

# The Affordability of Community-Led Homes



## Research Summary

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### Understanding affordability

The affordability of UK housing has been a persistent concern for decades. Various remedies have been suggested, notably boosting housing supply. Increasing the stock of community-led housing is often presented as part of this solution. Despite growing evidence on the impact of community-led homes, we know very little about whether these homes are genuinely affordable to people on local incomes. Hence, the Nationwide Foundation commissioned the Centre for Regional, Economic and Social Research to address this gap in knowledge, focused on 1) understanding the extent to which community-led housing groups are motivated by affordability concerns and, 2) assessing levels of affordability achieved.

Our research reveals that the vast majority of community-led housing groups are heavily focused on developing more affordable homes. Aggregated survey data suggests that for over 90 per cent of such groups see affordability as a priority issue that they are trying to address.<sup>1</sup> Whilst reflecting the acute needs of local communities, this is also a function of the funding that is available. Almost all grant funding and finance for community-led housing is focused on the development of affordable homes, and therefore the nature of funding shapes group objectives.

Whilst affordability is a key motive, this is not the only outcome that groups want to achieve. This gives rise to various trade-off decisions. For example, maximising energy efficiency of homes may demand higher rents to cover increased development costs, or providing shared or communal spaces may require higher rents to cover the costs of these potentially non-revenue generating spaces.

### Building evidence on affordability

The research has built a unique dataset in order to assess the affordability of community-led homes. Working with local groups, data was collected on 299 community-led homes across 23 distinct projects in England, Scotland and Wales, as we purposively sampled groups to capture national variation. This dataset includes information on the rents and/or prices of homes, tenures, household composition, energy ratings, and other features of that housing and broader project. We have created tailored income profiles for each home, based on the tenure, size, location and other factors associated with the home and occupants. Crucially, these incomes vary by tenure. This ensures that, for instance, the affordability of sub-market rental housing is not assessed against average incomes, but rather against the likely income of households accessing this tenure.

With the rent/price data and our modelled incomes we calculate the cost of community-led homes as a proportion of household incomes. Hence our assessment shows whether these homes are *genuinely* affordable to those housed within them. One dilemma for the research was that it was conducted at a time when household finances were increasingly under strain. Our data collection came as the major challenges to the cost of living in 2022 were just emerging. This means that the levels of affordability seen in our research have, if anything, deteriorated in recent months.

### Key findings on affordability

At a general level community-led homes are highly affordable. On average the homes in our dataset cost households an estimated 25 per cent of their incomes. This is well below the 33-35 per

<sup>1</sup> Capital Economics (2020) *Housing by the community, for the community*. CRESR (2022) *Homes in Community Hands evaluation: Year Two*.

cent threshold commonly used as a measure of affordability.<sup>2</sup> Ninety-one per cent of our sample of homes met this affordability threshold.

The cost of community-led homes as a percentage of local incomes

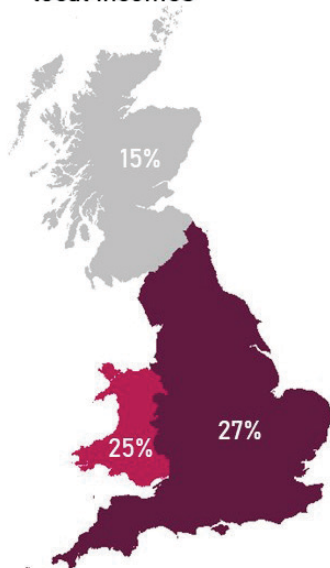


The percentage of community-led homes affordable on local incomes



This hides significant geographic variation however, with community-led homes sampled in Scotland being markedly more affordable than in England and Wales. Our estimates suggest that due to a range of factors (see below), homes in Scotland cost households only 15 per cent of estimated incomes.

The cost of community-led homes as a percentage of local incomes



## The affordability of different tenures

To develop a more nuanced picture we calculated affordability for each tenure of community-led homes, using household archetypes to account for likely differences in income between those accessing sub-market rents, versus those purchasing shared ownership homes or discounted market sales. This enabled us to account for variations in income by household size and income from benefits. This revealed that sub-market rental homes cost, on average, 22 per cent of archetypal household incomes (27 per cent in England, 22 per cent in Wales and 15 per cent in Scotland).

**22%**

The cost of sub-market rental homes (% of incomes)

**26%**

The cost of shared ownership homes (% of incomes)

**22%**

The cost of discounted market sale homes (% of incomes)

Similar analysis was conducted with shared ownership homes and discounted market sales, using data on equity shares, deposits, rents and service charges. Here we used local median incomes as the basis for the calculation, as recent studies suggest that, given the geographical distribution of our sample, this is appropriate. Our analysis revealed that shared ownership homes cost 26 per cent of median local incomes, but this rose to 33 per cent when we adjusted for increased interest rates (4.75 per cent). Similar patterns were evident with discounted market sales, which cost 22 per cent of local median incomes on the historic interest rates, but 32 per cent at the increased rates.

## Energy efficiency and impacts on affordability

We also undertook analysis to factor in the effects of high levels of energy efficiency, a predominant feature of new community-led homes. As energy prices soared in 2022-23, this would have a critical bearing on household finances. Using data on energy usage in homes with different energy performance ratings, we estimate that households in new community-led homes may be saving £490 on average per year, compared to equivalent EPC D-rated homes. This equates, on average, to six per cent of housing costs, and therefore has a material impact on affordability.

<sup>2</sup> Affordable Housing Commission (2019) *Defining and measuring housing affordability – an alternative approach*. Shelter (2015) *What is affordable housing?*

## Achieving affordability on practice

Recent research has highlighted the ‘mechanisms’ that are unique to community-led housing and which can create downward pressure on rents and prices.<sup>3</sup> Key to this is the role of the resident owner, who will aim to set rents/prices at the lowest tolerable level. Qualitative insights from interviewees suggests there are varied factors in the development process that can constrain affordability. Higher land and construction costs, and low levels of grant and/or high financing costs, will likely feed through to higher rents and prices.

