

Brighton & Hove City Council Local Development Framework



**Update Study – Affordable Housing
Development Viability**

Final Report

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**Report for the consideration of Brighton & Hove City Council:
This does not constitute Council Policy**

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EXECUTIVE SUMMARY

Background

- Brighton & Hove City Council currently and successfully seek to negotiate up to 40% affordable housing on new residential development sites of 10 or more dwellings.
- In November and December 2006 the City Council carried out a consultation exercise on the 'Preferred Options' for its Core Strategy Development Plan Document (DPD). Preferred Option AH4 suggested that a policy be included in the Core Strategy that seeks to increase the proportion of affordable housing required from new development on appropriate sites. This might include increasing the target percentage for affordable housing above the current Local Plan (40%) and/or looking to require a contribution to the City's affordable housing on sites providing less than 10 units. Preferred Option AH4 was well supported by some members of the community. As such the Council wishes to test policy options of increasing the affordable housing proportion sought to 45% or 50% in tandem with potentially securing financial contributions towards affordable housing from sites of 9 units or fewer dwellings.
- Adams Integra have been instructed by the Council to compare the likely effects of these policy options on site viability. This study builds on the previous study carried out by Adams Integra for the Council in 2004. This is a relative exercise based on notional scheme types, but nevertheless enables views to be formed on the likely impacts of these potential policy scenarios.

The Exercise

- Developer type appraisals were carried out across a range of notional sites of 10 and 15 units (based on flatted developments) in sample areas of low, medium and higher house price areas of the City. Development viability was tested by fixing assumptions and then comparing the outcomes on a relative basis with 40%, 45% and 50% affordable housing provided on-site.
- In addition, a methodology has been suggested for calculating financial contributions in lieu of on-site affordable housing on sites of 9 units or fewer and appraisals carried out to test the viability of such proposals.
- Property sales values have been updated from the 2004 study through indexing using month by month increase in values from Land Registry data for flats in Brighton.
- Key considerations taken into account in the assessment of viability are developer's profit and landowner's sale price. If profit levels fall below a certain point then developers may be unwilling to take the risk of developing a site or

unable to secure funding. Equally, if the price offered by a developer to a landowner for a site is too low, the landowner may decide not to sell and instead continue with, or pursue, an existing or higher value land use.

- An increase in the percentage of affordable housing on a site will inevitably reduce the overall sales revenue a developer can expect to receive (compared to a site with a lower percentage of affordable housing). This is because the revenue received from affordable homes is significantly lower than from market sale units. Therefore, much like wider planning infrastructure requirements, obligations to provide affordable homes are generally viewed as a cost to development schemes. This cost is generally passed on to the landowner by way of reduced land value, since particular development profit levels need to be maintained. This is why the consideration of development viability is a key aspect of affordable housing policy development, to ensure that site supply is not unduly affected.

The Key Outcomes and Conclusions

- Increasing the proportion of affordable housing sought impacts on residential development viability. The reduction in Residual Land Values (RLVs) across the notional sites tested ranged from 13.5% to 43.6% depending on Value Area and proportion of affordable housing sought (the greatest impacts seen in the lowest value areas with the highest (50%) proportion of affordable housing requirement considered).
- The amount of money a developer receives for completed affordable housing units affects the viability of a scheme.
- In this study we have assumed two scenarios. Firstly, and for the main bulk of modelling for this study, we have assumed that the developer receives build cost reimbursement in return for completed affordable housing units. Any subsequent public subsidy (e.g. Housing Corporation grant) allocated to a scheme would then be used to improve the balance or ratio of affordable rent to low cost home ownership rather than providing a higher receipt to the developer. This reflects a “free, or nil-cost, serviced land” approach to affordable housing provision. Secondly, and on a sample basis only, we have carried out appraisals on the assumption that the developer negotiates with an RSL for the price of the affordable housing units whereby the RSL pays what it can afford based on the mortgage it can raise through rental stream and/or sales of a share in the capital of the property.
- Both of these assumptions provide a lower receipt to the developer than the assumption used for the 2004 study which was based on a calculation of TCI (Total Cost Indicator) – i.e. the developer received 90% of TCI for completed affordable units. Thus, the viability is reduced in these scenarios.

- However, increases in sales values across the City (i.e. value of private units to a developer) in the period since the initial study have counteracted the impact of the reduced affordable housing receipts which we are now assuming.
- In our view the scope to increase the affordable housing proportion sought is nevertheless reduced through the reduction in developer receipt for the affordable housing.
- At this stage of policy development, and bearing in mind the 40% target is being operated successfully, we feel that emphasis should be placed on local subsidy (free or nil-cost serviced land) to consolidate the Council's position to access Housing Corporation funding. As this impacts viability, a view then needs to be taken on the proportions of affordable homes sought on this financial basis. Overall, we feel that increasing the proportion in tandem with looking to this revised subsidy approach may be going too far in viability terms. A 40% target, underpinned by a free land or equivalent approach, is now relatively common in the South East.
- We, therefore, recommend that for on-site affordable housing, the proportion remain at 40% applied as a target, but that the Council (through SPD or similar) aims to secure greater developer subsidy than previously secured – through the use of a free (nil-cost) serviced land mechanism, or potentially an approach which would secure a similar level of local subsidy.
- The results of the appraisals carried out for collecting financial contributions in lieu of on-site provision suggest that a carefully judged “sliding scale” of contributions could be sought from residential developments of between 2 and 9 units.
- We could support a policy whereby the Council requests a financial contribution equivalent to:
 - > Up to 20% proportion of affordable housing on sites of between 2 and 5 units; increasing to:
 - > Up to 30% on sites of between 6 and 9 units.
 - > On-site provision would then start at 10 units with the current 40%.
 - > In all cases applied as a target and clear basis for the early stages review of sites by land owners and developers; and for negotiation.
- All policy positions would need to be kept under review in light of delivery experiences, as a part of the Council's ongoing monitoring of a range of inter-related factors such as site supply, housing market trends, needs and local affordability. Viability will also need to be considered relative to wider planning obligations as those may well increase in scope.

1. INTRODUCTION

1.1 Background

- 1.1.1 The Council's current affordable housing policy in Brighton and Hove is that the Council will seek a target of 40% affordable housing on new residential development sites of 10 or more dwellings (Policy H02, Brighton & Hove Local Plan). The justification made for the policy is based on the overriding level of housing need within the city, a lack of larger development sites coming forward for development and the relatively small existing stock of social housing within the City.
- 1.1.2 The City Council has been successfully securing 40% affordable housing on larger private residential schemes (those providing 10 or more units) in Brighton and Hove and there is no evidence (in terms of monitoring of numbers of completions and planning applications coming forward) that the policy is having an adverse impact on the housing market locally.
- 1.1.3 Preferred Option AH4 of the Council's Core Strategy 'Preferred Options' DPD (November 2006) suggested that a policy be included in the Core Strategy that seeks to increase the proportion of affordable housing required from new development on appropriate sites. This might include increasing the target percentage for affordable housing above the current Local Plan (40%) and/or looking to require a contribution to the city's affordable housing on sites providing less than 10 units. The option was developed in response to an earlier round of consultation at the 'Issues and Options' stage of the Core Strategy DPD development (October 2005-March 2006) where members of the community expressed strong concern regarding the need for affordable housing in the City.
- 1.1.4 Preferred Option AH4 was well supported by some members of the community. To this end, Brighton & Hove City Council commissioned Adams Integra to provide it with a study that examines the impact of options for seeking increased proportions of affordable housing from private residential development in terms of development viability, impact on overall house prices and deliverability of affordable housing in the City.
- 1.1.5 The study tests the impact of potential revised policy positions of 45% and 50% affordable housing requirements on notional sites for residential development of 10 and 15 units (representing alternative site size thresholds).
- 1.1.6 The Council also wishes to investigate the potential of proposals for 1 to 9 residential units to provide a contribution towards affordable housing, either through direct provision or, more likely, through a commuted sum (financial contribution). The foundation for this proposal is based on current residential monitoring information that shows that sites of less than 10 units represent 55% of the total residential development in Brighton & Hove. Such an approach would

increase the provision of affordable housing in the city from numerous small windfall sites and reduce the incentive to pursue planning applications for 9 or fewer dwellings which results from the current significant step in obligations beyond that point.

- 1.1.7 This study, therefore, investigates the impact of requiring developments to contribute financially towards affordable housing on sites of 9 dwellings or fewer and suggests a potential mechanism and methodology for enabling this proposal.
- 1.1.8 This work will form part of the Council's evidence base in developing its Local Development Framework Core Strategy that aims to secure an element of affordable housing from private residential development whilst allowing development to remain economically viable and thus sufficiently encouraging site supply.
- 1.1.9 This study updates and builds upon an original development viability study carried out by Adams Integra in 2004 to inform the Council's Local Plan at that time.

2. METHODOLOGY AND ASSUMPTIONS

2.1 Introduction

2.1.1 This study builds on the report produced in 2004 by Adams Integra in relation to Brighton & Hove City Council's Local Plan policies. The study investigates the impact of increasing the proportion of affordable housing to 45% or 50% on sites of 10 and 15 units as outlined in the specification brief from Brighton and Hove City Council.

2.1.2 The schemes are not in themselves actual developments but concentrate on notional flatted development reflecting scenarios that best match the policy requirements of the Council in terms of this study. However, research into local property prices in each area was reviewed to produce realistic sales and therefore development values for each appraisal model (see Model Areas below).

2.2 Property Values and Model Scenarios

2.2.1 Our Supplementary Property Prices Report forms Appendix III to this update study. Here we will only summarise the key elements of the review process undertaken during late October 2007.

2.2.2 Whilst again this was not an exhaustive review of property prices within the City, we updated our understanding of prices within the market as a whole.

2.2.3 The original figures used for the original 2004 Study are shown in Figure 1:

Figure 1: Unit Values – 2004 Study

Value Area/Model Location	Values	
	1-Bed Flats	2-Bed Flats
1 (Low)	£115,249	£155,901
2 (Medium)	£136,214	£177,424
3 (High)+	£148,463	£207,814

2.2.4 For this update study, using Land Registry data Adams Integra indexed the values used in the 2004 study based on the month by month price increase over the period June 2004 to August 2007 (latest available data at the time of the update appraisals) indicated for Brighton & Hove flatted properties. Full details can be found in Appendix III of this report.

2.2.5 This produced revised values for each model location as follows:

Figure 2: Unit Values (2007 Update)

Value Area/Model Location	Values	
	1-Bed Flats	2-Bed Flats
1 (Low)	£152,491	£206,280
2 (Medium)	£180,232	£234,758
3 (High)+	£196,438	£274,969

2.2.6 We also carried out a fresh review of new build schemes currently underway and being marketed within the City to supplement and verify the data used above. Our more recent full viability studies are linked more specifically to new build values where sufficient information exists and the wider checking carried out here (see information at Appendix III) has allowed a similar process.

2.2.7 The range of values set out in Figure 2 above is thought to be reasonably representative of those seen within the Council area. Property values are often high and in some cases in excess of those we have shown for Value Area 3. However, we underpin our work by looking at more typical developments which may be found in a range of locations, rather than more expensive, highest quality or seafront developments which are often seen. This is to ensure that we appraise viability from a relatively cautious viewpoint. Assuming equivalent site circumstances, developments with values beyond those shown as Value Area 3 will not fare any worse in terms of financial viability than our notional Area 3 value schemes. In general, with increasing values we would expect to see improvements in viability.

2.2.8 As with the previous study exercise, this has not been a statistical exercise, but has involved the making of judgements based on the range of information reviewed. To ensure continuity with the original study, we have used the values from that as a base and indexed those using Land Registry average figures for price movements of flats over the period from that study.

2.2.9 We have again used the same model areas as the 2004 study to cover the typical range of values seen in the City.

2.2.10 To recap, the original model area and values were as follows:

- Value Area 1: Lower Value Areas – for example Lewes Road (nr Bus Depot) area.
- Value Area 2: Medium Value Areas – for example North Road/North Laine area.
- Value Area 3: High Value Areas – for example Somerhill Road (Hove) area.

2.2.11 The reason for choosing these locations in the original study brief was to ensure that it considered the likely outcomes across a sample range of values

representative of the spectrum likely to be encountered City-wide. This was in order to determine the impact of affordable housing policy on sites in such different value locations. The purpose of continuing this same approach for the update was not to label specific areas as necessarily higher or lower value, but to look at viability as values vary – which they do quite significantly, across the City. Thus the Value Areas can be considered as example value levels. In our recent full viability studies we have referred to these as value points.

2.2.12 For each Value Area (level) we have tested the economic viability of residential developments (of 10 and 15 unit flatted schemes) by increasing the proportion of affordable housing sought from 40% to both 45% and 50%.

2.2.13 The scheme types and mix of units used in each of the model areas are as follows and as agreed with the Council (full details can be found in Appendix I – Development Scenarios):

Figure 3: Development Scenarios Summary

Development Scenario	Dwelling Mix
10 Units - Flats	4 x 1-bed flats; 6 x 2-bed flats
15 Units - Flats	6 x 1-bed flats; 9 x 2-bed flats

2.3 Other Key Assumptions

Affordable Housing Unit Transfer (to Registered Social Landlord) – Method of Payment Calculation

- *Provision of free serviced land for affordable homes, equivalent to developer receiving reasonable build costs only in return for completed units. This approach was agreed with the Council as the basis for this study and an appropriate assumption for future proofing of this work. In our experience, a Free (or “nil-cost”) Land based approach is increasingly used by local planning and housing authorities to underpin affordable housing delivery. It can be argued that such an approach creates a clear level of subsidy required from the landowner/developer, and thus a basis for the Housing Corporation’s “additionality” concept. It is a possible approach open to the Council. Our assumption is a cautious one from a viability viewpoint, whereby we assume that the developer gets back the base build costs only for the affordable homes he constructs and hands over, usually under the terms of a Section 106 agreement (see Build Costs below).*
- *This affordable housing transfer mechanism differs from the assumptions used in the 2004 study. This is a key point to be noted. In the original study, the payment a developer received for completed affordable units was based on the use of now defunct Total Cost Indicators (TCIs). At that time, Brighton and Hove City Council supported the provision of affordable housing on Section 106 sites at 90% of the Housing Corporation’s TCI through a Registered Social Landlord (RSL). On a genuine like for like comparison (i.e. if all other assumptions remained constant) this would provide better results in*

terms of residual land values than the “free land” method used for this study. This is because it gave higher receipt levels to the developer for the completed affordable homes, compared with more up to date assumptions made by Local Authorities in their supplementary planning guidance and documents.

- In addition to carrying out the modelling for this study on the basis of free serviced land, Adams Integra were also asked to model a sample of appraisals based on a negotiation between the parties (developer and RSL), driven by scheme costs and what the RSL can afford to pay based on its business planning and financial assumptions.*
- The likely payment that an RSL would make for an affordable rented or shared ownership unit within this sample modelling was determined through carrying out a series of appraisals using industry standard software (in this case known as “Proval”). Effectively, the value that could be paid to a developer for completed affordable homes is usually related to the mortgage finance the RSL could raise based on the rental income stream (affordable rent) or capital and rental income stream (shared ownership). The RSL may have access to other sources of funding, such as its own resources or recycled capital grant for example from stair-casing receipts, but such additional funding cannot be regarded as the norm – it is highly scheme dependent and variable and thus has not been factored in here.*
- The sample appraisals were carried out at the middle value Area (2) at 40% and 50% affordable housing content only - to enable a comparison with the free serviced land approach to affordable housing transfer.*

Tenure Mix (Free Serviced Land)

- A balanced/tenure neutral approach i.e. any public subsidy (e.g. Housing Corporation grant) the scheme attracts would improve the balance or ratio of affordable rent/low cost home ownership (shared ownership/equity) of a scheme rather than providing a higher receipt to the developer. Thus a scheme could be brought forward with nil public subsidy, but would involve skewing the tenure mix away from a bias towards affordable rent.*

Tenure Mix (Mortgage Funded by Rental Stream Samples)

- 50% general needs rented/50% shared ownership on each scheme type.*

Dwelling Sizes

- 1-bedroom flats at 51 square metres (gross internal area).*
- 2-bedroom flats at 66 square metres (gross internal area).*

Base Build Costs (Flats)

- £1,150/square metre (applied to the gross internal area of the accommodation. Build cost figures have been taken as an indicative base*

level, supported by our discussions with developers and verified through research of "BCIS" (RICS Building Cost Information Service) data.

Developer's Profit

- *15% of GDV (i.e. of Gross - or total - Sales Value).* It must be acknowledged that this can vary. Our modelling assumes this level because, in our experience, this is around the industry normal minimum level and is a reasonable point at which a "default" view/initial negotiating stance might be taken by a Local Authority, particularly for the type of schemes indicated in this study. It coincides with the default position within the Housing Corporation's Economic Appraisal Tool. Note that Gross Development Value means total development value – the value of the scheme when completed (receipt level to the developer). In this case it is taken as the total of the values of the various property types within a notional scheme, including any revenue from the affordable homes developed as a part of it.

Architect's Fees

- *3.5% of build costs*

Consultants' Fees (e.g. engineer, planning supervisor, project manager)

- *3.0% of build costs*

Contingencies

- *3.0% of build costs*

Insurances

- *2.5% of build costs*

Marketing and Sales Fees

- *1.5% of Estimated Gross Development Value.*

Legal Fees on Sale

- *£400 per property*

Finance (build)

- *7.5% APR on above costs effectively applied for half the build period (usual convention as the whole build cost is not financed for the whole build period).*

Build Period

- *36 weeks (9 months) for all schemes*

Land Survey Costs

- *£3,000 per site.*

Site Preparation

- *£25,000 per site (based on uncomplicated basic site clearance for uncontaminated brownfield sites with no abnormalities).*

Legal Fees on Land Purchase

- *0.5% of land value*

Planning Application costs

- *£265 per dwelling*

Stamp Duty Land Tax

- *Between 0% and 4% depending on residual land value.*

Infrastructure Payments

- £3,637 per 1-bed flat; £5,450 per 2-bed flat (Source: Brighton & Hove City Council Section 106 Officer). Please note that these are the figures used in the appraisals but are not necessarily representative for all new residential developments as each site will be in practice be considered specifically. During a negotiation over affordable housing provision, or other aspects of viability, site specifics would prevail. The context of this work is the background to sound policy development and setting of appropriate targets.

