermining this key mechanism of local needs housing delivery.

Land at the heart of the affordability crisis

Permissible use, along with locational attributes and infrastructure connectivity, determines the price of land. Land allocated for residential use typically has a far higher value than land for industrial, commercial, institutional, or community use, or for agriculture. The premium it commands is driven by, and also drives, the demand for housing and the creation of speculative land markets. In areas where housing is particularly expensive, as in London and much of the South East of England, the value of land allocated in local plans for housing development is central to the affordability crisis, a fundamental aspect of which is a shortage of available land on which to build non-market affordable homes.

The most common model for delivering affordable housing is to do so on land allocated in local plans for housing development, by seeking planning gain from housing developers in the form of S106 contributions. Affordable housing is provided as a proportion of all new market housing being built, with housing associations and other registered affordable housing providers (RPs) brought in to develop or buy the affordable units that are required on these sites. But developers’ legal right to negotiate down the level of their S106 contributions – where it risks reducing profits below the ‘competitive level’ – means that fewer affordable homes are often built than are officially required in local plans. This is particularly true outside of the cities in small towns and villages, where almost half the number of affordable houses required are actually built (Grayston and Pullenger 2018). In these rural areas, there is an additional challenge created by the fact that settlements are smaller and spread out across a large area, meaning that developers may not want to build in the places where affordable housing is most needed.

The need for affordable homes

All this means that house prices and the market value of residential land often precludes the provision of affordable housing where it is most needed in rural areas – particularly in the smallest settlements, including small villages and hamlets. Affordable housing is crucial for these areas both economically, by allowing people to live where they work and providing access to a range of local jobs, and socially, by situating people in important social networks, allowing young children to attend local schools for instance, or allowing adult children to remain living close to their parents. Rural RPs exist for this purpose, delivering a service that the market cannot; but even with public grant from Homes England, privately raised loans and reinvesting their surpluses, without land value being addressed, rural RPs would struggle to build homes to be let or sold at an affordable price. This is why a mechanism is required...
that addresses residential land value head on, enabling RPs to find low-cost sites on which to build.

Since 1991, rural exception sites (RES) have provided a policy mechanism for releasing land for affordable housing that would not otherwise be allocated for residential use. When the policy was introduced, housebuilding would be granted on these sites only in the ‘exceptional’ circumstance that all housing would be affordable. This explicitly tackled the price of land: by allowing provision on land not allocated for residential development, the policy was intended to remove the inflationary pressures of open market housing delivery on these sites, reduce the cost impediment to affordable housing delivery, and making more sites in rural areas available to rural RPs.

**Delivery on rural exception sites**

In reality however, the RES policy has not been widely used, and has not delivered a great number of affordable homes nationally (Webb et al 2019). While a significant proportion of all rural affordable housing has been created using this policy, showing its potential, this does not mean overall delivery is particularly high. Illustrating this point, the policy was used to deliver affordable housing in only 66 of 144 rural local authorities between 2017 and 2022, with almost a third of delivery happening in Cornwall.

[Table 1 here: Local authorities with the most affordable homes on RES, 2017 - 2022].

So why aren’t rural exception sites more widely used to deliver the affordable houses needed in rural areas? In investigating this question, we hypothesized that the supply of affordable sites and landowners’ expectations have remained critical impediments to progressing small housing schemes on rural exception sites. However, the actual value of RES plots, and what it takes to incentivize landowners to sell them for housing development, has remained relatively obscure.

The policy started out with an assumption that rural or agricultural land made available for RES development would be sold at a price based on, but not limited to, agricultural value (Baxter & Murphy 2018). This kept land values low and made acquisition viable for RPs, while also meaning that landowners could negotiate a price slightly above current use value, incentivizing a sale. However, since 2012 the NPPF has stated that “small numbers of market homes may be allowed at the local authority’s discretion, for example where essential to enable the delivery of affordable units without grant funding”. This cross-subsidy is intended to generate funds to cover the cost of the land, making it viable for RPs to purchase these sites without grant funding. But the viability of each scheme and the amount of market development required is calculated on a case-by-case basis, often by subcontracted consultants, meaning there is room for uncertainty about how much market development landowners and RPs can expect on RES plots, and what exactly is required to cover the price of the land.
There is also a sense that the unit price of RES plots has risen since the introduction of the policy in the 1990s. While there is a common conception that RES plots cost between £10,000 and £12,000, these values may not reflect reality, particularly when accounting for the additional value generated by cross subsidy and further incentives. This means that landowners’ expectations of the value they can achieve by selling RES plots is unclear and may be changing, and could strengthen their power to limit the supply of rural land by holding on to plots that do not achieve their expectations.