Across England, Scotland and Wales there is a natural experiment taking place, whereby different funding regimes and policy contexts enable or constrain the affordability of community-led housing. In Scotland a combination of supportive asset transfer policies, dedicated grants for rural housing, and rents being benchmarked to that of other registered housing providers perhaps explains higher levels affordability here.

Case studies in England show how capturing land value can be a potent way of subsidising community-led housing developments. This helps create affordable housing without the need for significant grant funding. The ‘Streatham model’ centres on a community land trust (Streatham and Wilburton CLT) which - using rural exception sites and supplementary planning documents (SPD) -



Source:  
Streatham and  
Wilburton  
CLT

creates the basis for new homes with high levels of affordability.

The CLT identifies land for housing which is often in agricultural use. It then works with the landowner to explore the potential for development. The landowner is presented with the option of selling their land at significantly more than its agricultural value (approximately ten times more), but at less than the value if it was permissioned without the exception site conditions (approximately 70-100 times agricultural value). Planning permission is sought jointly by the landowner, the CLT and a developer using rural exception site policy, and the community-led development SPD. On the granting of planning consent, a requisite number of plots (30-40 per cent) are transferred to the CLT at low/nil cost. The remaining plots are valued for private sale and after subtracting the agricultural value from the value of the land with planning consent, 40 per cent of that uplift is paid in cash to the CLT. This provides significant financing for the development of the CLT homes.

Notwithstanding these powerful examples of affordability in practice, there is more that can be done to maximise the affordability of community-led homes. Access to low or nil cost land, alongside grant funding to meet revenue and capital costs have been the traditional responses. However, there are also opportunities to reduce the cost of finance for groups, with loan guarantees potentially helping de-risk investments by lenders.

The growth of community-led housing may require new and expanded forms of partnership and collaboration with other developers and housing providers. This may generate efficiencies that can be translated into improved affordability. However, if these new approaches diminish resident’s control in financial planning and future rent/price setting, it may also remove the mechanisms which enable affordability to be maximised.

<sup>3</sup> Archer (2020) *The mechanics of housing collectivism: how forms and functions affect affordability*.

## Further information

The Nationwide Foundation is an independent charity that aims to improve the lives of those most in need in the UK through grant-making and influencing work. This research forms part of its mission to understand how alternative housing models could help provide decent, affordable homes for all.

## Contact details

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## Case Study: The Stretham Model

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Securing land at low costs, and/or capturing the uplift in value when land is permissioned, can be a potent method for reducing development costs. These reduced costs can then be translated into lower rents and prices to make homes genuinely affordable on local incomes. Such an approach has been developed by Stretham and Wilburton CLT, who operate in an area of high housing costs and where there is significant pressure on housing supply as a result of Cambridge's booming labour market and wider demographic changes. House prices were 10.58 times local incomes in this area in 2022, putting it in the second highest decile of price-to-incomes in England and Wales. Recent studies suggest that an estimated 215 affordable rented homes are required in this area each year.<sup>1</sup>

In the face of these acute local problems, the "Stretham Model" has been developed to capture the value of land permissioned for housing in order to create affordable homes. This has been made possible by the creation of a CLT, alongside a local authority receptive to the use of rural exception sites

to create affordable housing, and through the use of a local supplementary planning document (SPD). This SPD provides general planning support where community-led schemes are outside of development envelopes, but where certain conditions are met (such as ensuring the scale of housing meets local needs, and where it does not harm the character or setting of the area).

In practice, this entails the CLT identifying land for housing, often in agricultural use, and then working with landowners to explore the potential for development. The landowner is presented with the option of selling their land at significantly more than its agricultural value (approximately ten times more), but at less than the value if it was permissioned without the exception site conditions (approximately 70-100 times agricultural value). This is appealing to many landowners as 1) it can release land and receipts much quicker than other planning processes, 2) it often relates to a small part of their holding and therefore has a limited effect on their other activities, and 3) working with



Source (above and right): Stretham and Wilburton CLT

<sup>1</sup> GL Hearn (2021) Housing Needs of Specific Groups. Accessed at: <https://cambridgeshireinsight.org.uk/wp-content/uploads/2021/10/CWS-Housing-Needs-of-Specific-Groups-Oct21.pdf>



Source: Stretham and Wilburton CLT

a CLT offers the opportunity to support the local community and to provide much needed affordable homes (the landowner may also become an investor in their scheme to derive financial returns). Planning permission is sought jointly by the landowner, the CLT and a developer using rural exception site policy, and the community-led development SPD.

On the granting of planning consent, a requisite number of plots (30-40 per cent) are transferred to the CLT at low/nil cost. The remaining plots are valued for private sale and after subtracting the agricultural value from the value of the land with planning consent, 40 per cent of that uplift is paid in cash to the CLT. This provides significant financing for the development of the CLT homes – which can equate to as much as 50 per cent of the development costs. The other 50 per cent of the costs are secured through debt finance with a lender.

What has emerged in Stretham and Wilburton is a model for development in areas with high housing and land prices, but which requires minimal affordable housing grants. Other benefits are posited, such as creating local buy-in to development by foregrounding community control,

and ensuring homes address specific local needs. Many, including government officials, view the success of community-led housing as resting on whether it can provide homes additional to other forms of supply (i.e., homes that would not otherwise have been developed). The Stretham model exemplifies this in delivering homes on sites otherwise unavailable for development, and through a financial model that requires minimal grant.



Source: Stretham and Wilburton CLT

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