Finance related to land purchase

- *7.5% APR on land survey, planning costs, legal fees on land purchase and residual land value over build time plus a 26 week lead in period; as these land related costs are a burden on the scheme for an extended period, estimated here.*
- As this is a relative exercise aimed at determining the likely effect of the Council's potential policy positions, the most important factor is consistency between assumptions used for modelling scenarios while the affordable housing assumptions are varied. **Specific assumptions and values for our notional schemes may not be appropriate for any particular actual development. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and thus in the context of the Council considering clear policy targets. The study is not intended to be used in any other or wider context.**

3. RESULTS ANALYSIS

3.1 Introduction

- 3.1.1 The results of our modelling are shown in Appendix II and IIA. Appendix II shows the results of the modelling carried out on the basis of on-site affordable housing provision. Appendix IIA covers the payment in lieu (“commuted sums”) appraisals carried out across all sites.
- 3.1.2 Tables 1, 1a and 1b are a summary of Tables 2-4 and show a summary of the Land Residual Value appraisals for Value Areas 1-3 in “value - £”, “% of GDV”, and “reduction in RLV (%)” respectively. This is also shown on Graphs 1, 1a and 1b. Tables 2-4 show the reduction in RLV as a consequence of increasing the proportion of affordable housing across the scheme types and policy options studied for Value Areas 1 to 3 (Table 2 relates to Value Area 1; Table 4 to Value Area 3 etc).
- 3.1.3 The results shown in Tables 2-4 have also been represented in a series of graphs (2 to 10). Graphs 2-4 relate to Table 2; Graphs 5-7 relate to Table 3 and Graphs 8-10 relate to Table 4.
- 3.1.4 For Table 2 (Value Area 1), Graph 2 highlights the RLV in monetary terms (approximate). Graph 3 shows the RLV as a percentage of GDV. Graph 4 indicates the percentage reduction in RLV as a result of the increase in affordable housing required from 40% to 45% and 40% to 50%. These reflect the changes from current adopted policy to potential future policy options. Graphs 5 to 7 and 8 to 10 repeat the information but for Tables 3 and 4 (Value Areas 2 and 3) respectively.
- 3.1.5 The above tables and graphs relate to the main modelling for this study where all appraisals were modelled on the basis of free serviced land and where the developer receives build cost reimbursement only for the provision of completed affordable units. In addition to those results, modelling has also been carried out on a sample basis on the assumption that the value of the affordable units is related to how much an RSL can afford to pay for completed units based on the mortgage they can raise through the rental stream (and capital value of sold equity in the case of shared ownership). Those results are shown in Tables 5, 5a, 5b and 6 with the associated graphs using the same numbering convention as above.
- 3.1.6 Figure 4 below provides a quick summary of the information to be found in Appendix II.
- 3.1.7 The following discussion aims to guide the reader in the interpretation of the results shown in the Appendices. Not every scenario is discussed here but rather

a sample of all the results. The overall trends and summary of the results are then discussed later in this Section.

Figure 4: Summary of Tables & Graphs Content from Appendix II

	Table No.	Title	Graph No.	Title	
Free Land	1	Summary of Land Residual Value (£) Appraisals for All Value Areas.	1	Summary of Land Residual Values at 40%, 45% & 50% Affordable Housing Across All Value Areas.	
	1a	Summary of Land Residual Value (as % of GDV) Appraisals for All Value Areas.	1a	Summary of Land Residual Values (as % of GDV) at 40%, 45% & 50% Affordable Housing Across All Value Areas.	
	1b	Summary of Reduction in Land Residual Value (%) Appraisals for All Value Areas.	1b	Summary of Reduction in Land Residual Values (%) at 40% to 45% and 40% to 50% Affordable Housing Across All Value Areas.	
	2	Summary Table Showing Results of Residual Land Value Appraisals and Reduction in Land Residual - Value Area 1.	2	Residual Land Value (£) - Value Area 1	
			3	Residual Land Value (% of GDV) - Value Area 1	
			4	Reduction in Residual Land Value as a Percentage of GDV from 40% to 45% and 40% to 50% Affordable Housing - Value Area 1	
	3	Summary Table Showing Results of Residual Land Value Appraisals and Reduction in Land Residual - Value Area 2.	5	Residual Land Value (£) - Value Area 2	
			6	Residual Land Value (% of GDV) - Value Area 2	
			7	Reduction in Residual Land Value as a Percentage of GDV from 40% to 45% and 40% to 50% Affordable Housing - Value Area 2	
	4	Summary Table Showing Results of Residual Land Value Appraisals and Reduction in Land Residual - Value Area 3.	8	Residual Land Value (£) - Value Area 3	
			9	Residual Land Value (% of GDV) - Value Area 3	
			10	Reduction in Residual Land Value as a Percentage of GDV from 40% to 45% and 40% to 50% Affordable Housing - Value Area 3	
	Mortgage Funded	5	Summary of Land Residual Value (£) Appraisals for All Value Areas.	11	Summary of Land Residual Values at 40%, 45% & 50% Affordable Housing Value Area 2 Only.
		5a	Summary of Land Residual Value (as % of GDV) Appraisals for All Value Areas.	11a	Summary of Land Residual Values (as % of GDV) at 40%, 45% & 50% Affordable Housing Value Area 2 Only.
5b		Summary of Reduction in Land Residual Value (%) Appraisals for All Value Areas.	11b	Summary of Reduction in Land Residual Values (%) at 40% to 45% and 40% to 50% Affordable Housing Value Area 2 Only	
6		Summary Table Showing Results of Residual Land Value Appraisals and Reduction in Land Residual - Value Area 1.	12	Residual Land Value (£) - Value Area 2	
			13	Residual Land Value (% of GDV) - Value Area 2	
			14	Reduction in Residual Land Value as a Percentage of GDV from 40% to 45% and 40% to 50% Affordable Housing - Value Area 2	

3.2 Reduction in Land Residual – Free Serviced Land

- 3.2.1 For schemes at or above the current Brighton & Hove City Council adopted affordable housing policy threshold of 10 units, the modelling carried out for this study applies a proportion equal to and greater than existing policy i.e. on these sites previously, there would have been a requirement for 40% affordable housing; the study compares this to a potential policy requirement for 45% or 50%.
- 3.2.2 A comparison of the reduction in RLVs for a 10 unit flatted scheme in Value Areas 1, 2 and 3 resulting from a proposed policy of increasing the affordable housing requirement on qualifying sites to 45% affordable housing indicates a reduction of 36.4% in Value Area 1, 30.8% in Value Area 2 and 27.3% in Value Area 3 (see summary Table 1b).
- 3.2.3 Increasing the proportion of affordable housing to 50% on a 10 unit scheme has no effect on the results in terms of delivery or financial viability. This is due to a quirk in the rounding of units whereby 45% of 10 is 4.5 units (rounded up to 5) and 50% of 10 units is also 5 units. As such, the outcomes are identical.
- 3.2.4 With a 15 unit scheme we see the impact of increasing the affordable housing from 40% to 45% is slightly less in terms of the reduction in residual land value. In Value Area 1 we see a reduction of 18.7% (compared to 36.4% with a 10 unit scheme), 15.3% in Value Area 2 and 13.5% in Value area 3. As the proportion is increased to 50% affordable housing, this reduction increases. In that case we see reductions in RLV of between 43.6% in Value Area 1 to 33.0% in Value Area 3. Therefore, a key point here is that the additional impact on this scheme of increasing the affordable housing proportion from 40% to 50% is clear.

3.3 Land Residual as Percentage of GDV – Free Serviced Land

- 3.3.1 In terms of the notional land residual remaining for a 10 unit flatted scheme in Value Area 1 (see summary Table 1 and 1a), the notional land residual lowers from £252,543 to £160,615 (or from 18.0% of GDV to 12.7% of GDV) as a result of applying a 45% affordable housing policy from an original starting position of 40%. For a scheme in Value Area 2, the RLV drops from £376,196 (24.0% of GDV) to £260,234 (18.5% of GDV). For an equivalent scheme in Value Area 3, the residual land value lowers from £511,934 (29.1% of GDV) to £371,952 (23.8% of GDV). Again, the results of 50% proportion of affordable housing are the same on a 10 unit scheme.
- 3.3.2 On a 15 unit scheme in Value Area 1 we see the RLV drop from £365,448 (17.7% of GDV) to £296,947 (15.1% of GDV) with a 45% affordable housing proportion. This drops further to £205,934 (11.2% of GDV) at 50%.

3.3.3 For an equivalent scheme in Value Area 3, the residual land value lowers from £736,796 (28.5% of GDV) to £637,252 (26.1% of GDV) with a 45% affordable housing requirement falling further to £493,436 (22.0% of GDV) at 50%.

3.4 Comparison with Mortgage Funded Route to Developer Reimbursement

3.4.1 The sample appraisals using the mortgage funded route to developer reimbursement for the provision of completed affordable units can be compared to those results discussed above.

3.4.2 On a 10 unit scheme in Value Area 2, the results of the appraisals using the mortgage funded assumption, show RLVs of £428,163 at 40% affordable housing proportion and £299,639 with 45% or 50% affordable housing. This compares to £376,196 and £260,234 assuming the free serviced land route to developer reimbursement.

3.4.3 A similar pattern is seen on the 15 unit sample appraisals whereby the impact on residual land value is slightly greater using the free serviced land assumption when compared to the mortgage funded route to developer reimbursement. This is not always this case when looking at site specifics, as the relative position of outcomes will be dependent on values – particularly for the shared ownership elements of schemes.

3.5 Comparison with 2004 Study

3.5.1 The following table provides a brief comparison of the results of the 2004 study with this update. Although exact like for like comparisons cannot be made due to changes in the assumptions made in relation to the payment the developer receives for completed units (discussed again below), this will give a feel for the general outcomes:

Figure 5: Comparison of RLVs from 2004 Study with Current

Scheme Type	Value Area	40% Affordable Housing RLV - 2004	40% Affordable Housing RLV - Current
10 Unit - Flats	1	£229,955	£252,543
	2	£329,852	£376,196
	3	£443,821	£511,934
15 Unit - Flats	1	£311,044	£365,448
	2	£460,888	£544,714
	3	£631,842	£736,796

3.5.2 Figure 5 shows the increase in RLV from the 2004 study. These increases are due mainly to the continued growth in property values since the original study was carried out. The increase in indicative residual land values (RLVs) shown here, however, is not as high as it would be were a more direct comparison

between results possible. This is due to the difference in assumptions used to calculate the payment a developer receives for completed affordable housing units. The reduced amounts now assumed for this update (reflecting the securing of significant local subsidy, for example, through a free serviced land approach) have had the affect of reducing the indicative RLVs. The updated RLVs would be higher had we used a similar assumptions as before on RSL payments to developers.

- 3.5.3 In the 2004 study, the developer payment was based on calculation of TCI and reimbursing the developer 90% of that figure. Those calculations, as discussed previously, provide a higher receipt to the developer than the equivalent free serviced land assumption used in this study (whereby the developer only receives build costs in return for completed units). As such there has been some offsetting of the gain in overall property values through the lower receipt to the developer for the affordable units. However, Figure 5 still shows an increase in the overall residual land values at 40% affordable housing which means that viability will be no worse than for the previous study.
- 3.5.4 Comparisons at 45% and 50% cannot be made as these were not tested for the original study.

3.6 Viability Study Trends

- 3.6.1 As mentioned previously, due to the potential existing and alternative use values of sites, it is impossible to provide the Council with definitive “cut-off” points where viability will be compromised to the degree that development may not take place. However, it is possible to provide likely outcomes at varying levels.
- 3.6.2 In addition, the actual RLVs (Table 1 at Appendix II) resulting from the application of various policy positions across the different site types can be compared very generally to indicative land value figures provided by organisations such as the Valuation Office Agency (VOA) by estimating the land area or “land take” of the notional schemes.
- 3.6.3 As an example, Adams Integra’s notional 10 unit flatted scheme (as discussed above) could occupy approximately 0.13 hectares (75 dwellings per hectare). At this site size, the value of the land in Value Area 1 with zero affordable housing is £1,942,642 per hectare. With a requirement for 45% or 50% affordable housing this falls to £1,235,501 per hectare. If these densities were doubled, to say 150 dwellings per hectare (significantly higher densities will be relevant in areas Brighton and Hove), the per hectare values would approach £2,500,000 for a ten unit flatted scheme with 45% or 50% affordable housing. Valuation Office statistics for Industrial Land in the South East (Property Market Report July 2007-http://www.voa.gov.uk/publications/property_market_report/pmr-jul-07/index.htm) provides values between £300,000 and £2,950,000 and an average of

£1,499,000 per hectare. VOA data also suggests that agricultural land value is below £10,000 per hectare (dependent on type).

- 3.6.4 On comparison with the VOA data, the value of our 10 unit scheme in Value Area 1 with 45% or 50% affordable housing is as expected very significantly higher than agricultural levels (as for instance could be a relevant consideration in and edge of City settlement area scenario), and likely to better lower value possible alternative (commercial) uses. However, it may struggle against higher value existing or alternative uses when the residential development density is relatively low. Retail and office space would generally tend to drive higher values than that for industrial use. In very general terms, high competing land value uses might include (in the following hierarchy) retail and leisure/food and drink; office/class B1; followed with likely lower values by warehousing and industrial uses. In practice the consideration of such issues will be highly use and location specific. High value existing scenarios can also be created by such uses as car sales. These aspects and relative value levels are mentioned to raise general awareness of the range of issues, more than giving any specific pointers.
- 3.6.5 By Value Area 3, these per hectare values have increased to approximately £4,000,000 per hectare assuming a density of 75 dwellings per hectare or nearly £8,000,000 per hectare at 150 dwellings per hectare with a 40% affordable housing requirement. At 45%/50% affordable housing these values drop to approximately £3,000,000 or £6,000,000 per hectare at densities of 75 and 150 dwellings per hectare respectively, well in excess of the example industrial values shown above.
- 3.6.6 For comparison, the VOA also provides average data for residential land within the South East. Average figures in Brighton per hectare range from £4,250,000 per hectare for small sites (less than 5 houses) to £7,500,000 per hectare for sites for flats or maisonettes. Again, lower density developments may struggle to achieve these values but this must be viewed in the context that VOA figures are highly illustrative rather than definitive as are the results of the appraisals of our notional sites. As a broad comparison, the values indicated for Brighton are generally in excess of other areas shown by the VOA statistics for the South East. For example, figures provided for Worthing show per hectare values of £3,400,000 and £3,950,000 for small sites and sites for flats respectively. Of the areas listed by the VOA for the South East, only Guildford, Oxford and Reigate show land values in excess of those shown for Brighton.
- 3.6.7 The site densities assumed above are for example purposes only and, as we have mentioned elsewhere, site specifics will influence viability on individual sites. The values indicated above for alternative uses cannot be considered definitive in any way. They do not in themselves underpin our judgments and recommendations, and are simply a factor in reviewing this area of viability. This section is provided purely as a very general guide to how the value of potential competing land uses might compare with the value of residential land.

3.6.8 Tables 1 and 1(a) provide an overall summary of trends in terms of RLV and RLV as a percentage of GDV.

3.7 Review of Potential Role for and Approach to Calculating Payments In Lieu - Methodology

3.7.1 As requested in the Council's Brief, Adams Integra carried out some modelling relating the financial viability of requesting affordable housing contribution payments from smaller sites (sites of 9 units or fewer).

3.7.2 The notional sites appraised in this way were of 2 to 9 dwellings in size. Appendix IIA sets out the additional range of appraisals carried out, and the results those gave.

3.7.3 This approach, if implemented, would effectively mean a lowering of thresholds but with financial payments being made on sites within that size range; in lieu of an on-site requirement. On-site provision would commence at 10 dwellings, which in our view is a practical and workable point at which to consider this in the Brighton context; applied as a target. The thinking behind this is the need to increase the contribution to meeting affordable housing needs from the numerous small windfall sites. As commented previously, such an approach would also reduce the abrupt step in requirements once the on site provision threshold takes affect. It might, therefore, disincentivise the underplaying of site capacities in instances where viability significantly impacts beyond a fixed, notional point. In essence, in all of our calculations for such studies we find no reason for stating that smaller sites are more or less financially viable than larger ones. Hence there is no viability reason why, as an extended policy approach and applied as a target, smaller sites should not make a carefully judged level of contribution to meeting affordable housing needs.

3.7.4 The purpose of this element of the study is not to comment on the planning policy scope or wider merits of such an approach, but to inform on the development viability aspects. There are potential practical advantages of requesting financial contributions on these smaller sites rather than on-site provision. There can be issues with affordability, integration, management and the like in relation to providing affordable housing on small sites. This policy approach could have practical merits with those issues in mind. If those concerns are removed through the use of a payment in lieu, then dependent on the scale of the payment being appropriately judged there is unlikely to be a pure financial viability issue – subject as normal to any existing/alternative use barriers and the normal negotiation process where necessary.

3.7.5 We recognise that other Local Authorities in the South East are exploring the scope for, and issues with, lower thresholds and/or financial contributions from smaller sites.

- 3.7.6 The following sub-sections will cover the payments in lieu topic in outline. It is an area of the Council's potential approach that would need to be developed in detail through an affordable housing Supplementary Planning Document, or possibly a Development Plan Document.
- 3.7.7 As far as establishing or indicating payment levels is concerned, Local Authorities adopt a number of calculation methods. In most cases it means considering a methodology which either:
- Relates to the build cost of the affordable homes, or
 - Relates to the land cost element – allied to a nil cost land approach to on site affordable housing, or
 - Considers the difference between the open market sale revenue and the affordable housing revenue for the relevant homes which would have formed the on-site quota. This latter route may be more complex, need more updating and be viewed as less market related.
- 3.7.8 The most appropriate basis and calculation method in Brighton & Hove's case, in our view, would be one which resolves around land value and is the basis we have assumed. This means working out how much it would cost to go elsewhere and replace the land on which the affordable housing would have been sited. It is particularly appropriate if a free land approach is to be assumed on site. It means securing a broadly equivalent level of subsidy to that which would be secured with an on-site approach that aims to secure nil cost serviced land.
- 3.7.9 The broadly equivalent criterion is as set in PPS3 (paragraph 29). In summary, we added the relevant plot values and acquisition expenses to the costs side of the equation (as payments by the developer are being assumed). So effectively the methodology assumes an additional planning obligations payment being made by the developer, albeit from the increased Gross Development Value which results from having no affordable housing on site. So far as we can see, the calculation should not (and this way it does not) look at the benefit to the developer of moving the affordable housing contribution off site.
- 3.7.10 We have advised other Authorities similarly, and used this approach in negotiations successfully on behalf of Local Authorities. In our experience, it also tends to be understood by landowners and developers better than potentially more complex affordable housing finance related mechanisms. A commuted sums methodology based on land value links better to market reality and processes, and is simpler to take account of in the early stages of site feasibility. Whilst some Local Authorities have continued using mechanisms which relate back to the former Housing Corporation Total Cost Indicator regime in some way, or to RSL finance driven models, we feel those are now outmoded and should be set aside in favour of methodologies which relate more closely to the market-led provision that flows from the planning obligations.

3.7.11 We will now work through our calculation methodology, which is based on a formulaic approach to approximating the land value that needs to be replaced; and then allowing also for the cost of acquiring and servicing that land elsewhere (assuming a nil cost serviced land approach is applied to on site provision).

3.7.12 We would start by taking a pre-affordable housing land value, calculated as a percentage of the market sale value of a property. This percentage would reflect the pre-affordable housing (0%) residual land value results, as taken from this study. An allowance might well be added bearing in mind that as well as land value there would be acquisition plus (potentially) servicing costs to bear in the case of replacing the land elsewhere, in the market.

3.7.13 In summary, the indicative payment figures in the table at 3.4.14 below are arrived at by the following steps:

- a. Open market value (OMV) of relevant or comparative property (depending on to what degree the formulaic approach is to be site specific, City wide, etc.
- b. Multiply by the residual land value percentage. We have used 35.1%, derived as above (it would be possible to look at this in a variety of ways, including on a more specific RLV basis).
- c. Add 15% of the result of a x b to reflect site acquisition and servicing costs. This gives the per unit sum.
- d. Apply to the relevant site number and proportion (in this case 20%, 30% or 40%).

3.7.14 The following table sets out the per unit indicative payments in lieu which we have arrived at on this basis, using our property size and wider assumptions. These figures are as applied in our additional Appendix IIA appraisals of notional sites of 2, 6 and 9 units assuming 20%, 30% and 40% proportions of affordable housing contributed.

Figure 6: Indicative Payments In Lieu

Value Band	1 bed flat		2 bed flat	
	OMV £	Indicative £ payment	OMV £	Indicative £ payment
1	£152,491	£61,553	£206,280	£83,265
2	£180,232	£72,751	£234,758	£94,760
3	£196,438	£79,292	£274,969	£110,991

3.7.15 In our experience these figures are likely to be of the right order in the Brighton & Hove context. Seeking to collect sums such as these should not unduly impact on financial viability either in the context of the values seen in the City, if applied with the lower affordable housing proportions mooted for smaller sites; or in

comparison with the policy proposals for on-site provision. Allowing for the relative value levels, they are broadly equivalent to sums we are involved in negotiating in other Local Authority areas in the South East and central South in particular.