Research with English Rural HA

In order to investigate this, we compiled and dissected several case studies of affordable housing delivery on RES plots, most of which were successful despite the challenge that land cost and site availability can pose. We focused on the role of rural RPs and the work they do when incentivizing landowners to sell their land under the RES policy, as well as learning about their work with parish councils, local planners and other local groups involved in RES projects. There is a particular research gap around the more informal, relational work that goes into securing these plots of land for affordable housing. Understanding how RP staff work on the ground to secure the sale and successful development of RES plots provides us with an insight into what works in practice, and what else might be needed to broaden the success of rural exception site policy. Crucially, our investigation suggests that the rent expectation of landowners, and the value they receive in exchange for RES plots, has grown substantially since the policy was first introduced.

[Table 2 here: list of cases]

RPs as coordinators

The first thing to observe is that when securing the sale of a rural exception site RPs must work very closely with landowners, but that this task is not limited to establishing the terms of exchange for the land. RPs, alongside the rural housing enablers that are often now embedded within local authorities, must also help landowners navigate what can be a time consuming and complicated process, in which numerous local stakeholders come to the table with different interests, priorities, and capacity for conflict. In this sense, on top of acting as the developer, buying the land from landowners and managing delivery, RPs play a central role, alongside rural housing enablers, in facilitating coordination and brokering relationships between landowners and the other interested parties.

[Table 2 here: what does a RES project look like? – list of steps]

What does this look like? RES projects differ from traditional housing delivery in several ways. One important feature is that these schemes always give priority to new residents that have a local connection to the area, as well as a need for affordable housing. This local connection ensures that residents will be found from those within or engaged with the local area, and that developments form an extension of the existing community. Another related feature is
that parish councillors and individuals from the local community have far greater capacity to
influence the design and progression of rural exception site schemes than they might with
open market housing development, or with general needs affordable housing development.
This allows the housing built on rural exception sites to be specific to local requirements, and
means that no two RES schemes are the same. However, it also means that securing planning
permission requires intensive local governance. Levels of public opposition can make or break
a scheme, so public planning consultations can be hugely important to manage the concerns
of local residents, if they are going to feel heard and come to support the project. Each project
must also be considered carefully on its own terms by local planners, which makes progressing
schemes more time consuming. These unique aspects of RES projects can be a huge strength
but also create uncertainty and increase the length of RES projects compared to standard
residential development – the research underpinning this article revealed that between five
and eight years was not uncommon – meaning that landowners can feel they are taking on
significant risk.

Since it is the RP that purchases the land, it has become their job to manage that risk – by
forging and maintaining relationships with parish councils, parishioners, local planners, ward
councillors, independent community organisations, and the statutory authority, keeping in
regular contact with all parties and maintaining the momentum of the project. Using a joined-
up approach to communicating with these parties can create a more open environment
and foster ongoing support for RES projects, but is time consuming and requires ongoing back-
and-forth exchanges to make sure all possible factors affecting development have been
considered. When in one case, for example, a local action group formed in opposition to the
scheme and three members were voted onto the parish council, the RP invited them to
become part of the project’s design group. This extended the length of the project, but meant
the group were really listened to, and may have given them a clearer sense of the project’s
goals and constraints. While this kind of collaborative approach can be hard work, in this case
the group withdrew their opposition. It is therefore the case that rural RPs do much more
than work with landowners to secure the sale of RES plots. They usually take on the role of
project coordinators, managing the planning process and securing local buy-in. This role
comes at a cost, and requires a significant amount of up-front consultation.