3.7.16 Having settled a basic methodology (in our view a land value based methodology being the most appropriate here) there are two potentially simple routes to clarifying the Authority's approach.

3.7.17 Firstly, a calculation route that might not be prescriptive but instead set out the principles and underlying methodology but still allow for some degree of site specific influence and negotiation in cases where scheme viability dictates (and is fully justified). Thus it would be formulaic and parallel process to the on-site one. Example calculations could still be set out and give a guide to the level of payments expected for a range of unit and tenure types.

3.7.18 Alternatively, the same formulaic approach could drive the build up of a payments table. This would be best viewed as indicative, because all schemes are different. It could set out, City wide (or alternatively in terms of sub-areas if more detail was thought advantageous and helpful) levels of payments required for the range of property types. This might be viewed as more prescriptive. It might mean an averaging out of payment levels across the City. On the other hand, however, it might give more clarity. The Council could decide to simplify this type of approach with a City wide single figure per property type. If this route were preferred then an average or mid-range figure from the above could be selected for each unit type. Further work could be carried out to settle the figures once the route to applying the basic land value driven formula had been chosen.

NB: the figures investigated here have only been calculated on the basis of flatted schemes as these are the types of development investigated in this study. To calculate sums for other unit types, further appraisals and calculations would be necessary.

3.7.19 Ultimately the chosen route will be influenced by a balance between providing a simple, clear guide for negotiations, and the need to manage the approach and resource the discussions around it. The level of research updating required might be relevant regarding this last point.

3.7.20 Conversely, the approach could be further worked up to reflect on a more local, value specific basis, the land value percentage to be applied to the property open market value (OMV) starting point. We applied a figure of 35.1% of OMV being the average outcome (% of GDV remaining for residual land value) from all relevant 0% affordable housing appraisals – sites in range 2 to 9 units. This approach is felt to be sound. While something more complex and reflective of particular local area values and land residuals could be used, this fits with our overall feel for Brighton & Hove City values. In reality a replacement site, or

scheme to be funded with the monies collected, could be anywhere within the administrative boundaries given City wide affordable housing need.

3.7.21 Our thinking in putting this forward is that the same approach could be applied to any exceptional larger site circumstances which warranted a discussion on an affordable housing contribution being made by payment in lieu. In such a case the appropriate larger proportion of affordable housing would be factored in to the formulaic approach – i.e. 40%, 45% or 50%.

3.8 Payment In Lieu Results

3.8.1 The results of the appraisals carried out in relation to the collection of financial contributions in-lieu of on-site affordable housing provision are shown in Appendix IIA, based on the methodology outlined above.

3.8.2 The reduction in residual land value varies between 57% (from a 0% to a 40% requirement) on a 2 unit scheme in Value Area 1 to approximately 18% (from a 0% to 20% requirement) on a 9 unit scheme in Value Area 3 – the range of results investigated.

3.8.3 The results follow the same general pattern as seen for the on-site appraisals with viability improving from Value Area 1 through to Value Area 3. The least viable of the appraisals are seen where a 40% affordable equivalent is required on the smallest sites (2 units). At this point in all but the higher value locations, viability is likely to be compromised. For example, on a 2 unit scheme in Value Area 1, we see an RLV of £49,269 (or 11.9% of GDV) at 40% affordable housing equivalent contribution. In the Brighton & Hove context, this sort of land residual for the development of small sites is likely to be too low to entice land or property owners to release those plots for residential development.

3.8.4 With a financial contribution of 30% on a 2 unit scheme, the residual land values improve. For example, in Value Area 1 the RLV increases to £65,544 (15.9% of GDV). Reducing the financial contribution to 20% shows a further increase in RLV to £81,819 (19.8% of GDV).

3.8.5 On sites as small as 2 units, the Council will have to bear in mind the sums of money remaining after the introduction of a financial contribution. Although RLVs remain positive in all Value Areas, if we are envisaging the development of a garden plot for a 2 unit flatted scheme (for example) – the RLVs remaining after the application of a 30% policy may not entice the owner to sell. Again, however, it is impossible to provide the Council with definitive cut-off points as each site will be different and each landowner will have their own aspirations.

3.8.6 On schemes of 6 and 9 units, the RLVs increase because of the increased size of site (and thus increases in GDV). As a further example, the reduction in RLV in Value Area 2 from 0% to 30% on sites of this size is 31.8% for a 6 unit scheme

and 31.2% for a 9 unit scheme with a reduction of approximately 13% from 20% to 30% affordable housing equivalent for both site sizes. At these larger site sizes, the actual sums of money remaining after the payment of the financial contribution has been included is higher than on those smallest sites discussed above (£369,617 or 24.6% of GDV for a 6 unit scheme; £488,058 or 25.0% of GDV for a 9 unit scheme in Value Area 2). In Value Area 1, however, RLVs are still relatively low.

- 3.8.7 In Value Areas 2 and 3 on a 2 unit scheme, viability improves at 40% but is still relatively poor. On sites of 6 and 9 units we see similar patterns but with the overall residual land value increasing with size of site (as to be expected). Again, viability is improved by reducing the financial contribution percentage sought, following the same trend as discussed in 3.8.3 above.
- 3.8.8 At 40% affordable housing equivalent, we see RLVs on 9 unit schemes at a similar level to those for 10 unit schemes with on-site affordable housing. Although in pure mathematical terms viability will be similar to that for 10 unit schemes these smaller sites will be impacted by the requirement for affordable housing (albeit via a financial contribution) for the first time and as such creates a large step from 0% (current policy) to 40%. We would, therefore, recommend a “sliding scale” approach below 10 units to reduce the first time impact of affordable housing policy on these smaller schemes (see Conclusions for recommendations).
- 3.8.9 Viability improves with increasing property (completed new build unit) values as amounts available for land increase. By moving the same notional scheme from Value Area 1 to 3 we see land value (RLV) increased significantly. This applies both before and after affordable housing requirements are applied.
- 3.8.10 The effect of the variations to the proportion sought can clearly be seen. There is a relatively large decrease in RLV moving from 0% to 20% provision, and then a more gradual decrease in RLV as requirements increase through 30% to 40%.
- 3.8.11 The exact relationship between the property values and the indicative commuted payment levels in the particular scheme mix, affects results relative to each other.

4. CONCLUSIONS

4.1 Increase in Affordable Housing Proportion Sought

- 4.1.1 Brighton & Hove City Council is currently successful in securing 40% affordable housing on larger private residential schemes (those providing 10 or more units) and there is no evidence that this policy is having an adverse impact on the housing market locally.
- 4.1.2 Bearing this in mind, we have to assume that a 40% target will continue to be successful and, therefore, the question to be asked is whether increasing this proportion to 45% or 50% will begin to affect the housing market and thus wider planning objectives adversely (through a reduction in land supply locally).
- 4.1.3 The results highlighted in this report and supported by the tables and graphs which make up Appendix II and Appendix IIA indicate that the proposed increased proportions of affordable housing sought on qualifying sites has an impact across the notional scenarios modelled that is directly correlated to the Value Area. In all cases, the potential policy options have the effect of reducing the residual land value.
- 4.1.4 The additional impact of increasing the affordable housing proportion sought to 45% or 50% is to reduce the residual value of the notional sites appraised by between 13.5% and 43.6% (depending on value area and site type).
- 4.1.5 The greatest reductions in RLV are seen where a 50% affordable housing requirement is required on the 15 unit sites in the lowest Value Areas. On 10 unit schemes, there is no difference between a potential policy position requesting a 45% proportion of affordable housing, and one requesting 50%. This is due to the issues of rounding of numbers of units. Above this point then a differential in the viability of schemes at 45% and 50% can be seen.
- 4.1.6 The results of this study are necessarily indicative and should not be used as a substitute for continued site by site negotiation.
- 4.1.7 In this study, we have changed the assumptions used in relation to the payment a developer receives for providing on-site affordable housing. The RSL to developer payments assumed in the original study (TCI based calculation) meant that viability was being buoyed by these assumptions compared to the free serviced land build cost reimbursement/nil grant mortgage funded assumptions used in this update. PPS3 indicates that the availability of funding should be a factor in considering such assessments.
- 4.1.8 Although we have seen property values increase significantly in the period between 2004 and the present, the viability of schemes modelled has not increased proportionally. This is directly related to the lower 'payment to the

developer' assumptions we have used for this study. The introduction of such an approach is one that we have been asked to assume and is one which reduces the reliance on public subsidy through securing a local subsidy directly related to the land value. In our view, it is a sound approach, and it is one which is being used and has been underpinning affordable homes delivery in other Local Authority areas nearby – for example in Mid Sussex, Crawley and Horsham. If the Council decides to pursue this mechanism (through SPD or similar) then we will see an impact on viability from it relative to that from the current purely negotiated approach (which in our experience will often assume grant availability) regardless of whether the proportion of affordable housing is increased or not.

4.1.9 The mortgage-funded route to developer reimbursement has been assumed on a nil grant basis and as such provides similar results to the free land scenarios (although it does provide slightly higher RLVs in the sample of appraisals modelled – although as discussed, relative results vary for example with values assumed).

4.1.10 We, therefore, recommend that the Council considers keeping the proportion of affordable housing sought at 40% but aims to secure greater developer subsidy (through the free serviced land/nil-cost land approach) at this stage of policy development.

4.1.11 We suggest extending the current emphasis on continued delivery of the familiar 40% (necessarily as a target), whilst considering a mechanism such as free serviced land to support delivery and reduce reliance on social housing grant input, at least as a starting point assumption. There are uncertainties within the residential market currently. We feel that impacting viability by the mechanisms used, rather than additionally by the proportion of affordable homes sought, may well be a more relevant and productive step at this stage.

4.2 Collection of Financial Contributions/Payment In Lieu of On-Site Provision (Sites of <10 Dwellings)

4.2.1 We are commenting on the viability implications only. The Council will therefore need to consider the wider issues of site supply and likely delivery benefits, together with the scope in planning framework terms for such an approach. However, purely from practical and viability viewpoints we are able to support lower/introductory proportions of affordable housing being sought by way of financial contributions from sites of less than 10 dwellings.

4.2.2 The fact that the Council has an established and working affordable housing threshold below the PPS3 national indicative minimum levels of 15 dwellings (its existing threshold is 10) suggests that a sound basis for considering policy application to smaller sites exists.

- 4.2.3 The Council will wish to consider exactly how an expanded approach to smaller sites might work and be set out in terms of detail.
- 4.2.4 The results of the appraisals carried out on sites of 9 units with 40% affordable housing contribution are similar to those seen on-site at 10 units. In purely mathematical terms there is little difference in the impact on viability of either the on-site or off-site approach at 40%. However, recognising that the land values resulting from the smallest scheme proposals can be low, and that the steepest viability impacts are most usually seen on those sites which are required to provide affordable housing contributions for the first time, we suggest a “sliding scale” type approach which steps the requirements up gradually and thus reduces the size of the steps between threshold positions. Our results indicate that asking for as much as 40% affordable housing on such small sites, at least at this stage in policy development, could be too stringent.
- 4.2.5 For guidance the Council could consider (for use with the suggested financial contributions formula) up to a 20% proportion equivalent payment taking effect at 2 units if a threshold approach remains in place (this could be potentially applied to every unit if the basis for a tariff aligned approach develops). This might step up to a 30% proportion equivalent on a 6 to 9 dwelling scheme; prior to the 40% headline target proportion taking effect on all larger sites as it does already (10 plus dwellings).
- 4.2.6 Some results based on the lower value notional instances do not look particularly strong. There is nothing unusual in this, as it is a factor which we see in most areas. However, the incidence of these value levels is such that this needs to be borne in mind in negotiations rather than significantly influence the policy thinking. Brighton and Hove can be regarded as a high value area where affordability problems are severe. Nevertheless it is a factor in reinforcing our overall views that:
- A 40% target remains a sound one for the larger sites.
 - There is merit in a sliding scale approach to proportions if smaller sites are to be “captured” for the first time.
 - In all cases, the policy positions must be regarded as targets as the basis for a practical, negotiated approach.
 - The recommendations are based on current levels of planning obligation requirements as detailed in this study. If the Council were to significantly increase then there would be additional impacts on residential development viability.

4.3 Relationship between House Prices in the City and Affordable Housing Proportions

- 4.3.1 In carrying out a wide range of such studies we have not seen any evidence to suggest that affordable homes provision in any significant way affects the pricing of homes in the open market locally.
- 4.3.2 We have seen individual scheme instances and valuation advice whereby valuations of similar properties within open market schemes have varied depending on affordable housing tenure content, detailed design and integration factors. Within an individual scheme the open market value of a property can be influenced by its proximity to the affordable homes, and by their type and tenure. This is a factor which can be hard to accept both politically and practically, and very difficult to determine, but we feel nonetheless exists in terms of how developers consider schemes driven often by their customers and general market perceptions. We have to acknowledge it. We have made no specific allowance for it here, and we do not in our studies of this type. It may affect values by up to 20% but perhaps more commonly by no more than say 5-10%, but with no rules of thumb possible.
- 4.3.3 In most cases, in a relatively high value area such as Brighton & Hove there is still a significant gap in access points between the typical lower end market housing offer and genuine affordable homes. Therefore, altering the supply of affordable homes will not in any significant way affect wider market pricing. The affordable homes are a complementary supply to the market provision. In our view, in areas such as Brighton, there is no way affordable housing can be seen to provide a competing product or one which might in some way significantly influence market prices.
- 4.3.4 Where the policy basis is working, as we understand it is in Brighton & Hove, supported by viability primarily as a result of a relatively strong market and values, it would not be a normal approach to suggest reducing the affordable housing target proportions despite the theory that if viability improves then more sites could come forward.
- 4.3.5 Reducing the proportions sought would suggest not only that a significant increase in site supply would be needed but also that a proportion of affordable homes well below the 2005 Housing Needs Survey proposed levels (45%), based on identified needs, would be secured. It would also be a more resource intensive approach – more scenarios and negotiations to achieve similar overall outcomes.
- 4.3.6 Similarly, we have seen no evidence to suggest that developers increase the price of their new build homes in order to recoup the negative financial affects which arise from affordable housing and other planning obligations requirements. Although new schemes often set their own price levels, they still need to be priced relative to what else is on offer in the market, otherwise they will not sell.

More usually, the cost of such requirements to the scheme is passed on to the land owner by way of reduced value being created, which is why site supply can be affected and Local Authorities need to judge policy positions and mechanisms carefully. This is the key issue at the crux of this viability discussion.

- 4.3.7 In our modelling for this study we have not therefore visited the possibility that the headline affordable housing proportion could be lowered. However, we do feel that the sliding scale approach to smaller sites (asking those to contribute based on reduced proportions) has the potential to supplement delivery usefully if the Council considers this carefully and develops a strategy for that.

**Main report ends –
Appendices to follow
December 2007**

Appendices

Appendix I - Development Scenarios

Appendix II - Results of Residual Land Value Calculations

Appendix IIA - Results of Developer Contributions (Payments In Lieu) Appraisals

Appendix III - Property Values Report

Appendix I
Development Scenarios

Appendix I - On-Site Development Scenarios Required for Brighton & Hove City Council Viability Study Update 2007

Development Scenario / Threshold	Unit Mix	Value Area	Number					Total Affordable at each %			Affordable Element (40%)	Affordable Element (45%)	Affordable Element (50%)	Survey Costs (per site)	Build Period (Months)	Site Preparation
			1-Bed Flats	2-Bed Flats	2-Bed Houses	3-Bed Houses	Total	40%	45%	50%						
10 Units - Flats	4 x 1-bed flats; 6 x 2-bed flats	1 to 3	4	6	N/A	N/A	10	4	5	5	2 x 2-bed flats; 2 x 1-bed flats	3 x 2-bed flats; 2 x 1bed flats	3 x 2-bed flats; 2 x 1bed flats	£3,000	9	£25,000
					N/A	N/A										
					N/A	N/A										
					N/A	N/A										
15 Units - Flats	6 x 1-bed flats; 9 x 2-bed flats	1 to 3	6	9	N/A	N/A	15	6	7	8	4 x 2-bed flats; 2 x 1-bed flats	4 x 2-bed flats; 3 x 1-bed flats	5 x 2-bed flats; 3 x 1-bed flats	£3,000	9	£25,000
					N/A	N/A										
					N/A	N/A										
					N/A	N/A										

Value Area	Values	
	1-Bed Flats	2-Bed Flats
1 (Low)	£152,491	£206,280
2 (Medium)	£180,232	£234,758
3 (High)+	£196,438	£274,969

Sizes (sq m)	
1-Bed Flats	2-Bed Flats
51	66

Infrastructure Costs per unit: Various - see Planning Obligations Below

Finance (%) 7.50%

Build Costs (Flats) £1,150 per sq m

Build Period Lead In 6 months

Affordable Unit Mix: Numbers of each unit type proportioned according to overall affordable mix as closely as possible. E.g. 10 unit flatted scheme at 40% affordable - 6 x 2-bed; 4 x 1-bed total (4 affordable - 2 x 2-bed flats and 2 x 1-bed flats).

General Notes: Appraisals carried out on the basis of free land. Therefore, tenure neutral approach to affordable units whereby the developer receives build cost back in return for completed affordable units.
Sample appraisals carried out on the mortgage funded by rental stream approach - Value Area 2 at 10 and 15 units, 40% and 50%.