**Negotiating with landowners**

When it comes to working directly with landowners, it has become very common to build
additional market housing units for cross-subsidy, which are then retained by the landowner
in exchange for the land. Two of our cases can be used to illustrate this: Chiddingstone, which
at the time of writing is still in progress, and East Boldre, which was eventually unsuccessful
(see Table 3 below). In each case, the landowners had previously applied for planning
permission to build on their land, which had not been successful. One had sought to build 11
open market homes in order to maximise the value of the unused site; the other to extend
their commercial activities by building a workshop for their local manufacturing business.
These individuals saw the rural exception site policy as a lever with which to make some of
this additional development possible, by combining it with affordable housing. With no strict
policy about additional development on rural exception sites for landowners’ benefit, this means RPs must enter into negotiation with landowners who are not otherwise interested in selling the land at or near agricultural value. In one case, negotiations led to eight affordable houses being built on the site, with three additional open market houses built on land retained by the landowner, to cover the cost of the land. In the second case, the landowner requested £50,000 for enough land for two affordable houses, and an additional facility for his own business. The RP eventually agreed to pay £20,000 for each plot, to include the workshop in the planning application, and to provide a concrete foundation and an access road, but not to develop the final facility; although this project eventually stalled for other reasons.

These, and the other cases listed in Table 3, illustrate the range of additional development required to incentivize landowners to release land for affordable housing development, under the RES policy. In some cases, none is necessary; in five of our cases, two open market homes were used to subsidise land for projects ranging from five to ten affordable homes. In other cases, RPs don’t provide any market housing, but do provide serviced plots or site improvements where this will incentivize landowners to sell. This is all complicated by the fact that local planners can be reluctant to provide guidance about the nature, extent or design of additional development that will be acceptable in planning applications in each case. This is partly because while it may be recognized as necessary to achieve the buy-in of landowners in many cases, planners prefer that exception sites are not used to open the door for further residential development down the line. They may prefer site plans that limit the potential for further development close to the site, for example the provision of access roads, fencing and foundations that can be kept to an agricultural (rather than domestic) standard.

Some landowners may be happy with these accommodations, or other incentives such as retaining nomination rights over affordable homes, or help with managing local opposition. Others may be very upfront about the value they expect to achieve in exchange for bringing forward their land. Some may prefer to negotiate later, once plans are more progressed, others may not start with clear ideas about what they expect from the process. Some go into negotiations with an explicit aspiration to draw their land into being allocated for residential use in the future. In order to get affordable housing built on rural exception sites, RP staff can have to work over protracted periods to establish how landowners feel about the different approaches and incentives available. This leaves room for landowners’ very different preconceptions and expectations to guide the process; the incentives eventually agreed can be very different, and RPs are left to negotiate these on an ad-hoc basis, in an unclear policy context.

Formally speaking, there is an important and clear distinction between market development for cross-subsidy to replace grant funding, and market development determined by the level that will incentivize landowners to release their land. Viability, or the value needed to enable delivery without grant funding, is established using viability testing, whereby the local authority is responsible for assessing the amount of cross-subsidy proposed against the overall viability of each project. But while viability testing should provide RPs with clarity, they
are often operating in the dark, without clear guidance as to the price of plots or the level of additional development required to bring sites forward. And in reality, the distinction between cross-subsidy and landowner incentives may be more blurred. If landowners request development for their own personal use on top of that needed for cross-subsidy, then the level of cross-subsidy permitted by the local authority may simply not be enough to make the site available in practice. As one of our respondents phrased it: “That is sort of a financial viability issue, that [the landowner says] ‘if you want this site, this is what I’m looking for’. It’s not just the viability, it's the whole delivery of a site”. The distinction between development for cross-subsidy and that provided by the RP at the landowner’s request may therefore have become a kind of mental accounting, allowing ‘cross-subsidy’ development to be limited, while the actual amount of open market development taking place on rural exception sites, in order to meet landowners’ expectations and make these sites available, continues to rise. Further than this, our research suggests that the line between cross-subsidy and landowner incentives may not be fully understood by planning officers or consultants. If levels of cross-subsidy are established between the RP and the landowner and only then agreed with the local authority, this leaves room for values to escalate. As another respondent said: “The difference between two and three [properties] makes quite a big difference financially. If, to facilitate a scheme, it could be 2.5, then they can push for three, rather than two”. Greater clarity may be needed, so that the incentives that are actually used by RPs, and how far these depart from cross-subsidy, can be properly acknowledged.