Planning Infrastructure Cost Assumptions - Brighton & Hove City Council

Brighton & Hove City Council	Private, Intermediate, Affordable Tenures	
	1-BF	2-BF
Transport	£2,000.00	£2,000.00
Education	£468.00	£1,501.00
Open Space	£1,169.00	£1,949.00
Total Planning Contribution	£3,637.00	£5,450.00

Source: Brighton & Hove City Council

Appendix II

Results of Residual Land Value Calculations

**Table 1: Summary of Land Residual Value (£) Appraisals
for All Value Areas**

Development Scenario / Threshold	Value Area	Residual Land Value - 40% Affordable	Residual Land Value - 45% Affordable	Residual Land Value - 50% Affordable
10 Unit Flatted Scheme	1	£252,543	£160,615	£160,615
	2	£376,196	£260,234	£260,234
	3	£511,934	£371,952	£371,952
15 Unit Flatted Scheme	1	£365,448	£296,947	£205,934
	2	£544,714	£461,637	£345,676
	3	£736,796	£637,252	£493,436

Source: Adams Integra, 2007

Graph 1: Summary of Land Residual Values at 40%, 45% & 50% Affordable Housing Across All Value Areas

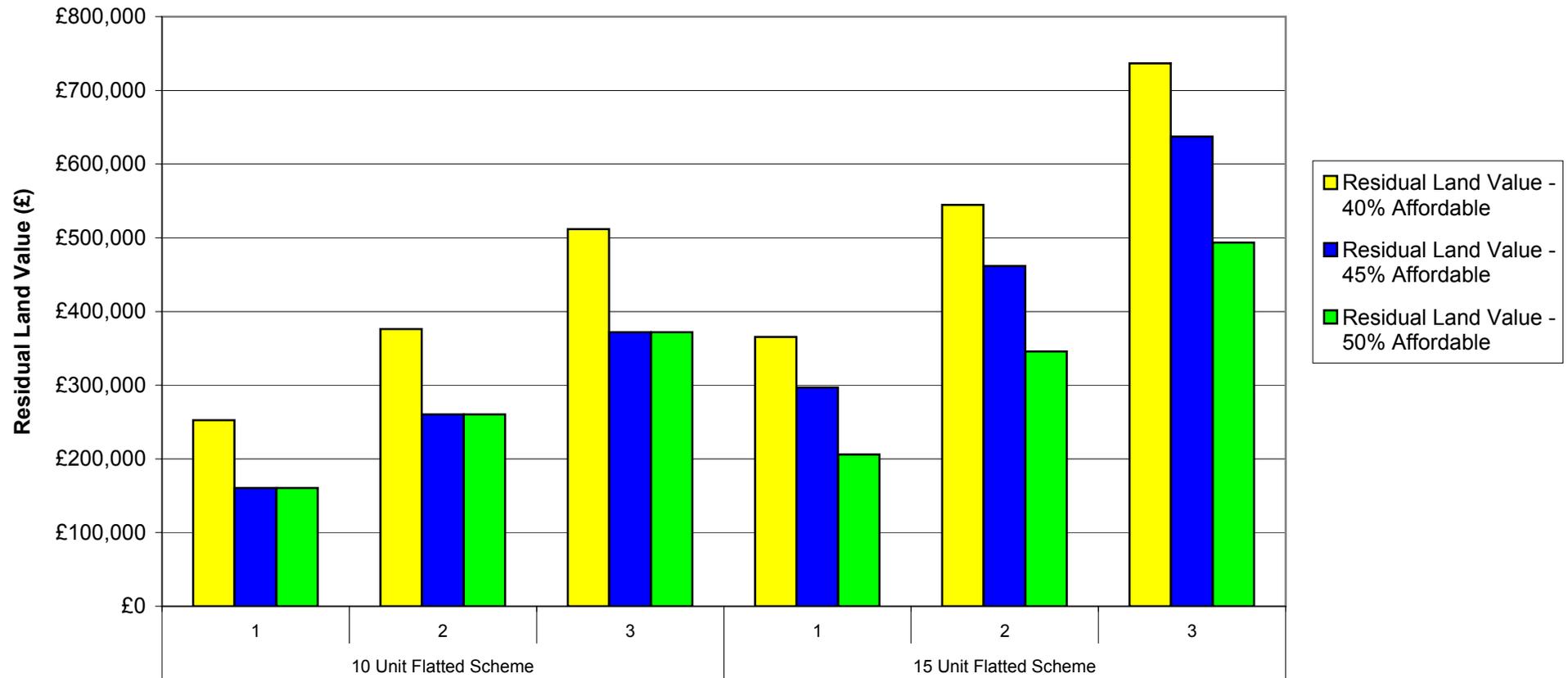
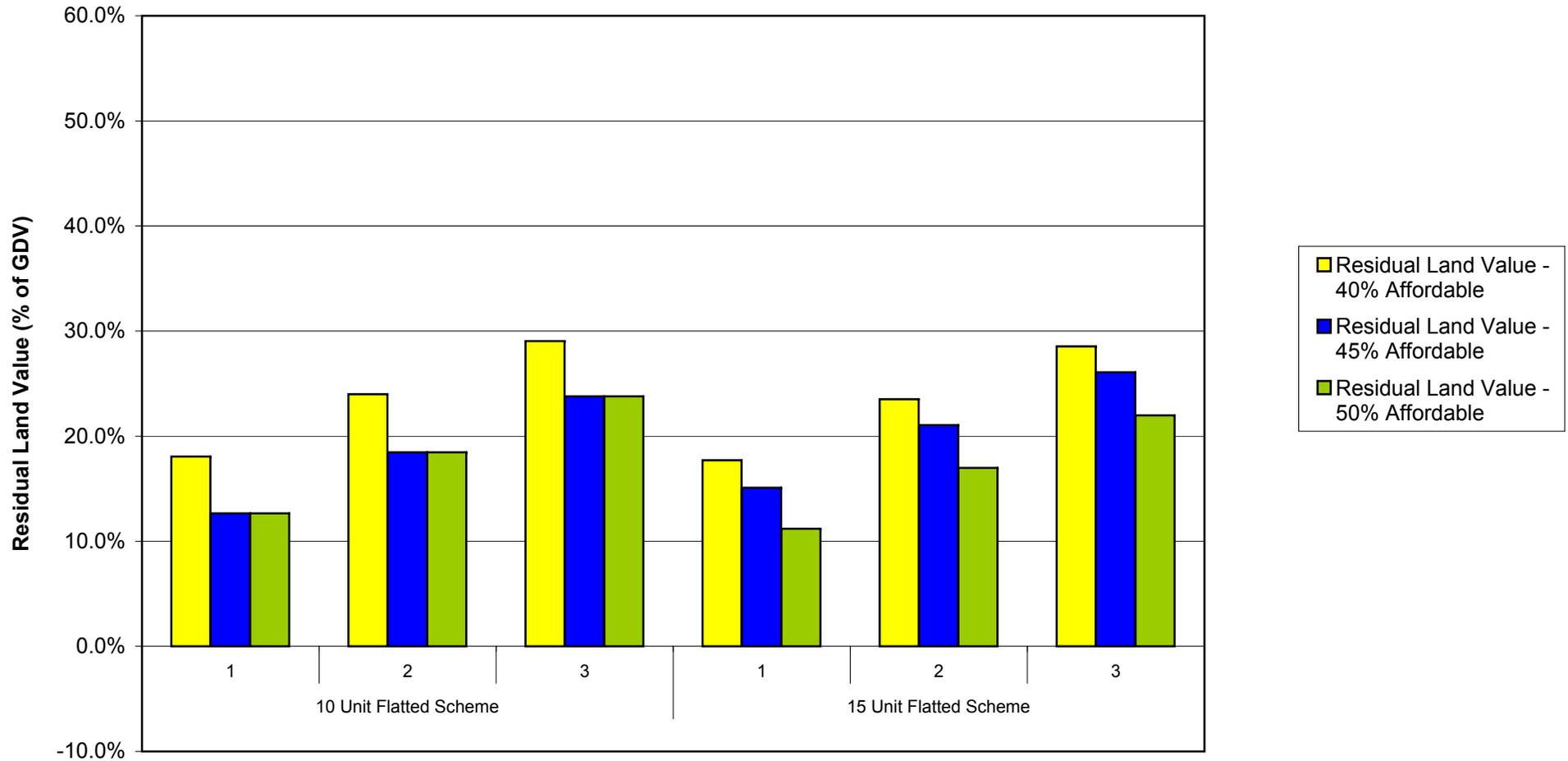


Table 1a: Summary of Land Residual Value (as % of GDV) Appraisals for All Value Areas

Development Scenario / Threshold	Value Area	Residual Land Value - 40% Affordable	Residual Land Value - 45% Affordable	Residual Land Value - 50% Affordable
10 Unit Flatted Scheme	1	18.0%	12.7%	12.7%
	2	24.0%	18.5%	18.5%
	3	29.1%	23.8%	23.8%
15 Unit Flatted Scheme	1	17.7%	15.1%	11.2%
	2	23.5%	21.0%	17.0%
	3	28.5%	26.1%	22.0%

Source: Adams Integra, 2007

Graph 1a: Summary of Land Residual Values (as % of GDV) at 40%, 45% & 50% Affordable Housing Across All Value Areas

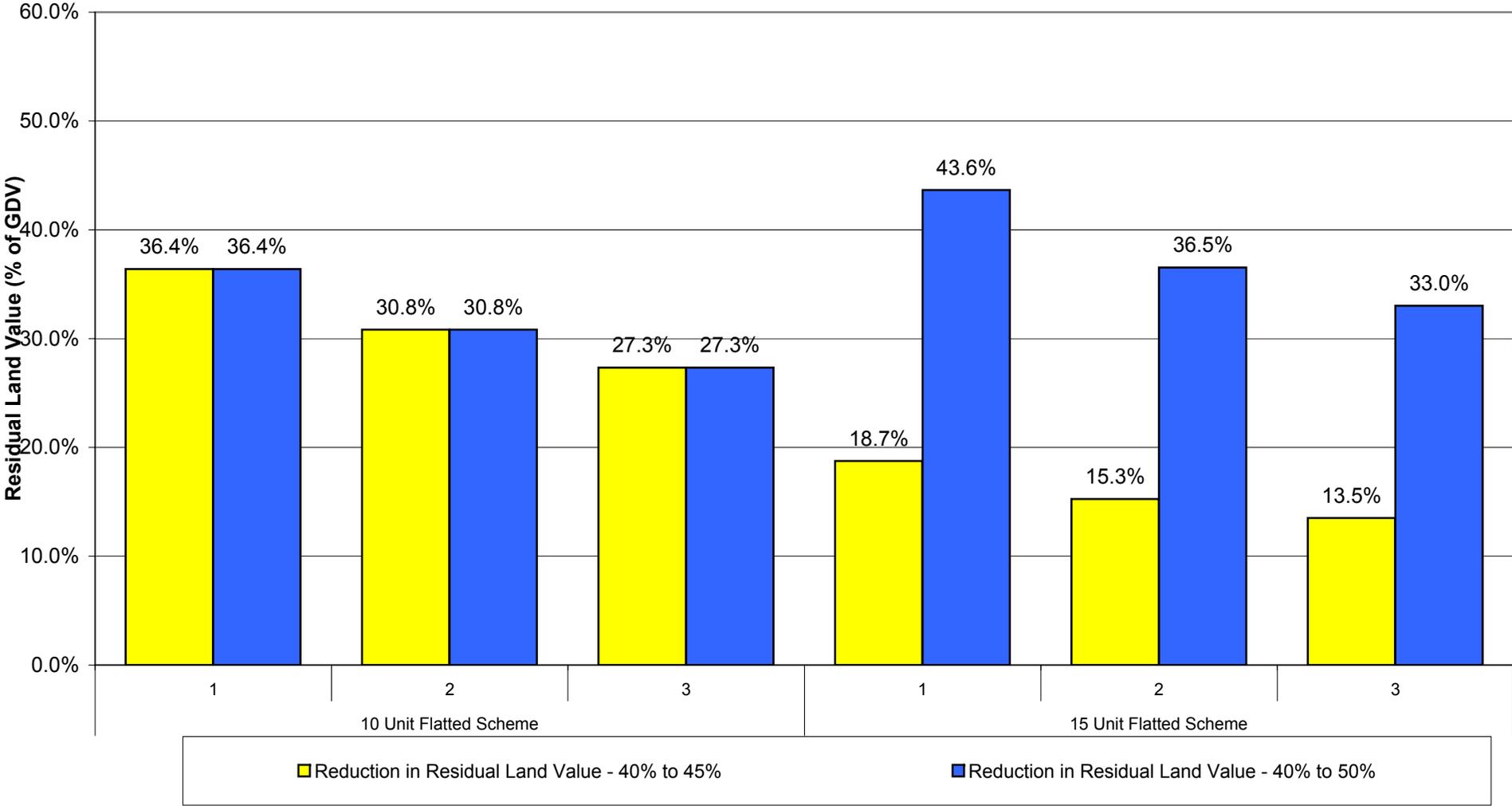


**Table 1b: Summary of
Reduction in Land
Residual Value (%)**

Development Scenario / Threshold	Value Area	Reduction in Residual Land Value 40% to 45%	Reduction in Residual Land Value 40% to 50%
10 Unit Flatted Scheme	1	36.4%	36.4%
	2	30.8%	30.8%
	3	27.3%	27.3%
15 Unit Flatted Scheme	1	18.7%	43.6%
	2	15.3%	36.5%
	3	13.5%	33.0%

Source: Adams Integra, 2007

Graph 1b: Summary of Reduction in Land Residual Values (%) at 40% to 45% & 40% to 50% Affordable Housing Across All Value Areas



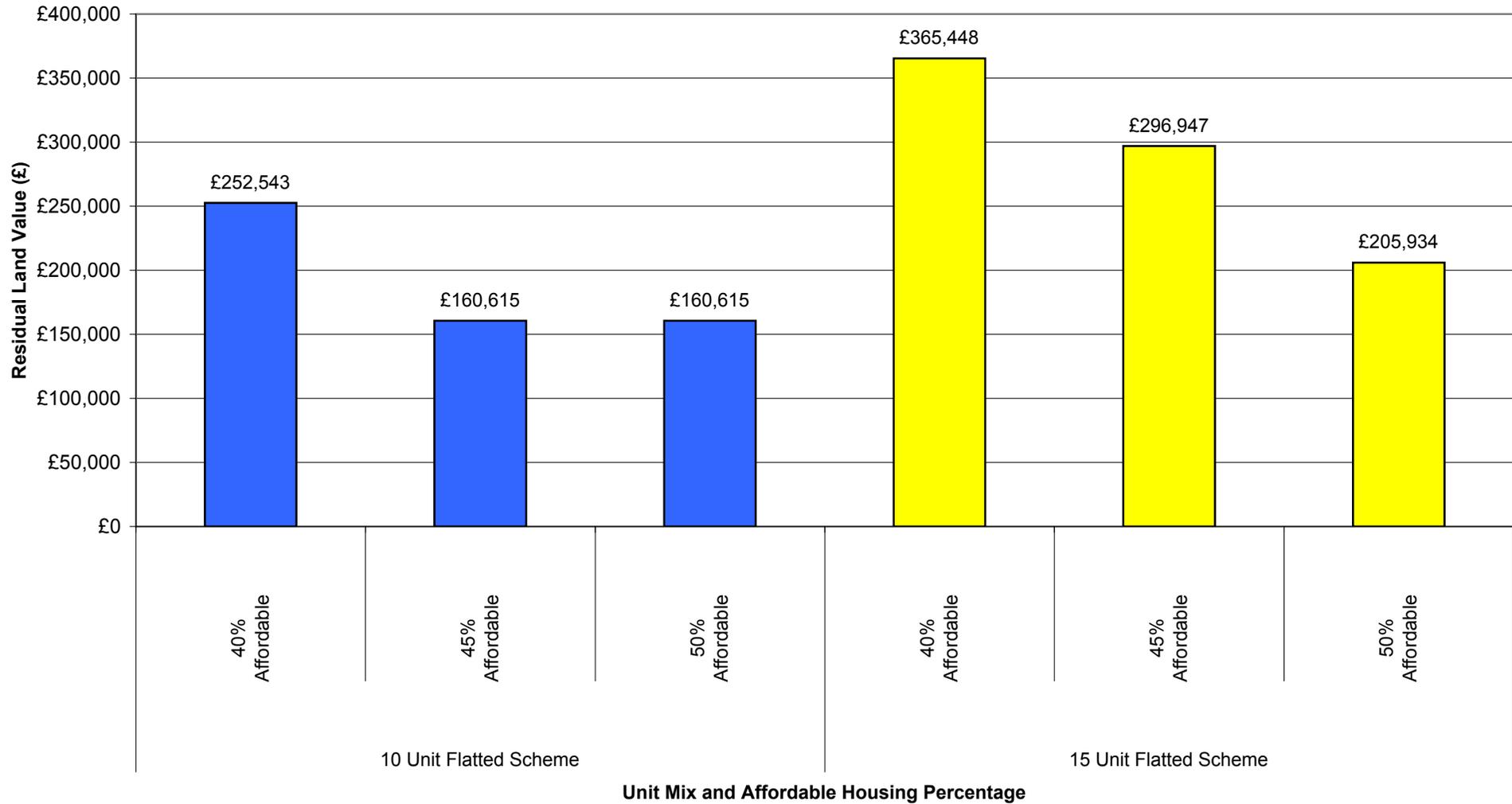
Source: Adams Integra, 2007

Table 2: Summary Table Showing Results of Residual Land Value Appraisals and Reduction in Land Residual - Value Area 1

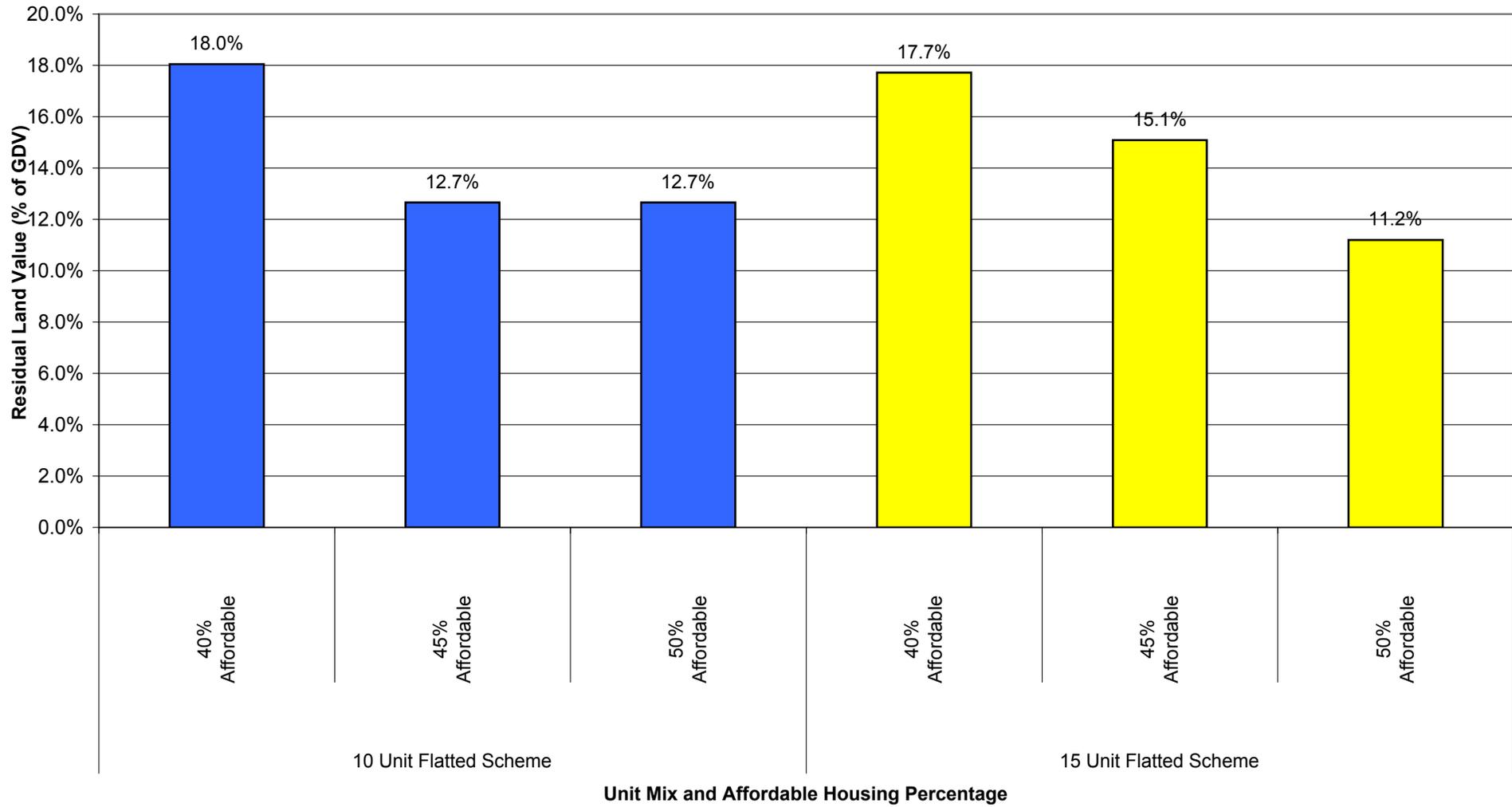
1	2	3	4	5	6	7	8	9	
Value Point	Number of Units	Scenario	GDV	Development Cost	Developer Profit (@15%)	Finance & Land Costs	Residual Land Price	% Land Residual (of GDV)	% Reduction in Land Residual From 40% Affordable Housing
Value Area 1	10 Unit Flatted Scheme	40% Affordable	£1,399,202	£777,100	£209,880	£151,868	£252,543	18.0%	N/A
		45% Affordable	£1,268,822	£777,100	£190,323	£139,161	£160,615	12.7%	36.4%
		50% Affordable	£1,268,822	£777,100	£190,323	£139,161	£160,615	12.7%	36.4%
	15 Unit Flatted Scheme	40% Affordable	£2,062,264	£1,153,150	£309,340	£223,024	£365,448	17.7%	N/A
		45% Affordable	£1,968,423	£1,153,150	£295,263	£213,879	£296,947	15.1%	18.7%
		50% Affordable	£1,838,043	£1,153,150	£275,706	£201,173	£205,934	11.2%	43.6%

Source: Adams Integra, 2007

Graph 2 - Residual Land Value (£) - Value Area 1



Graph 3 - Residual Land Value (% of GDV) - Value Area 1



Graph 4 - Reduction in Residual Land Value as a Percentage of GDV from 40% to 45% & 40% to 50% Affordable Housing - Value Area 1

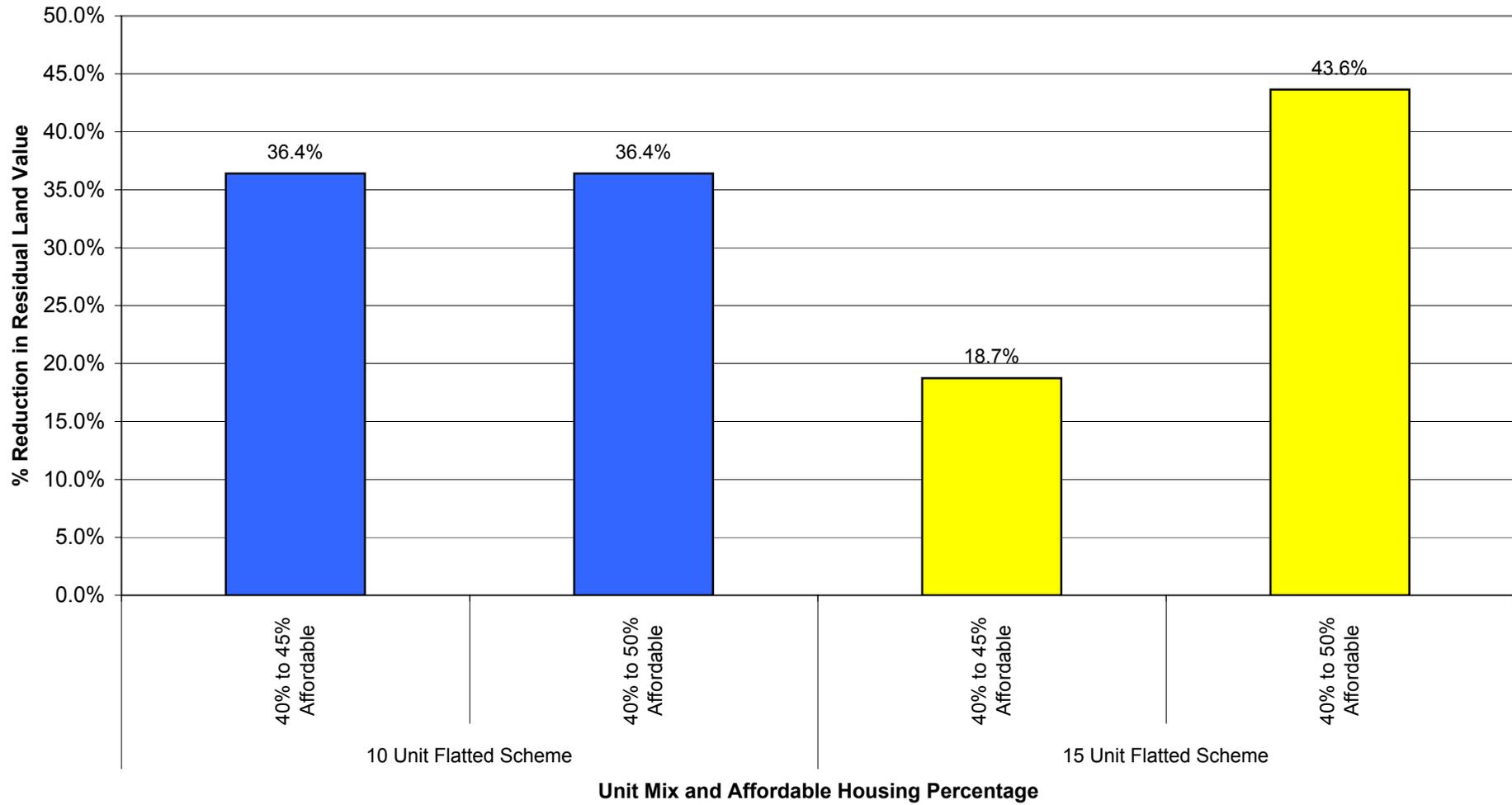
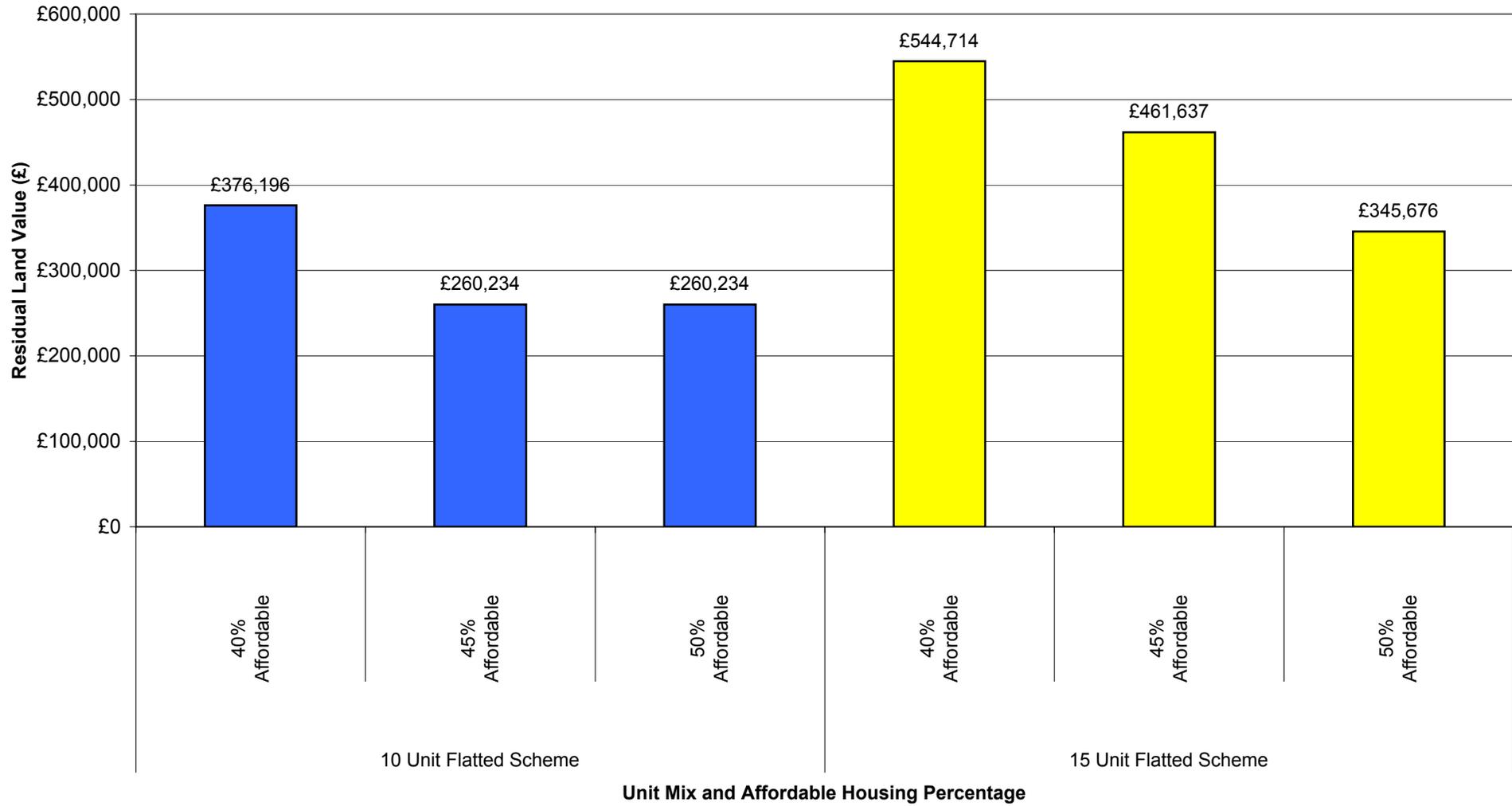


Table 3: Summary Table Showing Results of Residual Land Value Appraisals and Reduction in Land Residual - Value Area 2

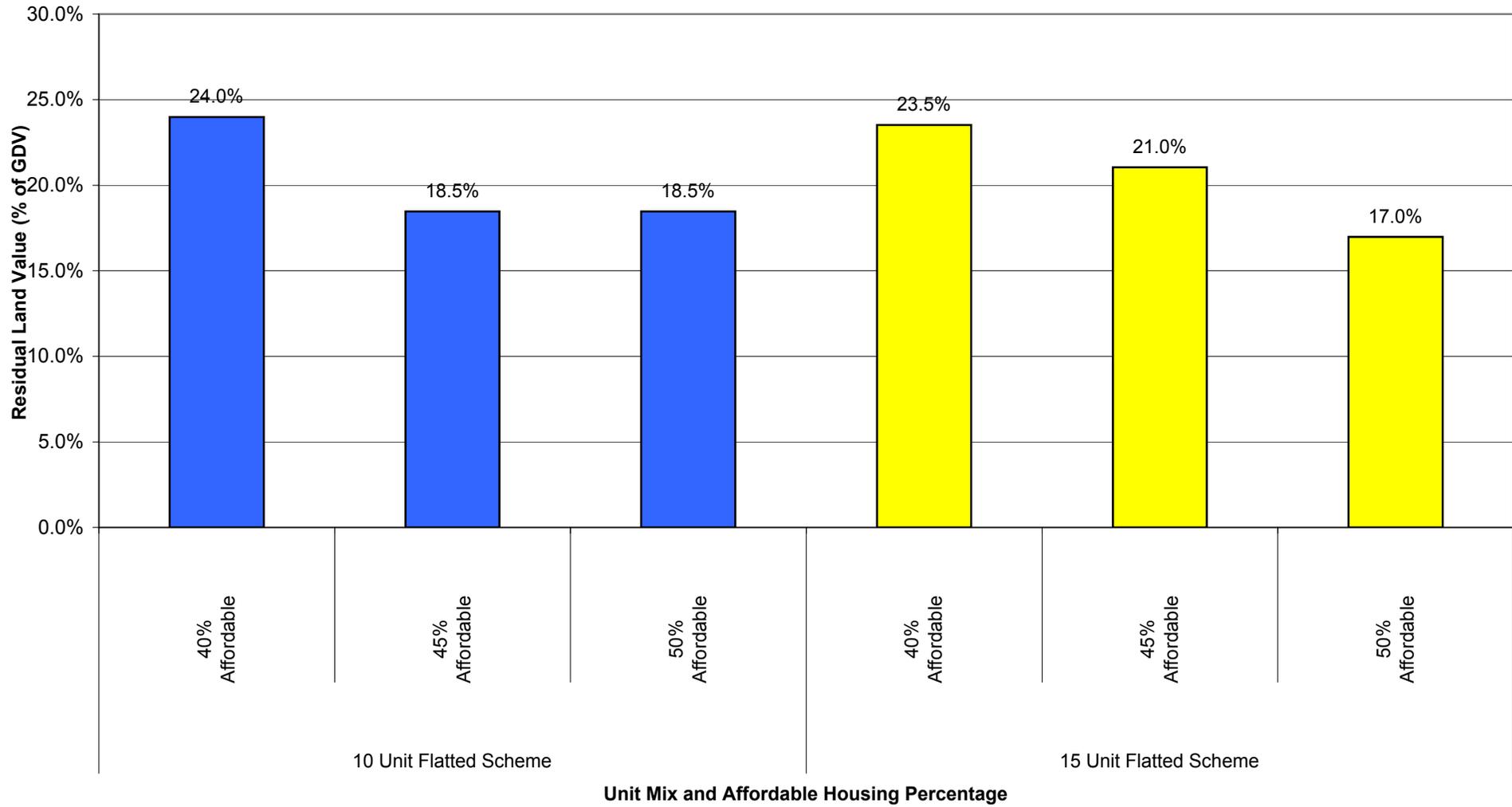
1	2	3	4	5	6	7	8	9	
Value Point	Number of Units	Scenario	GDV	Development Cost	Developer Profit (@15%)	Finance & Land Costs	Residual Land Price	% Land Residual (of GDV)	% Reduction in Land Residual From 40% Affordable Housing
Value Area 2	10 Unit Flatted Scheme	40% Affordable	£1,568,596	£777,100	£235,289	£168,376	£376,196	24.0%	N/A
		45% Affordable	£1,409,738	£777,100	£211,461	£152,894	£260,234	18.5%	30.8%
		50% Affordable	£1,409,738	£777,100	£211,461	£152,894	£260,234	18.5%	30.8%
	15 Unit Flatted Scheme	40% Affordable	£2,315,618	£1,153,150	£347,343	£247,715	£544,714	23.5%	N/A
		45% Affordable	£2,194,036	£1,153,150	£329,105	£235,866	£461,637	21.0%	15.3%
		50% Affordable	£2,035,178	£1,153,150	£305,277	£220,385	£345,676	17.0%	36.5%

Source: Adams Integra, 2007

Graph 5 - Residual Land Value (£) - Value Area 2



Graph 6 - Residual Land Value (% of GDV) - Value Area 2



Graph 7 - Reduction in Residual Land Value as a Percentage of GDV from 40% to 45% & 40% to 50% Affordable Housing - Value Area 2

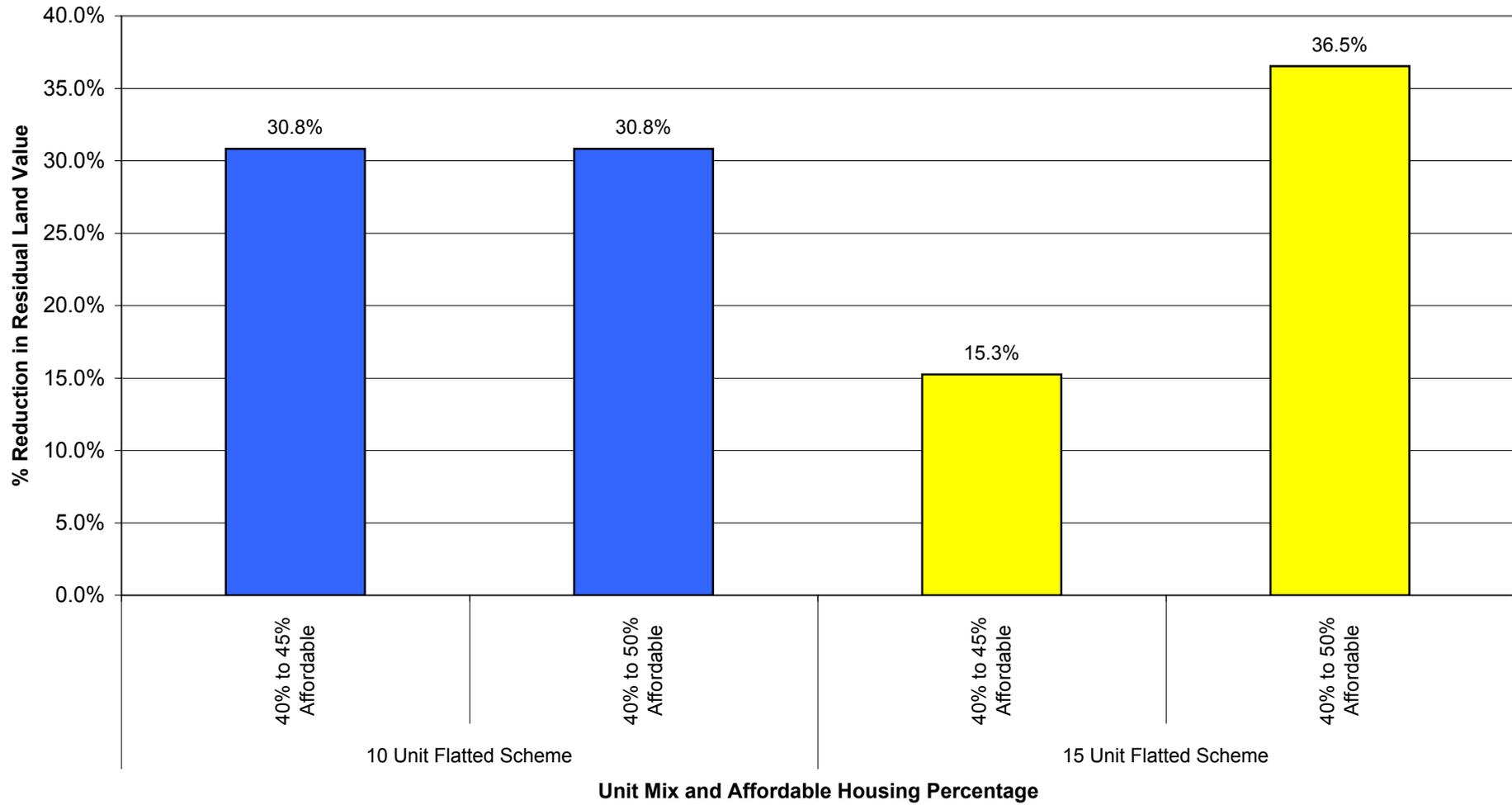
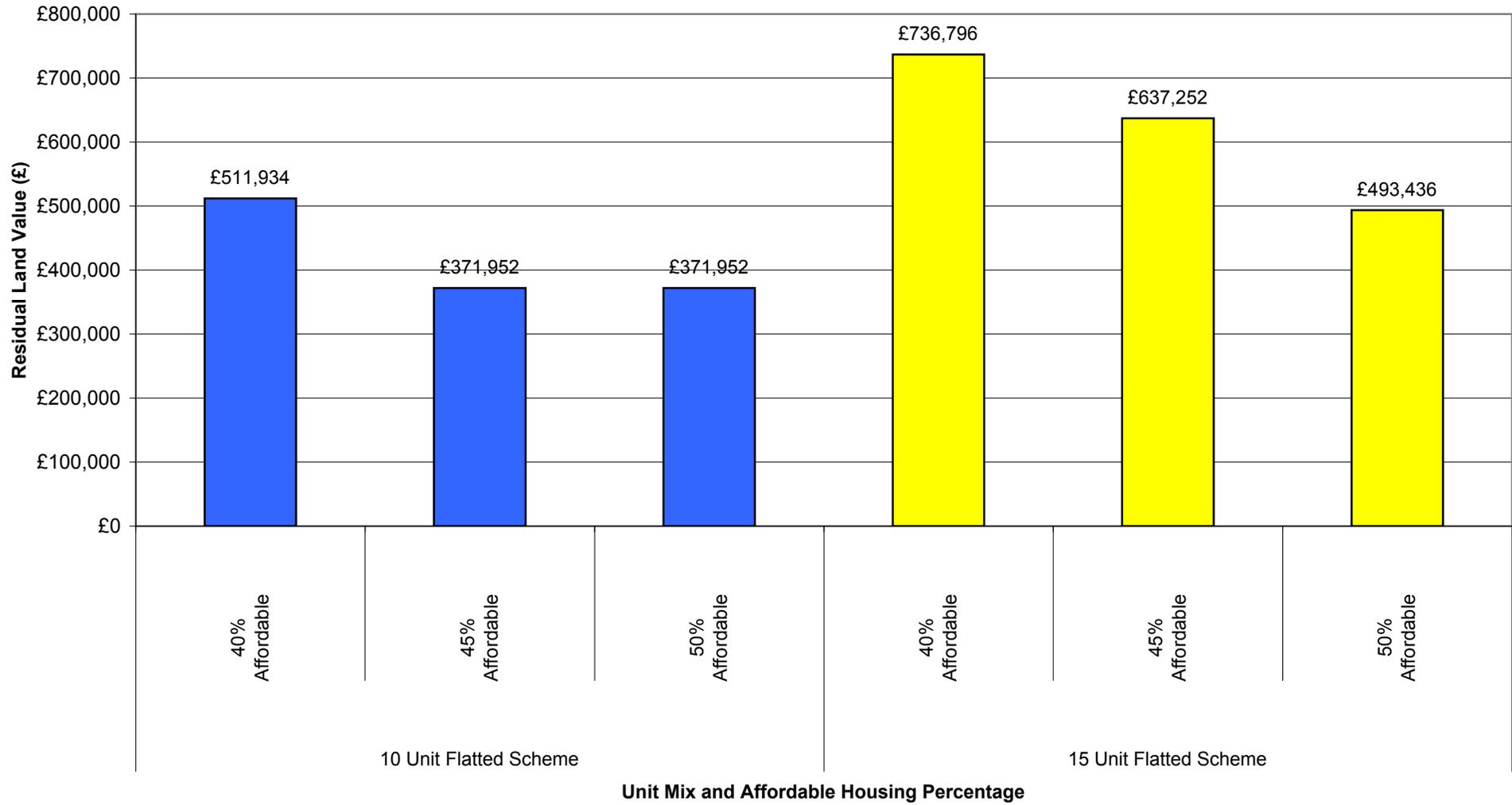