The introduction of cross-subsidy in 2012 seems to have resulted in more agricultural land coming forward for RES delivery than in previous years, because as we were told, “now landowners can have up to three open market units, it’s a much more desirable thing for them”. But providing landowners with a more attractive proposition than previously negotiated for rural exception sites goes beyond straightforward cross-subsidy. Commercial sensitivity may prevent RPs from discussing the true value of rural exception sites openly. Nevertheless, the value going to landowners in exchange for these sites now often exceeds the £10,000 per plot that has traditionally been associated with the policy, by quite a long way. If landowners go into negotiations with expectations that far exceed the agricultural / non-housing value of their land, then land values will be determined by landowners’ preparedness to sell.

Conclusions

There are two broad schools of thought around incentivising landowners to sell plots of land for rural exception sites. The first view is that the main incentive lies in the granting of exceptional permission for the development of affordable housing, providing greater value to landowners than for agricultural / non-housing use. According to this view, the RP should only need grant funding – or additional development for cross-subsidy – to support the cost of development.

The second school of thought is that landowners releasing land for RES development are foregoing the ‘hope value’ attached to their land, when they release it at less than full
residential value (which they might hope to achieve following a future plan review, and the perhaps improbable allocation of their land for residential use). This view sees land released for RES development as being sold at a discount to RPs, even when the current best permissible use may be agricultural. It is this sense that landowners are selling their land at a discount which makes additional incentives necessary. Our research tells us that RPs are faced with this reality. Since rural RPs are concerned primarily with getting schemes off the ground and to completion, they have no choice but to engage in negotiating additional incentives with landowners. This has the capacity to raise the value of these sites, and what landowners now expect to achieve from releasing them. Since each case is different, and different landowners come to negotiations with different expectations, this leaves RPs subject to negotiating incentives on an ad-hoc, case-by-case basis. This comes at a cost to RPs, who need to manage the expectations of individual landowners in each case, balancing these against their own financial constraints, rather than having recourse to a consistent approach.

This brings us back full-circle to the centrality of land in the housing affordability crisis, where permissible use and in particular the allocation of land for residential development—or perhaps expectations around residential development—can drive speculative behaviours. When the policy was set out in 1991, rural exception sites explicitly tackled this issue by suppressing the value of land released for housing development. But it did this by completely removing the potential for open market housing. Rural exception sites were truly exceptional in that land was released for the sole purpose of providing affordable homes for rural communities. Once market housing development started being drawn back onto these sites, this muddied the waters. A lack of absolute clarity around cross-subsidy and the type or extent of additional development permitted on these sites has once more created an inflationary environment. Landowners’ inflated expectations of land value risk undermining rural exception sites as a key mechanism of local needs housing delivery in rural areas.

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Acknowledgement

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References


Table 1: Local authorities with the most affordable homes on RES, 2017 to 2022

<table>
<thead>
<tr>
<th>Local Authority</th>
<th>Number of affordable homes</th>
</tr>
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<tbody>
<tr>
<td>Cornwall</td>
<td>1097</td>
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<tr>
<td>Shropshire</td>
<td>264</td>
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<tr>
<td>Sedgemoor</td>
<td>185</td>
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<td>North Norfolk</td>
<td>101</td>
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<tr>
<td>Derbyshire Dales</td>
<td>93</td>
</tr>
<tr>
<td>South Cambridgeshire</td>
<td>89</td>
</tr>
<tr>
<td>Cheshire West and Chester</td>
<td>86</td>
</tr>
<tr>
<td>East Hampshire</td>
<td>85</td>
</tr>
<tr>
<td>Winchester</td>
<td>68</td>
</tr>
<tr>
<td>Stroud</td>
<td>65</td>
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</tbody>
</table>

Source: Local Authority Housing Statistical Data Returns, Affordable Housing Supply, 2017-2022

Table 2: case studies of rural exception site developments by English Rural housing association

<table>
<thead>
<tr>
<th>Name of Parish</th>
<th>Local Authority</th>
<th>Number of affordable homes</th>
<th>Number of market homes</th>
<th>Date completed</th>
</tr>
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<tbody>
<tr>
<td>Burstow</td>
<td>Tandridge DC</td>
<td>3 affordable homes</td>
<td>None</td>
<td>2022</td>
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<tr>
<td>Chiddingstone</td>
<td>Sevenoaks DC</td>
<td>8 affordable homes</td>
<td>3 open market homes</td>
<td>Not yet completed</td>
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<tr>
<td>Dunsfold</td>
<td>Waverley BC</td>
<td>6 affordable homes</td>
<td>2 homes for discounted market sale</td>
<td>2020</td>
</tr>
<tr>
<td>Location</td>
<td>Authority</td>
<td>Homes</td>
<td>Foundation &amp; Access Road</td>
<td>Status</td>
</tr>
<tr>
<td>--------------------------</td>
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<td>----------------------</td>
</tr>
<tr>
<td>East Boldre</td>
<td>New Forest National Park Authority</td>
<td>2</td>
<td>affordable homes</td>
<td>Unsuccessful</td>
</tr>
<tr>
<td>Hambledon</td>
<td>Waverley BC</td>
<td>5</td>
<td>affordable homes</td>
<td>Not yet completed</td>
</tr>
<tr>
<td>Hernhill</td>
<td>Swale BC</td>
<td>6</td>
<td>affordable homes</td>
<td>2022</td>
</tr>
<tr>
<td>Leaveland near Throwley</td>
<td>Swale BC</td>
<td>6</td>
<td>affordable homes</td>
<td>2019</td>
</tr>
<tr>
<td>West Kingsdown</td>
<td>Sevenoaks DC</td>
<td>10</td>
<td>affordable homes</td>
<td>Not yet completed</td>
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</table>

Table 3: While no project is the same, from the RP perspective, the general model can look like this:

1. Housing needs surveys are used to determine the level of need for affordable housing locally.
2. Site searches are performed to identify all potential sites in the area. This could involve a ‘walkabout’, where the parish council and RP officers walk around the local area assessing possible sites. If a specific site has already been proposed, either by the landowner themselves or by the parish council, a site search should be performed anyway, to satisfy the planning authority that this is the most appropriate site for development.
3. At the point that the RP becomes involved, it is beneficial to secure the support of the parish council, if this has not already been established.
4. Once a site has been identified and a provisional agreement to proceed has been made between the landowner and RP (and preferably also the parish council), a pre-application discussion can be held with the local planning authority, making sure they are broadly happy with the site and access, making further enquiries with the statutory authorities, and making sure the requisite services (e.g. highway connection etc.) are available.
5. At this stage the RP will also look to move forward with a more formal agreement with the landowner. The first step is the Heads of Terms, which is not legally binding, but sets out in principle the terms of sale. The Heads of Terms will establish that the landowner owns the land, providing a copy of the title deed to make sure there are no caveats or obligations that prevent development. The price is also established at this point.
6. After the Heads of Terms are agreed, a legally binding agreement will be set out in the Option Agreement, to sell the land subject to gaining planning permission.
7. If pre-application discussions are positive, this provides the security to move forward with a planning application, including a public consultation to receive comments and objections from the local community.
8. If planning permission is granted, this represents a watershed moment in the project timeline. A contractor will be identified, this will usually involve a formal tender process that is managed by the housing association. A surveyor would also be engaged to look after the on-site day-to-day aspects of the project, on behalf of the RP.
<table>
<thead>
<tr>
<th>Page</th>
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<tbody>
<tr>
<td>9</td>
<td>The interviews and case studies we undertook for our research suggest that successful projects are those with the most transparent and open dynamics between all parties. It is therefore important to keep all parties in touch and updated of all developments throughout the project. There will be multiple back-and-forth exchanges throughout.</td>
</tr>
<tr>
<td>10</td>
<td>A nominations agreement will be drawn up to allocate the housing to local residents, to be included in the S106 agreement. This includes making sure that any buyers of discounted sale housing are not put in a position they cannot afford.</td>
</tr>
<tr>
<td>11</td>
<td>At completion, the RP’s housing management team will take over from the contractor.</td>
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