Table 4: Summary Table Showing Results of Residual Land Value Appraisals and Reduction in Land Residual - Value Area 3

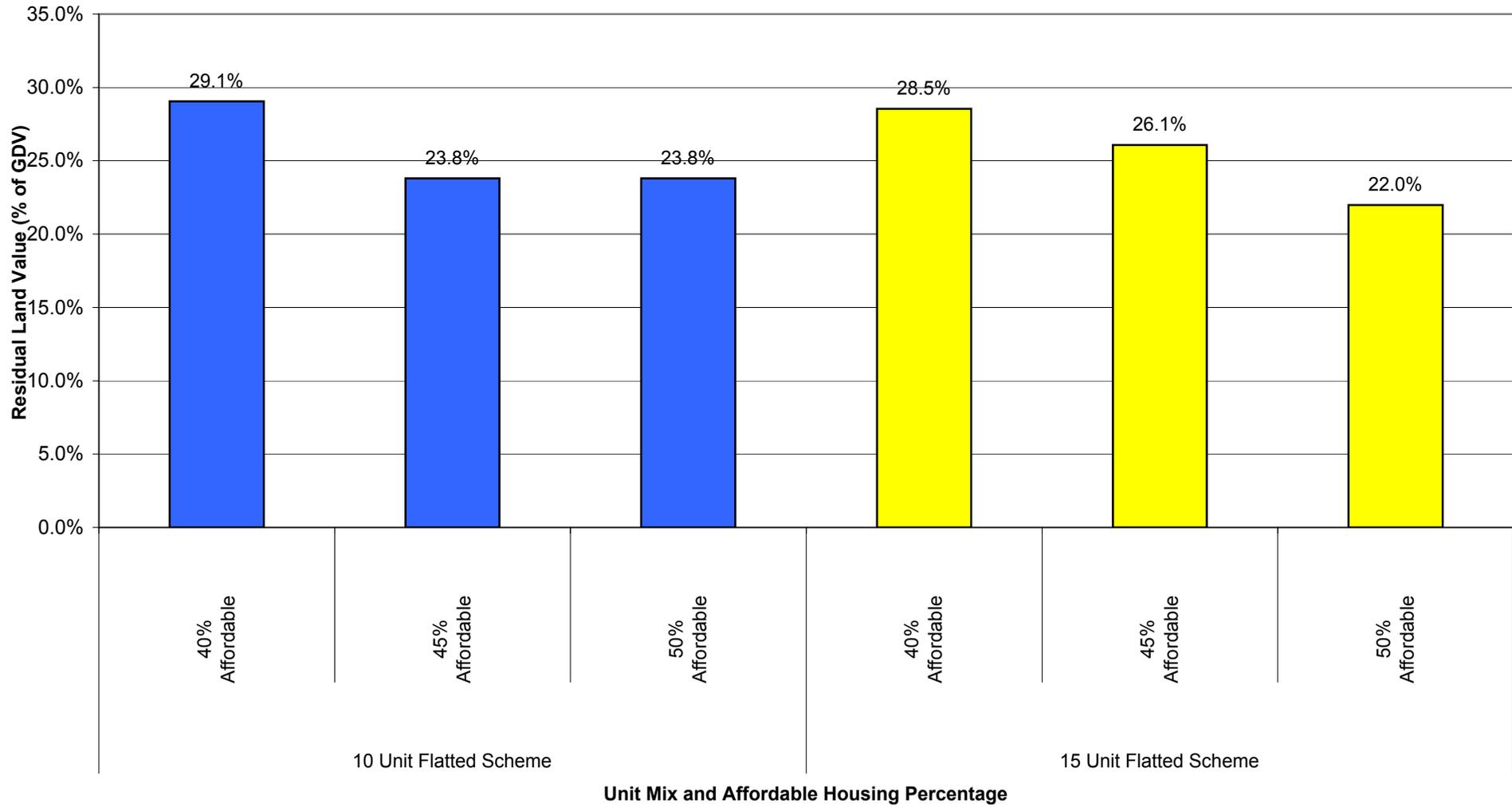
1	2	3	4	5	6	7	8	9	
Value Point	Number of Units	Scenario	GDV	Development Cost	Developer Profit (@15%)	Finance & Land Costs	Residual Land Price	% Land Residual (of GDV)	% Reduction in Land Residual From 40% Affordable Housing
Value Area 3	10 Unit Flatted Scheme	40% Affordable	£1,761,852	£777,100	£264,278	£187,210	£511,934	29.1%	N/A
		45% Affordable	£1,562,783	£777,100	£234,417	£167,810	£371,952	23.8%	27.3%
		50% Affordable	£1,562,783	£777,100	£234,417	£167,810	£371,952	23.8%	27.3%
	15 Unit Flatted Scheme	40% Affordable	£2,581,497	£1,153,150	£387,225	£273,627	£736,796	28.5%	N/A
		45% Affordable	£2,443,709	£1,153,150	£366,556	£260,198	£637,252	26.1%	13.5%
		50% Affordable	£2,244,640	£1,153,150	£336,696	£240,798	£493,436	22.0%	33.0%

Source: Adams Integra, 2007

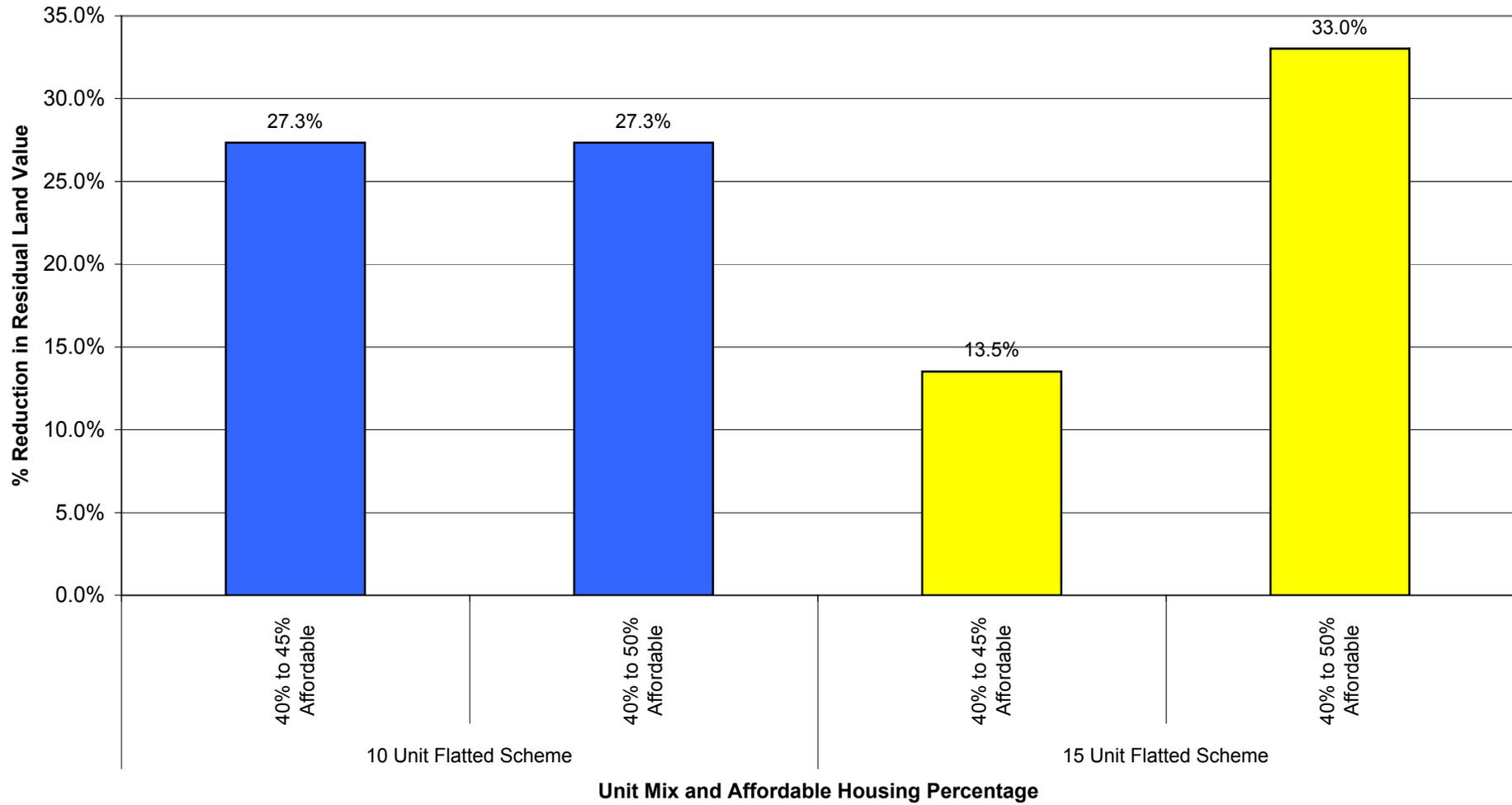
Graph 8 - Residual Land Value (£) - Value Area 3



Graph 9 - Residual Land Value (% of GDV) - Value Area 3



Graph 10 - Reduction in Residual Land Value as a Percentage of GDV from 40% to 45% & 40% to 50% Affordable Housing - Value Area 3



**Table 5: Summary of Land Residual Value (£) Appraisals
for Value Area 2 (Mortgage Funded Route)**

Development Scenario / Threshold	Value Area	Residual Land Value - 40% Affordable	Residual Land Value - 50% Affordable
10 Unit Flatted Scheme	2	£428,163	£299,639
15 Unit Flatted Scheme	2	£625,550	£446,970

Source: Adams Integra, 2007

Graph 11: Summary of Land Residual Values at 40% & 50% Affordable Housing for Value Area 2 (Mortgage Funded Route)

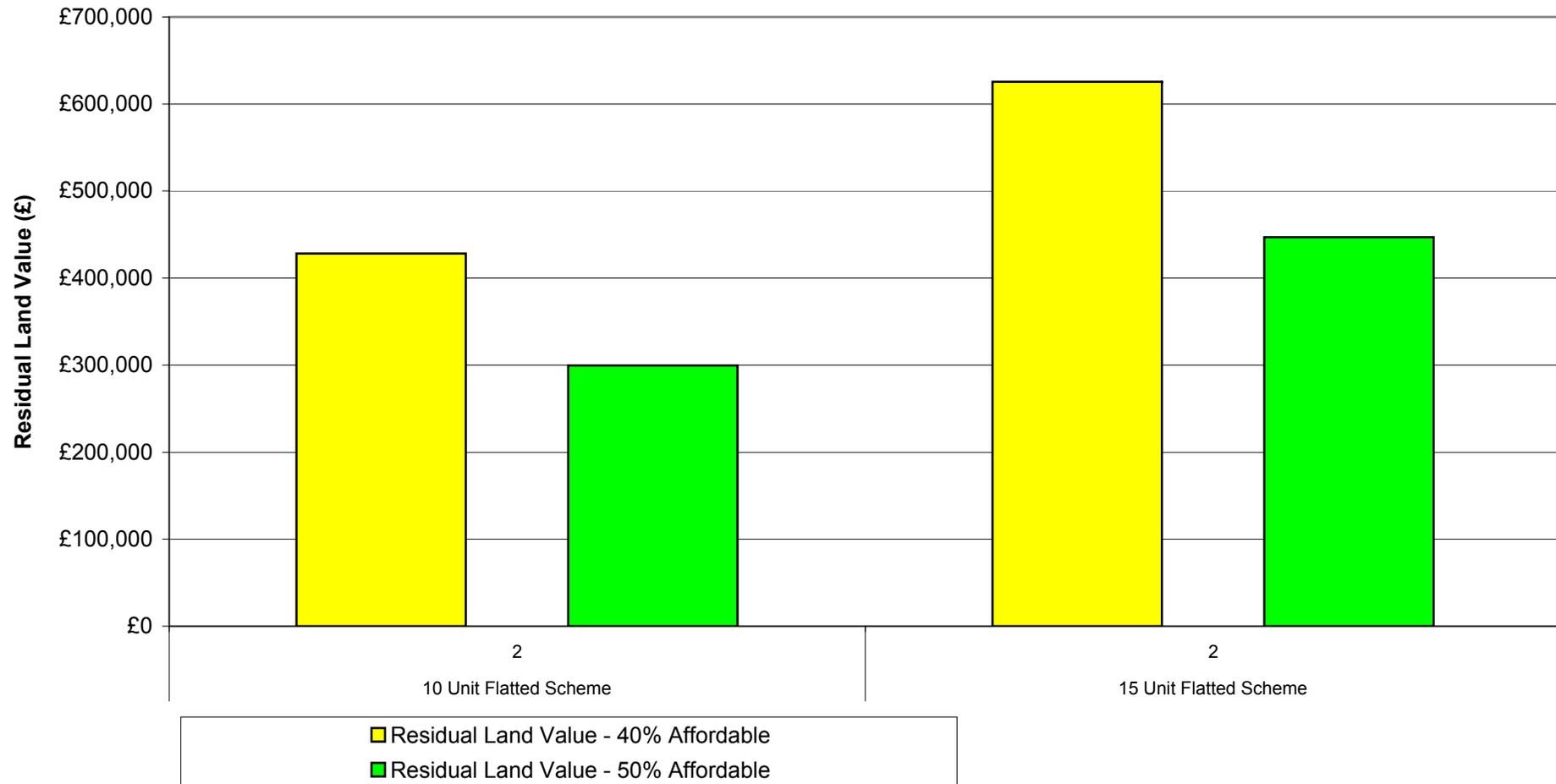


Table 5a: Summary of Land Residual Value (as % of GDV) Appraisals for Value Area 2 (Mortgage Funded Route)

Development Scenario / Threshold	Value Area	Residual Land Value - 40% Affordable	Residual Land Value - 50% Affordable
10 Unit Flatted Scheme	2	26.1%	20.5%
15 Unit Flatted Scheme	2	25.8%	20.6%

Source: Adams Integra, 2007

Graph 11a: Summary of Land Residual Values (as % of GDV) at 40% & 50% Affordable Housing for Value Area 2 (Mortgage Funded Route)

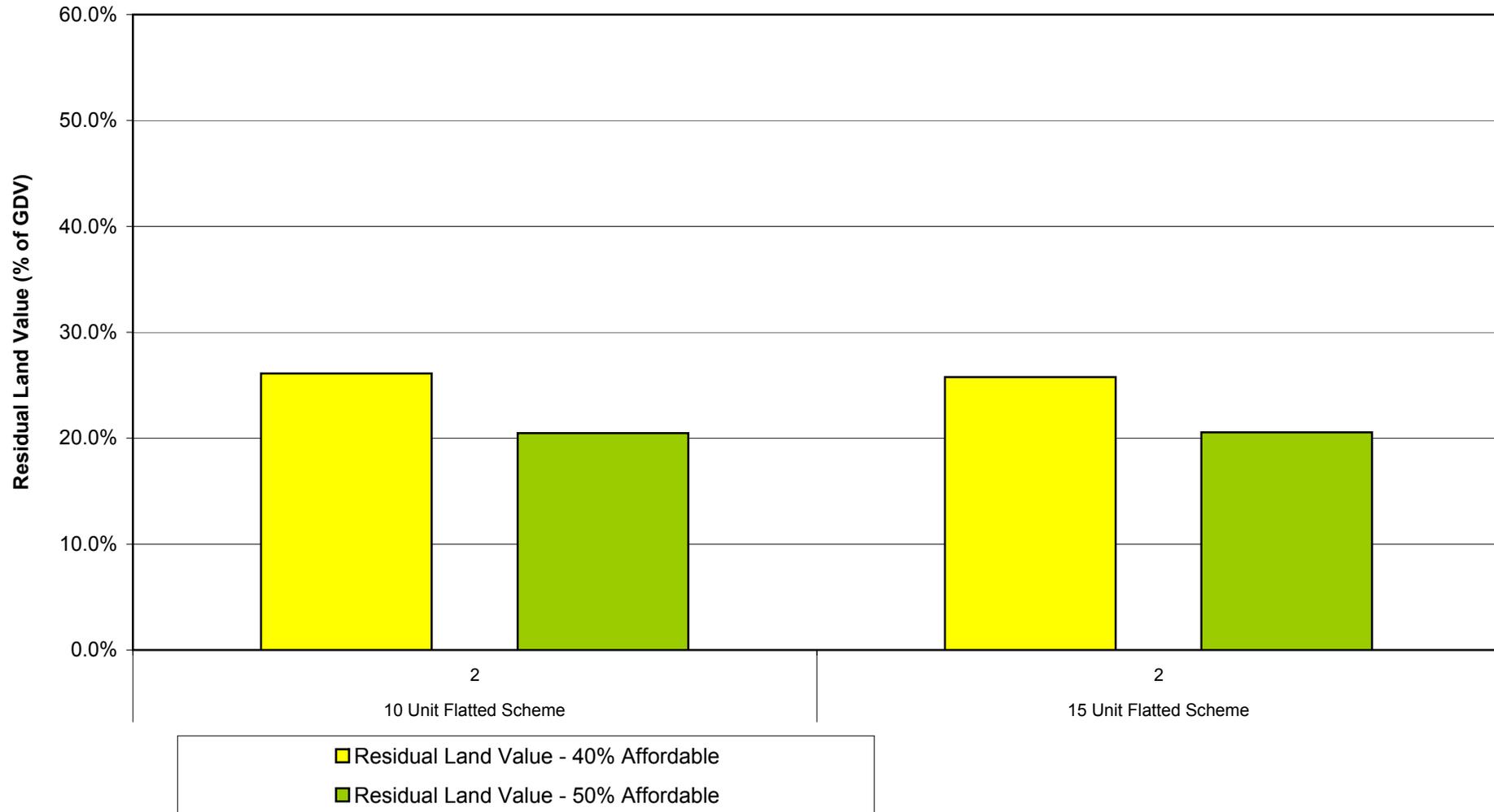


Table 5b: Summary of Reduction in Land Residual Value (%) Appraisals for Value Area 2 (Mortgage Funded Route)

Development Scenario / Threshold	Value Point	Reduction in Residual Land Value 40% to 50%
10 Unit Flatted Scheme	2	30.0%
15 Unit Flatted Scheme	2	28.5%

Source: Adams Integra, 2007

Graph 11b: Summary of Reduction in Land Residual Values (%) at 40% to 50% Affordable Housing for Value Area 2 (Mortgage Funded Route)

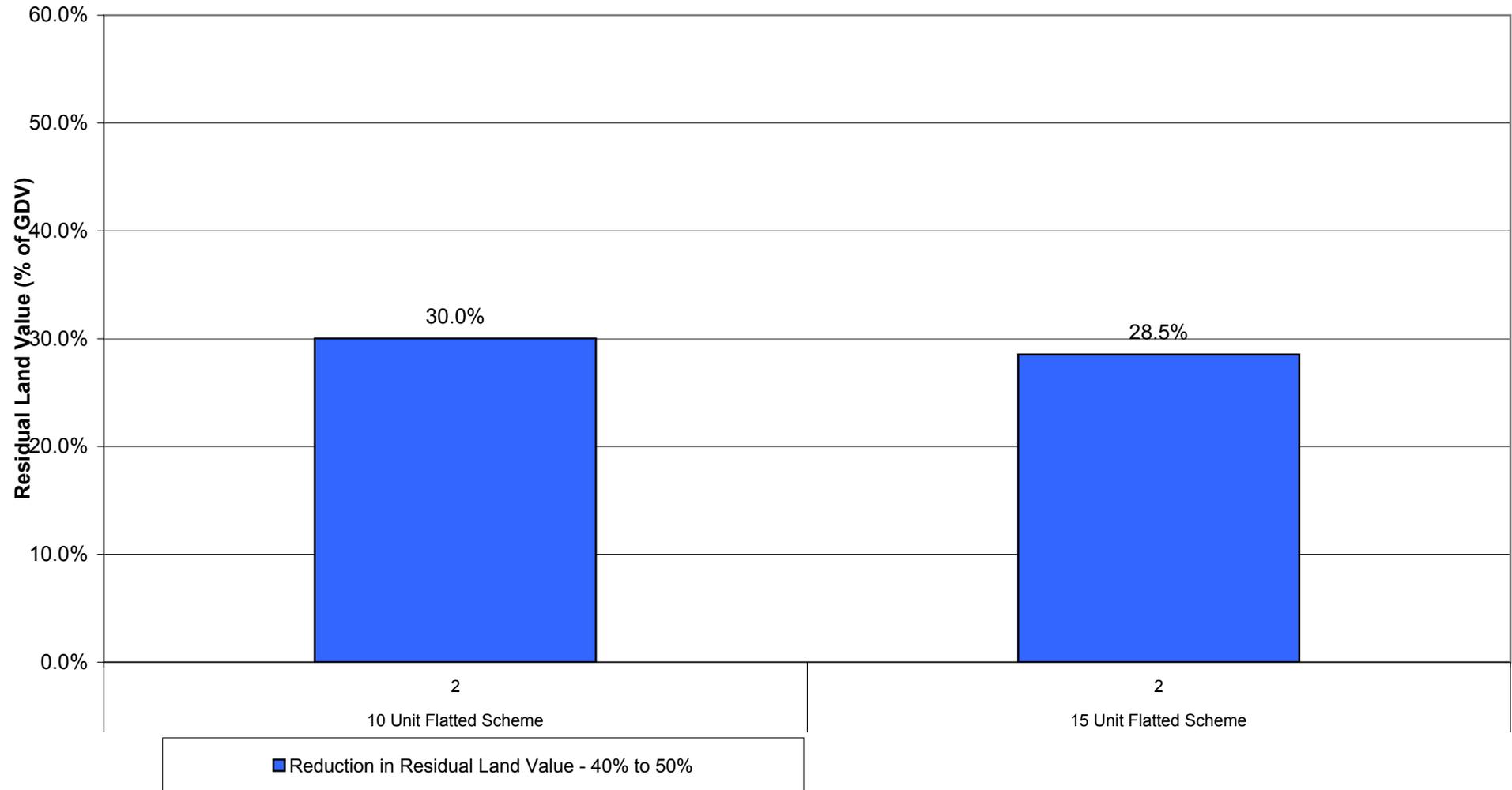
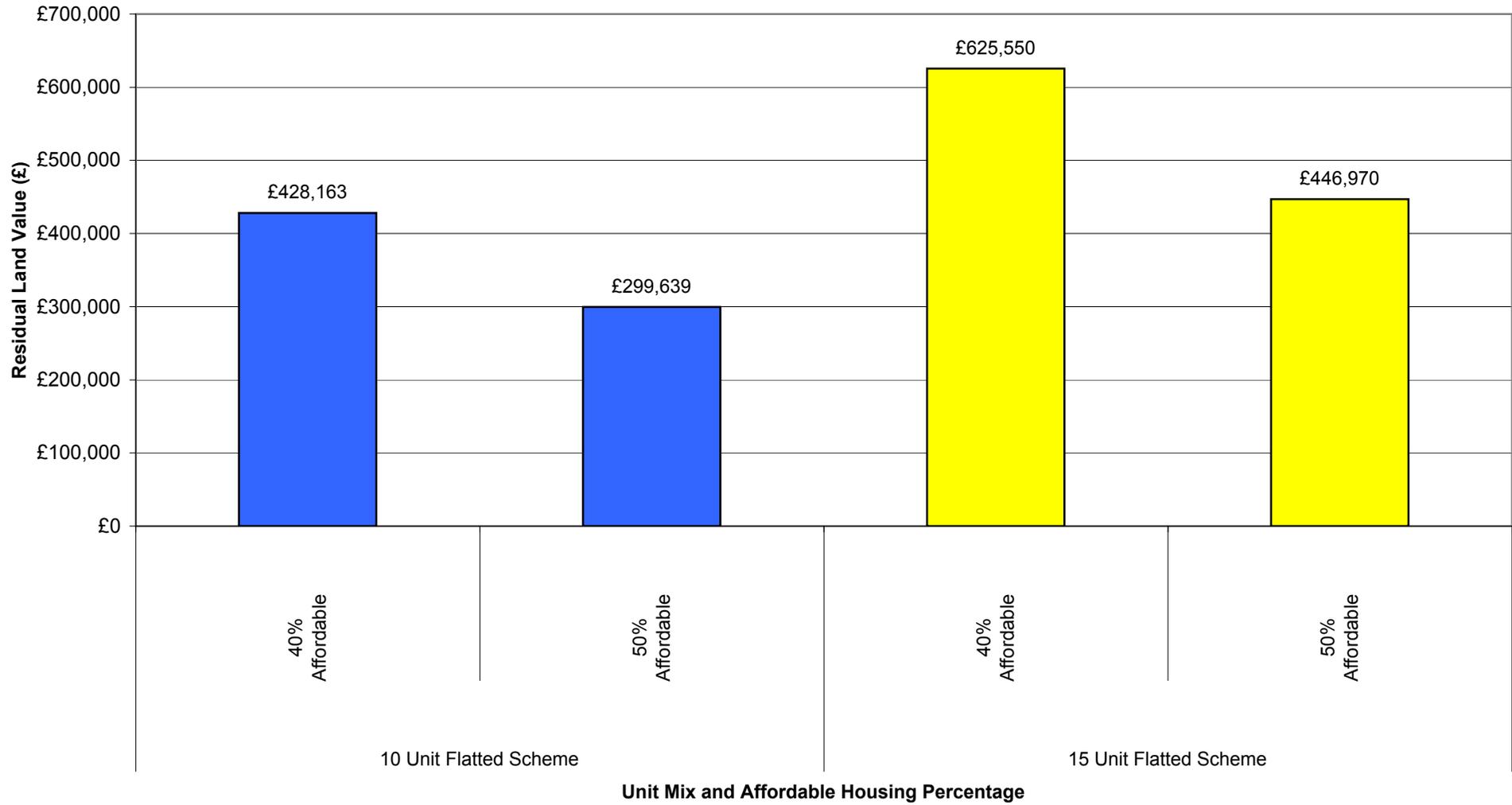


Table 6: Summary Table Showing Results of Residual Land Value Appraisals and Reduction in Land Residual - Value Area 2 (Mortgage Funded Route)

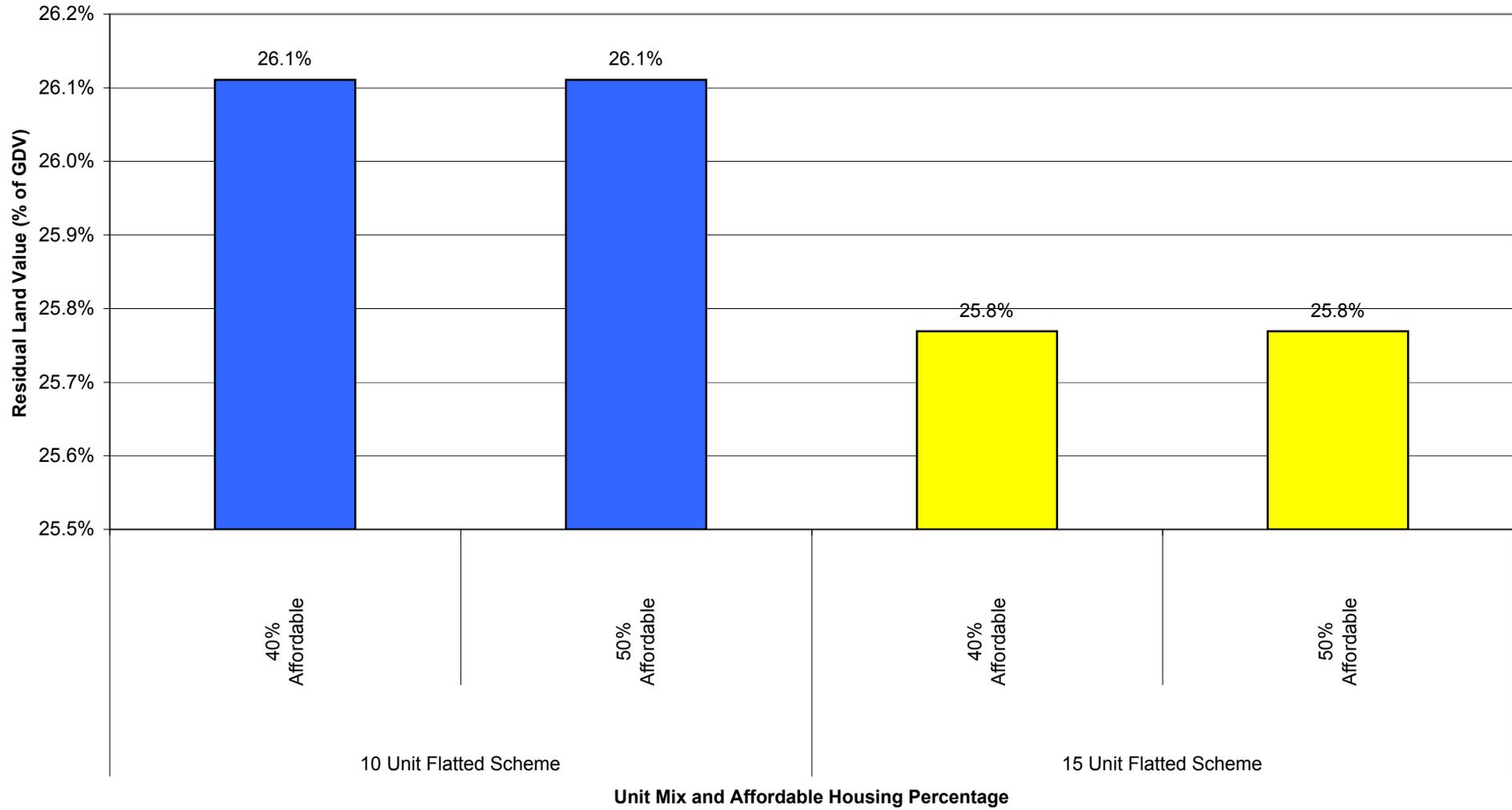
1	2	3	4	5	6	7	8	9	
Value Point	Number of Units	Scenario	GDV	Development Cost	Developer Profit (@15%)	Finance & Land Costs	Residual Land Price	% Land Residual (of GDV)	% Reduction in Land Residual From 40% Affordable Housing
Value Area 2	10 Unit Flatted Scheme	40% Affordable	£1,639,788	£777,100	£245,968	£175,314	£428,163	26.1%	N/A
		50% Affordable	£1,463,719	£777,100	£219,558	£158,155	£299,639	26.1%	30.0%
	15 Unit Flatted Scheme	40% Affordable	£2,427,511	£1,153,150	£364,127	£258,620	£625,550	25.8%	N/A
		50% Affordable	£2,173,943	£1,153,150	£326,091	£233,908	£446,970	25.8%	28.5%

Source: Adams Integra, 2007

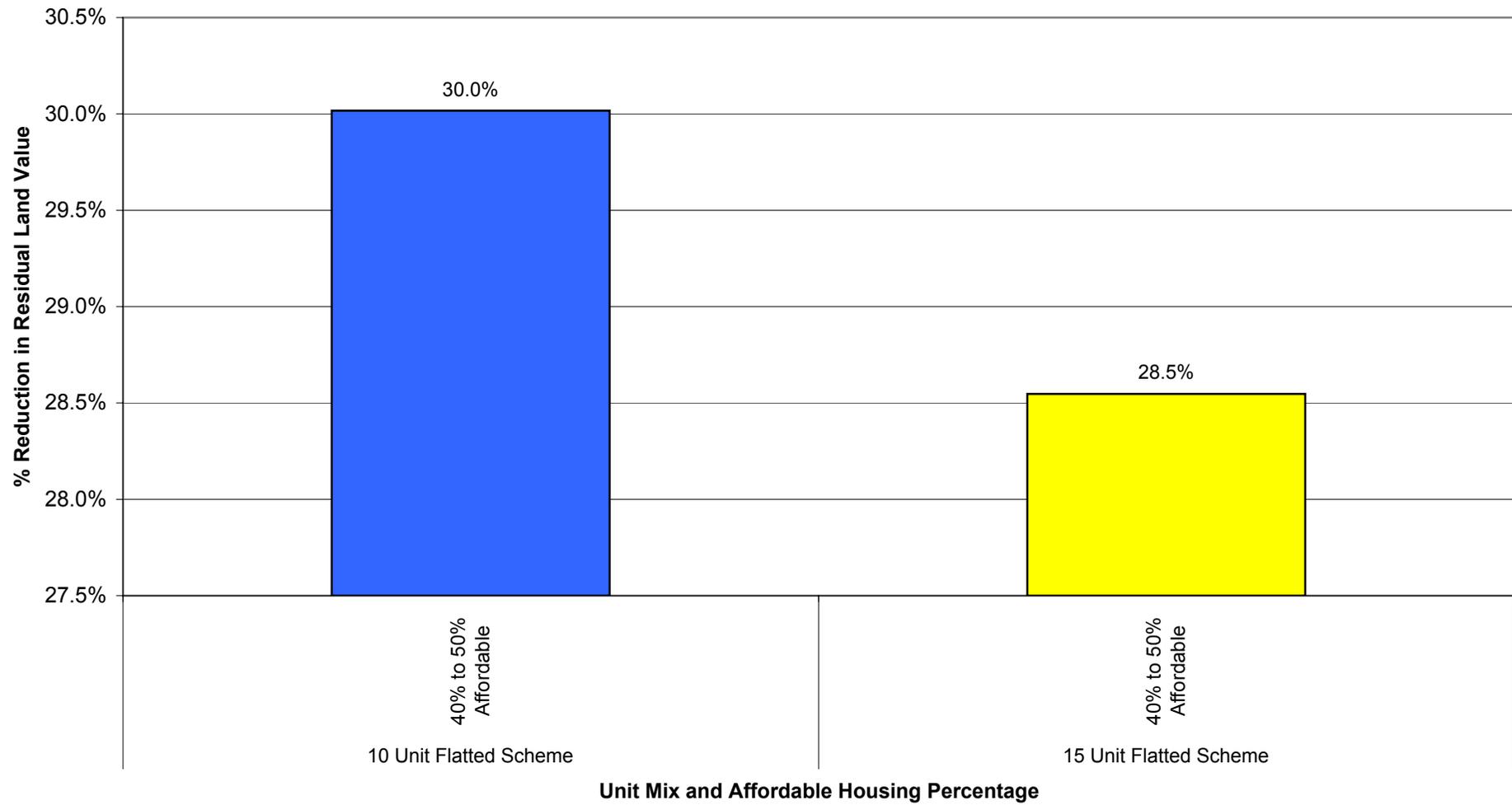
Graph 12 - Residual Land Value (£) - Value Area 2 (Mortgage Funded Route)



Graph 13 - Residual Land Value (% of GDV) - Value Area 2 (Mortgage Funded Route)



Graph 14 - Reduction in Residual Land Value as a Percentage of GDV from 40% to 50% Affordable Housing - Value Area 2 (Mortgage Funded Route)



Appendix IIA

Results of Developer Contributions (Payments In Lieu) Appraisals

Appendix IIA: Commuted Payment Development Scenarios: Brighton & Hove City Council Payments in lieu of on-site provision - All Value Areas

Value Area 1												
Scheme Size	Mix	0% Affordable Equivalent		20% Affordable Equivalent			30% Affordable Equivalent			40% Affordable Equivalent		
		RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)
2 Flats	2 x 2-bed flats	£114,368	27.7%	£33,306	£81,819	19.8%	£49,959	£65,544	15.9%	£66,612	£49,269	11.9%
6 Flats	4 x 2-bed flats; 2 x 1-bed flats	£345,415	30.6%	£91,233	£258,928	22.9%	£136,850	£220,132	19.5%	£182,466	£175,997	15.6%
9 Flats	6 x 2-bed flats; 3 x 1-bed flats	£525,949	31.0%	£136,850	£401,697	23.7%	£205,275	£336,832	19.9%	£273,700	£271,967	16.0%

Value Area 2												
Scheme Size	Mix	0% Affordable Equivalent		20% Affordable Equivalent			30% Affordable Equivalent			40% Affordable Equivalent		
		RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)
2 Flats	2 x 2-bed flats	£155,658	33.2%	£37,904	£120,187	25.6%	£56,856	£101,665	21.7%	£75,808	£83,144	17.7%
6 Flats	4 x 2-bed flats; 2 x 1-bed flats	£469,068	36.1%	£104,908	£369,617	28.4%	£157,363	£319,892	24.6%	£209,817	£270,167	20.8%
9 Flats	6 x 2-bed flats; 3 x 1-bed flats	£709,515	36.4%	£157,363	£561,877	28.8%	£236,044	£488,058	25.0%	£314,725	£418,555	21.5%

Value Area 3												
Scheme Size	Mix	0% Affordable Equivalent		20% Affordable Equivalent			30% Affordable Equivalent			40% Affordable Equivalent		
		RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)	Commuted Payment	RLV (£)	RLV (% of GDV)
2 Flats	2 x 2-bed flats	£215,574	39.2%	£44,396	£172,619	31.4%	£66,595	£151,142	27.5%	£88,793	£129,665	23.6%
6 Flats	4 x 2-bed flats; 2 x 1-bed flats	£603,847	40.5%	£120,510	£490,784	32.9%	£180,765	£438,777	29.4%	£241,020	£381,657	25.6%
9 Flats	6 x 2-bed flats; 3 x 1-bed flats	£918,938	41.0%	£180,765	£749,344	33.5%	£271,147	£664,547	29.7%	£361,530	£579,750	25.9%

Payment Per Unit

Value Area	1-Bed Flats	Commuted Payment (Per Unit)	2-Bed Flats	Commuted Payment (Per Unit)
1	£152,491	£61,553	£206,280	£83,265
2	£180,232	£72,751	£234,758	£94,760
3	£196,438	£79,292	£274,969	£110,991

Commuted payment calculated by:

1. Taking average residual land value as percentage of GDV from all appraisals with zero affordable housing = 35.1%.
2. Multiplying this figure by the open market unit value.
3. Adding 15% on-costs.
4. Multiplying this figure by the equivalent affordable housing percentage.

Example: 6 Unit Flatted Scheme of 4 x 2-bed flats & 2 x 1-bed flats

2-bed flats at £234,758 x 0.351 = £82,400

£82,400 +15% = £94,760

4 x 2-bed flats x 20% = 0.8 flats x £94,760 = £75,808

1-bed flats at £180,232 x 0.351 = £63,261

£63,261 +15% = £72,750

2 x 1-bed flats x 20% = 0.4 flats x £72,750 = £29,100

Total Commuted Payment for scheme = £75,808 + £29,100 = £104,908

Appendix III
Property Values Report

Supplementary Property Prices Report for Brighton & Hove City Council

Viability Study Update December 2007

Introduction

Adams Integra was asked by Brighton & Hove City Council to update its previous (2004) viability study by providing a study that examines the impact of options for seeking affordable housing from private residential development in terms of development viability and impact on overall house prices along with the deliverability of affordable housing.

The main purpose of the work is to provide the evidence base for the Council in developing its Local Development Framework - Core Strategy that will aim to secure an element of affordable housing from private residential development.

To inform this update study Adams Integra revisited the property values research it carried out for the original study. This would be a key part of ensuring the currency of the work as a whole. A market overview has also been included from reports provided by the RICS and Land Registry.

Housing Market Overview

RICS

In September 2007 RICS (Royal Institution of Chartered Surveyors) published a Housing Market Survey; its monthly update. The headline they ran with read '*Demand weakens further but supply remains constrained*'. The report stated that 'Sentiment in the housing market became more negative in September. 15% more surveyors reported price falls rather than price gains. Demand continued to weaken although supply remains very constrained. The strongest balance was recorded in Scotland, while in Northern Ireland sentiment was negative for the second consecutive month. The price balance halved in London although remains at around the long run average.'

New buyer enquiries levels fell for the 10th consecutive month - the fastest pace since March 2003. Since August 2006, there have been five interest rate increases and mortgage lending criteria has been tightened, which has had a negative effect on demand. Falls in new buyer enquiries fell across the whole of England and Wales. For the fourth consecutive month, newly agreed sales fell and at the fastest rate since August 2004. New instructions to sell homes declined for the fourth consecutive month, which leads us to believe that vendors appear to be under little pressure to sell their properties. The only anomaly was London of the studied regions, which experienced a rise in instructions.

Surveyor confidence in prices and sales worsened further reaching their lowest levels since March 2003 and May 2005 respectively. This deterioration of confidence is driven by the weakening demand with interest rate increases and uncertainty within the financial market depressing surveyors' outlook. In England and Wales, outside London, relatively large net balance falls were recorded in East Anglia, Wales and the Midlands. Elsewhere in the country,

there were smaller falls, particularly in the South East, South West, Yorkshire & Humberside and the North West.

In August 2007, only 10% of surveyors (nationally) reported a rise in house prices over a three month period, 70% reported the prices to have levelled off and 19% reported falls. In September 2007, 8% reporting a rise in house prices, 61% stating prices were constant and 31% stating losses, the latter being the most notable change.

“House price growth moderated to the slowest pace since April 2006, although it remains firm and well above the survey’s long run average rate. New buyer enquiries fell for the ninth consecutive month, although the pace of decline slowed, falling below the survey’s long run average rate. Growth in new vendor instructions increased sharply, rising at the fastest pace since July 2003. Surveyor confidence in the price outlook declined fractionally reaching the lowest level since April 2006. Confidence in the sales outlook rebounded sharply, rising back above the survey’s long run average level.”

RICS Economics – Sept. 2007 RICS housing market survey

Land Registry

The Land Registry House Price Index September 2007, released 26 October 2007, states:

“House price change in England and Wales has stayed positive for residential property transactions that completed in September 2007. The 0.4 per cent rate of monthly price appreciation is close to the 0.5 per cent average increase of the previous four months.”

“The change raises this month’s average house price to £183,896. The annual increase in house prices of 8.7 per cent however are a noticeable dip from the 9.3 per cent average annual increase of the previous four months.”

The detail of the Index reveals that the price of flats/maisonettes have risen the fastest overall (9.6% over the last year) while semi-detached houses showed the smallest annual increase, overall, of 7.2%.

Regionally, East Sussex saw an increase of 0.4% for the month; 9.5% over the last year to take their average price to £202,871. West Sussex gained 0.6% during September and 11.0% over the last year to average £229,786. The South East endured a fall of 0.3% for the month, but an annual increase of 9.7%, an average price of £227,493.

In the Brighton & Hove context, the Index shows prices rose by 0.5% during the month, 15.4% over the year; a rise above the levels of England and Wales and the South East Regional figure. The average house price in Brighton & Hove according the Land Registry currently stands at £232,831.

Land Registry House Price Index September 2007

Update and Overview

On finalising the study, we reviewed the latest available information against the above. During the summer and early autumn of 2007 a degree of uncertainty influenced the market – not just locally but in a wider sense.

The statistical release from the **Land Registry House Price Index October 2007**, pointed towards a slight increase in property prices when considered nationally. The South-East, as a whole, saw prices increase by 0.7%, generating an overall annual increase for the region of 10.4% (or an average property value of £230,976), consistent with the buoyant local market we have seen. Brighton and Hove, as a Unitary Authority, experienced the highest annual price change with an increase of 14.9 per cent, after a monthly increase of 0.5% for October to reach an average value of £235,406. The information consistently shows local prices ahead of the figures for the Region.

	Jul-07		Aug-07		Sep-07		Oct-07	
	Monthly Change (%)	Annual Change (%)						
National	0.1	8.8	0.2	9.4	0.4	8.7	0.1	8.1
South East	1.1	10.5	0.6	10.9	-0.3	9.7	0.7	10.4
Brighton & Hove	0.0	15.9	0.7	15.5	0.5	15.4	0.5	14.9

Land Registry House Price Index October 2007

The **October 2007 RICS Housing Market Survey** pointed towards further deterioration in prices with 22.2% more surveyors reporting a fall in prices. New buyer enquiries and newly agreed sales fell sharply, but in line with a reduction in new instructions. The slowdown continues, but is currently cushioned by a strong economy. Surveyor confidence in the sales outlook improved slightly, but the price outlook has deteriorated and reached the lowest level since April 2003.

The report indicated that there was an increase in surveyors reporting a fall in prices from 20% (June 2007) to 44% during October. The fall in demand can be attributed to five increases in the Bank of England Base Rate since August 2006, tighter mortgage lending criteria and reduced consumer confidence. In terms of the South East overall, house prices declined for the second consecutive month and new buyer enquiries reduced for the eleventh consecutive month. Surveyor confidence in the price outlook reached its lowest level since March 2005, whereas confidence in the sales outlook moved into positive territory.

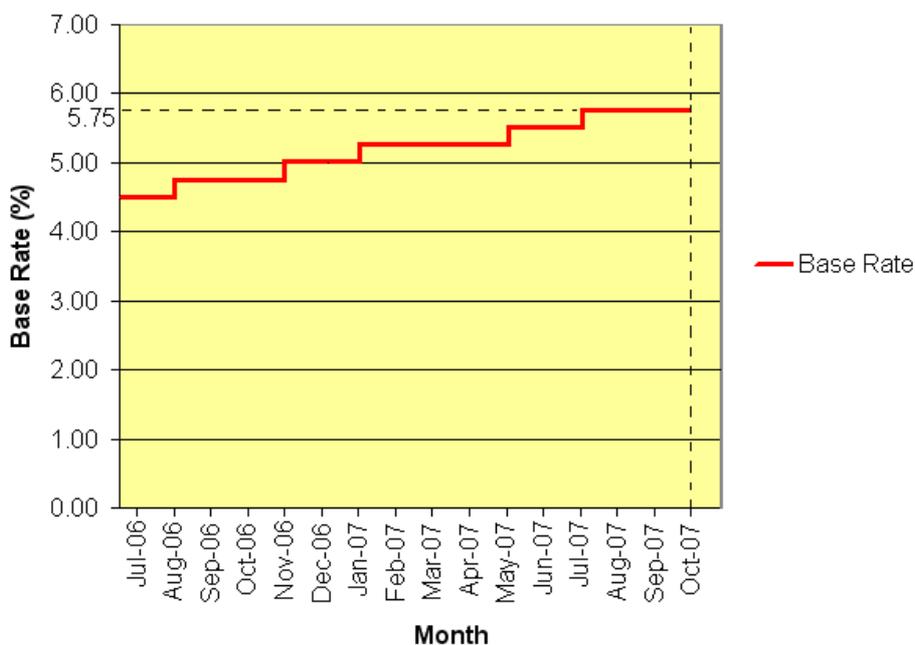
Within the surveyors' market comment of the section, there was some feedback attributed to Brighton agent Parsons Son & Basley, stating that: "Christmas seems to have come early, which for an estate agent is not good. Everything is quiet – applicant enquiries are down as are valuations and instructions. Buyers are cautious with many predicting a downward adjustment in prices but vendors are not panicking and have resigned themselves to a longer marketing period. So much has been made in the press about an over inflated market one can see why there is a lull. That said people can put off buying for only so long. An interest rate reduction would undeniably help confidence and might give some waverers the courage to go for it, otherwise I expect it will be the New Year before we start seeing the market pick up."

The RICS findings for the region painted a more negative picture from those reported by the Land Registry (see above). Drawing this together, the information is indicative of more uncertainty in the market than seen in the period to early/mid 2007; and it will have to be seen how this develops into 2008. At the current time the indicated reduced price rises and lower levels of confidence in the market appear to represent a correction/checking of the market rather than anything more dramatic; with speculation around interest rates being reduced marginally in the short term. We have seen no significant signs pointing to anything other than the continued relative buoyancy of the Brighton & Hove market.

Interest Rates

Interest rates had risen five times since the middle of last year (2006), but the Bank has kept rates on hold since July. There had been speculation of a further increase, but fears of overheating the economy have meant that the Bank of England have resisted such measures.

Bank of England's Base Rate (%)



Source: The Bank of England

Resale and New Build Property Values – Brighton & Hove City Council

The tables below show the average values of One and Two bedroom flats. The average figures collected in 2004 have been adjusted using the average increase/decrease in property values (flats) using Land Registry data.

Date	Monthly Change (%)	1 Bed Flat			2 Bed Flat		
		Low	Medium	High	Low	Medium	High
		35 Units	27 Units	59 Units	31 Units	21 Units	87 Units
Apr-04	-	£115,249	£136,214	£148,463	£155,901	£177,424	£207,814
May-04	1.20	£116,627	£137,843	£150,238	£157,765	£179,546	£210,299
Jun-04	0.74	£117,492	£138,866	£151,353	£158,936	£180,878	£211,859
Jul-04	1.37	£119,102	£140,769	£153,427	£161,114	£183,357	£214,763
Aug-04	1.13	£120,451	£142,364	£155,165	£162,939	£185,434	£217,196
Sep-04	0.78	£121,391	£143,474	£156,375	£164,210	£186,880	£218,889
Oct-04	0.90	£122,488	£144,771	£157,789	£165,694	£188,569	£220,868
Nov-04	-0.03	£122,450	£144,726	£157,740	£165,643	£188,511	£220,800
Dec-04	0.07	£122,536	£144,827	£157,850	£165,758	£188,642	£220,954
Jan-05	-0.49	£121,938	£144,120	£157,079	£164,949	£187,722	£219,875
Feb-05	-0.11	£121,801	£143,959	£156,904	£164,765	£187,512	£219,630
Mar-05	0.44	£122,340	£144,596	£157,598	£165,494	£188,342	£220,602
Apr-05	0.41	£122,838	£145,185	£158,240	£166,168	£189,108	£221,499
May-05	0.17	£123,041	£145,425	£158,501	£166,442	£189,421	£221,866
Jun-05	0.02	£123,067	£145,455	£158,534	£166,477	£189,460	£221,912
Jul-05	0.58	£123,785	£146,304	£159,460	£167,449	£190,566	£223,207
Aug-05	-0.46	£123,219	£145,635	£158,730	£166,683	£189,694	£222,186
Sep-05	0.09	£123,328	£145,764	£158,871	£166,830	£189,862	£222,383
Oct-05	0.34	£123,749	£146,262	£159,413	£167,400	£190,511	£223,142
Nov-05	0.03	£123,787	£146,306	£159,462	£167,451	£190,569	£223,210
Dec-05	0.59	£124,515	£147,167	£160,400	£168,436	£191,690	£224,523
Jan-06	0.94	£125,684	£148,548	£161,906	£170,017	£193,489	£226,631
Feb-06	-0.01	£125,668	£148,530	£161,885	£169,996	£193,465	£226,602
Mar-06	0.87	£126,763	£149,824	£163,296	£171,477	£195,150	£228,577
Apr-06	0.96	£127,976	£151,257	£164,858	£173,118	£197,017	£230,763
May-06	0.59	£128,729	£152,147	£165,828	£174,136	£198,176	£232,121
Jun-06	0.82	£129,782	£153,392	£167,185	£175,561	£199,798	£234,021
Jul-06	0.76	£130,771	£154,560	£168,458	£176,898	£201,320	£235,803
Aug-06	1.00	£132,079	£156,107	£170,144	£178,668	£203,335	£238,163
Sep-06	1.85	£134,528	£159,002	£173,299	£181,982	£207,105	£242,579
Oct-06	1.46	£136,486	£161,315	£175,821	£184,630	£210,119	£246,109
Nov-06	1.23	£138,168	£163,304	£177,988	£186,906	£212,709	£249,143
Dec-06	1.74	£140,576	£166,150	£181,090	£190,163	£216,416	£253,485
Jan-07	0.77	£141,657	£167,427	£182,482	£191,625	£218,080	£255,434
Feb-07	1.40	£143,642	£169,773	£185,039	£194,310	£221,136	£259,013
Mar-07	1.90	£146,370	£172,998	£188,553	£198,000	£225,335	£263,932
Apr-07	1.12	£148,002	£174,927	£190,656	£200,208	£227,848	£266,875
May-07	1.40	£150,072	£177,373	£193,322	£203,007	£231,034	£270,606
Jun-07	0.87	£151,381	£178,920	£195,009	£204,779	£233,050	£272,968
Jul-07	0.02	£151,415	£178,960	£195,052	£204,824	£233,101	£273,028
Aug-07	0.71	£152,491	£180,232	£196,438	£206,280	£234,758	£274,969
Average		£176,387			£238,669		

Three separate areas of Brighton & Hove (low, medium and high value areas) were identified by Brighton & Hove City Council (Planning Strategy and Projects) in the original study. From the adjusted data, a two bed flat averages £238,669 and a one bed flat averages £176,387. The low value area (Lewes Road, nr Bus Depot) averages £152,491 and £206,280 for a one and two bed flat, respectively. North Road/North Laine, the medium value area averages £180,232 and £233,101 for a one and two bed flat, respectively. The high value area, Summerhill Road (Hove), averages £196,438 and £274,969 for a one and two bed flat, respectively.

Current New Build property being marketed in Brighton & Hove

In addition to updating the data from the 2004 study, Adams Integra also reviewed the 'asking' prices of new build schemes within Brighton & Hove by looking at current activity. Information was collated through desktop research using www.rightmove.co.uk and www.primelocation.com.

Type	Address	Description	Price	Developer	Agent	£ / m2
Flat	College Road, BN2	Studio Flat with kitchenette	£115,000		Bidwells	
		with a recessed kitchen	£120,000			
		with separate kitchen	£125,000			
		with separate kitchen	£135,000			
Flat	Dorothy Road	1-bed apartments	£169,950		Rand & Co	
Flat	Westbourne Villas, BN3	1-bed apartments	£185,950 - £194,950		WPS Hove	
Flat	Lorna Road, BN3	1-bed apartments	£194,950		Goldin Lemcke	
Flat	Dorset Gardens	Studio	£115,000		4 Sale	
		2 bed apartment	£229,950			
Flat	Sheffield Court, Kingscote Way	1 bed apartment	£235,000		Hamptons International	
Flat	Grand Ocean, Saltdean BN2	1 bed apartments	£209,995 - £274,995	Explore Living		
		2 bed apartments	£279,995 - £369,995			
		3 bed apartments	TBC			
Flat	Somerhill Avenue, BN3	1, 2 & 3 bed apartments	£235,995 to £786,995	Barratt Homes	Mishon Mackay	
Flat	Highcroft Villas, Brighton	2 bed apartments	£250,000 - £275,000		Mishon Mackay	
Flat	Devonshire Place, Kempdown	2 bed apartments	£299,950 - £330,000		Mishon Mackay	
		3 bed apartments	£595,000			
Flat	Landsdowne Place, Hove	2 bed apartments	£350,000 (L/H)		Mishon Mackay	
Flat	9 - 11 The Upper Drive, Hove	2 bed apartments	£365,000 - £410,000 (L/H)		Mishon Mackay	
Flat	Kings Road	2 bed apartments	£380,000 - £395,000 (L/H)		Mishon Mackay	
		2 bed apartments (Luxury?)	£645,000 - £665,000			
Flat	New England Quarter	2 bed apartments	£403,995 (L/H)	Crest Nicholson	Mishon Mackay / Strutt Parker	
		Studio & 1 bed apartments	TBC			
		2 bed apartments	£299,950			
		3 bed apartments	£330,995 - £405,995			
Flat	Visage, Palmeira Avenue	2 bed apartments	£499,950 (L/H)		Mishon Mackay	
		3 bed apartments	£599,950 (L/H)			
Flat	Withdean Avenue	2 bed apartments	£545,000 (Share of F/H)		Mishon Mackay	
House	Gladstone Row (New England Quarter)	3 bed terraced house	£500,000	QED Property		
House	Goldstone Crescent, Hove	3 bed Semi-Detached	£410,000		Callaways	

There is a distinct emphasis on building flats in Brighton & Hove as opposed to houses. This is quite clear from the type developments that were discovered during the research with a wide range of prices.

Summary/Outcomes

Based on the information provided above, it is Adams Integra's opinion that the following fairly reflects the range of values (in £ per sq m) likely to be seen across the Brighton & Hove City Council area for units of varying sizes. The table below shows the range of values used within the development scenario appraisals within this study. The values research was carried out to enable us to make judgments about the range of values of new build properties typically available throughout Brighton & Hove and it must be remembered that any settlement could contain a range of property values covering a single property type. The £ per square meter rates have been applied to each of the unit types (assuming the unit sizes shown):

Unit	Value Area 1 (Low)	Value Area 2 (Medium)	Value Area 3 (High)
1-Bed Flat	£152,491	£180,232	£196,438
2-Bed Flat	£206,280	£234,758	£274,969